S. Hrg. 111–674

WALL STREET AND THE FINANCIAL CRISIS: THE ROLE OF INVESTMENT BANKS

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

VOLUME 4 OF 5

APRIL 27, 2010

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WALL STREET AND THE FINANCIAL CRISIS: THE ROLE OF INVESTMENT BANKS

TUESDAY, APRIL 27, 2010

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:01 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Carl Levin, Chairman of the Subcommittee, presiding.

Present: Senators Levin, Carper, Pryor, McCaskill, Tester, Kaufman, Coburn, Collins, McCain, and Ensign.

Staff Present: Elise J. Bean, Staff Director and Chief Counsel; Mary D. Robertson, Chief Clerk; Robert L. Roach, Counsel and Chief Investigator; Ross K. Kirschner, Counsel; Daniel J. Goshorn, Counsel; David H. Katz, Counsel; Laura E. Stuber, Counsel; Zachary I. Schram, Counsel; Allison F. Murphy, Counsel; Gary M. Brown, Consultant; Pauline E. Calande, Detailee (SEC); Adam Henderson, Professional Staff Member; Tom Caballero, Senate Legal Counsel; Jason E. Medica, Detailee (ICE); Nina E. Horowitz, Detailee (GAO); Jennifer Auchterlonie, Detailee (DOJ); Robert Kaplan, Intern; Jeff Kruszewski, Law Clerk; Ryan McCord, Law Clerk; Andrew Tyler, Law Clerk; Christopher Barkley, Staff Director to the Minority; Anthony G. Cotto, Counsel to the Minority; Keith B. Ashdown, Chief Investigator to the Minority; Justin J. Rood, Senior Investigator to the Minority; Tyler Gallasch (Senator Levin); Clark Porter (Senator McCaskill); Ted Schroeder and Nhan Nguyen (Senator Kaufman); Amy Overton and Emily Spain (Senator Carper); Donnie Williams and Stephen Lehrman (Senator Pryor); Brandon Milhorn, Mary Beth Carozza, and Ivy Johnson (HSGAC/Minority/Senator Collins); John Lawrence (Senator Ensign); Daniel Stein (Senator Tester); Alice Joe (Senator McCain); Neil Cutter (Senator Collins); and Jim Hughes (Senator Collins).

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Good morning, everybody. Today the Subcommittee holds the fourth in our series of hearings to explore some of the causes and consequences of the financial crisis. These hearings are the culmination of nearly a year and a half of investigation.

The freezing of financial markets and collapse of financial institutions that sparked our investigation are not just a matter of numbers on a balance sheet. Millions of Americans have lost their jobs, their homes, and their businesses in the recession that the crisis sparked, the worst economic decline since the Great Depression. Behind every number we cite are American families who are still suffering the effects of a man-made economic collapse.

Our Subcommittee's goal is to construct a record of the facts in order to deepen public understanding of what went wrong, to inform the ongoing legislative debate about the need for financial reform, and to provide a foundation for building better defenses to protect Main Street from the excesses of Wall Street.

Our first hearing dealt with the impact of high-risk mortgage lending and focused on a case study of Washington Mutual Bank, known as WaMu, a thrift whose leaders embarked on a reckless strategy to pursue higher profits by emphasizing high-risk exotic loans. WaMu did not just make loans that were likely to fail, creating hardship for borrowers and risk for the bank. It also built a conveyor belt that fed those toxic loans and mortgages into the financial system like a polluter dumping poison into a river. The poison came packaged in mortgage-backed securities that WaMu sold to get the enormous risk of those loans and their growing default rates off of its own books, dumping that risk into the financial system.

Our second hearing examined how Federal regulators saw what was going on but failed to rein in WaMu's reckless behavior. Regulation by the Office of Thrift Supervision (OTS) that should have been conducted at arm's length was instead done arm-in-arm with WaMu. OTS failed to act on major shortcomings it observed, and it thwarted other agencies from stepping in.

Our third hearing dealt with credit rating agencies, specifically case studies of Standard & Poor's and Moody's, the Nation's two largest credit raters. While WaMu and other lenders dumped their bad loans into the river of commerce and regulators failed to stop their behavior, the credit rating agencies assured everyone that the poisoned water was safe to drink, slapping AAA ratings on bottles of high-risk financial products.

The credit rating agencies operate with an inherent conflict of interest. Their revenue comes from the same firms whose products they are supposed to critically and objectively analyze, and those firms, the firms whose products the credit rating agencies are analyzing, exert pressure on the rating agencies who too often put market share ahead of analytical rigor.

Today we will explore the role of investment banks in the development of the crisis. We focus on the activities during 2007 of Goldman Sachs, one of the oldest and most successful firms on Wall Street. Those activities contributed to the economic collapse that came full-blown the following year.

Goldman Sachs and other investment banks, when acting properly, play an important role in our economy. They help channel the Nation's wealth into productive activities that create jobs and make economic growth possible, bringing together investors and businesses and helping Americans save for retirement or a child's education. That is when investment banks act properly.

But in looking at this crisis, it is not hard to echo the conclusion of another congressional committee which found, "The results of the unregulated activities of the investment bankers were disastrous." That conclusion came in 1934 as the Senate looked into the reasons for the Great Depression, and the parallels are unmistakable to today's events.

Goldman Sachs proclaims "a responsibility to our clients, our shareholders, our employees, and our communities to support and fund ideas and facilitate growth." Yet the evidence shows that Goldman repeatedly put its own interests and profits ahead of the interests of its clients and our communities. Its misuse of exotic and complex financial structures helped spread toxic mortgages throughout the financial system. And when the system finally collapsed under the weight of those toxic mortgages, Goldman profited from the collapse.

The evidence also shows that repeated public statements by the firm and its executives provide an inaccurate portrayal of Goldman's actions during 2007, the critical year when the housing bubble burst and the financial crisis took hold. The firm's own documents show that while it was marketing risky mortgage-related securities, it was placing large bets against the U.S. mortgage market. The firm has repeatedly denied making those large bets despite overwhelming evidence that they did so.

Now, why does that matter? Surely there is no law, ethical guideline, or moral injunction against profit. But Goldman Sachs did not just make money. It profited by taking advantage of its clients' reasonable expectation that it would not sell products that it did not want to succeed, and that there was no conflict of economic interest between the firm and the customers that it had pledged to serve. Those were reasonable expectations of its customers.

But Goldman's actions demonstrate that it often saw its clients, not as valuable customers, but as objects for its own profit. This matters because, instead of doing well when its clients did well, Goldman Sachs did well when its clients lost money. Its conduct brings into question the whole function of Wall Street, which traditionally has been seen as an engine of growth, betting on America's successes and not its failures.

To understand how the change in investment banks helped bring on the financial crisis, we need to understand first how Wall Street turned bad mortgage loans into economy-wrecking financial instruments. Our previous hearings have covered some of this ground. The story begins with mortgage lenders such as WaMu, Washington Mutual Bank, out there in the State of Washington, which loaned money to homebuyers and then sought to move those loans off of its own books. That activity spawned an ever more complex market in mortgage-backed securities, a market that for a while worked pretty well.

But then things turned upside down. The fees that banks and Wall Street firms made from their securitization activities were so large that they ceased to be a means to keep capital flowing to housing markets and became ends in themselves. Mortgages and mortgage-backed securities began to be produced for Wall Street instead of Main Street. Wall Street bond traders sought more and more mortgages from lenders in order to create new securities that generated fees for their firms and large bonuses for themselves.

Demand for securities prompted lenders to make more and more riskier mortgage loans. Making and packaging new loans became so profitable that credit standards plummeted, and mortgage lenders began making risky, exotic loans to people with little chance of making the payments owing on those loans and mortgages. Wall Street designed increasingly complex financial products that produced AAA ratings for high-risk products that flooded the financial system. As long as home prices kept rising, the high-risk mortgages posed few problems. Those who could not pay off their loans could refinance or sell their homes, and the market for mortgage-related financial products flourished.

But the party could not last, and we all know what happened. Housing prices stopped rising, and the bubble burst. Investors started having second thoughts about the mortgage-backed securities that Wall Street was churning out. In July 2007, two Bear Stearns offshore hedge funds specializing in mortgage-related securities suddenly collapsed. That same month, the credit rating agencies downgraded hundreds of subprime mortgage-backed securities, and the subprime market went cold. Banks, security firms, hedge funds, mutual funds, and other investors were left holding suddenly unmarketable mortgage-backed securities whose values were plummeting. America began feeling the consequences of the economic assault.

Goldman Sachs was an active player in building this mortgage machinery. During the period leading up to 2008, Goldman made a lot of money packaging mortgages, getting AAA ratings, and selling securities backed by loans from notoriously poor-quality lenders such as WaMu, Fremont, and New Century. Of special concern was Goldman's marketing of what are known as "synthetic" financial instruments.

Ordinarily, the financial risk in a market—and, hence, the risk to the economy at large—is limited because the assets traded are finite. There are only so many houses, mortgages, shares of stock, bushels of corn, or barrels of oil in which to invest. But a synthetic instrument has no real assets. It is simply a bet on the performance of the assets that it references. That means the number of synthetic instruments is limitless, and so is the risk that they present to the economy.

Synthetic structures referencing high-risk mortgages garnered hefty fees for Goldman Sachs and other investment banks. They assumed an ever larger share of the financial markets and contributed greatly to the severity of the crisis by magnifying the amount of risk in the system.

Increasingly, synthetics became bets made by people who had no interest in the referenced assets. Synthetics became the chips in a giant casino, one that created no economic growth, even when it thrived, and then helped throttle the economy when the casino collapsed.

But Goldman Sachs did more than earn fees from the synthetic instruments that it created. Goldman also bet against the mortgage market and earned billions when that market crashed.

In December 2006, Goldman decided to move away from its long positions in the mortgage market in what began as a prudent hedging against the firm's large exposure to that market—exposure that sparked concern on the part of the firm's senior executives. The edict from top management after a December 14, 2006, meeting was, "Get closer to home," meaning get to a more neutral risk position. But by early 2007, the company blew right past a neutral position on the mortgage market and began betting heavily on its decline, often using complex financial instruments, including synthetic collateralized debt obligations (CDOs). Goldman took large net short positions throughout 2007.

Now, a chart which we are going to put up there is based on data supplied to the Subcommittee by Goldman Sachs.[1] It tracks the firm's ongoing huge short positions throughout the year. Those short positions at one point represented approximately 53 percent of the firm's risk as measured by the most relied upon risk measure called value at risk (VaR). The black line in the middle of that chart represents a neutral line, balance. The brown numbers and lines below that median black line represent the net short of Goldman during the entire year, and you can see it was net short during that entire year of 2007.

Those short positions did more than just avoid big losses for Goldman. They generated a large profit for the firm in 2007. Goldman says these bets were just a reasonable hedge, but internal documents show that it was more than a reasonable hedge. It was what one top Goldman executive described as the "big short."

Listen to a top Goldman mortgage trader, Michael Swenson, who touted his success in 2007, what he called his "proudest year," because of what he called "extraordinary profits"—$3 billion as of September 2007 that came from bets that he recommended the firm take against the housing market. Mr. Swenson told his superiors, "I was able to identify key market dislocations that led to tremendous profits."

Another Goldman mortgage trader, Joshua Birnbaum—and both will be with us this morning—wrote in his performance evaluation about the billions of dollars in profits earned in 2007 betting against the mortgage market. "The prevailing opinion within the department was that we should just get close to home and pare down our long," Mr. Birnbaum wrote. He then touted the fact that he urged Goldman Sachs "not only to get flat, but get VERY"—emphasized by him—"short."

He wrote that after convincing his superiors to do just that: "We implemented the plan by hitting on almost every single name CDO protection buying opportunity in a 2-month period." He wrote, "Much of the plan began working by February as the market dropped 25 points, and our very profitable year was underway." When the mortgage market collapsed in July, he said, "We had a blow-out profit and loss month, making over $1 billion that month."

Those facts should end the pretense that Goldman's actions were part of its efforts to operate as a mere "market maker," bringing buyers and sellers together. Those short positions did not represent customer service or necessary hedges against risks that Goldman incurred as it made a market for customers. Those short positions represented major bets that the mortgage securities market, a market that Goldman helped create, was in for a major decline.

Goldman continues to deny that it shorted the mortgage market for profit, despite the evidence. Why the denial? Why the denial?

[1] See Exhibit No. 162, which appears in the Appendix on page 997.

My best estimate is that it is because the firm, Goldman Sachs, cannot successfully continue to portray itself as working on behalf of its clients if it was selling mortgage-related products to those clients while it was betting its own money against those same products that it was selling to its client or betting against the mortgage market as a whole.

The scope of this conflict is reflected in a company email sent on May 17, 2007, discussing the collapse of two mortgage-related instruments tied to WaMu-issued mortgages that Goldman had helped assemble and sell. The "bad news," a Goldman employee says, is that the firm lost $2.5 million on the collapse. But the "good news," he reports, is that the company had bet that the securities would collapse, and they made $5 million on that bet. So they lost money on the mortgage-related products that they still held, and, of course, the clients they sold those products to lost big time. But Goldman Sachs made out big time, because it bet against its own products and its own clients.

Goldman's Chief Executive Officer, Lloyd Blankfein, summed it up this way: "Of course we didn't dodge the mortgage mess. We lost money then we made more than we lost because of shorts." The conflict of interest that lies behind that statement is striking.

The Securities and Exchange Commission (SEC) has filed a civil complaint alleging that in another transaction involving a product called Abacus 07 AC–1, Goldman violated security laws by misleading investors about a mortgage-related instrument. The SEC's complaint alleges that Goldman Sachs, in effect, helped stack the deck against the buyers of the instrument that it sold. The hedge fund that bought the short position in the transaction—in other words, that bet that the product would not perform well—helped select the mortgages that were to be referenced in the product that Goldman sold to its investors. The SEC alleges that Goldman Sachs knew of the hedge fund's selection role and failed to disclose it to the other Abacus investors, who thought the package had been designed to succeed, not fail.

We learned in last week's hearing that Goldman also failed to disclose the hedge fund's role to the credit rating agency that rated the Abacus deal. Eric Kolchinsky, who oversaw the ratings process at Moody's, testified before this Subcommittee, "It just changes the whole dynamic of the structure where the person who is putting it together, choosing it, wants it to blow up."

The SEC and the courts will resolve the legal question of whether Goldman's actions broke the law. The question for us is one of ethics and policy. Were Goldman's actions in 2007 appropriate? And if not, should we act to bar similar actions in the future?

Abacus may be the best-known example of conflicts of interest revealed in the Goldman documents, but it is far from the only example. Anderson Mezzanine Funding 2007–1 was a synthetic product assembled by Goldman. According to company documents, a Goldman client had expressed interest in taking a short position in the transaction, but an executive noted that Dan Sparks, the head of Goldman's Mortgage Department, might "want to preserve that ability for Goldman."

What that suggests is that not only was Goldman going to bet against the instrument that it was selling, but it wanted to make that bet badly enough that it took the bet for itself instead of letting an interested client have it. It then sold Anderson securities to its clients without disclosing that it would profit if those securities suffered losses.

Client loyalty fell so far that one Goldman employee cited his refusal to assist Goldman clients facing losses from a Goldman financial product as a performance that he felt should be rewarded. Mr. Swenson wrote to his superiors in his performance review, "I said 'no' to clients who demanded that Goldman should support the GSAMP program," Goldman Sachs' Subprime Mortgage-Backed Security Program. Mr. Swenson wrote that saying "no" to clients who asked Goldman to support a security that it had sold them were "unpopular positions, but they saved the firm hundreds of millions of dollars." Most investors make the assumption that people selling them securities want those securities to succeed. That is how our markets ought to work, but they do not always work that way.

The Senators who in the 1930s investigated the causes of the Great Depression stated the principle clearly: "Investors must believe that their investment banker would not offer them the bonds unless the banker believed them to be safe. This throws," they said, "a heavy responsibility on the banker. He may and does make mistakes. There is no way that he can avoid making mistakes because he is human and because in this world things are only relatively secure. There is no such thing," they wrote, "as an absolute certainty. But," those Senators said, looking at the Great Depression a few years afterwards, "while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe to be good."

Goldman documents make clear that in 2007, it was betting heavily against the housing market while it was selling investments in that market to its clients. It sold those clients high-risk mortgage-backed securities and CDOs that it wanted to get off its books in transactions that created a conflict of interest between Goldman's bottom line and its clients' interests.

These findings are deeply troubling. They show a Wall Street culture that, while it may once have focused on serving clients and promoting commerce, is now all too often simply self-serving.

The ultimate harm here is not just to clients poorly served by their investment bank. It is to all of us. The toxic mortgages and related instruments that these firms injected into our financial system have done incalculable harm to people who had never heard of a mortgage-backed security or a CDO and who have no defenses against the harm such exotic Wall Street creations can cause.

Running through our findings in these hearings is a thread that connects the reckless actions of mortgage brokers at Washington Mutual with market-driven credit rating agencies and with the Wall Street executives designing the next synthetic. That thread is unbridled greed and the absence of a cop on the beat to control it.

As we speak, lobbyists fill the halls of Congress hoping to weaken or kill legislation aimed at reforming these abuses. Wall Street is on the wrong side of this fight. It insists that reining in those excesses would unduly restrict the free market that is the engine of American progress. But this market of ours is not free of self-dealing nor conflicts of interest. It is not free of gambling debts that taxpayers end up paying.

I hope the executives before us today, and their colleagues on Wall Street, will recognize the harm that their actions have caused to so many of their fellow citizens. But whether or not they take responsibility for their role, I hope that this Congress will follow the example of another Congress eight decades ago and enact the reforms that will put a cop back on the Wall Street beat.

I want to thank again my Ranking Member, Senator Coburn, who this morning is carrying out a very important responsibility at the White House and who will join us later, for his support and that of his staff. And I recognize now the Acting Ranking Member, Senator Collins. We welcome her participation in this Committee always, and we welcome her remarks.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you. Mr. Chairman, thank you for leading this investigation into the root causes of the great recession of 2008. You and the Ranking Member, Senator Coburn, have cast a bright light into the dark corners of financial institutions that helped to inflate the housing bubble and then reaped billions of dollars when it burst, leaving millions of Americans in debt and jobless, with destroyed dreams and financial insecurity.

This investigation raises two overarching issues. First, we must recognize that the dynamic innovation of our capital markets can have a downside. It can produce pain rather than prosperity. Financial markets, therefore, require updated and effective regulation to help prevent excesses that can inflict great harm on wholly innocent Americans, be they workers, retirees, or small business owners.

The lack of regulation of the trillions of dollars in credit default swaps is a prime example, and that is why it is so critical that financial regulatory reform legislation include a council of regulators whose job it will be to assess systemic risk and to identify regulatory gaps.

I recognize that even measured regulation may limit the potential benefits that unfettered markets can produce. The question, however, is whether those benefits are outweighed by the terrible harm such unfettered markets can cause. Recent history certainly suggests that is the case, that the combination of lax or absent regulation plus unbridled greed can produce devastating results.

The second issue is even legal practices may raise ethical concerns. Assuming Goldman's role as a market maker and its desire to hedge its risk provided legal justification for some of its practices—a question that must ultimately be decided by the courts—there is something unseemly about Goldman betting against the housing market at the same time that it is selling to its clients mortgage-backed securities containing toxic loans. And it is unsettling to read emails of Goldman executives celebrating the collapse of the housing market when the reality for millions of Americans is lost homes and disappearing jobs. That is especially the case in light of Goldman's decision to opt for status as a bank holding company to secure benefits effectively underwritten, at least in part, by those same Americans.

During its previous hearings on the financial crisis, this Subcommittee revealed the reckless and at times predatory lending behavior of some mortgage brokers and banks like Washington Mutual. These banks discarded decades of reliable and pragmatic lending practices. Instead they opted to offer high-risk loans to borrowers whom they knew could not afford to repay them.

Traditionally, such behavior would have exposed the originating banks to high levels of unacceptable risk. In other words, the offending banks would have paid dearly for their own underwriting errors. But with the advent of securitization during the past decade, lenders have been able to insulate themselves by selling off toxic loans, pitching them as assets to investment banks. Those investment banks in turn bundled the toxic loans inside mortgage-backed securities which were then bought and sold by investors.

The cash that flowed back to the banks from investors buying these securities only made matters worse. The cash was akin to throwing fuel on the hot fire of greed and recklessness. The inflow of dollars encouraged loan originators to put that money to work again and again and again, turning over loan applications as quickly as possible, applying little scrutiny, because ultimately they had no stake in the outcome of the loan.

This cycle was based on a dangerous and false assumption that the housing market would always move upward. It was based on the fantasy, the myth, that what goes up stays up and never would come crashing down. When it all collapsed like a house of cards, we realized too late how incredibly fragile and tragically interconnected the system had become. The fallout was not limited. The debris field was not contained. The damage was widespread, profound, and nearly catastrophic.

The architects of this scheme entangled neighborhood banks and large brokerage firms across America. Their toxic linkages ensnared borrowers and investors from Main Street to Wall Street. They deluded themselves into believing that the basic principles could be defied and ignored. And when that delusion met reality, the bubble burst.

Today we will look at the top tier of the system, a major investment bank, and examine how its trading practices amplified the rise and fall of the housing market. Today's witnesses are all from Goldman Sachs, which was one of the few Wall Street firms to actually profit from the financial crisis. This hearing is not to celebrate that ignoble feat; rather, it is to examine how the trading practices of Goldman during that time made such profits possible. It is to examine how Goldman sold financial products that were tied to the health of the housing market, even while Goldman itself was betting that the housing market would collapse.

The Securities and Exchange Commission accuses Goldman Sachs of marketing a complex product to its clients while allegedly failing to disclose that the same company that hand-selected the components, the hedge fund Paulson & Company, also planned to bet on its failure. Goldman sold the product to long-time trusting clients allegedly without disclosing this fact. The bet that Paulson made earned him $1 billion while at least one of Goldman's clients, a German bank, went bankrupt.

Although Goldman lost money on that particular deal, it reaped billions of dollars in the mortgage-backed securities market as a whole. While the market was on the verge of collapse, Goldman decided to go short and earned billions from that strategy. Some have alleged that Goldman did so while continuing to sell clients long investments in the mortgage markets. While such conflicts of interest may not be illegal, they certainly seemed ethically questionable, and these conflicts of interest appeared to be rooted in the fact that broker-dealers do not have a fiduciary obligation to their clients. That is an issue we will be considering.

Clearly, this system must be reformed so that Wall Street banks are not seen and do not act as unscrupulous operators who seek to profit from the public's misfortune, even as they are pitching toxic investments and even as hard-working, struggling taxpayers are left to pick up the tab.

Thank you, Mr. Chairman, and, again, I congratulate you for this in-depth investigation.

Senator LEVIN. Thank you so much, Senator Collins. Senator Kaufman was next in line.

OPENING STATEMENT OF SENATOR KAUFMAN

Senator KAUFMAN. Thank you, Mr. Chairman.

Senator LEVIN. Senator Kaufman, I want to thank you for all your work on these hearings. You have been very significant and important to us.

Senator KAUFMAN. Thank you, and I want to thank you and Ranking Member Coburn for having these hearings, 3 days of hearings. I think we looked at Washington Mutual, then we looked at the regulators, and then we looked at the rating agencies. It was a pretty ugly picture, repeated conflicts of interest and in some cases outright fraud.

All of the figures from those 3 days of hearings points to Wall Street which created and sold these toxic investments to their clients. Today I am looking forward to talking about the behavior of Goldman Sachs during this period.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator Kaufman. Senator McCain.

OPENING STATEMENT OF SENATOR MCCAIN

Senator MCCAIN. Well, thank you, Mr. Chairman, and I thank the witnesses for being here today.

Mr. Chairman, I do not know if Goldman Sachs has done anything illegal. Charges have been brought, and it is going to be the subject of a lot of our discussion today. But from the reading of these emails and the information that this Subcommittee has uncovered, there is no doubt their behavior was unethical, and the American people will render a judgment, as well as the courts.

Senator LEVIN. Thank you very much, Senator McCain. Senator McCaskill.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you, Mr. Chairman. In the good old days of investment banking, they were considered very honorable and proud institutions, our investment bankers of Wall Street. They provided financial services, investment of capital in good businesses, helping government with assistance to issue bonds to build the great infrastructure of our Nation.

Then you fast-forward through the public offering of all these companies where the date that the risk of these companies shifted from the named partners to nameless, faceless shareholders. And you fast-forward a little bit further, and you land right at the feet of synthetic CDOs.

Now, I have got to be honest. I think that if we had to put the odds on this hearing today, you guys would probably have odds in your favor because the jargon is complicated, the transactions are complicated. You have relied on that complicated situation to avoid a lot of scrutiny.

We have spent a lot of time going through all these documents, and let me just explain in very simple terms what synthetic CDOs are. They are instruments that are created so that people can bet on them. It is the La-La Land of ledger entries. It is not investment in a business that has a good idea. It is not assisting local governments in building infrastructure. It is gambling—pure and simple raw gambling.

They are called synthetics because there is nothing there but the gamble, the bet. You are the bookie. You are the house. You have less oversight and less regulation, as you began this Wild, Wild West of tranches, waterfalls, equity tranches, and residual warehousing. As you began all that, you had less oversight than a pit boss in Las Vegas.

And I got to tell you—and it is not just you. All of you were lemming-like. You were chasing each other. What you worried about most was a bad article in the *Wall Street Journal,* not a regulator. You were chasing compensation. You were chasing your colleagues and other investment banks. And you were trying to make a killing.

But let me just tell you, you think it is so complicated and you think you are so smart? Any street gambler would never place a bet with a bookie or a house with the record that is revealed in the documents that this Subcommittee has gathered.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator McCaskill. Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Mr. Chairman, and I want to thank you for having this hearing this morning. And, Mr. Chairman, I know that you did not just open up the paper last week and say, "Hey, let us have a hearing on Goldman Sachs." I know that you have been working on this for a year and a half, and through your dogged determination, you have uncovered a lot of emails, a lot of documentation that raise a lot of very serious questions. And so, Mr. Chairman, I know the Nation appreciates your determination and your commitment to provide the oversight that Congress should be providing.

So I want to thank you for that, and I may not understand everything about everything on Wall Street, but I do understand that people are not here to listen to me, they are here to listen to the witnesses. So I want to thank you very much for having this hearing today, and I look forward to this hearing. Thank you.

Senator LEVIN. Thank you so much, Senator Pryor.

Let me start out by saying we are going to have three panels today, and each of these panels are going to take some time because this is a subject which needs some real exploration and detail to cut through all of those technical words and concepts that Senator McCaskill just made reference to.

So let me now welcome our first panel of witnesses for this morning's hearing: Daniel Sparks, a former partner and head of the Mortgage Department at Goldman Sachs; Joshua Birnbaum, a former Managing Director of the Structured Products Group Trading Desk at Goldman Sachs; Michael Swenson, a Managing Director on the Structured Products Group Trading Desk at Goldman Sachs; and Fabrice Tourre, an Executive Director in Structured Products Group Trading at Goldman Sachs International.

We appreciate all of you being with us this morning. We have a rule on this Subcommittee, Rule VI, that all witnesses who testify before the Subcommittee are required to be sworn, and so at this time I would ask all of you to please stand and raise your right hand.

Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. SPARKS. I do.

Mr. BIRNBAUM. I do.

Mr. SWENSON. I do.

Mr. TOURRE. I do.

Senator LEVIN. We will use a timing system today. We would ask that you try to limit your oral testimony to no more than 5 minutes. About a minute before that red light comes on, you will be given a yellow light so you can have that kind of assistance.

Mr. Sparks, we are going to have you go first, followed by Mr. Birnbaum, then Mr. Swenson, then finishing up with Mr. Tourre, and then we will turn to our questions. So, Mr. Sparks, please proceed.

TESTIMONY OF DANIEL L. SPARKS,[1] FORMER PARTNER, HEAD OF MORTGAGE DEPARTMENT, THE GOLDMAN SACHS GROUP, INC., NEW CANAAN, CONNECTICUT

Mr. SPARKS. 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, Josh Birnbaum, and Mike 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 2 years, and I ended up staying for 19. 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.

[1] The prepared statement of Mr. Sparks appears in the Appendix on page 202.

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 these concerns. The markets showed signs of stress, and our department was experiencing losses. In mid-December, David Viniar, Goldman's Chief Financial Officer (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 to "go short." The focus was on risk and 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 (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 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.

Senator LEVIN. Thank you so much, Mr. Sparks. Mr. Birnbaum.

TESTIMONY OF JOSHUA S. BIRNBAUM,[1] FORMER MANAGING DIRECTOR, STRUCTURED PRODUCTS GROUP TRADING, THE GOLDMAN SACHS GROUP, INC., NEW YORK, NEW YORK

Mr. BIRNBAUM. Good morning, Mr. Chairman, Members of the Subcommittee, my name is Josh Birnbaum. Thank you for offering me this opportunity to discuss my work in the Mortgage Department at Goldman Sachs in 2006 and 2007, when I was a Managing Director in the Structured Products Group. I began working at Goldman shortly after my graduation from the Wharton School at the University of Pennsylvania in 1993. I worked at Goldman until March 2008, when I left to start my own advisory firm, Tilden Park Capital Management. I take great pride from having worked for Goldman Sachs for almost 15 years and greatly admire the firm's integrity, commitment to client service, and ethics.

During 2006 and 2007, I worked on the Asset-Backed Securities (ABS), Desk in the Structured Products Group. My job was to make markets for Goldman clients who sought long or short exposure to the market for residential housing asset-backed securities and to assist in hedging investments made by other parts of the Mortgage Department.

The primary products I traded and risk-managed were the then newly created Asset-Backed Securities Index (ABX), and credit default swaps (CDS) in individual securitizations, also known as single-name CDS. As a market maker, we were continuously asked to provide liquidity for customers, which frequently required the firm to participate on the other side of transactions on a "principal" basis. For example, when a client wanted to buy protection on a particular securitization, we would offer a price to sell that protection. If the client chose to execute the transaction at that price, we would take the other side of the trade. We would then have a decision to make whether to offset that risk through a transaction with another client who wanted to sell that protection to us or keep it on our book for some period of time as part of our inventory.

From time to time, as a result of client-driven trades, our team's book accumulated long and short positions. For example, from the inception of the ABX Index in January 2006 through November 2006, customers interested in selling the ABX Index outnumbered buyers. The trades we made to meet client demands during that period naturally caused the book to develop a long position in the ABX Index and a smaller short position in the single-name CDS.

As part of our management of our own inventory, we had the discretion to hedge positions through trades with other clients or keep them on our book in accordance with the limits set by the risk management department. Whenever our inventory got significantly long or short, risk management directed us to cut our risk and "get closer to home," or to "flatten the book." For example, when our net position became long in late 2006, we were told to offset our risks, which we did through a combination of selling off some of the long ABX position and buying more single-name CDS protection. And when our inventory expressed a short bias at times in 2007, we were directed to cover our short positions to reduce risk, and we did so.

[1] The prepared statement of Mr. Birnbaum appears in the Appendix on page 205.

In late 2006 and into early 2007, I developed a negative view on the likely direction of the subprime market. Traders on desks like ours often develop a short or long bias based on their personal views of the market. Not everyone in the Mortgage Department—or the firm, for that matter—agreed with my view at the time. In fact, there was a vigorous debate as to the future direction of the market.

In line with my view, our desk began to accumulate short positions, purchasing protection on individual securities through credit default swaps, largely from external CDO managers who asked us to bid for these positions. There was, of course, risk involved in accumulating short positions, as no one could be certain which direction the market would go.

These positions became profitable as the market deteriorated. When those short positions bumped up against the risk parameters for our book during the spring and summer of 2007, my group was instructed to cover them. On both occasions, I expressed my belief that the market would continue to deteriorate and that the better, more profitable trade was to maintain the short position on our book, but the firm insisted that we reduce our position, and we did so.

No one from senior management told me to make a directional bet against the subprime market. Rather, during 2006 to 2007, regardless of whether our books were long or short, the consistent theme from management was get smaller, reduce risks, and get closer to home.

I am very proud of the accomplishments of the ABS Group during my tenure there. We provided significant liquidity to our clients in a difficult and challenging market while also managing to post a profit during this period.

Thank you for inviting me to testify here. I am happy to answer any questions Subcommittee members may have.

Senator LEVIN. Thank you very much, Mr. Birnbaum. Mr. Swenson.

TESTIMONY OF MICHAEL J. SWENSON,[1] MANAGING DIRECTOR, STRUCTURED PRODUCTS GROUP TRADING, THE GOLDMAN SACHS GROUP, INC., NEW YORK, NEW YORK

Mr. SWENSON. Good morning, Mr. Chairman, Ranking Member Coburn, Members of the Subcommittee. My name is Michael Swenson. I am a Managing Director in the Mortgage Department at Goldman Sachs, where I have worked since 2000.

Let me begin by discussing my role with the firm in 2006 and 2007 and then give you a general timeline of the activities of the ABS Desk through this period. I was a Managing Director in Structured Products Group (SPG) Trading and co-managed the group. I was primarily responsible for the Asset-Backed Securities (ABS) desk, which was responsible for making markets in ABS securities and derivatives for our customer franchise. The ABS Desk traded consumer ABS, subprime cash, single-name ABS credit default swaps—which I will refer to as "single names"—and the ABX indi-

[1] The prepared statement of Mr. Swenson appears in the Appendix on page 208.

ces, which are a family of synthetic indices that reference a standard basket of 20 subprime deals.

Throughout 2006, numerous clients wanted to sell the ABX in order to express a negative view on the U.S. residential housing market. As a result of these trades, we took on long positions as principal. In order to hedge those positions, we began to increase our short position in single names. By November 2006, the volatility in the ABX increased, pushing prices down. Because our positions in single names did not match identically the basket of securities that comprised the ABX, the positions moved at different rates and even different directions, resulting in losses for the ABS Desk.

On December 14, 2006, David Viniar, the firm's CFO, called a meeting to go over the firm's Mortgage Department's positions and risk. I attended a portion of that meeting, during which we discussed the ABS positions and the need to reduce the basis risk in the book. We were instructed to reduce risk and get the position "closer to home"; we were not told what direction to take—just to get there.

In the first quarter of 2007, we sold ABX, where possible, and increased our single-name positions. However, the ABS Desk continued to lose money because the market value of our long ABX positions was declining faster than our offsetting hedges.

The relatively rapid decline in the index brought in a wave of short-covering and some new long interest. As a result, the ABS Desk further reduced its long ABX position and purchased additional single names, or went long on $2.8 billion in single names, thus reducing our short position.

In the second quarter of 2007, the ABS Desk covered several billion notional in single names and purchased hundreds of millions of ABX long positions as the ABX index recovered. These transactions reduced the desk's short position, in effect bringing the desk to a more balanced position.

Later in the quarter, the ABS Desk increased its short position after it took on the CDO warehouse inventory from the CDO origination group. The inventory added several billions in long residential mortgage-backed securities (RMBS) exposure to the ABS Desk at a time when the market was deteriorating. In order to manage this newly assumed risk, the ABS Desk increased our position in single names.

At the end of the third quarter, the ABS Desk engaged in large block trades purchasing several billion notional of ABX risk while concurrently selling down a portion of our single-name positions—again, bringing the desk closer to home.

Throughout the period from late 2006 through much of 2007, the ABS Desk executed its market-making functions as principal, and our trades also reflected the views we had of the market. The ABS Desk did not only take short positions and, indeed, took many positions that ultimately reduced profits that the Mortgage Department otherwise might have realized. By reducing short positions, we left money on the table. But that is the nature of reducing risk while continuing to perform our duties as a market maker.

Thank you for your consideration. I am happy to answer any questions Members of the Subcommittee may have.

Senator LEVIN. Thank you very much, Mr. Swenson. Mr. Tourre, am I pronouncing your name correctly?

Mr. TOURRE. Yes, you are, Mr. Chairman.

Senator LEVIN. Thank you.

TESTIMONY OF FABRICE P. TOURRE,[1] EXECUTIVE DIRECTOR, STRUCTURED PRODUCTS GROUP TRADING, THE GOLDMAN SACHS GROUP, INC., LONDON, ENGLAND

Mr. TOURRE. Mr. Chairman, Members of the Subcommittee, good morning. My name is Fabrice Tourre, and I work at Goldman Sachs International in London. Thank you for the opportunity to appear today in front of the Subcommittee.

I have worked at Goldman Sachs since 2001. Between 2004 and 2007, my job was primarily to make markets for clients. I made markets by connecting clients who wished to take a long exposure to an asset—meaning they anticipated the value of the asset would rise—with clients who wished to take a short exposure to an asset—meaning they anticipated the value of the asset would fall. I was an intermediary between highly sophisticated professional investors—all of which were institutions. None of my clients were individual, retail investors.

The structured products on which I worked fill an important need for these sophisticated financial institutions. To the average person, the utility of these products may not be obvious. But they permit sophisticated institutions to customize the exposures they wish to take in order to better manage the credit and market risks of their investment holdings.

Mr. Chairman, as you know, the Securities and Exchange Commission recently filed a civil suit alleging that I failed to disclose to investors certain material information regarding a transaction that I helped to structure named Abacus 07 AC–1. I deny categorically the SEC's allegations, and I will defend myself in court against this false claim.

Since the suit was filed, there have been many questions raised about the AC–1 transaction and my role in it. I appreciate the opportunity to answer those questions, and I want to make a few points absolutely clear.

First, the only two investors in the transaction, ACA and IKB, were institutions with significant resources and extensive experience in the CDO market.

Second, I never told ACA, the portfolio selection agent, that Paulson & Company would be an equity investor in the AC–1 transaction or would take any long position in the deal. Although I don't recall the exact words that I used, I recall informing ACA that Paulson's fund was expected to buy credit protection on some of the senior tranches in this deal. This necessarily meant that Paulson was expected to take some short position in the transaction. Moreover, from the early stages of the transaction in January 2007 to its completion several months later, none of the offering documents provided to ACA indicated that Paulson's fund would be an equity investor.

[1] The prepared statement of Mr. Tourre appears in the Appendix on page 211.

If ACA was confused about Paulson's role in the transaction, it had every opportunity to clarify the issue. Representatives of Paulson's fund participated directly in all of my meetings with ACA regarding the transaction. I do not ever recall ACA asking me or Paulson's representatives if Paulson's fund would be an equity investor. Indeed, ACA and Paulson had several discussions about the transaction and at least one meeting without Goldman Sachs representatives present. Quite frankly, I am surprised that ACA could have believed that the Paulson fund was an equity or long investor in this deal.

Third, the AC–1 transaction was not designed to fail. ACA and IKB were two of the most important clients to my desk. Moreover, the securities referenced in the transaction did not underperform the other securities of that ratings class and vintage. In fact, all those securities performed poorly because the subprime mortgage market suffered a broad collapse. Goldman Sachs also had no economic motive to design the AC–1 transaction to fail. Quite the contrary, we held long exposure in the transaction just like ACA and just like IKB. When the securities referenced in AC–1 declined in value, we lost money, too, including around $83 million with respect to the retained long position.

Finally, ACA selected the portfolio of securities referenced in the transaction—not Paulson. ACA had sole authority to decide what securities would be referenced in the transaction, and it does not dispute that fact. Neither the Paulson fund nor Goldman Sachs could dictate to ACA the securities referenced in the deal. Paulson's fund made suggestions to ACA, as did IKB and as did Goldman Sachs. And the SEC complaint concedes that ACA rejected most of Paulson's suggestions while accepting others. So, while Paulson, Goldman Sachs, and IKB all had inputs in the reference portfolio for AC–1, ACA ultimately analyzed and approved each security in the transaction. Thus, when Goldman Sachs represented to investors that ACA selected the referenced portfolio, that statement was absolutely correct.

Mr. Chairman, the last week has been challenging for me and my family, as I have been the target of unfounded attacks on my character and motives. I appreciate the opportunity to appear before the Subcommittee to answer these false charges. I wish to repeat: I did not mislead IKB or ACA, two of the most sophisticated institutional investors in these products anywhere in the world.

I will be pleased to answer any questions that the Subcommittee may have.

Senator LEVIN. Thank you very much, Mr. Tourre.

What we will do is what we have done in previous hearings. Our rounds—at least the first round—will be 20 minutes for each of us, and then there will be subsequent rounds with these panels as well.

Mr. Sparks, would you turn to Exhibit 172,[1] please?

[Pause.]

Senator LEVIN. All set?

Mr. SPARKS. Yes, Mr. Chairman.

[1] See Exhibit No. 172, which appears in the Appendix on page 1101.

Senator LEVIN. Now, this is a series of emails that concerns a deal called Anderson that Goldman put together in March 2007. Anderson was a $300 million synthetic CDO, so what it did was reference certain other securities. This referenced subprime RMBSs, or residential mortgage-backed securities.

Many of those securities were originated by New Century, which was a subprime lender notorious for poor-quality loans. Goldman participated as one of the short investors, as you can see from that exhibit. They bought loss protection or bought the short side for $100 million, about 50 percent of the short side and 50 percent of the referenced assets.

So from the beginning of the deal, right from the beginning, Goldman is selling Anderson securities to clients, but it is betting against that CDO. It got, in the words there, protection that pays off if the CDO assets, the referenced assets, start losing money.

So, first, if you will take a look at the following email. Goldman's clients reject the deal, first of all, because it has so much poor-quality New Century mortgages. For example, look at page 3 of the exhibit. A client asks how Goldman got "comfortable" with all the New Century collateral, and particularly the New Century serviced deals.

Now, take a look at the internal response at the top of the page. What it is is to get Goldman's salespeople on the phone to allay the client's concerns about New Century collateral, but that does not work.

The next three emails tell the same story. Three more clients—Rabobank, Smith Breeden, and Terwin—reject the deal. Internally, the drive to sell Anderson continues—keep pushing the clients to buy. Look at the top of page 6. "Anything more from these guys - or are they officially dead now?"

Now, Goldman is asked a question by a potential customer. What did you guys do to get comfortable with all the New Century collateral? How can you get comfortable with that collateral? That is a well-known company that has a very bad record. And what is your response? Is your response, "Hey, we are going short. We got half the short side?" We are betting against this deal? You are asked a specific question. How do you guys get comfortable with this? Instead of saying, "Hey, we are betting against it, we are taking half the short side," what you do is you tell your salespeople try to sell this deal. You do not answer the question. You do not respond to a direct question.

So you continue to push hard, and finally there is a sale that unloads $20 million in Anderson notes. Page 7 of that same exhibit, a Goldman supervisor responds with a single word after you unloaded $20 million in Anderson notes: "Profit!" Exclamation point. Eureka. "Eureka" is my word. He later congratulates the team: "Excellent job pushing to closure these deals in a period of extreme difficulty."

Now, your clients did not want to buy Anderson CDOs with that exposure to the New Century mortgages, but you still pushed hard. Why didn't you inform your clients that Goldman was short on nearly 50 percent of the Anderson CDO when selling Anderson securities to them? Why didn't you tell them you were going short?

Mr. SPARKS. Mr. Chairman, there are about eight emails in here. I did not see the email that suggested that we were short, and I was trying to find that.

Senator LEVIN. All right. Take a look at Exhibit 93.[1]

Mr. SPARKS. Within this exhibit?

Senator LEVIN. No. Exhibit 93.

Mr. SPARKS. OK.

Senator LEVIN. And Exhibit 94,[2] together, showing the shorts.

See where it shows the counterparty, the short side of the deal? Goldman Sachs, Goldman Sachs, Goldman Sachs, Goldman Sachs. See all that?

Mr. SPARKS. Yes, Mr. Chairman.

Senator LEVIN. OK. Now, answer my question.

Mr. SPARKS. I believe this shows the counterparties, which——

Senator LEVIN. Yes, Goldman Sachs.

Mr. SPARKS [continuing]. Oftentimes is Goldman Sachs. That does not mean that Goldman Sachs was not doing that trade with another client, so it is very difficult for me to say from looking at this whether we were short or not. We might have been facilitating trades for clients.

Senator LEVIN. Assuming you were going short and staying short. Let me ask the question. Should you have told that client—when they asked how are you getting comfortable with this, should you have told them you were going short if you were?

Mr. SPARKS. Mr. Chairman, so not particular to this, because, again, I do not recall if——

Senator LEVIN. No, in this case. I am asking in this case. You were asked a question. How do you guys get comfortable with these kind of mortgages, with this kind of a mortgage broker?

Mr. SPARKS. Well, again, I do not know if we were short on that deal——

Senator LEVIN. I know you do not know. Assuming you went short and intended to stay short on that deal, should you have then told the customer asking you the direct question, how can you get comfortable with this, that it was your intention to go short on 50 percent of the short side and stay that way, if that was the fact?

Mr. SPARKS. Again——

Senator LEVIN. No. Answer my question.

Mr. SPARKS. I am just trying to understand exactly what the question is.

Senator LEVIN. The question is very clear. You said, well, you were not sure whether or not you were buying that 50 percent for somebody else. That is what your answer was. If you were buying, as we know you were, 50 percent of the short for yourself, for your account, my question is, when asked how can you be selling this security, how do you get comfortable with the source of this security, was there an obligation at that time, if you were going and intended to stay short with half the short side, was it your responsibility to answer that direct question, hey, we are going short and we are staying short? How do you view your responsibility—that is my question—under those circumstances?

[1] See Exhibit No. 93, which appears in the Appendix on page 592.
[2] See Exhibit No. 94, which appears in the Appendix on page 593

Mr. SPARKS. Mr. Chairman, this transaction was a static synthetic, which meant the assets were the assets and they could not change. Anybody participating in it should look at the assets themselves.

Senator LEVIN. Are those assets open to everyone who buys those synthetics, the specific assets, or are they protected? Are those not commercially protected, the specific source?

Mr. SPARKS. If that is a legal question, people have access to the information, Mr. Chairman.

Senator LEVIN. The buyer is raising a question with you about these assets. He is asking a direct question: How can you get comfortable with these assets from this source? How do you guys get comfortable? Your answer is not, under my hypothetical—which is not hypothetical; it is factual. But assuming you are going to buy half the short position and keep it, my question is: Did you not have a responsibility to answer a direct question, how can you get comfortable with these products from that source by saying we are going short, half the short is what we are buying? How do you view your ethical responsibility?

Mr. SPARKS. Mr. Chairman, and again, the facts about——

Senator LEVIN. Again, you do not want to answer the question.

Mr. SPARKS. No. The question that investors should and did focus on were whether the names that they had risk to was something they actually wanted at that price.

Senator LEVIN. My question, Mr. Sparks, is a very direct question. You were asked a question, Goldman was asked a question: How do you get comfortable with the source of these securities? Instead of disclosing right at that time, what I think you ought to disclose anyway when you are on the other side of a deal—we will get into that. But instead of disclosing that you had half of the other side of the deal, half the short side, you did not tell them that. Instead you told your salespeople, "Keep pushing this deal." You had three people turn it down because of the source, and you kept pushing it. But now answer my question. When you are asked the question, how do you get comfortable with these securities given the dubious source of the security—you got clients, they do not want to buy the security with so much exposure to the New Century mortgages. Those New Century mortgages have had problems.

I am going to ask you for the last time, and if you do not want to answer it, you can say you do not want to answer it. But, clearly, you understand it. Did you not have a responsibility when you were asked point blank how do you get comfortable in this kind of a situation when there is so much exposure to New Century mortgages, did you not then at least have an obligation to disclose, hey, we are not comfortable, we are selling this thing short, we are going on the short side? Do you understand the question?

Mr. SPARKS. Mr. Chairman, I understand the question. I have not gone through all of the emails, but what clients who did not want to participate in that deal did not.

Senator LEVIN. And the client asked you a question, how do you guys get comfortable—it is a question. What was your answer?

Mr. SPARKS. Mr. Chairman, we——

Senator LEVIN. Did you tell them——

Mr. SPARKS. We would have had the sales force get on with the deal team and walk through each security that they had exposure to and answer any questions that they had about that security.

Senator LEVIN. Don't you also have a duty to disclose an adverse interest to your client? Do you have that duty?

Mr. SPARKS. About?

Senator LEVIN. If you have an adverse interest to your client, do you have the duty to disclose that to your client?

Mr. SPARKS. The question about how the firm is positioned or our desk is positioned?

Senator LEVIN. If you have an adverse interest to your client when you are selling something to them, do you have the responsibility to tell that client of your adverse interest?

Mr. SPARKS. Mr. Chairman, I am just trying to understand what the adverse interest means——

Senator LEVIN. No, I think you understand it. I do not think you want to answer. How did you get comfortable with all the New Century collateral?

Mr. SPARKS. Mr. Chairman, I——

Senator LEVIN. I am just going to go on because you are not going to answer the question. It is obvious.

In particular, let me ask you this question. Keep going now on that exhibit.[1] Considering that you are holding the equity—do you see that in that email chain, March 13, 2007?

Mr. SPARKS. Yes, sir.

Senator LEVIN. They thought you were actually holding the equity, which is being on the long side, right?

Mr. SPARKS. Yes. In this email, that is what this looks like.

Senator LEVIN. So they thought you are on the long side, but not told you are on the short side of the same deal when specifically asked the question as to how you got comfortable, not disclosing that you are betting against it, not just buying the equity.

Now, let me keep going. By the way, that Anderson deal was downgraded from AAA to junk in 7 months. Did you make money on that deal, on the short position?

Mr. SPARKS. Well, I know on the longs that we took, we lost money.

Senator LEVIN. I understand. I am asking about the short position you took.

Mr. SPARKS. And on the shorts, Mr. Chairman, I do not know how much of it we had, if any.

Senator LEVIN. OK.

Mr. SPARKS. And so I cannot—I just do not have that number.

Senator LEVIN. Do you want to check your records and tell us how much money you made on that?

Mr. SPARKS. I will have to get back to you and work with the people at Goldman Sachs.

Senator LEVIN. Mr. Sparks, turn to Exhibit 173.[2] This is an email message, November 2006, between two Goldman Sachs employees in sales. It discusses selling Fremont securities. One salesperson sends to the other a client's explanation of why they do not

[1] See Exhibit No. 172, which appears in the Appendix on page 1101.
[2] See Exhibit No. 173, which appears in the Appendix on page 1109.

want to buy the securities—even after talking to Fremont, by the way. The client wrote, ". . . [F]remont refused to make any forward looking statements so we really got nothing from them on the crap pools"—"the crap pools that are out there now."

The salesperson wrote, "They are concerned about all the Fremont exposure they already have," and they "are going to put Fremont 'in the box' for the time being."

Were you aware of the poor reputation that Fremont had, and that is, loans among the highest default rates in the country? Were you aware of it at the time?

Mr. SPARKS. Mr. Chairman, can I just read the email?

Senator LEVIN. Exhibit 173. Do you see it? "[F]remont refused to make any forward looking statements so we really got nothing from them on the crap pools that are out there now." Do you see that?

Mr. SPARKS. I do not want to slow you down. I have not read the whole thing, so I——

Senator LEVIN. I am just asking you, look at the bottom paragraph there, the last two lines. "[F]remont refused to make any forward looking statements so we really got nothing from them on the crap pools that are out there now." Do you see that?

Mr. SPARKS. Yes, sir.

Senator LEVIN. OK. Now, were you aware of Fremont's poor reputation at the time?

Mr. SPARKS. This email——

Senator LEVIN. Do you remember whether you were aware at the time of their poor reputation? Do you remember?

Mr. SPARKS. Whether they had a poor reputation in November?

Senator LEVIN. Yes, with high default rates.

Mr. SPARKS. Fremont originated subprime loans. People understood that.

Senator LEVIN. Yes or no, were you aware of their poor reputation and high default rate.

Mr. SPARKS. I do not recall at that time.

Senator LEVIN. You sold about $700 million in subprime residential mortgage-backed securities, helping Fremont do that. Within 10 months, those securities were downgraded and today have junk status. You also bought some of the Fremont securities, immediately bought loss protection through a CDS on those securities. In other words, you were betting against those securities at the same time you were selling those crap pools to your client. Do you know how much money you made on those shorts? Do you remember?

Mr. SPARKS. Chairman, I do not remember. The one point I would say about this email is it looks like the customer had the chance to evaluate the investment and decided not to invest.

Senator LEVIN. I am just telling you how much you sold of the securities. I just informed you that Goldman—helped Fremont package and sell $700 million in subprime residential mortgage-backed securities. That is what I am telling you when I am asking you that. You also took out a short position. Do you know how much you made?

Mr. SPARKS. No, sir, I do not.

Senator LEVIN. Now, take a look at Timberwolf, a Timberwolf deal which is Exhibit 105.[1] This is a $1 billion hybrid CDO, squared so-called, that Goldman put together and underwrote in the first quarter of 2007. Timberwolf references a variety of assets, including $15 million from an Abacus CDO and more from a Washington Mutual Option ARM.

Goldman Sachs participated in this deal as one of the short buyers. Do you remember that? Can you see that from that?

Mr. SPARKS. I do not see where it says that we were short.

Senator LEVIN. Well, you will just have to assume that my statement is accurate for the time being. It is accurate. I want to go on.

You participated in the deal as one of the protection buyers. You do not remember that? You do not remember Timberwolf? You do not remember participating——

Mr. SPARKS. No. I remember Timberwolf.

Senator LEVIN. Do you remember whether you were on the short side?

Mr. SPARKS. I remember a few things about Timberwolf.

Senator LEVIN. Do you remember whether you were on the short side? Do you remember? Yes or no.

Mr. SPARKS. We likely would have provided a number of shorts, and I do not recall if we covered them or not.

Senator LEVIN. All right.

Mr. SPARKS. I also recall——

Senator LEVIN. But not whether you covered them. That means you would have sold them down the line. But in any event, would you have stood to gain, do you remember, if Timberwolf assets declined in value or if they defaulted or if there was a credit downgrade? Do you remember?

Mr. SPARKS. I know that on the Timberwolf deal, with the longs we took, we lost hundreds of millions of dollars.

Senator LEVIN. I am talking about the shorts. The profits on the shorts consistently—and that happened throughout the year—more than made up for what you lost on longs. Do you know how much you made on the shorts?

Mr. SPARKS. Mr. Chairman, on that particular deal, I would be surprised if that is true with respect to the gain/loss outcome.

Senator LEVIN. OK. Timberwolf closed at the end of 2007. Your sales team sold $600 million in Timberwolf securities. Take a look at Exhibit 155.[2] Do you see that?

Mr. SPARKS. I see a list of sales on CDOs.

Senator LEVIN. OK. Take my word for it. It is $600 million. Your sales team—now, take a look at Exhibit 105.

Mr. SPARKS. Mr. Chairman, on Exhibit 155——

Senator LEVIN. No, just go to Exhibit 105. I will come back to Exhibit 155.

Mr. SPARKS. Could I just clarify? You are talking about—there were sales to two counterparties. One was Greywolf, who was the manager.

Senator LEVIN. Of Timberwolf.

[1] See Exhibit No. 105, which appears in the Appendix on page 674.
[2] See Exhibit No. 155, which appears in the Appendix on page 971.

Mr. SPARKS. The other was Bear Stearns Asset Management. Is that what you are asking me to look at?

Senator LEVIN. I asked you to look at Exhibit 105.

Mr. SPARKS. OK.

Senator LEVIN. Now, before you sold all that stuff that we just described in Exhibit 155, $600 million of Timberwolf securities is what you sold. Before you sold them, this is what your sales team were telling to each other. Got it? Exhibit 105?

Mr. SPARKS. Yes, Mr. Chairman.

Senator LEVIN. Look what your sales team was saying about Timberwolf: "Boy that Timberwolf was one shi**y deal." They sold that shi**y deal.

Mr. SPARKS. Mr. Chairman, this email was from the head of the division, not the sales force. This was——

Senator LEVIN. Whatever it was, it is an internal Goldman document.

Mr. SPARKS. This was an email to me in late June.

Senator LEVIN. Right. And you sold——

Mr. SPARKS. After the transaction.

Senator LEVIN. No. You sold Timberwolf after as well.

Mr. SPARKS. We did trades after that.

Senator LEVIN. Yes, OK. The trades after——

Mr. SPARKS. Some context might be helpful.

Senator LEVIN. The context, let me tell you, the context is mighty clear. June 22 is the date of this email: "Boy, that Timberwolf was one shi**y deal."

How much of that shi**y deal did you sell to your clients after June 22, 2007?

Mr. SPARKS. Mr. Chairman, I do not know the answer to that, but the price would have reflected levels that they wanted to invest at that time.

Senator LEVIN. You did not tell them you thought it was a shi**y deal?

Mr. SPARKS. Well, I did not say that.

Senator LEVIN. No. Who did? Your people internally. You knew it was a shi**y deal, and that is what your email shows.

Mr. SPARKS. And, again, I think the context, the message that I took from the email from Mr. Montag was that my performance on that deal was not good, and I think the fact that we had lost money related to that was not good——

Senator LEVIN. How about the fact that you sold hundreds of millions of that deal after your people knew it was a shi**y deal? Does that bother you at all? You sold a customer something——

Mr. SPARKS. I do not recall selling hundreds of millions of that deal after that.

Senator LEVIN. All right. Let us take a look. Exhibit 166 is a series of emails.[1] The first is June 26, 2007. That is after June 22. A July 1, 2007, email tells the sales force the top priority is Timberwolf. Your top priority to sell is that shi**y deal.

Mr. SPARKS. Mr. Chairman, my comment was I did not recall the sales, not that we were trying to sell.

[1] See Exhibit No. 166, which appears in the Appendix on page 1012.

Senator LEVIN. OK, you are trying to sell a shi**y deal, and it is your top priority. Come on, Mr. Sparks.

Mr. SPARKS. Well, Mr. Chairman——

Senator LEVIN. Should Goldman Sachs be trying to sell—and, by the way, it sold it, a lot of it, after that date. Should Goldman Sachs be trying to sell a shi**y deal?

Mr. SPARKS. Well——

Senator LEVIN. Can you answer that one?

Mr. SPARKS [continuing]. Again, I did not use those words.

Senator LEVIN. Can you answer that one yes or no?

Mr. SPARKS. There are prices in the market that people want to invest in things. I did not use that term with respect to this deal.

Senator LEVIN. Who did use that term? Who is Tom Montag? Who is Daniel Sparks?

Mr. SPARKS. That is me——

Senator LEVIN. I know it is. Who is Tom Montag?

Mr. SPARKS. Tom Montag was the head of the division at the time.

Senator LEVIN. And he was telling you on June 22, "Boy, that Timberwolf was one shi**y deal." And then you got Exhibit 166, a series of emails pushing the Goldman sales force to sell Timberwolf securities. The first is a June 26, 2007, email from GS Syndicate. That is your sales force. The sales force is told in Exhibit 166, "Please focus on the CDO axes below," one of which is Timberwolf. The next email, take a look, July 1, 2007, tells the sales force the top priority is Timberwolf.

The next email is July 24, 2007. Timberwolf is again listed as one of the top priorities.

Next is an email, July 3, still after "the shi**y deal" assessment, in which one of GS sales team leaders, Matthew Bieber, writes that, with regard to Timberwolf, "I'm all over these guys."

The last email, August 22, again, highlights Timberwolf as a top priority.

So if you cannot give a clear answer to that one, Mr. Sparks, I do not think we are going to get too many clear answers from you. But I have taken much more than my time, and we are going to come back to you and to the others on my second round.

I will turn to Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

I would like to start my questioning by asking each of you a fundamental question. Investment advisers have a legal obligation to act in the best interests of their clients.

Mr. Sparks, when you were working at Goldman, did you consider yourself to have a duty to act in the best interests of your clients?

Mr. SPARKS. Senator, I had a duty to act in a very straightforward way, in a very open way with my clients. Technically, with respect to investment advice, we were a market maker in that regard. But with respect to being a prudent and a responsible participant in the market, we do have a duty to do that.

Senator COLLINS. OK. You are not really answering my question. I understand the difference between suitability standards, which you did have to follow, versus a fiduciary obligation to act in the best interests of your clients. I understand that you do not have a legal fiduciary obligation, but did the firm expect you to act in the best interests of your clients as opposed to acting in the best interests of the firm?

Mr. SPARKS. Well, when I was at Goldman Sachs, clients are very important and were very important, and so——

Senator COLLINS. Could I—I am starting to share the Chairman's frustration already, and I am only 30 seconds into my time. Could you give me a yes or no to whether or not you considered yourself to have a duty to act in the best interests of your clients?

Mr. SPARKS. I believe we have a duty to serve our clients well.

Senator COLLINS. I guess, Mr. Chairman, that I am not going to get an answer to my question any more than you did with yours.

Mr. Birnbaum, I am going to ask you the same question. Do you have a duty to act in the best interests of your clients?

Mr. BIRNBAUM. Not only do I believe that we do, I believe that we did.

Senator COLLINS. Mr. Swenson?

Mr. SWENSON. I believe it is our responsibility as market makers to provide a market-level bid and offer to our clients and to serve our clients and helping them transact at levels that are fair market prices and help meet their needs.

Senator COLLINS. Your clients are not paying you big fees just to efficiently conduct transactions. I have never seen an investment bank run ads that brag about its facility with conducting transactions. They are paying you for judgment as well.

Mr. Tourre, same question for you. Do you have a duty to act in the best interests of your clients?

Mr. TOURRE. Senator, I believe we have a duty to serve our clients, and as our role—with respect to our role as market maker, to show prices to our clients and to offer them liquidity. I do not believe we were acting as investment advisers for our clients.

Senator COLLINS. Mr. Tourre, you are giving the same kind of answer that Mr. Sparks did. I understand that you are serving your clients. Do you believe that you have a duty to act in the best interests of your clients?

Mr. TOURRE. Again, Senator, I will repeat, we have a duty to serve our clients by showing prices on transactions that they ask us to show prices for.

Senator COLLINS. Mr. Birnbaum, since you are the only one who answered the question and you said yes, do you think that since there is apparently some confusion or some difference of opinion on this issue, do you think that Congress should impose a clear fiduciary obligation to act in the best interests of your clients on broker-dealers?

Mr. BIRNBAUM. First, I want to clarify. I worked with these gentlemen for years, and I think they share my sentiments on this issue, even if that is not what you are getting out of it right now.

Senator COLLINS. Well, I think they spoke for themselves. But why don't you answer my current question?

Mr. BIRNBAUM. Your current question is a regulatory question?

Senator COLLINS. I am asking you, since we are considering financial regulatory reform, should we amend the law to impose a clear fiduciary duty on broker-dealers to act in the best interests of their clients similar to the legal requirement that is already imposed on investment advisers?

Mr. BIRNBAUM. I think conceptually that does not seem like an issue. I am not completely familiar with how that works, but conceptually it seems like an interesting idea.

Senator COLLINS. Mr. Tourre, I would like to ask you about a specific email, and it is Exhibit 61 in your exhibit book,[1] if you could turn to that.

This is an email that you wrote on December 28, 2006, and it referred to a list of the clients that might be most profitable in the coming year. And you referred to this list, and you are not happy with this list because you believe that the list is skewed towards sophisticated hedge funds. You implied that the list should include fewer sophisticated hedge funds, and it goes on to say, "with which we should not expect to make too much money since (a) most of the time they will be on the same side of the trade as we will, and (b) they know exactly how things work and will not let us work for too much [money] vs. buy-and-hold rating-based buyers who we should be focused on a lot more to make incremental [money] next year."

This sounds like a deliberate attempt to sell your products to less sophisticated clients who would not understand the products as well so that you could make more money. Would you like to comment on that?

Mr. TOURRE. Senator, would you mind telling me where exactly—I just do not see it.

Senator COLLINS. Well, it is on the bottom of Exhibit 61. It is very clear. It is an email to you. It is the last paragraph on that page.

Mr. TOURRE. Sorry. Which date?

Senator COLLINS. It is Exhibit 61. It is your December 28, 2006, email, and it is at the bottom of the page.

Mr. TOURRE. I see that email.

Senator COLLINS. OK.

Mr. TOURRE. Can you repeat your question, Senator?

Senator COLLINS. Mr. Chairman, I cannot help but get the feeling that a strategy of the witnesses is to try to burn through the time of each questioner.

Mr. Tourre, the email that you sent on December 28, 2006, refers to a list of potential clients that might be most profitable in the coming year, and you say that the list should include fewer "sophisticated hedge funds with which we should not expect to make too much money since (a) most of the time they will be on the same side of the trade as we will, and (b) they know exactly how things work and will not let us work for too much [money]. . . ." And you refer instead to another kind of buyer, "buy-and-hold rating-based buyers," who you can make more money from because they have less sophistication.

This sounds like a deliberate strategy to sell products, complex products to less sophisticated clients who would not understand the products as well so that you can make more money?

Mr. TOURRE. Senator, I will try to answer your question with two separate parts.

[1] See Exhibit No. 61, which appears in the Appendix on page 471.

One, I do not think I was expressing our ability to make more money from rating-based clients by saying that they were less sophisticated. As far as I can read this email today, what I think I was expressing was the fact that hedge funds have a tendency to usually argue very much about prices, and, with respect to our role as market maker, the money we make is bid-offer spread on transactions where we buy and we sell.

So I think what I was expressing in that email was that with respect to ratings-based clients, they had a tendency to argue less about bid-offer spread than hedge fund clients.

And the second part of the answer that I wanted to make clear is all the clients we did business with on the CDO desk, including ACA and IKB, which we probably will talk about separately, were highly sophisticated institutions which were also falling in the sort of ratings-based buyer category.

Senator COLLINS. Well, Mr. Tourre, that is not how it reads to me. It reads to me that you wanted to deal with people who did not "know exactly how things work" and would allow you to make more money, and that raises the whole issue of whether you are truly disclosing all the information that you should be to your clients and whether your clients are aware that the whole system seems to be rife with conflicts of interest.

Mr. Birnbaum, I want to ask you a question about an exhibit. It is Exhibit 104,[1] and I am going to describe it. I realize that is a big exhibit book, although it is well ordered.

On July 25, 2007, the CFO of Goldman wrote an email to the Goldman president, and in that email the CFO responded to an update on mortgage-related investments that had declined in value and wrote, "Tells you what might be happening to people who don't have the big short."

Mr. BIRNBAUM. Excuse me. Are you on Exhibit 104?

Senator COLLINS. I apologize. It is Exhibit 26,[2] top of the page, "Tells you what might be happening to people who don't have the big short."

There was also an October 29——

Mr. BIRNBAUM. Was that a question or——

Senator COLLINS. I am getting to the question. It is a 2007 internal Goldman presentation that seems to confirm that the company took the big short position, and that document asserts that early in 2007, Goldman's mortgage trading desk "started putting on big short positions."

Mr. BIRNBAUM. Which exhibit is that?

Senator COLLINS. That is Exhibit 48.[3]

Mr. Birnbaum, this is my point: We have an email from the CFO that talks about people who had lost money that says, "Tells you what might be happening to people who don't have the big short." We have an internal Goldman presentation that refers to starting to put on big short positions. And yet Goldman executives, this panel, and the testimony to come have stated repeatedly that Goldman never had an overall strategy to short mortgage-related investments.

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[1] See Exhibit No. 104, which appears in the Appendix on page 673.
[2] See Exhibit No. 26, which appears in the Appendix on page 306.
[3] See Exhibit No. 48, which appears in the Appendix on page 376.

If Goldman's position were truly to just get back to home, to remain as neutral as possible, how do you account for all of these references to the big short?

Mr. BIRNBAUM. I think the first thing to clarify is I was not on the first email that you are referring to, so I would be interpreting David Viniar's words in that case. And I think in the other exhibit you mentioned—I do not know if it was Exhibit 48 or what it was, but that departmental presentation, I did not prepare that. I do not think I was on that email either.

I just want to clarify. My position here was I had a role in the ABS Group. The ABS Group was a part of the Structured Products Group, which was a part of the Mortgage Department, which was a part of the firm. So my role was a—I had a singular voice, and I mentioned in my presentation, I had a view, I took a view, and that was not necessarily the view of the department or the firm, and that did not reflect the position necessarily for the department or the firm. And if you are asking me to interpret this email, again, I was not on this, so I would be speculating as to what these people meant.

Senator COLLINS. Well, Mr. Chairman, I think it is very clear what the Goldman executives meant, and I, too, am baffled that they continue to maintain that they did not have an overall net short position, particularly seeing the chart that you put out.[1]

Mr. BIRNBAUM. Do you mind if I comment on that chart for a moment? Because I saw a similar chart last week while interviewing with your staff, and I think that chart is, at best, misleading. That chart is an amalgam of positions that cannot necessarily—they are apples and oranges being added up together that do not reflect the firm's position or the firm's profit and loss statement to the extent the market would go up or down. And the analogy that I used with your staff last week—and I will use it again—would be if you were to trade, say, $100 in Johnson & Johnson versus $100 in Google, if you were to trade those against each other—so let us say you were long $100 in Google and you were short $100 in Johnson & Johnson, if you added those two together, they would look like a zero on a chart like that. But I think anybody who knows those two stocks would know that the person who has that position would not be indifferent as to which way the market would go. The Google position would be much more sensitive than the Johnson & Johnson position.

That chart is an amalgam of AAAs, BBBs, As, very different things being added together that do not reflect the firm's P&L.

Senator COLLINS. Mr. Chairman, it seems to me that the documents that you have compiled, that your staff has compiled, tell a very different story.

Thank you, Mr. Chairman.

Senator LEVIN. By the way, before you proceed, Senator Kaufman, let me just assure Senator Collins and all the other Members of our Subcommittee and our witnesses that we are going to stay here as long as it takes to get the answers. So there may be a strategy. I noticed very much the same thing that Senator Collins did about the refusal to give answers, the long delays in those an-

[1] See Exhibit No. 162, which appears in the Appendix on page 997.

swers. But it is not going to work. We are going to stay here as long as it takes to get this information before the public.

Senator Kaufman.

Senator KAUFMAN. Mr. Sparks, can you tell us, do you know what a stated income loan is?

Mr. SPARKS. I am generally familiar. That term could be used—at least I do not think that term is a technical term, but that term could be used with respect to certain ways loans were originated and how income by the borrower was represented.

Senator KAUFMAN. Well, we had 3 days of hearings and had folks from Washington Mutual, regulators, and the rating agencies. They all seemed to know what a stated income loan is.

Mr. Birnbaum, do you know what a stated income loan is?

Mr. BIRNBAUM. I think it is just what it sounds like.

Senator KAUFMAN. Which is?

Mr. BIRNBAUM. My understanding—and I think there are some people who are more qualified to answer this question than me. But my understanding is that is when the borrower stated his income rather than being verified.

Senator KAUFMAN. Right. Mr. Swenson, is that your understanding?

Mr. SWENSON. I agree.

Senator KAUFMAN. Are you aware that stated income loans were originally for high-net-worth incomes, Mr. Sparks, but were beginning to spread throughout the mortgage industry? You were not concerned about stated income loans at all or the fact that they were stated income loans going out and being used to determine whether loans should be given to borrowers?

Mr. SPARKS. Senator, I was aware that that business activity from the mortgage originators was growing.

Senator KAUFMAN. Did that cause you any concern?

Mr. SPARKS. Well, we operate in the markets, and the prices in this instance where we would probably see that is if the loan originator that is a client of ours wanted to sell assets, that was their objective, we would factor that in to what we did with respect to pricing and diligence and the like.

Senator KAUFMAN. So the fact that some of your mortgage originators were presenting mortgages to you for securitization that were stated income loans—remember, a stated income loan is a case where you walk in and you say, "Mr. Sparks, what is your income?" You tell me what it is, that is the end of the road. No W–2 form, no checking. That is it. So as this went on, you became concerned that this was growing?

Mr. SPARKS. Well, Senator, I was just saying that I had knowledge of it. I was not making a judgment about the practice.

Senator KAUFMAN. Sure. What do you think about the practice?

Mr. SPARKS. Well, we were not a big originator.

Senator KAUFMAN. But you did securitize——

Mr. SPARKS. I believe we securitized some of that. I think that type of loan has a risk to it that when it is verified has a different risk to it.

Senator KAUFMAN. OK. Can I say that one of the regulators said at the hearing we had earlier that it was anathema to the banking business. The idea that someone could come in and just based on what they say, their word could be used for these loans would be an anathema.

Mr. SPARKS. Again, Senator, we were not a big originator in this space. We were not a big originator of that product.

Senator KAUFMAN. But you securitized these loans, right?

Mr. SPARKS. Yes.

Senator KAUFMAN. Yes, you did. And do you know whether Goldman was securitizing WaMu mortgages or Long Beach mortgages at this time?

Mr. SPARKS. WaMu, Long Beach is and was a client of Goldman Sachs.

Senator KAUFMAN. And in May 2006, Goldman Sachs acted as co-lead underwriter with WaMu to securitize $532 million in subprime second-lien, fixed-rate mortgages originated at Long Beach? Does that sound reasonable to you?

Mr. SPARKS. Yes, Senator.

Senator KAUFMAN. What would you think if you heard that—what would be a reasonable percentage, do you think, of home equity loans that you would securitize that had stated income as the basis for income in those loans? What would be a reasonable number, do you think?

Mr. SPARKS. Well, I am not familiar with the specifics of that deal, and in hindsight, those deals did not perform. So I do not know what a reasonable percentage would be. The deal would be what it was, and——

Senator KAUFMAN. Take a wild guess.

Mr. SPARKS. And it would be disclosed as to what it was.

Senator KAUFMAN. Right. It was not disclosed, how much of these were stated income loans.

Mr. SPARKS. Well, with respect to the origination practices, those would have been disclosed.

Senator KAUFMAN. But they would not be disclosed to the people who were buying your securitized mortgages. I guarantee they were not disclosed.

Mr. SPARKS. Well, with respect to the origination practices—and, again, I would have to look at the particular deal——

Senator KAUFMAN. We got the origination practices. What we are trying to do here today is talk about what happened after the originators got through with it and after the rating agencies put the rating on it and the rest of it and then it went out. There was this great sucking from Wall Street to get more and more of these loans into the marketplace, and you can see that it was an explosion. Is it fair to say there was an explosion in these CDOs and RMBSs?

Mr. SPARKS. Well, Senator, when we participated in the market—and these deals are in the structured finance arena of the market.

Senator KAUFMAN. Right.

Mr. SPARKS. You would know from your participation in the market what types of investors wanted to buy what types of risk.

Senator KAUFMAN. Right. But you were selling—this is a product—this is a product you were selling. It is like selling a car——

Mr. SPARKS. And there would be—and we would also know what types of investors wanted Long Beach or Washington Mutual loans to invest in, in securitized format. So we would know what investors actually had demand for that product.

Senator KAUFMAN. Right. But what percentage do you think would be a reasonable percentage—I mean, as you said, these all went bad. Ten thousand loans in 2006——

Mr. SPARKS. I do not know about all, but——

Senator KAUFMAN. Well, excuse me——

Mr. SPARKS. Senator, I do not know what the right percentage would be.

Senator KAUFMAN. Would you say 10 or 15 percent?

Mr. SPARKS. Again, it depends on the deal, and I do not know.

Senator KAUFMAN. Well, suppose I told you that in these deals that you were securitizing, 90 percent of the home equity loans were made on stated income. Would that be something that would cause you concern?

Mr. SPARKS. Well, this particular deal I think in hindsight was a second-lien subprime deal, so it did not perform well.

Senator KAUFMAN. Would it concern you that the subprime deals, 50 percent of them are stated income loans?

Mr. SPARKS. Again, I think that many of those deals that we brought did not perform well, and that is not a good thing for us or our clients.

Senator KAUFMAN. But I mean, couldn't it be reasonable to believe that when the great preponderance of the mortgages in the package that you were selling to folks were stated income loans, there was a pretty good chance that a large percentage of these were eventually going to fail?

Mr. SPARKS. Senator, at the time things happened in the market and were accepted in the market that in hindsight look very different than they did at the time in the market.

Senator KAUFMAN. I got two things out of these hearings. One, nobody did anything wrong, this was a natural disaster, like a hurricane hit. The mortgage market fell, and nobody knew it, and nobody forecasted it. And the second thing is that these things were just something that happened. Basically, I am just saying if you did some research into this—and I am sure had people in your organization—they were coming in. These loans were pouring into your—you were sucking them in, in order to sell them and make money, which is entirely acceptable. Just a little bit of research into how these things were being funded—by the way, let me ask you: Did you ever have any concern during 2006 and 2007 that there were an awful lot of home mortgage loans being securitized?

Mr. SPARKS. Yes, Senator.

Senator KAUFMAN. And did you ever say, "I wonder what is going on with those loans"? I mean, "I wonder how all these people are coming forward that are going to need these types of loans"?

Mr. SPARKS. Senator, when I said I was concerned, I was concerned about risk that we had——

Senator KAUFMAN. Risk. That is what I mean. That is what I am saying. So normally due diligence—again, I think the argument that, "Well, everybody was doing it," is an argument that has been used over the years. These halls are full of folks who have come before Senate committees and said, "Well, everybody was doing it." So I do not think the "everybody was doing it" thing is going to hold up real well. And so I am just trying to figure out when—when I say this to people, I am telling you—and I say, “Do you know what a stated income loan is? Do you know that you could just walk into a bank and tell them what your income was and they would give you a loan? And you know what happens next? They go to Wall Street”—and this is going to sound a little—I totally believe where some of the smartest people I know work, and you know what they did? They packaged these things up. Did they ever ask how many were stated income loans? I do not know. Did they ever ask, did anybody say let us take a look at how these loans are being put together? And stated income is just the easiest one to explain to people.

Do you believe that they did this and no one knew, no one knew at Washington Mutual, no one knew at Standard & Poor’s and Moody’s, and no one knew at the premier investment banking house of the United States of America, Goldman Sachs?

Mr. SPARKS. Senator, I did not mean to imply that we did not know anything. We had a team that did diligence to understand originators and loan packages that we bought. But I would like to make the point——

Senator KAUFMAN. Sure.

Mr. SPARKS [continuing]. That that team may have liked that risk and, in fact, did. And on that deal——

Senator KAUFMAN. Liked the risk that somebody could go in and originate a loan just on their stated income that 90 percent—the stated income started out as something that was for high-wealth individuals. It was a very small percentage. But starting around 2005, 2006, it grew and grew and grew. But when you are talking about 90 percent of the prime home equity loans, 73 percent of the Option ARMs, and 50 percent of the subprime loans where the basis for income for the borrower is what they say their income is.

Mr. SPARKS. And, Senator, we made a number of poor business decisions, especially in hindsight, but at the time there were people in my business unit who actually wanted to be long that risk, and on that type of deal——

Senator KAUFMAN. They had no idea that the risk was 90 percent stated income loans. I do not think anybody knew that.

Mr. SPARKS. Well, again, I would have to look at the particular deal.

Senator KAUFMAN. I mean, that is—I am just having a hard time—I am trying to put myself back in your position, which is always a difficult thing to do. But I see these mortgages pouring in. I would say: Where are they coming from? And especially the people in your operation who were originating these loans. The idea that you can get away with—I will get away with it and I am for it, you are just selling something and that is the way it is, and, they are taking the risk, and people want to buy these things. I do not think anybody in America wants to buy a mortgage from someone whose income is what they state their income can be. I do not think anybody wants to buy that. Is that fair?

Mr. SPARKS. Today?

Senator KAUFMAN. No. Anytime.

Mr. SPARKS. Well, there were a lot of investors who had a lot of appetite in the period we are talking about, including a number of people in the firm and in my business unit. So I think hindsight and your own investment view is an example of why there are markets——

Senator KAUFMAN. Look, I hate hindsight, and I hate Monday morning quarterbacking, and I hate connecting the dots and connecting all this. So I do not—I really do not feel on this one that I am up here, using a morality that was developed in the last 15 minutes in order to ask you questions about this thing and embarrass you. That is not what I am about at all. And I do not think anybody in this room, if I polled them, would say that it is unreasonable to expect that when you are securitizing loans, that the idea that these loans are stated income loans is a problem. It is a problem in terms of risk. So that language works a lot of places, but I just do not think it works in these stated income loans.

By the way, do you—and I guess this is really for the folks that worked for you down the line, but did you ever have a situation where you eliminated originators?

Mr. SPARKS. Yes, and we had a number of situations where we just did not start doing business with originators. When you say eliminated,. I am assuming you mean stop doing business——

Senator KAUFMAN. No, the same thing, yes, either not do business——

Mr. SPARKS. I do not know, Senator, for sure about that. I do know that there were a number of originators that we chose not to do business with.

Senator KAUFMAN. And do you know what was the standard for them? I mean, how did you get to be an originator? I mean, what were some of the criteria? Do you have any idea?

Mr. SPARKS. How did we choose certain people to do business with and not do business with?

Senator KAUFMAN. Yes.

Mr. SPARKS. Well, our team would go out and anybody we bought loans from, we would do due diligence on. We would work to understand their origination guidelines and standards. We would also look at the institution itself with respect to their capital and what they did.

Senator KAUFMAN. And Long Beach, you looked at Long Beach and said, "Boy, that is a great originator. I would love to have them"? That is right here, Long Beach. You were doing Long Beach——

Mr. SPARKS. Yes, we did business——

Senator KAUFMAN [continuing]. In 2006, 2007, and I am not going to get into the Long Beach thing because we do not have time to do it. But Long Beach was one of the main players in the stated income. I do not know how you could turn someone else down and accept Long Beach. I cannot ask you about a specific case because that is not your area of expertise.

The Treasury Department Inspector General, Eric Thorson, testified before the Subcommittee that the mix of stated income loans from one originator of the numbers I gave you was a target-rich investment for fraud. What do you think about that? Do you think if you got these originators using stated income loans that it is a target-rich environment for fraud?

Mr. SPARKS. Well, I think as the purchaser and assumer of risk from these originators, we suffered with respect to that. And so, I do not—that particular point I do not know that I have a particular view on, but it appears that there were a number that actually was the case in hindsight.

Senator KAUFMAN. Yes, in—well, no. Do not do the hindsight thing with me. I mean, come on. In hindsight—at the time, if you knew at the time what was going on, you would say this is as target-rich investment for fraud, that 90 percent of the home equity loans are stated income loans, these things are just pouring out of these originators. I mean, I am not interested in new data. I am just talking about data that was available at the time. You would think that something was going on here when you have 90 percent of your loans stated income loans.

Mr. SPARKS. When we are buying loans, we do not want to buy loans with fraud in them.

Senator KAUFMAN. Exactly. No, I know that. I am just saying that this information—do you know anything about thin files? Have you ever heard the term "thin files"?

Mr. SPARKS. Senator, I may have heard it. I do not really recall the specifics of it.

Senator KAUFMAN. Mr. Birnbaum, do you know anything about thin files?

Mr. BIRNBAUM. I think I read something about that recently in "The Big Short."

Senator KAUFMAN. So you understand what thin files are, but you did not know——

Mr. BIRNBAUM. It is detailed in the book.

Senator KAUFMAN. Right. Did anybody at Goldman Sachs ever use thin files in putting together CDOs, the thin-file approach?

Mr. BIRNBAUM. Well, just to be clear, my job function had nothing to do with putting together CDOs, so I cannot speak to that.

Senator KAUFMAN. In terms of securities——

Mr. BIRNBAUM. Thin files is something I literally heard of for the first time last week.

Senator KAUFMAN. Right. And, Mr. Swenson, as far as you know, Goldman Sachs never used the thin-file approach in order to make more—organizing CDOs?

Mr. SWENSON. No.

Senator KAUFMAN. And, Mr. Sparks?

Mr. SPARKS. Again, I am not familiar with the approach, but if you described it to me, I would be happy to——

Senator KAUFMAN. No, I mean, if you did not hear of it, then clearly you did not use the process, it is fair to say. I mean, you never heard about it in Goldman Sachs, anyone ever doing anything like using this thin files specifically. And how about barbelling? Mr. Sparks, have you ever heard of barbelling?

Mr. SPARKS. Well, I have heard of barbelling mainly with respect to trading positions.

Senator KAUFMAN. Have you ever heard of barbelling with regard to RMBSs?

Mr. SPARKS. That term could just mean a number of things, so could you——

Senator KAUFMAN. Mr. Birnbaum, did you just read about it recently?

Mr. BIRNBAUM. I will go with that.

Senator KAUFMAN. OK. Mr. Swenson.

Mr. SWENSON. I am not aware of that term.

Senator KAUFMAN. What is alleged, what happened was people would take advantage of the fact that rating agencies went with an average. So what they would do with barbelling is they would go out and pick up FICO scores of 550, which are almost guaranteed to fail, mix them in with FICO scores of 650, so they came out with about 615 and then sold them.

Mr. Sparks, you never heard of anything like that at Goldman Sachs, right?

Mr. SPARKS. Well, I know that clients—or when we were putting deals together—the deal teams would work very hard to put together—whatever the loan package was, and work with the rating agencies to come up with what the capital structure would be. That includes credit enhancement. So I do not recall somebody coming to me saying, "Hey, we are going to barbell this."

Senator KAUFMAN. Right.

Mr. SPARKS. But there would be a mix of collateral——

Senator KAUFMAN. Let me ask you a similar question then. How about gaming the rating agencies? Did you ever think there were people at Goldman Sachs sitting around trying to figure out, whether it is barbelling or thin files or something like that, trying to figure out what can we get through here, through the rating agencies?

Mr. SPARKS. No. As far as gaming, no. As far as working with the agencies, to come up with a capital structure and a credit enhancement that worked for the deal, yes, there was constant dialogue and work together for that.

Senator KAUFMAN. And, Mr. Birnbaum, dealing with rating agencies, did you ever get the feeling there were folks sitting around trying to figure out what is the best way to put this together for rating agencies so that we can make the most money on these RMBSs?

Mr. BIRNBAUM. Just to be clear, I never deal with the rating agencies——

Senator KAUFMAN. Oh, you never did. Mr. Swenson, you never dealt with that either?

Mr. SWENSON. No, I did not. We were secondary traders responsible for making markets in ABS securities.

Senator KAUFMAN. Mr. Sparks, how did you feel about dealing with the rating agencies? Did you ever feel like sometimes you might pick a rating agency based on—if you had two rating agencies, one would give you AAA and the other give you AA, that you might go with the AAA rating agency?

Mr. SPARKS. There were times that that is correct, Senator.

Senator KAUFMAN. And did you ever think there was kind of subtle pressure on the rating agencies that maybe they ought to rate something AAA?

Mr. SPARKS. Well, I think the rating agencies worked very hard and were under a lot of pressure to analyze the pools that they were rating. So I think they were under a lot of pressure.

Senator KAUFMAN. They were under a lot of pressures in order to keep market share and in order to keep their business alive, so, therefore, they had to rate competitively against the other rating agencies. Is that a fair assumption of what is going on?

Mr. SPARKS. Well, I think there was some competitiveness to it, but I also—I felt like the rating agencies attempted to do their job and worked hard at it. I think there was some component of competitiveness in it, but I think they were honestly trying to do their job and rate the deals.

Senator KAUFMAN. Mr. Tourre, you have dealt with rating agencies, right?

Mr. TOURRE. I did, Senator.

Senator KAUFMAN. And how did you find the rating agencies? Did you ever work with them in such a way as to try to turn AA into AAA?

Mr. TOURRE. I merely applied their rating models—they had, a lot of documentation about how they rate, all these transactions, and we merely applied those models to rate our products.

Senator KAUFMAN. So under oath you are saying you were never involved in any gaming like barbelling or thin file or anything like that?

Mr. TOURRE. Well, each transaction had its specific aspects that require discussions with the rating agencies.

Senator KAUFMAN. No, I am just saying, but during those discussions you never at Goldman Sachs ever engaged in what is popularly known as barbelling or thin files in order to come up with a security?

Mr. TOURRE. First, I do not know what thin files was, and I—not that I remember.

Senator KAUFMAN. Thank you. Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much. Dr. Coburn.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Mr. Chairman. I am going to take my privilege as Ranking Member to make my opening statement now, and I apologize to the panel that I was not here. I am working on another financial problem that is a little bit bigger than this one with the White House and the Debt Commission.

Senator Levin, I want to thank you for this fourth and final hearing. I want to thank the staffs. I think they have worked well together, and I think we have done a good role of putting forward what the questions are. I also want to thank the witnesses for making themselves available to answer our questions.

The hearing to me is particularly important because this week the Senate is trying to consider major financial reform legislation that could have profound effects on our economy. And we are hurrying these hearings. The Commission that the Congress commissioned to study this that is going to have a report due in December is not going to have a report, and yet we are going to pass a bill before we find everything, and that is somewhat concerning to me. But, nevertheless, there is a lot of evidence in front of us that needs to be clarified.

In recent months, Congress and the American people have been debating the causes of our financial crisis and looking for solutions.

Mr. Chairman, I commend you for advancing the discussion with our investigations of institutions like Washington Mutual, the Federal regulators, and particularly the Office of Thrift Supervision. We would have been fine without them ever being there because they actually did not do anything.

What we have learned is that there are no easy answers. This is important to keep in mind when Congress debates major legislation. I certainly have my own views about what caused the financial crisis, but most honest observers would acknowledge that the roads of responsibilities lead to places like Washington and Congress as well as Wall Street.

We also cannot forget that there are numerous causes to the financial crisis, not just one. In truth, we all took turns inflating the housing bubble. Today we are looking at the role of one investment bank, Goldman Sachs. My goal is simply to uncover the truth of what happened in several of these transactions. If we can understand this piece of the puzzle, we will be in a much better position to craft responsible legislation that addresses the real problem, not the symptoms of the problem. And more importantly, the American people will be better informed and more equipped to hold us accountable.

The investigation into Goldman Sachs has given the Subcommittee an opportunity to dive into the firm's decisions regarding mortgage investments. Even though Goldman Sachs is the focus, I would suggest that the questions we are going to ask the witnesses today should also be asked of other leading investment banks. Congress has a responsibility to understand how widespread some of these complex financial transactions may be and the ethics and motivations behind them.

The key question before us, I believe, is whether Goldman Sachs was making proprietary trades that were contrary to the financial interests of their customers. Sorting out these potential conflicts is central to understanding how we move forward with financial reform and also understanding that there is a role for a market maker who plays both sides of the market. And we cannot lose sight of that.

Several instances, however, seem to show bankers and traders were focused on doing what was right for the firm rather than what was in the best interest of their clients. In an exchange over the Abacus deal, one employee remarked, "The way I look at it, the easiest managers to work with should be used for our own priorities. Managers that are a bit more difficult should be used for trades like Paulson."

Goldman employees knew that such tactics could hurt their reputation if they were uncovered. Markets can be complex, but they are built on three simple concepts: Truth, trust, and transparency. Without them, the cost of doing business is too high, and markets cannot function properly.

I have several questions about these deliberations within Goldman Sachs. I am committed to withholding final judgment until all our hearings are complete. Some of what we uncovered paints a fairly dark picture of what was going on inside investment banks.

To the witnesses, I would say this is your opportunity to explain to us and the American people what happened. And, again, I thank you for being here.

Now I would like to move to my questions, Mr. Chairman.

Mr. Swenson, if you would, would you turn to Exhibit 55b?[1] This is a copy of your own performance evaluation for 2007, and I want to spend some time with you on that, with your own self-assessment, and I have some questions. You wrote this document, I believe. What was the purpose of this document?

Mr. SWENSON. The purpose of this document was to go over my accomplishments for that year.

Senator COBURN. OK. You say, "It should not be a surprise to anyone that the 2007 year is the one that I am most proud of to date. I can take credit for recognizing the enormous opportunity for the ABS synthetics business 2 years ago."

You go on to say that you identified "key market dislocations that led to tremendous profits."

Is that an accurate representation?

Mr. SWENSON. Yes, it is.

Senator COBURN. Later in this document, you run through some of your biggest trades, including a $1.8 billion short on CDOs, collateralized debt obligations, and you say you oversaw and directed the covering of $9 billion in short positions. Is it accurate to say that you went extremely short and made a lot of money?

Mr. SWENSON. Dr. Coburn, you were not here for my opening statement. I went over a number of the trades that we did and a timeline and a series of trades that we did over the course of 2006 and 2007. So for others in the room, I am sorry I am repeating myself a little, but we did a number of trades in 2006 and 2007 that made us put our ABS Desk specifically net short at various times with a short bias and at times flat, and we added a significant amount of risk where we went long at the end of the first quarter. Throughout the second quarter, we added a lot of risk, net long positions. And in the third quarter, at one point we had a short bias, and we covered a substantial amount of risk over the course of that quarter into the end of August.

Senator COBURN. Thank you. But you did in 2007 go much more short than you were in 2006. Is that an accurate statement?

Mr. SWENSON. It is——

Senator COBURN. Because of what you saw in the market. I am not critical of it. That is your job as a market maker: To read the tea leaves. I am not being critical. I am just saying you had a stronger short position in 2007 than you did in 2006.

Mr. SWENSON. Yes, we did.

Senator COBURN. All right. Mr. Birnbaum in his review writes, "I consider myself to be initial or primary driver of the macro trading direction for the business." Would you agree with this statement?

Mr. BIRNBAUM. Is there——

Senator COBURN. I am asking this to Mr. Swenson.

Mr. BIRNBAUM. Oh.

[1] See Exhibit No. 55b, which appears in the Appendix on page 441.

Mr. SWENSON. I viewed our business as being market makers for ABS securities.

Senator COBURN. All right. But the question I am asking you: Do you agree with Mr. Birnbaum's statement in writing in his review, he said, "I consider myself to be the initial or primary driver of the macro trading direction for the business." Do you agree with that?

Mr. SWENSON. I do not know the context of those particular words. Is it in a document here, sir?

Senator COBURN. Yes, we can get that for you.

Mr. Birnbaum, what do you think? You wrote it. The reason I am asking the question, you seem to have—in your own self-assessment, you are both taking credit for the same thing. And I am wanting to know who is the driver here. Who made the decision?

Mr. BIRNBAUM. We worked as a team.

Senator COBURN. Well, you worked as a team, but somebody leads the team. Who led the team?

Mr. BIRNBAUM. We worked as a team

Senator COBURN. Who led the team? Who was the leader of your team?

Mr. BIRNBAUM. Are you implying that you can only have one person leading teams?

Senator COBURN. Well, you only have one Lloyd Blankfein, right? He is the CEO. So in terms of your team, who has the line responsibility for your team?

Mr. BIRNBAUM. Mr. Swenson was my superior.

Senator COBURN. OK.

Mr. SWENSON. And ultimately Mr. Sparks.

Senator COBURN. OK. So there was a leader. Somebody is ultimately responsible, correct.

Mr. SWENSON. Correct.

Senator COBURN. Mr. Birnbaum says he had his own plan implemented by buying up "almost every single name CDO protection . . . opportunity in a 2-month period." Is that the same thing that you were taking credit for, Mr. Swenson?

Mr. SWENSON. Yes. We worked together on the same desk.

Senator COBURN. Mr. Swenson, you also say in this assessment that it was clear to you in the early summer of 2006 that "the market fundamentals in subprime and the highly levered nature of CDOs was going to have a very unhappy ending." That is a quote from your self-assessment. Did you share that knowledge with anybody else at the firm other than those who read your self-assessment?

Mr. SWENSON. Sir, do you mind pointing exactly where this quote was so I——

Senator COBURN. It is in your self-assessment.

Mr. SWENSON. Yes, I understand, but what page?

Senator COBURN. I will get it to you here in a second. We will move on while——

Mr. SWENSON. I am just trying to be helpful, sir.

Senator COBURN. Let us assume—I will get you where that was stated, all right? And my staff will find that and we will give it to you. It is on Exhibit 55b, on page 2, is where you made that statement. Single-name CDO short.

Did you share that with other members of the firm other than those who read your self-assessment?

Mr. SWENSON. No.

Senator COBURN. You were obviously correct, weren't you, in your assessment?

Mr. SWENSON. Yes.

Senator COBURN. All right. Given your awareness, were you concerned that your mortgage division continued to market and sell mortgage-related CDOs to the firm's clients? You are sitting here projecting what you see happening in the market. Was there any concern that you were continuing to market into a market that looked like it was declining and you were recommending taking a position against it?

Mr. SWENSON. Dr. Coburn, at that time in the summer of 2006 and into 2007, the market was going up in price. We were very long ABS assets and ABX single-name synthetics at that time. The market for the underlying securities in RMBS transactions was generally very tight and very robust with deals oversubscribed.

So at that time, there was a great deal of demand for securities, and there were not many players that had a negative view on the product or the housing market in 2006 that were buying a lot of these securities. Those views changed, but over time there was a great deal of debate on the direction of the mortgage market. All through the third and fourth quarter, there were opportunities when prices went down, and it brought in a tremendous amount of demand for people to buy securities at lower prices. No one was certain that these things were going to happen.

Senator COBURN. No, I agree with that, and I can appreciate it. But part of your expertise was in terms of you put that in as a statement of qualifications of a great job that you had done that year because you recognized the potential for it. So let me go back. The statement was "the market fundamentals in subprime and the highly leveraged nature of CDOs was going to have a very unhappy ending." That is your quote. And so I go back. Did you share that, your feeling that you put in your own self-assessment, with other principals at the firm?

Mr. SWENSON. We debated the direction of the market as a group all the time. I mean, there were a number of traders on our ABS Desk. There were, five or six, and we discussed the nature of the performance of the underlying transactions. At that time our desk was long.

Senator COBURN. But you had sold $1.8 billion in short CDOs.

Mr. SWENSON. Not at that point. Over time that position through our market making and principaling was put on—not in September 2006.

Senator COBURN. All right. Go to Exhibit 69,[1] if you would. And while you are looking for that, I want to follow up on something Senator Kaufman asked. You packaged and sold mortgage-backed securities from Long Beach that were AAA rated that the vast majority of them were stated income loans. Is that an accurate statement?

[1] See Exhibit No. 69, which appears in the Appendix on page 486.

Mr. SPARKS. I do not know the number percentage-wise, Dr. Coburn, but that is possible.

Senator COBURN. Well, it was well over 50 percent. We know the number.

Mr. SPARKS. We did a number of deals with Long Beach.

Senator COBURN. And so going back to follow up on what Senator Kaufman said, the rating agencies rated these AAA in spite of the fact on their due diligence they should have known that the majority were stated income loans.

Mr. SPARKS. Dr. Coburn, yes, and—well, I do not know exactly what they knew. It would have been determined under the diligence they did. But I will tell you, Goldman Sachs also many times invested in the equity of those deals.

Senator COBURN. I understand. Everything can be invested in if the price is right compared to the risk. I am not disputing that. But I am going back to the question that you have AAA rating on stated income loans, on packages you put together to underwrite. Correct?

Mr. SPARKS. Yes.

Senator COBURN. OK. Now, Mr. Swenson, again, Exhibit 69. In October 2007, Goldman Sachs made quite a bit of money when Moody's credit rating agency downgraded $32 billion in BBB and BBB-minus bonds. After you send this email informing your colleagues of those downgrades, Donald Mullen emails you and says, "Sounds like we will make some serious money." Why was that?

Mr. SWENSON. Just give me one second to read the context of the email.

Senator COBURN. OK.

Mr. SWENSON. Sorry.

[Pause.]

Mr. SWENSON. This email specifically goes over a position in a single-name CDO, ABS CDO synthetic that we have. What happened was when the rating agencies downgraded a number of the underlying RMBS securities, it triggered an event which would mean that we would end up with an implied write down event which would shut off the coupons in a number of the tranches—or one of the tranches that we were short on. So we would not need to pay our protection payment on that security and eventually recoup the gains on that trade.

Senator COBURN. And I am not stating that there is anything wrong to hedging your long position. Do not get me wrong. I guess the thing that I would ask: Did you at any time see any flaws in the rating agencies' assessment of the products that you were putting out there?

Mr. SWENSON. Dr. Coburn, I did not work on the construction of CDOs. I was a market maker in ABS securities, and as a market maker, we are asked to take principal risk from our clients, whether it is a buy or a sell, at various times.

With that, it is for us to manage our risk as principal because clients expect us to transact at the time that they come to us and ask to transact, not wait for us to find the other side. So as principal, we manage that by incorporating a view or a bias in the way we position ourselves.

Senator COBURN. Let us say somebody brought to you another package that you were making a market in. And you are making a market for a product that absolutely stinks. You know it stinks. The rating agency knows it stinks. Would Goldman still make a market in that if the money could be made off of it by the client and Goldman?

Mr. SWENSON. We bid on—our requirement for our desk is to bid on ABS securities. When clients come to us, we try to give—we give the market value bid or the offer for that security.

Senator COBURN. So you are a true market maker. So even if it is the worst possible combination of securities, there is a price at which the risk is worth taking. Is that correct?

Mr. SWENSON. That is correct.

Senator COBURN. All right. Mr. Tourre, I know it is a difficult time for you. In addition to the SEC accusations against you and the media circus around you, this past weekend your employer released some rather embarrassing personal emails from you that appear to be largely unrelated to this or any other investigation. Do you have any feelings or questions about why that was done?

Mr. TOURRE. Dr. Coburn, these emails were personal emails that I deeply regret. They reflect——

Senator COBURN. I am not making a judgment on it. I am asking you a question. Do you have any thought about the motivation on why they were released?

Mr. TOURRE. I do not know, sir.

Senator COBURN. How did it make you feel when they were released publicly?

Mr. TOURRE. As I will repeat again, Dr. Coburn, I regret, these emails. They reflect very bad on the firm and on myself, and, I think, I wish I had not sent those.

Senator COBURN. Is there a large number of in-house Goldman lawyers that have spoken with you prior to this hearing?

Mr. TOURRE. I have spoken to lawyers prior to this hearing, yes.

Senator COBURN. How many?

Mr. TOURRE. I don't remember.

Senator COBURN. Several?

Mr. TOURRE. Yes.

Senator COBURN. It is true that they have hired an interpreter, a French interpreter, to translate for reporters personal notes you had written to close friends? Is that true?

Mr. TOURRE. I do not know.

Senator COBURN. OK. Are you personally represented by lawyers paid for by Goldman Sachs?

Mr. TOURRE. Yes.

Senator COBURN. OK. Mr. Chairman, my time is up.

Senator LEVIN. Thank you very much, Dr. Coburn. Senator McCaskill.

Senator MCCASKILL. I want to make clear that I understand that for most of these transactions we are talking about today you considered yourself a market maker. And by that, you were trying to allow clients to bet on a certain outcome. And for purposes of my questions today, I would like to limit this to synthetic CDOs because I think they are the best representative of why most of America does understand what happened. We are not talking about a farmer trying to get certainty on a commodity. We are not talking about an airline company trying to get certainty on jet fuel, which is the societal reason that we have market makers to put predictability into a business model that will allow more informed risk taking as it relates to a business model. But the synthetic CDOs were really about somebody just wanting to place a bet, and so I want to try to continue with the analogy of you being the house or the bookie.

Most people in America understand about a football bet. I have usually bet on MU versus KU because I went to MU and I care about MU. But the line is important. Obviously, if you are going to be a serious bettor, you have got to know what the line is. You have got to know how many points you are going to get or how many points you are going to give. And that is, I think, where we can start drawing the analogies to your jobs. You were trying to make a market, and staying close to home was trying to get the line right. Staying close to home was to not be too far out on one side or the other. When the bookie gets too many bets on MU, if MU is getting points, it gives fewer points to MU to move more bettors over to KU and vice versa. The bookie moves the line in order to even out the bets. So the perfect bookie who makes a lot of money is somebody who just gets the vig. And depending on whether you are betting in an office pool that is illegal or whether you are betting in Las Vegas, the vig is going to vary anywhere from 5 to 10 percent.

I do not know who the right person is to ask this—what is your vig, Mr. Sparks, on these deals? What is the vig you make, assuming all you are doing—not playing in the market, but all you are doing is trying to stay close to home like a bookie would try to do in order to minimize their risk?

Mr. SPARKS. Senator, can I just, instead of using the bookie analogy, just talk about—I think your question about profits and what we can make as a client——

Senator MCCASKILL. I want to know, generally speaking, the vig on a bookie bet. You are the house. You are the bookie. People are booking their bets with you. That is what they are doing. That is what a synthetic CDO is. I do not know why we need to dress it up. It is just a bet. That is all it is.

Mr. SPARKS. There is fee business, which I do not think is what you are talking about, and then there is market-making business. In this particular sector, typically you would have to do trades where you assumed risk. When that was not the case, there is an SEC markup rule with respect to a certain percentage, but that is for risk-free trades, and at this time in this market, that was not a typical thing where you would have a purely risk-free trade.

The amount of bid-offer spread, which would be a term we would have used, would be very dependent on the product, the rating, the liquidity of the product, and the—if I did not mention liquidity, it was a huge issue. So, the bid-offer spread could vary at various times, but one of the things people expected us to do was to make a market and to have a bid-offer spread.

The great thing about making a market is when you do that, clients can tell from your price relative to the prices that other people are making in that market on similar securities, if you are a better seller or buyer.

And so, I actually—I am a believer in markets, and I think that is one of the nice things that price can affect, both your risk and it can also help people know where to go if they want to acquire risk.

Senator MCCASKILL. OK. Let us talk about what people are betting on. And what I would like to ask a couple of questions about are the—you call them different things in different memorandums in here, whether it is Timberwolf or Abacus—the asset selector or the asset selecting agent. I think you called it a different term. Now, this is important because these are the folks that are figuring out what is going to be in the bet, right? What everybody is betting on. So the compilation of what is in this thing you create for people to bet on is done by these asset selectors. Who decides who the asset selector is for a deal?

Mr. SPARKS. Senator, in CDOs or synthetic CDOs, there were a number of different forms, and that term, the importance was what the term was defined as. Typically, you would have or you may have a manager for a CDO, and that manager——

Senator MCCASKILL. But let me ask specifically because you are going to get off on—let me ask, who decided who the asset selector was on Timberwolf? What person in your organization would decide who the asset selector is on Timberwolf?

Mr. SPARKS. Well, Timberwolf was—there is a client of Goldman Sachs called Greywolf, and they are an asset manager and had a desire to grow their assets under management. By being CDO manager, that is one way for them to do that. And we worked with them to help them with respect to growing their assets under management. So we would have chosen that client to do that deal with.

Senator MCCASKILL. OK. Who would have chosen the—I think in the Abacus it was called the portfolio selection agent. Who chose ACA in Abacus? Who chose ACA?

Mr. TOURRE. If I may answer, Senator, in the Abacus 07 AC–1 transaction, it was a combination of Goldman Sachs and Paulson who selected ACA.

Senator MCCASKILL. OK. Now, this is weird. This is where people do not get this. This is where I do not get it, and this is where a lot of the anger and passion and energy is coming from. Paulson came to you and said: I want to make a bet. I want to go short on all these really bad mortgage loans that are out there that are all going to start going belly up.

You want to help him make a market, right? Is that correct, Mr. Tourre?

Mr. TOURRE. Yes.

Senator MCCASKILL. OK. So he comes to you and says: I am your customer, and I want to bet short. Now, the weird thing is—I read your statement carefully, and you parsed your words. You said, "I recall informing ACA that Paulson's fund was expected to buy credit protection on some of the senior tranches of the AC–1 transaction." Well, why wouldn't you just tell them we are doing this because Paulson wants to go short?

Mr. TOURRE. I worded this carefully, one, because I do not remember the exact words I used.

Senator MCCASKILL. OK.

Mr. TOURRE. And, two, because we were not sure at that time which tranches Paulson was expecting to buy protection on. And, three, because Goldman Sachs ultimately was not under any obligation to resell protection to Paulson. It could decide to keep that risk position for itself.

Senator MCCASKILL. OK. So here is the weird thing. What is Paulson doing in the room with the guy picking the assets? Why is Paulson even in the room much less meeting with them without you there? Was IKB there?

Mr. TOURRE. Senator, in——

Senator MCCASKILL. Answer my question. Was IKB there?

Mr. TOURRE. No.

Senator MCCASKILL. OK. And was IKB going to be a bettor, too?

Mr. TOURRE. IKB was going to be—well, at which point in time, Senator?

Senator MCCASKILL. When they were deciding—when Paulson, who came to you to place a bet, and you put him in the room with the folks that were going to decide what they were betting on.

Mr. TOURRE. Senator, at——

Senator MCCASKILL. Who put him in the room?

Mr. TOURRE. Senator, at that time, we had not discussed with IKB, this investment yet.

Senator MCCASKILL. OK. So when you did discuss the investment with IKB, did you say we had a client—by the way, we are the house, we are supposed to be the bookie, but you need to know that we decided to let the client who wanted to bet against this deal, we decided to put them in the room with the people who were picking what was going to go in it? Did you tell IKB that?

Mr. TOURRE. I did not tell IKB about the existence of Paulson.

Senator MCCASKILL. And do you see how that seems weird?

Mr. TOURRE. Well, IKB knew that this was a synthetic CDO transaction for which by construction there was both——

Senator MCCASKILL. I just need somebody to acknowledge that that seems weird, that one side is coming to you wanting to place a bet short. You put them in the room with the people you decide are going to pick what is in the deal to bet short on, and the people you sell the transaction to that you want to sell an equity position in never gets to know that Paulson is in the room picking the stuff. That just seems bizarre to me.

Mr. TOURRE. Senator, if I may say a couple of things.

One, ultimately ACA selected the reference portfolio, so there were suggestions from many different parties.

Senator MCCASKILL. Were they in the room with them or just Paulson? I do not think anybody was ever in the room but Paulson, were they, Mr. Tourre, really, honestly? I mean, let us be honest here. This was a Paulson deal. You were trying—and you put ACA in there as some kind of fig leaf so you could do exactly what you are doing now and say ACA was a reputable firm and they had all this CDO experience. Why didn't you use ACA on any of the other deals? Why did you use—you know what the interesting thing is on Timberwolf? You know who Greywolf is? It is all your alumni. It is the former guys that sat at your desks. They are all Goldman

Sachs people on the Greywolf deal. Why didn't you take any warehouse position on Abacus as you did on Timberwolf?

Mr. TOURRE. We were left with unsold risk in the Abacus 07 AC–1 transaction, Senator.

Senator MCCASKILL. Yes, I know. I mean, here is the thing. You have got these two transactions—and, by the way, they are very close in time, OK? One is March and one is April. And I—well, maybe I will take some time to go through them. Let me go through some of the Timberwolf documents because—and I am not going to have you look at them because it takes too long if you look at them. I am going to make representations to you that I am going to read directly out of the documents, and then the record will bear out that I am reading directly out of the document, because I think it is important to get a sense of this.

Mr. SPARKS. Senator, can I make a point that might be helpful on disclosure in this sector?

Senator MCCASKILL. Yes.

Mr. SPARKS. These securities are backed by assets. There are years and years of input that regulators, internal and external counsel, and investors and market participants have had with respect to asset-backed securities.

Senator MCCASKILL. You are talking about the assets, these subprime loans that you were buying from Long Beach that you knew had—already you had to buy back $1 billion worth of mortgages——

Mr. SPARKS. No, Senator.

Senator MCCASKILL [continuing]. Because half of them were fraudulent? Are you talking about those assets?

Mr. SPARKS. Senator, I am talking—this is a broad topic about this industry and disclosure for securities when they were sold, and I do think it is relevant, if that is OK.

Senator MCCASKILL. OK. I understand that there is—we are trying to hone in on why I have got so many unemployed people in my State and why so many people that I work for in Missouri have lost incredible amounts of money in their pensions. That is what we are honing in on today. So I want to look at these two transactions, and I want to talk a little bit about Timberwolf.

OK. Timberwolf, in a document dated November 10, 2006—this is the memorandum, and you were cc'd on it, Mr. Sparks.[1] This is basically where you go through and you talk about the asset selector, and that is where you learn that this firm that you picked on the asset selector on that, you had Greg, who was a partner at Goldman Sachs and was co-head of the Structured Products Group. In addition to Greg, you had Joe Marconi, a former managing director at Goldman Sachs in ABS Finance, joined Greywolf and is focused on structured product opportunities.

Of the 26 members of the research investment team that were investing—that were researching these assets to go into this synthetic derivative—by the way, this is the same one that your folks called "shi**y" later. This is the same one, OK? Seventeen members of the research staff are Goldman Sachs alumni.

[1] See Exhibit No. 98, which appears in the Appendix on page 603.

Now, they are not charging any management fees, Greywolf is not, and they are committing to 50 percent of the equity. You guys were sharing the warehousing risk, and, by the way, you were approving every asset going into the warehouse. Every single one. Now, that is in November 2006.

Now, keep in mind, this instrument does not——

Mr. SPARKS. Senator McCaskill.

Senator MCCASKILL. Yes.

Mr. SPARKS. I do not know what page it is, but that is correct that former colleagues of ours had started a firm or joined the firm and that we shared warehouse risk on that transaction, if that is the question.

Senator MCCASKILL. OK. That was in November. And then in December, we have an email from Deeb Salem—I do not know if I said his name right. No, it is from Michael Swenson.[1] It is from Michael Swenson, and it is to Kevin Gasvoda and Justice Mahoney, and it says, "After initially passing at 65-00 - ollie hit us at 65-00." Then Deeb Salem says, "This is worth 10. It stinks. I don't want it in our book." This is all on Timberwolf.

Now, keep in mind, this is December before you had gone out and tried to sell this thing, OK?

Mr. SWENSON. Senator, I am sorry, but I do not believe that email is regarding Timberwolf. Could you please point us to the exhibit here in the book?

Senator MCCASKILL. Sure. I am sorry, it may not be. GSAMP 06–FMIN N2, is that Timberwolf?

Mr. SWENSON. Senator, without the document I cannot answer your question. I am sorry. I am trying to be helpful.

Senator MCCASKILL. OK. It just takes so long. It is—what document is it? It is under Tab 98, and it is immediately following the memorandum about the makeup of Timberwolf. Maybe 0277 is the page right in front of it.

Did you find it?

Mr. SWENSON. No.

Senator MCCASKILL. OK. Well, I will come back to it.

Mr. SWENSON. The Deeb Salem email——

Senator MCCASKILL. We will have another time, and I will make sure you have a copy of it in front of you. OK? I have got plenty more. Let us go to March.

Mr. SWENSON. Senator, I think this email does not have anything to do with Timberwolf. I am sorry.

Senator MCCASKILL. OK. All right. Well, we will show it to you, and if it was placed in the wrong place, then that is fine.

But in March, the subject line says—it does say Timberwolf. "Great job, Cactus Razzi trading us out of our entire Timberwolf single A position." That is March.

Now, then we have some interesting representations in May. This is Exhibit 103,[2] where there is a series of emails, basically where there is some worrying about misrepresentations. And these are emails from Daniel Sparks to Donald Mullen. "There are some people working on Timberwolf [blank] is continuing to work [blank]

[1] See Exhibit No. 98, which appears in the Appendix on page 603.
[2] See Exhibit No. 103, which appears in the Appendix on page 671.

sales person feels there is a decent chance (but it will be a week out as they are traveling). Also, Cornac team working on it. If we get strong bids, can't we hit them?"

And then a response back from Don Mullen to Daniel Sparks: "I doubt they will sell over weekend. And Harvey is concerned about the representations we may be making to clients as well as how we will price assets once we sell them to clients. I think we need to sort these things out before we make sales."

And then the next one is from Harvey Schwartz to Daniel Sparks and Donald Mullen: "Don't think we should slow or delay discussions. However, we need to huddle quickly before hitting bids, I think." This is all in May.

Then the next email from Daniel Sparks says, "Sounds fine."

Then the next email is from Tom Montag to Daniel Sparks and others: "Of course we should but this is how we find value by showing assets and seeing where bid comes. If [blank] can value bad debt from [blank] they can do this. They don't look to us for guidance. They pay what they think it's worth. Is there a different issue? We will value where the market shows us . . . if we find a bid, won't we?"

And then the last one from Donald Mullen to Sparks and Montag: "Agreed we just need to make sure the proper communication occurs with clients. And we have thought through post sale pricing."

So what is clear—and then you have the one later about how shi**y it was, OK? What is clear here is that there did not seem to be a great deal of confidence in the long side of this particular instrument. But the salespeople were being pushed to move it, and, it just looks like that you guys are not only making the market, you are playing in the market and mucking it up. Do you understand that?

Mr. SPARKS. Senator, I just read this particular email, and the issue that was being discussed in this particular email was when you make a sale on an illiquid asset, what is your bid price, you show that client, because oftentimes you marketed it and sometimes you had financed it. So there is a bid-offer spread with respect to securities and market makers, and my recollection of this particular point was what are we going to show them as our bid after that, and let us make sure we thought that through. And so on this particular email, that is what I recall.

Senator MCCASKILL. OK. Well, I guess what I would really like more clarity on—and I will come back to this in my next questioning—is, where in the organization does the decision made about someone who is coming to you—was somebody wanting to bet one side or the other on Timberwolf? It says in the memo that "we have been approached." Were you approached by Greywolf or were you approached by a client?

Mr. SPARKS. Well, Greywolf is a client, and Greywolf wanted to grow assets under management. So that is something money managers do.

Senator MCCASKILL. So Greywolf was—they wanted to do this to grow their assets under management as a client of yours?

Mr. SPARKS. Correct.

Senator MCCASKILL. In that instance, you did not have a client wanting to bet one side or the other. You were helping them be part of the house. You were not helping them bet one side or the other.

Mr. SPARKS. Well, I would need to review it, but I believe that they were willing to take an equity stake in their own deal. I would like to review that just to make sure.

Senator MCCASKILL. They did. They took a 50-percent equity stake.

Mr. SPARKS. And so I would like to avoid the betting analogy, but part of their goal was to earn fees by managing assets, and we were trying to be helpful to them in that regard.

Senator MCCASKILL. OK. And who is it that picked ACA? Who picked ACA?

Mr. TOURRE. Again, it is a combination of Goldman Sachs and Paulson.

Senator MCCASKILL. Now, typically, when somebody wants to make a bet, do you let them pick who picks what is in it?

Mr. TOURRE. From an ACA perspective, they achieved two objectives in that transaction. One, similar to what Mr. Sparks said, they grew their assets under management and earned fees; and, two, they invested close to $1 billion of risk in the transaction as well for their insurance company. So they achieved their investment objectives.

Senator MCCASKILL. OK. But you did not answer my question. Typically, do you let a client who wants to make a bet, wants you to do an instrument so they can make a bet—that is what Paulson wanted. He wanted you to make up a synthetic that he could bet on. Typically, when somebody comes to you and wants to bet, do you let them help pick the assets that go into the instrument, typically?

Mr. TOURRE. In every synthetic CDO transaction, the protection buyer has to be involved in some shape or form in the creation of the portfolio; otherwise, there would be no transaction. If only the sort of protection seller could decide in its sole capacity as protection seller, the end assets, the protection seller would only select Treasury securities, and the transaction would have no risk. And no protection buyer could be in a situation to buy protection on such transactions.

So even though in these transactions ultimately the portfolio selection agent ends up selecting all the securities, there are always suggestions from different parties as to, what the portfolio selection—how the portfolio gets constructed.

Senator MCCASKILL. You understand that this does not make common sense, right? That somebody would want to go long on a fund that they were letting somebody who was going short pick the stuff in it. You understand that does not make common sense?

Mr. TOURRE. Once again, the portfolio selection agent approved every single security in the deal. However, without a protection buyer, there is no deal. So Goldman Sachs and Paulson had to be also buying protection on this portfolio.

Senator MCCASKILL. My time is up, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator McCaskill. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman. And I would like to start, if I could, with Mr. Sparks.

Mr. Sparks, I would like to follow up on a question that Chairman Levin asked you in his first series of questioning, and what he said was, "Do you have a responsibility to disclose to a client when you have an adverse interest to the client?"

Do you have a responsibility to disclose to a client when you have an adverse interest to the client?

What is the answer to that?

Mr. SPARKS. And, Senator, by adverse interest, do you mean a position that is different than them, or that there is something that we can effect that could harm them? Because if it is the former, our positioning, the answer is no. If we can do harm to them, the answer is absolutely.

Senator PRYOR. OK. So you do have, at least in some contexts, but not all, a responsibility to disclose to a client when you have an adverse interest to the client?

Mr. SPARKS. I mean, Senator, I am just trying to be careful with my words with respect to what adverse interest could mean. If we were positioned a certain way, that is one thing. Again, we could have positions, there could be other positions at the firm.

Senator PRYOR. Do you have a responsibility to tell them what your positions are?

Mr. SPARKS. No.

Senator PRYOR. Why not?

Mr. SPARKS. Market makers are going to have positions all the time, and that is not something that is a responsibility of a market maker to tell your counterparties at all times how you are positioned.

Senator PRYOR. But why not? Shouldn't there be more transparency there?

Mr. SPARKS. That is a prospective question or a current question?

Senator PRYOR. Either way.

Mr. SPARKS. Well, currently that is not an obligation.

Senator PRYOR. Should it be?

Mr. SPARKS. I know you are trying to figure this out——

Senator PRYOR. You have been in this business for close to 20 years, correct?

Mr. SPARKS. Sure. I think it would create a number of issues because those positions change a lot, and, frankly, you do not always know what the positions are with respect to the person making that transaction. So I think functionally it would be very difficult. I also think that there are some things about it that could create other problems, such as if you—let us say you sold something to somebody and you were long, and you told them you were long. And then you went short. Do you need to call them back and tell them, "I am now short"? Or do I need to call them before I go short? I just think there are a lot of issues that it could raise with respect to that.

Senator PRYOR. But at the moment when one of your clients, one of your customers, is making their decision, don't you think you owe them all the information that you have, including where your company is and how your company is positioned?

Mr. SPARKS. I think we owe them all of the information with respect to that instrument that they are going to take a position on. That is not necessarily where we are, including because how we are positioned is not going to affect how that instrument performs.

Senator PRYOR. Well, it may not affect how it performs. It could, but it may not. But it does indicate, how you understand the deal, and if you think this is a good investment or not, or, if you are anticipating it doing one way or the other, shouldn't they know how you internally evaluate this?

Mr. SPARKS. Senator, we could be——

Senator PRYOR. Put your money where your mouth is. You put your money somewhere. Shouldn't they know that?

Mr. SPARKS. Senator, we could be long a deal and not think it is a great deal, and we could be short a deal and like the deal but have it that position. So I do not think it is the obligation currently to disclose what your position is at that time.

Senator PRYOR. Well, let me ask about the rules of the road, because you just said you do not think it is a responsibility. Is there an established set of ethics in your industry of certain things you have to do or cannot do?

Mr. SPARKS. Well, again, I am not in the industry anymore. I do know, Senator, that——

Senator PRYOR. But you were in the industry for, what, you said 18 years? I think that is what you said.

Mr. SPARKS. About 19 years.

Senator PRYOR. Nineteen years.

Mr. SPARKS. There are things such as—and the comment about investment adviser and fiduciaries. There are also rules with respect to research that I know that market makers in the investment banking industry are very careful to make sure that they follow. But market making itself, so long as people understand what they are investing in, I do not think that knowledge of the position of their counterparty is something that has to be disclosed, and I do not think it currently is disclosed by market makers.

Senator PRYOR. So you are saying that there is a time in which you put on the market maker cap and the rules change for you?

Mr. SPARKS. We are market makers—in my business, we were market makers.

Senator PRYOR. OK. But let me ask this: When you are selling a security such as a CDO, my understanding is you are not a market maker. Isn't it true that you are a placement agent and as a placement agent you have a duty of full disclosure?

Mr. SPARKS. Senator, that is correct. It might be helpful if I talk about in our department we really had two—we had a number of business activities, but we had two major business activities. One was an aggregation and distribution business where we aggregated assets, loans or securities or synthetics, and then distributed them in new issue type situations. In those situations, disclosure with respect to the assets and how the deals work—and that is very specific disclosure that has had years and years of input from regulators, counsel, other investors. That is that business.

Senator PRYOR. And those rules work well, those disclosure rules work well.

Mr. SPARKS. Well, those disclosure rules are meant to provide an investor with what they need to make their decision investing in that particular product.

Senator PRYOR. OK.

Mr. SPARKS. The second part of the business is a market-making business, which is a trading business. Now, there are risks in both of those businesses, but I thought it might be helpful for you to understand how we approach things.

Senator PRYOR. But the market-making business does not have the same disclosure rules as the other one does.

Mr. SPARKS. Because it is not creating new securities. There is disclosure on new securities, that is, if it is registered, it is dictated by the SEC. If it is not, then it is not. But usually they follow guidance for similar types of transactions. In secondary trading, it is just trading products that were already created.

Senator PRYOR. So let me go back to my question earlier about ethics. I mean, lawyers have to follow certain ethical standards. A doctor has to follow certain ethical standards. CPAs follow ethical standards, and, most professions have some sort of manual or some sort of code of ethics that they follow. Are you saying that is not the case in all aspects of your industry?

Mr. SPARKS. No, Senator. I know where I worked, ethical standards were very important.

Senator PRYOR. Were those done by the company, or were they done by the industry, or were they done by the government?

Mr. SPARKS. At Goldman, ethical standards were a focus. Numerous times there would be various off-site—when I say off-site, I mean you would take people out of what they were currently doing to go and discuss ethics and how important it is and how you deal with complex issues.

Senator PRYOR. Were those Goldman standards, or were they some sort of national standard or some industry standard? When you talk about ethics, what are you talking about?

Mr. SPARKS. Those were Goldman standards, but I would tell you that industry—they factored in industry standards, and I would say, I guess, national standards. But I think Goldman Sachs had its own view of what those standards should be, and I found them to be typically very well thought out and, probably more robust than what a number of people in the industry would have had.

Senator PRYOR. And I think this goes back to Senator Collins' question where she asked you do you have a duty to act in the best interests of your clients, and based on what you have just said, it just depends on the circumstances.

Mr. SPARKS. Well, I was trying to be careful with the concept of fiduciary, and we should work with clients to help them achieve their objectives. That does not mean that we are always going to have the same view on a particular investment, and they may want to sell something that we want to buy or vice versa. And I do not think there is a problem with that in the role of a market maker.

Senator PRYOR. OK. I am not sure everyone agrees with you on that, but I will take your answer.

Let me ask now about a statement. I have just jotted something down here, and it says, "Goldman sold a synthetic collateralized debt obligation"—CDO—"without disclosing that a hedge fund manager, John Paulson, helped design the CDO and was betting against the CDO." Is that true?

Mr. SPARKS. Well, I think you are referring to the ACA transaction, the Abacus transaction that has been discussed. Any CDO—well, let me tell you how we, at Goldman Sachs, when CDOs were constructed, they were not constructed in a vacuum. Typically, we knew people who had investment criteria that they wanted to fill and wanted to invest in various parts of the capital structure with various underlying assets at various prices. At the same time, we had to get that risk, which means somebody had to sell the risk to create it. That could be done in cash form. It could be done in synthetic form. So I think it is helpful to note that these deals were not created in a vacuum.

In that particular transaction, the function of providing the risks to it is from Goldman Sachs Capital Markets, I believe is the correct entity. I would like to check it, but I am pretty sure that is correct. That Goldman actually provided the risk, meaning went short into the Abacus ACA transaction. Goldman Sachs then, in its hedging of its positions, laid that risk off to a client that Goldman knew wanted to take that. So, I am trying to be specific on that question, Senator.

Senator PRYOR. Right, but so let me ask again: Goldman sold a synthetic collateralized debt obligation without disclosing that a hedge fund manager, John Paulson, helped design the CDO and was betting against the CDO. Did you disclose to your customers there that John Paulson was on the other side of this transaction and he had helped put it together?

Mr. SPARKS. Well, I did not disclose—I was not specifically involved in that, but I would tell you that the disclosure documents would show what had been industry standards and what were material to that deal, which were the assets and how the deal worked. How the assets got in there, who was short it or long it, other than Goldman—because Goldman was technically shorted into that deal. In making the investment decision, what people should focus on and what is relevant to focus on were the assets and how the deal worked, not necessarily whose idea it was or various people who might have had input, because in the asset-backed business, the focus and what determines the outcome of those securities are the securities themselves and how the deal works.

Senator PRYOR. Do you believe that Goldman's actions contributed to the financial downturn we experienced in 2008?

Mr. SPARKS. We had clients who lost money, and that is not good. That is not good for us. That is not good for our clients. We dealt with institutional investors. But when you look at the overall economy, there were a lot of individuals out there who were harmed because of the financial crisis, and although we did not deal directly with them, I know that I do, and I think my colleagues do or my former colleagues do, have sympathy for them.

With respect to regrets, which I think may be what you are asking——

Senator PRYOR. I did not ask about regret. I noticed, though, from the record that——

Mr. SPARKS. Senator, if I could finish.

Senator PRYOR. Go ahead.

Mr. SPARKS. Regret to me means something that you feel like you did wrong, and I do not have that. What I do have, though, is, we made mistakes in our business, like I think any business does, and we made some poor business decisions in hindsight.

Senator PRYOR. So do you think you contributed, your actions contributed to the financial downturn that we experienced in 2008?

Mr. SPARKS. Do I think my personal actions did?

Senator PRYOR. Goldman Sachs.

Mr. SPARKS. I do not know. I would like to think about that and respond. I have not thought about that specifically.

Senator PRYOR. Let me go ahead and ask the rest of the panel that. Mr. Birnbaum, do you believe that Goldman Sachs' actions contributed to the financial downturn that we experienced in 2008?

Mr. BIRNBAUM. I think it is important to distinguish our role in terms of the products that we were trading versus making broader judgments about Goldman Sachs. So I just want to be clear. Are you asking about our specific role with the products that we traded? Or are you asking us to sort of editorialize about the financial system and how investment banks played a role?

Senator PRYOR. Well, I was actually asking about Goldman Sachs, but if you want to editorialize on the financial system, you can. But I was asking about Goldman.

Mr. BIRNBAUM. Look, I think that, not working in a lot of areas of Goldman, there are things that may have happened that multiple investment banks and commercial banks may have provided too much credit, and that may have contributed to a bubble. And I would second what Mr. Sparks said. We are all sympathetic to the negative impact of that bubble. There was a lot of human pain and suffering that came from the bursting of the housing bubble. And to the extent that investment banks and commercial banks may have extended too much credit at certain periods of time—and, again, that is just—I do not have any personal witnessing of that—then it is possible.

Senator PRYOR. I guess what I am hoping to hear from the answers here is that you all take responsibility for your actions, and I have not heard that really so far in the first two, but I would like to ask the third. Mr. Swenson, did—or excuse me——

Mr. BIRNBAUM. Well, I do not think—which actions are you referring to that I took that I am not taking responsibility for? And Mr. Sparks as well.

Mr. SPARKS. Senator, just to clarify, I do take responsibility for my actions, so if I left you with that impression, I want to be clear. I take responsibility for my actions.

Senator PRYOR. And do you think that your actions at Goldman and Goldman's actions generally contributed to the downturn that we experienced in 2008? Or you think Goldman was not part of the problem here. Is that what you are telling the Subcommittee?

Mr. SPARKS. Well, and I think that the purpose of this Subcommittee is to talk about what the problem is. I think it is clear that credit standards overall got loose.

Senator PRYOR. Got what?

Mr. SPARKS. Loose, too loose.

Senator PRYOR. OK.

Mr. SPARKS. And that there were assumptions made, and I think risk overall was not respected across the industry, and we participated in that industry. So I do not know—I am not trying to avoid your question, Senator, but, I mentioned my feelings of what I did, and I do not have regrets about doing things that I think were improper. But we were a participant in an industry that got loose.

Senator PRYOR. Mr. Swenson.

Mr. SWENSON. I think the reservation here is on the contributed part versus what caused, and we did not cause the financial crisis specifically to the mortgage desk, which is what I am here to speak about. You have two panels in subsequent meetings to speak about Goldman Sachs and our businesses.

I do not think that we did anything wrong. There are things that we wish we could have done better in hindsight, but at the times that we made the decisions, I did not think we did anything wrong.

Senator PRYOR. Mr. Tourre.

Mr. TOURRE. Senator, I would echo some of my colleagues' comments. First, I take full responsibility for my actions. Second, I am saddened and humbled by what happened, in the market in 2007 and 2008, in the overall financial crisis. But I believe my conduct was proper.

And, again, to the extent excess credit contributed to the asset price bubble which ultimately magnified the crisis, Goldman Sachs was involved in some of these products that potentially could have excessive credit extension, but, again, I firmly believe that my conduct was correct.

Senator PRYOR. I think that is one of the problems here, Mr. Chairman. I think as part of your oversight here, I think the American people are hoping that you help us all figure out what went wrong and how we can fix it, but also I think that there is a lot of concern with the general public—and I know I am speaking for Arkansas here—that people around the country feel like Wall Street has contributed, in fact, has largely caused—I am not talking about one individual or one company, but Wall Street has contributed to and caused a lot of the economic crisis that we have been going through, and hopefully most of that is behind us now. But, my sense is that people feel like you are betting with other people's money and other people's future because, for example, in the real estate area, someone gets a mortgage and that gets sold and it gets chopped up and bounced around; and, instead of Wall Street, it looks more like Las Vegas. But they look at that, and all of a sudden they are losing control of their financial security. And I feel like, the fact that all of you have said basically throughout the course of this hearing really there is not a real clear ethical standard, there are not real bright lines on what you can and cannot do, and you wear different hats, and it is complicated; and, the fact, as Senator McCaskill said, you are market makers, but you are also playing in that market. And whether that is truly a conflict of interest or not, whether you truly have a fiduciary responsibility or not, I just think that we need to spend some time as the Senate and the Subcommittee and various committees in the Senate thinking through that. And, anyway, some of the things that we have heard today are very troubling, and I do sense that you are not taking full responsibility for your actions at Goldman's and also Goldman's actions and also the industry's actions that helped contribute to this financial meltdown.

So, with that, Mr. Chairman, thank you.

Senator LEVIN. Thank you, Senator Pryor. Senator Ensign.

Senator ENSIGN. Thank you, Mr. Chairman. This is an incredibly important hearing, and I appreciate you holding this. I want to make a couple of comments before I get into your questions.

First of all, Senator Pryor, I think most people in Las Vegas would take offense at having Wall Street compared to Las Vegas, because in Las Vegas actually people know that the odds are against them. They play anyway. On Wall Street, they manipulate the odds while you are playing the game, and I would say that it is actually—it is much more dishonest because it is almost like somebody was playing a slot machine and the guys on Wall Street were in there kind of tweaking the odds while you were playing it, and in their favor the vast majority of the time.

Senator PRYOR. That is a fair point. And also in Las Vegas people are betting their own money, and that is not always the case with——

Senator ENSIGN. That is very good.

A couple other comments. First of all, I think that Wall Street definitely had a role in the financial crisis, but I also think we have a responsibility here on our end between the Community Reinvestment Act, Fannie and Freddie, out of control that we let them get, that is certainly—because without the real estate market doing what it was doing, I mean, that is where these bets were occurring, and everybody got the false idea that the whole real estate value was going to continue to go up and up and up, where bubbles never continue to go up. We know that. And, unfortunately, a lot of smart people on Wall Street got fooled by that.

The point that I want to make also is that you all have mentioned that you are market makers, and I think part of this hearing is to find out whether you were actually market manipulators instead of just market makers. And I think that is a key part of it, and that is where I am going to take some of my questioning.

I want to start with talking about the role of the credit rating agencies. Did you personally or do you know of Goldman Sachs employees who actually spoke to the credit rating agencies and tried to influence how some of these tranches were rated? Go down the line, just yes or no.

Mr. SPARKS. Senator, I personally did not typically speak with them, but people on my team worked with the agencies on new issues with respect to helping them understand it and how the deals would be rated.

Senator ENSIGN. OK. Next.

Mr. BIRNBAUM. I did not know anyone who would fit under that category.

Mr. SWENSON. I have the same answer as Mr. Birnbaum.

Senator ENSIGN. OK.

Mr. TOURRE. I did work with rating agencies, Senator, similarly to explain to those rating agencies the products that needed to be rated.

Senator ENSIGN. OK. This would be for Mr. Sparks and Mr. Tourre. How do you justify taking BBB-rated products, repackaging them, and getting the rating agencies to re-rate those as AAA-rated products? Because that is what they did.

Mr. TOURRE. Should I try to address that question, Senator?

Senator ENSIGN. Sure.

Mr. TOURRE. Ultimately, rating agencies have their own models to rate products. We were not influencing in any shape or form, the way they rated these transactions, at least their models. We were just applying their modeling assumptions.

Senator ENSIGN. In their modeling assumptions, which nobody supposedly knows about, though, you both said that you either did yourself or you know people who did, went to the rating agencies and tried to convince them about the products. How can you justify taking BBB-rated products, repackaging those as AAA products—trying to sell those as AAA products? I mean, because that is what a lot of the CDOs did, correct?

Mr. SPARKS. Yes.

Senator ENSIGN. That is correct?

Mr. SPARKS. Senator, the rationale that the agencies gave, I believe, was because of an assumption of diversity, which meant that certain deals would perform differently than other deals. And so in that collection, the assessment from the agencies and I think the market assessment at the time was that deal performance had less correlation amongst themselves.

Senator ENSIGN. Mr. Tourre, you were about to answer.

Mr. TOURRE. I would just add one more point, which is that rating agencies rely on, historical data to rate those transactions, and when rating the products I think you are referring to as CDO products, repackaging BBB securities, they relied on the historical performance of BBB-rated obligations to rate the CDO products.

Senator ENSIGN. Do you think that their ratings made sense?

Mr. TOURRE. I mean, the methodology made sense.

Senator ENSIGN. You believe their methodology made sense?

Mr. TOURRE. The mathematical methodology made sense. The assumption that, historical performance is a good indicator of future performance for certain asset classes proved to be not correct.

Senator ENSIGN. Did you ever feel an obligation to people who were buying those products from you to let them know that these were BBB-rated products that were repackaged as AAA?

Mr. TOURRE. I mean, the specifics of the products were always disclosed in the offering documents.

Senator ENSIGN. That is not what my question was. Did you feel an obligation at all—this gets back to not necessarily a fiduciary obligation, but did you feel these people are buying this stuff from us, and do you understand that these are triple—I mean, did you tell them specifically that these were actually BBB-rated products that were repackaged and the credit rating agencies somehow in their wisdom repackaged them or rescored them as AAA-rated products?

Mr. SPARKS. Senator, you are exactly right on point, and that relates to a point I am not sure if you were here for, which is what the underlying assets are is what is material. So that information would be disclosed at new issue as to what underlies the security.

Senator ENSIGN. Goldman Sachs, though, is looked at, I think, by a lot of people—one of the reasons that people want to do business with Goldman Sachs and some of the other major players in Wall Street is that they feel that you have a certain level of expertise. And I think that is kind of what we are trying to get at up here, is whether or not you believe the modeling was correct, good modeling as far as rating agencies were concerned, Mr. Sparks?

Mr. SPARKS. I do not have the specifics of their modeling. I think in hindsight the historical correlation was much higher than what the rating agencies assumed.

Senator ENSIGN. I think for anybody to defend what the rating agencies did would be ludicrous at this point, and I think that there is plenty of evidence out there to show what they did.

Do you all pay the rating agencies?

Mr. SPARKS. Typically, that would be paid by people involved in the deal. So it could be a deal expense. It could be an issuer.

Senator ENSIGN. Right. So Goldman Sachs does pay large amounts of money to the rating agencies. Is that correct?

Mr. SPARKS. On those deals, oftentimes it did.

Senator ENSIGN. And do you think that that maybe appeared—has at least an appearance of a potential conflict of interest?

Mr. SPARKS. With respect to maybe appearance of a conflict of—yes, I think that there is that concern with respect to that particular point.

Senator ENSIGN. I want to go to a deal that Goldman Sachs did, known as Hudson 1. It was a synthetic CDO that referenced $2 billion in subprime BBB-rated mortgage-backed securities. Goldman selected the referenced assets. The purpose of the transaction appears to have been to get those assets off Goldman's own books. Basically Goldman was the only buyer to sell this CDO and then make a bet against it. Is that an accurate description of what happened with Hudson 1?

Mr. SPARKS. Senator, I believe that deal was purely static synthetic, which means——

Senator ENSIGN. Describe static synthetic, because one of the things that I think confuses a lot of people is the definitions that you all put on things. For instance, you called something that was actually the first floor, the bottom floor, you described it as a mezzanine so it did not sound so bad. There is a lot of spin that happened in your terminology in dealing with all these financial products to make them sound a little better than others. So could you please explain as we are going just for other people listening?

Mr. SPARKS. Yes, Senator. The term "static" meant that the assets that were set in the deal could not change. The reason that is important is there were other CDOs that were done where an asset manager or someone else could choose to change the assets in the pool under certain parameters. So in this particular case, static meant here are the reference notes, the reference obligations that you are exposed to, and this is what they are going to be.

Synthetic meant that there were no actual cash securities that had been put in there, so, Goldman did not sell those securities into that because there were not securities with respect to the reference on that.

Senator ENSIGN. Yes, but it operated the same way as cash being in there, didn't it?

Mr. SPARKS. Correct. It had the risk of that, and that deal, my recollection is it had a combination of single-name CDS and some of the risk related to the ABX Index outright.

Senator ENSIGN. And Goldman obviously recognized that there was some significant risk with that particular product, and that is why they sold them short, correct?

Mr. SPARKS. Well, again, this deal I think was done in October 2006, if I——

Senator ENSIGN. I do not have the date in front of me.

Mr. SPARKS. There were investors, a lot of investors, in 2006 and there continued to be investors in 2007 who wanted exposure and risk in certain forms. And so, I had mentioned that these deals did not operate in a vocuum——

Senator ENSIGN. Is that a little unusual, though, for Goldman Sachs to be the only part of it that did the entire deal on the short?

Mr. SPARKS. Well, most of the time—not all the time—on synthetics, Goldman would provide the synthetic short into the deal for a number of reasons, some of which included the fact that we were involved in the deal. But then what we did with our risk on the other side could vary.

Senator ENSIGN. I think that one of the points that needs to be made, first of all, is—and I think it is evidenced by the hearings that this Subcommittee has been having—is that this is an incredibly complex area of not only our markets but of our law. And, Mr. Chairman, I think that the hearings that you are holding are very valuable. But I think that we are just scratching the surface, and I think it is one of the reasons that I believe very strongly we need to fix the markets, we need to have a lot more transparency, and we need to make sure that people are not being market manipulators, that, some of the lines of questioning today that have come out, actually probably some good suggestions in there, but a lot more needs to be done and a lot more research needs to be done. And I hope that the Senate actually takes its time, so one is that we do not end up hurting the little guys out there in Main Street and we actually go after the people that—whether it was AIG, Goldman Sachs, any of the other big traders, whether it was Fannie Mae and Freddie Mac. I hope that is what the financial regulatory reform focuses on.

I do want to get—and just I hate to keep harping on this, but I think this is going to be an important part of what comes out, and that is, do you believe that—and since the two of you are the only ones who responded to this earlier, getting back to the rating agencies, do you believe that Goldman Sachs improperly influenced the rating agencies?

Mr. SPARKS. No, Senator.

Senator ENSIGN. Mr. Tourre.

Mr. TOURRE. No, Senator.

Senator ENSIGN. I appreciate having that on the record.

The other point that I think that needs—kind of an interesting point, when everything was going up, markets were going up, everybody was batting happy, people at your firms and people at other firms on Wall Street made a heck of a lot of money in bonuses. Would you agree with that? I mean, large amounts of money. A pretty factual statement, wouldn't you agree?

Mr. SPARKS. Are you asking me?

Senator ENSIGN. Yes. Interesting when everything kind of came to a crash, incredible bonuses were still paid out, even in firms where their actual investors lost huge amounts of money, lost everything. Do you think that the incentives that are set up in firms like Goldman Sachs are the proper incentives to have folks engage in ethical behavior?

Mr. SPARKS. Well, Senator, I think Goldman Sachs works hard to engage in ethical behavior in all aspects——

Senator ENSIGN. I did not say that. I said: Do you think the way that the pay structure and the bonuses are set up lead to the proper incentives to have the people at Goldman Sachs and other folks who do what you do on Wall Street, do you think that those incentives are there that lead to ethical behavior?

Mr. SPARKS. Well, again, Mr. Birnbaum and I do not work there anymore, so I do not know exactly what their——

Senator ENSIGN. That is why I am asking you just a general comment about the way that bonuses are paid on Wall Street. Obviously, when the bonuses are paid when everybody is making money, that kind of makes sense to me. But when everybody is—all your people who are buying things from you who bought in the past, all of a sudden they lose huge amounts of money, and folks still get paid huge bonuses, that does not make sense. That does not make sense to a lot of Americans. That is what I am asking. Do you think the incentives are the proper incentives to have ethical behavior on Wall Street?

Mr. SPARKS. Again, Senator, I do not know——

Senator ENSIGN. It is just your opinion.

Mr. SPARKS. I do not know currently what those are, so I do not want to——

Senator ENSIGN. The way that you were paid in the past, how about that?

Mr. SPARKS. I believe consistent—yes, in the past, I believe at Goldman Sachs that——

Senator ENSIGN. You had proper incentives, bonus structures were proper?

Mr. SPARKS. I believe at Goldman Sachs in the past I had every reason to be ethical with respect to what the firm did with me, including compensation.

Senator ENSIGN. Mr. Birnbaum.

Mr. BIRNBAUM. I mean, just to give some background on how people at Goldman—and I cannot speak for the way it works today because I am not there anymore. But the way people are paid there and the way people are promoted there, it is a function of performance, and a lot of that performance is indeed financial. But a huge component of performance at a place like Goldman is of a qualitative nature. It has to do with the culture of the firm, and it has to do with ethics, and it has to do with how one works within a team. And I can assure you that you can have enormous financial performance, but if you were not cognizant of ethics, you would not be promoted, you would not be paid; in fact, you would probably be fired.

Senator ENSIGN. OK. Mr. Swenson.

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Mr. SWENSON. I echo the comments that Mr. Birnbaum said. The simple answer to your question is yes.

Senator ENSIGN. OK. Mr. Tourre.

Mr. TOURRE. I would echo some of my colleagues' comments that the compensation structure which is based on the firm's performance, the business' performance, and, the personal performance, at least at Goldman Sachs, I think were aligning incentives correctly.

Senator ENSIGN. OK. Thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator Ensign. I think as all the questions have gone today, I think that we are seeing some of the problems.

Thank you, Senator Ensign. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman. I appreciate your holding this hearing. It has been a pretty long morning. I do not know if there is going to be anybody coming after me or not, but I want to thank you folks for being here today. I appreciate it very much. I think we will head in a couple different directions here.

Mr. Birnbaum, why, how, and when did you become convinced that there was a housing bubble on the verge of collapse?

Mr. BIRNBAUM. I do not believe I used those words.

Senator TESTER. OK. You guys have got a bevy of attorneys that have briefed you on everything. If you do not want to answer my questions, you do not have to.

Mr. BIRNBAUM. I want to answer your questions precisely.

Senator TESTER. I will rephrase it. Why, how, and when did you become convinced that there was a housing bubble that was in decline?

Mr. BIRNBAUM. My sentiment that I expressed in my opening statement was that there was a market in residential mortgage-backed securities in subprime that I thought was overvalued.

Senator TESTER. OK. So it was based on the housing bubble, and its decline or collapse, however you want to put—however I want to put it.

Mr. BIRNBAUM. I did not say that, though. That is how you put it.

Senator TESTER. OK. So did you not think the housing market was in decline?

Senator TESTER. Do you think the housing is in decline right now?

Mr. BIRNBAUM. At that point in time, housing was in decline already.

Senator TESTER. What point in time? I did not bring up a date.

Mr. BIRNBAUM. You were referencing my opening statement, I think.

Senator TESTER. I was just asking you a question. When do you think the housing market started in its decline? When did you come about that?

Mr. BIRNBAUM. When did housing start to decline or when——

Senator TESTER. When did you become aware of it?

Mr. BIRNBAUM. When did I become aware that housing values were declining?

Senator TESTER. Yes.

Mr. BIRNBAUM. I believe housing started to decline in the beginning or to the middle of 2006. It depends on how you track these things.

Senator TESTER. OK. Middle or end of 2006. And you base that—and I do not want to put words in your mouth—on the subprime market?

Mr. BIRNBAUM. Well, no. You asked me about housing.

Senator TESTER. OK. The housing market, what did you base that decline upon?

Mr. BIRNBAUM. Well, typically when people are talking about the housing market declining or going up, they are talking about housing prices. So we all have publicly available information on housing prices that is released, typically monthly, sometimes quarterly, and if that is what you are referring to——

Senator TESTER. So the housing decline was based on housing prices around the middle to end of 2006. It was not based on subprime or—it was based on that pattern. I am not trying to set you up for anything.

Mr. BIRNBAUM. No, I just want to understand the question.

Senator TESTER. I want to know when—look, a lot of these vehicles that were developed were based on housing. You guys are smart guys, and particularly I want to know from you, Mr. Birnbaum, when you saw the downturn, the potential collapse. You said the middle, end of 2006. I was wondering what you base that on, and you said the value of housing at that point in time. Or what did you say?

Mr. BIRNBAUM. Well, we had all seen a deceleration—first, a deceleration and then a decline in housing values. That was one of many things that I think concerned people.

Senator TESTER. Did this change your view of mortgage-backed securities?

Mr. BIRNBAUM. Well, the mortgage market is a big market. You have agency mortgages, you have non-agency mortgages, you have prime mortgages, subprime mortgages.

Senator TESTER. Sure.

Mr. BIRNBAUM. I believe what I referred to in my opening statement was the subprime market.

Senator TESTER. OK. So based on subprime, did it change your view of the mortgage-backed securities?

Mr. BIRNBAUM. It changed my view of the likely direction of the market.

Senator TESTER. OK. Did you share your thoughts with others at Goldman, or did you keep them to yourself?

Mr. BIRNBAUM. I did socialize my thoughts with some people. As I mentioned in my opening statement, there was a vigorous debate about Goldman about that issue.

Senator TESTER. OK. Given that knowledge, were you surprised by Mr. Tourre's statement that the Abacus deal was similar to others in terms of quality?

Mr. BIRNBAUM. I was not surprised by that statement.

Senator TESTER. You were not surprised by it?

Mr. BIRNBAUM. No.

Senator TESTER. OK. Should we be reassured that the Abacus deal was no worse than any of the others, then?

Mr. BIRNBAUM. Well, I did not work on the Abacus deals. I could not be surprised because I did not work on those deals.

Senator TESTER. OK. All right. That is fine.

They always say you always want to know the answer to a question before you ask it, and I do not know the answer to this question because it is—I am going to start with you, Mr. Sparks. Do you think that Goldman Sachs did anything wrong in this whole process of these synthetic CDOs?

Mr. SPARKS. Well, I do not think Goldman did something wrong, meaning——

Senator TESTER. So you do not think Goldman did anything wrong?

Mr. SPARKS. But that does not mean that we did not do deals that were bad decisions to do and did not perform like we wanted them to do, and it does not mean that we did not periodically make mistakes like any other business does. But "wrong" to me has some qualitative comment about doing something inappropriate. That does not mean we did not make mistakes or do deals that did not turn out the way we had hoped they would.

Senator TESTER. OK. What is your definition of a synthetic CDO so we know if we are on the same page?

Mr. SPARKS. Sure. It would be a collection of—well, there could be a number. Basically it is a CDO where there is no cash instruments involved, so the reference portfolio, although it is listed as a bunch of assets, it is clear it is actually not that. It is done by shorting in some sort of derivative into that, and from that you can either create cash instruments for people to invest in or synthetic instruments.

Senator TESTER. Do you know when this idea was thought up, the synthetic CDO idea? Is this a fairly new phenomenon or has it been around for decades?

Mr. SPARKS. I believe it would have been—and I cannot give you an exact date, but I believe it would have been in the early 2000s. It happened to a larger degree in the corporate market.

Senator TESTER. And this was just to give folks that had money something to gamble on? You can say what you want, but it is gambling. I am not going to go down to bookie and all that line, but you are basically gambling on something that has—you are not going to get any money out of it to do the synthetic CDO.

Mr. SPARKS. No. Sometimes you can do a synthetic CDO and actually create cash bonds by putting in some collateral, but I think your question is why.

Senator TESTER. Yes.

Mr. SPARKS. There are and were investors who wanted to invest in these types of structures at those market levels. They actually desired to get more exposure or exposure tailored to something that they wanted.

Senator TESTER. And in letting the people know about how they are designed and what is in them, does anybody have obligation to let those investors know what is in that financial instrument?

Mr. SPARKS. Yes, and at new issue, disclosure is provided that shows both what the underliers are, how the deal would work with respect to any potential changes to the underliers, and then how the cash flows actually will work, because typically those transactions would be tranched with respect to risk layers, but not always.

Senator TESTER. OK. So the Chairman in his questioning asked—I think it was you, Mr. Sparks—how you got comfortable with sales. And I am just going to bring three of them up—four of them, actually. I am going to bring four of them that came out of documents the Subcommittee did.

There was a Hudson 2006–1 synthetic CDO sold December 2006; 18 months later it was—these were AAAs—downgraded to junk.

There was an Anderson 2000–1, set up the first quarter of 2007; 7 months later it was downgraded to junk.

There was the Timberwolf that has been talked about here before, March 2007, AAA downgraded to junk in less than year. That was the bad deal one.

There was the Abacus, closed end of April 2007; within 6 months it was rated down by 84 percent.

Now, going back to the answer that Mr. Birnbaum gave that we could see some things happening in the middle of 2006, middle of 2007, all of these—all but one of these came after that effect. How can you in good faith set these aside and sell them out and collect the fees and make the dough?

Mr. BIRNBAUM. Well, is that to me, sir?

Senator TESTER. Yes, sure.

Mr. BIRNBAUM. I just want to clarify. The things that I was referring to are things that every market participant observed.

Senator TESTER. That is OK. That is all right. I am not assuming that you were brilliant in that assertion. I think it is spot on. I appreciate that answer. I am just asking Mr. Sparks, after the fact we saw things happening, and every one of these were—it looks like a wreck waiting to happen because they were all downgraded to junk in very short order.

Mr. SPARKS. Well, Senator, at the time we did those deals, we expected those deals to perform.

Senator TESTER. Perform in what way?

Mr. SPARKS. To not be downgraded——

Senator TESTER. Perform to go to junk, so that the shorts made out?

Mr. SPARKS. To not be downgraded to junk in that short a time frame. In fact, to not be downgraded to junk. And so, if I could finish.

Senator TESTER. OK. Keep going.

Mr. SPARKS. I mentioned that we made some bad business decisions. These deals performed horribly. That is bad.

Senator TESTER. And there is a pattern of it, yes.

Mr. SPARKS. OK. That said, at the time, just because one person in my business unit or a few people might have had one view, I can tell you there were a lot of other people in my business unit that had a very different view, and there were a lot of other investors that had a very different view.

Senator TESTER. Do you feel confident that the information about each one of these that was about these was given to the investors, all the information that was out there, and the credit rating agencies, too?

Mr. SPARKS. Well, I generally feel that the disclosure for the new issues that Goldman Sachs brought was good.

Senator TESTER. How about these?

Mr. SPARKS. Including these.

Senator TESTER. OK. I think there was a credit rating agency that testified—correct me if I am wrong, Mr. Chairman. I know you are busy so you might not be able to—but that said that in the Abacus deal they did not know anything about Paulson; it would have changed the thing markedly if they would have. Whose obligation is it to tell the credit rating agency?

Mr. SPARKS. Senator, I do have a view on that comment, and I think I said earlier that I found the rating agencies to work very hard in what they did and trying to get the right answer. On that particular comment, the rating agencies rate the deal. That means what the assets are in the deal and—whatever the assets are, they are. And so I found—I was surprised by that comment because the deal is the deal, and the agency understood that, and so that was a surprising comment to me.

Senator TESTER. It does not—and this has happened before, but it really does not click—going back to Senator McCaskill's question, it does not click that there was something fundamentally wrong with Paulson being able to pick these?

Mr. SPARKS. Well, Goldman Sachs—Senator, I just want to make sure you understand mechanically how that type of deal worked.

Senator TESTER. Are you saying Paulson did not have any role in this at all?

Mr. SPARKS. No, sir, I am not.

Senator TESTER. OK. Then——

Mr. SPARKS. Goldman Sachs——

Senator TESTER. Then let us just leave it at that level.

Mr. SPARKS. OK.

Senator TESTER. Paulson had a role in picking these securities, and you do not see anything wrong with that? In fact, if the credit agency is saying that it would have fundamentally changed the way they rated it, you cannot associate yourself with those comments because you do not think they are right?

Mr. SPARKS. Well, Goldman Sachs provided the short risk to that transaction, a very specific set of names. Whatever Goldman did with those names, how that affects what a rating agency rates that, that to me does not make any sense.

Senator TESTER. OK. We have got—I do not know what you call it—a fault line or whatever it might be. That may be the wrong term.

I want to go back to a previous question that was asked that dealt with—and you kind of all skirted it except for Mr. Birnbaum. But it has been brought up several times here, by the Ranking Member also. That is, who do you consider yourself working for? Who is in the best interest here, the client or the firm? Now, I do not want to go back and forth and go through the same questions that were answered before. But the question is that you have to work for one or the other when push comes to shove. You cannot be for both because there are certain times where you just cannot be for both. Am I wrong in that assumption? Go ahead, Mr. Sparks.

Mr. SPARKS. Senator, that is a very complicated question, but if you do not prudently manage your risk, you will not be around to work for your clients.

Senator TESTER. OK.

Mr. SPARKS. So I think you are looking for a broad response to that, and I would say clients are extremely important to Goldman Sachs and to market makers that I think are going to have a chance to succeed. But that does not mean that you should be imprudent with respect to risk.

Senator TESTER. OK. I think everybody—I should not speak for everybody on the Subcommittee, but I will try and they can correct me later if they want. But I think everybody understands that there needs to be some level of regulation here, mainly because from my perspective, because of the TARP bailout, it is probably why Goldman is still here, because of the taxpayers and because the Congress did what they did.

But I guess the question here is that, as we move forward—and I list Anderson and Timberwolf and Abacus, and all these where I think they were clients of yours that bought this stuff. It went south in a regular pattern. It just was not one, it was not a changed interest. And you guys made some dough on it, on the short selling of it. You did. And Paulson made out like a bandit on this thing.

Mr. SPARKS. Senator, on each of those deals, I——

Senator TESTER. So the firm did pretty well.

Mr. SPARKS. I do not think the firm did well on every one of those deals. In fact, it is possible and more likely that on those particular deals the firm lost a fair amount of money. I would have to go back and do the math on each one, but on those deals that you picked out that performed very poorly—and they did—Goldman Sachs I think lost a fair amount of money because Goldman retained a fair amount of risk on those deals.

Senator TESTER. Yes, I mean, even including the short selling you did on it?

Mr. SPARKS. That is why I would need to go back and net it off.

Senator TESTER. Yes, I think the Chairman asked you for that information, so we will be looking forward to that.

OK. If you were in my shoes and we are on the verge of doing some Wall Street reform, potentially—I hope we get pass the verge and get into the debate of it—what would you change? Anything?

Mr. SPARKS. Senator, I think clearly some things need to be changed. I have not read what is proposed, so I am not in a great position to——

Senator TESTER. You really do not need to read what is proposed. Actually, you are in the business. OK? I am a farmer, and if you asked me what we need to change in agriculture, I could tell you pretty quick. I am assuming that you are a smart guy in the financial services—I know you are, and I do not mean that as a derogatory comment.

As you look at the regulations that fell in—and some people made a lot of money, some people lost a lot of money. I do not know if it was because people did not get told the whole story or not. If they did not, then I think there is a problem there. But is there anything in the regulatory that you looked at—you work and you are high up in management—what would you change?

Mr. SPARKS. Well, again, I do not work at Goldman Sachs anymore, so I do not want to speak for Goldman——

Senator TESTER. I know, but going back, I do not think things have changed with the regulatory structure at all since you worked there.

Mr. SPARKS. I feel like we worked really hard to manage our risk prudently. I think it is a very hard question, and I think that when you look at what gradually became too much credit available in the system and there were many people who participated in that system and actually, so long as that was going, it was good for those people. The kind of regulator, not meaning technical regulator, but there was not a defuse valve to monitor that.

Senator TESTER. OK. And, actually, the testimony says it. Even when the markets were going down—Senator Ensign talked about it. Let me see if I can find the exact statement here. You guys did pretty well—2009 Goldman Sachs' annual report states that the firm did not generate enormous net revenues by betting against residential-related products. Documents obtained by the Subcommittee, however, indicate two top Goldman mortgage traders, Michael Swenson and Joshua Birnbaum, discussed their 2007 performance evaluation as a very profitable year and extraordinary profits. So you guys made money going both directions.

Mr. SPARKS. Senator, I would just like to clarify a couple of the numbers——

Senator TESTER. And there is a lot of folks that did not make money going both directions. There is a lot of guys that lost their retirement, they lost everything they had when it dropped off.

Senator ENSIGN. Senator Tester, one of the clarifying points is even if Goldman Sachs did not make it, the executives did.

Senator TESTER. Yes.

Senator ENSIGN. They made huge bonuses.

Senator TESTER. I am with you. We are together. Go ahead, Mr. Sparks.

Mr. SPARKS. Senator, there are two things I thought just to clarify. One, on the graph that was shown—I ran the Mortgage Department, and I was responsible for risk in my department. I do not think that was reflective of the risk that I managed.

And two, I have heard a lot of numbers about what Goldman Sachs made. My department, which included these guys and other businesses, including commercial mortgages where we made money, the number was $1.1 to $1.2 billion in 2007. That is the revenue number. So that is the number I know. That was roughly 20 to 25 percent more than the year before. And the reason I give you that, I felt—and I said I was proud. I thought the firm managed it well.

Senator TESTER. OK.

Mr. SPARKS. But that was not that typical a year in that business. So I just wanted to make sure that the numbers that I know—that I pointed that out, because I had heard some numbers that I felt like were not accurate.

Senator TESTER. OK. Well, first of all, I do want to thank you all for being there, and I mean that. I also would like to have you guys just go out and have a pop, and we will leave the attorneys out of this thing, because I know you have got to cover yourselves on a lot of this stuff. The fact is I think we have got a problem, and I think we have got a problem with what has gone on on Wall Street, and I do not want to see it reoccur again. And the truth is I need good information if I am going to make good decisions. A lot of that good information could come from you guys. I think you have had to temper it. I understand that. That is OK. I think it has been pretty obvious. But that is OK. That is what you were instructed to do, and you did a good job.

But the fact is that the bottom line is we cannot let this happen again, or if it does happen, the chances have to be very slim of it. And when you have got folks out there that are betting basically on the weather or whatever it might be, I just think it can put the whole thing into a turmoil unless it is pretty tightly controlled. That is my own opinion. But I do not—we have got to figure out how to do that so it is done right and transparency is the bottom line.

Thank you, Mr. Chairman. I overspoke my time. Thank you very much.

Senator LEVIN. Thank you, Senator Tester.

Turn to Exhibit 170c,[1] if you would, Mr. Sparks. A number of my colleagues have raised the Hudson deal. This is the deal where you were selling your own stuff from your own inventory to people, and bet against it heavily. We are going to go into that deal now. You were selling this to others.

First of all, what are you selling to others? Here is what you are selling to others, according to your own employee, Exhibit 170c. You are selling junk. OK? That is what that employee says. The question from a man named Tetsuya Ishikawa to Sarah Lawlor. "Understand AIB"—which is Allied Irish Bank—"do . . . deals but what specifically did AIB say was 'junk' about the Hudson Mezz deal?"

What did one of your potential clients say was junk about the stuff you were trying to sell? And what is the answer to that? "You may want to ask Sarah about this when she's there tomorrow and Friday. . . . She said"—this is now your employee—"AIB are too smart to buy this kind of junk"—that is the junk you are selling, Mr. Sparks.

Now, let us see what is it you are selling. Take a look at Exhibit 86.[1] This is an exhibit entitled—same thing—Hudson Mezzanine, sent by Peter Ostrem, who is the head of Goldman's Asset-Based Securities CDO Desk, to the Goldman team, announcing a new CDO. What is this new CDO? It is Hudson. "We have been asked to do a CDO of $2 billion for the [trading] desk." That is the Goldman trading desk, and that is "obviously important to [structured product]" folks. They say that in Exhibit 86. We have been asked to put together a CDO that contains our stuff from our inventory. Your inventory is too long. This is now towards the end of 2006.

Now take a look at Exhibit 90.[3] Who do you think is betting against the stuff that you are referencing in this synthetic CDO?

[1] See Exhibit No. 170c, which appears in the Appendix on page 1085.
[2] See Exhibit No. 86, which appears in the Appendix on page 550.
[3] See Exhibit No. 90, which appears in the Appendix on page 588.

You are referencing your own stuff, and it is junk. That is your own employee's assessment. And you are trying to get out of this, and so you create a synthetic CDO so you can transfer that risk to your customers. OK? And who do you think is going to benefit when you transfer that risk on the short side? The so-called protection buyer. Take a look at Exhibit 90. "Goldman was the sole buyer of protection on the entire $2.0 billion of assets."

If you can sell your junk and shift the risk on that in a synthetic CDO, Goldman puts $2 billion in its pocket.

Now, you have got a marketing booklet. That is Exhibit 87.[1]

Mr. SPARKS. Senator, I missed the one before Exhibit 87. I apologize. Could you tell me——

Senator LEVIN. No, I am not going to waste any more time.

Mr. SPARKS. OK. I am just trying to flip through to make sure I understand exactly—there were a number of Hudson deals, and I am just making sure——

Senator LEVIN. OK. All right.

Mr. SPARKS [continuing]. I remember which deal it was.

Senator LEVIN. Maybe we can get an answer this time. Hudson Mezzanine. Are we ready? Which one didn't you understand? Did you understand the one about junk?

Mr. SPARKS. I read the one where AIB called it junk and decided not to invest.

Senator LEVIN. And your own person said they are too smart to buy this kind of junk.

Mr. SPARKS. I thought they said that it was junk and they were too smart to buy it. I will look at it again. I am just trying to go fast.

Senator LEVIN. OK, take your time, Exhibit 170c. A Goldman Sachs person, Ishikawa, wrote: "You may want to ask Sarah about this when she's there tomorrow and Friday. . . . She said 'AIB are too smart to buy this kind of junk . . .' "

Mr. SPARKS. I see that now, Senator.

Senator LEVIN. OK. Now let us talk about what you are selling.

Mr. SPARKS. So then I go to Exhibit 86——

Senator LEVIN. You are on the short side of this, right? You are going to make money if this synthetic CDO is sold. Is that correct? You are getting rid of——

Mr. SPARKS. Senator, at this particular time, because I believe this email was September 2006. I believe at the time the firm was positioned very long with respect to the market at that time.

Senator LEVIN. It was, and you are trying to be less long.

Mr. SPARKS. You had said the firm got short. I do not believe it got short.

Senator LEVIN. You are creating a synthetic CDO, and there is a bet going on against stuff that is in your inventory; you are betting against that stuff, and someone else is betting for it.

Mr. SPARKS. We were long risk, and we were reducing risk.

Senator LEVIN. That is exactly what I said. You are trying to shift the risk of that junk to somebody else. This is what is going on.

[1] See Exhibit No. 87, which appears in the Appendix on page 551.

It is a synthetic CDO, OK? The whole point of the synthetic CDO, if you will take a look at that exhibit that I just referred you to, Goldman is the sole buyer of protection. You got that?

Mr. SPARKS. That is the one I was looking for, but I——

Senator LEVIN. Exhibit 90.[1]

Mr. SPARKS. Thank you.

Senator LEVIN. Do you see it there, the middle of the page? October 30, 2006. "Goldman was the sole buyer of protection on the entire $2 billion of assets." You are trying to shift the risk, exactly as you said. You are trying to shift the risk, and you did it.

So you are benefiting now from selling stuff from your inventory. You want to go less long, and you are betting against that. OK? We are together?

Mr. SPARKS. Mr. Chairman, any time we sell something to somebody, we have transferred the risk. I agree with that.

Senator LEVIN. Right. That is all I am saying. In this case, it is junk from your inventory, and you are trying to go less long.

Mr. SPARKS. Well, I can tell you at the time, Mr. Chairman, I did not believe it was junk, and we did not believe it was junk. A salesperson said that. I think that is a salesperson who had an opinion, and as I mentioned, a lot of people had different opinions.

Senator LEVIN. Right. That is true. Your salesperson believed it was junk. That is who was selling your stuff.

Now, take a look at Exhibit 87.[2] This is your sales pitch. "Goldman Sachs has aligned incentives with the Hudson program by investing in a portion of equity and playing the ongoing role of Liquidation Agent." So now you are telling people that you are on the long side. That is your Executive Summary. You tell them in some fine print somewhere that you are shifting the risk, but this is what the Executive Summary says. It states you have "incentives aligned with the program."

No, you do not. Your incentives are aligned against this thing. Your incentives are to sell $2 billion and shift the risk. And so you are telling people, that you are selling this to—that Goldman Sachs has aligned incentives with the Hudson program by investing in a portion of equity. That means you are on the long side. You are investing a little bit on the long side. Two billion bucks of risk you are shifting, and you are telling people in the Executive Summary that the incentives are aligned. They are not aligned. They are the opposite. You are shifting risk. You are not taking on risk. This is one of your structured products that you are selling, these synthetic CDOs that nobody can figure out.

Take a look at Exhibit 91,[3] Mr. Sparks. This is another synthetic CDO that you guys are peddling, shifting risk, making money when you go short. You tell Mr. Montag, "Need you to send message to Peter Ostrem and Darryl Herrick telling them what a great job they did. They structured like mad"—"they structured like mad"—"and traveled the world, and worked their tails off to make some lemonade from some big old lemons." Making lemonade from some big old lemons!

You say that—by the way, going back to Hudson——

[1] See Exhibit No. 90, which appears in the Appendix on page 588.
[2] See Exhibit No. 87, which appears in the Appendix on page 551.
[3] See Exhibit No. 91, which appears in the Appendix on page 589.

Mr. SPARKS. Is that in Exhibit 91, lemonade?

Senator LEVIN. Exhibit 91. Look right in the middle. "Need you to send message"—you see those words? "Need you to send message to Peter Ostrem and Darryl Herrick"—who is Peter Ostrem?

Mr. SPARKS. Peter Ostrem at the time was a managing director that ran our cash CDO business.

Senator LEVIN. All right. And who is Darryl Herrick?

Mr. SPARKS. Darryl was part of Peter's group.

Senator LEVIN. ". . . and tell them what a great job they did. They structured like mad." What did they do? They made some lemonade from some big old Goldman Sachs lemons.

You have got no regrets? You ought to have plenty of regrets. I do not think that you are willing to acknowledge them, but you ought to have them. I do not think you will acknowledge them. That is why we have got to do some regulation and reregulation.

Take a look, Mr. Birnbaum, if you would, at your own assessment of what you did in 2007. You had a great year.

Mr. BIRNBAUM. What page?

Senator LEVIN. Exhibit 55c.[1] Now, you had made a decision to shift the direction and go from a long position to a short position. And here is what you said, that the "execution of strategies has clearly been a concerted team effort." Do you have this now, Mr. Birnbaum? Do you see where I am at?

Mr. BIRNBAUM. I am catching up to you.

Senator LEVIN. OK. Well, I will not make you catch up. I want you to read every word with me, so I will wait until your eyes are on the same words I am on.

Mr. BIRNBAUM. So which page are you on?

Senator LEVIN. Page 2.

Mr. BIRNBAUM. I am with you.

Senator LEVIN. It says, "Vision, risk taking, market calls."

"Whereas execution of strategies has clearly been a concerted team effort, I consider myself the initial or primary driver of the macro trading direction for the business." Got it? Macro trading direction for the business. Here is what you say.

You made three major calls: "December to February"—that is December 2006 to February 2007—"With the desk quite long and ABX trading down from par . . ., we had a rough start to the year." By the way, that year started in December. "The prevailing opinion within the department was that we should just 'get close to home' and pare down our long."

This is what Mr. Sparks was talking about. There are differences in the department. Everyone does not agree. There is a difference of opinion. I am going to keep going.

So there was some opinion that we "should just get 'close to home' and pare down our long." But you—and then reading at the bottom of the page, you had five reasons there why you should not just pare down, you ought to make a big bet going short. And then you said, "I concluded that we should not only get flat, but get VERY"—capitalized—"short." That is not my emphasis. That is yours, that you should get very short. And what did you do? You began "socializing" the idea. You wanted to avoid group-think, so

[1] See Exhibit No. 55c, which appears in the Appendix on page 447.

you independently went to a whole bunch of folks to see if anybody could poke holes in the plan. "Although opinions varied on execution probability, primarily on the back-end, we all agreed the plan made sense." "We all agreed the plan made sense."

And then you socialized with Sparks and Ruzika, and what did you do? You "implemented the plan by hitting on almost every single name CDO protection buying"—that means you are heading in the short direction—"in a 2-month period. Much of the plan began working by February . . . our very profitable year was underway." This is a very profitable year where you were working. You were betting against the market. You were going short.

And then down at the bottom of that paragraph, "Again, when the prevailing opinion in the department was to remain close to home, I pushed everyone on the desk to sell . . . aggressively and quickly." OK?

You made a lot of money monetizing that. "We sold billions of index and single name risk"—you sold them, and you cashed in. And here is what you said: "when the index dropped 25 points in July, we had a blow-out profit and loss month, making over $1 billion that month."

Now, what you said in the report is what happened. This is what you folks reported to the SEC. October 4, 2007. This is Exhibit 46.[1] This is a letter from Goldman to the SEC. Take a look at the bottom of page 3.

"[I]t is important to note . . . that we are active traders of mortgage securities and loans and, as with any of the financial instruments we trade, at any point in time we may choose to take a directional view . . ." That is your words, Goldman Sachs. You may choose to take a directional view.

Mr. BIRNBAUM. This is Exhibit 46? I am just asking you.

Senator LEVIN. Exhibit 46, bottom of page 3. I am not asking you this question. I am asking Mr. Sparks this question, or any of you. But basically making a statement and then asking if you want to respond to it. I mean, this is a statement of Goldman Sachs to the SEC. I am not sure you want to quibble on this one. But, in any event, October 4, 2007.

So, "at any point in time we may choose to take a directional view of the market and will express that view through the use of mortgage securities, loans and derivatives. Therefore, although we did have long balance sheet exposure to sub-prime securities in the past three years, albeit small exposure, our net risk position was variously either long or short depending on our changing view of the market."

So your risk position was dependent on your changing view of the market. But now comes the line which we might as well all agree upon before the next two panels start—this is what you represented to the SEC and what the facts clearly show.

"For example"—presumably of your decision on directional view—"during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market."

[1] See Exhibit No. 46, which appears in the Appendix on page 361.

Is there any doubt in your mind that was true? Is there any doubt in your mind that what Mr. Viniar said later on that year was also true? This is what Mr. Viniar said at the end of the third quarter. He is the Chief Financial Officer. This is Exhibit 45,[1] by the way, if you want to track it.

"Let me also address mortgages specifically"—this is the end of the third quarter. It was around September. "The mortgage sector continues to be challenged and there is a broad decline in the value of mortgage inventory during the third quarter. As a result, we took significant markdowns on our long inventory positions during the quarter, as we had in the previous two quarters." That is getting out of the long position.

And then he said the following: "However, our risk bias in that market was to be short and that net short position was profitable."

Do you disagree with that, Mr. Sparks? Do you disagree with that one statement?

Mr. SPARKS. During the third quarter that we had a net short bias? I do not disagree with that statement.

Senator LEVIN. And you disagree with this statement?

Mr. SPARKS. I said I do not disagree. I am sorry.

Senator LEVIN. Do you disagree with the statement that was made to the SEC, bottom of Exhibit 46, page 3, last line, that "during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market"? That was stated to the SEC. Was Goldman Sachs telling the truth to the SEC?

Mr. SPARKS. I understand that. I did not write this.

Senator LEVIN. All right. Mr. Birnbaum, do you know whether that was a true statement or not?

Mr. BIRNBAUM. Again, these are not my words. I did not——

Senator LEVIN. I am just asking you if the statement is true that Goldman Sachs made to the SEC. That is all I am asking you.

Mr. BIRNBAUM. Well, this is a long document. I mean, I have not even read it——

Senator LEVIN. I am asking you about that statement at the bottom of page 3, that "during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market."

Mr. BIRNBAUM. There is only one thing I can comment on, and that is my position. And you read my self-review.

Senator LEVIN. OK.

Mr. BIRNBAUM. And I stand pat with what I wrote there, and——

Senator LEVIN. And is that review totally consistent with this?

Mr. BIRNBAUM. Just to be clear, my review pertains to my business that I worked with——

Senator LEVIN. I got you. Is your review——

Mr. BIRNBAUM. This is only a small part of the firm.

Senator LEVIN. Is your review consistent with what I just read?

Mr. BIRNBAUM. My review only——

Senator LEVIN. Mr. Swenson.

Mr. BIRNBAUM. My review only relates to my——

[1] See Exhibit No. 45, which appears in the Appendix on page 349.

Senator LEVIN. I understand. Is this something that you agree was an accurate statement when Goldman Sachs made it to the Securities and Exchange Commission in October 2007?

Mr. SWENSON. Yes.

Senator LEVIN. Thank you.

Mr. SWENSON. And I would like to add the nature of our risk——

Senator LEVIN. Oh, I was just hoping for a yes.

Mr. SWENSON. Yes, but the nature of our risk changed over the course of that year, which I mentioned in my opening statement.

Senator LEVIN. We understand. Thank you very much. Dr. Coburn.

Senator COBURN. Thank you, Mr. Chairman.

I have a question for each of you that I would like just a yes or no answer. Is there a policy within Goldman Sachs that if you feel something is either out of the ordinary or unethical, that you are not to communicate that in an email? And have you ever been instructed on what you will or will not communicate on emails? In other words, are there things that you are not to communicate in emails? Mr. Sparks.

Mr. SPARKS. The ethical question, if there is something that you have an ethical question about, you are supposed to raise it to your superior. But with respect——

Senator COBURN. Have you ever been instructed not to raise that in an email?

Mr. SPARKS. No.

Senator COBURN. There is no policy within Goldman that you cannot raise ethical questions on emails?

Mr. SPARKS. Not that I am aware of.

Senator COBURN. Mr. Birnbaum.

Mr. BIRNBAUM. I am not aware of a policy like that.

Senator COBURN. Mr. Swenson.

Mr. SWENSON. I am not aware of a policy.

Senator COBURN. Mr. Tourre.

Mr. TOURRE. I am not aware of a policy.

Senator COBURN. Are you aware of any policy that would restrict your communication on emails about anything related to your business within Goldman? And, again, you all have been—are under oath. All I want is a yes or no. Have you been instructed on certain things you will not communicate in an email relating to the business? I am not talking about personal now.

Mr. SPARKS. Within the firm, no. Personal stuff, the firm does not—prefers you not to, and then I would say there are things about what can go outside of Goldman that there are policies about.

Senator COBURN. OK.

Mr. BIRNBAUM. It has been a little while since I worked there, and I do not remember all the policies. We had a lot of policy updates.

Senator COBURN. Well, you would know this policy if it was there.

Mr. BIRNBAUM. I do not remember all the policies.

Senator COBURN. So your answer is you do not know?

Mr. BIRNBAUM. My answer is, I do not remember all the policies.

Senator COBURN. That is a very unsatisfactory answer.

Mr. Swenson.

Mr. SWENSON. There is no policy.

Senator COBURN. Thank you.

Mr. Tourre.

Mr. TOURRE. There is no policy.

Senator COBURN. OK. Thank you. I want to go just a little further on an email. If you all will look at Exhibit 26,[1] this is an email dated July 25, 2007, from the executive VP and chief financial officer, and it was not necessarily communicated to you. This is a summary of revenues and estimates year to date, and this would be the estimate for revenues and estimate for pre-tax profit, and this goes to Mr. Cohn and copied to several others. It says, "Tells you what might be happening to people who don't have the big short." It is not really fair to ask you to comment on that, but there were discussions about changing your positions in relationship to the mortgage market, the derivatives, and the packaged securities. There is no question about that, right? You all have testified you were changing position. Correct?

Mr. SPARKS. Yes, Dr. Coburn.

Senator COBURN. All right. Everybody agrees with that? You were changing positions. You saw a market that was tanking. You were trying to limit your loss as good fiduciaries for your business, but also to balance that loss as a market maker. Is that correct?

Mr. SPARKS. Can I just, Dr. Coburn, I thought you said we were changing our positions. We were oftentimes changing our positions. I thought you meant did——

Senator COBURN. I understand, but there has never been a position change like what took place in the last 4 years in this country in the mortgage markets. There has never been anything like that. Maybe when we shut off exports of commodities to the Russians during the Afghanistan invasion, but there has never been a change like that before in this country. So I understand you change positions all the time, but there has never been anything to compare to what happened in terms of the collateralized debt obligations and the residential mortgage-backed securities in this country. Would you agree with that? Do you know anything in your history? I am 62 years old. I have never seen anything like it.

Mr. SPARKS. It was definitely unique.

Senator COBURN. I am not critical of it. It is smart, if you see a market tanking, to get out of the market. I mean, you are market makers, but you are also proprietary traders. So you are not only having to make a market, which puts you on exposure for some losses, but you also have proprietary trading, so you make more of your money now proprietary trading than you do any other way, at least the last few quarters you have.

So it is a fact that you were changing positions as a firm in the mortgage-backed industry and the derivatives associated with that. Correct? Anybody disagree with that? I am taking it that means nobody disagrees.

Mr. BIRNBAUM. I would just second what Mr. Sparks said. We were changing positions all the time.

[1] See Exhibit No. 26, which appears in the Appendix on page 306.

Senator COBURN. Mr. Birnbaum, you did not hear what I just said. Everybody changed positions. As a matter of fact, they got so much change in their position they lost half of everything they owned, the vast majority of people who did not have access to the same data you did or were not smart enough to take care of it. So you cannot compare this change in position—this was a drastic change in position where you went significantly short on the basis of smart knowledge of what was going on in the market. You do not have to apologize for it, but do not compare it to a change in what the CPI might be one month over the next to changing positions. It is inappropriate, and it is also discourteous to us. We are not that stupid.

Now, I am going to pass out for each of you copies of some things that are not in the reference binder, but they are copies of emails collected from your firm.[1] Have they been passed out? So everybody has that, and I think our panel members have it as well.

The first is related to Mr. Tourre, and I want you to go along with this and try to answer some of these questions for me, if you would. Tell me, in your mind what is an equity investor?

Mr. TOURRE. It is a party who buys an equity position in a transaction.

Senator COBURN. And describe an equity position. What are they buying, in your mind?

Mr. TOURRE. They are buying the residual piece of a transaction.

Senator COBURN. OK. And it may be long, it may be short, it may be a derivative, it may be a combined—or it may just be a pure equity, right? A stock.

Mr. TOURRE. It could be a stock.

Senator COBURN. Right. OK. Did you ever tell ACA Paulson would be an equity investor?

Mr. TOURRE. No.

Senator COBURN. At no time did you infer that, tell them that, or state that, at any time with ACA?

Mr. TOURRE. No, sir.

Senator COBURN. OK. Did you tell ACA that Paulson was short on the deal? I am talking about the Abacus deal.

Mr. TOURRE. I do not specifically remember the words I used, but I did mention to ACA that Paulson's expectation was that they were buying credit protection on senior tranches of that portfolio.

Senator COBURN. OK, but that is the same thing as saying they are going to buy a short position.

Mr. TOURRE. Yes.

Senator COBURN. Was there ever any inference when you said that they were also taking a long position—that they were taking a long position and insure their long position by buying on the short side?

Mr. TOURRE. To me, buying protection on senior layers of risk means being short.

Senator COBURN. OK. So somebody would not necessarily buy long on the higher tranche and sell equity protection on the lower-quality tranche.

Mr. TOURRE. Correct.

[1] See Exhibit No. 174, which appears in the Appendix on page 1110.

Senator COBURN. Nobody would do that?

Mr. TOURRE. Correct.

Senator COBURN. OK. Why wouldn't they? If the different tranches have different values, even though the whole thing is AAA rated, why would they not buy protection on the highest-risk portion of the deal?

Mr. TOURRE. I am sorry. Can you repeat the question, Senator?

Senator COBURN. Why would somebody not buy protection on the lowest potential performing component of the deal and buy long on the top end of the deal?

Mr. TOURRE. If somebody has an interest in buying protection on a portfolio, depending on the objectives from a carry perspective, that party may decide to buy protection on the first loss, the mezzanine, or the super-senior tranche. I think it is an investment decision that has to do with carry, and——

Senator COBURN. So they might straddle that for their own insurance, but that is it?

Mr. TOURRE [continuing]. Views on ultimate losses on the reference portfolio.

Senator COBURN. Right. OK. Mr. Tourre, to your knowledge, of the securities that were kicked out by ACA of the Abacus deal, do you have any knowledge that anywhere in Goldman that they—once those were kicked out, that they bought a short position in the securities that were kicked out?

Mr. TOURRE. I am sorry. Who bought a short position?

Senator COBURN. Goldman. Of the securities that were kicked out of the Abacus deal, do you have any knowledge anywhere available to you that anybody in Goldman created a short position on those securities that were kicked out?

Mr. TOURRE. When you say "kicked out," you are——

Senator COBURN. They were not part of the deal. In other words, ACA said, "No, we are not taking these." Did anybody within Goldman take a short position on the ones that they were not included in the tranches?

Mr. TOURRE. I do not know, Dr. Coburn.

Senator COBURN. Does anybody else have an answer for that question? Is there any knowledge anywhere about anybody knowing whether or not you specifically took short positions on portfolios that were rejected from the Abacus deal?

Mr. SPARKS. Dr. Coburn, I do not know.

Senator COBURN. OK.

Mr. BIRNBAUM. As I had mentioned earlier, I did not work on those transactions.

Senator COBURN. OK. Mr. Swenson.

Mr. SWENSON. I do not know.

Senator COBURN. All right. Thank you. Now to the documents. The first document is an email about a location—"Canceled: Meet with Paulson, potential equity investor." And this actually comes from Laura Schwartz, which is on January 8, 2007, 7:05 p.m. Laura is communicating to a gkreitman1@bloomberg.net, with a copy to Keith Gorman on a Paulson meeting. "I have no idea how it went - I wouldn't say it went poorly, not at all, but I think it didn't help that we didn't know exactly how they want to participate in the space. Can you get me some feedback?"

She is talking about Paulson there, right? You have these in front of you, correct?

Mr. TOURRE. Yes, sir.

Senator COBURN. Is she talking about the Paulson group?

Mr. TOURRE. I believe she is talking about the Paulson meeting, yes.

Senator COBURN. OK. And then a phone call on January 10, 2007. Did you have that phone call?

Mr. TOURRE. I do not remember, Senator.

Senator COBURN. You do not remember. All right. But it is in the record that it happened. You would agree to—this is your records.

Mr. TOURRE. I am sorry. When you say this is my——

Senator COBURN. These are not your records. I take it back. They are ACA records.

On January 28, 2007, you have an email from Laura Schwartz to Alan Roseman and Ted Gilpin; subject: "Not a boon doggle." And, again, the Abacus deal comes up at a per chance meeting in Colorado—no, in Wyoming. She went to a conference, hammered out collateral and structural issues on two deals with both the Paulson PM—does the PM refer to "prime mover" or "principal maker" or——

Mr. TOURRE. Traditionally, it is "portfolio manager."

Senator COBURN. Portfolio manager, OK. That fits. And the Morgan Stanley proprietary head. "The Paulson [portfolio manager] wasn't even at the conference but came over to me in the mountain cafeteria and asked to get together."

So here is a meeting between ACA and Paulson's portfolio manager, correct? You would agree that is what this implies?

Mr. TOURRE. Reading this email right now, it looks like it, sir.

Senator COBURN. OK. Thank you.

So then back from Mr. Gorman to Laura Schwartz, "Looks good to me. Did they give a reason why they kicked out all of the Wells deals?" And then at the bottom of this email is, "Attached is the revised portfolio that Paulson would like us to commit to - all names are at the Baa2 level. The final portfolio will have between 80 and these 92 names. Are 'we' ok to say yes on this portfolio?"

OK. And, again, this is inside ACA documents. You probably have not been aware of this.

And then Mr. Pellegrini with Paulson & Company sends to Laura Schwartz on February 13th, "In answer to your question, the reasons we decided to go ahead with ACA are that, on the one hand, you have an impressive infrastructure and track record and, on the other hand, you are willing to execute a relatively less lucrative assignment with the same level of diligence and energy that you apply to all your deals. I also appreciated your direct personal involvement in selecting the deal's portfolio of reference obligations."

Mr. Tourre, what does that say to you?

Mr. TOURRE. Well, I have never seen this email before, so I am just——

Senator COBURN. But what would you infer from the fact that somebody at Paulson is saying that it was Ms. Schwartz who was directly personally involved in selecting the deal's portfolio of reference obligations?

Mr. TOURRE. The way I read this email today is, Paolo Pellegrini is thanking Laura Schwartz for working on this transaction.

Senator COBURN. Well, you do not think it is significant in light of the accusations that have been made about Abacus that a Paulson representative would imply in this email that he selected the deal's portfolio of reference obligations rather than them?

Mr. TOURRE. Dr. Coburn, I think we went through this before. Goldman Sachs, Paulson, and IKB all made suggestions. I apologize because you were not here when I made my statement.

Senator COBURN. Right.

Mr. TOURRE. But out of the initial list of obligations that Goldman Sachs and Paulson had identified, ACA removed more than half of them. So ultimately there is not a single obligation in the 07 AC–1 transaction, there is not one single one that was not selected by ACA.

Senator COBURN. OK. Thank you. That is helpful.

All right. Mr. Chairman, I am over my time. I will yield back.

Senator LEVIN. Mr. Tourre, let me go back to where Dr. Coburn left off. When my staff talked to you, we asked you whether or not Paulson had established the portfolio selection criteria, such as FICO scores, loan-to-value ratios, etc. Was that true? And did you answer that was true, in fact?

Mr. TOURRE. I think what I remember discussing with your staff, Mr. Chairman, is the fact that the very original portfolio that Paulson and Goldman discussed had been selected from a universe of 2006 vintage subprime RMBS obligations, removing, several obligations, and those obligations were removed based on certain criteria.

Senator LEVIN. Right, and those criteria were selected by Paulson?

Mr. TOURRE. As far as I can remember, yes.

Senator LEVIN. And half of the portfolio was selected by Paulson then. Is that correct?

Mr. TOURRE. Which portfolio are you referring to, Mr. Chairman?

Senator LEVIN. The Abacus.

Mr. TOURRE. The portfolio for Abacus 07 AC–1 was selected by ACA based on suggestions——

Senator LEVIN. Half of those items in the portfolio were suggestions that came from Paulson. Is that correct?

Mr. TOURRE. I do not remember the exact——

Senator LEVIN. You said they only used half of the suggestions. I am asking you—they did not use, you said—or they did use half. So either way, half of his suggestions were incorporated in the Abacus portfolio. Is that correct?

Mr. TOURRE. Mr. Chairman, I did not say half. I said more than half the securities were kicked out by ACA.

Senator LEVIN. Kicked out, OK. So about what percentage of the securities were not kicked out?

Mr. TOURRE. A small percentage.

Senator LEVIN. A small percentage?

Mr. SPARKS. No, Mr. Tourre, you misspoke.

Mr. TOURRE. Can you repeat the other question, Mr. Chairman?

Senator LEVIN. You said that more than half of the suggestions of Paulson & Company were not accepted by ACA. What percentage of their suggestions were accepted by ACA?

Mr. TOURRE. I do not remember the exact percentage, Mr. Chairman.

Senator LEVIN. Was it nearly half?

Mr. TOURRE. Again, I do not remember.

Senator LEVIN. Was it more than a few?

Mr. TOURRE. Yes.

Senator LEVIN. And this came to you as a reverse inquiry. Is that correct? Do you know what a reverse inquiry is?

Mr. TOURRE. A reverse inquiry is a very loosely defined term. With respect to how I use it and how some of my colleagues use it, it is basically a party that comes in with a transaction idea and the party that basically drives a transaction.

Senator LEVIN. And that party with the reverse inquiry is somebody who wants to sell short. Is that correct? Go short?

Mr. TOURRE. Mr. Chairman, it depends on the circumstances.

Senator LEVIN. Well, is that what you mean by reverse, that the person that comes in—is that what is meant by that term?

Mr. TOURRE. No, Mr. Chairman.

Senator LEVIN. All right. Did Mr. Paulson or Paulson & Company come in wanting to go short?

Mr. TOURRE. They came in and expressed an interest in buying protection on——

Senator LEVIN. Which means going short, right?

Mr. TOURRE. Yes.

Senator LEVIN. And did those criteria which Paulson gave to you, were they plugged into your model? Did they then generate a list of possible reference securities for that portfolio?

Mr. TOURRE. Yes. They were used to actually trim down the universe of RMBS.

Senator LEVIN. Using his criteria. Now, take a look at Exhibit 152,[1] if you would, Mr. Tourre. Do you see that, Exhibit 152?

Mr. TOURRE. Is this the email from Michael Swenson to myself?

Senator LEVIN. It is from Michael Swenson—no. It is from you to Mr. Sparks.

Mr. TOURRE. Well, the first email——

Senator LEVIN. No, I am talking about the original message, the bottom.

Mr. TOURRE. Understood.

Senator LEVIN. OK? Do you see where the second paragraph says, "At the end of the meeting, the Paulson team"—this is you speaking—"told us that they were happy to have met"—and we do not put the name of the person in, obviously—"and assuming that (1) could get comfortable with a sufficient number of obligations that Paulson is looking to buy protection on in Abacus format." Do you see that, that he is looking to buy protection? That means to go short, right?

Mr. TOURRE. Yes.

Senator LEVIN. And those are your words, right?

Mr. TOURRE. Yes, Mr. Chairman.

[1] See Exhibit No. 152, which appears in the Appendix on page 963.

Senator LEVIN. All right. Then take a look at Exhibit 107,[1] the top of page 2. This is now the question of what managers are you going to work with. And do you see that at the top of page 2?

Mr. TOURRE. One moment, Mr. Chairman.

Senator LEVIN. OK.

Mr. TOURRE. Exhibit 107?

Senator LEVIN. Exhibit 107, yes.

Mr. TOURRE. I am with you, Mr. Chairman.

Senator LEVIN. It says—well, first look on page 1, that you are looking for portfolio selection agents—and this is one of your criteria—who "will be flexible with regard to portfolio selection . . . ideally we will send them a list of [those bonds] that fit certain criteria, and the portfolio selection agent will select 100 out of the 200 bonds" that you send to them. Do you see your words there?

Mr. TOURRE. I see my words, Mr. Chairman.

Senator LEVIN. Is that accurate? Did that reflect the facts at the time?

Mr. TOURRE. This reflects the fact that we were——

Senator LEVIN. Was that accurate when you said it? Is that what you were looking for?

Mr. TOURRE. The intention was to send a range of securities, to give some guidance to the portfolio selection agent.

Senator LEVIN. And you were looking for an agent that would be flexible. Is that correct? That is your word?

Mr. TOURRE. That is my word.

Senator LEVIN. OK. Now, keep going. On page 2, by the way—and this is from Geoffrey Williams to you. He said, "There are more managers . . . than just [so-and-so]. The way I look at it," he said—this is page 2 at the top—"the easiest managers to work with should be used for our own axes." In other words, I guess that means for Goldman's own goals instead of your clients'—here is another example where Goldman is putting themselves ahead of their own client, by the way.

"There are more managers out there than just [so-and-so]. The way I look at it, the easiest managers to work with should be used for our own axes"—I think which means goals or our own ambitions. "Managers that are a bit more difficult should be used for trades like Paulson given how axed Paulson seems to be (i.e. I'm betting they can give on certain terms and overall portfolio increase)." So you think, hey, give the less flexible folks to our customers. We will save the more flexible for ourselves."

Then you keep going. Take a look at Exhibit 112.

Mr. TOURRE. Mr. Chairman, can I interrupt you one second?

Senator LEVIN. Sure.

Mr. TOURRE. With respect to your point about our own axes and your suggestion that they would be for—Goldman's own sort of use, if you will, again—and I do not remember the specific email, but the way I read it today is that there were transactions for which the best way to risk-manage those transactions was to re-offer the protection we were buying from the market directly in tranche format to certain investors.

Senator LEVIN. I understand.

[1] See Exhibit No. 107, which appears in the Appendix on page 677.

Mr. TOURRE. And there were other—and the other types of transactions and the other way we could risk-manage our risk was by writing single-name CDS protection on these obligations, and what I meant by, our own axes was I would rather risk-manage a tranche short with a basket of single-name credit default swap contracts.

Senator LEVIN. OK.

Mr. TOURRE. So that is what I meant by this.

Senator LEVIN. Now, take a look at—I said Exhibit 112, but I meant Exhibit 109.[1] This is from Laura Schwartz at ACA to Gail Kreitman. Who is she?

Mr. TOURRE. She is a salesperson who used to cover ACA.

Senator LEVIN. For Goldman?

Mr. TOURRE. Yes.

Senator LEVIN. So now ACA is writing Goldman. "Gail, I certainly hope I didn't come across too antagonistic on the call with Fabrice last week but the structure looks difficult from a debt investor perspective. I can understand Paulson's equity perspective. . . ." Where did they get that from?

Mr. TOURRE. I do not know, Mr. Chairman.

Senator LEVIN. Well, but Gail Kreitman sure was told that somehow or other Paulson had an equity perspective. Then she said, "but for us to put our name on something, we have to be sure it enhances our reputation."

So you do not know where ACA got the impression that Paulson was on the long side, right? You do not know where they got that?

Mr. TOURRE. I do not know, Mr. Chairman, but, again——

Senator LEVIN. Do you know where they got that impression?

Mr. TOURRE. No, I do not know, Mr. Chairman.

Senator LEVIN. Now, take a look at Exhibit 108—well, we will skip that one. It is too long.

Exhibit 118.[2] This is the big formal memo that went to the Capital Committee from you, and a number of other people. This is what you said, on page 3, about the sixth line from the bottom. Do you see where it says, "The Reference Portfolio has been selected and mutually agreed upon by ACA and Goldman"? Do you see that?

Mr. TOURRE. Yes, I see that.

Senator LEVIN. Was that true?

Mr. TOURRE. Well, as I mentioned to your staff last week——

Senator LEVIN. No, not staff. I am just asking you right now. Was that true, that statement that you sent to your own committee? Was that accurate?

Mr. TOURRE. It is not very accurate. It could have been more accurate, Mr. Chairman.

Senator LEVIN. It could have been what?

Mr. TOURRE. It could have been more accurate.

Senator LEVIN. I am not sure it could have been, but at any rate, you deny that is accurate.

Mr. TOURRE. I am saying it could have been more accurate.

Senator LEVIN. Where was it inaccurate?

[1] See Exhibit No. 109, which appears in the Appendix on page 682.
[2] See Exhibit No. 118, which appears in the Appendix on page 713.

Mr. TOURRE. Mr. Chairman, before I answer that question, this was merely a copy paste from previous transactions where there was a portfolio manager involved.

Senator LEVIN. Well, where is it inaccurate?

Mr. TOURRE. Well, again, this could have been more accurate——

Senator LEVIN. No. I am saying where was it inaccurate?

Mr. TOURRE. Mr. Chairman, I did not say it was completely inaccurate.

Senator LEVIN. Was it inaccurate in the reference to Goldman?

Mr. TOURRE. Had I been——

Senator LEVIN. No. Are you claiming that was inaccurate now in reference to Goldman?

Mr. TOURRE. I am claiming it is inaccurate in reference to the fact that it does not say exactly the——

Senator LEVIN. Was this portfolio mutually agreed upon by ACA and Goldman, yes or no?

Mr. TOURRE. It was mutually agreed by Goldman, ACA, IKB, and Paulson.

Senator LEVIN. All right. So you say it was mutually agreed upon by ACA and Goldman, you are saying that there were others that were left out.

Mr. TOURRE. Well, let me——

Senator LEVIN. And Paulson was left out. Is that correct? I think you have not answered the question the best you can, so let us go on.

Take a look at Exhibit 123.[1] Have you got it?

Mr. TOURRE. Yes, Mr. Chairman.

Senator LEVIN. Do you see near the bottom there, it is an email from you to Josh Birnbaum? Do you see that?

Mr. TOURRE. On page 1 or page 2, Mr. Chairman?

Senator LEVIN. Page 1 near the bottom.

Mr. TOURRE. Yes, I see that email.

Senator LEVIN. It says here "100 [percent] of the Baa2 RMBS selected by ACA/Paulson." Now, you are saying here that Paulson was one of the two people that selected this and the other was ACA. Was that an accurate statement?

Mr. TOURRE. Mr. Chairman, I was responding to a specific question from Josh Birnbaum, and——

Senator LEVIN. I know. Was that accurate?

Mr. TOURRE [continuing]. With a view to actually type fast, I did not really——

Senator LEVIN. I know how fast——

Mr. TOURRE [continuing]. Write something accurate. What I should have written was that this was a portfolio selected by ACA with suggestions from Paulson, from Goldman Sachs, and from IKB. That would have been the factually correct statement. Here my objective was to write something quick to answer Josh, which was to answer a question that was more related to risk and risk management.

Senator LEVIN. Right. But what you said then was that it was selected by ACA/Paulson, right? That is what you said at the time? Is that accurate—am I reading this accurately?

[1] See Exhibit No. 123, which appears in the Appendix on page 843.

Mr. TOURRE. That is what I wrote in this email, Mr. Chairman.

Senator LEVIN. You now deny that it was accurate. Is that right?

Mr. TOURRE. I am just saying——

Senator LEVIN. Was it accurate, yes or no?

Mr. TOURRE. It could have been more accurate, Mr. Chairman.

Senator LEVIN. Let me just summarize this. You knew Paulson was on the short side of the trade. Is that correct?

Mr. TOURRE. Yes.

Senator LEVIN. You knew Paulson had helped select the mortgages to be referenced. Is that correct?

Mr. TOURRE. They made suggestions, yes.

Senator LEVIN. And that a significant number of those suggestions were put into the document. Is that correct?

Mr. TOURRE. I do not remember the exact number.

Senator LEVIN. But you know that it is more than a few?

Mr. TOURRE. Yes.

Senator LEVIN. You did not disclose to ACA that Paulson was on the short side of this deal. Is that correct?

Mr. TOURRE. I did mention to ACA that the expectation was that Paulson was going to buy protection on senior layers of risk in the transaction.

Senator LEVIN. That they were going to be only on the short side.

Mr. TOURRE. Yes.

Senator LEVIN. So you did say to ACA that Paulson was going to be on the short side of this transaction?

Mr. TOURRE. Yes. I do not remember the words, but I did mention that to ACA.

Senator LEVIN. And was it reflected in the Goldman Sachs security offering to investors that Paulson had been part of the selection process? Was that represented in that document?

Mr. TOURRE. Paulson was not disclosed in the Abacus 07 AC–1 transaction, Mr. Chairman.

Senator LEVIN. It was not?

Mr. TOURRE. No, it was not.

Senator LEVIN. Did Goldman intend to keep a long stake in that transaction when the deal was structured? I know it ended up with a piece. Was it intended that it end up with a piece of that deal?

Mr. TOURRE. We tried to hedge our risk by selling that piece as well, but were not successful in doing so.

Senator LEVIN. So it was intended to sell that piece?

Mr. TOURRE. For prudent risk management reasons, we were trying——

Senator LEVIN. Oh, I am sure for all the right reasons. But it was intended that Goldman not have any long stake on that piece. Is that correct?

Mr. TOURRE. Yes.

Senator LEVIN. Dr. Coburn.

Senator COBURN. I just have a couple of other questions.

Mr. Birnbaum, if you would turn to Exhibit 55c,[1] your self-review, page 3 of your 2007 review: "I have been the primary proponent of trading related equity names on the ABS desk." Can you tell me what that means?

[1] See Exhibit No. 55c, which appears in the Appendix on page 447.

Mr. BIRNBAUM. Just let me get the exhibit first. You are on which page of the review?

Senator COBURN. Page 3.

Mr. BIRNBAUM. OK.

Senator COBURN. You state there, "I have been the primary proponent of trading related equity names on the ABS desk." In plain English, what does that mean?

Mr. BIRNBAUM. That refers to trading equities as part of our hedging strategy.

Senator COBURN. OK. Were you involved in or did you direct Goldman taking short positions on companies with exposures in the mortgage meltdown?

Mr. BIRNBAUM. I do not remember the names that we used as part of our—specific names as part of our hedging strategy, but as part of our macro hedging strategy, we did use primarily put options on equities as a component of what we did.

Senator COBURN. You bought puts?

Mr. BIRNBAUM. We bought puts.

Senator COBURN. OK. And you do not remember any of the names of the companies that you bought puts in?

Mr. BIRNBAUM. It was a while ago. I do not remember the specifics.

Senator COBURN. OK. Exhibit 156[1] is a report in an email addressed to you dated March 28, 2007. It is a breakdown of Goldman Sachs' risk exposure to various companies.

Mr. BIRNBAUM. OK.

Senator COBURN. Do you ever recall receiving something like this?

Mr. BIRNBAUM. I do not remember seeing this.

Senator COBURN. But it was an email addressed to you?

Mr. BIRNBAUM. I can confirm that, just looking at it here.

Senator COBURN. OK. That email to me reflects that Goldman took a short position on Bear Stearns and Merrill Lynch, your former competitors. Is that what that would indicate?

Mr. BIRNBAUM. There is a lot of information in this email. It looks——

Senator COBURN. I will wait for you to assess it.

Mr. BIRNBAUM. I see those names on this email.

Senator COBURN. Were you responsible for those positions since you were the director of that?

Mr. BIRNBAUM. Well, I do not know if these names were as a result of my trading or someone else's trading within the firm.

Senator COBURN. Well, it would certainly look like it would be since the email is directed to you. Go to Exhibit 155, if you would.[2]

Mr. BIRNBAUM. There are a lot of other people in this email.

Senator COBURN. I understand, but you are the one that took credit in your own self-evaluation that you are the one that is responsible for that strategy.

Mr. BIRNBAUM. Which I think is—just to give you some background, I mean, that is a perfectly——

[1] See Exhibit No. 156, which appears in the Appendix on page 972.
[2] See Exhibit No. 155, which appears in the Appendix on page 971.

Senator COBURN. I am not saying there is anything wrong with the strategy. I did not say that.

Mr. BIRNBAUM. Exhibit 155?

Senator COBURN. Yes.

Mr. BIRNBAUM. OK.

Senator COBURN. This is a document that reflects that the biggest piece of Timberwolf was purchased by a division of what was formerly Bear Stearns, $300 million worth. Does this document show that Goldman took a short position on Bear Stearns?

Mr. BIRNBAUM. Exhibit 155?

Senator COBURN. Yes.

Mr. BIRNBAUM. I think Exhibit 155, which—is this an email or is this—what is this?

Senator COBURN. Well, it is in front of you.

Mr. BIRNBAUM. OK. It is not an email. I have never seen this report before.

Senator COBURN. I did not say it was an email. I said it was a document.

Mr. BIRNBAUM. OK. I have never seen this document before.

Senator COBURN. Do you have any recollection at all of ever recommending the short on Bear Stearns or buying a put?

Mr. BIRNBAUM. I do recall, yes.

Senator COBURN. OK. So here is the question I have for you, and I am not saying it is not fair, but I want to get your assessment. You are looking at what you see is a change in residential backed mortgage securities. You are changing positions within Goldman. At the same time, you are selling them Timberwolf, which you are now seeing and you are buying stuff on the other side of, which was used with a fairly humorous description by some in your sales department, and now you are carrying that even further by shorting a company that bought your product because the thinking is it is a smart way to hedge because you are already betting against it inside on a CDO product, and they have got $300 million of it, and you do not think it is going to be worth much, so it might mean that their stock is going to decline.

Is that an accurate assessment of the trading strategy?

Mr. BIRNBAUM. Absolutely not.

Senator COBURN. OK. What was the indication for the trading—why would you short Bear Stearns after they had just bought $300 million worth of Timberwolf from you?

Mr. BIRNBAUM. Well, keep in mind the Timberwolf transactions were not part of my job function.

Senator COBURN. Were you aware of Timberwolf sales?

Mr. BIRNBAUM. I heard the name Timberwolf. I was not——

Senator COBURN. You had no knowledge that Bear Stearns had exposure to multiple mortgage-backed securities?

Mr. BIRNBAUM. I never had knowledge of that.

Senator COBURN. So what did you base the idea that you would short a Bear Stearns for?

Mr. BIRNBAUM. When I spoke earlier, I used the word "macro" to describe some of those hedges, and sort of inherent in that description is that I had a portfolio of several names that I felt that would have some exposure——

Senator COBURN. More downside risk than others?

Mr. BIRNBAUM. Well, keep in mind when you buy a put, you are not just betting on downside, you are also betting on uncertainty. And at the time there was a lot of uncertainty in the market as to which way the market was going to go, and you can buy insurance, buy a put——

Senator COBURN. I understand.

Mr. BIRNBAUM [continuing]. And that can be a very effective hedge against a portfolio. You are not necessarily betting——

Senator COBURN. Just as selling the call can be.

Mr. BIRNBAUM. But you are not necessarily betting the market is going to go down, and I agree, just like a call can be.

Senator COBURN. OK. All right. So you do not see any connection between Goldman's position in mortgage underwriting sophisticated instruments and your position looking at a macro sense of what you see happening there and taking and shorting your competitors or buying a put insurance against your competitors?

Mr. BIRNBAUM. None at all.

Senator COBURN. There is no connection?

Mr. BIRNBAUM. No connection.

Senator COBURN. OK. And you had never had any conversation within the firm about that connection when—do you deny any knowledge that the firm had taken a significant change in position in terms of mortgages and mortgage-backed securities, CDOs and CDS?

Mr. BIRNBAUM. Well, I can only speak——

Senator COBURN. Were you aware of——

Mr. BIRNBAUM. I am aware of my position.

Senator COBURN. Were you aware of the firm's position that was communicated widely through a lot of emails?

Mr. BIRNBAUM. Well, most of those emails I was not on.

Senator COBURN. I did not ask you that. I said were you aware.

Mr. BIRNBAUM. I was not aware of what the firm as a whole was—what the firm's position on mortgages was. The only thing I was aware of is the firm asked me to be a good risk manager.

Senator COBURN. Right, OK. And I think——

Mr. BIRNBAUM. And I was long——

Senator COBURN [continuing]. You probably were. But I cannot believe that when you execute a strategy to take advantage of greater knowledge within your firm to increase the return for your firm that you can at the same time sit there and tell you are not taking advantage of the knowledge from the other areas of the firm. You cannot have a strategy both ways. You are going to say we can build a strategy based on this, but we are not going to take any information inside the firm to make those decisions. I mean, that is not plausible.

Mr. BIRNBAUM. It is plausible because that is what happened.

Senator COBURN. In other words, without any knowledge—you had no knowledge that the firm took any short positions in the mortgage-backed security business?

Mr. BIRNBAUM. Well, that is not what you asked me. You asked me——

Senator COBURN. I am asking you that now.

Mr. BIRNBAUM. You asked me regarding Timberwolf.

Senator COBURN. I am asking you about mortgage-backed securities. Were you aware that the firm had changed its position? You were testifying before—you jumped in when I was asking Mr. Sparks—that you do change positions. I understand that.

Mr. BIRNBAUM. Right, and, again, I do not speak for the firm. I speak for my position. So I was not aware of any firm-wide guidance as to a direction on the mortgage market.

Senator COBURN. So you would not think it would be prudent for somebody in risk management like you to maximize a position for Goldman Sachs to take advantage of that information and then make decisions about your competitors who were long in these areas?

Mr. BIRNBAUM. Sorry. Which information?

Senator COBURN. The information of the fact that the housing market, the prices in the housing market, as you testified earlier, as an indicator, that you were seeing softness in that market, you were seeing a decelerating increase in prices, then you saw a flat price, then you saw a deceleration of price.

Mr. BIRNBAUM. Well, I think taking publicly available information and trading a publicly traded equity is perfectly fine——

Senator COBURN. But that is counter to what you were promoting yourself and your own deal, that you were going to expand the use and leverage the use of the knowledge within the firm. All I am asking you is you did not use any of the knowledge anywhere else in the firm to advantage your ability to make a better return as a risk management?

Mr. BIRNBAUM. You were asking me about a specific——

Senator COBURN. No. I am asking you what I just asked you. You did not at any time use other information within the firm of what was going on, the coffee talk, everything else, all the emails, the positions, the SEC reports, the internal management report, you never at any time used that to enhance your ability to make Goldman money?

Mr. BIRNBAUM. The typical way that I would synchronize with other people within the firm was with a research group that might help me in the evaluation of some of these securities.

Senator COBURN. Well, the research group would certainly know about whether or not the firm had been advised to take a different position in terms of collateralized debt obligations and residential mortgage-backed securities?

Mr. BIRNBAUM. Well, I was not advised of that, and I am not sure why they would be advised of that. I am not sure we have even established that there was a firm-wide change in position.

Senator COBURN. Well, we will let the record speak to that. All right. I will give up on that.

Senator LEVIN. Mr. Swenson, would you look at Exhibit 160?[1] Do you have it?

Mr. SWENSON. Yes.

Senator LEVIN. This is a financial summary. Take a look at page 2 where it says "Mortgages." Do you see where it says "Mortgages Performance." Do you see that box?

Mr. SWENSON. Yes, up top.

[1] See Exhibit No. 160, which appears in the Appendix on page 983.

Senator LEVIN. It says there what your performance was for the year to date, YTD. Do you see that?
Mr. SWENSON. Yes.
Senator LEVIN. And then SPG. What does that stand for? Structured Products Group?
Mr. SWENSON. That is correct.
Senator LEVIN. And were you the co-head of that group?
Mr. SWENSON. Yes.
Senator LEVIN. And that group made, as I understand it, $3.7 billion on the short side, basically, right?
Mr. SWENSON. Yes.
Senator LEVIN. And the first three items there, residential prime, residential credit, and CDO–CLO, those were mainly from the old inventory, I gather, and they continued to lose money. That was the long that had been previously dragging the company down. And if you look at what was lost on that side of it, residential prime, residential credit, CDO, when you add those three together, those losses come to $2.9 billion. Does that look about right to you?
Mr. SWENSON. It looks about right.
Senator LEVIN. So you guys made $3.7 billion that year. The previous year's inventory, mainly, was deducted from that in order to come up with the total performance. But that is where that revenue number of $1.130 billion comes from, is that correct?
Mr. SWENSON. As it is broken out on this sheet, yes.
Senator LEVIN. Who put this sheet together? This is your sheet, isn't it? Isn't this a Goldman Sachs sheet that you helped put together?
Mr. SWENSON. It is a sheet that I am not familiar with.
Senator LEVIN. All right. Do those numbers look right to you?
Mr. SWENSON. We are going back a number of years——
Senator LEVIN. Well, did your group have a pretty good year for 2007?
Mr. SWENSON. Yes, we had a pretty good year that year.
Senator LEVIN. Did you start off that year with a value at risk number?
Mr. SWENSON. The VaR was not broken out on the ABS Desk. It was broken out——
Senator LEVIN. It was broken out according to what?
Mr. SWENSON. The business lines, the Mortgage Department line.
Senator LEVIN. The mortgage line. So the Mortgage Department had a VaR at the beginning of the year, right?
Mr. SWENSON. Yes.
Senator LEVIN. Do you know what it was?
Mr. SWENSON. No, I do not recall.
Senator LEVIN. Do you remember what it was about?
Mr. SWENSON. I remember what it was about, but I don't know——
Senator LEVIN. At the beginning.
Mr. SWENSON [continuing]. A specific number. Since we are talking about——
Senator LEVIN. How does 20 or 30 sound to you?
Mr. SWENSON. I don't know.
Senator LEVIN. Well, it was around 20 at the beginning.

Mr. SWENSON. And, Mr. Chairman, where are you getting that number——

Senator LEVIN. The Mortgage Department.

Mr. SWENSON. Where are you getting that number, Mr. Chairman?

Senator LEVIN. From your numbers.

Mr. SWENSON. No, but in this book.

Senator LEVIN. I don't know that we have it in the book.

[Pause.]

Senator LEVIN. Exhibit 164.[1]

Mr. SWENSON. Thank you.

Senator LEVIN. That red line there, that is your permanent VaR limit.

Mr. SPARKS. Mr. Chairman, would it be helpful if I helped on this point, because——

Senator LEVIN. I don't know that you have been very helpful on too many points, but give it another try.

Mr. SPARKS. OK. With respect to risk in the overall Mortgage Department, I would have been responsible for that number——

Senator LEVIN. All right.

Mr. SPARKS [continuing]. So I might have more information.

Senator LEVIN. The VaR for the overall Mortgage Department started off, it looks like, in December at around 20. It went up to a little over 30, and that was your permanent VaR limit, is that right?

Mr. SPARKS. Yes, but I would like to point out, Mr. Chairman, that with respect to how I managed risk in our mortgage business——

Senator LEVIN. I am just asking if that was your permanent limit.

Mr. SPARKS. I don't recall what my permanent limit was because I didn't use VaR as a primary risk measurement or management tool.

Senator LEVIN. Somebody else did, didn't they, in the firm? Someone else was using VaRs as a risk measurement, weren't they?

Mr. SPARKS. That is correct. That is what the firm overall uses.

Senator LEVIN. Right.

Mr. SPARKS. But I wanted to be clear with respect——

Senator LEVIN. Your department was given a permanent limit by the firm, is that correct?

Mr. SPARKS. We had limits, and until things started to vary, they usually weren't an issue and——

Senator LEVIN. But you guys wanted to take a heck of a lot more risk on shorts, and that is, according to your own numbers, what happened, huge bets on shorts so that your VaR limit was allowed to go up to 100, which was at one point more than half of the whole risk the firm was taking, although you were only around 2 or 3 percent of the income of that firm.

So that red line there, that was supposed to be the prescribed limit. That was the limit on the risk, a very cautious, prescribed limit. But that other line that is blue or green—I can't see from

[1] See Exhibit No. 164, which appears in the Appendix on page 1010.

here—but the line that looks like mountains, those were big excesses above your VaR limit. It went way up there in February, all the way to 100. Then you cashed in on those shorts, it came down—you made billions there—went up in August to over 100, and then gradually came down and settled by the end of the year at something like 80.

So you had a permanent limit of something between 20 to 30 that the leaders of the firm said was the right limit for the Mortgage Department, but you were allowed to go so far short that your risk limit and your short position pulled you up to a VaR, a value at risk number, that was probably unheard of, by the way, but represented more than half the risk that the firm was taking. We think 56 percent of the total risk of the firm was in your department, which was producing 2 percent of the revenue. Does that sound right to you?

Mr. SPARKS. Chairman Levin, I think this is a very important point with respect to VaR and the mortgage business——

Senator LEVIN. But just the numbers. Do the numbers sound right to you?

Mr. SPARKS. VaR, with respect to the mortgage business, had some fundamental flaws, including not all the products were included, especially many of the long positions. The firm continually worked to improve that. I mentioned that we had made mistakes in the past and one of those mistakes was we had not invested enough with respect to this to have that accurately reflect our risk.

Senator LEVIN. OK.

Mr. SPARKS. As the market got more volatile, that number moved up a lot. So when I said that was not the primary tool I used with respect to managing the risk in the department, that is accurate. That doesn't mean I didn't ignore it and that doesn't mean that the firm——

Senator LEVIN. That doesn't mean you did ignore it?

Mr. SPARKS. No, it doesn't mean that I didn't ignore the VaR——

Senator LEVIN. Did not or did?

Mr. SPARKS. I meant to say, I had to pay attention to the VaR because it affected the firm's overall VaR, so we had two issues to deal with: One, a flawed measurement that we had to try and work with, and the second was, though, it was still a very big number that was creating issues with respect to the firm.

Senator LEVIN. Right, and the senior management was using the VaR, is that correct?

Mr. SPARKS. The senior management was using the VaR and the senior—but the senior management understood my concerns that that was not reflective of what our risk was.

Senator LEVIN. All right. In any event, using that measurement which you were using, it started off in January 2007 somewhere around 20, and then your permanent limit was at 30, and that is what happened. That is what you were allowed to do on the short. That reflects the short positions that you took. That is how big a short position you folks took. You made billions.

At the same time, in many cases, and we have laid out many of them here, where you were taking short positions, you were selling securities to your customers, taking short positions on a number of those securities. We have laid out a number of those today in this morning's hearing.

I think there is a clear conflict of interest when that happens. There is a big conflict of interest question that has to do with when you are betting big time against a whole market. Should your clients and customers know that? That is one issue. But for heaven's sake, it should be abundantly clear that when you are selling securities to clients and customers, that they should know that you are betting against those same securities.

And what happened during that year is that you were making a lot of money, in the billions, from your short positions betting against the market and against securities that you were selling to customers. That is, I think, intolerable. There is a fundamental conflict of interest that needs to be addressed. We obviously have to address it either by legislation or by regulation, and unless Dr. Coburn has additional questions, I will——

Senator COBURN. I just want to make one remark to temper yours. Markets have to have people on both sides of them. My concern is where is the ethical standard on when you expose your position as a market maker and does there need to be some refinement in that so that people can see, transparency and trust and truth in a market.

Senator LEVIN. No, I agree totally with that, and with that positive note, you will be excused and we will stand in recess for 10 minutes.

[Recess.]

Senator LEVIN. We will now move to our second panel of witnesses for today's hearing, David Viniar, an Executive Vice President and Chief Financial Officer of Goldman Sachs, and Craig Broderick, the Chief Risk Officer of Goldman Sachs. We appreciate your being with us today.

Pursuant to the rules of this Subcommittee, which you are familiar with, I believe, all witnesses who testify before us are required to be sworn in. At this time, I would ask you both to please stand and raise your right hands.

Do you swear that the testimony you are about to give to this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. VINIAR. I do.

Mr. BRODERICK. I do.

Senator LEVIN. The timing system today will give you a red light in about 5 minutes and a yellow light in about 4 minutes so that you would have a chance to hopefully give us your oral testimony in 5 minutes.

Mr. Viniar, we will have you go first, and then Mr. Broderick, and then we will go to questions. Thank you again for joining us. Mr. Viniar.

TESTIMONY OF DAVID A. VINIAR,[1] EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, THE GOLDMAN SACHS GROUP, INC., NEW YORK, NEW YORK

Mr. VINIAR. Chairman Levin, Ranking Member Coburn, and Members of the Subcommittee, good afternoon. My name is David Viniar. I have been Chief Financial Officer of Goldman Sachs since 1999. I am responsible for risk management, financial control and reporting, and financing our business, among other duties. I appreciate the opportunity to appear before the Subcommittee and I will comment here on our risk philosophy and our approach to risk management.

As a global investment bank and financial intermediary, Goldman Sachs integrates advice and capital with its risk management capabilities to serve a broad range of largely institutional clients. In doing so, we often take on principal risk to help clients achieve their objectives. For example, we may facilitate block offerings, provide structured solutions, or extend credit. We routinely evaluate, price, and distribute risk across the spectrum according to the specific risk appetites of our institutional clients.

We know that we will sometimes incur losses, but as a core part of our business model, we proactively manage our risk to minimize these losses. When we commit capital to buy or sell financial instruments, extend credit, or invest alongside our clients, we accumulate both long and short positions that give rise to liquidity, credit, and market risks. We deploy a range of risk management capabilities to price the risks of each transaction appropriately, keep the firm's overall exposures within risk limits, and establish offsetting positions, or sell and buy positions, as necessary to control overall exposure.

Our approach is to understand the risks we are taking, analyze and quantify them, and keep a firm grip on their current market value. We carry virtually our entire inventory of financial instruments at fair market value, with changes reflected in our daily P&L. Such daily marking of our positions was a key reason we decided to start reducing our mortgage risk as market conditions were deteriorating at the end of 2006.

I would like to give you a sense for how we managed our risk during the period leading up to the crisis. Through the end of 2006, we were generally long in exposure to residential mortgages and mortgage-related products. In that December, however, we began to experience a pattern of daily losses in our mortgage-related P&L. P&L can itself be a very valuable risk metric and I personally read it every day.

I called a meeting to discuss the situation with the key people involved in running the mortgage business. We went through our positions and debated views on the mortgage market in considerable detail. While we came to no definitive conclusion about how the overall market would develop in the future, we became collectively concerned about the higher volatility and recent price declines in our subprime mortgage-related positions.

As a result, we decided to attempt to reduce our exposure to these positions. We wanted to get closer to home. We proceeded to

[1] The prepared statement of Mr. Viniar appears in the Appendix on page 216.

sell certain positions outright and hedge our long positions in an attempt to achieve these results.

As always, the clients who bought our long positions or other similar positions had a view that they were attractive positions to purchase at the price they were offered. As with our own views, their views sometimes proved to be correct and sometimes incorrect.

We continued to reduce our positions in these products over the course of 2007. We were generally successful in reducing this exposure to the extent that, on occasion, our portfolio traded short. When that happened, even if these short positions were profitable, given the ongoing high volatility and uncertainty in the market, we tended to attempt to then reduce these short positions to again get closer to home.

This situation reversed itself in 2008, however, when the portfolio tended to trade long, and as a result, despite the fact that our franchise enabled the firm to be profitable overall, we lost money on residential mortgage-related products in that year. While the tremendous volatility in the mortgage market caused periodic large losses on long positions and large gains on offsetting short positions, the net of which could have appeared to be a substantial gain or loss on any day, in aggregate, these positions had a comparatively small effect on our net revenues.

In 2007, total net revenues from residential mortgage-related products, both longs and shorts together, were less than $500 million, approximately 1 percent of Goldman Sachs's overall net revenues. And in 2007 and 2008 combined, our net revenues in this area were actually negative.

For Goldman Sachs, weathering the mortgage market meltdown had nothing to do with prescience or betting on or against anything. More mundanely, it had everything to do with systematically marking our positions to market, paying attention to what those marks were telling us, and maintaining a disciplined approach to risk management.

Thank you, and I am happy to take your questions.

Senator LEVIN. Thank you very much. Mr. Broderick.

TESTIMONY OF CRAIG W. BRODERICK,[1] CHIEF RISK OFFICER, THE GOLDMAN SACHS GROUP, INC., NEW YORK, NEW YORK

Mr. BRODERICK. Thank you, Chairman Levin, Ranking Member Coburn, and Members of the Subcommittee. Good afternoon. My name is Craig Broderick. I have been the Chief Risk Officer of Goldman Sachs since 2007 and prior to that was the Chief Credit Officer. I am responsible in this capacity for credit, market, operational risk, and insurance.

In summarizing my written submissions, I will focus my remarks on the firm's risk management framework to supplement David Viniar's comments on the topic and look forward to addressing your questions in more detail.

As noted by Mr. Viniar, the nature of our role as financial intermediary requires a willingness to take risk on behalf of our clients. We seek to do so only within very carefully calibrated limits which

[1] The prepared statement of Mr. Broderick appears in the Appendix on page 221.

are in line with our overall financial resources. Our clients expect us to facilitate transactions for them in all market conditions, and as such, the better that we understand and can manage risk, the more willing we are to transact with clients regardless of our views on markets.

Our risk management framework has a number of core components. The central tenet is our daily discipline of marking all the firm's financial assets and liabilities to current market levels. We do so because we believe that it is one of the most effective tools for assessing and managing risk, providing the best insights into our positions and associated exposures. Goldman Sachs, as Mr. Viniar noted, is one of the few financial institutions in the world that carries virtually all financial instruments held in its inventory at current market value, with any changes reflected immediately in our risk management systems.

The second core component is independence. Professionals in our risk management and key control functions have complete independence from their counterparts in the revenue generating divisions. This uncompromised independence, which exists in practice as well as in concept, gives teeth to the firm's risk management approach.

The third is governance. The firm's governance structure provides the protocol and responsibility for decision making and implementation on risk management issues.

A fourth component is our use of risk systems. We have developed and employed robust technology to track a variety of risk metrics across all the firm's trading businesses.

And finally, our limit structure. The firm applies a rigorous limits framework to control our risk across multiple trades, products, businesses, and markets. These limits are monitored on a daily basis and they serve to maintain and promote constant dialogue between our traders and our risk managers, as well as the escalation of risk-related matters.

Taken together, these core elements enable us to make informed decisions on a real-time basis about the risks we are taking and to rapidly attempt to make adjustments when necessary.

We employ a variety of risk metrics and measures. In the case of market risk, value at risk (VaR), and Credit Spread Widening are frequently referenced. Both are highly useful, but both suffer from limitations as, in fact, do all risk metrics, which is why we apply multiple measures to assess the overall risk in our portfolio. These limitations can show up especially acutely during abnormal market conditions, such as characterized the 2007 through 2008 period.

For example, VaR is highly dependent on market volatility of the underlying trade or product, and during 2007, volatility reached unprecedented levels in some products, in particular, in subprime mortgages. This had the effect of increasing our mortgage-related VaR by many multiples, despite the underlying portfolios in many cases actually decreasing.

Between late 2006 and February 2007, daily VaR in the Mortgage Department increased from $13 million to $85 million. We estimate that much of this increase was the result of increases in volatility, as our underlying positions in many cases declined. Accordingly, an accurate assessment of the level and direction of risk in our mortgage business was and is a matter of expert judgment, with the ultimate validation coming only after the fact when we could see how the actual portfolio moved in response to market conditions.

While we were relatively successful in flattening our risk, it involved a process of continual portfolio adjustments and interpretations. For example, during much of 2007, our VaR showed that our overall portfolio risk was increasing and reflecting a short position, whereas our Credit Spread Widening measures showed the opposite in terms of direction. During such periods, it was ultimately the experience of our business and risk management professionals and their appreciation for the nuances of each of these measures that helped guide the firm in assessing its exposures and maintaining risk within prudent levels.

Particularly in light of events in the last 2 years, it is clear that no approach to risk management was foolproof and we have all learned valuable lessons from the recent experiences. However, we do believe the core elements that make up our risk management framework are broadly effective, despite the unprecedented turmoil in the markets.

Thank you, and we look forward to answering any questions you may have.

Senator LEVIN. Thank you very much, Mr. Broderick.

Mr. Viniar, Goldman Sachs issued a public statement, Exhibit 161,[1] this past weekend which said that "Goldman Sachs did not take a large directional 'bet' against the U.S. housing market, and the firm was not consistently or significantly net 'short the market' in residential mortgage products in 2007 and 2008." Our investigation focused on 2007, when the bubble burst, were you significantly net short in the market in residential-related products in 2007?

Mr. VINIAR. Mr. Chairman, I would answer that by saying, across 2007, we were primarily, although not consistently short, and it was not a large short.

Senator LEVIN. Was it a short that exceeded your permanent VaR?

Mr. VINIAR. Well, limit structures at Goldman Sachs are put in place and occasionally we will bump up against them. In 2007, unfortunately, with the mortgage business, it was more than occasionally. And as Mr. Broderick talked about in his opening statement, the VaR increased quite dramatically early in the year and then throughout the year, largely based on the fact that the markets were so volatile that it was almost a little bit like salmon swimming upstream. No matter how fast we tried to reduce positions, the volatility increased at a faster pace, and therefore the VaR kept going up.

Senator LEVIN. And did your short positions make a lot of money in 2007?

Mr. VINIAR. The short positions themselves made a lot of money in 2007, but they offset long positions that lost a lot of money in 2007.

[1] See Exhibit No. 161, which appears in the Appendix on page 985.

Senator LEVIN. And those long positions had come to a significant degree from the inventory, is that correct?

Mr. VINIAR. Some of them had come from the inventory we had coming into the year. Over the course of the year, in our role as market maker, we also bought more positions.

Senator LEVIN. Right. But do you know what percentage of those positions came from the inventory which were at least a year old?

Mr. VINIAR. I do not.

Senator LEVIN. According to the figures which we got, net profits from shorts, $3.7 billion. Net losses from longs, including the inventory pieces, which had been there for some time, were $2.9 billion. So you would agree that you were in a net short position for most of the year? Would you agree to that?

Mr. VINIAR. Yes.

Senator LEVIN. And would you not agree that it was a significant position, those short positions, since they were way above your VaR?

Mr. VINIAR. I would not agree that it was a significant net short position——

Senator LEVIN. No. Was it a significant short position?

Mr. VINIAR. Yes, it was a significant short position, but it offset a significant long position.

Senator LEVIN. Yes. So you were significantly positioned in shorts during 2007, is that accurate?

Mr. VINIAR. Not net——

Senator LEVIN. I didn't say net. I said, your short position in 2007 was significant and consistent. Is that true?

Mr. VINIAR. We had large short positions, but they offset large long positions.

Senator LEVIN. I understand that. I am not asking you now about the net. I am asking you about your short positions. You had a significant short position, significant and consistently in 2007, is that true?

Mr. VINIAR. In the mortgage market?

Senator LEVIN. Yes.

Mr. VINIAR. Just on that side?

Senator LEVIN. Yes.

Mr. VINIAR. Yes.

Senator LEVIN. Your public statements from the firm, I have got to tell you, give a totally different impression. That is my statement——

Mr. VINIAR. Can I——

Senator LEVIN [continuing]. Because you parse words. You talk about net. Obviously, you lost money from your long positions, much of which came out of the inventory. But you also then add 2008 to give yourself a hedge. You guys are good at hedging, but your words, when you tell the public that you did not significantly net short the market in residential mortgage-related products in 2007 and 2008 is misleading, because you had a significant short position in residential mortgage-related positions in 2007. That is a fact, which I think you will agree to.

Mr. VINIAR. But I don't believe our words are misleading because we only had that significant net short because we had a significant net long. If we had not had the significant net long, we would not—significant long, we would not have had a significant short.

Senator LEVIN. Didn't you make a decision in December 2006 to basically head in a different direction? You were much too long and you wanted to go short. Is that not true?

Mr. VINIAR. No. In December 2006, we made a decision to reduce risk.

Senator LEVIN. All right.

Mr. VINIAR. That decision was not directional. It did not say that we should go long or go short.

Senator LEVIN. All right.

Mr. VINIAR. It didn't say we shouldn't, and it didn't say we should take no risk. But it said that we should reduce risk.

Senator LEVIN. Now, on October 4, 2007, Exhibit 46,[1] you wrote the SEC. Page 3, at the bottom. You say that "[I]t is important to note that we are active traders of mortgage securities and loans and, as with any of the financial instruments we trade, at any point in time, we may choose to take a directional view of the market and will express that view through the use of mortgage securities, loans, and derivatives."—We may choose to take a directional view of the market.—"Therefore although we did have a long balance sheet exposure"—long balance sheet exposure—"to sub-prime securities in the past three years, albeit small exposure, our net risk position was variously either long or short depending on our changing view of the market." You had a changing view of the market.

"For example," now this is the example of choosing to take a directional view of the market, "during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market." Was that true when you said it?

Mr. VINIAR. Absolutely, and totally consistent with what I said to you before.

Senator LEVIN. All right.

Mr. VINIAR. We were largely short across 2007——

Senator LEVIN. Fine——

Mr. VINIAR [continuing]. Not consistently, and not large.

Senator LEVIN. You were consistently short. As a matter of fact, you were very short. But you were consistently short in 2007. I mean, look at your own numbers. Look at your own chart, Exhibit 56.[2] Look at your own chart.

Mr. BRODERICK. Is that the VaR chart that you were referencing earlier, Mr. Chairman?

Senator LEVIN. Your own VaR chart, not the one we took—you are looking right at it.

Mr. VINIAR. Exhibit 56.

Senator LEVIN. Yes. Do you see that dark line there? What is the number you are looking at?

Mr. VINIAR. Exhibit 56.

Senator LEVIN. OK. Do you see that bottom line? That is adding up a bunch of lines. Do you see that, that dark red line there?

[1] See Exhibit No. 46, which appears in the Appendix on page 361.
[2] See Exhibit No. 56, which appears in the Appendix on page 455.

Mr. VINIAR. Yes, sir.

Senator LEVIN. OK. And that is the total, that is the net of the various positions. It is way below the line. Do you see that line in the middle there that looks like a railroad track?

Mr. VINIAR. I do.

Senator LEVIN. That total is consistently below zero, home, throughout the whole year. Is that true?

Mr. VINIAR. It is, but I believe this is the SPG desk only.

Senator LEVIN. That is the SPG desk. But is it any different from mortgages?

Mr. VINIAR. Sure. It is only part of the Mortgage Department. And again, this was offsetting many of the other longs that we had.

Senator LEVIN. We are talking here—this is net short.

Mr. VINIAR. But this is only one department within the Mortgage Department. This is only one business——

Senator LEVIN. This is net short. This is all synthetics across the Mortgage Department, is that correct?

Mr. VINIAR. I am looking at——

Senator LEVIN. Take a look at your own chart.

Mr. VINIAR. I know, but I don't know——

Senator LEVIN. RMBS——

Mr. VINIAR. I am just reading it——

Senator LEVIN [continuing]. Subprime notional history. Do you see that?

Mr. VINIAR. This says, mortgage New York City SPG portfolio, so I don't know if there are others, but I believe this is just the SPG portfolio.

Senator LEVIN. All right. Take a look at Exhibit 56b.[1] "The attached spreadsheet covers the single name and ABX positions of the entire Mortgage Department for the fiscal year 2007."

Mr. VINIAR. OK.

Senator LEVIN. And it says, "Understood. . . . the portfolio name is confusing. SPG portfolio in fact covers the entire mortgage department synthetic positions." OK?

Mr. VINIAR. I see that. Yes.

Senator LEVIN. Have you got it? That shows you——

Mr. VINIAR. But again, this is only the synthetic positions. It does not include the cash long positions that we had——

Senator LEVIN. It does not include any long positions.

Mr. VINIAR. Correct. That was significant, and this offset——

Senator LEVIN. But this, at least for that big chunk, the synthetics, showed you net short, is that correct, all year long?

Mr. VINIAR. In synthetics.

Senator LEVIN. Yes.

Mr. VINIAR. Yes.

Senator LEVIN. OK. And overall, were you short most of the year, which is what you told the SEC, I believe, did you not?

Mr. VINIAR. Yes, and it is consistent with what I told you. Overall, across the year, our portfolio was short——

Senator LEVIN. And did you——

Mr. VINIAR [continuing]. And that is why we were profitable. But it just was not very large.

[1] See Exhibit No. 56b, which appears in the Appendix on page 456.

Senator LEVIN. Well, large is in the eyes of the beholder.
Mr. VINIAR. Correct.
Senator LEVIN. Billions seem large to a lot of folks who have lost their homes.

Take a look, if you would, at Exhibit 22.[1] This is a presentation to the Board of Directors, March 26, 2007. OK? Have you got it?
Mr. VINIAR. I do.
Senator LEVIN. OK. Take a look at the "Time Line of Major Events." If you look at the subprime sector——
Mr. VINIAR. Are you on page 4, sir?
Senator LEVIN. Page 8.
Mr. VINIAR. I am sorry. Got it.
Senator LEVIN. The first and second quarter of 2006, the long position grows. So you are going long in 2006. Third and fourth quarter, you scale back purchase of loans. You reduce your CDO activity. "First quarter, Goldman Sachs reverses"—reverses, sounds directional to me—"long market position through purchases of single name CDSs and reductions of ABX." Right? Am I reading that correctly?
Mr. VINIAR. Yes, sir.
Senator LEVIN. That you reversed your long market position?
Mr. VINIAR. Yes, sir.
Senator LEVIN. All right. That is what you told the Board.
Mr. VINIAR. Correct.
Senator LEVIN. Then, keep reading there, you "effectively halt new purchases of sub-prime loan pools through conservative bids." In other words, you made bids that were so low that you weren't going to be able to buy them. Your warehouse lending business reduced. That is now the direction that you took, according to what you told the Board. You reversed your long market position, pretty directional.
Mr. VINIAR. I would say, sir, all consistent with what I said, meant to reduce our risk and——
Senator LEVIN. I know you are going to talk about reducing risk. You made billions of dollars going short, not net. You made billions of dollars going short, so you can talk about that as reducing risk. I talk about that as making a jell of a lot of money. But you can characterize it the way you want.
Mr. VINIAR. But we only had the short because we had the long. If we didn't have the long, we never would have put on the short.
Senator LEVIN. You blew right by zero.
Mr. VINIAR. Not materially so.
Senator LEVIN. Materially.
Mr. VINIAR. If you look across——
Senator LEVIN. Billions.
Mr. VINIAR. If you look across all of—just 2007, leaving 2008 aside, residential mortgages, the net revenues were less than $500 million.
Senator LEVIN. So you were able to overcome the long losses and still make a half-a-billion dollars, is that correct?
Mr. VINIAR. That is correct.

[1] See Exhibit No. 22, which appears in the Appendix on page 276.

Senator LEVIN. All right. Now, did you hear what Mr. Birnbaum said about what happened in December 2006? Were you here when he testified?

Mr. VINIAR. I listened to it, but I am not sure what you are referring to.

Senator LEVIN. OK. [Exhibit 55c].[1] "[P]revailing opinion within the department was that we should just 'get close to home' and pare down our long." That is your argument about reducing risk as the motivator. Then he lays out here in his own words why he thought that you should go way beyond that, and here is what he said. "I concluded that we should not only get flat," get your risk down to home, get it to zero, "but get VERY short." He then began sharing that idea with a whole lot of folks, and then he said, "[W]e all agreed the plan made sense." The plan he is talking about is to go, as he puts it, "VERY short," not just flat, but "VERY short."

"[W]e implemented the plan by hitting on almost every single named CDO protection and buying opportunity in a 2-month period. Much of the plan began working by February as the market dropped 25 points and our very profitable year was underway." Do you disagree that plan was to go very short?

Mr. VINIAR. That might have been his plan, but that was not the firm's plan.

Senator LEVIN. Well, but he also said that the plan was accepted, did he not?

Mr. VINIAR. That might have been his plan within the SPG desk. I actually don't know, other than what I have read, because I would look at the firm overall and the firm overall had what I would call, with hindsight, a small net short.

Senator LEVIN. An amazing performance with a market that went under in mortgages. You were able, because of a huge short position that you took, to overcome what was a previously long position, is that correct?

Mr. VINIAR. We were able to get it very close—as close to flat as we could.

Senator LEVIN. And as a matter of fact—well, these shorts were way above flat. The only way you got to that kind of a profit was by going way above flat. Look, this is his own words. It says that the plan was accepted.

Mr. VINIAR. That was his plan——

Senator LEVIN. I understand——

Mr. VINIAR [continuing]. On the SPG desk——

Senator LEVIN. You were just unaware that the department was doing that.

Mr. VINIAR. I would not have looked at what one part of the mortgage business. I would have looked at what the mortgage business overall was doing.

Senator LEVIN. OK. And it was profitable, despite the mortgage business going south?

Mr. VINIAR. It was. As I said——

Senator LEVIN. You guys were profitable, and you were profitable because you had invested heavily in shorts.

[1] See Exhibit No. 55c, which appears in the Appendix on page 447.

And let me just read something else that he said. He said that he was "able to identify key market dislocations that led to tremendous profits." And you are just saying, that was in his department.

Mr. VINIAR. I think he was just referring to his department, not to the firm or the Mortgage Department overall.

Senator LEVIN. In terms of direction, here is what you told your Board of Directors in September 2007. You said that——

Mr. VINIAR. Sir, can you point me to where you are reading so I can read with you?

Senator LEVIN. Yes. Exhibit 41.[1]

Mr. VINIAR. Thank you. I think I see it.

Senator LEVIN. "[B]usiness has taken proactive steps to position the firm strategically in the ensuing mortgage credit and liquidity crisis," and this is all the things you did.

Mr. VINIAR. Can you just give me a page, please?

Senator LEVIN. Yes, page 4.

Mr. VINIAR. Thank you. OK. I have it.

Senator LEVIN. You "shorted synthetics." You "reduced loan and security purchases." You "shorted CDOs and RMBS." You "increased long correlation position," which is also a shorting operation. And you "reduced the long inventory." That is what you did in quarter two and quarter three of 2007. That was a strategic positioning for the firm, is that correct?

Mr. VINIAR. Yes.

Senator LEVIN. Am I reading that correct?

Mr. VINIAR. You are.

Senator LEVIN. And if you look at page 5, the year to date, this is the mortgage business, you are still losing money on your longs, much of which came from your earlier inventory. You made a little money on real estate loans. You made money on non-mortgage asset backed securities. And then look at your structured products trading, $955 million. So altogether, your gross revenue is a billion dollars, and that billion dollars was because you made $955 million, is that not correct, basically in your structured products trading. Is that fair?

Mr. VINIAR. Completely accurate.

Senator LEVIN. OK. And this was a strategic decision which you told the Board about——

Mr. VINIAR. Correct.

Senator LEVIN [continuing]. In March, and you also then told the SEC.

Mr. VINIAR. Again, what I have told you consistently, and I will not—I won't deny, we were short over most of 2007. On a net basis, it was not that large, which is why about 1 percent of the firm's revenue came from residential mortgages.

Senator LEVIN. Goldman did have, then, a big short, is that correct?

Mr. VINIAR. Offsetting a big long, yes, sir.

Senator LEVIN. And what was the amount of the short, do you know?

Mr. VINIAR. It is very hard to give a number.

Senator LEVIN. About. Was it over $3 billion?

[1] See Exhibit No. 41, which appears in the Appendix on page 327.

Mr. VINIAR. I wouldn't even know how to quantify it, because we had so many different securities——

Senator LEVIN. Have you tried to quantify it?

Mr. VINIAR. No, I have not.

Senator LEVIN. You won't estimate that it was even over $3 billion, which that one department produced?

Mr. VINIAR. Are you talking about revenues?

Senator LEVIN. Yes. Short revenues.

Mr. VINIAR. Yes. The short revenues, and I would have to find the page, but I know the page you were looking at before, the revenues from the short were over $3 billion.

Senator LEVIN. All right.

Mr. VINIAR. And they offset revenue losses——

Senator LEVIN. I know.

Mr. VINIAR [continuing]. From long that were nearly as big.

Senator LEVIN. But it was the big short which kept you in the black that year, wasn't it?

Mr. VINIAR. It was the big short offsetting the big long which helped very much us get through that crisis.

Senator LEVIN. Well, if it weren't for the big short, you would have been deeply in the red that year, wouldn't you?

Mr. VINIAR. If we had not sold any of the long positions, yes, that would have been true.

Senator LEVIN. Yes.

Mr. VINIAR. That is why we put it on, to try to offset the long positions.

Senator LEVIN. Your Exhibit 26,[1] where you said the big short position of yours, in your own words—this is your words—"Tells you what might be happening to people who don't have the big short." Is that right? Did you say that?

Mr. VINIAR. Those—that is my email.

Senator LEVIN. And did you mean that?

Mr. VINIAR. I meant what I meant, and this is a little bit of a response to a question I heard Dr. Coburn ask before about why we always tell people to be careful with emails, because I didn't give the full thought, which is it tells you what might happen to people who have the big short—who don't have the big short when they do have a big long.

Senator LEVIN. Right.

Mr. VINIAR. This came, I believe, shortly after people had announced their second quarter results. Quite a number of people had disclosed how big their long inventory positions were, and without basically balancing those positions, there would be significant losses, which is what proved to happen across the industry.

Senator LEVIN. All right. So the big short saved your rear end?

Mr. VINIAR. The offsetting——

Senator LEVIN. As we put it in the vernacular, the big short allowed you to have a year in the black, is that——

Mr. VINIAR. What I would say is the——

Senator LEVIN. We know what you would say, but without that big short, you would not have been in the black that year. You

[1] See Exhibit No. 26, which appears in the Appendix on page 306.

would be with a whole bunch of other firms that did not go short the way you did, is that accurate?

Mr. VINIAR. Without managing our risk appropriately to largely reduce our risk in the mortgage business, we would certainly have had lower revenues than we had.

Senator LEVIN. Was your risk bias to be short?

Mr. VINIAR. Yes, it was.

Senator LEVIN. My time is up. Dr. Coburn.

Senator COBURN. Just to be clear, I have a little difference with the Chairman on the idea of shorts. What would happen to the financial markets if there was not the ability to go short against a long position?

Mr. VINIAR. I think there would be significantly less credit in the market because people would not want to take exposures to various companies, be it in mortgages, be it in credit products, be it in equities. People would have no ability to manage their risk, and so I think rather than reducing risk through offsetting longs with shorts, you just wouldn't have the longs, and so there would be much less credit provided.

Senator COBURN. And if a shareholder looked at Goldman and said, you all had the ability to go short, you had the research that said you should go short, and that you didn't go short, could they hold you liable? In other words, could somebody have a basis for a suit against Goldman if you, through your research and through managing your risk, you passed up an opportunity to improve the shareholder value of Goldman?

Mr. VINIAR. I think it is, from a risk management point of view, we actually don't tell desks ever to go short or go long, but I think our shareholders could be quite disappointed in us if we didn't use the right tools to manage our risk appropriately, and when we thought our risk was too big, to not reduce that risk, either by selling it outright or by putting on offsetting short positions.

Senator COBURN. Senator Levin asked you a question I was going to go to and you answered, yes, that you had risk bias that was short during 2007. Explain to the Subcommittee, if you would, the difference between your—and I am talking Goldman's definition of market making and proprietary trading, because that is what the SEC suit is about. That is what a lot of our inquiries are about. It is not about going short. Short is a legitimate market function.

Mr. VINIAR. Right.

Senator COBURN. But explain to us the difference between those two as you see it and as you lead this firm.

Mr. VINIAR. OK. Let me try——

Senator COBURN. OK.

Mr. VINIAR [continuing]. And it is a little bit complicated, so stop me if you want me to go in a different direction. But market making is what the great majority of what we do in our trading business is. That is, we buy things from or sell things to our customers. In doing that, we will accumulate inventories, long inventory and short inventory, and we might have a bias of what we keep and how long we keep it, which might tend to make us longer or shorter at any time. But most of those transactions start and end with our clients.

Now, it might be hard to track that inventory, so we might buy something from someone and then distribute part of it, but then buy something else that offsets it and buy something else that goes into the book, and a year later, we might still have it. And so someone might argue and say—you still have it a year later or 6 months later, so it sounds like proprietary trading, but it is not. It starts with a customer.

I distinguish that from what I would call a purely walled-off proprietary business that generally has research coverage from other Wall Street firms and really does not deal with customers, but just goes long things, short things, offsetting positions, sometimes capital structure, purely for the account of the firm, without dealing with our clients.

Senator COBURN. And that is where Mr. Birnbaum worked. He worked in strictly proprietary trading?

Mr. VINIAR. No. He worked more in a market-making business——

Senator COBURN. That is right——

Mr. VINIAR. He was buying and selling things.

Senator COBURN. That is exactly the question that I was asking him. Did you hear his testimony?

Mr. VINIAR. I heard most of it.

Senator COBURN. Does it concern you at all that his position is that, in his own self-evaluation, which Senator Levin referred to, that he was taking positions and touting himself that he was utilizing the strengths of their analysis to take positions to enhance your return on equity?

Mr. VINIAR. It is a little hard for me to comment on what he meant in his self-evaluation, but what I would view his role as is market making. So he would be buying and selling things. But he then did have discretion within the overall limits of the firm, again, of what he kept, how long he kept it, would he buy more than he sold, would he tend to keep the long risk and sell the short risk or vice-versa. So it was within a market making context, but he had a limit as to—we had an overall firm limit as to where we would go.

Senator COBURN. Well, let me ask you this, if you would. Does it make sense to you somebody would tout a philosophy that says, I am going to take advantage of the knowledge that we as a firm have and make more money for the firm, yet ignore the information in terms of the Mortgage Department, what they were seeing and how you were changing positions? Is that believable to you?

Mr. VINIAR. I don't know what Mr. Birnbaum did know, didn't know, or why he said what he said.

Senator COBURN. OK. All right. In what year did you all receive your payment from AIG? What fiscal year? The settlement on AIG, when we bailed them out. What fiscal year did you receive——

Mr. VINIAR. Are you talking about the Maiden Lane transaction? I believe that was 2008.

Senator COBURN. And that was $11 billion?

Mr. VINIAR. Well, there are several. I am just not sure which one you are talking about.

Senator COBURN. Well, in total, though, you are saying it is fiscal year 2008, you received $11 billion——

Mr. VINIAR. The number that is, if this is what you are referring to——

Senator COBURN. You give me the number. I don't care what——

Mr. VINIAR. Generally talked about is $12.9 billion——

Senator COBURN. OK.

Mr. VINIAR [continuing]. The number that he talked about in——

Senator COBURN. OK, $12.9 billion. I was trained as an accountant first, before I ever went to medical school, so you will have to pardon it.

Mr. VINIAR. Me, too.

Senator COBURN. All right. That $12.9 billion really represents revenue from 2006, doesn't it, and 2007? In other words, when did AIG go belly-up?

Mr. VINIAR. Can I describe to you the pieces of the $12.9 billion?

Senator COBURN. Well, you can, and I will give you that time, but what I am trying to get to is an accurate representation of what the positions that you bought, the insurance that you bought—that is really what AIG sold you, correct?

Mr. VINIAR. That was some of that $12.9 billion——

Senator COBURN. Yes.

Mr. VINIAR [continuing]. But not all of it.

Senator COBURN. OK. Well, whatever portion it was, in the year that it should have been paid, it wasn't. It was paid later. So that would have enhanced your revenues by a certain number of billions of dollars, is that correct?

Mr. VINIAR. No.

Senator COBURN. You didn't recognize that payoff of those insurance products to you as revenue when you got it from AIG?

Mr. VINIAR. No, we did not, because that position is marked to market. They were just basically paying us the money they owed us. But because we mark all of our positions to market, that revenue had come in already, and just so you know, those positions, again, were largely offsetting positions we had sold on the other side.

Senator COBURN. Well, I am not disputing. I have no problem with shorting. I have no problem with buying insurance, or buying puts, or selling calls. I have no problem with that. What I am trying to do is match revenues with expenses, and the point is this was an insurance product that you had marked down the real product, and when you got paid, you had to show that as either an offset to that revenue loss in what you were buying insurance for or you were showing income.

Mr. VINIAR. There was very little revenue upon the payment because all of that had gone through our books already, all of the markdowns and markups on both sides.

Senator COBURN. That is right.

Mr. VINIAR. There was very little——

Senator COBURN. Well, but if it wasn't collectable and AIG was bankrupt, there had to be a period in time when you had a material impact on your business that you had to give notice of, isn't that correct?

Mr. VINIAR. We had collateral for almost all of what they owed us, and what we didn't have collateral for, we had bought CDS protection for. So although it obviously would have been a very bad thing for the financial markets, for our direct exposure to AIG at the time, we had either collateral or CDS protection, which again was collateralized, for virtually the entire exposure we had.

Senator COBURN. So you double-insured, basically?

Mr. VINIAR. Yes, we did.

Senator COBURN. OK. And I told you I would give you an opportunity to explain the $12.9 brillion.

Mr. VINIAR. If you want me to.

Senator COBURN. Yes, I do.

Mr. VINIAR. There were three pieces to the $12.9 billion. The first and simplest to understand is what is called securities lending. Basically, they had a portfolio of highly liquid treasuries and agencies that we had financed. So they had, I believe, the number was $4.8 billion of our cash and we had $4.8 billion of their treasuries and agencies. They gave us the $4.8 billion of cash, but we gave them back the $4.8 billion of securities. So if they had not, we would have just sold them into the market because they were highly liquid, as I said, mostly treasuries and agencies.

There was $2.5 billion which was over the course of from mid-September, when the government put the money into AIG, until December, additional collateral that they owed us as markets continued to decline. So that was not a one-time payment. That came in over time.

And the last roughly $5.6 billion was in settlement of Maiden Lane, and those were where they wanted to basically tear up the cash transactions. So they gave us $5.6 billion. We took most of that. We added to that the collateral they had already given us, took most of it, gave it to the counterparty on the other side, who added to it the collateral we had given them. They gave us back the bonds and we gave the bonds back to AIG.

Senator COBURN. Exhibit 5,[1] if you would turn to that, please, this is an email from Mr. Birnbaum to Mr. Lehman.

Mr. VINIAR. Got it.

Senator COBURN. In this email, the implication is that Mr. Birnbaum felt that we should keep these positions for ourselves. Do you have any heartburn with the fact that when those kind of statements are said, that it undercuts your position on proprietary trading and mortgage-related assets?

Mr. VINIAR. Honestly, I don't know what he was referring to here. This is the first time I am seeing this.

Senator COBURN. Well, let me describe a scenario for you, and we will make it a matter of fiction rather than fact.

Mr. VINIAR. OK.

Senator COBURN. I work for you and I see a good deal, and rather than sell it to our loyal customers, I am going to keep it for us.

Mr. VINIAR. As a market maker, his responsibility is to buy and sell things, buy things from customers, sell things to them. As I said, that doesn't mean we won't keep things for some period of time and then sell them out, but largely what we want to do is distribute risk. We keep track of things. We will call aged item inventory to make sure we don't keep it too long. So if he kept it for some period of time, would it trouble me? Not necessarily. If he

[1] See Exhibit No. 5, which appears in the Appendix on page 253.

kept it for a very long period of time, would it trouble me? Yes, it would, because our job is to make markets, not to hold onto the inventory.

Senator COBURN. Your job also is to keep customers, isn't it?

Mr. VINIAR. Correct.

Senator COBURN. And if you don't have customers with which to make markets for, you are not going to do that——

Mr. VINIAR. That is correct.

Senator COBURN [continuing]. And that is why I was going that direction on that.

Mr. VINIAR. That is correct.

Senator COBURN. You heard the testimony of Mr. Sparks and other managers that urged the sales force to sell Goldman's long positions, and it comes back to the question I raised in my opening statement, about the ethics of what we are doing here. Were they selling those long positions for the benefit of the customer or for the benefit of Goldman? In other words, you had a position. Your plan was to get back to zero.

Mr. VINIAR. As close as possible.

Senator COBURN. Yes, as close as you could, and that is prudent. How do you control that from an ethical and character standpoint? How do you define the line for the people that are selling these products for you, whether it is your inventory or something you want to lessen? How do you weight off the balance, the benefit for Goldman versus the detriment for who is buying it?

Mr. VINIAR. Really, in a way, the way you do that is through pricing, and so we may or may not like the security. Someone else might like it more, and they certainly might like it at a certain price. And so it is not a view of good or bad. It is really a view of, do you think the buyer, do they think that it will go up——

Senator COBURN. What is the value and what do I think the chance——

Mr. VINIAR. What is the value? And then if we have bought something and we still have it and we want to sell it and we just think our risk is too big, we might have to cut the price and sell it at 80 cents on the dollar and the other purchaser may not think it is a great security, but they may think it is worth more than 80 cents. They may think it is worth 83 cents, which is still not 100 percent, but it is a price at which they want to buy it.

Senator COBURN. Could you answer this question for me, and maybe you can't, but I would like for you to try because it concerns a lot of us. How is it that Goldman got 100 percent payback on this collateral dispute with AIG?

Mr. VINIAR. All I can say is it was what they owed us.

Senator COBURN. Well, but typically—we didn't pay off the bond holders at GM. So how is it that Goldman got 100 percent back of what was owed from AIG when everybody else didn't?

Mr. VINIAR. I think everybody did from AIG.

Senator COBURN. Well, how is it that you all negotiated that?

Mr. VINIAR. I believe on the Maiden Lane transaction, we were sent the term sheet, which had the transaction that AIG wanted to do, which was to basically unwind those transactions at par, and we agreed to do that.

Senator COBURN. So there wasn't a negotiation between the Treasury and Goldman on the AIG collateral?

Mr. VINIAR. There was not.

Senator COBURN. OK. So they made an offer and you accepted it?

Mr. VINIAR. Correct.

Senator COBURN. All right. Thank you. I am through, Mr. Chairman.

Senator LEVIN. Senator Kaufman.

Senator KAUFMAN. Thank you, Mr. Chairman.

Mr. Viniar, let me just ask you a philosophical question. I am sitting here looking at the segment operating results and I see that in 2009——

Mr. VINIAR. Senator, can you tell me where you are looking so I can look with you?

Senator KAUFMAN. I don't think you need it. Because it is not——

Mr. VINIAR. Sure.

Senator KAUFMAN. I am not going to get into the details. I am just asking the questions. I mean, does it concern you? I mean, here is Goldman Sachs, known to be a great investment banker, the greatest, and I look at November 2007, November 2008, December 2008, and I see earnings of about $2 billion each one of those years. I look down at the trading and principal investments, and $13 billion in earning in 2007. You lost $3 billion in 2008. And you have made $17 billion in 2009. Does it concern you that more and more of your business is over in trading and less and less is in investment banking?

Mr. VINIAR. No, I wouldn't say it concerns me. I would say, first of all, the segment revenues don't reflect the value of our investment banking business because——

Senator KAUFMAN. Can you explain that?

Mr. VINIAR. Sure. Our trading and principal investing business is very much of a customer facing business. Part of that, we do with our customers based on a relationship which has developed over many years of giving them advice, and just because a transaction's revenues end up from a trade of some kind, you are making a market, doesn't mean that a good part of that value isn't from the investment banking relationship we have had for a number of years. So I think it understates their value.

The second thing I would say is the trading or principal investing business, while it is growing, is growing largely because of the strength of our customer franchise, the same type of customer relationships——

Senator KAUFMAN. No, I understand that part. I have got it. But let me put it this way. Should it concern the people on this side of the dais that one of the major engines that has driven this country for so many years is the investment banking, the ability to have IPOs, the ability to fund major corporate enterprises, and the fact that now one of, if not the biggest investment banker in America is now making money trading as opposed to doing investment banking?

Mr. VINIAR. I don't think it should concern you, because again, it is based on, largely on making markets for our clients and helping the capital markets operate, and I think that is actually a good thing for the growth of the country.

Senator KAUFMAN. To follow up on Chairman Levin's question, if you wanted to hedge your long positions, why didn't you just sell the securities and cancel or sell the CDs?

Mr. VINIAR. That is a very good question, and in some cases we did, and the best way to hedge your risk is always to sell the position outright.

Senator KAUFMAN. I mean, that seems to me—I agree with Senator Coburn. Selling short is good and all the other things, and I have done it, but what people do to hedge risk is you reach a point where you decide that your long position is risky——

Mr. VINIAR. Right.

Senator KAUFMAN [continuing]. And, as someone once said, smarter than me, the hardest thing is not the decision to buy, it is the decision to sell.

Mr. VINIAR. No question.

Senator KAUFMAN. So most people—you get into a risky position, you have a risk meeting, you say, I am in—I mean, all of us do this in our own personal investing. You say, I have got invested in Stock A, B, and C. I don't like the new earnings on it. I sell it.

Mr. VINIAR. And it is a risk-reward judgment question at the time. You look at what price you could sell that position. You make an assessment of that versus what it would cost you to put on an offsetting position, and understanding that putting on an offsetting position is never an exact hedge.

Senator KAUFMAN. Right.

Mr. VINIAR. And you do have additional risk.

Senator KAUFMAN. Right.

Mr. VINIAR. And you make the assessment of—is the price where you would have to sell that security versus the price you pay to put on the offsetting? If it is a lower price, is it enough lower that it is still worth it or not. And you make that judgment at the time. And markets at the time, if you remember, for the securities that were long, were quite illiquid, and so we made judgments that in some cases we did sell, and I think you see that over the year, we did sell some. But in some cases, we thought it was more prudent to put it on offsetting positions.

Senator KAUFMAN. Right. But illiquid really, in this case, means you didn't like the prices that things were being sold for. It is not that you couldn't go into a market. I mean, illiquid to me means I go into the market and nobody is—like happened on certain days, bad dice, in our history, we just couldn't sell it at any price. You are basically saying, I didn't want to sell it because the price was so low——

Mr. VINIAR. Correct.

Senator KAUFMAN. Right.

Mr. VINIAR. Correct, which means——

Senator KAUFMAN. And I have got that. I am just trying to figure out, but you mark to market, right?

Mr. VINIAR. Correct. So we would have marked it down, but again, that is just an assessment which sometimes proves to be right and sometimes proves to be wrong, of what the value of holding that security would be——

Senator KAUFMAN. Right.

Mr. VINIAR [continuing]. In the future, where we think it was going to go, versus what the price would be of buying an offsetting security.

Senator KAUFMAN. But you can understand why some people would be concerned. At the same time that a number of people in your business, in Goldman Sachs, were saying, this market is going south, which I think was—I happen to be one of those not Monday morning quarterbacking, but just at the time, the way I felt, and I am not—but just looking at where the housing market was in terms of where it had been historically, looking at the rental market and seeing the rental market wasn't growing, classic sign of a bubble, that—so there was incentive, kind of. I know you keep—there is an incentive here to go short. I mean, based on—especially, you get to 2007.

Let me put it this way. I personally have a hard time believing that folks as smart as you guys didn't see the housing market was having a bubble and that the idea of going short was a good decision based on prudent managers looking at a market that was clearly falling apart.

Mr. VINIAR. What I would say, again, as I have said repeatedly, is over the course of 2007, we were, for the most part, somewhat short——

Senator KAUFMAN. Yes.

Mr. VINIAR [continuing]. And that was a decision. We wanted to be more on the short side than the long side.

Senator KAUFMAN. Right.

Mr. VINIAR. But it was not large, and we didn't know where the market was going——

Senator KAUFMAN. No one ever knows where the market is going. I am just saying, at that particular point in time——

Mr. VINIAR. The other thing to remember back to 2007, it is hard to remember back then, but there was a very strong point of view, which didn't turn out to be correct, but it was very strong, that the decline was isolated to the subprime mortgage market. Again, that turned out not to be correct and different people had different views, but that was a fairly commonly held view through much of 2007, that the decline was just subprime mortgages. The rest of the mortgage market actually had not declined very much. It did later in the year. And if you remember, the equity markets actually peaked in October 2007.

Senator KAUFMAN. Yes. No, I agree with that.

Mr. VINIAR. For most of that year, there was a lot of bullishness still in the market——

Senator KAUFMAN. Right.

Mr. VINIAR [continuing]. Other than the subprime mortgage market.

Senator KAUFMAN. Right. But you could have sold the long, dealt with it that way, without going short. And the reason I think we all keep coming back to this is because it really is hard for me to see—I mean, there is a clear conflict of interest, right, when you have a client out there in a position that you put him in and you are at the same time selling that position short. I am not saying it is bad. I am just saying it is a conflict of interest, isn't it?

Mr. VINIAR. Not necessarily.

Senator KAUFMAN. No, I am not saying necessarily. I am just saying, in general, if you are selling a client something long, you are saying to the client—it is still time to buy RMBSs and we are selling them to you. And at the same time, you are going short. I think that just causes concern. I am not saying it is bad. I am not saying it is illegal. I am not saying anything else. I am just saying it just seems to me that it is a tough conflict of interest that you probably have to deal with every day, and that is——

Mr. VINIAR. I actually don't view it as a conflict because we change—when we sell someone a security, their investment horizon is generally a fairly long time.

Senator KAUFMAN. Right.

Mr. VINIAR. We make decisions on a bias on where we want our risk to be, that could be a very short-term decision. It could change in the next day.

Senator KAUFMAN. Right.

Mr. VINIAR. And so what we do when we sell someone a security is we make sure we fully disclose to them what they are buying, what the risks are, and then they make their investment decisions over whatever time——

Senator KAUFMAN. But you were selling these mortgage-backed securities during this whole period. I am not talking about just buy and hold. I am talking about the day after you sold something short, you then were selling something long.

Mr. VINIAR. I am not sure I——

Senator KAUFMAN. I mean, to clients, not for your own account.

Mr. VINIAR. I am not sure I know, individual securities, what we bought, what we sold.

Senator KAUFMAN. So you just stopped selling these mortgage-backed securities when you started to go short?

Mr. VINIAR. No. We were still selling things, but again, as I said to Dr. Coburn, that just depends on the prices you sell it——

Senator KAUFMAN. I have got it——

Mr. VINIAR [continuing]. And if somebody thinks it is a good investment.

Senator KAUFMAN. I am not saying there is anything wrong. I am just saying, just to me, if I am selling things short and the same day or the next day I am selling a client a long, that just seems to me there is a conflict in there. Whether it is resolved or not, or how it is resolved, but it just seems to me that is a tough call in terms of what is your—which we got into in the earlier panel. What is my responsibility to my client?

And I know you used—and everyone does—this kind of, well, they are all big boys and they all are investing long and they know what they are doing. But that, to me, doesn't—and while I think that is true in many cases, that still doesn't rule out the fact that you are doing one thing for yourself at the same time you are doing something to one of your clients.

Mr. VINIAR. I don't view it that way——

Senator KAUFMAN. OK.

Mr. VINIAR [continuing]. Because our positions change quite often.

Senator KAUFMAN. We can just agree to disagree.

Mr. VINIAR. OK.

Senator KAUFMAN. Have you heard about the Lehman Brothers use of so-called Repo 105s?

Mr. VINIAR. I have heard about it, yes. I have read about it.

Senator KAUFMAN. And what is your understanding of these transactions?

Mr. VINIAR. Only from what I read in the newspaper——

Senator KAUFMAN. Right.

Mr. VINIAR [continuing]. That they treated things as sells that were going to come back on the balance sheet. I don't know the details——

Senator KAUFMAN. Right. And why would they be doing that?

Mr. VINIAR. I don't——

Senator KAUFMAN. You don't know. OK. I think the best way to explain it, there was Lehman structures repo agreements to mask its true net leverage ratio through an accounting device known as Repo 105s, whereby it raised cash and repo transactions by selling assets that were 105 percent or more of the cash received, allowing it to treat them as a sale rather than financing. As explained by the *New York Times* Deal Book, that meant there were a few days, and by the fourth quarter of 2007, that meant end-of-the-quarter, Lehman could shuffle off tens of billions of dollars in assets to appear more financially healthy than it really was. What do you think about that? Not from Lehman Brothers, what do you think about the concept as reported by Deal Book?

Mr. VINIAR. I think as far as Lehman Brothers, it is a better question for them——

Senator KAUFMAN. OK. Suppose there was a firm out there, and we are not talking about Lehman Brothers—or let me put it this way. Would Goldman Sachs ever do something like this?

Mr. VINIAR. No. We did none of those transactions.

Senator KAUFMAN. So you can say here that Goldman Sachs never engaged in a transaction near a quarter's end to improve its balance sheet?

Mr. VINIAR. We never engaged in Repo 105 transactions.

Senator KAUFMAN. No. I am asking——

Mr. VINIAR. Anything we did near quarter end, if we took something off our balance sheet, it was because we sold it.

Senator KAUFMAN. But I am just saying, you never—so, therefore, you never engaged in a transaction near the quarter's end to improve its balance sheet for investor reporting purposes?

Mr. VINIAR. We would do transactions at quarter end where we would sell things.

Senator KAUFMAN. Right.

Mr. VINIAR. Then we had risk. We couldn't buy them back. We would do other transactions in other quarters where we would buy things.

Senator KAUFMAN. And do you know how many transactions that you did at the end of the quarter that at the beginning of the next quarter you bought them back again or sold them again?

Mr. VINIAR. I am sure we had transactions that we sold and bought back and then sold again.

Senator KAUFMAN. No, but I mean——

Mr. VINIAR. I am sure we had both.

Senator KAUFMAN [continuing]. In order to make the quarterly report——

Mr. VINIAR. Everything was disclosed. Everything we did, we disclosed. End of quarter, we disclosed quarterly average. We disclosed all of those numbers. So anyone can see what we have at any point in time.

Senator KAUFMAN. So essentially you never moved things on or off the balance sheet——

Mr. VINIAR. In order to dress up our balance sheet? No.

Senator KAUFMAN. OK. Thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator Kaufman. Senator Ensign.

Senator ENSIGN. Thank you, Mr. Chairman.

Just how well do you understand all of the various financial instruments that Goldman Sachs was offering, the CDOs, CDSs, all of those things?

Mr. VINIAR. I am far from an expert in all of the individual transactions.

Senator ENSIGN. But you understand basically how they work?

Mr. VINIAR. At the highest levels. You had the experts here this morning.

Senator ENSIGN. OK. Do you feel at all that—we asked this question of the panel this morning—whether Goldman Sachs was partially responsible, largely responsible, or had no responsibility in the financial collapse of the United States?

Mr. VINIAR. I think Goldman Sachs is a major player in the world financial markets. The financial markets, I believe, got overlevered. I think lending standards declined.

Senator ENSIGN. Do you feel that Goldman Sachs has any responsibility, not blame——

Mr. VINIAR. Yes, I——

Senator ENSIGN [continuing]. I am talking about blame in the financial collapse of the United States.

Mr. VINIAR. I believe that we share responsibility because we are a major player in those markets and we participated in those——

Senator ENSIGN. I appreciate you taking the responsibility, because this morning's panel would not.

Mr. VINIAR. No, I believe——

Senator ENSIGN. I want to follow along the lines of questioning I asked this morning. And this gets to the rating agencies and what they were doing. Do you understanding the modeling that they were taking these, not necessarily exact modeling, but do you understand that they were taking, for instance, these BBB tranches, repackaging, and then re-rating them as AAAs?

Mr. VINIAR. No. I know nothing about——

Senator ENSIGN. Are you aware of anybody at Goldman Sachs who was talking? Were you aware of your folks talking to the credit rating agencies to try to convince them and basically kind of sell them, here is why it shouldn't be a BBB, here is why it should be a AAA?

Mr. VINIAR. I know that the transactions were rated. I wouldn't know who had those conversations, what they said. My only conversation with the rating agencies concerned the ratings of Goldman Sachs itself.

Senator ENSIGN. And so you had no knowledge of anybody at Goldman Sachs doing that type of, basically, lobbying with the credit rating agencies?

Mr. VINIAR. I did not.

Senator ENSIGN. Are you familiar with who Steve Eisman is?

Mr. VINIAR. Yes.

Senator ENSIGN. Or have you ever perused through the book, "The Big Short," by Michael Lewis?

Mr. VINIAR. I have not.

Senator ENSIGN. Are you familiar with it?

Mr. VINIAR. I am familiar with it——

Senator ENSIGN. I just want to——

Mr. VINIAR. I have not read any of it.

Senator ENSIGN. Because I think this goes to one of the—when you said you had responsibility, I am glad you said that Goldman Sachs actually does have some responsibility. This is kind of an explanation of some of what was happening in the financial markets. According to Steve Eisman, Goldman Sachs and Deutsche Bank, on the fate of the BBB tranche of subprime mortgage-backed bonds without fully understanding why those firms were so eager to accept them. He didn't know at the time. Later, he figured, at least he thinks he figured it out.

The credit default swaps filtered through the CDOs were used to replicate bonds backed by actual home loans. "There weren't enough Americans," and I am quoting here, so excuse the language, "there weren't enough Americans with shi**y credit ratings taking out loans to satisfy investors' appetite for the end product. Wall Street needed his bets in order to synthesize more of them. 'They weren't satisfied getting lots of unqualified borrowers to borrow money to buy a house they couldn't afford,' said Eisman. They were creating them out of whole cloth, 100 times over. That is why the losses in the financial system are so much greater than the subprime loans."

The premise that, or at least what his analysis was of the reason that it became—even though the subprime market itself was bad, the collapse of that market wouldn't have been nearly as bad for the entire rest of the economy if it wasn't for a lot of the synthetic instruments that were created by firms like Goldman Sachs and others. Would you agree with that statement?

Mr. VINIAR. I don't know what he meant or anything, but——

Senator ENSIGN. The statement that I made, would you agree with that statement?

Mr. VINIAR. Just the math is, anytime you have something that declines in value that is levered, it adds to more losses. So that would be the case for anything that declines in value if it has leverage to it.

Senator ENSIGN. We are dealing with financial regulatory reform right now, and obviously it is a hot political debate up here. From the inside, what would you do as far as the changes in regulation, not that addresses out there in Main Street, but just address Wall Street. What would some of your big recommendations be to the U.S. Congress?

Mr. VINIAR. Well, some of the things, and I am an internal guy. I mean, I worried about Goldman Sachs and its finances, and I——

Senator ENSIGN. But at the same time, you said you took responsibility, Goldman Sachs.

Mr. VINIAR. Absolutely.

Senator ENSIGN. You don't want to be part of the next financial collapse.

Mr. VINIAR. Correct.

Senator ENSIGN. Being an insider, help us with at least your advice. We don't have to take it, but we can at least evaluate it, what we are doing right now. Because the one thing I do know is the Congress doesn't have enough expertise to draft this law right now.

Mr. VINIAR. What I would say is that a couple of places that I think are important to focus on, I think that if you look around financial institutions, the thing that tends to cause more problems than anything are liquidity problems within the institutions, and I think more stringent liquidity requirements for financial institutions would be important.

And the second thing, I think it is pretty clear that we need higher capital charges for less-liquid assets, because I think holding less-liquid assets was one of the things that got firms in trouble. They didn't have enough capital against them. So those would be two things that I would tell you should be part of any regulation.

Senator ENSIGN. What about the relationship between the credit rating agencies and those of you on Wall Street as far as how cozy it seems to have been, because you guys pay their bills and——

Mr. VINIAR. I don't have a view on that.

Senator ENSIGN. OK. Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator Ensign.

Mr. Broderick, the Subcommittee staff prepared a chart on VaR.[1] [Exhibit 164]. And between December 2006 and 2007, the VaR, the measure of risk, was almost continuously over the Mortgage Department's permanent limit. Do you remember that?

Mr. BRODERICK. Yes, I do.

Senator LEVIN. And it peaks at or near 100 VaR, above the limit. Is that something that you approved?

Mr. BRODERICK. It is something that the firm-wide risk committee approved on an exception basis, on an ongoing basis, yes.

Senator LEVIN. Well, all year, they were over your permanent limit. They were hugely over it. At one point, they had the majority of your risk tied up just in that one department, did they not? Were they at 56 percent of your VaR at one point?

Mr. BRODERICK. I would have to look at the figures precisely, but——

Senator LEVIN. Well, approximately. Were they at a huge percentage of your total firm VaR at one point?

Mr. BRODERICK. They were a large percent, but Mr. Chairman, let me just make one point, which is that the numbers may well not include the effect diversification, which is to say when you add the individual product by product areas, you get a number that is in excess of the total firm-wide VaR because firm-wide VaR gives effect to diversification. So that would tend to understate the—or, rather, overstate the impact of mortgage VaR specifically. But the

[1] See Exhibit No. 164, which appears in the Appendix on page 1010.

general point you are making is entirely right, which is this was a large percent of the firm's VaR, certainly much larger than it had been historically.

Senator LEVIN. And the short positions that they were taking during that year were the major contribution to that, is that correct?

Mr. BRODERICK. To the mortgage VaR, yes.

Senator LEVIN. To the high mortgage VaR, is that what you said?

Mr. BRODERICK. Yes, that is correct.

Senator LEVIN. The Mortgage Department's contribution to that firm-wide VaR is shown over here. Take a look at Exhibit 35,[1] if you would.

Mr. BRODERICK. OK.

Senator LEVIN. Do you see it?

Mr. BRODERICK. Yes.

Senator LEVIN. OK. The percentage of contribution to the firm-wide VaR was shown in that exhibit at 53.8 percent for mortgage structured products, is that correct?

Mr. BRODERICK. Yes. I believe that is the—I am not positive about this, but I think this relates to the entire mortgage group at the time this report was presented.

Senator LEVIN. Well, this report was a Goldman report, right?

Mr. BRODERICK. Yes.

Senator LEVIN. It says, mortgage structured products, 53.8 percent of the firm-wide VaR.

Mr. BRODERICK. Right.

Senator LEVIN. And that, you agreed already, was a result of their significant short position, is that correct?

Mr. BRODERICK. The mortgage VaR was being driven primarily by the short positions at this time, yes.

Senator LEVIN. All right. Now, if you look at Exhibit 48,[2] this is a presentation which I believe you gave to the Goldman Tax Department in October 2007. Does that look familiar to you?

Mr. BRODERICK. Yes, it does.

Senator LEVIN. OK. Take a look at page 2, the fourth full paragraph. I am going to read it to you. "So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk - you saw in our 2nd and 3rd qtr results that we made money despite our inherently long cash positions. - because starting early in '07 our mortgage trading desk started putting on big short positions,"—big short positions—"mostly using the ABX index, which is a family of indicies designed to replicate cash bonds. And did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today)" Was that accurate when you wrote it?

Mr. BRODERICK. Yes, it was accurate.

Senator LEVIN. OK. I think that is a pretty good description of what happened.

Now let me go back to you, Mr. Viniar. I do have a problem with taking a short position on a security that you are selling to your

[1] See Exhibit No. 35, which appears in the Appendix on page 320.
[2] See Exhibit No. 48, which appears in the Appendix on page 376.

customer. You can say, and I am sure it is true, that positions change all the time. That is your answer about the conflict of interest. You are selling a security—you are holding out a security to a customer, and at the same time have decided and are in a short position, and you are going to take the opposite position from your own customer.

Now, you can say that your position might change. I am talking about at the time you are selling that security to that customer. Do you think that a customer has a right to believe that you want that security to succeed?

Mr. VINIAR. I think that a customer has a right to believe that we—it is not a question of succeeding or not succeeding——

Senator LEVIN. Yes, that is my question. You can say it is not the question. I am saying, from a customer's perspective, when you hold out securities to sell to a customer, do you think that a customer has a right to believe that you, Goldman Sachs, would like to see that security succeed?

Mr. VINIAR. I am not sure what succeed actually means, because when customers——

Senator LEVIN. That it would be a good security for them to invest in.

Mr. VINIAR. That customer thinks that the——

Senator LEVIN. No, not the customer thinks——

Mr. VINIAR [continuing]. Value of the security will go up.

Senator LEVIN. No.

Mr. VINIAR. I don't think——

Senator LEVIN. I am asking, does that customer have a right to believe that you, Goldman Sachs, when you are selling something, believe that that is a solid security?

Mr. VINIAR. Does that customer have a right to believe that——

Senator LEVIN. To assume——

Mr. VINIAR [continuing]. We think the value will go up——

Senator LEVIN. No.

Mr. VINIAR [continuing]. In that security?

Senator LEVIN. No.

Mr. VINIAR. Because that is——

Senator LEVIN. No. I am asking you whether or not—you put your name on that security. You have got Goldman Sachs. You are selling it.

Mr. VINIAR. Yes.

Senator LEVIN. Do you think that a customer has a right to assume that you would like to see that security succeed? That is my question. Look, put yourself in the customer's mind. Do you think that the customer has a right to assume that when you put your imprimatur on a security, that you, Goldman Sachs, would like to see that security pay off?

Mr. VINIAR. I think when we sell securities to customers, we don't necessarily have a view that they are going to go up or down in value——

Senator LEVIN. I am not asking you that.

Mr. VINIAR. So I am not sure what succeed—I am sorry, Senator. I am not trying to not answer your question.

Senator LEVIN. That you——

Mr. VINIAR. I am not sure what you mean by succeed.

Senator LEVIN. That you are holding out something to them because you think this would be something good, that it is good, it is secure. It is not insecure, it is secure.

Mr. VINIAR. When we sell to them——

Senator LEVIN. I am going to keep using that word, because I want you to understand what is in the customers' minds, that you don't think it is junk. You don't think it is crap. You don't think it is shi**y.

Mr. VINIAR. Well, it depends on how you mean that. We might——

Senator LEVIN. How I mean it? These are your employees who believe it.

Mr. VINIAR. Can I explain? If we sell something to a client, a customer, let us just say we have owned it and we sell it to them at 20 cents on the dollar. They buy it at 20 cents. It doesn't mean we think it is a terrific piece of paper, but they think it is worth more than 20 cents. Clearly, we think——

Senator LEVIN. If your employee thinks that it is crap, that it is a shi**y deal, do you think that Goldman Sachs ought to be selling that to customers, and when you were on the short side betting against it? I think it is a very clear conflict of interest and I think we have got to deal with it. Now, you don't, apparently.

Mr. VINIAR. I do not necessarily think that is——

Senator LEVIN. And when you heard that your employees in these emails and looking at these deals said, "God, what a shi**y deal," "God, what a piece of crap," when you hear your own employees or read about those in emails, do you feel anything?

Mr. VINIAR. I think that is very unfortunate to have on email. [Laughter].

Senator LEVIN. On email?

Mr. VINIAR. Please don't take that the wrong way.

Senator LEVIN. How about feeling that way?

Mr. VINIAR. I think it is very unfortunate for anyone to have said that in any form.

Senator LEVIN. How about to believe that and sell it?

Mr. VINIAR. I think that is unfortunate, as well.

Senator LEVIN. No, that is what you should have started with.

Mr. VINIAR. You are correct. It is.

Senator LEVIN. We are going to stand adjourned for 10 minutes because we have a vote on.

[Recess.]

Senator COBURN [presiding]. Our hearing will resume. Senator Levin will be back and I will yield back to him when he comes.

Mr. Viniar, I am reading a risk factor sheet on the Gray Wolf prospectus and I would just like for you—this is Exhibit 99a.[1] It is page 23. It is probably standard boilerplate, but I want to read it to you and get your reaction in light of Monday morning quarterbacking, all right? And I am all the way down to the next-to-last paragraph.

"The obligations of the Collateral Manager to the issuer are not exclusive. The Collateral Manager and its affiliates may have other clients—"

[1] See Exhibit No. 99a, which appears in the Appendix on page 614.

Mr. VINIAR. Excuse me, Dr. Coburn. I am sorry. Which page of this again?

Senator COBURN. It is page 23.

Mr. VINIAR. Thank you.

Senator COBURN. "The Collateral Manager and its affiliates may have other clients, including certain holders of any class of notes, which may invest, directly or indirectly, in the same or similar securities or financial instruments as those in which the issuer invests or that would be appropriate for the inclusion in the issuer's holdings."

And then the final paragraph, "The Collateral Manager may make investment decisions for other clients and for affiliates that may be different from those made by the Collateral Manager on behalf of the issuer."

Are you telling people by that disclaimer that you may sell them something long and then go short against it?

Mr. VINIAR. I mean——

Senator COBURN. What is the purpose of that disclaimer?

Mr. VINIAR. I am just not familiar with this document or this disclaimer.

Senator COBURN. It is pretty well covered in almost everything you all have written, that same disclaimer. What does it say to you? You are an accountant, not a lawyer, and neither am I, but what does that say to you? Because you are telling people in this prospectus that you may sell to other clients or affiliates, which means your own business, that you may take a position opposite of that, correct?

Mr. VINIAR. That is what it says.

Senator COBURN. That is what it says. OK. I just wanted to clarify that.

Now, I want to go back to something I asked the young man on panel one, which was associated with is there a policy at Goldman about directing conversations through corporate email and limiting those to things that should not be put in email? Is there a policy?

Mr. VINIAR. There is no policy that I am aware of.

Senator COBURN. All right. Thank you.

Mr. Broderick, I want to spend some time with you, if I may. Would you go to Exhibit 63, please.[1] I will just read it, if you have found it. This is from Patrick Welch to you, Mike Dinias, Robert Berry, Lee Hemphill, Wildermuth, and I guess that is Rapfogel.

"Craig, I realize this may be too late, but two comments: Just fyi not for the memo, my understanding is that the desk is no longer buying subprime. (We are low balling on bids.)" Why would this be excluded from the memo?

Mr. BRODERICK. I don't think that it implies that it was excluded from the memo. He just is referencing the fact that his comments may be too late for inclusion in the memo, but it doesn't actually say whether it was in the memo or not.

Senator COBURN. OK, but the point is the desk was no longer buying subprime, and you knew that.

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[1] See Exhibit No. 63, which appears in the Appendix on page 477.

Mr. BRODERICK. It says the desk is bidding lower than it would otherwise do with the effect of not certainly being aggressive as they were.

Senator COBURN. OK. Which desk does that email refer to? Who are they talking about?

Mr. BRODERICK. It does not specify, but it was one of the desks within the mortgage——

Senator COBURN. One of the desks that would buy subprime mortgages, correct?

Mr. BRODERICK. Yes.

Senator COBURN. And who is Patrick Welch?

Mr. BRODERICK. He is a gentleman in our credit function.

Senator COBURN. Does he work within the mortgage——

Mr. BRODERICK. No. He works in the——

Senator COBURN. He works within the risk management——

Mr. BRODERICK. He works within the risk management group.

Senator COBURN. OK. Who do you think they were lowballing on bids, clients or customers?

Mr. BRODERICK. These would have been clients from whom we buy mortgage product, subprime——

Senator COBURN. And then packaged and—OK.

Mr. BRODERICK. Right. But lowballing in this case is not a bidding less than fair or anything——

Senator COBURN. No. It is just saying you are going low so it is not as attractive for them to bring them to you and they will bring them to somebody else.

Mr. BRODERICK. And they will bring them to someone else.

Senator COBURN. Understand. I have no criticism for that and I am not making any judgment on it.

What happened, in your opinion, in the March time frame for your company to make the determination to no longer buy subprime? You are a risk manager. You are involved in that thought and decision making and research. What happened?

Mr. BRODERICK. This was entirely consistent with the strategy that—with the direction provided by David Viniar and other senior managers of the firm that we be less long in our mortgage business generally.

Senator COBURN. OK. But as a risk manager, what are the inciting events for them to do that? You are sitting there looking at it as a risk manager. What caused them to make that turn? Was it, as testified in the first panel, we started seeing a deceleration and an increase in housing prices, or we started seeing subprimes not performing? What was it that led to that conclusion within your firm?

Mr. BRODERICK. Well, the meeting itself was chaired, and in fact initiated, by Mr. Viniar, so——

Senator COBURN. He was seeing daily losses, I know from his testimony——

Mr. BRODERICK. I mean, that is the feedback that we had, as well, which was that this was a business that had long been, a small but relatively stable part of the Goldman portfolio of businesses. We went into it willingly on the basis of low risk and comparatively low return. We thought we understood the risks pretty well. And therefore, when we started seeing, as Mr. Viniar has talked about in his opening remarks, when we started seeing profit volatility in excess of that which we would normally expect to see, it just raised in our mind the question that maybe we didn't thoroughly understand what was going on in the market and therefore maybe we should start getting shorter, and——

Senator COBURN. Can you give me, and for the benefit of those listening, can you give me another scenario in the past 5 years where Goldman has seen the same kind of thing happen in some other product that they handled, where you are looking like you are going to have to mark to market and you are seeing this decline? Can either of you give another example so that people can see that this is not a single event, that it is a multiple event?

Mr. VINIAR. Sure. The same thing happened with leveraged loans in 2008. We were long in many leveraged loans, unfortunately, and the market clearly started to decline. We were marking things to market. We were marking them down and we sold them. We sold some at prices that people who bought them that continued to go down, and we sold some at distressed prices and since then they have recovered and they have made money on them. But we just felt our risk was just too big and our instructions were that we should reduce our risk, because that market was in very—ended up in severe distress.

Senator COBURN. Now, there are some significant risk factors going on in commercial real estate. Do you all have big holdings in commercial real estate mortgages?

Mr. VINIAR. They are not that big anymore. We have either marked them——

Senator COBURN. You have gotten close to home on that?

Mr. VINIAR. Not as close as we would have liked, but a lot closer than we were.

Senator COBURN. OK. And were there collateralized debt obligations on these, and were there mortgage-backed securities on these, as well?

Mr. BRODERICK. Yes, there were.

Senator COBURN. Was it to the same extent that you had involvement in those as you had in the residential mortgage?

Mr. BRODERICK. I don't know precisely what the numbers are, but we were active in——

Senator COBURN. In both markets?

Mr. BRODERICK. We were active in both markets.

Senator COBURN. OK. Thank you.

Mr. BRODERICK. Multi-small sector CDOs were very often included commercial mortgage-backed securities.

Senator COBURN. Mr. Broderick, do you think, or do feel any of the CDOs or the Abacus transaction had any reputational risk for Goldman?

Mr. BRODERICK. Do I think that Abacus had any reputational risk for Goldman? With the benefit of hindsight, one version certainly did.

Senator COBURN. The last——

Mr. BRODERICK. The ACA 2007, yes.

Senator COBURN. All right. How about any of the CDOs?

Mr. BRODERICK. We structured these products very carefully. We structured them with the best of intent. They accurately, I think, reflected in terms of disclosure and so forth, the underlying assets in the portfolios. They were purchased by sophisticated investors who had a great deal of detail on the underlying securities that went into them, the underlying assets that went into them. I think they performed in a manner consistent with that which the market itself performed.

Senator COBURN. OK. Earlier, Senator Ensign asked the first panel about whether or not they thought the motivational system of payment based on year-end bonuses, production, etc., led to a less than ethical—or compromised an ethical position. I would just like for you to comment for a minute, what is the ethical creed of Goldman Sachs? How is it manifested? How does the Board look at ethics? Do they have an Ethics Department? Is there an Ethics Department that actually manifests those standards among the Goldman employees, and if not, why not?

Mr. VINIAR. You asked a lot of questions there, Senator, but we care very much about ethics at Goldman Sachs and we don't believe in any way, shape, or form that our compensation is not consistent with people having good ethical standards. In fact, just the opposite, and I think some people on our panel said that this morning.

When we look at people's reviews, our year-end review—you looked at just a self-evaluation, but if you looked at the evaluation of our people, what we call a 360-degree review that everybody at Goldman Sachs has, it is not just commercial production. There are questions in there that are asked to people in their department, outside their department, senior and junior, about leadership, culture, values, diversity, their ethical standards, etc. And if people do not do well there, something would happen between their compensation being reduced and them no longer being at Goldman Sachs. So we pay a lot of attention to that and we care very deeply about it.

Senator COBURN. Is there a Board process that leads on that? What are the standards? If I go to work for Goldman Sachs, what am I going to hear about ethics when I am hired?

Mr. VINIAR. You will get the Goldman Sachs Business Principles, which everybody gets, which are 14 business principles that we live by. You will have training. You will have orientation. You will have many different venues in which we will talk about what is expected of you, and that will not just happen when you join Goldman Sachs. That will happen when you get promoted. If you are a managing director, there will be training where that is discussed. So it happens throughout your career at Goldman Sachs.

Senator COBURN. Looking backwards at Abacus, would you feel that the system worked for Abacus? Do you think there is any ethical question that can be raised on Abacus? Could a non-biased person look at the facts and raise an ethical question about that deal?

Mr. VINIAR. I am not sure I am non-biased.

Senator COBURN. Well, I am not saying you are. You should be biased for Goldman. I understand it. But could a non-biased look at the facts as you see them and say there is a question of unethical behavior here?

Mr. VINIAR. I don't believe so.

Senator COBURN. You don't think so?

Mr. VINIAR. I don't believe so.

Senator COBURN. Do you think it was ethical for Goldman to release all the personal emails of Mr. Tourre?

Mr. VINIAR. I have no view. I don't think it was unethical.

Senator COBURN. You don't think it is unethical?

Mr. VINIAR. No.

Senator COBURN. OK. Did you release any of the other personal emails on any of the other people who have testified before this Subcommittee?

Mr. VINIAR. I don't know.

Senator COBURN. I haven't seen them.

I will yield to the Chairman, because I am fine. I am doing well.

Mr. VINIAR. Chairman Levin, can I just address the answer to the last question you asked before you left——

Senator LEVIN [presiding]. Sure.

Mr. VINIAR [continuing]. Because I want to just make clear what I said to you at the end, which is that I think you were 100 percent correct in what you said to me, how I should have phrased that, that I should have started with, yes, I feel bad that anyone would have thought that at all, not just whether they wrote it or put it on email. So I just want to clarify that and repeat it again, because once again, you were 100 percent correct.

Senator LEVIN. I would have hoped you would have said you were appalled as your first reaction. I would have just hoped that you would have said, as someone who holds yourself out to customers, that it was appalling when you heard about that.

The only other question that I have for you, and this goes to something which my friend, Dr. Coburn, said about short sales, there is a place for short sales. I happen to agree with that. My problem comes particularly where you are selling a security to someone, particularly when it is described as your employees described it, and we have gone into that as to their description of some of those sales, and at the same time, you are betting against it. You are going short. That does seem to me to be a very clear conflict, where it is your intention to hold a short position on a security where you are selling it to a customer. That is not a temporary position, and I know positions change. I understand that.

The second thing which I am troubled by in this area the big picture is that I have difficulty when a firm such as yours, has a strategic position to basically invest against the market, to bet against the market, and to be selling securities that are long in the same market. I have a problem with that, but that is a hard issue to resolve.

But if it comes to specific securities, particularly described as your employees describe some of these that they were selling, going short and intending to keep a short position, to bet against the securities that you are selling, does, to me, create a conflict unless you disclose to your customer that you are, in fact, taking a short position, not temporarily, not as a market maker, but that is your proprietary position.

But there is another area where I think there has been a real difficulty displayed today and that is when I went into the subject with the first panel about a customer saying on the phone to you, you are holding out a security to a customer to buy and the customer says, how can you get comfortable with that deal given the fact that New Century, which was known as a very dubious supplier of these mortgages, it has all the New Century collateral?

Now, in that case, there was a big problem because your people were asked a question, a direct question. How can you get comfortable? The answer to that question is, you weren't comfortable because you were going short. Instead, they kept trying to sell that security. That seems to me to be misleading, as well.

Senator COBURN. Can I jump in here?

Senator LEVIN. Yes.

Senator COBURN. I have a couple of questions for you. We have a proposed fix-it bill for financial regulation, and based on what you have heard and seen, do you have an opinion on whether that will solve some of the problems that led to the financial situation that this country has faced over the last 2½ years?

Mr. VINIAR. We, as a firm, are generally supportive of financial regulation and I think there are some things in the bill that will fix some of the problems, but I don't think it addresses some of the other problems.

Senator COBURN. Do you think that the Federal Government ought to fix the problems with Fannie Mae and Freddie Mac?

Mr. VINIAR. I don't know enough to answer that.

Senator COBURN. They have got about a trillion dollars worth of taxpayer money right now, all of it at risk, and one of the leading causes for over-speculation in the housing market, and you don't have an opinion on it? I mean, I don't want to get you in trouble with whoever your friends are around here, but the point is, we need to fix the real problems, not the symptoms, and you don't have an opinion on whether we ought to address the issues with Fannie Mae and Freddie Mac?

Mr. VINIAR. Not really.

Senator COBURN. OK. Thank you.

Senator LEVIN. I have one more question. The firm claims that your clients come first, and we have seen many, too many instances today where that has not been the case, where you put Goldman's interest ahead of your clients, selling securities that you had real doubts about, betting against those same securities, taking a short position which your client wanted but you said, we will save that for ourselves.

Your first business principle, according to your Exhibit 58,[1] is, "Our clients' interests always come first," and they don't. There is a conflict of interest in many cases where you put your own interests first. You are selling stuff out of your inventory which you call cats and dogs and you call bad lemons. So the conflict of interest issue and the fact that you don't always put your client first, you put your own firm's proprietary interests first in many cases, kind of goes to the heart of the conflict.

It is similar to the conflict which exists with those credit rating agencies. We can kind of talk about examples of the conflict, but at the heart of it is the problem that they are paid to give credit ratings by the people whose securities they are rating, and that means there is pressure on them to put AAA ratings on them. We

[1] See Exhibit No. 58, which appears in the Appendix on page 466.

went into that at our third hearing. And there is an inherent conflict of interest there, as well.

So that is the area that I am most interested in in terms of the legislation, to strengthen it in the conflicts of interest area, where I think there is room to be strengthened. I now want to yield to Senator Pryor before we excuse this panel.

Senator PRYOR. Thank you, Mr. Chairman, and I would like to really follow up with where you left off, and that is on the conflict of interest question. I guess really the question for Goldman Sachs is, are there times in which you recognize a conflict?

Mr. VINIAR. I am not sure what you mean by recognize a conflict.

Senator PRYOR. Well, I think for most Americans, when they understand that you create a market and then you also are playing in that market and you have clients that you are enticing into that market, it seems to me that is an area that is rife for conflicts of interest, because you want the market to be successful. You are charging fees. You may be advising clients. But your interests may be different than the clients' interest because you may be in a different position, like the previous panel said. So do you recognize that as a conflict of interest?

Mr. VINIAR. I am not sure I am answering your question, but we try to resolve conflicts all the time at Goldman Sachs. We, for example, could have two clients who want to buy the same company and they will both ask us to represent them. That is a conflict. We will have to resolve it. We could have a seller and a buyer who ask us. That is a conflict. We could have a situation where there is a company—a client who wants to buy something and our merchant bank wants to buy it, as well. We will have to decide principal versus franchise, and almost every time we will choose the franchise over the principal.

So we wrestle with these all the time. We try our best to resolve them and make the right judgment, putting our clients first.

Senator PRYOR. But when it comes to doing something like selling CDOs, do you see any conflict there, or do you just see that as a function of the market?

Mr. VINIAR. We generally try to create products that our customers want to buy and sell them to them at prices that they think are attractive and that they think will be profitable for them.

Senator PRYOR. So, in other words, in the CDO market, you didn't see any conflicts there?

Mr. VINIAR. Not that I am aware of.

Senator PRYOR. OK. We haven't really talked a whole lot about credit rating agency reform. I know Senator Levin just mentioned the fact that I think the credit rating agencies, they played a role in all this, as well. I have actually had a bill here in the Senate to reform them. But regardless of that, do you think that there are reforms that should be made with the credit rating business?

Mr. VINIAR. My interaction with credit rating agencies is basically limited to when they rate Goldman Sachs, and I think that process works pretty well. So I am just not close enough to the rest of it.

Senator PRYOR. And, in general terms, what is Goldman Sachs' relationship with credit rating agencies?

Mr. VINIAR. We have a multi-faceted relationship. We have, of course, the relationship where they rate us.

Senator PRYOR. Right.

Mr. VINIAR. So they rate Goldman Sachs. They will rate securities, as we have talked about this morning, that we create and structure. And they also rate securities of our clients. So we will work with our clients to help individual corporations get ratings on the securities. Sometimes, clients who have not been rated before need help and advice in going to rating agencies and so we will help them and advise them, as well. So it is multi-faceted.

Senator PRYOR. And as part of your multi-faceted relationship with them, are there circumstances in which you pay them fees?

Mr. VINIAR. Well, I know we pay them for sure when they rate our own securities, so if Goldman Sachs issues debt, we have to pay a fee for the rating on that. And, Craig, I believe there are some other circumstances where, if they are rating a security we create, sometimes it comes out of the transaction. Sometimes we as structurer will pay them.

Senator PRYOR. And does that present any conflicts of interest in your mind?

Mr. VINIAR. I am not sure.

Senator PRYOR. Tell me what you mean, you are not sure.

Mr. VINIAR. There is an argument you are making that if the issuer of securities is paying the rating agencies, then there could be a conflict, as opposed to the purchaser of securities. So there is an argument on both sides of that.

Senator PRYOR. Mr. Broderick, did you want to comment on any potential conflicts of interest with the credit rating agencies?

Mr. BRODERICK. No. I think Mr. Viniar addressed it exactly as I would have.

Senator PRYOR. Let me ask, if I may, and I am not sure which one, but I will go ahead and ask this to Mr. Broderick. What is Goldman Sachs' policy on employees shorting asset-backed securities, CDOs, CDLs, and credit default swaps in which Goldman Sachs acted as a market maker or owned for its own account? Do you have a policy about that?

Mr. BRODERICK. We have very rigorous compliance policies which address the securities trading activities of all of our employees. I don't know the details of it specifically as relates to the instruments that you specifically noted, but our compliance group has access to all the securities trading activities of our employees and monitor it carefully and ensure compliance with these strict policies that I mentioned.

Senator PRYOR. And when you have compliance, are you talking about compliance with SEC and other rules and regulations, or are you talking about compliance with your own company policy?

Mr. BRODERICK. Both.

Senator PRYOR. OK. And you are not aware if you have any company policy about how you treat shorts when you are a market maker?

Mr. BRODERICK. Not beyond what I articulated initially. Mr. Viniar, I don't know if you have any more detail.

Mr. VINIAR. I don't know, Senator.

Senator PRYOR. OK. Mr. Chairman, thank you. That is all I have.

Senator LEVIN. Thank you, Senator Pryor. Senator Coburn.

Senator COBURN. I just had two follow-up questions. You are generally supportive of the Dodd bill, was your testimony. Are you supportive of reinstallation of Glass-Steagall?

Mr. VINIAR. I think it would be very difficult to reinstate Glass-Steagall.

Senator COBURN. Very difficult to what?

Mr. VINIAR. To reinstate Glass-Steagall.

Senator COBURN. All right. Are you supportive of something similar to or the Volcker Rule?

Mr. VINIAR. I think there are issues with the Volcker Rule. I think there are issues with what it would do to the competitiveness of the U.S. financial institutions, because I suspect nothing like that will be instituted anywhere outside the United States, and so I think you will find U.S. financial institutions——

Senator COBURN. The export of the derivatives market outside of the United States?

Mr. VINIAR. I also think you will find non-U.S. financial institutions able to be stronger than U.S. financial institutions.

Senator COBURN. All right. Thank you.

Senator LEVIN. Thank you both. You are both excused.

[Pause.]

Senator LEVIN. We now will call our final witness for today's hearing, Lloyd Blankfein, the Chairman and Chief Executive Officer of Goldman Sachs. Mr. Blankfein, we appreciate your being with us today.

Pursuant to Rule 6, all witnesses who testify before the Subcommittee are required to be sworn, so we would ask you to stand and raise your right hand.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. BLANKFEIN. Yes, I do. Thank you.

Senator LEVIN. Thank you very much. I don't know if you have heard the earlier testimony or not, but we use a timing system which will give you a red light in 5 minutes. The light will turn yellow after 4 minutes so that you can try to give us your testimony, if possible, in 5 minutes.

TESTIMONY OF LLOYD C. BLANKFEIN,[1] CHAIRMAN AND CHIEF EXECUTIVE OFFICER, THE GOLDMAN SACHS GROUP, INC., NEW YORK, NEW YORK

Mr. BLANKFEIN. Thank you, Chairman Levin, Ranking Member Coburn, and Members of the Subcommittee, thank you for the invitation to appear before you today as you examine some of the causes and consequences of the financial crisis.

Today, the financial system is fragile, but it is largely stable. This stability is the result of decisive and necessary government action during the fall of 2008. Like other financial institutions, Goldman Sachs received an investment from the government as a part of its various efforts to fortify our markets and the economy during a very difficult time. I want to express my gratitude and the grati-

[1] The prepared statement of Mr. Blankfein appears in the Appendix on page 225.

tude of our entire firm. We held the government's investment for approximately 8 months and repaid it in full, along with a 23 percent annualized return for taxpayers.

Until recently, most Americans had never heard of Goldman Sachs or weren't sure what it did. We don't have banking branches. We provide very few mortgages and don't issue credit cards or loans to consumers. Instead, we generally work with companies, governments, pension funds, mutual funds, and other investing institutions. These clients usually come to Goldman Sachs for one or more of the following reasons: They want financial advice; they need financing; they want to buy or sell a stock, bond, or other financial instrument; or they want help in managing and growing their financial assets.

The nearly 35,000 people who work at Goldman Sachs, the majority of whom work in the United States, are hard working, diligent, and thoughtful. Through them, we help governments raise capital to fund schools and roads. We advise companies and provide them funds to invest in their growth. We work with pension funds, labor unions, and university endowments to help build and secure their assets for generations to come. And we connect buyers and sellers in the securities markets, contributing to the liquidity and vitality of our financial system. These functions are important to economic growth and job creation.

I recognize, however, that many Americans are skeptical about the contribution of investment banking to our economy and understandably angry about how Wall Street contributed to the financial crisis. As a firm, we are trying to deal with the implications of the crisis for ourselves and for the system. What we and other banks, rating agencies, and regulators failed to do was sound the alarm that there was too much lending and too much leverage in the system, that credit had become too cheap.

One consequence of the growth of the housing market was that instruments that pooled mortgages and their risk became overly complex. That complexity and the fact that some instruments couldn't be easily bought or sold compounded the effects of the crisis. While derivatives are an important tool to help companies and financial institutions manage their risk, we need more transparency for the public and regulators as well as safeguards in the system for their use.

That is why Goldman Sachs, in supporting regulatory reform, has made it clear that it supports clearinghouses for eligible derivatives and higher capital requirements for non-standard instruments.

As you know, 10 days ago, the SEC announced a civil action against Goldman Sachs in connection with a specific transaction. It was one of the worst days of my professional life, as I know it was for every person at our firm. We believe deeply in a culture that prizes teamwork, depends on honesty, and rewards saying no as much as saying yes. We have been a client-centered firm for 140 years, and if our clients believe that we don't deserve their trust, we cannot survive.

While we strongly disagree with the SEC's complaint, I also recognize how such a complicated transaction may look to many people. To them, it is confirmation of how out of control they believe

Wall Street has become, no matter how sophisticated the parties or what disclosures were made. We have to do a better job of striking the balance between what an informed client believes is important to his or her investing goals and what the public believes is overly complex and risky.

Finally, Mr. Chairman, the Subcommittee is focused on the more specific issues revolving around the mortgage securitization market. I think it is important to consider these issues in the context of risk management. We believe that strong, conservative risk management is fundamental and helps define Goldman Sachs. Our risk management processes did not and could not provide for absolute clarity. They highlighted uncertainty about evolving conditions in the housing market. That uncertainty dictated our decision to attempt to reduce the firm's overall risk.

Much has been said about the supposedly massive short Goldman Sachs had on the U.S. housing market. The fact is, we were not consistently or significantly net short the market in residential mortgage-related products in 2007 and 2008. Our performance in our residential market-related business confirms this. During the 2 years of the financial crisis, while profitable overall, Goldman Sachs lost approximately $1.2 billion from our activities in the residential housing market. We didn't have a massive short against the housing market and we certainly did not bet against our clients. Rather, we believe that we managed our risk as our shareholders and our regulators would expect.

Mr. Chairman, thank you for the opportunity to address these issues. I look forward to your questions.

Senator LEVIN. Thank you very much, Mr. Blankfein.

We have heard in earlier panels today example after example where Goldman was selling securities to people and not telling them that they were taking and intended to maintain a short position against those same securities. I am deeply troubled by that, and it is made worse when your own employees believe that those securities are junk or a piece of crap or a shi**y deal, words that those emails show your employees believed about a number of those deals.

Billion-dollar Timberwolf: A synthetic CDO-squared—CDOs get squared now—a senior executive called it a "shi**y" transaction, but the Goldman sales force was told that it was a priority item for 2 straight months. Goldman sold $600 million in Timberwolf securities to clients while at the same timeholding a short position, in other words, betting against it. The CDO went to junk status in about 7 months. Your investors lost big time, but Goldman won on that deal; you profited on that deal.

In the $500 million Long Beach RMBS deal, Goldman shorted it at the same time that it was selling it to clients. The securities defaulted within a few years with a 65 percent delinquency rate. The bad news, in your own words, was that your clients lost money, but the good news is that Goldman Sachs made money on that deal.

The next one, the $700 million Fremont deal. This was a RMBS of subprime loans from a notoriously bad lender. Your folks knew it. One of your clients talks to your sales force about it, and your sales force among themselves call it "crap loans." They go out and sell them anyway. At the same time that your sales people are selling those items, they are shorting the deal. So you short them so that Goldman makes money when this security fails, which it did in 10 months.

On the $300 million Anderson synthetic CDO, the CDO is stuffed with New Century loans. These are known to be shoddy loans. I think it was one or two on the list of bad loan producers. A client of yours asked, how did Goldman Sachs get comfortable with this deal? In other words, pointing out that it was New Century. Goldman Sachs didn't respond and did not say, we are not comfortable, we are shorting it. We are betting against this deal. Asked a direct question, how can you guys get comfortable with a deal involving those loans, and instead of responding honestly, we have got problems, too, we are not taking any chances on this deal, we may be selling it, but we are also betting against it, that is not what happened. Instead, the client was told that Goldman was an equity holder, which it was at the same time, but that was a half-truth because it was also betting against that same security. That CDO failed within 7 months. Your clients lost. Goldman profited.

The $2 billion Hudson synthetic CDO: Goldman Sachs was the sole protection buyer on this CDO with a $2 billion short. In other words, they were betting against it. A Goldman sales person described it as junk, not to the buyer, of course, but inside. The CDO imploded within 2 years. Your clients lost. Goldman profited.

Now, there is such a fundamental conflict, it seems to me, when Goldman is selling securities which—particularly when its own people believe they are bad items, described in the way these emails show that they were described and what your own sales people believed about them—to go out and sell these securities to people and then bet against those same securities, it seems to me, is a fundamental conflict of interest and raises a real ethical issue.

I would like to ask you whether or not you believe that Goldman, in fact, treated those clients properly. As you say, if clients believe we don't deserve their trust, you are not going to survive. Those are the ringing words you give us in your opening statement. Given that kind of a history here, going heavily short in a market, which you did—you made a strategic decision to do that—but then on these specific examples to be betting against the very securities which you are selling to your clients, and internally your own people believe that these are crappy securities, how do you expect to deserve the trust of your clients, and is there not an inherent conflict here?

Mr. BLANKFEIN. Well, Senator, there is a lot in your question and I am sure we are going to spend a lot of time on different parts of it. Our clients' trust is not only important to us, it is essential to us. It is why we are as successful a firm as we are and have been for 140 years. We are one of the largest client franchises in market making in these kinds of activities we are talking about now, and our client base is a critical client base for us and they know our activities and they understand what market making is.

Senator LEVIN. Do you think they know that you think something is a piece of crap when you sell it to them and then bet against it? Do you think they know that?

Mr. BLANKFEIN. Again, I don't know who the "they" is and——

Senator LEVIN. We went through it today.

Mr. BLANKFEIN. No, I know. I know, Senator, and there were individual emails that were picked out and some people thought something. But I will tell you——

Senator LEVIN. I am just asking you a question. Do you think if your people think something is a piece of crap and go out and sell that, and then your company bets against it, do you think that deserves your trust?

Mr. BLANKFEIN. Senator, I want to make one thing clear. When you say we sell something and then our customer bets against it——

Senator LEVIN. No. You bet against it.

Mr. BLANKFEIN [continuing]. We bet against it, we are principals. The act of selling something is what gives us the opposite position of what the client has. If the client asks us for a bid and we buy it from them, the next minute, we own it. They don't. If they ask to buy it from us, the next minute, they own it and we don't. We could cover that risk. But the nature of the principal business and market making is that we are the other side of what our clients want to do.

Senator LEVIN. When you sell something to a client, they think, presumably, you are rid of it. It is no longer in your inventory.

Mr. BLANKFEIN. Not necessarily.

Senator LEVIN. Not necessarily, but they have at least a right to believe that you want that security to work for them. That is a belief which I would think most customers would have. In example after example, it is not just that you sold something, which obviously meant someone was buying it. There is a seller and a buyer. That is not what we are talking about. We are talking about betting against the very thing that you are selling, betting against it, going short against it without disclosing that to that client.

Do you think people would buy securities from you if you said, we want you to know this. We are going to sell you this, but we are going out and buying insurance against this security succeeding. We are taking a short position. We are getting this thing out of our inventory. We are betting against this very thing we are selling to you. That is a totally different thing from selling a security and no longer having an interest in it.

Is there not a conflict when you sell something to somebody and then are determined to bet against that same security and you don't disclose that to the person you are selling it to? Do you see a problem?

Mr. BLANKFEIN. In the context of market making, that is not a conflict. What clients are buying, or customers are buying, is they are buying an exposure. The thing that we are selling to them is supposed to give them the risk they want. They are not coming to us to represent what our views are. They probably—the institutional clients we have wouldn't care what our views are. They shouldn't care. We do other things at the firm. We are advisors. We manage their money. There are parts of the business where we are fiduciaries.

Senator LEVIN. Yes, and that is the part that is very confusing to folks, they think you——

Mr. BLANKFEIN. I know.

Senator LEVIN. They think you are fiduciaries, and then——

Mr. BLANKFEIN. Not in the market making context.

Senator LEVIN. Yes, but they are not told that not only are you not a fiduciary, you are betting against the very security that you are selling to them. You don't disclose that. That is worse than not being a fiduciary.

Mr. BLANKFEIN. Senator Levin.

Senator LEVIN. That is being in a conflict of interest situation.

Mr. BLANKFEIN. I don't think our clients care or they should care what our positions are——

Senator LEVIN. That you are betting against the security you are selling to them? They don't care?

Mr. BLANKFEIN. You say betting against——

Senator LEVIN. Yes. You are betting. You are going short against the very security. You are holding a short position against the very security. I read you over and over and over again, you are selling securities, many of which are described as crap by your own sales force internally.

Putting that aside just for a moment—we will come back to that. That makes it worse. But there is an inherent conflict when you don't disclose to your client that this security you are buying from us has obviously a short side, but we are the people who are keeping the short on this one. We are betting against this security succeeding, and you don't think that is relevant to a client?

Mr. BLANKFEIN. We live in different contexts and this is a professional—this is a market——

Senator LEVIN. I am just calling it in an inhuman context.

Mr. BLANKFEIN. In a human context, the markets work on transparency with respect to what the item is. It doesn't carry representations just of what a position a seller has. Just think of buying from a stock exchange or a futures market. You are not even supposed to know who is on the other side. You could have the biggest mutual fund in the world selling all its position in something. They could hate it. You would never know that if you were the buyer of a stock, who was selling it or why they were selling it. Liquidity in the market demands transparency, that the thing is supposed to do what it is supposed to do.

The people who are coming to us for risk in the housing market wanted to have a security that gave them exposure to the housing market and that is what they got. The unfortunate thing, and it is unfortunate but it doesn't—is that the housing market went south very quickly after some of the securities—not all of them, because some of them were done early—but they went south, and so people lost money in it. But the security itself delivered the specific exposure that the client wanted to have.

Senator LEVIN. You don't believe it is relevant to a customer of yours that you are selling a security to that you are betting against that same security. You just don't think it is relevant and needs to be disclosed. Is that the bottom line?

Mr. BLANKFEIN. Yes, and the people who are selling it in our firm wouldn't even know what the firm's position is and——

Senator LEVIN. Oh, yes, they did.

Mr. BLANKFEIN. Senator, we have 35,000 people and thousands of traders making markets throughout our firm. They might have an idea, but they might not have an idea.

Senator LEVIN. Oh. Now you are saying they might know.

Mr. BLANKFEIN. And the next day, it might be different.

Senator LEVIN. They have an idea, more than an idea in these cases. But putting that aside, what do you think about selling securities which your own people think are crap? Does that bother you?

Mr. BLANKFEIN. I think they would—again, as a hypothetical——

Senator LEVIN. No, this is real.

Mr. BLANKFEIN. Well, then I don't——

Senator LEVIN. We heard it today. This is a shi**y deal. This is crap.

Mr. BLANKFEIN. Well, Senator——

Senator LEVIN. Four or five examples. What is your reaction to that?

Mr. BLANKFEIN. I think there are a lot of opinions about how a security will perform against the market it is in.

Senator LEVIN. How about the sales person?

Mr. BLANKFEIN. I think that the investors that we are dealing with, on the long side or on the short side, know what they want to acquire and probably if they asked a sales person his or her opinion, that sales person owes a duty of honesty. But otherwise, the sales person is representing what that security is and what the position in that security will accomplish.

And as far as whether something is a weak security or going bad, we are selling securities all the time that are weak, that we ourselves don't like. It is just a function of the price in the market. I bet some of those securities, and I don't know specifically, which are the subject of those comments can be bought today for a willing buyer and a seller at cents on the dollar. As long as people know—I think there are people who are making rational decisions today to buy securities for pennies on the dollar because they think it will go up, and the sellers of those securities are happy to get the pennies because they think they will go down.

Senator LEVIN. I understand that. We are talking where you were the seller of the security and you, Goldman Sachs—believe it is a piece of crap, where you——

Mr. BLANKFEIN. We were sellers——

Senator LEVIN [continuing]. Where you, as part of the deal—I am talking about this. I am not talking about where you are selling securities out of your inventory. I understand that. People come to you, you buy securities. I am talking about where the deal is that you are selling as you in the short position and intending to keep that position. That is the deal, and whether there is not an obligation then to disclose to the people you are selling to in that deal—Goldman, we may be selling it to you, but we believe that this thing is going the other direction. We are taking the short position. You don't see any conflict in that?

Mr. BLANKFEIN. I think in those transactions in which we underwrote, I believe, and I am not looking at specific—in fact, my understanding is that is disclosed, that we can have a short or a long position in those securities.

Senator LEVIN. And where you take a short position, do you think that should be disclosed? Where you are betting against that same security you are selling—yes or no, do you think that ought to be disclosed or not?

Mr. BLANKFEIN. Senator, you keep using the word "betting against"——

Senator LEVIN. Yes. You are taking the short position and you are staying. You intend to keep it. That is a bet against that security——

Mr. BLANKFEIN. If somebody bought——

Senator LEVIN [continuing]. Succeeding.

Mr. BLANKFEIN. As a market maker——

Senator LEVIN. No, just try my question.

Mr. BLANKFEIN. I have to be able to——

Senator LEVIN. No, just try my question. In a deal where you are selling securities and you are intending to keep the short side of that deal, which is what happened here in a lot of these deals, do you think you have an obligation to tell the person that you are selling that security to in that deal that you are keeping the short position in that deal?

Mr. BLANKFEIN. That we are not going to cover it in the market?

Senator LEVIN. That is——

Mr. BLANKFEIN. Well, no——

Senator LEVIN. That you intend to keep that short position. Not forever. It is your intention to keep that short position.

Mr. BLANKFEIN. No, I don't think we would have to tell them. I don't even know that we would know ourselves what we were going to do. Even if we intended——

Senator LEVIN. I said, where you intend to keep a short position.

Mr. BLANKFEIN. I don't think we would—I don't think we would disclose that, and I don't know—again, intention for a market maker is a very——

Senator LEVIN. How about you are investing in these securities. This isn't a market making deal. This is where you have a decision to bet against, to take the short side of a security that you are selling, and you don't think that there is any moral obligation here? Put aside the legal obligation. You don't think there is an obligation to tell the person that you are selling this to that you are betting against that security by maintaining a short position in it? It is a very straightforward question.

Mr. BLANKFEIN. I don't think so. I am trying to answer it. Or, for that matter, if a client came to us and asked us to buy something from him and we intended to hold the long position, I don't think we have an obligation of telling him that our intention is to hold it. In half of every——

Senator LEVIN. That is not the opposite side from that client. That is the same side.

Mr. BLANKFEIN. No, it is not. It is the opposite side.

Senator LEVIN. No. You said a client comes to you and wants to sell you something. You decide whether to buy it or not.

Mr. BLANKFEIN. Every transaction, Senator, and this is—and I think it is important, and again, I am not trying to be resistant but to make sure your terminology—when as a market maker, we are buying from sellers and selling to buyers——

Senator LEVIN. But I am saying where you are not selling to anyone else, you are selling to somebody and you are taking the opposite position. You are betting. You are going out and getting a default swap, however it is done. You are betting against the very security that you are selling to that person. You don't see any problem? You don't see that you have to disclose, when you have put together a deal and you go looking for people to buy those securities, it just adds insult to injury when your people think it is a pile of junk. But the underlying injury is that you have determined that you are going to keep the opposite position from the security that you are selling to someone. You just don't see any obligation to disclose that. That is what seems to be coming through here.

Mr. BLANKFEIN. I don't believe there is a disclosure obligation, but as a market maker, I am not sure how a market would work if it was premised on the assumption that the other side of the market cared what your opinion was about the position they were taking.

Senator LEVIN. Do they have a belief that you, at least when you are going out peddling securities, that you want that security to succeed? Don't they have that right to assume that if you are going out selling securities, that you have a belief that is something which would be good for that client?

Mr. BLANKFEIN. I think we have to have a belief, and we do have a belief that if somebody wants an exposure to housing——

Senator LEVIN. They don't want—you are out there selling it to them. You are out there selling these securities. This isn't someone walking in the door.

Mr. BLANKFEIN. Again, I want——

Senator LEVIN. You are picking up the phone. You are calling all these people. You don't tell them that you think it is a piece of junk. You don't tell them that this is a security which incorporates or which in some way references a whole lot of bad stuff in your own inventory—bad lemons, they were called. Over and over again, we have emails. You are out there looking around for buyers of stuff, whether it is junk or not junk, where you are betting against what you are selling. You are intending to keep the opposite side. This isn't where you are just selling something from your inventory. This is where you are betting against the very product you are selling, and you are just not troubled by it. That is the bottom line. There is no trouble in your mind——

Mr. BLANKFEIN. Senator, I am sorry. I can't endorse your characterization.

Senator LEVIN. It is a question, not a characterization. I am saying, you are not troubled.

Mr. BLANKFEIN. I am not troubled by the fact that we market make as principal and that we are the opposite—when somebody sells, they sell to us, or when they buy, they buy from us.

Senator LEVIN. And where you are betting, keeping a betting interest against the security. It is not just they are buying from you. That is not my issue. They are buying something from you where you solicit them to buy and then you are betting against. You are keeping the short side. You are going out and getting a default swap. Or you are selling the ABX. Whatever it is, you are taking a position against the very security that you are selling and you are not troubled.

Mr. BLANKFEIN. Senator, as I—again——

Senator LEVIN. And you want people to trust you.

Mr. BLANKFEIN. Senator, I think people——

Senator LEVIN. Why would people——

Mr. BLANKFEIN [continuing]. Do trust us.

Senator LEVIN. I wouldn't trust you. If you came to me and wanted to sell me securities and you didn't tell me that you have a bet against that same security——

Mr. BLANKFEIN. Senator——

Senator LEVIN. You don't think that affects my thinking?

Mr. BLANKFEIN. Senator, we could do a public issue of an oil company tomorrow, an IPO of an oil company that goes out and searches for oil. It is not—when we sell that company, and as an underwriter, we make sure there is due diligence because our obligations of an underwriter are disclosure and due diligence and that is very well established. But we can tell our investors, if they want an exposure to an oil company and they understand the risks and we do a good job in diligence and we do all the disclosures that are required by ourselves and all the regulators, we can sell that security and we will not necessarily disclose and won't even know—and the buyer won't care—we could be negative on the equity market and negative on the oil market. It still won't matter——

Senator LEVIN. Speaking about that security——

Mr. BLANKFEIN [continuing]. To that buyer of the security.

Senator LEVIN. Mr. Blankfein, stick to the point. I am talking about that security that you are selling out there. You go out and sell that security, oil security, I don't care what kind it is——

Mr. BLANKFEIN. Right.

Senator LEVIN [continuing]. And that you are betting against that same security you are out selling. I have just got to keep repeating this. I am not talking about generally in the market. I am saying you have got a short bet against that security. You don't think the client would care?

Mr. BLANKFEIN. I don't—Senator, I can't speak to what people would care. I would say that the obligations of a market maker are to make sure your clients are suitable and to make sure they understand it. But we are a part of a market process. We do hundreds of thousands, if not millions of transactions a day as a market maker.

Senator LEVIN. This is much more than a market maker. You are keeping a proprietary interest in a position that is exactly the opposite of what you are selling.

Mr. BLANKFEIN. I think——

Senator LEVIN. We are going around and around on this and I don't think we are going to get an answer from you, basically——

Mr. BLANKFEIN. Sorry.

Senator LEVIN [continuing]. That you have any concern about that kind of a situation.

Senator McCain.

Senator MCCAIN. Thank you for being here, Mr. Blankfein. Would you agree that the financial crisis that brought on the greatest recession since the Great Depression was due to a collapse of the housing market?

Mr. BLANKFEIN. I think it was a number of factors. I don't know whether that was the initial factor, but that certainly was a major, major episode in the collapse.

Senator MCCAIN. And your involvement in the housing market is not in the direct mortgage business?

Mr. BLANKFEIN. Correct.

Senator MCCAIN. And you received $10 billion as part of TARP?

Mr. BLANKFEIN. An investment was made in Goldman Sachs, yes.

Senator MCCAIN. And why did you think you needed that money?

Mr. BLANKFEIN. I think we were part of a group of banks that were brought in, and at the same time had an investment made in by the government in order to stabilize what was a—maybe it is too strong a word, maybe not—a panic of sorts that caused a lack of confidence in——

Senator MCCAIN. But you didn't make any direct home loan mortgages.

Mr. BLANKFEIN. De minimis.

Senator MCCAIN. But since it was the housing market that collapsed, you needed $10 billion, and you recovered rather nicely, I guess. I guess you declared earnings for 2009 of some $13 billion, is that correct? Roughly?

Mr. BLANKFEIN. I don't know the exact number, but that would be in the ballpark.

Senator MCCAIN. And your bonus was?

Mr. BLANKFEIN. About $9 million.

Senator MCCAIN. About $9 million. And you are doing pretty well this year, too, according to your earnings and your stock price. You are doing pretty well this year?

Mr. BLANKFEIN. Financially, yes.

Senator MCCAIN. How do you think the community banks are doing, Mr. Blankfein? I think they are doing pretty poorly. They are being closed all the time. They are the ones that make the loans for the mortgages. Do you think they are doing OK, the community banks?

Mr. BLANKFEIN. I think there is a—the recession—well, whether or not the recession has ended, and I think most people believe it has ended, the consequences of it still grinds on and is creating a substantial hardship.

Senator MCCAIN. But Goldman is doing pretty well.

Mr. BLANKFEIN. Yes.

Senator MCCAIN. And one of the reasons, obviously, why Goldman is doing pretty well, before they got the $10 billion of TARP money, of taxpayers' money, there was a November 2007 email from you that stated, "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts." That is a quote from your email that you wrote. How much did you make more than you lost because of shorts?

Mr. BLANKFEIN. In this market, in residential housing, we made, for the entire year of 2007, less than $500 million of revenue, and in the succeeding year of the housing crisis, 2008, we lost $1.7 billion. We did not make big money. What I was referring to in my email was that—and this was on the back of a message that was looking at a part of our business and saying they made a lot of money on shorts when I knew that we had a lot of longs and a lot of shorts that netted to a very small position, as our goal during this period was just to manage our risk down.

Senator MCCAIN. Mr. Blankfein, there is a lot of animosity out there. I am sure you have seen that. We find in my State, for example, 48 percent of the homes are still underwater. In other words, they are worth less, as you know, than the payments that are being made. And the community banks continue to struggle and have great difficulties. You received $10 billion in TARP money and the community banks are the ones that are going under. Maybe you could—do you think that, in the minds of a lot of Americans, that there is a real contradiction there?

You are doing fine. You are paid millions of dollars in bonuses. Perhaps you earned them. I am not qualified to say that. Meanwhile, community banks, the ones who were the direct lenders in the housing market, who had direct involvement, the ones that—not you, but that the homeowners relied on are the ones that are struggling and still having enormous difficulty, including my home State of Arizona. Do you see? Do you understand why people might think there is a dichotomy there, Mr. Blankfein, or even unfairness there? And I understand that life isn't fair, but a lot of Americans don't quite understand what went on there. They don't understand what hit them.

Mr. BLANKFEIN. Absolutely. I think community banks play a very important role. They are not necessarily—again, not knowing—I am not speaking in general or specifically—maybe some helped author their own situation by over-lending or making imprudent judgments. But I am sure for many, they just conducted their social purpose and lent out money against housing, that people who owe them the money can't pay it back, and the housing that they would have as collateral goes down in value, they may very well be victims of the recession and I can understand—and I share your concern for the situation.

Senator MCCAIN. And I know you are not a charitable organization. I know why you are in business. But has Goldman Sachs done anything to try to help these community banks and these homeowners who are struggling to make their mortgage payments?

Mr. BLANKFEIN. Senator, we have——

Senator MCCAIN. I mean, you did get $10 billion of the taxpayers' money.

Mr. BLANKFEIN. Yes, we did, and I mentioned in my opening statement the disposition of that, the return, and the return with a high rate of return for the taxpayer, but we understand our obligations don't end there. We have always been a philanthropic organization. We don't tend to—again, we sometimes are invisible, but I would say in the last year, 2009, we allocated, and I don't mean just accrued, we delivered a billion dollars of the firm's funds to philanthropy, including $500 million to a program to support small businesses by giving education to small businesses through the medium and delivery mechanism of community colleges and with a view to providing finance for some of the graduates of the programs that we have for those small businessmen in order to make them bigger businessmen and to involve our people with it.

Are any of these things enough? Not for the suffering existing in the world, but again, we are trying to do our part. We think in the main conduct of our business, we are also doing important things for the capital markets, but we do take account of communities and institutions that we normally don't reach as Goldman Sachs.

Senator MCCAIN. What about community banks? Any involvement with them?

Mr. BLANKFEIN. We may help find—I just don't know.

Senator MCCAIN. Explain, perhaps for the benefit of the Subcommittee and for the record, what is a synthetic CDO?

Mr. BLANKFEIN. A CDO——

Senator MCCAIN. A synthetic CDO.

Mr. BLANKFEIN. I was going to build to it.

Senator MCCAIN. Sorry.

Mr. BLANKFEIN. A CDO is a pool of assets, in this case, mortgage assets, so mortgages that are pooled together and then can be sliced in a way that will yield a particular credit exposure. The reason why one would want to pool mortgages is it gives diversification so that you can pool mortgages not just from one community, but distribute it over the whole country. The reason why one would want to slice it is so you could pick your place on the credit spectrum and say, I would like the more senior mortgages. I would like the more junior risks.

In a synthetic, you don't pool the actual mortgages per se. You pool reference securities that are indexed to specific pools of mortgages.

Senator MCCAIN. In other words, in a synthetic CDO, you don't really have any ownership. You are just betting on the fortunes of that CDO, is that correct?

Mr. BLANKFEIN. Yes. You are doing it in a way to get a specific risk in a specific place at a specific level of the spectrum without necessarily having to assemble the particular securities, and so you can do it more quickly and you can do it more precisely.

Senator MCCAIN. How does that differ from going out to Caesar's Palace to the sports book and making a wager on the outcome of an athletic event?

Mr. BLANKFEIN. Well, I think the people who are participating in the synthetic CDO market are specifically trying to take particular risks with respect to the housing market, short or long, and presumably they want to take that to either initiate that exposure or to use that exposure to help hedge themselves or to adjust their risk profile, in the case of somebody who already has accumulated risk.

Senator MCCAIN. It has been alleged in the case of the Abacus——

Mr. BLANKFEIN. Abacus.

Senator MCCAIN [continuing]. Transaction that the credit rating agency was not informed that a hedge fund client was taking a short position. Is that true?

Mr. BLANKFEIN. I think the specific complaint was a lack of disclosure that a short—someone who was taking the short side of the position had an influence on the selection agent and that should have been disclosed.

Senator MCCAIN. Should it have been disclosed?

Mr. BLANKFEIN. We don't think so, no, and that is in dispute.

Senator MCCAIN. The credit rating agency, the one that——

Mr. BLANKFEIN. Again, it is complicated, because in the alternative, and again, this is a case, and in the alternative—and there is also some—and again, this is a litigation and obviously one side thinks one thing and another side thinks another—there is also a belief on our side that the selection agent did know, so——

Senator MCCAIN. Let us assume that the agency didn't know. Is that—well, you would know whether you informed the rating agency or not, wouldn't you?

Mr. BLANKFEIN. I personally would not. The person, and he was here testifying, asserted that he believed the other side of the transaction did know and therein lies a factual dispute.

Senator MCCAIN. The rating agency would know whether they were told or not.

Mr. BLANKFEIN. I am sorry, are we talking about the selection agent?

Senator MCCAIN. The rating agency—the hedge fund—so there is a difference of opinion between the hedge fund client and Goldman?

Mr. BLANKFEIN. I don't think there is a difference of opinion between the hedge fund client and Goldman.

Senator MCCAIN. Well, the rating agency rates the CDO, right?

Mr. BLANKFEIN. A rating agency, yes, rates a CDO.

Senator MCCAIN. And it is alleged that the rating agency was not told that a hedge fund client was taking a short position.

Mr. BLANKFEIN. Senator, this may be a different point. This is not the subject of the legal proceeding, to the best of my knowledge.

Senator MCCAIN. Well, a lot of these things are fairly complicated, Mr. Blankfein, and a lot of Americans don't understand what happened, but they do understand that they are still hurting very badly, many of them across this country, and they believe that your handling and other financial institutions handling of the housing market and these complicated transactions were a direct contributor to the meltdown that America experienced and they haven't recovered. You have done pretty well. I don't think that is the vision that most Americans have of how this Nation and its economy should function.

I thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator McCain.

Senator Kaufman.

Senator KAUFMAN. Good afternoon.

Mr. BLANKFEIN. Good afternoon.

Senator KAUFMAN. In your testimony, you say that Goldman has been "a client-centered firm for 140 years." Clients come to the firm because, you say, "one, they want financial advice; two, they need financing; three, they want to buy or sell a stock, bond, or other financial instrument; or four, they want the help in managing and growing their financial assets."

Mr. BLANKFEIN. Yes, sir.

Senator KAUFMAN. Is it fair to say in the last 30 years that Goldman has focused more and more of its resources and gained more and more of its revenue from trading in its own account without the need for clients?

Mr. BLANKFEIN. We have focused more and more in trading as a principal——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. But that is the way the client business has evolved, sir.

Senator KAUFMAN. Right. But it has evolved away from the classic investment banking and gotten more and more to trading?

Mr. BLANKFEIN. Well, I would say that, increasingly, and this is a change in the sociology of the business that took place over the last 15 or 20 years, I am not sure it was precipitated by the fall of Glass-Steagall or it caused Glass-Steagall to fall as U.S. institutions had to become more competitive with global institutions, but somewhere along the line, clients used to ask you for advice—if you were an investment bank and then went to other institutions and asked them for financing——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. And to take principal risk.

Senator KAUFMAN. Right.

Mr. BLANKFEIN. Somewhere along the line, they stopped asking necessarily to do things for them, but to do things with them, in other words, to be the other side. And today in the world, and this evolved over a long period of time, to be effective for your clients, you not only had to give them advice, but you had to have the financial wherewithal, in other words, the balance sheet to be able to accomplish their objectives, not just advise them on their objectives.

And so Goldman Sachs, 12 or 13 years ago, actually had to reverse many years of being a private partnership and become a public partnership, public company, so we could, frankly, survive in the evolving world of needing to be a principal to accomplish our clients' objectives.

Senator KAUFMAN. But also, it was very profitable. I mean, Goldman Sachs has clearly been one of the most profitable institutions on the face of this earth. So also, I mean, it wasn't just kind of the move of society. It was also a way, when you sat down and you had your meetings and everything else, you said, look, this is the way to go. And I am not saying that from a negative.

Mr. BLANKFEIN. I know, Senator, and I know you are not saying it negative, but just for the history of it——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN [continuing]. It was a very observed decision by the world of what Goldman Sachs was doing, done very reluctantly——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. Not so much to—and the real rationale for it was not because to make incremental profits. It was done in order for us to survive as a leading financial institution. Had we not done it, had we not grown, if we were not effective for our clients in order to allow them to accomplish those objectives, I don't think—Goldman Sachs would be around, but it wouldn't be an important company today.

Senator KAUFMAN. OK. We will just agree that—I think that you were one of the leaders in doing this. I mean, I am not saying it from a negative standpoint——

Mr. BLANKFEIN. We were the last of the firms to do this.

Senator KAUFMAN. Yes. And does proprietary trading activity ever run counter to the interest of your clients, do you think? Do you ever feel like it is a conflict of interest? I just think it is a conflict of interest, because one of the things that bothers me most about our society today is it is like when you say someone has a conflict of interest, it is like——

Mr. BLANKFEIN. No, I understand.

Senator KAUFMAN [continuing]. You are accusing them of being crooked. I am not saying that. I am saying, but it seems to me that—does proprietary trading activity ever run counter to the interest of your clients, or present a conflict of interest, let me put it that way?

Mr. BLANKFEIN. The fact that we are a principal—in other words, when you say proprietary, it means a business that is totally separate from our client business——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. In which no client is engaged.

Senator KAUFMAN. Right.

Mr. BLANKFEIN. No, I don't think so. We keep those—when we do proprietary trading, it is separate.

Senator KAUFMAN. Oh, no, I know it is separate. I am not saying that——

Mr. BLANKFEIN. Separate, and separate people——

Senator KAUFMAN. No. I know it is separate people. But your firm—I am not saying anybody is doing anything wrong——

Mr. BLANKFEIN. No, I know you are not——

Senator KAUFMAN. I am saying that Jones over in Department A is talking to Smith over in Department B. But if Jones is doing one thing and Smith is doing something else, there is potential for a conflict of interest. Now, you say, I resolve that conflict of interest by saying, Jones, you can't talk to Smith. But when you are doing out of one firm these kind of transactions, there is a conflict of interest. Whether you handle it well, whether you have a wall down through the middle of Goldman Sachs or not, it just seems to me that it is just—when you are trading for your own account, the potential for conflict of interest, as opposed to your clients, is just great.

Mr. BLANKFEIN. I think there are a lot—I think in our principal activities, which is more than our proprietary activities——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN. For example, I think there is always that potential we have to manage. I think David Viniar said we always have to manage conflicts——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. Because necessarily, if you are a principal——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. You are on the other side. I think our proprietary businesses actually have much less, although the perception of it—obviously, if you are asking the question, the perception of conflicts, but we keep those very separate.

Senator KAUFMAN. Right. And all I am trying to do is get at the fact that this is a business where there is conflict of interest where there didn't used to be. I mean, when you were 100 percent behind your clients, you weren't involved in much proprietary trading for your own account. You could just worry about your client. But inherent in this is risk of conflict. How you deal with it, I am not saying, but just the fact the conflict exists.

Now, to go back to what Chairman Levin does, just to go through it one more time, in the first half of 2007, Goldman Sachs sold long positions in CDOs to its clients, right?

Mr. BLANKFEIN. Two-thousand-seven——

Senator KAUFMAN. The first half of 2007.

Mr. BLANKFEIN. We sold—we reduced our risk, which since the risk largely started out as long, it means we sold some of our long positions and put on other short positions.

Senator KAUFMAN. Right. So you sold positions, and while—CDOs that Goldman itself had created and marketed while simultaneously taking short positions in the CDOs in order to limit your risk.

Mr. BLANKFEIN. I am sorry. You said that quickly.

Senator KAUFMAN. You were selling CDOs at the same time you were taking short positions on the same CDOs. There is a thing called the Hudson Mezzanine 2006–1, supposedly where specifically you were selling CDOs in the marketplace and at the same time, for your own account, you were selling the same CDOs short.

Mr. BLANKFEIN. Yes. I don't have any knowledge of that——

Senator KAUFMAN. But you believe that could happen?

Mr. BLANKFEIN. I believe that we can have—that some people can own—look, on the first day, somebody could buy a CDO from us——

Senator KAUFMAN. Right, and then you could sell it short.

Mr. BLANKFEIN. And, yes, we could. On the first day, we could sell more—if people came to us for a market the day after we sold our whole inventory and wanted to buy it, we would short——

Senator KAUFMAN. No, but I think in this case, I mean, just to get back to specifics, you were selling CDOs as part of a marketing plan, you had bundled together these mortgages and you were selling them as CDOs and you were doing that on a regular basis through 2006, 2007. And then at some point, as Mr. Viniar pointed out, you decided that—in this whole area that you had risk and therefore you started selling CDOs short in order to solve this risk.

Mr. BLANKFEIN. Yes. I can't answer—I am not—I know that we reduced our risk as per the instruction. The risk started out long. I just don't know to what extent, how much was it selling length, which was some of it, for sure, selling certain securities, shorting certain securities, but I can't tell you, because some of it was, I think, the new ABX index, also. I just don't know.

Senator KAUFMAN. Well——

Mr. BLANKFEIN. But I know the——

Senator KAUFMAN. But you don't think—I mean, we established with Senator Levin, you don't think there is anything wrong with that.

Mr. BLANKFEIN. I don't.

Senator KAUFMAN. No.

Mr. BLANKFEIN. But I am also, to the extent you are asking me about whether we were long or short a specific security and in what proportion, I just don't know.

Senator KAUFMAN. But you don't rule out the possibility that could have happened?

Mr. BLANKFEIN. I can't rule it out. I just don't know.

Senator KAUFMAN. So to get back to—and I am not going to ask you 20 times. I am just going to ask you once. Does that have the appearance of a conflict of interest?

Mr. BLANKFEIN. That we were short——

Senator KAUFMAN. That you were selling CDOs—trust me, according to this Mezzanine, you were doing it. Hudson Mezzanine 2006–1, you basically packaged CDOs, sold them, and then at some point, I think, based on what Mr. Viniar said, you were concerned about this and you decided to short, in other words, in order to offset it, the risk, to cut back your risk. And I am just saying, don't you think that has the appearance of a conflict?

Mr. BLANKFEIN. Again, I don't know. If we have pools of securities in our inventory——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. And we are trying to reduce our risk——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. We are going to be selling those——

Senator KAUFMAN. Right.

Mr. BLANKFEIN. Some combination of selling those, selling indexes, or selling other——

Senator KAUFMAN. No, but we talked about this with the last panel. You weren't here, but the last panel, we talked about this, and we decided that you did not want to sell those. We said, look, what most people do who aren't as sophisticated as Goldman Sachs, if they are in a position where you have a lot of stock or CDOs or bonds that you now think may be risky, you don't short something. People do short things, and there is nothing wrong with shorting things.

Mr. BLANKFEIN. Sure.

Senator KAUFMAN. But most people cut back on their long, right? I mean, if they have 500 shares of stock they are starting to get concerned about, maybe they sell 100 shares. But the previous panel said that it was illiquid, that you didn't want to do that because of that. So what you did is you went out and Goldman Sachs actually sold short.

Mr. BLANKFEIN. May I speak generally——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN [continuing]. Not knowing about the specific security? The best way of reducing your risk is to sell what you have.

Senator KAUFMAN. That is what I just said.

Mr. BLANKFEIN. Sometimes, as you said, you can't because it is illiquid.

Senator KAUFMAN. Or you don't want to because of the liquid——

Mr. BLANKFEIN. Or sometimes it is unattractive. But sometimes what people are doing is, gee, I am short something in this part of the capital structure——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. What I will do is I will sell something similar to it——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. But a little lower in quality——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. Because I think that will underperform against what I have.

Senator KAUFMAN. No, I have got it. That is——

Mr. BLANKFEIN. But that is what they are doing.

Senator KAUFMAN. No, but that is not—I am talking about where you are actually out selling it, and this is what the concern is. I mean, in every other business—I think this is what the Chairman is getting at—in every other business for most Americans, if you were coming to me and saying—buy this car from me, and at the same time these are good cars, these things are great, but I just sold mine because I know it is a clunker—that is what the concern is, and let me tell you why this is so important and why your oil analogy really doesn't work.

Because what is really at the heart of this is at what point did Goldman Sachs decide the housing market is going south and we want to get out of it? That is really at the heart. This isn't like you were carrying this oil deal that you talked about there. This is specifically we are now in 2007 and people were starting to see this market is bad, and guess what, Goldman Sachs sells a lot of stuff short, and guess what, they make a lot of money on it, but it is just a business deal. Do you see where the concern is?

Mr. BLANKFEIN. Yes.

Senator KAUFMAN. It is like, at what point do—it is like the old Watergate thing. What did you know and when did you know it?

Mr. BLANKFEIN. Senator——

Senator KAUFMAN. I mean, the key thing to this thing is, if you were still selling securities, mortgage-backed securities, RMBSs, residential mortgage-backed securities, after you really had decided that this was a down market and were evidenced by selling short, I think that is what people are wondering about.

Mr. BLANKFEIN. No, Senator, I realize that, and we are very much informed and we wouldn't be here but for the fact that there was such a collapse in the housing market. To go back to that oil analogy that I gave you, if we were sitting here and we had underwritten a new security like that, what we described to you instead of housing, and after we put it in the market, 3 months later——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. We were short that security in connection with our market making——

Senator KAUFMAN. That is OK because you are not continuing to sell those securities at the same time and you may be in a legitimate position.

Mr. BLANKFEIN. But it was the same security that we had underwritten——

Senator KAUFMAN. No, I understand that, but——

Mr. BLANKFEIN [continuing]. Three months earlier.

Senator KAUFMAN [continuing]. You had underwritten it, but the world has changed. I don't think people have a problem with you actually selling—I sell a series of securities, and then later on I see—let us say I sold out every one of them, and then 6 months later, I sell them short. I don't think anybody has a problem with that. That is it. Things happen. You sold it at the best time you knew what was going on. There is nothing inherently wrong with that.

What is inherently wrong is if you start selling securities, a series of securities, and then at some point you decide, these are really bombs. I mean, we heard earlier about the fact that you were selling Washington Mutual, Long Beach securities, 90 percent of which were stated income loans. Ninety percent were stated income loans, home equity loans were stated income loans, and they all went bad. So, I mean, at some point somebody looks up and says—I just found out. We have been selling Long Beach securities. They are in our originator things and they have got all these stated income loans. We had better get out of this business. That is where the concern is. At what point did you know that?

And here is the thing. Can I ask you really a——

Mr. BLANKFEIN. May I ask——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN. You asked me what we knew——

Senator KAUFMAN. Yes. What did you know when?

Mr. BLANKFEIN. We did not know what subsequently occurred——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN [continuing]. In the housing market.

Senator KAUFMAN. Right.

Mr. BLANKFEIN. We did not know. By the way, we didn't behave like we knew it. In other words, there are emails going around where this one was nervous and this one really—and we are talking about relatively junior people in managing positions on desks——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. And then there are other emails where people were excited and thought the market would rebound.

Senator KAUFMAN. Sure.

Mr. BLANKFEIN. We did not know that the housing market was going to happen like that.

Senator KAUFMAN. At what point—I guess this is the——

Mr. BLANKFEIN. And by the way, our positions reflect that, because had we known——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. We would have been massively short the market instead of just getting short——

Senator KAUFMAN. Can you tell me—I guess this is the real question——

Mr. BLANKFEIN [continuing]. About equal to what our longs were, and maybe a bit more.

Senator KAUFMAN. We have heard from everybody, and I think it is totally credible until you ask the question, at what point—can you remember—I think it would be a pretty important day—that you decided to pull together the management of Goldman Sachs and say, what? This housing market is a bad place to be in. When was that day?

Mr. BLANKFEIN. I never did.

Senator KAUFMAN. You mean, right up until the end, nobody—you didn't have as corporate policy that we should reduce our holdings in mortgage-backed securities and——

Mr. BLANKFEIN. Oh, no——

Senator KAUFMAN [continuing]. We should stop selling mortgage-backed securities. These things are just literally—the whole market is coming apart. I mean, there had to be a time. I mean, it wasn't last week.

Mr. BLANKFEIN. I don't know that we—again, we are dealing with the same information. I think tomorrow—if tomorrow——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. Tomorrow, I think there needs to be a—I think it would serve the public interest for a securities market in housing—again, learning from the mistakes——

Senator KAUFMAN. Right.

Mr. BLANKFEIN [continuing]. Revealed, in other words, if you assume with me that we learned from all the mistakes, I think securitizing home mortgages is not inherently a bad activity.

Senator KAUFMAN. No. I mean, at which point did you decide that this specific, that Goldman Sachs had to do everything it could to get out of this business, reduce your——

Mr. BLANKFEIN. We never decided to get out of the business.

Senator KAUFMAN. Well, how about the second quarter of 2007. You shut down your CDO warehouses. You took significant mark to market losses. You reduced loan purchase and reduced counterparty exposure. That sounds to me like you wanted to get out of that business.

Mr. BLANKFEIN. Again, to the best of my knowledge—again, and I am not close to that decision. There were other people. I don't know that a decision was made to leave that business as opposed to reduce the risks of the business——

Senator KAUFMAN. Shut down CDO warehouses? That wasn't an indication you wanted to get out of that business?

Mr. BLANKFEIN. When you tell me, get out of the business, Senator, I don't know if—I don't know what that means.

Senator KAUFMAN. But you can see why people were concerned about what went on in the second quarter of 2007, what was going on at this time. At what point did it reach a point where you are saying, I just can't sell this stuff anymore. It is just not right to continue to originate these loans. I mean, I just find it incredibly hard to believe. I mean, there is this illusion in this country, I guess, about how smart people are on Wall Street, and the people on Wall Street, and I know people going to Wall Street are really smart. And it is just hard for me to believe, and it is hard for the American people to believe that people this smart really never kind of decided that this thing was going south in a big way.

Mr. BLANKFEIN. Senator, I heard your earlier remarks, as well. I think we are not that smart at—and maybe there were people who knew—and, by the way, even the people who with hindsight knew it, I think they thought it and then they turned out to be right.

Senator KAUFMAN. Right.

Mr. BLANKFEIN. I could tell you from my own self——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN [continuing]. At 20 percent down in the housing market, I didn't know whether it would go down 30 percent or rebound up 10 percent.

Senator KAUFMAN. Well, even now is a different story. I believe——

Mr. BLANKFEIN. But now——

Senator KAUFMAN. Because everybody—the problem is—the reason this is a problem is because one of the defenses you use is that these are all big boys, that we are dealing with the big boys and therefore, caveat emptor really doesn't apply. So big boys knew. And I am just saying, at what point—right now, big boys know that the housing market is a bad deal. You can get into the housing market now, but you are going to ask for one heck of a lot better documentation on what you are getting. You are going to ask for higher returns. You are going to ask for all kinds of things because you know that this is a very risky business.

But the real question is that we have talked to Washington Mutual. We went through what they went through. They were just pushing stuff out the door as fast as they could get it. It didn't matter, stated income loans. We talked to the regulators. The regulators just basically—the head of Office of Thrift Supervision said he had no idea that Washington Mutual, 90 percent of their equity loans were stated income loans and 53 percent of the Option ARMs and so on. He had no idea of that, which he had previously said stated income loans are an anathema to the business.

Then we go to the rating agencies. In 2003 to 2005, they were still saying, there is no problem—there is a problem. They were saying, there is a problem here. And you ask them, well, why in the thousands of RMBSs that they rated during 2006 and 2007 they rated 50 percent of them AAA and they are all now junk.

So nobody knew? People were still doing things long after they knew there was a problem.

Mr. BLANKFEIN. Senator, there were a lot of business judgments, and maybe—I wish I had known, but if you just look at all the big Wall Street firms that lost tens of billions of dollars even after this period, in 2008——

Senator KAUFMAN. Sure.

Mr. BLANKFEIN [continuing]. Holding on to these securities. I did not know. All we know is the discipline of mark to market and reducing our risk when the markets are nervous and when P&Ls are moving.

Senator KAUFMAN. Let me just finish with this thought. This is the worst thing to happen to this country economically since the Great Depression. Millions of people were put out of work. Millions of people lost their homes. Millions of people are really hurting. And I think what really bothers people the most, at least the people I talk to, is not, the bailouts, although that bothers people a lot. I think what bothers them a lot is the incredible compensation. That bothers them, the bonuses to people that during 2006, 2007 made horrible decisions but still received gigantic performance bonuses, especially from CEOs and executives who said this should be based on performance, and the performance was lousy and still they made billions of dollars.

But I think what really kind of gets them the most is here we are after this terrible travail and there is only one section of our entire economy that has to worry what it is going to do with billions of dollars for bonuses. That is the part. The fact that—and it may be totally a chance. It may be totally something beyond our control. But the idea that Wall Street came out of this thing just fine, thank you, is just something that just grates on people. And I think they think that you didn't just come out fine because it was luck. They think that you guys just really gamed this thing real, real well. Not that you caused the whole thing, although I would say you were a big part of the cause, but just that you came out of this thing fine. I think that is what disturbs them. So I think that is basically the point I was making.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator Kaufman. Dr. Coburn.

Senator COBURN. Thank you, Mr. Blankfein, for being here. I have to disagree a little bit with Senator Kaufman. I think 90 percent of the problems associated with the meltdown in our mortgage system and the financial crisis sits on the lap of Congress. I have been adamant in my view on that because you can't record the last time we had an oversight hearing until the problems came up. We don't do oversight in advance to see whether things are working.

Having said that, I have a few questions for you, Mr. Blankfein. The activities that you and your employees have been called here today to testify about, is it your understanding that your competitors were engaged in similar activities?

Mr. BLANKFEIN. Yes, and to a greater extent than us in most cases.

Senator COBURN. Some of them aren't here anymore, are they?

Mr. BLANKFEIN. That is correct.

Senator COBURN. All right. Did you at any time have concerns—legal, ethical, or reputational—about any of the activities undertaken by Goldman employees about which we have heard today?

Mr. BLANKFEIN. I did not.

Senator COBURN. So you have not heard anything today——

Mr. BLANKFEIN. Oh, I am sorry——

Senator COBURN [continuing]. That has concerned you about actions or statements by Goldman or former Goldman employees?

Mr. BLANKFEIN. I think as I heard it, everything sounds correct. But when you say concerns, I mean, I am in the business—in my role, I will look deeply into everything that has surfaced here. What is going on in this hearing today is, of course, fact finding for you, but it is fact finding for everyone. So I heard nothing today that makes me think anything went wrong, but I won't—you raised transactions that I never heard of before and I will have people look deeply into them.

Senator COBURN. Thank you. On Sunday, September 21, you made the following public statement about Goldman Sachs——

Mr. BLANKFEIN. I am sorry, what date?

Senator COBURN. Sunday, September 21, 2008, about Goldman Sachs becoming a bank holding company. "While accelerated by market sentiment, our decision to be regulated by the Federal Reserve is based on recognition that such regulation provides its members with full prudential supervision and access to permanent liquidity and funding. We believe that Goldman Sachs under Federal Reserve supervision will be regarded as an even more secure institution with an exceptionally clean balance sheet and a greater diversity of funding sources."

Prior to September 2008, did you or anyone at Goldman Sachs have plans to convert the firm to a bank holding company?

Mr. BLANKFEIN. Prior to September 21?

Senator COBURN. Yes.

Mr. BLANKFEIN. We had—yes. We didn't resolve to do it, but it was something that we were very much looking at.

Senator COBURN. Was this something that was discussed at a Board meeting?

Mr. BLANKFEIN. Yes, it was.

Senator COBURN. All right. And there are records of that Board meeting?

Mr. BLANKFEIN. There must be. I haven't reviewed the records.

Senator COBURN. Would you have your staff provide that to us?

Mr. BLANKFEIN. Sure.

Senator COBURN. If you would, please.

Mr. BLANKFEIN. It was decided at that Board meeting not to do it.

Senator COBURN. Looking back today, would you rather be an investment bank?

Mr. BLANKFEIN. You mean outside——

Senator COBURN. And not——

Mr. BLANKFEIN. You mean not a bank holding——

Senator COBURN [continuing]. Rather not be under the Federal Reserve today?

Mr. BLANKFEIN. I am not sure how realistic—we will have to wait and see how the legislation unfolds. I am really not sure, and I will say it this way, how realistic that will be. The reason why we were looking at it at the time was it was hard to—we originally started with a whole regime for investment banks and then post-Bear Stearns and certainly post-Lehman, I think there was, at that point, it was clear there was not going to be a whole regime for——

Senator COBURN. For the classical investment bank.

Mr. BLANKFEIN [continuing]. For the classical investment bank at that point, because there weren't that many.

Senator COBURN. I think in your September 21, 2008 statement, you talked about access to permanent liquidity and a greater diversity of funding sources. Were you, in fact, referring to Goldman Sachs would be able to obtain access to the discount window at the Federal Reserve?

Mr. BLANKFEIN. I am not sure. I think possibly. I am just not sure.

Senator COBURN. Well, that would make sense to you?

Mr. BLANKFEIN. It would make sense to me, but I am just not sure. I know there were a lot of facilities that were in place already, and I am not sure—I am just not sure.

Senator COBURN. Let me ask a follow-up question. Prior to September 22, 2008, is it accurate to say that Goldman Sachs had temporary access to the discount window?

Mr. BLANKFEIN. There are people, other people, even people here who might know that answer better than me. I know that we had access to certain funding facilities. I am not sure it was the discount window per se. I don't think so, but I am not sure.

Senator COBURN. Well, that would be something that I would be interested in having——

Mr. BLANKFEIN. Yes, sir.

Senator COBURN [continuing]. Whether you did or didn't. Have you since becoming a bank holding company accessed the discount window?

Mr. BLANKFEIN. To the best of my belief, other than to test it shortly after we became it, just to see if it would work, I would say no. But as you will notice, I am looking for confirmation from my CFO——

Senator COBURN. I understand. That is fair.

Mr. BLANKFEIN [continuing]. And I feel much better having gotten it. No.

Senator COBURN. Let me ask you a few questions about the bill that is being proposed. Your Executive Vice President and Chief Financial Officer said you embrace it. You are generally supportive of the Dodd bill. You have been fairly high profile in your support for it. Do you still maintain that support for this bill? Do you think it solves the problems that caused the problems that we got into?

Mr. BLANKFEIN. I think execution—well, first of all, some aspects of the bill, I think, have morphed over the last—maybe even over the last few days. I am not sure——

Senator COBURN. I don't think so. The vote was turned down.

Mr. BLANKFEIN. I see.

Senator COBURN. I don't think we have gotten there.

Mr. BLANKFEIN. Right. I am generally supportive, and to be sure, there are details of it that I think I am less sure of. But I think, on the whole, financial reform is essential and I will say that last week in New York, I listened to a speech by Barack Obama at Wall Street and one of the points he made resonated with me because I had said it myself. He said that the biggest beneficiaries of reform will be Wall Street itself, because proper reform will make the markets safer, and then I will add my own piece, the biggest risks that financial institutions have are with each other. And so to the extent that is all made safer, I think America will be a big beneficiary, but specifically we will, as well.

Senator COBURN. What do you think will happen to loan origination from the community banks and smaller regional banks if they are required to maintain 5 percent of every mortgage that they write? What do you think is going to happen to mortgage volume? Let us say the housing industry comes back. Do you think the small banks are going to be writing mortgages anymore in the future?

Mr. BLANKFEIN. I am not—I think I should give a qualification to my—there are parts of that bill that we will—that affect us and that we have particular expertise and experience in, and that is really what I was addressing. There are other big parts of that bill that are just remote from our experience. How it affects community banks, how it affects mortgage originators, since we are only in that business in a de minimis way, and how it affects consumer banks, consumer legislation being a major part of it, is really remote from our experience because we don't engage in those activities. So I should give you that qualification.

Senator COBURN. Do you have any thoughts on the fact that this bill doesn't address underlying core problems like Fannie Mae and Freddie Mac?

Mr. BLANKFEIN. I think——

Senator COBURN. I mean, you would agree that there was an incentive to make loans through the implicit guarantee of the Federal Government to people were less qualified than what we had seen prior to the onset of Fannie Mae and Freddie Mac.

Mr. BLANKFEIN. I can't speak to the qualifications or standards of Fannie Mae or Freddie Mac. I can say that they were an instrument of policy to attract more money into home ownership, which is—I am not suggesting that is—but that is what they accomplished.

Senator COBURN. But you would agree with an implicit Federal guarantee on a mortgage, that would make it more available to more people, because the cost of capital would go down——

Mr. BLANKFEIN. Yes.

Senator COBURN [continuing]. Because of an implicit Federal guarantee behind it.

Mr. BLANKFEIN. I would say there are two, and there may be a lot more, but coming to mind, there are two big policy facts that tend to draw more money into housing, at least two, one of which is that through the government-sponsored entities, money—the government implicitly—those entities were able to draw in money because they were perceived to be quasi-government credits. That is one. And the other is, of course, the fact that the tax code allows you to deduct mortgage interest. And so those two things would cause—would favor more money, all other things being equal, to flow into those sectors.

Senator COBURN. Have you personally spoken with anybody at Treasury about the regulatory reform effort?

Mr. BLANKFEIN. Since the beginning?

Senator COBURN. Have you had——

Mr. BLANKFEIN. I might have.

Senator COBURN. Let me rephrase the question. Have you in the last 6 to 9 months had conversations with people at Treasury about the regulatory reform effort?

Mr. BLANKFEIN. I might have, but they were—they would be at a very general and high level, not specific, frankly, along the lines in which I am—the same way I am talking about it to you, at the same——

Senator COBURN. OK. That is fair. Do you know who you talked to?

Mr. BLANKFEIN. I call, as part of what I do in my role, I try to see senior people in Treasury and at the White House and, frankly, in the legislature and introduce myself, offer to discuss things on their mind and offer them things, if they are interested in hearing it that are on my mind. But they are generally—but I wasn't involved in any kind of roll-up-your-sleeve effort on specific points.

Senator COBURN. Let me change course for a minute. I just really want to pick your brain and your judgment.

Mr. BLANKFEIN. Sure.

Senator COBURN. Systemic risk and the fact that it was there created the necessary program for us to eliminate that systemic risk. The option in the Dodd bill is to tax you so that we can have a fund, and I have real problems with how that fund is managed, but the idea is, is so that the government doesn't ever loan it again, i.e., the taxpayer, but, in fact, the taxpayer will, because if you are taxed, it is going to cost more to the people you do business with.

So what are the other ways to handle systemic risk, in your opinion, that are different than creating a taxpayer-funded fund again that would limit this country's exposure to significant systemic risk, knowing that as we lessen that risk, we probably also lessen some of our competitive capability worldwide in terms of financial and capital markets?

Mr. BLANKFEIN. Well, I think for sure we need the apparatus—it could very well be the apparatus proposed—for systemic risk regulation and observing systems and people who can look across all the different institutions and potential sources of systemic risk. I think that is very important.

Second, and I think possibly the most important thing that is being discussed, is to recognize that despite every good intention, despite trying to see around every corner, you just will miss stuff, and to make sure that the system is better able to absorb the consequence of missing something. And so making financial institutions, including institutions like ourselves, have appropriate levels of capital and liquidity, which by and large means more of both——

Senator COBURN. Which means we would limit your leverage ratio to 10 to 12?

Mr. BLANKFEIN. You might limit our leverage ratio. You might have us have certain kinds of contingent securities that cause people to have to give us money at times we need it. There are a number of proposals out to do it, but in general, the system would be made safer if financial institutions had more capital. There is, of course, a cost for this, because to the extent that you have more capital and lower leverage, loans will be more expensive. There will be less credit granted, but that is a tradeoff that after the experience of the last few years policy makers may well be interested in making, and it is a question of degree that——

Senator COBURN. Well, it is about a $10 trillion cost of what we have absorbed already, so——

Mr. BLANKFEIN. Right.

Senator COBURN [continuing]. That may be cheap in comparison to what we have swallowed.

Mr. BLANKFEIN. And I think at least a third level, after you try to avoid all the problems and after you try to have more capital to absorb the problems, you have to have a resolution authority to make sure if No. 1 and No. 2 don't work, that an individual institution that was poorly run or undercapitalized doesn't bring down the system, and so no institution should be too big to fail or have to burden the public with the cost of its failure or being saved.

Senator COBURN. Which brings to mind, do you think that the FDIC presently has the capable staff that would be able to come in and run Goldman Sachs if you got into trouble?

Mr. BLANKFEIN. My answer——

Senator COBURN. The answer to that is absolutely no. Nobody is going to believe they have the capability to do that. But that is what we are setting up in this bill. We are going to give them broad power to come in. They will pick winners and losers. They will make the decisions. They have none of the expertise to do that, but that is who we are going to put this with.

Mr. BLANKFEIN. I can't answer your question. My experience with the FDIC, while limited, because as we started out in the beginning of this conversation, we have only been a bank for a short period of time, has been—makes me respect them to quite a great degree, but it has been in connection with their existing functions.

Senator COBURN. Yes, but their existing function is they take over and immediately sell the assets and they don't run things, correct? And this bill is going to have them running things, a big difference. There is no question they do a good job when they close and sell the assets and open it up—close it on Friday and open it on Monday. But there are experienced people in the banking business that are making the decisions on that, not FDIC——

Mr. BLANKFEIN. Yes.

Senator COBURN [continuing]. And they have nobody near the capability of people inside Goldman to take over Goldman and run it, yet that is what we are writing into the bill. And you think that is a wise position?

Mr. BLANKFEIN. I am not sure of the interaction of that. Senator, one thing I would say——

Senator COBURN. Well, no, the interaction is we are going to give a Federal bureaucracy the ability—who has never had any experience—to come in and run a company like Goldman Sachs, one of the most sophisticated financial institutions the world has ever known, they have no experience, no knowledge with how to do that, and we are going to write law and then they are going to write regulations that they are going to be able to do that, if you become too big to fail or you become a systemic risk for the rest of the financial institution. Do you all embrace that?

I mean, that is totally different than anything we have heard from Goldman Sachs' business philosophy here today and what we have studied.

Mr. BLANKFEIN. Again, I don't know how that interacts and I don't know the rules and I don't know how they will be applied in the details of the regulations, and the devil, of course, is always in the details——

Senator COBURN. But yet you all embrace the bill?

Mr. BLANKFEIN. I said we support the direction of the bill, but with respect to this, I think it is very important for Goldman Sachs and I think it is very important for taxpayers, but let me come back and say this first—it is important for Goldman Sachs that we take away the notion that this is a very big burden on us if people think we are too big to fail. We don't think we are too big to fail. We don't want to be too big to fail. But a lot of the negativity that is associated with us is because people think we are getting the benefit of being too big to fail, and I don't think it is good for the country or for us to be in that place.

Senator COBURN. Well, you would agree that $700 billion got allocated of taxpayer money to solve systemic risk problems, of which you were the beneficiary both directly and indirectly of a portion of that.

Mr. BLANKFEIN. Yes.

Senator COBURN. So somebody thought you were too big to fail.

Mr. BLANKFEIN. Certainly at that time—the answer is, yes. At that time, even a small institution might have been too big to fail, just because of the fragility. There was so much tinder——

Senator COBURN. That is a legitimate point.

Mr. BLANKFEIN. So I would think——

Senator COBURN. What about the idea of taking the six largest banks that do similar things to you and make them into 60 with specialization in this over here, and this over here——

Mr. BLANKFEIN. I thought about that——

Senator COBURN [continuing]. Where we divide up systemic risk so we don't have systemic risk?

Mr. BLANKFEIN. I thought of that. I don't think that would be a good idea, and I am speaking, Senator, from a position of not being really one of those big banks. In other words, our balance sheet of something over $800 billion, I think is about a third or 40 percent of where the big banks are. So even though we are a big investment bank, because we don't do all those—we are not——

Senator COBURN. You don't do the commercial side, and you don't do——

Mr. BLANKFEIN. We are not as big as those and don't have the balance sheet. But notwithstanding that we are one of the smaller ones, I would say there is a lot of—obviously, if someone is going to get to that position of failing, the fact that they are big makes it worse. But the fact that banks are bigger and more diverse and more activities in more places in the world probably makes them safer.

And second, when you think of the big financing purposes in the world and what the United States needs to maintain its competitiveness, having financial institutions too small to conduct financing and a competitive basis as the rest of the world, I think will be a competitive disadvantage to the United States.

Senator COBURN. OK. I have one final question. You are the leader of Goldman Sachs. There is no question about that, right?

Mr. BLANKFEIN. Yes, sir.

Senator COBURN. All right. And you set the tone?

Mr. BLANKFEIN. I do, sir.

Senator COBURN. I have asked a lot of questions about ethics today throughout the period. I have a question for you. Why did Goldman Sachs decide to release the personal emails of Mr. Tourre and not everybody else in this hearing? It had no investigative purpose. We didn't expose any of that. We had deleted all of it. We weren't exposing it. Was that a right decision? And, is it fair to your employee? Is that a political ploy or a defense ploy, or why would you do that to one of your own employees?

Mr. BLANKFEIN. I wasn't close to the decision, but can I give you—I wasn't specific about that, but I think what we have been—we wanted to get, and I wasn't thinking about that because we also put—we also provided some information from emails with respect to the business and these—there were elements here that were—spoke badly of the firm and we just wanted to come abreast of all the issues about which were bad to the firm. There was nothing in anything, to my understanding, about Mr. Tourre's subsequent emails that weren't evidenced by the emails that had already been out. And so I didn't think we were adding anything to distress——

Senator COBURN. Well, this Subcommittee had never released any of that information on him, anything that would get into his personal life or his personal thoughts. To me, I go back to the original question. The tone set by that, if I worked for Goldman Sachs, I would be real worried that somebody has made a decision that he is going to be a whipping boy. He is the guy that is getting hung out to dry, because nobody else had their personal emails released. You all made a very distinct, discriminatory decision that one of your employees is going to be made to look bad, because we didn't release those emails.

Mr. BLANKFEIN. Senator, I don't know what it was, but there were emails that were extant and—again, this is all to the best of my knowledge——

Senator COBURN. I understand that. And maybe you weren't involved in it——

Mr. BLANKFEIN [continuing]. And I think what we wanted to do with respect to some of the issues was to just get information—get it out so that we could deal with it, because at this point, and I think you are aware that the press was just very—and maybe the press—I don't know where they came from, but I don't think we added, to the best of my knowledge, but I don't know, I don't think we added to the state of knowledge about those emails which our employee addressed, and I think needed to address.

Senator COBURN. Thank you. I have gone over my time, Mr. Chairman. I apologize. Mr. Blankfein, thank you for your cooperation.

Senator LEVIN. Thank you. Senator McCaskill.

Senator MCCASKILL. Thank you, Mr. Chairman, and thank you, Mr. Blankfein for being here today.

Mr. BLANKFEIN. Thank you, Senator.

Senator MCCASKILL. I want to start by saying that in many ways, the focus on just your firm is tremendously unfair. The activities that are being talked about, and I am sure we could compile the same kind of documents, the same kind of emails from all of your competitors on Wall Street. I mean, the conduct that we are looking at was not exclusive to Goldman Sachs and I think it is important to acknowledge that on the record. In fairness, there probably ought to be another four or five CEOs sitting up there with you, as we discussed——

Mr. BLANKFEIN. I would welcome the company.

Senator MCCASKILL. I am sure you would.

And I know it seems like we are harping, but it is because so many of the cultural realities of what you all do is jarring to most Americans. This notion of selling a product that you are betting against is hard for people to understand that just have a basic sense of right and wrong and common sense. And we spent a lot of time going over that today. I want to talk about several details as it relates to that.

One is that it is clear to me that you all had—there was kind of an orphan document in the documents that we got, and one of the orphan documents we got was from a woman named Manisha Nanik to a person named Loren Morris. And what it was was a summary of an analysis of mortgages that you all were going to slice and dice and do all the tranches. And it is a fairly detailed finding, and it is important, the date on this document is March 13, 2007. This is Exhibit 77.[1]

This document says that 7 percent of the mortgages that the Goldman employee looked at had material occupancy misrepresentations, where borrowers took anywhere from 4 to 14 loans at a time and defaulted on all. You risk in the loan performance and difficulty foreclosing on the second liens would be potentially unsecured.

Another 20 percent of the pool had material compliance issues. They are mainly missing final HUDs. We cannot put these loans back. We will need to consider option of our service or fixing the errors via refinance, refund, or disclosure.

Mr. BLANKFEIN. I am sorry. Could you give me the number again?

Senator MCCASKILL. It is Exhibit 77.

Mr. BLANKFEIN. I am sorry. I apologize.

Senator MCCASKILL. She goes on to say, approximately 10 percent of the pool is flagged as potential REO or potential unsecured or second lien.

Another 5 percent of the pool was originally fraudulently based on the DD results. Main findings, possible ID theft, broker misrepresentation, straw buyer, falsification of information origination documents. And then she says, there is a reputation headline risk, as well.

Now, I am not sure if these—you did issue a bunch of New Century mortgages at or around that time in a CDO, in one of these instruments. I can't say that these are the ones that you issued, but what it tells me is you had internal analysis on these mortgages.

Mr. BLANKFEIN. Senator, I don't know whether—I am reading the words. I don't know who these people are. It sounds like, just looking at it, it sounds like somebody is complaining and asking—recommending that we not do some of these things, from what I can see on this page.

Senator MCCASKILL. Well, I think it is plain on its face that this is a Goldman Sachs employee that has analyzed a group of mortgages that you all were considering packaging up——

Mr. BLANKFEIN. But I don't know——

Senator MCCASKILL [continuing]. Either for somebody to bet on or bet against.

Mr. BLANKFEIN. But I don't know whether any of this was—I don't know who these people are and I don't know whether any of this was done.

Senator MCCASKILL. Well, here is what I——

Mr. BLANKFEIN. Are you saying that we did these?

Senator MCCASKILL. This is your document. This came from you——

Mr. BLANKFEIN. No, I know it is a document——

Senator MCCASKILL. It is a Goldman Sachs document.

[1] See Exhibit No. 77, which appears in the Appendix on page 504.

I don't know whether you did these or not. The point I am trying to make is it shows that an analysis was going on on the mortgages that went into your instruments internally.

Mr. BLANKFEIN. There better have been. I think we are supposed to analyze and do due diligence with respect to securities and instruments that are created.

Senator MCCASKILL. OK. Well, if that is the case, then when you issued all the documents that you did when you did all the—what is the name of the company that had all of the problems—Long Beach Mortgage. When you did all the Long Beach Mortgage, do you think you did this same analysis on all the Long Beach mortgages?

Mr. BLANKFEIN. I don't know specifically about Long Beach. I know we have, in all our businesses, due diligence processes that are appropriate for the business. So I would say as a matter of process, I would assume appropriate due diligence was done on it, based on our standards and our protocols.

Senator MCCASKILL. Well, in May 2006, you were the co-lead underwriter with WaMu to securitize about 532 in subprime second lien fixed rate mortgages originated by Long Beach. Now, keep in mind that this is the same Long Beach that had to buy back hundreds of millions of dollars of mortgages because of problems. At one point in time a few years earlier, they had been shut down because of problems. And I guess I would like to request, on behalf of the Subcommittee, that we see the analysis, first of all, that we figure out what mortgages these were that were analyzed, where you found fraud and you found 5 percent fraud, 7 percent material occupancy misrepresentation, 20 percent material compliance issues. I think it would be important for us to see those documents on the instruments you created for folks to take a side on.

Mr. BLANKFEIN. OK. I am not sure whether an instrument was created out of this, but I get the point and will look for it.

Senator MCCASKILL. Yes. I mean, I think the point is that it is hard for us to believe that if you all were doing the due diligence that you have stated a couple of times in your testimony, now we know that these things were full of this kind of stuff. We know that. And you obviously knew it on one instance because we have a document from somebody in your employ that 38 percent of the loans are out of tolerance. I recommend putting back 26 percent of the pool, if possible.

It doesn't make me comfortable that you all, after doing the due diligence, actually disclosed as much as you maybe should have disclosed about some of the problematic paper that you were packaging up for investors, and so I would like to follow that trail and get the same kind of documents on the instruments that you did put out in the market, both in 2006, 2007——

Mr. BLANKFEIN. Sure.

Senator MCCASKILL. OK. Let me ask you this. And by the way, in May 2006, right about when you did that, Office of Thrift Supervision just did a scoop at Long Beach and found all kinds of problems with their mortgages, almost at the exact time you were putting your instrument out. So that is why I question what kind of due diligence was actually going on and how much due diligence you were actually using in telling the buying public what was in these various transactions.

In your testimony, you expressed regret that Goldman missed the signs of a system where credit was too easy, and you have said nobody could know when the housing market would crash or how bad it would crash. Looking back, do you think that you all did enough to look at what were in these instruments and how strong they were on their face? Do you think you exposed the kind of problems that these loans, the vast majority of these loans, represented?

Mr. BLANKFEIN. Given that things didn't work out well, in hindsight, I wish we had done more. I think we thought at the time, and again, I don't have contemporaneous knowledge of it and I am not an expert on that area, I believe we believed we were doing appropriate due diligence and appropriate disclosure. Things went much further and got much worse than people realized. I don't know that we would have—I wish we had done—I don't know what due diligence would have picked that up, but I wish we had done more to get there.

Senator MCCASKILL. Would more disclosure, in fact, harm your business model?

Mr. BLANKFEIN. I don't——

Senator MCCASKILL. If you truly are just the house, if you truly are just trying to manage transactions on both sides of a proposition?

Mr. BLANKFEIN. I don't think so.

Senator MCCASKILL. And it is interesting to me that the investment banks that have created all these exotic instruments, that there has not been more effort to push for more disclosure, that it appears that we are dragging you along kicking and screaming. Is that an unfair characterization?

Mr. BLANKFEIN. I don't know. I am not sure what——

Senator MCCASKILL. There is no question that sometime in early 2007, you realized that there was a lot of—you had a lot of residual positions, equity residual positions on these CDOs and that you wanted those books cleaned up as quickly as possible.

Mr. BLANKFEIN. I am thinking in terms of risk. I am not sure they were equity residual—I am not sure. I don't know that I had formed a view of equity residual positions, per se.

Senator MCCASKILL. Well, in Exhibit 130,[1] there is an email from you to Tom Montag, and the email reads as follows. "Tom, you refer to losses stemming from residual positions in old deals. Could/should we have cleaned up these books before and are we doing enough right now to sell off cats and dogs in other books throughout the division." That was in February 2007.

Mr. BLANKFEIN. I got to the page.

Senator MCCASKILL. That would seem to be indicating that in early 2007, before you all had, in fact, marketed more of these synthetic CDOs, that you were basically saying, let us clean up the residual positions we have, the cats and dogs, and push them to traders.

[1] See Exhibit No. 130, which appears in the Appendix on page 853.

Mr. BLANKFEIN. Senator, I don't remember typing this, but I could tell you clearly how I used those words and what I meant. I hope I have this right, but when I use the expression "cats and dogs," I mean miscellaneous stuff. I hope everybody thinks of it that way. That is how I use the words.

Senator MCCASKILL. OK.

Mr. BLANKFEIN. And I am referring—this is just my normal rant about aged inventory, just as a matter of risk management. When somebody tells me they are losing money on old stuff, my reaction is, why do you—part of the discipline of our business is to manage risk and sell inventory, and so here, I am not even thinking about the particular asset class he is talking about. I am saying, could/should we have cleaned up these books—in other words, I am yelling at him—before, and are we doing enough right now to sell off cats and dogs in other books throughout the division?

I am basically saying that you are head of the division. You are supposed to be managing an aged inventory—we have something called aged inventory, which is just as a matter of discipline, let us not accumulate residuals, parts of other deals. Sometimes we have little pieces left over, but those little pieces, if you don't pay—they are not big enough to pay attention to, but in the aggregate can hurt you. So I am saying, I am just being——

Senator MCCASKILL. Well, I will just tell you, I won't take the time to read through the whole email chain, but it is clear if you read through the whole email chain, this whole email chain was about risk in the whole loan trading business, and it is clear that what was going on here is there was a lot of internal noise about the fact that you had long positions, equity positions in a lot of this stuff as you guys were moving—I think we have beaten this horse until it is almost dead—into some major short positions throughout 2007.

As the Chairman said, in earlier questioning of other witnesses, as you all keep talking about your net for 2007, no one has been able to delineate specifically how much of the long position that you were suffering in 2007 is this really old stuff as opposed to any notion that you guys were actually participating in long purchases through 2007.

Mr. BLANKFEIN. Senator, it wouldn't matter to me one bit. If we had risk on our book, it wouldn't matter to me whether it was there for a long time or a short time. Risk is risk——

Senator MCCASKILL. Right.

Mr. BLANKFEIN [continuing]. And I would want them—if we would ask people to manage their risk down, they would manage their risk down.

By the way, I found on the front page—I am sure I didn't look at this whole document—the fellow who wrote to me said, most of the risk is in old residual positions from deals done over the last few years, and that is what I was responding to.

Senator MCCASKILL. OK.

Mr. BLANKFEIN. In other words, a person—it is undisciplined to hold stuff because it is small for years. It just is probably because it was too small to pay attention to, and that is not the way you are supposed to be.

Senator MCCASKILL. Well, I am not sure when you look at all the documents that the older long positions you had would be considered small by most people's standards, but maybe it would within the context of your organization.

Mr. BLANKFEIN. Well, I am referring to most of the risk is in old residual positions. Anyway, that is what——

Senator MCCASKILL. And I guess what I am trying to get at is the point we have been trying to make, and this is where I think—this notion that you guys are market makers and you also are sometimes taking positions outside of your just market making, that is what is hard for many of us to kind of get our arms around.

I guess, I have been talking sports analogies today because I think there is a lot about this that relates to gambling on a sporting event, because the synthetic CDOs didn't represent anything but gambling. It was folks taking one side or the other. It wasn't real mortgages in there. It was just stuff saying, take a bet, just like you bet on a football game.

Is there anything that you would not create a market for if a client came to you to create a market? I understand that some people are trying to create a derivative market now in how movies are going to do.

Mr. BLANKFEIN. I haven't heard about or been involved in it. And I am sure there is, but if there is somebody who has—and if somebody whose business depends on—would be able to do their business better if they were able to hedge or eliminate a financial risk and they came to us and asked us to eliminate that risk and it was legitimate, proper, and honest and susceptible to being understood, I think we would—they would come to us and ask to do it.

Senator MCCASKILL. But didn't Mr. Paulson just want to make money because he thought the market was going to tank? He didn't have a—he just was looking for a place to score on a bet, wasn't he?

Mr. BLANKFEIN. I can't say what Mr. Paulson is thinking, but there is nothing wrong—speculating—if he was, which I don't know what he was thinking, if he was just a speculator, there are people who speculate in corn and speculate in all sorts of commodities——

Senator MCCASKILL. I understand.

Mr. BLANKFEIN [continuing]. That allow the professional users of those markets to complete their hedges. That is a socially acceptable——

Senator MCCASKILL. Mr. Blankfein, there is a big difference between finding the opposite side of a certainty in a commodity hedge for a farmer that needs certainty or an airline company that needs to figure out what jet fuel is going to cost and two sides of a deal that are both just betting. There is nothing in a synthetic CDO that is essential to certainty to anybody's business other than somebody just deciding they want to take one side of a deal and the other side of a deal. That is what a synthetic CDO is.

Mr. BLANKFEIN. Every futures contract on oil or anything consists of you could characterize it as a bet, but not the underlying commodity. Some of these things just don't even settle in physical form, but they provide the liquidity and the opportunity for people who want to hedge themselves to get in and take that position.

Senator MCCASKILL. And we can't take this too far.

Mr. BLANKFEIN. Oh, for sure.

Senator MCCASKILL. I mean, you don't think that there is a point where we make up stuff to bet on and you guys are securitizing it and tranching it, and especially the situation in this instance.

Mr. BLANKFEIN. Let me be clear——

Senator MCCASKILL. You put one side of the bet in the room with the people who are picking the product, which is, I think, bizarre. I guess your representatives this morning acted like it wasn't any big deal——

Mr. BLANKFEIN. I am sorry, that what wasn't a big deal?

Senator MCCASKILL. That the person who came to you that wanted to bet against the deal, you put them in the room with the people who were going to pick the stuff in the deal. In other words, you didn't put both sides in there. You put one side of the bet in with the people who were picking the product that was going to be gambled on. That seems weird.

You know what it reminds me of? It reminds me of this notion—I think most Americans think it would be really wrong for one of the football players to be able to be in the room with the bookie trying to influence what the line was going to be, and then they turn around and bet on the game they are playing in.

Mr. BLANKFEIN. Well, Senator——

Senator MCCASKILL. That is what this feels like. It feels like that you guys are betting on the game you are playing in and that maybe it is not a level playing field.

Mr. BLANKFEIN. Senator, on these transactions, and I feel it—I know there is an inherent distaste for the short side of things as opposed to the long side of things. But for every transaction, there is a buyer and a seller and there is nothing immoral about somebody structuring a position—and by the way, some of the people who are taking the short position may just be wanting to restructure their portfolios, as well.

Senator MCCASKILL. I understand that. But you understand that——

Mr. BLANKFEIN. I do.

Senator MCCASKILL [continuing]. It feels like you guys were pushing a product that you were betting against at the same time you were letting somebody who wanted one side of the deal in the room with the people who were picking the product, not the other side of the deal. None of that seems like even-steven. None of that seems like you are an honest bookie who is trying to manage risk on both sides and just get it down to the vig.

Mr. BLANKFEIN. In that transaction, ACA, the selection agent, I think, was the buyer itself of something like 80 or 90 percent of the transaction. The biggest buyer, the biggest long in that whole transaction was ACA itself. I think it took a position of a total deal of around $1.1 billion. I think it took over $900 million of the transaction itself. So the biggest buyer of that transaction was very well represented. It was the selection agent itself.

Senator MCCASKILL. Well, that also seems weird. I mean, it seems like to me that if you—and it is hard for me to believe that the selection agent was excited about that deal if they really knew the person who was helping them pick all the deals wanted to bet against it.

Mr. BLANKFEIN. The selection agent had engaged in a lot of these portfolios and was one of the biggest portfolio managers in that asset class. When we talk about investors and deals, it sounds like this is a broad distribution. There were only three professional investors engaged in the whole transaction. This was—in effect, there was no transaction—this was not a transaction that had to be done. This was a transaction that only worked if the longs and the shorts agreed on what the portfolio was. And I realize that is not intuitive, but those professional investors wanted those exposures.

Senator MCCASKILL. And I am not sure that, frankly, it is a thing of value that most Americans would be comfortable that we would be backing up and providing taxpayer bailouts to companies that were engaging in that, especially if you weren't actually really dealing with a commodity or dealing with a product at the base of the transaction, that you were making up securitizations for people to, in fact, take positions on only for that reasons. It seems like hamsters in a cage trying to get to compensation as opposed to societal value that investment banks in this country, I think, have represented for many years.

I really appreciate you being here today. I hope you stay at the table with us as we work on this legislation. I think, clearly, this hearing has shown in the work this Subcommittee has done, and the staff has done amazing work here, that we have conflict of interest issues, we have disclosure issues, and we have transparency issues, and we need to get all of those fixed to make sure we don't have a repeat of this debacle.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator McCaskill. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman.

I would like to start, if I can, with the topic of asking you about credit rating agencies. In retrospect, how accurate were the credit rating agencies in rating the various tranches of CDOs?

Mr. BLANKFEIN. In retrospect, they were inaccurate.

Senator PRYOR. And so, these got rated as AAA, and I know they were downgraded later, but why do you think that they missed the rating so bad?

Mr. BLANKFEIN. I think they never anticipated that the market could fall as much as the market fell. Again, this is not contemporaneous knowledge. This is not anything in depth; I know about the—I mean, I read articles, too, but it just—and that is where I get some of this from. But it just seems that they never contemplated—they never worked into their models the kind of move that occurred in the market, and I think that is why they didn't work.

Senator PRYOR. From your standpoint, what ability, if any, do investment banks have to influence a rating by a credit rating agency? Can you kind of, as lawyers say, forum shop and try to find a better rating with a different agency?

Mr. BLANKFEIN. I don't know. The first panel that you had today included people who execute deals in connection with obtaining ratings. In my entire career at Goldman Sachs, I never dealt directly with a rating agency other than with the rating of Goldman Sachs.

Senator PRYOR. OK.

Mr. BLANKFEIN. And I have been very—and I am not sure that I have been able to influence them.

Senator PRYOR. OK. That is fair enough. Let me ask a question I am not sure anyone has asked you on a topic that no one has touched on yet, and that is the use of off balance sheet limited and special investment partnerships. I have a concern about those and——

Mr. BLANKFEIN. SIVs?

Senator PRYOR. What is that?

Mr. BLANKFEIN. Go ahead. I am sorry.

Senator PRYOR. The off balance sheet limited and special investment partnerships. Why would your company ever want to use an off balance sheet investment vehicle? Why would you all ever do that? What is the motivation to move it off balance sheet?

Mr. BLANKFEIN. I am not sure that we do.

Senator PRYOR. But Goldman does that, right?

Mr. BLANKFEIN. I am not sure. I think some deal trusts may be—I am just not sure.

Senator PRYOR. OK.

Mr. BLANKFEIN. I could tell you that as a matter of our policy, we mark to market all the risks of the firm, whether they are on balance sheet or off balance sheet, so there would be no P&L consequence to us——

Senator PRYOR. So they are disclosed? The off balance sheet is disclosed?

Mr. BLANKFEIN. I don't know.

Senator PRYOR. OK. Well, we may follow up in another context on that.

I would like to ask you about the Securities and Exchange Commission case, if you are comfortable answering these questions, and if your lawyer says you are not, I understand why you wouldn't be, but I do have some questions based on the press release that the SEC sent out back on April 16. If you will answer, I would just like to get a feel for what you think really happened, and I guess I would like to give you a chance to explain some of this.

It says, "Goldman Sachs failed to disclose to investors vital information about the CDO, in particular the role that a major hedge fund played in the portfolio selection process and the fact that the hedge fund had taken a short position against the CDO." Is that true, that you failed to disclose that?

Mr. BLANKFEIN. Again, well, you obviously know I wasn't there——

Senator PRYOR. Right.

Mr. BLANKFEIN [continuing]. But I think our person who testified in the first panel, Fabrice Tourre, maintained that he believed that they did know, and I think that—look, some of these things, it is not a question—you give me license in the sense that you know I wasn't there and I don't know. I am doing the best I can. I think there is a lot of elements of the transaction and reputations and things that suggest they should know and must have known, and then there is also a lot of opinions that are floating out in which some people say they did know. But I think it is not a question of not wanting to tell you. I can't tell you more. I know that one of the contested facts in the case is whether the selection agent knew or didn't know.

Senator PRYOR. Let me ask the follow-up question about your standard of behavior, I guess we can say. Should that information have been disclosed to investors?

Mr. BLANKFEIN. Again, I am not sure. In other words, the legal—the complaint is whether the—I mean, at least part of the complaint is whether the influence had an undue—of that person had an undue effect. I don't think there would be anybody—I am not sure that anybody—there is any duty on us to disclose the existence of that short position. This is a synthetic, so there had to have been a short position. If it wasn't them, it would be us. So everybody in the transaction knew, to the extent there was a long, there had to have been a short.

The issue is not whether there was a short and whether we were disclosing it. It just has to be a short. The question was, did that short have undue influence on the placement—on the selection agent, and then you get to the situation where our person says—thinks—believes they knew. I think Paulson may have—person may have been quoted as having an opinion on that. And then there is the issue with, well, how could you not know, that kind of element to it.

So you get a factual thing, and obviously it is a legal case, so there are people on one side and people on the other, and I don't want to diminish it, but that is the best I can do. That is what the case is. That is the factual issue over which the case is.

Senator PRYOR. Right, and let me go to the next paragraph. It says, "Goldman wrongly permitted a client that was betting against the mortgage market to heavily influence which mortgage securities to include in an investment portfolio while telling other investors that the securities were selected by an independent, objective third party." So the first question is, is that allegation true, and if it is——

Mr. BLANKFEIN. Again, I will do the best I can——

Senator PRYOR. Right.

Mr. BLANKFEIN [continuing]. Not knowing any of these facts firsthand. But one of the facts, and I think it is in the SEC's complaint, was that the portfolio that was initially proposed, in which the hedge fund at least participated, and maybe, for all I know, gave—I am not sure, maybe proposed all the names—more than half those securities were thrown out by the selection agent. Now, in throwing out more than half, they are obviously looking and making a judgment about all of them. They just turned back more than half of them, but that doesn't mean they only looked at that half. They looked at all of them and asked that more than half of them be eliminated.

Then Paulson, I guess, proposed others. Some of those were accepted. Some of those were turned back. And then IKB also proposed, I think, some. So there was a healthy back-and-forth over—so it looks like they were—and so every decision that was made, people may have been—there is no deal unless the long and the short agree to it. So there was no doubt because it is part of the record there were conversations between them—but whether the selection agent that had the responsibility and duty to pick that portfolio picked that portfolio. They did. That is our point of view. The SEC, I think, has its point of view.

Now, I hope I am doing a good job representing both sides of this because I am really trying to be cooperative and not resort—and not not answering, but that is my best understanding that I have.

Senator PRYOR. This press release also says, "The marketing materials for the CDO known as Abacus 07 AC–1, all represented that the RMBS portfolio underlying the CDO was selected by ACA Management, LLC, a third party with expertise in analyzing credit risk in RMBS." The SEC alleges that "undisclosed in the marketing materials and unbeknownst to the investors, the Paulson and Company hedge fund, which was poised to benefit if the RMBS defaulted, played a significant role in selecting which RMBS should make up the portfolio." Is that true, that all the materials represented—that the RMBS portfolio was selected—underlying the CDO was selected by ACA Management? Is that true?

Mr. BLANKFEIN. Well, on the basis of what—that is consistent with what I just said and that is consistent, in my view, that they did select the portfolio. We have an independent auditor. It doesn't mean we don't interact with them. It doesn't mean that we don't give them our views if they have an opinion of how they should treat an accounting item at Goldman Sachs. But at the end of the day, they are the independent auditor and they make the judgment.

Senator PRYOR. And do you have documentation there at your company about what was disclosed to whom and when?

Mr. BLANKFEIN. I don't know, but if there is a disclosure document, which I assume there is—I mean, there were disclosure materials, yes.

Senator PRYOR. And so on these type transactions, there are documented disclosure materials that pass among all the parties?

Mr. BLANKFEIN. There are disclosure materials, yes.

Senator PRYOR. OK. In the past 25 years, America has seen an increasing number and severity of financial crises. You have the savings and loan crisis, Enron, the dot-com bubble, the housing bubble. What steps will Wall Street take to assure that there is not another financial crisis?

Mr. BLANKFEIN. Listen, I think the financial reform is a good step——

Senator PRYOR. That we are working on now?

Mr. BLANKFEIN. That we are working on. There will be gives and takes in it, and I am not sure myself where it would—nobody is—where it would come out, so the need for reform. I mentioned earlier the need for higher capital standards, systemic risk regulation. That is general. And obviously every firm needs to manage its risks very well and better than they have been doing in most cases. And I think in our case, particularly, you have to look also through every aspect of your business practices to make sure, and to not be defensive, which there is a tendency to be, but to learn from prior situations, including the one we are in now, and make sure that you do a better job.

Senator PRYOR. Well, that was one of my questions that I was going to follow up with, is what are the lessons learned from this most recent financial crisis and what is Goldman doing differently internally now that you have had to go through the bailout and all the other strains and difficulties that we have all gone through the last year and a half?

Mr. BLANKFEIN. Senator, even as I am explaining what we did and why I thought it was adequate at the time, there is not a thing that will arise here and elsewhere that won't be the subject of some big soul search and some tightening up of some standards. We have a high level committee in our firm going over every—we call it Business Practices Committee chaired by our vice chairman, one of our named executive officers, that involves the seniormost people in the firm, and it is not with reference to legal requirements, law, whether we can win a lawsuit or lose a lawsuit, what happened, what the standards of the day were, and we are going over everything.

Now, we always do things—it is a little bit like painting a bridge. You get to the end of the bridge, you go back, and you paint the beginning because things are evolving. But if we have to—everybody has to tighten up and ratchet their standards up and learn from these elements.

You asked me—we were just talking about the standards in that particular transaction that is the subject of the lawsuit. We have the position that we do, and we believe everything is adequate, but given the criticism that we are going under and given the position that the SEC has taken with our duties, we wouldn't do it that way—guess what. We would tighten that up now. Of course, everything that has been the subject of criticism will be tightened up.

Senator PRYOR. There is a company that is based in Little Rock named Stevens, Incorporated. I don't know if you know Stevens, Inc.

Mr. BLANKFEIN. I don't know them well, but I have heard of the company, of course.

Senator PRYOR. And Jack Stevens, one of the founding brothers of that—there were two Stevens brothers that founded that company—he always said that he had the philosophy of, we want to be in business tomorrow, and what he meant by that, and apparently the way Stevens still operates is they want to service their customers, do an excellent job there, and also they want to be prudent and jealously guard the trust of their investors. So Stevens, as far as I know, has never gotten into some of these 20–1, 30–1, 40–1 type leveraged deals. They just don't do that. And I am sure they haven't made as much money as some in the industry have, but also, I think that they have remained very sound through this process.

Is Goldman Sachs and/or the industry changing those really high leverage ratios and going back to something that I think is more appropriate, and you may say more conservative, but that is based more on reality rather than just how much money you can make off one transaction?

Mr. BLANKFEIN. Yes. I think the industry is substantially less leveraged. I will tell you, we thought we weren't leveraged going into the crisis as much—and we weren't as much as other investment banks like ourselves. With the benefit of hindsight, we were too leveraged even at what we thought at the time was fine and we are substantially—we are less than half as leveraged as we were then.

The recency of this crisis is going to reverberate with me for the rest of my career and my life. So I will be—the image of it and the fear and the anxiety that we all had.

And so I agree, I think the firm—all firms will be run much more conservatively and I hope for a long time, and I tell you that society will not rely on the good will and the memory of financial firms. I think Congress and regulators will impose tighter-higher capital requirements and liquidity requirements, and I think that is appropriate, because as we also found out in the crisis, we all have interrelated obligations to each other and it wouldn't suit me to have Goldman Sachs be conservative if everybody else is going to take too much risk and put the system at risk, which is why, again, I echo making the world safer and ending too big to fail, I think, is something that is a substantial interest of society at large and also of the industry and Goldman Sachs.

Senator PRYOR. Thank you.

Mr. Chairman, thank you for your diligence on this matter. Like I said, this didn't start with you 2 weeks ago. This has been going on for a year and a half and you have just done yeoman's work on this. Thank you.

Senator LEVIN. Thank you so much, Senator Pryor. Senator Tester.

Senator TESTER. Yes. Thank you, Mr. Chairman.

I want to echo Senator Pryor's remarks, and Mr. Blankfein, I appreciate you being here. I am going to get into some questions here that I have prepared, but is Goldman too big to fail?

Mr. BLANKFEIN. I don't believe so.

Senator TESTER. OK. So if Goldman went down, the financial markets wouldn't go into a tailspin that wouldn't be recovered?

Mr. BLANKFEIN. If we went into a tailspin in a normal world, one in which everybody else wasn't doing the same thing, which is another issue and, by the way, one you can't rely on because it is very—I said this before. A lot of institutions would have been too big to fail if you were afraid that one spark would set off the whole forest. But I think that, generally, if people's credit is eroding, the market starts to move funds away, stops credit, so firms start to shrink when they get into trouble. But I do think some additional legislation with respect to too big to fail is warranted. I think that, for sure.

Senator TESTER. All right. I really want to follow up on some questions on the first panel and drill down some of the specifics of the Abacus deal, and hopefully you can help me on that.

I think we have pretty well established that Goldman and Paulson and Company both played a role in selecting the assets in the Abacus deal. We know that Paulson wanted to short the mortgage market and he picked securities, 84 percent of which were ultimately downgraded within 6 months. We also know from some of the emails included in the exhibits that Goldman was eager to complete the deal.

So, Mr. Blankfein, we know you wanted to get the deal done. Goldman wanted to get the deal done. And we know that at least in the previous Abacus deals, of which there were about 15 in total, you did not use an independent portfolio management agent. Why did you ultimately decide to use an independent portfolio management agent in the Abacus 2001 deal and why would you use a manager if the assets had already been selected?

Mr. BLANKFEIN. The assets weren't selected. The assets, I think, were being proposed, and what was proposed, more than half of them were rejected by that agent that was picked.

Senator TESTER. OK.

Mr. BLANKFEIN. And I wouldn't—I don't know the circumstances under which you use an agent and in which you don't.

Senator TESTER. I understand. It is a big company. ACA was not the first choice of the portfolio management agent. In fact, they described the arrangement as highly unusual. What I was wondering, was the selection of a portfolio management agent in Abacus 2001 due to the fact that the only investor that could be found was IKB and they indicated they were only interested in the CDOs if you used an independent portfolio agent?

Mr. BLANKFEIN. One thing I know for sure is that there was at least another investor, because the independent selection agent itself looked at the portfolio and bought the biggest piece of it. So ACA also invested.

But on Abacus and how it was—I am sorry.

Senator TESTER. No, go ahead. Keep going. That does bring up another question, but I will let you finish.

Mr. BLANKFEIN. But Abacus and how it was structured, I don't know anything more other than what I learned from the questions you asked Fabrice Tourre.

Senator TESTER. OK. I guess I need to know the role, because IKB was hung out for a lot of dough. You said that ACA was an 80 to 90 percent buyer of $1.1 billion——

Mr. BLANKFEIN. That was just in my head——

Senator TESTER. That is OK. Are you saying that IKB only had 10 percent of it? What are we really saying here?

Mr. BLANKFEIN. I think IKB—we can provide the exact numbers, but to the best of my recollection, that IKB had a total position of something like 150, and I think—and these numbers, I think, are in the complaint—I think the ACA ended up having a total position that was multiples of that, something—I seem to recall something in the 900s of millions.

Senator TESTER. OK.

Mr. BLANKFEIN. I am sorry. IKB, I think, had 150 and ACA had 910 plus 42, representing different parts of the capital structure, so 952 million.

Senator TESTER. And we are talking about these folks were on the long side of things when Paulson was on the short side?

Mr. BLANKFEIN. Correct.

Senator TESTER. And when it was marketed to IKB, because this is a question that has been brought up, because we are talking about disclosure and transparency and conflict of interest and all that stuff, but was IKB told that Paulson was a part of the process in selecting the securities?

Mr. BLANKFEIN. Senator, all I have is the testimony, the information we have from Fabrice Tourre. I don't have independent knowledge of it. I just don't.

Senator TESTER. OK. Well, all right. I listed off about four or five different—four, I think it was, different arrangements that Goldman had, and I do agree with Senator McCaskill that there should probably be four or five other folks up beside you as we move forward and try to dig down into this.

I have been sitting here trying to really figure out a good analogy of how this happened, and I get the impression from the fellows that were up here earlier today and you that this is kind of—works well at times that folks can pick securities with their perspective that they are going to fail because they sell them short and then try to market them to somebody else who thinks they are going to be successful. And that is kind of the way business is being done——

Mr. BLANKFEIN. No, I am sorry, the securities weren't meant to fail. They succeeded by conveying the risk that people wanted to have, and in a market, that is not a failure. Somebody had asked me——

Senator TESTER. We are like we are speaking a different language here, and that is not being critical of you——

Mr. BLANKFEIN. Well, that is my fault——

Senator TESTER. No, it is not. But it seems to me more than just a little bit odd that Paulson picked these securities because he was going to make some dough on them because they were going to go down, and so he sold them short so that would happen. He picked the securities that he could sell short so he could make money on, and somebody else, somebody else that maybe didn't have the information that Paulson had—so that is where the disclosure and the transparency comes in—figured that they were going to be OK, so they bought the long side. That may be oversimplifying.

It seems to me, and it is not like selling a lame horse or an unsound horse. It is not like selling a bin of corn that has been through a cow and you are calling it corn when it is really something else——

Mr. BLANKFEIN. Right. I think in these transactions, sometimes the buyer comes to you and reverse inquires and wants somebody to offer the other side. Most of these transactions are initiated—most transactions are initiated by one side or the other, and in the absence of two sides, usually we provide the side.

Senator TESTER. OK. Because what I have read here indicates that this independent portfolio selection agency on Abacus 07 AC–1 was selected, that ACA was selected because there was an outfit by the name of IKB that wanted to buy it, and the only way they would buy it is if you had this independent portfolio selection agent. You are saying that is not correct?

Mr. BLANKFEIN. No, I am not saying that is not correct. I read that, too. What I am saying is I don't have—I just can't go through the ins and outs of it because I just don't know more than what I have heard.

Senator TESTER. OK. Well, I can tell you here, right and wrong are indifferent. It really sounds like there was a failure to disclose information relevant to the parties in the transaction. That is what it sounds like to me. The vehicles, synthetic financial vehicles, and I know you said everybody has the right to hedge their risk, but these go beyond that. I mean, they really do. It is more like a scam.

I came in and I heard you talk about your clients being critically important. This is early on.

Mr. BLANKFEIN. Right.

Senator TESTER. And I think anybody would think that—anybody would know that. I mean, that is probably the most important thing you can do, although the previous folks who were up here today said that they really wouldn't say whether they worked for the clients or worked for the company. They said they were market——

Mr. BLANKFEIN. Makers.

Senator TESTER. They were market makers. That is what they said they were. But the fact is, it was ironic to me that they wouldn't say they worked for the clients.

Mr. BLANKFEIN. Well, the——

Senator TESTER. And that speaks volumes in and of itself. Why would the clients believe in Goldman Sachs?

Mr. BLANKFEIN. Senator, there are parts of our business that are fiduciary—and it will sound splitting—but there is a market and you can't—when you are a principal—I can understand their confusion in answering the question. I am trying to explain it, and I wish I were better to explain it.

There are parts of the business where you are a money manager, where you owe a duty to the client. There are parts of the business where you are a principal and you are giving the client what it wants and it is understood where you have to know that they are suitable, you have to know that the product you do delivers what they expect to have, but the markets couldn't work if you had to make sure it was good for them.

Senator TESTER. So what you are saying, in one case, you are working for the client. In the other case, you are setting markets.

Mr. BLANKFEIN. But they are also—and I will tell you, in the business world, if we are not the biggest, most important market maker, we are right up there.

Senator TESTER. OK.

Mr. BLANKFEIN. In other words, we do well at this and our clients value us for this.

Senator TESTER. Right.

Mr. BLANKFEIN. In other words, it is not—what I am describing to you——

Senator TESTER. And one doesn't bleed over into the other, or vice-versa?

Mr. BLANKFEIN. I think the market understands when these people are buying—I will say it like——

Senator TESTER. So what are your responsibilities——

Mr. BLANKFEIN. They are buying for their own P&L.

Senator TESTER. OK. And so what are your responsibilities when you create a product? Do you have any?

Mr. BLANKFEIN. Yes, huge, fairness, that it be effective. We have a whole process in our firm——

Senator TESTER. Is disclosure part of it when you create a product?

Mr. BLANKFEIN. I think there are disclosure requirements in connection with underwritings, and we are talking about these are underwritings, what you are talking about.

Senator TESTER. Yes.

Mr. BLANKFEIN. Yes. But the disclosure is the disclosure of the risks associated with that. It is not related to whether you are long or short also or whether housing is going up and down.

Senator TESTER. I guess the point is, is disclosure——

Mr. BLANKFEIN. Does the product work? Does the product deliver what the client seeks?

Senator TESTER. Yes. But disclosure——

Mr. BLANKFEIN. Disclosure is very——

Senator TESTER. If disclosure isn't given equally to both sides, because you said there have got to be two sides for this to work, if it is not given equally to both sides, whose responsibility is that to make sure that the information is given to both sides? It is not you, or is it you?

Mr. BLANKFEIN. The disclosure requirements in an underwrite, again, are very well evolved.

Senator TESTER. OK. So is it you? Do you have to disclose to both sides what is in so that both sides know?

Mr. BLANKFEIN. I think the disclosure document would disclose to the world of buyers of that instrument. I mean, I think it is in the——

Senator TESTER. So you think IKB knew that Paulson was part of selecting the securities?

Mr. BLANKFEIN. Again, this is what the lawsuit is, over whether we satisfied it, and that is a factual and a legal dispute now.

Senator TESTER. OK. You know the instruments. Do you, on behalf of Goldman, accept any responsibility for the collapse of 2008?

Mr. BLANKFEIN. Yes.

Senator TESTER. Are you in any way embarrassed that the U.S. taxpayer had to bail out Goldman?

Mr. BLANKFEIN. We got funds from the government, and it was an embarrassing situation then and it is embarrassing now.

Senator TESTER. Do you think that those funds were critically important as to you being able to stay in business?

Mr. BLANKFEIN. I think they were critically important. I don't know what would—I can't say what would have happened otherwise——

Senator TESTER. I understand.

Mr. BLANKFEIN [continuing]. But they were critically important for the system and, therefore, critically important to us.

Senator TESTER. Do you feel you owe anything to the taxpayers because of that bailout?

Mr. BLANKFEIN. I think, yes, and we owe—we live in the good—yes, we—and for many other reasons. I would like to say, Senator, also, on the—and I am answering you without qualification on all those points——

Senator TESTER. That is right.

Mr. BLANKFEIN [continuing]. But we were not waiting for government bailout. We—and I think this was quite famous and observed, that weeks before that, we did a transaction with Warren Buffett where we gave him equity warrants on a substantial portion of Goldman Sachs in exchange for his investment in Goldman Sachs, which I could tell you, he wouldn't do in a million years if he thought we were going to fail because he makes money and he doesn't give it away, even if he liked us.

And then a day after that transaction, we did an equity deal, a common equity deal in the market where we raised another—his was $5 billion—we raised another $5.75 billion dollars. Those deals closed, I think, 3 or 4 weeks before the TARP. So I think the TARP and the action that the government took was—you used the word critical, I will echo that critical. It was critical for the overall environment. If the market seized up and no one could get financing again, it would have affected everybody including us.

And so we are grateful for it. We expressed that gratitude. But we could get financing in the world. We got it. And, frankly, when we took the five-and-three-quarters, we could have gotten more if we wanted. So it was critical because I think there was a—I don't know whether the system would have gone completely out of kilter if it hadn't been done, but it was too much of a risk and I am really glad—and we were beneficiaries of what happened.

Senator TESTER. Well, I appreciate it. I can tell you that there are some things in my job as a U.S. Senator from Montana that don't make a lot of sense. One of the things that doesn't make a lot of sense to me is why these synthetic—and I know you have got an answer for it—but why these synthetic instruments came about when there is nothing in them.

And Senator McCaskill is right. It is just like betting on a sports event. It is like betting on whether it is going to rain. It is like betting on a bunch of stuff that doesn't make any sense. It is not like hedging as a farmer would do it or as an airline or a coal company or whatever might be. This is just playing around, from my perspective.

And the fact is that I think part of this playing around is why taxpayers had to bail out part of what went on on Wall Street. I have got some issues with that, and I, like other Members on this Subcommittee, think you are a smart guy and I would like to work with you. I think this country is in dire need of Wall Street reform and I think that you could add some to the equation as long as we can bore down and get to the facts——

Mr. BLANKFEIN. Senator, I——

Senator TESTER [continuing]. And transparency is critically important, and making sure that consumers are protected.

I can't tell you how many stories I have heard of folks who have lost their retirement, lost their college tuition for their kids, lost all sorts of bad things while other folks that got bailed out are making literally millions of dollars.

Mr. BLANKFEIN. Senator, I agree and I would like to be helpful and I will be helpful. And I would like to say another thing. I can tell you, and I tried to, what the hedging purpose was of having people be able to take long or short positions synthetically in housing in order to shape their portfolios.

But that is not the end of the inquiry. If at the end of the day, even if that—so I am explaining what the purpose is. But even at the end of the day, if they are too complicated and too risky and generate the kind of risk that apparently these did, then notwithstanding—finding a social purpose or a hedging purpose in them is not the end. Notwithstanding that, they may be something that should not be permitted, and so, therefore, I am not making a spirited defense that anybody could think of should be done.

Senator TESTER. Yes.

Mr. BLANKFEIN. Clearly, the world needs more regulation.

Senator TESTER. And I think part of this, as I look at it as a regular person, you have a guy by the name of Paulson who is picking out—who had a role in it. He may not have been the only person, but he had a role in picking out these securities and I firmly believe, from what I have read, he picked them so they would fail so he could sell them short, and I think somebody else may have not been told the story that Paulson knew on the one side of the equation. And I think that is where the problem is, also.

Thank you very much. I appreciate it, Mr. Chairman. Thank you for being here, Mr. Blankfein.

Mr. BLANKFEIN. Thank you, Senator.

Senator LEVIN. Thank you very much, Senator Tester.

Let me just pick up where Senator Tester left off. These credit default swaps that you engaged in, these synthetics, in my judgment and I think most people's judgment, do not serve a social purpose. Maybe you can try to find one there, but in most people's minds, there is no social purpose. It is a bet not on whether or not your particular house will go up or down in value or that particular house will that you have an interest in. It is a bet on something that you have no interest in, where there is no collateral involved, there is no risk being taken by collateral, where people are betting whether or not some event will occur. And what happened here is that you won that bet. You won that bet with AIG.

Mr. BLANKFEIN. I am sorry. We lost that. We lost money in that ACA deal.

Senator LEVIN. No. I am not saying on the ACA deal.

Mr. BLANKFEIN. I am sorry.

Senator LEVIN. The only reason you lost money on the ACA deal was because you ended up with a piece of the long on that——

Mr. BLANKFEIN. Right.

Senator LEVIN [continuing]. That you did not intend to have. We heard that earlier today.

Mr. BLANKFEIN. Senator, I am afraid, with due respect, that misses the point.

Senator LEVIN. No. You said that you lost money on the deal.

Mr. BLANKFEIN. We did.

Senator LEVIN. I understand what you are saying, but now listen to what I am saying. You intended to sell that piece of the long and couldn't do it.

Mr. BLANKFEIN. Right. Therefore——

Senator LEVIN. You had never intended——

Mr. BLANKFEIN [continuing]. We took the risk and we failed——

Senator LEVIN. You had never intended to invest in that deal.

Mr. BLANKFEIN. We intend to sell everything we have as profit. The reason why it is risky——

Senator LEVIN. No. You don't intend to sell your short positions all the time, do you?

Mr. BLANKFEIN. Well——

Senator LEVIN. You intended to keep short positions in all kinds of transactions we went into today. You insisted on keeping short positions even when a client preferred that short position. We gave an example of that. You put your own interest ahead of your client when the client wanted a short position in one of these deals. So you were doing that for your own proprietary interest in those other deals. You were keeping a short position. You wanted to go short. In this one, you didn't want to go short. I understand that. But you were paid a whole bunch of money by the Federal Government. AIG owed you that money, did they not?

Mr. BLANKFEIN. AIG—I am sorry, we are switching——

Senator LEVIN. Did AIG owe you some money, and the money which was paid to AIG through the TARP program then was filtered through to you? Is that true?

Mr. BLANKFEIN. They—AIG had—yes. Yes. AIG owed us margin, most of which we had collected.

Senator LEVIN. Right. But they owed you some money, and the TARP funds ended up paying their debt to you, did it not?

Mr. BLANKFEIN. I don't know if those were TARP funds. I am not sure.

Senator LEVIN. You don't know whether TARP funds that went to AIG then came through to you?

Mr. BLANKFEIN. They were—again, I don't know what pocket they came from. I know that government money went into AIG and that money flowed through.

Senator LEVIN. And that money flowed through. How many billions of dollars flowed through, government money, to you through AIG?

Mr. BLANKFEIN. Well, literally, the cash flow has been reported, and I think David Viniar went through this. It went to $12.9 billion flowed. They gave us stuff and we gave them back stuff. So, in other words, it wasn't $12.9 billion——

Senator LEVIN. What was it that flowed to you net? Of those funds through AIG?

Mr. BLANKFEIN. Net of what we gave them back?

Senator LEVIN. Yes.

Mr. BLANKFEIN. I would say the only thing that——

Senator LEVIN. Just give me a dollar figure, if you would.

Mr. BLANKFEIN. The only thing that flowed through to us was an additional $2.5 billion worth of margin that they owed us against which we had an insurance contract in case they didn't pay us.

Senator LEVIN. I understand. But they owed you $2.5 billion.

Mr. BLANKFEIN. They owed us $2.5 billion.

Senator LEVIN. The government did not owe you $2.5 billion, did we?

Mr. BLANKFEIN. No, the government did not.

Senator LEVIN. But you ended up with $2.5 billion of taxpayers' funds.

Mr. BLANKFEIN. That we would have gotten from an insurance company had we not.

Senator LEVIN. Yes, but you wouldn't have gotten it from the taxpayers.

Mr. BLANKFEIN. Well, we weren't looking to get it from the taxpayers.

Senator LEVIN. But you got it from the taxpayers.

Mr. BLANKFEIN. In lieu of what would have come from the insurance——

Senator LEVIN. From a private party. We didn't owe you any money.

Mr. BLANKFEIN. I didn't——

Senator LEVIN. Two private parties owed you money, either AIG or that insurance company that you insured the AIG debt with. So why do you end up with $2.5 billion of taxpayers' money in your pocket when we don't owe you the money? AIG owes you the money or an insurance company owes you the money——

Mr. BLANKFEIN. But the U.S. Government decided not to allow AIG to default. And if they had defaulted, that is, if they had not paid us the money, they would have been in default and we would have gotten paid from an insurance company.

Senator LEVIN. You would have gotten paid from somebody other than the taxpayer.

Mr. BLANKFEIN. Correct.

Senator LEVIN. So why do you end up with $2.5 billion of taxpayers' money?

Mr. BLANKFEIN. Because the government made a decision that the government didn't want AIG to default.

Senator LEVIN. And you could have gotten that money from a private insurance company.

Mr. BLANKFEIN. Correct.

Senator LEVIN. And so now you have got money of the taxpayers in your pocket——

Mr. BLANKFEIN. No, we got money from AIG.

Senator LEVIN. That was taxpayers' money, Mr. Blankfein. Yes?

Mr. BLANKFEIN. AIG got money from the government——

Senator LEVIN. Taxpayers' money.

Mr. BLANKFEIN [continuing]. That paid it over to us——

Senator LEVIN. Right. That is what I am saying.

Mr. BLANKFEIN [continuing]. So that we got that $2.5 billion instead of the $2.5 billion we would have gotten in insurance.

Senator LEVIN. I know we are going around and around——

Mr. BLANKFEIN. We are.

Senator LEVIN [continuing]. But the facts still are that you got $2.5 billion of taxpayers' money on a private deal. Does that bother you?

Mr. BLANKFEIN. It bothers me to the——

Senator LEVIN. So why didn't you go after that other insurance company instead of taking taxpayers' money? Why isn't that unjust enrichment at the expense of the taxpayers? Why don't you go after the insurance——

Mr. BLANKFEIN. Because it was insurance against the default of AIG. By the U.S. Government intervening, AIG didn't default and therefore they didn't owe us the insurance. So we were either going to get it from AIG, or upon their default from the insurance.

Senator LEVIN. Right.

Mr. BLANKFEIN. One way or the other, we would get the $2.5 billion.

Senator LEVIN. Right. But you wouldn't have gotten it from taxpayers' money if you had gotten it from the private parties.

Mr. BLANKFEIN. I would have much rather——

Senator LEVIN. Let me ask you, did you have any conversations with anybody at the Treasury Department about that?

Mr. BLANKFEIN. About——

Senator LEVIN. Whether or not AIG would get money and then pay it to you?

Mr. BLANKFEIN. No.

Senator LEVIN. You had no conversations with anybody at the Treasury Department or the Federal Government?

Mr. BLANKFEIN. At the time of the announcement, I was asked by my regulator, maybe all of my regulators, are you OK, in other words, do you have exposure, and I said, no, we don't. That was the—because we had this insurance contract. And by the way, $2.5 billion wouldn't have caused us that much—in other words, that is not necessarily an unmanageable number, but——

Senator LEVIN. If it is not unmanageable for you, it is kind of disgraceful from the taxpayers' point of view that you end up with taxpayers' money which we don't owe you. We didn't owe you that.

Mr. BLANKFEIN. Only because AIG owed it and because the government did not want AIG to fail. AIG honored its obligations and paid us. Without that, we would have gotten our insurance on the——

Senator LEVIN. I know. I understand you would have gotten it from a private source, not from the taxpayers.

Mr. BLANKFEIN. Correct.

Senator LEVIN. You said that a number of times here. There was a statement of the Senators in the 1930s who were investigating the Great Depression. I don't know if you heard this this morning or not. Did you hear my opening statement this morning by any chance?

Mr. BLANKFEIN. Yes, I did.

Senator LEVIN. And what they said is that investors must believe that their investment banker would not offer them bonds unless the banker believed them to be safe, and ended up saying, but while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe in.

Now, you turned that idea, which is a pretty fundamental idea, offering to clients investments that the banker does not believe in, you said you shouldn't have to be sure that an investment is good for a client. I agree with that. But that is not the issue. You can't guarantee an investment is going to be good for a client. The question is if you believe that it is a bad investment for that client because you are going short against that at the same time you are selling it, that is what these Senators back in the 1930s were saying was one of the causes of the Great Depression, that bankers were selling things, making money for themselves, by selling things that they didn't believe in.

And that is what happened here. You were selling things that you didn't believe in. What was the sure test of that is that you were betting against them at the same time you were selling them. You were taking and intending to keep a short position, and that is a very different thing from what you said about 20 minutes ago, that is you should not have to make sure that an investment is good for the client. No one is saying that. Of course, you can't make sure. But you can make sure that someone you sell an investment to knows that you believe it is a bad investment and that you, at the same time, are betting against that same investment.

Now, I am going to leave it at that. You obviously don't see that. It troubles me that you don't see that. It troubles me that you don't see that your client is yourself, that is what this has turned into too often, is that Goldman Sachs has turned itself into its own client and has taken advantage of a relationship by doing what you did in so many of these cases.

And another thing you did, you took stuff from your own inventory in massive amounts which you didn't believe in and sold it. That is OK, but you did more than that. You then bet against your own sale. That happened in at least two of these cases. That is what is so troubling to me.

Now, there is another problem here which is the bigger issue, a broader issue, that you made a major decision to bet against the housing market. We can spend a lot more time on that if you want to. Let us put up a couple of charts here to just show you very quickly what I mean by that. Put up the chart about their long sales. Exhibit 163.[1]

Now, if you take a look at Exhibit 50[2]—I will get to Exhibit 163 in a minute. This is what you sent to the Securities and Exchange Commission on November 7, 2007. If you look at page 5, you will see here that you said your long cash subprime mortgage exposure consists of mortgage loans and mortgage-backed securities. And then you said, "As of August 31, 2007 and November 24, 2006 our investments in subprime mortgages totaled $462 million and $7.8 billion, respectively, and our investments in subprime mortgage-backed."

Mr. BLANKFEIN. I am sorry. I am not following.

Senator LEVIN. OK. Page 5, do you see that? Exhibit 50.

Mr. BLANKFEIN. Give me one second to see what——

Senator LEVIN. Sure.

Mr. BLANKFEIN. OK. I am just cautioning that I haven't seen this paper before.

Senator LEVIN. This table?

Mr. BLANKFEIN. I am sorry. I am just cautioning that I have never seen this piece of paper, but——

Senator LEVIN. OK. Well, this is a letter that Goldman Sachs sent to the Securities and Exchange Commission on November 7. So here is what you folks said. You said what your investments were in November 2006 and what your investments—this is on the long side now—of August 2007. That is what happened to your investments.

Take a look at this chart that we have got over here, and I will give you the number of it if you want to look at a smaller one, but that is what you did on the long side. That is what you were selling long, OK.

Now, you also went short, big time. You don't acknowledge it is big time. You said it was, what, a small net short. After deducting your long position, you said that your short position was what? You used the word "small," I believe.

[1] See Exhibit No. 163, which appears in the Appendix on page 1009.
[2] See Exhibit No. 50, which appears in the Appendix on page 390.

Mr. BLANKFEIN. I used the word "small" because the one immutable fact, and the way you really can tell—because some of—you can't——

Senator LEVIN. OK. Use the word "small." That is OK. Let us take a look——

Mr. BLANKFEIN. Yes.

Senator LEVIN. Let us take a look at how small they were. Let us just take a look at how small your net shorts were.

We put up another chart, which is based on your numbers, and I will give you the numbers in a minute. This chart shows how net short you were. That is total net short. That is taking everything into consideration. I am going to give you the numbers right now on that. Exhibit 162.[1] Take a look at this chart.

This chart, which is the same one as you see up there, was taken from information from your Mortgage Department's top sheets, which were supplied by Goldman from February to December 2007, listing the department's short positions, Goldman's short positions, several times per month.

Now, we gave you an example, if you will look at that, of those top sheets.

Mr. BLANKFEIN. Where am I looking? I am sorry.

Senator LEVIN. You are looking at Exhibit 162. Do you see that?

Mr. BLANKFEIN. Not yet. I am doing the best I can. It is just that graph.

Senator LEVIN. This is your short positions. Now, this is based on your top sheets, by the way. This is what you call small net shorts. Every single day, by the way, you are net short, so that is not something which was sporadic, until December when you cashed in your net shorts. But everyday until December 20, you had a net short, as high as $13 billion. And the back-up sheets you have seen there are attached to that exhibit. Is that what you would call a small net short, $13 billion?

Mr. BLANKFEIN. No, I think—you can't go by the gross amount because some of these positions don't move. The way you can tell whether you are short and long, really, the best way is, look, if you were short early in the crisis——

Senator LEVIN. I am just asking you. You said these were small positions.

Mr. BLANKFEIN. Senator, they are.

Senator LEVIN. I didn't use the word "small."

Mr. BLANKFEIN. Senator, I am doing the best I can, and I am trying to be responsive.

Senator LEVIN. The answer is yes. If you think $12 billion is a small net short, the answer is, you think that is small.

Mr. BLANKFEIN. This didn't act like a $12 billion position. You can see our entire P&L from residential for the whole year 2007 was under $500 million. There are—you can have gross headline numbers, but early in the crisis, if the better credit—if you are long the better credit, the slightly better credit, and short the slightly worse credit, the positions you are short could move more than the positions you are long, and those could reverse at different times.

[1] See Exhibit No. 162, which appears in the Appendix on page 997.

In these complicated portfolios, you can have gross numbers that were long or short, but the portfolio didn't necessarily react that way. That is why successive people who have testified here, including our risk managers, said you really had to look at how they behaved. The best evidence of how they behaved is what was the P&L from it? When the market went down, did it make money or lose money, and it——

Senator LEVIN. Fine. Let us look at the P&L.

Mr. BLANKFEIN. OK.

[Pause.]

Senator LEVIN. Are you familiar with Exhibit 55b?[1] We talked about this today. This is Mr. Swenson's performance evaluation. "Extraordinary profits" from the shorts at his desk, $3 billion as of September 2007. "Tremendous profits," he said, "extraordinary profits."

Mr. BLANKFEIN. I am sorry. I see Tab 55, and then it goes to 56. Is there an a and b?

Senator LEVIN. Exhibit 55 a, b, and c. First, there is a b. Do you see that?

Mr. BLANKFEIN. I go from Exhibit 55 to 56.

Senator LEVIN. It is inside Exhibit 55.

Mr. BLANKFEIN. Is there a tab?

Senator LEVIN. It is just inside Exhibit 55.

Mr. BLANKFEIN. Reviewee's feedback?

Senator LEVIN. Yes.

Mr. BLANKFEIN. OK, sorry. It was Exhibit 55.

Senator LEVIN. Mr. Swenson talked about "extraordinary profits," "tremendous profits," "$3 billion."

Mr. BLANKFEIN. Where am I looking on Exhibit 55?

[Pause.]

Mr. BLANKFEIN. OK. I see it now, sir. What page number?

Senator LEVIN. Page 2. Do you see that?

Mr. BLANKFEIN. Yes. I am on page 2 now.

Senator LEVIN. Do you see there where it says "tremendous profits" in the second paragraph? Is $3 billion a tremendous profit?

Mr. BLANKFEIN. I see the contributions to the $3 billion of SBG trading profits?

Senator LEVIN. Yes. Do you consider that a tremendous profit?

Mr. BLANKFEIN. For that trading desk——

Senator LEVIN. Yes.

Mr. BLANKFEIN [continuing]. It would have been, and I think the guy who is writing this is bragging about his local business.

Senator LEVIN. Right. Local? That was a big part of your business that year, wasn't it?

Mr. BLANKFEIN. Well, it was adjacent to other businesses. I would never even see this. I would see the mortgage——

Senator LEVIN. That is why I am showing it to you right now. I am just asking you, do you think that is a big profit, $3 billion?

Mr. BLANKFEIN. That is a big number, just like the loss in his adjacent business is a big loss.

Senator LEVIN. That was the profit they made.

Mr. BLANKFEIN. That was the revenue——

[1] See Exhibit No. 55b, which appears in the Appendix on page 441.

Senator LEVIN. The profits they made that year on short sales. That is what we are talking about, taking short positions, they made huge profits. What you want to do is deduct the long positions, which you had in your inventory mainly, from that. That is not the question. Did you bet big time in 2007 against the housing mortgage business, and you did. You went big and short——

Mr. BLANKFEIN. No, we did not.

Senator LEVIN. Well, let us take a look at what you told your Board.

Mr. BLANKFEIN. Sure.

Senator LEVIN. Go to Exhibit 18.[1] This is from Sparks. This was just in the synthetics.

Mr. BLANKFEIN. Is one local——

Senator LEVIN. I know. Everything is local. I am just telling you what happened in the shift. I will get to the major shift in a minute. That is what you told your Board, that there was a major shift, OK, but I will get to that in a minute. Let us talk about what made up that major shift.

Mr. BLANKFEIN. OK. I am looking at——

Senator LEVIN. "In [this] synthetic space," and that is what we have been talking about—do you see that at the bottom——

Mr. BLANKFEIN. Exhibit 18?

Senator LEVIN [continuing]. On Exhibit 18?

Mr. BLANKFEIN. In synthetic space, yes.

Senator LEVIN. "The desk started the quarter with long, $6 billion . . . and shifted the position to net short $10 billion . . . by reducing the longs . . . and increasing shorts." That is what it says. Now, that was one piece of your operation. They shifted from long to short.

Then you told the SEC on Form 8–K, which is Exhibit 154,[2] and this is dated September 20——

Mr. BLANKFEIN. I am sorry. Where am I looking?

Senator LEVIN. You are looking at Exhibit 154.

Mr. BLANKFEIN. Yes, sir.

Senator LEVIN. Have you got it?

Mr. BLANKFEIN. Yes, I do. Thank you.

Senator LEVIN. OK, page 3, second paragraph, second line. "Net revenues in mortgages were also significantly higher, despite continued deterioration in the market environment. Significant losses on non-prime loans and securities were more than offset by gains on short mortgage positions." OK. So your significant losses on the non-prime loans and securities were more than offset by gains on the short mortgage positions. That was some of your net short positions.

Now take a look at Exhibit 46,[3] page 3, the bottom paragraph. "It is important to note however that we are active traders of mortgage securities and loans and, as with any of the financial instruments we trade, at any point in time we may choose to take a directional view of the market"—that is what you deny—"and will express that view through the use of mortgage securities, loans, and derivatives. Therefore, although we did have long balance sheet ex-

[1] See Exhibit No. 18, which appears in the Appendix on page 271.
[2] See Exhibit No. 154, which appears in the Appendix on page 966.
[3] See Exhibit No. 46, which appears in the Appendix on page 361.

posure to sub-prime securities in the past three years, albeit small exposure, our net risk position was variously either long or short depending on our changing view of the market."

Mr. BLANKFEIN. Sure.

Senator LEVIN. It is a view of the market—this is your own filing, by the way—changing view of the market. "For example, during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market." That is your filing.

Now, take a look at Exhibit 48,[1] a Tax Department Presentation, October 2007. Here, on page 2, right in the middle. "So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk - you saw in our 2nd and 3rd qtr results that we made money despite our inherently long cash positions." Inherently long. That is what was inherited——

Mr. BLANKFEIN. No, inherent, not inherited.

Senator LEVIN. Both. Much of it was inherited, right? They were in your inventory, and some of it for a long time, but OK. You don't know the breakdown of it. I am going to keep reading. "Because starting early in 2007, our mortgage trading desk started putting on big short positions." OK. Those aren't my words. Those are Goldman Sachs' words. "Big short positions, mostly using the ABX, which is a family of indices designed to replicate cash bonds, and did so in enough quantity that we were net short and made money, substantial money in the third quarter as the subprime market weakened. This remains our position today."

That is your Tax Department's presentation. You made "substantial money in the third quarter." I am sorry, that was the Chief Risk Officer who said this in an internal presentation to Goldman's Tax Department, to be perfectly accurate.

Then you did that Form 8–K filing, which we have already read about, talking about you did very well that year. You did very well because you had a big short.

And then Exhibit 45.[2] That is the conference call that Goldman held for the third quarter of 2007. "Our risk bias from that market was to be short and that net short position was profitable." No hedge there. Profitable because of our short position.

Then there is that September conference call. Let me go on.

Now, what had happened is that you had a meeting with your Board of Directors—I assume that you would have been there—in March 2007. That is Exhibit 22.[3] You had made a decision. There were big problems, we have heard all day long, about the subprime sector, about mortgages, and that shows on page 8 of Exhibit 22, if we are together. The first quarter: "Long position grows with increased market activity." This is back in 2006, first and second quarter of 2006. Do you see that arrow? Going back to 2006, you reported——

Mr. BLANKFEIN. What page?

Senator LEVIN. Eight. Do you see that big arrow in the middle?

Mr. BLANKFEIN. I do.

[1] See Exhibit No. 48, which appears in the Appendix on page 376.
[2] See Exhibit No. 45, which appears in the Appendix on page 349.
[3] See Exhibit No. 22, which appears in the Appendix on page 276.

Senator LEVIN. OK. And then the first and second quarter of 2006, your long position grows. And then as you go down 2006, third and fourth quarter, you start scaling back purchasing of riskier loans. You reduce your CDO activity. Residual assets—those are the ones in your inventory—marked down to reflect market deterioration—and look here—Goldman Sachs "reverses long market position through purchases of single-name CDS and reductions of ABX." You are reversing your long market position. That is a direction for most people's vocabulary. You don't like to use the word "direction" in your public statements, but that is what happened. You told the Board that you reversed the long market position.

And then when you had the next Board meeting in September, you told your Board, and this is Exhibit 41,[1] page 4—have you got it?

Mr. BLANKFEIN. I do.

Senator LEVIN. OK. This is what you told your Board in September, you were going back, and on page 4, you will see the first quarter. What did you do in the first quarter? You "shut down all residential mortgage warehouses." You "reduced [your] loan position." You "increased protection"—that means going short—"on disaster scenarios." In the second quarter, you "shut down all [your] CDO warehouses." You "took significant mark to market losses." You "reduced [your] loan purchases." You "reduced counterparty exposure."

And then in quarter two and three, here is what you said. You "positioned [the] business tactically." And this, by the way, is under the heading, "The business has taken proactive steps to position the firm strategically in the ensuing mortgage credit and liquidity crisis."

Perfectly proper, what you did. That is not the issue. You "shorted synthetics." You "shorted CDOs and RMBS." You "reduced [your] long inventory." You were short, short, short. You shorted like crazy. It is clear from all these documents.

Mr. Blankfein, you can say publicly that there was no direction here, but your documents show otherwise. The words are used even to the Board that you "shifted"—changed your position from long to short. You told the Board repeatedly what you were doing to focus on the short position. So there is clearly a directional change. It was so sharp, I think you may have been the only bank like yourself that made money when the housing bubble burst.

You made—maybe you don't think it is a lot of money, maybe it is not the amount of money you usually make in a month or a year, but according to your own records, it was a billion dollars net, after all of your long losses in that year. You say it is a half-a-billion. OK. Your records show it is a billion, but we won't quibble over half-a-billion dollars. You came out ahead in 2007 in a market which crashed, and you did it because you went short, big time, big short, in your own words, Mr. Viniar's words. You don't want to acknowledge that, I know, but that is what your own documents show.

[1] See Exhibit No. 41, which appears in the Appendix on page 327.

I am not sure, again, why it is that you are saying these things publicly, like there was no directional change and that you weren't big net short in 2007 when you were. These are big net short positions. I know you are saying those are net short, and they are. If you just looked at the short side, they would be huge. But you don't want to look at the short side, and that is okay. You want to look at the net short side. You were up to $13 billion net short and there wasn't a day that year, until the end of December, when you actually had anything other than a net short position.

So you want folks to trust you. You basically want folks to trust you, but here is the way I have seen it. We have been through this business of selling securities to people and in that same deal not telling them that you were betting against those securities. We have gone through that——

Mr. BLANKFEIN. Will you indulge me for one second?

Senator LEVIN. Yes. Just wait until I am done, because I want to give you my view.

You want to be trusted. I am glad you want to be trusted, but I think you can understand why there are a lot of folks who have some real doubts when, you don't acknowledge the big short, you try to hedge that, tamp that down, and when you also over and over again in these documents, which we went through today in the first panel, you were selling securities to your clients at the same time you are betting against those same securities.

Now, you can argue that people know that, and what I am saying to you is that people expect, as those 1930's Senators said, that bankers would be selling things that they would expect or hope or believe will be OK, not that they are betting against.

And so that is what we have shown as to the problems. You are in a fairly unique position, by the way, not just because of your big size but because of the big short. The big short puts your bank in a position where you were one of the rare banks that actually came out okay in 2007. The other ones who were on the wrong side, on the long side, who didn't engage in the big short like you did, lost big time. Some of them went under.

And so it is not the fact that you made a profit. It is not the fact even that you went short. You have a right to go short. It is the conflict. It is the conflict that is so troubling to me between going in that direction, clearly changing direction—nothing could be clearer from these documents. You told your Board you were changing direction. Your documents show changing direction.

But then in that process, over and over again in securities that you were selling to customers, you bet against those securities simultaneously with the sale as part of the security distribution, and that is part that troubles me most, I think. There are a lot of things that trouble me here, including the language that—not just the language, the beliefs that your own sales people had that they were selling junk or crap.

And when you say that nothing you heard today troubled you—that is what you answered one of my colleagues, that nothing you heard from that first panel troubled you, you thought it was all OK, one of my colleagues pressed you on that. I don't know whether you heard——

Mr. BLANKFEIN. He asked me concerned, and I——

Senator LEVIN. Concerned.

Mr. BLANKFEIN. Yes.

Senator LEVIN. That is OK. If that didn't concern you, that the people who are selling securities under your name believe that they are selling crap or junk, and words even saltier than those, if that doesn't concern you, that concerns me and, I think, would concern an awful lot of people in this country. You shouldn't be selling junk. You shouldn't be selling crap. You shouldn't be betting against your own customer at the same time you are selling to them.

And that all coming together is creating a necessity that we take some regulatory steps in the conflict of interest area. There is an amendment which will be offered, introduced to the Dodd bill which will strengthen the bill in that regard, in the conflict of interest area, because the conflict of interest not only exists there, it exists—and I think maybe you or another Goldman representative today acknowledged that—in the area of credit rating. There is the appearance of a conflict of interest, because you folks are paying the credit raters to rate securities that you are selling, and it is clearly in your interest that they be AAA.

Do you remember during the deposition that you had with my staff, do you remember being asked the question——

Mr. BLANKFEIN. Senator, have we moved past the question you——

Senator LEVIN. Yes. Do you want to comment on what I just said? That is OK. You can comment on what I just said and then I will go back to the credit rating agencies. Go on.

Mr. BLANKFEIN. I would say, Senator, people are using language, big change, what they think, whether an isolated individual is characterizing his P&L in isolation versus the other position adjacent to him. The one unmutable fact here that is in the past that is ascertainable, that is audited, is the net of all these positions in the market yielded less than $500 million worth of revenue in the residential space in 2007——

Senator LEVIN. In 2007——

Mr. BLANKFEIN [continuing]. And lost $1.7 billion in 2008.

Senator LEVIN. We are not talking 2008.

Mr. BLANKFEIN. In the context——

Senator LEVIN. The bubble burst in 2007. We are looking at the causes of that bubble bursting.

Mr. BLANKFEIN. In the context of the chaos in the market, all the size positions, all the market making we were doing in that period of time, with all that was going on, getting within $500 million of flat during that year 2007, I think, reflects a desire and an accomplishment to get closer to home. We bought—OK, and I will just—so anyway, I just wanted to respond to you——

Senator LEVIN. You may not think a half-a-billion dollars is a lot, but the fact that you were able to get through 2007, when the bubble burst, was because you went with the big short. Those are your own——

Mr. BLANKFEIN. Less than 1 percent of our revenues that year.

Senator LEVIN. I know, but 56 percent of your value at risk.

Mr. BLANKFEIN. Because the market volatility——

Senator LEVIN. I know the because, but you put a huge amount of value at risk to go short in that market.

Mr. BLANKFEIN. The market forced the value at risk higher because of the volatility.

Senator LEVIN. All right. Now let us talk about the credit rating agencies. We asked you this question during your deposition.[1] These are your words, so you will probably remember them. We are going to get you a copy.

Mr. BLANKFEIN. OK. Thank you.

Senator LEVIN. Take a look at page 46, if you would.

Mr. BLANKFEIN. Page 46.

Senator LEVIN. Got it? Near the bottom.

Mr. BLANKFEIN. Yes, sir.

Senator LEVIN. Now, at the bottom, line 25, "Either based on your own knowledge and opinions or what your senior executives may have expressed to you, how critical did Goldman believe that the ratings given by the CRAs were to the—how critical were those ratings to the successful marketing and selling of RMBSs and CDOs?" Your answer, "I don't know what the standards—I don't know what drove the business. I don't know what drove the business. I don't know how important they were in the business to investors." You don't know how important they are. We do.

OK, the next question. "But did you understand that at least there were certain classes of investors that could only invest in certain rated products?" Your answer, "I never thought of it." It strains credulity that you never thought there are classes of investors that can only invest in AAA products. Is that something you really never thought about, never knew?

Mr. BLANKFEIN. I never thought of it.

Senator LEVIN. You never thought of the importance of AAA, that there are a whole bunch of institutions, universities, and a whole bunch of other folks that can only invest in AAA? You are not aware that your own firm argues for large AAA tranches? You are not aware that those BBBs that are turned into the AAAs through this process of CDO-ing them, that the reason for that is to have more AAA tranches and more AAA securities?

Mr. BLANKFEIN. Senator——

Senator LEVIN. You are not aware of all of that?

Mr. BLANKFEIN. Senator, I never marketed that. I don't—I mean, if you asked me whether I would think that it would be more desirable to have a AAA than a AA, I would say, for sure. If you are asking me whether I knew that some category is absolutely barred from buying it unless it had a AAA, it is just not within my—it wasn't within my scope to know that.

Senator LEVIN. Well, then look at the top question here. When I said, "Either based on your own knowledge"—that is the bottom of page 46—"and the opinions of your senior executives that they may have expressed to you, how critical did Goldman believe that the ratings given by the CRAs were to the successful marketing and selling of RMBSs and CDOs?" Now we are talking the marketing and selling. How important is it? Your answer, "I don't

[1] Exhibit No. 176, Deposition of Lloyd C. Blankfein, a Sealed Exhibit, is retained in the files of the Subcommittee.

know what the standards—I don't know what drove the business. I don't know what drove the business. I don't know how important they were in the business to investors." You are telling us that you don't know that AAA ratings are important to investors? That is what you say in your deposition.

Mr. BLANKFEIN. Senator, I am not saying—you are using different language——

Senator LEVIN. I am reading it exactly. Based on what you know or the opinions——

Mr. BLANKFEIN. I said I don't know the standards. I don't know what drove the business. I don't know what drove the business. I don't know——

Senator LEVIN. "I don't know how important they were in the business to investors."

Mr. BLANKFEIN. That is——

Senator LEVIN. You don't know how important AAA——

Mr. BLANKFEIN. I can't say the extent to it. Senator, I am being asked a question in a deposition about a line of business that I never personally was in in my—I never did this in my life in the firm and I am being asked. There are so many people at Goldman Sachs who can answer this question with precision. I wasn't one of them.

Senator LEVIN. That wasn't precision. That is the question. You don't know that those ratings are important to sales?

Mr. BLANKFEIN. I said I don't know how important they were in the business to investors.

Senator LEVIN. Oh.

Mr. BLANKFEIN. And that is—I don't know——

Senator LEVIN. Do you know that they are important?

Mr. BLANKFEIN. Yes, I know that they are important, and I know that they be preferred—at the same price, by the way. But I don't know the extent to which those investors for a lower rating but a higher yield are capable of buying it. I just don't know.

Senator LEVIN. The deposition was taken by staff, not by me, so when I said, I asked you something, it was the——

Mr. BLANKFEIN. I am sorry.

Senator LEVIN. No, that was my statement. When I said, I asked you something, it wasn't me. It was the staff that asked you the question.

Mr. BLANKFEIN. I was taking it at the royal "we."

Senator LEVIN. I didn't say "we."

Mr. BLANKFEIN. I am sorry.

Senator LEVIN. I said "I."

Let me just close with a very brief statement. We have a debate going on here at this moment on how Congress should respond to the abuses that we have looked at in four hearings now. Those abuses include the conveyor belt of toxic mortgages that got into the financial system, huge demand for them that came from a whole lot of places. We focused on WaMu. We always focus on a case history and they were a very logical case history. So WaMu dumps, and others like them, dump billions of dollars of toxic mortgages into the system.

Goldman and other banks like them provided these lenders with more money to issue bad loans. There is evidence, by the way, from the documents we came in with today that Goldman was very much aware that they were buying loans from companies that were selling bad loans, including New Century.

Then the financial engineering comes along to turn those high-risk mortgages into allegedly safe investments, taking BBBs and other things that are not good, solid B's, turning them into "safe investments" through the magic of CDOs. Selling them then to pension funds, universities, municipalities, insurance companies, and banks. So now the poison spreads further.

Then we have these synthetic securities, which magnifies all of that. The mortgage system begins to buckle under the weight of these loans and the synthetic stuff that floods the system. And then we have this situation where Goldman bets against the mortgage market as a whole, profits from its collapse. I know it was only a half-a-billion dollars in 2007, but amazingly enough there was a profit at all. The rare instance where despite all the losses that you took in your inventory and on the longs, you nonetheless were able to make a profit because of your huge investment on the short side.

I happen to be one that believes in a free market. But if it is going to be truly free, it cannot be designed for just a few people to reap enormous benefits while passing the risks on to the rest of us. It must be free of deception. It has got to be free of conflicts of interest. It needs a cop on the beat and it has got to get back on Wall Street.

Senator Dodd's bill is an important beginning, and we hope to strengthen it with provisions that address conflicts of interest, that address proprietary trading that puts a firm's self-interest ahead of its clients' interests. That is what we saw evidence of today. That addresses these synthetic instruments that magnify risk while gambling on the demise of companies instead of on their successes; that ends these reckless lending practices, such as stated income, which means liar loans, and negatively amortizing loans; that gives stronger enforcement tools for regulators to protect consumers.

That is what we have got to do to rebuild the defenses to protect Main Street from the excesses of Wall Street and those other excesses that we have studied during these four hearings. I hope these hearings provide added strength to the reform effort. A lot of us will be working on legislation to stop the abuses that were exposed in these four hearings.

We thank our staffs. They have worked extremely hard and extremely long hours. Elise Bean and our staff, and I know that this is true also of Senator Coburn's staff, have spent untold hours digging through these documents.

I love the way some of your folks tell the press that the documents were cherry-picked. That book in front of you is a whole bowl of cherries. These are not cherry-picked. Those documents reflect the history of what happened here. From millions of documents, you obviously have to select some that you think represent a reality, and we did that. It is a reality which has some unseemly aspects to it, particularly in terms of conflicts. But we are just hoping that whether or not we can get the support of Wall Street firms, and you indicated some willingness to support reforms here today, but whether we get that support for a strong reform bill, we have to have the willpower and the backbone to do just that.

We thank our witnesses. Mr. Blankfein, we thank you. It has been a long day. We thank all of the witnesses. And again, particularly, we thank our staffs.

We stand adjourned.

[Whereupon, at 8:42 p.m., the Subcommittee was adjourned.]

APPENDIX

PRESS RELEASE

U. S. Senate Permanent Subcommittee on Investigations
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE
Carl Levin, Chairman

FOR IMMEDIATE RELEASE
April 27, 2010

Contact: Tara Andringa: 202-228-3685

Opening Statement of Senator Carl Levin
U. S. Senate Permanent Subcommittee on Investigations Hearing

Wall Street and the Financial Crisis:
The Role of Investment Banks

Today the Subcommittee holds the fourth in our series of hearings to explore some of the causes and consequences of the financial crisis. These hearings are the culmination of nearly a year and a half of investigation.

The freezing of financial markets and collapse of financial institutions that sparked our investigation are not just a matter of numbers on a balance sheet. Millions of Americans have lost their jobs, their homes and their businesses in the recession that the crisis sparked, the worst economic decline since the Great Depression. Behind every number we cite are American families who are still suffering the effects of a man-made economic catastrophe.

Our Subcommittee's goal is to construct a record of the facts in order to deepen public understanding of what went wrong; to inform the ongoing legislative debate about the need for financial reform; and to provide a foundation for building better defenses to protect Main Street from the excesses of Wall Street.

Our first hearing dealt with the impact of high-risk mortgage lending, and focused on a case study of Washington Mutual Bank, known as WaMu, a thrift whose leaders embarked on a reckless strategy to pursue higher profits by emphasizing high-risk exotic loans. WaMu didn't just make loans that were likely to fail, creating hardship for borrowers and risk for the bank. It also built a conveyor belt that fed those toxic loans into the financial system like a polluter dumping poison into a river. The poison came packaged in mortgage-backed securities that WaMu sold to get the enormous risk of these loans and their growing default rates off its own books, dumping that risk into the financial system.

Our second hearing examined how federal regulators saw what was going on, but failed to rein in WaMu's reckless behavior. Regulation by the Office of Thrift Supervision that should have been conducted at arm's length was instead done arm in arm with WaMu. OTS failed to act on major shortcomings it observed, and it thwarted other agencies from stepping in.

Our third hearing dealt with credit rating agencies, specifically case studies of Standard & Poor's and Moody's, the nation's two largest credit raters. While WaMu and other lenders dumped their

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bad loans into the river of commerce and regulators failed to stop their behavior, the credit rating agencies assured everyone that the poisoned water was safe to drink, slapping AAA ratings on bottles of high risk financial products. The credit rating agencies operate with an inherent conflict of interest – their revenue comes from the same firms whose products they are supposed to critically analyze, and those firms exert pressure on rating agencies who too often put market share ahead of analytical rigor.

Today we will explore the role of investment banks in the development of the crisis. We focus on the activities during 2007 of Goldman Sachs, one of the oldest and most successful firms on Wall Street. Those activities contributed to the economic collapse that came full-blown the following year.

Goldman Sachs and other investment banks, when acting properly, play an important role in our economy. They help channel the nation's wealth into productive activities that create jobs and make economic growth possible, bringing together investors and businesses and helping Americans save for retirement or a child's education.

That's when investment banks act properly. But in looking at this crisis, it's hard not to echo the conclusion of another congressional committee, which found, "The results of the unregulated activities of the investment bankers ... were disastrous." That conclusion came in 1934, as the Senate looked into the reasons for the Great Depression. The parallels today are unmistakable.

Goldman Sachs proclaims "a responsibility to our clients, our shareholders, our employees and our communities to support and fund ideas and facilitate growth." Yet the evidence shows that Goldman repeatedly put its own interests and profits ahead of the interests of its clients and our communities. Its misuse of exotic and complex financial structures helped spread toxic mortgages throughout the financial system. And when the system finally collapsed under the weight of those toxic mortgages, Goldman profited from the collapse. The evidence also shows that repeated public statements by the firm and its executives provide an inaccurate portrayal of Goldman's actions during 2007, the critical year when the housing bubble burst and the financial crisis took hold. The firm's own documents show that while it was marketing risky mortgage-related securities, it was placing large bets against the U.S. mortgage market. The firm has repeatedly denied making those large bets, despite overwhelming evidence.

Why does this matter? Surely there is no law, ethical guideline or moral injunction against profit. But Goldman Sachs didn't just make money. It profited by taking advantage of its clients' reasonable expectation that it would not sell products that it didn't want to succeed, and that there was no conflict of economic interest between the firm and the customers it had pledged to serve. Goldman's actions demonstrate that it often saw its clients not as valuable customers, but as objects for its own profit. This matters because instead of doing well when its clients did well, Goldman Sachs did well when its clients lost money. Its conduct brings into question the whole function of Wall Street, which traditionally has been seen as an engine of growth, betting on America's successes and not its failures.

To understand how the change in investment banks helped bring on the financial crisis, we need to understand first how Wall Street turned bad mortgage loans into economy-wrecking financial instruments.

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Our previous hearings have covered some of this ground. The story begins with mortgage lenders such as WaMu, which loaned money to home buyers and then sought to move those loans off its books. That activity spawned an ever more-complex market in mortgage-backed securities, a market that for a while worked pretty well. But then things turned upside down. The fees that banks and Wall Street firms made from their securitization activities were so large that they ceased to be a means to keep capital flowing to housing markets and became ends in themselves. Mortgages and mortgage-backed securities began to be produced for Wall Street instead of Main Street. Wall Street bond traders sought more and more mortgages from lenders in order to create new securities that generated fees for their firms and large bonuses for themselves.

Demand for securities prompted lenders to make more and riskier mortgage loans. Making and packaging new loans became so profitable that credit standards plummeted and mortgage lenders began making risky, exotic loans to people with little chance of making the payments. Wall Street designed increasingly complex financial products that produced AAA ratings for high-risk products that flooded the financial system.

As long as home prices kept rising, the high risk mortgages posed few problems. Those who couldn't pay off their loans could refinance or sell their homes, and the market for mortgage-related financial products flourished.

But the party couldn't last, and we all know what happened. Housing prices stopped rising, and the bubble burst. Investors started having second thoughts about the mortgage backed securities Wall Street was churning out. In July 2007, two Bear Stearns offshore hedge funds specializing in mortgage related securities suddenly collapsed. That same month, the credit rating agencies downgraded hundreds of subprime mortgage backed securities, and the subprime market went cold. Banks, securities firms, hedge funds, mutual funds, and other investors were left holding suddenly unmarketable mortgage backed securities whose value was plummeting. America began feeling the consequences of the economic assault.

Goldman Sachs was an active player in building this mortgage machinery. During the period leading up to 2008, Goldman made a lot of money packaging mortgages, getting AAA ratings, and selling securities backed by loans from notoriously poor-quality lenders such as WaMu, Fremont and New Century.

Of special concern was Goldman's marketing of what are known as "synthetic" financial instruments. Ordinarily, the financial risk in a market, and hence the risk to the economy at large, is limited because the assets traded are finite. There are only so many houses, mortgages, shares of stock, bushels of corn or barrels of oil in which to invest. But a synthetic instrument has no real assets. It is simply a bet on the performance of the assets it references. That means the number of synthetic instruments is limitless, and so is the risk they present to the economy. Synthetic structures referencing high-risk mortgages garnered hefty fees for Goldman Sachs and other investment banks. They assumed an ever-larger share of the financial markets, and contributed greatly to the severity of the crisis by magnifying the amount of risk in the system.

Increasingly, synthetics became bets made by people who had no interest in the referenced assets. Synthetics became the chips in a giant casino, one that created no economic growth even when it thrived, and then helped throttle the economy when the casino collapsed.

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But Goldman Sachs did more than earn fees from the synthetic instruments it created. Goldman also bet against the mortgage market, and earned billions when that market crashed. In December 2006, Goldman decided to move away from its "long" positions in the mortgage market in what began as prudent hedging against the firm's large exposure to that market, exposure that sparked concern on the part of the firm's senior executives. The edict from top management after a Dec. 14, 2006 meeting was "get closer to home," meaning get to a more neutral risk position. But by early 2007, the company blew right past a neutral position on the mortgage market and began betting heavily on its decline, often using complex financial instruments, including synthetic collateralized debt obligations, or CDOs.

Goldman took large net short positions throughout 2007. This chart, which is based upon data supplied to the Subcommittee by Goldman Sachs, tracks the firm's ongoing huge net short positions throughout the year. These short positions at one point represented approximately 53% of the firm's risk as measured by the most relied upon risk measure, "Value at Risk" or "VaR." And these short positions did more than just avoid big losses for Goldman. They generated a large profit for the firm in 2007.

Goldman says these bets were just a reasonable hedge. But internal documents show it was more than a reasonable hedge – it was what one top executive described as "the big short."

Listen to a top Goldman mortgage trader, Michael Swenson, who touted his success in 2007, what he called his "proudest year" because of what he called "extraordinary profits" – $3 billion as of September 2007 – that came from bets he recommended the firm take against the housing market. Mr. Swenson told his superiors, "I was able to identify key market dislocations that led to tremendous profits."

Another Goldman mortgage trader, Joshua Birnbaum, wrote in his performance evaluation about the billions of dollars in profits earned in 2007 betting against the mortgage market. "The prevailing opinion within the department was that we should just 'get close to home' and pare down our long," he wrote. He then touted the fact that he had urged Goldman Sachs "not only to get flat, but get VERY short." He wrote that after convincing his superiors to do just that, "we implemented the plan by hitting on almost every single name CDO protection buying opportunity in a 2-month period. Much of the plan began working by February as the market dropped 25 points and our very profitable year was under way." When the mortgage market collapsed in July, he said: "We had a blow-out [profit and loss] month, making over $1Bln that month."

These facts end the pretense that Goldman's actions were part of its efforts to operate as a mere "market-maker," bringing buyers and sellers together. These short positions didn't represent customer service or necessary hedges against risks that Goldman incurred as it made a market for customers. They represented major bets that the mortgage securities market – a market Goldman helped create – was in for a major decline.

Goldman continues to deny that it shorted the mortgage market for profit, despite the evidence. Why the denial? My best estimate is that it's because the firm cannot successfully continue to portray itself as working on behalf of its clients if it was selling mortgage related products to those clients while it was betting its own money against those same products or the mortgage market as a whole. The scope of this conflict is reflected in an internal company email sent on

May 17, 2007, discussing the collapse of two mortgage-related instruments, tied to WaMu-issued mortgages, that Goldman helped assemble and sell. The "bad news," a Goldman employee says, is that the firm lost $2.5 million on the collapse. But the "good news," he reports, is that the company had bet that the securities would collapse, and made $5 million on that bet. They lost money on the mortgage related products they still held, and of course the clients they sold these products to lost big time. But Goldman Sachs also made out big time in its bet against its own products and its own clients. Goldman CEO Lloyd Blankfein summed it up this way: "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts." The conflict of interest that lies behind that statement is striking.

The Securities & Exchange Commission has filed a civil complaint alleging that in another transaction, involving a product called Abacus 2007-AC1, Goldman violated securities law by misleading investors about a mortgage-related financial instrument.

The SEC's complaint alleges that Goldman Sachs in effect helped stack the deck against the buyers of the instrument it sold. The hedge fund that bought the short position in the transaction – in other words, that bet that the product would not perform well – helped select the mortgages that were to be referenced in the product that Goldman sold to investors. The SEC alleges that Goldman Sachs knew of the hedge fund's selection role and failed to disclose it to the other Abacus investors, who thought the package had been designed to succeed, not fail. We learned in last week's hearing that Goldman also failed to disclose the hedge fund's role to the credit rating agency that rated the Abacus deal. Eric Kolchinsky, who oversaw the ratings process at Moody, testified before the Subcommittee, "It just changes the whole dynamic on the structure, where the person who is putting it together, choosing it, wants it to blow up."

The SEC and the courts will resolve the legal question of whether Goldman's actions broke the law. The question for us is one of ethics and policy: Were Goldman's actions in 2007 appropriate, and if not, should we act to bar similar actions in the future?

Abacus may be the best-known example of conflicts of interest revealed in the Goldman documents, but it is far from the only example. Anderson Mezzanine Funding 2007-1 was a synthetic product assembled by Goldman. According to company documents, a Goldman client had expressed interest in taking a short position in the transaction, but an executive noted that Dan Sparks, the head of Goldman's mortgage department, might "[want] to preserve that ability for Goldman." This suggests that not only was Goldman going to bet against the instrument that it was selling, but it wanted to make that bet badly enough that it took the bet for itself instead of letting an interested client have it. It then sold Anderson securities to its clients, without disclosing that it would profit if those securities suffered losses.

Client loyalty fell so far that one Goldman employee cited his refusal to assist Goldman clients facing losses from a Goldman financial product as performance that should be rewarded. Mr. Swenson wrote to his superiors in his performance review: "I said 'no' to clients who demanded that GS should 'support the GSAMP program," Goldman Sachs' subprime mortgage-backed security program. Mr. Swenson wrote that saying "no" to clients who asked Goldman to support a security it had sold them were "unpopular positions but they saved the firm hundreds of millions of dollars."

Most investors make the assumption that people selling them securities want those securities to succeed. That's how our markets ought to work, but they don't always. The Senators who in the 1930s investigated the causes of the Great Depression stated the principle clearly:

> "[Investors] must believe that their investment banker would not offer them the bonds unless the banker believed them to be safe. This throws a heavy responsibility upon the banker. He may and does make mistakes. There is no way that he can avoid making mistakes because he is human and because in this world, things are only relatively secure. There is no such thing as absolute security. But while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe to be good."

Goldman documents make clear that in 2007 it was betting heavily against the housing market while it was selling investments in that market to its clients. It sold those clients high-risk mortgage-backed securities and CDOs that it wanted to get off its books in transactions that created a conflict of interest between Goldman's bottom line and its clients' interests.

These findings are deeply troubling. They show a Wall Street culture that, while it may once have focused on serving clients and promoting commerce, is now all too often simply self-serving. The ultimate harm here is not just to clients poorly served by their investment bank. It's to all of us. The toxic mortgages and related instruments that these firms injected into our financial system have done incalculable harm to people who had never heard of a mortgage-backed security or a CDO, and who have no defenses against the harm such exotic Wall Street creations can cause.

Running through our findings and these hearings is a thread that connects the reckless actions of mortgage brokers at WaMu with market-driven credit rating agencies and the Wall Street executives designing the next synthetic. That thread is unbridled greed, and the absence of a cop on the beat to control it.

As we speak, lobbyists fill the halls of Congress, hoping to weaken or kill legislation aimed at reforming these abuses. Wall Street is on the wrong side of this fight. It insists that reining in its excesses would unduly restrict a free market that is the engine of American progress. But this market isn't free of self-dealing or conflict of interest. It is not free of gambling debts that taxpayers end up paying.

I hope the executives before us today, and their colleagues on Wall Street, will recognize the harm that their actions have caused to so many of their fellow citizens. But whether or not they take responsibility for their role, I hope this Congress will follow the example of another Congress, eight decades ago, and enact the reforms that will put a cop back on the Wall Street beat.

I would like to thank my ranking member, Sen. Coburn, who is carrying out a very important responsibility at the White House this morning and who will join us later, for his support and that of his staff, and I recognize the acting ranking member, Sen. Collins, and welcome her remarks.

Opening Statement of Senator Tom Coburn
"Wall Street and the Financial Crisis: The Role of Investment Banks"
April 27, 2010

I want to thank Sen. Levin for holding this fourth and final hearing into the financial crisis and the role of investment banks. I also want to thank the witnesses for making themselves available to answer our questions.

This hearing is particularly important because this week the Senate is considering major financial reform legislation that could have profound effects on our economy. In recent months, Congress and the American people have been debating the causes of our financial crisis and looking for solutions. Mr. Chairman, I commend you advancing this discussion with our examination of institutions like Washington Mutual and federal regulators, particularly the Office of Thrift Supervision.

What we have learned is that there are no easy answers. This is important to keep in mind when Congress debates major legislation. I certainly have my own views about what caused the financial crisis but most honest observers would acknowledge that the roads of responsibility lead to places like Washington and Wall Street. We also can't forget there were numerous causes to the financial crisis. In truth, we all took turns inflating the housing bubble.

Today, we are looking at the role of one investment bank: Goldman Sachs.

My goal is simply to uncover the truth of what happened in several of these transactions.

If we can understand this piece of the puzzle we'll be in a much better position to craft responsible legislation that addresses the real problem. And, more importantly, the American people will be better informed and more equipped to hold us accountable.

The investigation into Goldman Sachs has given the subcommittee an opportunity to dive into the firm's decisions regarding mortgage investments. Even though Goldman Sachs is the focus, I would suggest the questions we are going to ask the witnesses today also should be asked other leading investment banks. Congress has a responsibility to understand how widespread some of these complex financial transactions may be.

The key question before us, I believe, is whether Goldman Sachs was making proprietary trades that were contrary to the financial interests of their clients and customers. Sorting out these potential conflicts is central to understanding how we move forward with financial reform.

Several instances seemed to show bankers and traders were focused on *doing what was right for the firm*, rather than *what was in the best interests of clients*. In an exchange over the Abacus deal, one employee remarked: "The way I look at it, the easiest managers to work with should be used for our own [priorities]. Managers that are a bit more difficult should be used for trades like Paulson . . ."

Goldman employees knew that such tactics could hurt their reputation if they were ever uncovered.

Markets can be complex, but they are built on three simple concepts: truth, trust and transparency. Without them, the cost of doing business is too high, and markets cannot function properly.

I have several questions about these deliberations within Goldman Sachs. While I am committed to withholding final judgment until all of our hearings are complete, some of what we uncovered paints a dark picture of what was going on inside investment banks. To the witnesses I would say this is your opportunity to explain to us and the American people what happened.

Again, I thank you for being here and I look forward to your testimony.

Hearing On
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
Tuesday, April 27, 2010
10:00 a.m.
106 Dirksen Senate Office Building

Opening Statement by Senator Mark Pryor

I believe Wall Street is always going to be several steps ahead of Congress. Regulators are the "cop on the beat" who are reacting to the next exotic way Wall Street invents to make money. Every year Wall Street devises new types of investments that, in my opinion, are more suitable for Las Vegas than Little Rock. Until recently, I had never heard of a synthetic CDO. It has been reported that John Paulson recommended several of the asset backed securities included in the Abacus 2007 -AC1 synthetic CDO. What I want to know is:

- Is it common practice on Wall Street for hedge funds to recommend securities for CDOs?
- Where were the credit rating agencies when these CDOs were being rated?
- What other types of investments is Wall Street inventing that allow individuals and companies to bet on the market and the direction of the economy?

Over the last 25 years, the United States economy and financial industry has experienced a series of increasingly significant financial crises. Some people believe the only way to prevent financial institutions from becoming "Too Big to Allow to Fail" is to limit their size so that they do not represent a systemic risk to the financial system. The use of Off-Balance-Sheet limited and special investment partnerships have raised concern about full disclosure and transparency and the potential for companies to hide "systemic risk."

In my opinion, one of the main contributors to the magnitude of the current financial crisis was the amount of leverage used in the housing market and mortgage backed securities. Many investment banks were leveraged by a ratio of 30 to 1, and they were dealing with billions of dollars. As you know, when asset prices are rising, this system works like a dream.

Until Wall Street changes its culture and goes back to putting the client first, I am concerned that we will continue to experience these financial crises. Bonuses on Wall Street rose 17 percent last year to $20.3 billion even as the retail investor on Main Street continued to lose money in the stock market. There appears to me to be an inherent conflict of interest between rewarding bankers with outsized bonuses for short term performance and the long term needs of investors to protect their investments and grow capital.

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

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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

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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.

U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OPENING STATEMENT OF JOSH BIRNBAUM

April 27, 2010

Good morning. Mr. Chairman, Ranking Member Coburn, Members of the Committee, my name is Josh Birnbaum. Thank you for offering me this opportunity to discuss my work in the Mortgage Department at Goldman Sachs in 2006 and 2007, when I was a Managing Director in the Structured Products Group. I began working at Goldman shortly after my graduation from the Wharton School at the University of Pennsylvania in 1993. I worked at Goldman until March 2008, when I left to start my own advisory firm, Tilden Park Capital Management. I take great pride from having worked for Goldman Sachs for almost fifteen years, and greatly admire the firm's integrity, commitment to client service, and ethics.

During 2006 and 2007, I worked on the Asset-Backed Securities, or "ABS", desk in the Structured Products Group. My job was to make markets for Goldman clients who sought long or short exposure to the market for residential housing asset-backed securities, and to assist in hedging investments made by other parts of the Mortgage Department.

The primary products I traded and risk-managed were the then-newly-created Asset-Backed Securities Index, or "ABX," and credit default swaps in individual securitizations, also known as "single name CDS." As a market-maker, we were continuously asked to provide liquidity for customers, which frequently required the firm to participate on the other side of transactions on a "principal" basis. For example, when a client wanted to buy protection on a particular securitization, we would offer a price to sell that protection. If the client chose to execute the transaction at that price, we would take the other side of the trade. We would then have a decision to make whether to offset that risk through a transaction with another client who wanted to sell that protection to us or keep it on our book for some period of time as part of our inventory.

From time to time, as a result of client-driven trades, our team's book accumulated long and short positions. For example, from the inception of the ABX Index in January 2006 through November 2006, customers interested in selling the ABX outnumbered buyers. The trades we made to meet client demands during that period naturally caused the book to develop a long position in the ABX Index and a smaller short position in the single name CDS.

As part of our management of our own inventory, we had the discretion to hedge positions through trades with other clients or keep them on our book in accordance with the limits set by the risk management department. Whenever our inventory got significantly long or short, risk management directed us to cut our risk and "get closer to home," or to "flatten the book." For example, when our net position became long in late 2006, we were told to offset our risks, which we did through a combination of selling off some of the long ABX position and buying more single name CDS protection. And when our inventory expressed a short bias at times in 2007, we were directed to cover our short positions to reduce risk, and we did so.

In late 2006 and into early 2007, I developed a negative view on the likely direction of the subprime market. Traders on desks like ours often develop a short or long bias based on views of the market. Not everyone in the Mortgage Department or the firm agreed with my view. In fact, there was a vigorous debate as to the future direction of the market.

In line with my view, our desk began to accumulate short positions, purchasing protection on individual securities through credit default swaps, largely from external CDO managers who asked us to bid for these positions. There was, of course, risk involved in accumulating short positions, as no one could be certain which direction the market would go. These positions became profitable as the market deteriorated. When those short positions bumped up against the risk parameters for our book during the Spring and Summer of 2007, my group was instructed to cover them. On both occasions, I expressed my belief that the market would continue to deteriorate and that the better, more profitable trade was to maintain the short position on our book, but the firm insisted that we reduce our position, and we did so.

No one from senior management told me to make a directional bet against the subprime market. Rather, during the 2006-2007 period, regardless of whether our books were long or short, the consistent theme from management was to reduce risk in our books.

I am very proud of the accomplishments of the ABS Group during my tenure there. We provided significant liquidity to our clients in a difficult and challenging market while also managing to post a profit during this period.

Thank you for inviting me to testify here. I am happy to answer any questions Committee members may have.

OPENING STATEMENT OF MICHAEL SWENSON
April 27, 2010

Good morning. Mr. Chairman, Ranking Member Coburn, Members of the Committee, my name is Michael Swenson. I am a Managing Director in the mortgage department at Goldman Sachs, where I have worked since 2000.

Let me begin by discussing my role with the firm in 2006 and 2007 and then give you a general chronology of the activities of the ABS desk through this period. I was a Managing Director in SPG Trading and co-managed the group. I was primarily responsible for the Asset-Backed Securities (ABS) trading desk, which was responsible for making markets in ABS securities and derivatives for our customer franchise. The ABS desk traded consumer ABS, sub-prime cash, single-name ABS credit default swaps (which I will refer to as "single names") and the ABX indices, which are a family of synthetic indices that reference a standard basket of 20 subprime deals.

Throughout 2006, numerous clients wanted to sell the ABX in order to express a negative view on the U.S. residential housing market. As a result of these trades, we took on long positions. In order to hedge those positions, we began to increase our short position in single-names. By November 2006, volatility in the ABX increased, pushing prices down. Because our positions in single names did not match identically the basket of securities that comprised the ABX, the positions moved at different rates and even different directions, resulting in losses for the ABS desk.

On December 14, 2006, David Viniar, the firm's CFO, called a meeting to go over the mortgage department's positions and risk. I attended a portion of that meeting, during which we discussed the ABS positions and the need to reduce the basis risk in the book. We were instructed to reduce risk and get the position "closer to home"; we were not told what direction to take – just to get there.

In the first quarter of 2007, we sold ABX, where possible, and increased our single name positions. However, the ABS desk continued to lose money because the market value of our long ABX positions was declining faster than our offsetting single names.

The relatively rapid decline in the index brought in a wave of short-covering and some new long interest. As a result, the ABS desk further reduced its long ABX position and purchased additional single-names. Because of a concern that the ABS desk was too short, it sold – or went long on – $2.8 billion in single-names, thus reducing our short position.

In the second quarter of 2007, the ABS desk covered several billion notional in single-names and purchased hundreds of millions of ABX long positions as the

ABX index recovered These transactions reduced the desk's short position, in effect bringing the desk to a more balanced position.

Later in the quarter, the ABS desk increased its short position after it took on the CDO warehouse inventory from the CDO group. The inventory added several billion dollars in long RMBS exposure to the ABS desk at a time when the market was deteriorating. In order to manage this newly-assumed risk, the ABS desk increased our position in single names.

At the end of the third quarter, the ABS desk engaged in large block trades purchasing several billion notional of ABX risk while concurrently selling down a portion of our single-name positions – again, bringing the desk closer to home.

Throughout the period from late 2006 through much of 2007, the ABS desk executed its market making functions as principal, and our trades also reflected the views we had of the market.

The ABS desk did not only take short positions and, indeed, took many positions that ultimately reduced profits that the mortgage department otherwise might have realized. By reducing short positions, we left money on the table. But that is the nature of reducing risk while continuing to transact with clients as a market-maker.

Thank you for your consideration. I am happy to answer any questions members of the Subcommittee may have.

TESTIMONY OF FABRICE TOURRE

BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS APRIL 27, 2010

Chairman Levin, Dr. Coburn and Members of the Subcommittee. My name is Fabrice Tourre, and I work at Goldman Sachs International in London. Thank you for the opportunity to appear before the Subcommittee.

I have worked at Goldman Sachs since 2001. Between 2004 and 2007, my job was primarily to make markets for clients. I made markets by connecting clients who wished to take a long exposure to an asset -- meaning they anticipated the value of the asset would rise -- with clients who wished to take a short exposure to an asset -- meaning they anticipated the value of the asset would fall. I was an intermediary between highly sophisticated professional investors -- all of which were institutions. None of my clients were individual, retail investors.

The structured products on which I worked fill an important need for these sophisticated financial institutions. To the average person, the utility of these products may not be obvious. But they permit sophisticated institutions to customize the exposures they wish to take in order to better manage the credit and market risks of their investment holdings.

Mr. Chairman, as you know, the Securities and Exchange Commission ("SEC") recently filed a civil suit alleging that I failed to disclose to investors certain material information regarding a transaction that I helped to structure called "ABACUS 07 AC-1". I deny -- categorically -- the SEC's allegation. And I will defend myself in court against this false claim.

Since the suit was filed, there have been many questions raised about the 07 AC-1 transaction and my role in it. I appreciate the opportunity to answer those questions, and I want to make a few points absolutely clear.

First, the only two investors in this transaction, ACA and IKB, were institutions with significant resources and extensive experience in the CDO market. ACA was a specialty financial services company that, at year-end 2006, managed 22 CDOs with approximately $16 billion in assets. IKB, a large German bank, had a separate mortgage group and was an active participant in the CDO market. According to IKB, as of January 2007, they had launched and managed more than $16.8 billion of CLOs and CDOs and viewed securitizations and CDO investments as an integral part of their business model.

Second, I never told ACA, the portfolio selection agent, that Paulson & Company would be an equity investor in the AC-1 transaction or would take any long position in the deal. Although I don't recall the exact words that I used, I recall informing ACA that Paulson's fund was expected to buy credit protection on some of the senior tranches of the AC-1 transaction. This necessarily meant that Paulson was expected to take some short exposure in the deal. Moreover, from the early stages of the transaction in January 2007 to its completion several months later, none of the offering documents, including the term sheets, flip book and offering circular, provided to ACA indicated that Paulson's fund would be an equity investor.

If ACA was confused about Paulson's role in the transaction, it had every opportunity to clarify the issue. Representatives of Paulson's fund participated directly in all of my meetings with ACA regarding the transaction. I do not ever recall ACA asking me or Paulson's representatives if Paulson's fund would be an equity investor. Indeed, ACA and Paulson had several discussions about the transaction and at least one meeting without any Goldman Sachs representatives present. Quite frankly, I am surprised that ACA could have believed that the Paulson fund was an equity or long investor in the deal.

Third, the AC-1 transaction was not designed to fail. ACA and IKB were two of the most important clients of my desk. Moreover, the securities referenced in the transaction did not underperform the other securities of that ratings class and vintage. All of the securities of that ratings class and vintage performed poorly

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because the subprime mortgage market suffered a broad collapse. Goldman Sachs also had no economic motive to design the AC-1 transaction to fail. Quite the contrary, we held long exposure in the transaction just like ACA and IKB. When the securities referenced in AC-1 declined in value, we lost money too. Goldman Sachs' overall losses in connection with the transaction exceeded $100 million, including $83 million with respect to the retained long position.

Finally, ACA selected the portfolio of securities referenced in the transaction -- not Paulson & Company. ACA had sole authority to decide what securities would be referenced in the transaction, and it does not dispute that point. Neither the Paulson fund nor Goldman Sachs could dictate to ACA the securities referenced in the deal. Paulson's fund made suggestions to ACA, as did IKB and Goldman Sachs. And the SEC complaint concedes that ACA rejected most of Paulson's suggestions while accepting others. So, while Paulson, Goldman Sachs and IKB all had input into the reference portfolio for AC-1, ACA ultimately analyzed and approved every security in the deal. Thus, when Goldman Sachs represented to investors that ACA selected the referenced securities, that statement was absolutely correct.

Mr. Chairman, the last week has been challenging for me and my family, as I have been the target of unfounded attacks on my character and motives. I appreciate the opportunity to appear before the Subcommittee to answer these false

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charges. I wish to repeat -- I did not mislead IKB or ACA, two of the most sophisticated institutional investors in these products anywhere in the world. I will be pleased to answer any questions that the Subcommittee may have.

Testimony by David A. Viniar to the Senate Permanent Subcommittee on Investigations

Chairman Levin, Ranking Member Coburn and Members of the Committee:

My name is David Viniar. I have been Chief Financial Officer of Goldman Sachs since 1999 and Head of the Operations, Technology, Finance and Services Division since 2002. I am responsible for risk management, financial control and reporting, and financing our business, among other duties.

I appreciate the opportunity to appear before you and contribute to the Subcommittee's work on understanding some of the causes of the financial crisis. I'd like to focus my comments on our risk philosophy and our approach to risk management, which Craig Broderick, the firm's Chief Risk Officer, will also be addressing in some detail.

As a global investment bank and financial intermediary, Goldman Sachs integrates advice, financing, market-making, co-investing and asset management with its risk management capabilities to serve a broad range of largely institutional clients.

In doing so, we often take on principal risk to help clients achieve their objectives by, for example, facilitating accelerated and block offerings, providing structured solutions to financial problems, or extending credit to support advisory and underwriting business. We routinely evaluate, price and distribute risk across the spectrum according to the specific risk appetites of our institutional clients.

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Based on the nature of markets, the roles we play, and our willingness often to assume risk so that we can complete a client's transaction, we know that we will sometimes incur losses – but as a core part of our business model, we pro-actively manage our risk to minimize these losses.

When we commit capital to buy or sell financial instruments, extend credit, or invest alongside our clients, we accumulate both long and short positions – in the form of assets and liabilities and contingent exposures – that have implications for our liquidity, credit and market risks.

As a financial institution, we are concerned first and foremost with ensuring strong liquidity. We do so by holding a substantial pre-funded pool of highly liquid assets, and through disciplined asset-liability management.

As a financial market intermediary, we take credit and market risks with a view to distributing them across the capital markets to investors and counterparties able and willing to assume them, while earning fees or spreads for our financing or intermediation service. We try to distribute these risk exposures in a reasonable period.

Over time, however, we naturally accumulate an "inventory" of long and short positions. The composition and net long or short bias of this inventory reflects the accumulation of customer trades and our judgments about supply and demand or market direction. At any given time, we may have long or short exposures to thousands of different instruments. This does not mean that we know – or even think – that prices will fall every time we sell or are short, or rise when we buy or are long. We are executing transactions and assuming the risks in connection with our role of providing liquidity to the markets.

Taking all these considerations into account, we deploy a range of risk management capabilities to price the risks of each transaction appropriately, keep the firm's overall exposures within carefully prescribed risk limits, and establish off-setting positions (hedges) or sell and buy positions as necessary to control overall exposure to adverse developments.

Most fundamentally, our approach is to understand the risks we are taking, analyze and quantify them, and keep a firm grip on their current market value. We carry virtually our entire inventory of financial instruments at fair market value, with changes reflected in our daily P&L. This enables us to make informed decisions in real time about the risks we're taking and respond nimbly to opportunities or threats. Such daily marking of our positions was a key reason we decided to start reducing our mortgage risk relatively early as market conditions were deteriorating at the end of 2006.

I'd like to give you a sense for how we managed our risk during the period leading up to the crisis.

Through the end of 2006, we were generally long in exposure to residential mortgages and mortgage-related products. While this long position was the direct result of our market-making activities, it was within our risk limits and we were comfortable holding it. That December, however, we began to experience a pattern of daily losses in our mortgage-related products P&L as we marked down the value of our mortgage-related inventory to reflect lower market prices. P&L can itself be a very valuable risk metric, and I personally read it every day.

I called a meeting to discuss the situation, bringing together key people involved in running the mortgage business, including senior business leaders and traders from the mortgage desk, as well as senior staff and analysts from our independent control and risk groups. We went through our positions and debated views on the mortgage market in considerable detail. While we came to no definitive conclusion about how the overall market would develop in the future, we became collectively concerned about the higher volatility and recent price declines in our sub-prime mortgage-related positions.

As a result, we decided to attempt to reduce our exposure to these positions. We wanted to get "closer to home" – that is, reduce our overall exposure to the residential housing market consistent with our risk protocols. We proceeded to sell certain positions outright and hedge our long positions in an attempt to achieve this result. We always prefer to sell outright in order to avoid incurring basis risk, but selective market illiquidity, together with our continuing obligation to make markets for our clients, meant this was not always a feasible alternative.

As always, the clients who bought our long positions or other similar positions had a view that they were attractive positions to purchase at the price they were offered. As with our own views, their views sometimes proved to be correct and sometimes incorrect.

We continued to reduce our positions in these products over the course of 2007. We were generally successful in achieving the objective of reducing this exposure to the extent that, on occasion, our portfolio "traded short." When that happened, even if these short positions were profitable, given the ongoing high volatility and uncertainty in the market, we tended to attempt to then reduce these short positions to again get closer to home. This situation reversed itself in 2008, however, when the portfolio tended to "trade long" and, as a result, despite the fact that our franchise enabled the firm to be profitable overall, we lost money on residential mortgage-related products in that year.

While the tremendous volatility in the mortgage market caused periodic large losses on long positions and large gains on offsetting short positions, the net of which could have appeared to be a substantial gain or loss on any day, in aggregate, these positions had a comparatively small effect on our net revenues. In 2007, net revenues from residential mortgage-related products were less than $500 million, approximately 1% of Goldman Sachs's overall net revenues; and in 2007 and 2008 combined, our net revenues in this area were actually negative.

For Goldman Sachs, weathering the mortgage market meltdown had nothing to do with prescience or "betting" on – or against – anything. More mundanely, it had everything to do with systematically marking our positions to market, paying attention to what those marks were telling us, and maintaining a disciplined approach to risk management, which we believe served the firm, our clients, and our shareholders well during this extraordinarily challenging period.

Thank you and I am happy to take your questions.

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Testimony by Craig Broderick to the Senate Permanent Subcommittee on Investigations

Chairman Levin, Ranking Member Coburn and Members of the Committee:

My name is Craig Broderick. I have been the Chief Risk Officer of Goldman Sachs since 2007, and prior to that, the firm's Chief Credit Officer. I am currently responsible for credit, market and operational risk, and insurance. I will focus my remarks today on the firm's risk management framework, to supplement David Viniar's comments on this topic, and look forward to addressing in greater detail any questions you may have.

As noted by David, the nature of Goldman Sachs' role as a financial intermediary requires a willingness to take risk on behalf of our clients. We seek to do so only within carefully calibrated limits, scaled to be in line with our financial resources. Our clients expect us to facilitate transactions for them in all market conditions. As such, the better we understand and can manage risk, the more willing and able we are to transact with clients, regardless of our views on the markets.

Our risk management framework has a number of core components.

The central tenet is our daily discipline of marking all of the firm's financial assets and liabilities to current market levels. We do so because we believe it is one of the most effective tools for assessing and managing risk, providing the most transparent and realistic insight into our risk positions and associated exposures. Goldman Sachs is one of the few financial institutions in the world that carries virtually all financial instruments held in its inventory at current market value, with any changes reflected immediately in our risk management systems.

The second is independence. Professionals in our risk management and control functions have complete independence from their counterparts in the revenue generating divisions. If there is ever a question about a mark, for example, the view of the firm's Controllers group prevails. Uncompromised independence gives "teeth" to the firm's risk management approach.

The third is governance. The firm's governance structure provides the protocol and responsibility for decision-making and implementation on risk management issues. In this process we make extensive use of risk-related committees that meet regularly and serve as another important means to facilitate and promote ongoing discussions that help inform our efforts to identify, manage and mitigate potential risks.

A fourth component is our use of risk systems. We have developed and employ robust technology to track a variety of risk metrics across the firm's trading businesses. On a daily basis, risk reports are prepared and distributed to the appropriate people, and on a weekly basis to our firmwide risk committee. The effectiveness of our risk systems is greatly enhanced by the mark-to-market practices referred to earlier.

And finally, our limits structure. The firm applies a rigorous limits framework to control our risk across multiple trades, products, businesses and markets that includes setting credit and market risk limits at a variety of levels. These limits are monitored on a daily basis. Importantly, we set limits at levels that, due to a variety of factors, will be periodically exceeded, rather than at levels which reflect our maximum risk appetite. This practice encourages constant dialogue, consistent with our corporate culture, among our traders and

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risk managers, as well as rapid escalation of risk-related matters. Such frequent discussions about business and market conditions, remediation plans and related topics, allow us to respond quickly and effectively in very fluid circumstances.

Taken together, these core elements enable us to make informed decisions in real time about the risks we are taking, and to rapidly attempt to make adjustments when necessary.

In terms of risk metrics and associated limits, we use a variety of measures. In the case of market risk, Value at Risk (VaR) and Credit Spread Widening (CSW) are frequently referenced. Both are highly useful, but both suffer from limitations – as in fact do all risk metrics, which is why we apply multiple measures to assess the overall risk of the portfolio. These limitations can show up particularly acutely during abnormal market conditions – which certainly characterized the 2007 through 2008 period.

By way of example, VaR is highly dependent on the market volatility of the underlying trade or product – and during 2007, volatility reached unprecedented levels in some products, especially sub-prime mortgages. This had the effect of increasing our mortgage business-related VaR by many multiples despite the underlying portfolios actually decreasing in size.

To this point, between November 24, 2006 and February 23, 2007, daily VaR in the mortgage department increased from $13 million to $85 million. We estimate that more than 100% of this increase was the result of increases in volatility – as our underlying positions in many cases declined. For that reason, an accurate assessment of the level and direction of risk in our mortgage portfolio was (and is) a matter of expert judgment, with the ultimate validation of that assessment coming only after the fact – when one could see how the portfolio performed given actual market events.

This is not to suggest that we were unable to effectively manage risk in this environment. Our objective was to flatten risk, and in this regard we were relatively successful. It involved, however, a process of continual portfolio adjustments and metrics interpretations. For example, during much of 2007 our VaR showed our overall portfolio risk increasing and reflecting a short position, while our Credit Spread Widening measure showed the opposite. During such periods, it was ultimately the experience of our business and risk management professionals, and their appreciation for the nuances of each risk measure, that helped guide the firm in assessing its exposures and maintaining its risk exposures within prudent levels.

In terms of managing credit risk, while the details differ from market risk, the fundamental philosophy is consistent: it involves the availability of accurate and timely exposure information incorporating multiple risk metrics, the establishment of limits which can be adjusted as necessary but only by the independent risk group, the extensive use of hedging and other risk mitigants to manage risk while maintaining risk capacity, and a high level of communication.

Particularly in light of events of the last two years, it's clear that no approach to risk management was foolproof, and we have all learned valuable lessons from recent experiences. However, we believe that the core elements that make up our risk management framework were broadly effective despite the unprecedented turmoil in the markets.

Thank you and I look forward to answering any questions you may have.

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Testimony from Lloyd C. Blankfein
Chairman and CEO, The Goldman Sachs Group, Inc.
Permanent Senate Subcommittee on Investigations
April 27, 2010

Chairman Levin, Ranking Member Coburn and Members of the Subcommittee:

Thank you for the invitation to appear before you today as you examine some of the causes and consequences of the financial crisis.

Today, the financial system is still fragile but it is largely stable. This stability is a result of decisive and necessary government action during the fall of 2008. Like other financial institutions, Goldman Sachs received an investment from the government as a part of its various efforts to fortify our markets and the economy during a very difficult time.

I want to express my gratitude and the gratitude of our entire firm. We held the government's investment for approximately eight months and repaid it in full along with a 23% annualized return for taxpayers.

Until recently, most Americans had never heard of Goldman Sachs or weren't sure what it did. We don't have banking branches. We provide very few mortgages and don't issue credit cards or loans to consumers. Instead, we generally work with companies, governments, pension funds, mutual funds and other investing institutions. These clients usually come to Goldman Sachs for one or more of the following reasons: (1) they want financial advice; (2) they need financing; (3) they want to buy or sell a stock, bond or other financial instrument; or (4) they want help in managing and growing their financial assets.

The 35,000 people who work at Goldman Sachs, the majority of whom work in the United States, are hard-working, diligent and thoughtful. Through them, we help governments raise capital to fund schools and roads. We advise companies and provide them funds to invest in their growth. We work with pension funds, labor unions and university endowments to help build and secure their assets for generations to come. And, we connect buyers and sellers in the securities markets, contributing to the liquidity and vitality of our financial system.

These functions are important to economic growth and job creation.

I recognize, however, that many Americans are skeptical about the contribution of investment banking to our economy and understandably angry about how Wall Street contributed to the financial crisis. As a firm, we are trying to deal with the implications of the crisis for ourselves and for the system. What we and other banks, rating agencies and regulators failed to do was sound the alarm that there was too much lending and too much leverage in the system -- that credit had become too cheap. One consequence of the growth of the housing market was that instruments that pooled mortgages and their risk became overly complex. That complexity and the fact that some instruments couldn't be easily bought or sold compounded the effects of the crisis.

While derivatives are an important tool to help companies and financial institutions manage their risk, we need more transparency for the public and regulators as well as safeguards in the system for their use. That is why Goldman Sachs, in supporting financial regulatory reform, has made it clear that it supports clearinghouses for eligible derivatives and higher capital requirements for non-standard instruments.

As you know, ten days ago, the SEC announced a civil action against Goldman Sachs in connection with a specific transaction. It was one of the worst days in my professional life, as I know it was for every person at our firm. We believe deeply in a culture that prizes teamwork, depends on honesty and rewards saying no as much as saying yes. We have been a client-centered firm for 140 years and if our clients believe that we don't deserve their trust, we cannot survive.

While we strongly disagree with the SEC's complaint, I also recognize how such a complicated transaction may look to many people. To them, it is confirmation of how out of control they believe Wall Street has become, no matter how sophisticated the parties or what disclosures were made. We have to do a better job of striking the balance between what an informed client believes is important to his or her investing goals and what the public believes is overly complex and risky.

Finally, Mr. Chairman, the Subcommittee is focused on the more specific issues revolving around the mortgage securitization market. I think it is important to consider these issues in the context of risk management.

We believe that strong, conservative risk management is fundamental and helps define Goldman Sachs. Our risk management processes did not, and could not, provide absolute clarity; they highlighted uncertainty about evolving conditions in the housing market. That uncertainty dictated our decision to attempt to reduce the firm's overall risk.

Much has been said about the supposedly massive short Goldman Sachs had on the U.S. housing market. The fact is we were not consistently or significantly net "short the market" in residential mortgage-related products in 2007 and 2008. Our performance in our residential mortgage-related business confirms this.

During the two years of the financial crisis, while profitable overall, Goldman Sachs lost approximately $1.2 billion from our activities in the residential housing market.

We didn't have a massive short against the housing market and we certainly did not bet against our clients. Rather, we believe that we managed our risk as our shareholders and our regulators would expect.

Mr. Chairman, thank you for the opportunity to address these issues. I look forward to your questions.

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MEMORANDUM

To: Members of the Permanent Subcommittee on Investigations

From: Senator Carl Levin, Subcommittee Chairman
Senator Tom Coburn, Ranking Member

Date: April 26, 2010

Re: **Wall Street and the Financial Crisis: The Role of Investment Banks**

On Tuesday, April 27, 2010, beginning at 10:00 a.m., the Permanent Subcommittee on Investigations will hold the fourth in a series of hearings examining some of the causes and consequences of the recent financial crisis. This hearing will focus on the role played by investment banks, using as a case study Goldman Sachs, one of the leading investment banks on Wall Street.

Subcommittee Investigation. The Subcommittee initiated its investigation in November 2008. Since then, it has engaged in a wide-ranging inquiry, conducting more than one hundred interviews and depositions, collecting and reviewing millions of pages of documents, and consulting with dozens of government, academic, and private sector experts on banking, securities, financial, and legal issues.

To provide the public with the results of its investigation, the Subcommittee has held a series of hearings addressing the role of high risk lending, bank regulators, and credit rating agencies in the financial crisis. The fourth hearing on investment banks will be the final in this series. A final report will be released after all hearings are held and upon the conclusion of the investigation.

To date, the Subcommittee hearings have uncovered evidence that, from 2004 to 2007, hundreds of billions of dollars in high risk mortgages flooded U.S. financial markets. Using Washington Mutual ("WaMu") and its subprime lender, Long Beach Mortgage Company, as a case study, the first hearing showed how lenders targeted high risk borrowers and engaged in risky lending practices such as little or no verification of borrower income, minimal documentation, high loan-to-value ratios, negative amortization, teaser rates, and delayed assessments of higher loan payments that could cause payment shock and increased defaults. That hearing also showed how lenders not only ignored signs of massive loan fraud, but also securitized and sold loans known to contain fraudulent borrower information as well as loans viewed as likely to become delinquent.

In its second hearing, the Subcommittee showed that regulators saw the problems at WaMu and understood the risk, but sat on their hands or fought each other instead of using their authority to prevent high-risk mortgages from flooding the financial system. In the third hearing, the Subcommittee provided evidence that conflicts of interest at the credit rating agencies were a central factor in their poor ratings of mortgage products. The documents showed that the credit rating agencies bowed to pressure from investment bankers and, using outmoded data and

Permanent Subcommittee on Investigations
EXHIBIT #1a

financial models, gave AAA ratings to financial products backed by high risk mortgages, labeling them as safe investments despite the risk. Even after the high risk mortgages began incurring record rates of delinquency in 2006, the credit rating agencies delayed adjusting their ratings until July 2007. When they finally initiated a series of mass downgrades, it shocked the financial markets, hammered the value of mortgage related securities, and contributed to the collapse of the secondary markets for subprime mortgage related securities.

Role of Investment Banks. Historically, investment banks helped raise capital for business and other endeavors by helping to design, finance, and sell financial products like stocks or bonds. Today, they also participate in a wide range of financial activities, including trading derivatives and commodities. Large investment banks are often affiliated with major banks or broker-dealers. When a lender like Washington Mutual Bank wanted to package and sell its mortgage loans, for example, it often hired an investment bank like Goldman Sachs to design its mortgage backed securities and sell them to investors. Investment banks perform these services in exchange for fees.

If an investment bank agrees to act as an "underwriter" for the issuance of a new security to the public, it typically bears the risk of those securities on its books until the securities are sold. By law, securities sold to the public must be registered with the Securities and Exchange Commission (SEC). Registration statements explain the purpose of a proposed public offering, an issuer's operations and management, key financial data, and other important facts to potential investors. Any offering document, or prospectus, given to the investing public must also be filed with the SEC. If a security is not offered to the general public, it can still be offered to investors through a "private placement." Investment banks often act as the "placement agent," performing intermediary services between those seeking to raise money and investors. Solicitation documents in connection with private placements are not filed with the SEC. Under the federal securities laws, investment banks that act as an underwriter or placement agent are liable for any material misrepresentations or omissions of material facts made in connection with a solicitation or sale of the securities to investors.

Mortgage-backed securities were generally registered with the SEC, while collateralized debt obligations were generally sold to investors as private offerings. Investment banks sold both types of securities primarily to large institutional investors, such as other banks, pension funds, insurance companies, municipalities, university endowments, and hedge funds.

Investment banks sometimes take on the role of "market makers" for securities and other assets that they sell to their clients, meaning that, in order to facilitate client orders to buy or sell, an investment bank may acquire an inventory of assets and make them available for client transactions. In addition, investment banks may buy and sell assets for their own account, which is called "proprietary trading." The largest U.S. investment banks engage in a significant amount of proprietary trading that generates substantial revenues. Investment banks generally use the same inventory of assets to carry out both their market-making and proprietary trading activities. Investment banks also typically have an inventory or portfolio of assets that they intend to keep as long term investments.

Investment banks that carry out market-making and proprietary trading activities are required—by their banking regulator in the case of banks and bank holding companies, and by the SEC in the case of broker-dealers—to track their investments and maintain sufficient risk-based capital to meet their regulatory requirements. Many investment banks, including Goldman Sachs, use complex automated systems to analyze the "Value at Risk" ("VaR") associated with their holdings. To reduce the VaR attached to their holdings, investment banks employ a variety of methods to offset or "hedge" the risk. These methods can include diversifying their assets, taking a short position on securities, purchasing loss protection through insurance or credit default swaps, and trading on indices whose assets increase in value as the value falls for the assets subject to the hedge.

Structured Finance. Since 2000, investment banks have devised increasingly complex financial instruments to sell to investors. These instruments are often referred to as "structured finance" products.

Residential mortgage backed securities ("RMBS") are one of the oldest types of structured finance products. To create RMBS securities, issuers work with investment banks to bundle large numbers of home loans into a loan pool and then calculate the revenue stream coming into the loan pool from the individual mortgages. They then design a "waterfall" that delivers a stream of revenues in sequential order to specific "tranches." The first tranche is at the top of the waterfall and is typically the first to receive revenues from the mortgage pool. Since that tranche is guaranteed to be paid first, it is the safest investment in the pool. The issuer creates a security linked to that first tranche. That security typically receives an AAA credit rating since its revenue stream is the most secure.

The security created from the next tranche receives the same or a lower credit rating and so on until the waterfall reaches the "equity" tranche at the bottom. The equity tranche typically receives no rating since it is the last to be paid, and therefore the first to incur losses if mortgages in the loan pool default. Since virtually every mortgage pool has at least some mortgages that default, equity tranches are intended to provide loss protection for the tranches above it. Because equity tranches are riskier, however, they often receive a higher interest rate and can be profitable. One mortgage pool might produce a dozen or more tranches, each of which is used to create a residential mortgage backed security that is rated and then sold to investors.

Collateralized Debt Obligations ("CDOs") are another, more complex type of structured finance product that involves the re-securitization of existing income-producing assets. From 2004 through 2007, many CDOs included RMBS securities from multiple mortgage pools. For example, a CDO might contain BBB rated securities from 100 different residential mortgage pools. CDOs can also contain other types of assets, such as commercial mortgage backed securities, corporate bonds, or other CDO securities. These CDOs are often called "cash CDOs," because they receive revenues from the underlying securities and other assets. The most senior tranches of these CDOs may be rated AAA, even if all of the underlying assets are rated BBB.

Investment banks also created "synthetic CDOs," which mimicked cash CDOs, but did not contain actual mortgages or other assets that produced income. Instead, they simply "referenced" existing assets and then allowed investors to place bets on the value of those referenced assets. Investors who believed the referenced assets would increase in value received revenues from counterparties who paid monthly premiums to the CDO in exchange for obtaining "insurance" that paid off if the referenced assets incurred a loss or other negative credit event. Investors in synthetic CDOs who believed the referenced assets would increase in value were said to be on the "long" side, while investors who believed the assets would fail were said to be on the "short" side. Investment banks also created hybrid CDOs which contained some actual assets as well as credit default swaps referencing other assets.

Cash, synthetic, and hybrid CDOs all pooled the payments they received, designed a waterfall assigning portions of the revenues to tranches set up in a certain order, created securities linked to the various tranches, and then sold the CDO securities to investors. Some CDOs employed a "portfolio selection agent" to select the initial assets for the CDO. In addition, some CDOs were designed so that the assets could be changed over time, in which case a "collateral manager" was typically hired to select both the initial and subsequent assets.

In addition to designing these structured finance instruments, investment banks paid credit rating agencies to rate the resulting RMBS and CDO securities. Typically the top several tranches in a pool would receive AAA ratings for their securities, with all or most of the remaining tranches assigned investment grade ratings down to BBB. Credit ratings were intended to simplify the review process, help investors identify the riskiness of each security, and facilitate purchasing decisions.

Shorting the Mortgage Market. Commonly, investors purchased RMBS or CDO securities as long-term investments that produced a steady income. They did not seek to sell them, and there was little secondary market in which these securities were bought or sold on a regular basis.

In 2006, the high risk mortgages underlying these securities began to incur record levels of delinquencies. Some investors, worried about the value of their holdings, sought to sell their RMBS or CDO securities, but had a difficult time doing so due to the lack of an active market. Some managed to sell their high risk RMBS securities to investment banks assembling cash CDOs.

Instead of selling their RMBS or CDO securities, some investors purchased "insurance" against a loss by buying a credit default swap (CDS) that would pay off if the specified securities incurred losses or experienced other negative credit events. By 2005, investment banks had standardized CDS contracts for RMBS and CDO securities, making this a practical alternative.

Much like insurance, the buyer of a CDS contract paid a periodic premium to the CDS seller, who guaranteed the referenced security against loss. CDS contracts referencing a single security or corporate bond became known as "single name" CDS contracts. If the referenced security later incurred a loss, the CDS seller had to pay an agreed-upon amount to the CDS buyer to cover the loss. Some investors began to purchase single name CDS contracts, not as a hedge to offset losses from RMBS or CDO securities they owned, but as a way to profit from particular RMBS or CDO securities they predicted would lose money. CDS contracts that paid off on securities that were not owned by the CDS buyer were known as "naked credit default swaps."

Some investors purchased large numbers of these CDS contracts in a concerted strategy to profit from mortgage backed securities they believed would fail.

Investment banks took the CDS approach a step further. In 2006, a consortium of investment banks led by Goldman Sachs among others launched the ABX index, which tracked the performance of 20 subprime RMBS securities. Borrowing from longstanding practice in commodities markets, investors could buy and sell contracts linked to the value of the ABX index. According to a Goldman Sachs employee, the ABX index "introduced a standardized tool that allow[ed] clients to quickly gain exposure to the asset class." An investor – or investment bank – taking a short position on ABX contracts was, in effect, placing a bet that the basket of RMBS securities would lose value.

Synthetic CDOs provided still another vehicle for shorting the mortgage market. In this approach, an investment bank created a synthetic CDO that referenced a variety of RMBS securities. One or more investors took the "short" position by paying premiums into the CDO in exchange for a promise that the CDO would pay off if the referenced assets incurred losses or other negative credit events. If the event of a default, the CDO would have to pay an agreed-upon amount to the short investor to cover the loss, removing income from the CDO and possibly causing losses for the "long" investors. Synthetic CDOs became a way for investors to short multiple specific RMBS securities that they expected would incur losses.

Goldman Sachs. Goldman Sachs was first established in 1869. Originally a private partnership, in 1999, it became a publicly traded corporation. In 2008, it converted to a bank holding company, in part to gain access to Federal Reserve lending programs. Its headquarters are located in New York City's Wall Street and the firm manages about $870 billion in assets. Goldman employs about 14,000 employees in the United States, and 32,500 worldwide. In 2007, it paid about $68 million in compensation to its CEO Lloyd Blankfein.

Goldman Sachs' mortgage department had several trading desks responsible for purchasing and selling virtually all of the firm's mortgage related assets, including RMBS and CDO securities. Goldman Sachs maintained an inventory of RMBS and CDO securities to carry out activities for its clients and proprietary trading for the firm. In 2006 and 2007, it underwrote approximately 86 RMBS and 27 CDOs referencing RMBS assets.[1] Of the 27 CDOs, 84 percent were hybrid CDOs, 15 percent were synthetic, and only about 1 percent were cash CDOs with physical assets.

Mortgage Securitizations. From 2004 through 2007, Goldman Sachs was an active participant in the mortgage market, particularly in the area of securitization. On multiple occasions, it helped lenders like Long Beach Mortgage Company, Fremont Loan & Investment, and New Century Mortgage, securitize billions of dollars in poor quality, high risk mortgages and sold them to investors. In doing so, Goldman Sachs provided these lenders with additional liquidity to make even more bad loans, many of which were included in risky securities. Two examples illustrate Goldman Sachs' role in the securitization process.

[1]Goldman Sachs document prepared for the Subcommittee, undated, GS-PSI-00265.

The first example involves Washington Mutual ("WaMu") and its subprime lender Long Beach. An exhibit from the Subcommittee's first hearing shows that WaMu, Long Beach, and Goldman Sachs collaborated on at least $14 billion in loan sales and securitizations,[2] even though Long Beach originated some of the worst performing subprime mortgages in the country. In 2003, WaMu halted all Long Beach securitizations and sent a legal team for three months to clean up the company's problems, before allowing securitizations to resume in 2004. In 2005, Long Beach saw a surge of early payment defaults on its loans and had to repurchase over $875 million of nonperforming loans from investors, as well as book a $107 million loss. Internal audits of Long Beach and examinations by the Office of Thrift Supervision repeatedly identified lax lending standards, poor controls over loan officers ignoring credit requirements, and loans subject to fraud, appraisal problems, and errors. Long Beach securitizations had among the worst credit losses in the industry from 1999-2003, and in 2005 and 2006 Long Beach securities were among the worst performing in the market.

Nevertheless, in May 2006 Goldman Sachs acted as co-lead underwriter with WaMu to securitize about $532 million in subprime second lien, fixed rate mortgages originated by Long Beach. Long Beach Mortgage Loan Trust 2006-A ("LBMLT 2006-A") issued about $495 million in RMBS securities backed by the Long Beach high risk mortgages. The top three tranches, representing 66 percent of the principal loan balance, received AAA ratings from S&P, even though the pool contained high risk, subprime second lien mortgages—loans for which there was little prospect of recovering collateral in the event of a housing downturn—issued by one of the nation's worst mortgage lenders. In this instance, Goldman Sachs was able, with the help of the ratings agencies, to turn two-thirds of that extremely risky debt into AAA-rated securities. Goldman Sachs then sold the Long Beach securities to investors.

In less than a year, the Long Beach loans started to become delinquent. By May 2007, the cumulative net loss on the underlying mortgage pool jumped to over 12 percent, wiping out a significant amount of the deal's loss protection and causing S&P to downgrade 6 out of 7 of the mezzanine tranches of the securitization. The Long Beach securities plummeted in value. Goldman Sachs owned some of the mezzanine securities, but had also placed a bet against them by purchasing a credit default swap that paid off if the securities incurred loss. One Goldman employee, upon learning of the Long Beach losses, wrote in an email to management: "bad news... [the loss] wipes out the m6s and makes a wipeout of the m5 imminent... costs us about 2.5[million dollars]... good news... we own 10[million dollars] protection at the m6... we make $5[million]." Ultimately, in this transaction, Goldman Sachs profited from the decline of the very security it had earlier sold to clients. By May 2008—only two years later—even the AAA securities in LBMLT 2006-A had been downgraded to default status. By March 2010, the securities recorded a cumulative net loss of over 66 percent.

A second example involves Fremont, another poor performing subprime lender. In the first calendar quarter of 2007, Goldman Sachs helped Fremont securitize over $1 billion in high risk loans by creating GSAMP Trust 2007-FM1 and GSAMP Trust 2007-FM2.[3] In March 2007,

[2] See Exhibit 47b, Subcommittee hearing on Wall Street and the Financial Crisis: The Role of High Risk Home Loans, April 13, 2010.
[3] See Exhibit 93f, Subcommittee hearing on Wall Street and the Financial Crisis: The Role of the Credit Rating Agencies, April 23, 2010.

Fremont reported in an 8-K filing with the SEC that the California Court of Appeals had found sufficient evidence in a lawsuit filed by the California Insurance Commissioner that Fremont was "[m]arketing and extending adjustable–rate mortgage products to subprime borrowers in an unsafe and unsound manner that greatly increases the risk that borrowers will default on the loans or otherwise causes losses." That same month, Fremont received a public cease and desist order from the Federal Deposit Insurance Corporation ("FDIC") due to fraud and lax underwriting standards affecting its mortgage loans. Fremont halted all subprime originations by March 2007. Moody's and S&P rated the Fremont securities, even though analysts at both firms expressed concern about the quality of Fremont loans. Both agencies gave AAA ratings to the top 5 tranches of the securitization. Goldman Sachs sold the Fremont securities to investors, while at the same time purchasing $15 million in credit default swaps referencing some of the Fremont securities.[4] A little over a year later, every tranche in the security was downgraded to junk status. It is unclear what recovery Goldman Sachs received from its credit default swap.

Goldman Sachs has stated that it had a process for evaluating lenders and, as a result of its process, terminated relationships with "dozens of originators." It has also stated that it employed internal and third party due diligence reviews of individual loans in mortgage pools backing Goldman Sachs RMBS securities to ensure it did not accept loans with "potentially significant legal regulatory compliance or other issues."[5]

In addition to RMBS securities, Goldman Sachs was active in the CDO market. A September 2007 internal presentation to its Board of Directors listed Goldman Sachs as the fourth largest CDO underwriter in the country, with 14 CDO transactions in 2006 involving $16 billion, and 12 deals in the first half of 2007, involving $8.3 billion.[6] These transactions included about 16 CDOs on the Abacus platform, involving over $10 billion in referenced assets; Hudson CDO involving $2 billion, a $300 million Anderson CDO, and a $1 billion Timberwolf CDO.

Goldman Sachs Shorting the Mortgage Market. Goldman Sachs senior management closely monitored the holdings and the profit and loss performance of its mortgage department. In late 2006, when high risk mortgages began showing record delinquency rates, and the value of RMBS and CDO securities began falling generally, Goldman Sachs Chief Financial Officer David Viniar convened a meeting on December 14, 2006, to examine the data and consider how to respond.

Beginning in early 2007, Goldman Sachs initiated an intensive effort to not only reduce its mortgage risk exposure, but profit from high risk RMBS and CDO securities incurring losses. A presentation to the Goldman Sachs Board of Directors identified a number of actions taken during the year, including: "Shorted synthetics" and "Shorted CDOs and RMBS."[7]

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[4] See Goldman Sachs spreadsheet, GS MBS-E-013648131.

[5] "Goldman Sachs: Risk Management and Residential Mortgage Market," provided to the Subcommittee on 4/24/10, at 3-4.

[6] Presentation to GS Board of Directors, Residential Mortgage Business, 9/17/07, GS MBS-E-001793853, Exhibit 41.

[7] Presentation to GS Board of Directors, Residential Mortgage Business, 9/17/07, GS MBS-E-001793844, Exhibit 41.

The 2009 Goldman Sachs annual report states that the firm "did not generate enormous net revenues by betting against residential related products." Documents obtained by the Subcommittee, however, indicate otherwise. Two top Goldman mortgage traders, Michael Swenson and Joshua Birnbaum, discussed in their 2007 performance self-evaluations the "very profitable year" and "extraordinary profits" that came from shorting the mortgage market that year. One bragged about "aggressively" entering into "efficient shorts in both the RMBS and CDO space," while the other reported that "contrary to the prevailing opinion" that the firm needed only to "get close to home," he "concluded that we should not only get flat, but get VERY short."[8] Goldman Sachs documents show that the firm was short in the mortgage market throughout 2007, and that, twice in 2007, it established and then cashed in very large short positions in mortgage related securities, generating billions of dollars in gross revenues.

At times, the net short position accumulated by Goldman Sachs was as large as $13.9 billion. The short positions held by the firm's mortgage department became so large that according to the Goldman Sachs risk measurements, the positions comprised 53 percent of the firm's overall risk, according to Goldman Sachs own Value-at-Risk (VaR) measures.[9] Senior management had to repeatedly allow the mortgage department to exceed the VaR limits that had been established by the firm.

Beginning in July 2007 and continuing into the next year, credit rating agencies downgraded hundreds of RMBS and CDO securities. On one day in October 2007, they downgraded $32 billion in mortgage related securities, causing substantial losses for investors. A Goldman Sachs manager reacted to the news by noting that Goldman had bet against those securities by purchasing credit default swaps. His colleague responded: "Sounds like we will make some serious money." The reply: "Yes we are well positioned."[10] In the end, Goldman Sachs profited from the failure of many of the RMBS and CDO securities it had underwrote and sold. As Goldman Sachs CEO Lloyd Blankfein explained in a November 2007 email: "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts."[11]

Conflict Between Proprietary and Client Trading. After Goldman Sachs decided to reduce its mortgage holdings, the sales force was instructed to try to sell some of its mortgage related assets, and the risks associated with them, to Goldman Sachs clients. In response, Goldman Sachs personnel issued and sold to clients RMBS and CDO securities containing or referencing high risk assets that Goldman Sachs wanted to get off its books. Three examples demonstrate how Goldman Sachs continued to sell mortgage related products to its clients, while profiting from the decline of the mortgage market.

Hudson Mezzanine 2006-1 ("Hudson 1") was a synthetic CDO that referenced $2 billion in subprime BBB-rated RMBS securities. This CDO was underwritten and sold by Goldman Sachs in December 2006. Goldman Sachs selected the referenced assets, collaborating with its

[8] 2007 performance self-evaluations by Michael Swenson, Joshua Birnbaum, GS-PSI-01974, 2400, Exhibit 55b-c.
[9] See Goldman Sachs Market Risk Report, 8/14/07, GS MBS-E-012380294, Exhibit 35.
[10] Email exchange between Michael Swenson and Donald Mullen, 10/11/07, GS MBS-E-016031234.
[11] Email from Lloyd Blankfein to David Viniar and others, 11/18/07, GS MBS-E-009696333.

mortgage traders to identify BBB rated assets on its books. About $800 million in subprime RMBS securities and $1.2 billion in ABX index contracts were referenced in the CDO. Goldman executives told the Subcommittee that the company was trying to remove BBB assets from the company books during this period of time. Goldman Sachs was the sole short investor in this proprietary deal, buying protection on all $2 billion in referenced assets and essentially placing a bet that the assets would lose value. Goldman Sachs personnel placed a high priority on selling the Hudson securities. Evidence of this is illustrated by the Hudson 1 deal being pushed ahead of a client transaction. One Goldman Sachs employee noted that a client was "upset that we are delaying their deal. They know that Hudson Mezz (GS prop deal) is pushing their deal back."[12] Less than 18 months later, the AAA securities had been downgraded to junk status. Goldman Sachs as the sole short investor would have been compensated for these losses, and investors who purchased the Hudson securities would have lost an equivalent amount. Goldman Sachs profited from the loss in value of the very CDO securities it had sold to its clients.

Anderson Mezzanine Funding 2007-1 was a synthetic CDO referencing about $300 million in subprime RMBS BBB securities. Goldman Sachs structured the deal and participated as one of the short investors, buying loss protection for $140 million, or nearly 50 percent, of the referenced assets. During the first calendar quarter of 2007, Goldman Sachs underwrote and sold the Anderson CDO securities. Most of the referenced assets were subprime RMBS securities, backed by high risk mortgages. The largest originator of the high risk mortgages was New Century Mortgage, a lender which was known for poor quality loans and which Goldman Sachs knew was in poor financial condition. Goldman senior managers directed their sales force to sell the Anderson securities quickly due to "poor subprime news." In fact, Goldman manager Jonathan Egol advised Goldman personnel to sell the Anderson securities before completing an Abacus deal: "Given risk priorities, subprime news and market conditions, we need to discuss side-lining this deal ([Abacus 2007-]AC1) in favor of prioritizing Anderson in the short term."[13] The top rating given to the Anderson securities was BBB; about 7 months after the securities were sold, Anderson was downgraded to junk status.

A third example involves Timberwolf I, a hybrid cash/synthetic $1 billion CDO squared, which Goldman Sachs underwrote and sold in the first calendar quarter of 2007. A significant portion of the referenced assets were CDO securities backed by subprime RMBS mortgages. Some of the referenced assets were backed by Washington Mutual Option ARM mortgages, high risk mortgages whose value was dropping as housing prices declined. A memorandum sent to the Goldman Sachs Mortgage Capital Committee indicated that the Timberwolf CDO would contain 50 percent CDO securities and 50 percent collateralized loan obligation ("CLO") securities, but Goldman Sachs told the Subcommittee that, since the value of the CLOs had improved, the firm had sold the best-performing CLO securities separately. In the end, Timberwolf referenced assets consisted of 94 percent CDO securities, including about $15 million in Abacus CDO securities. Goldman Sachs was the short investor for many of the Timberwolf referenced assets, including the Abacus securities, betting that they would decline in value.

[12] Email to Daniel Sparks, 10/16/06, GS MBS-E-010916991.
[13] Email from Mr. Egol to Goldman Sachs personnel, Re: Abacus AC1, 3/2/07, GS MBS-E-002676413.

A senior executive in Goldman Sachs sales expressed concern about what representations might be made to clients about the Timberwolf CDO squared, but other Goldman personnel urged the sales force to treat Timberwolf securities as a priority. An email from Dan Sparks, head of the Goldman Sachs mortgage department, urged Goldman personnel working on a potential Korean sale to "[g]et 'er done," and sent a mass email to the sales force promising "ginormous credits" for selling the securities. A congratulatory email was sent to an employee who sold a number of the securities: "Great job ... trading us out of our entire Timberwolf Single-A position." In mid-spring, Goldman Sachs sold about $300 million of Timberwolf securities to Bear Stearns Asset Management, one of the offshore hedge funds that collapsed during the summer. Within five months of issuance, the CDO lost 80 percent of its value, and was later liquidated in 2008. The AAA securities issued in March 2007, were downgraded to junk status in just over a year. The Goldman trader responsible for managing the deal later characterized the day that Timberwolf was issued as "a day that will live in infamy."[14] A senior Goldman executive described the deal as follows: "Boy that timeberwof [sic] was one shi**y deal."[15]

Abacus 2007- AC1. In addition to the Hudson, Anderson, and Timberwolf CDOs, Goldman Sachs developed and sold a series of about 16 Abacus synthetic CDOs. One Abacus transaction in particular, Abacus 2007-AC1, has attracted attention due to allegations that Goldman Sachs failed to disclose that its portfolio of referenced RMBS assets was selected in part by a hedge fund betting against the CDO. On April 16, 2010, the SEC filed a civil complaint against Goldman Sachs and one of its employees, Fabrice Tourre, in connection with this transaction.

Abacus 2007- AC1 is a $2 billion synthetic CDO which closed on April 26, 2007. The referenced assets were primarily BBB rated RMBS securities backed by subprime mortgages. Goldman structured, served as the placement agent, and sold this CDO's securities to investors, including a German bank, IKB.

Documents indicate that Goldman Sachs initiated this transaction at the request of Paulson & Co., a hedge fund ran by John Paulson, who had very negative views of high risk residential mortgages, RMBS securities, and the housing market. Goldman records refer to Paulson & Co. as the "sponsor" of the deal, and internal Goldman documents indicate that the deal was structured so that his company could serve as the "short" investor – that is, the investor who would buy loss protection that would pay off if the referenced assets lost value. In order for the transaction to go forward, Goldman Sachs had to find one or more investors willing to take the "long" side – that is, bet that the referenced RMBS securities would increase in value. In early 2007, that was becoming increasingly difficult as confidence in the mortgage market began to erode.

The investor Goldman Sachs located, IKB, indicated that it was interested only in CDOs that, unlike prior Abacus transactions, made use of an independent portfolio selection agent to select the referenced assets. Goldman Sachs determined that it would use an independent portfolio selection agent and eventually settled on ACA Management, LLC, an established company that had selected assets for other CDO transactions. Internal Goldman memoranda

[14] Email from Mr. Bieber, "Re: Timberwolf," 9/17/07, GS MBS-E-000766370.
[15] Email from Mr. Montag, "Re: Few trade posts," 6/22/07, GS MBS-E-010849103.

indicated that it planned to rely on ACA's reputation to encourage investors to buy the CDO securities.

The documents also indicate that, rather than develop a portfolio of assets, Goldman Sachs asked ACA to work with Paulson & Co. to review a portfolio of RMBS securities that had already been identified. ACA representatives told the Subcommittee that they were not told that Paulson & Co. would be taking a short position in the CDO, but instead believed that Paulson & Co. would be investing in the equity tranche of the CDO, so that its interests were aligned with those of other Abacus investors. The documents indicate, however, that Paulson & Co. helped to select the assets even though it intended to take the short position only on the referenced assets. In January and February 2007, ACA and Paulson & Co. held several meetings and finally came to an agreement on a list of 90 RMBS securities for the Abacus CDO.

Goldman Sachs asked Moody's and Standard & Poor's to rate the Abacus transaction. Eric Kolchinsky, then a Moody's managing director who oversaw its CDO ratings, told the Subcommittee in sworn testimony at an April 23, 2010 hearing on credit rating agencies, that he did not know of Mr. Paulson's involvement with the Abacus CDO, did not know of his involvement with selecting the referenced assets, and believed his staff did not know either. He said that he would have wanted to know that fact before rating Abacus, explaining: "It just changes the whole dynamic of the structure, where the person who's putting it together, choosing it, wants it to blow up." Both Moody's and Standard & Poor's gave AAA ratings to several of the Abacus CDO tranches.

Goldman Sachs prepared marketing materials for the CDO, including a term sheet, flip book, and offering memorandum. None mentioned Paulson & Co. or its role in the asset selection process. Instead, the materials emphasized the role of ACA as an independent portfolio selection agent.

The CDO closed and its securities went on sale in April 2007. IKB, the German bank, purchased $150 million in AAA-rated Abacus securities. ACA purchased about $42 million in AAA securities and sold protection on about $900 million of the deal. Paulson & Co. paid Goldman Sachs $15 million for structuring the deal. Within months, however, the mortgages started defaulting, and Abacus started incurring losses. Six months later, in October 2007, 83 percent of the securities were downgraded, including the AAA securities. By January, 99 percent were downgraded. IKB and ACA lost over $1 billion, while Paulson & Co. pocketed a similar amount.

In the Abacus CDO transaction, one set of investors wanted the referenced assets to increase in value, while the other wanted them to decrease in value. Goldman Sachs knew that the referenced assets in the CDO had been selected in part by an investor who wanted the assets to decrease in value, without informing the other investors. A Senate committee examining a similar situation in the 1930s, made this observation:

> "[Investors] must believe that their investment banker would not offer them the bonds unless the banker believed them to be safe. This throws a heavy responsibility upon the banker. He may and does make mistakes. There is no way that he can avoid making mistakes because he is human and because in this world, things are only relatively secure.

There is no such thing as absolute security. But while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe to be good."

By the end of 2007, Goldman Sachs personnel were reporting client anger from losses incurred in connection with Abacus and other CDOs. One employee wrote to Mr. Sparks as follows: "Real bad feeling across European sales about some of the trades we did with clients. The damage this has done to our franchise is very significant."[16]

Subcommittee Findings. Based upon the Subcommittee's ongoing investigation, we make the following findings of fact regarding the role of investment banks in the recent financial crisis.

(1) **Securitizing High Risk Mortgages.** From 2004 to 2007, in exchange for lucrative fees, Goldman Sachs helped lenders like Long Beach, Fremont, and New Century, securitize high risk, poor quality loans, obtain favorable credit ratings for the resulting residential mortgage backed securities (RMBS), and sell the RMBS securities to investors, pushing billions of dollars of risky mortgages into the financial system.

(2) **Magnifying Risk.** Goldman Sachs magnified the impact of toxic mortgages on financial markets by re-securitizing RMBS securities in collateralized debt obligations (CDOs), referencing them in synthetic CDOs, selling the CDO securities to investors, and using credit default swaps and index trading to profit from the failure of the same RMBS and CDO securities it sold.

(3) **Shorting the Mortgage Market.** As high risk mortgage delinquencies increased, and RMBS and CDO securities began to lose value, Goldman Sachs took a net short position on the mortgage market, remaining net short throughout 2007, and cashed in very large short positions, generating billions of dollars in gain.

(4) **Conflict Between Client and Proprietary Trading.** In 2007, Goldman Sachs went beyond its role as market maker for clients seeking to buy or sell mortgage related securities, traded billions of dollars in mortgage related assets for the benefit of the firm without disclosing its proprietary positions to clients, and instructed its sales force to sell mortgage related assets, including high risk RMBS and CDO securities that Goldman Sachs wanted to get off its books, creating a conflict between the firm's proprietary interests and the interests of its clients.

(5) **Abacus Transaction.** Goldman Sachs structured, underwrote, and sold a synthetic CDO called Abacus 2007-AC1, did not disclose to the Moody's analyst overseeing the rating of the CDO that a hedge fund client taking a short position in the CDO had helped to select the referenced assets, and also did not disclose that fact to other investors.

[16] Email to Daniel Sparks, 10/12/07, GS MBS-E-013706095.

(6) **Using Naked Credit Default Swaps.** Goldman Sachs used credit default swaps (CDS) on assets it did not own to bet against the mortgage market through single name and index CDS transactions, generating substantial revenues in the process.

Excerpts from Documents Related to Goldman Sachs: <u>Short Positions and Profits</u>

"Tells you what might be happening to people who don't have the big short."
--Goldman Sachs email from David Viniar, 7/25/07, GS MBS-E-009861799, Exhibit 26

"So what happened to us? ... In market risk – you saw in our 2nd and 3rd qtr results that we made money despite our inherently long cash positions. – because starting early in '07 our mortgage trading desk started putting on big short positions ... and did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened."
-- Goldman Sachs, Tax Department Presentation by Craig Broderick, Chief Risk Officer, 10/29/07, GS MBS-E-010018512, Exhibit 48

"Over the last few months, our risk reduction program consisted of: (1) selling index outright (2) buying single name protection (3) buying protection on super-senior portions of the BBB/BBB- index (40-100% of the index) .... We sold around $3 billion in the mid-30bps range." "That is good for us position-wise, bad for account who wrote that protection ... but could hurt our CDO pipeline position as CDOs will be hard to do."
-- Goldman Sachs email by Daniel Sparks and forwarded to Lloyd Blankfein, 2/14/07, GS MBS-E-00935410, Exhibit 8

"We have a big short on and we can stay short names that we know the market hates and cover a bit this short with cbass-type names."
-- Goldman Sachs email from Fabrice Tourre, 12/18/06, GS MBS-E-002618871, Exhibit 4

"The Mortgage business' revenues were primarily driven by synthetic short positions ... which benefited from spread widening. These gains were partially offset by losses incurred in our cash inventory, most notably in our warehousing of financial assets to be securitized in connection with CDO's." -- Goldman Sachs email received by David Viniar, 3/9/07, GS MBS-E-009762678, Exhibit 16

"We should add the various things we have done – getting short CDS on RMBS and CDOs, getting short the super-senior BBB- and BBB index, getting short the SSS index as overall protection." "[I]n the synthetics space, the desk started the quarter with long $6.0bn notional ABS BBB- risk and shifted the position to net short $10bn notional by reducing the longs in ABX BBB- and increasing shorts in single name CDS." "[T]he business has purchased $60mm notional of equity put options on subprime lenders as risk mitigant to overall subprime business."
-- Goldman Sachs email exchange with Daniel Sparks re mortgage presentation to the Board, 3/10/07, GS MBS-E-013323395, Exhibit 17

"1Q 2007" – "GS reverses long market position through purchase of single name CDS and reductions of ABX"
-- Goldman Sachs, Presentation to GS Board of Directors, Subprime Mortgage Business, 3/26/07, GS MBS-E-005565527, Exhibit 22

"Mergers, overnight asia, especially short mortgages saved the day."
-- Goldman Sachs email from David Viniar to Lloyd Blankfein, 7/24/07, GS MBS-E-00960033, Exhibit 25

<u>Permanent Subcommittee on Investigations</u>
EXHIBIT #1b

"We've been covering [the shorts], but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part."

-- Goldman Sachs email from Daniel Sparks to David Viniar and others, 8/14/07, GS MBS-E-010678053, Exhibit 30

"[W]e are covering a number of shorts in mortgages today and tomorrow – probably 1.5 billion worth – will reduce mortgages hopefully to below 80."

-- Goldman Sachs email to Lloyd Blankfein, 8/22/07, GS MBS-E-009605812, Exhibit 36

"Q2 2007 and Q3 2007" – "Positioned business tactically – Shorted synthetics – Reduced loan and security purchases - Shored CDOs and RMBS – Increased long correlation position – Reduced long inventory[.]"

-- Goldman Sachs, Presentation to GS Board of Directors, Residential Mortgage Business, 9/16/07, GS MBS-E-001793840, Exhibit 22

"Although broader weakness in the mortgage markets resulted in significant losses in cash positions, we were overall net short the mortgage market and thus had very strong results."

-- Goldman Sachs, Board of Directors Meeting Financial Summary, 9/17-18/07, GS MBS-E-009776907, Exhibit 42

"The desk benefited from a proprietary short position in CDO and RMBS single names."

-- Goldman Sachs, Global Mortgages, Daniel Sparks, Business Unit Townhall Presentation, Q3 2007, draft dated 10/5/07 (v.3) GS MBS-E-013703468, Exhibit 47

"Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts."

-- Goldman Sachs email from Lloyd Blankfein to Gary Cohn, David Viniar and others, 11/18/07, GS MBS-E-009696333, Exhibit 52

"It should not be a surprise to anyone that the 2007 year is the one that I am most proud of to date. ... extraordinary profits (nearly $3bb to date). ... [D]uring the early summer of 2006 it was clear that the market fundamentals in subprime and the highly levered nature of CDOs was going to have a very unhappy ending. ... I directed the ABS desk to enter into a $1.8 bb short in ABS CDOs that has realized approx. $1.0bb of p & l to date. ... [W]e aggressively capitalized on the franchise to enter into efficient shorts in both the RMBS and CDO space."

--2007 performance review of Michael Swenson, GS-PSI-02400, Exhibit 55b

"I concluded that we should not only get flat, but get VERY short. ... Much of the plan began working by February as the market dropped 25 points and our very profitable year was underway. -- 2007 performance review of Joshua Birnbaum, GS-PSI-01975, Exhibit 55c

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010.

Excerpts from Documents Related to Goldman Sachs: Profiting at the Expense of Clients

"Need to decide if we want to do 1-3bb of these trades for our book or engage customers." "On baa3, I'd say we definitely keep for ourselves. On baa2, I'm open to some sharing to the extent that it keeps these customers engaged with us."

-- Goldman Sachs emails exchanged between David Lehman and Josh Birnbaum, 12/22/06 and 12/29/06, GS MBS-E-011360438, Exhibit 5

"[T]he fabulous Fab ... standing in the middle of all these complex, highly levered, exotic trades he created without necessarily understanding all the implications of those monstruosities !!! Anyway, not feeling too guilty about this, the real purpose of my job is to make capital markets more efficient and ultimately provide the US consumer with more efficient ways to leverage and finance himself, so there is a humble, noble and ethical reason for my job ;) amazing how good I am in convincing myself !!!"

--Goldman Sachs email from Goldman Sachs, 1/23/07, GS MBS-E-003434918, Exhibit 62

"bad news . . . wipes out the m6s and makes a wipeout on the m5 imminent . . . costs us about 2.5mm ... good news . . . we own 10mm protection on the m6 marked at $50 . . . we make $5mm."

-- Goldman Sachs email to Michael Swenson, 5/17/07, GS MBS-E-012550973, Exhibit 65

"[Y]ou refer to losses stemming from residual positions in old deals. Could/should we have cleaned up these books before and are we are doing enough right now to sell off cats and dogs in other books throughout the division."

-- Goldman Sachs email from Lloyd Blankfein, 2/11/07, GS MBS-E-009686838, Exhibit 130

"[T]his list might be a little skewed towards sophisticated hedge funds with which we should not expect to make too much money since (a) most of the time they will be on the same side of the trade as we will, and (b) they know exactly how things work and will not let us work for too much $$$, vs. buy-and-hold rating-based buyers who we should be focused on a lot more to make incremental $$$ next year."

-- Goldman Sachs email from Fabrice Tourre, 12/28/06, GS MBS-E-002527843, Exhibit 61

"He's definitely the man in this space, up 2-3 bil on this trade. We were giving him a run for his money for a while but now are a definitive #2."

-- Goldman Sachs email from Josh Birnbaum (responding to "We hit a bilsky in PNL today ... I'm no john Paulson though."), 7/12/07, GS MBS-E-012944742, Exhibit 146

"[U]pset that we are delaying their deal. They know that Hudson Mezz (GS prop deal) is pushing their deal back."

-- Goldman Sachs email to Daniel Sparks, 10/16/06, GS MBS-E 010916991, Exhibit 59

Permanent Subcommittee on Investigations

EXHIBIT #1c

"Just fyi not for the memo, my understanding is that desk is no longer buying subprime. (We are low balling on bids.)"

-- Goldman Sachs email to Craig Broderick, 3/2/07, GS MBS-E-009986805, Exhibit 63

"These are all dirty '06 originations that we are going to trade as a block."

-- Goldman Sachs email, 4/5/07, GS MBS-E-004516519, Exhibit 81

"They have just raised another $1bln for their ABS fund and they are very short the ABX so are natural buyers of our axe. Not experts in this space at all but made them a lot of money in correlation dislocation and will do as I suggest."

-- Goldman Sachs email to Daniel Sparks, 5/24/07, GS MBS-E-001934732, Exhibit 66

"I met with 10+ individual prospects and clients ... since earnings were announced. The institutions don't and I wouldn't expect them to, make any comments like ur good at making money for urself but not us. The individuals do sometimes, but while it requires the utmost humility from us in response I feel very strongly it binds clients even closer to the firm, because the alternative of take ur money to a firm who is an under performer and not the best, just isn't reasonable. Clients ultimately believe association with the best is good for them in the long run."

--Goldman Sachs email to Lloyd Blankfein, 9/26/07, GS MBS-E-009592726, Exhibit 135

"Real bad feeling across European sales about some of the trades we did with clients. The damage this has done to our franchise is very significant. Aggregate loss of our clients on just these 5 trades along is 1bln+. In addition team feels that recognition (sales credits and otherwise) they received for getting this business done was not consistent at all with money it ended making/saving the firm."

-- Goldman Sachs email to Daniel Sparks, 10/12/07, GS MBS-E-013706095, Exhibit 70

"I said 'no' to clients who demanded that GS should 'support the GSAMP' program as clients tried to gain leverage over us. Those were unpopular decisions but they saved the firm hundreds of millions of dollars."

--2007 performance review of Michael Swenson, GS-PSI-02399, Exhibit 55b

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010.

Excerpts from Documents Related to Goldman Sachs: Abacus and Other Deals

"Do you think [portfolio selection agent 1] is easier to work with than [portfolio selection agent 2]? They will never agree to the type of names [P]aulson want to use[.] I don't think [name redacted] will be willing to put [portfolio selection agent 1]'s name at risk for small economics on a weak quality portfolio whose bonds are distributed globally." "There are more manager out there than just [portfolio selection agent 1 or 2]. The way I look at it, the easiest manager to work with should be used for our own axes."

-- Goldman Sachs email exchange with Fabrice Tourre, 12/20/06, GS MBS-E-003246145-46, Exhibit 107

"As you know, a couple of weeks ago we had approached GSC to ask them to act as portfolio selection agent for that Paulson-sponsored trade, and GSC had declined given their negative views on most of the credits that Paulson had selected."

-- Goldman Sachs email from Fabrice Tourre, 1/29/07, GS MBS-E-003248999, Exhibit 112

"Gerstie and I are finishing up engagement letters with ACA and Paulson for the large RMBS CDO ABACUS trade that will help Paulson short senior tranches." "Still reputational risk."

-- Goldman Sachs email exchange between Fabrice Tourre and Daniel Sparks et al., 2/7/07 and 2/8/07, GS MBS-E-0003277939, Exhibit 114

"The desk has an axe to short structured product CDOs in bulk. The ABACUS transactions are currently one of the unique formats available to source efficient spread and credit protection in large size on this type of structured product risk."

--Mortgage Capital Committee memorandum, 3/12/07, GS MBS-E-002665382, Exhibit 150

"[D] id you hear something on my request to remove Fremont and New Cen[tu]ry serviced bonds?" "Paulson will likely not agree to this unless we tell them that nobody will buy these bonds if we don't make that change."

-- Goldman Sachs email exchange including Fabrice Tourre, 3/12/07, GS MBS-E-002683134, Exhibit 119

"We need to be sensitive of the profitability of these trades vs. profitability of abacus - we should prioritize the higher profit margin businesses with Paulson."

-- Goldman Sachs email from Fabrice Tourre, 4/11/07, GS MBS-E-003634131, Exhibit 122

"100% Baa2 RMBS selected by ACA/Paulson."

-- Goldman Sachs email from Fabrice Tourre to Josh Birnbaum, 5/8/07, GS MBS-E-003611826, Exhibit 123

"Paulson has agreed to buy $1,000mm notional of 45-100 tranche at an all in level of 85 bps p.a. + 1.00% upfront. This would leave us net/net with $91mm of 45-50 tranche risk that we would work on over the next few weeks - we are showing this tranche to a few accounts @ 80bps."

-- Goldman Sachs email from Fabrice Tourre to Michael Swenson, Josh Birnbaum, et al., 5/30/07, GS MBS-E-002466406, Exhibit 125

Permanent Subcommittee on Investigations
EXHIBIT #1d

"We expect to place $68.75 million of credit-linked notes from ABACUS 11 with Aladdin for inclusion in their high-grade Altius III and mezzanine-grade Fortius II CDO transactions, both of which are currently being arranged by Goldman."

-- Goldman Sachs Memorandum from Fabrice Tourre et al., to Mortgage Capital Committee, 7/31/06, GS MBS-E-010069336, Exhibit 141

"Opportunities: ... ABACUS-rental strategies, according to which we 'rent' our ABACUS platform to counterparties focused on putting on macro short in the sector."

-- Goldman Sachs email from Fabrice Tourre, 12/10/06, GS MBS-E-003453843, Exhibit 142

"Goldman was the sole buyer of protection on the entire $2.0 billion of assets ... Goldman is currently mandated on $40+ bln of additional CDOs and CLOs for next 12 months. Increasing velocity on debt and equity placement of our upcoming transactions will be the key to our success in 2007. Let's do it again."

-- Goldman Sachs email discussing Hudson CDO, 10/30/06, GS MBS-E-0000057886, Exhibit 90

"They structured like mad and travelled the world, and worked their tails off to make some lemonade from some big old lemons."

-- Goldman Sachs email from Daniel Sparks, 1/26/07, GS MBS-E-010359125, Exhibit 91

"Plan would still be to ask sales people to focus on Anderson mezz, Point Pleasant and Timberwolfe, but if accounts pass on these trades, steer them towards available tranches in ABACUS 07-AC1 since we make $$$ proportionately with the notional amount of these tranches sold."

-- Goldman Sachs email from Fabrice Tourre to Daniel Sparks, et al., 3/30/07, GS MBS-E-002678071, Exhibit 80

"Therefore, we are trying to close everything down, but stay on the short side."

-- Goldman Sachs email from Daniel Sparks to David Viniar, Craig Broderick, et. al. 3/8/07, GS-MBS-E-002206279, Exhibit 75

"[W]hen the prevailing opinion in the department was to remain close to home, I pushed everyone on the desk to sell risk aggressively and quickly. We sold billions of index and single name risk such that when the index dropped 25pts in July, we had a blow-out p&l month, making over $1Bln that month."

– 2007 performance review of Joshua Birnbaum, GS-PSI-01975, Exhibit 55c

"[B]oy that timberwo[l]f was one shi**y deal."

-- Goldman Sachs email to Daniel Sparks, 6/22/07, GS MBS-E-010849103, Exhibit 105

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

The Goldman Sachs Conveyor Belt

	Long Beach Mortgage Loan Trust 2006-A	GSAMP 2007-FM1 (Freemont loans)	Hudson Mezzanine 2006-1	Anderson Mezzanine 2007-1	Timberwolf I	Abacus 2007-AC1
Type	Subprime RMBS	Subprime RMBS	Synthetic CDO	Synthetic CDO	Synthetic CDO^2	Synthetic CDO
Size	$495 million	$707 million	$2 billion	$307 million	$1 billion	$2 billion
Percent AAA*	71.0%	77.5%	72.0%	70.2%	80.8%	19.2%**
Initial Rating Date	5/25/2006	2/9/2007	12/27/2006	3/29/2007	3/30/2007	5/31/2007
First Downgrade	5/17/2007	12/4/2007	9/12/2007	11/7/2007	11/7/2007	11/1/2007
Highest Current Rating	Ca	Baa2	Withdrawn	Caa3	Withdrawn	Ca

*All ratings based on Moody's credit ratings
**$1.0 billion super senior tranche was not rated

Prepared by the U.S. Senate Subcommittee on Investigations, April 2010

Permanent Subcommittee on Investigations
EXHIBIT #1e

Prospectus Supplement, Dated May 2, 2006
Prospectus Supplement to Prospectus dated April 7, 2006

LONG BEACH MORTGAGE LOAN TRUST 2006-A

Issuing Entity

ASSET-BACKED CERTIFICATES, SERIES 2006-A

LONG BEACH SECURITIES CORP.

Depositor

Long Beach Mortgage
Specialty Home Loans
A Washington Mutual Inc. Company

Sponsor, Seller and Master Servicer

$495,886,000 (Approximate)

Consider carefully the risk factors beginning on page S-10 in this prospectus supplement and on page 1 in the accompanying prospectus.

The certificates will represent interests only in the issuing entity, which is Long Beach Mortgage Loan Trust 2006-A and do not represent an interest in or obligation of Long Beach Securities Corp., Long Beach Mortgage Company or any of their affiliates.

Neither these certificates nor the underlying mortgage loans are guaranteed by any agency or instrumentality of the United States.

The Long Beach Mortgage Loan Trust 2006-A will issue ten classes of offered certificates, which are identified below, and five classes of privately placed certificates. Each class of offered certificates will be entitled to receive monthly distributions of interest or principal or both, beginning on June 26, 2006. The pass-through rate for each class of offered certificates other than the Class A-2 Certificates will be variable and will be based in part on the one-month LIBOR index. The pass-through rate for the Class A-2 Certificates will be fixed. The table below contains a list of the classes of offered certificates, including the original certificate principal balance of each class and pass-through rate. Further information concerning the offered certificates, including the calculation of the applicable pass-through rates, is included in the summary of this prospectus supplement, beginning at page S-1.

The primary asset of the trust will be a pool of sub-prime second lien, fixed-rate residential mortgage loans. The trust will also contain other assets described in this prospectus supplement.

The Offered Certificates

Total principal amount	$495,886,000 (approximate)
First payment date	June 26, 2006
Interest and/or principal paid	Monthly
Assumed final distribution date	May 2036

Credit enhancement for the offered certificates is being provided by two classes of privately offered subordinate certificates, which have an aggregate principal balance of approximately $24,235,000. Further credit enhancement for the senior certificates is being provided by seven classes of mezzanine certificates, which will be subordinated to the senior certificates. Additional credit enhancement is provided in the form of excess interest, overcollateralization and allocation of losses. The offered certificates will have the benefits of the cap agreement.

Class	Original Certificate Principal Balance	Pass-Through Rate[1]	Price to Public	Underwriting Discount	Proceeds to the Depositor[2]
Class A-1	$260,802,000	Variable	100.00000%	0.25000%	99.75000%
Class A-2	$ 75,000,000	5.548%	99.99850%	0.25000%	99.74850%
Class A-3	$ 20,000,000	Variable	100.00000%	0.25000%	99.75000%
Class M-1	$ 58,058,000	Variable	100.00000%	0.25000%	99.75000%
Class M-2	$ 14,115,000	Variable	100.00000%	0.25000%	99.75000%
Class M-3	$ 25,833,000	Variable	100.00000%	0.25000%	99.75000%
Class M-4	$ 10,653,000	Variable	100.00000%	0.25000%	99.75000%
Class M-5	$ 12,517,000	Variable	100.00000%	0.25000%	99.75000%
Class M-6	$ 9,054,000	Variable	100.00000%	0.25000%	99.75000%
Class M-7	$ 9,854,000	Variable	100.00000%	0.25000%	99.75000%

[1] Determined and subject to limitation and increase as described in this prospectus supplement.
[2] Before deducting expenses estimated to be approximately $875,000.

Goldman, Sachs & Co. and WaMu Capital Corp. will purchase the offered certificates from Long Beach Securities Corp. in the amounts described in "Method of Distribution" on page S-93 of this prospectus supplement.

Neither the SEC nor any state securities commission has approved or disapproved of the offered certificates or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

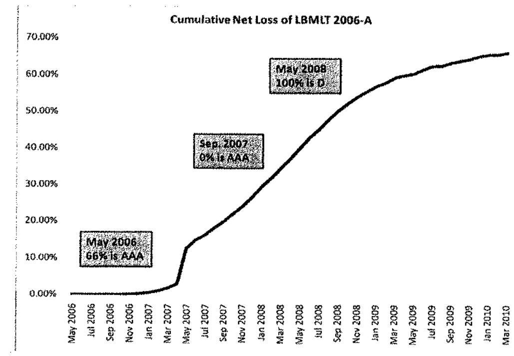
Delivery of the certificates offered by this prospectus supplement will be made in book entry form through the facilities of The Depository Trust Company, and upon request, Clearstream Banking Luxembourg and the Euroclear System on or about May 10, 2006.

Underwriters

GOLDMAN, SACHS & CO. WAMU CAPITAL CORP.

(Co-Lead Underwriters and Joint Book Running Managers)

Permanent Subcommittee on Investigations
EXHIBIT #1f



Source: www.wamuonprimesecurities.com, www.globalcreditportal.com
Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.

May 17, 2007

"Long Beach Mortgage Securities Corp announces that the May 2007 distribution report for LBMLT 2006-A will reflect that 616 second-lien mortgage loans with an aggregate unpaid principal balance of $ 49,340,870.90 will be charged off on May 25, 2007"

Goldman Sachs ABS Trader's analysis:

"bad news…

Wipes out the m6s and makes a wipeout on the m5 imminent … costs us about 2.5mm

. . . .

Good news…

we own 10mm protection on the m6 marked at $50 ….
We make $5mm"

From: Viniar, David
Sent: Wednesday, December 13, 2006 8:59 AM
To: Sperto, Savina
Subject: FW: Subprime Mortgage Risk

Attachments: mortgage drilldown.pdf

Pls print thanks

From: Dinias, Michael
Sent: Wednesday, December 13, 2006 8:58 AM
To: Viniar, David; Broderick, Craig
Cc: Berry, Robert
Subject: Subprime Mortgage Risk

David & Craig

Given the recent volatility in subprime mortgage market we put together the attached analysis of the major risks in the Mortgage business. The report follows the format we use in the Credit Widening Scenario and includes details on our long positions and how they are being hedged. The specific desks that are long subprime risk are "Residential Credit", "ABX & Single Name CDS", and "CDO". We have reviewed this risk analysis with Dan, Bill, and Armen and we would be happy to walk you through the details.

Regards
Mike

mortgage drilldown.pdf

Permanent Subcommittee on Investigations
EXHIBIT #2

As of cob 12/07/06	Credit Widening Scenario ($mm)	Positional Details
Mortgage Trading Desk	**(658)**	
Mortgage Derivatives	**(13)**	■ Derivatives: Long $3.3bn inventory ($0.1bn IO, $0.6bn PO, $2.0bn combo, $0.2bn Inverse IO & $0.4bn Inverse floater) - stress impact $53mm. ■ Hedges: Short $4.6bn passthroughs (credit $36mm) and $2.6bn Libor swaps (credit $14mm)
Residential Prime	**(97)**	
Agency CMO	(11)	■ CMO bonds: Long $2.8bn inventory ($1.3bn PAC I, $1.0bn Vanilla, $0.4bn support, $0.1bn Inverse floater) - stress impact $33mm. ■ Hedges: Short $1.8bn passthroughs (credit $15mm) and $1.4bn swaps (credit $7mm)
Non-Agcy Prime & ARMS	(85)	■ Loans: Long $5.1bn prime loans ($0.4bn prime fix and $4.6bn prime hybrid and $0.2bn FHA/VA) - stress impact $32mm. ■ Bonds: Long $7.5bn securities ($1.6bn prime fix, $1.9bn prime hybrid, $3.5bn ARMs & $0.5bn Subs) - stress impact $64mm. ■ Residuals: Long $290mm inventory ($155mm MTA negam residuals and $158mm option ARM IO) - stress impact $31mm. ■ Hedges: Short $2bn passthrus (credit $11mm), $1.5bn libor swaps (credit $4mm) and $2.6bn ABX "AAA" index (credit $25mm)
Residential Credit	**(168)**	■ Loans: Long $14bn ($7.4B Subprime, $4.1B Alt-A, $1.6B Second Lien, $0.8B S&D) - stress impact $100mm. ■ Bonds: Long $535mm RMBS bonds ($170mm Alt-A, $70mm subprime, $160mm 2nd Lien & $140mm S&D) - stress impact $7mm ■ Residuals: Long $520mm ($260 cash-flow, $260mm non-cash flow) - stress test impact $122mm. ■ Hedges: Short $5bn ABX indices - stress relief $60mm.
Non-Resi Origination	**(313)**	
Acquisition commitment	(287)	■ Commitment: Long $8.9bn debt (stress test $89mm) and $1.17bn bridge equity commitment (stress $198mm)
CRE Loan Trading	(19)	■ Loans: Long $5.0bn commercial mortgage loans ($2.3bn fixed and $2.7bn floating rate loans) - stress impact $70mm. ■ Hedges: Short $2.0bn TROR swaps (credit $42mm) and long $0.5bn CMBS protection (credit $8mm)
ABS Loans & Finance	(7)	■ Loans: Long $0.7bn consumer and auto loans - stress impact $7mm.
SPG Trading	**(8)**	
CMBS	24	■ Bonds: Long $1.1bn (spread dv01 $0.4mm/bp) CMBS securities - stress impact $27mm ■ TROR swaps: Long $0.5bn (spread dv01 $0.3mm/bp) TROR swaps - stress impact $6mm ■ Hedges: Long $1.8bn (spread dv01 $1.4mm/bp) CMBS CDS protection across the curve - stress credit $57mm.
ABS Securities	(35)	■ Bonds: Long $1.6bn ABS securities ($0.7bn home equity, $0.5bn Auto, $0.2bn credit card & $0.2bn student loan bonds) - stress impact $35mm.
ABX & Single Name CDS	(39)	■ ABX: Long $6.5bn ABX BBB- index (spread dv01 $1.9mm/bp & stress impact $224mm) vs. short $4.3bn ABX AAA/A/BBB indices (spread dv01 $1.4mm/bp & stress credit $45mm) ■ Single Name CDS Hedges: Long $5bn protection on RMBS subprime sector (spread dv01 $1.2mm/bp & stress credit $140mm), out of which $3.6bn (spread dv01 $0.9mm/bp) is on BBB/BBB- sector.
Correlation	42	■ Synthetic CDO (Abacus): Long $18bn tranche protection on structured product collateral ($6bn RMBS subprime, $1.7bn ABX, $7bn CMBS and $2.1bn CDO HG/MEZ) - stress credit $479mm. ■ Single Name CDS/ABX Hedges: Short $13bn single name protection ($2.1bn ABX, $1.4bn RMBS subprime, $8.2bn CMBS and $1.3bn CDO HG/MEZ) - stress impact $425mm. ■ Bonds: Long $0.3bn floater for CLN collateral and $0.1bn Abacus notes - stress impact $12mm.
CDO/CLO	(60)	■ CDO Debt: Long $600mm CDO bonds (stress $6mm) ■ CDO Equity: Long $70mm structured product CDO equity (stress $35mm) ■ CLO Debt: Long $200mm CLO bonds (stress $3mm) ■ CLO Equity: Long $40mm structured product CDO equity (stress $20mm) ■ Hedges: Long $210mm single name CDS protection on CDO (credit $4mm)
Manager Account	0	

CDO Warehouse	(149)	Comments
CDO	(82)	■ RMBS high grade (AA/A): Long $3.5bn debt collateral (stress $59mm) ■ RMBS mezzanine (BBB/BBB-): Long $1.1bn debt collateral (stress $13mm) ■ CMBS: Long $0.6bn debt collateral (stress $10mm)
CLO	(67)	
US	(59)	■ US Bank Debt: Long $0.6bn senior bank debt collateral (stress $59mm)
Europe	(8)	■ Euro Bank Debt: Long $2.1bn senior bank debt collateral (stress $8mm)

From: Viniar, David
Sent: Friday, December 15, 2006 8:57 AM
To: Montag, Tom
Subject: RE: Subprime risk meeting with Viniar/McMahon Summary

Yes. We spent about two hours together. Dan and team did a very good job going through the risks. On ABX, the position is reasonably sensible but is just too big. Might have to spend a little to size it appropriately. On everything else my basic message was let's be aggressive distributing things because there will be very good opportunities as the markets goes into what is likely to be even greater distress and we want to be in position to take advantage of them.
Let me know if you want to catch up live.

From: Montag, Tom
Sent: Friday, December 15, 2006 1:00 AM
To: Viniar, David
Subject: FW: Subprime risk meeting with Viniar/McMahon Summary

is this fair summary?

From: Sparks, Daniel L
Sent: Thursday, December 14, 2006 11:04 PM
To: Montag, Tom; Ruzika, Richard
Subject: Subprime risk meeting with Viniar/McMahon Summary

Mortgage team - Gasvoda, Rosenblum, Swenson and me.
Viniar, Bill, Brian Lee (controllers) and some risk guys.
Ruzika on phone.

Reviewed in detail 6 areas of risk related to subprime:
ABX/CDS
Loans
Residuals
CDO warehouse
Early Payment Defaults (EPDs)
Loan warehouse

Follow-ups:
1. Reduce exposure, sell more ABX index outright, basis trade of index vs CDS too large
2. Distribute as much as possible on bonds created from new loan securitizations and clean previous positions
3. Sell some more resids
4. Mark the CDO warehouse more regularly (had been policy to true-up quarterly) - will likely be weekly or more if necessary
5. Stay focused on the credit of the originators we buy loans from and lend to
6. Stay focused and aggressive on MLN (warehouse customer and originator we have EPDs to that is likely to fail)
7. Be ready for the good opportunities that are coming (keep powder dry and look around the market hard)

Permanent Subcommittee on Investigations
EXHIBIT #3

From: Tourre, Fabrice
Sent: Monday, December 18, 2006 5:24 PM
To: Williams, Geoffrey; Egol, Jonathan; Thomas, Darren; Salem, Deeb
Subject: Re: Single-A ABS CDOs

Can we also please try to get long names we like in this market ? We have a big short on and we can stay short names that we know the market hates and cover a bit this short with cbass-type names ?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Williams, Geoffrey
To: Williams, Geoffrey; Egol, Jonathan; Thomas, Darren; Tourre, Fabrice; Salem, Deeb
Sent: Mon Dec 18 16:20:45 2006
Subject: RE: Single-A ABS CDOs

Seasoned names we're axed to cover; they are in static trades so we cannot roll through our substitution mechanic…

COOL 2005-1A C
DUKEF 2005-9A A3V
GEMST 2005-2A C
GEMST 2005-3A C
GSCSF 2005-1A A3
SANDS 2004-1A C
SMSTR 2004-1A B
TRAIN 2004-5A C

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Williams, Geoffrey
Sent: Monday, December 18, 2006 11:48 AM
To: Egol, Jonathan; Thomas, Darren; Tourre, Fabrice; Salem, Deeb
Subject: RE: Single-A ABS CDOs

Deeb -- we're axed on CBASS/GEMST and SMSTR to a lesser extent. We have shorts on the others but obviously not looking to externalize and prob not cover in out book. Let's coordinate before we go back...

From: Nagel, Kyle
Sent: Monday, December 18, 2006 11:38 AM
To: Egol, Jonathan; Williams, Geoffrey; Thomas, Darren; Tourre, Fabrice; Salem, Deeb
Subject: Single-A ABS CDOs

have an acct ([redacted] - paige is coverage) looking to buy protection on single-a abs cdo's .... still in discovery mode. but i wanted to give them some bonds to chew on with offering levels. would a list like this work? we gave these names to [redacted] a while back .... if we're not axed on these, let me know what we are axed on - they are fine taking some seasoned deals (even '04 if we can facilitate) and we don't need to be 100% resi. only want to show a handful.

CBASS 16
SMSTR 05-1
INMAN 05-2

Permanent Subcommittee on Investigations
EXHIBIT #4

ICM 05-2
SCF 7
GEMST 05-2

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-1730 | Fax: 212-428-1100
e-mail: kyle.nagel@gs.com
Goldman
Sachs
Kyle G. Nagel, CFA
Vice President
Structured Credit Marketing

From: Birnbaum, Josh
Sent: Friday, December 29, 2006 2:57 AM
To: Lehman, David A.
Cc: Swenson, Michael
Subject: RE: Are you around?

On baa3, I'd say we definitely keep for ourselves. On baa2, I'm open to some sharing to the extent that it keeps these customers engaged with us.

From: Lehman, David A.
Sent: Friday, December 22, 2006 8:43 AM
To: Birnbaum, Josh
Cc: Swenson, Michael
Subject: Are you around?

Baa2 RMBS shorts from 2006, do you have an axe? The correlation team has ~3 ABACUS trades, mostly referencing Baa2 RMBS, which they would like to bring to the market in late Jan/early Feb. The deals would be 500mm-1bb each.

Need to decide if we want to do 1-3bb of these trades for our book or engage customers (i.e.[redacted])

These would not be risk trades but agent deals where we get paid a fee, call it ~3/4 pt on the notional sold from S.S. to single A. To the extent the deals do not sell, we will have the option, but not the obligation, to position the risk. Call the PL 5-10mm / trade

They will likely do the trades away if we do not engage. I guess my view is that unless we really want the risk, we should take a swing @ agenting these trades. Also, we likely could take a swing @ our own Baa3 deal in Jan and do these Baa2 trades.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman Sachs

David Lehman
Fixed Income, Currency & Commodities

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Disclaimer:

Permanent Subcommittee on Investigations
EXHIBIT #5

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Tourre, Fabrice
Sent: Wednesday, January 17, 2007 5:23 PM
To: Wisenbaker, Scott; Herrick, Darryl K; Case, Benjamin
Cc: ficc-spgtrading
Subject: [redacted] post

I just talked to YC at [redacted] about long short trading opportunities related to ABX index. I would like to also show Hudson mezz 2 levels at which we want to sell HUDMZ 06-2 single-As and triple-Bs. Where would you offer $10mm-$20mm of each of these bonds ? We will also show bids for protection on tranches of the ABX.BBB- indices to give [redacted] a sense for that portfolio as well. These guys will want to short back to us some single-A ABS CDO risk, I think we should entertain this strategy since it would be delta-neutral for us and we would net-net sell ABX.HE.BBB- related risk -- this also fits our book since we would pair the single-A ABS CDO risk we take back with the big short position we have built in that space.

Permanent Subcommittee on Investigations
EXHIBIT #6

From: Sparks, Daniel L
Sent: Thursday, February 08, 2007 11:09 PM
To: Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Montag, Tom; Ruzika, Richard; Viniar, David; McMahon, Bill
Cc: Gasvoda, Kevin
Subject: RE: Post

Just finished with trader and controllers.
Different methodologies: trader model runs loan-by-loan evaluation (9600 items), controller model uses buckets (6 items), a few other differences.
Agreed that appropriate mark down would be $28.4mm (a lot of change from $22mm this morning is not writing up a residual).
Assumption is based on flattish HPA.

From: Cohn, Gary (EO 85B30)
Sent: Thursday, February 08, 2007 4:58 PM
To: Sparks, Daniel L; Winkelried, Jon (EO 85B30); Montag, Tom; Ruzika, Richard; Viniar, David; McMahon, Bill
Cc: Gasvoda, Kevin
Subject: RE: Post

Any update?

From: Sparks, Daniel L
Sent: Thursday, February 08, 2007 9:16 AM
To: Sparks, Daniel L; Winkelried, Jon; Cohn, Gary; Montag, Tom; Ruzika, Richard; Viniar, David; McMahon, Bill
Cc: Gasvoda, Kevin
Subject: RE: Post

Winks asked whether we were in front on the marks or chasing them down. We have been chasing them down based on loan performance data as it comes out. There will probably be another mark down today in our $800mm scratch-and-dent book (88ish dollar price) - that product has been trading at levels from originators to dealers at levels above our marks, but monthly performance analysis completed this morning on what can be securitized vs will be foreclosed tells us we should mark down around $22mm.

I'm copying Viniar and Bill.

There is significant noise today around HSBC and New Century news, and I need to be on the desk. I 'm sorry to deliver in e-mail and not in person, but I want you to know quickly. Gasvoda and I will look to post you live.

Prior message on topic:

Subprime environment - bad and getting worse. Everyday is a major fight for some aspect of the business (think whack-a-mole). Trading position has basically squared but has basis risk - plan to play from short side. Loan business is long by nature and goal is to mitigate. Credit issues are worsening on deals and pain is broad (including investors in certain GS-issued deals). Distressed opportunities will be real, but we aren't close to that time yet.

Permanent Subcommittee on Investigations
EXHIBIT #7

Confidential Treatment Requested by Gc

GS MBS-E-002201668

From: Cohn, Gary
Sent: Wednesday, February 14, 2007 11:49 AM
To: Blankfein, Lloyd
Subject: FW: Post

From: Sparks, Daniel L
Sent: Wednesday, February 14, 2007 10:49 AM
To: Montag, Tom; Viniar, David; Ruzika, Richard; Cohn, Gary; Winkelried, Jon
Subject: Post

Over the last few months, our risk reduction program consisted of:
(1) selling index outright
(2) buying single name protection
(3) buying protection on super-senior portions of the BBB/BBB- index (40-100% of the index). We thought that the correlation of tranches on the very thin BBB- index was higher than where the market implied. We sold around $3 billion in the mid-30's bp range.

Today is the first day of tranched ABX trading (TABX). We are getting greater transparency on the super-senior layer. The market is opening up in BBB-'s around +200bps. We currently have our trades from (3) above marked in the 100 bp area.

That is good for us position-wise, bad for accounts who wrote that protection ([redacted]), but could hurt our CDO pipeline position as CDOs will be harder to do.

ABX index pretty flat so far.

It's early.

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Permanent Subcommittee on Investigations
EXHIBIT #8

From: Sparks, Daniel L
Sent: Thursday, February 22, 2007 6:57 AM
To: Birnbaum, Josh; Swenson, Michael; Lehman, David A.
Subject: FW: Block size tranche protection offers for [redacted] or others

Thursday.

We need to buy back $1 billion single names and $2 billion of the stuff below - today.
I know that sounds huge, but you can do it - spend bid/offer, pay through the market, whatever to get it done.
It is a great time to do it - bad news on HPA, originators pulling out, recent upticks in unemployment, originator pain.

I will not want us to trade property derivatives until we get much closer to home as it will be a significant distraction from our goal.

This is a time to just do it, show respect for risk, and show the ability to listen and execute firm directives.

You called the trade right, now monetize a lot of it.

You guys are doing very well.

From: Egol, Jonathan
Sent: Wednesday, February 21, 2007 11:23 AM
To: Sparks, Daniel L
Cc: Swenson, Michael; Birnbaum, Josh; Lehman, David A.; ficc-mtgcorr-desk; Salem, Deeb
Subject: Block size tranche protection offers for [redacted] r others

Summary of ABX-related tranches we could offer protection on if we want to close down shorts:

- $2.4bn notional 40-100 super senior tranche off of ABX "Quadrant" trade (25% each of 06-1/06-2 BBB and BBB-), could potentially offer NC4 (we did $1.8bn NC3 with [redacted] and $600mm NC4 with [redacted])
- $200mm notional 20-30 tranche off of 06-1 BBB- (open risk vs [redacted] NC3)
- $325mm notional 30-100 super senior tranche off of 06-1 BBB- (open risk vs [redacted] intermediation, NC5)
- $500mm notional 40-100 super senior tranche off of 06-1/06-2 BBB- (open risk vs [redacted] non-callable)

We are currently managing ABX deltas against all of these tranches.

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Goldman Sachs

Jonathan M. Egol
Structured Products Trading

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Permanent Subcommittee on Investigations
EXHIBIT #9

From: Sparks, Daniel L
Sent: Wednesday, February 21, 2007 10:09 PM
To: Winkelried, Jon (EO 85B30)
Subject: RE: Mortgages today

Bad news everywhere. Novastar (another subprime originator) bad earnings and 1/3 of market cap gone immediately. Wells laying off 300+ subprime staff and home price appreciaiton data showed for first time lower prices on homes over year broad based. Index over 100 wider last week and this week. CDOs starting to widen.

We are net short, but mostly in single name CDS and some tranched index vs the some index longs. We are working to cover more, but liquidity makes it tough. Volatility is causing our VAR numbers to grow dramatically.

-----Original Message-----
From: Winkelried, Jon (EO 85B30)
Sent: Wednesday, February 21, 2007 6:09 PM
To: Sparks, Daniel L
Subject: Re: Mortgages today

Give a few details if get a chance. I've been on the road in euirope all week with clients so out of touch with it
----
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Winkelried, Jon
Sent: Wed Feb 21 17:50:13 2007
Subject: RE: Mortgages today

Very large - it's getting messy

-----Original Message-----
From: Winkelried, Jon (EO 85B30)
Sent: Wednesday, February 21, 2007 4:44 PM
To: Sparks, Daniel L
Subject: Re: Mortgages today

Another downdraft?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Ruzika, Richard; McMahon, Bill; Smith, Sarah; Lee, Brian-J
Cc: Cohn, Gary; Winkelried, Jon; Viniar, David; Gmelich, Justin; Gasvoda, Kevin
Sent: Wed Feb 21 16:43:10 2007
Subject: Mortgages today

Commercial Mortgage	+30mm (50/50 FICC/IBD)
Single names	+60mm
Index	(42)mm
Index tranches/index	flat
CDO CDS	+25mm

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EXHIBIT #10

CDO positions	(5)mm		
CDO warehouse	(5)mm		
Other		+6	
Total		+54 to FICC	(+69 to firm)

Market sold off significantly (BBB and BBB- indices over 100 bps wider)

We covered over $400mm single names - still significant work to do.

From: Sparks, Daniel L
Sent: Tuesday, February 27, 2007 7:58 AM
To: Lehman, David A.; Swenson, Michael; Birnbaum, Josh; Ostrem, Peter L; Rosenblum, David J.
Subject: Goals

Reduce risk. That means:
(1) get super-seniors done on CDOs or take other steps to reduce CDO pipeline risk
(2) cover more single name shorts BBB- and BBB
(3) reduce the basis trade between BBB- index and BBB- single names
(4) reduce the index/index trades in A and AAA

Allocate short positions more explicitly - cash and cdo retained positions today. Discuss CDO warehouse later today.

Permanent Subcommittee on Investigations
EXHIBIT #11

Confidential Treatment Requested by Goldm GS MBS-E-010387086

Mortgage VaR Change (Q1'07 vs. Q4'06)

Daily Mortgage VaR increased from $13mm to $85mm between 11/24/06 and 2/23/07, largely driven by an increase in SPG Trading desk. The risk increase in SPG Trading desk was primarily driven by a combination of increased volatility in ABX market and the desk increasing their net short risk in RMBS subprime sector.

	Daily VaR ($mm)		
	23-Feb	24-Nov	Diff
Mortgages	**85**	**13**	**72**
Derivatives	3	3	-
Residential Prime	3	3	-
Residential Credit	7	3	4
Non-Resi Origination	2	2	-
SPG Trading	90	7	83
CDO/CLO	13	2	11
Acquisition Commitment	6	7	(1)
European Mortgages	1	1	-
CDO Warehouse	2	2	-

As can be seen from the table below, the volatility of ABX index increased substantially over the quarter, for example, daily volatility of ABX "BBB-" index increased from 5 bps to 53 bps. During the same period, ABX "BBB-" spread widened from 300 bps to 1500 bps.

	Daily Volatility in bps		
	23-Feb	24-Nov	Diff
BBB-	53	5	48
BBB	45	4	41
A	18	1	17
AA	1.7	0.3	1
AAA	1.3	0.2	1

Furthermore, SPG Trading desk started off the quarter with long ABX "BBB-" risk to the tune of $1.8mm/bp, hedged with "AAA/A" rated ABX indices and single name CDS. Over the quarter, desk reduced its long ABX "BBB-" risk by $1.3mm/bp and increased their single name CDS hedges.

2/23/2007

	Spread DV01 ($K/bp)		
Rating	Single Name CDS	ABX	Total
AAA	(67)	(11)	**(78)**
AA	23	108	**131**
A	(1,284)	(534)	**(1,817)**
BBB	(503)	(332)	**(835)**
BBB-	(686)	479	**(207)**
BB	(16)		**(16)**
Total	**(2,532)**	**(290)**	**(2,822)**

positive number means long credit

11/24/2006

	Spread DV01 ($K/bp)		
Rating	Single Name CDS	ABX	Total
AAA	(103)	(816)	**(919)**
AA	(43)	6	**(37)**
A	(624)	(455)	**(1,079)**
BBB	(236)	161	**(74)**
BBB-	(704)	1,785	**1,081**
BB	(19)		**(19)**
Total	**(1,730)**	**682**	**(1,048)**

Difference

	Spread DV01 ($K/bp)		
Rating	Single Name CDS	ABX	Total
AAA	36	805	**841**
AA	66	102	**168**
A	(659)	(79)	**(738)**
BBB	(267)	(493)	**(761)**
BBB-	19	(1,307)	**(1,288)**
BB	3	-	**3**
Total	**(802)**	**(972)**	**(1,775)**

Permanent Subcommittee on Investigations
EXHIBIT #12

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00277 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

ph44585 on D330-44585-7600 with DISTILLER

57322.069

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Significant Cash Inventory Change (Q1'07 vs. Q4'06)

- **Mortgage Residuals:** The size of total residuals inventory across Alt-A, Subprime, Second Lien and S&D space over the quarter increased from $555mm to $700mm, mostly due to new securitization activities.

- **Residential Credit Loans:** The overall loans inventory decreased from $11bn to $7bn. Alt-A loans increased from $2.9bn to $3.8bn, subprime loans decreased from $6.3bn to $1.5bn, Second Liens decreased from $1.5bn to $0.7bn and S&D Loans remained unchanged at $0.8bn.

- **Acquisition Commitment:**
  - [redacted]: At the start of the quarter, GS was long $9.87bn senior & mezzanine debt commitment and $1.17bn bridge equity. Post funding in Feb, we ended the quarter being long $2bn mezzanine & $2.5bn senior debt and $0.8bn equity risk.

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00278 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

ph44585 on D330-44585-7600 with DISTILLER

57322.070

Goldman Sachs

Date: **February 28th, 2006**

To: **Firmwide Risk Committee**

Re: **February 28th FWR Minutes**

The February 28th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Lloyd Blankfein, Randy Cowen, Robin Vince, Liz Beschel, Jon Sobel, Robert Zoellick, and Pablo Salame.

Divisional Reports

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EXHIBIT #13

Dan Sparks

- VaR up due to vols. Business working to reduce exposures; a lot of shorts already covered.
- ABX widened 500bp on the week. Business covered $4BN in single names.
- Noted a lot of negative news in the subprime market with rumors on everyone.
- CDS on CDOs started to widen significantly over the week.
- Business priced their largest CMBS deal last week. The deal was oversubscribed.
- Business priced an $11BN commercial mortgage loan yesterday. The deal was very well subscribed.
- Business continuing to clear out loans.
- Noted there is some market concern in alt-a/prime space. However, nothing specific.

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Any Other Business
None.

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From: Dan [redacted] Sparks [[redacted]]
Sent: Saturday, March 03, 2007 2:42 PM
To: Sparks, Daniel L
Subject: call

Staffing
Response to clients info wise
Things we need to do
 Focus on any exposures to originators
 Speak to sales and clients about ours deals
 Consider servicing/back up servicing situation
Transactions to market/trades to get done
Are junior people OK
Views on what will happen or what we should be doing

For private side
 Who is dealing with each counterparty
 Review exposures client by client
 Should we move servicing
 Are there opportunities

For traders
 Don't add risk
 Trade everything from short to flat
 Get out of everything
 Discuss liquidity of hedges

Permanent Subcommittee on Investigations
EXHIBIT #14

From: Cohn, Gary
Sent: Monday, March 05, 2007 9:31 PM
To: Evans, J. Michael; Blankfein, Lloyd; Winkelried, Jon; Viniar, David; Rogers, John F.W.
Subject: RE: +0.79% NK225 +1.62% HANG-SENG

A big plus would hurt the Mortgage business but Justin thinks he has a big trade lined up for the morning to get us out of a bunch of our short risk

-----Original Message-----
From: Evans, J. Michael
Sent: Monday, March 05, 2007 9:28 PM
To: Cohn, Gary; Blankfein, Lloyd; Winkelried, Jon; Viniar, David; Rogers, John F.W.
Subject: RE: +0.79% NK225 +1.62% HANG-SENG

Agreed, and the bigger the plus the better.

-----Original Message-----
From: Cohn, Gary
Sent: Tuesday, March 06, 2007 10:25 AM
To: Evans, J. Michael; Blankfein, Lloyd; Winkelried, Jon; Viniar, David; Rogers, John F.W.
Subject: RE: +0.79% NK225 +1.62% HANG-SENG

Feels better but anything with a + would feel better-

-----Original Message-----
From: Evans, J. Michael
Sent: Monday, March 05, 2007 9:21 PM
To: Blankfein, Lloyd; Cohn, Gary; Winkelried, Jon; Viniar, David; Rogers, John F.W.
Subject: FW: +0.79% NK225 +1.62% HANG-SENG

Fyi, looking a little better, particularly ICBC.

-----Original Message-----
From: QT@gs.com [mailto:QT@gs.com]
Sent: Tuesday, March 06, 2007 10:10 AM
To: Subramanian, Bala
Subject: +0.79% NK225 +1.62% HANG-SENG

Description	Level	Change
NIKKEI 225	16773.98	+0.79%
TOPIX INDEX	1682.00	+1.16%
MTFG	1380000.00	-0.00%
MIZUHO FINL	798000.00	-0.50%
SMFG	1110000.00	-0.89%
AOZORA BANK	439.00	-1.13%
SING TELE	3.16	+0.64%
BANK OF CHINA	3.62	+0.84%
ICBC	4.11	+3.01%
HANG SENG INDEX	18966.49	+1.62%
S&P/ASX 200	5717.20	+1.12%
KOSPI 200 INDEX	180.59	+1.63%
FTSE CHINA	15236.60	-5.14%
INDIA	0.00	+0.00%
TAIWAN WEIGHTED	7396.35	+0.71%
STRAITS TIME IDX	3028.14	+1.54%
JAP GOV BD M	134.89	+0.20
E-MINI S&P M	1378.00	+5.75
US T BONDS M	113.16	-0.09
US 10YR NTE M	108.78	-0.03
US 10YR YIELD	4.524	

Permanent Subcommittee on Investigations
EXHIBIT #15

ph44585 on D330-44585-7600 with DISTILLER

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57322.074

LIGHT CRUDE A	60.05	-0.02
NATURAL GAS A	7.29	+0.04
YEN/$	116.33	+0.79
$/EURO	1.30850	-0.0004
$/GBP	1.92410	+0.0038
$/AUD	0.77310	+0.0025

From: Fredman, Sheara
Sent: Friday, March 09, 2007 6:41 PM
To: Viniar, David
Cc: Smith, Sarah; O'Connor, Gavin; Lee, Brian-J (FI Controllers); Simpson, Michael; Leventhal, Robert; Fortunato, Salvatore; Vincent, Brian
Subject: Mortgage Talking Points for Earnings Call

David-

As requested, below is additional information specific to the mortgage business surrounding our quarter end results. Please let us know if you need any additional information.

Thanks,
Sheara

- The Mortgage business earned +$266M for the quarter, representing a record quarter for the business, and contributing 5.8% to the FICC segment revenues of +$4,604M.
- The Mortgage business' revenues were primarily driven by synthetic short positions concentrated in BBB/BBB- sub prime exposure and single A CDO exposure which benefited from spread widening. These gains were partially offset by losses incurred in our cash inventory, most notably in our warehousing of financial assets to be securitized in connection with CDOs.
- The Mortgage business' VaR increased from $13M in Q406 to $85M in Q107. The average for Q107 was $23M versus an average of $14M for the previous quarter. The VaR increase was driven mainly by an increase in volatility in the ABX market.
- During the quarter, there has been significant deterioration within the sub prime mortgage sector driven by rising delinquencies and failing originators. This fact pattern coupled with increased media attention has pushed sub prime synthetic and cash spreads dramatically wider. CDO spreads have widened as well.
- We commenced the quarter long mortgage spreads via the ABX index and throughout the quarter covered the long position via single name CDS ending the quarter net short mortgage spreads.
- Our direct exposure to sub prime mortgage originators is manifested via; early payment default claims for loans purchased, finance provider using collateralized lines ($3.41B committed with $615M funded as of quarter end), and extended settlement on loan purchases. These exposures to sub prime originators in aggregate do not have a material impact on the first quarter results.

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10005
Tel: (212) 357-3579 | e-mail: sheara.fredman@gs.com

Sheara Fredman
Vice President
Finance Division

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #16

From: Dinias, Michael
Sent: Saturday, March 10, 2007 2:16 PM
To: Sparks, Daniel L
Subject: RE: Mortgage presentation to the board

Attachments: Risk changes over the quarter
x-gs-classification: Internal-GS

In the "Market Exposure Summary" page we currently have the following: "in the synthetics space, the desk started the quarter with long $6.0bn notional ABX BBB- risk and shifted the position to net short $10bn notional by reducing the longs in ABX BBB- and increasing shorts in single name CDS"

We can add more detail as you suggest but given the audience is the board of directors we may want to keep it more simple. Your call though, let me know if you want to replace with your statement below.

I do think it may be worthwhile to add something like "the business has purchased $60mm notional of equity put options on subprime lenders as risk mitigant to overall subprime business".

I attached an email that we put together that highlights the quarterly changes for Mortgage business. Let me know if you think it would helpful to include more of this in the presentation especially the part on the reduction in loan inventory.

Risk changes over the quarter

From: Sparks, Daniel L
Sent: Saturday, March 10, 2007 11:31 AM
To: Dinias, Michael
Subject: RE: Mortgage presentation to the board

We should add the various things we have done - getting short CDS on RMBS and CDOs, getting short the super-senior BBB- and BBB index, and getting short AAA index as overall protection. The puts have also been good.

From: Dinias, Michael
Sent: Saturday, March 10, 2007 8:28 AM
To: Sparks, Daniel L
Subject: RE: Mortgage presentation to the board

Dan, do you think it would be worthwhile to add comment about the desk buying equity put options on subprime lenders as risk mitigant to overall business?

From: Sparks, Daniel L
Sent: Saturday, March 10, 2007 8:04 AM
To: Broderick, Craig
Cc: McHugh, John; Baker, Carey; Jha, Arbind; Welch, Patrick; Dinias, Michael; Berry, Robert
Subject: RE: Mortgage presentation to the board

I really appreciate all of your help on this. I've reviewed the material briefly and I think the layout is good. I plan to review in more detail this weekend and will have comments Monday.

From: Broderick, Craig
Sent: Saturday, March 10, 2007 6:27 AM
To: Sparks, Daniel L
Cc: McHugh, John; Baker, Carey; Jha, Arbind; Welch, Patrick; Dinias, Michael; Berry, Robert
Subject: Mortgage presentation to the board

Permanent Subcommittee on Investigations
EXHIBIT #17

We will be working on this over the weekend but here is the current version
<< File: Sub-prime Presentation to GS BOD_v6.doc >>

From: Sparks, Daniel L
Sent: Sunday, March 11, 2007 10:30 AM
To: Dan [redacted] Sparks
Subject: FW: Risk changes over the quarter

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Jha, Arbind
Sent: Thursday, March 08, 2007 4:35 PM
To: Baker, Carey
Cc: Dinias, Michael
Subject: Risk changes over the quarter

As discussed, please let me know if you have any questions/comments.

Mortgage Trading VaR increased by $72mm from $13mm to $85mm over the quarter, largely driven by risk increase in ABS Synthetics book due to a combination of wider spreads & increased volatility in ABX market and the desk increasing their net short risk in RMBS subprime sector. For example, during the quarter, ABX "BBB-" spreads widened from 300 bps to 1500 bps and at the same time daily volatility increased from 5 bps and 53 bps. The main changes in our subprime risk were as summarized below:

- **Subprime first & second liens loans inventory decreased from $7.8bn to $2.2bn.**
- **Retained subprime bonds inventory increased from $65mm to $165mm.**
- **Subprime first & second liens residuals increased from $250mm to $400mm.**
- **The market value of RMBS subprime bonds in Secondary desk remained unchanged at $1.0bn.**
- **RMBS subprime inventory in CDO Warehouse decreased from $2.8bn to $1.8bn.**
- **Our retained debt inventory in Secondary Structured Product CDO desk increased from $0.6bn to $0.7bn and retained equity from $75mm to $90mm.**
- **In synthetic space, the desk started the quarter with long $6.0bn not'l ABX "BBB-" risk and shifted the position to net short $10bn not'l by reducing the longs in ABX "BBB-" and increasing shorts in single name CDS.**

1

Permanent Subcommittee on Investigations
EXHIBIT #18

Goldman Sachs

Date: **March 12, 2006**

To: **Firmwide Risk Committee**

Re: **March 7th FWR Minutes**

The March 7th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Lloyd Blankfein and Bob Zoellick.

Divisional Reports

Redacted By

Permanent Subcommittee on Investigations

Dan Sparks

- "Game Over" -- accelerating meltdown for subprime lenders such as Fremont and New Century.
- The Street is highly vulnerable, potentially large exposures at Merrill and Lehman. Current strategies are to "put back" inventory, where applicable, or liquidate positions.
- The Mortgage business is currently closing down every subprime exposure possible.
- Subprime woes are beginning to affect commercial real estate. The CMBX, which has been stable for years, jumped from 75bp to 200bp before settling back down to 150bp.
- Hedge funds have been making money in this market, but it is difficult to tell how much others are losing because many CDO's with subprime assets are not MTM.

Redacted By

Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations

EXHIBIT #19

▬ = Redacted by the Permanent Subcommittee on Investigations

From: Montag, Tom
Sent: Wednesday, March 14, 2007 7:10 PM
To: Blankfein, Lloyd
Subject: FW: Cactus Delivers

Covered another 1.2 billion in shorts in mortgages--almost flat--now need to reduce risk

From: Sparks, Daniel L
Sent: Thursday, March 15, 2007 8:47 AM
To: Montag, Tom
Subject: RE: Cactus Delivers

[redacted] - he did a great job filling our ax (Tom C has really done a good job developing this guy)

From: Montag, Tom
Sent: Wednesday, March 14, 2007 7:31 PM
To: Sparks, Daniel L
Subject: RE: Cactus Delivers

What does that mean he brought in? Who with --what did it affect etc

From: Sparks, Daniel L
Sent: Thursday, March 15, 2007 7:13 AM
To: Montag, Tom; Schwartz, Harvey; Ruzika, Richard; Cohn, Gary (EO 85B30)
Cc: Gmelich, Justin; Cornacchia, Thomas
Subject: Cactus Delivers

Cactus Raazi did a fantastic job for the desk by bringing in $1.2 BB in A-rated single names today.

Cornac and Gmelich were there usual outstanding contributors.

Please recognize Cactus when you get a chance.

Permanent Subcommittee on Investigations
EXHIBIT #20

Confidential Treatment Requested by Goldm GS MBS-E-009632839

From: Sparks, Daniel L
Sent: Wednesday, March 21, 2007 5:11 PM
To: Montag, Tom
Subject: RE:

I plan to have Josh lay out plan and request for risk related to equity book, go to you and Bill. He has had a very good run in this activity.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, March 21, 2007 6:03 PM
To: Sparks, Daniel L
Subject: Re:

Liqiidity is better but actual performance can be much worsew obviously. Unfortunately thwe trader josh has not demonstrated a track record of controlling his position. At a minimum the price will tell u how much u r risking. Instad of these louisy hedges he should just be selling his position

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Wed Mar 21 17:41:58 2007
Subject: RE:

I'd like to give the traders the flexibility to have some s&p exposures to balance the deltas on the puts and to balance the overall desk shorts. It will become more important when prop derivs get started - soon.
I think the liquidity of s&p's and the equity puts is much better than a performance option.

Overall as a business, we are selling our longs and covering our shorts - which is what this quarter is really about, as well as protecting ourselves on counterparty risk, planning for the new resi world, and trying to be opportunistic. We have shorts that we need to provide overall protection in case we get further move downs - and those shorts have been hurting us.

I spent more time with ssg people today and asked them to be specific with respect to situations they were interested in as that would help me show them more.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, March 21, 2007 5:28 PM
To: Sparks, Daniel L
Subject: Re:

Why don't u ask someone to write u options on the performance or outperformance.

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Wed Mar 21 17:15:54 2007
Subject: RE:

Yes, s&p's were a good protection against the shorts, we got banged a bit today on it

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, March 21, 2007 12:07 PM

Permanent Subcommittee on Investigations
EXHIBIT #21

To: Sparks, Daniel L
Subject: Re:

Can we discuss

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; McMahon, Bill
Sent: Wed Mar 21 11:50:53 2007
Subject: RE:

I had him liquidate s&p's and cut equity put position in half yesterday.
As we start to trade prop derivs, there will be reasons to trade various stocks.
Josh and I plan to discuss with Bill next week.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, March 21, 2007 11:16 AM
To: McMahon, Bill; Sparks, Daniel L
Subject:

Did josh get out of index trade

Goldman Sachs

Presentation to GS Board of Directors

Subprime Mortgage Business

March 26, 2007

Permanent Subcommittee on Investigations
EXHIBIT #22

Goldman Sachs

Table of Contents

I. Subprime Overview

1

Goldman Sachs

Goldman Sachs

Subprime Mortgage Overview
Subprime Lending in 2006

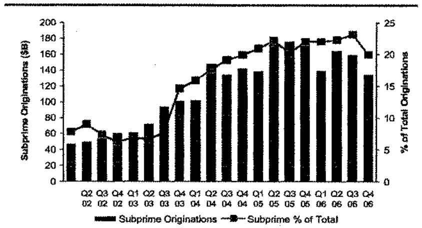
Attribute	Description
Size	$634bn annual residential mortgage loan originations (20% of total mortgage market)
Lending Decisions	Emphasis on borrower ability to make current payment Proliferation of affordability products to achieve lower payments for borrowers Widening out of credit to include first time home buyers Increase of alternative documentation loans in the subprime arena
Geography	Go national to gain operating efficiencies Technology and wholesale approach to lending break down geographic barriers Increased reliance on automation to validate appraisals in local markets
Profitability	Cost to produce at 102% or below Loan sold at 102 - 103% Upon sale, originators provide protection against Early Payment Default[1] ("EPD") and representation and warranty breaches

[1] *Early payment default (EPD) occurs when a borrower fails to make the initial payment(s) due to the loan purchaser. The purchaser typically has the right to have the seller repurchase EPD loans.*

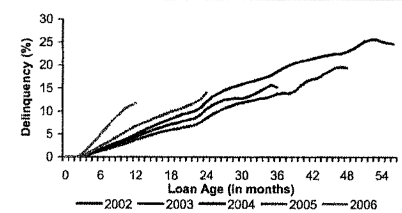
Goldman Sachs

Market Trends

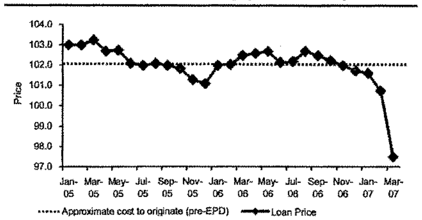
Volumes Increase Significantly



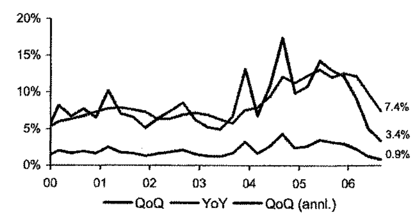
Credit Quality Declines: Relaxed Underwriting Standards



Pricing Pressure: Subprime Mortgage Loan Pricing Levels



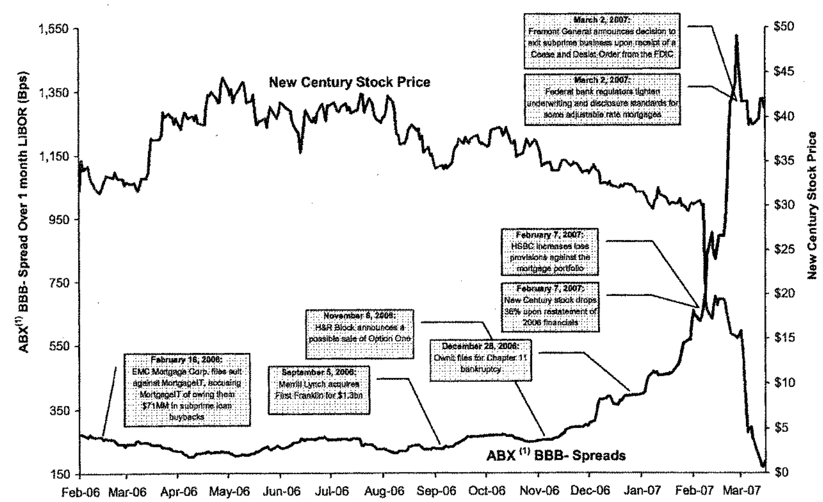
US Home Price Appreciation Moderates



Goldman Sachs

The Subprime Meltdown

Timeline of Recent Events



Source: Goldman Sachs Plottool Database

[1] Synthetic residential Asset-Backed Index that references a pool of existing residential mortgage-backed securities

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Confidential Treatment Requested by Goldman Sachs GS MBS-E-005565532

Goldman Sachs

The Subprime / Home Equity Sector

State of the Market – Originations

Top 25 Subprime Mortgage Lenders ($ billions)

Rank	Lender	2006 Volume	Mkt. Share	Status
1	HSBC Finance, (Household) IL	$43.13	6.80%	■ Owned by HSBC; rumors of sale
2	New Century Financial, CA	$39.40	6.21%	■ Ceased Originations
3	Countrywide Financial, CA	$30.55	4.82%	
4	Wells Fargo Home Mortgage, IA	$27.90	4.40%	
5	Fremont Investment & Loan, CA	$27.88	4.40%	■ Ceased Originations
6	CitiMortgage, NY	$24.44	3.85%	
7	Ameriquest Mortgage, CA	$24.00	3.78%	■ Obtained lifeline financing from Citi
8	Option One Mortgage, CA	$22.30	3.52%	■ Owned by H&R Block, up for sale
9	Washington Mutual, WA	$21.49	3.39%	
10	First Franklin Financial Corp, CA	$19.56	3.08%	■ Purchased by Merrill Lynch
11	Residential Funding Corp., MN	$16.67	2.63%	
12	BNC Mortgage/Finance America, CA	$15.38	2.43%	■ Owned by Lehman
13	Aegis Mortgage Corp., TX	$13.00	2.05%	
14	Accredited Home Lenders, CA	$12.45	1.96%	
15	American General Finance, IL	$11.57	1.82%	
16	Chase Home Finance, NJ	$8.49	1.34%	
17	Ownit Mortgage Solutions, CA	$8.35	1.32%	■ Ceased operations (20% stake by Merrill)
18	NovaStar Financial, KS	$7.59	1.20%	
19	Equifirst, NC	$7.47	1.18%	■ Purchased by Barclays
20	ResMae Mortgage Corp., CA	$5.71	0.90%	■ Purchased out of bankruptcy by Citadel
21	EMC Mortgage Corp, TX	$5.58	0.88%	■ Owned by Bear Stearns
22	WMC Mortgage, CA	$4.84	0.76%	■ Owned by GE
23	ECC Capital Corp., (Encore) CA	$4.32	0.68%	■ Purchased by Bear Stearns
24	Fieldstone Mortgage Company, MD	$3.79	0.60%	■ Purchased by C-BASS
25	Nationstar Mortgage (Centex), TX	$3.53	0.56%	■ Purchased by Fortress
	Total for Top 25 Lenders	$409.39	64.56%	
	Total Subprime Originations	$634.09	100.00%	

Businesses Sold [1]

Centex Home Equity (Fortress)
HomEq (Barclays)
MortgageIT (Deutsche Bank)
Saxon (Morgan Stanley)
First Franklin (Merrill Lynch)
Encore Credit[2] (Bear Stearns)
Champion loans (HSBC Finance)
Champion orignations (Fortress)
CityMortgage (Morgan Stanley)
EquiFirst (Barclays)
ABN Amro Mortgage (Citigroup)
New York Mortgage (IndyMac)
New York Mortgage (Franklin Credit)
Central Pacific[2] (TMSF Holdings)
Fieldstone (C-BASS)
ResMae Mortgage (Citadel)

Closed/Bankrupt/Suspended

Ameriquest Mortgage
Meritage Mortgage
Sebring Capital
Ownit Mortgage Solutions
Harbourton Mortgage
Millennium Capital
Popular Financial
Rose Mortgage
EquiBanc Mortgage
Summit Mortgage
Mortgage Lenders Network
ResMae Mortgage
New Century Financial
Ameritrust Mortgage
Fremont Investment & Loan

Up for Sale

Option One Mortgage
ACC Capital (Ameriquest)
Fremont Investment & Loan

Source: Inside Mortgage Finance.
[1] A business sold or up for sale may also be suspended or in bankruptcy
[2] Asset Sale

II. GS in the Subprime Mortgage Space

Goldman Sachs

6

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-005565534

Goldman Sachs Business Activity

	Description
Residential Mortgage Loans	
Loan Purchasing	■ Purchases loans from large sellers on a bulk basis and from smaller sellers via the GS conduit[1]
Loan Origination	■ Directly closes loans via our Senderra Funding, LLC platform as of March 1, 2007 (HQ – South Carolina, ($20mm/month)
Loan Servicing	■ Directly undertakes loan servicing (collections/loss mitigation) via our Avelo servicing platform as of October 2005 (HQ – Dallas, $12 billion portfolio). Total mortgage servicing in the U.S. is $10.0 trillion
Loan Warehouse	■ Extends secured credit lines to mortgage originators to fund mortgage loans
Loan Securitization	■ Exits loan purchases by structuring and underwriting securitization and distributing securities backed by mortgage loans on a principal basis and for clients on an agented basis
Trading & Principal Investments	
Residential Mortgage Backed Securities	■ Creates residential mortgage-backed securities ("RMBS") via its loan securitization programs ■ Trades RMBS on a secondary basis
Residuals (Equity Stubs)	■ Creates and retains some / all of the economic residuals via its loan securitization program ■ Actively trades in residuals off other securitizations
Derivatives	■ Actively trades in synthetics that references the residential mortgage securities market ■ Uses derivatives to hedge our long credit risk exposure
CDOs[2]	■ Underwrites CDOs that are active buyers of residential mortgage backed securities ■ Assumes warehouse risk during portfolio aggregation
Advisory	■ Advises clients on both acquisition and disposition of mortgage platforms (National City/First Franklin, Centex, H&R Block/Option One)
Principal Investments	■ Opportunistically makes principal investments in the residential mortgage space

[1] Goldman Sachs residential conduit purchases loans from small to mid-sized mortgage originators. Loans purchased are generally originated according to Goldman Sachs standardized credit guidelines.
[2] Collateralized Debt Obligations, resecuritizations of a diversified pool of asset backed securities and synthetic instruments

7

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GS MBS-E-005565535

Goldman Sachs

Timeline of Major Events & GS Response

Subprime Sector		GS Response
■ Easy access to credit; subprime mortgages grow to over 20% of market ■ ABX indices launch in January ■ Investors seeking yield and broader global investor base drive demand for subprime securitizations ■ Acoustic defaults (May 2006)	1&2Q 2006	■ GS long position grows with increased market activity ■ GS long position is further increased via ABX indices trades ■ GS becomes more vigilant on EPD identification and workout
■ Significant deterioration in underwriting standards and increased fraud ■ Cash spreads on RMBS widen as macro funds actively target subprime synthetics to express negative views on the sector ■ Bank regulators issue underwriting guidance on non-traditional mortgage products ■ Widespread mortgage originator defaults begin including Sebring (Nov 06), Ownit (Dec 06) and MLN (Jan 07) ■ Bids for subprime loans fall below cost to originate; business is therefore no longer profitable	3&4Q 2006 1Q 2007	■ Credit department steps up due diligence process on originators, creates watch list, suspends multiple names ■ Enhanced focus on independent valuation ■ GS scales back purchasing of riskier loans ■ GS reduces CDO[1] activity ■ Residual assets marked down to reflect market deterioration ■ GS reverses long market position through purchases of single name CDS[2] and reductions of ABX
■ Large originators announce numerous accounting restatements / losses for 2006 triggering equity market sell off ■ Securitization market for subprime slows significantly; market for securities is dislocated	Current	■ GS effectively halts new purchases of sub-prime loan pools through conservative bids ■ Warehouse lending business reduced ■ EPD claims continue to increase as market environment continues to soften ■ Credit terms tightened further

[1] *Collateralized Debt Obligation, a resecuritization of a diversified pool of asset backed securities and synthetic instruments*
[2] *Credit Default Swap, a derivative instrument used to hedge credit exposure to a particular residential mortgage-backed security*

Goldman Sachs

Mortgage Business at GS
Revenues

($ millions)

Product / Business	2005	2006	1Q 2007	YTD 2Q 2007[1]
Residential Mortgage Loans	277	311	34	(19)
Prime	73	42	71	74
Subprime	204	269	(37)	(93)
Commercial Real Estate Loans	197	167	102	102
Non-Mortgage Asset-Backed Securities ("ABS")	45	40	14	20
Structured Products Trading	245	401	174	201
Other	121	110	35	33
Total Gross Revenues	**885**	**1,029**	**359**	**337**

[1] As of 3/15/07

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Goldman Sachs

GS Subprime Mortgage Business

Subprime Risk: Current Position as of 3/15/07

Current Position	Residential Mortgages	Warehouse Lending	Structured Products Trading [1]	Platforms
Long	$2.9bn subprime loans $0.5bn subprime residuals $3.3bn Alt-A loans $0.3bn Alt-A residuals	$0.1bn loans funded $0.2bn bonds funded	$1.6bn cash RMBS $1.0bn cash CDO $3.0bn CDO warehouse assets	$25mm investments in originators
Short	$5.0bn ABX[2]		$3.5bn RMBS CDS $2.0bn CDO CDS $2.2bn ABX[2]	
Primary Risk(s)	BASIS LOAN PERFORMANCE LIQUIDITY COUNTERPARTY CREDIT[3]	COUNTERPARTY CREDIT	BASIS LIQUIDITY SMALL SHORT OVERALL	BUSINESS

[1] Positions are netted, and matched basis trades are excluded.
[2] Asset Backed Index, provides synthetic exposure to a specified bundle of cash bonds
[3] EPD or Reps & Warranties repurchase obligations

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Goldman Sachs

Credit Exposure Summary

- Warehouse lending has declined substantially due to tighter credit terms:
  - — Funded amount $250mm (down from $1.5bn funded at 1/31/07)
- Whole loan purchases have declined
- EPDs have risen, reflecting continued market deterioration (Subprime and Alt-A):

	Notional ($mm)	Expected Maximum Potential Exposure[1] ($mm)	Example Counterparties
Diversified Counterparties	158	50	Commercial Banks
Capitalized Non-Public Entities	185	45	DHI, Quicken
Troubled Companies	190	70	Fremont, New Century
Small / Thinly Capitalized Companies	85	26	MILA, SouthStar
Total	618	191	

[1] *Business has reserved for expected loss amounts.*

Goldman Sachs

III. Lessons Learned / Looking Forward

Goldman Sachs

Lessons Learned

- What went wrong
- What went right
- Liquidity and capital matter
- Capital markets and financial innovation spread and increase risk
- Franchise effects

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Looking Forward

- Potential effect in other markets
- Residential whole loan business in major adjustment
- Positioning and business strategy
- Opportunities

Goldman Sachs

Strategic Considerations Regarding Vertical Integration

Buy vs. Build

	Buy	Build
Competitive Reaction	■ Competitors are largely vertically integrated ■ Capture immediate loan volume in the near term	■ Do it our way ■ Slower, but less expensive
Value Enhancing	■ GS can add value to the loan origination chain through more pricing and credit discipline ■ GS can streamline the process from origination to securitization, resulting in increased profitability	
Intelligence	■ "Field level knowledge" of lending environment makes us better risk takers with our capital when buying loans	
Complements Existing Mortgage Franchise	■ Servicing, conduit, and asset management are already in place	■ State of the art systems; avoid legacy issues ■ Build an origination platform that integrates well into existing GS franchise
Valuation / Timing	■ Platform premiums were very high from 2005 – 2006 ■ Given turmoil in the space, platforms are available at lower prices than at any point in last 5 years ■ Ability to attract quality talent as capacity exits the market	■ Contingent liability is hard to quantify and may be outsized (lending practices / employment practices) ■ Stage investment based on market ■ Build an origination franchise without the industry's historical bad practices

Appendix A: Goldman Sachs' Residential Mortgage Business Organizational Structure

16

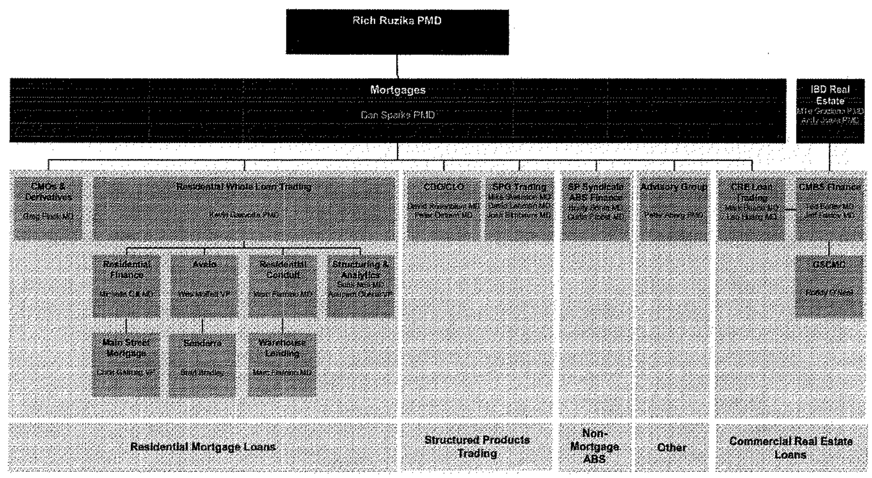
Goldman Sachs

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-005565544

Goldman Sachs

Mortgage Business Organizational Structure
North America Mortgages



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Appendix B: Competitive Landscape

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Goldman Sachs

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Goldman Sachs

Leading Subprime Underwriters

($ in millions)

Rank	Underwriter	2006 Volume	2006 Market Share	Change 2005-2006
1	Lehman Brothers	$51,810.8	10.7%	-5.2%
2	RBS Greenwich Capital	47,588.5	9.8%	-8.2%
3	Morgan Stanley	36,101.3	7.5%	-5.4%
4	Merrill Lynch	34,321.8	7.1%	3.3%
5	Countrywide Securities	34,249.7	7.1%	-15.0%
6	Goldman Sachs	29,338.6	6.1%	24.9%
7	Deutsche Bank	28,562.9	5.9%	24.2%
8	Credit Suisse	27,954.2	5.8%	-38.4%
9	JP Morgan Chase	26,157.9	5.4%	84.4%
10	Bear Stearns	22,861.6	4.7%	-39.9%
	Total for Top 10 Underwriters	*$204,072.0*	*42.2%*	*-6.5%*
	Estimated Total for All Underwriters:	*$483,309.0*		*-4.8%*

Source: Inside ABS & MBS

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-005565547

Goldman Sachs

Top Subprime Shelves by Volume as of Q3 2006
($ million)

		2006				2006	Change
Rank	Lender	Total	3Q	2Q	1Q	YTD	2Q06-3Q06
1	Morgan Stanley ABS Capital	$27,641.5	$2,437.1	$17,130.1	$8,074.4	$20,009.3	(85.8)%
2	SASCO (Lehman)	26,496.6	8,172.8	12,335.2	6,988.6	33,961.6	(33.7)%
3	CWABS (Countrywide)	24,887.5	9,700.8	85,533.5	6,633.2	29,298.7	13.4%
4	Merrill Lynch Mortgage Investors	22,035.2	6,767.8	7,319.4	7,947.9	16,384.7	(7.5)%
5	Long Beach Securities (WaMu)	21,747.3	4,559.8	4,304.3	12,883.2	13,152.2	5.9%
6	FASC (RBS Greenwich)	21,502.6	5,059.7	12,892.3	3,550.7	14,594.9	(60.8)%
7	GS Mortgage Securities	17,831.9	5,070.1	6,454.0	6,307.8	10,723.8	(21.4)%
8	Ace Securities (Deutsche)	15,196.1	5,167.4	4,110.3	5,918.4	10,579.3	26.7%
9	Argent Securities Inc. (Ameriquest)	12,675.5	1,676.3	5,672.9	5,226.3	5,168.8	(70.5)%
10	JP Morgan Acceptance Corp	12,398.5	4,516.7	4,232.8	3,649.0	2,493.1	6.7%
11	RASC (RFC)	11,045.7	3,540.4	3,485.4	4,020.0	7,827.3	1.6%
12	HIS Asset Securitization Co (HSBC)	10,694.4	4,346.0	3,048.4	3,300.0	0.0	42.6%
13	RAMP (RFC)	9,922.3	2,282.2	2,411.5	5,228.6	9,452.0	(6.4)%
14	SABR (Barclays)	8,902.6	3,234.5	1,977.9	3,690.2	0.0	63.5%
15	MAST (UBS)	8,481.2	2,767.4	2,209.3	3,504.6	8,631.8	25.3%
	Top 15 Subprime Total:	*$251,359.0*	*$69,298.8*	*96137.4%*	*$85,922.9*	*$180,277.4*	*(27.9)%*
	Total Subprime MBS:	*366,605.2*	*108,285.9*	*135,353.0*	*12,866.8*	*369,896.6*	*(20.0)%*

[1] *Source: Inside B&C Lending*

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-005565548

Goldman Sachs

Leading CDO Underwriters
Structured products (not including CMBS)

		2006		2005	
Rank	Bookrunner	Issuance	No. of Deals	Issuance	No. of Deals
1	Merrill Lynch	41,183.9	42	16,379.7	23
2	UBS	17,768.7	60	5,041.1	11
3	Citigroup	17,509.3	27	14,128.9	14
4	Deutsche Bank	16,174.9	25	4,882.9	14
5	Goldman Sachs	15,875.0	19	8,380.7	15
6	Barclays Capital	13,677.6	77	8,719.3	14
7	Credit Suisse	13,273.0	20	4,473.5	14
8	Calyon	12,643.5	22	2,034.8	19
9	Banc of America	10,136.9	33	3,220.9	18
10	Wachovia	8,677.0	16	8,214.0	9
11	ICP Securities	8,258.5	4	811.9	1
12	Bear Stearns	7,012.9	14	3,659.6	10
13	Morgan Stanley	6,058.3	33	2,228.2	18
14	Lehman Brothers	5,736.1	13	4,928.5	23
15	RBS Greenwich	4,810.8	13	2,217.6	7
16	IXIS Securities	3,877.8	6	662.1	3
17	Fortis Bank	3,000.0	2	363.0	1
18	WestLB	2,448.0	3	1,691.9	2
19	J.P. Morgan Chase	1,780.9	4	688.0	3
20	BNP Paribas	1,708.2	9	1,714.1	18
	Top 20 Bookrunners	*217,314.4*	*451*	*99,494.0*	*246*
	All Bookrunners	*220,781.8*	*496*	*102,745.0*	*277*

Source: Asset-Backed Alert

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Confidential Treatment Requested by Goldman Sachs

GS MBS-E-005565549

Goldman Sachs

Residential Loan Competitors

Broker	Origination: Direct	Origination: Conduit	Servicing	International Presence	Platform Name	Servicer Name
Bear Stearns	X	X	X	X	Encore	EMC
Credit Suisse		X	X	X		Select
Deutsche Bank	X	X		X	Chapel / MortgageIT	
Goldman Sachs	X	X	X		Senderra	Avelo
RBS Greenwich						
Lehman Brothers	X	X	X	X	BNC Mortgage	Aurora
Merrill Lynch	X		X	X	First Franklin	Home Loan Services
Morgan Stanley	X	X	X	X	Saxon	Saxon

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Appendix C: Independent Valuation Assessment

Goldman Sachs

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Goldman Sachs

Independent Price Verification

- A dedicated group within Controllers performs an independent price verification of the mortgage inventory. The team is highly specialized and has extensive experience in the valuation of mortgage related products
- The investment in this team over the last several years has led to a significant reduction in the mortgage related unverified cash inventory (Nov. 2004 unverified market value of $9.1 billion, reduced to Feb. 2007 unverified market value of $0.7 billion). The close coordination of this team and desk management has ensured market movements are reflected in pricing on a timely basis and at times has lead to the remarking of positions
- The price verification results for the quarter ending 2/23/07 indicate that the mortgage inventory is marked appropriately. The marks reflect decreased liquidity within the subprime market
- Price verification analysis utilizes four core strategies:

Strategy	Implementation
External price comparison	■ Prices received from third party vendors are compared against inventory positions
Fundamental analysis	■ Utilizes discounted cash flow (DCF), option adjusted spread (OAS) or securitization analysis. Observable market data or inputs are incorporated when available and appropriate
Trade comparison	■ Utilizes a review of recent market transactions against inventory positions with similar collateral and/or risk profiles and is an important determinant of market technicals or risk premium
Collateral analysis	■ Utilizes two way collateral agreements to review pricing by market counterparts for mortgage derivatives. These agreements call for the posting of collateral against outstanding contracts when their market value falls. The exchange of collateral margin against derivative transactions is a strong indicator of market levels

From: Burchard, Paul
Sent: Wednesday, April 25, 2007 3:54 PM
To: Turok, Michael; Lehman, David A.; Swenson, Michael; Birnbaum, Josh; Salem, Deeb; Primer, Jeremy
Cc: Wiesel, Elisha
Subject: RE: RMBS Subprime Risk Report
Attachments: RMBS_Subprime_Risk_ABS_Base.pdf

(Restricting distribution.)

It looks like the risk report we are sending to management understates the effectiveness of our 2006 BBB and BBB- single name shorts, making us appear to be net long there on a duration basis even though notionally we're net short. The reason is that we are long the good stuff and short the bad stuff (based on tiering -- see attached finer breakdown where vintage "20062" means 2006 Tier 2). Because spreads differ by more than a factor of two between the best and worst tiers, the uniform 1bp shock of the spread DV01 is impacting the better stuff harder in relative sense, exaggerating those longs.

From: ficc-mtgcdstrat
Sent: Wednesday, April 25, 2007 2:27 PM
To: Sparks, Daniel L; Fortunato, Salvatore; Lehman, David A.; Swenson, Michael; Birnbaum, Josh; Salem, Deeb; Chin, Edwin; Kaufman, Jordan; Bruns, William; Kamilla, Rajiv; Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Dinias, Michael; Jha, Arbind; Gmelich, Justin; McAndrew, Thomas R.; McMahon, Bill; Mazumdar, Sanjay; Oza, Romil
Cc: ficc-mtgcdstrat
Subject: RMBS Subprime Risk Report

Attached are the short form RMBS Subprime Risk reports for 24Apr07

Permanent Subcommittee on Investigations
EXHIBIT #23

From: Blankfein, Lloyd
Sent: Friday, July 20, 2007 10:25 PM
To: Cohn, Gary
Subject: Re: Private & Confidential: FICC Financial Package 07/20/07

Sensitivity: Confidential

Bet all the dads at camp are talking about the same stuff.

----- Original Message -----
From: Cohn, Gary
To: Blankfein, Lloyd
Sent: Fri Jul 20 22:08:34 2007
Subject: Re: Private & Confidential: FICC Financial Package 07/20/07

No because we are marking both sides. There is a net short

----- Original Message -----
From: Blankfein, Lloyd
To: Cohn, Gary
Sent: Fri Jul 20 22:06:26 2007
Subject: Re: Private & Confidential: FICC Financial Package 07/20/07

Ok thanks.

Shud we be taking a similar approach in mortgages, ie, reserve the pnl on the hedges. (I realize we'll go over everything much more intensively, but in terms of our interim pnl...).

----- Original Message -----
From: Cohn, Gary
To: Blankfein, Lloyd; Viniar, David
Sent: Fri Jul 20 21:59:13 2007
Subject: Re: Private & Confidential: FICC Financial Package 07/20/07

Now that I look it does look like credit is backed out . There is a negative 30 in the hedge line and I think the hedge was up 30 today. Other half in Banking

----- Original Message -----
From: Blankfein, Lloyd
To: Viniar, David; Cohn, Gary
Sent: Fri Jul 20 21:40:00 2007
Subject: Fw: Private & Confidential: FICC Financial Package 07/20/07

Cud you tell me if these numbers reflect backing out hedge pnl in credit? How much? In mortgages? If not mortgages, why is the number so big?

----- Original Message -----
From: Tricarico, Geoffrey P.
To: ficc-package
Sent: Fri Jul 20 20:07:20 2007
Subject: Private & Confidential: FICC Financial Package 07/20/07

REVENUES (Including Estimate)
EST $ 184.4
WTD $ [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #24

Confidential Treatment Requested by Goldm

GS MBS-E-00964840

MTD $ Redacted by the Permanent
QTD $ Subcommittee on Investigations
YTD $

PRE-TAX
EST $ 154.5
WTD $
MTD $
QTD $ Redacted by the Permanent
YTD $ Subcommittee on Investigations

Mortgage Backed Securities $ 72.7
SPG Trading +64.0 (ABS Secondary +57.0 [Index Basis] / Correlation +13.0 [ABS CDS / CMBS CDS spreads widening]) / Resi Credit +25.2 (Alt-A +14.7 [ABX widening] / Subprime +13.0 [ABX widening] / Subs -7.0 [Spreads widening]) / CDO-CLO -22.0 (Val Adj on exposure to Basis Capital)

Redacted By
Permanent Subcommittee on Investigations

From: Viniar, David
Sent: Tuesday, July 24, 2007 8:10 PM
To: Blankfein, Lloyd (EO 85B30)
Subject: RE: Daily Estimate 07-24-07 - Net Revenues $74M

Mergers, overnight asia and especially short mortgages saved the day.

-----Original Message-----
From: Blankfein, Lloyd (EO 85B30)
Sent: Tuesday, July 24, 2007 7:41 PM
To: Viniar, David; Cohn, Gary (EO 85B30)
Subject: Fw: Daily Estimate 07-24-07 - Net Revenues $74M

I've seen worse.

----- Original Message -----
From: Carpenter, Zachary
To: gs-fr-daily-est-ny <gs-fr-daily-est-ny@ny.email.gs.com>
Sent: Tue Jul 24 19:21:58 2007
Subject: Daily Estimate 07-24-07 - Net Revenues $74M

Enclosed please find the Daily Estimate for Tuesday, July 24th, 2007:

Daily Estimate - As of July 24, 2007
($ in Millions, Except Diluted EPS)

	DAY
Revenues	$ 74
Expenses	65
Pre-Tax Earnings	9
Provision for Taxes	3
Net Earnings	6
Preferred Stock Dividends	0
Net Earnings to Common Shares	6
Diluted Earnings Per Common Share	$ 0.01

<<Daily Estimate_2007_07_24.xls>>

Highlights Include:

* FICC - Mortgages +83 (ABS Secondary +72 / Correlation +13)

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Permanent Subcommittee on Investigations

Goldman, Sachs & Co.
180 Maiden Lane | 22nd Floor | New York, NY 10038

Permanent Subcommittee on Investigations
EXHIBIT #25

From: Viniar, David
Sent: Wednesday, July 25, 2007 9:18 PM
To: Cohn, Gary (EO 85B30)
Subject: RE: Private & Confidential: FICC Financial Package 07/25/07

Sensitivity: Confidential

Tells you what might be happening to people who don't have the big short.

-----Original Message-----
From: Cohn, Gary (EO 85B30)
Sent: Wednesday, July 25, 2007 8:55 PM
To: Viniar, David; Blankfein, Lloyd (EO 85B30); Winkelried, Jon (EO 85B30)
Subject: Fw: Private & Confidential: FICC Financial Package 07/25/07
Sensitivity: Confidential

Look at the Mortgage numbers up 373 in the index book and wrote down 230 in CLO-CDO and. 92 in resids

----- Original Message -----
From: Tricarico, Geoffrey P.
To: ficc-package
Sent: Wed Jul 25 19:33:10 2007
Subject: Private & Confidential: FICC Financial Package 07/25/07

REVENUES (Including Estimate)
EST $ 126.5
WTD $
MTD $
QTD $
YTD $

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PRE-TAX
EST $ 96.6
WTD $
MTD $
QTD $
YTD $

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Mortgage Backed Securities $ 48.7
SPG Trading +373.0 (CDO/CDS and ABS/CDS widening) / CDO-CLO -230.0 (Markdown of retained debt) / Resi Credit -92.0 (Markdown of residuals)

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Permanent Subcommittee on Investigations

<<FICC Package 2007-07-25.xls>>

From: Sparks, Daniel L
Sent: Sunday, July 29, 2007 10:16 PM
To: Montag, Tom
Cc: Mullen, Donald; Swenson, Michael; Lehman, David A.; Egol, Jonathan; Tourre, Fabrice
Subject: Correlation information you asked for

Department-wide P&L for the week was $375mm (this is after adjusting for the $100mm discussed today)
Correlation P&L on the week was $234mm, with CMBS, CDOs, and RMBS/ABX shorts all contributing
Rest of department is net short RMBS and CDOs, net long cmbs.
Correlation positions are below:

▬ = Redacted by the Permanent Subcommittee on Investigations

From: Lehman, David A.
Sent: Sunday, July 29, 2007 9:45 PM
To: Sparks, Daniel L; Tourre, Fabrice; Swenson, Michael; Egol, Jonathan
Cc: Williams, Geoffrey
Subject: RE: Call me [redacted]

Rough numbers below...current position....buys on the week...net risk chg

Corr cmbs position

Short 250k/bp 2005 "AAA" risk
Short 300k/bp recent vintage "A" risk
Short 500k/bp recent vintage "BBB/BBB-" risk
Short 150k/bp recent vintage "BB" risk

The book covered ~125k/bp of "A" CMBX and 125k/bp of "BBB-" CMBX on the week

Despite those buys, on the week the book got shorter 200k/bp "A" risk and 100k/bp "BBB" and below risk

Corr abs position

Long 125k/bp of "A" subprime
Short 80k/bp of BBB subprime
Short 80k/bp of BBB- subprime

Desk has bought ~500mm of abx BBBs/BBB-s on the week (150k/bp)

Not a big dv01 change week/week

Corr cdo position

Short 140k/bp of AAAs
Short 140k/bp of Aas and As

Don't believe any trades were done on the week

Not a big dv01 change week/week

Permanent Subcommittee on Investigations
EXHIBIT #27

Confidential Treatment Requested by Goldm

GS MBS-E-010876594

▬ = Redacted by the Permanent Subcommittee on Investigations

From: Birnbaum, Josh
Sent: Sunday, August 05, 2007 3:36 PM
To: Swenson, Michael; Salem, Deeb
Subject: RE: great week

In your 3 tables at the bottom, I would put what we bought first, then are you intending to show what ABX+Corr net RISK change was (factoring in gamma)? If so, I would make that more clear that you are talking about RISK not just nominal POSITION in the contracts. And when you say "Mortgage Dept", I assume you mean the dept excluding SPG trading, [redacted]

From: Swenson, Michael
Sent: Sunday, August 05, 2007 9:24 AM
To: Birnbaum, Josh; Salem, Deeb
Subject: great week

This is our contribution for a report that Sparks is sending to Montag for Management Committee tomm. Obviously the $3,000 short in BBB/BBB- is overstated but it it too difficult to describe in this forum

By the way our Pink Sheets are wrong for Saturday Morning - I had to assemble this by hand

Market Summary:

- ABX 07-1 price changes for the week:

AAA	-4.5pts
AA	-9.0pts
A	-7.0pts
BBB	-4.0pts
BBB-	-3.0pts

- Sellers, both new shorts and fast money, have moved up the capital structure to AAA, AA, and A's

- dealers have been selling single-A (to hedge super senior longs) and originators have been selling triple-As.

Current Desk Position Summary:

- RMBS Single-As - net short 900mm 100% in single-name CDS
- RMBS BBB/BBB- - net short $3,000mm (80% in single-name CDS - 50% in 2005 vintage)
- Correlation Desk - net short $400mm of ABX 06-1 BBB and BBB-
- Mortgage Department short approx $4bb of AAA ABX

ABX Index Flow Summary for week ended August 3rd:

- In summary, a phenomenal week for covering our Index shorts on the week. The ABS Desk bought $3.3bb of ABX Index across various vintages and ratings over the past week. $1.5 billion was retained by the ABS desk to cover shorts in ABX ($900mm in ABX 06-1 As being the most significant) and $1.0 billion was sold to internal desks across the mortgage department ($925mm in triple-As).

Permanent Subcommittee on Investigations
EXHIBIT #28

- ABS and Correlation Desk Net ABX Position Change on the Week:

AAA	+ 75mm	
AA	+ 280mm	
A	+1,100mm	(ABX 06-1 A short of 900mm at beginning of week is now ony -73mm)
BBB	+ 70mm	
BBB-	+ 17mm	
Total	+1,542mm	

- Mortgage Department Net ABX Position Change on the Week

AAA	+ 925mm
AA	+ 25mm
A	+ 75mm
BBB	+ 0mm
BBB-	+ 0mm
Total	+1,025mm

- Total ABX Indices by rating bought this week:

AAA	$1,000mm
AA	365mm
A	1,653mm
BBB	110mm
BBB-	257mm
Total	$3,385mm

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917[redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com

Goldman Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 6:10 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

meeting scheduled for tuesday

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:55 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i do think that is a real concern. how quickly can you work with strats to get them to revise our VAR to a more realistic number?

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:47 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i just asked b/c i saw the note about mortgages dropping back down to a permanent limit of 35mm (which we are way over). this would mark a change of their recent policy to just keep increasing out limit. makes me a little nervous that we may be told to do something stupid.

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:43 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

no heat over the last 2 days...that said, im not sure how aware he is of it. we've actually bot a decent amount of single name protection this week. 300mm BBB/BBB- and 50mm A's

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:38 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

good, was that a "no" on the heat question?

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:37 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

we have waved in ~120mm in bbb and bbb- protection the last 2 days. almost all 2006 stuff (tier 1, 2, and 3).

Permanent Subcommittee on Investigations
EXHIBIT #29

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:34 PM
To: Salem, Deeb
Subject: FW: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

are you getting any more heat to cut/cover risk? these VAR numbers are ludicrous, btw. completely overestimated for SPG trading, underestimated for other mortgage desks.

From: Song, Scarlett
Sent: Thursday, August 09, 2007 3:08 PM
To: Montag, Tom; Sobel, Jonathan; Sparks, Daniel L; McHugh, John; Bohra, Bunty; Pouraghabagher, Cyrus; Finck, Greg; Gasvoda, Kevin; Turok, Michael; Brazil, Alan; Gallagher, Timothy (IB PBC07); Buono, Mark; Montag, Tom; Lehman, David A.; 'Ostrem, Peter L'; Rosenblum, David J.; Birnbaum, Josh; Swenson, Michael; 'Huang, Leo'; DeGiacinto, Clayton; Egol, Jonathan; Nichols, Matthew; Nestor, Genevieve; Cawthon, Michael; Iqbal, Farrukh; Holen, Margaret; Kamilla, Rajiv; Mahoney, Justin; Weinstein, Scott; Resnick, Mitchell R; Gao, Renyuan; Bristow, Andrew; DeNatale, Mark; Gold, Erica; Cannon, JeanMarie; Stern, Matt; Alexander, Lee; Andrea, Mireille N.
Cc: Berry, Robert; Dinias, Michael; Lee, Brian-J (FI Controllers); Leventhal, Robert; Pantow, Albert; Fredman, Sheara; Fortunato, Salvatore; Mazumdar, Sanjay; Chen, Benjamin; gs-mra-mtg
Subject: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

Temporary MTG SPG VaR limit of $110mm expired on 8/7/2007

MTG SPG is over its permanent VaR limit of $35 mm
Resi Prime is over its current stress test limit of $100mm
Acquisition Commitment is over its current stress test limit of $150mm

	95% VaR ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	95.0	97.6	35

	Stress Test ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	(257)	(238)	(650)
Deriv	(24)	(25)	(30)
Res Prime	(103)	(104)	(100)
Res Credit	(108)	(111)	(185)
Credit Resid	(80)	(80)	(170)
Non-Resi Orig	4	4	(70)
CRE Loan	13	13	
ABS Loan	(10)	(10)	
SPG Trading	180	194	(160)
ABS/MBS CDO	(1)	(1)	(30)
Manager	0	0	
Commitment	(204)	(195)	(150)

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From: Cohn, Gary (EO 85B30)
Sent: Tuesday, August 14, 2007 12:27 PM
To: Sparks, Daniel L
Subject: Fw: Post

Talk to me before you go long

----- Original Message -----
From: Viniar, David
To: Cohn, Gary
Sent: Tue Aug 14 12:23:55 2007
Subject: FW: Post

From: Sparks, Daniel L
Sent: Tuesday, August 14, 2007 10:38 AM
To: Montag, Tom; Mullen, Donald; Cohn, Gary (EO 85B30); Viniar, David; O'Neill, Tim (FIN 85B030); Winkelried, Jon (EO 85B30)
Subject: Post

(1) Mortgage CDO market has continued to be hammered with combination of the large downward move in subprime RMBS, rating agencies action, and no liquidity. For example, our market for the Timberwolf A2 (mezz AAA) that we marked at the end of May at 80 is now 15/25. Mortgage CDOs are so geared that many tranches are priced to IO value, and it's not just liquidity - there are fundamental cashflow issues.

(2) AAA ABX and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly.

(3) Platforms are interesting out there, but even the good ones are really struggling and the trades are hard. The question is, what capabilities are we really getting, and at what price. We continue to look hard.

(4) Liquidity - we are focused on making an adjustment to our bid offer reserves for synthetics to reflect how bad liquidity is, and we are working with controllers on it.

Permanent Subcommittee on Investigations
EXHIBIT #30

From: Berry, Robert
Sent: Wednesday, August 15, 2007 5:23 AM
To: Viniar, David; McMahon, Bill; Broderick, Craig
Subject: RE: MarketRisk: End of Day Summary - cob 8/10/2007

the most obvious risks are the short in mortgages and effectively a credit basis trade, long loans, short other credit. hedging these (across mortgages, gcp, ssg and origination) might reduce by ~20%.

i know you know, but our sensitivity to estimates of correlation implicit in the data we use for simulation is becoming acute. put another way, there will be days where "nothing happened" - positions didn't change, markets were quiet, but small changes in correlation will mean the difference between 140 and 160. it will be really difficult to explain to you and to the desks why were under yesterday but over today. this only gets worse as the headline risks reduce.

we're making some changes over the next couple of weeks that should allow us to more easily quantify the daily "creep". it will still be hard to give much intuition other than "it is what it is", but at least we can factor it out in discerning changes driven by desks increasing positions.

From: Viniar, David
Sent: Monday, August 13, 2007 7:27 PM
To: McMahon, Bill; Broderick, Craig; Berry, Robert
Subject: FW: MarketRisk: End of Day Summary - cob 8/10/2007

No comment necessary. Get it down.

From: McAndrew, Thomas R.
Sent: Monday, August 13, 2007 6:44 PM
To: Viniar, David; Cohn, Gary (EO 85830); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN PBC09); Evans, J. Michael (EO CKC68); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis)
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen
Subject: MarketRisk: End of Day Summary - cob 8/10/2007

VaR increased from $150mm to $159mm

95% VaR by Business ($mm)

	10-Aug	9-Aug	% Contr
Trading	159	150	100%
FICC			
IRP			
Mortges	96	102	40%
FX			
EM Mkts			
Comm			
Credit			
SSG			
Orig			
Equities			
GSPS			
EPG			

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Permanent Subcommittee on Investigations
EXHIBIT #31

Confidential Treatment Requested by Goldm

GS MBS-E-00977988

95% VaR by Product Category ($mm)

	10-Aug	9-Aug	% Contr
Trading			
Rates	Redacted by the Permanent Subcommittee on Investigations		
Equities			
CCY			
Comm			

Credit Scenario ($MM)

	10-Aug	9-Aug	Limit
IRP			
Mortges.	(313)	(289)	(750)
Warehouse	56	52	(170)
EMG			
Credit	Redacted by the Permanent Subcommittee on Investigations		
SSG			
Orign.			

Limit Excesses

Redacted by the Permanent Subcommittee on Investigations

Temporary Limits

Redacted by the Permanent Subcommittee on Investigations

Mortgages has a temporary VaR limit of $110mm until cob 8/21.
Mortgage Trading widening scenario has a temporary limit of <$750mm> until cob 8/21.

<< File: Daily Trading Risk Summary20070810.pdf >>

From: Mullen, Donald
Sent: Wednesday, August 15, 2007 2:06 PM
To: Cohn, Gary (EO 85B30); Sparks, Daniel L; Montag, Tom; Viniar, David; O'Neill, Tim (FIN 85B030); Winkelried, Jon (EO 85B30)
Subject: RE: Post

Billy, Dan, Bruce and I are trying to fashion a way to reduce var that doesn't add real risk. Buying AAA will add new risk, we may like it but it is not in anyway offsetting our current risk. Reducing our shorts will reduce var but seems crazy since we view them as both profitable and a hedge for the risk left from cdo business which remains unsaleable. Nevertheless gives an hour and we will speak to you.
On credit var we have ram continuing to reduce his shorts

-----Original Message-----
From: Cohn, Gary (EO 85B30)
Sent: Wednesday, August 15, 2007 1:52 PM
To: Sparks, Daniel L; Mullen, Donald; Montag, Tom; Viniar, David; O'Neill, Tim (FIN 85B030); Winkelried, Jon (EO 85B30)
Subject: Re: Post

Happy to see

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Cohn, Gary; Viniar, David; O'Neill, Tim; Winkelried, Jon
Sent: Wed Aug 15 13:47:02 2007
Subject: RE: Post

We're continuing to cover some shorts, and we may cover some BBB with AAA, but I got the message clearly that we shouldn't get long without Gary/Tom/Don all saying OK. The best opportunity for the department (better than [redacted] and other dying originators) is probably the AAA index - no balance sheet, cheap vs fundamentals and good technicals - the street and others are short. The last leg down could be hedging for mass liquidations. We will put together our specific thoughts for timing and limits.

From: Mullen, Donald
Sent: Wednesday, August 15, 2007 1:37 PM
To: Sparks, Daniel L; Montag, Tom; Cohn, Gary (EO 85B30); Viniar, David; O'Neill, Tim (FIN 85B030); Winkelried, Jon (EO 85B30)
Subject: RE: Post

On number 2 we need to discuss:
Timing 1
Liquidity
Limits

From: Sparks, Daniel L
Sent: Tuesday, August 14, 2007 10:38 AM
To: Montag, Tom; Mullen, Donald; Cohn, Gary (EO 85B30); Viniar, David; O'Neill, Tim (FIN 85B030); Winkelried, Jon (EO 85B30)
Subject: Post

(1) Mortgage CDO market has continued to be hammered with combination of the large downward move in subprime RMBS, rating agencies action, and no liquidity. For example, our market for the Timberwolf A2 (mezz AAA) that we marked at the end of May at 80 is now 15/25. Mortgage CDOs are so geared that many tranches are priced to IO value, and it's not

Permanent Subcommittee on Investigations
EXHIBIT #32

just liquidity - there are fundamental cashflow issues.

(2) AAA ABX and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly.

(3) Platforms are interesting out there, but even the good ones are really struggling and the trades are hard. The question is, what capabilities are we really getting, and at what price. We continue to look hard.

(4) Liquidity - we are focused on making an adjustment to our bid offer reserves for synthetics to reflect how bad liquidity is, and we are working with controllers on it.

From: Egol, Jonathan
Sent: Thursday, August 16, 2007 4:16 PM
To: Tourre, Fabrice; Swenson, Michael
Cc: Lehman, David A.
Subject: RE: Projected Corr Customers winners/losers from singled-name mark changes

That's right I forgot that trade is in a different book, good catch

From: Tourre, Fabrice
Sent: Thursday, August 16, 2007 4:15 PM
To: Egol, Jonathan; Swenson, Michael
Cc: Lehman, David A.
Subject: RE: Projected Corr Customers winners/losers from singled-name mark changes

For Paulson, the ABAC 07-AC1 is going to mark up in their favor $220mm, in addition to the $109mm mentioned by Egol below.

ABN Amro is going to be down $165mm (I have a call into them to post them on this coming mark change) on this trade

IKB is going to be down an additional $26.5mm on ABAC 07-AC1, and ACA down $7mm.

From: Egol, Jonathan
Sent: Thursday, August 16, 2007 4:11 PM
To: Swenson, Michael
Cc: Egol, Jonathan; Lehman, David A.; Tourre, Fabrice
Subject: Projected Corr Customers winners/losers from singled-name mark changes

This is purely from the bespoke book. Based upon the spread changes we see from you guys, doesn't look like there are going to be huge changes in the ABX tranche book.

Top winners:

1	[redacted]	$109.1mm
2	[redacted]	$13.4mm
3	[redacted]	$5.7mm
4	[redacted]	$1.9mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Top 10 losers:

1	[redacted]	$139.2mm
2	[redacted]	$109.4mm
3	[redacted]	$54.1mm
4	[redacted]	$6.1mm
5	[redacted]	$5.5mm
6	[redacted]	$3.6mm

The aggregate P&L in the book is $405mm (ie net markdown to customers), much of this is scattered across a bunch of cashflow CDOs.

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tel: +1 212 357 3349 | mobile: +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Permanent Subcommittee on Investigations
EXHIBIT #33

From: Cohn, Gary (EO 85B30)
Sent: Tuesday, August 21, 2007 10:36 AM
To: Montag, Tom; Mullen, Donald; Winkelried, Jon (EO 85B30)
Subject: RE: Potential large subprime trade and impact on Firmwide VAR

I do think holding for some period at some price makes sence

-----Original Message-----
From: Montag, Tom
Sent: Tuesday, August 21, 2007 9:58 AM
To: Cohn, Gary; Mullen, Donald; Winkelried, Jon
Subject: Re: Potential large subprime trade and impact on Firmwide VAR

This is buy and hold not buy and sell strategy however Just to be clear

----- Original Message -----
From: Cohn, Gary (EO 85B30)
To: Mullen, Donald; Winkelried, Jon (EO 85B30); Montag, Tom
Sent: Tue Aug 21 09:52:42 2007
Subject: RE: Potential large subprime trade and impact on Firmwide VAR

Got that and am not answering - I do like the idea but you call -----Original Message-----
From: Mullen, Donald
Sent: Tuesday, August 21, 2007 9:52 AM
To: Winkelried, Jon; Cohn, Gary; Montag, Tom
Subject: Fw: Potential large subprime trade and impact on Firmwide VAR

It would help to manage these guys if u would not answer these guys and keep bouncing them back to Tom and I.

----- Original Message -----
From: Birnbaum, Josh
To: Montag, Tom; Mullen, Donald; Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Viniar, David; McMahon, Bill; Sherwood, Michael S; Salame, Pablo
Cc: Sparks, Daniel L; Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Sent: Tue Aug 21 09:30:37 2007
Subject: Potential large subprime trade and impact on Firmwide VAR

- The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.
- We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.
- Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.
- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
- On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.
- On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted], and 100% of the AAAs from [redacted] to [redacted] and [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #34

Market Risk Report		8/14/07		Mortgage Portfolio Summary			
Portfolio Name	VaR ($MM) 08/14/07	Stress Test ($MM) 08/14/07	Cash MV (2) ($MM)	OAS DV01 ($M/bp)	Percentage Contribution to Firmwide VaR	Firmwide VaR if we exclude this sub-business ($MM)	Difference in Firmwide VaR ($MM)
Mortgage Structured Products	110.1	(325.1)	37,883		53.8%	111.8	-53.3
Mortgage Derivative	3.9	(22.4)	3,091	(122)	0.1%	164.0	-1.1
Inverse IO	3.2	(7.5)	561	(209)			
Strip IO/PO	1.5	(8.0)	1,787	127			
Agency Derivative	0.3	(5.5)	611	76			
Whole Loan Derivative	0.3	(1.3)	132	(116)			
Residential Prime	3.5	(99.0)	11,095	123	-1.3%	167.5	2.5
Agency CMOs	1.8	(9.9)	2,308	283			
FHA/VA	0.5	(2.6)	188	47			
Prime Hybrid	6.6	(48.3)	3,456	330			
Prime Fix	5.9	(14.6)	4,485	(655)			
ARMs	0.5	1.4	353	17			
Subs(1)	8.9	(25.1)	306				
Residential Credit	7.2	(114.1)	3,098		1.3%	163.4	-1.7
Alt A	2.4	0.1	793				
Subprime	4.5	(1.5)	1,148				
Second Lien		(1.2)	89				
Sub/Non-Performing	2.7	(31.2)	747				
Credit Residuals(1)		(80.2)	320				
Non-Resi Origination	3.7	(42.4)	7,597	241	-0.1%	165.9	0.8
CRE Loan Trading(1)		(32.9)	6,950	145			
ABS Loans & Finance		(9.5)	647	96			
SPG Trading	120.7	153.5	3,617	(1,468)	56.0%	116.0	-49.1
CMBS Securities	19.7	(47.8)	1,460	1,444	-2.3%	170.3	5.3
ABS Securities	36.8	(20.0)	1,958	398	-11.2%	184.7	19.6
ABS Synthetics	123.3	43.9		-962	54.1%	126.1	-38.9
Correlation Book	42.6	177.6	187	(2,348)	14.4%	146.4	-18.7
ABS/MBS CDO Origination	16.3	(6.7)	500	n/a	0.3%	166.9	1.8
Manager Account	0.0	0.0	0	0			
Acquisition Commitment	28.4	(194.0)	8,885	1,987	-2.5%	171.9	6.8
Loan		(335.0)	8,885	2,491			
Corporate CDS		35.0		(216)			
CMBS CDS		106.0		(288)			
Europe Mortgage (1)	0.5	0.0	1,147	-			

Permanent Subcommittee on Investigations
EXHIBIT #35

Confidential Treatment Requested by Goldm GS MBS-E-012380294

From: Montag, Tom
Sent: Wednesday, August 22, 2007 2:53 PM
To: Blankfein, Lloyd
Subject: FW: Trading VaR $144mm

we are covering a number of shorts in mortgages today and tomorrow--probably 1.5 billion worth--will reduce mortgages hopefully to below 80

From: Dinias, Michael
Sent: Wednesday, August 22, 2007 2:43 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Winkelried, Jon (EO 85B30); Mullen, Donald; Sparks, Daniel L; Salame, Pablo; Heller, Dave B; Broderick, Craig; Berry, Robert; McMahon, Bill; Petersen, Bruce; Wilson, Edward
Subject: Trading VaR $144mm

Trading VaR decreased $23mm, from $167mm to $144mm.

Credit Trading VaR . Redacted by the Permanent Subcommittee on Investigations

Mortgage VaR decreased $4mm, from $103mm to $99mm. The decrease was due to updated risk analytics associated with the Houtbay Structured Product CDO.

EPG VaR Redacted by the Permanent Subcommittee on Investigations

Diversification Effect - Trading Division VaR is currently dominated by our short credit exposures in the Mortgage and Credit Trading business. The diversification between equity risk and credit risk has had a significant impact on Trading VaR over the last couple weeks. As long equity positions are negatively correlated with short credit exposures we have found that when the equity business has reduced their equity longs (or gone short) that this has increased Trading VaR. Today the increase in our long equity exposures resulted in greater diversification between the Equity business and the Credit/Mortgage business resulting in a decrease in Trading VaR.

Permanent Subcommittee on Investigations
EXHIBIT #36

From: Montag, Tom
Sent: Thursday, August 23, 2007 7:51 AM
To: Blankfein, Lloyd
Subject: RE:

the interest rate/fx empire is probably flat right now--interest rates up so gmp down a bit
ny irp up, fx more or less flat, asia irp up 5 with backup

I imagine munis should feel better, but financials will probably be tighter which isnt a good thing

covered about 700 million in shorts in mtgs last night--500 in single names
lots more to go--but they fortunately had bought back 9 billion of AAA abx index over last two weeks

From: Blankfein, Lloyd (EO 85B30)
Sent: Thursday, August 23, 2007 7:43 AM
To: Montag, Tom
Subject: RE:

No surprise.....how are we doing?

Also, snap back of the dollar

Maybe pressure on munis will lighten

From: Montag, Tom
Sent: Thursday, August 23, 2007 7:40 AM
To: Blankfein, Lloyd
Subject:

as u would expect the countrywide news made market feel better
numerous indices up 10-15 basis points in IG land and real money
buying a bit of cash bonds this morning, [redacted] and [redacted] guys
that had "no money" yesterday

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #37

From: Lehman, David A.
Sent: Monday, August 27, 2007 3:52 PM
To: Radtke, Lorin
Subject: RE: Brief conversation with [redacted]

Love it

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Radtke, Lorin
Sent: Monday, August 27, 2007 3:39 PM
To: Lehman, David A.
Subject: FW: Brief conversation with [redacted]

FYI...start with edith's msg....

From: Radtke, Lorin
Sent: Monday, August 27, 2007 9:39 AM
To: Cooper, Edith; Maguire, John
Cc: Bash-Polley, Stacy; Schwartz, Harvey
Subject: RE: Brief conversation with [redacted]

They are down approximately $250mm on the 500mm 06-1/06-2 TABX trade they did with us. That has hampered anything they have done in our space and consumed large amounts of relationship time. I also believe their ABS performance has hampered the building out of the ABS team. Shorts (on A-rated CDOs) they hold against this position were accumulated when our pricing was much more "bearish" than the rest of the market. We facilitated none of these trades because we were going the same way. We(GS and [redacted]) turned out to be correct. The key factor in our trading with them is they simply don't have the technology to look at our most interest ideals. The have no models, no correlation framework, and a small credit/structure team. They are a shop that is focused on fundamental credit plays like a money manager ([redacted]). They don't have a derivative, technology background and/or framework. All trades we have shown have been turned down on a fundamental credit basis with out any consideration for the correlation/derivative factors. They have been shown the " juicy trade" but these guys just have turned them away based in their fundamental credit framework. It is important to remember that the TABX trade they put on was at 35 bps.(100-00) when other super seniors in the market were trading at 17bps. They entered it on a belief that it was a cheap credit exposure to AAA risk. They thought they had a 17bps upside and have thus far have realized a 50 point mark down with even more potential downside. In the face of the current price action they still think it is a good fundamental trade over next 3 years which clearly highlights their framework for looking at trades. More recently we have had success in moving cash Aa and AAAs which fits their credit outlook. However, on the trades that they could have made a lot of money on they have passed because they have mainly been positive on abs credit.

Here are the trades we have suggested since February. These are all trades that we have shown to them and our desk has had on in some form and profited from....it was a sharing of our best ideas.

- Short single-A in ABX... trade has been worth 30 to 40 points since we suggested. Reasoned they said no: Thought was single A are money good.
- Short single-A in single names... trade has been worth 50 to 60 points since we suggested. Reasoned they said no: A-rated single names will not move even though ABX is going down...A's will have no credit worries.
- Short high quality names in BBB and BBB- single names ...trade has be worth 20 to 30 points since we suggested. Reasoned the said no: High quality names won't have a credit event.
- Short '05, early '06 names A, BBB and BBB- single names ...trade has be worth 10 to 30 points since we suggested. Reasoned they said no: Seasoning is worth a lot and safe.
- Short ABX 06-1 BBB and BBB- based on slow speeds(this was also to hedge their position) worth 40 points. Reasoned they said no: Season bonds and believe they will be able to refi because of HPA.

From: Cooper, Edith
Sent: Friday, August 24, 2007 11:01 AM

Permanent Subcommittee on Investigations
EXHIBIT #38

= Redacted by the Permanent Subcommittee on Investigations

To: Radtke, Lorin; Maguire, John
Subject: Brief conversation with [redacted]

-credit doing a great job, defined by ideas
-rates: complimented your coverage, but we miss all of the time on price, mostly on vol, sometimes by a lot; would like to reward great coverage, but can't
-structured finance: again, great coverage, particularly in helping on valuation and analysis of risk etc; others are better at showing real value trades, sharing juicy stuff that they source from their business; gs has kept these things

What are your thoughts on above?

Thanks for the headsup that [redacted] was going to be in the office.

Have a good weekend, edith

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(212) 902.9908 (212) 256.4279
edith.cooper@gs.com

Edith Cooper
Managing Director
Goldman Sachs

From: Montag, Tom
Sent: Wednesday, September 05, 2007 9:59 AM
To: Swenson, Michael
Subject: RE: ABS Update

then reduce both sides as agreed in our meeting

From: Swenson, Michael
Sent: Wednesday, September 05, 2007 9:50 AM
To: Montag, Tom
Subject: RE: ABS Update

We are oprtunsitically covering risk - we are not that short at this time

From: Montag, Tom
Sent: Wednesday, September 05, 2007 9:47 AM
To: Swenson, Michael
Subject: RE: ABS Update

what are we doing on our single names-aggressive?

From: Swenson, Michael
Sent: Wednesday, September 05, 2007 9:23 AM
To: Montag, Tom; Mullen, Donald; Sparks, Daniel L
Cc: Lehman, David A.; Birnbaum, Josh; Swenson, Michael; Brafman, Lester R
Subject: ABS Update

ABX - market up approx. 1pt across the board. We continue to see short covering this week as many funds are unwinding paired trades that performed well for the past year but severely underperformed in August (i.e. long EM vs. short ABX)

Single-Names - approx. $600mm of short covering BWICs ([redacted], [redacted] [redacted] [redacted]). We did trade 100mm of single-names between [redacted] and [redacted] yesterday.

Cash - funding concerns have made flows nearly non-existent

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Goldman Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #39

From: Dinias, Michael
Sent: Friday, September 07, 2007 11:33 AM
To: Montag, Tom; Mullen, Donald; Sparks, Daniel L; McMahon, Bill; Berry, Robert; Petersen, Bruce; Jha, Arbind
Subject: Mortgage VaR Analysis

Attachments: Picture (Metafile)

As requested we have put together potential hedges that can be used to reduce the $77mm Mortgage VaR. The major drivers of Mortgage VaR are the net short mortgage exposure and the long cash vs. short derivative basis risk.

1) Directional Risk - going long $380k/bp of BBB ABX (or single name CDS) would result in $23mm VaR decrease, from $77mm to $54mm. The below table also highlights some of the largest short mortgage positions that the desk currently holds and the stand-alone VaR impact of covering each of these short exposures. As can be seen in the first line in the table, unwinding the $1.8B TABX Super Senior position would result in $20mm reduction in Mortgage VaR. Its important to note that the desk believes they are less short than implied by the VaR model.

Deal / Tranche name	Notional ($MM)	SDV01 ($k/bp)	Average Spread	Mortgage VaR Reduction w/out Trade
TABXHE06-106-2 SS	1,800	(295)	1,956	(20)
ABAC07-AC1 v2 SS	909	(153)	2,108	(15)
ABAC06-HGS2 SS	441	(124)	1,448	(9)
TABXHE06-1-2 4NC SS	600	(98)	1,956	(8)
TABXHE.BBB-.06-1 SS	525	(80)	2,167	(7)
TABXHEBBB-06-1-2 SS	500	(74)	2,285	(7)
ABACUS05-3 B	260	(132)	875	(5)
ABACUS04-1 SS	1,760	(497)	168	(4)
ABACUS05-2 SS	1,000	(214)	315	(3)
ABAC06-15 V2 SS	315	(89)	621	(2)

2) Long Cash vs. Short Derivative Basis Risk - selling our long cash positions by $750k/bp and covering our short derivative positions by $750k/bp would result in $13mm VaR decrease, from $77mm to $64mm (assumes cash/derivative positions trading at L+1000bps). The following long cash positions would be effective places to reduce long side: $1.1B RMBS subprime securities and $100mm CDO Squared positions on the ABS Securities desk, $320mm CDO Mezz and $100mm CDO Squared on the ABS/MBS CDO Origination desk, and $220mm BB/B bonds in the Subs book on the Residential Credit desk.

Permanent Subcommittee on Investigations
EXHIBIT #40

Confidential Treatment Requested by Goldma GS MBS-E-01068879E

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #41

Presentation to GS Board of Directors

Residential Mortgage Business

September 17, 2007

Goldman Sachs

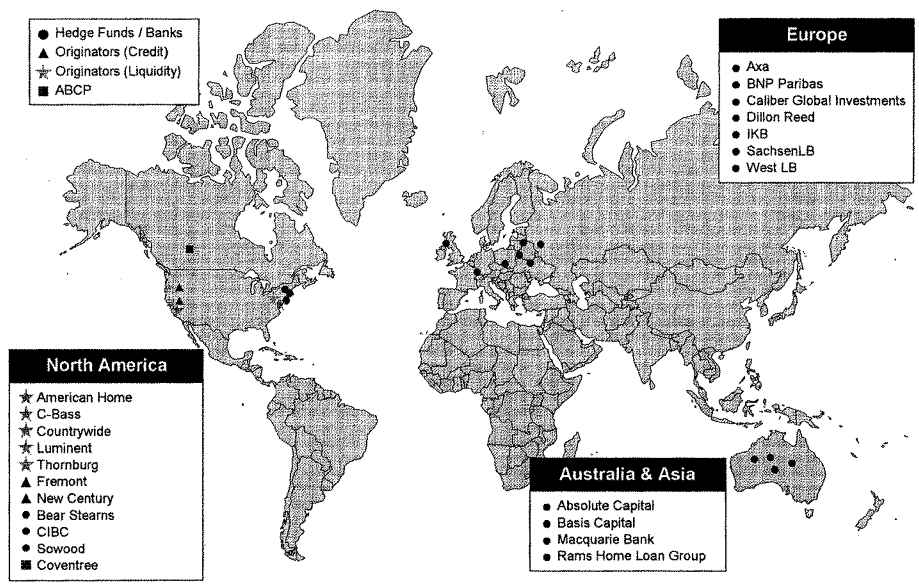
Subprime Mortgage Overview
Subprime Lending in 2006

Attribute	Description
Size	$634bn annual residential mortgage loan originations (20% of total mortgage market)
Lending Decisions	Emphasis on borrower ability to make current payment Proliferation of affordability products to achieve lower payments for borrowers Widening out of credit to include first time home buyers Increase of alternative documentation loans in the subprime arena
Geography	Go national to gain operating efficiencies Technology and wholesale approach to lending break down geographic barriers Increased reliance on automation to validate appraisals in local markets
Profitability	Cost to produce at 102% or below Loan sold at 102 - 103% Upon sale, originators provide protection against Early Payment Default[1] ("EPD") and representation and warranty breaches

[1] *Early payment default (EPD) occurs when a borrower fails to make the initial payment(s) due to the loan purchaser. The purchaser typically has the right to have the seller repurchase EPD loans.*

Goldman Sachs

Global Impact of the Mortgage Crisis



2

Goldman Sachs

How Missed Signs Contributed to a Mortgage Meltdown

New York Times

December 2006	February 2007	March	April	June	July	August

- Ownit Mortgage Solutions shuts down.
- People's Choice files for bankruptcy
- ResMae Mortgage files for bankruptcy protection
- New Century Financial files for bankruptcy.
- NovaStar financial reports a surprise loss.
- New Century Financial, the second largest subprime lender, stops making loans.
- American Home Mortgage writes down the value of mortgages a step up from subprime.
- H&R Block puts Option One, its subprime mortgage unit, up for sale.
- Fremont General stops making subprime loans.
- HSBC takes a $10.6 billion charge partly related to its subprime mortgages.
- Countrywide Financial, the nation's largest mortgage lender, draws down $11.5 billion from its credit lines.
- American Home Mortgage and Aegis Mortgage seek bankruptcy protection.

Growing Troubles for Subprime Lenders
As borrowers with weak credit fell behind on their payments, companies that had lent them money to buy houses found themselves in trouble, including the ones mentioned here.

The Government Wakens to the Risk
Initially regulators were not concerned, but lately they have taken actions to alleviate the growing liquidity crisis

- Ben S. Bernanke, the chairman of the Federal Reserve Board, says he does not expect problems in the subprime mortgage lending industry will spread to the rest of the economy. Two months later, he reiterates this statement by saying the Fed does not foresee a broader economic impact from the growing number of mortgage defaults.
- Mr. Bernanke says the economy is poised for moderate growth, but continuing problems in the housing market prompt the Fed to slightly reduce its growth forecast.
- European Central Bank and Federal Reserve intervene in markets by lending to banks.
- The Federal Reserve cuts the discount rate by half a point. Stocks rally

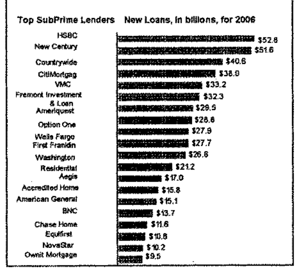
Reverberations On Wall Street
Many Wall Street firms and hedge funds invested in bonds backed by subprime mortgages. As they declined in value, those firms lost billions of dollars in a few weeks, shaking investors' confidence

- Goldman Sachs reports flat profit; Bear Stearns says net income fell because of mortgage market problems.
- Bear Stearns pledges up to $3.2 billion to bail out a hedge fund because of bad bets on subprime mortgages.
- Standard & Poor's and Moody's downgrade bonds backed by subprime mortgages. Fitch follows suit.
- Bear Stearns closes its two ailing hedge funds.
- The Dow Jones industrials close above 14,000 for the first time.
- Warren J. Spector, co-president of Bear Stearns, departs because of the company's losses
- Stocks plunge on several days.
- Goldman Sachs and other investors inject $3 billion into a Goldman hedge fund.

Reverberations Abroad
Wall Street firms were not the only ones who invested in subprime mortgages. So, too, did many large financial services companies in other countries, particularly Europe

- IKB Deutsche Industriebank, a German bank, is bailed out because of bad bets on U.S. mortgage-backed securities.
- BNP Paribas, a French bank, suspends three of its funds because of exposure to U.S. mortgages.
- Basis Capital, an Australian hedge fund firm, hires advisors to help stanch mortgage losses.

Top Subprime Lenders, Before the Bust
Many of the lenders that did the most subprime lending have either gone out of business or scaled back.



Source: The New York Times, August 19, 2007

3

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-001793843

Goldman Sachs

Business Reaction
Tactical Positioning

The business has taken proactive steps to position the firm strategically in the ensuing mortgage credit and liquidity crisis

Timing	Action
Q1 2007	■ Shut down all residential mortgage warehouses ■ Reduced loan position ■ Increased protection on disaster scenarios
Q2 2007	■ Shut down all CDO warehouses ■ Took significant mark to market losses ■ Reduced loan purchases ■ Reduced counterparty exposure
Q2 2007 and Q3 2007	■ Positioned business tactically — Shorted synthetics — Reduced loan and security purchases — Shorted CDOs and RMBS — Increased long correlation position — Reduced long inventory
Q3 2007	■ Actively managed risk exposure to hedge funds
Beginning August 2007	■ Significant covering of short positions ■ Opportunistically looking to buy assets

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Mortgage Business at GS
Revenues
($ millions)

Product / Business	2005	2006	1Q 2007	2Q 2007	3Q 2007	YTD 2007[1]
Residential Mortgage Loans	277	311	34	(250)	(173)	(389)
Prime	73	42	71	45	(184)	(68)
Subprime	204	269	(37)	(295)	11	(321)
U.S. Commercial Real Estate Loans	197	167	102	63	(26)	139
Non-Mortgage Asset-Backed Securities ("ABS")	45	40	14	19	69	102
Structured Products Trading	245	401	174	50	731	955
Other	121	110	44	32	134	210
Total Gross Revenues	**885**	**1,029**	**368**	**(86)**	**735**	**1,017**

[1] As of 8/31/07

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GS Subprime Mortgage Business

Subprime Risk: Current Position as of 8/31/07

	Residential Mortgages	Warehouse Lending	Structured Products Trading (1)	Platforms
Current Position				
Long	$1.0bn subprime loans $0.1bn subprime residuals $0.7bn Alt-A loans $0.1bn Alt-A residuals	$0.0bn loans funded $0.1bn bonds funded	$1.9bn cash RMBS $2.5bn cash CDO $0.0bn CDO warehouse assets $3.6bn ABX(2)	$25mm investments in originators
Short	$1.8bn ABX(2) $0.2bn RMBS CDS		$4.9bn RMBS CDS $3.3bn CDO CDS	
03/15/2007				
Long	$2.9bn subprime loans $0.5bn subprime residuals $3.3bn Alt-A loans $0.3bn Alt-A residuals	$0.1bn loans funded $0.2bn bonds funded	$1.6bn cash RMBS $1.0bn cash CDO $3.0bn CDO warehouse assets	$25mm investments in originators
Short	$5.0bn ABX(2)		$3.5bn RMBS CDS $2.0bn CDO CDS $2.2bn ABX(2)	

[1] *Positions are netted, and matched basis trades are excluded.*
[2] *Asset Backed Index, provides synthetic exposure to a specified bundle of cash bonds*

Goldman Sachs

Credit Exposure Summary

- Outstanding warehouse lines have been allowed to expire; remaining warehouse lines have minimal fundings
  - — Funded amount $60mm (down from $1.5bn funded at 1/31/07)
- Whole loan purchases have declined substantially
- EPD risk has been minimized via aggressive collection efforts and hold backs at loan settlement

	Total Notional ($mm)	Expected Maximum Potential Exposure($mm)[1]	Example Counterparties
Diversified Counterparties	59.9	7.0	Commercial Banks
Troubled Companies	57.5	3.0	BayRock, Community Lending
Small / Thinly Capitalized Companies	2.1	0.2	First Bank, Paul Financial
Subsidiaries	29.5	0.5	First Franklin, DHI
Out of Business	104.1	6.3	Acoustic, Meritage
Bankruptcy	190.3	11.7	New Century, SouthStar
Total	**443.4**	**28.7**	

[1] *Business has reserved for expected loss amounts based on whole loan positions*

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Pricing Challenges

Issues	Considerations
Lack of Market Transparency	■ Fewer market price points ■ Non mark-to-market vehicles
Significant Product Complexity	■ Highly structured transactions ■ Vast number of loans or securities ■ Significant derivative component
Expectation Differences	■ Assumed subprime losses changed from approx. 4% to low teens ■ Dramatic shift in rating agency views ■ Change in pricing assumptions

GS Approach

- Market price points
- Controller focus and involvement
- Diligent marking of clients we finance
- Significant management involvement/Controller reviewer

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Appendix A: Market Analysis

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Independent Price Verification

- A dedicated group within Controllers performs an independent price verification of the mortgage inventory. The team is highly specialized and has extensive experience in the valuation of mortgage related products
- The investment in this team over the last several years has led to a significant reduction in the mortgage related unverified cash inventory (Nov. 2004 unverified market value of $9.1 billion, reduced to Feb. 2007 unverified market value of $0.7 billion). The close coordination of this team and desk management has ensured market movements are reflected in pricing on a timely basis and at times has lead to the remarking of positions
- The price verification results for the quarter ending 2/23/07 indicate that the mortgage inventory is marked appropriately. The marks reflect decreased liquidity within the subprime market
- Price verification analysis utilizes four core strategies:

Strategy	Implementation
External price comparison	■ Prices received from third party vendors are compared against inventory positions
Fundamental analysis	■ Utilizes discounted cash flow (DCF), option adjusted spread (OAS) or securitization analysis. Observable market data or inputs are incorporated when available and appropriate
Trade comparison	■ Utilizes a review of recent market transactions against inventory positions with similar collateral and/or risk profiles and is an important determinant of market technicals or risk premium
Collateral analysis	■ Utilizes two way collateral agreements to review pricing by market counterparts for mortgage derivatives. These agreements call for the posting of collateral against outstanding contracts when their market value falls. The exchange of collateral margin against derivative transactions is a strong indicator of market levels

Goldman Sachs

The Subprime / Home Equity Sector

State of the Market – Originations

Top 25 Subprime Mortgage Lenders ($ billions)

Rank	Lender	2006 Volume	Mkt. Share	Status
1	HSBC Finance, (Household) IL	$43.13	6.80%	■ Owned by HSBC; tightens underwriting standards
2	New Century Financial, CA	$39.40	6.21%	■ Ceased originations; filed for Ch 11 bankruptcy
3	Countrywide Financial, CA	$30.55	4.82%	■ Downgraded; Received lifeline from BOA
4	Wells Fargo Home Mortgage, IA	$27.90	4.40%	■ Closed subprime wholesale lending unit
5	Fremont Investment & Loan, CA	$27.88	4.40%	■ Ceased originations
6	CitiMortgage, NY	$24.44	3.85%	■ Layoffs announced in May
7	Ameriquest Mortgage, CA	$24.00	3.78%	■ Obtained lifeline financing from Citi
8	Option One Mortgage, CA	$22.30	3.52%	■ Purchased by Cerberus
9	Washington Mutual, WA	$21.49	3.39%	■ Tightens underwriting standards; eliminates 2/28s
10	First Franklin Financial Corp, CA	$19.56	3.08%	■ Purchased by Merrill Lynch
11	Residential Funding Corp., MN	$16.67	2.63%	■ Owned by GMAC; tightens underwriting standards
12	BNC Mortgage/Finance America, CA	$15.38	2.43%	■ Owned by Lehman;
13	Aegis Mortgage Corp., TX	$13.00	2.05%	■ Ceased originations; filed for Ch 11 bankruptcy
14	Accredited Home Lenders, CA	$12.45	1.96%	■ Purchased by Lone Star; unclear if sale will close
15	American General Finance, IL	$11.57	1.82%	■ Owned by AIG; tightens underwriting standards
16	Chase Home Finance, NJ	$8.49	1.34%	■ Tightens underwriting standards; eliminates 2/28s
17	Ownit Mortgage Solutions, CA	$8.35	1.32%	■ Ceased operations (20% stake by Merrill)
18	NovaStar Financial, KS	$7.59	1.20%	■ Closed WarehouseUSA unit
19	Equifirst, NC	$7.47	1.18%	■ Purchased by Barclays
20	ResMae Mortgage Corp., CA	$5.71	0.90%	■ Purchased out of bankruptcy by Citadel
21	EMC Mortgage Corp, TX	$5.58	0.88%	■ Owned by Bear Stearns; layoffs announced
22	WMC Mortgage, CA	$4.84	0.76%	■ GE announced plans to sell WMC
23	ECC Capital Corp., (Encore) CA	$4.32	0.68%	■ Purchased by Bear Stearns
24	Fieldstone Mortgage Company, MD	$3.79	0.60%	■ Purchased by C-BASS; wholesale unit closed
25	Nationstar Mortgage (Centex), TX	$3.53	0.56%	■ Purchased by Fortress
	Total for Top 25 Lenders	**$409.39**	**64.56%**	
	Total Subprime Originations	**$634.09**	**100.00%**	

Businesses Sold [1]

Centex Home Equity (Fortress)
HomEq (Barclays)
MortgageIT (Deutsche Bank)
Saxon (Morgan Stanley)
First Franklin (Merrill Lynch)
Encore Credit[2] (Bear Stearns)
Champion loans (HSBC Finance)
Champion orignations (Fortress)
CityMortgage (Morgan Stanley)
EquiFirst (Barclays)
ABN Amro Mortgage (Citigroup)
New York Mortgage (IndyMac)
New York Mortgage (Franklin Credit)
Central Pacific[2] (TMSF Holdings)
Fieldstone (C-BASS)
ResMae Mortgage (Citadel)
Nationstar Mortgage (Fortress)
Accredited (Lone Star)
Option One Mortgage (Cerberus)

Closed/Bankrupt/Suspended

Ameriquest Mortgage
Meritage Mortgage
Sebring Capital
Ownit Mortgage Solutions
Harbourton Mortgage
Millennium Capital
Popular Financial
Rose Mortgage
EquiBanc Mortgage
Summit Mortgage
Mortgage Lenders Network
ResMae Mortgage
New Century Financial
Ameritrust Mortgage
Fremont Investment & Loan
Aegis Mortgage Corp
SouthStarFunding LLC.

Up for Sale

ACC Capital (Ameriquest)
Fremont Investment & Loan
WMC Mortgage (GE)

Source: Inside Mortgage Finance.
[1] A business sold or up for sale may also be suspended or in bankruptcy
[2] Asset Sale

Goldman Sachs

Top Subprime Shelves by Volume as of Q1 2007
($ million)

		2007	2006				
Rank	Lender	1Q 2007	4Q	3Q	2Q	Change 4Q06-1Q07	Change 1Q06–1Q07
1	Merrill Lynch Mortgage Investors	$10,644.3	$8,129.3	$6,767.8	$7,319.4	30.9%	33.9%
2	CWABS (Countrywide))	7,796.3	8,984.0	9,700.8	8,553.5	(13.2)%	17.5%
3	Morgan Stanley ABS Capital	7,506.5	5,402.8	2,437.1	17,130.1	38.9%	(7.0)%
4	Citigroup Mortgage Loan Trust	5,574.8	3,209.3	3,885.6	957.4	73.7%	91.0%
5	Ace Securities (Deutsche)	5,136.2	4,026.3	5,167.4	4,110.3	27.6%	(13.2)%
6	Option One Mortgage Acceptance	4,950.4	1,490.3	0.0	1,480.5	232.2%	67.0%
7	GS Mortgage Securities	4,428.8	3,328.1	5,070.1	6,454.0	33.1%	(29.8)%
8	Bear Stearns ABS Inc.	4,200.5	4,038.9	1,367.5	2,629.0	4.0%	(21.5)%
9	SASCO (Lehman)	3,621.6	10,536.6	9,008.4	12,335.2	(65.6)%	(39.5)%
10	RASC (RFC)	3,507.1	1,994.1	3,540.4	3,485.4	75.9%	(12.8)%
11	SABR (Barclays)	2,506.2	4,485.0	3,234.5	1,977.9	(44.1)%	(2.1)%
12	JP Morgan Acceptance Corp	2,506.2	5,197.6	4,516.7	4,232.8	(51.8)%	(31.3)%
13	FASC (RBS GC)	2,418.4	5,617.8	5,059.7	12,892.3	(57.0)%	(31.9)%
14	WaMu Asset Acceptance	2,416.1	909.9	400.8	861.2	165.5%	NA
15	CSFB Mortgage Securities	2,129.6	2,201.3	2,442.0	2,817.4	(3.3)%	(22.5)%
	Top 15 Subprime Total:	$69,342.9	$69,551.1	$62,598.7	87,236.4	(0.19)	(0.28)
	Total Subprime MBS:	85,858.7	105,620.6	99,919.8	126,712.9		

[1] *Source: Inside B&C Lending*

Goldman Sachs

Leading CDO Underwriters
Structured products (not including CMBS)

		First half of 2007		2006	
Rank	Bookrunner	Issuance	No. of Deals	Issuance	No. of Deals
1	Merrill Lynch	72,525.6	32	41,183.9	23
2	Citigroup	14,669.1	16	17,768.7	11
3	UBS	12,447.4	20	17,509.3	14
4	Goldman Sachs	8,360.3	12	16,174.9	14
5	Wachovia	7,613.0	8	15,875.0	15
6	Deutsche Bank	6,977.6	10	13,677.6	14
7	Banc of America	6,550.0	6	13,273.0	14
8	Calyon	6,453.0	5	12,643.5	19
9	Barclays Capital	5,496.0	10	10,136.9	18
10	Royal Bank of Scotland (Greenwich)	4,331.9	11	8,677.0	9
11	Credit Suisse	3,628.5	6	8,258.5	1
12	Lehman Brothers	3,493.6	12	7,012.9	10
13	Mizuho Securities	3,076.2	3	6,058.3	18
14	Societe Generale	3,004.5	1	5,736.1	23
15	WestLB	2,567.1	2	4,810.8	7
16	Bear Stearns	2,464.9	5	3,877.8	3
17	Fortis Bank	2,179.5	3	3,000.0	1
18	J.P. Morgan Chase	1,904.4	5	2,448.0	2
19	BNP Paribas	1,457.3	7	1,780.9	3
20	ICP Securities	1,414.6	2	1,708.2	18
	Top 20 Bookrunners	*125,614.5*	*176*	*217,314.4*	*246*
	All Bookrunners	*132,396.3*	*201*	*220,781.8*	*277*

Source: Asset-Backed Alert

Goldman Sachs

Residential Loan Competitors

Broker	Origination: Direct	Origination: Conduit	Servicing	International Presence	Platform Name	Servicer Name
Bear Stearns	X	X	X	X	Encore	EMC
Credit Suisse		X	X	X		Select
Deutsche Bank	X	X		X	Chapel / MortgageIT	
Goldman Sachs	X	X	X		Senderra	Avelo
RBS Greenwich						
Lehman Brothers	X	X	X	X	BNC Mortgage	Aurora
Merrill Lynch	X		X	X	First Franklin	Home Loan Services
Morgan Stanley	X	X	X	X	Saxon	Saxon

Board of Directors Meeting

Financial Summary

September 17-18, 2007

Quarter Ended August 31, 2007

Contents

Permanent Subcommittee on Investigations
EXHIBIT #42

Operating Results and Competitor Comparison

Operating Results - Goldman Sachs

	3Q2007	2Q2007	3Q2006	% Δ 3Q2007 vs. 2Q2007
Net Revenues ($ in millions)	$ 12,334	$ 10,182	$ 7,584	21.1
Diluted EPS	6.13	4.93	3.26	24.3
Consensus EPS	4.35	4.79	2.97	
Return on Common Equity %	31.6	26.7	20.9	4.9 pts.
Return on Tangible Common Equity %	36.6	31.2	25.2	5.4 pts.
Comp. & Benefits to Net Revenues %	48.0	48.0	46.5	0.0 pts.
Tax Rate %	33.0	32.0	32.5	1.0 pts.

Competitor Comparison

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Permanent Subcommittee on Investigations

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Summary

- Net revenues were \$12.3B in 3Q2007 (2nd best quarter), up 21% compared with 2Q2007 and up 63% compared with 3Q2006. Regional mix of net revenues was:
    - 3Q2007: Americas 47%, Europe 28% , Asia 25%
    - YTD 2007: Americas 48%, Europe 31%, Asia 21%
    - FY2006: Americas 54%, Europe 25%, Asia 21%
- Diluted EPS was \$6.13 (3rd best quarter) vs. \$4.93 for 2Q2007, up 24%; consensus estimate is \$4.35 as of September 13th.
- ROE was 31.6% vs. 26.7% for 2Q2007; ROTE was 36.6% vs. 31.2% for 2Q2007.
- Compensation and benefits expense was 48.0% of net revenues for both 3Q2007 and YTD 2007. Total employees as of August 2007 were 29,905 up 7% compared with May 2007 and up 13% compared with November 2006.
- Non-compensation expenses were \$2.2B in 3Q2007, up 16% compared with 2Q2007. See page 9 for further details.
- YTD effective tax rate was 33.2%, essentially unchanged from the first half of 2007.

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- FICC net revenues of \$4.9B (record), increased \$1.5B or 45% from 2Q2007, reflecting record results in most major businesses – GSSG, IRP, mortgages and currencies – as well as higher net revenues in commodities. These increases were partially offset by decreased net revenues in global credit, including a loss of \$1.71B (\$1.48B, net of hedges) related to non-investment grade credit origination activities.

Redacted by the Permanent Subcommittee on Investigations

- Average VaR (one-day, 95%) for 3Q2007 rose to \$139M (record) compared with \$133M in 2Q2007, primarily due to an increase in interest rates of \$15M. The record daily VaR of \$174M was reached on August 16, 2007 and VaR ended the quarter at \$131M. During 3Q2007, daily trading losses exceeded VaR on five occasions, all in the first two weeks of August.

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FICC

- Market environment during 3Q2007:
  - Mortgage and corporate credit spreads widened dramatically throughout the quarter.
  - After remaining at historical lows for the first half of the year, currency volatility levels increased, particularly within USD/Yen. The U.S. dollar weakened against the major currencies - the Yen 5%, the British pound 2% and the Euro 1%.
  - The U.S. yield curve (2 year vs. 10 year) steepened 38 bps, although the 10-year Treasury note yield decreased 33 bps to 4.53%. The Federal Reserve continued to hold interest rates at 5.25%.
  - The European Central Bank raised rates for the seventh consecutive quarter (to 4.00%) and the Bank of England raised rates for the fifth consecutive quarter (to 5.75%).
  - During the quarter, oil prices (WTI/Barrel) increased 14% to $74.04, natural gas prices (NYMEX) decreased 28% to $5.47 and U.S. power prices (PJM) decreased 17% to $66.72. In addition, gold prices (NYMEX/Ounce) increased 3% to $673.00.

***

- Net revenues of $4.9B (record), increased $1.5 B or 45% from 2Q2007, reflecting record results in most major businesses – GSSG, IRP, mortgages and currencies – as well as higher net revenues in commodities. These increases were partially offset by decreased net revenues in global credit, including a loss of $1.71B ($1.48B, net of hedges) related to non-investment grade credit origination activities.

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- Mortgages $674M (record), increased $846M from a weak 2Q2007. Although broader weakness in the mortgage markets resulted in significant losses in cash positions, we were overall net short the mortgage market and thus had very strong results.

Redacted By
Permanent Subcommittee on Investigations

From: Viniar, David
Sent: Sunday, September 23, 2007 9:50 PM
To: Fredman, Sheara
Subject: RE: Mortgage P&L for the Week Ended 9/21

thanks

From: Fredman, Sheara
Sent: Sunday, September 23, 2007 8:50 PM
To: Viniar, David; Smith, Sarah; O'Connor, Gavin; Lee, Brian-J (FI Controllers)
Cc: Simpson, Michael; Fortunato, Salvatore; Fredman, Sheara
Subject: Mortgage P&L for the Week Ended 9/21

For the week ended September 21st, the Mortgage Department earned +$63M. Although the ABX index tightened during the early part of the week resulting from the rate cuts, the index widened significantly at the end of the week, specifically single A tranches and below. The result is net widening across the week. This benefited multiple trading desks that maintain a short synthetic positions including SPG Trading (+$40M), CDO (+$22M) and Residential Credit (+$12M). Offsetting these gains was losses incurred due to CMBX tightening (-$12M).

Please let me know if you have additional questions.

Thanks,
Sheara

Goldman, Sachs & Co.
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Sheara Fredman Goldman Sachs
Vice President
Finance Division

Permanent Subcommittee on Investigations
EXHIBIT #43

From: Miner, Heather (Kennedy)
Sent: Monday, September 17, 2007 9:26 AM
To: Sparks, Daniel L
Cc: Viniar, David
Subject: RE: Mortgage commentary on Q3 earnings call

Thanks Dan. We will consider making that addition.

The press release reads as follows:

Net revenues in mortgages were also significantly higher, despite continued deterioration in the market environment. Significant losses on non-prime loans and securities were more than offset by gains on short mortgage positions.

Although the mortgage and corporate credit markets were characterized by significantly wider spreads and reduced levels of liquidity, FICC benefited from strong customer-driven activity and favorable market opportunities in certain businesses during the quarter.

From: Sparks, Daniel L
Sent: Monday, September 17, 2007 9:11 AM
To: Miner, Heather (Kennedy)
Cc: Viniar, David
Subject: RE: Mortgage commentary on Q3 earnings call

Thanks Heather. I think it looks good. The one suggestion would be that there could be mention of intensity of management involvement in marking process.

Also, could I see a copy of the language from the press release.

From: Miner, Heather (Kennedy)
Sent: Monday, September 17, 2007 8:35 AM
To: Sparks, Daniel L
Cc: Viniar, David
Subject: Mortgage commentary on Q3 earnings call
Importance: High

Dan,

I have included an except related to Mortgages from the Q3 earnings script that David will deliver on the Investor/Analyst call on Thursday morning. David has asked for your sign-off on the language below. Please provide any comments.

Thanks,

Heather

Let me also address Mortgages specifically. The mortgage sector continues to be challenged and there was a broad decline in the value of mortgage inventory during the third quarter. As a result, we took significant mark-downs on our long inventory positions during the quarter, as we had in the previous two quarters. Although we took these marks, our risk bias in that market was

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to be short and that net short position was profitable. I would also note that you've heard me express our generally negative views on the outlook for mortgages since the beginning of the year, so you could correctly assume that we've been very aggressive in reducing our long mortgage exposure and conservatively marking down our long mortgage positions.

I also want to address the issue of marking mortgage inventory to market. There has been much speculation and commentary that it is impossible to mark many mortgage positions to market. We do not agree with that. Not only is it possible, it is absolutely essential for market participants to understand the value of what they hold so that they can manage the associated risks. While it is certainly more challenging to value many of these positions because of the current lack of liquidity, there is in fact a significant amount of evidence available. And just a word about our process - our traders mark their positions to market, and then expert personnel independent of the trading function verify these valuations using market transactions in the same or similar securities, prices received from independent pricing services, fundamental analysis and information gained from collateral movements with counterparties. If there is a question on price transparency, we may require our traders to execute trades to substantiate their valuations. We also back test our marks against actual trades to ensure that our marks are accurate. It is also important to understand that these marks are not made in a vacuum. We review our marks and all the related evidence with our auditors on a regular basis. And as you would expect, difficult markets receive even greater attention from regulators and throughout the quarter, we discussed our exposures and our marks with the SEC, our primary regulator. Discussions of this sort take place – during good markets and bad – as part of our ongoing dialogue with the SEC.

Heather Kennedy Miner, CFA
Investor Relations
Goldman, Sachs & Co.
85 Broad Street, 17th Floor
New York, NY 10004
Tel: (212) 855-0758
Fax: (212) 428-9495

Good morning and welcome to our third quarter earnings conference call. Today's call may include forward-looking statements. These statements represent the Firm's belief regarding future events that, by their nature, are uncertain and outside of the Firm's control. The Firm's actual results and financial condition may differ, possibly materially, from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the Firm's future results, please see the description of "Risk Factors" in our current annual report on Form 10-K for our fiscal year ended November 2006. I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, particularly as it relates to our investment banking transaction backlog, and you should also read the information on the calculation of non-GAAP financial measures that is posted on the Investor Relations portion of our website: www.gs.com. This audio cast is copyrighted material of The Goldman Sachs Group, Inc., and may not be duplicated, reproduced, or rebroadcast without our consent.

Let me now ask David Viniar, our Chief Financial Officer, to review the firm's third quarter results. David?

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Thanks Samuel. Good morning and I would like to thank all of you for listening. I will give a brief review of our results and then would be happy to take your questions.

I am pleased to report a very strong quarter for Goldman Sachs. Third quarter net revenues were $12.3 billion, our second highest result ever. Net earnings were $2.9 billion and earnings per diluted share were $6.13. For the quarter, return on tangible equity was 36.6% and return on common equity was 31.6%.

Before I address each business in detail, I would like to make a few comments about our overall performance in the third quarter. First, although there has rightly been a great deal of focus on the challenges all market participants faced during August, it is important to remember that for many of our businesses, the environment was very favorable. Second, for some of our clients and businesses, the heightened volatility and volumes later in the quarter resulted in a higher level of activity. Third, as you have heard me say many times before, we benefit from our client franchise and our broad business and geographic diversity. There were many examples of this in the third quarter but I would make particular mention of our international businesses. Finally, we were able to remain focused and nimble in constantly changing conditions. This combination of factors allowed us to produce very strong results.

Let me now review each of our major businesses.

Investment Banking produced record net revenues of $2.1 billion in the quarter.

Third quarter advisory revenues were a record $1.4 billion, nearly double last quarter's performance. These results, which were 64% better than our previous record, reflect contributions from a significant number of deals that closed during the quarter.

These included the Bank of New York's $16 billion merger with Mellon Financial, Kinder Morgan's $27 billion management-led buyout, and MedImmune's $15 billion acquisition by AstraZeneca. We are also advisor on a number of important announced transactions including Blackstone's $27 billion acquisition of Hilton Hotels, Siemens Automotive's €11 billion acquisition by Continental, and AG Edwards $7 billion acquisition by

Wachovia. Goldman Sachs again retained its leadership in mergers, ranking first in announced Global M&A for the calendar year to date.

Underwriting revenues were $733 million, 28% below the record second quarter. Equity Underwriting revenues were $355 million, down 1% on a sequential basis, while Debt Underwriting revenues fell 42% from the record second quarter to $378 million. Equity financing activity remained active throughout most of the third quarter. The significant decline in Debt Underwriting is mainly attributable to the dislocation in the leveraged finance markets.

During the quarter, we participated in a number of significant transactions, including the $4.6 billion equity issuance by ICICI, one of India's largest banks, Schering-Plough's combination financing of a $2.5 billion convertible preferred and $1.6 billion of common equity, and Apollo's $900 million 144A offering, the second offering on our GSTrUE platform.

Our investment banking backlog declined from the record second quarter, but remains higher than year-end 2006 levels.

Recent market uncertainty has led some to speculate on whether investment banking will enter a cyclical period of slowing. While you know me well enough to know that I won't try to predict the future, I would observe that global economic growth continues to look solid, globalization is continuing, strategic buyers and sellers continue to be very active and financial sponsors, while unlikely in the near term to pursue the mega deals we have seen in the recent past, still have a lot of equity to invest. Assuming that global economic growth does not dramatically slow, we remain optimistic about the outlook for investment banking.

Let me turn to Trading & Principal Investments, which includes FICC, Equities and Principal Investments. Net revenues in this segment were $8.2 billion in the third quarter, up 24% from the second quarter.

FICC net revenues were a record $4.9 billion, 45% above the second quarter. Currencies, Rates and Mortgages all had record quarters, and although not a record, Commodities revenues were also strong and up sequentially. Currencies, Rates and Commodities all benefited from higher volatility, strong price trends and increased customer activity. The Credit business produced solid results and benefited from considerable customer flow driven by high volatility and uncertainty. In addition, Credit recorded substantial gains from equity investments, including a gain of approximately $900 million related to the disposition of Horizon Wind. Credit also included a loss of $1.7 billion net of fees, $1.5 billion net of fees and hedges, related to leveraged lending activities.

As you all know, recent conditions in the leveraged loan market have made it difficult to execute many non-investment grade funding transactions including many that Goldman Sachs has committed to finance. As an investment bank, we use 'fair value' accounting and therefore losses on our lending commitments and funded loans are included in each quarter's results. I want to be very clear about this point: whether a commitment is funded or not is irrelevant to its impact on our P&L. We mark all commitments and funded loans to market and our marks reflect current market conditions, not a view of what a credit could be worth if the market dislocation were to end. Our aggregate loss is not a portfolio level reserve. Each credit is individually marked based on where we believe we could exit the commitment in current market conditions, using as much external information as possible, including broker quotes, external pricing services, derivative indices and actual market trades in these and similar positions.

Let me also address Mortgages specifically. The mortgage sector continues to be challenged and there was a broad decline in the value of mortgage inventory during the third quarter. As a result, we took significant mark-downs on our long inventory positions during the quarter, as we had in the previous two quarters. However, our risk bias in that market was to be short and that net short position was profitable.

I also want to address the issue of marking mortgage inventory to market. There has been much speculation and commentary that it is impossible to mark many mortgage positions to market. We do not agree with that. Not only is it possible, it is absolutely essential for market participants to understand the value of what they hold so that they can manage the associated risks. While it is certainly more challenging to value many of these positions because of the current lack of liquidity, there is in fact a significant amount of evidence available. Let me explain our process - our traders mark their positions to market, and then our controllers, who are independent of the trading function, verify these valuations using market transactions in the same or similar securities, prices of actively traded indices, prices received from independent pricing services, fundamental analysis and information gained from collateral movements with counterparties. If there is a question on price transparency, we may require our traders to execute trades to substantiate their valuations. We also back test marks against actual trades to ensure that our marks are accurate. It is also important to understand that these marks are not determined in a vacuum. We review our marks and all the related evidence with our auditors on a regular basis. And as you would expect, difficult markets receive even greater attention from regulators and throughout the quarter, as part of our ongoing dialogue, we discussed our exposures and our marks with the SEC, our primary regulator.

Turning now to Equities, net revenues for the third quarter were a record $3.1 billion, up 25% from the second quarter. Equities Trading net revenues rose 27% to $1.8 billion. Our Derivatives business produced record revenues as equity market volatility increased dramatically during the quarter. Cash Equities and Principal Strategies results were down sequentially.

Equities Commissions were a record $1.3 billion, up 23% over last quarter's previous record. The strength in this business reflects both higher customer activity levels during the third quarter, as well as our increased share of those transaction flows.

Turning to risk, average daily Value at Risk in the third quarter was $139 million, compared to $133 million for the second quarter. The increase in VaR was primarily in the Interest Rates category, reflecting continued higher volatility in the US mortgage and credit markets.

Let me now review Principal Investments, where third quarter net revenues were $211 million. Corporate and Real Estate Principal investing produced net revenues of $242 million in the quarter. A $230 million gain on our ICBC investment was more than offset by a $261 million loss on our investment in SMFG.

Asset Management and Securities Services reported third quarter net revenues of $2.0 billion, up 8% from the second quarter.

Asset Management produced net revenues of $1.2 billion, up 14% primarily based on record management fees.

Assets under management increased to a record $796 billion at the end of the third quarter. Total inflows during the quarter were $50 billion, including $19 billion across Fixed Income, Equities and Alternative Investments and $31 billion into Money Markets as investors sought higher quality assets. These inflows were offset by $12 billion in market depreciation in Equity and Alternative Investment assets.

Securities Services produced record net revenues of $762 million, up 1% from the second quarter. This business benefited from robust customer activity levels and continued growth in balances.

Now let me turn to expenses. Compensation and Benefits expense in the third quarter was $5.9 billion, accrued at 48% of net revenues.

Third quarter non-compensation expenses were $2.1 billion excluding $100 million of expenses related to consolidated investments, a 17% increase from the second quarter. The sequential increase was largely driven by higher Brokerage & Clearing and Professional fees.

Headcount at the end of the third quarter was approximately 29,900, up 13% year to date and 7% from the second quarter, reflecting in part the normal seasonal pattern of college and business school hires starting in our analyst and associate programs in the summer.

Our effective tax rate was 33.2% year to date and 33.0% for the third quarter.

During the quarter, the firm repurchased 11 million shares for approximately $2.5 billion. We currently have approximately 23 million shares remaining under the firm's existing stock repurchase authorization.

To conclude, I think our results this quarter underscore a point I have made before: that Goldman Sachs has a client franchise, a geographic and business diversity, and a group of talented people that are second to none. Despite sometimes challenging conditions, we were able to leverage these strengths to produce exceptional results.

Looking at our performance year to date, the firm's 2007 net revenues are up 25%, diluted earnings per share are 35% higher and return on equity is 32% compared to 30% for the same period last year. We are pleased that we have been able to deliver strong growth and returns for our shareholders and we remain very focused on these goals.

While we never know what the next quarter will bring, over the medium and longer term, global economic growth will continue to be the fundamental driver of our business. And given the opportunities in new markets, in new products and with new customers, I believe Goldman Sachs' competitive positioning and opportunities for future growth continue to be strong.

With that, I'd like to thank you again for listening today and I am now happy to answer your questions.

Via EDGAR, U.S. Mail and Facsimile to (202) [redacted]

October 4, 2007

United States Securities and Exchange Commission
Division of Corporation Finance
100 F Street, NE
Washington, D.C. 20549-1010

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Attention: Mr. [redacted]
Division of Corporate Finance
Mail Stop 7010

Re: The Goldman Sachs Group, Inc.
Form 10-K for the Fiscal Year ended November 24, 2006 ("2006 Form 10-K")
Filed February 6, 2007
Form 10-Q for the Quarterly Period Ended February 23, 2007 (February 2007 Form 10-Q)
Filed April 4, 2007
File No. 001-14965

Dear Mr. Rohn:

We are in receipt of the letter, dated September 20, 2007, to David A. Viniar, Chief Financial Officer of The Goldman Sachs Group, Inc. from the staff of the Securities and Exchange Commission (the "staff"), regarding our 2006 Form 10-K and February 2007 Form 10-Q. We appreciate the staff's careful review of our 2006 Form 10-K and February 2007 Form 10-Q [and its flexibility in extending the time for our response]. For your convenience, we have included the staff's comments below and have keyed our responses accordingly.

Form 10-K for the Fiscal Year ended November 24, 2006

General

1. We note from the disclosures on pages 8 and 24 that you may have interests in what are commonly referred to as "subprime" residential mortgages. Although there may be differing definitions of subprime residential mortgage loans, they are sometimes recognized to be loans that have one or more of the following features:

   - A rate above prime to borrowers who do not qualify for prime rate loans;
   - Borrowers with low credit ratings (FICO scores);
   - Interest-only or negative amortizing loans;
   - Unconventionally high initial loan-to-value ratios;
   - Low initial payments based on a fixed introductory rate that expires after a short initial period then adjusts to a variable index rate plus a margin for the remaining term of the loan;
   - Borrowers with less than conventional documentation of their income and/or net assets;
   - Very high or no limits on how much the payment amount or the interest rate may increase at reset periods, potentially causing a substantial increase in the monthly payment amount, and/or;

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- Including substantial prepayment penalties and/or prepayment penalties that extend beyond the initial interest rate adjustment period.

Based on your current public disclosures, it is possible that more clarity about your exposure to subprime loans could be helpful. Regardless of the materiality of your exposure, we respectfully request that you provide us with supplemental information about your involvement in sub-prime loans.

Preface your response by how you specifically define your subprime loans in practice. However, we ask that you consider the above definition, in general, as part of your response. In other words, we request that the information you provide be based, more or less, on the above definition. Where it does not, please provide specific guidance. Also, we may ask for information which may be difficult for you to provide on a timely basis. Please consider alternative information that may address the concern, at least in part, but which can be readily provided.

Please provide us with a comprehensive analysis of your exposure to subprime residential loans. In particular:

- Provide us with your risk management philosophy as it specifically relates to subprime loans. Please address:
  - Your origination policies;
  - The purchase and securitization of loans.
  - Investments in subprime mortgage-backed securities and;
  - Loans, commitments and investments in subprime lenders
- Quantify your portfolio of subprime residential mortgages. If practicable, please breakout the portfolio to show the underlying reason for subprime definition (i.e., subject to payment increase, high LTV ratio, interest only, negative amortizing).
- Quantify the following regarding subprime residential mortgages. Explain how you define each category:
  - Non-performing loans.
  - Non-accrual loans.
  - The allowance for loan losses, and;
  - The most recent provision for loan losses.
- Quantify the principal amount and nature of any retained securitized interest in subprime residential mortgages.
- Quantify your investments in any securities backed by subprime mortgages.
- Quantify the current delinquencies in retained securitized subprime residential mortgages.
- Quantify any write-offs/impairments related to retained interests in subprime residential mortgages.
- Please address all involvement with special purpose entities and variable interest entities and quantify the subprime exposure related to such entities regardless of whether they are consolidated for the purpose of generally accepted accounting principles.
- Quantify and describe any and all potential repurchase commitments you have regarding subprime residential mortgages.

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- Quantify and describe any loans to, commitments in, or investments in subprime lenders. Describe any other potential exposures you may be subject to, such as repurchase commitments related to the receipt of assets in bankruptcy, for example.

- Quantify your revenues from involvement in subprime loans. Break out such revenues based on fees, interest earned, servicing rights and other sources.

Where we have asked you to quantify amounts as of a point in time, please do so as of the end of your last full fiscal year and as of the most recent date practicable. Where we have asked you to quantify amounts for a period, please provide this for the last three full fiscal years and any more recent period if practicable. If you believe that you have provided any of the information requested in public filings, please direct us to such disclosures.

The above list is not intended to be all encompassing. To the extent that you are aware of other asset quality or performance information, or other factors that provide material information about your involvement with subprime residential mortgage loans, please provide that information as well.

If you believe that a material adverse impact on your financial condition, results of operations or liquidity, resulting from your involvement in subprime lending, is remote, please explain. If so, tell us what consideration you may give to a more transparent disclosure about this to inform readers of your level of involvement.

If you believe that a material adverse impact resulting from this exposure is reasonably possible, tell us what disclosures you may consider in order to provide a clearer understanding of this exposure.

Response:

With respect to your series of questions on whether we have any interests in sub-prime residential mortgages, we thought it would be helpful if we provided the following overview of our mortgage business and our specific activities with respect to the sub-prime category. We further note that we agree with the definition of what constitutes a sub-prime residential loan that you provided in your letter and will use that definition throughout the following discussion.

Goldman Sachs securitizes, underwrites and makes markets in mortgage securities and trades in them for our clients and ourselves. Our activities are in commercial and residential mortgages, including prime, sub-prime and other non-traditional mortgage products. We have historically not originated residential mortgages. Although we should note that we have recently acquired a very small originator and are contemplating expanding the operation in the future.

Although our mortgage activities are an important business for Goldman Sachs, they do not represent a material portion of our revenues. In each of the fiscal years ending November 2005 and 2006 and for the nine months ending August 2007, net revenues from our overall mortgage business were less than 3% of our total net revenues, roughly half of which was contributed by sub-prime activities.

Similarly our long balance sheet exposure to sub-prime mortgage securities and loans is small. This exposure includes retained interests in securitized sub-prime residential mortgages, securities backed by sub-prime mortgages, sub-prime exposures related to special purpose entities and loans and commitments to, and investments in, sub-prime lenders. In each of the years ending November 2005 and 2006 and for the nine months ending August 2007, our long balance sheet exposure to all sub-prime mortgage products was less than 2% of our total assets.

It is important to note however that we are active traders of mortgage securities and loans and, as with any of the financial instruments we trade, at any point in time we may choose to take a directional view of the market and will express that view through the use of mortgage securities, loans and derivatives. Therefore although we did have long balance sheet exposure to sub-prime securities in the past three years, albeit small exposure, our net risk position was variously either long or short depending on our changing view of the market. For example, during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market. For this reason, we believe that disclosure of the long side of our mortgage balance sheet would be potentially misleading to the readers of our financial statements.

Finally, we believe it is also important to note that, as a broker-dealer, we mark our financial instruments, including our mortgage loans, to fair value. Therefore, we do not have an allowance for loan losses, provisions for loan losses, asset write-offs or impairments.

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Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations
EXHIBIT #47

Global Mortgages
Business Unit Townhall
Q3 2007

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Agenda

I. Financial Performance
   a) Firmwide
   b) FICC
   c) Global Mortgages
II. Business Initiatives
III. Compliance
IV. Q&A

Firmwide Third Quarter Earnings

($ in Millions, Except Per Share Amounts)

	3Q07	2Q07	3Q06	% Change 3Q07 Versus 2Q07	% Change 3Q07 Versus 3Q06
Net Revenues	12,334	10,182	7,584	21	63
Pre-Tax Earnings	4,259	3,431	2,362	24	80
Net Earnings	2,854	2,333	1,594	22	79
Diluted EPS	6.13	4.93	3.26	24	88
ROE	31.6%	26.7%	20.9%		
ROTE	36.6%	31.2%	25.2%		
Book Value Per Share	84.65	81.30	67.87	4	25

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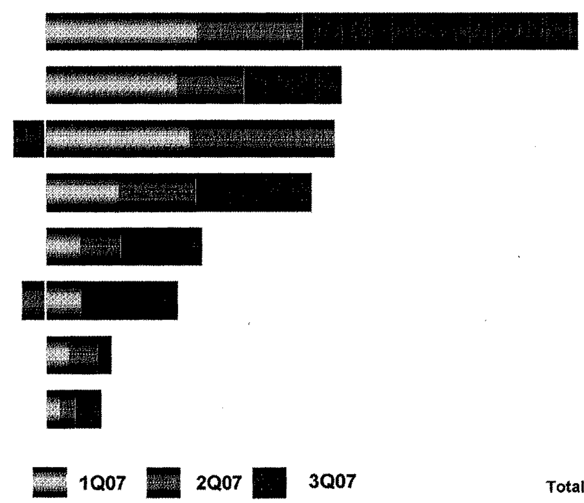
FICC Business Unit

Q3 2007 Revenues by Business Unit (as internally reported)

- Record quarter, beating previous record set in 1Q07
- YTD 07 up 15% vs YTD 06

($ in mm)



3Q07 vs 2Q07	3Q07 vs 3Q06	YTD07 vs YTD06
+155%	+183%	+69%
+39%	+19%	-(28)%
NM	NM	-(14)%
+47%	+137%	+23%
+106%	NM	+57%
NM	+152%	+6%
-(46)%	+53%	+82%
+84%	+65%	+24%

	3Q07 vs 2Q07	3Q07 vs 3Q06	YTD07 vs YTD06
Total Revenues	+51%	+83%	+15%

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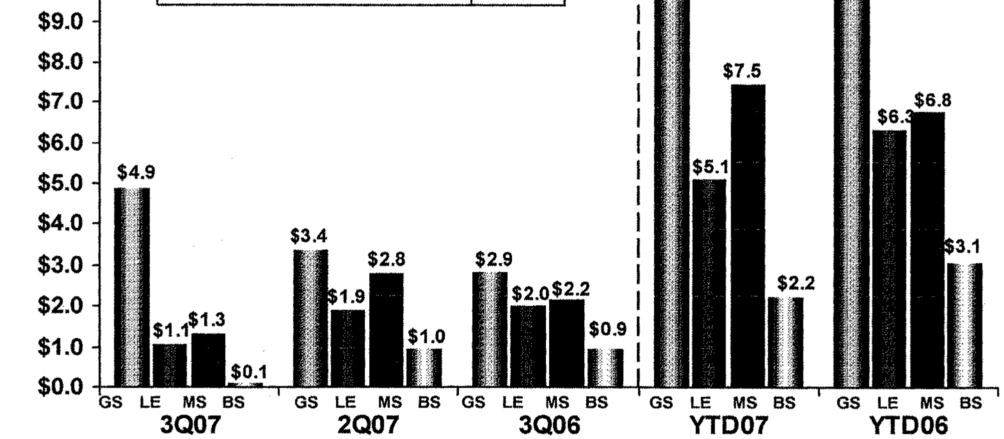
Q3 2007 FICC Competitor Analysis

(as externally reported)

[illegible]	[illegible]	[illegible] vs. [illegible]	[illegible] vs. [illegible]	[illegible] vs. [illegible]
GS	$4.9	+45%	+71%	+15%
LE	$1.1	-(44%)	-(47%)	-(19%)
MS	$1.3	-(53%)	-(39%)	+10%
BS	$0.1	-(88%)	-(88%)	-(28%)



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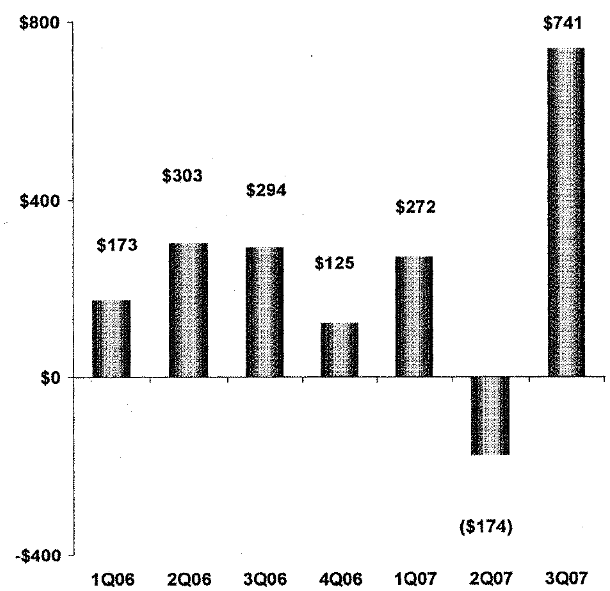
Q3 2007 Global Mortgages Revenues

(Quarterly Performance)

($ in mm)

Quarterly Revenues



Q3 2007 Revenue Performance

Global Mortgages: +$741mm ↑ 152% vs. Q3 2006

Performance Drivers (Net Revenues)

SPG Trading: +$2.04bn ↑ $1.96bn vs. Q3 2006

- The desk benefited from a proprietary short position in CDO and RMBS single names
- Additionally, we captured P&L on spread widening in various indices

CDO: $(898)mm ↓ $(922)mm vs. Q3 2006

- Significant mark downs across the portfolio as expected losses climbed higher up the capital structure
- In addition, the Desk incurred losses resulting from the closeout of risk with several hedge fund counterparties

Residential Credit: $(346)mm ↓ 466% vs. Q3 2006

- Driven by write-downs across Sub Prime and Alt-A, partially offset by gains on short ABX positions

Residential Prime: $(184)mm ↓ $(187)mm vs. Q3 2006

- Result of deterioration in deal performance and the lack of investor appetite for RMBS

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Q3 2007 Global Mortgages Revenues

(Yearly Performance $ in Millions)

Business Group	YTD 07*	YTD 06*	% Δ vs. YTD 06
Residential Prime	(94)	53	-277%
Residential Credit	(665)	236	-381%
CRE Loan Trading	140	130	+8%
ABS Loans & Finance	77	39	+95%
SPG Trading	2,791	201	+1,286%
CDO/CLO	(1,398)	139	-1,107%
Warehouse / Tax Residuals	30	20	+49%
European Mortgages	**76**	**40**	**+90%**
Advisory	2	19	n/a
PFG JV	28	35	n/a
Management/Other	100	(22)	n/a
Gross Mortgage Revenues	**1,087**	**891**	**+22%**
Transfers	*(248)*	*(121)*	*n/a*
Net Mortgage Revenues	**838**	**769****	**+9%**

* *As of 3rd Quarter*
***Excludes Liquid Products revenue*

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Global Mortgages Performance

Tactical Positioning

- **The business has taken proactive steps to position the firm strategically in the ensuing mortgage credit and liquidity crisis**

Timing	Action
Q1 2007	■ Shut down residential mortgage warehouses ■ Reduced loan positions ■ Increased protection for disaster scenarios
Q2 2007	■ Shut down CDO warehouses ■ Took significant mark to market losses ■ Reduced loan purchases ■ Reduced counterparty exposure
Q2 2007 and Q3 2007	■ Positioned business tactically – Shorted synthetics – Reduced loan and security purchases – Shorted CDOs and RMBS – Increased long correlation position – Reduced long inventory
Q3 2007	■ Actively managed risk exposure to hedge funds
Q3 2007 and Q4 2007	■ Significant covering of short positions ■ Opportunistically looking to buy assets

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Looking Ahead

Global Mortgages Business Initiatives

- Litton Acquisition
- Home Price Derivatives
- Brazilian Mortgage Business
- European Residential Origination
- European Mortgage Correlation Trading
- Reverse Mortgages

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Managing Non-Public Information

Compliance

WALL CROSSING

Public-side employees who intentionally or inadvertently receive confidential information regarding an issuer or counterparty may need to be "wall-crossed" to the advisory side of the wall.

WALL CROSSING PROCEDURE

- **Private side must seek approval from your supervisor (on a "no-names" basis) for each intentional wall-cross**
  - Approvals are on a project-by-project and person-by-person basis
- **The Control Room will notify you of the wall cross via email**
  - If you are contacted by someone on the advisory side and they seek to provide you with non-public information or discuss a transaction and you have not received the email notification, ask "have I been wall crossed"?
  - If the answer is no, you should not continue the conversation
  - Contact Compliance immediately if you believe you may have inadvertently received non-public information
- **Once across the wall, you are prohibited from discussing/recommending the issuer/security or trading in the name**
  - Your activities in affected securities will be monitored by the Control Room and Email surveillance group.

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Goldman Sachs

Q&A

Tax Department Presentation
Oct 29, 2007

Title: Contagion and Crowded Trades

Richard and Steve asked me to talk with you about events in the credit markets over the past few months, as well as our own credit and trading performance - which I'll do, then some time for questions.

Summarize by saying that overall market events since Jan of this year, but largely concentrated over the summer period, are as dramatic and interesting as any I've seen in 25+ years in the business. I use the word "interesting" only because we're past the worst of it at least as far as our own exposure goes – pretty scary for a while

Slide - mortgages

- started with **subprime mortgages** as far back ago as late '06 – first relatively benignly as somewhat higher default rates among subprimes, which then escalated; but then with the rapid realization that this was <u>not a minor issue</u> which would quickly die out but rather a consequence of an combination of <u>excessively aggressive lending standards</u>, in many cases to <u>speculators</u> rather than homeowners, aggravated by <u>poor controls</u> and in some cases <u>outright fraud</u>; ultimately culminating in an understanding that a large proportion of the 20% of US mortgages which are subprime, may ultimately become impaired
- that was bad, but it took the realization that problems with the underlying assets were going to <u>severely impact</u> the **subprime securitization market** – CDO's, CDO⇑2s and related products – to really escalate this to a new level.

Slide / explanation – how securitized mortgage structures work

- A catalyst for this realization was the discovery that the models on which the structures were built, and that the rating agencies used to rate the entities, were at least <u>overly optimistic</u> and perhaps <u>badly flawed</u> especially in their assumptions on <u>correlations across mortgages and thus the value they gave to diversification</u> (in order for structures in structured products to give you some benefit you need to have pools of mortgages which perform independently from one another; but there was concentration of performance not only within one bond pool but across multiple bond pools, so CDO squared and other structured products performed especially badly – sometimes losing most of of their value even in the AAA rated tranches

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- and then you add in the fact that the major financial players were **set up so similarly in their market positions** – basically long underlying physical mortgages in one form or another: accumulating mortgages for themselves or for their customers, with the intent to securitise them; or holding pieces of securitizations that weren't fully distributed, often the highest risk pieces of the capital structure which were the most difficult to distribute)

So as the market began to weaken, and the major holdesr of this paper started to sell, the result very quickly became almost complete illiquidity which the most crowded of trades can result in when an unwind starts.

And so in the blink of an eye we saw prices on cash mortgage products decline sharply, with the result that an entire portion of the mortgage industry – that is the hundreds of mortgage brokers who were involved in the subprime sector – started losing money on every mortgage they originated, and practically the entire sector went out of business essentially overnight.

And the knock-on impact, the **elimination of this securization financing structure** which will mean that this capacity won't be restored anytime soon. It has also resulted in the incurrence of **billions of $$ in losses** in portfolios of investors and banks / broker / dealers around the world – which is still continuing as we'll come back to

So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk – you saw in our 2nd and 3rd qtr results that we made money despite our inherently long cash positions. - because starting early in '07 our mortgage trading desk started putting on big short positions, mostly using the ABX index, which is a family of indicies designed to replicate cash bonds. And did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today)

Not to say that the positions were riskless. We had to put on shorts in the indicies that we could trade; so this meant, for example, trading in the ___ end while our cash positions were in __ - thus incurring substantial basis risk. And this gave rise to all sorts of stories about how we were marking our books, etc. Also significant differences in marks vs competitors

In credit, we had been relatively conservative with our subprime mortgage credit extensions. Took 1 hit on a derivatives trade, took a couple on EPDs, but nothing really material. Best success here was on our marks and our collateral calls. First mover advantage, most realistic marks, competitors unwilling to mark fully given implications for their own trading positions

So back to the main story. We've got the subprime market melting down, and are really holding our breath that this sector's meltdown wouldn't cause contagion in other markets, with our primary initial concern focusing on the **Alt A residential** mortgage and the **commercial** lending markets.

And it probably didn't, at least not to the extent that we feared. But it did cause very nervous investors, who knew for example that there were lots of losses out there but were uncertain of which institutions would be the most affected – and through this general nervousness contributed to the next market meltdown, which was in the **leveraged finance market.**

The public commentary on what happened in this market is well known - financial sponsors raising more and more money, chasing more and more companies, getting access to more and more aggressive financing, driving lending standards down to unprecedentedly tight standards – extremely thin credit spreads, very high leverage levels in many cases further exacerbated by additional layers of debt, and weak or no covenants.

But an essential component of this – the use of structured products in particular CLO's, and the separation of origination from the ultimate holding of credit, and optimistic portfolio assumptions being incorporated into financing structures – was in many respects similar to the situation in the mortgage market.

This lending fueled more demand by inducing ever larger and more aggressive sponsor-driven M&A activity. And this proceeded relatively benignly until the summer, when the sheer bulk – something in the range of $400bn - of financing scheduled to come to market just before and just post Labor Day (beginning of Sept) caused the markets to grind to a almost complete halt. And once again, at the blink of an eye we had a massive market adjustment and almost complete illiquidity – like a 6 or 7 std dev move, worse than the fall '98. And to make matters worse for GS, this occurred at a time when we were at an all time peak in our our underwriting commitments - something in excess of $50bn in leveraged finance bank and bond commitments. And with a significant portion of this due to fund in the Sept / Oct period, including $xxbn in TXU, $yybn in Chrysler and zzbn in ___.

This position is what lead to us taking a $1.7bn gross, $1.5bn charge in our 3rd qtr results for our leveraged loan book – something in the range of a 5 pt mark. It wasn't pleasant doing the marks, but there was one silver lining that overshadowed everything else – our **liquidity position**. DAV has long held that liquidity is the single most important risk to manage in a investment bank, and he (together with Treasury) have done so in the case of GS to an extraordinarily conservative extent, such our ability to meet our cash requirements irrespective of the circumstances was never in doubt. This doesn't mean that we didn't try to conserve cash through not expanding our financing of clients etc – we did. But we were in a pretty secure position even with these potential draws.

And then just to add to the overall challenges, a couple of other issues:

- Corporate borrowers, especially A-2 / P-2 quality, have had constrained access to the commercial paper markets as well, so have been drawing down on backup liquidity lines – stigma has been lost, this is happening regularly. GS has some exposure to some CP issues through liquidity facilities we extend through our William Street program – although because they are structured such that Sumitomo takes a majority of the credit and liquidity risk, GS's retained risk is relatively minimal.

- We had a short but incredibly intense period of adjustment in the statistical arbitrage fund sector, where over a couple of weeks but really over only a couple of days in the middle of August, we had market moves among a relatively small group of securities which these funds traded in of an inconceivably high std dev market move.

- For those of you who aren't involved in this business, the general concept behind stat arb trading is that that these funds seek out market anomolies using complex computer algorithms, then trade to take advantage of those anomolies. And they trade using (for the most part) highly liquid markets and securities, so which would normally be easy to get into and out of. But what the stat arb funds (or we for that matter) didn't fully realize was the similarities of models across these funds, and thus their susceptibility to getting into the exact same trades as other stat arb funds – thereby creating a series of very crowded trades.

- And we all know what happens when you run for the door in a crowded trade – the mere act of selling depresses prices so triggers more selling, then other traders get into the act trying to guess who will fail and what additional distressed selling this will prompt – and the result is the types of market moves that we saw, and the types of performance among funds including GS's quant funds.

- In the asset backed commercial paper market, largely as a result of the subprime credit , some programs with less than ironclad liquidity and credit support structures on some programs have had an unprecedented loss of investor confidence such that the asset backed market. Until recently this sector represented more than 50% of the total market (more than $1tr) but has already declined by more than 30% and will likely decline by another substantial amount. For someone who has seen this market grow on a stable, steady basis, for as long as I've been in the business – this is really unbelievable.

- And this is what has given rise to all of the problems you've read about in respect of bank SIVs, which are the largest component of the liquiditydeficient program structures out there. The way SIVs are constructed is if they lose access to the CP market or if their assets decline in value below a certain level then they go into wind down mode, in which the assets are sold and proceeds used to redeem CP. The SIVs have lost market access now because investors are concerned that there are subprimes or other toxic waste in the SIVs, and the degree of disclosure transparency, and their willingness to rely on the rating agencies, is insufficient to persuade them that this isn't the case. So the position the banks with large SIVs find themselves in now is, they either fund the SIVs directly through extending additional back up liquidity facilities that go beyond the initial partial cover, or they fund them directly by taking their CP as the buyer of last report, or they permit the assets to be sold at distress prices in which case they lose probably all of their equity and perhaps some CP investors don't get out whole – all of which they are trying, and all of which have at least some component of reducing capital ratios and returns on assets. Or, they try to structure a super conduit which will itself extend credit to the SIVs and thus create a climate of sufficient confidence that investors will again start to buy SIV paper. That's clearly what the BoA / Citi / JPM contingent is trying to do now, but I have doubts as to whether they can pull this off.

So, how did we do and what's next?

In terms of how we did, I talked about **mortgages** already – good trading performance albeit with some continued basis risk, clearly distinguished ourselves vs our competitors, lost a little money in credit but not a lot. (position marks, aggressive collateral calls)

In **leveraged finance**, as noted we took a big mark, but I don't think anyone feels too badly about it for two reasons: 1. we went into the lev fin business with eyes wide open, in particular with a strategy which called for us to "position the firm as a leading financing source in the high yield and leveraged loan business, with particular emphasis on where GS can advance its merger advisory, derivatives and principalling business to maximize profit opportunities"

We were very <u>successful at executing</u> this strategy – well positioned with sponsor clients; have in fact made a lot of money through financing, but have made (prospectively at least) far more from advisory, co-investment and other revenue sources – and this is generally well recognized among our senior leadership

- we had the positions <u>fairly marked</u> so had and have now the flexibility to sell if we think it appropriate without taking any additional P&L hit (unless the market deteriorates further)
- we put on some <u>credit hedges</u> which have dampened the effect of the mtm adjustment
- we arranged the <u>liquidity</u> such that we wouldn't be a forced seller
- and most recently we've been successful at syndicating the positions with good success on TXU, on Harmon, and in smaller pieces of other transactions – in

other words being as aggressive in selling down as we can be in a generally supportive market – and in so doing recaptured some of our marks

In SIVs it's been an unqualified success: no GS SIV of our own, no GSAM money markets exposure, limited other GS exposure, well managed

In our regulatory relationships, I think we distinguished ourselves. We were viewed as competent, open; however we are no longer viewed as being exceptionally conservative – in fact more on the aggressive side when it comes to taking risk.

Some other things that concerned us:

- collateral disputes: GS has been conservative in our marks in lev fin and in mortgage trades; feel good about them, but there are a lot of disputes with clients; most are with good quality counterparts so don't cause direct credit concerns; but this is an issue the industry will need to deal with in the same way we did with confirms not so long ago
- systems issues: volume and non-volume issues cause concern about the overall resilience of our operational infrastructure; big changes (Robin has probably talked about this)
- VaR and other market risk metric exceptions – there is no question that market moves of the magnitude that we witnessed caused excesses in both our credit and market systems, and we will be going back to try to fix these, or at least update the models where appropriate – very difficult

Does that mean that we're out of the woods? Absolutely not, there's lots that can still go wrong. (caveat – risk guy)

Mortgage market generally – little imagination required to contemplate a scenario where stagnant house prices contribute to reduced consumer confidence bleeding into reduced expenditures and then weaker corporate earnings and then increases in corporate loan default rates and a weaker labor market and the cycle continues into a real recession

And clearly there is more bad news to come on the mortgage market - losses are only slowly being revealed, as Merrill's earnings announcement last week reflected; and there will be Rate resets, neg am mortgages coming up

CDO downgrades – recent and prospective

Lev fin exposures remain significant; these problems occurred w/o underlying credit problems; would be much worse although smaller if credit conditions deteriorated

Other catalysts like continued high oil prices can also contribute to a deterioration in the market overall

But I note again, I am a risk guy, paid to be conservative; and for each of these risks there are trading opportunities that GS has proven very adept at capitalizing on – and hopefully will continue to be able to do so.

Mortgage losses are occurring slowly as firms recognize them at a widely differing rates

Aggressive marks maintains flexibility

+______________

Increasing market vol means reducing VaR can be very difficult – re 3rd qtr VaR example

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #49

CDO/CLO details

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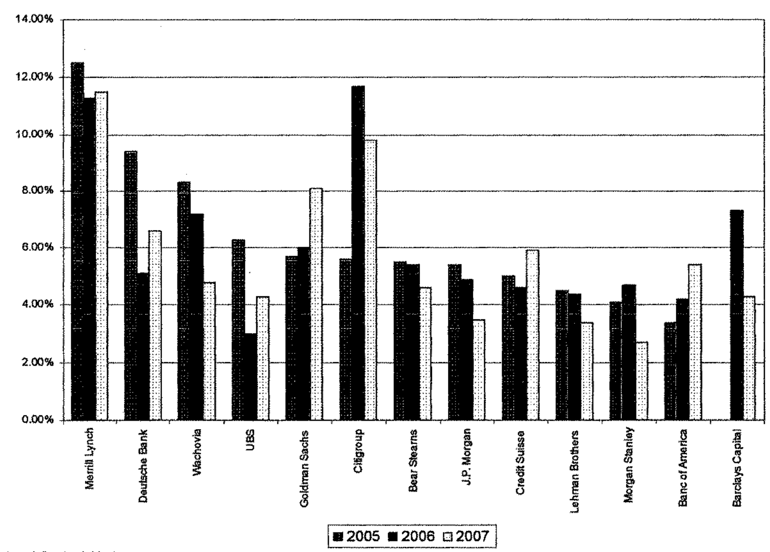
Total CDO Market Share Evolution

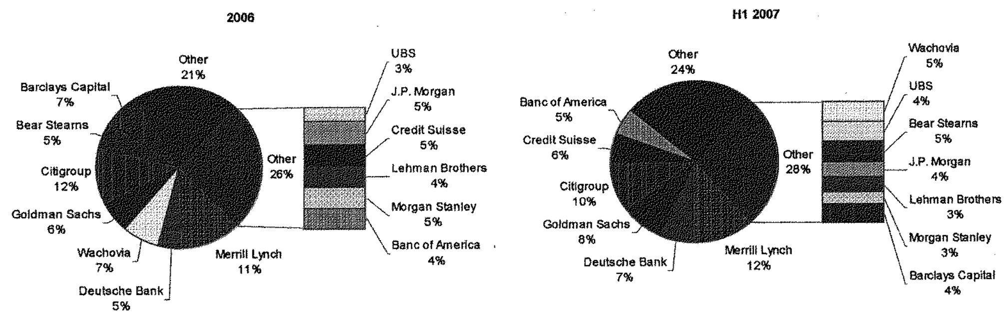
- GS has not been one of the top CDO underwriters traditionally; however participation in that market has increased in the past 2 years



Source: Asset-Backed Alert

Goldman Sachs

Total CDO Market Share in 2006 and 2007 H1



Source: Asset-Backed Alert

Highlights of the GS' CDO underwritings

2006-2007YTD

- There have not been any downgrades in the CRE CDOs, US CLOs or European CDOs, as the collateral in those transactions has not experienced the same level of price dislocation
- On some of the Structured Product CDO and ABACUS transactions downgrades have occurred. These are more common in Mezzanine transaction and in those that have a larger percentage of RMBS or CDO collateral.
  - In the cases were there have been downgrades, they are concentrated in the bottom of the capital structure. This behavior is in line with the design of this financial instruments, where the bottom pieces of the liability side are the first ones to be affected by downgrades (and/or losses).
  - Some transactions have suffered downgrades or credit watches in more highly rated tranches (AAA rated), given the collateral composition, liquidity conditions in the market as well as an increased correlation between the different underlying securities.

Highlights of the GS' CDO underwritings (cont)
2006-2007YTD

Closing date	Deal Name	Sponsor	Collateral	Total Size	% of total book	Downgrades (1)	Downgraded clases (Original rating)	Size of downgrade	% of deal
08-Mar-06	Fortius I Funding, Ltd.	Aladdin Capital Management LLC	ABS	611.5	1.90%	N		-	0.0%
30-Mar-06	Davis Square Funding VI, Ltd.	TCW Asset Management Co.	ABS	4,018.0	12.51%	Y	Class C (A/A2), D (BBB/Baa2)	60.0	1.5%
02-May-06	Hout Bay 2006-1 Ltd.	Investec	ABS	1,504.0	4.68%	Y	Sub Notes (Ba3)	6.0	0.4%
11-May-06	Broadwick Funding, Ltd.	Peloton Partners LLP	ABS	1,965.0	6.12%	N		-	0.0%
26-Jul-06	West Coast Funding I, Ltd.	TCW Asset Management Co.	ABS	5,410.0	16.85%	N		-	0.0%
28-Sep-06	Altius III Funding, Ltd.	Aladdin Capital Management LLC	ABS	2,017.5	6.28%	Y	Class D (BBB/Baa2), E (BB+/Ba1)	19.0	0.9%
04-Oct-06	Lochsong, Ltd.	Winchester Capital Principal	ABS	1,219.6	3.80%	N		-	0.0%
01-Nov-06	Hudson High Grade Funding 2006-1, Ltd.	Aladdin Capital Management	ABS	1,511.7	4.71%	N		-	0.0%
05-Dec-06	Hudson Mezzanine Funding 2006-1, Ltd.	Aladdin Capital Management	ABS	2,037.0	6.34%	Y	Class C (A/A2), D (BBB/Baa2), E (BB+/Ba1)	280.0	13.7%
05-Dec-06	Davis Square Funding VII, Ltd.	TCW Asset Management Co.	ABS	4,025.0	12.54%	N		-	0.0%
07-Dec-06	Fortius II Funding, Ltd.	Aladdin Capital Management LLC	ABS	522.7	1.63%	Y	Class A-2 (AAA/Aaa), B(AA/Aa2), C(A/A2), D(BBB/Baa2), E(BB+/Ba1)	150.0	28.7%
18-Jan-07	GSC ABS Funding 2006-3g, Ltd.	GSCP (NJ) LP	ABS	1,600.0	4.98%	Y	Class C (A/A2) , D (BBB/Baa2)	72.0	4.5%
08-Feb-07	Hudson Mezzanine Funding 2006-2, Ltd.	Aladdin Capital Management	ABS	407.9	1.27%	Y	Class A-2 (AAA/Aaa), B(AA+/Aa2), C(A+/A2), D(BBB+/Baa1), E(BBB-/Baa3)	144.0	35.3%
14-Feb-07	Fort Denison Funding, Ltd.	Basis Capital Securitisation Pty. Ltd.	ABS	505.3	1.57%	N		-	0.0%
28-Feb-07	Camber 7 plc	Cambridge Place Investment Management LLP	ABS	915.5	2.85%	N		-	0.0%
20-Mar-07	Anderson Mezzanine Funding 2007-1, Ltd.	GSC	ABS	307.5	0.96%	Y	Class A-2 (AAA/Aaa), B (AA/Aa2), C (A/A2), D(BBB/Baa2)	101.1	32.9%
27-Mar-07	Timberwolf I, Ltd.	Greywolf Capital Management LP	ABS	1,017.3	3.17%	N		-	0.0%
18-Apr-07	Point Pleasant Funding 2007-1,	Dillon Read	ABS	1,014.5	3.16%	N		-	0.0%
31-May-07	Altius IV Funding, Ltd.	Aladdin Capital Management LLC	ABS	1,500.0	4.67%	N		-	0.0%

(1) Includes Tranches on negative watch and on review for downgrade

Highlights of the GS' CDO underwritings (cont)
2006-2007YTD

Deal Name	Sponsor	Collateral	Total Size	% of total book	Downgrades (1)	Downgraded clases	Size of downgrade	% of deal
ABACUS 2006-10		CMBS	3,750.0	21.4%	N		-	-
ABACUS 2006-11		CMBS , RMBS	750.0	4.3%	Y	A-2(Aa1/AAA), B (Aa1/AAA), C(Aa3/AA-), D (A2/A-)	114.4	15.3%
ABACUS 2006-12		CMBS , RMBS. CDO	1,000.0	5.7%	Y	A-2(Aa2/AAA), B (Aa3/AAA), C(Aa3/A-), D (Baa3/BBB)	101.3	10.1%
ABACUS 2006-13		CMBS	795.0	4.5%	Y	N (Ba3/BB)	6.0	0.8%
ABACUS 2006-14		CMBS , RMBS	838.5	4.8%	Y	B (Aa3/AA-), C (A2/A-)	77.56	9.3%
ABACUS 2006-15		CMBS , RMBS	2,250.0	12.8%	N		-	-
ABACUS 2006-17		CMBS	600.0	3.4%	N		-	-
ABACUS 2006-8		CMBS , RMBS. CDO	1,000.0	5.7%	Y	A-1, (Aaa/AAA), A-2 (A2/AA+), A-3 (Aa3/AAA), B (A1/AA), C (A3/A-), D (Baa2/BB+)	170	17.0%
ABACUS 2006-9		CMBS , RMBS	1,250.0	7.1%	N		-	-
ABACUS 2006-HGS1	Bear Stearns Asset Management	CDO	900.0	5.1%	N		-	-
ABACUS 2006-NS1	NS Advisors LLC	CMBS	700.0	4.0%	N		-	-
ABACUS 2006-NS2	NS Advisors LLC	CMBS	700.0	4.0%	N		-	-
ABACUS 2007-18		CMBS	1,000.0	5.7%	N			-
ABACUS 2007-AC1		CMBS , RMBS. CDO	2,000.0	11.4%	Y	A-1 (Aaa, AAA), A-2 (Aaa, AAA)	480	24.0%
			[illegible]				[illegible]	[illegible]

(1) Includes Tranches on negative watch and on review for downgrade

━━ = Redacted by the Permanent Subcommittee on Investigations

November 7, 2007

Mr. [redacted]
Accounting Branch Chief
Securities and Exchange Commission
100 F Street, NE
Mail Stop 7010
Washington, D.C. 20549

Re: The Goldman Sachs Group, Inc.
Form 10-K for the Fiscal Year Ended November 24, 2006
Filed February 6, 2007
File No. 001-14965

Dear Mr. O'Brien:

We are in receipt of the letter, dated October 17, 2007, to David A. Viniar, Chief Financial Officer of The Goldman Sachs Group, Inc. (the "Company"), from the Staff (the "Staff") of the Securities and Exchange Commission (the "Commission") relating to our letter in which we responded to the Staff's letter, dated September 20, 2007, regarding the above-referenced filing. We thank the Staff for its careful consideration of our response letter, and we look forward to resolving the Staff's final two comments.

For your convenience, we have reproduced the Staff's comments below, which are numbered to correspond to the comments in your letter of October 17, 2007. Our responses immediately follow.

With respect to our response to your question 2, where you have asked us to quantify amounts as of a point in time, we have included information as of November 24, 2006, the end of our last full fiscal year, and August 31, 2007, the end of our last full fiscal quarter. Where you have asked us to quantify amounts for a period, we have included information for the fiscal years ended 2006, 2005, and 2004 and for the nine months ended August 31, 2007.

General

1. Please submit your facsimile response dated October 1, 2007, on EDGAR, as a correspondence file.

Permanent Subcommittee on Investigations
EXHIBIT #50

Response:

We submitted our response on EDGAR on October 30, 2007.

2. We have reviewed your proposed response to our prior comment 1 related to your subprime lending activities and have the following additional comments.

   - We note you "agree with the definition of what constitutes a sub-prime residential loan" that we provided in our letter dated September 20, 2007. Note, however that in our letter we indicated that although there may be differing definitions of subprime residential mortgage loans, we identified eight common features of subprime loans. By agreeing with our definition, do you mean that you identify a residential loan as subprime if it has any of the features we identified? If not, please provide us with a more comprehensive understanding of how you define a subprime residential loan.

Response:

We consider the credit score of a residential mortgage borrower to be a principal factor in making the determination of whether a mortgage is considered to be "subprime" (generally we refer to mortgages with credit scores below 660 as "subprime").

While credit score is an important factor in the classification of a mortgage as subprime, the firm acknowledges that the presence of any one of the following characteristics may qualify a loan as subprime:

- A rate above prime to borrowers who do not qualify for prime rate loans;
- Interest-only or negative amortization loans;
- High initial loan-to-value ratios;
- Low initial payments based on a fixed introductory rate that expires after a short initial period then adjusts to a variable index rate plus a margin for the remaining term of the loan;
- Borrowers with less than conventional documentation of their income and/or net assets;
- Very high limits on how much the payment amount or the interest rate may increase at reset periods, potentially causing a substantial increase in the monthly payment amount, and/or;
- Including substantial prepayment penalties.

- We note from your response that although your mortgage activities are an important business for you they do not represent a material percentage of revenues (only 3% in each of the two fiscal years ending November 2005 and 2006 and for the nine months ending August 2007, roughly half of which was contributed by sub-prime activities). Similarly, in each of the years ending November 2005 and 2006 and for the nine months ending August 2007, your long balance sheet exposure to all sub-prime mortgage products was less than 2% of your total assets. However, since your total assets as of November 24, 2006 were $838 billion and your net earnings were $9.5 billion for the year ended November 24, 2006, it appears this exposure could be material to your net income. As such, please respond in detail to the items contained in our prior comment 1. In this regard, we note your discussion of mitigated exposure in the fifth paragraph of your response. If this information will provide us a better understanding of your overall risk related to your subprime lending activities, please provide an expanded discussion in your response.

- Provide us with your risk management philosophy as it specifically relates to subprime loans. Please address:
    - Your origination policies;
    - The purchase and securitization of loans;
    - Investments in subprime mortgage-backed securities; and
    - Loans, commitments and investments in subprime lenders.

Response:

We securitize, underwrite and make markets in mortgage securities and trade them for our clients and ourselves. Our activities are in commercial and residential mortgages, including prime, subprime and other non-traditional mortgage products. We have historically not originated residential mortgages although we have recently acquired a very small originator.

We acquire residential mortgage loans in two contexts:
- through bulk purchases, generally consisting of a mortgage loan pool greater than $50 million; and
- through smaller correspondent purchases

As a general matter, prior to acquiring any residential mortgage loans, we will conduct a thorough review of the seller. Our process consists of reviewing select financial information for credit and market risk assessment, undertaking a review of the underwriting standards employed by the mortgage originator, engaging in senior management discussions, conducting an operational review and performing background checks.

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The underwriting standards review considers mortgage credit; the operational review considers loan origination processes and systems. These reviews consider corporate policy and procedures relating to state and federal predatory lending and high cost lending laws, origination practices by jurisdiction, historical loan level loss experience, quality control practices, significant litigation and material investors.

In addition to the review of the seller, we review residential mortgage loans in advance of acquisition. The scope of the due diligence we perform depends on the credit quality of the mortgage loans and our past experience with the loan seller. Due diligence may include: review for adherence to the seller's underwriting and compliance standards, verification of existing notes and recorded mortgages, review of insurance certificates and requesting independent valuations (including broker price opinions and automated valuation models). Pools are also analyzed to identify loans with a high potential risk of fraud to be included in the due diligence sample. We will not purchase "predatory" or similarly designated loans as defined under any other applicable federal, state, county or municipal statute, regulation or ordinance, or mortgage loans that violate any applicable federal, state, county or municipal statute, regulation or ordinance.

Like all mortgage products, subprime mortgages are sensitive to the following valuation parameters:

- Credit spreads: probability of default and recovery assumptions
- Maturity/duration: prepayment speeds and home price appreciation
- Interest rates

Since credit performance is one of the primary drivers in valuing subprime mortgage collateral, our long subprime cash inventory exposure has been primarily hedged with a combination of:

- ABX index hedges: The ABX Index is a series of credit-default swaps based on 20 bonds that are backed by subprime mortgages. ABX contracts are commonly used by investors to take a position in or to hedge against the risk that the underlying mortgage securities are not repaid as expected. The ABX swaps offer protection if the securities are not repaid as expected, in return for periodic premiums. A decline in the ABX Index signifies investor sentiment that subprime mortgage holders will suffer increased financial losses from those investments. Likewise, an increase in the ABX Index signifies investor sentiment looking for subprime mortgage holdings to perform better as investments. The ABX index has robust levels of trading activity and liquidity.

- Single name credit-default swaps ("CDS'): Similar to the ABX index, single name CDS contracts offer protection if an underlying mortgage security is not repaid as expected. Individual single name CDS contracts are over-the-counter contracts that are less actively traded and quoted in comparison to the ABX index. However, they can be customized to provide protection against nonperformance of highly specific reference obligations.

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- Credit linked notes: We may also purchase credit protection via the issuance of credit linked notes which reference synthetic CDOs (known as 'Abacus structures'). In return for a specified coupon, note holders guarantee performance of underlying subprime mortgage reference obligations (in addition to other sectors).

Our Firmwide Risk Committee periodically reviews the existing mortgage business and approves our firmwide and divisional market risk limits. Additionally, they review scenario analyses based on abnormal or "catastrophic" market movements.

Our Divisional Risk Committee is responsible for setting market risk limits over mortgage inventories by trading desk based on a number of measures, including Value-at-Risk (VaR) exposure limits, stress tests and scenario analyses. VaR represents the potential loss in value of trading positions due to adverse market movements over a defined time horizon with a specific confidence level. On a daily basis the market risk group, independent of the trading desk, is responsible for the calculation of VaR at a portfolio level (i.e., taking both subprime exposure and hedging activity into account) and monitoring actual levels of exposure against limits set by the risk committee. Limit violations are reported to the appropriate risk committee and business unit managers and addressed, as necessary.

The trading desk managers within the mortgage department are responsible for managing risk within the prescribed limits. These managers have in-depth knowledge of the primary sources of risk in the mortgage market and the instruments available to hedge their exposure.

Our long cash subprime mortgage exposure consists of mortgage loans and mortgage backed securities. As of August 31, 2007 and November 24, 2006 our investments in subprime mortgage loans totaled $462 million and $7.8 billion, respectively, and our investments in subprime mortgage backed securities totaled $2.4 billion and $7.2 billion, respectively. During most of 2007, we maintained a net short subprime position with the use of derivatives, including ABX index contracts and single name CDS which hedged this long cash exposure.

- Quantify your portfolio of subprime residential mortgages. If practicable, please breakout the portfolio to show the underlying reason for subprime definition (i.e., subject to payment increase, high LTV ratio, interest only, negative amortizing).

Response:

Our portfolio of subprime mortgage loans, stratified by the characteristics highlighted in your request, is reflected below:

	August 31, 2007	November 24, 2006
Market Value (in millions)	$462	$7,822
Rate Above Prime (>5.25%)	99.78%	99.94%
Low Credit Rating (<660)	90.19%	84.91%
IO %	9.99%	10.83%
Option ARM/ Negative Amortizing	0.00%	0.01%
High LTV (> 80%)	53.80%	55.52%
ARM/Hybrid (Non Fixed)	64.33%	64.34%
Not Full Documentation	29.18%	42.40%
Initial Cap 5%	40.54%	23.38%
Periodic Cap 2%	40.46%	18.58%
Prepayment Term 24 months or more	63.50%	55.19%

The percentages in the above tables will not add to 100% as many loans exhibit more than one of the listed characteristics.

As a broker-dealer, we mark our financial instruments, including our mortgage loans, to fair value, with related unrealized gains or losses generally recognized immediately in our results of operations. Therefore, we do not maintain an allowance for loan losses, provisions for loan losses, asset write-offs or impairments.

- Quantify the following regarding subprime residential mortgages. Explain how you define each category.
  - Non-performing loans;
  - Non-accrual loans;
  - The allowance for loan losses; and
  - The most recent provision for loan losses.

Response:

Distinct from our subprime loan inventory discussed above, we maintain a non-performing loan portfolio consisting of delinquent residential mortgages made to prime and subprime borrowers. We consider mortgages which have been delinquent for a period of 3 months or more to be "non-performing". This loan portfolio does not accrue interest, but rather recognizes interest upon receipt and had a value of $514 million and $738 million as of August 31, 2007 and November 24, 2006 respectively. As noted above, we mark our financial instruments, including our mortgage loans, to fair value. Therefore, we do not have any allowance for loan losses.

- Quantify the principal amount and nature of any retained securitized interests in subprime residential mortgages.

Response:

We securitize subprime residential mortgages and CDOs, which are collateralized by cash or synthetic bonds with subprime mortgage exposure. Our total retained interests at fair value (both investment grade and non-investment grade) in subprime residential mortgages were $829 million (with $587 million investment grade and $242 million non-investment grade) and $1.1 billion (with $584 million investment grade and $516 million non-investment grade) as of August 31, 2007 and November 24, 2006 respectively.

- Quantify your investments in any securities backed by subprime mortgages.

Response:

Our total investments in securities backed by subprime mortgages (including the retained interests defined above) were $2.4 billion and $7.2 billion in market value as of August 31, 2007 and November 24, 2006 respectively.

- Quantify the current delinquencies in retained securitized subprime residential mortgages.

Response:

The current delinquencies as a percentage of retained securitized subprime residential mortgages are:

Date	Delinquency 30-59	Delinquency 60-89	Delinquency 90+	Bankrupt	Foreclosure	REO
Aug 31 2007	2.89	1.84	3.77	2.06	3.49	1.83
Nov 24 2006	1.01	0.44	0.72	0.43	0.64	0.16

- Quantify any write-offs/impairments related to retained interests in subprime residential mortgages.

Response:

As noted above, we mark our financial instruments, including our mortgage loans, to fair value. Therefore, we do not have any explicit write-offs/impairments.

- Please address all involvement with special purpose entities and variable interest entities and quantify the subprime exposure related to such entities, regardless of whether they are consolidated for the purposes of generally accepted accounting principles.

Response:

In addition to retaining and purchasing securitized products from variable interest entities with subprime exposure, we have also written put options of $13.3 billion with a net present value of $48 million as of August 31, 2007. These put options require us to purchase collateral (primarily AAA-rated amortizing short duration assets) held by the variable interest entities at par.

- Quantify and describe any and all potential repurchase commitments you have regarding subprime residential mortgages.

Response:

In the normal course of business, we provide warehouse lines and repo financing which is collateralized by subprime residential mortgage backed loans and securities. The total amount of repurchase financing provided associated with subprime assets was $213 million and $1.1 billion as of August 31, 2007 and November 24, 2006 respectively.

- Quantify and describe any loans to, commitments in, or investments in subprime lenders. Describe any other potential exposures you may be subject to, such as repurchase commitments related to the receipt of assets in bankruptcy, for example.

Response:

We purchased Senderra, a South Carolina based subprime mortgage originator, in March of 2007 for $14 million.

- Quantify your revenues from involvement in subprime loans. Break out such revenues based on fees, interest earned, servicing rights and other sources.

Response:

Our total revenues from subprime loans and their hedges were ($334) million, $38 million, $29 million and $38 million for the nine months ending August 31, 2007, and the twelve months ended November 24, 2006, November 25, 2005 and November 26, 2004 respectively. As we mark our financial instruments to fair value, we have not maintained a detailed break-out of revenues into the categories noted above.

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Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations

* * * *

As requested in your letter, the Company hereby acknowledges that: the Company is responsible for the adequacy and accuracy of the disclosure in the above-captioned filing; Staff comments or changes to disclosure in response to Staff comments do not foreclose the Commission from taking any action with respect to this filing; and the Company may not assert Staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

* * * *

We look forward to working with you further to address these comments. If you have any questions with respect to the foregoing responses or need any additional information, please feel free to contact me at (212) 902-5675.

Sincerely,

Sarah Smith
Controller and Chief Accounting Officer

cc: David Viniar
Chief Financial Officer

How Did GS Avoid the Mortgage Crisis?

Our Response

Permanent Subcommittee on Investigations
EXHIBIT #51

Mortgages is an important business for Goldman Sachs. However, it is typically the smallest of five main businesses within FICC and therefore, on a relative basis, it has been a smaller contributor to overall Fixed Income revenues than for many of our peers. We always proactively manage the risk of our businesses, and our mortgage business was no different. We were actively managing our mortgage exposure throughout 2006, and towards the end of the year we became increasingly concerned about the sub-prime market. As a result we took a number of actions at that time and into early 2007 to reduce our risk. In the first quarter of 2007 we stopped our residential mortgage warehousing efforts, shut down our CDO warehouses, aggressively reduced our inventory positions, reduced counterparty exposure and increased our protection for disaster scenarios.

Key to our ability to do this was our extremely robust mark to market philosophy. You simply cannot manage risk effectively if you don't know what positions are worth. An accurate daily marking process makes difficult decisions considerably easier, as you tangibly feel the cost of inaction everyday as the market declines. We have extensive price discovery and valuation resources and don't subscribe to the notion that there are instruments that can't be valued.

So, we knew the value of what we had and managed our risk accordingly. However, one should not be lead to believe that we went through this period unscathed and somehow significantly profited from a "bet" on the downturn in mortgage markets. The actions that I outlined led to significant write-downs in the value of our long mortgage inventory over the course of this year. We mentioned during our second quarter conference call that a weak quarter in Mortgages contributed to lower results in our FICC businesses. A better characterization of the situation is that we effectively avoided greater losses by taking these proactive steps and in fact during the third quarter we were able to make money on mortgages as a result of our net short position. As a consequence, we believe that we are well-positioned to opportunistically participate in the inevitable restructuring of the mortgage market.

Ultimately, our ability to be proactive was a function of our people and our risk management culture. Given the complexity and diversity of risks in our business, we believe that it is critical to provide our teams with the confidence and support necessary to identify and escalate issues as soon as possible and to prioritize the interest of the entire firm over any individual objectives. In addition, we think it is important for senior leadership to be actively engaged in the business flows and decision making process, in times of calm as well as crisis.

Quarterly Breakdown of Mortgage P/L

Business (USD Millions)	Q1 2007				Q2 2007				Q3 2007				Q4 2007				October 26, 2007 FYTD			
	Loan/ Security P&L	Derivs P&L	Other/ UW P&L	Total	Loan/ Security P&L	Derivs P&L	Other/ UW P&L	Total	Loan/ Security P&L	Derivs P&L	Other/ UW P&L	Total	Loan/ Security P&L	Derivs P&L	Other/ UW P&L	Total	Loan/ Security P&L	Derivs P&L	Other/ UW P&L	Total
Residential Prime	$ 65	$ (0)	$ -	$ 65	$ 48	$ (0)	$ -	$ 48	$ (252)	$ 33	$ -	$ (219)	$ (76)	$ (42)	$ -	$(118)	$ (216)	$ (9)	$ -	$ (224)
Residential Credit	$ (248)	$ 213	$ -	$ (36)	$ (239)	$ (60)	$ -	$(299)	$ (641)	$ 358	$ (27)	$ (311)	$ (193)	$ 63	$ 26	$(103)	$ (1,321)	$ 574	$ (1)	$ (749)
Alt-A	(31)	56	-	25	10	(16)	-	(5)	(201)	111	(7)	(98)	(99)	(21)	7	(113)	(321)	130	-	(191)
S&D	(51)	13	-	(37)	(39)	(11)	-	(50)	(104)	108	16	20	(42)	13	(16)	(45)	(236)	124	-	(112)
Subprime	(167)	144	-	(23)	(210)	(34)	-	(244)	(336)	138	(36)	(233)	(51)	71	35	54	(764)	319	(1)	(446)
SPG Trading	$ (60)	$ 359	$ (1)	$ 298	$ (103)	$ 546	$ 9	$ 452	$ (724)	$ 2,850	$ 7	$ 2,133	$ (133)	$ 842	$ (1)	$ 708	$ (1,019)	$ 4,596	$ 15	$ 3,591
ABS Securities	(58)	290	-	232	(63)	480	-	417	(646)	1,916	19	1,288	(96)	479	(22)	362	(863)	3,165	(3)	2,299
CMBS Securities	(1)	5	-	4	(24)	22	-	(2)	(48)	173	(11)	113	(14)	156	11	153	(87)	355	(0)	267
Correlation	(1)	64	(1)	62	(16)	44	9	37	(29)	761	(0)	732	(23)	206	10	193	(69)	1,076	17	1,024
CDO/CLO	$ (170)	$ (0)	$ 23	$(147)	$ (307)	$(175)	$ 29	$(453)	$ (944)	$ 120	$ (74)	$ (898)	$ (208)	$ 19	$ 70	$(120)	$ (1,629)	$ (37)	$ 48	$(1,618)
US/Euro CRE Loans	58	(0)	-	58	47	(0)	-	46	(177)	122	49	(7)	14	8	-	22	(58)	128	49	119
Other*	28	-	6	33	19	-	13	32	1	-	41	43	43	-	0	43	91	-	60	151
Grand Total	$ (327)	$ 571	$ 28	$ 272	$ (535)	$ 310	$ 51	$(174)	$ (2,737)	$ 3,482	$ (4)	$ 741	$ (553)	$ 889	$ 96	$ 432	$ (4,152)	$ 5,252	$ 171	$ 1,271

*Included in Other are gains earned in conjunction with bond UW (+$70 million) and transfers from AMSSG (+$45 million)

GS Subprime Mortgage Business

Subprime Risk: Current Position as of 11/2/07

Mortgage Department		
SUBPRIME	***Current Notional (Bn)***	***Market Value (Bn)***
Securities (IG)	2.3	1.2
Subs & Residuals	0.1	0.1
Loans	0.3	0.3
Single-Name Synthetic Risk (Net)	2.7	1.6
TABX & Tranched Synthetic Risk (Net)	(3.1)	(0.9)
Net	**2.3**	**2.4**
ALT-A		
Securities (IG)	4.3	3.8
Subs & Residuals	0.3	0.2
Loans	0.1	0.1
Synthetic Risk (net)	(1.7)	(1.3)
Net	**3.0**	**2.8**
SCRATCH & DENT		
Loans	0.9	0.5
CDOs / TRANCHE RISK		
Securities	2.1	0.3
Single-Name Synthetic Risk (Net)	(1.2)	(0.4)
Tranched Synthetic Risk (Net)	(5.4)	(3.0)
Seasoned Super Senior Shorts	(3.5)	(3.4)
Net	**(7.9)**	**(6.4)**

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From: Cohn, Gary (EO 85B30)
Sent: Sunday, November 18, 2007 6:04 PM
To: Blankfein, Lloyd (EO 85B30); van Praag, Lucas (EO PBC09)
Cc: Winkelried, Jon (EO 85B30); Viniar, David; Rogers, John F.W. (EO 85B30); Horwitz, Russell (EO 85B30)
Subject: Re: NYT

We were just smaller in the toxic products

----- Original Message -----
From: Blankfein, Lloyd
To: van Praag, Lucas
Cc: Winkelried, Jon; Cohn, Gary; Viniar, David; Rogers, John F.W.; Horwitz, Russell
Sent: Sun Nov 18 17:59:01 2007
Subject: RE: NYT

Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts. Also, it's not over, so who knows how it will turn out ultimately.

-----Original Message-----
From: van Praag, Lucas
Sent: Sunday, November 18, 2007 5:47 PM
To: Blankfein, Lloyd
Cc: Winkelried, Jon; Cohn, Gary; Viniar, David; Rogers, John F.W.; Horwitz, Russell
Subject: NYT

Jenny Anderson and Landon Thomas' story about how we dodged the mortgage mess is scheduled to run tomorrow. At this stage, 95% certain to be on the front page. I don't expect it to be materially different to the WSJ story on the same subject that ran last week - although it will have more color and annecdotes.

Have given John and Russell a detailed briefing and Russell will update you on the plane, but here are a few points:

1. GS Gives in not in the story. I have agreed to brief Jenny thoroughly on it tomorrow and expect the news to run either Tues or Wed. I think it would be good if you had a 5 min phone call with her on the subject and I'll liaise with Russell on timing. We will issue the press release to coincide with publication of her article and will actively work with other media, esp in the UK, to make sure the message is spread and picked up effectively.

2. Tomorrow's story will, of course, have 'balance' (ie stuff we don't like). In this instance, we have spent much time discussing conflicts, and I think we've made some progress as she aknowledges that most of her sources on the subject are financial sponsors which fact, unless edited out, is included and gives context.

3. The article references the extraordinary influence GS alums have - the most topical being John Thain, but Rubin, Hank, Duncan et al are all in the mix too. She hasn't gone as far as suggesting that there is a credible conspiracy theory (unlike her former colleague at the NY Post). She does, however, make the point that it feels like GS is running everything.

5. We spent a lot of time on culture as a differentiator - she was receptive.

4. She has used several remarks you made at the ML conference on the record - which is fine.

If anything changes, I'll let you know. / L

Permanent Subcommittee on Investigations
EXHIBIT #52

From: Jha, Arbind
Sent: Friday, December 07, 2007 8:14 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Evans, J. Michael (ED CKC068); Montag, Tom; Sherwood, Michael S; McMahon, Bill; Broderick, Craig
Cc: Berry, Robert; Dinias, Michael
Subject: Weekly Market Risk Summary as of 12/06/07

Attachments: Daily_Widening_Est_20071206.pdf

Significant changes in risk from previous week (cob 11/30/07 to cob 12/06/07):

- **Trading VaR increased from $134mm $151mm (vs. temp. limit $165mm) due to a risk increase in Equities.**

(i) [redacted]

- **Credit Spread Widening Scenarios:**

(i) Mortgage Trading loss impact decreased from <$212mm> to <$132mm> largely due to an increase in net short position in the residential sector.

Daily_Widening_Est_20071206.pd...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #53

Confidential Treatment Requested by Gold GS MBS-E-009708911

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #54a

Quarterly Market Risk Review

Market Risk Management & Analysis

September 2006

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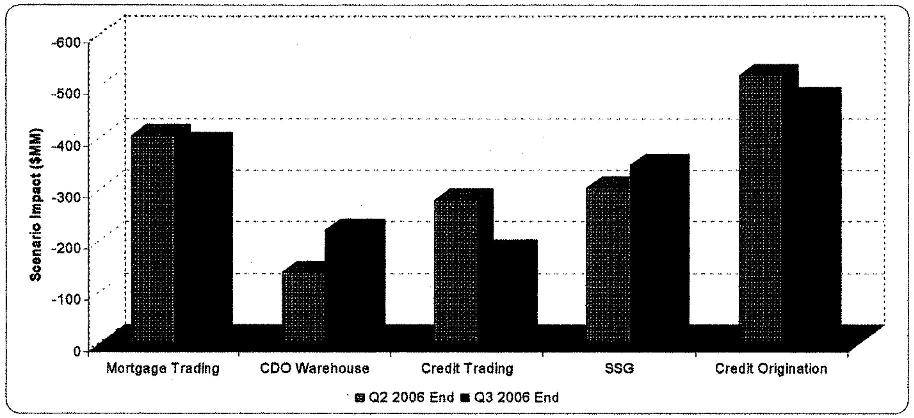
Credit Widening Scenario

Quarterly Change



- CDO Warehouse scenario increased due to $2.2Bn increase in Structured Products inventory.
- Credit Trading scenario decreased due to $600mm reduction in long equity exposures.

Goldman Sachs

Basis Risks
Mortgage Trading

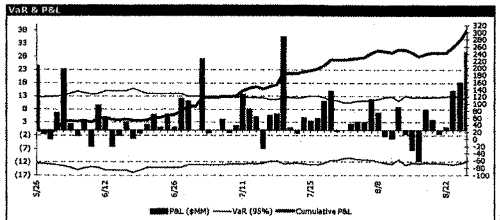
	Bonds		Loans		Single Name CDS		Index CDS		Synthetic CDO	Corporate CDS	Passthru	Equity	Total
	RMBS	CMBS	Resi	CRE	RMBS	CMBS	ABX	CMBX	ABACUS	CDX	TBA	S&P500	
Market Value ($mm)	14,056	1,185	19,136	4,882	367	9,562	1,032	1,265	(14,279)	(8,000)	(11,997)	(117)	n/a
Spread DV01 ($k/bp)	4,859	336	4,396	1,472	189	3,386	232	943	(7,568)	(3,200)	(5,084)	0	1,220
Credit Widening Scenario ($mm)	(385)	(10)	(137)	(74)	(12)	(214)	(153)	(83)	443	144	93	15	(389)

- Mortgage Trading Credit Widening Scenario was $389mm at the end of Q3. The above table delineates the Credit Widening Scenario by product type. As can be seen the business utilizes a variety of hedging strategies to mitigate the risks inherent to their long mortgage exposures.
- Long mortgage exposures generate a stress test loss of $1.1Bn while short exposures generate credit scenario hedge relief of $0.7Bn.
- Long mortgage exposures are dominated by Residential Mortgage Backed Securities (includes residuals), Residential Mortgage Loans, Commercial Mortgage Loans, short CDS protection on CMBS Single Names, and short CDS protection on RMBS/CMBS Indices.
- Short exposures include long CDS protection on synthetic CDOs (Abacus), long CDS protection on Corporate Indices (CDX), short Agency Passthroughs, and short Equity (S&P500).

Desk: Mortgages

Qtrly Analysis Q3 - 2006

VaR & P&L



		Q3 2006	Q2 2006
Stress Test	Average	(410)	(401)
P&L	Quarter	306	350
	YTD	832	526

Market -

		25-Aug	Qtr Change
Rates/ Agency	10y UST Rate	4.79	-26
	2y/10y UST Spread	-7.5	-18
	3m10y Swap Daily Implied Vol	4.2	-0.7
	3y7y Swap Daily Implied Vol	5.5	-0.3
	FNM Current Coupon OAS	0.1	-4.4
	GNM Current Coupon OAS	-9.8	0.9
	10 yr Swap Spread	55	0.5
RMBS/ CMBS	RMBS BBB Spread	110	-10
	RMBS BBB- Spread	205	-10
	CMBS BBB Spread	60	-4
	CMBS BBB- Spread	105	-5
ABX -01	ABX AAA 01 Index	10	-1
	ABX AA 01 Index	13	-6
	ABX A 01 Index	45	0
	ABX BBB 01 Index	115	-21
	ABX BBB- 01 Index	218	-6
CMBX	CMBX AAA Index	7	0
	CMBX AA Index	18	0
	CMBX A Index	27	-2
	CMBX BBB Index	62	-3
	CMBX BBB- Index	106	-5

Overall level of rates, low levels of volatility, lack of material mortgage origination as well as a potential end to fed hiking rates have left mortgage spreads much better bid. ABX, the synthetic RMBS Subprime Index continued to tighten amid strong technicals, mainly due to the continued demand from CDO vehicle despite weaker housing macro data and general weakness among subprime lenders. The new series of ABX indices were rolled in June.

Risk -

Mortgage Trading Credit Scenario Risk decreased $14mm - from $404mm to $389mm over the quarter. The decrease in risk was primarily driven by Secondary & Correlation and Managers books, partially offset by a risk increase Residential Prime book.

	Credit Scenario ($mm)			PNL ($mm)		
Desk	**8/25/06**	**5/26/06**	**Change**	**Q3'06**	**Q2'06**	**YTD'06**
MTG SPG	**(389.4)**	**(403.6)**	**14**	**306**	**350**	**833**
Derivatives	(21.5)	(27.6)	6	1	2	(0)
Residential Prime	(101.8)	(74.6)	(27)	2	26	38
Residential Credit	(44.4)	(53.9)	10	65	114	200
Mortgage Residuals	(120.4)	(106.4)	(14)	35	4	60
Non-Resi Origination	(44.3)	(29.0)	(15)	49	39	116
Secondary & Correlation	(62.8)	(94.4)	32	67	61	170
CDO/CLO	(39.2)	(45.2)	6	6	4	13
Managers	45.0	27.5	18	(6)	(10)	(20)
Euro MBS				15	4	28
CDO Warehouse	(219.5)	(137.7)	(82)	34	42	106

* Resi Prime desk stress test increased mainly due to a revised stress test shock on MTA Basis IO and Negam Resids. The size of the Negam Resid increased from $65mm to $111mm over the quarter and the desk created $45mm non-cashflowing residuals as a part of $140mm of NIM securitization. The desk currently hold $200mm MTA Basis IO, an inventory largely unchanged from the previous quarter. The combined stress test on MTA Basis IO and Prime Resids is $37mm.
* Mortgage Residuals stress increased due to markup of subprime resids by $25mm (impact $10mm) and GS retaining $27mm non-cahsflowing risk (impact $10mm) off $50mm resid fund securitization (GSAMP RESID1) and an increase in residual inventory mainly due to new securitization activities.
* Non Resi Orig stress increased as the desk went long $1.6B Mills bank loan credit & decreased CMBS TRR Swaps hedges by $0.4B, partially offset by a securitization of $0.9B Hunt/Ford ABS loans inventory. CMBS Origination desk risk intra-quarter peaked to $62mm, just prior to GG7 securitization.
* Mortgage desk added $4bn CDX hedges ($3.0B in Secondary & Correlation desk and $1.0bn in Managers book) over the quarter. Mortgage desk currently have in total $8bn CDX hedges generating $144mm stress credit.
* CDO Warehouse stress test increased due to an increase in warehouse inventory (SP CDO increased by $2.2bn and CLO by $0.5bn).

Highlights -

Stress Impact ($mm)	Bond	Loan	Passthrus	Swap	RMBS CDS	CMBS CDS	ABX	CMBX	ABACUS	TROR Swap	CDX	Equity	Total
Derivatives	(75)	-	41	12	-	-	-	-	-	-	-	-	(22)
Agency CMO	(34)	-	19	5	-	-	-	-	-	-	-	-	(10)
Resi Prime	(105)	(50)	33	3	7	-	22	-	-	-	-	-	(91)
Resi Credit	(8)	(85)	-	-	3	-	45	-	-	-	-	-	(46)
Mortgage Residuals	(120)	-	-	-	-	-	-	-	-	-	-	-	(120)
CMBS	(10)	(74)	-	-	21	99	-	(84)	-	(25)	36	-	(37)
ABS	(12)	(2)	-	-	28	-	(187)	-	-	-	63	15	(94)
Correlation	(4)	-	-	-	(70)	(312)	(33)	0	443	-	-	-	24
CDO/CLO	(39)	-	-	-	-	-	-	-	-	-	-	-	(39)
Managers	-	-	-	-	-	-	-	-	-	-	45	-	45
Total	(407)	(211)	93	20	(12)	(214)	(153)	(83)	443	(25)	144	15	(389)

* **Mortgage Derivatives:** We are long $114mm IO, $325mm PO, $2.8bn Combo, $350mm Inverse floater and $138mm Inverse IO inventory.
* **Residential Prime:** The desk is long $5bn prime fix, $3.2bn prime hybrid, and $0.4bn Subs inventory. Resi Prime Hybrid desk securitized $5.2bn MTA (Option ARM) loans, $18n Prime Hybrid and $1.7bn prime fix loans during the quarter.
* **Residential Credit:** The overall loans (credit) inventory increased by $1.5bn to $11.8bn ($5.6bn Alt-A, $4.6bn Subprime and $0.7bn Second Lien and $0.8bn S&D Loans). Resi Credit desk securitized $5.4bn Alt-A, $3bn subprime and $1bn Second Lien loans over the quarter.
* **Mortgage Residuals:** The size of total resid inventory over the quarter increased from $370mm ($95mm Cashflowing & $275mm non-cashflowing) to $505mm ($251mm Cashflowing & $254mm non-cashflowing), mostly due to new securitization activities.
* **Secondary and Correlation:** The desk is net long $1.2Bn CMBS securities and $1.9Bn ABS securities, and $1.7mm/bp CMBS Swaps; hedged with $5.5Bn notionals CDX6. Correlation book is long $7.4mm/bp CMBS/RMBS credit (via CDS), as hedges for the $7.6mm/bp exposures from Abacus trades. The desk is also long $1.9mm/bp RMBS Subprime credit mainly via ABX "BBB" and "BBB-" tranches, hedged with $3.5bn CDX6 and $117mm S&P500 Index.
* **CDO Equity:** We are long $70mm CDO/CLO equity backed by structured products and senior bank debt collateral. Scenario risk on this is $39mm.
* **CDO Warehouse:** We hold $9.4bn of structured product securities and $0.9bn senior bank debt securities in our CDO warehouse facility, generating a stress test of $220mm.

MARKET RISK MANAGEMENT ANALYSIS

Trading Summary

Business Unit VaR	Quarter End VaR ($MM)			% Contribution to Trading VaR			P&L ($MM)		
	Q3 2006	Q2 2006	Q3 2005	Q3 2006	Q2 2006	Q3 2005	Q3 2006	Q2 2006	Q3 2005
Trading	93	108	87	100%	100%	100%	3,978	6,118	4,203
FICC Division									
Global Interest Rate Products									
Mortgages	12	13	13	4%	3%	8%	309	350	188
Global Money Markets									
Global FX									
Commodities									
Global Credit Products									
Global Special Situations Group									
Credit Origination									
Equities Division									
Principal Strategies									
Equity Products Group									
One delta									
Derivatives									

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Permanent Subcommittee on Investigations
EXHIBIT #54b

Quarterly Market Risk Review

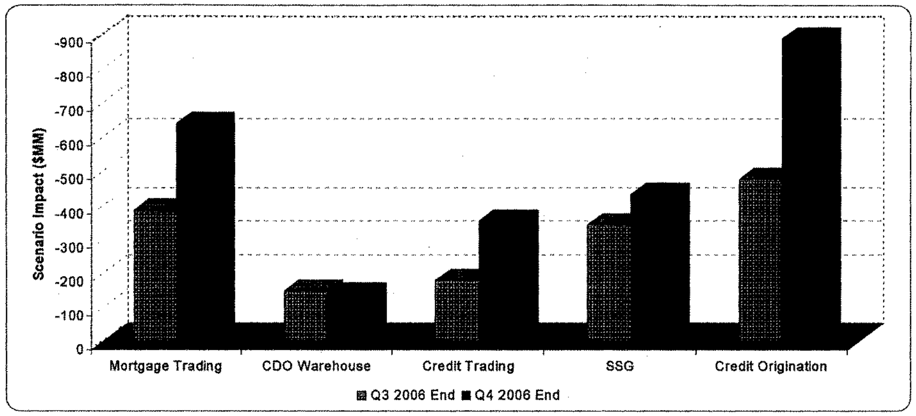
Market Risk Management & Analysis

December 2006

Goldman Sachs

Credit Widening Scenario

Quarterly Change



- In aggregate the Credit Widening Scenario for the Trading Division increased from $1.5Bn to $2.5Bn.
- Stress test for Credit Origination increased $0.4Bn, as size of commitments increased $37Bn, from $39Bn to $76Bn.
- $0.3Bn increase in the stress test for Mortgage Trading was primarily due to EOP acquisition financing deal.
- Global Credit Trading scenario increased due to unwinding short equity index positions and going longer investment grade credit spreads.

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Credit Widening Scenario - Basis Risks

Mortgage Trading

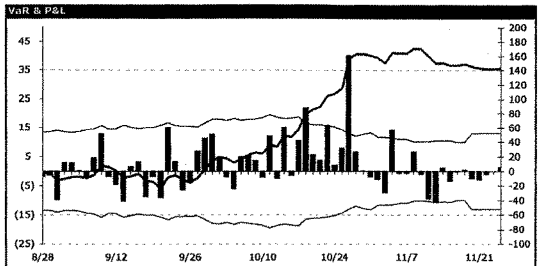
Credit Widening Scenario ($mm)	Bonds		Loans		Single Name CDS		Index CDS		Swap	CDO	Corporate	Passthru	Equity	Total
	RMBS	CMBS	Resi	CRE	RMBS	CMBS	ABX	CMBX	CMBS	ABACUS	CDX	TBA	S&P500	
Q4	(411)	(25)	(133)	(365)	94	(205)	(111)	(31)	46	435	0	63	0	**(641)**
Q3	(377)	(10)	(137)	(74)	(12)	(214)	(119)	(83)	(25)	410	144	93	15	**(389)**
Change	(35)	(15)	4	(291)	107	9	9	52	71	25	(144)	(30)	(15)	**(252)**

- As can be seen in the above table the desk is primarily long credit in cash products such as mortgage loans and bonds and short credit in derivatives such as synthetic CDOs (Abacus).
- It's important to note that the Credit Widening Scenario doesn't differentiate between cash and derivative products within a particular credit rating.
- Other basis risks include long credit in ABX partially hedged with Single Name CDS on RMBS. This position has exhibited significant volatility this quarter as BBB- ABX index has widened and traded at premium to both CDS and cash products.
- The desk completely unwound $8Bn of CDX default swap protection resulting in $144mm increase in stress test. This was offset by purchasing protection in single name CDS on RMBS providing $107mm offset.
- The business is also long $550mm of subprime/Alt-A residuals (included in RMBS Bonds above) that generate a stand-alone stress test of $122mm. These positions are illiquid and difficult to hedge.
- CDOs also have exposure to implied correlation risk that is not captured in the Credit Widening Scenario.

Mortgages

Quarterly Analysis Q4 - 2006

VaR & P&L



		Q4 2006	Q3 2006
Stress Test	Average	(394)	(410)
VaR	Average	14	13
P&L	Quarter	143	309
	YTD	979	836

Risk -

	Credit Scenario ($mm)			PNL ($mm)		
Desk	11/24/2006	8/25/2006	Change	Q4'06	Q3'06	FY'06
MTG SPG	(641)	(389)	(252)	143	309	979
Deriv	(12)	(22)	10	(3)	0	(2)
Res Prime	(104)	(102)	(2)	(11)	4	38
Res Credit	(157)	(165)	8	31	92	265
Non-Resi Orig	(320)	(44)	(276)	19	47	118
Second & Corr	18	(63)	81	(13)	68	163
CDO/CLO	(66)	(39)	(27)	0	2	5
Managers	0	45	(45)	(10)	(10)	(34)
Euro MBS			0	25	15	53
CDO Warehouse	(141)	(220)	79	56	3	169

Mortgage Trading Credit Scenario Risk Increased by $252mm: from $389mm to $641mm over the quarter. The following represents the major changes:

- GS committed to provide financing of $9.87bn senior & mez debt (impact $99mm) and $1.17bn bridge equity (impact $199mm) to Blackstone for its acquisition of Equity Office Properties Trust.
- Desk completley unwound $8bn CDX hedges - $5.5bn in Secondary & Correlation and $2.5bn in Managers A/C (impact $145mm). Desk also unwound $117mm S&P hedges (impact $15mm)
- Retained CDO/CLO equity MV increased from $70mm to $115mm through an active CDO calendar (impact $23mm).
- Secondary and Correlation book bought $1mm/bp single name CDS protection on RMBS Subprime BBB/BBB- sector (credit $110mm) and unwound $2.5bn long AAA CMBS Lehman TRR Swap exposure (credit $50mm).
- CDO Warehouse stress test decreased due to a reduction in SP CDO warehouse inventory by $4.2bn (impact $80mm)

Market -

Rates/Agency	24-Nov	Qtrly Change	Comments
10y UST Rate	4.55	-24	Rates rallied, curve flattened and OAS tightened amid low level of vol.
2y/10y Spread	-18.5	-11	
3m10y Vol	4.3	0	
3y7y Vol	5.4	0	
FNM CC OAS	5.7	-1	
ABX -OTR			
ABX AAA	8	-1	
ABX AA	14	0	
ABX A	53	11	ABX widened significantly amid heavy hedge fund selling, weaker housing data and lack of CDO bid mainly due to the year end.
ABX BBB	189	72	
ABX BBB-	297	71	
CMBX-OTR			
CMBX AAA	6	-1	
CMBX AA	13	-5	
CMBX A	17	-10	
CMBX BBB	51	-11	CMBX tightened on the back of limited supply, lack of hedge fund interest and continued demand from CDO vehicles.
CMBX BBB-	76	-31	
CMBX BB	178	n/a	
CDX6			
CDX6 IG	31	-8	Structured credit demand and benign overall credit environment kept CDX well bid.
RMBS CDS			
RMBS AAA	12	0	
RMBS AA	18	0	
RMBS A	50	15	
RMBS BBB	155	45	RMBS BBB/BBB- single name CDS outperformed their ABX counterparts.
RMBS BBB-	250	45	
RMBS BB	600	0	

Highlights -

Stress Impact ($mm)	Bond	Loan	Passthrus	Swap	RMBS CDS	CMBS CDS	ABX	CMBX	ABACUS	TROR SWAP	Total
Derivatives	-82	0	36	14	0	0	0	0	0	0	-12
Agency CMO	-33	0	17	7	0	0	0	0	0	0	-9
Res Prime	-96	-41	10	4	8	0	23	0	0	0	-85
Res Credit	-133	-84	0	0	2	0	59	0	0	0	-157
CMBS	-25	-385	0	0	25	109	0	-31	0	46	-241
ABS	-34	-7	0	0	138	0	-182	0	0	0	-85
Correlation	-12	0	0	0	-77	-314	0	0	435	0	33
CDO/CLO	-66	0	0	0	0	0	0	0	0	0	-66
Managers	0	0	0	0	0	0	0	0	0	0	0
Total	-461	-498	63	25	94	-205	-111	-31	435	46	-641

- **Mortgage Derivatives:** We are long $105mm IO, $616mm PO, $1.5bn Combo, $371mm Inverse floater and $180mm Inverse IO inventory.
- **Residential prime:** The desk is long $3.0bn prime fix, $5.3bn prime hybrid, and $0.5bn Subs inventory. Desk is also long $155mm MTA residuals and $158mm Option ARM IO.
- **Real Credit:** The overall loans (credit) inventory is unchanged at around $11bn ($2.9bn Alt-A, $6.3bn Subprime and $1.5bn Second Lien and $0.8bn S&D Loans).
- **Credit Residuals:** The size of total resid inventory over the quarter increased from $505mm ($251mm Cashflowing & $254mm non-cashflowing) to $556mm ($300mm Cashflowing & $256mm non-cashflowing), mostly due to new securitization activities.
- **Secondary and Correlation:** The desk is long $1.9mm/bp ABX "BBB/BBB-" credit vs. $1.3mm/bp ABX "AAA/A" & $0.9mm/bp single name CDS on RMBS Subprime "BBB/BBB-" sector.
- **CDO Warehouse:** We hold $5.2bn of Structured Product Cash Bonds and $0.6bn of Senior Bank Debt in the CDO/CLO warehouse facility, generating a stress test of $141mm.

Trading Summary

Business Unit VaR	Quarter End VaR ($MM)			% Contribution to Trading VaR			P&L ($MM)		
	Q4 2006	Q3 2006	Q4 2005	Q4 2006	Q3 2006	Q4 2005	Q4 2006	Q3 2006	Q4 2005
Trading	119	93	83	100%	100%	100%	4,536	3,978	3,200
FICC Division									
Global Interest Rate Products									
Mortgages	13	12	11	3%	4%	2%	143	309	149
Global Money Markets									
Global FX									
Commodities									
Global Credit Products									
Global Special Situations Group									
Credit Origination									
Equities Division									
Principal Strategies									
Equity Products Group									
One delta									
Derivatives									

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EXHIBIT #54c

Quarterly Market Risk Review

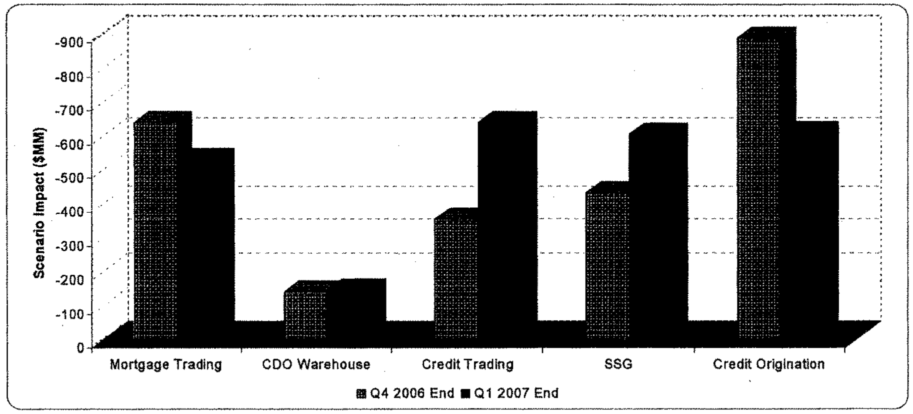
Market Risk Management & Analysis

March 2006

Goldman Sachs

Credit Widening Scenario

Quarterly Change



- In aggregate the Credit Widening Scenario for the Trading Division remained at $2.5Bn.
- Reduction in Mortgage Trading due to decrease in long ABX position and increasing short positions in single name CDS.
- SSG increase was driven by increase in the shocks for bank loans and rally in Nordex equity position.
- Credit Trading increase largely due to change in bank loan methodology.
- Stress test for Credit Origination declined due to decrease in non-investment grade commitments (most notably NTL).

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Credit Widening Scenario - Basis Risks

Mortgage Trading

Credit Widening Scenario ($mm)	Bonds		Loans		Single Name CDS		Index CDS		Swap	Synthetic CDO	Passthru	Total
	RMBS	CMBS	Resi	CRE	RMBS	CMBS	ABX	CMBX	CMBS	ABACUS	TBA	
2/23/2007	(445)	(41)	(128)	(298)	149	(199)	68	(151)	(42)	500	54	**(531)**
11/24/2006	(411)	(25)	(133)	(365)	79	(205)	(122)	(31)	46	462	63	**(641)**
Change	(34)	(16)	5	67	70	6	190	(120)	(88)	38	(8)	110

- As can be seen in the above table the desk is primarily long credit in cash products such as mortgage loans and bonds and short credit in derivatives such as synthetic CDOs (Abacus). As we observed in previous quarters there is significant basis risk between cash products, single name CDS, and indices.
- Mortgage Credit Scenario decreased over the quarter primarily due to reduction in long ABX BBB- exposures, going shorter single name CDS on A & BBB residential subprime securities, and decrease in EOP debt/equity.
- This was partially offset by the business going longer CMBX BBB- index and Total Rate of Return Swaps on CMBS Indices.
- The business is also long $700mm of subprime/Alt-A residuals (included in RMBS Bonds above) that generate a stand-alone stress test of $152mm. These positions are illiquid and difficult to hedge.
- It's important to note that the Credit Widening Scenario doesn't differentiate between cash and derivative products within a particular credit rating and does not incorporate implied correlation risk from CDO product.

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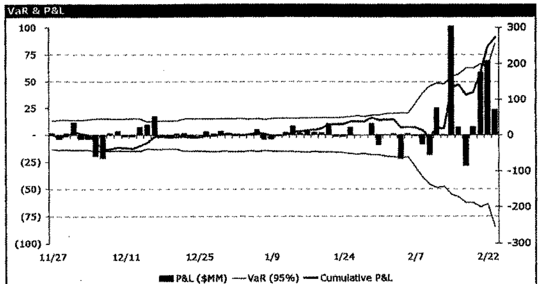
VaR & P&L



		Q1 2007	Q4 2006
Stress Test	Average	(527)	(394)
VaR	Average	23	14
P&L	Quarter	272	143
	YTD	272	979

Risk -

	VaR ($mm)			Credit Scenario ($mm)			PNL ($mm)	
	2/23/2007	11/24/2006	Change	2/13/2007	11/24/2006	Change	Q1'07	FY'06
MTG SPG	85	13	72	(531)	(641)	110	272	979
Deriv	3	3	0	(26)	(12)	(14)	1	(2)
Res Prime	3	3	(0)	(84)	(104)	20	65	38
Res Credit	7	3	4	(185)	(157)	(28)	(38)	265
Non-Resi Orig	2	2	(0)	3	(22)	25	62	118
SPG Trading	90	7	83	71	18	53	288	163
CDO/CLO	13	2	12	(78)	(66)	(12)	(71)	5
Acquisition Commitment	6	7	(2)	(232)	(298)	66		n/a
Warehouse	2	2	1	(148)	(150)	2	(44)	121

Mortgage Trading VaR increased by $72mm: from $13mm to $85mm over the quarter, largely driven by risk increase in SPG Trading desk due to a combination of wider spreads & increased volatility in ABX market and the desk increasing their net short risk in RMBS subprime sector.

Mortgage Trading Credit Scenario Risk decreased by $110mm: The following are the major changes:

- Resi Credit desk risk increase was primarily attributable to an increase in size of credit residuals from $555mm to $700mm (impact $30mm)

- SPG Trading desk started off the quarter with long $1.8mm/bp ABX "BBB-" risk, hedged with "AAA/A" rated ABX indices and single name CDS. Over the quarter, desk reduced its long ABX "BBB-" risk by $1.3mm/bp (relief $155mm). The desk also went shorter ABX "BBB-" index by $0.5mm/bp (relief $40mm) and shorter single name CDS in "BBB' and "A" by $0.3mm/bp and $0.7mm/bp respectively (relief $50mm). Furthermore, Correlation book bought full capital structure protection on Abacus06-17 (relief $60mm)

- Risk reduction above in SPG Trading desk was partially offset by the desk going long $0.6mm/bp of CMBX "BBB-" index (impact $90mm) and $3.4bn "AAA" and $1.1bn Investment Grade CMBS TROR swaps (impact $115mm).

- Acquisition Commitment reduced the size of EOP debt commitment from $9.9bn to $4.5bn (relief $54mm) and EOP bridge equity from $1.2bn to $0.8bn (relief $57mm), partially offset by $1.8bn Holiday Retirement Corp commitment (impact $45mm).

Market -

Rates/Agency	23-Feb	Qtrly Change	Comments
10y UST Rate	4.68	13	Rates sold off, curve steepened and OAS tightened amid continued decline in vol.
2y/10y Spread	(13)	6	
3m10y Vol	4.20	(0.1)	
3y7y Vol	4.80	(0.7)	
FNM CC OAS	(7)	(2)	
ABX -OTR			
ABX AAA	33	25	ABX continued to gap significantly wider amid heavy hedge fund selling, negative press about subprime markets and lack of CDO bid. Standard Tranches on ABX BBB and BBB- indices have started to trade since Feb 14th.
ABX AA	41	27	
ABX A	286	233	
ABX BBB	1027	838	
ABX BBB-	1514	1217	
CMBX-OTR			
CMBX AAA	4	(2)	CMBX was relatively unchanged on the back of strong commercial mortgage/REIT markets, lack of hedge fund interest & continued demand from CDO. Since Q-end, CMBX "BBB" & "BBB-" indices have widened by 35bps and 65bps respectively.
CMBX AA	11	(2)	
CMBX A	15	(2)	
CMBX BBB	52	1	
CMBX BBB-	84	8	
CMBX BB	208	30	
CDX OTR			
CDX IG	30	(4)	Structured credit demand and benign overall credit environment kept CDX well bid.
RMBS CDS			
RMBS AAA	12	0	The ABX/CDS basis widened significantly over the quarter.
RMBS AA	18	0	
RMBS A	72	22	
RMBS BBB	341	186	
RMBS BBB-	634	384	
RMBS BB	630	30	

Highlights -

Stress Impact ($mm)	Bond	Loan	Passthrus	Swap	RMBS CDS	CMBS CDS	ABX	CMBX	ABACUS	TROR SWAP	Total
Derivatives	-68	0	28	14	0	0	0	0	0	0	-26
Agency CMO	-17	0	6	2	0	0	0	0	0	0	-7
Resi Prime	-76	-45	18	5	2	0	22	0	0	0	-77
Resi Credit	-174	-73	0	0	6	0	56	0	0	0	-185
CMBS	-41	-89	0	0	24	122	0	-161	0	-42	-193
ABS	-34	-10	0	0	203	0	-34	0	0	0	126
Correlation	-6	0	0	0	-88	-322	16	0	500	0	102
CDO/CLO	-89	0	0	0	0	0	11	0	0	0	-78
Managers	0	0	0	0	0	0	0	0	0	0	0
Acquisition Commitment	0	-232	0	0	0	0	0	0	0	0	-232
Total	-507	-428	54	21	148	-199	68	-161	500	-42	-631

- **Mortgage Derivatives:** We are long $125mm IO, $350mm PO, $2.4bn Combo, $355mm Inverse floater and $190mm Inverse IO inventory.
- **Resi Prime:** The desk is long $4.3bn prime fix, $3.3bn prime hybrid, and $0.2bn Subs inventory. Desk is also long $108mm OPT ARM IO and $117mm MTA Negam resids.
- **Resi Credit:** The overall loans (credit) inventory decreased from $11bn ($2.9bn Alt-A, $6.3bn Subprime, $1.5bn 2nd Lien & $0.8bn S&D) to $7bn ($3.8bn Alt-A, $1.5bn Subprime, $0.7bn 2nd Lien and $0.8bn S&D) Loans).
- **Credit Residuals:** The size of total resid inventory over the quarter increased from $555mm ($300mm Cashflowing & $255mm non-cashflowing) to $700mm ($430mm Cashflowing & $270mm non-cashflowing), mostly due to new securitization activities.
- **Secondary and Correlation:** ABS Synthetics book is net short $1.8mm/bp "A", $0.8mm/bp "BBB" and $0.2mm/bp "BBB-" RMBS subprime credit, mostly via single name CDS. CMBS desk is net long $1.5mm/bp of CMBX index vs. single name CMBS CDS and long $3.5bn Investment Grade (sdv01 $2.6mm/bp) and $1bn "AAA" (sdv01 $0.7mm/bp) CMBS TRR swaps.
- **CDO/CLO:** We are long $3.6bn CDO Debt and $86mm CDO equity and $10mm CLO equities.
- **CDO Warehouse:** Structured Product Cash Bonds inventory decreased from $5.2bn to $4.6bn while Senior Bank Debt inventory in US CLO increased from $0.6bn to $1.6bn

Trading Summary

Business Unit VaR	Quarter End VaR ($MM)			% Contribution to Trading VaR			P&L ($MM)		
	Q1 2007	Q4 2006	Q1 2006	Q1 2007	Q4 2006	Q1 2006	Q1 2007	Q4 2006	Q1 2006
Trading	154	119	112	100%	100%	100%	7,217	4,536	6,922
FICC Division									
Global Interest Rate Products									
Mortgages	85	13	11	23%	3%	2%	272	143	174
Global Money Markets									
Global FX									
Emerging Markets									
Commodities									
Global Credit Products									
Global Special Situations Group									
Credit Origination									
Equities Division									
Principal Strategies									
Equity Products Group									
One delta									
Derivatives									

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EXHIBIT #54d

Quarterly Market Risk Review

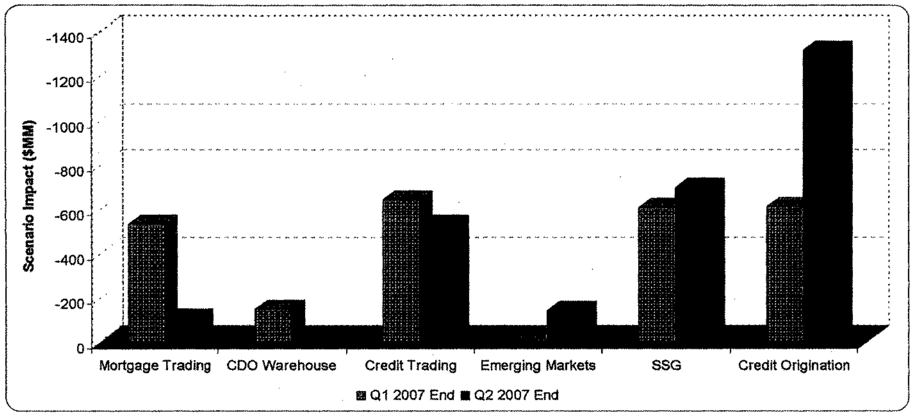
Market Risk Management & Analysis

June 2007

Goldman Sachs

Credit Widening Scenario

Quarterly Change



- In aggregate the Credit Widening Scenario for the Trading Division is $2.7Bn
- Reduction in Mortgage Trading due to decrease in exposures to CMBS sector via pay down of EOP debt/equity, shorter CMBS swaps and increasing short positions in single name CDS.
- CDO Warehouse inventory reduced due to a combination of deal execution, portfolio liquidation and hedging activity. As of period end this business was transferred to Mortgage Trading.
- Emerging Markets business was added to the risk measure during Q2. Russia, Kazakhstan and Turkey account for 90% of the risk.

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Credit Widening Scenario - Basis Risks
Mortgage Trading

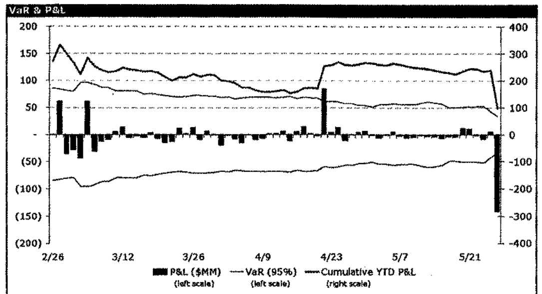
Credit Widening Scenario ($mm)	Residential Mortgages	Commercial Mortgages	Residential Mortgage Derivatives	Commercial Mortgage Derivatives	Synthetic CDO	Total
	Bonds/Loans	Bonds/Loans	Single Name CDS/ABX	Single Name CDS/CMBX	ABACUS	
25-May-07	(406)	(208)	59	(152)	599	**(108)**
23-Feb-07	(561)	(339)	218	(350)	500	**(631)**
Change	155	131	(159)	198	99	**423**

- As can be seen in the above table the desk is primarily long credit in cash products such as mortgage loans and bonds and short credit in derivatives such as synthetic CDOs (Abacus). As we have observed this year there is significant basis risk between and among cash products, single name CDS, and indices.

- The recent increase in subprime defaults/delinquencies has exacerbated the basis risk inherent to the mortgage business and their hedging strategies. For example, hedging subprime mortgage residuals, second lien mortgages, CDO squared, etc. with shorts via derivatives has been very challenging.

- It is worth noting that the Credit Widening Scenario is primarily a flight to quality/deleveraging scenario that is broadly based on Fall 98. Therefore it doesn't capture default risk and other types of basis risk.

VaR & P&L



		Q2 2007	Q1 2007
Stress Test	Average	(288)	(527)
VaR	Average	63	24
P&L	Quarter	(174)	272
	YTD	97	272

Risk -

	VaR ($mm)			Credit Scenario ($mm)			PNL ($mm)	
	5/25/2007	2/23/2007	Change	5/25/2007	2/23/2007	Change	Q2'07	Q1'07
MTG SPG	34	85	(51)	(108)	(531)	423	(174)	272
Deriv	3	3	0	(29)	(26)	(3)	5	1
Res Prime	3	3	(0)	(92)	(84)	(8)	37	65
Res Credit	4	6	(2)	(111)	(185)	74	(299)	(38)
Non-Resi Orig	4	2	1	(62)	3	(64)	41	62
SPG Trading	48	90	(42)	300	71	229	457	288
ABS/MBS CDO	26	13	13	(70)	(78)	8	(244)	(71)
Acquisition Commitment	10	6	4	(45)	(232)	187		
Warehouse	3	2	1	3	(148)	150	(220)	(75)

VaR decreased by $51mm: driven by a reduction in RMBS synthetic shorts.

Credit Scenario decreased by $423mm: driven mainly by reduced long exposure to commercial sector.

■ Resi Credit scenario improved as residuals decreased from $0.7bn to $0.5bn (relief $30mm) and loans decreased from $6.8bn to $1.8bn (relief $34mm).

■ CMBS Securities & CDS scenario improved as short CDS exposure increased from $0.1bn to $2.5bn (relief $130MM) primarily on BBB- sector. TRR swap exposure flattened from long $4.6bn (relief $93mm)

■ ABS Synthetics scenario worsened as short exposure in subprime single name CDS reduced from $10.5bn to $6.3bn (worsened $117mm). ABX A/BBB short reduced from $2.9bn to flat (worsened $40mm).

■ Correlation book scenario improved on purchase of $2.4bn protection concentrated on senior tranches of CMBS baskets (relief $122mm).

■ Acquisition Commitment scenario improved as EOP debt reduced from $4.5bn to $1.3bn (relief $34mm), $835mm EOP bridge equity was paid back (relief $142mm), and $1.8bn Holiday loan sold to Fannie (relief $45mm). This was partially offset by the $9bn Project Chariot ABS financing trade (worsened $32mm)

■ Warehouse scenario improved on reduced inventory. Structured product debt inventory decreased from $4.6bn to $1.5bn and corporate loan inventory decreased from $4.2bn to $2.5bn.

Market -

Rates/Agency	25-May	Q2'07 Chg	YTD Chg	Comments for Quarterly Change
10y UST Rate	4.86	19	0	Rates sold off, curve steepened, and OAS widened. Vol continued to decrease for lack of market bid.
2y/10y Spread	0.6	13.7	19.1	
3m10y Vol	3.79	(0.39)	(0.48)	
3y7y Vol	4.69	(0.06)	(0.64)	
FNM CC OAS	4.0	10.8	8.9	
ABX 06-2				Spreads peaked on 2/27 and slowly tightened. Note that almost half of the tightening is attributable to the market assigning longer durations to ABX as prepayments have slowed. Nontheless, US mortgage market continued to remain under considerable stress.
ABX AAA	20	(16)	11	
ABX AA	31	(16)	17	
ABX A	139	(149)	85	
ABX BBB	584	(398)	395	
ABX BBB-	1029	(421)	732	
CMBX-2				CMBS spreads widened as subprime concerns spread to other sectors. Moody's announced to raise subordination levels one half to one notch on CMBS deals throughout the capital structure amid deteriorating underwriting standards and higher leverages.
CMBX AAA	7	3	1	
CMBX AA	23	12	10	
CMBX A	45	30	28	
CMBX BBB	118	67	67	
CMBX BBB-	186	102	110	
CMBX BB	345	137	167	
CDX -s7				Corporate credit markets were largely unaffected by subprime woes and continue to be well bid.
IG 5yr	33	3	(1)	
HY100 5yr	227	11	(45)	
RMBS CDS				The significant ABX/CDS basis continues to persist although it tightened over the quarter.
RMBS BBB	300	(41)	145	
RMBS BBB-	540	(94)	290	
ABX Vol (bp)				Volatility peaked in March and drifted lower in April and May, ending about unchanged over the quarter.
ABX BBB	41	(4)	37	
ABX BBB-	53	(0)	48	

Highlights -

Stress Impact ($mm)	Bond	Loan	Passthru	Swap	RMBS CDS	CMBS CDS	ABX	CMBX	ABACUS	TROR SWAP	Total
Derivatives	-75	0	32	16	0	0	-	-	0	0	-29
Agency CMO	-24	0	12	3	0	0	-	-	0	0	-9
Resi Prime	-95	-31	16	3	0	0	24	-	0	0	-83
Resi Credit	-138	-38	0	0	2	0	64	-	0	0	-111
CMBS	-18	-144	0	0	0	262	-	(125)	0	61	36
ABS	-26	-10	0	0	82	0	(85)	-	0	0	-38
Correlation	-7	0	0	0	-74	-311	3	22	599	0	232
Property Derivatives	0	0	0	0	0	0	-	-	0	0	0
ABS/MBS CDO	-93	0	0	0	-10	0	33	-	0	0	-70
Acquisition Commitment	0	-45	0	0	0	0	-	-	0	0	-45
Total	-478	-269	60	21	0	-49	39	(103)	599	61	-108

■ **Mortgage Derivatives:** We are long $120mm IO, $528mm PO, $1.9bn Combo, $304mm Inverse floater and, $214mm Inverse IO inventory, hedged with $3.8bn PST and $2.4bn Swap

■ **Resi Prime:** The desk is long $3.2bn prime fix(Screnario Risk $22mm), $3.0bn prime hybrid(Scenario Risk: $29mm), and $0.4bn Subs inventory (Scenario Risk: $25mm). Desk is also long $76mm OPT ARM IO (Scenario Risk: $4mm) and $118mm MTA Negam resids (Scenario Risk: $26mm).

■ **Resi Credit:** The overall loans (credit) inventory is $1.8bn ($1.0bn Alt-A, $0.2bn Subprime, $0.1bn Second Lien and $0.7bn S&D Loans)

■ **Credit Residuals:** The size of total resid inventory is $528mm ($274mm Cashflowing & $254mm non-cashflowing)

■ **Secondary and Correlation:** CMBS desk is long $1.5bn CMBX BBB/BBB-/BB indices (stress test impact $140mm) hedged with $2.2bn short CMBS single name CDS (stress test credit $216mm). ABS desk is short $5.4bn single name CDS on RMBS subprime and CDO Mezz sectors. Correlation desk is short $23bn tranched baskets ($9mm/bp) hedged with $16bn linear products ($7mm/bp).

■ **ABS/MBS CDO :** We are long $2.4bn CDO Debt and Scenario risk on this is $35mm, $95mm CDO equities and Scenario risk on this is $47mm.

■ **CDO Warehouse:** We hold $1.5bn of Structured Product Cash Bonds and $1.9bn of Bank Debt in the CLO warehouse facility.

Trading Summary

Business Unit VaR	Quarter End VaR ($MM)			% Contribution to Trading VaR			P&L ($MM)		
	Q2 2007	Q1 2007	Q2 2006	Q2 2007	Q1 2007	Q2 2006	Q2 2007	Q1 2007	Q2 2006
Trading	135	154	108	100%	100%	100%	6,621	7,217	6,118
FICC Division									
Global Interest Rate Products									
Mortgages	34	85	13	1%	23%	3%	(174)	272	350
Global Money Markets									
Global FX									
Emerging Markets									
Commodities									
Global Credit Products									
Global Special Situations Group									
Credit Origination									
Equities Division									
Principal Strategies									
Equity Products Group									
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Derivatives									

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EXHIBIT #54e

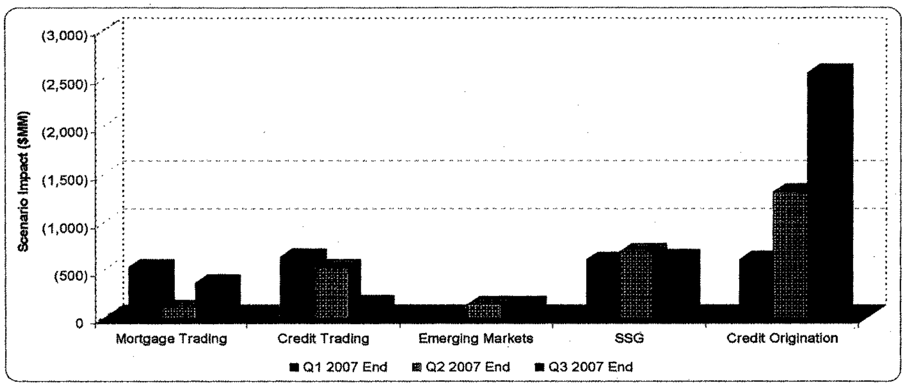
Quarterly Market Risk Review

Market Risk Management & Analysis

September 2007

Goldman Sachs

Credit Widening Scenario
Quarterly Change



- In aggregate the Credit Widening Scenario for the Trading Division is $3.9Bn
- Credit Origination increased from $1.3Bn to $2.6Bn during Q3 largely due to wider spreads and an increase in overall commitments from $112Bn to $131Bn.
- Credit Trading impact reduced by $0.5Bn primarily driven by decrease in long positions in municipals bonds and equities combined with the flow and structured credit desks increasing the short credit spread exposures.
- Mortgage Trading scenario loss impact increased by $0.3Bn, driven mainly by increased long commercial mortgage exposures and new commitments to finance acquisitions.

Goldman Sachs

Basis Risks - Mortgage Trading
Credit Widening Scenario

As of cob 8/31/07

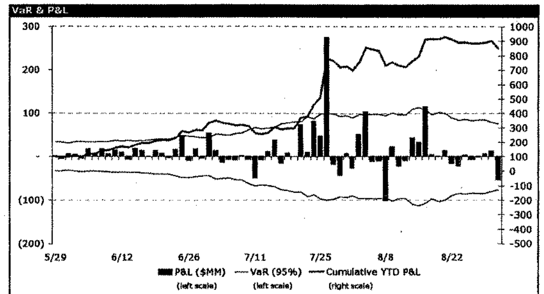
Credit Widening Scenario ($mm)*	Residential Mortgages				Commercial Mortgages				Total
	Cash Bonds/Loans	Single Name CDS	ABX Index	Synthetic CDO (ABACUS)	Cash Bonds/Loans	Single Name CDS	CMBX Index	Synthetic CDO (ABACUS)	
TOTAL	(1,069)	570	(1,006)	1,603	(684)	61	(545)	1,138	66

*Spread Doubling

- The above table shows that the desk is primarily long credit in cash products such as mortgage loans and bonds and short credit in derivatives such as synthetic CDOs (Abacus). The business is also long indices (ABX & CMBX) vs. short single name CDS.
- Long cash positions in Residential mortgages are mainly driven by subprime, CDO Mezz, CDO Squared and subordinate bonds inventory.
- Long cash positions in Commercial mortgages are primarily due to loans from acquisition commitments ($3.8Bn Hilton, $1.2Bn Stratosphere, $0.9Bn Equity Inns & $3.0Bn Chrysler).
- Mortgage Trading overall is long $7Bn ABX and $8Bn CMBX indices across the capital structure.
- The desk is short 1.3Bn of single name CDS largely on RMBS Subprime and CDO Mezz sectors and short $25Bn synthetic CDOs (Abacus).

Mortgages | **Quarterly Analysis Q3 - 2007**

VaR & P&L



		Q3 2007	Q2 2007
Stress Test	Average	(131)	(288)
VaR	Average	68	63
P&L	Quarter	741	(174)
	YTD	839	97

Risk -

	VaR ($mm)			Credit Scenario ($mm)			PNL ($mm)	
	8/31/2007	5/25/2007	Change	8/31/2007	5/25/2007	Change	Q3'07	YTD
MTG SPG	75	34	41	(389)	(108)	(281)	741	839
Mortgage Derivatives	4	3	1	(38)	(29)	(9)	7	13
Residential Prime	6	3	3	(98)	(92)	(6)	(202)	(99)
Residential Credit	14	4	10	(69)	(111)	42	(334)	(665)
Non-Residential Origination	3	4	(0)	(41)	(62)	21	0	103
SPG Trading	86	48	38	150	300	(150)	2,040	2,792
CMBS Securities & CDS	10	5	4	(1)	78	(79)	111	112
ABS Securities & CDS	118	50	68	(5)	(9)	3	1,194	1,845
Correlation	40	19	20	157	232	(75)	734	1,108
ABS/MBS CDO	22	26	(4)	(11)	(70)	59	(897)	(1,214)
Acquisition Commitment	30	10	20	(283)	(45)	(238)	n.a.	n.a.

VaR increased by $41mm on wider spreads and increased volatility.

Credit Scenario worsened by $281mm:

■ CMBS Securities & CDS scenario worsened as long credit CMBX exposure increased from $1.3bn to $4.4bn (worsened $93mm), partially offset as TRR swap exposure went from long credit $0.1mm/bp to short credit $1.2mm/bp (relief $50mm)

■ Correlation book scenario worsened primarily as desk increased long credit CMBX delta hedges from long $0.3bn to $4.6bn (worsened $195mm). At the same time the desk bought $2bn tranched supersenior protection on ABACUS (relief $67mm).

■ Acquisition Commitment scenario worsened on new commitments: $3.8bn Hilton (impact $218mm), $1.2bn Stratosphere (impact $68mm), and $0.9bn Equity Inns (impact $43mm). Despite Chrysler exposure reduction from $9bn to $3bn, scenario risk was unchanged at <$36mm> as reduction in position was offset by spread widening on the remaining inventory. Scenario improved on $425mm CMBX protection (relief $81mm), and syndication of remaining $1.3bn EOP commitment (relief $13mm).

Market -

Rates/Agency	**Q3'07**	**Q2'07**	**Q4'06**	**Comments for Quarterly Change**
10y UST Rate	4.55	4.86	4.55	Rate vol spiked up on the back of flight-to-quality rally in UST. Yield curve steepened and Agency OAS spread widened.
2y/10y Spread	39	1	(19)	
3m10y Vol	5.5	3.8	4.3	
3y7y Vol	5.7	4.7	5.3	
FNM CC OAS	13	4	(5)	
ABX OTR (Price)				Rating agencies downgraded subprime bonds in an unprecedented manner owing to higher than expected realized losses. ABX spreads widened substantially on continued credit turmoil and weaker remittance data i.e. increased delinquencies/defaults & slower prepayments in limited refinancing environment.
ABX AAA	95.0	99.7	100.1	
ABX AA	81.0	99.4	100.1	
ABX A	59.0	94.8	99.7	
ABX BBB	42.0	76.0	98.2	
ABX BBB-	39.0	68.5	98.3	
CMBX OTR (Spread in bp)				
CMBX AAA	.23	8	6	
CMBX AA	120	28	13	Subprime contagion spread out to commercial mortgages and caused repricing of risk premia across the sectors including corporate credit.
CMBX A	178	63	17	
CMBX BBB	405	173	51	
CMBX BBB-	535	278	76	
CMBX BB	886	485	178	
CDO (Spread in bp)				
CDO Mezz AAA	671	30	35	Rating agencies' actions and hedge fund liquidations dealt a heavy blow to leveraged subprime products such as CDO and CDO^2. CDO bonds backed by subprime collateral lost as much as 50% in market value regardless of ratings.
CDO Mezz AA	1065	125	65	
CDO Mezz A	1948	600	205	
CDO HG AAA	553	25	32	
CDO HG AA	1125	65	60	
ABX Vol (bp)				
ABX BBB	140	41	4	Spread volatility increased as subprime spreads widened.
ABX BBB-	124	53	5	

Highlights -

Credit Widening Scenario ($mm)	Residential Mortgages					Commercial Mortgages					Total
	Bonds/ Loans	Single Name CDS	ABX	ABACUS	Total	Bonds/ Loans	Single Name CDS	CMBX	ABACUS	Total	Grand Total
Mortgage Derivatives	(38)				(38)					-	(38)
Residential Prime	(99)	(1)	2		(98)					-	(98)
Residential Credit	(90)	2	19		(69)					-	(69)
Non-Resi Origination					-	(130)		89		(41)	(41)
SPG Trading	(29)	28	(114)	567	442	(31)	(79)	(420)	239	(291)	161
ABS/MBS CDO	(20)	21	(5)	(8)	(12)					-	(12)
Acquisition Commitment					-	(364)		81		(283)	(283)
TOTAL	(276)	60	(98)	649	226	(526)	(79)	(250)	239	(615)	(389)

■ **Residential Prime/Credit**: The desk is long $8bn prime credit (impact $86mm), $1.9bn credit loans ($0.7bn Alt-A, $0.4bn Subprime, and $0.8bn S&D Loans) & $0.3bn residuals.

■ **CMBS Securities & CDS:** Desk is long $4.4bn CMBX indices (impact $229mm) hedged with $3.8bn short CMBS single name CDS (credit $231mm).

■ **ABS Synthetics:** Short $7.9bn single name CDS on RMBS subprime and CDO sectors (credit $60mm) vs. long $4.8bn ABX, (impact $52mm).

■ **Correlation:** Short $25bn tranched baskets (impact $795mm) hedged with $22bn linear products (credit $630mm).

■ **Cash CDO exposure (SPG + ABS/MBS CDO desks):** Long $0.1bn HG, $0.3bn Mezz, $0.2bn Squared, (impact $17mm), Long $30mm CDO equity (impact $15mm)

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Trading Summary

Business Unit	Average VaR ($MM)			P&L ($MM)		
	Q3 2007	Q2 2007	Q3 2006	Q3 2007	Q2 2007	Q3 2006
Trading	**139**	**133**	**92**	**8,586**	**6,621**	**3,978**
Global Interest Rate Products						
Mortgages	68	63	13	741	(174)	309
Global Money Markets						
Global FX						
Emerging Markets						
Commodities						
Global Credit Products						
Global Special Situations Group						
Credit Origination						
Principal Strategies						
Equity Products Group						

Product Category
Trading
Interest Rate
Equities
Currencies
Commodities

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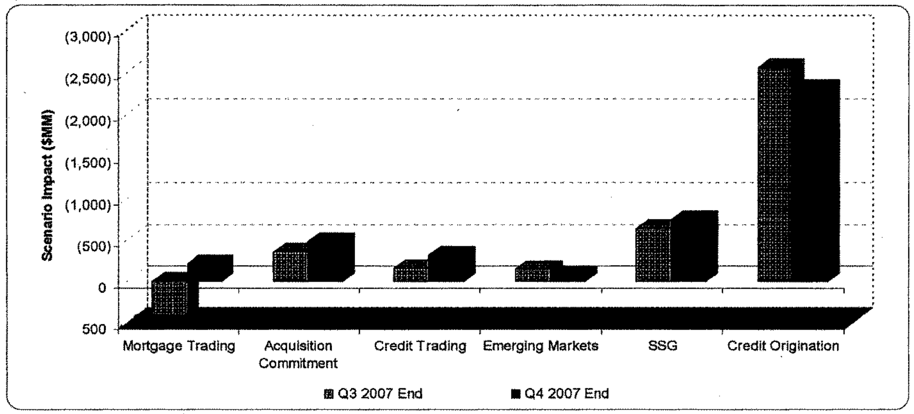
EXHIBIT #54f

Quarterly Market Risk Review

Market Risk Management & Analysis

December 2007

Credit Widening Scenario
Quarterly Change



- In aggregate the Credit Widening Scenario for Q4 2007 for the Trading Division is $4.1Bn.
- Credit Origination CSW decreased modestly as the reduction in overall commitments from $131Bn to $96Bn was partially offset by spread widening and reduction in hedges.
- Mortgage Trading scenario loss impact worsened by $622mm due to reduction in short subprime credit exposures primarily due to mark-downs and wider spreads on our long residential prime and commercial mortgage positions.

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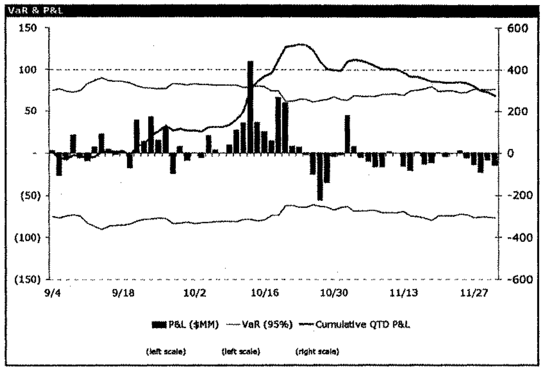
Goldman Sachs

Basis Risks – Mortgage Trading
Credit Widening Scenario

Credit Widening Scenario ($mm)	Grand Total	Residential Mortgages							Commercial Mortgages					
		Subprime Cash	Prime Cash	ABX	Single Name CDS	ABACUS	Pass-throughs	Total	Cash	CMBX	Single Name CDS	ABACUS	Acq. Commit.	Total
Total	(689)	(513)	(601)	(748)	639	1,118	139	34	(539)	(1,403)	(63)	1,761	(478)	(723)

- The above table shows that the desk is primarily long credit in mortgage loans, bonds, and indices and primarily short credit in synthetic CDOs (ABACUS) and Subprime single name CDS.
- The desk is long credit risk on senior portions (AAA/AA) of the capital structure across all sectors. This is being partially hedged with short credit exposure to the lower/subordinated parts of the capital structure mainly in subprime and commercial mortgage sectors.
- The desk is net long Prime residential mortgages (cash) and net short Subprime residential mortgages (via single name CDS and ABACUS).
- The desk is net long the Commercial mortgage sector in all products except synthetic CDOs where it is short ABACUS protection primarily on super senior tranches.
- Acquisition Commitments are driven by $7Bn commercial exposure and $2Bn auto-loan exposure.
- WoW for the business is a loss of <$1.4Bn> which represents a sum of current scenario impact and a 40% slippage in the cash versus derivative basis.

VaR & P&L



Market -

Rates/Agency	Q4'07	Q3'07	QTR Chg	Q4'06	Comments for Quarterly Change
10y UST Rate	3.97	4.55	-0.58	4.55	Rate vol increased on the back of a flight-to-quality rally in UST. The yield curve steepened. Agency OAS end the quarter tighter after spiking as high as 30bp in mid-November.
2y/10y Spread	93	39	54	-19	
3m10y Vol	6.6	5.5	1.1	4.3	
3y7y Vol	6.4	5.7	0.7	5.3	
FNM CC OAS	9	13	-4	-5	
PST nominal spd	120	75	45	n.a.	
ABX OTR (Price)					
ABX AAA	72	95	-24%	100	Rating agencies downgraded subprime bonds owing to higher than expected realized losses. ABX spreads widened substantially on continued credit turmoil and weaker remittance data.
ABX AA	40	81	-51%	100	
ABX A	32	59	-46%	100	
ABX BBB	21	42	-49%	98	
ABX BBB-	21	39	-47%	98	
CMBX OTR (Spread in bp)					
CMBX AAA	75	23	53	6	Credit concerns across asset classes lead to further repricing of risk premia across sectors including commercial real estate and corporate credit.
CMBX AA	305	120	185	13	
CMBX A	430	178	253	17	
CMBX BBB	920	405	515	51	
CMBX BBB-	1110	535	575	76	
CMBX BB	1485	886	600	178	
Resi Prime (Spread)					
Prime Fixed AAA	200	90	110	n.a.	Prime spreads were pushed wider by fears that portfolios holding senior paper would liquidate.
Prime Fixed AA	300	115	185	n.a.	
CDO (Price)					
CDO Mezz AAA	31	53	-42%	100	Highly levered CDOs backed by subprime mortgages continued to deteriorate.
CDO Mezz AA	9	23	-61%	100	
ABX Vol (bp)					
ABX BBB	273	140	133	4	Spread volatility increased as subprime spreads widened.
ABX BBB-	256	124	132	5	

Risk -

	VaR ($mm)			Credit Scenario ($mm)			PNL ($mm)	
	11/30/2007	8/31/2007	Change	11/30/2007	8/31/2007	Change	Q4'07	FY'07
Mortgage Trading	77	75	2	(212)	410	(622)	276	1,114
Deriv	6	4	2	(35)	(37)	2	0	13
Res Prime	5	6	(1)	(345)	(163)	(182)	(107)	(206)
Res Credit	11	14	(3)	(139)	(121)	(18)	(296)	(961)
Non-Resi Orig	4	3	1	(196)	3	(199)	49	152
SPG Trading	82	86	(4)	483	789	(306)	947	3,738
CMBS Securities & CDS	20	10	10	(225)	(14)	(211)	187	299
ABS Securities & CDS	65	50	15	425	310	115	442	2,288
Correlation	28	40	(12)	283	492	(209)	310	1,143
ABS/MBS CDO	11	22	(11)	21	(61)	82	(246)	(1,460)
Acquisition Commitment	39	30	9	(478)	(344)	(134)	n.a	n.a

- **Resi Prime:** non-agency spreads more than doubled at the top of the capital structure ($230mm worse).
- **Non-Resi Origination:** spreads more than doubled and durations increased on CRE loans ($243mm worse).
- **CMBS Securities & CDS:** spreads widened on long CMBX and cash ($303mm worse). This was offset from spread widening on short single name CDS ($200mm credit).
- **ABS Securities & CDS:** cut long ABX by $2.6bn in AAA/AA ($288mm credit). Protection provided by short subprime single name CDS was reduced primarily due reduced duration from mark downs ($155mm worse).
- **Correlation:** markdowns reduced the protection of subprime ABACUS trades/hedges ($98mm worse). Reduced $700mm CMBS ABACUS protection ($130mm worse).
- **Acquisition Commitment:** comittments increased from $8.9bn to $9.3bn ($32mm worse) while spreads widened ($30mm worse), and all $425mm CMBX hedges were unwound ($72mm worse).

Highlights -

Credit Widening Scenario ($mm)	Grand Total	Residential Mortgages							Commertial Mortgages					
		Subprime Cash	Prime Cash	ABX	Single Name CDS	ABACUS	Pass-through	Total	Cash	CMBX	Single Name CDS	ABACUS	Acq. Commit.	Total
Q4'07	(689)	(513)	(601)	(748)	639	1,118	139	34	(539)	(1,403)	(63)	1,761	(478)	(723)
Q3'07	66	(741)	(399)	(1,256)	820	1,603	108	135	(306)	(618)	61	1,138	(344)	(69)
Change	(755)	228	(202)	508	(181)	(485)	31	(101)	(233)	(785)	(124)	623	(134)	(654)

- **VaR Basis:** VaR of short positions $318mm and VaR of long positions $297mm.
- **Acquisition Commitment:** Long $3.6Bn Hilton, $1.8Bn Equity Inns, $1.2Bn Stratosphere, $0.5Bn American Financial (commercial stress $436mm) and long $2.2Bn Chrysler (stress $42mm).
- **Residential Prime/Credit:** Long $7.5bn non-agency prime (stress $521mm), $1.1bn credit loans ($0.2bn Alt-A, $0.3bn Subprime, and $0.7bn S&D Loans) & $0.1bn residuals.
- **CMBS Securities & CDS:** Long $5.2bn CMBX indices (impact $642mm) hedged with $3.7bn short CMBS single name CDS (credit $628mm).
- **ABS Synthetics:** Short $9.2bn single name CDS on RMBS subprime and CDO sectors (credit $950mm) vs. long $2.3bn ABX, (stress $352mm).
- **Correlation Book:** Short $24bn bespoke baskets primarily on super senior tranches (Credit $2973mm) hedged with $22bn index and single name CDS (stress $2689mm).
- **Cash CDO exposure (SPG + ABS/MBS CDO desks):** Long $26mm HG, $140mm Mezz, $25mm Squared (stress $74mm), Long $8mm CDO equity (stress $4mm)

Trading Summary

Business Unit	Average VaR ($MM)			P&L ($MM)		
	Q4 2007	Q3 2007	Q4 2006	Q4 2007	Q3 2007	Q4 2006
Trading	151	139	106	6,583	8,586	4,536
Global Interest Rate Products						
Mortgages	75	68	14	276	741	143
Global Money Markets						
Global FX						
Emerging Markets						
Commodities						
Global Credit Products						
Global Special Situations Group						
Credit Origination						
Principal Strategies						
Equity Products Group						

Product Category
Trading
Interest Rate
Equities
Currencies
Commodities

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9/26/2007

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EXHIBIT #55a

Reviewee's Feedback

**The purpose of this review material is for personal development.
It is not intended for disclosure outside the firm.**

GS-PSI-01805

Reviewee's Feedback

2007 PMD Reviews

Managing Director Reviewed: Daniel L. Sparks - MD I.D. No. Redacted by the Permanent Subcommittee on Investigations
Division: Fixed Income, Currency and Commodities Division

Solicited Reviewers[1]

Individuals Who Submitted Reviews:

Name	Division	Office	Title	Direction of Feedback[2]
Redacted by the Permanent Subcommittee on Investigations	FICC	New York	MD	Primary Rvwr
	FICC	London	MD	Primary Rvwr
	FICC	New York	MD	Peer
	FICC	New York	MD	Peer
	L&MCD	New York	MD	Peer
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Upward
	FICC	New York	MD	Downward
	FICC	New York	MD	Upward

Individual(s) Who Did Not Submit Solicited Forms:

Name	Division	Office	Title

[1]Based on final reviewer list as vetted with MD's primary reviewer/senior leadership.
[2]Direction of feedback from the perspective of, and as reported by, the reviewer.

Unsolicited Reviewers[3]

Number of unsolicited reviews received: 0

[3]Additional review forms received beyond the final reviewer list.

1

Confidential Proprietary Business Information

GS-PSI-01806

2007 PMD Reviews
I.D. No.[redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

A. Accomplishments, Contributions and Strengths

Self-Review

- I delivered the best performance of my career this year to the firm. I led a great team through an incredibly volatile and challenging market, we had to change business approaches dramatically and constantly, we levered the firm's support, and we didn't just survive - we excelled.
  Below I have listed significant contributions and accomplishments:

  Prior Business Leadership Decisions
  Pushed firm to become leader in mortgage credit derivatives
  Built and kept a very strong team - Swenson, Lehman, Birnbaum, Buono, Huang, Bohra, Egol, Kamilla, DeGiacinto
  Avoided buying a large expensive originator

  Trading Management
  Recognized market problems and took marks early
  Put on disaster protection across the business - super-senior shorts, extra shorts
  Shut down businesses and products quickly - CDO warehouses, residential loan warehouses, certain subprime loan products
  Adjusted other businesses accordingly - became conservative on commercial real estate loans, focused on EPD risk and collection, moved resources to secondary trading

  Crisis Management
  People management - kept team's heads on straight, adjusted business direction and reallocated resources
  Dealt swiftly and firmly with originators and repo counterparties
  Represented GS with the SEC, the New York Attorney General, rating agencies, GS lenders and investors, the GS Board and the press
  Communicated promptly and effectively internally with risk, controllers, and management

  Specific Commercial Transaction Production
  [redacted] commercial real estate loan
  [redacted] securitized debt fee negotiation
  Super-senior ABX trades
  [redacted] super-senior trade

  Building for the Future While Dealing with Current Turmoil
  International growth by identifying and hiring DB European team and moving people to Brazil

[redacted] = Redacted by the Permanent Subcommittee on Investigations

2007 PMD Reviews
I.D. No. [redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

Mortgage origination and servicing platform development
Securitization reorganization with the Financing Group with ABS and CMBS

Primary Reviewer(s) Assessment

[redacted]

Redacted By
Permanent Subcommittee on Investigations

2007 PMD Reviews
I.D. No. [redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

Redacted By
Permanent Subcommittee on Investigations

B. Development Needs

Self-Review

- I need to be more client facing - this year was basically internally focused.

  I need to improve and build better working relationships with sales and strategies.

  I gave too much risk rope to people, and I allowed us to get into too many geared products.

Primary Reviewer(s) Assessment

Redacted By
Permanent Subcommittee on Investigations

2007 PMD Reviews
I.D. No. [redacted] **Division: Fixed Income, Currency and Commodities**
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

Redacted By
Permanent Subcommittee on Investigations

C. 2008 Goals, Objectives and Action Plan (Self-Review Only)

Self-Review

- I want to continue to contribute significantly to the revenue and franchise growth of the firm. Areas of particular focus will be distressed investing and opportunistic trading, building a market leading customer trading franchise, and building our European business. I also want to grow in my career with respect to opportunity and responsibility.

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Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations
EXHIBIT #55b

2007 MD REVIEWS

Highly Confidential

9/26/2007

Reviewee's Feedback

**The purpose of this review material is for personal development.
It is not intended for disclosure outside the firm.**

GS-PSI-02396

Reviewee's Feedback

2007 EMD Reviews

Managing Director Reviewed: Michael J. Swenson - MD I.D. No. Redacted by the Permanent Subcommittee on Investigations
Division: Fixed Income, Currency and Commodities Division

Solicited Reviewers[1]

Individuals Who Submitted Reviews:

Name	*Division*	*Office*	*Title*	*Direction of Feedback*[2]
Redacted by the Permanent Subcommittee on Investigations	FICC	New York	MD	Primary Rvwr
	ED	New York	MD	Peer
	FICC	New York	MD	Peer
	FICC	New York	MD	Peer
	FICC	New York	MD	Downward
	FICC	New York	MD	Downward
	FICC	New York	MD	Peer
	FICC	New York	VP	Upward
	FICC	New York	MD	Peer
	FICC	New York	MD	Peer
	FICC	New York	MD	Peer
	FIN	New York	MD	Peer

Individual(s) Who Did Not Submit Solicited Forms:

Name	*Division*	*Office*	*Title*
Redacted by the Permanent Subcommittee on Investigations	FICC	New York	VP
	FICC	New York	VP

[1]Based on final reviewer list as vetted with MD's primary reviewer/senior leadership.
[2]Direction of feedback from the perspective of, and as reported by, the reviewer.

Unsolicited Reviewers[3]

Number of unsolicited reviews received: 0

[3]Additional review forms received beyond the final reviewer list.

2007 EMD Reviews
I.D. No. [redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

[redacted] = Redacted by the Permanent Subcommittee on Investigations

A. Accomplishments, Contributions and Strengths

Self-Review

- It should not be a surprise to anyone that the 2007 year is the one that I am most proud of to date. I can take credit for recognizing the enormous opportunity for the ABS synthetics business 2 years ago. I recognized the need to assemble an outstanding team of traders and was able to lead that group to build a number one franchise that was able to achieve extraordinary profits (nearly $3bb to date).

Commercial Contribution

Though this extraordinary year is attributable to a total team effort, my commercial contributions over the past year are numerous. The contributions to the $3bb of SPG Trading profits and $2bb of ABS trading p & l are spread out across various trades and strategies. As the architect of the leading franchise in ABS CDS (Risk Magazine Survey 6/07), I was able to identify key market dislocations that led to tremendous profits. There were 3 core strategies that contributed to these extraordinary profits:

1. Single-Name convergence trade - throughout the the first quarter, the ABX to single-name basis offered a tremendous arbitrage opportunity (5 to 10 points) that was identified and capitalized on. In December of last year, when a number of CDO managers were ramping transactions, we capitalized on our position as the number 1 franchise in single-name CDS. We were able to do this trade in size with our customer base that generated a trade that led to approx $1bb of p and l this year.

2. Single-Name CDO short - during the early summer of 2006 it was clear that the market fundamentals in subprime and the highly levered nature of CDOs was going to have a very unhappy ending. The beauty of the CDO short was that it allowed for a very efficient method for capturing the value in the ABX to single-name basis from the short side. Knowing there was a huge opportunity on that front, I directed the ABS desk to enter into a $1.8bb short in ABS CDOs that has realized approx. $1.0bb of p & l to date.

3. Capital structure trade - More recently the entire desk identified fundamental value at the top of the capital structure in AAA and AAs. Despite the potential for massive liquidations on the SIV front, we were able to identify that the market was incorrectly assigning credit risk to the top of the capital structure when in fact it was a funding driven event that caused AAAs and AAs to widen. I oversaw and directed the covering of $9bb of AAA ABX that the department was short and was able to monetize approx $250mm of p and l for the origination businesses.

Leadership

2007 EMD Reviews
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Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

[redacted] = Redacted by the Permanent Subcommittee on Investigations

On the leadership front I performed exceptionally well over the past year. I led the desk through enormous adversity. I recognized the importance of the new entrants in the mortgage markets 2 years ago and continued to expand our franchise in the macro, equity and distressed universe over the course of this year.

Once the stress in the mortgage market started filtering into the cash market, I spent numerous hours on conference calls with clients discussing valuation methodologies for GS issued transactions in the subprime and second lien space ([redacted] is prime example). I said "no" to clients who demanded that GS should "support the GSAMP" program as clients tried to gain leverage over us. Those were unpopular decisions but they saved the firm hundreds of millions of dollars.

At the end of the second quarter, I was very vocal in bringing to light our problems with our retained CDO and CDO^2 positions. At the time, those positions were not offered at realistic levels to reflect the then current value of the securities. My willingness to raise the issue to senior members of GS eventually led to the sale of several hundred million of CDO securiites that saved the firm $200 to $300mm.

Coaching/Mentoring

I am extremely proud of the traders that I have developed under my leadership. All of the traders that I have directly trained have gone on to be top performers despite the fact that many of them came under my watch when they were not top quartile performers. Rajiv, Deeb and Edwin all are top quartile performers who all have tremendous futures at Goldman Sachs.

I have been an extremely effective mentor for numerous traders and salespeople within the firm. I have spent hours counseling people as they grew concerned and with the direction of the origination/distribution model and the evolving departmental business plan.

Risk Management

My ability to assess and manage the risk in the rapidly changing mortgage market has been another tremendous achievement this year. The composition of the desk's risk changed significantly over the course of the past year. My ability to build consensus and have the team on board to cover risk after we had large market moves in February and August was extremely important to our ability to realize the desk's p and l for 2007.

We started out the fiscal 2007 year down (we were long) as the market began to grow concerned with early poor performance of the 2006 subprime vintage. We were long and needed to reduce risk in a situation where there were few opportunities to shed the ABX indices we were long. The CDO managers, had not grown concerned by that time. I recognized the enormous opportunity the CDO market presented us and took advantage of the Index to single-name basis. In November and December of

2007 EMD Reviews
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Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

last year, we agressively capitalized on the franchise to enter into efficient shorts in both the RMBS and CDO space.

After a vicious market sell off, we prudently covered $5bb of single-name shorts at the all time lows at the time back in February. From March through the end of May, the desk was flat RMBS risk during the technical run up of the indices and single names. Following the BSAM hedge fund liquidation the desk reinitiated RMBS short trades of close to $4bb. Most recently, I executed the desk's plan to reduce VaR for 3rd quarter. Those involved covering nearly $750mm of BBB and BBB- shorts at yet again the all time lows for the market.

Primary Reviewer(s) Assessment

[redacted]

Redacted By

Permanent Subcommittee on Investigations

[redacted]

B. Development Needs

Self-Review

- 1. Make greater use our traditional distribution franchise for 2008. For much of 2007, our traditional structured finance cleint base was under extreme stress and was locked out of the market due to massive protfolio losses. I need to leverage the firm to increase our franchise driven trade volumes.

  2. Personally meet with accounts more often and help our core client base get back on their feet post fall out.

  3. Be more open with the axes and needs of our business with our distribution franchise.

Primary Reviewer(s) Assessment

[redacted]

Redacted By

Permanent Subcommittee on Investigations

[redacted]

C. 2008 Goals, Objectives and Action Plan (Self-Review Only)

Self-Review

- 2008 presents itself with enormous opprotunities for the business. My goal for 2008 is to rebuild and reshape the mortgage trading credit business to take advantage of our unique position of strength versus our competition. This will require a focus on

[redacted] = Redacted by the Permanent Subcommittee on Investigations

2007 EMD Reviews
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Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

the desk's core trading skills which will allow us to maximize our profitability. 2008 will require a heavy reliance on our distribution capabilities to capture the large risk opportunities that will be presented to us. In order to have an extraordinary 2008 ($1bb+ in trading profits), I will focus on the following:

1. distressed cash trading business to capitalize on the forced selling in both the RMBS and CDO space

2. identify new entrants to the market as capital comes into the mortgage market. This will require identifying key salespeople with the expertise and ability to educate the accounts and develop those relationships

3. continue our dominance as the leading ABS CDS franchise allowing us to capture the extraordinary inefficiencies in the synthetic market

4. develop outlets for all components of risk from AAA on down to nims/residuals. Guide Cyrus and team to build out an actively traded subs and resids trading business that is properly risk managed.

5. develop with strategies proper risk systems and tools to enhance our trading, risk management and distribution platform.

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57322.254

2007 MD REVIEWS

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9/26/2007

Permanent Subcommittee on Investigations
EXHIBIT #55c

Reviewee's Feedback

The purpose of this review material is for personal development.
It is not intended for disclosure outside the firm.

GS-PSI-01972

Reviewee's Feedback

2007 EMD Reviews

Managing Director Reviewed: Joshua S. Birnbaum - MD I.D. No. Redacted by the Permanent Subcommittee on Investigations
Division: Fixed Income, Currency and Commodities Division

Solicited Reviewers[1]

Individuals Who Submitted Reviews:

Name	*Division*	*Office*	*Title*	*Direction of Feedback*[2]
Redacted by the Permanent Subcommittee on Investigations	FICC	New York	MD	Primary Rvwr
	ED	New York	MD	Peer
	FICC	New York	MD	Peer
	FICC	New York	MD	Downward
	FICC	New York	VP	Upward
	FICC	New York	MD	Peer
	FICC	New York	VP	Upward
	FICC	New York	MD	Peer
	FICC	New York	MD	Upward
	FICC	New York	MD	Peer
	FICC	New York	MD	Peer
	FICC	New York	MD	Peer

Individual(s) Who Did Not Submit Solicited Forms:

Name	*Division*	*Office*	*Title*
Redacted by the Permanent Subcommittee on Investigations	FICC	New York	VP
	FICC	New York	VP

[1]Based on final reviewer list as vetted with MD's primary reviewer/senior leadership.
[2]Direction of feedback from the perspective of, and as reported by, the reviewer.

Unsolicited Reviewers[3]

Number of unsolicited reviews received: 0

[3]Additional review forms received beyond the final reviewer list.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

2007 EMD Reviews
I.D. No. [redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

A. Accomplishments, Contributions and Strengths

Self-Review

- As a co-head of ABS and SPG trading, my performance in 2007 has been my best ever by any objective measure:

  1. P&L. YTD: ABS synthetics: $2.5Bln, ABS: $2.0Bln, SPG Trading: $3.0Bln, all #1 on the street by a wide margin, #2 in the world trading subprime risk (behind [redacted]).
  2. Franchise: ranked #1 ABS CDS dealer in annual Institutional Investor survey.
  3. Market share: #1 market share in ABS CDS (ABX and single name): est 30-40%

  4. Clients:
  I have a very strong working relationship with most of the top accounts in this space including: [redacted] These clients respect us as thought leaders and superior liquidity providers. Many of these clients are new clients and over the past year, I have specifically cultivated 6 of these relationships to the point where there is a high level of mutual trust allowing us to partner on risk and participate in transactions that other street firms could not.

  Specific strengths:

  The financial results of the ABS group in 2007 represent a remarkable team achievement with every member playing a key role. There are, however, areas in which I think I specifically contributed. These include:

  1. Vision, risk-taking, market calls:
  Whereas execution of strategies has clearly been a concerted team effort, I consider myself the initial or primary driver of the macro trading direction for the business. I would highlight 3 major calls here:
  1. Dec-Feb: With the desk quite long and ABX trading down from par to 95, we had a rough start to the year. The prevailing opinion within the department was that we should just "get close to home" and pare down our long. During this process, I had the following observations: (1) Given how much ABX we had purchased through the broker market in 2006, the world would think GS was very long for the foreseeable future. We could use that fear to our advantage if we could flip our risk, (2) After unsuccessfully trying to sell our long to some of [redacted]s accounts, I realized traditional distressed buyers were no more likely to buy ABX at 85, 75, 65, etc. than at 95. The cashflow was just too binary, so there would be little support if negative momentum began, (3) The fundamentals for mortgage credit were undeniably deteriorating, (4) CDO managers were in denial, saying the ABX index was purely technical and the market for CDOs would bounce back in January. Manager's sentiments would allow us to amass large amounts of cheap single name protection if we desired, and (5) If the market truly tanked, the already large CDO warehouses would have to liquidate, further exacerbating the move and ultimately allowing us to cover. Given these 5 observations, I concluded that we should not only get flat, but get VERY short. I then began socializing the idea.

2007 EMD Reviews
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Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

= Redacted by the Permanent Subcommittee on Investigations

I wanted to avoid group-think, so I independently spoke to Swenson, Lehman, Kamilla, and Gmelich to see if anyone could poke holes in the plan. Although opinions varied on execution probability, primarily on the back-end, we all agreed the plan made sense. After socializing with Sparks and ultimately Ruzika, we implemented the plan by hitting on almost every single name CDO protection buying opportunity in a 2-month period. Much of the plan began working by February as the market dropped 25 points and our very profitable year was underway. [During this period, I would also add that the ABS team contributed significantly to the Correlation desks $800+mm in YTD p&l by dissuading that desk from externalizing their shorting opportunities to the likes of [redacted], even when significant risk-free p&l was available at the time].

2. Mar-Jun: As ABX range traded in a 65-75 range during this period, many of the shorts grew increasingly impatient and the market began to "trade short". In response, we flattened our risk almost entirely, covering much of it near the lows of this range.

3. Jun-Jul: the BSAM situation changed everything. I felt that this mark-to-market event for CDO risk would begin a further unraveling in mortgage credit. Again, when the prevailing opinion in the department was to remain close to home, I pushed everyone on the desk to sell risk aggressively and quickly. We sold billions of index and single name risk such that when the index dropped 25pts in July, we had a blow-out p&l month, making over $1Bln that month.

I think in all of these cases, I employed a very disciplined, open-minded and adaptable trading style where I am willing to unemotionally turn risk on a dime when appropriate for market conditions.

2. Risk management:
I have extensive experience managing derivatives and mortgage cashflow risks. When we were socializing our plan to get short in the beginning of the year, I put together a tool, similar to what I have done for many other products, quantifying our position risk and p&l under various market level scenarios. I believe this was key for senior management to gain confidence that we were taking controlled and quantifiable risk that was well understood.

3. Flow trading:
My background in flow trading liquid rates products has been a competitive advantage for the ABS desk. At times, ABX has been high volume and passthrough-like. Whereas other dealers either resisted this development in the ABS market or found themselves providing too much liquidity to the market at times, our flow trading operation has been consistently profitable with intra-day trading p&l's that have ranged from $1mm to more than $10mm/day.

4. Breadth of product experience
My background trading a wide range of fixed income and equity products has been another competitive advantage for the ABS desk. I have been the primary proponent of trading related equity names on the ABS desk and our YTD p&l from these trades of $82+mm is a reflection of what is possible when we leverage our expertise or insights across product categories.

Missed opportunities:

2007 EMD Reviews
I.D. No.[redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

The #1 missed opportunity for the mortgage department in 2007 was externalizing profitable shorts from the ABS desk to clients instead of applying them against longs in the RMBS origination and CDO businesses. When the ABS desk was under pressure to cover risk for VAR reasons at the end of February, I was concerned and quite vocal that the department was much longer than the MarketRisk group was asserting because the rest of the department's risk was not adequately measured. As a leader with significant experience quantifying and managing a wide range of mortgage risks, I could have spoken even louder and tried to piece together something to support my assertion that other areas were quite long and in need of incremental hedges. Had the department kept those shorts and applied them to businesses that needed them, the department would be up more than $3bln with most of the $2bln+ in losses in the RMBS and CDO origination groups being avoided.

Primary Reviewer(s) Assessment

Redacted By
Permanent Subcommittee on Investigations

B. Development Needs

Self-Review

- 1. Be more open, leverage the firm: As our products have evolved and new products are coming online, we have increasingly seen opportunities to trade products or execute transactions outside of our typical domain. In doing so, I need to make sure I enlist the firm's collective expertise by working in more collaborative arrangements (whether with sales, trading, or strategy) whenever possible. In doing so, I need to work on being more open and transparent with information.
  2. Mentoring: I think I command considerable respect from younger members of the department based on my experience and market impact. I need to spend more time converting this respect into a comfort and trust for them in seeking my consultation and guidance on any topic.
  3. Recruiting: Although I have had some isolated successes such as recruiting arguably our most productive Strategist in mortgages, Jeremy Primer, I need to do much more on this front. Additional effort in this area will allow me to focus more on promoting diversity in the running of our business.

Primary Reviewer(s) Assessment

Redacted By
Permanent Subcommittee on Investigations

2007 EMD Reviews
I.D. No.[redacted] Division: Fixed Income, Currency and Commodities
Self-Review, Solicited and Unsolicited Comments and Primary Reviewer(s) Assessment

C. 2008 Goals, Objectives and Action Plan (Self-Review Only)

Self-Review

- I have 3 main goals for 2008:
  1) Produce more than $1Bln in trading revenue
  2) Continue to strengthen the GS franchise
  3) Make Partner

  I plan to achieve these goals by:
  1) Profiting from even greater revenue diversity:
  One of the most encouraging aspects of our performance this year was the diversity of our revenue sources. We made money: a) taking large directional views, the direction of which we changed several times, b) putting on the single name dispersion trade (i.e. betting the bad names would get much worse vs. the good ones, c) shorting CDOs, d) capturing the index to single name basis, e) getting long the top of the capital structure at the wides, f) flow trading index product, and g) trading selected equities, among other things.

  While it may surprise some people, I think the opportunity set going into 2008 may prove to be as compelling as it was for 2007. There are vast mispricings on both sides of the market and the some of the opportunities from trading new products such as property derivatives should prove particularly profitable. I think many people oversimplify the opportunity in mortgages as a 2-part trade: a 2007 short subprime trade which is mostly over, and a distressed investing opportunity for 2008. One of the reasons I believe our 2007 performance is repeatable is because many of our revenue drivers in 2007 are still there for 2008. If we combine these with some innovative strategies I have in mind, I think it is in the cards to make billions again in 2008.

  2) Broadening and re-inventing our customer base as our business and product mix evolves.
  3) Gaining personal leverage by hiring at least one additional experienced trader for the desk.
  4) Focusing on certain Development Needs listed in Part B.
  5) If my p&l goals are achieved and I make strides with my other development goals, I believe I will be a very compelling Partner candidate in 2008.

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #55d

FIXED INCOME, CURRENCY AND COMMODITIES INDIVIDUAL REVIEW BOOK

Reviewee : Tourre, Fabrice P

Title : VP
Review Criteria : FICC-Vice President
Business Unit : Mortgages
Department : SPG Trading
Region : Americas
Date of Hire : 16-JUL-01
Primary Manager :
Co - Manager 1 :
Co - Manager 2 : Redacted by the Permanent Subcommittee on Investigations
Co - Manager 3 :
Co - Manager 4 :
Mentor :

THE PURPOSE OF THIS REVIEW MATERIAL IS FOR PERSONAL DEVELOPMENT. IT IS NOT INTENDED FOR DISCLOSURE OUTSIDE THE FIRM.

Title Description: VP=Vice President/Executive Director; AS=Associate; AN=Analyst; EX=Exempt; NX=Non-Exempt

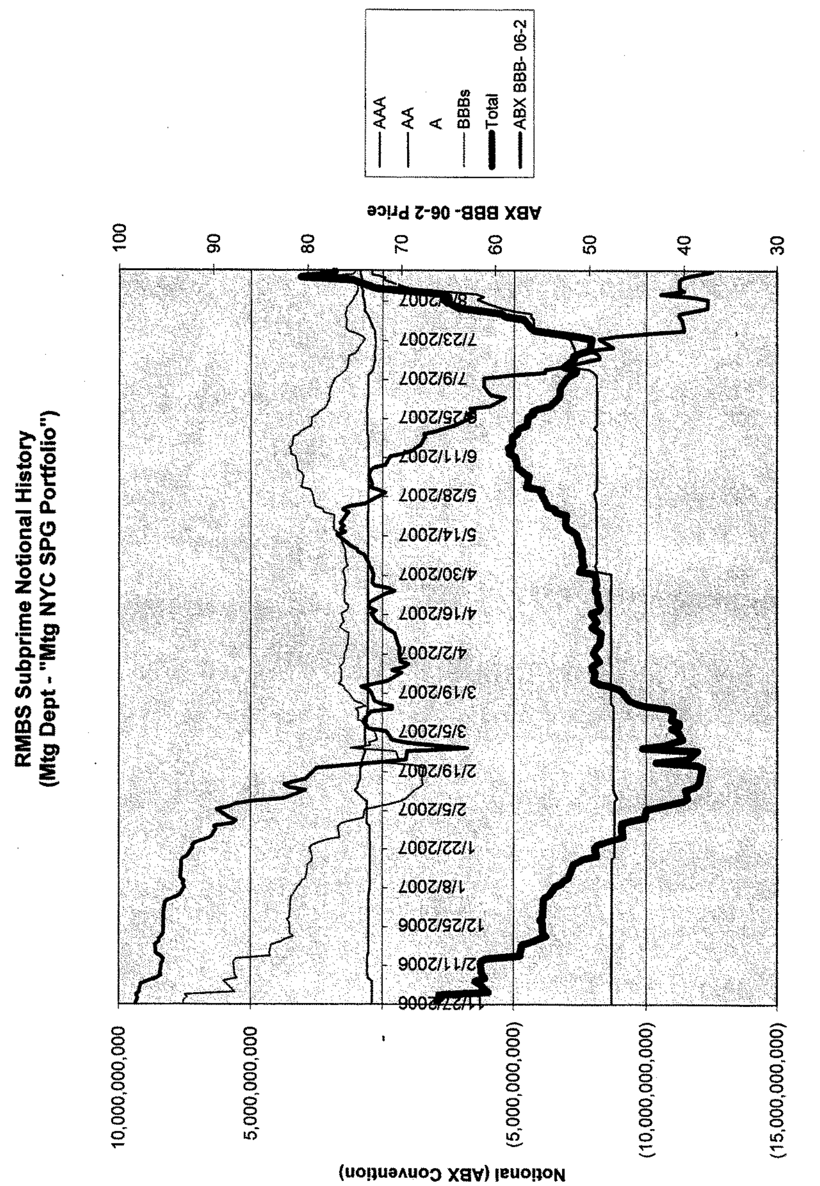
As you review feedback information, you should be alert to instances in which an individual has received an unusually negative comment or low score on the "Compliance" or "Diversity and Equitable Treatment" questions. Please consider whether the response requires follow-up, including consultation with a more senior manager, a Compliance professional, Employee Relations representative or other individuals.

■ = Redacted by the Permanent Subcommittee on Investigations

VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
Overall Performance	Have showed creativity in creating, for third party clients, transactions that (a) addressed those clients' needs, (b) enabled Goldman to position risk appropriately, and (c) enabled Goldman to generate revenue through bid/offer on exotic derivatives trades. For example, implementing the synthetic CDO "rental" strategy by crossing tranche trades to hedge funds looking for risks to buy protection on. Pushed innovative solutions in order to help desks' risk position. Pushed trade idea through global franchise and global sales, work efficiently with strat team in order to create analytics that would help sell the product. Have built strong connection with certain key GS clients that are now instrumental in help GS position and sell risks that are key axes for the firm. In a difficult market environment, have been persistent and showed patience in executing complex transaction that were involving several financial products including corporate CDS, single-tranche synthetic ABS CDOs, and CDO management technology. Involved in developping a network of intermediation counterparties that have been instrumental in allowing Goldman to trade very actively with all types of monolines including [redacted] Have used the firm's full distribution platform to distribute products globally, and have efficiently worked with Asia sales, Europe sales (accross regions), US structured credit marketing, US syndicate. Have acted as a mentor for 2 analyststhis year [redacted]and [redacted]), have been able to help them take career advice, guide them through the choices they have had to make over the last 12 months.
Unfulfilled Accomplishments	Team work still needs to be improved, need to be able to involve team members more actively on trade idea generation/trade negotiation/trade execution. Need to share responsibilities and delegate more proactively. Have to stop double-checking work done by others and need to trust team members more regularly. Leadership skills need to be a focus at this point, in order to become viewed as a firm culture carrier. Sometimes need to be more patient with team members when arguing about risks and strategy. Need to be more open minded and need to consider more carefully alternative solutions proposed by other team members when considering hedging and risk management alternatives. Need to do a better job at recruiting, need to be more involved in GS recruiting process and talent identification process.
Career Development Plans	Currently working actively on a contemplated move to London. Have put together a high level business plan to implement and currently meeting key members of GS London sales and trading.
Other Issues	No Comments Noted.



GSMBS-E-012928391

Permanent Subcommittee on Investigations
EXHIBIT #56a

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 10:17 PM
To: Birnbaum, Josh
Cc: Turok, Michael; Primer, Jeremy
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Attachments: RMBS Subprime Notional History.xls

Josh - should have sent this to you earlier ...

The attached spreadsheet covers the single name and ABX positions of the entire mortgage department for the fiscal year 2007. I spot checked the numbers with risk reports they tie out well. (The first 3 tabs are for ABS base portfolio; the last 3 tabs are for the entire mortgage department.)

Some observations:
- Mtg department is long subprime risk overall, since Aug 10
- Mtg department has "flat" single name AAA net notional (all of them are internal trades)
- Mtg department is short ABX AAA 8.7b, splitting among ABS/Alt-A/prime/conduit desks in the beginning of fiscal year 2007, and is now long 410m.

RMBS Subprime Notional History...

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 3:41 PM
To: Birnbaum, Josh
Cc: Turok, Michael
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

As discussed - abx 06-2 bbb- price history added.

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:41 PM
To: Birnbaum, Josh
Cc: Turok, Michael
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

And for TABX, I'll put it together with ABX. Let me know if you agree / disagree.

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:36 PM
To: Birnbaum, Josh
Cc: Turok, Michael
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

BTW, I also spot checked the numbers and they are consistent with our daily pink sheet report under single name and index columns.

Permanent Subcommittee on Investigations
EXHIBIT #56b

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:35 PM
To: Birnbaum, Josh
Cc: Turok, Michael
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Josh - as you requested here's the ABS base portfolio single name & index notional history. Numbers are in terms of risk exposure.

I'll look into correlation portfolio next, and then the mortgage department for fiscal year 2007. This can be done within the next hour or so.

Retrieving 2006 data may take quite a bit more time and may not be able to finish it by COB. Let me know if you need 2006 history after you review the 2007 data. Thanks.

From: Birnbaum, Josh
Sent: Friday, August 17, 2007 2:27 PM
To: Kao, Kevin J.
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Understood.

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:25 PM
To: Birnbaum, Josh
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Understood. (Yes, the portfolio name is confusing. SPG portfolio in fact covers the entire mortgage department synthetic positions. "SPG Trading" Portfolio covers the spg trading desks, including ABS, correlation, and CMBS).

From: Birnbaum, Josh
Sent: Friday, August 17, 2007 2:22 PM
To: Kao, Kevin J.
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

No, not SPG Portfolio, the entire Mortgage Dept.

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:19 PM
To: Birnbaum, Josh
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

So we'll have three tables of RMBS subprime cds & index AAA, AA, A, BBB, BBB- notional history: one for ABS Base Portfolio, one for SPG Portfolio, and the other for Correlation Portfolio, correct?

It turns out to take more time to retrieve the data. I should have history for your portfolio for fiscal year 2007 shortly.

From: Birnbaum, Josh
Sent: Friday, August 17, 2007 2:08 PM
To: Kao, Kevin J.
Subject: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Fellow Shareholders:

When we reported to you last,

the world's financial system and the global economy remained in the grips of uncertainty. Our industry had been shaken to its foundation in the wake of severe volatility, a sharp deterioration in equity values and extreme illiquidity across most credit markets. Governments, regulators and market participants were forced to confront simultaneously the unwinding of several financial institutions, ensuring short-term market stability, shoring up investor confidence and enacting measures to secure the long-term viability of the global capital markets.

By the end of 2009, owed in no small part to actions taken by governments to fortify the system, conditions across financial markets had improved significantly and to an extent few predicted or thought possible. Equity prices largely rebounded, credit spreads tightened and market activity was revitalized by investors seeking new opportunities, all of which imply renewed optimism, if not the beginnings of a potential recovery.

While improving financial conditions are often a precursor to better economic ones, the economy nevertheless remains fragile. Unemployment is high, consumer spending tepid and access to credit for many smaller businesses continues to be elusive. The effects of unwinding leverage embedded in the system may linger for some time. As the global economy works its way to recovery, the roles that we play for our clients become even more important as companies and investors position themselves to emerge stronger following the crisis.

The firm's focus on staying close to our clients and helping them to navigate uncertainty and achieve their objectives is largely responsible for what proved to be a year of resiliency across our businesses and, by extension, a strong performance for Goldman Sachs. In 2009, the firm generated net revenues of $45.17 billion with net earnings of $13.39 billion. Diluted earnings per common share were $22.13 and our return on average common shareholders' equity was 22.5 percent. Book value per common share increased 23 percent during 2009, and has grown from $20.94 at the end of our first year as a public company in 1999 to $117.48, a compounded annual growth rate of 19 percent over this period.

This past year, clients came to Goldman Sachs because of our ability to integrate advice, financing, market making and investing capabilities with sophisticated risk management. Importantly, during the crisis, we were able to commit capital when market liquidity and capital were scarce. Our duty to shareholders is to protect and grow our client-focused franchise by remaining true to our teamwork and performance-driven culture. Our shared values have allowed us to be nimble and reactive, yet governed by prudent, long-term thinking.

In this year's letter, we will address some of the steps Goldman Sachs took to further strengthen our capital, liquidity and competitive position in 2009. We will discuss the firm's client franchise and our contribution to well-functioning markets in times of distress and, on an ongoing basis, by operating at the center of global capital markets. We also will report to you on how our integrated business model, diverse revenue streams and risk management practices serve as the core of our strategy. Importantly, we will focus on how our people and culture have been and remain fundamental to the firm's success. Finally, we will review the regulatory reform agenda as well as certain developments that attracted considerable attention over the course of the year.

EXTRAORDINARY MEASURES

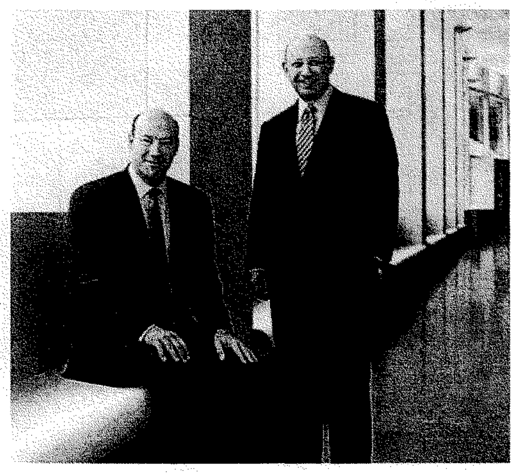
Looking back on 2009, it is impossible to know what would have happened to the financial system absent concerted government action around the world. Institutions were hoarding cash and were unwilling to transact with each other. This had extreme consequences for even the healthiest of financial institutions and companies. Through aggressive measures ranging from liquidity and funding facilities to direct investment programs, the government arrested the contagious fear that had engulfed the global financial system and averted more acute circumstances. We believe such efforts were absolutely critical to protecting the financial system and ensuring the continued viability of the global economy. Goldman Sachs is grateful for the indispensable role governments played and we recognize that our firm and our shareholders benefited from it.

In June 2009, the firm repaid the U.S. government's investment of $10 billion in Goldman Sachs as a participant

Permanent Subcommittee on Investigations
EXHIBIT #57

right
Lloyd C. Blankfein
Chairman and
Chief Executive Officer

left
Gary D. Cohn
President and
Chief Operating Officer



in the U.S. Treasury's TARP Capital Purchase Program, which was designed to promote the broader stability of the financial system. We subsequently repurchased the warrants acquired by the U.S. Treasury in connection with that investment which, when combined with preferred dividends paid, represented an additional $1.4 billion, or an annualized 23 percent return for U.S. taxpayers.

CONSERVATIVE FINANCIAL PROFILE

In light of the events of the last two years, we believe it is important to highlight for our shareholders that Goldman Sachs did not and does not operate or manage our risk with any expectation of outside assistance. Given our roots as a privately-held partnership, we have always focused on maintaining a conservative financial profile and view liquidity as the single most important consideration for a financial institution.

Having steadily increased our Global Core Excess pool of liquidity for several years, it stood at roughly $170 billion in cash or highly liquid securities, or almost 20 percent of our balance sheet at the end of 2009. Keeping this pool of liquidity is expensive, but, in our judgment, it is money well-worth spending. Leading up to 2008, we reduced our exposures even though it meant selling at prices many thought were irrational. When the crisis hit, we raised nearly $11 billion in capital—$5 billion of preferred equity from Berkshire Hathaway and $5.75 billion in common equity— without any knowledge that TARP funds would be forthcoming.

While the past two years have validated our conservative approach to liquidity and to managing our risk, they have also prompted significant change within our organization. Specifically, we have embraced new realities pertaining to regulation and ensuring that our financial strength remains in line with our commitment to the long-term stability of our franchise and the overall markets.

We became a financial holding company, now regulated primarily by the Federal Reserve and subject to new capital and leverage tests. Since May 2008, our balance sheet has fallen by approximately one-quarter while our capital has increased by over one-half. Over 90 percent of our shareholders' equity is common equity. The amount of level 3—or illiquid—assets is down by 40 percent representing less than 6 percent of our total assets. In 2009, our Basel I Tier 1 capital ratio increased to 15 percent, well in excess of the required minimum.

IMPORTANT ROLES WE PLAY ON BEHALF OF OUR CLIENTS

Maintaining a sound financial profile is vital if we are to be effective in meeting the needs of our clients. Among the roles we play for our largely institutional client base are advisor, financier, market maker, asset manager and co-investor.

Strategic Advice

Our advisory business serves as our primary point of contact with our clients and is often the genesis for sourcing other opportunities to serve them. In some instances, business garnered from our long-standing investment banking relationships is captured from a financial reporting perspective in the revenues reported within other segments, particularly within our Trading and Principal Investments segment. For instance, we have been successfully building our risk management solutions business within investment banking—encapsulating our strategy of integrating advice, capital and risk management expertise. Since 2005, revenues from this business have grown 32 percent compounded annually. This trend is consistent with our business model and operating philosophy which are predicated on the firm functioning as an integrated whole.

While classic advisory revenues in 2009 reached a near cyclical low, the latter half of the year yielded greater levels of strategic dialogues, reflecting an improvement in CEO confidence. Although it is difficult to predict what types of transactions or which industries will rebound most quickly, our broad and deep franchise allows Goldman Sachs to remain knowledgeable and relevant across multiple sectors, and poised to serve our clients. Over the past five years, Investment Banking has advised over 1,000 clients in 67 countries, solidifying our leading market share position and allowing us to retain industry-leading positions in cross-border, acquirer, target and strategic defense advisory league tables.

Financing for Growth

Our investment banking relationships are also the basis for most of our financing mandates. As a financial intermediary, Goldman Sachs acts to match the capital of our investing clients with the needs of our corporate and government clients, who rely on financing to generate growth, create jobs and deliver the products and services that drive economic development. Since the beginning of 2007, we have underwritten over $750 billion in corporate debt and over $450 billion in equity and equity-related products across approximately 1,900 offerings for 800 clients globally.

We have a long history of helping states and municipalities access the capital markets. Since entering the public finance business in 1951, Goldman Sachs has been one of the most significant industry participants and over the past decade has helped states and municipalities raise over $250 billion in capital. In 2009, we were the number one underwriter for the Build America Bond program, which allows states and municipalities to meet their borrowing needs and invest in infrastructure projects. We also helped finance over $28 billion for nonprofit institutions including education services, healthcare and government entities.

Market Intermediary

Through our role as a market maker, we commit and deploy our capital to ensure that buyers and sellers can complete their transactions, contributing to the liquidity, efficiency and stability of financial markets. Throughout the crisis, we made prices when markets were volatile and illiquid and extended credit when credit was scarce. Fixed Income, Commodities and Currencies (FICC) and Equities, our market intermediation businesses that comprise our Securities Division, were meaningful drivers of our strong firmwide performance last year.

By remaining close to our clients, we were able to direct our human and financial capital to those businesses within our market making franchise that most reflected clients' interests and needs. Another important component of growth has been the dynamic that, as clients grow in size, the scope of the business that they execute with the firm also increases. In 2009, 2,500 of our clients were active across both Equities and FICC products, which is up 25 percent from 2006.

Client-Driven Risk Exposures

Given concern by some over the nature and level of risk that financial institutions undertake, it is important to note that for Goldman Sachs, the vast majority of the risk we take and the revenues we generate is derived from trades that advance a client need or objective.

By way of example, in 2009, an energy consumer asked us to help protect it against a rise in the cost of fuel, concerned that an increase would affect its ability to grow. To accomplish this, Goldman Sachs structured a long-term collateralized hedge facility. We then entered into hedges to offset the fuel price risk that we had assumed. As part of our normal accounting and risk management, we regularly revalue the amount of collateral necessary to be posted when fuel prices declined during the life of the transaction. We also routinely hedge our client counterparty risk in addition to receiving collateral. In the end, we were able to structure the transaction at a fair price for our client and generate an attractive risk-adjusted return for the firm and our shareholders. This is representative of the risk we assume and manage daily to allow our clients to focus on their underlying businesses.

Co-Investing

Co-investing is another way we directly align the firm's interests with those of our clients. Two-thirds of our corporate investing opportunities are sourced from our investment banking relationships. In addition, the vast majority of money committed to our investing funds comes from our clients, who seek to partner with us. While returns fluctuate based on equity market performance and other factors, our merchant banking businesses have provided much needed capital to our investment banking clients and achieved strong returns for our investors and shareholders over the long term. This business generates management fees as well as incentive fees based on the funds' performance. As a result, our merchant banking business helps diversify the firm's revenues.

The focus of our funds spans the capital structure, including senior debt, mezzanine and private equity funds. During periods of 2009 when public market liquidity dried up, our senior loan and mezzanine funds, in particular, extended needed capital to a variety of companies whose growth opportunities would otherwise have been limited.

There also is significant diversity within the funds themselves. Our corporate equity fund portfolio represents eight different industry groups with no one industry contributing more than 25 percent. Looking ahead, we remain well-positioned, together with our clients, to invest in attractively priced assets.

Managing Assets

Managing our clients' assets remains an important growth opportunity for Goldman Sachs and we continue to allocate significant time and resources to building our asset management businesses within our Investment Management Division and expanding our portfolio management capabilities. At the time of our IPO in 1999, our goal was to double assets under management (AUM) over five years. We were successful, and by May 2008, we had doubled AUM once again. Our success follows a track record of strong investment returns for our clients.

As with all of our businesses, our client base is diverse, numbering 2,000 institutional clients and third-party distributors, and over 25,000 private wealth management accounts. Our range of products across money markets, fixed income, equity and alternative investments is offered through distribution channels to institutional, high-net-worth clients and third-party retail clients around the world.

To advance our strategy, in 2009, we doubled our third-party distribution sales force and significantly increased our institutional and private wealth management coverage. Included in our expanded coverage focus are government sponsored organizations, corporate pension funds, insurance companies and growth markets such as Brazil, the Middle East and China.

INVESTMENTS IN GROWTH

BRICs and Emerging Markets

We continue to believe that this will be the century of the BRICs and other high growth markets. They have helped lead the global recovery and, in our minds, are even more compelling now. As a result, the emerging markets remain integral to our growth strategy.

At the beginning of the crisis, many wondered if or to what extent the BRICs and other growth markets would be able to decouple from the more established economies. Such a decoupling had little precedent. Today, it appears that the growth markets are helping lead the recovery in the global economy. They continue to attract capital from abroad and, also, are making significant, long-term investments to position themselves for the future.

We believe Goldman Sachs is similarly well-positioned to expand our franchise in step with these countries' growth. We remain focused on implementing a familiar strategy—expand our advisory client coverage, build underwriting capabilities, develop sales and trading expertise and grow our wealth management business.

Investing in People and Communities

While Goldman Sachs serves a wide range of clients with individual needs and goals, we also believe that financial institutions have a larger obligation to the financial system, the broader economy and the communities in which their employees work and live. For us, this means helping new enterprises succeed and grow, catalyzing economic development and financing community projects that create a better quality of life for more people. Given that our firm is most successful when economies and markets thrive, this is in our interest and that of our shareholders.

The firm's Urban Investment Group is helping to create thousands of affordable housing units and funding businesses in underserved communities, helping to bring together money and innovative ideas to revitalize cities across the United States. By making investments, loans and grants, and through service initiatives, we are working to transform distressed neighborhoods into vibrant and sustainable places of opportunity. As one example, with a $61 million investment in the New York Equity Fund, Goldman Sachs is providing 569 units of much-needed affordable housing for low-income New Yorkers as part of a wider effort to rehabilitate 47 buildings across Harlem, the South Bronx and Brooklyn.

We are pleased to report that our *10,000 Women* initiative, which we introduced to you in last year's shareholders letter, has exceeded our own expectations and is today providing underserved female entrepreneurs with a business education through partnerships with more than 70 academic institutions and nonprofits in 20 countries, including India, Brazil, China, Afghanistan, Rwanda and the United States. Our early experience is confirming research by the World Bank, Goldman Sachs and the United Nations that educating women can lead to real economic growth and healthier, safer and better-educated communities.

10,000 Small Businesses

Based on the results of *10,000 Women*, Goldman Sachs announced in 2009 a new effort called *10,000 Small Businesses*. This $500 million, five-year program aims to unlock the growth and job-creation potential of 10,000 businesses across the United States through greater access to business education, mentors and networks, and financial capital. It is based on the broadly held view of leading experts that a combination of education, capital and support services best addresses the barriers to growth for small businesses.

The program's business and management curriculum is supported by a $200 million commitment to community colleges and universities to build educational capacity and to provide scholarships to underserved small business owners. Goldman Sachs has committed $300 million through a mix of lending and philanthropic support to Community Development Financial Institutions to help get capital flowing to small businesses. The program's critical support services will connect small business owners with mentoring, networking and advice available through our various *10,000 Small Businesses* partners.

As with *10,000 Women*, the people of Goldman Sachs will give freely of their time and professional skills to serve as mentors and guest lecturers, as well as to participate on selection committees. We believe this approach is in keeping with the best tradition of our firm, aligning our philanthropic and growth development efforts with our core competencies and expertise.

Goldman Sachs Gives

We also announced a $500 million philanthropic contribution to the firm's donor-advised fund, *Goldman Sachs Gives*, which was established in 2007. The firm's compensation for partners was reduced to fund this charitable contribution, reflecting the firm's tradition of philanthropy.

We have asked our partners to recommend charitable organizations that focus on the critical areas of creating jobs and economic growth, building and stabilizing communities, honoring service and veterans and increasing educational opportunities.

OUR PEOPLE

While an often used phrase, it is true in every way at Goldman Sachs: Our people are our most important asset. We do not have material "property, plant and equipment" assets. Rather, we have talented, entrepreneurial professionals who are dedicated to the firm's mission of supporting economic growth. In 2009, our people sat on 1,500 nonprofit boards, and 23,000 of us volunteered for over 800 local nonprofits through our Community TeamWorks program. In short, our people are central to who we are, to the cohesiveness of our culture, and to our ability to generate attractive returns for shareholders.

Throughout 2009, we stayed true to our focus on people. Every member of our management committee participated in on-campus recruiting, while another 120,000 recruiting hours were undertaken by people across the firm. Through GS University, we provided 350,000 hours of training and leveraged our senior leaders as faculty to provide learning opportunities to our people more broadly. Last year, for example, over 5,000 courses were taught by the firm's managing directors and vice presidents.

As demonstrated in the way we source opportunities and serve our clients, Goldman Sachs operates with a one-firm philosophy. Our people are rewarded for their accomplishments by how they work and succeed in teams, with the long-term interests of the organization always coming before those of the individual. We believe this partnership ethos, which reflects the firm's long-standing business principles, is a competitive advantage that drives the company's overall performance.

PAY FOR PERFORMANCE

Providing the best advice and execution to our clients means, in turn, providing our people with attractive career opportunities and long-term incentives. We have not been blind to the attention on our industry and, in particular, on Goldman Sachs, with respect to compensation. We have adopted very specific compensation principles, which we presented at our 2009 Annual Meeting of Shareholders to ensure an even stronger relationship between pay and performance.

These principles are designed to:

- Encourage a real sense of teamwork and communication, binding individual short-term interests to the institution's long-term interests;
- Evaluate performance on a multi-year basis;
- Discourage excessive or concentrated risk taking;
- Allow us to attract and retain proven talent; and
- Align aggregate compensation for the firm with performance over the cycle.

Consistent with our principles, in December, we announced that for 2009 the firm's entire management committee would receive 100 percent of their discretionary compensation in the form of Shares at Risk which have a five-year period during which an enhanced recapture provision will permit the firm to recapture the shares in cases where an employee engaged in materially improper risk analysis or failed sufficiently to raise concerns about risks.

Enhancing our recapture provision is intended to ensure that our employees are accountable for the future impact of their decisions, to reinforce the importance of risk controls to the firm and to make clear that our compensation practices do not reward taking excessive risk.

The enhanced recapture rights build off an existing clawback mechanism that goes well beyond employee acts of fraud or malfeasance and includes conduct that is detrimental to the firm, including conduct resulting in a material restatement of the financial statements or material financial harm to the firm or one of its business units.

In addition, our shareholders will have an advisory vote on the firm's compensation principles and the compensation of its named executive officers at the firm's Annual Meeting of Shareholders in May 2010.

Finally, Goldman Sachs does not set aside an actual pool for discretionary compensation or "bonuses" during the course of the year. We accrue an estimate of compensation expenses each of the first three quarters. Only at year end, with the visibility of our full-year performance, do we make final decisions on compensation. While the previous quarters' accruals attract much attention, our full-year compensation and benefits to net revenues ratio ultimately represents the firm's compensation expense. In 2009, that ratio was the lowest ever since we became a public company—35.8 percent.

While 2009 total net revenues are only 2 percent less than the record net revenues that we posted in 2007, total compensation and benefit expense is 20 percent lower than in 2007, equating to a nearly $4 billion difference in compensation and benefits expense between the two periods. Our approach to compensation reflected the extraordinary events of 2009.

REGULATORY REFORM

Goldman Sachs has pledged to remain a constructive voice and participant in the process of reform, and has been forthcoming in recognizing lessons learned and mistakes made. We have provided a number of recommendations concerning how large financial institutions should account for their assets, how risk management processes can be enhanced, and how new regulations can keep pace with innovation.

Given that much of the financial contagion was fueled by uncertainty about counterparties' balance sheets, we support measures that would require higher capital and liquidity levels, as well as the use of clearinghouses for standardized derivative transactions. More broadly, we support proposals that would improve transparency for investors and regulators and reduce systemic risk, including fair value accounting. In short, we believe that sensible and significant reforms that do not impair entrepreneurship or innovation, but make markets more efficient and safer, are in everyone's best interest.

During our history, our firm has demonstrated an ability to quickly and effectively adapt to regulatory change. As an institution that interacts with thousands of entities, we benefit from the general elevation of standards, and will continue to work towards meaningful changes that improve our financial system.

OUR RELATIONSHIP WITH AIG

Over the last year, there has been a lot of focus on Goldman Sachs' relationship with AIG, particularly our credit exposure to the company and the direct effect the U.S. government's decision to support AIG had or didn't have on our firm. Here are the facts:

Since the mid-1990s, Goldman Sachs has had a trading relationship with AIG. Our business with them spanned a number of their entities, including many of their insurance subsidiaries. And it included multiple activities, such as stock lending, foreign exchange, fixed income, futures and mortgage trading.

AIG was a AAA-rated company, one of the largest and considered one of the most sophisticated trading counterparts in the world. We established credit terms with them commensurate with those extended to other major counterparts, including a willingness to do substantial trading volumes but subject to collateral arrangements that were tightly managed.

As we do with most other counterparty relationships, we limited our overall credit exposure to AIG through a combination of collateral and market hedges in order to protect ourselves against the potential inability of AIG to make good on its commitments.

We established a pre-determined hedging program, which provided that if aggregate exposure moved above a certain threshold, credit default swaps (CDS) and other credit hedges would be obtained. This hedging was designed to keep our overall risk to manageable levels.

As part of our trading with AIG, we purchased from them protection on super-senior collateralized debt obligation (CDO) risk. This protection was designed to hedge equivalent transactions executed with clients taking the other side of the same trades. In so doing, we served as an intermediary in assisting our clients to express a defined view on the market. The net risk we were exposed to was consistent with our role as a market intermediary rather than a proprietary market participant.

In July 2007, as the market deteriorated, we began to significantly mark down the value of our super-senior CDO positions. Our rigorous commitment to fair value accounting, coupled with our daily transactions as a market maker in these securities, prompted us to reduce our valuations on a real-time basis which we believe we did earlier than other institutions. This resulted in collateral disputes with AIG. We believe that subsequent events in the housing market proved our marks to be correct—they reflected the realistic values markets were placing on these securities.

Over the ensuing weeks and months, we continued to make collateral calls, which were based on market values, consistent with our agreements with AIG. While we collected collateral, there still remained gaps between what we received and what we believed we were owed. These gaps were hedged in full by the purchase of CDS and other risk mitigants from third parties, such that we had no material residual risk if AIG defaulted on its obligations to us.

In mid-September 2008, prior to the government's action to save AIG, a majority of Goldman Sachs' exposure to AIG was collateralized and the rest was covered through various risk mitigants. Our total exposure on the securities on which we bought protection was roughly $10 billion. Against this, we held roughly $7.5 billion in collateral. The remainder was fully covered through hedges we purchased, primarily through CDS for which we received collateral from our market counterparties. Thus, if AIG had failed, we would have had the collateral from AIG and the proceeds from the CDS protection we purchased and, therefore, would not have incurred any material economic loss.

In this regard, a list of AIG's cash flows to counterparties indicates little about each bank's credit exposure to the company.

The figure of $12.9 billion that AIG paid to Goldman Sachs post the government's decision to support AIG is made up as follows:

- $4.8 billion for highly marketable U.S. Government Agency securities that AIG had pledged to us in return for a loan of $4.8 billion. They gave us the cash, we gave them back the securities. If AIG hadn't repaid the loan, we would simply have sold the securities and received the $4.8 billion of value in that way.
- An additional $2.5 billion that AIG owed us in collateral from September 16, 2008 (just after the government's action) through December 31, 2008. This represented the additional collateral that was called as markets continued to deteriorate and was consistent with the existing agreements that we had with AIG.
- $5.6 billion associated with a financing entity called Maiden Lane III, which was established in mid-November 2008 by the Federal Reserve to purchase the securities underlying certain CDS contracts and to cancel those contracts between AIG and its counterparties. The Federal Reserve required that the counterparties deliver the cash bonds to Maiden Lane III in order to settle the CDS contracts and avoid any further collateral calls. Consequently, the cash flow of $5.6 billion between Maiden Lane III and Goldman Sachs reflected the Federal Reserve paying Goldman Sachs the face value of the securities (approximately $14 billion) less the collateral (approximately $8.4 billion) we already held on those securities. Goldman Sachs then spent the vast majority of the money we received to buy the cash bonds from our counterparties in order to complete the settlement as required by the Federal Reserve.

While our direct economic exposure to AIG was minimal, the financial markets, and, as a result, Goldman Sachs and every other financial institution and company, benefited from the continued viability of AIG. Although it is difficult to determine what the exact systemic implications would have been had AIG failed, it would have been extremely disruptive to the world's already turbulent financial markets.

OUR ACTIVITIES IN THE MORTGAGE SECURITIZATION MARKET

Another issue that has attracted attention and speculation has been how we managed the risk we assumed as a market maker and underwriter in the mortgage securitization market. Again, we want to provide you with the facts.

As a market maker, we execute a variety of transactions each day with clients and other market participants, buying and selling financial instruments, which may result in long or short risk exposures to thousands of different instruments at any given time. This does not mean that we know or even think that prices will fall every time we sell or are short, or rise when we buy or are long.

In these cases, we are executing transactions in connection with our role of providing liquidity to markets. Clients come to us as a market maker because of our willingness and ability to commit our capital and to assume market risk. We are responding to our clients' desire either to establish, or to increase or decrease, their exposure to a position on their own investment views. We are not "betting against" them.

As a market maker, we assume risk created through client purchases and sales. This is fundamental to our role as a financial intermediary. As part of facilitating client transactions, we generally carry an "inventory" of securities. This inventory comprises long and short positions. Its composition reflects the accumulation of customer trades and our judgments about supply and demand or market direction. If a client asks us to transact in an instrument we hold in inventory, we may be able to give the client a better price than it could find elsewhere in the market and to execute the order without potential delay and price movement. This inventory represents a risk position that we manage continuously.

In so doing, we must also manage the size of our inventory and keep exposures in line with risk limits. We believe that risk limits are an important tool in managing our firm. They are established by senior management, and scaled to be in line with our financial resources (capital, liquidity, etc.). They help ensure that regardless of the opinions of an individual or business unit about market direction, our risk must remain within prescribed levels. In addition to selling positions, we use other techniques to manage risk. These include establishing offsetting positions ("hedges") through the same or other instruments, which serve to reduce the firm's overall exposure.

In this way, we are able to serve our clients and to maintain a robust client franchise while prudently limiting overall risk consistent with our financial resources.

Through the end of 2006, Goldman Sachs generally was long in exposure to residential mortgages and mortgage-related products, such as residential mortgage-backed securities (RMBS), CDOs backed by residential mortgages and credit default swaps referencing residential mortgage products. In late 2006, we began to experience losses in our daily residential mortgage-related products P&L as we marked down the value of our inventory of various residential mortgage-related products to reflect lower market prices.

In response to those losses, we decided to reduce our overall exposure to the residential housing market, consistent with our risk protocols—given the uncertainty of the future direction of prices in the housing market and the increased market volatility. The firm did not generate enormous net revenues or profits by betting against residential mortgage-related products, as some have speculated; rather, our relatively early risk reduction resulted in our losing less money than we otherwise would have when the residential housing market began to deteriorate rapidly.

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00480 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
ph44585 on D330-44585-7600 with DISTILLER
57322.272

The markets for residential mortgage-related products, and subprime mortgage securities in particular, were volatile and unpredictable in the first half of 2007. Investors in these markets held very different views of the future direction of the U.S. housing market based on their outlook on factors that were equally available to all market participants, including housing prices, interest rates and personal income and indebtedness data. Some investors developed aggressively negative views on the residential mortgage market. Others believed that any weakness in the residential housing markets would be relatively mild and temporary. Investors with both sets of views came to Goldman Sachs and other financial intermediaries to establish long and short exposures to the residential housing market through RMBS, CDOs, CDS and other types of instruments or transactions.

The investors who transacted with Goldman Sachs in CDOs in 2007, as in prior years, were primarily large, global financial institutions, insurance companies and hedge funds (no pension funds invested in these products, with one exception: a corporate-related pension fund that had long been active in this area made a purchase of less than $5 million). These investors had significant resources, relationships with multiple financial intermediaries and access to extensive information and research flow, performed their own analysis of the data, formed their own views about trends, and many actively negotiated at arm's length the structure and terms of transactions.

We certainly did not know the future of the residential housing market in the first half of 2007 any more than we can predict the future of markets today. We also did not know whether the value of the instruments we sold would increase or decrease. It was well known that housing prices were weakening in early 2007, but no one—including Goldman Sachs—knew whether they would continue to fall or to stabilize at levels where purchasers of residential mortgage-related securities would have received their full interest and principal payments.

Although Goldman Sachs held various positions in residential mortgage-related products in 2007, our short positions were not a "bet against our clients." Rather, they served to offset our long positions. Our goal was, and is, to be in a position to make markets for our clients while managing our risk within prescribed limits.

LOOKING AHEAD

We want to recognize the extraordinary focus and commitment of our people despite the turbulence and challenges of the past year. In many ways, our financial performance masks the considerable pressures and distractions that we had to confront. Of course, in this way, we are no different from many other organizations that are coping with a complex and difficult environment. But, our people stayed focused, they worked together, and, today, we are well-positioned to continue delivering strong returns for our shareholders.

Heading into 2010, we are gratified that our core constituencies—our shareholders, our clients, and our people—remain close and committed to Goldman Sachs. Our shareholders continue to convey a strong belief in our business model and strategy, and in the importance of protecting the quality of our franchise. Our clients look to us to advise, execute and co-invest on their most significant transactions, translating into strong market shares. And our people remain as committed as ever to our culture of teamwork, to the belief in their responsibility to help allocate capital for the benefit of clients, and to the firm's tradition of service and philanthropy.

As the last two years demonstrated, no one can predict the future. While we are encouraged by the prospects for a sustainable economic recovery, we continue to place a premium on conservatism and prudence. At the same time, we are focused on opportunities that can continue to grow our business and generate industry-leading returns through the strength of the firm's core attributes. We have a clear strategy to integrate advice and capital with risk management for our clients. We have a diverse set of businesses. We have an expanding global footprint. We have established a proven culture of risk management. And, we have deep client relationships with a broad range of companies, institutions, investing organizations and high-net-worth individuals.

We are keenly aware that our legacy of client service and performance, which every person at Goldman Sachs is charged with protecting and advancing, must be continually nurtured and passed on from one generation to the next. To our fellow shareholders, we are pleased to report that we have never been more confident of that commitment or long-term outcome.

Lloyd C. Blankfein
Chairman and Chief Executive Officer

Gary D. Cohn
President and Chief Operating Officer

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #58

Mortgages Compliance Training 2007
Trading Desks

February 8 and 12, 2007

1

Confidential Treatment Requested by Goldman Sachs   GS MBS-E-002691221

Goldman Sachs

Confidential & Proprietary Information
Use of Pre-Trade Client Information

- Our first business principle states that:

  Our Clients' Interest Always Come First

- However, this is not always straight forward as we are a market maker to multiple clients
- Prior to trading, clients often
  - Express their views of the market
  - Indicate potential interest in trading
  - Submit bid-wanted or quote sheets
  - Request for one-way or two-way markets
  - Place us in competition with others for pricing, and in some cases
  - Leave orders or "pre-trade information" with us

The concern lies in the way and the extent market makers use pre-trade information

- As a market maker, we also receive information from multiple sources – including data providers, exchanges, other dealers, economists, consultants and clients.
- We continuously make markets and take risk based on a unique window on the market -- which is a mosaic constructed of all of the pieces of data received
- Trading decisions are, thus, typically not based principally on any one piece of data, but on a view of the whole.

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Customers and Counterparties
Know Your Customer – Suitability

- Trading and sales personnel have an obligation to "know their customers" before recommending or entering into any securities transaction
  - Learn the essential facts about the customer and the customer's orders and accounts
- All recommendations to a customer must be suitable and appropriate for the customer
- The salesperson should know as much as possible about the customer's objectives, strategies, tolerance for risk, and the type of information the customer is relying on
- Even when a customer is making its own investment decisions, special care and judgment need to be exercised in situations such as the following:
  - The customer has trouble explaining in plain language its investment strategy, objectives, or risk tolerance, or how a transaction or product fits those criteria
  - The customer wants to recoup, roll, hide, or avoid losses, or evade taxes, and proposes a transaction or structure clearly intended to do so
  - A customer proposes a completely atypical transaction
  - The customer has a history of litigation or a record of being a "sore loser"
- Contact your manager and Securities Division Compliance if you have any doubt about suitability

From: Sparks, Daniel L
Sent: Monday, October 16, 2006 4:11 PM
To: Ostrem, Peter L
Cc: Rosenblum, David J.
Subject: Re: [redacted] deal

[redacted]

----- Original Message -----
From: Ostrem, Peter L
To: Sparks, Daniel L
Cc: Rosenblum, David J.
Sent: Mon Oct 16 14:20:28 2006
Subject: [redacted] deal

[redacted] is upset that we are delaying their deal. They know that Hudson Mezz (GS prop deal) is pushing their deal back.
We are calling the PM at [redacted] ([redacted] and [redacted] today to discuss their deal and timing.
Are you ok if we upsize their deal to $800mm from $600mm? This allows them to continue ramping and we take additional equity placement risk (beyond the 60% of equity going into ORCA). Deal is in good shape and we have pre-interest in the entire AA class and half the BBBs and a third of the super seniors. This will price in Dec. or January.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #59

From: Swenson, Michael
Sent: Friday, December 15, 2006 4:33 PM
To: Cornacchia, Thomas

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Birnbaum, Josh
Sent: Friday, December 15, 2006 4:02 PM
To: Radtke, Lorin
Cc: Swenson, Michael; Salem, Deeb; Chin, Edwin
Subject: Update

- index traded down as low as 94 1/2. we bought a block of 250mm 06-2 BBB- from [redacted] at the lows.
- real money and hedge fund buying of the index off the lows finishing the week around 96-00.
- very heavy BWIC activity also driving spreads tighter. CDO managers increasingly willing to sell protection on lower quality names.
- liquidity starting to return a bit as the market has stabilized but even small trades (25-50mm) can move the market a lot right now
- we've had good traction moving risk through our franchise on a variety of fronts: ABX, single names, super-senior, Hudson 2.

Permanent Subcommittee on Investigations
EXHIBIT #60

 GS MBS-E-012330485

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Egol, Jonathan
Sent: Friday, December 29, 2006 4:04 PM
To: Tourre, Fabrice; ficc-mtgcorr-desk
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

I am going to send around the 20 names shortly. Will take out [redacted], going to take out [redacted] entirely.

Also we forgot [redacted] [redacted].

-----Original Message-----
From: Tourre, Fabrice
Sent: Friday, December 29, 2006 3:45 AM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Last call -- any other comments on the proposed top 20 correlation customer list?

Maybe you just keep the list you had initially and take [redacted] out. Also, under [redacted] maybe we include both [redacted] and [redacted].

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Thu Dec 28 18:18:06 2006
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

Look, given we are exceeding 20 names anyway if you include the "umbrella" names like [redacted], perhaps the elegant way to resolve this is to just cut back. I'll recirculate a proposed list tomorrow with 20 distinct accounts.

-----Original Message-----
From: Tourre, Fabrice
Sent: Thursday, December 28, 2006 4:16 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Last call -- any other comments on the proposed top 20 correlation customer list?

Forget [redacted], it was just the fact that this list might be a little skewed towards sophisticated hedge funds with which we should not expect to make too much money since (a) most of the time they will be on the same side of the trade as we will, and (b) they know exactly how things work and will not let us work for too much $$$, vs. buy-and-hold rating-based buyers who we should be focused on a lot more to make incremental $$$ next year...

Sent from my BlackBerry Wireless Handheld

Permanent Subcommittee on Investigations
EXHIBIT #61

▬ = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Egol, Jonathan
To: Egol, Jonathan; Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Thu Dec 28 15:55:05 2006
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

I will take out [redacted] if you think [redacted] will be your CPPI ticket.

-----Original Message-----
From: Egol, Jonathan
Sent: Thursday, December 28, 2006 3:54 PM
To: Tourre, Fabrice; ficc-mtgcorr-desk
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

First, to be precise, here are the HG deals on the visible pipeline:

Hout Bay II
Altius IV
Hudson HG II
JPMIM
Providence
Davis Square VIII
West Coast II

They also did not sell super senior on Davis Square VII.

Which one are you axed on?

To respond to your point, the point of the exercise is to select top 20 accts by $$$, not where trading desk thinks sales can do better (if I read your point correctly). I expect we can make more $$$ with large US hedge funds than the real money guys you mentioned.

-----Original Message-----
From: Tourre, Fabrice
Sent: Thursday, December 28, 2006 3:49 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Last call -- any other comments on the proposed top 20 correlation customer list?

Fair enough, but if the goal is to make sure sales management allocates the right resources to accounts we think have high $$$ potential with our desk, why are we mentioning certain obvious accounts that are very well covered and with which we expect to do little buzz in 07 (am thinking [redacted], covered by [redacted] for example)

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Thu Dec 28 15:41:40 2006
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

There will be very few HG deals in 1H 07 (see their pipeline).
Agree on the european stuff but I think that is even more speculative than the correlation trades from the [redacted]/[redacted] types.

Not saying they are not important but the goal of this exercise is to inform sales management. How is sales going to do anything to align resources to better cover those accounts vs the hedge funds I mentioned?

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Tourre, Fabrice
Sent: Thursday, December 28, 2006 3:29 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Last call -- any other comments on the proposed top 20 correlation customer list?

If we can produce (a) levered supersenior on highgade portfolios we are taking from Ostrem, (b) mezz trade with 50pct euro underlyers, (c) euro-only hi-grade trades (per my convo with [redacted], starting with CMBS), we could deliver some interesting trades to these acounts

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Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Thu Dec 28 15:23:28 2006
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

I put much higher $$$ delta on [redacted] in '07 than the other guys you mention, but I hope you can prove me wrong.

-----Original Message-----
From: Tourre, Fabrice
Sent: Thursday, December 28, 2006 3:22 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Last call -- any other comments on the proposed top 20 correlation customer list?

I think [redacted] and [redacted] are highly spec, I would remove them from this list... And we don't have some of the potential buy-and-hold investors we have traded with in the past or who we know could be active going fwd, such as [redacted] etc.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Thu Dec 28 15:15:52 2006
Subject: RE: Last call -- any other comments on the proposed top 20 correlation customer list?

Currently stands at 21, and this is grouping several together under one roof (ie [redacted] and [redacted]). I think we need to cull a couple. Maybe pull [redacted], then [redacted].

[redacted]

[redacted]

= Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Tourre, Fabrice
Sent: Thursday, December 28, 2006 3:08 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Last call -- any other comments on the proposed top 20 correlation customer list?

Can you recirculate the list by email ?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: ficc-mtgcorr-desk
Sent: Thu Dec 28 15:06:26 2006
Subject: Last call -- any other comments on the proposed top 20 correlation customer list?

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com
Goldman Sachs

Jonathan M. Egol
Structured Products Trading

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Tourre, Fabrice
Sent: Tuesday, January 23, 2007 11:34 PM
To: Serres, Marine
Subject: Fw: ft--friday

[redacted] you should take a look at this article... Very insightful... More and more leverage in the system, l'edifice entier risque de s'effondrer a tout moment... Seul survivant potentiel, the fabulous Fab (as Mitch would kindly call me, even though there is nothing fabulous abt me, just kindness, altruism and [redacted]), standing in the middle of all these complex, highly levered, exotic trades he created without necessarily understanding all the implications of those monstruosities !!! Anyway, not feeling too guilty about this, the real purpose of my job is to make capital markets more efficient and ultimately provide the US consumer with more efficient ways to leverage and finance himself, so there is a humble, noble and ethical reason for my job ;) amazing how good I am in convincing myself !!!

[redacted], I am now going to try to get away from ABX and other ethical questions, and immediately plunge into Freakonomics... [redacted]

[redacted]Fab

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Chin, Edwin
To: ficc-mtgcd-traders
Sent: Mon Jan 22 19:36:04 2007
Subject: ft--friday

The unease bubbling in today's brave new financial world

By Gillian Tett

Published: January 19 2007 02:00 | Last updated: January 19 2007 02:00

Last week I received an e-mail that made chilling reading. The author claimed to be a senior banker with strong feelings about a column I wrote last week, suggesting that the explosion in structured finance could be exacerbating the current exuberance of the credit markets, by creating additional leverage.

"Hi Gillian," the message went. "I have been working in the leveraged credit and distressed debt sector for 20 years . . . and I have never seen anything quite like what is currently going on. Market participants have lost all memory of what risk is and are behaving as if the so-called wall of liquidity will last indefinitely and that volatility is a thing of the past.

"I don't think there has ever been a time in history when such a large proportion of the riskiest credit assets have been owned by such financially weak institutions . . . with very limited capacity to withstand adverse credit events and market downturns.

Permanent Subcommittee on Investigations
EXHIBIT #62

"I am not sure what is worse, talking to market players who generally believe that 'this time it's different', or to more seasoned players who . . . privately acknowledge that there is a bubble waiting to burst but . . . hope problems will not arise until after the next bonus round."

He then relates the case of a typical hedge fund, two times levered. That looks modest until you realise it is partly backed by fund of funds' money (which is three times levered) and investing in deeply subordinated tranches of collateralised debt obligations, which are nine times levered. "Thus every €1m of CDO bonds [acquired] is effectively supported by less than €20,000 of end investors' capital - a 2% price decline in the CDO paper wipes out the capital supporting it.

"The degree of leverage at work . . . is quite frankly frightening," he concludes. "Very few hedge funds I talk to have got a prayer in the next downturn. Even more worryingly, most of them don't even expect one."

Since this message arrived via an anonymous e-mail account, it might be a prank. But I doubt it. For, while I would not normally write an article about responses to an article (it is the journalist's equivalent of creating derivatives of derivatives) I am breaking this rule, since I have recently had numerous e-mails echoing the above points. And most of these come from named individuals, albeit ones who need to stay anonymous, since they work for institutions reaping profits from modern finance.

There is, for example, a credit analyst at a bulge-bracket bank who worries that rating agencies are stoking up the structured credit boom, with dangerously little oversight. "[If you] take away the three anointed interpreters of 'investment grade', that market folds up shop. I wonder if your readers understand that . . . and the non-trivial conflict of interest that these agencies sit on top of as publicly listed, for-profit companies?"

Then there is the (senior) asset manager who thinks leverage is proliferating because investors believe risk has been dispersed so well there will never be a crisis, though this proposition remains far from proven. "I have been involved in [these] markets since the early days," he writes. "[But] I wonder if those who are newer to the game truly understand the impact of a down cycle?"

Another Wall Street banker fears that leverage is proliferating so fast, via new instruments, that it leaves policy officials powerless. "I hope that rational investors and asset prices cool off instead of collapse, like they did in Japan in the 1990s," he writes. "But if they do, monetary policy will be useless."

To be fair, amid this wave of anxiety I also received a couple of "soothing" comments. An analyst at JPMorgan, for example, kindly explained at length the benefits of the CDO boom: namely that these instruments help investors diversify portfolios; provide long-term financing for asset managers and reallocate risk.

"Longer term, there may well be a re-pricing of assets as the economy slows and credit risk increases," he concludes. "But. there is a very strong case to be made that the CDO market has played a major role in driving down economic and market volatility over the past 10 years." Let us hope so. And certainly investors are behaving as if volatility is disappearing: just look at yesterday's remarkable movements in credit default swaps. But if there is any moral from my inbox, it is how much unease - and leverage - is bubbling, largely unseen, in today's Brave New financial world. That is definitely worth shouting about, even amid the records now being set in the derivatives sector.

From: Welch, Patrick
Sent: Friday, March 02, 2007 12:07 PM
To: Broderick, Craig; Dinias, Michael; Berry, Robert; Hemphill, Lee; Rapfogel, Alan; Wildermuth, David
Subject: RE: Audit Committee Package_Feb 21_Draft_Mortgage_Page.ppt

x-gs-classification: Internal-GS

Craig,
I realize this may be too late, but two comments:
1. Just fyi not for the memo, my understanding is that desk is no longer buying subprime. (We are low balling on bids.)
2. Do you want to consider an additional bullet point at the very end that proactively addresses a very hot topic in the resi market place which is the fear that underwriting deterioration may be creeping into near prime product (called Alt-A) as people seek to replace lost subprime business. For example EPD's are rising for Alt-A. A guestimate would be market average of 0.25% of aggregate volume prior to subprime melt down has migrated closer to 0.75%. As a comparison subprime has gone from about 1% to about 5%.

From: Broderick, Craig
Sent: Friday, March 02, 2007 10:51 AM
To: Dinias, Michael; Berry, Robert; Hemphill, Lee; Welch, Patrick; Rapfogel, Alan; Wildermuth, David
Subject: Audit Committee Package_Feb 21_Draft_Mortgage_Page.ppt

Pls take a look at this asap and revert with any comments. It needs to be submitted by 12. Thanks

<< File: Audit Committee Package_Feb 21_Draft_Mortgage_Page.ppt >>

Permanent Subcommittee on Investigations
EXHIBIT #63

Confidential Treatment Requested by Goldn GS MBS-E-009986805

From: Egol, Jonathan
Sent: Sunday, March 04, 2007 11:17 AM
To: Tourre, Fabrice
Subject: Re: Abacus AC1

This is per sparks' instructions

----- Original Message -----
From: Tourre, Fabrice
To: Egol, Jonathan
Sent: Sun Mar 04 10:59:51 2007
Subject: Re: Abacus AC1

Maybe we could have discussed live first before sending this out.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: ficc-mtgcorr-desk; Ostrem, Peter L; Rosenblum, David J.; ficc-spgsyn; Sparks, Daniel L
Sent: Sun Mar 04 10:32:41 2007
Subject: Abacus AC1

Given risk priorities, subprime news and market conditions, we need to discuss side-lining this deal in favor of prioritizing Anderson in the short term.

Syndicate et al let's discuss the right way to communicate this internally and externally.

Fabs let's focus Paulson on trades we can print now that fit ie Quadrant.

Permanent Subcommittee on Investigations
EXHIBIT #64

From: Salem, Deeb
Sent: Thursday, May 17, 2007 8:06 AM
To: Swenson, Michael
Cc: Chin, Edwin
Subject: FW: LBML 06A

bad news...

wipes out the m6s and makes a wipeout on the m5 imminent ... costs us about 2.5mm

3.5 m6 marked at $10
12.5 m5 marked at $20

good news...

we own 10mm protection on the m6 marked at $50 .... we make $5mm

---

From: Heagle, Jonathan
Sent: Thursday, May 17, 2007 8:00 AM
To: Salem, Deeb; Chin, Edwin
Cc: Pouraghabagher, Dariush; Brosterman, Jonathan
Subject: LBML 06A

06:07 17May2007 LONG BEACH MORTGAGE LOAN TRUST 2006-A FILES (8-K) Disclosing Other Events

May 17 (EDGAR Online) -
Item 8.01 Other Events

Long Beach Mortgage Securities Corp announces that the May 2007 distribution report for LBMLT 2006-A will reflect that 616 second-lien mortgage loans with an aggregate unpaid principal balance of $ 49,340,870.90 will be charged off on May 25, 2007. The total amount to be charged off, $52,797,628.59, includes certain unreimbursed advances of principal and interest made by the servicer, Washington Mutual Bank.

Information regarding the characteristics of the loans in LBMLT 2006-A is available from the trustee at its website https://tss.db.com/invr and at http://wmsubprime.lewtan.com.

The table below sets forth the number and aggregate unpaid principal balance of the charged off mortgage loans by distribution date (the month following the due date of the last monthly payment that should have been received with respect to the loans). The chargeoff assessment date for the pool was May 1, 2007.

Distribution Date	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007
Number of Loans in Pool	7,767	7,624	7,468	7,305	7,163	6,997	TBD*
Aggregate Unpaid	$485,292,702.94	$475,682,053.93	$465,992,547.68	$455,518,577.50	$444,362,214.18	$434,469,820.04	

Permanent Subcommittee on Investigations
EXHIBIT #65

TBD*
Principal
Balance

Loans that became 180 days delinquent	Count: 31	Count: 45	Count: 70	Count: 111	Count: 97	Count: 124	Count: 134**
	Balance: $2,504,764.64	Balance: $3,624,267.82	Balance: $5,474,744.25	Balance: $9,605,192.29	Balance: $8,158,758.05	Balance: $9,781,894.90	Balance $10,001,312.08

*Pool loan count and aggregate unpaid principal balance for the May 2007 distribution will be published on May 25t 2007.

** The sum of loan counts in this row equals 612 because it excludes four loans charged off for reasons other than 180 days delinquency.

Due to the number of affected mortgage loans for the May 2007 distribution date, there may be a larger than usual reconciliation activity on the remittance report for the June 2007 distribution date to reflect items that have not been closed out as of the scheduled reporting date to the trustee for the May 2007 distribution date.

Please Contact: Doug Potolsky at (212) 702- 6961 if you have any questions about this filing.

Full filing at:
http://www.edgar-online.com/rtrs/?doc=A-0001277277-07-000368

For 3000 Xtra, Kobra and internet-enabled Reuters News users, click on the URL above. For Reuters Terminal users, please type the URL into a browser.
Thursday, 17 May 2007 06:07:50EOL [nEol007427] {C}ENDS

From: Lehman, David A.
Sent: Thursday, May 24, 2007 8:32 AM
To: Aliredha, Yusuf; Sparks, Daniel L
Cc: Wisenbaker, Scott; Wiesel, Elisha; Salame, Pablo
Subject: RE: Priority Axes

Attachments: Final Offering Circular (disclaimed).pdf; Timberwolf I, Ltd. -- Marketing Points / Termsheet attached (INTERNAL ONLY) [T-Mail]; FINAL OC (Distribution).PDF

I'll call with levels...still have...

245mm Timberwolf junior AAA
107mm Timberwolf AA
127mm Point Pleasant AAA
35mm Point Pleasant junior AAA
50mm Point Pleasant AA

Final OC and internal mkting points below if needed

Scott Wisenbaker and myself are available to get on the phone with clients.

We are still working on some analysis/data cuts that we can provide externally.

TIMBERWOLF

Final Offering Circular (discl...   Timberwolf I, Ltd. -- Marketin...

POINT PLEASANT

FINAL OC (Distribution).PDF

= Redacted by the Permanent Subcommittee on Investigations

From: Aliredha, Yusuf
Sent: Thursday, May 24, 2007 2:59 AM
To: Lehman, David A.; Sparks, Daniel L
Cc: Wisenbaker, Scott; Wiesel, Elisha; Salame, Pablo
Subject: RE: Priority Axes

Had two conversations yesterday.

[redacted]. They have just raised another $1bln for their ABS fund and they are very short the ABX so are natural buyers of our axe.

[redacted]. Not experts in this space at all but made them a lot of money in correlation dislocation and will do as I suggest.

Would like to show stuff in today if possible.

Tks.

Permanent Subcommittee on Investigations
EXHIBIT #66

From: Lehman, David A.
Sent: Wednesday, May 23, 2007 10:45 PM
To: Aliredha, Yusuf; Sparks, Daniel L
Cc: Wisenbaker, Scott; Wiesel, Elisha
Subject: RE: Priority Axes

See responses below in RED

From: Aliredha, Yusuf
Sent: Wednesday, May 23, 2007 10:23 AM
To: Sparks, Daniel L
Cc: Lehman, David A.; Wisenbaker, Scott
Subject: RE: Priority Axes
Importance: High

Can I please get some analysis.

I would need breakeven analysis at whatever price you want to show these out.

I assume you will give me certain loss and recovery scenerios on the underlying RMBs bonds. Also what assumption are we using to base these scenerios based on underlying vintages, rating agencies, type of collateral.

Elisha's team is working on this, hope to have something by early next week that we can distribute...will revert ASAP

Also do we have equity we want to sell packaged with these debt tranches.

We have several very small pieces of equity but nothing substantial that we could want to package with the AAAs.

If customers have a specific axe we can address on a case by case basis.

What kind of leverage we can provide for a big macro hedge fund.

~10-15% HC on the AAA and AA positions, client dependent

Tks.

From: Sparks, Daniel L
Sent: Friday, May 18, 2007 4:37 PM
To: Aliredha, Yusuf
Cc: Lehman, David A.; Wisenbaker, Scott
Subject: Priority Axes

285mm Timberwolf junior AAA (40mm circled away)
107mm Timberwolf AA
127mm Point Pleasant AAA
75mm Point Pleasant junior AAA (40mm circled away)
50mm Point Pleasant AA

Call me to discuss levels

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Liu, John.SC
Sent: Tuesday, July 24, 2007 3:59 AM
To: Creed, Christopher J
Cc: ficc-spgsyn; ficc-spcdo-trading; Lehman, David A.
Subject: Re: 7/23 CDO/ RMBS requests from Taiwan

Hi all, client [redacted] bank just bought the altius deal from gs 5 weeks ago and the mtm dropped over 50%. We understand that the liquidity is thin but I really need some info to support this price. Kindly notice that this is a high grade prime deal with no direct subprime exposure. The info can be:

1. The collateral in the portfolio will suffer from major downgrade so that the oc test might got triggered and the principal will be at a lot of risk ---- if this is true, I need the number to support!

2. The market is discounting the bond wiht dm of 1000 for this AA tranche. --- if this is true, I need the number to support.

This is very important as this transaction has a lot to do with our reputation in taiwan market. I understand that all deals are down and spread is trading wider now. Unless the principal is at risk now, the mtm is not supposed to drop so quickly during such short period of time. Client wil need the manager to explain what is going on if we can't provide satisfactory answer. Thanks,
----
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Creed, Christopher J
To: Liu, John.SC
Cc: ficc-spgsyn; ficc-spcdo-trading; Lehman, David A.
Sent: Tue Jul 24 09:06:24 2007
Subject: RE: 7/23 CDO/ RMBS requests from Taiwan

John, here are the markets you requested

ALTS 2007-4A B. The current market on this bond is 45-00 / 55-00.
DVSQ 2005-5A C. The current market on this bond is 75-00 / 85-00 (Geoff Williams sent the corrected market over yesterday - the previous bid was, in fact, in error)

I hope we were helpful in the conference call. Happy to discuss in more detail.

-c

From: Liu, John.SC
Sent: Monday, July 23, 2007 5:37 AM
To: Chaudhary, Omar; Sugioka, Hirotaka; Lee, Jay; Creed, Christopher J; Lehman, David A.
Cc: Chang, Amy; Peng, Sylvia
Subject: 7/23 CDO/ RMBS requests from Taiwan

Hi all,

Need your help:

- [redacted] * Conference call on Davis Square VI with TCW asap

- What is the MTM is like for Altius IV AA tranche managed by Aladdin Capital we sold 1 month ago? We need to report the MTM as of 25th. Prior mark is 97 something and their

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target is 90%+. They won't hit us on the price.

- What is the MTM is like for Davis Square V single A tranche for [redacted]? We will report the MTM as of 25th
  * 1 week ago we showed 40 bid but I have not informed them yet.
  * June month end MTM bid is 84
  * Can we show bid and offer price on the mtm report?

- Regarding the conference call with [redacted] on westcoast funding tomorrow morning HK time 8am, just give you some heads up, we will have [redacted] (3mm BBB buyer), [redacted] (10mm combo note buyer with 4.5mm BBB and 5.5mm AA), and [redacted] (5mm single A buyer)

Thanks,

Goldman Sachs (Asia) L.L.C.
68th Floor | Cheung Kong Center
2 Queen's Road Central | Hong Kong
Tel: (852) 2868-2600 | Fax: (852) 2978-0450 | Mob: (852)-[redacted]
Taiwan Toll: 008-0185-5095
e-mail: john.liu.sc@gs.com

Goldman Sachs

John Liu, CFA
Executive Director
Fixed Income, Currency & Commodities

From: Mullen, Donald
Sent: Friday, October 12, 2007 6:02 PM
To: Swenson, Michael
Subject: Re: P and L

Great day!

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald
Sent: Fri Oct 12 17:13:04 2007
Subject: Re: P and L

65mm from yesterday's downgrades which lead to the selloff in aa through bbbs today.

The rest was from:

30mm was a correlation fraction adjustment due to super senior trades in cmbs.

And

outright shorts in cmbs added another 15mm.

----- Original Message -----
From: Mullen, Donald
To: Swenson, Michael
Sent: Fri Oct 12 17:01:22 2007
Subject: Re: P and L

Is this mostly triggered ny yesterdays downgrades

----- Original Message -----
From: Swenson, Michael
To: Swenson, Michael; Mullen, Donald; Sparks, Daniel L
Cc: Lehman, David A.; Birnbaum, Josh; Brafman, Lester R
Sent: Fri Oct 12 16:59:23 2007
Subject: RE: P and L

+110 correlation came in +50 and cmbs was +15

From: Swenson, Michael
Sent: Friday, October 12, 2007 4:04 PM
To: Mullen, Donald; Sparks, Daniel L
Cc: Lehman, David A.; Birnbaum, Josh; Brafman, Lester R
Subject: P and L

Dept +90mm today

ABS +45
CMBS +10 approx
Corr +40 approx
Cdo -8
Crelt +3.5

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EXHIBIT #68

From: Swenson, Michael
Sent: Thursday, October 11, 2007 7:06 PM
To: Mullen, Donald
Subject: RE: Early post on P and L

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Yes we are well positioned

-----Original Message-----
From: Mullen, Donald
Sent: Thursday, October 11, 2007 6:27 PM
To: Swenson, Michael
Subject: Re: Early post on P and L

Sounds like we will make some serious money

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald
Sent: Thu Oct 11 18:24:00 2007
Subject: RE: Early post on P and L

The [redacted] CDO has a bunch of second lien positions in it that have been written down. The collateral balance has fallen below the liabilities triggering an "implied write-down event" which is a credit event in our CDS document. Unlike RMBS structures, CDOs do not have a bond write-down feature.

On another note, today's RMBS downgrades by Moody's should cause many CDOs to fail their OC triggers. That will result in coupons being shut off on the bonds and hence our CDS protection premiums paid out will go to zero.

-----Original Message-----
From: Mullen, Donald
Sent: Thursday, October 11, 2007 5:49 PM
To: Swenson, Michael
Subject: Re: Early post on P and L

Nice day
How did the trigger not work

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald; Montag, Tom
Cc: Sparks, Daniel L; Brafman, Lester R
Sent: Thu Oct 11 17:47:02 2007
Subject: Early post on P and L

Moody's downgraded 32bb of of 2006 AA, A, BBB and BBB- bonds today. This will eventually filter into downgrades in CDOs. ABX single-As sold off by a point after the news.

ABS Desk P and L will be up between 30 and 35mm today. 12mm of the p and l is from our first credit event in CDOs where the implied trigger failed on a [redacted] deal [redacted] 06-1).

Goldman, Sachs & Co.

Permanent Subcommittee on Investigations
EXHIBIT #69

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00502 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

ph44585 on D330-44585-7600 with DISTILLER

57322.294

From: Alirdha, Yusuf
Sent: Wednesday, October 17, 2007 2:06 PM
To: Sparks, Daniel L
Subject: RE: US ABS SS Intermediation Trades

[redacted] = Redacted by the Permanent Subcommittee on Investigations

That's more than enough for me Dan. Tks.
On [redacted] he will miss making MD this year and will be very disapointed by it. So comp will be important to keep him. Would appreciate you being vocal about supporting him. Tks.

From: Sparks, Daniel L
Sent: Wednesday, October 17, 2007 3:44 PM
To: Alirdha, Yusuf
Subject: RE: US ABS SS Intermediation Trades

I reviewed each trade with the team and feel that the credits were right - reasons for that feeling include similar trades done at the same time with accounts in other regions at the same credits, the explicit negotiation on credits that occurred at the time of each trade, the fact that on 2 of the trades the accounts changed the terms dramatically after saying done, and one trade being done by a different desk (Ram's team). On a different point, we made good money on a few trades, some were crosses that we only took out a bit, and on one we lost over $50mm.

The general assessment was that the 2 highest value-added salespeople for the year in London for the business were (in order) [redacted] then [redacted].

Let me know if you'd like to discuss.

From: Alirdha, Yusuf
Sent: Friday, October 12, 2007 5:33 PM
To: Sparks, Daniel L
Subject: FW: US ABS SS Intermediation Trades

Dan. Real bad feeling across European sales about some of the trades we did with clients. The damage this has done to our franchise is very significant. Aggregate loss for our clients on just these 5 trades alone is 1bln+. In addition team feels that recognition(sales credits and otherwise) they received for getting this business done was not consistent at all with money it ended making/saving the firm. Will be traveling early next week but will call so you can fill me in with facts. tks

1. [redacted]
[redacted] sold protection on the super senior tranche of ABACUS 07-18, on 14th of March, 2007
Tranche size: $470MM
Tranche: 53%-100%
Portfoilio: BBB & BB US CMBS and a small CRE CDO bucket
Spread: 9bps
In addition they also bought $80MM of 45%-53% in a note format at L+30bps
GCs paid to [redacted] $2MM

[redacted] did the exact same trade on the 16th of March, 2007; 47%-100% tranche at a spread of 15bps all-in (4bps paid to [redacted]).
GCs paid to [redacted]: $1MM

A portion of this trade was subsequently closed out the week of August 27th at approx. 250bps (not sure of the tranche notional, however, it seems like Egol was able to close out most of it because his email on 9/4/20207 stated that he only had $53MM left to do). This trade he did with the help of US sales force helped him realize approx. 211bps of P&L right there.

2. [redacted]
[redacted] intermediated the super senior tranche of 3 portfolios of single A US CMBS facing [redacted] on

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EXHIBIT #70

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19th of July, 2007
Tranche size:
Tranche: 16.5% - 100%
Portfolio: A rated US CMBS
Intermediation spread paid to [redacted]: 1.75bps
Protection fee paid to [redacted] 12.7bps
<u>GCs paid to [redacted]: Ended up paying $5MM after he rejected the initial offer of $2.5MM</u>

At the time CMBX was widening - as much as 150bps in the month or so after and I am sure we sourced the risk at much wider levels than we paid [redacted] and [redacted]. Fabrice et al will argue they hedged it at the time but given the push to get this done when spreads were widening, expect they made very decent money as the first collateral call if I recall was not far off $200mm. Key is really when they hedged and therefore how much they made. Given we were bearish on everything, surprised if we hedged this on day 1 when our expectation was that the market was heading down

3. ABN Amro:
ABN Amro intermediated the super senior tranche of ABACUS-ACA trade facing ACA monoline on 31st of May, 2007
Tranche size: approx. $1BN
Tranche: 50%-100%
Portfolio: Predominantly BBB US subprime picked by ACA
Spread paid to ABN for intermediation: 17bps
Spread paid to ACA for providing protection: 50bps
<u>GCs paid to [redacted]: $2MM</u>

At the time this was the biggest axe for Egol & Fabrice as the portfolio was predominantly subprime BBB names picked by ACA. ABN was the only intermediary who was willing to take ACA exposure (due to ample negative press around ACAs exposure to subprime). Shortly after we traded we started calling collateral from ABN for the (a) deterioration of the underlying portfolio and (b) deteriorating credit of the monoline - ACA. Not sure what the total amount of collateral that's been called so far, but it must be atleast $200-300MM on this trade alone. Just to give you a rough idea of how the ABX moved through this period and for a month thereafter.. On the ABX 06-2 BBBs spread was 700 on 5/17; as of 6/18 was 996; 7/18 was 1800.. And currently is at 2576!

4. [redacted] & [redacted] (LONDON):
[redacted] & [redacted] both intermediated the super senior tranche of the Altius IV which was wrapped by [redacted] and funded by Ram Sundaram's desk.
Portfolio: High Grade ABS CDO
Manager: Aladdin Capital Management
Size of super senior tranche: approx. $1.2bn
Spread paid to [redacted] and [redacted] for intermediation is 3.5bps and 1.75bps respectively.

The first leg of intermediation trade with [redacted] was done on the 4th of June, 2007. In a deterioating market we got the second leg of the intermediation done with [redacted] on the 27th of July, 2007 at half the spread that [redacted] charged. To date we have called approx $300MM in collateral from both [redacted] & [redacted] on this trade alone.

<u>GCs paid to [redacted]: approx. $1MM</u>

5. [redacted]: POINT PLEASANT

[redacted] got paid 10mm - current collateral requirement = around 300mm

▬ = Redacted by the Permanent Subcommittee on Investigations

From: Sparks, Daniel L
Sent: Monday, February 26, 2007 8:32 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Roughly 2 bb, and they are the deals to worry about. Focus is super- senior, which if we get done will make them work

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:43:29 2007
Subject: RE: Questions you had asked

cdo squared--how big and how dangerous

-----Original Message-----
From: Sparks, Daniel L
Sent: Monday, February 26, 2007 7:37 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Roughly 2 bb high grade deals and 2 bb cdo's squared

In client meeting in greenwich and can give more details in hour and half

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:31:49 2007
Subject: Re: Questions you had asked

So what is total of cdo warehouse after liquidation by sector

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Mon Feb 26 06:47:43 2007
Subject: Re: Questions you had asked

Still subprime, but only outright bbb subprime is in gsc deal we may liquidate. Other subprime in form of a, aa, aaa subprime and in form of a-rated cdo's [redacted] and [redacted]).

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Sun Feb 25 22:49:48 2007
Subject: Re: Questions you had asked

Thanks. So no warehouse in subprime? What about [redacted]-what is in that

----- Original Message -----
From: Sparks, Daniel L

Permanent Subcommittee on Investigations
EXHIBIT #71

To: Montag, Tom
Cc: Ruzika, Richard
Sent: Sun Feb 25 20:34:19 2007
Subject: Questions you had asked

Last week the trading desks did the following:

(1) Cover around $1.5 billion single name subprime BBB- CDS and around $700mm single name subprime BBB CDS. The desk also net sold over $400mm BBB- ABX index. Desk is net short, but less than before. Shorts are in senior tranches of indexes sold and in single names. Plan is to continue to trade from short side, cover more single names and sell BBB- index outright.

(2) The CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). Business also began liquidation of $820mm [redacted] warehouse - all synthetics done, cash bonds will be sold in next few days. One more CDO warehouse may be liquidated this week - approximately $300mm with [redacted] as manager. That will leave us with 2 large CDOs of A-rated CDOs, 2 high grade deals with limited subprime mezz risk, and 2 other small warehouses that are on hold. Getting super-senior done on CDOs is the critical path, and that is where the focus is - for the CDOs of CDOs, [redacted] (Paris) on [redacted] deal and [redacted] (London) on [redacted] deal.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Gasvoda, Kevin
Sent: Thursday, December 14, 2006 4:26 PM
To: Nestor, Genevieve; Nichols, Matthew; Mahoney, Justin; Cawthon, Michael; Erbst, Jared R.; Wicker, Devin; Pouraghabagher, Dariush; Heagle, Jonathan; DeGiacinto, Clayton; Vargas, Jessica J.
Cc: Sparks, Daniel L
Subject: Retained bonds

Although liquidity will be light the next few weeks pls refocus on retained new issue bond positions and move them out. There will be big opportunities the next several months and we don't want to be hamstrung based on old inventory. Refocus efforts and move stuff out even if you have to take a small loss. Talk to me if you have concerns or questions but we need to be turning risk over aggressively to stay well positioned.

Thanks

Goldman, Sachs & Co.
85 Broad Street, 26th Floor | New York, New York 10004
Tel: 212-902-8768 | Fax: 212-902-1691
email: kevin.gasvoda@gs.com

Kevin S. Gasvoda
Managing Director
Fixed Income Currency & Commodities

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #72

From: Gasvoda, Kevin
Sent: Friday, February 09, 2007 5:23 PM
To: Walter, Scott; Sparks, Daniel L; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Ruzika, Richard; Bohra, Bunty
Cc: ficc-spgsyn
Subject: RE: GS Syndicate RMBS Axes (INTERNAL)

Great job syndicate and sales, appreciate the focus.

-----Original Message-----
From: Walter, Scott
Sent: Friday, February 09, 2007 5:07 PM
To: Sparks, Daniel L; Gasvoda, Kevin; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Ruzika, Richard; Bohra, Bunty
Cc: ficc-spgsyn
Subject: RE: GS Syndicate RMBS Axes (INTERNAL)

Two line items traded today for a total of 43+mm bonds. Importantly, this included our first second lien sale of the week -- a $38+mm AAA position sold by Dick Loggins.

This week, a total of 169+mm in axe positions were sold -- a summary breakdown of the sales:

Subprime	18.289mm	(11%)
Alt-A	110.373mm	(65%)
Seconds	38.603mm	(23%)
Hybrids	2.355mm	(1%)
Total	169.620mm	

AAA	148.976mm	(88%)
AA	18.289mm	(11%)
BBB	2.355mm	(1%)
Total	169.620mm	

Obviously, we need to continue to push credit positions across subprime and second liens. We are working with both the desks and strats to do so. Please let us know if there are any questions.

-----Original Message-----
From: GS Syndicate
Sent: Friday, February 09, 2007 1:22 PM
To: ficc-sales-spg
Cc: Sparks, Daniel L; Gasvoda, Kevin; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Ruzika, Richard; Bohra, Bunty; ficc-spgsyn
Subject: RE: GS Syndicate RMBS Axes (INTERNAL)

INTERNAL ONLY

Nice job by Kevin Paige moving the remaining NCAMT 06-ALT2 AF5 bonds. Let's continue the momentum.

-----Original Message-----
From: GS Syndicate
Sent: Friday, February 09, 2007 9:17 AM
To: ficc-sales-spg
Cc: Sparks, Daniel L; Gasvoda, Kevin; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Ruzika, Richard; Bohra, Bunty; ficc-spgsyn
Subject: GS Syndicate RMBS Axes (INTERNAL)

Permanent Subcommittee on Investigations
EXHIBIT #73

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00508 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

ph44585 on D330-44585-7600 with DISTILLER

57322.300

INTERNAL ONLY

Below are our updated RMBS axes -- three line items (AAA, AA and BBB-) traded yesterday for total size of 28+mm. The focus continues to be on moving credit positions.

Again, these are priority positions that should be a focus for everyone before quarter-end -- GCs will be reflective of their importance.

Let all of the respective desks know how we can be helpful in moving these bonds.

Weekly GS Syndicate RMBS Axes (INTERNAL)

>> Subprime

Bond	Curr Bal	Mdy	SP	Cpn	DM at Px	Offer
GSAMP 06-FM2 M8	11.750	Baa2	BBB+	105	105	300
GSAMP 06-FM2 M9	9.196	Baa3	BBB-	205	205	550
GSAMP 06-FM3 M4	11.504	A1	A+	39	45	48
GSAMP 06-FM3 M5	11.143	A2	A	40	47	50
GSAMP 06-FM3 M6	7.190	A3	A-	46	53	56
GSAMP 06-HE8 M7	2.856	Baa1	BBB+	95	95	100
GSAMP 06-HE8 B1	13.970	Ba1	BB+	250	660	675
GSAMP 06-HE8 B2	14.399	Ba2	BB	250	1350	1350
GSAMP 07-FM1 M3	12.376	Aa3	AA-	34	34	45
GSAMP 07-FM1 M5	10.962	A2	A	45	45	50
GSAMP 07-H1 M4	5.615	A1		48	48	48
GSAMP 07-H1 M5	5.614	A2		58	58	58
GSAMP 07-H1 M6	5.007	A3		75	75	75

NOTE: GSAMP 07-H1 BONDS ARE MDY/FITCH - NO S&P

>> Alt-A

Bond	Curr Bal	Mdy	SP	Cpn	DM at Px	Offer
GSAA 06-15 B4	2.728	Ba2	BBB-	200	750	800
GSAA 06-18 B3	3.340	Ba2	BB	200	750	800
GSAA 06-18 B1	4.109	BBB	Baa2	S+175	S+175	S+185
GSAA 06-18 B2	2.570	BBB-	Baa3	S+250	S+250	S+250
GSAA 06-20 B3	6.467	Ba1	BBB-	200	550	550

>> Scratch & Dent / Seasoned

Bond	Curr Bal	Mdy	SP	Cpn	DM at Px	Offer
GSAMP 07-SEA1 M1	6.029	Aa2	AA	S+85	S+85	S+95
GSAMP 07-SEA1 M2	4.907	A2	A	S+120	S+120	S+150

>> Second Liens

Bond	Curr Bal	Mdy	SP	Cpn	DM at Px	Offer
GSAMP 06-S1 M4	13.695	Baa1		S+170	S+170	375
GSAMP 06-S1 M5	12.146	Baa2		S+195	S+195	550
GSAA 06-S1 M5	5.350	Baa1	BBB+	S+220	S+220	S+235
GSAA 06-S1 M6	4.180	Baa2	BBB	S+250	S+250	S+325
GSAA 06-S1 M7	5.183	Baa3	BBB	S+375	S+375	S+525
GSAA 06-S1 B1	5.183	Ba1	BB+	S+800	S+800	S+900
GSAMP 06-S6 M7	5.844	Baa3	BBB-	S+320	S+320	S+565
CBASS 06-SL1 M4	14.288	A1	AA-	57	57	75
CBASS 06-SL1 M6	15.266	A3	A	70	70	100

NOTE: GSAMP 06-S1 BONDS ARE MDY/FITCH - NO S&P

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From: Gasvoda, Kevin
Sent: Monday, February 12, 2007 8:49 AM
To: Montag, Tom
Cc: Ruzika, Richard; Sparks, Daniel L
Subject: FW: Mortgage Risk - Credit residential

Attachments: Picture (Metafile); Picture (Metafile)

Tom,

Here is the hybrid/option arm equivalent to the credit resid email from last week. This book is similar to the credit loan books (alt-a, subprime, 2nds and S&D) because it purchases loans and retains levered equity as a principal. Goal is to have good turnover in the loan book (securitize quickly) and manufacture attractive equity (primarily in Option Arms, not hybrids, since option arm structures are similar to Alt-A/subprime structures). Clay has done a great job finding buyers for a lot of the equity created to date. Also note, as you move from the most credit sensitive areas (S&D, 2nds, subprime to alt-a then prime option arms) the sensitivity of the residual valuation moves dramatically from 75% default to 75% prepay.

OPTION ARMS

- Loans - net short spreads in this sector. 1.5B in loan position (750mm securitized in Feb, 750mm in Mar). Feel good about demand in this sector. Seeing some drift of subprime credit buyer into this space-- more a focus on the borrower, rather than spread for rating. No downside surprises expected.

- Residuals - $150mm in residual risk, 100mm is late 06/early 07 production. Actively marketing two unlevered residual, 40mm MV as well as a NIM transaction. Expect 8-12mm PL near term on residual sales, and reduction of retained levered residual to 50mm invested. Assets booked at 30% ROA, GS assumptions. Risk is 70% speed and 30% credit sensitive. Asset will perform well in zero HPA environment as speed dominates credit. Hedge funds buying this asset as defensive play.

- Non-investment grade Bonds / MTA Basis IO - This was the technology applied neg-am securitizations from 04 to mid-06. Story is the same that credit (relative PO) hedges the speed risk on the IO. We own 120mm in MTA IO hedged with 80mm in non-investment grade subs. We continue to pare down this position by selling IO and Sub packages to hedge funds and mid 20s percent ROA. Like this trade, just want to lighten up in current environment.

Option Arms (MTA and Hybrid)

	Total	Bundled	CDS	ABX	
	1,448	1,448		-2,000	-552 AAA
	22				
	24	55	30		85 AA
	9				
	10				
	8	29	-140	50	-61 A/BBB+
	6				
	5				
	5				
	5	20			20 BBB/BB
	6				
	4				
	22	52			
	1,574				
Total Loans	1,574				

HYBRID ARMS

- Loans - This position is the smallest it's been in a while. Sold 2B of loans via securitization in January. We continue to buy opportunistically, but bank buying right now is through securitization spreads, so not

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as much to do. Don't see spreads widening in sector as AAA asset will be added to Lehman Agg on April 1.

- Non-investment grade Bonds -- 100mm MV in non-investment grade bonds, 04 to 06 vintage. Planning a re-remic of delevered non-investment grade assets in March. Expected PL: 5mm.

	Total	Bundled	CDS	ABX	Hybrids
AAA	215	215		-500	-285 AAA
AA+	2.50				
AA	1.70	5	0		5 AA
AA-	0.60				
A+	0.76				
A	0.51	2	0		2 A/BBB+
A-	0.42				
BBB+	0.35				
BBB	0.32				
BBB-	0.35	1	0		1 BBB/BB
BB+	0.35				
BB	0.31				
<BB	1.32	1			
Total Loans	**224**				

From: Gasvoda, Kevin
Sent: Thursday, February 08, 2007 11:41 PM
To: Montag, Tom
Cc: Sparks, Daniel L; Ruzika, Richard
Subject: Mortgage Risk - Credit residential

Tom,

For clarity, none of the below includes cash bonds in the ABS 2ndry book (Swenson) or CDO retained positions (FYI - the stress case in CDO positions looks like down $25mm, although bonds have been trading at our marks) . Below pertains strictly to risk in the whole loan trading businesses:

OVERVIEW

These are our primary reidiential mortgage businesses w/ credit risk:
- Subprime (Matt Nichols)
- Scratch & Dent (Michael Cawthon)
- Alt-A (Genevieve Nestor)
- Prime Hybrids/Option Arms (Clay DeGiacinto) => *I'll send details on this tmrw*
- 2nd liens (Dariush Pouraghabagher)

Each of these desks buy resi whole loans, securitize them and generally keep some or all of the levered equity (residuals). They have 3 primary positions with the following risks:
- Loans (held pre-securitization on average 4-8 weeks)
  - Bond spreads widen pre-securitization, hedged with ABX/CDS and eurodollars/swaps
  - Duration or rates, hedged w/ swaps, mortgages, UST and ED's
  - Liquidity - no bids for bonds
- Residuals or equity (created in securitization, levered first loss risk held at after-loss yields of 12-30%)
  - Actual losses hedged w/ CDS/ABX since there is some correlation
  - Duration (ED's, swaps)

  (Note, a lot of the performance is dependent on loss timing rather than loss magnitude - big late losses may be less painful than small early losses)
- Retained bonds and NIMs (bonds not sold at securitization time)
  - Spreads (ABX/CDS)

- Duration (ED's, swaps, UST)

(Note, NIM's are rated bonds we create w/ residual cashflows that are very short duration and lever our residual returns)

At your and Dan's urging, we are moving all retained bonds to 2ndry trading hands next week (mostly Mike Swenson). Also, we are moving all residual positions to a central residual trading desk next week (Cyrus Pouraghabagher).

****

SUMMARY OF LOSSES

Where we have gotten hurt this year:

- 2nd lien residual - took $20-25mm write-downs over last 3 months (could lose $5-15mm more)
- 2nd lien retained bonds - took $18mm write-down this week (could lose $5-15mm more)
- Subperforming loan book - taking $28mm write-down this week (could lose $20-40mm more)

What do these areas have in common? - most HPA sensitive sectors. They've crumbled under HPA slowdown as these are the most levered borrowers.

What have we done to mitigate? - we stopped buying subprime 2nd liens in the summer of '06 and have focused on alt-a and prime
- more emphasis at moving new issue bonds at any clearing levels
- moving retained bonds out of primary desk hands to 2ndry desk

Next shoe to drop? - '05 vintage subprime residuals, possible creep in bad performance up into alt-a

****

SUMMARY OF POSITIONS

(Note loss ranges below are not predictions. Overall feel good a/b our marks at this point but trying to show possible nearer term downsides.)

SUBPRIME

- Loans - net short spreads significantly (mostly ABX) and long $3B loans. Don't see a lot of near term P&L risk in this position.
  << OLE Object: Picture (Metafile) >>

- Residuals - $204mm (60% is pre-2005 vintage and less risky). Actively marketing $21mm resid trust position (aggregation of a bunch of old deals). OK w/ overall valuation, if loss performance deteriorates rather substantially over next 3-9 months, we could lose $20-40mm in these positions (mostly '06 vintage).

  << OLE Object: Picture (Metafile) >>

- Bonds/NIMs - much larger than usual as a byproduct of jamming out a lot of deals in Dec and Jan (some of the ABX short intentionally covers us here). Long $115mm bonds and $81mm NIMS. Downside on bonds is probably $5mm and NIMs could be $10-15mm (we've seen some stronger 2ndry prints last 2 days but haven't sold any NIMs, have sold $40mm bonds).

  << OLE Object: Picture (Metafile) >> << OLE Object: Picture (Metafile) >>

ALT-A

Sector has not been effected yet by lower credit contagion but we expect it to come so we've upped due dilg and are turning the book fast

- Loans - Long $5.2B loans (on the high side of normal). Higher quality loans so they produce far less lower rated bonds. Hedging w/ AAA and BBB ABX but net long spreads above BBB's (flat BBB's). Priced $660mm deal today so this drops to $4.4B. Feel good a/b executing out of loans here.

  << OLE Object: Picture (Metafile) >>

- Residuals - Importantly, we plan to bring our first Alt-A resid trust in March w/ a goal of selling $50-100mm of this risk (we'll sell all we get demand for). If defaults spiked up in Alt-a over next 6-9 months we could drop $20-30mm here.

  << OLE Object: Picture (Metafile) >>

- Bonds/NIMS - Good shape here w/ $182mm bonds but $132mm of them AAA and new, working on a large BB trade ($44mm owned) and $21mm NIMs (mostly single A). Risk is in the BB's, could lose $5mm in big spread widening.

  << OLE Object: Picture (Metafile) >> << OLE Object: Picture (Metafile) >>

2nd LIENS

- Loans - $550mm of this is seasoned 2nd lien subprime ('05 vintage) that is performing well and will be securitized next month. $250mm is Alt-A 2nds (again performing well) and $250mm is prime HELOCs. Overall slightly long spreads above BBB and short below. Execution looks OK still on these but we could lose $5mm in this space if spreads had to widen more dramatically to place all the bonds.

<< OLE Object: Picture (Metafile) >>

- Residuals - $48mm but $38mm of this is Alt-A 2nds (performing well) and $10mm subprime (has been written down $20-25mm over last 3 months). The $10mm is mostly prepay penalty value, no value in the credit IO's. Could lose $5-15mm if performance problems creeps up into Alt-A 2nd liens in next 3-6 months.

- Bonds/NIMs - Took $18mm write down this week. Could drop another $5-15mm if performance falls further. Big focus to reduce these positions but bids are hard to come by.

  << OLE Object: Picture (Metafile) >>

S&D

- Loans - Net long top of the capital structure and short the bottom for the securitizable portion of this loan book ($380mm). Remaining subperforming book ($854mm) was written down $28mm this week do to poorer cashflows. Very credit sensitive, could lose another $20-40mm if performance falls further

  << OLE Object: Picture (Metafile) >>

- Residuals - $55mm total value, these are cashflowing and less levered structures than Alt-a, subprime, etc. (but lower credit quality). Could lose $5-15mm in this book if losses increased more than expected.

- Retained bonds - The BBB-BB bonds are retained for investment generally and the higher rated are marketed. Tougher bond sales since the sizes are small, the deals are private and credit work is extensive. We could lose $5-15mm here if losses stepped up and bond spreads widened materially.

  << OLE Object: Picture (Metafile) >>

Goldman, Sachs & Co.
85 Broad Street, 26th Floor | New York, New York 10004
Tel: 212-902-8768 | Fax: 212-902-1691
email: kevin.gasvoda@gs.com

Kevin S. Gasvoda Goldman Sachs
Managing Director
Fixed Income Currency & Commodities

From: Sparks, Daniel L
Sent: Thursday, March 08, 2007 12:50 AM
To: Winkelried, Jon (EO 85B30); Montag, Tom; Viniar, David; Cohn, Gary (EO 85B30); Sherwood, Michael S; McMahon, Bill; Broderick, Craig
Cc: Ruzika, Richard
Subject: Mortgage risk

Just spent tonight negotiating with Accredited - they plan to send us $21mm in the morning, we have new information on loans in the warehouse line that allows us to feel comfortable raining the loan mark by $10mm, and we will buy $50mm of A-1 rated ABCP (Accredited vehicle) from accounts (we feel that the collateral is pretty good) that rolls Thursday which will prevent ABCP extension. Then all of our EPD claims in subprime would be resolved - we may have a small Alt A claims (probably under $1mm). If this happens, the outcome is good. New Century remains a problem on EPD.

Aside from the counterparty risks, the large risks I worry about are listed below:

(1) CDO and Residential loan securitization stoppage - either via buyer strike or dramatic rating agency change.

On the CDO front, we have been locking people at various parts of the capital structure (with a primary focus on the super-seniors - top 50% of the deal), and rushing to get deals rated. We have liquidated a few deals and could liquidate a couple more, and we are not adding risk (we had slowed down our business dramatically in the past 4 months). Our deals break down into 2 $1BB CDOs of A-CDOs (most risky, but good progress), 2 $1BB AA-diversified deals (less downside, less progress), and 4 other various smaller deals. We have various risk sharing arrangements, but deal unwinds are very painful.

For residential loans, we have not bought much lately and our largest pool to securitze is Alt A ($4.3BB). There is also $1.3BB subprime loans and $700mm seasoned seconds. This market is also very difficult to execute in.

(2) Dramatic credit environment downturn.

Scratch & dent loans ($900mm), residuals ($750mm), and less liquid bond positions - if the credit environment significantly worsens, these positions will be hurt by losses, further lack of liquidity and lower prices.

(3) Covering our shorts. We have longs against them, but we are still net short.

$4BB single name subprime split evenly between A, BBB, BBB- and $1.3BB of A-rated CDOs.

ABX index - overall the department has significant shorts against loan books and the CDO warehouse. The bulk of these shorts ($9BB) are on the AAA index, so the downside is limited as the index trades at 99.

Our shorts in (3) above have provided significant protection so far, and should be helpful for (1) and (2) in very bad times. However, there is real risk that in medium moves we get hurt in all 3 areas.

Therefore, we are trying to close everything down, but stay on the short side. But it takes time as liquidity is tough. And we will likely do some other things like buying puts on companies with exposures to mortgages.

-----Original Message-----
From: Winkelried, Jon (EO 85B30)

Permanent Subcommittee on Investigations
EXHIBIT #75

Sent: Wednesday, March 07, 2007 1:15 PM
To: Sparks, Daniel L; Montag, Tom; Viniar, David; Cohn, Gary (EO 85B30); Sherwood, Michael S; McMahon, Bill
Cc: Ruzika, Richard
Subject: Re: Originator exposures

Thanks for that summary. Not bad

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Viniar, David; Winkelried, Jon; Cohn, Gary; Sherwood, Michael S; McMahon, Bill
Cc: Ruzika, Richard
Sent: Wed Mar 07 12:09:03 2007
Subject: Originator exposures

Rich and I were catching up. I will send this group another message of our potential large risk areas as further stress happens, and our mitigation plans.

As for the big 3 originators - Accredited, New Century and Fremont, our real exposure is in the form of put-back claims. Basically, if we get nothing back we would lose around $60mm vs our loans on our books (we have a reserve of $30mm) and the loans in the trusts could lose around $60mm (we probably suffer about 1/3 of this in ongoing exposures). The reason it is not clear is that the loans are not worth 0, there is some value, so there are estimates as to what happens on those loans.

Rumor today is that the FBI is in Accredited.

Other big risk areas I will discuss later relate to CDO and loan execution (rating agency or market shutdown), covering single name and index shorts (liquidity), and retained residuals and loan positions (if collateral performance turns worse).

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57322.308

From: Ostrem, Peter L
Sent: Friday, March 09, 2007 7:51 AM
To: Sparks, Daniel L
Subject: FW: help

x-gs-classification: Internal-GS

I agree with Yusuf's comments on new clients. Middle east, french banks, macro hedge funds could and are making these deals "work" currently. We need more progress on the macro hedge fund side and we need to support mid-east sales better to make more progress (Mitch is going to mid-east to cover me on the trip I had to cancel).

In the mid-east, I have pitched 2 CDO squareds backed by BBB and A debt from our retained inventory (upcoming deals too). This could be the take-out of our take-down from the current pipeline and old positions still held.

-----Original Message-----
From: Aliredha, Yusuf
Sent: Friday, March 09, 2007 1:38 AM
To: Sparks, Daniel L; Schwartz, Harvey; Raz, Shlomi; Bash-Polley, Stacy; Wiesel, Elisha; McDonald, Ian (New York)
Cc: Madoff, Paula; Gmelich, Justin; Cornacchia, Thomas; Street, Patrick; Ricciardi, Steven; Swenson, Michael; Birnbaum, Josh; Lehman, David A.; Rosenblum, David J.; Ostrem, Peter L; Bohra, Bunty; Gasvoda, Kevin; Wright, Neil; Faker, Carl; Zaimi, Sanaz
Subject: RE: help

The key to success in the correlation melt-down 2 years ago was getting new clients/capital into the opportunity quickly. Saved/made us a lot of money. Lots of banks and real money clients in Europe and middle east and lots of macro hedge funds are not involved and not feeling pain. In Europe we need a summary of key opportunities/axes and I will get the team to focus on. 2-3 most important things plus sales talking points rather than laundry list. Will then get team on conference call to discuss.

Dan on a separate subject I will send you summary form middle east team on what they need focus on.

tks

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, March 09, 2007 4:22 AM
To: Schwartz, Harvey; Raz, Shlomi; Bash-Polley, Stacy; Wiesel, Elisha; McDonald, Ian (New York)
Cc: Madoff, Paula; Aliredha, Yusuf; Gmelich, Justin; Cornacchia, Thomas; Street, Patrick; Ricciardi, Steven; Swenson, Michael; Birnbaum, Josh; Lehman, David A.; Rosenblum, David J.; Ostrem, Peter L; Bohra, Bunty; Gasvoda, Kevin
Subject: RE: help

Sales has made major contributions for desk priorities in the recent weeks, examples include Av and Davilman in the US, and Giles in London - outstanding results to priorities. There has also been success grinding out retained positions - Gaddi and Riccardi for instance.

Our current largest needs are to execute and sell our new issues - CDOs and RMBS - and to sell our other cash trading positions. There is the perception out there - I heard it twice today from issuers/managers - that we are having trouble moving cash securities, that it is causing our view of the markets to be overly negative, and that the result is

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worse execution for them. I tend to think we are just realistic and others are hoping the market is better than it really is, but we have significant positions that we need to move, and I think our offerings should look cheap relative to where it sounds like competitors are. I can't overstate the importance to the business of selling these positions and new issues.

Aside from that, there are significant relative value trades that should be attractive to accounts and fit us nicely - index vs index, cash vs cds, index vs single name, name vs name. There is so much dislocation that the trading opportunities for us and accounts are very interesting. We have put together a few specific ideas related to these, but we can do much more. Bid/offer is good right now, and we can be successful both ways if accounts disagree with our ideas and want to take the other side.

The 3 things to keep in mind:
(1) The market is so volatile and dislocated that priorities and relative value situations change dramatically and constantly
(2) Liquidity is so light that discretion with information is very important to allow execution and avoid getting run over
(3) The team is working incredibly hard and is stretched - we are adding some resources

I think brief meetings (2 times weekly) with a small group - trading leaders and marketing/sales leaders to review ideas and priorities would be very helpful.
I also think sales and marketing leaders spending time with the traders on 26 and communicating constantly are very important.

And the trading team knows it has to improve in its communication.

The contributions from sales of the past few weeks have been fantastic, and the opportunties continue to be great.

Priority 1 - sell our new issues and our cash positions.

-----Original Message-----
From: Schwartz, Harvey
Sent: Thursday, March 08, 2007 7:31 PM
To: Raz, Shlomi; Bash-Polley, Stacy; Wiesel, Elisha; McDonald, Ian (New York)
Cc: Madoff, Paula; Sparks, Daniel L; Aliredha, Yusuf; Gmelich, Justin; Cornacchia, Thomas; Street, Patrick; Ricciardi, Steven
Subject: RE: help

Dan,

Seems to me...one of our biggest issues is how we communicate our views of the market --- consistently with what the desk wants to execute. Dan -- realize the desk is swamped -- but clearly marketing and sales leadership cant operate in a vaccum -- so need someone that will represent trading in driving our communication broadly with marketing -- how should we approach....as this has been difficult in the past when marketts were calmer and less demanding of the desks attention.

If best talked offline...no worry

-----Original Message-----
From: Raz, Shlomi
Sent: Thursday, March 08, 2007 10:02 AM
To: Bash-Polley, Stacy; Wiesel, Elisha; McDonald, Ian (New York)
Cc: Schwartz, Harvey; Madoff, Paula; Sparks, Daniel L; Aliredha, Yusuf; Gmelich, Justin; Cornacchia, Thomas; Street, Patrick; Ricciardi, Steven
Subject: RE: help

Understood...here is what we are working on and could work on:

1. In Progress: Short Credit Portfolio / Short Multi-Asset Class Ideas - Elisha and I

are putting together a presentation on the various short strategies we can show macro funds that take advantage of a market imbalance or cheap convexity/volatility. Given the success of this pitch/trade strategy with hedge funds and pension funds (approx 10-12mm in two months of NPV) we intend on rolling it out more broadly.

2. Potential: Relative value on cash inventory vs. TABX - this is more tricky...we can show the relative value of combining cash equity and TABX super senior (as a long correlation/convexity trade) and are doing this on a limited basis - but we still need to better develop our analytical capabilities to deliver more compelling relative value analysis.

3. In Progress: Partnership with /Development of Distressed Investors - Tom Cornacchia made a good point that in the same way that hedge funds purchased the downgraded and depressed CDO positions held by institutional investors in 2001-2003 - we may want to partner with these funds not only in the sourcing/placement of distressed mezz - but also in the purchase of loan portfolios and servicers...Elisha and I will be meeting with Tom today to discuss targeting accounts covered by distressed sales.

4. Potential: Fund of Distressed CDOs - whether in fund or CDO format - the aggregation of residual positions and secondary market opportunities may make sense - we should work with the structuring group to find out if they have anything in the works along these lines.

5. Potential: Principal protected mezzanine - I think we should work with the structuring team to show principal protected mezzanine (give BBB spreads at over 1000 bps these trades should be viable)...Steve Riccardi spoke to Matt Bieber about this...I think this is a great idea - I just don't know if the structuring team has time to focus on this. We will speak with David/Peter on this today.

-----Original Message-----
From: Bash-Polley, Stacy
Sent: Thursday, March 08, 2007 9:28 AM
To: Wiesel, Elisha; Raz, Shlomi; McDonald, Ian (New York)
Cc: Schwartz, Harvey; Madoff, Paula; Sparks, Daniel L; Aliredha, Yusuf; Gmelich, Justin; Cornacchia, Thomas
Subject: help

Had a call today with yusuf paula etc.. Think we really need some ideas to show in different flavors-and make sure we are reaching the next wave of players here and abroad

1. for macro folks who look at go long/short visa vis index-what breakevens (default /cum losses) across cap structure on abx. Also in cds we are can offer protection on port. Of single names-- shlomi-assume you know what we are doing here.. But could help get the word out a bit more broadly over the pond 2. On cash
- For those who are interested in going long--
we have new issue and secondary cash positions in CDOs (AA/A/BBBs) that we need to sell- clealry the cdo/mtg experienced pple will do the normal work they do on these deals.. But for those who are less experienced in the product may want a more diversified-- approach to managers-- obv they can do our cdo sq .. Or they can look at a bespoke trade.. Can we see what the numbers look like (with realistic pricing)..

These are basic concepts.. Which I think we need to "package" for slspeople who are a bit further removed. Obviously any creative ideas you have would be helpful.tx

From: Nanik, Manisha
Sent: Tuesday, March 13, 2007 5:45 PM
To: Morris, Loren
Subject: FW: New Century EPDs

Below is summary of findings. Attached loan level detail. Let me know if you have any questions..

- approx 7% of the pool has material occupancy misrepresentation where borrowers took out anywhere from 4 to 14 loans at a time and defaulted on all. These loans in combination with other layered credit risks are potentially problematic.
Your risk is in the loan performance and difficulty foreclosing, and the second liens would be potentially unsecured.

- approx 20% of the pool has material compliance issues. These are mainly missing final huds. We found state specific issues as well. Seller is currently working on addressing the compliance errors.
If we cannot put these loans back we will need to consider option of our servicer fixing the errors via refinance, refund, or redisclosure. Loans in FC or delinquent loans may have to be handled differently.

- approx 10% of the pool is flagged as potential REO or potential unsecured (if 2nd lien). This is based on layered credit risk in combination with the new dd results such as fico drift, multiple dlq loans, bpo results

- approx 5% of the pool was possibly originated fraudulently based on the dd results. Main findings: possible ID theft, broker misrepresentation, straw buyer, and falsification of information in origination docs..
If we cannot put these loans back, your risk is in the loan performance and you may have to charge off the loans. There is reputation/headline risk as well.

- Custodian has not received the final/trailing collateral documents (final title policy and recorded mortgage). Risk is we may never receive the docs and may experience delays in fc or inability to fc.

- Based on updated 3/1 data recd from new century, approx 62% of the pool has not made any pmts. (4% were reversed pmts/nsf).

- please note the masterpiece includes BPO combined ltv based on silent seconds found. The cltv on the original jsheet was misrepresented.

- approx 38% of the loans are out of tolerance. 10% of these have bpo combined cltv > 150%

- I recommend putting back 26% of the pool....if possible.

- loan level detail of issues for your reading pleasure Column C to O

Recommended Action	#	upb	%
NO ACTION	1	223000	0.34%
PUTBACK	72	17308987	26.70%
REPRICE	48	8932511	13.78%

Recommended Action	Issues	#	upb
PUTBACK		72	173089

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	compliance	34	8824
	compliance; loan status/performance	2	1698
	compliance; potential fraud	3	657
	compliance; potential REO	2	760
	compliance; potential unsecured	4	364
	compliance; property/value	2	114
	compliance; property/value; potential unsecured	1	62
	potential fraud	8	2710
	potential fraud; potential REO	1	300
	potential fraud; potential unsecured	2	255
	potential fraud; property/value; potential unsecured	1	111
	property/value	10	1300
	property/value; potential REO	2	149
REPRICE		**50**	**91724**
	loan status/performance	11	2366
	potential REO	13	4840
	potential unsecured	26	1965
NO ACTION		**1**	**2230**
	pif	1	223

Manisha Nanik
Ph: (727) 825-3828
Fax: (212) 428-9847

From: Black, Robert N
Sent: Wednesday, March 21, 2007 11:39 AM
To: ficc-spcdo; ficc-spgsyn
Subject: Non-traditional Buyer Base for CDO AXES

We have pushed credit sales to identify accounts in the credit space that would follow yield into the ABS CDO market, and tried to uncover some non-traditional buyers.

Below is a list of higher delta accounts uncovered so far; and we continue to push for leads. We are working with sales on these accounts to push our axes.

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Permanent Subcommittee on Investigations
EXHIBIT #78

MEMORANDUM

Goldman Sachs

To: Members of the Mortgage Capital Committee

From: Martha Rocha / Kenneth Lakra

Date: 3/23/2007 3:12:09 pm

Re: **Agenda for Monday, March 26, 2007**

Date:	**Monday, March 26, 2007**
Time:	**01:00pm NY time**
Location:	**85 Broad / 27A in New York**
Bridge Number	**212-902-0990**

The following is a list of transactions scheduled for review on Monday, March 26, 2007:

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Permanent Subcommittee on Investigations

5. GSAMP 2007-HE2
Goldman Sachs to securitize approximately $960 million of subprime mortgage loans purchased by Goldman Sachs Mortgage Company from New Century (71.91%), Aegis (12.12%), SouthStar (11.06%), and other originators each representing 3% or less of the total. The securitization is scheduled to be completed by April 12, 2007, and will utilize a Senior/Sub OC structure. The collateral backing the GSAMP 2007-HE2 deal is comprised of 5,030 loans with a combined original LTV of 81.38%, and FICO score of 622.
Memo Delivery Status: To Follow

Permanent Subcommittee on Investigations
EXHIBIT #79

From: Tourre, Fabrice

Sent: Friday, March 30, 2007 10:58 AM

To: Sparks, Daniel L; Wisenbaker, Scott; Lehman, David A.; Egol, Jonathan; Ostrem, Peter L

Subject: ABACUS 07-AC1 status

This transaction has been showed to selected accounts for the past few weeks. Those selected accounts had previously declined participating in Anderson mezz, Point Pleasant and Timberwolfe. We have gotten traction on the AAAs, and have approximately $200mm of orders on the class A1 and A2 tranches (IKB and ACA). We would like to execute and price these tranches by end of next week, and at the same time update price talks on other available tranches (AAs and As). Plan would still be to ask sales people to focus on Anderson mezz, Point Pleasant and Timberwolfe, but if accounts pass on these trades, steer them towards available tranches in ABACUS 07-AC1 since we make $$$ proportionately with the notional amount of these tranches sold. Wanted to make sure everyone is comfortable with this plan.

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917-[redacted]
Email: fabrice.tourre@gs.com

Fabrice Tourre
Structured Products Group

Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #80

From: Raazi, Cactus
Sent: Thursday, April 05, 2007 10:36 AM
To: Brad Rosenberg
Subject: Brad - please take a look at this

Brad - please take a look at this portfolio. These are all dirty '06 originations that we are going to trade as a block. You are not the only client seeing this so time will be of the essence.

Save the price discussion for later - at the moment you might want to figure out whether this portfolio suits your objectives.

- 30 Baa2 ref obs that we could offer as a package at +625bps ($15mm per name, $450mm total)

ACCR 2006-2 M8	00437NAM4
ACE 2006-HE2 M8	004421ZD8
BSABS 2006-HE6 1M8	07388UAL4
FFML 2006-FF4 M8	362334GC2
FMIC 2006-2 M8	31659EAM0
GSAMP 2006-HE4 M8	362439AN1
HEAT 2006-4 M8	437084VY9
HEAT 2006-8 M8	43709QAP1
IXIS 2006-HE1 B2	45071KDN1
JPMAC 2006-HE2 M8	46625SAN6
JPMAC 2006-HE3 M8	46629VAN5
MABS 2006-NC1 M8	57643LNP7
MLMI 2006-MLN1 B2	59023AAN6
MLMI 2006-RM4 B2	59023QAN1
MSAC 2006-WMC1 B2	61744CXV3
MSC 2006-HE1 B2	617451DZ9
NCMT 2006-1 M8	65106AAV5
NHELI 2006-WF1 M8	65536RAM8
NHELI 2007-2 M8	65537MAN6
OOMLT 2007-1 M8	68400DAP9
RAMC 2006-1 M8	759950HG6
RAMP 2006-EFC1 M8	76112BW63
RASC 2006-EMX3 M8	76113ACJ8
SABR 2006-OP1 B2	81375WJN7
SABR 2007-NC2 B2	81378GAM0
SAIL 2006-BNC3 M7	86361KAM9
SAST 2006-2 B2	80556XAP2
SVHE 2006-OPT5 M8	83612CAN9
WMABS 2006-HE2 M8	93934JAM6
WMABS 2006-HE3 M8	93934MAN7

From: Cornacchia, Thomas
Sent: Thursday, April 05, 2007 9:46 AM
To: Raazi, Cactus; LoBue, Lindsay; Grinstein, Veronica; Bhavsar, Avanish R
Cc: Swenson, Michael; Salem, Deeb
Subject: FW: let's sell ~200mm in Baa2 protection...

Get this done please - who is the better salespaerson??

From: Swenson, Michael
Sent: Thursday, April 05, 2007 9:42 AM

Permanent Subcommittee on Investigations
EXHIBIT #81

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00525 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
ph44585 on D330-44585-7600 with DISTILLER
57322.317

To: Salem, Deeb; Cornacchia, Thomas
Subject: RE: let's sell ~200mm in Baa2 protection...

Make that 500mm

From: Salem, Deeb
Sent: Thursday, April 05, 2007 9:35 AM
To: Cornacchia, Thomas
Cc: Swenson, Michael
Subject: let's sell ~200mm in Baa2 protection...

From: Raazi, Cactus
Sent: Sunday, April 15, 2007 8:27 PM
To: Chan, Daniel
Subject: Dan: ABACUS 07-AC1
Attachments: ABACUS 2007-AC1 Reference Portfolio 20070328.xls

Dan - seems we might have to book these pigs. Pls ask Michael if he has already booked them - if not then ask him to let you know how you are supposed to book them - thanks

From: Barbieri, Michael C.
Sent: Thursday, April 12, 2007 10:42 AM
To: Raazi, Cactus
Cc: Tarantino, Jason
Subject: FW: ABACUS 07-AC1

Hey Cactus - Can you book these when you get a chance? Let me know if you need any guidance.

Thanks,
Mike

From: Tourre, Fabrice
Sent: Tuesday, April 03, 2007 2:37 PM
To: ficc-mtgcorr-tradeapproval
Cc: Raazi, Cactus
Subject: ABACUS 07-AC1

In connection with the ABACUS 07-AC1 transaction which is expected to price on Tuesday, April 10, 2007, we expect, on that same day, to execute the following tranched CDS with Paulson (entity would be Paulson Credit Opportunities):

-- GS sells protection on $50mm notional of 35%-45% tranche off ABACUS 07-AC1 reference portfolio at a price of 2.30% upfront, 1.16% p.a. - 2 year non-call
-- GS sells protection on $142mm notional of 21%-35% tranche off ABACUS 07-AC1 reference portfolio at a price of 2.30% upfront, 1.41% p.a. - 2 year non-call

See attached reference portfolio.

<u>**GS Strat**</u>: can you include this portfolio in TAP ?

<u>**GS Credit**</u>: can you please confirm that we are ok with those trades, and confirm the margin, if any, associated with those trades.

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917[redacted]
Email: fabrice.tourre@gs.com

Goldman Sachs

Fabrice Tourre
Structured Products Group

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #82

From: Kim, Anthony H.
Sent: Thursday, April 05, 2007 3:51 PM
To: Sparks, Daniel L; Gasvoda, Kevin; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Ruzika, Richard; Bohra, Bunty; Swenson, Michael; Lehman, David A.
Cc: ficc-spgsyn
Subject: FW: GS Syndicate RMBS Axes (INTERNAL)

INTERNAL

Over the past few weeks we've continued to move several CDO and subprime positions. CDO positions include ~45mm of Anderson Mezz paper and Coolidge and Timberwolf bonds. On the resi side we were able to move A, BBB and BB risk off of our retained '07 positions. We continue to work with sales and the product desks to move this risk quickly. Total sales below:

Subprime	330.235mm	(38%)
Alt-A	225.988	(26%)
CDO	262.250	(31%)
Seconds	38.603	(4%)
Hybrids	2.355	(.2%)
Total	859.431mm	(100%)

Let us know if there are any questions.

From: GS Syndicate
Sent: Thursday, April 05, 2007 3:31 PM
To: ficc-sales-spg
Cc: Sparks, Daniel L; Gasvoda, Kevin; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Bohra, Bunty; ficc-spgsyn
Subject: GS Syndicate RMBS Axes (INTERNAL)

INTERNAL ONLY

Great job by Robert Gaddi moving us out of 6mm of our BBB-, Fremont, subprime risk. Please continue to focus on the bonds below:

Priority Second Liens

** These CBASS bonds are a focus position that we need to move -- please come back with feedback on levels

Bond	Curr Bal	Mdy	SP	Cpn	Offer
CBASS 06-SL1 M4	14.288	A1	AA-	L+57	200
CBASS 06-SL1 M6	15.266	A3	A	L+70	300

Option ARMs

Bond	Curr Bal	Mdy	SP	Cpn	Offer (DM AT 25CPR YTC)
RALI 2007-QH3 A1	66.727	Aaa	AAA	L+16	19
RALI 2007-QH3 M3	1.756	Aa2	AA-	L+60	70
RALI 2007-QH3 M4	1.581	Aa2	A+	L+70	110
RALI 2007-QH3 M5	1.229	Aa3	A	L+75	125
RALI 2007-QH3 M6	1.229	A1	A-	L+80	140
RALI 2007-QH3 M7	1.23	A2	BBB+	L+150	225
RALI 2007-QH3 M8	1.58	Baa1	BBB-	L+150	450
RALI 2007-QH3 M9	1.756	Baa2	BB	L+150	825

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CWALT 2007-OA4 M6	3.631	Aa3	A-	L+80	145
CWALT 2007-OA4 M7	3.632	A2	BBB+	L+125	220
CWALT 2007-OA4 M8	3.632	Baa1	BBB	L+150	275
CWALT 2007-OA4 M9	3.631	Baa3	BBB-	L+150	450

Subprime

Bond	Curr Bal	Mdy	S&P	Cpn	Offer
GSAMP 07-HE1 B2	6.000	Ba2	BB	250	1800
GSAMP 06-FM2 M8	11.750	Baa2	BBB+	105	400
GSAMP 06-FM2 M9	9.196	Baa3	BBB-	205	650
GSAMP 07-FM2 M5	12.025	A2	A	50	235
GSAMP 07-FM2 M7	7.640	Baa1	BBB+	135	570

** Note the ratings for the H1 deal are **Moodys/Fitch**

Bond	Curr Bal	Mdy	Fitch	Cpn	Offer
GSAMP 07-H1 M6	5.007	A3	A-	75	350

Alt-A

Bond	Curr Bal	Mdy	SP	Cpn	Offer
GSAA 07-3 B3	6.499	Baa3	BBB-	200	550
GSAA 07-2 AF5A	8.000	Aaa	AAA	6.099	S+120
GSAA 07-2 AF5B	5.373	Aaa	AAA	6.148	S+125
GSAA 07-2 B1	3.051	Baa1	BBB+	6.79	S+300
GSAA 07-2 B2	4.576	Baa3	BBB-	6.79	S+500
GSAA 06-15 B4	2.736	Ba2	BBB-	200	1000
GSAA 06-18 B1	4.109	Baa2	BBB	6.767	S+400
GSAA 06-18 B2	2.570	Baa3	BBB-	7.26	S+500
GSAA 06-18 B3	3.340	Ba2	BB	200	1300
GSAA 06-20 B3	6.467	Ba1	BBB-	200	1000

Second Liens

Bond	Curr Bal	Mdy	SP	Cpn	Offer
GSAA 06-S1 M5	5.35	Baa1	BBB+	7.00%	S+550
GSAA 06-S1 M6	4.18	Baa2	BBB	7.00%	S+825
GSAA 06-S1 M7	5.183	Baa3	BBB-	7.00%	S+1125
GSAA 06-S1 B1	5.183	Ba1	BB+	7.00%	S+1500
GSAMP 06-S6 M7	5.844	Baa3	BBB-	7.00%	S+1000
GSAMP 06-S4 B2	8.809	Ba2	BB+	6.90%	S+1650

From: Broderick, Craig
Sent: Friday, May 11, 2007 1:48 PM
To: Rapfogel, Alan; Wildermuth, David; Schick, Sharon; Young, Greg; Welch, Patrick; Hemphill, Lee
Subject: RE: CDO's - Mortgages

Sparks and the Mtg group are in the process of considering making significant downward adjustments to the marks on their mortgage portfolio esp CDOs and CDO squared. This will potentially have a big P&L impact on us, but also to our clients due to the marks and associated margin calls on repos, derivatives, and other products. We need to survey our clients and take a shot at determining the most vulnerable clients, knock on implications, etc. This is getting lots of 30th floor attention right now.

From: Wildermuth, David
Sent: Friday, May 11, 2007 1:40 PM
To: Sedita, Amy; Broderick, Craig; Schick, Sharon; Young, Greg; Welch, Patrick; Hemphill, Lee; Rapfogel, Alan
Subject: RE: CDO's - Mortgages

What is the topic/discussion here? I have a conflict but can probably attend the first 1/2 hour. Depending on the topic, I can try to move my 2:30??

From: Sedita, Amy
Sent: Friday, May 11, 2007 1:00 PM
To: Broderick, Craig; Schick, Sharon; Young, Greg; Welch, Patrick; Hemphill, Lee; Rapfogel, Alan; Wildermuth, David
Subject: Updated: CDO's - Mortgages
When: Friday, May 11, 2007 2:00 PM-3:00 PM (GMT-05:00) Eastern Time (US & Canada).
Where: 9B -- *Dom: 800-[redacted] Mod PC:[redacted] Part PC:[redacted] Client ID[redacted]

*updated with dial in #.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #84

Confidential Treatment Requested by Goldm GS MBS-E-009976918

CONFIDENTIAL

ABACUS 2006-11, LTD.

(Incorporated with limited liability in the Cayman Islands)

ABACUS 2006-11, INC.

U.S.$82,500,000 Class A-1 Variable Rate Notes, Due 2045
U.S.$45,937,500 Class A-2 Variable Rate Notes, Due 2045
U.S.$19,375,000 Class B Variable Rate Notes, Due 2045
U.S.$18,750,000 Class C Variable Rate Notes, Due 2045
U.S.$10,000,000 Class D Variable Rate Notes, Due 2045
Class E Variable Rate Notes

Secured Primarily by (i) the Collateral and (ii) the Issuer's rights under (a) the Collateral Put Agreement, (b) the Basis Swap and (c) as Protection Seller, the Credit Default Swap referencing a pool of CMBS Securities, CDO CRE Securities and RMBS Securities

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The Notes are being offered hereby by Goldman, Sachs & Co. to Qualified Institutional Buyers in the United States in reliance on Rule 144A under the Securities Act. In addition to the offering of the Notes in the United States, Goldman, Sachs & Co., selling through its agent, Goldman Sachs International is concurrently offering the Notes outside the United States to non-U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act. See "Underwriting".

The Notes of any Class may be issued in more than one Series due to differences in one or more of the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue.

See "Risk Factors" beginning on page 23 to read about factors you should consider before buying the Notes.

There is no established trading market for the Notes. Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that any such admission will be sought, granted or maintained.

It is a condition of the issuance of the Notes issued on the Closing Date that, the Class A-1 Notes be issued with a rating of "AAA" by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("S&P") and at least "Aaa" by Moody's Investors Service, Inc. ("Moody's"), that the Class A-2 Notes be issued with a rating of "AAA" by S&P and at least "Aa1" by Moody's, that the Class B Notes be issued with a rating of at least "AA-" by S&P and at least "Aa3" by Moody's, that the Class C Notes be issued with a rating of at least "A-" by S&P and at least "A2" by Moody's and that the Class D Notes be issued with a rating of at least "BBB" by S&P and at least "Baa1" by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Rating of the Notes".

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Notes by the Initial Purchaser.

CERTAIN PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE NOTES, GOLDMAN, SACHS & CO., GOLDMAN SACHS INTERNATIONAL, THE ADMINISTRATOR, THE SHARE TRUSTEE, THE PROTECTION BUYER, THE BASIS SWAP COUNTERPARTY, THE COLLATERAL PUT PROVIDER, THE COLLATERAL DISPOSAL AGENT OR ANY OF THEIR RESPECTIVE AFFILIATES. THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, AND NEITHER OF THE ISSUERS WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE NOTES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO PERSONS WHO ARE (1) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS PROVIDED BY RULE 144A UNDER THE SECURITIES ACT AND (2) QUALIFIED PURCHASERS (FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT), AND IN ACCORDANCE WITH ANY OTHER APPLICABLE LAW. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "TRANSFER RESTRICTIONS".

The Notes are offered by the Initial Purchaser or its agent as specified herein, subject to its right to reject any order in whole or in part. It is expected that the Global Notes will be ready for delivery in book-entry form only in New York, New York, on or about September 20, 2006, through the facilities of DTC (or Euroclear, with respect to Notes issued in Approved Currencies other than Dollars, if any), against payment therefor in immediately available funds. The Notes will have the minimum denomination set forth in "Summary—Notes".

Goldman, Sachs & Co.

Offering Circular dated September 19, 2006.

Permanent Subcommittee on Investigations
EXHIBIT #85

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00531 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
ph44585 on D330-44585-7600 with DISTILLER
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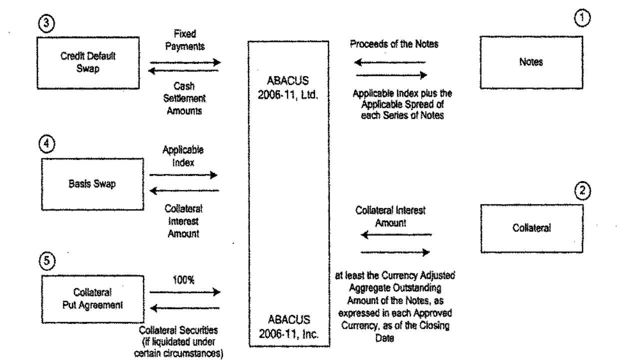
TRANSACTION OVERVIEW

This overview is not complete and is qualified in its entirety by reference to (i) the detailed information appearing elsewhere in this Offering Circular, (ii) the terms and conditions of the Notes and (iii) the provisions of the documents referred to in this Offering Circular.



1. On the Closing Date, the Notes will be issued in the Original Principal Amount set forth in the "Summary--Notes". From time to time following the Closing Date, additional Notes of any Class may be issued; *provided*, *however*, that the Additional Issuance Principal Amount shall not cause the Aggregate USD Equivalent Outstanding Amount of such Class of Notes to exceed the Class Notional Amount of such Class immediately prior to such additional issuance.
2. The Issuer will use the net proceeds of the offering of the Notes, together with part or all of the Upfront Payment, to purchase the Initial Collateral Securities and Eligible Investments selected by the Protection Buyer; *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.
3. On the Closing Date, the Issuer and Goldman Sachs Capital Markets, L.P., as the Protection Buyer, will enter into the Credit Default Swap whereby the Issuer (a) sells credit protection to the Protection Buyer with respect to a Reference Portfolio of CMBS Securities, CRE CDO Securities and RMBS Securities and (b) receives from the Protection Buyer (i) an Upfront Payment on the Closing Date and (ii) a Fixed Payment on each Payment Date. Following the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, the Issuer will pay to the Protection Buyer an amount equal to the Cash Settlement Amount. For a description of all payments to be made under the Credit Default Swap, see "The Credit Default Swap--Payment".
4. On the Closing Date, the Issuer and Goldman Sachs Mitsui Marine Derivative Products, L.P., as the Basis Swap Counterparty, will enter into the Basis Swap whereby the Issuer (a) pays to the Basis Swap Counterparty any Collateral Interest Amount and (b) receives an amount from the Basis Swap Counterparty equal to the sum of the products for each Approved Currency in which Outstanding Notes are denominated of: (i) the Applicable Index for the Applicable Period; (ii) the average daily Currency Adjusted Aggregated Outstanding Amount of such Notes during the preceding Basis Swap Calculation Period; and (iii) the actual number of days in the preceding Basis Swap Calculation Period in which a payment is made *divided* by 360.
5. On the Closing Date, the Issuer and Goldman Sachs International, as the Collateral Put Provider, will enter into the Collateral Put Agreement whereby the Issuer will have the right to put a Collateral Security or an Eligible Investment (other than Put Excluded Collateral) to the Collateral Put Provider in return for a payment of 100% of the principal amount of such Collateral Security or Eligible Investment, as applicable, if it cannot be liquidated for an amount equal to at least 100% of par in connection with (i) the payment by the Issuer to the applicable Noteholders of any Currency Adjusted Notional Principal Adjustment Amount, (ii) an Optional Redemption in Whole or a Partial Optional Redemption and/or (iii) under certain circumstances described herein with respect to the Stated Maturity of any Series of Notes.

SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For a discussion of certain factors to be considered in connection with an investment in the Notes, see "Risk Factors".

Capitalized terms used herein but not defined shall have the meanings set forth under "Glossary of Defined Terms".

The Issuers	ABACUS 2006-11, Ltd. (the "**Issuer**"), a company incorporated under the laws of the Cayman Islands for the sole purpose of issuing the Notes, acquiring the Collateral, entering into the Credit Default Swap, the Basis Swap and the Collateral Put Agreement and engaging in certain related transactions. The Issuer will not have any material assets other than (i) the Collateral, (ii) its rights under the Credit Default Swap, the Basis Swap and the Collateral Put Agreement and (iii) certain other assets. ABACUS 2006-11, Inc. (the "**Co-Issuer**" and, together with the Issuer, the "**Issuers**"), a company incorporated under the laws of the State of Delaware for the sole purpose of co-issuing the Co-Issued Notes. The Co-Issuer will not have any assets (other than $10 of equity capital) and will not pledge any assets to secure the Notes. The Co-Issuer will have no claim against the Issuer in respect of the Issuer Assets. The authorized share capital of the Issuer consists of 300 ordinary shares, par value $1.00 per share (the "**Issuer Ordinary Shares**"), 300 of which will be issued on or prior to the Closing Date. The Issuer Ordinary Shares that have been issued will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands and any successor thereto (the "**Administrator**"), as the trustee pursuant to the terms of a charitable trust (the "**Share Trustee**"). The Co-Issuer Common Stock will be held by the Issuer.

Notes

Class Designation	A-1	A-2	A-2	B	C	D	E
Original Principal Amount[1] (as expressed in Dollars)	$82,500,000	$20,000,000	$25,937,500	$19,375,000	$18,750,000	$10,000,000	$0
Initial Class Notional Amount (as expressed in Dollars)	$82,500,000	$45,937,500	$45,937,500	$31,875,000	$18,750,000	$17,812,500	$7,125,000
Class Series	Series 1	Series 1	Series 2	Series 1	Series 1	Series 1	
Stated Maturity	September 28, 2045	September 28, 2045	September 28, 2045	September 28, 2045	September 28, 2045	September 28, 2045	
Average Life (in years)[2]	6.4	6.8	6.8	7.1	7.4	7.5	7.7
Minimum Denomination (Integral Multiples):							
Rule 144A	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)	$250,000 ($1) €250,000 (€1) £250,000 (£1) ¥25,000,000 (¥1) C$250,000 (C$1) A$250,000 (A$1)
Reg S	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)	$100,000 ($1) €100,000 (€1) £100,000 (£1) ¥10,000,000 (¥1) C$100,000 (C$1) A$100,000 (A$1)
Applicable Investment Company Act of 1940 Exemption	3(c)(7)						
Initial Ratings:							
S&P	AAA	AAA	AAA	AA-	A-	BBB	
Moody's	Aaa	Aa1	Aa1	Aa3	A2	Baa1	
Deferred Interest	No	No	No	No	No	No	No
Pricing Date	September 19, 2006	August 16, 2006	August 16, 2006	August 16, 2006	August 16, 2006	August 16, 2006	
Closing Date	September 20, 2006						
Issue Price	The Notes will be offered for sale from time to time in negotiated transactions, or otherwise, at various prices to be determined at the time of such sale						
Series Interest Rate for Series Issued on Closing Date[3]	LIBOR + 0.52%	LIBOR + 0.60%	LIBOR + 0.58%	LIBOR + 0.78%	LIBOR + 1.80%	LIBOR + 3.30%	
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	Floating
Interest Accrual Period	Each period from and including the preceding Payment Date (or, the Closing Date, with respect to the first Payment Date) to but excluding the current Payment Date (or, in the case of the Payment Date preceding the Stated Maturity, to but excluding the Stated Maturity)						
Payment Date	On the 28th calendar day of each month (or if such day is not a Business Day, the next succeeding Business Day) and at Stated Maturity						
First Payment Date	October 30, 2006	October 30, 2006	October 30, 2006	October 30, 2006	October 30, 2006	October 30, 2006	
Record Date	15 days prior to the applicable Payment Date						
Frequency of Payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360
Co-Issued Notes or Issuer Notes	Co-Issued Notes	Co-Issued Notes	Co-Issued Notes	Co-Issued Notes	Co-Issued Notes	Issuer Notes	Issuer Notes
Form of Notes:							
Global	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CUSIPS Rule 144A	002559AA0	002559AB8	002559AE2	002559AC6	002559AD4	00257WAA7	00257WAB5
CUSIPS Reg S	G00117AA2	G00117AB0	G00117AE4	G00117AC8	G00117AD6	G0011UAA1	G0011UAB9
ISIN Reg S	USG00117AA26	USG00117AB09	USG00117AE46	USG00117AC81	USG00117AD64	USG0011UAA19	USG0011UAB91
Common Code	02680176	026801796	026911923	026801826	026801842	026801877	026801893
Clearing Method:							
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	DTC
Reg S	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream
Certificated	N/A	N/A	N/A	N/A	N/A	N/A	N/A

 GS MBS-E-002742553

1 Pursuant to the Indenture (in the case of the Co-Issued Notes) and the Issuing and Paying Agency Agreement (in the case of the Issuer Notes), the Notes of any Class may be issued from time to time following the Closing Date; *provided*, *however*, that the Additional Issuance Principal Amount (or, if such additional issuance is denominated in an Approved Currency other than Dollars, the USD Equivalent of such Additional Issuance Principal Amount) related to an additional issuance of any such Class of Notes following the Closing Date shall not cause the Aggregate USD Equivalent Outstanding Amount of such Class of Notes to exceed the Class Notional Amount of such Class immediately prior to such additional issuance. See "Description of the Notes—The Indenture—Additional Issuance" and "Description of the Notes—The Issuing and Paying Agency Agreement—Additional Issuance."

2 Under a hypothetical scenario in which (i) each Reference Obligation will make a repayment of principal in full on a single date corresponding to the projected weighted average life of such Reference Obligation determined on the basis of a 30/360 day-count convention, whether or not such date falls on a Business Day or a Payment Date, (ii) principal payments on the Notes will occur on Payment Dates in accordance with the applicable cut-off dates, (iii) any principal received on one or more Reference Obligations prior to the end of the Notional Reinvestment Period will be treated as reinvested in a hypothetical replacement Reference Obligation with a weighted average life of 60 months from the time of assumed inclusion in the Reference Portfolio, (iv) the Notes will be repaid in accordance with the Priority of Payments, (v) the Modified Sequential Paydown Sequence Requirements, with the exception of clause (i) of the definition thereof, will always be satisfied, and (vi) no Credit Events will have occurred with respect to the Reference Portfolio. The assumptions set forth above are not predictive or a forecast, nor do they necessarily reflect historical performance and defaults.

3 The Series Interest Rate with respect to any Series of a Class will be determined at the time of issuance of such Series, and will equal the Applicable Index for such Series plus or minus the Applicable Spread to such Applicable Index. The Series Interest Rate with respect to different Series of a Class may vary. The Notes of any Class may be issued in more than one Series due to differences in one or more of the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue. See "Additional Issuance" herein.

The Issuer Notes .... The Issuer Notes will be issued in accordance with one or more deeds of covenant (each, a "**Deed of Covenant**") and will be subject to the Issuing and Paying Agency Agreement, dated as of the Closing Date including the terms and conditions of such Notes contained therein (the "**Issuing and Paying Agency Agreement**"), between the Issuer and LaSalle Bank National Association, as Issuing and Paying Agent (in such capacity, the "**Issuing and Paying Agent**"). See "Description of Notes—The Issuing and Paying Agency Agreement".

Status and Subordination .... The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer. On (i) each Payment Date and (ii) any other Business Day on which Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Noteholders, the Class A-1 Notes will be senior in right of payment to the Class A-2 Notes, the Class A-2 Notes will be senior in right of payment to the Class B Notes, the Class B Notes will be senior in right of payment to the Class C Notes, the Class C Notes will be senior in right of payment to the Class D Notes and the Class D Notes will be senior in right of payment to the Class E Notes.

Use of Proceeds .... The aggregate net proceeds of the offering of the Notes are expected to equal approximately $176,562,500 (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). The Issuer will use such net proceeds, together with part or all of the Upfront Payment, to purchase Collateral Securities and Eligible Investments that will have an aggregate principal amount of at least $176,562,500 (including the USD Equivalent of the Collateral Securities denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.

Distributions of Interest Proceeds	Interest Proceeds will be distributable monthly to Holders of the Notes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments".
Non-Call Period	With respect to each Series of Notes issued on the Closing Date, the period from the Closing Date to and including the Business Day immediately preceding the September 2009 Payment Date and, with respect to any Series of Notes issued after the Closing Date, the period designated for such Series at the time of issuance in the related offering circular supplement (the "**Non-Call Period**").
	So long as the Non-Call Period for each Series of Notes Outstanding has expired, the Notes will be redeemed in full at the option of the Protection Buyer if the Protection Buyer elects to terminate the Credit Default Swap prior to the Scheduled Termination Date and certain conditions are satisfied. See "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date and Mandatory Redemption Date" and "The Credit Default Swap—Credit Default Swap Early Termination—Credit Default Swap Termination Events".
	After the applicable Non-Call Period, one or more Series of Notes may be redeemed in full if the Protection Buyer, in its sole discretion, elects to redeem such Series prior to its Stated Maturity and certain conditions are satisfied. In addition, if the Protection Buyer and/or one or more Affiliates thereof acquires any Notes prior to the end of the related Series' applicable Non-Call Period (such Notes, "**Protection Buyer Notes**"), such Notes may be redeemed notwithstanding that any such redemption may occur during the applicable Non-Call Period. See "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Priority of Payments—Principal Proceeds—Other Payment Dates" and "The Credit Default Swap—Payments—Payment on a Partial Optional Redemption Date".
Principal Payments on the Notes	The following table sets forth the general circumstances and dates upon which Holders of the Notes will receive principal payments on their Notes prior to the Stated Maturity:

Event	Date of Payment	Amounts Payable in accordance with the Priority of Payments
Payment of Currency Adjusted Notional Principal Adjustment Amounts	With respect to (i) Reference Obligation Recovery Amounts, the fifth Business Day following the calculation of the related Loss Amount; and (ii) Reference Obligation Amortization Amounts, the Payment Date immediately following the Due Period in which such amounts were determined by the Credit Default Swap Calculation Agent	Notional Principal Adjustment Amounts
Optional Redemption in Whole due to an optional termination of the Credit Default Swap by the Protection Buyer	Any Payment Date after the expiration of the Non-Call Period for each Series of Notes Outstanding	Currency Adjusted Aggregate Outstanding Amount plus, if the consent of each Holder of Notes of a Reversible Writedown Series has not been obtained, with respect to each such Reversible Writedown Series, the Optional Redemption Reimbursement Amount
Partial Optional Redemption due to the election by the Protection Buyer to redeem one or more Series of Notes in full	Any Payment Date after the applicable Non-Call Period	Currency Adjusted Aggregate Outstanding Amount of each Series of Notes being redeemed plus, if any such Series is a Reversible Writedown Series and the consent of each Holder of such Reversible Writedown Series has not been obtained, the Optional Redemption Reimbursement Amount for any such Reversible Writedown Series
Partial Optional Redemption due to the election by the Protection Buyer to redeem Protection Buyer Notes	Any Payment Date	Currency Adjusted Aggregate Outstanding Amount of the Protection Buyer Notes being redeemed

Event	Date of Payment	Amounts Payable in accordance with the Priority of Payments
Mandatory Redemption (other than a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party or (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party, for which there would be insufficient liquidation proceeds to pay (a) items (i) through (iii) of the Priority of Payments and (b) with respect to each of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes of such Class and accrued interest thereon (if any))	Any Business Day	Principal Proceeds
Mandatory Redemption (other than as described above)	Any Business Day	Principal Proceeds and/or delivery of Collateral Securities subject to Special Termination Liquidation Procedure

See "Description of the Notes—Principal", "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Mandatory Redemption", "Description of the Notes—Priority of Payments" and "Description of the Notes—The Indenture—Events of Default".

Decrease in the Class Notional Amount of each Class of Notes .... The Class Notional Amount of each Class of Notes will be decreased by an amount (as expressed in Dollars) equal to:

(i) on the fifth Business Day following the calculation of any Loss Amount, if greater than zero, the lesser of (a)(i) the aggregate Loss Amount determined on the related Credit Default Swap Calculation Date *less* (ii) the sum of (1) the First Loss Notional Amount immediately prior to such determination and (2) the Class Notional Amount of any Class of Notes that is subordinated to such Class immediately prior to such determination and (b) the Class Notional Amount of such Class immediately prior to such determination (such amount, the **"Unscaled Credit Event Adjustment Amount"**);

(ii) (a) with respect to any Reference Obligation Recovery Amount, on the fifth Business Day following the calculation of the related Loss Amount and/or (b) with respect to any Reference Obligation Amortization Amount, on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), the lesser of:

(a)(1) if the Modified Sequential Paydown Sequence Requirements would be satisfied following the projected amortization of the Super Senior Notional Amount, the Class Notional Amount of each Class of Notes and the First Loss Notional Amount on such date in accordance with the Modified Sequential Paydown Sequence, the sum of (X) if greater than zero, the lesser of (A) after giving effect to any projected amortization of the Super Senior Notional Amount and the Class Notional Amount of any Class of Notes senior to such Class in accordance with subclauses (i) through (vii) of the Modified Sequential Paydown Sequence, the notional amount required to reduce the Class Notional Amount of such Class of Notes to the extent necessary to cause the Actual Class Notional Overcollateralization Ratio with respect to such Class of Notes to equal the Required Class Notional Overcollateralization Ratio with respect to such Class of Notes and (B) the difference between (I) the aggregate Notional Principal Amount allocable on such date and (II) the projected amortization of the Super Senior Notional Amount and the Class Notional Amount of any Class of Notes that is senior to such Class in accordance with subclauses (i) through (vii) of the Modified Sequential Paydown Sequence on such date and (Y) if greater than zero, (a) the aggregate Notional Principal Amount allocable on such date *less* (b) the sum of (I) the reductions determined in accordance with subclauses (i) through (vii) of the Modified Sequential Paydown Sequence on such date, (II) the Super Senior Notional Amount immediately prior to the determination made in subclause (viii) of the Modified Sequential Paydown Sequence on such date and (III) the Class Notional Amount of any Class of Notes that is senior to such Class immediately prior to the determination made in subclause (viii) of the Modified Sequential Paydown Sequence on such date, or

(2) if the Modified Sequential Paydown Sequence Requirements would not be satisfied following the projected amortization of the Super Senior Notional Amount, the Class Notional Amount of each Class of Notes and the First Loss Notional Amount on such date in accordance with the Modified Sequential Paydown Sequence, if greater than zero, (A) the aggregate Notional Principal Amount allocable on such date *less* (B) the sum of (I) the Super Senior Notional Amount immediately prior to such determination and (II) the Class Notional Amount of any Class of Notes that is senior to such Class immediately prior to such determination, and

	(b) the Class Notional Amount of such Class immediately prior to such determination (such amount, the **"Unscaled Notional Principal Adjustment Amount"**). On any date of determination, increases and decreases to the Class Notional Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate Loss Amount (if any), (ii) aggregate Writedown Reimbursement Amount (if any), and (iii) aggregate Notional Principal Amount (if any). See "Description of Notes—Principal".
Increase in the Class Notional Amount of each Class of Notes	On the Payment Date immediately following the Due Period during which a Writedown Reimbursement Amount is determined by the Credit Default Swap Calculation Agent with respect to one or more Reference Obligation(s), and so long as such Reference Obligation(s) remains in the Reference Portfolio at the time of such Writedown Reimbursement, the Class Notional Amount of each Class of Notes will be increased by an amount (as expressed in Dollars) equal to, if greater than zero, the lesser of (i) such Writedown Reimbursement Amount *less* the sum of (A) the ICE Super Senior Differential immediately prior to such determination and (B) the sum of the ICE Class Notional Amount Differentials for the Classes of Notes that are senior to such Class immediately prior to such determination, and (ii) the ICE Class Notional Amount Differential of such Class immediately prior to such determination (such amount, the **"Unscaled Reinstatement Adjustment Amount"**) (if any). See "Description of Notes—Principal".
Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes	The Aggregate USD Equivalent Outstanding Amount of each Class of Notes will be decreased by an amount (as expressed in Dollars) equal to:
(i)	on the fifth Business Day following the calculation of any Loss Amount, without paying any principal on such Class of Notes, the product of (a) the related Unscaled Credit Event Adjustment Amount and (b) the Note Scaling Factor (such amount determined under this subclause (i), the **"Credit Event Adjustment Amount"**);
(ii)	(a) with respect to any Reference Obligation Recovery Amount, on the fifth Business Day following the calculation of the related Loss Amount, and/or (b) with respect to any Reference Obligation Amortization Amount, on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), a payment of principal representing the product of

	(a) the related Unscaled Notional Principal Adjustment Amount and (b) the Note Scaling Factor (such amount determined under this subclause (ii), the **"Notional Principal Adjustment Amount"**);
(iii)	on any Stated Maturity related to a Series of such Class, after giving effect to clauses (i) and (ii) above, the Aggregate USD Equivalent Outstanding Amount of each such Series maturing on such date; and
(iv)	on a Partial Optional Redemption Date, after giving effect to clauses (i) through (iii) above, with respect to a Class of Notes for which (A) one or more Series of such Class is redeemed in full on such date or (B) Protection Buyer Notes are redeemed, in each case in connection with a Partial Optional Redemption, a payment of principal representing the Aggregate USD Equivalent Outstanding Amount of the Notes of such Class redeemed in connection with such Partial Optional Redemption.
	For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclauses (i) through (iv) above will be based on the Aggregate USD Equivalent Outstanding Amount of each applicable Series of such Class, as expressed in Dollars.
	On any date of determination, increases and decreases to the Aggregate USD Equivalent Outstanding Amount of any Class of Notes will be determined by giving effect, in the following order, to (i) the aggregate related Unscaled Credit Event Adjustment Amount (if any), (ii) the aggregate related Unscaled Reinstatement Adjustment Amount (if any) and (iii) the aggregate related Unscaled Notional Principal Adjustment Amount (if any).
	See "Description of Notes—Principal".
Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes..	The Aggregate USD Equivalent Outstanding Amount of each Class of Notes will be increased by an amount (as expressed in Dollars) equal to:
(i)	on the Payment Date immediately following the Due Period during which a Writedown Reimbursement Amount is determined by the Credit Default Swap Calculation Agent (with the related Currency Adjusted Reinstatement Adjustment Amount (other than with respect to that portion of any Writedown Repayment Amount which will be applied to make principal payments on the Notes on such Payment Date) to be invested in Collateral Securities, or pending such investment, in Eligible Investments, as described under "—The Collateral Securities"), the product of (a) the related Unscaled Reinstatement Adjustment Amount and (b) the Note Scaling Factor with respect to such Class of Notes (such amount, the **"Reinstatement Adjustment Amount"**) (if any); *provided* that the Aggregate USD Equivalent Outstanding

	Amount of each Class of Notes may only be increased by an amount less than or equal to the ICE Aggregate USD Equivalent Outstanding Amount Differential of such Class; and
(ii)	on any day on which additional Notes of such Class are issued, the principal amount of such additional issuance (or the USD Equivalent of such principal amount if issued in an Approved Currency other than Dollars).
	For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclause (i) above will be based on the Aggregate USD Equivalent Outstanding Amount of each Series of such Class, as expressed in Dollars.
	See "Description of Notes—Principal".
Decrease in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes	The Currency Adjusted Aggregate Outstanding Amount of any Series of Notes will be decreased, with respect to (A) any event described under clauses (i) and (ii) of "—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", by an amount equal to the quotient of (a) such Notes' allocation of any related Credit Event Adjustment Amount or Notional Principal Adjustment Amount, as applicable, divided by (b) the Applicable Series Foreign Exchange Rate (such quotient, the "**Currency Adjusted Credit Event Adjustment Amount**" or the "**Currency Adjusted Notional Principal Adjustment Amount**", as applicable), (B) on the Stated Maturity with respect to a Series of Notes, the Currency Adjusted Aggregate Outstanding Amount of such Notes maturing on such date, after giving effect to any reductions pursuant to subclause (A) above and (C) a Partial Optional Redemption of such Notes, by the Currency Adjusted Aggregate Outstanding Amount of such Notes, after giving effect to any reductions pursuant to subclauses (A) and (B) above.
Increase in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes	The Currency Adjusted Aggregate Outstanding Amount of any Series of Notes will be increased, with respect to any event described under clause (i) of "—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", by an amount equal to the quotient of (a) such Notes' allocation of any related Reinstatement Adjustment Amount divided by (b) the Applicable Series Foreign Exchange Rate (such quotient, the "**Currency Adjusted Reinstatement Adjustment Amount**").
Cancellation of Notes	A Class of Notes will be deemed to be cancelled and no longer Outstanding on the date that the ICE Class Notional Amount of such Class has been reduced to zero.

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The Credit Default Swap

Credit Default Swap	On or prior to the Closing Date, the Issuer will enter into a credit default swap transaction (the **"Credit Default Swap"**) with Goldman Sachs Capital Markets, L.P. (in such capacity, the **"Protection Buyer"**) pursuant to which the Issuer will sell credit protection to the Protection Buyer with respect to a portfolio of Reference Obligations consisting of CMBS Securities, CDO CRE Securities and RMBS Securities.
Documentation	The Credit Default Swap will be documented by a confirmation that will be governed by, form part of and be subject to a 1992 Master Agreement (Multicurrency-Cross Border) (the **"ISDA Master Agreement"**) published by the International Swaps and Derivatives Association, Inc. (**"ISDA"**), and Schedule thereto. The definitions and provisions of the ISDA Credit Derivatives Definitions will be incorporated into the Credit Default Swap by reference (as supplemented by the May 2003 Supplement to such definitions published by ISDA), subject to certain amendments as set out in the Credit Default Swap. The Credit Default Swap will be governed by New York law.
Reference Portfolio	On the Closing Date, it is expected that the Credit Default Swap will reference 79 Reference Obligations (collectively, the **"Initial Reference Portfolio"** and together with any Replacement Reference Obligations, the **"Reference Portfolio"**). See "—Modification of the Reference Portfolio", "The Credit Default Swap—The Reference Portfolio—The Initial Reference Portfolio" and Schedule A. The Protection Buyer is not required to have any credit exposure to any Reference Entity or any Reference Obligation.
Notional Reinvestment Period...	The period from the Closing Date to but excluding the Payment Date in March 2009.
Modification of the Reference Portfolio	During the Notional Reinvestment Period, subject to the satisfaction of the Replacement Reference Obligation Eligibility Criteria, the Reference Portfolio Profile Constraints and the Replacement Reference Obligation Notional Constraints (in each case as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent), following the launch of each new ABX.HE Index and the corresponding determination of the related Vetoed Reference Entities, the Protection Buyer may, in its sole discretion, select, upon the occurrence of amortization or redemption in whole or in part of a Reference Obligation that is an RMBS Security (such obligation, an **"Amortized Reference Obligation"**, and the principal amount of the related amortization or redemption, the **"Reference Obligation Amortization Amount"**), one or more Replacement Reference Obligations from the most recent ABX.HE Indices for inclusion in the Reference Portfolio.

	See "The Credit Default Swap—Reference Obligation Reinvestment".
	Following the Notional Reinvestment Period, the Reference Portfolio will become static and no Replacement Reference Obligation may be included in the Reference Portfolio.
Credit Events	The following Credit Events (each a **"Credit Event"**) shall apply with respect to each Reference Obligation:
	(i) Failure to Pay Principal; or
	(ii) Writedown.
	See "The Credit Default Swap—Credit Events".
Conditions to Settlement...........	The "Conditions to Settlement" will be satisfied upon delivery to the Issuer and the Trustee of a Credit Event Notice and a Notice of Publicly Available Information.
Notifying Party............................	The Protection Buyer.
Credit Default Swap Calculation Agent....................	Goldman Sachs Capital Markets, L.P. will be the calculation agent (in this capacity the **"Credit Default Swap Calculation Agent"**) under the Credit Default Swap.
Settlement Method.....................	Cash.
Super Senior Notional Amount..	On the Closing Date, the Super Senior Notional Amount will be $525,000,000. Thereafter, the Super Senior Notional Amount will be adjusted from time to time as described under "The Credit Default Swap—Adjustment to the First Loss Notional Amount and the Super Senior Notional Amount".
First Loss Notional Amount.......	On the Closing Date, the First Loss Notional Amount will be $21,000,000. Thereafter, the First Loss Notional Amount will be adjusted from time to time as described under "The Credit Default Swap—Adjustment to the First Loss Notional Amount and the Super Senior Notional Amount".
Loss Amount	On the Business Day on which the Protection Buyer satisfied the Conditions to Settlement (in each case, a **"Credit Default Swap Calculation Date"**), the Credit Default Swap Calculation Agent will determine the loss amount (a **"Loss Amount"**) with respect to the related Credit Event as follows:
	(i) with respect to a Writedown, the Loss Amount will be an amount equal to the related Writedown Amount; and
	(ii) with respect to a Failure to Pay Principal, the Loss Amount will be an amount equal to the related Principal Shortfall Amount and deferred and unpaid interest (if any).
Cash Settlement Amount	On the fifth Business Day following a Credit Default Swap Calculation Date (a **"Credit Default Swap Settlement Date"**),

subject to the provision described in the following paragraph, the Issuer will pay to the Protection Buyer an amount (a "**Cash Settlement Amount**") equal to the aggregate of any Currency Adjusted Credit Event Adjustment Amounts determined on such day, in each case payable in the currencies of such Currency Adjusted Credit Event Adjustment Amounts.

Pursuant to the terms of the Credit Default Swap, if the liquidation proceeds of Eligible Investments and Collateral Securities would have been sufficient to pay a Cash Settlement Amount had such Collateral (other than Put Excluded Collateral) been liquidated at a price of at least 100% of par (instead of below 100% of par), the Issuer will be deemed to have paid such Cash Settlement Amount in full upon the Protection Buyer's receipt of the actual related liquidation proceeds.

See "The Credit Default Swap—Payments".

Reimbursement following a Writedown.............................. If, after the occurrence of a Writedown, a Writedown Reimbursement occurs with respect to the related Reference Obligation, and so long as such Reference Obligation remains in the Reference Portfolio at the time of such Writedown Reimbursement, the Protection Buyer will pay to the Issuer, on the Payment Date immediately following the Due Period during which the related Writedown Reimbursement Amount is determined by the Credit Default Swap Calculation Agent, an amount equal to the aggregate of:

(i) the Currency Adjusted Reinstatement Adjustment Amounts payable on such date; and

(ii) the ICE Currency Adjusted Interest Reimbursement Amounts payable on such date.

Credit Default Swap Early Termination..................... The Credit Default Swap may be terminated by the Issuer or by the Protection Buyer ("**Credit Default Swap Early Termination**") at the option of the non-defaulting or non-affected party, as applicable, upon the occurrence of a Credit Default Swap Event of Default or a Credit Default Swap Termination Event. Upon the Trustee becoming aware of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Basis Swap or the Collateral Put Agreement, the Trustee or the Issuing and Paying Agent, as applicable, will as promptly as practicable notify the Noteholders of such event and will terminate any such agreement on behalf of the Issuer at the direction of (i) in the case of the Credit Default Swap or the Basis Swap, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes and (ii) in the case of the Collateral Put Agreement, 100% of the Aggregate USD Equivalent Outstanding Amount of the Notes, in each case voting as a single class. In connection with any Noteholder vote to terminate the Collateral Put Agreement, any Notes held by or on behalf of the Collateral Put Provider or any of its Affiliates will have no voting rights and will be deemed not to be Outstanding in connection with any such vote.

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See "The Credit Default Swap—Credit Default Swap Early Termination".

The Collateral Securities

The Initial Collateral Securities... On the Closing Date, the Issuer will use part of the proceeds of the offering to purchase at least $176,562,500 principal amount of Collateral Securities and Eligible Investments selected by the Protection Buyer as described in "The Collateral Securities—The Initial Collateral Securities" (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.

Supplemental Collateral Securities

Substitution .... Any Noteholder may request that the Issuer substitute one or more Collateral Securities in accordance with the terms of the Indenture.

See "Collateral Securities—Substitution of Collateral Securities."

Purchase of Supplemental Collateral Securities............. Upon or subsequent to:

(i) the redemption or amortization, in whole or in part, of a Collateral Security (an "**Amortized Collateral Security**" and the principal amount of such redemption or amortization, the "**Collateral Security Amortization Amount**"),

(ii) the additional issuance of Notes from time to time on any Payment Date after the Closing Date (the principal amount of such issuance, the "**Additional Issuance Principal Amount**"),

(iii) the receipt of Disposition Proceeds in connection with the liquidation of any principal amount of a Collateral Security in excess of the amount necessary to pay any Cash Settlement Amount, Currency Adjusted Notional Principal Adjustment Amount or in connection with a Partial Optional Redemption or a Stated Maturity (for the avoidance of doubt, excluding any Excess Disposition Proceeds) (such excess principal amount, the "**Excess Principal Amount**"), or

(iv) the Issuer's receipt of a Currency Adjusted Reinstatement Adjustment Amount (other than with respect to that portion of any Writedown Repayment Amount which shall be applied to make principal payments on the Notes on such Payment Date),

	the Protection Buyer may, in its sole discretion, direct the Issuer to purchase (and the Issuer shall so purchase) one or more replacement Collateral Securities or additional Collateral Securities (together, the **"Supplemental Collateral Securities"**), as the case may be, subject to (a) the Collateral Security Eligibility Criteria, (b) the Collateral Weighted Average Life Test and (c) the Collateral Security Quantity Constraint (in each case as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent); *provided* that (1) in the case of clauses (i) and (iii) above, such Supplemental Collateral Securities will be denominated in the same Approved Currency as the Collateral Security that has been amortized, redeemed, or otherwise disposed of and (2) in the case of clauses (ii) and (iv) above, such Supplemental Collateral Securities will be denominated in the same currency as such Notes that are issued or reinstated. See "The Collateral Securities—Supplemental Collateral Securities". Pending any such reinvestment, the Issuer will invest the Collateral Security Amortization Amount, Additional Issuance Principal Amount, Excess Principal Amount or Currency Adjusted Reinstatement Adjustment Amount, as the case may be, in Eligible Investments. If the Issuer liquidates a Collateral Security in order to pay a Cash Settlement Amount, a Currency Adjusted Notional Principal Adjustment Amount or in connection with a Partial Optional Redemption, as the case may be, and the Issuer receives Disposition Proceeds in respect of such Collateral Security which exceed 100% of the principal amount of such Collateral Security (the excess proceeds described above, excluding any accrued and unpaid interest, **"Excess Disposition Proceeds"**), the Protection Buyer may, in its sole discretion, direct the Issuer to use such Excess Disposition Proceeds to purchase (and the Issuer shall so purchase) one or more Supplemental Collateral Securities in any Approved Currency, subject to clauses (iv), (v) and (vii) through (xiii) of the Collateral Security Eligibility Criteria (as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent). See "The Collateral Securities—Supplemental Collateral Securities". Pending any such reinvestment, the Issuer will invest such Excess Disposition Proceeds in Eligible Investments.
Liquidation of Collateral Securities	The Collateral Securities will only be liquidated in connection with the events described below: (i) on a Credit Default Swap Calculation Date, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral), when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put

Excluded Collateral), sufficient to pay the Protection Buyer the Cash Settlement Amount on the related Credit Default Swap Settlement Date;

(ii) (a) with respect to any Reference Obligation Recovery Amount, the day on which the related Loss Amount is calculated, and/or (b) with respect to any Reference Obligation Amortization Amount, five Business Days prior to the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined, in each case by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), if any Currency Adjusted Notional Principal Adjustment Amount will be paid to any Noteholders by the Issuer on the related Credit Default Swap Settlement Date or Payment Date, as applicable, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than in connection with Put Excluded Collateral), when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), sufficient to pay to the applicable Noteholders such Currency Adjusted Notional Principal Adjustment Amount on the related Credit Default Swap Settlement Date or Payment Date, as applicable (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Collateral to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for any such Selected Collateral Security, plus accrued and unpaid interest thereon);

(iii) after the occurrence and continuation of an Event of Default, if the Trustee is directed to liquidate the Collateral Securities in accordance with the terms of the Indenture, the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities;

(iv) in connection with any Optional Redemption in Whole, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, plus accrued and unpaid interest thereon);

(v) in connection with any Partial Optional Redemption, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral), when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), sufficient to pay to the applicable Noteholders the principal amount of such Notes redeemed in connection with such Partial Optional Redemption (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, plus accrued and unpaid interest thereon);

(vi) in connection with a Mandatory Redemption other than a Mandatory Redemption caused by a (a) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party or (b) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities;

(vii) in connection with a Mandatory Redemption other than as described in subclause (vi) above, Collateral Securities will be selected for liquidation and/or delivery to Noteholders pursuant to the Special Termination Liquidation Procedure; and

(viii) in connection with the Stated Maturity of any Series of Notes, the Issuer or Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral), when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer receives at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), sufficient to pay the applicable Noteholders the principal amount of such Notes maturing on the related Stated Maturity (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the

Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, plus accrued and unpaid interest thereon).

Determination of Compliance of Reference Obligations and Collateral Securities with the Requirements under the Credit Default Swap and Certain Calculations pursuant to the Indenture and the Credit Default Swap.......................... The Credit Default Swap Calculation Agent will supply information and calculations to (i) the Collateral Administrator for use in the Collateral Administrator's confirmation of compliance of the Reference Portfolio or Collateral (after the proposed addition of a Reference Obligation or Collateral Security), as applicable, with any of the Replacement Reference Obligation Eligibility Criteria (including the determination of the Current Market Price), the Reference Portfolio Profile Constraints, the Replacement Reference Obligation Notional Constraints, the Collateral Security Quantity Constraint, the Collateral Security Eligibility Criteria and the Collateral Weighted Average Life Test and satisfaction of the Modified Sequential Paydown Sequence Requirements and (ii) the Trustee for use in the Trustee's confirmation of the BIE Collateral Security Eligibility Criteria.

To the extent there is any difference between any of the Collateral Administrator's or the Trustee's (as the case may be) and the Credit Default Swap Calculation Agent's determination of any of the Replacement Reference Obligation Eligibility Criteria (including the Current Market Price), the Reference Portfolio Profile Constraints, the Replacement Reference Obligation Notional Constraints, the Collateral Security Eligibility Criteria, the Collateral Security Quantity Constraint, the Collateral Weighted Average Life Test or satisfaction of the Modified Sequential Paydown Sequence Requirements, the Collateral Administrator will use commercially reasonable efforts to resolve such difference.

For the avoidance of doubt, the obligations of the Collateral Administrator under the Collateral Administration Agreement are solely the obligations of the Collateral Administrator and not those of the Credit Default Swap Calculation Agent, the Protection Buyer or any of its Affiliates.

The Basis Swap

The Basis Swap.......................... On or prior to the Closing Date, the Issuer will enter into a basis swap transaction (the "**Basis Swap**") with Goldman Sachs Mitsui Marine Derivative Products, L.P. (in such capacity, the "**Basis Swap Counterparty**").

Terms	On each Payment Date, the Issuer will pay to the Basis Swap Counterparty an amount (the "**Basis Swap Payment**") equal to the Collateral Interest Amount. "**Collateral Interest Amount**" means, with respect to any Payment Date (including the Optional Redemption Date and the Stated Maturity) or the Mandatory Redemption Date, without duplication (i) all interest payments that are scheduled to be paid by obligors of Collateral in accordance with the Underlying Instruments of such Collateral during the preceding Due Period, plus (ii) all amendment and waiver fees, late payment fees, make-whole premiums and other fees that are either (a) scheduled to be paid by obligors of Collateral during the preceding Due Period or (b) obligors of such Collateral have agreed to pay to holders of such Collateral during the preceding Due Period, plus (iii) all accrued and unpaid amounts described in subclause (i) and (ii) above that a buyer of such Collateral has agreed to pay to the Issuer upon the sale of such Collateral during the preceding Due Period, less any Purchased Accrued Interest Amount that the Issuer used in connection with the purchase of a Supplemental Collateral Security during the preceding Due Period, which in each of clauses (i) through (iii) above, for the avoidance of doubt, includes (a) amounts actually received by the Issuer and (b) amounts due and payable to the Issuer but not received by the Issuer. On each Payment Date, the Basis Swap Counterparty will pay to the Issuer the Monthly Basis Swap Payment. See "The Basis Swap" and "Description of the Notes—Priority of Payments—Interest Proceeds".
The Collateral Put Agreement	
The Collateral Put Agreement	On or prior to the Closing Date, the Issuer will enter into a put agreement (the "**Collateral Put Agreement**") with Goldman Sachs International ("**GSI**" or in such capacity, the "**Collateral Put Provider**").
Terms	With respect to the Issuer's liquidation of Collateral (other than Put Excluded Collateral) in connection with (i) the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the applicable Noteholders, (ii) an Optional Redemption in Whole or a Partial Optional Redemption or (iii) a Stated Maturity of any Series of Notes, if (x) the Collateral Disposal Agent is unable to obtain at least 100% of par for a Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above). The Trustee will then, on behalf of the Issuer, exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Trustee will deliver such Collateral (other than Put Excluded Collateral) to the Collateral Put Provider in exchange for the payment by the

Collateral Put Provider of an amount equal to 100% of par for such Collateral (plus accrued and unpaid interest).

See "The Collateral Put Agreement".

The Collateral Disposal Agreement

The Collateral Disposal Agreement .... On or prior to the Closing Date, the Issuer will enter into a collateral disposal agreement (the **"Collateral Disposal Agreement"**) with Goldman, Sachs & Co. (in such capacity, the **"Collateral Disposal Agent"**).

Terms... Pursuant to the terms of the Collateral Disposal Agreement, the Collateral Disposal Agent will (i) subject to subclause (iii) below in connection with any partial liquidation of the portfolio of Collateral Securities, choose the Selected Collateral Securities to be liquidated (provided that any such Selected Collateral Securities will be denominated in the same currency as the Notes, the Currency Adjusted Aggregate Outstanding Amount of which is reduced by the related Credit Event Adjustment Amount, Notional Principal Adjustment Amount, Partial Optional Redemption or Stated Maturity), (ii) in connection with any liquidation of any Collateral Security, solicit bids on behalf of the Issuer and (iii) in connection with any liquidation of Collateral Securities as described in subclause (vii) under "—The Collateral Securities—Liquidation of Collateral Securities", perform the acts described under "Description of the Notes—Mandatory Redemption", including, but not limited to, those acts described in the Special Termination Liquidation Procedure.

Additional Issuance .... The Notes of any Class may be issued from time to time following the Closing Date; *provided, however,* that the Additional Issuance Principal Amount (or, if such additional issuance is denominated in an Approved Currency other than Dollars, the USD Equivalent of such Additional Issuance Principal Amount) related to an additional issuance of Notes with respect to any Class following the Closing Date, shall not cause the Aggregate USD Equivalent Outstanding Amount of such Class of Notes to exceed the Class Notional Amount of such Class immediately prior to such additional issuance. See "Description of the Notes—The Indenture—Additional Issuance" and "Description of the Notes—The Issuing and Paying Agency Agreement—Additional Issuance".

Governing Law .... The Co-Issued Notes, the Indenture, the Issuing and Paying Agency Agreement, the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Collateral Disposal Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Notes, the terms and conditions of the Issuer Notes (as set forth in the Issuing and Paying Agency Agreement) and each Deed of Covenant will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Listing and Trading....................... There is no established trading market for the Notes. Application will be made to admit the Notes on a stock exchange of the

	Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained. See "Listing and General Information".
Tax Status	See "Income Tax Considerations".
ERISA Considerations	See "ERISA Considerations".

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Notes. Although the Initial Purchaser has advised the Issuers that it intends to make a market in the Notes, the Initial Purchaser is not obligated to do so, and any such market-making with respect to the Notes may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the Holders of such Notes with liquidity of investment or that it will continue for the life of such Notes. Consequently, a purchaser must be prepared to hold the Notes for an indefinite period of time or until Stated Maturity. In addition, no sale, assignment, participation, pledge or transfer of the Notes may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Notes will not be registered under the Securities Act or any state securities laws, and the Issuer has no plans, and is under no obligation, to register the Notes under the Securities Act. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Transfer Restrictions". Such restrictions on the transfer of the Notes may further limit their liquidity. See "Transfer Restrictions". Application will be made to list the Notes on a stock exchange of the Issuer's choice, if practicable, but there can be no assurance that such admission will be sought, granted or maintained.

Limited Recourse Obligations. The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer, payable solely from the Issuer Assets pledged by the Issuer to secure the Notes. None of the Noteholders, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Trustee, the Issuing and Paying Agent, the Administrator, the Share Trustee or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Notes. Consequently, Holders of the Notes must rely solely on distributions on the Issuer Assets pledged to secure the Notes for the payment of principal and interest thereon. If distributions on the Issuer Assets are insufficient to make payments on the Notes, no other assets (and, in particular, no assets of the Noteholders, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Trustee, the Issuing and Paying Agent, the Administrator, the Share Trustee or any affiliates of any of the foregoing) will be available for payment of the deficiency and following realization of the Issuer Assets pledged to secure the Notes, the obligations of the Issuers to pay such deficiency shall be extinguished and shall not thereafter revive. Each Holder of a Note by its acceptance of such Note will agree or be deemed to have agreed not to take any action or institute any proceedings against the Issuers under any insolvency law applicable to the Issuers or which would be likely to cause the Issuers to be subject to, or to seek the protection of, any insolvency law applicable to the Issuers, subject to certain limited exceptions.

Subordination of the Notes. The rights of the Holders of the Notes with respect to the Issuer Assets will be subject to prior claims of the Trustee, the Issuing and Paying Agent, the Protection Buyer, the Basis Swap Counterparty and the Collateral Put Provider, and may be subject to the claims of any other creditor of the Issuer that is entitled to priority as a matter of law or by virtue of any nonconsensual lien that such creditor has on the Issuer Assets or pursuant to the Priority of Payments.

The Class A-2 Notes are subordinated to the Class A-1 Notes, the Class B Notes are subordinated to the Class A-2 Notes, the Class C Notes are subordinated to the Class B Notes, the Class D Notes are subordinated to the Class C Notes and the Class E Notes are subordinated to the Class D Notes, in each case as described under "Summary—Notes—Status and Subordination". No payments of interest from Interest Proceeds will be made on any Class of Notes on any Payment Date until current and defaulted interest on the Notes of each Class to which such Class is subordinated has been paid, and no payments of principal will be made on any such Class of Notes (i) on any Payment Date or (ii) any other Business Day on which payments of Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Noteholders, until principal of the Notes of each Class to which such Class is subordinated has been paid in accordance with the Priority of Payments described herein. See "Description of the Notes—Priority of Payments".

In addition, if an Event of Default occurs, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will be entitled to determine the remedies to be exercised under the Indenture including the sale and liquidation of the Collateral in accordance with the procedures set forth in the Indenture. Remedies pursued by a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class could be adverse to the interests of the Holders of a particular Class or Classes of Notes. See "Description of the Notes—The Indenture—Events of Default".

Mandatory Redemption and the Special Termination Liquidation Procedure. If a Mandatory Redemption occurs and the Special Termination Liquidation Procedure is applied, the Holders of the Classes of Notes eligible to be delivered Collateral Securities following such Mandatory Redemption, voting as a single class, will be entitled to determine whether Collateral Securities allocated to such Classes of Notes will be liquidated or delivered to such Noteholders in accordance with the Special Termination Liquidation Procedure. With respect to any such Class of Notes, such determination through voting as a single class could be adverse to the interests of the Holders of the Classes of Notes subordinated to such senior Classes, as the case may be, as Holders of any such senior Classes of Notes may elect to receive Collateral Securities with a market value in excess of the Aggregate USD Equivalent Outstanding Amount of such senior Classes of Notes (plus accrued and unpaid interest thereon) rather than have the Collateral Securities allocated to such senior Classes liquidated, which would allow Holders of the subordinated Classes of Notes to benefit from the liquidation of such Collateral Securities at a premium. See "Description of the Notes—Mandatory Redemption".

Leverage. The Aggregate USD Equivalent Outstanding Amount of the Notes will be $176,562,500 on the Closing Date (including, for the avoidance of doubt, the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). However, the Reference Portfolio Notional Amount will equal $750,000,000 on the Closing Date, which amount represents the aggregate Reference Obligation Notional Amount on the Closing Date. Through the Credit Default Swap, investors in the Notes will be effectively providing the Protection Buyer loss protection with respect to each Reference Obligation up to the Reference Obligation Notional Amount of such Reference Obligation. Losses incurred after the First Loss Notional Amount has been reduced to zero will be borne by the Noteholders. Since the Reference Portfolio Notional Amount for the Reference Portfolio exceeds the Aggregate USD Equivalent Outstanding Amount of the Notes, investors in the Notes are providing such loss protection to the Protection Buyer on a leveraged basis.

Volatility. Because investors in the Notes are providing loss protection to the Protection Buyer on a leveraged basis, the market value of the Notes may be subject to changes that are greater than the changes in market value that might occur to the Reference Portfolio. The market value of the Notes may vary over time and could be significantly less than par (or even zero) in certain circumstances.

Credit Linkage of the Notes. The Credit Default Swap will be linked to the credit of the Reference Entities. The amount payable in respect of principal of the Notes will depend upon, among other factors, whether and to the extent Credit Events have occurred under the Credit Default Swap. Under the Credit Default Swap, upon the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, the Issuer will be obligated to pay the Protection Buyer a Cash Settlement Amount if the First Loss Notional Amount is less than the corresponding Loss Amount immediately prior to such determination. Any Cash Settlement Amount paid by the Issuer will reduce the Aggregate USD Equivalent Outstanding Amount of the Notes (in reverse order of seniority). See "Summary—Notes—Decrease in the Aggregate

USD Equivalent Outstanding Amount of each Class of Notes". Except in the limited circumstances as described under "Summary—Notes—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", a decrease in the Aggregate USD Equivalent Outstanding Amount of the Notes will be permanent and irreversible and the Noteholders will never receive a payment of principal in the amount of such decrease and from and after the date of such decrease, no interest will accrue on the amount of such decrease. Payment of principal in accordance with the Modified Sequential Paydown Sequence may cause principal of a Class of Notes to be paid prior to the payment in full of Classes of Notes senior to such Class, therefore reducing the subordination available to any such senior Classes. See "—Subordination of the Notes" and "Description of the Notes—Priority of Payments".

Cash Available to Make Payments on the Notes. The ability of the Issuer to make payments on the Notes will depend primarily on several factors. To the extent (i) one or more Credit Events occur and the resulting Loss Amounts exceed the First Loss Notional Amount, (ii) the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider or the Collateral Disposal Agent fails to perform its obligations or (iii) there is a default in payments due in respect of any Collateral, the amount of available cash to make payments on the Notes in accordance with the Priority of Payments will be reduced. In addition, in the event that an Event of Default occurs in respect of the Notes or on the Mandatory Redemption Date, the Issuer may not be able to pay the principal of the Notes as a result of (a) paying unpaid Credit Default Swap Termination Payments, if any, owing to the Protection Buyer, (b) paying unpaid Basis Swap Termination Payments, if any, owing to the Basis Swap Counterparty, (c) amounts owed to the Collateral Put Provider pursuant to the Collateral Put Agreement and (d) the then applicable market value of the Collateral Securities being less than their principal amount. In the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

No Portfolio Adviser; Replacement Reference Obligations. The Issuer will not retain any portfolio adviser or any other Person acting in a similar capacity. During the Notional Reinvestment Period, the Protection Buyer may, in its sole discretion, upon the redemption or amortization, in whole or in part, of a Reference Obligation that is an RMBS Security, select one or more Replacement Reference Obligations for inclusion in the Reference Portfolio subject to the Replacement Reference Obligation Eligibility Criteria, the Reference Portfolio Profile Constraints and the Replacement Reference Obligation Notional Constraints. In selecting any Replacement Reference Obligation, the Protection Buyer will not act as a fiduciary to Noteholders, will not consider the interests of the Noteholders and will consider only its own economic or other interest.

Voting Rights with Respect to the Notes. On the Closing Date, it is expected that one party will have (through direct ownership) or control (by contractual relationship) the voting rights with respect to a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes. The exercise of all such voting rights by such party in a consistent manner would determine the outcome of any votes required to be made by a Majority (or plurality) of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class. Such potential to determine certain voting outcomes is expected to exist so long as such party's ownership or control of voting rights with respect to Notes has not been reduced (through disposition or redemption of such Notes) to less than that of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes.

Interest Payments Dependent Primarily upon the Protection Buyer's Performance under the Credit Default Swap and the Basis Swap Counterparty's Performance under the Basis Swap. Payments made by the Protection Buyer under the Credit Default Swap and payments made by the Basis Swap Counterparty under the Basis Swap are the Issuer's primary sources of funds to make interest payments on the Notes. Since the ability of the Issuer to make interest payments on the Notes prior to the occurrence of a Credit Default Swap Early Termination or a Basis Swap Early Termination will be dependent on its receipt of payments from the Protection Buyer under the Credit Default Swap and the

Basis Swap Counterparty under the Basis Swap, the Noteholders are relying on the Protection Buyer to perform its obligations under the Credit Default Swap and the Basis Swap Counterparty to perform its obligations under the Basis Swap. Accordingly, if a Credit Default Swap Early Termination or a Basis Swap Early Termination occurs prior to a Payment Date, the Issuer may not have sufficient funds to make interest payments on all Classes of Notes.

The insolvency of the Protection Buyer will be a Credit Default Swap Event of Default under the Credit Default Swap. In the event of the insolvency of the Protection Buyer, the Issuer will be treated as a general creditor of the Protection Buyer. Additionally, certain events with respect to a Credit Default Swap Early Termination (which can occur due to the insolvency of the Protection Buyer) will result in a Mandatory Redemption. Upon the occurrence of a Mandatory Redemption, the Trustee will liquidate all or a portion of the Collateral and will make any payments due to the Protection Buyer pursuant to the Credit Default Swap (other than a Protection Buyer Default Termination Payment), the Basis Swap Counterparty pursuant to the Basis Swap (other than a Basis Swap Counterparty Default Termination Payment) and the Collateral Put Provider pursuant to the Collateral Put Agreement prior to making payments to the Noteholders. Under such circumstances, Noteholders may not receive sufficient funds to repay the principal of the Notes and, as a result, Noteholders should expect to lose a substantial part, if not all, of their principal investment in the Notes and to receive no interest on the Notes. In addition, in the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

The insolvency of the Basis Swap Counterparty will be a Basis Swap Event of Default under the Basis Swap. In the event of the insolvency of the Basis Swap Counterparty, the Issuer will be treated as a general creditor of the Basis Swap Counterparty. Additionally, certain events with respect to a Basis Swap Early Termination (which can occur due to the insolvency of the Basis Swap Counterparty) will result in a Mandatory Redemption. Upon the occurrence of a Mandatory Redemption, the Trustee will liquidate the Collateral and will make any payments due to the Protection Buyer pursuant to the Credit Default Swap (other than a Protection Buyer Default Termination Payment), the Basis Swap Counterparty pursuant to the Basis Swap (other than a Basis Swap Counterparty Default Termination Payment) and the Collateral Put Provider pursuant to the Collateral Put Agreement prior to making payments to the Noteholders. Under such circumstances, Noteholders may not receive sufficient funds to repay the principal of the Notes and, as a result, Noteholders should expect to lose a substantial part, if not all, of their principal investment in the Notes and to receive no interest on the Notes.

Collateral Put Provider Default. In connection with an Optional Redemption in Whole, a Partial Optional Redemption, a Stated Maturity of any Series of Notes or the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the Noteholders, if (x) the Collateral Disposal Agent is unable to obtain at least 100% of par for a Selected Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above), who will then direct the Issuer to exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Issuer will deliver such Selected Collateral Security and/or such Eligible Investment to the Collateral Put Provider in exchange for 100% of the principal amount of such Selected Collateral Security and/or such Eligible Investments (plus accrued and unpaid interest). If a Collateral Put Provider defaults in its obligations under the Collateral Put Agreement, the Collateral Disposal Agent will be required to liquidate the Collateral in an amount which may be insufficient to pay such Currency Adjusted Notional Principal Adjustment Amount or to redeem the Notes in full (in connection with an Optional Redemption in Whole) or in part (in connection with a Partial Optional Redemption) or the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

No Claims on the Reference Entities. The Credit Default Swap does not constitute a purchase or other acquisition or assignment of any interest in any obligation of any Reference Entity. The Issuer will have a contractual relationship only with the Protection Buyer and not with any Reference Entity, and generally will have no rights to enforce directly compliance by any Reference Entity with the terms of its obligations that are referred to in the Credit Default Swap, no rights of set-off against a Reference Entity, and no voting rights with respect to any Reference Entity. The Issuer will not directly benefit from any collateral securing the obligations of the Reference Entities, and the Issuer will not have the benefit of the remedies that would normally be available to a holder of such secured obligation.

To the extent that the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates holds any obligation of a Reference Entity, neither the Protection Buyer, the Credit Default Swap Calculation Agent nor any of their affiliates will be, or will be deemed to be acting as, the Issuer's agent or trustee in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates arising under or in connection with its or their holding of any such obligation. None of the Issuer, the Trustee, the Issuing and Paying Agent, nor any Holder of any Note will have any right to acquire from the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates (or to require the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates to transfer, assign or otherwise dispose of) any interest in any Reference Obligation or other obligation of any Reference Entity pursuant to the Credit Default Swap. Furthermore, to the extent that the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates holds any obligation of a Reference Entity, neither the Protection Buyer, the Credit Default Swap Calculation Agent nor any of their affiliates will grant the Issuer, the Trustee or the Issuing and Paying Agent any security interest in such obligation.

In addition, in the event of the bankruptcy or insolvency of the Protection Buyer, the Issuer will be treated as a general creditor of the Protection Buyer and will not have any claim with respect to the Reference Entities. Consequently, the Issuer will be subject to the credit risk of the Protection Buyer as well as that of the Reference Entities.

Limited Provision of Information about Reference Obligations/Reference Entities. This Offering Circular does not provide any information with respect to any Reference Obligation or Reference Entity other than that contained in a description of the Reference Portfolio set forth under "The Credit Default Swap—The Reference Portfolio". As the occurrence of a Credit Event may result in a permanent decrease in the amounts payable in respect of the Notes, investors should conduct their own investigation and analysis with respect to the creditworthiness of each Reference Obligation and the likelihood of the occurrence of a Credit Event with respect to each Reference Entity and Reference Obligation.

The Protection Buyer or its affiliates may have information, including material, non-public information, regarding the Reference Obligations and the Reference Entities. The Protection Buyer will not provide the Issuer, the Trustee, the Issuing and Paying Agent, any Noteholder or any other Person with any such non-public information. In addition, the Protection Buyer will not provide the Issuer, the Trustee, the Issuing and Paying Agent, any Holder of any Note or any other Person with any such information that is public (including financial information or notices), except in the case of information pertaining to one or more Credit Events with respect to each Reference Entity and one or more Reference Obligation(s) of such Reference Entity in connection with which the Protection Buyer is seeking payment of one or more Cash Settlement Amounts.

The Issuer will be required pursuant to the Indenture to provide the Noteholders with periodic reports. See "Description of the Notes—The Indenture—Reports Prepared Pursuant to the Indenture." None of the Initial Purchaser, the Protection Buyer or any of their respective affiliates has any obligation to keep the Issuer, the Trustee, the Issuing and Paying Agent or the Noteholders informed as to any other matters with respect to any Reference Entity or any Reference Obligation, including whether or not circumstances exist that give rise to the possibility of the occurrence of a Credit Event with respect to any Reference Obligation or a Reference Entity.

None of the Issuer, the Trustee, the Issuing and Paying Agent or the Noteholders will have the right to inspect any records of the Initial Purchaser, the Protection Buyer or any of their respective affiliates. Except for the information contained in this Offering Circular, none of the Initial Purchaser, the Protection Buyer nor any of their respective affiliates will have any obligation to disclose any information or evidence regarding the existence or terms of any obligation of any Reference Entity or any matters arising in relation thereto or otherwise regarding any Reference Entity, any guarantor or any other person.

Concentration Risk. The concentration of the Reference Obligations in the Reference Portfolio in any one particular type of Structured Product Security subjects the Notes to a greater degree of risk with respect to credit defaults within such type of Structured Product Security. Investors should review the list of Reference Obligations set forth herein and conduct their own investigation and analysis with regard to each Reference Obligation. See "The Credit Default Swap—The Reference Portfolio".

Collateral Default. To the extent that defaults occur with respect to any Collateral, a Mandatory Redemption will occur and the Collateral Disposal Agent will be required to liquidate the Collateral Securities. Thereafter, liquidation proceeds will be applied in accordance with "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". Depending on the market value of the remaining Collateral and the value of the Credit Default Swap and the Basis Swap at such time, the proceeds of such liquidation may not be sufficient to pay the unpaid principal of and interest on all of the Notes.

Assets included in the Reference Portfolio or held as Collateral Securities. The risks generally described below under Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, CDO Cashflow Securities and Asset-Backed Securities could affect payments on the Notes to the extent any such asset is (i) included in the Reference Portfolio as a Reference Obligation and experiences a Credit Event or (ii) held by the Issuer as a Collateral Security and subsequently experiences a Collateral Default.

Commercial Mortgage-Backed Securities. The Reference Obligations and the Collateral Securities may include Commercial Mortgage-Backed Securities.

CMBS Securities bear various risks, including credit, market, interest rate, structural and legal risks. CMBS Securities are securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, self-storage, nursing homes and senior living centers. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of commercial mortgage-backed securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption. Any decrease in income or value of the commercial real estate underlying an issue of CMBS Securities could result in cash flow delays and losses on the related issue of CMBS Securities.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of CMBS Security servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation. The failure of the performance of such CMBS Security servicers or special servicers could result in cash flow delays and losses on the related issue of CMBS Securities.

At any one time, a portfolio of CMBS Securities may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Mortgage loans underlying a CMBS Securities issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of CMBS Securities could experience delays in cash flow and losses.

In addition, interest payments on CMBS Securities may be subject to an available funds-cap and/or a weighted average coupon cap (which cap will, in each case, have the practical effect of deferring part or all of such interest payments) if interest rate rises substantially.

Residential Mortgage-Backed Securities. The Reference Obligations and the Collateral Securities may include Residential Mortgage-Backed Securities.

RMBS Securities bear various risks, including credit, market, interest rate, structural and legal risks. RMBS Securities represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by Agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS Securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS Securities may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS Securities may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS Securities may experience losses.

In addition, interest payments on RMBS Securities may be subject to an available funds-cap and/or a weighted average coupon cap (which cap will, in each case, have the practical effect of deferring part or all of such interest payments) if interest rate rises substantially.

Structural and Legal Risks of CMBS Securities and RMBS Securities. Residential mortgage loans in an issue of RMBS Securities may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS Securities.

In addition, structural and legal risks of CMBS Securities and RMBS Securities include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of CMBS Securities or RMBS Securities.

It is not expected that CMBS Securities or RMBS Securities (other than the RMBS Agency Securities) will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on CMBS Securities and RMBS Securities will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Some of the CMBS Securities and RMBS Securities included in the Reference Portfolio may be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of CMBS Securities and certain RMBS Securities, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

CDO Cashflow Securities. The Reference Obligations and the Collateral Securities may include CDO Cashflow Securities. CDO Cashflow Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer ("**CDO Collateral**") or proceeds thereof. Consequently, CDO Cashflow Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Cashflow Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer to pay such deficiency shall be extinguished.

CDO Cashflow Securities are subject to credit, liquidity and interest rate risks. CDO Collateral may consist of high yield debt securities, loans, structured finance securities and other debt instruments. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The below investment grade ratings of high yield securities reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative.

Issuers of CDO Cashflow Securities may acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

CDO Cashflow Securities are subject to interest rate risk. The CDO Collateral of an issuer of CDO Cashflow Securities may bear interest at a fixed (floating) rate while the CDO Cashflow Securities issued by such issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Cashflow Securities and CDO Collateral which bears interest at a fixed rate and there may be a timing mismatch between the CDO Cashflow Securities and assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Cashflow Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Cashflow Securities.

In addition, certain CDO Cashflow Securities may by their terms defer payment of interest or pay interest "in-kind".

Asset-Backed Securities. The Collateral Securities may include Asset-Backed Securities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing, acquiring synthetic exposure through the Credit Default Swap or holding Asset-Backed Securities include the relative seniority or subordination of the class of Asset-Backed Securities, the relative allocation of principal and interest payments in the priorities by which such payments are made under the governing documents, how credit losses affect the issuing vehicle and the return on the different classes, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to any of the classes of securities. With respect to some types of Asset-Backed Securities, the risk is more closely correlated with the default risk on corporate bonds of similar terms and maturities than with the performance of a pool of receivables. In addition, certain Asset-Backed Securities (particularly subordinated Asset-Backed Securities) provide that the non-payment of interest in cash on such securities will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies.

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the issuer's or servicer's failure to perform. These two elements may be related, as, for example, in the case of a servicer which does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Market risk arises from the cash flow characteristics of the security, which for most Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to holders of securities and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. For the holder of the security, interest rate risk depends on the expected life of the Asset-Backed Securities which may depend on prepayments on the underlying assets or the occurrence of wind-down or termination events.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with non-standard receivables or receivables originated by private retailers who collect many of the payments at their stores. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the Issuer could be treated as never having been truly sold by the originator to the Issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the Issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions on the Asset-Backed Securities. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Currency Exchange Risk. The Reference Portfolio may include non-Dollar denominated Reference Obligations. At the time that such non-Dollar denominated Reference Obligation is included in the Reference Portfolio, the Credit Default Swap Calculation Agent will determine the Notional Foreign Exchange Rate with respect to such non-Dollar denominated Reference Obligation. This Notional Foreign Exchange Rate will not change during the time such non-Dollar denominated Reference Obligation is in the Reference Portfolio, and, as such, will protect the Issuer from any unfavorable fluctuation of the applicable currency rate (which would increase the amount of any Cash Settlement Amount and/or Notional Principal Adjustment Amount relating to such non-Dollar denominated Reference Obligation). However, because the Notional Foreign Exchange Rate is fixed, the Issuer will not benefit from any favorable fluctuation of the applicable currency exchange rate (which would reduce the amount of any Cash Settlement Amount and/or Notional Principal Adjustment Amount relating to such non-Dollar denominated Reference Obligation).

In addition, in connection with a Mandatory Redemption, Collateral Securities may be liquidated and the proceeds of such liquidation may be insufficient to pay the Currency Adjusted Aggregate Outstanding Amount of each Series in full. To the extent that a Series of Notes is denominated in an Approved Currency for which there is insufficient proceeds in such Approved Currency (at the applicable level of priority) to pay the Currency Adjusted Aggregate Outstanding Amount of such Series of Notes in full, available proceeds denominated in other Approved Currencies will be exchanged for such needed Approved Currency at the applicable currency exchange rates at such time. Other Notes of such Class denominated in any such other Approved Currency and Notes junior to such Class may experience losses due to any adverse fluctuation of the applicable exchange currency rates.

Average Life and Prepayment Considerations. The Stated Maturity of the Notes issued on the Closing Date is September 28, 2045 and may vary with respect to any additional issuance of Notes; however, the average life of each Series of Notes is expected to be shorter than the number of years until the Stated Maturity.

The approximations of the average life of each Class of Notes set forth in the table in "Summary—Notes" with respect to the average life of each Class of Notes are not predictive and do not necessarily reflect historical performance of the Reference Obligations. Such approximations will also be affected by any inclusion of Replacement Reference Obligations in the Reference Portfolio, Optional Redemption in Whole, Partial Optional Redemption, Mandatory Redemption or the characteristics of the Reference Obligations, including the existence and frequency of exercise of any optional redemption, mandatory prepayment or sinking fund features, the prevailing level of interest rates and the actual default rate.

Certain Conflicts of Interest. Various potential and actual conflicts of interest may nevertheless arise from the activities of the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their affiliates. The following, together with "—No Portfolio Adviser; Replacement Reference Obligations" and "—Limited Provision of Information about Reference Obligations/Reference Entities", briefly summarize some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

It is expected that the Initial Purchaser and/or its respective affiliates will have placed or underwritten certain of the Reference Obligations and/or Collateral Securities at original issuance and/or will have provided investment banking services, advisory, banking and other services to issuers of Reference Obligations and/or Collateral Securities. The Initial Purchaser may not have completed its resale of the Notes by any date certain, which may affect the liquidity of the Notes as well as the ability, if any, of the Initial Purchaser to make a market in the Notes. From time to time, the Issuer may purchase or sell Collateral Securities from and/or through Goldman, Sachs & Co. and/or any of its affiliates (collectively, "**Goldman Sachs**"). The Issuer may invest in money market funds that are managed by Goldman Sachs or for which the Trustee or its affiliates provides services, provided that such money market funds otherwise qualify as Eligible Investments.

The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and certain of their respective affiliates are acting in a number of capacities in connection with the transactions described herein. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and each of their respective affiliates acting in such capacities will have only the duties and responsibilities expressly agreed to by such entity in the relevant capacity and will not, by virtue of acting in any other capacity, be deemed to have other duties or responsibilities, other than as expressly provided with respect to each such capacity. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates in their various capacities may enter into business dealings from which they may derive revenues and profits in addition to the fees stated in the various transaction documents, without any duty to account therefor. In such dealings, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put

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Provider, the Collateral Disposal Agent and their respective affiliates may act in the same manner as if the Notes had not been issued, regardless of whether any such action (including without limitation, any action that might constitute or give rise to a Credit Event) might have an adverse effect on a Reference Entity, a Reference Obligation or any guarantor in respect thereof or otherwise.

The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may hold long or short positions with respect to Reference Obligations and/or other securities or obligations of related Reference Entities and may enter into credit derivative or other derivative transactions with other parties pursuant to which it sells or buys credit protection with respect to one or more related Reference Entities and/or Reference Obligations. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may act with respect to such transactions and may exercise or enforce, or refrain from exercising or enforcing, any or all of its rights and powers in connection therewith as if it had not entered into the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Collateral Disposal Agreement, and without regard to whether any such action might have an adverse effect on the Issuer, the Noteholders, a related Reference Entity or any Reference Obligation. If the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or their respective affiliates, holds claims against a Reference Entity or a Reference Obligation other than in connection with the transactions contemplated in this Offering Circular, such party's interest as a creditor may be in conflict with the interests of the Issuer. Currently, the Initial Purchaser is a "member" of the Index Sponsor that participates in the determination of the reference entities included in the ABX.HE Index.

Evolving Nature of the Credit Default Swap Market. Credit default swaps are relatively new instruments in the market. While ISDA has published and supplemented the ISDA Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the ISDA Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that changes to the ISDA Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Amendments or supplements to the ISDA Credit Derivatives Definitions that are published by ISDA will only apply to the Credit Default Swap if the Credit Default Swap is amended. Therefore, in addition to the credit risk of Reference Obligations, Reference Entities and the credit risk of the Protection Buyer, the Issuer is also subject to the risk that the ISDA Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

DESCRIPTION OF THE NOTES

The Co-Issued Notes will be issued pursuant to the Indenture (the "**Indenture**"), dated as of the Closing Date, among the Issuers and LaSalle Bank National Association, as Trustee. The Issuer Notes will be issued in accordance with each Deed of Covenant and will be subject to the Issuing and Paying Agency Agreement including the terms and conditions of such Notes contained therein. The following summary describes certain provisions of the Notes, the Indenture and the Issuing and Paying Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Issuing and Paying Agency Agreement, copies of which may be obtained as described under "Listing and General Information".

Status and Security

The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer, secured as described below. Accordingly, payments of interest on and principal of the Notes will be made solely from the proceeds of the Issuer Assets, in

From: Ostrem, Peter L
Sent: Tuesday, September 19, 2006 8:16 PM
To: FICC-SPCDOGROUP
Subject: Hudson Mezz - new

We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1.5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . .

Permanent Subcommittee on Investigations
EXHIBIT #86

 GS MBS-E-018186089

Permanent Subcommittee on Investigations
EXHIBIT #87

Hudson Mezzanine Funding 2006-1, LTD.

A $2.0 Billion Static Mezzanine Structured Product CDO

Goldman, Sachs & Co. – Liquidation, Structuring, and Placement Agent

October 2006

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular.

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Table of Contents

I. Executive Summary

Note: *The information in this section is preliminary and subject to change*

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Hudson Mezzanine Funding 2006-1

Executive Summary

- Goldman Sachs developed the Hudson CDO program in 2006 to create a consistent, programmatic approach to invest in attractive relative value opportunities in the RMBS and structured product market
  - We successfully launched Hudson High Grade in September. This is a continuation of the program using mezzanine Baa2/Baa3 quality RMBS

- Hudson CDOs are non-managed and static in nature and provide term non-recourse funding where Goldman Sachs acts as Liquidation Agent on an ongoing basis. The Liquidation Agent will be responsible for efficiently selling credit risk assets

- The portfolio composition of Hudson Mezzanine Funding 2006-1 will consist of 100% CDS on RMBS.
  - 60% of the RMBS will be single name CDS on all 40 obligors in ABX 2006-1 and ABX 2006-2
  - 40% of the RMBS will consist of single name CDS on 2005 and 2006 vintage RMBS

- ABX Baa2 and Baa3 tranches trade approximately 15 to 30bps wider than the single name CDS on the 40 obligors representing the ABX
  - Hudson Funding will capture this basis and the single name CDS will be put in at current ABX market levels. Term non-recourse execution of Hudson will lock in the basis for the benefit of debt and equity investors

- Goldman Sachs has aligned incentives with the Hudson program by investing in a portion of equity and playing the ongoing role of Liquidation Agent.

II. Disclaimer and Risk Factors

Note: The information in this section is preliminary and subject to change

Disclaimer

The information contained herein is confidential information regarding securities that may in the future be offered by Hudson High Grade Funding 2006-1, LTD ("Hudson Funding" or the "Issuer"). The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with any applicable securities laws. For this purpose, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction.

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. The information contained herein is preliminary and material changes to the proposed terms of the securities described herein may be made at any time. If any offer of securities is made, it shall be made pursuant to a definitive offering circular (the "Offering Circular") prepared by or on behalf of the Issuer, which would contain material information not contained herein and which shall supersede, amend and supplement this information in its entirety. Any decision to invest in the securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary or appropriate and consulting the investor's own legal, accounting, tax, and other advisors in order to make an independent determination of the suitability and consequences of an investment in the securities.

The securities described herein will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular.

None of the Issuer, Goldman Sachs (as used herein, such term shall include Goldman, Sachs & Co. and all of its affiliates), nor any of their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. The information includes hypothetical illustrations and involves modeling components and assumptions that are required for purposes of such hypothetical illustrations. No representations are made as to the accuracy of such hypothetical illustrations or that all assumptions relating to such hypothetical illustrations have been considered or stated or that such hypothetical illustrations will be realized. The information contained herein does not purport to contain all of the information that may be required to evaluate such securities, and each recipient is encouraged to read the Offering Circular and should conduct its own independent analysis of the data referred to herein. The Issuer, Goldman Sachs, and their respective affiliates disclaim any and all liability relating to this information, including, without limitation, any express or implied representation or warranty for statements contained in and omissions from this information. None of the Issuer, Goldman Sachs, or any of their respective affiliates expects to update or otherwise revise the information contained herein except by means of the Offering Circular Additional information may be available on request. The securities and obligations of the Issuer are not issued by, obligations of, or guaranteed by Goldman Sachs, or their respective affiliates, or other organizations. In particular, the obligations of the Issuer are not deposit obligations of any financial institution. The securities and obligations of the Issuer are complex, structured securities and there is no assurance that a secondary market for such securities will exist at any time. Accordingly, prospective investors should be prepared, and have the ability, to hold such securities until their respective stated maturities or stated redemption dates.

Disclaimer

HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions. Such potential outcomes are not a prediction by the Issuer, Goldman Sachs or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Goldman Sachs, or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Goldman Sachs or their respective affiliates assumes any duty to update any such statement. Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the collateral and the price at which such collateral is actually purchased by the Issuer, any defaults on the collateral, the timing of any defaults and subsequent recoveries, changes in interest rates, and any weakening of the specific credits included in the collateral, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein.

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer. Because of portfolio restrictions that apply to the Issuer and differences in market conditions, the investments selected by Goldman Sachs on behalf of the Issuer may differ substantially from prior investments made by Goldman Sachs. The Issuer has no operating history.

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Risk Factors

Note: The Offering Circular will include more extensive descriptions of the risks described herein as well as additional risks relating to, among other things, conflicts of interest. Any decision to invest in the securities described herein should be made after reviewing such Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the securities. The Offering Circular will supersede this document in its entirety.

- Limited Liquidity, Restrictions on Transfer and Limited Recourse
  - There is currently no market for the Secured Notes or Income Notes and it is unlikely that any secondary market will develop. The Secured Notes and the Income Notes should be viewed as a long-term investment, not as a trading vehicle. The value of the Secured Notes and the Income Notes may vary and the Secured Notes and the Income Notes, if sold, may be worth less than their original cost.
  - In addition, as the Secured Notes and the Income Notes will be sold in transactions exempt from SEC registration pursuant to Section 4(2), Rule 144A, and/or Reg S and the Issuer will not be registered under the Investment Company Act of 1940 pursuant to the Section 3(c)(7). Related restrictions, as well as other restrictions on transfer of the Income Notes will apply.
  - All liabilities are payable solely from the cash flow available from the collateral pledged by the Issuer to secure all classes of Notes. No other assets will be available for payment in the event of any deficiency. The Income Notes represent equity in the Issuer and as such are subordinated to the Secured Notes. The Income Notes are payable from the collateral (which represent the only assets of the Issuer) only after payment in full of amounts due on the Secured Notes.

- Leveraged Credit Risk
  - The Income Notes are in a first loss position with respect to defaults on the underlying collateral. The leveraged nature of the Income Notes magnifies the adverse impact of any collateral defaults.

Risk Factors

- Volatility of Collateral and of Secured Notes' and Income Notes' Market Value
  - The Income Notes represent a leveraged investment in the Collateral Assets. The use of leverage generally magnifies an issuer's opportunities for gain and risk of loss. Therefore, changes in the market value of the Secured Notes and the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity and, with respect to the fixed rate portion of the portfolio, interest rate risk.
  - Changes in the market value of issues from one sector or industry may impact the market value of issues from one or more of other sectors or industries included in the collateral.
- Collateral Risk
  - Collateral Assets inherently bear significant credit risks because issuers are primarily private entities.
  - The structure of Collateral Assets and the terms of the Issuer's interest in the collateral can vary widely depending on the type of collateral, investor sentiment and the use of credit enhancements.
  - Adverse changes in the financial condition of the collateral obligor or in general economic conditions may adversely affect the obligor's ability to pay principal and interest on its debt.
- Illiquidity of Collateral Assets
  - Some of the Collateral Assets purchased by the Issuer will have no, or only a limited, trading market. This illiquidity may restrict the Issuer's ability to dispose of investments in a timely fashion or for a fair price.
  - Illiquid debt securities may also trade at a discount to comparable, more liquid investments. In addition, the Issuer may invest in privately placed Collateral Assets that are non-transferable or are transferable only at prices less than the fair value or the original purchase price of the securities.
- Nature of Collateral
  - The Collateral Assets are subject to credit, liquidity and interest rate risk. In addition, the financial performance of the Issuer may be affected by the price and availability of Collateral Assets to be purchased.
  - Some or all of the Collateral Assets may be subordinated securities which may be subject to leveraged credit risk.
  - The ability of the Issuer to sell Collateral Assets prior to maturity is subject to certain restrictions and limitations under the Indenture.

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Risk Factors

- No Collateral Manager
  - The Issuer will not engage a Collateral Manager. As a result, (i) the Collateral Assets held by the Issuer on the Closing Date will be retained by the Issuer even if it would be in the best interests of the Issuer and the holders of the Income Notes and Secured Notes to dispose of certain Collateral Assets unless the Collateral Assets are required to be sold by the Liquidation Agent as described in the previous paragraph and (ii) the Indenture will eliminate the ability of the Issuer to exercise discretion in contexts where a collateral manager in a managed or static collateralized debt obligation transaction typically would have discretion to exercise such discretion on behalf of the Issuer and holders of Income Notes and Secured Notes. The inability of the Issuer to exercise discretion in these contexts could adversely impact the Issuer and the holders of the Income Notes and Secured Notes.
- Timing and Amount of Recoveries
  - Only Collateral Assets that meet the liquidation criteria (see page 12) may be sold. If a Collateral Asset meets the liquidation criteria, the Liquidation Agent is required to sell such affected collateral in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance as to the timing of the Liquidation Agent's sale of affected assets, or if there will be any market for such assets or as to the rates of recovery on such affected collateral. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to the Income Notes and Secured Notes as compared to the returns generated using the Modeling Assumptions.
- Impairment of Credit Quality and/or Defaults on the Collateral
  - Decline in credit quality of the collateral or defaults could result in losses which would adversely affect the Income Notes and Secured Notes. The Collateral Assets are expected to have a Moody's weighted average rating of at least Aa3/A1 at the Closing Date.
  - There may be certain industry or sector concentrations in the CDO, all of which could have a material adverse impact on the Income Notes in the event of economic downturns or other events affecting the credit quality of any of the collateral.
- Yield Due to Prepayments
  - The yield to maturity on the Income Notes could be affected by the rate of prepayment of the Collateral Assets. Payments to the Income Notes at a rate slower than the rate anticipated by investors purchasing the Income Notes at a discount will result in an actual yield that is lower than anticipated by such investors. Conversely, payments to the Income Notes at a rate faster than the rate anticipated by investors purchasing the Income Notes at a premium will result in an actual yield that is lower than anticipated by such investors.

Risk Factors

- Timing of Receipt of Accrued Interest Income
  - On an ongoing basis, the receipt by the Issuer of accrued interest income may affect the availability of cash which may be distributed to the Holders of Secured Notes and Income Notes.
- International Investing
  - Investing outside the U.S. may involve greater risks which may include (1) less publicly available information, (2) varying levels of governmental regulation and supervision, (3) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws, (4) less stringent accounting practices, (5) different clearance and settlement procedures, (6) economic and political conditions and instability, (7) exchange control and foreign currency risk, (8) insolvency and (9) expropriation risk.
  - A portion of the Collateral Assets may consist of obligations of an issuer organized under the laws of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, the Netherlands Antilles or other jurisdictions offering favorable tax treatment.
- Tax Treatment of Income Notes
  - Since the Issuer will be a passive foreign investment company, a U.S. person holding Income Notes may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Income Notes will be treated as equity for tax purposes.
  - Income Notes holders should consult their tax advisers about the special U.S. tax regimes that apply to shareholders of passive foreign investment companies, controlled foreign corporations and foreign personal holding companies.
  - Special tax considerations may apply to certain types of investors. Prospective investors should consult their own tax advisors regarding the tax implications of their investments.
- Material Tax Considerations
  - There is a possibility that the Issuer will be found to be engaging in a U.S. trade or business. In such a case, it would be subject to substantial U.S. income tax on its income.

Risk Factors

- Hypothetical Illustrations and Estimates
  - Estimates of the weighted average lives of the Class S, A, B, C, D and E Notes and the returns and duration of the Income Notes included herein, together with any other hypothetical illustrations and estimates provided to prospective purchasers of the Class S, A, B, C, D and, E Notes, are forward-looking statements. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
  - The hypothetical illustrations are only estimates. Actual results may vary, and the variations may be material. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
- Changes in Tax Laws
  - The Collateral Assets are not permitted to be subject to withholding tax at the time of purchase, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on the Income Notes and Secured Notes.
  - In case of a Withholding Tax Event (as defined in the Offering Circular), holders of more than 50% of any affected Note may require the issuer to liquidate the collateral on any Payment Date, and redeem the Class S, A, B, C, D and E Notes, prior to any distributions to holders of Income Notes.
- Subordination
  - The Income Notes are subordinated to the Class A, Class B, Class C, Class D and Class E Notes and certain payments of expenses. The Class E Notes are subordinated to the Class A, Class B, Class C and Class D Notes and certain payments of expenses. The Class D Notes are subordinated to the Class A, Class B and Class C Notes and certain payments of expenses. The Class C Notes are subordinated by the Class A and Class B Notes and certain payments of expenses. The Class B Notes are subordinated to the Class A Notes and certain payments of expenses. No distributions of interest proceeds received on the collateral will be made to the Income Notes until interest on the Secured Notes and certain other expenses have been paid. In addition, in the event of a default, holders of the most senior class of Secured Notes will generally be entitled to determine the remedies to be exercised; such remedies could include the sale and the liquidation of the collateral and have an adverse effect on the Income Notes. The Income Notes will not be able to exercise any remedies following an event of default and will not receive payments after an event of default until the Secured Notes are paid in full.

Risk Factors

- Credit Exposure to Portfolio of Reference Obligations
  - On the closing date, the Issuer will enter into pay-as-you-go credit default swaps (the "Synthetic Securities") with Goldman Sachs International, ("GSI" and in such capacity, the "Counterparty"), pursuant to which the Issuer will sell credit default protection with respect to a portfolio of Reference Obligations. If a credit event occurs with respect to any of the Reference Obligations, the Issuer will pay the Counterparty the amount of the write-down or principal loss, or if the Counterparty elects to deliver the reference obligation, the notional amount of the Synthetic Security times the reference price. In return for the credit default protection, the Counterparty will pay the Issuer a premium which may be reduced (but not below zero) if certain Reference Obligations experience interest shortfalls. Credit events and interest shortfalls may adversely affect the Issuer's ability to make payments on the Notes and the Income Notes.
  - All Notes and Income Notes are subordinated to credit default protection payments under the Synthetic Securities and to certain termination payments payable to the Counterparty in connection with a termination event. The magnitude of such losses will be affected by the number of credit events and the recovery amount of any delivered Reference Obligations and timing of such credit events.

III. Transaction Overview

Note: The information in this section is preliminary and subject to change

Hudson Mezzanine Funding 2006-1, LTD
Transaction Overview

- Super Seniors have been pre-executed with one investor in unfunded form at 20bps p.a.
- This is a typical CASHFLOW CDO with O/C triggers. This is not a tranched Index CDO
- Goldman Sachs, in the role of Liquidation Agent, will:
  - Warehouse assets during the portfolio aggregation phase prior to closing
  - Liquidate any asset within one year after such asset performs below certain threshold levels determined prior to closing
- Goldman Sachs will invest in a portion of the Income Notes
- Goldman Sachs' objective is to develop a long term association with selected partners that can adapt to and take advantage of market opportunities
  - The goal is to create attractive proprietary investments by leveraging expertise of both Goldman Sachs CDO and Mortgage Desks while maintaining a consistent approach and creating a unified issuance program across multiple transactions

Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview

- Hudson Mezzanine Funding is a "static" mezzanine structured product CDO with the following features:
  - No exposure to reinvestment spread risk or reliance on reinvestment to generate excess interest to cover debt
  - No fixed rate assets
  - 100% RMBS
  - No assets without an initial rating of at least Baa3 by Moody's and BBB- by S&P. Average WARF in the portfolio is expected to be 486
  - Overall transaction cost structure is significantly less than comparable mezzanine structured product CDOs in the market
- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" securities will be sold by the Liquidation Agent within one year of such determination
- Goldman Sachs will act as Structuring, Placement and Liquidation Agent for Hudson Funding and will warehouse the portfolio prior to closing
  - Goldman Sachs will charge 10 bps ongoing fee for its role as Liquidation Agent
- Goldman Sachs' portfolio selection process:
  - Assets sourced from the Street. Hudson Mezzanine Funding is not a Balance Sheet CDO
  - Goldman Sachs CDO desk pre-screens and evaluates assets for portfolio suitability
  - Goldman Sachs CDO desk reviews individual assets in conjunction with respective mortgage trading desks (Subprime , Midprime, Prime, etc.) and makes decision to add or decline
  - All CDS use rating agency approved confirms (pay as you go)

Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview - Asset Selection / Asset Liquidation

- Portfolio Aggregation Strategy:
  - 60% of portfolio will consist of the 40 obligors in ABX 2006-1 and ABX 2006-2
  - Select only assets rated explicitly Baa3/BBB- (Moody's / S&P) and above. No notched rating of below Baa3 in the portfolio
  - No Fixed rate assets allowed, eliminating interest rate swap basis mismatch
  - Maximum obligor concentration is 1.5%, creating a very granular portfolio with 100 distinct obligors
  - Target portfolio with Weighted Average Rating Factor of 486 and duration weighted average spread of 183 bps
- Goldman Sachs, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" asset within 12 months of such determination. "Credit risk" assets will include:
  - Any asset downgraded by Moody's or S&P to below Ba3 or BB-
  - Any asset that is defaulted and experiences a credit event as defined by the PAUG confirm
- Expected collateral quality statistics at closing
  - WARF: 486
  - 100 Distinct Obligors
  - Moody's Asset Correlation ("MAC") at closing: 23
  - Duration weighted average portfolio spread: 183 bps
  - Weighted Average Duration: 4.0 years

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Hudson Mezzanine Funding 2006-1, LTD
Transaction Overview – Preliminary Capital Structure[1]

Classes	Ratings (M/S)	Expected Principal/Notional Balance	% of Capital Structure	Coupon	Expected WAL	Initial OC
Class S	Aaa/AAA	$ [ ] MM	N/A	1M LIBOR + [ ]%	3.1 yrs	N/A
Senior Swap (unfunded)	Aaa/AAA	$1,200 MM	60.00%	Not Offered	3.9 yrs	166.7%
Class A-F	Aaa/AAA	$110 MM	5.5%	1M LIBOR + [ ]%	2.6 yrs	139.9%
Class A-B	Aaa/AAA	$120 MM	6.0%	1M LIBOR + [ ]%	6.7 yrs	139.9%
Class B	Aa2/AA	$230 MM	11.5%	1M LIBOR + [ ]%	5.3 yrs	120.5%
Class C	A2/A	$170 MM	8.5%	1M LIBOR + [ ]%	5.5 yrs	109.3%
Class D	Baa2/BBB	$84 MM	4.2%	1M LIBOR + [ ]%	5.3 yrs	104.5%
Class E	Ba1/BB+	$26 MM	1.3%	1M LIBOR + [ ]%	4.5 yrs	103.1%
Income Notes	N/A	$60 MM	3.0%	N/A	N/A	N/A

[1] This capital structure is preliminary and is subject to change

Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview - Comparable Transactions

- Hudson Mezzanine Funding is a pure RMBS CDO and will look very different than most mezzanine deals currently in the market. Hudson will have none of the following:
  - CDO bucket
  - Fixed rate RMBS / Negative convexity product
  - BB bucket

	Cairn Mezz ABS CDO II	Octans CDO II	Springdale 2006-1	Gemstone VI	Longstreet	Hudson Mezz CDO
Ongoing Fees (bps)	25	15	10 (28)[1]	30	40	10
Max CDO bucket	10%	10%	8%	5%	5%	NONE
Fixed rate bucket	5%	NONE	8%	10%	10%	NONE
BB bucket	NONE	3%	5%	26%	5%	NONE
Distinct Obligors	100	90	140	N/A	100	100
100% Ramped at Closing	NO	NO	YES	YES	NO	YES
Covenant/Expected WARF	525	500	485	650	450	486
Covenant/Expected Spread	1.64%	1.46%	1.66%	1.80%	1.75%	1.83%

[1] The Collateral Manager, Princeton Advisory, receives 10bps ongoing and $5.5mm in free equity
The running fee plus equity are equivalent to approximately a 28bps management fee

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IV. Transaction Details

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Transaction Details
General Information

Issuers:	Hudson Mezzanine Funding 2006-1, LTD, and Hudson Mezzanine Funding 2006-1, Corp.
Liquidation Agent, Structuring and Placement Agent:	Goldman, Sachs & Co.
Liquidation Agent Fee:	10 bps per annum payable senior to all the Notes
Reinvestment Period:	None
Discretionary Trading:	None. Liquidation Agent will sell credit-risk assets based on pre-determined rules and the clean proceeds will be treated as principal paydowns
Ramp-Up Period:	None
Non-Call Period:	3 years. Callable in whole on or after April 2010 by a majority vote of the Income Notes
Auction Call:	Commences on April 2015. Conducted annually thereafter
Call Price:	Par plus all accrued for Secured Notes and unpaid principal balance of the Income Notes. There is no call premium to the Income Notes
Payment Frequency:	Monthly on Class S, Senior Swap, Class A, B, C, D and Class E Notes, Quarterly for Income Notes
Controlling Class:	Class S, Senior Swap and Class A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C, D and Class E Notes in that order until each Class is paid in full

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Transaction Details
Collateral Profile

Moody's WARF	486
Purchased Collateral	All collateral assets can be classified as RMBS
Ratings Profile	■ 100% of the assets are rated at least Baa3 and BBB- by Moody's and S&P
Target Obligor Concentration Profile	■ Maximum Obligor concentration: 1.5%
Collateral Haircuts:	■ 10% applied to Double-B Assets prior to sale (20% for Senior Overcollateralization test) ■ 20% applied to Single-B Assets prior to sale (40% for Senior Overcollateralization test) ■ 50% applied to Triple-C Assets prior to sale (75% for Senior Overcollateralization test) ■ 100% applied to Defaulted Obligations

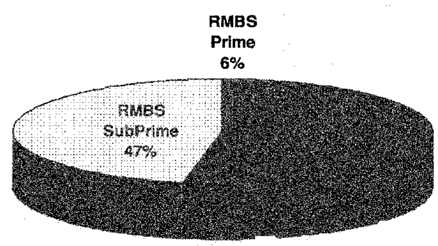
V. Portfolio Composition

Note: The information in this section is preliminary and subject to change

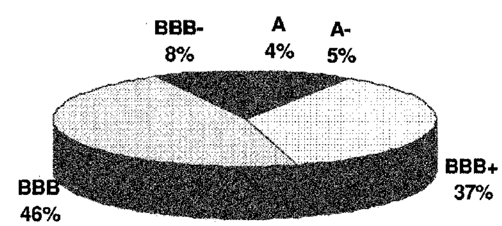
Portfolio Composition

Current Portfolio

Collateral[2]



Credit Ratings[1][2]



[1] Based on higher of S&P and Moody's rating for each asset.
[2] Represents the Current Portfolio as of September 26, 2006. Please refer to the final Offering Circular for final portfolio details.

Portfolio Highlights

- Portfolio WARF is 486
- 100% RMBS
- All investment grade rated RMBS. No BBs
- No fixed rate assets
- No Option ARM assets

Appendix A – Portfolio Asset List

Note: The information in this section is preliminary and subject to change

Portfolio Composition

Comprehensive CDO Collateral Asset List:

Reference Obligation	Moody's	S&P	Size
ABSHE 2005-HE3 M9	Baa3	BBB-	$ 13,000,000
ABSHE 2005-HE6 M8	Baa2	BBB	$ 13,000,000
ABSHE 2006-HE5 M8	Baa2	BBB	$ 13,000,000
ACCR 2006-2 M9	Baa3	BBB	$ 13,000,000
ACE 2005-HE7 M8	Baa2	BBB	$ 15,000,000
ACE 2005-HE7 M9	Baa3	BBB	$ 15,000,000
ACE 2006-ASP2 M9	Baa3	BBB	$ 13,000,000
ACE 2006-NC1 M8	Baa2	BBB	$ 15,000,000
ACE 2006-NC1 M9	Baa3	BBB	$ 15,000,000
AMIT 2005-2 M8	Baa2	A	$ 13,000,000
AMSI 2005-R11 M8	Baa2	A-	$ 15,000,000
AMSI 2005-R11 M9	Baa3	BBB+	$ 15,000,000
AMSI 2005-R3 M8	Baa2	BBB	$ 13,000,000
AMSI 2005-R8 M9	Baa3	BBB	$ 13,000,000
ARSI 2005-W2 M8	Baa2	BBB	$ 15,000,000
ARSI 2005-W2 M9	Baa3	BBB	$ 15,000,000
ARSI 2006-W1 M8	Baa2	BBB	$ 15,000,000
ARSI 2006-W1 M9	Baa3	BBB	$ 15,000,000
BSABS 2005-EC1 M8	Baa3	BBB	$ 13,000,000
BSABS 2005-HE11 M7	Baa2	BBB	$ 15,000,000
BSABS 2005-HE11 M8	Baa3	BBB	$ 15,000,000
BSABS 2006-HE3 M8	Baa2	BBB	$ 15,000,000
BSABS 2006-HE3 M9	Baa3	BBB-	$ 15,000,000
BSABS 2006-PC1 M8	Baa3	BBB+	$ 13,000,000
CARR 2006-NC1 M8	Baa2	BBB+	$ 15,000,000

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Portfolio Composition

Comprehensive CDO Collateral Asset List:

Reference Obligation	Moody's	S&P	Size
CARR 2006-NC1 M9	Baa3	BBB+	$ 15,000,000
CARR 2006-NC2 M9	Baa3	BBB-	$ 13,000,000
CARR 2006-RFC1 M8	Baa2	A	$ 13,000,000
CBASS 2006-CB4 B3	Baa3	BBB+	$ 13,000,000
CMLTI 2005-OPT4 M9	Baa3	BBB+	$ 13,000,000
CWL 2005-10 MV8	Baa2	BBB	$ 13,000,000
CWL 2005-BC5 B	Baa3	BBB	$ 15,000,000
CWL 2005-BC5 M8	Baa2	BBB+	$ 15,000,000
CWL 2006-8 M8	Baa2	BBB	$ 15,000,000
CWL 2006-8 M9	Baa3	BBB-	$ 15,000,000
ECR 2005-2 B	Baa3	BBB-	$ 13,000,000
EMLT 2005-1 M9	Baa3	BBB-	$ 13,000,000
FFML 2005-FF12	Baa3	BBB-	$ 13,000,000
FFML 2005-FF12 B2	Baa2	BBB+	$ 15,000,000
FFML 2005-FF12 B3	Baa3	BBB	$ 15,000,000
FFML 2005-FF3 M9	Baa3	BBB	$ 13,000,000
FFML 2005-FF7 M8	Baa2	BBB+	$ 13,000,000
FFML 2006-FF4 B1	Baa3	BBB+	$ 15,000,000
FFML 2006-FF4 M8	Baa2	BBB+	$ 15,000,000
FFML 2006-FF8 M9	Baa3	BBB+	$ 13,000,000
FHLT 2005-B M10	Baa3	BBB+	$ 13,000,000
FHLT 2006-1 M7	Baa2	BBB+	$ 13,000,000
FHLT 2006-2 M7	Baa2	BBB+	$ 13,000,000
FMIC 2006-1 M9	Baa3	BBB	$ 13,000,000
FMIC 2006-2 M9	Baa3	BBB	$ 13,000,000

Portfolio Composition

Comprehensive CDO Collateral Asset List:

Reference Obligation	Moody's	S&P	Size
GEWMC 2005-1 B3	Baa3	BBB+	$ 13,000,000
GSAA 06-12 B2	Baa3	A-	$ 15,500,000
GSAA 06-14 B1	Baa2	BBB	$ 15,500,000
GSAA 06-16 B2	Baa3	BBB+	$ 15,500,000
GSAA 06-3 B3	Baa3	BBB-	$ 15,500,000
GSAA 06-8 B1	Baa2	BBB+	$ 15,500,000
GSAA 2005-3 B3	Baa3	BBB+	$ 15,500,000
GSAA 2005-6 B2	Baa2	BBB	$ 15,500,000
GSAA 2005-8 B2	Baa2	BBB	$ 15,500,000
GSAMP 2005-HE4 B2	Baa2	BBB+	$ 15,000,000
GSAMP 2005-HE4 B3	Baa3	BBB	$ 15,000,000
GSAMP 2006-HE1 M8	Baa2	A-	$ 13,000,000
GSAMP 2006-HE3 M8	Baa2	A-	$ 15,000,000
GSAMP 2006-HE3 M9	Baa3	BBB+	$ 15,000,000
GSAMP 2006-NC2 M9	Baa3	BBB-	$ 13,000,000
HASC 2006-OPT4 M7	Baa2	BBB+	$ 13,000,000
HEAT 2005-8 B1	Baa3	BBB+	$ 15,000,000
HEAT 2005-8 M8	Baa2	BBB+	$ 15,000,000
HEAT 2006-4 B1	Baa3	BBB+	$ 15,000,000
HEAT 2006-4 M8	Baa2	BBB+	$ 15,000,000
JPMAC 2005-OPT1 M8	Baa2	BBB+	$ 15,000,000
JPMAC 2005-OPT1 M9	Baa3	BBB+	$ 15,000,000
JPMAC 2006-ACC1 M8	Baa2	BBB	$ 13,000,000
JPMAC 2006-CW2 MV9	Baa3	BBB	$ 13,000,000
JPMAC 2006-FRE1 M8	Baa2	BBB	$ 15,000,000

Portfolio Composition

Comprehensive CDO Collateral Asset List:

Reference Obligation	Moody's	S&P	Size	
JPMAC 2006-FRE1 M9	Baa3	BBB	$	15,000,000
JPMAC 2006-HE1 M8	Baa2	BBB	$	13,000,000
LBMLT 2005-WL2 M8	Baa2	BBB	$	15,000,000
LBMLT 2005-WL2 M9	Baa3	BBB	$	15,000,000
LBMLT 2006-1 M8	Baa2	BBB	$	15,000,000
LBMLT 2006-1 M9	Baa3	BBB	$	15,000,000
MABS 2005-NC2 M8	Baa2	BBB	$	15,000,000
MABS 2005-NC2 M9	Baa3	BBB	$	15,000,000
MABS 2006-NC1 M8	Baa2	BBB	$	15,000,000
MABS 2006-NC1 M9	Baa3	BBB	$	15,000,000
MLMI 2005-AR1 B2	Baa2	BBB	$	15,000,000
MLMI 2005-AR1 B3	Baa3	BBB	$	15,000,000
MLMI 2006-HE1 B2A	Baa2	BBB	$	15,000,000
MLMI 2006-HE1 B3A	Baa3	BBB	$	15,000,000
MSAC 2005-HE5 B2	Baa2	BBB	$	15,000,000
MSAC 2005-HE5 B3	Baa3	BBB	$	15,000,000
MSAC 2006-WMC2 B2	Baa2	BBB	$	15,000,000
MSAC 2006-WMC2 B3	Baa3	BBB	$	15,000,000
MSC 2006-HE2 B2	Baa2	BBB	$	15,000,000
MSC 2006-HE2 B3	Baa3	BBB	$	15,000,000
MSHEL 2006-2 B2	Baa2	BBB+	$	13,000,000
NCHET 2005-4 M8	Baa2	BBB+	$	15,000,000
NCHET 2005-4 M9	Baa3	BBB+	$	15,000,000
NCHET 2005-C M8	Baa2	BBB+	$	13,000,000
NHEL 2005-2 M8	Baa2	A	$	13,000,000
NHEL 2006-2 M7	Baa2	A	$	13,000,000

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Portfolio Composition
Comprehensive CDO Collateral Asset List:

Reference Obligation	Moody's	S&P	Size
OOMLT 2006-1 M9	Baa3	A	$ 13,000,000
OOMLT 2006-2 M8	Baa2	BBB	$ 13,000,000
OWNIT 2006-2 B2	Baa2	A-	$ 13,000,000
POPLR 2006-A M6	Baa3	BBB	$ 13,000,000
RAMP 2005-EFC2 M9	Baa3	BBB	$ 13,000,000
RAMP 2005-EFC4 M8	Baa2	BBB+	$ 15,000,000
RAMP 2005-EFC4 M9	Baa3	BBB	$ 15,000,000
RAMP 2006-NC2 M8	Baa2	BBB	$ 15,000,000
RAMP 2006-NC2 M9	Baa3	BBB-	$ 15,000,000
RAMP 2006-RZ2 M9	Baa3	BBB+	$ 13,000,000
RASC 2005-EMX2 M9	Baa3	BBB-	$ 13,000,000
RASC 2005-KS11 M8	Baa2	A	$ 15,000,000
RASC 2005-KS11 M9	Baa3	BBB+	$ 15,000,000
RASC 2006-EMX2 M8	Baa2	A-	$ 13,000,000
RASC 2006-KS3 M8	Baa2	A-	$ 15,000,000
RASC 2006-KS3 M9	Baa3	BBB+	$ 15,000,000
SABR 2005-EC1 B2	Baa2	BBB+	$ 13,000,000
SABR 2005-HE1 B2	Baa2	BBB+	$ 15,000,000
SABR 2005-HE1 B3	Baa3	BBB	$ 15,000,000
SABR 2005-OP1 B2	Baa2	BBB+	$ 13,000,000
SABR 2006-OP1 B2	Baa2	BBB+	$ 15,000,000
SABR 2006-OP1 B3	Baa3	BBB+	$ 15,000,000
SAIL 2005-HE3 M8	Baa2	BBB+	$ 15,000,000

Portfolio Composition

Comprehensive CDO Collateral Asset List:

Reference Obligation	Moody's	S&P	Size	
SAIL 2005-HE3 M9	Baa3	BBB+	$	15,000,000
SAIL 2006-4 M7	Baa2	BBB+	$	15,000,000
SAIL 2006-4 M8	Baa3	BBB+	$	15,000,000
SASC 2005-WF4 M8	Baa2	BBB+	$	15,000,000
SASC 2005-WF4 M9	Baa3	BBB+	$	15,000,000
SASC 2005-WMC1 M4	Baa2	BBB	$	13,000,000
SASC 2006-WF2 M8	Baa2	BBB	$	15,000,000
SASC 2006-WF2 M9	Baa3	BBB	$	15,000,000
SAST 2005-2 B2	Baa2	BBB	$	13,000,000
SURF 2006-BC1 B2A	Baa2	BBB+	$	13,000,000
SVHE 2005-4 M8	Baa2	BBB+	$	15,000,000
SVHE 2005-4 M9	Baa3	BBB	$	15,000,000
SVHE 2006-OPT2 M8	Baa3	BBB+	$	13,000,000
SVHE 2006-OPT5 M8	Baa2	BBB	$	15,000,000
SVHE 2006-OPT5 M9	Baa3	BBB-	$	15,000,000
WFHET 2006-1 M9	Baa3	BBB+	$	13,000,000

Appendix B – Goldman Sachs Contact Information

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Hudson Mezzanine Funding 2006-1, LTD
Team Contact Information

SP CDOs – Structuring, Marketing and Principal Investments	Phone	Syndication	Phone
Peter Ostrem, Vice President	+1 212-357-4617	Bunty Bohra, Managing Director	+1 212-902-7645
Darryl Herrick, Vice President	+1 212-902-9305	Scott Wisenbaker, Vice President	+1 212-902-2858
Deva Mishra, Analyst	+1 212-902-7002	Mitchell Resnick (London), Exec. Director	+44 (20) 7774-3068
Roman Shimonov, Associate	+1 212-902-6964	Omar Chaudhary (Tokyo), Vice President	+81 (3) 6437-7198
Arianne West (Legal), Associate	+1 212-902-3665	Tetsuya Ishikawa (London), Associate	+44 (20) 7774-1025

From: Jha, Arbind
Sent: Thursday, October 12, 2006 9:46 PM
To: Herrick, Darryl K; Ganapathy, Mahesh
Cc: Birnbaum, Josh
Subject: Re: Risk Issue

I am out tomorrow. Will call you on Monday to get the details.
However, I'd appreciate if you could briefly try to address my following questions:
(1) Do we really have scenario risk on $2bn not'l? $1.2bn of not'l is being sourced from ABX desk - this risk is already being captured in our risk number for SPG Trading desk.
(2) The remaining $0.8bn will be composed of single name CDS. Since we do not have any pre-existing long (credit), we will be going short after we price this CDO and therefore will have a risk mitigating impact on our risk.
Please correct me if I am getting this wrong.
Thanks.

----- Original Message -----
From: Herrick, Darryl K
To: Ganapathy, Mahesh
Cc: Jha, Arbind
Sent: Thu Oct 12 20:40:12 2006
Subject: RE: Risk Issue

Arbind
Call me

From: Ganapathy, Mahesh
Sent: Thursday, October 12, 2006 8:13 PM
To: Herrick, Darryl K
Subject: Risk Issue

Darryl,

This is a summary of what Arbind wanted to talk to you about. He was wondering if the whole of the $2b assets in Hudson Mezz should be accounted as part of our risk calc since many of the assets (1.2B) were sourced from another desk who, technically are still owners of that risk . By stating that 100% of the warehouse risk belongs to us , we are double counting.

Moreover, he also said that the remaining 0.8B were yet to be sourced, (I am not sure what he meant by that) so the net result is that there should be no warehouse risk to us from Hudson Mezz. What is your view? He wanted me/you to follow up with him regarding this.

Thanks
Mahesh

Permanent Subcommittee on Investigations
EXHIBIT #88

From: Jha, Arbind <Arbind Jha@ny.email.gs com>
Sent: Thursday, October 26, 2006 5:58 PM
To: Sobel, Jonathan <jonathan.sobel@ny.email gs.com>
Cc: Dinias, Michael <Michael.Dinias@ny.email.gs.com>; Swenson, Michael <Michael.Swenson@ny.email.gs com>; Birnbaum, Josh <josh.birnbaum@ny.email.gs com>
Subject: RE: MarketRisk: Mortgage Risk Report (cob 10/25/2006)

Per Mike S., we sold $1bn of ABX BBB- and bought $1bn protection on single name BBB- CDS. This is estimated to reduce the scenario risk by approx. $90mm.

We will firm up the numbers tomorrow as we see the trade/risk details.

From: Sobel, Jonathan
Sent: Thursday, October 26, 2006 5:20 PM
To: Jha, Arbind
Cc: Dinias, Michael
Subject: RE: MarketRisk: Mortgage Risk Report (cob 10/25/2006)

Risk should have been reduced further today in the ABX position.

From: Jha, Arbind
Sent: Thursday, October 26, 2006 5:18 PM
To: Blankfein, Lloyd (EO 85B30); Cohn, Gary (EO 85B30); Sobel, Jonathan; Sparks, Daniel L; Bell, Janet; Berry, Robert; Dinias, Michael; Birnbaum, Josh; Gmelich, Justin; Rosenblum, David J.; Pouraghabagher, Cyrus; Finck, Greg; Creed, Christopher J; Buono, Mark; Bohra, Bunty; Winkelried, Jon (EO 85B30); Resnick, Mitchell R; Nagel, Kyle; Gasvoda, Kevin; Mahoney, Justin; Pouraghabagher, Dariush; Cawthon, Michael; DeGiacinto, Clayton; Feingold, Jessica; Nichols, Matthew; Burns, Chris (IB NYP48); 'Kusari, Drenusha M.'; Eldor, Sarel (IB 85B19); Erbst, Jared R.; Devereux, Sara V; 'Jozoff, Matthew'; Nikodem, Paul; Nestor, Genevieve; Cohen, Jennifer L.; 'Lee, Ada (OP CKC66)'; Lee, Jay; Prakash, Arvin; Rosenblum, Rich; Sourov, Kroum R.; Wicker, Devin; Swenson, Michael; Salem, Deeb; Snyder, Brian; Perez, Jonathan; Tourre, Fabrice; Kamilla, Rajiv; Egol, Jonathan; 'Mangalgin, Vickram S.'; 'Healey, Jeremiah'; Williams, Geoffrey; Heagle, Jonathan; Kong, Sarah C.; Chin, Edwin; 'Koo, Simone'; Noh, Suok; Akunwafor, Obianyo; Kazmierczak, Craig; Motley, Chris B; Kung, Jameson; Lehman, David A.; Margolis, Jonathan; Mazumdar, Sanjay; Lin, Shelly; Purtell, Grant; Delikaris, Nickolas P; Gupta, Shashank; Ostrem, Peter L; Wang, Walter; McHugh, John; Kao, Kevin J.; Shah, Kunal (NY); Roy, Amit; Race, David M.; Mishra, Deva R.; Case, Benjamin; Bieber, Matthew G.; Herrick, Darryl K; Li, John X; Brauman, Jonathan; Gallagher, Timothy (IB PBC07); AcriGarofalo, Domenico; Cameron, Sean; Patel, Nilesh; Bouquard, Douglas; Gregory, Justin G.; Solomon, Benjamin; Lee, Keith; Lakra, Kenneth; Anasetti, Marco; Ganapathy, Mahesh; Siegel, Eric; Rocha, Martha

Cc: Lee, Brian-J (FI Controllers); Fortunato, Salvatore; Leventhal, Robert; Young, Paul; Brazil, Alan; Iqbal, Farrukh; Turok, Michael; Ng, Victor K; Little, John; Pantow, Albert; Fredman, Sheara; Armilio, Michael; Luo, Fei; Choi, Ron; McAndrew, Thomas R.; Charkoudian, Deron; gs-mra-mtg

Subject: MarketRisk· Mortgage Risk Report (cob 10/25/2006)

Risk reduction is primarily due to pricing of $2bn Hudson Mez synthetic CDO deal (SPG Secondary desk bought $325k/bp BBB and $350k/bp BBB- RMBS Subprime protection)

	95% VaR ($MM)		
Desk	10/25	10/24	Limit
MTG SPG	14.2	15.2	20

Stress Test ($MM)

Permanent Subcommittee on Investigations
EXHIBIT #89

Desk	10/25	10/24	Limit
MTG SPG	322	391	450
Deriv	19	21	30
Res Prime	91	91	100
Res Credit	165	165	185
Credit Resid	117	119	170
Non-Resi Orig	27	27	70
Second & Corr	11	84	110
CDO/CLO	53	48	55
Manager	-45	-45	
CDO Warehouse	191	191	

(results not included in Mortgage desk stress test and does not include Europe CLO Warehouse)

<< File: MortgageRiskSummary061025.pdf >>

From: Ostrem, Peter L

Sent: Monday, October 30, 2006 9:45 AM

To: Schwartz, Harvey <Harvey.Schwartz@ny email.gs.com>; Aliredha, Yusuf <yusuf.aliredha@ln.email.gs.com>; Salame, Pablo <pablo.salame@ln.email gs.com>; Gupta, Vishal (FICC LDN Trading) <Vishal.Gupta@ln.email.gs.com>; Rothery, Simon (GSJBW) <simon.rothery@gsjbw.com>; Cornacchia, Thomas <Thomas.Cornacchia@ny email.gs.com>, Bash-Polley, Stacy <stacy.bash@ny.email.gs.com>; Recktenwald, Sara <Sara.Recktenwald@ny.email.gs.com>; Cher, Martin <martin.cher@si.email.gs.com>; Hickey, Steve <Steve.Hickey@ny.email.gs.com>; Radtke, Lorin <lorin radtke@ny.email.gs.com>; Pinkos, Steve <steve.pinkos@ny.email gs.com>; Raz, Shlomi <Shlomi.Raz@ny.email.gs.com>; Younan, Wassim <wassim.younan@ln.email.gs.com>; Kengeter, Carsten <carsten.kengeter@ln.email.gs com>, Montag, Tom <tom.montag@ny.email.gs com>

Cc: Sobel, Jonathan <jonathan.sobel@ny.email.gs.com>, Sparks, Daniel L <dan.sparks@ny.email.gs com>, Rosenblum, David J. <david.rosenblum@ny.email.gs.com>; Hardie, Norman <Norman.Hardie@ln.email.gs.com>; Herrick, Darryl K <Darryl.Herrick@ny email.gs.com>; Swenson, Michael <Michael.Swenson@ny.email.gs com>; Birnbaum, Josh <josh.birnbaum@ny.email gs.com>

Subject: Great Job on Hudson Mezz

Wednesday of last week we priced **Hudson Mezzanine SP CDO, a static $2.0 billion structured product CDO** backed by $1.2 bln of the ABX index and $800mm of other RMBS subprime securities. Goldman was the sole buyer of protection on the entire $2.0 billion of assets.

Darryl Herrick led a core team that executed this deal: Roman Shimonov, Deva Mishra, and Ariane West. Highlights of the deal include:

- **P&L booked of $8.5mm** and reserves of $8+mm related to retained positions we expect to sell over next 3 months. Plus, ongoing P&L to GS for acting as liquidation agent equal to $2.5mm per year for next 4 years
- Hudson Mezz went long $1.2 bln of BBB/BBB- ABX from ABS trading desk at market wides 4 weeks ago
- Fastest execution of a SP CDO done at Goldman (4 weeks from inception to pricing)
- Over half of the equity sold by **Andy Davilman**
- Excellent super senior execution on top 60% of the transaction at 20bp (unfunded). Super senior note ($1.2bln in size) was executed in the first week of the transaction and was a key driver of this deals success (covered by **Nicole Martin**)
- Other large and key orders in stack sold by **Bridget Fraser/Lira Lee, George Maltezos, Darren Reinstein, Dick Loggins, and Abigail Matthias**
- Second issuance from the Hudson program ($1.5bln Hudson High Grade which priced last month was the first). We expect to repeat issuance of the Hudson program across High Grade and Mezz throughout 2007

Goldman is currently mandated on **$40+ bln of additional CDOs and CLOs** for next 12 months. Increasing velocity on debt and equity placement of our upcoming transactions will be the key to our success in 2007. Let's do it again.

Permanent Subcommittee on Investigations
EXHIBIT #90

Confidential Treatment Requested I GS MBS-E-0000057886

= Redacted by the Permanent Subcommittee on Investigations

From: Sparks, Daniel L
Sent: Wednesday, January 31, 2007 8:31 AM
To: Montag, Tom
Subject: FW: MTModel

In response to you question on residuals from deal, I'm guessing you meant [redacted] CDO. Not much change from Friday's message below, but CDO deal team is in Vegas and I'll get you an update as to whether any progress was made in last few days (doubtful). If you were asking about a different deal (subprime, CLO, [redacted], other) let me know.

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, January 26, 2007 2:55 AM
To: Montag, Tom
Subject: Re: MTModel

Not all done. Roughly retained stuff below - I just landed in london so doing from memory. We showed positive 10ish mm on deal, but half was recoapture of reserve against warehouse. Trying to be conservative on retained marks. Still more accounts looking so deal team will continue for a week or 2 - then move to secondary traders.

Need you to send message to peter ostrem and darryl herrick telling them what a great job they did. They structured like mad and travelled the world, and worked their tails off to make some lemonade from some big old lemons.

365mm Super senior terms done - just finalizing docs.
5mm bbb
9mm bb
15mm equity - will go into orca fund when closed 11mm equity

Team holding back 6ish mm against positions

Please send great job on cambe message to ostrem and herrick

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Thu Jan 25 20:32:40 2007
Subject: RE: MTModel

is it done--all risk gone or do we own some still--will that risk now move to traders?

From: Sparks, Daniel L
Sent: Thursday, January 25, 2007 2:07 PM
To: Montag, Tom
Subject: FW: MTModel

SP CDOs
Go to the quick summary page in spreadsheet.
Cambridge Place will likely be worth around $10mm today

Permanent Subcommittee on Investigations
EXHIBIT #91

From: Ostrem, Peter L
Sent: Thursday, January 25, 2007 1:08 PM
To: Fortunato, Salvatore; Fredman, Sheara
Cc: Sparks, Daniel L; Rosenblum, David J.; Lehman, David A.; Swenson, Michael
Subject: MTModel

We are pricing Camber 7 today. We will remove Camber 7 from the MTModel analysis and therefore, we are taking a positive P&L of $5.643mm relating to the removal of Camber 7 from the MTModel. In addition, we will have P&L from the Camber 7 deal which will be an additional P&L which will be reported at the end of today. I have enclosed the updated MTModel for review.

From: Sparks, Daniel L
Sent: Friday, February 02, 2007 10:06 AM
To: Montag, Tom; Viniar, David; Ruzika, Richard
Subject: RE: Second lien deal performance and write-down

We'll be sorting through all the potential breaches of reps and warranties, and fraud at origination (appraisal, income, occupancy) would be a likely one. Fraud is usually borrower, appraiser or broker fraud - not necessarily fraud by the seller of the loans to us. But generally for reps & warranties the loan seller is responsible if fraud happened.

The put backs will be a battle.

From: Montag, Tom
Sent: Friday, February 02, 2007 9:46 AM
To: Sparks, Daniel L; Viniar, David; Ruzika, Richard
Subject: RE: Second lien deal performance and write-down

fraud at initiation?

From: Sparks, Daniel L
Sent: Friday, February 02, 2007 8:47 AM
To: Viniar, David; Ruzika, Richard; Montag, Tom
Subject: Second lien deal performance and write-down

Gasvoda alerted me last night that we will take a write-down to some retained positions next week as the loan performance data from a few second lien sub-prime deals just came in (comes in monthly) and it is horrible. The team is still working through the numbers, but the amount will likely be in the $20mm loss zone. The main hit is not to the residuals which had already been written down, but will be to BB and BBB positions. The team is working on putting loans in the deals back to the originators (New Century, WAMU, and Fremont - all real counterparties) as there seem to be issues potentially including some fraud at origination, but resolution will take months and be contentious.

There may be a few small write-ups to other residuals (1st lien), but the team will work through in monthly mark update process with controllers.

Focus is cleaning out rated bond positions, and the put back process.

Sorry for more bad news.

Permanent Subcommittee on Investigations
EXHIBIT #92

From: Bieber, Matthew G.
Sent: Friday, February 23, 2007 9:51 PM
To: Ostrem, Peter L
Subject: Anderson

Dan asked me to send out to the group names we're paired off with the ABS desk for the deal.

Permanent Subcommittee on Investigations
EXHIBIT #93

From: Bieber, Matthew G.
Sent: Friday, February 23, 2007 10:20 PM
To: Sparks, Daniel L; Ostrem, Peter L; Swenson, Michael; Birnbaum, Josh; Case, Benjamin; Salem, Deeb; Chin, Edwin
Subject: Current Anderson Positions

Attachments: Anderson WH.xls

See attached. $140mm out of $305mm total are trades between the CDO warehouse and ABS trading.

Anderson WH.xls

Permanent Subcommittee on Investigations
EXHIBIT #94

CUSIP	Name	Counterparty	Asset Type	Original Face	Current Factor	Current Face	Currency Adjusted Curr Face	Mdy	Mdy Notch	S&P	S&P Notch	Fitch
59020U3N3	MLMI 2006-HE1 B2A	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	-
144531FG0	CARR 2006-NC1 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB+	BBB+	BBB-
17307GSS8	CMLTI 2005-OPT3 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB
362463AP6	GSAMP 2006-NC2 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	-
61744CKW5	MSAC 2005-HE1 B3	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
65106AAW3	NCMT 2006-1 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB+	BBB+	-
172983AN8	CMLTI 2006-NC1 M8	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	-
35729QAN8	FHLT 2006-B M8	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	BBB+
813765AH7	SABR 2006-FR3 B2	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	BBB+
93934JAN4	WMABS 2006-HE2 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	-
83611MMT2	SVHE 2006OPT2 M7	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	A-	A-	-
14453FAN9	CARR 2006-NC2 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
46629FAN0	JPMAC 2006-NC2 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
57643LMX1	MABS 2005-NC2 M8	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	A+	A+	BBB+
65536MAN7	NHELI 2006-HE2 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB-
61744CWE2	MSAC 2005-HE6 B2	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	BBB+
00442BAP6	ACE 2006-HE4 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	-
35729TAP7	FHLT 2006-C M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB
00442PAP5	ACE 2006-OP1 M8	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	-
040104TS0	ARSI 2006-W4 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB
04541GWQ1	ABSHE 2006-HE2 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
46602WAN4	IXIS 2006-HE2 B3	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB-
59021AAM0	MLMI 2006-FM1 B2	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	-
64352VRB9	NCHET 2006-1 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
83611MEE4	SVHE 2005-DO1 M8	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	A-	A-	BBB+
86360PAR8	SASC 2006-NC1 M9	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
86361KAM9	SAIL 2006-BNC3 M7	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	BBB
59023AAN6	MLMI 2006-MLN1 B2	Goldman Sachs-Other Desk	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	-
61744CYK6	MSAC 2006-NC1 B3		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB
31659EAM0	FMIC 2006-2		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	-
46629BBB4	JPMAC 2006-CW2 MV9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
126670UD8	CWL 2006-1 MV8		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	A-	A-	-
57645FAS6	MABS 2006-AM2 M8		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	-	[redacted]	-
126670LW6	CWL 2005-14 M8		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	-
61744CUZ7	MSAC 2005-HE5 B2		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	BBB+
437097AP3	HEAT 2006-6		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa2	Baa2	A-	A-	A-
64352VKJ9	NCHET 2005-1 M9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
64352VLS8	NCHET 2005-3 M9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
61744CNK8	MSAC 2005-HE2 B3		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
03072SM85	AMSI 2005-R8 M9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB+
61744CPQ3	MSAC 2005-NC2 B3		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
03072ST62	AMSI 2005-R10 M9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB
40430HDN5	HASC 2006-OPT1 M9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB+	BBB+	BBB+
92534FAE8	VRGO 20061A B1		SP CDO	5,000,000	1.0000	5,000,000	5,000,000	Baa1	Baa1	BBB+	BBB+	-
22237JAP2	CWL 2006-BC2 M9		RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	-

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ph44585 on D330-44585-7600 with DISTILLER

57322.402

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61744CMS2	MSAC 2005-NC1 B2	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	BBB
004421PY3	ACE 2005-HE4 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	BBB
64352VLA7	NCHET 2005-2 M8	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	-
04541GQH8	ABSHE 2005-HE2 M7	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
64360YAM7	NCHET 2006-2 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa2	Baa2	BBB-	BBB-	-
126670NN4	CWL 2005-BC5 B	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	-
64352VNB3	NCHET 2005-4 M8	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	BBB
40430HFA1	HASC 2006-NC1 M9	RMBS B/C	5,000,000	1.0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	-
46626LGQ7	JPMAC 2006-HE1 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
46626LJZ4	JPMAC 2006-NC1 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
004375FE6	ACCR 2006-1 M8	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa2	Baa2	BBB	BBB	-
40430HEH7	HASC 2006-OPT2 M8	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa2	Baa2	BBB+	BBB+	BBB+
004421VC4	ACE 2006-NC1 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB+	BBB+	-
03072SV93	AMSI 2005-R11 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB+	BBB+	BBB
144531BK5	CARR 2005-NC1 M8	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB-	BBB-	BBB-
76112BL24	RAMP 2005-EFC6 M9	RMBS B/C	5,000,000	1 0000	5,000,000	5,000,000	Baa3	Baa3	BBB	BBB	-

GS MBS-E-015511609

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Ostrem, Peter L
Sent: Sunday, February 25, 2007 4:23 PM
To: Bieber, Matthew G.
Subject: Re: Puts at 50

Not if it sells net risk.

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Sun Feb 25 16:19:31 2007
Subject: Re: Puts at 50

Yes- but I see dan wanting to preserve that ability for goldman

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Sun Feb 25 16:16:51 2007
Subject: Re: Puts at 50

Allow him to short some names in as a hedge too...?

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Sun Feb 25 16:15:35 2007
Subject: Re: Puts at 50

Add [redacted] as potential on mezz debt. Didn't mention anything in my email to [redacted] about liquidation agent fee , but that may be very useful. Spoke to someone at [redacted] (not [redacted]) friday about eq - and they're not really playing in mezz eq at the moment - but something like this may be an opportunity that causes them to reconsider.

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Sun Feb 25 16:09:51 2007
Subject: Re: Puts at 50

Here is argument. Please comment.

- [redacted] and [redacted] on srs
- [redacted] on mezz ([redacted] may kill this chance)
- GSC takes 50% equity and unsold mezz debt
- we pay in 5mm to cdo to increase yields if necessary
- or pay [redacted] to take mezz debt / srs and give them control or liquidation agent role
- use all equity cashflow to turbo mezz debt and single-a's until paid off
- give equity right to issue additional debt later

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Sun Feb 25 15:56:40 2007
Subject: Re: Puts at 50

Permanent Subcommittee on Investigations
EXHIBIT #95

Sparks. After we make our argument to price. [redacted]

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Sun Feb 25 15:54:19 2007
Subject: Re: Puts at 50

Do you know what will decide the price vs liquidate decision? Thought we'd announce deal tomorrow - but if we're just going to liquidate, that doesn't really make sense.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Sun Feb 25 15:43:30 2007
Subject: Re: Puts at 50

[redacted] is great idea.
Ask if he wants in today - so he has chance to think prior to Monday.

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Sun Feb 25 15:39:42 2007
Subject: Re: Puts at 50

[redacted]

We should also tall to [redacted]. Think they have some capacity to take paper as well.

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Sun Feb 25 15:33:47 2007
Subject: Re: Puts at 50

Agree on all. [redacted] is good, but need [redacted] to agree on warehouse. Equity plus BBBs will be split with GSC. [redacted]..

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Sun Feb 25 15:18:32 2007
Subject: Re: Puts at 50

We should see what liabilities gsc can take into its other vehicles at each level in the cap structure. They have a hg cdo sq with [redacted] plus all their other deals.

AAA - [redacted], [redacted] (positive feedback from them today)

AA - hg cdos (sould talk to tcw about ds deals)

A - point pleasant, paramax, any other cdo sq (we should call [redacted])

BBB - [redacted], [redacted], [redacted]

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Sun Feb 25 13:23:27 2007
Subject: Re: Puts at 50

I am talking to Ed today. We may liquidate Anderson Monday. Think of ways to price this quick. Don't call Ed.

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Sun Feb 25 11:52:59 2007
Subject: FW: Puts at 50

Do you think we're going to drop ORCA as well?
Guessing this is a call to GSC you want to make your self, but figured I check and see if you want me to call Ed...

-----Original Message-----
From: Sparks, Daniel L
Sent: Saturday, February 24, 2007 10:52 PM
To: Ostrem, Peter L; Bieber, Matthew G.; Rosenblum, David J.; Herrick, Darryl K; Case, Benjamin
Subject: RE: Puts at 50

I want to liquidate Anderson Monday - we should begin the discussion with gsc asap. Do we just - each take our pro-portionate share, do we liquidate and give them the bill for their share, do they want to buy us out, etc. We match the trading desk on a lot, so we should do those internally. Please begin the discussion.

-----Original Message-----
From: Ostrem, Peter L
Sent: Saturday, February 24, 2007 5:21 PM
To: Bieber, Matthew G.; Rosenblum, David J.; Herrick, Darryl K; Sparks, Daniel L; Case, Benjamin
Subject: Re: Puts at 50

Maybe declining puts starting at 80. Each year drops by 10 or 20. In return, we get premium pmt back to us. If premium is not payed, they lose the put...

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.; Rosenblum, David J.; Herrick, Darryl K; Sparks, Daniel L; Case, Benjamin
Sent: Sat Feb 24 17:08:59 2007
Subject: Puts at 50

We could write mezz debt puts at 50 to provide calm to market. For 1-2 yrs. We take a hit on mark of put but less than mtm hit and we retain upside. Think about it for GSC mezz and other deals. We can do date specific puts where put is canceled if default occurs. The point is creating a floor on marks to increase sales of debt if needed.

Consider puts at 50, 60, 70 for 2, 1, and 1 yrs.

More ideas about increasing executability and upside to follow. This is a great opportunity to create options for upside in nxt year or 2.

Thoughts?

From:	Siegel, Eric
Sent:	Tuesday, March 13, 2007 12:06 PM
To:	Gasvoda, Kevin
Cc:	Ostrem, Peter L; Bieber, Matthew G.
Subject:	Anderson Mezzanine Portfolio- New Century
Attachments:	Anderson Mezz Funding Portfolio.xls

Kevin,
Attached please find the Anderson Mezz portfolio, with the bonds for which New Century is the largest originator highlighted in yellow.

Anderson Mezz
Funding Portfoli...

Regards,
Eric

Eric Siegel
Structured Products Group
Fixed Income,Currency and Commodities Division
Goldman, Sachs & Co.
Ph: 212-357-9753
Eric.Siegel@gs.com

Permanent Subcommittee on Investigations
EXHIBIT #96

Anderson Mezzanine Funding, Ltd.

cusip	bbrg ticker	orig face	current face	originator	WAL	primary servicer	moodys	s&p	WA FICO
57645FAS6	MABS 2006-AM2 M8	5,000,000	5,000,000	Aames Capital	3 73	Wells Fargo Bank, N A	Baa2	-	608
004375FE6	ACCR 2006-1 M8	5,000,000	5,000,000	Accredited	3.86	Accredited Home Lender, Inc.	Baa2	BBB	633
59020U3N3	MLMI 2006-HE1 B2A	5,000,000	5,000,000	ACOUSTIC	3.55	Wilshire Credit Corporation	Baa2	BBB+	630
03072SM85	AMSI 2005-R8 M9	5,000,000	5,000,000	Ameriquest	3 48	Ameriquest Mortgage Company	Baa3	BBB	619
03072ST62	AMSI 2005-R10 M9	5,000,000	5,000,000	Ameriquest	3.99	Ameriquest Mortgage Company	Baa3	BBB	631
03072SV93	AMSI 2005-R11 M9	5,000,000	5,000,000	Ameriquest	3 97	Ameriquest Mortgage Company	Baa3	BBB+	624
040104TS0	ARSI 2006-W4 M9	5,000,000	5,000,000	Argent	3 86	Ameriquest Mortgage Company	Baa3	BBB	616
86361KAM9	SAIL 2006-BNC3 M7	5,000,000	5,000,000	BNC Mortgage	4 36	Wells Fargo Bank, N A	Baa2	BBB	618
65106AAW3	NCMT 2006-1 M9	5,000,000	5,000,000	Centex Home Equity	4 32	Centex Home Equity Company,L	Baa3	BBB+	612
46629BBB4	JPMAC 2006-CW2 MV9	5,000,000	5,000,000	Countrywide	4.12	Countrywide Home Loans Servic	Baa3	BBB-	615
126670LW6	CWL 2005-14 M8	5,000,000	5,000,000	Countrywide	3 65	Countrywide Home Loans Servic	Baa2	BBB	603
126670NN4	CWL 2005-BC5 B	5,000,000	5,000,000	Countrywide	3 76	Countrywide Home Loans Servic	Baa3	BBB	620
126670UD8	CWL 2006-1 MV8	5,000,000	5,000,000	Countrywide	3.74	Countrywide Home Loans Servic	Baa2	A-	614
22237JAP2	CWL 2006-BC2 M9	5,000,000	5,000,000	Countrywide	3 61	Countrywide Home Loans Servic	Baa3	BBB-	624
437097AP3	HEAT 2006-6	5,000,000	5,000,000	CSFB-HEAT	4 06	Select Portfolio Servicing, Inc	Baa2	A-	628
83611MEE4	SVHE 2005-DO1 M8	5,000,000	5,000,000	Decision One	3.00	Countrywide Home Loans Servic	Baa2	A-	622
76112BL24	RAMP 2005-EFC6 M9	5,000,000	5,000,000	EquiFirst	4.40	Residential Funding	Baa3	BBB	632
31659EAM0	FMIC 2006-2	5,000,000	5,000,000	FieldStone Mortgage	3.35	Fieldstone Servicing Corp	Baa2	BBB+	647
00442BAP6	ACE 2006-HE4 M9	5,000,000	5,000,000	First NLC	4 70	Ocwen Loan Servicing, LLC	Baa3	BBB	627
813765AH7	SABR 2006-FR3 B2	5,000,000	5,000,000	Fremont	4.69	HomeEq Servicing Corporation	Baa2	BBB	619
59021AAM0	MLMI 2006-FM1 B2	5,000,000	5,000,000	Fremont	3 67	Wilshire Credit Corporation	Baa2	BBB	618
35729QAN8	FHLT 2006-B M8	5,000,000	5,000,000	Fremont	4 19	Fremont Investment & Loan	Baa2	BBB	631
93934JAN4	WMABS 2006-HE2 M9	5,000,000	5,000,000	Long Beach	3.67	Washington Mutual Mortgage Se	Baa3	BBB-	625
59023AAN6	MLMI 2006-MLN1 B2	5,000,000	5,000,000	MLN	4.19	Wilshire Credit Corporation	Baa2	BBB+	619
92534FAE8	VRGO 20061A B1	5,000,000	5,000,000	N/A	6.61	Vertical Capital	Baa1	BBB+	n/a
35729TAP7	FHLT 2006-C M9	5,000,000	5,000,000	N/A	4 07	Wells Fargo Bank, N.A	Baa3	BBB-	628
46629FAN0	JPMAC 2006-NC2 M9	5,000,000	5,000,000	New Century	4 02	JP Morgan Chase Bank, National	Baa3	BBB-	619
172983AN8	CMLTI 2006-NC1 M8	5,000,000	5,000,000	New Century	3 67	Wells Fargo Bank, N A	Baa2	BBB	620
004421PY3	ACE 2005-HE4 M9	5,000,000	5,000,000	New Century	3 13	Countrywide Home Loans Servic	Baa3	BBB	629
61744CPQ3	MSAC 2005-NC2 B3	5,000,000	5,000,000	New Century	2.61	Countrywide Home Loans Servic	Baa3	BBB-	619
04541GWQ1	ABSHE 2006-HE2 M9	5,000,000	5,000,000	New Century	3 54	HomeEq Servicing Corporation	Baa3	BBB-	625
61744CKW5	MSAC 2005-HE1 B3	5,000,000	5,000,000	New Century	2 17	HomeEq Servicing Corporation	Baa3	BBB-	614
61744CMS2	MSAC 2005-NC1 B2	5,000,000	5,000,000	New Century	2 42	HomeEq Servicing Corporation	Baa2	BBB	619
61744CYK6	MSAC 2006-NC1 B3	5,000,000	5,000,000	New Century	3 90	HomeEq Servicing Corporation	Baa3	BBB	620
40430HFA1	HASC 2006-NC1 M9	5,000,000	5,000,000	New Century	3 10	JP Morgan Chase Bank, National	Baa3	BBB-	666
46626LJZ4	JPMAC 2006-NC1 M9	5,000,000	5,000,000	New Century	3 97	JP Morgan Chase Bank, National	Baa3	BBB-	623
61744CWE2	MSAC 2005-HE6 B2	5,000,000	5,000,000	New Century	3 80	JP Morgan Chase Bank, National	Baa2	BBB+	630

GS MBS-E-0092838858

144531BK5	CARR 2005-NC1 M8	5,000,000	5,000,000	New Century	2.72	New Century Mortgage Corporati	Baa3	BBB-	635
144531FG0	CARR 2006-NC1 M9	5,000,000	5,000,000	New Century	3.77	New Century Mortgage Corporati	Baa3	BBB+	630
14453FAN9	CARR 2006-NC2 M9	5,000,000	5,000,000	New Century	3 55	New Century Mortgage Corporati	Baa3	BBB-	623
64352VKJ9	NCHET 2005-1 M9	5,000,000	5,000,000	New Century	2 22	New Century Mortgage Corporati	Baa3	BBB-	623
64352VLA7	NCHET 2005-2 M8	5,000,000	5,000,000	New Century	2 53	New Century Mortgage Corporati	Baa2	BBB	623
64352VLS8	NCHET 2005-3 M9	5,000,000	5,000,000	New Century	2 77	New Century Mortgage Corporati	Baa3	BBB-	630
64352VNB3	NCHET 2005-4 M8	5,000,000	5,000,000	New Century	2 99	New Century Mortgage Corporati	Baa2	BBB	626
64352VRB9	NCHET 2006-1 M9	5,000,000	5,000,000	New Century	3 69	New Century Mortgage Corporati	Baa3	BBB-	627
64360YAM7	NCHET 2006-2 M9	5,000,000	5,000,000	New Century	4 03	New Century Mortgage Corporati	Baa2	BBB-	621
362463AP6	GSAMP 2006-NC2 M9	5,000,000	5,000,000	New Century	3 66	Ocwen Loan Servicing, LLC	Baa3	BBB-	626
57643LMX1	MABS 2005-NC2 M8	5,000,000	5,000,000	New Century	2 96	Ocwen Loan Servicing, LLC	Baa2	A+	657
004421VC4	ACE 2006-NC1 M9	5,000,000	5,000,000	New Century	3 58	Saxon Mortgage Services, Inc	Baa3	BBB+	627
04541GQH8	ABSHE 2005-HE2 M7	5,000,000	5,000,000	New Century	2.20	Saxon Mortgage Services, Inc	Baa3	BBB-	621
86360PAR8	SASC 2006-NC1 M9	5,000,000	5,000,000	New Century	4.06	Wells Fargo Bank, N.A.	Baa3	BBB-	618
00442PAP5	ACE 2006-OP1 M8	5,000,000	5,000,000	Option One	3 83	Option One Mortgage Corporatio	Baa2	BBB+	626
17307GSS8	CMLTI 2005-OPT3 M9	5,000,000	5,000,000	Option One	3 24	Option One Mortgage Corporatio	Baa3	BBB	615
40430HDN5	HASC 2006-OPT1 M9	5,000,000	5,000,000	Option One	3.67	Option One Mortgage Corporatio	Baa3	BBB+	644
40430HEH7	HASC 2006-OPT2 M8	5,000,000	5,000,000	Option One	3.77	Option One Mortgage Corporatio	Baa2	BBB+	626
61744CNK8	MSAC 2005-HE2 B3	5,000,000	5,000,000	Option One	2.57	Option One Mortgage Corporatio	Baa3	BBB-	616
83611MMT2	SVHE 2006OPT2 M7	5,000,000	5,000,000	Option One	3.43	Option One Mortgage Corporatio	Baa2	A-	623
46602WAN4	IXIS 2006-HE2 B3	5,000,000	5,000,000	Others	4 17	Saxon Mortgage Services, Inc	Baa3	BBB	629
65536MAN7	NHELI 2006-HE2 M9	5,000,000	5,000,000	Ownit Mortgage Solutiou	3 51	Ocwen Loan Servicing, LLC	Baa3	BBB	617
46626LGQ7	JPMAC 2006-HE1 M9	5,000,000	5,000,000	RESMAE MORTGAGE	4 45	JP Morgan Chase Bank, National	Baa3	BBB-	641
61744CUZ7	MSAC 2005-HE5 B2	5,000,000	5,000,000	WMC	3.54	Countrywide Home Loans Servic	Baa2	BBB+	637

GS MBS-E-0092838858

From: Egol, Jonathan
Sent: Friday, March 02, 2007 9:31 AM
To: Sparks, Daniel L; Rosenblum, David J.; Ostrem, Peter L; Bieber, Matthew G.; Wisenbaker, Scott
Subject: RE: Other thought on Anderson...

OK deal size should be cut to $305mm then and capital structure re-evaluated.

I was suggesting an internal ramp where ABS desk selects names that fit and faces CDO desk (ie not taking any externalized risk).

From: Sparks, Daniel L
Sent: Friday, March 02, 2007 9:29 AM
To: Egol, Jonathan; Rosenblum, David J.; Ostrem, Peter L; Bieber, Matthew G.; Wisenbaker, Scott
Subject: RE: Other thought on Anderson...

We are not ramping - execute deal as is

From: Egol, Jonathan
Sent: Friday, March 02, 2007 9:23 AM
To: Sparks, Daniel L; Rosenblum, David J.; Ostrem, Peter L; Bieber, Matthew G.; Wisenbaker, Scott
Subject: Other thought on Anderson...

...is that the deal gets fully ramped to $500mm today and a new asset list is sent out ASAP. All trades should be internal.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile. +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Jonathan M. Egol
Structured Products Trading

Permanent Subcommittee on Investigations
EXHIBIT #97

MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Peter Ostrem
Matthew Bieber
Connie Kang
Eric Siegel

Cc: Jonathan Sobel
Dan Sparks
David Rosenblum
Tim Saunders

Date: November 10, 2006

Re: **Timbewolf CDO – Single-A structured product CDO with Greywolf Capital**

I. Introduction

We have been asked to structure a $1.0 billion defensively managed single-A structured product CDO ("Timberowolf") backed by a portfolio of structured product CDOs and CLOs with an average rating of A2/A3. Greywolf Capital ("Greywolf") will be the collateral manager of the CDO, with the responsibilities of selecting the portfolio during the ramp-up, ongoing surveillance and selling assets they deem to be impaired. Greywolf has pre-committed to purchase half of the equity ($10 mm) in Timberwolf (total equity will be approx. $20.0 MM) upon closing of the transaction. Greywolf will share 50% of the warehouse risk up to the first $20mm in losses.

We do not expect to charge any upfront fee and similarly, Greywolf will not charge any ongoing management fee. Without fees, the equity yield is expected to be approximately 30%. We will be offering equity to third parties at a premium price with a no-loss yield of approximately 20%. We have consistently sold equity from high grade structured product CDOs in the last 3 months to a no-loss yield of 15-20%. We expect approximately 70+% of the portfolio upon closing will have been acquired from our various structured product trading desks in primarily synthetic form.

We intend to initiate preliminary discussions with debt and equity investors for this transaction over the next month. We expect to offer equity to major equity investors in our structured product CDO pipeline such as [redacted] [redacted] [redacted], [redacted], [redacted], [redacted], [redacted], [redacted] and [redacted]. Similarly, we will initiate preliminary conversations with consistent subordinate debt investors such as [redacted], [redacted], [redacted], various German and Asian Banks, and other CDOs. We expect to offer the subordinate triple-A and double-A debt to the market through our syndicate. Goldman has no commitment on any of the offered notes, but Goldman may be subject to warehouse losses in the event the CDO does not close.

Goldman is currently in the process of structuring Greywolf's first CLO. The head of the structured products team at Greywolf, Greg Mount, was a co-head of the Structured Products Group and a partner at Goldman Sachs prior to moving to Greywolf.

We expect approximately 25-40% of the portfolio upon closing will have been sourced through our various structured product trading desks in both cash and synthetic form. Goldman has no commitment on any of the offered notes, but Goldman may be subject to warehouse losses on its 50% share of the first $20MM in losses and any losses in the warehouse in excess of $20mm.

Permanent Subcommittee on Investigations
EXHIBIT #98

II. Transaction Overview

A Cayman Islands limited liability company (the "Issuer") will be established which will purchase the warehoused portfolio at closing and will issue the following notes and equity:

Class	Balance	% of Capital Structure	Expected Ratings (Moody's/S&P)	Expected Spread	Expected Average Life
Class A-1 Notes	$800.0 MM	80.0%	Aaa/AAA	L+32bp	6.0
Class A-2 Notes	50.0 MM	5.0%	Aaa/AAA	L+45bp	6.0
Class B Notes	60.0 MM	6.0%	Aa2/AA	L+65bp	7.0
Class C Notes	40.0 MM	4.0%	A2/A	L+145bp	7.0
Class D Notes	30.0 MM	3.0%	Baa2/BBB	L+325bp	7.5
Income Notes	20.0 MM	2.0%	NR	NA	NA
Portfolio	**$1,000 MM**	**100.0%**	**Avg. A2/A3**	**L+105bp**	**7.0**

The transaction will have a legal maturity of 35 years. However, the expected average life of the Notes will be approximately 7 years respectively. Timberwolf equity will also have the option to call the transaction after 3 years.

Based on recent equity sales from the CDO desk (we have sold over $150.0 MM in CDO equity over the last 6 months), the market yield to sell this equity is approx. 20%. If we sell all of our equity and/or if we mark our equity to a 20% IRR, the underwriting P&L to Goldman will be approximately $6.0 MM. In return for high yielding equity and 70% of the net warehouse carry (net carry will be approx. $1.5 MM), Goldman will (a) take 50% of the warehouse risk on the first $20 MM of losses and 100% of the risk should losses exceed $20 MM and (b) place the Class A, Class B, C, and D Notes on a "best efforts" basis. Prior to pricing, we intend to make no debt commitments on Timberwolf. Greywolf has pre-committed to purchase half of the equity and Goldman has committed to purchase half of the equity.

Collateral Description

- 100% of the Timberwolf portfolio will be identified at closing. There will no discretionary trading of the portfolio and Greywolf will only be able to sell credit risk assets. The sale proceeds from any credit risk sales will be used to pay down the Timberwolf Notes with the Class A-1 and Class A-2 being paid first, pro-rata.
- 100% of the portfolio will be rated at least A3 by Moody's or A- by S&P. 100% of the portfolio is expected to be rated single-A.
- The Timberwolf portfolio is expected to be approximately 50% SP CDOs 50% CLOs. Approximately 60-80% of the portfolio will be single-name synthetic exposures that will be collateralized with triple-A money market notes.

III. Asset Selector

Greywolf Captial Management LP in an independent asset management firm specializing in investments in credit derivatives and structured product markets. The firm was formed in February 2003 by former Goldman Sachs employees Jon Savitz, Jim Gillespie, Bob Miller Cevdet Samilkoglu and Bill Troy. Greywolf currently has $2.0 billion under management, invested in three credit focused strategies: Special Situations, High Yield and Senior Credit Opportunities. Greg Mount joined Greywolf as a partner in 2005 to start a structured products fund. Prior to joining Greywolf, Greg was a partner at Goldman Sachs and was co-head of the Structured Products Group. In addition to Greg, Joe Marconi, a former managing director at Goldman Sachs in ABS finance, joined Greywolf and is focused on structured product opportunities along with Greg. The research and investment team is comprised of approximately 26 people with average industry experience of over 10 years. Of the 26 members of the research and investment team, 17 members are Goldman Sachs alumni.

For Greywolf, Timberwolf is an opportunity to grow their existing structured product CDO platform. Goldman is currently mandated to structured and place Greywolf's first Collateralized Loan Obligation. Greywolf is not charging any management fees, and they are committing to 50% of the equity. The Timberwolf transaction will provide Goldman the opportunity to enhance our franchise by partnering with an experienced asset selector and maintain our leadership in the structured product CDO market.

IV. Underwriting Commitments:

Goldman Sachs will act as sole placement agent of the Class A, B, C, and D Notes and the Income Notes and will be working on a "best efforts" basis on all of the debt. Greywolf is pre-committed to purchase half of the equity.

The primary demand for mezzanine notes / equity in these types of transactions comes from Global banking and insurance institutions, US asset managers, other structured investment vehicles, and CDO equity funds. These various accounts continue to express interest in gaining a leveraged exposure to the U.S. mezzanine structured product market. The structured product CDO vehicle allows them to gain this exposure on a diversified basis with the added comfort of a qualified money manager to oversee and manage these securities.

We expect to purchase approximately $2-5 MM of the equity on the pricing date (we are committing to purchase $10 MM, but we may sell down our obligation), but we will have no commitment to hold such position after closing.

Goldman's current portfolio of CDO and CLO equity held within the CDO group is detailed in Appendix B.

V. Portfolio Ramp-Up and Equity Marketing

Initially, Goldman will assume 50% of the risk in the warehouse on the first $20 MM of losses and 100% of the risk should losses exceed $20MM in the event that the CDO fails to close. Greywolf will be taking 50% of the risk in the warehouse on the first $20MM of losses.

Additionally, we will continue to pursue early equity and mezzanine debt commitments from additional investors to reduce the risk of a failed closing. Appendix A details our current warehouse exposures across the CDO group.

The general terms of the portfolio ramp-up are as follows:

- GS has the right to veto all asset purchases and Greywolf has the right to veto all asset purchases;
- GS has unilateral right to liquidate any asset;
- All assets are sold-forward to the CDO at time of purchase and the forward price covers any hedge or trading gains/losses on assets during the warehouse phase;
- All positive carry on our retained warehouse risk (70% of net carry) will be paid to GS (positive carry is equal to any net income in excess of Goldman's cost of financing during the warehousing period). Net carry due to Goldman is expected to be approximately $1.0 MM.
- Position sizes will be limited to $20 MM.

VI. Expected P&L

Goldman will not earn an upfront fee. We expect to monetize a portion of our P&L through the sale of equity to third parties at a no-loss yield of approx. 20%. Separately, we expect to mark any retained equity positions to a market yield which may also result in additional P&L. We maintain a 10% liquidity reserve on our retained equity positions which may reduce our upfront P&L depending on the amount of equity we retain. We expect a $1.0 billion transaction and the underwriting P&L, in that case, would be $6.0 MM if we sold our 50% of the equity at a 20% no-loss yield. Additionally, Goldman expects to earn profits by selling assets into the CDO and from Goldman's warehouse net carry (which is estimated to be $1.0 MM).

Separately, Greywolf will not be paid any ongoing management fee by the CDO.

VII. Reasons to Pursue

[redacted] = Redacted by the Permanent Subcommittee on Investigations

We are pursuing this transaction for the following reasons:

1. Goldman is approving every asset going into the warehouse. The respective trading desks are posted on each asset offered into the CDO by Greywolf from the street and we do not accept any asset that is not approved by the respective trading desk. In addition, we expect that a significant portion of the portfolio by closing will come from Goldman's offerings.

2. Although we will be marketing a $1.0 billion Timberwolf transaction, Goldman can price the transaction earlier with a lower balance if we are concerned about future market conditions or we can upsize the transaction if there are reasons to merit that action.

3. We will be offering the equity to third party investors with a no-loss yield of 20% which is consistent with CDO equity from high grade and mezzanine structured product CDOs currently being sold into the market.

4. We have identified various investors that we expect will be interested in equity and mezzanine debt ([redacted], [redacted], [redacted], [redacted], [redacted], [redacted] and [redacted] in Australia). We expect to offer the equity and mezzanine debt on an early commitment basis and will offer the double-A and triple-A debt to the market after we have ramped at least 70% of the portfolio.

5. Greywolf is taking half of the first loss risk in the warehouse up to a cap of $10mm, Greywolf is committed to half of the equity, Goldman has a "best efforts" underwriting commitment on the remaining debt, and Goldman's expected P&L is $6-7 MM ($6.0 MM in premium sales or MTM, $1.0 MM in net warehouse carry).

VIII. Strengths / Issues to Consider

Strengths

- **Pre-Sold Equity:** Greywolf has pre-committed to purchase half of the equity.
- **Warehouse Risk Shared:** Greywolf is taking 50% of the warehouse risk up to $10mm ($20mm in total warehouse loss risk shared 50/50%).
- **Collateral:** 100% of the collateral will have a credit rating of at least A3/A-.

Issues to Consider

- **Warehouse:** Goldman Sachs will be exposed to 50% of the first loss exposure in the warehouse and 100% of any loss exposure above the first $20 MM of losses in the warehouse.
- **Equity:** Goldman Sachs may end up retaining $10 MM of equity with an expected IRR in the 30+% area. Without a MTM to a market yield of 20%, we may not incur any positive underwriting P&L upon the closing of the transaction.

IX. Recommendation

Goldman Sachs will be involved in structuring the transaction, selling assets into the transaction, placing the Notes and up to half the equity of the CDO and in return, will create high yielding equity which we may sell or retain for a profit.

In light of the above, we request that the Capital Committee approve our proposal to enter into a "best efforts" underwriting of debt and commitment on the equity for Timberwolf and to move forward with the warehouse risk sharing arrangement with Timberwolf.

Appendix A: Current CDO Warehouses

Structured Product CDO Warehouses

Deal Name	Size / Current Warehouse	Collateral Description	GS Warehouse Risk	Expected Pricing	Approx. Fees
GSC High Grade (GSC Partners)	$1.6 Billion / $1.535 Billion	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	50% to GS	Nov-06	$7 MM
Davis Square VII (TCW)	$2.0 Billion/ $1.998 Billion	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	Priced	Nov-06	$5.2 MM
Fortius II (Aladdin)	$525 Million/ $490 Million	Baa2/Baa3 RMBS, CMBS	Priced	Nov-06	$9 MM
JPMIM	$2.0 Billion/ $488 Million	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	100% to GS	Dec-06	$8 MM
Camber VII	$600 Million/ $566 Million	100% RMBS	100% to GS	Nov-06	$6.25 MM
Fort Denison	$100mm/$19mm	100% RMBS	50% to GS	Nov-06	$5 MM
Paramax	$1.0 Billion/$0	CDO	1st $20mm of Losses - 50/50 Additional Losses - 100% to GS	1Q-07	$9 MM
GSC II	$1.5 Billion/477 Million	RMBS/CMBS	100% of Loss to GS	Jan-07	$7 MM
Hout Bay II	$1 Billion/$106 Million	RMBS	50% to GS	Jan -07	$6 MM
Timber Wolf	$1.0 Billion/ $466 Million	CDO ^2	1st Loss – 50% upto 20MM 2nd Loss -100% to GS > 20MM	1Q-07	$7MM
Hudson Mezz II	$500 Million/ $280 Million	RMBS	60% of loss to GSC Partners 40% of loss to GS	1Q-07	$6MM

U.S. CLO Warehouses

Deal Name	Size / Current Warehouse	Collateral Description	GS Warehouse Risk	Cost of Financing	Expected Pricing	Approx. Fees
Ballyrock 2006-2	$500 MM / $322 MM	95% Loans 5% Bonds	50% to GS 50% to Ballyrock	Fed + 37.5 bps	4Q 2006	$6 5 MM
Grant Grove CLO	$3000 MM / $108 MM	90% Loans 10% Bonds	100% to GS	L + 75 bps	4Q 2006	$4.5 MM
AMMC VII	$400 MM / $168 MM	100% Loans	100% to GS	L + 75 bps	4Q 2006	$5.0 MM
CSAM CLO	$500 MM / $74 MM	100% Loans	100% to GS	L + 75 bps	1Q 2007	$6.0 MM
Greywolf I	$400 MM / $70 MM	100% Loans	1st Loss: 0% to GS, 100% to Greywolf up to 40mm 2nd Loss: 100% to GS above 40mm	L + 50 bps	4Q 2006	$6 0 MM
GSAM CLO	$400 MM / $29 MM	100% Loans	50% to GSCP 50% to GSAM	L + 75 bps	1Q 2007	$5 1 MM

Halcyon CLO	$400 MM / $0 MM	100% Loans	1st Loss: 0% to GS, 100% to Halcyon up to 30mm 2nd Loss. 100% to GS above 30mm	L + 75 bps	1Q 2007	$5.6MM

Appendix B: CDO Equity Positions

Structured Product CDO Equity Positions

Transaction	Face ($MM)	Deal Type	Currency	Market Price	Market Value ($MM)
Putnam Structured Product CDO 2002-1, Ltd	4.00	SP CDO	USD	58	2.32
Davis Square Funding I, Ltd	2.00	SP CDO	USD	65	1.30
NYLIM Stratford CDO 2001-1, Ltd	3.25	SP CDO	USD	1	0.03
Sierra Madre Funding, Ltd.	1.15	SP CDO	USD	72	0.83
Davis Square Funding III, Ltd	1.50	SP CDO	USD	70	1.05
Camber III plc	8.90	SP CDO	USD	85	7.57
Adirondack 2005-1 Funding, Ltd	3.95	SP CDO	USD	90	3.56
Coolidge Funding, Ltd.	5.40	SP CDO	USD	90	4.86
Altius I Funding, Ltd.	2.00	SP CDO	USD	90	1.80
Davis Square Funding V, Ltd.	4.00	SP CDO	USD	90	3.60
G Street Finance Ltd.	4.00	SP CDO	USD	60	2.40
Adirondack 2005-2 Funding, Ltd	4.64	SP CDO	USD	90	4.18
Davis Square Funding IV, Ltd	3.03	SP CDO	USD	80	2.42
Davis Square Funding VI, Ltd.	2.80	SP CDO	USD	90	2.52
Hout Bay, Ltd.	3.00	SP CDO	USD	90	2.70
Fortius I Funding, Ltd.	2.00	SP CDO	USD	90	1.80
Altius III Funding, Ltd.	5.00	SP CDO	USD	90	4.50
West Coast Funding, Ltd.	4.50	SP CDO	USD	90	3.60
Lochsong, Ltd.	12.00	SP CDO	USD	74	8.85
Fortius II Funding, Ltd.	8.00	SP CDO	USD	90	7.2
Davis Square VII	6.00	SP CDO	USD	90	5.4
Hudson High Grade	6.50	SP CDO	USD	90	5.85
Hudson Mezzanine 2006-1, Ltd.	8.00	SP CDO	USD	90	7.20
Total	**91.62**				**85.64**

CLO Equity Positions

Transaction	Face ($MM)	Deal Type	Currency	Market Price	Market Value ($MM)
FC CBO III Limited	1.29	CLO	USD	-	-
FC CBO II Limited	1.66	CLO	USD	-	-
First Dominion Funding I	0.57	CLO	USD	10	0.06
First Dominion Funding III	1.04	CLO	USD	10	0.10
Halyard CBO I limited	0.77	CLO	USD	-	-
Pennant CBO Limited	0.63	CLO	USD	-	-
Ballyrock II	1.62	CLO	USD	75	1.21
Signature 7 LP	0.97	CLO	USD	60	0.58
Victoria Falls CLO, Ltd	3.00	CLO	USD	90	2.70
Ballyrock III	2.10	CLO	USD	90	1.89
Navigare Funding I CLO Ltd.	6.25	CLO	USD	90	5.63
Del Mar CLO I CLO Ltd.	7.13	CLO	USD	90	6.41
Flagship CLO V	3.75	CLO	USD	90	3.38
Loomis Sayles CLO I Ltd.	5.20	CLO	USD	90	4.68
Total	**35.98**				**26.64**

ph44585 on D330-44585-7600 with DISTILLER

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00625 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

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Appendix C: 2006 CDO Summary P&L

Deal	Deal Type	Manager / Partner	Deal Size	Total P&L Taken	Pricing Date
GSC Loans	CLO	GSC	$ 300,000,000	$ **2,400,000**	Dec-05
Fortius	Mezz SP CDO	Aladdin	$ 600,000,000	$ **10,420,000**	Feb-06
Ares VR	CLO	Ares	$ 625,000,000	$ **7,233,800**	Feb-06
LNR II	CRE CDO	LNR	$ 1,600,000,000	$ **11,300,000**	Feb-06
CT CDO IV	CRE CDO	CapTrust	$ 500,000,000	$ **1,800,000**	Mar-06
Davis Square VI	HG SP CDO	TCW	$ 2,000,000,000	$ **9,100,000**	Mar-06
GSMS	CRE HG CDO	GS	$ 406,000,000	$ **855,000**	Mar-06
Tall Tree	CLO	Tall Tree	$ 300,000,000	$ **5,620,000**	Mar-06
Hout Bay	HG SP CDO	Investec / GS	$ 1,500,000,000	$ **4,270,389**	Mar-06
Broadwick	Mezz SP CDO	Peloton	$ 1,000,000,000	$ **12,400,000**	Apr-06
Navigare	CLO	Navigare	$ 300,000,000	$ **6,223,365**	Apr-06
Beowulf	HG SP CDO	Nordea	$ -	$ **2,747,934**	May-06
Katonah 8	CLO	Katonah	$ 400,000,000	$ **6,800,000**	May-06
Alcentra	Euro CLO	Alcentra	$ 704,000,000	$ **8,000,000**	May-06
Del Mar	CLO	Caywood Scholl	$ 400,000,000	$ **6,460,000**	Jun-06
West Coast	Prime SP CDO	TCW	$ 2,700,000,000	$ **13,030,000**	Jun-06
GS-UBS	CRE CDO	UBS	$ 700,000,000	$ **1,900,000**	Jul-06
Ballyrock IR	CLO	Fidelity	$ 400,000,000	$ **3,500,000**	Jul-06
Capmark	CRE CDO	GMACCM	$ 1,000,000,000	$ **2,000,000**	Jul-06
Grammercy	CRE CDO	Grammercy	$ 1,000,000,000	$ **4,000,000**	Aug-06
Flagship V	CLO	DAM	$ 500,000,000	$ **7,900,000**	Aug-06
ICG	Euro CLO	ICG	$ 700,000,000	$ **10,000,000**	Aug-06
Lochsong	IG SP CDO	Winchester	$ 1,200,000,000	$ **8,000,000**	Sep-06
Altius III	HG SP CDO	Aladdin/Mizuho	$ 2,000,000,000	$ **10,000,000**	Sep-06
Highland CDO	Mezz SP CDO	Highland Capital	$ -	$ **240,000**	Sep-06
JER	CRE CDO	JER	$ 400,000,000	$ **2,667,236**	Sep-06
Hudson HG	HG SP CDO	GS - Liquidation Agent	$ 1,500,000,000	$ **3,024,600**	Sep-06
Loomis Sayles	CLO	Loomis Sayles	$ 400,000,000	$ **5,000,000**	Oct-06
Hudson Mezz I	Mezz SP CDO	GS - Liquidation Agent	$ 2,000,000,000	$ **17,400,000**	Oct-06
Ballyrock IV	CLO	Fidelity	$ 500,000,000	$ **5,600,000**	Nov-06
Fortius II	Mezz SP CDO	Aladdin	$ 500,000,000	$ **9,000,000**	Nov-06
Davis Square VII	HG SP CDO	TCW	$ 2,000,000,000	$ **5,200,000**	Nov-06
AMMC CLO VII	CLO	AMMC	$ 500,000,000	$ **5,100,000**	2006 (Expected)

0277

From: Salem, Deeb
Sent: Friday, December 15, 2006 8:05 PM
To: Swenson, Michael
Subject: Re: Gsamp 06-FM1N N2

Cds mkt thinks that deal is one of worst of year...hopefully they r wrong

----

Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Swenson, Michael
To: Salem, Deeb
Sent: Fri Dec 15 19:58:31 2006
Subject: Re: Gsamp 06-FM1N N2

It is not that bad

----- Original Message -----
From: Salem, Deeb
To: Swenson, Michael
Sent: Fri Dec 15 19:57:57 2006
Subject: Re: Gsamp 06-FM1N N2

This is worth 10. It stinks...I don't want it in our book.

Sent from my BlackBerry Wireless Device

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Swenson, Michael
To: Gasvoda, Kevin; Mahoney, Justin
Cc: Salem, Deeb; Chin, Edwin
Sent: Fri Dec 15 17:08:20 2006
Subject: Gsamp 06-FM1N N2

After inittially passing at 65-00 - ollie hit us at 65-00

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com
Goldman
Sachs
Michael J. Swenson
Fixed Income, Currency & Commodities

---

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ph44585 on D330-44585-7600 with DISTILLER

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57322.421

GREYWOLF CAPITAL

Timberwolf I, Ltd.

$1.0 Billion Single-A Structured Product CDO

Greywolf Capital Management LP– Collateral Manager and Equity Investor
Goldman, Sachs & Co. – Structuring & Placement Agent and Equity Investor

February 2007

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular.

Permanent Subcommittee on Investigations
EXHIBIT #99a

Table of Contents

GREYWOLF CAPITAL

GREYWOLF CAPITAL

I. Transaction Overview

Note: The information in this section is preliminary and subject to change

Transaction Highlights

GREYWOLF CAPITAL

- Timberwolf I, Ltd. ("Timberwolf") is a $1.0 billion defensively-managed cashflow CDO consisting of a portfolio of single-A rated Structured Product CDO ("SP CDO") and CLO assets or reference obligations
- Greywolf Capital Management LP ("Greywolf") is the collateral manager, responsible for initial asset selection, ongoing monitoring and execution of "credit risk" and "defaulted" sales as needed
- Co-sponsorship
  - Goldman, Sachs and Co. ("Goldman Sachs") and Greywolf (through Greywolf Structured Products Fund I) are each expected to invest in 50% of the Income Notes on the Closing Date
  - Goldman Sachs will make a portion of its Income Note investment available to other investors
- Timberwolf portfolio acquisition process
  - The portfolio is expected to be 100% ramped at closing, and is expected to consist of 100% single-A rated assets or reference obligations
  - All assets will be purchased from the market, and sold to Timberwolf at original acquisition price / spread
  - The portfolio consists of both cash and synthetic assets

Transaction Highlights
Portfolio

GREYWOLF CAPITAL

- A "look through" analysis of the collateral underlying the SP CDOs in Timberwolf indicates that the underlying collateral is diversified, and consists predominantly of 2004, 2005 and 1Q 2006 issues
- Timberwolf portfolio and collateral vintage:
  - Approximately 42%[1,2] of the Timberwolf portfolio consists of SP CDO transactions that were issued prior to the end of the first quarter of 2006
  - Approximately 81%[1,2] of the collateral underlying the SP CDOs in Timberwolf (determined by reference to their CUSIPs) relate to transactions issued prior to the end of the first quarter of 2006
- Timberwolf collateral diversification and risk profile[2]:
  - The SP CDO portfolios included in Timberwolf consist of more than 3,800 individual CUSIPs relating to underlying RMBS, CMBS, ABS, CDO and other securities
    - Approximately 71% of those CUSIPs appear in only one of Timberwolf's SP CDOs
    - Approximately 4% of those CUSIPs appear in five or more of Timberwolf's SP CDOs

[1] *This information is preliminary and subject to change. The actual composition of the collateral to be acquired and the structure of the securities to be issued will be determined at or around the time of pricing of the securities based upon market conditions and other applicable factors*

[2] *This information has been provided by Greywolf, as of February 6, 2007, based on the current portfolio and information available as of that date from sources including Intex, Bloomberg and transaction marketing documents. This analysis does not include those assets classified as "CDO^2"*

Transaction Highlights

Collateral Manager[1]

GREYWOLF CAPITAL

- Greywolf Capital Management LP ("Greywolf") is an SEC-registered investment adviser with approximately $3.5 billion in assets under management (based on long exposure), including approximately $1 billion in structured product exposure

- Greywolf was founded in 2003 by a team of former employees of Goldman Sachs' fixed income trading division and now has 50 employees, including 27 investment professionals
  - Greywolf was founded by professionals from Goldman's distressed and high yield trading and investing businesses, and the initial Greywolf funds were focused on those strategies
  - Greywolf began investing in structured products in 2005

- Greg Mount and Joe Marconi, the Greywolf portfolio managers for Timberwolf, have extensive structured product expertise
  - Prior to joining Greywolf, Mr. Mount was a Partner at Goldman, Sachs & Co. Mr. Mount founded Goldman's CDO business in 1996, initiated Goldman's proprietary CDO investing activity in 2003, and was co-head of the Structured Products Group which includes the RMBS, ABS, CMBS and CDO businesses
  - Prior to joining Greywolf, Mr. Marconi was a Managing Director in the Structured Products Group at Goldman Sachs where he was co-head of ABS Finance and a member of the Mortgage Capital Committee (which is responsible for approving capital commitments across the CMBS, RMBS, ABS and CDO businesses)

[1] This information has been provided by Greywolf, as of February 6, 2007.

Transaction Overview

GREYWOLF CAPITAL

Indicative Capital Structure[1]

Classes	Ratings (Moody's/S&P)	Principal Balance	% of Capital Structure	Coupon	Status	Expected WAL	Initial OC
Class S Notes	Aaa/AAA	[ ]	[ ]	3M LIBOR + [ ]%	N/A	[ ]	N/A
Class A-1 Notes	Aaa/AAA	$[650.00] MM	64.8%	[ ]%[2]	Offered	[6.3]	[153.8]%
Class A-2 Notes	Aaa/AAA	$[155.00] MM	15.5%	3M LIBOR + [ ]%	Offered	[6.6]	[124.2]%
Class B Notes	Aa2/AA	$[105.00] MM	10.5%	3M LIBOR + [ ]%	Offered	[7.0]	[109.9]%
Class C Notes	A2/A	$[38.00] MM	3.8%	3M LIBOR + [ ]%	Offered	[7.0]	[105.5]%
Class D Notes	Baa2/BBB	$[35.00] MM	3.5%	3M LIBOR + [ ]%	Offered	[6.8]	[101.7]%
Income Notes	NR	$[20.00] MM	2.0%	NA	Offered	NA	NA

1 *This information is preliminary and subject to change. The actual composition of the collateral to be acquired and the structure of the securities to be issued will be determined at or around the time of pricing of the securities based upon market conditions and other applicable factors.*
2 *The A-1 tranche may be structured either in note or swap form depending upon investor preference.*

Transaction Overview

GREYWOLF CAPITAL

Indicative Summary of Terms[1]

Issuer:	Timberwolf I, Ltd.
Collateral Manager:	Greywolf Capital Management LP
Initial Purchaser:	Goldman, Sachs & Co.
Ramp-Up Period:	None. 100% ramped at closing
Collateral Management Fee:	[4] bps per annum based on the par balance of collateral assets, payable senior to the liabilities
Deferred Structuring Expense:	[4] bps per annum, based on the par balance of collateral assets, payable senior to the liabilities
Discretionary Trading:	None. Collateral Manager has the discretion to sell "credit risk" and "defaulted" assets and the proceeds will be treated as principal paydowns.
Reinvestment Period:	None
Non-Call Period:	[3] years
Call Price:	Par plus accrued interest on Class S Notes, Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, and Class D Notes.
Auction Call:	[8] years. Starting on and after the payment date in [__], [2015]. There is no minimum Income Note IRR required to effect an Auction Call.

1 *This information is preliminary and subject to change. The actual composition of the collateral to be acquired and the structure of the securities to be issued will be determined at or around the time of pricing of the securities based upon market conditions and other applicable factors.*

Transaction Overview

Indicative Summary of Terms (cont'd) [1]

GREYWOLF CAPITAL

Optional Redemption:	On or after the payment date in [__], [2010].
Payment Frequency:	Quarterly
Legal Final Maturity:	[ ] 2047
Controlling Class:	The Class A-1 Notes and Class S Notes voting in aggregate, so long as the Class A-1 Notes and Class S Notes are outstanding, and then the Class A-2 Notes, so long as the Class A-2 Notes are outstanding and then the Class B Notes, so long as the Class B Notes are outstanding, and then the Class C Notes, so long as the Class C Notes are outstanding, and lastly the Class D Notes, so long as the Class D Notes are outstanding
Asset Haircuts:	1) Assets rated less than Baa3 or BBB-, 90% of par value 2) Assets rated less than Ba3 or BB-, 70% of par value 3) Assets rated less than B3 or B-, 50% of par value

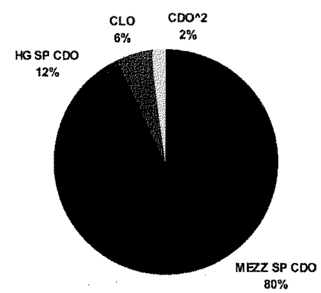
[1] *This information is preliminary and subject to change. The actual composition of the collateral to be acquired and the structure of the securities to be issued will be determined at or around the time of pricing of the securities based upon market conditions and other applicable factors.*

Transaction Overview

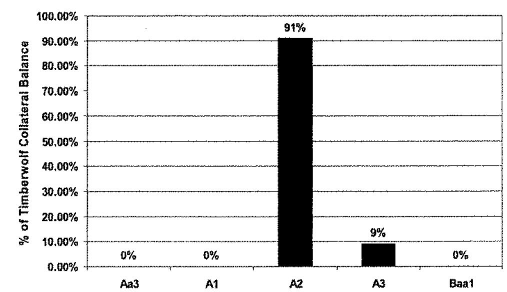
GREYWOLF CAPITAL

Current Portfolio: Asset Type and Rating[1,2]

Asset Type



Credit Ratings[3]

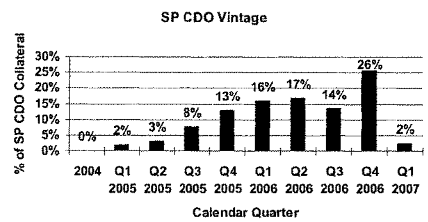


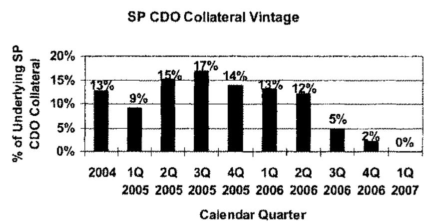
1 *Represents the current portfolio as of February 6, 2007. Greywolf and Goldman Sachs do not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above or herein.*
2 *Numbers may not add up to 100% due to rounding.*
3 *Reflects the actual Moody's Rating.*

Transaction Overview

Current Portfolio: Portfolio and Collateral Vintage[1,2,3]

GREYWOLF CAPITAL





- On a "look-through" basis, the underlying assets of the SP CDOs in Timberwolf consist of mostly 2005-vintage collateral.
- Approximately 42%[2] of the SP CDOs included in Timberwolf were issued prior to the end of 1Q 2006.
- Approximately 81%[3] of the underlying assets included in the Timberwolf SP CDOs were issued prior to the end of 1Q 2006.
- This analysis indicates that Timberwolf has limited exposure to RMBS originated in 2006.

1 Numbers may not add up to 100% due to rounding
2 Represents the current portfolio as of February 6, 2007 Greywolf and Goldman Sachs do not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above.
3 This information has been provided by Greywolf, as of February 6, 2007, based on the current portfolio and information available as of that date from sources including Intex, Bloomberg and transaction marketing documents This analysis does not include those assets classified as "CDO^2".

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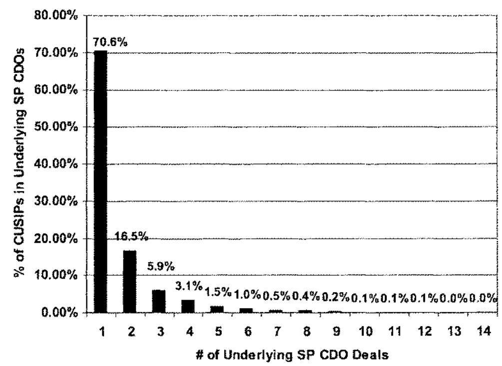
Transaction Overview

GREYWOLF CAPITAL

Current Portfolio: Underlying Collateral Diversification[1,2,3]



- Of the more than 3,800 unique underlying CUSIPs included in the SP CDOs held by Timberwolf, approximately 71% appear in only one of Timberwolf's SP CDOs
- This graphs shows the percentage of unique underlying CUSIPs that appear in more than one SP CDO transaction
- As indicated, fewer than 30% of the unique CUSIPs appear in two or more transactions
- Also, approximately 4% of the CUSIPs appear in five or more transactions
- This analysis suggests that there is limited "single-name" risk in the collateral underlying Timberwolf's SP CDOs

1 *Represents the current portfolio as of February 6, 2007. Greywolf and Goldman Sachs do not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above*

2 *Numbers may not add up to 100% due to rounding.*

3 *This information has been provided by Greywolf, as of February 6, 2007, based on the current portfolio and information available as of that date from sources including Intex, Bloomberg and transaction marketing documents This analysis does not include those assets classified as "CDO^2".*

Transaction Overview

GREYWOLF CAPITAL

Current Warehouse Statistics[1]

Statistics	
Current Warehouse Size	$857.5 mm
WARF	126
WAL	6.74
Moody's Correlation	28%
WAS	1.84%
Number of Obligors	52
Moody's WA Recovery Rate	39.4%
S&P AAA WA Recovery Rate	40.0%
S&P AA WA Recovery Rate	45.0%
S&P A WA Recovery Rate	55.0%
S&P BBB WA Recovery Rate	65.0%
% Fixed	0.0%
% Floating	100.0%
% Cash	13.7%
% Synthetic	86.3%

Top 5 Collateral Manager Concentration[2]	
GSC Group	10.5%
TCW	10.5%
Vertical Capital	6.8%
Ischus Capital	5.2%
Vanderbilt	5.2%
Total Number of Managers	32

[1] *Represents the current portfolio as of February 6, 2007. Greywolf and Goldman Sachs do not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above*

[2] *As a percentage of total collateral assets in Timberwolf.*

Transaction Overview
Structural Overview

GREYWOLF CAPITAL

- Timberwolf is a "defensively managed" structured product CDO with the following features:
  - No exposure to reinvestment spread risk or reliance on reinvestment spread to generate debt service coverage
  - No reinvestment, substitution or discretionary trading; proceeds of any "credit risk" or "defaulted" sales are treated as principal paydowns
  - 100% ramped at closing
- Timberwolf will have a fully issued capital structure with traditional overcollateralization tests
- Structure has the ability to tailor average life profile of senior tranching upon investor request
- Timberwolf will finance the collateral assets through:
  - The issuance of Class A, Class B, Class C, and Class D Notes
  - The issuance of Income Notes
  - Class S Notes will finance upfront fees and expenses, purchase accrued interest, and asset/liability accrual mismatch

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Transaction Overview

GREYWOLF CAPITAL

Structural Overview (cont'd)

- Class A-1 Notes may be issued either in funded form or as an unfunded swap, depending on investor preference
- The deal will use a "modified sequential" principal paydown structure, and will include a "turbo" to accelerate principal payments on Class D Notes
- Synthetic Securities consist of single-name pay-as-you-go credit default swaps
- No Minimum Income Note IRR required to effect an auction call
  - Increases the likelihood of a successful auction call or optional redemption
  - Mitigates the back ended pressure on transaction as costs of financing increases

GREYWOLF CAPITAL

II. Important Information and Risk Factors

Important Information

GREYWOLF CAPITAL

The information contained herein is confidential information regarding securities that may in the future be offered by Timberwolf I, Ltd. (the "Issuer") The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent necessary to comply with any applicable securities laws For this purpose, the tax treatment of a transaction is the purported or claimed U S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U S federal income tax treatment of the transaction

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy The information contained herein is preliminary and material changes to the proposed terms of the securities described herein may be made at any time. If any offer of securities is made, it shall be made pursuant to a definitive offering circular (the "Offering Circular") prepared by or on behalf of the Issuer, which would contain material information not contained herein and which shall supersede, amend and supplement this information in its entirety. Any decision to invest in the securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary or appropriate and consulting the investor's own legal, accounting, tax, and other advisors in order to make an independent determination of the suitability and consequences of an investment in the securities.

The securities described herein will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document Any representation to the contrary is a criminal offense The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular

None of the Issuer, Greywolf Capital Management LP ("Greywolf" or the "Collateral Manager") or Goldman Sachs (as used herein, such term shall include Goldman, Sachs & Co and all of its affiliates) or any of their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. The information includes hypothetical illustrations and involves modeling components and assumptions that are required for purposes of such hypothetical illustrations No representations are made as to the accuracy of such hypothetical illustrations or that all assumptions relating to such hypothetical illustrations have been considered or stated or that such hypothetical illustrations will be realized The information contained herein does not purport to contain all of the information that may be required to evaluate such securities, and each recipient is encouraged to read the Offering Circular and should conduct its own independent analysis of the data referred to herein The Issuer, Greywolf, Goldman Sachs, and their respective affiliates disclaim any and all liability relating to this information, including, without limitation, any express or implied representation or warranty for statements contained in and omissions from this information None of the Issuer, Greywolf, Goldman Sachs or any of their respective affiliates expects to update or otherwise revise the information contained herein except by means of the Offering Circular Additional information may be available on request The securities and obligations of the Issuer are not issued by, obligations of, or guaranteed by Greywolf, Goldman Sachs or their respective affiliates, or other organizations In particular, the obligations of the Issuer are not deposit obligations of any financial institution The securities and obligations of the Issuer are complex, structured securities and there is no assurance that a secondary market for such securities will exist at any time. Accordingly, prospective investors should be prepared, and have the ability, to hold such securities until their respective stated maturities or stated redemption dates

Important Information

GREYWOLF CAPITAL

HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions Such potential outcomes are not a prediction by the Issuer, Greywolf, Goldman Sachs, or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Greywolf, Goldman Sachs or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Greywolf, Goldman Sachs or their respective affiliates assumes any duty to update any such statement Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the collateral and the price at which such collateral is actually purchased by the Issuer, any defaults on the collateral, the timing of any defaults and subsequent recoveries, changes in interest rates, and any weakening of the specific credits included in the collateral, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer. Because of portfolio restrictions that apply to the Issuer and differences in market conditions, the investments selected by Greywolf on behalf of the Issuer may differ substantially from the investments made by Greywolf on behalf of other collateralized debt obligation ("CDO") funds managed by it The Issuer has no operating history

Risk Factors

GREYWOLF CAPITAL

Note: The Offering Circular will include more detailed descriptions of the risks described herein as well as additional risks relating to, among other things, insolvency considerations and conflicts of interest. Any decision to invest in the securities described herein should be made after reviewing such Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the securities. The Offering Circular will supersede this document in its entirety.

- Limited Liquidity, Restrictions on Transfer and Limited Recourse
  - There is currently no market for the Notes or the Income Notes and it is unlikely that any secondary market will develop. Accordingly, investors should be prepared to hold the Notes and the Income Notes for an indefinite period of time or until stated maturity. The Notes and the Income Notes should be viewed as a long-term investment, not as a trading vehicle.
  - The value of the Notes and the Income Notes are dependant upon the value of the underlying collateral and may vary from time to time such that if the Notes or the Income Notes are sold, the Notes and the Income Notes may be worth more or less than their original cost.
  - In addition, as the Notes will be sold in transactions exempt from SEC registration pursuant to Section 4(2) of the Securities Act of 1933 and Rule 144A and/or Regulation S under the Securities Act, and neither the Issuer nor the pool of collateral will be registered under the Investment Company Act of 1940 pursuant to the Section 3(c)(7). Related exemptions from registration and restrictions on transfer of the Income Notes will apply which may further limit liquidity.
  - All liabilities are payable solely from the cash flow available from the collateral pledged by the Issuer to secure all classes of Notes. No other assets will be available for payment in the event of any deficiency.
- Leveraged Credit Risk
  - The Income Notes are in a first loss position with respect to defaults on the underlying collateral. The highly leveraged nature of the Income Notes magnifies the adverse impact of any collateral defaults.
- Subordination
  - The Notes and the Income Notes are issued in a senior-subordinated structure, with the Class S Notes ranking the highest in the priority of payments and the Income Notes ranking the lowest in the priority of payments. In the event of a default, holders of the Class S and Class A-1 Notes, will generally be entitled to determine the remedies to be exercised; such remedies could be adverse to the other Notes and the Income Notes. The Income Notes will not be able to declare an event of default and will not receive any payments after the occurrence of an event of default unless and until the Class S, A-1, A-2, B, C, and D Notes (the "Notes") are paid in full.
- Volatility of Collateral and Value of Income Notes
  - The Income Notes represent a leveraged investment in the underlying collateral assets. The use of leverage generally magnifies an issuer's opportunities for gain and risk of loss. Therefore, changes in the market value of the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity and, with respect to the fixed rate portion of the portfolio, interest rate risk.

Risk Factors

GREYWOLF CAPITAL

- Collateral Risk
  - The structure of the collateral assets and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, investor sentiment and the use of credit enhancements.
  - The market value of the collateral assets generally will fluctuate with, among other things, the financial conditions of the obligors on or issuers of the collateral assets, the credit quality of the underlying pool of assets in any collateral asset, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.
- Illiquidity of collateral assets
  - Some of the collateral assets purchased by the Issuer will have no, or only a limited, trading market. This illiquidity may restrict the Issuer's ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities.
  - Illiquid debt securities may also trade at a discount to comparable, more liquid investments. In addition, the Issuer may invest in privately placed collateral assets that are non-transferable or are transferable only at prices less than the fair value or the original purchase price of the securities.
- Nature of Collateral
  - Some or all of the collateral assets may be subordinated securities which may be subject to leveraged credit risk.
  - The ability of the Issuer to sell collateral assets prior to maturity is subject to certain restrictions and limitations under the Indenture.
- Timing and Amount of Recoveries
  - In the event of impairment of credit quality and/or defaults on the collateral assets, the Collateral Manager may sell or retain the affected assets. There can be no assurance as to the timing of the Collateral Manager's sale of affected assets, or if there will be any market for such assets or as to the rates of recovery on such affected collateral. Such sale may result in losses to the Issuer, which will be absorbed first by the Income Notes. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to the Notes and Income Notes compared to the returns generated using the modeling assumptions set forth in the Offering Circular.
- Limited Activities of the Co-Issuers
  - The Co-Issuers are recently formed legal entities and have no prior operating history or prior business, other than warehousing the collateral assets and related financing arrangements. The Issuer will have no significant assets other than the collateral which will be pledged to secure the Issuer's obligations under the Notes. The Issuer will not engage in any business activity other than the issuance of the Notes, Co-Issuing the Income Notes, the acquisition, investment and reinvestment of the collateral and other prescribed activities relating to each of the foregoing. The Co-Issuer has and will not have any substantial assets. The Co-Issuer has no business activities other than the co-issuance of the Notes and its own common shares.

Risk Factors

GREYWOLF CAPITAL

- Credit Exposure to Portfolio of Reference Obligations
  - On the closing date, the Issuer will enter into pay-as-you-go credit default swaps (the "Synthetic Securities") with Goldman Sachs International, ("GSI" and in such capacity, the "Counterparty"), pursuant to which the Issuer will sell credit default protection with respect to a portfolio of Reference Obligations. Approximately 80% of the collateral assets are expected to be Synthetic Securities on the Closing Date. If a credit event occurs with respect to any of the Reference Obligations, the Issuer will pay the Counterparty the amount of the write-down or principal loss, or if the Counterparty elects to deliver the reference obligation, the notional amount of the Synthetic Security times the reference price. In return for the credit default protection, the Counterparty will pay the Issuer a premium which may be reduced (but not below zero) if certain Reference Obligations experience interest shortfalls. Credit events and interest shortfalls may adversely affect the Issuer's ability to make payments on the Notes and the Income Notes.
  - All Notes and Income Notes are subordinated to credit default protection payments under the Synthetic Securities and to certain termination payments payable to the Counterparty in connection with a termination event. The magnitude of such losses will be affected by the number of credit events and the recovery amount of any delivered Reference Obligations and timing of such credit events.
- Nature of Reference Obligations
  - The Reference Obligations are expected to consist of CDO Securities and CLOs. The Reference Obligations are subject to the credit, market, structural, legal, prepayment and interest rate risks associated with CDO Securities, and CLO respectively. The economic return on the Synthetic Securities will depend substantially upon the performance of the related Reference Obligation.
- Termination of the Synthetic Securities
  - Pursuant to the Synthetic Securities, the Issuer or the Counterparty will each have the right to terminate the Synthetic Securities in specified circumstances. In such event, the Issuer also may be required to make substantial termination payments to the Counterparty and such payments will reduce the amounts available to make payments on the Notes and the Income Notes. As a result, the Issuer may not have sufficient funds to make payments when due on the Notes and Income Notes and may not have sufficient funds to redeem the Notes and Income Notes.
- Credit Exposure to Counterparty
  - The ability of the Issuer to meet its obligations under the Notes and the Income Notes will be dependent on its receipt of payments from the Counterparty under the Synthetic Securities. Consequently, Noteholders will be exposed not only to the creditworthiness of the Reference Obligations but also to the creditworthiness of the Counterparty to perform its obligations under the Synthetic Securities. The insolvency of the Counterparty or a default by it under a Synthetic Security would adversely affect the ability of the Issuer to pay amounts when due under the Notes and make distributions on the Income Notes and could result in a withdrawal or downgrade of the ratings on the Notes.

Risk Factors

GREYWOLF CAPITAL

- Investment Decisions
  - In making an investment decision, investors must rely on consultations with their own legal, accounting and audit advisors to determine whether and to what extent they should invest in the Notes or the Income Notes.
- Changes in the rate of interest paid on the Class S, A-1, A-2, B, C, and D Notes
  - There will be a basis and timing mismatch between the Notes and the collateral assets, since the interest rates on such collateral assets may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rate on the Notes. The fixed rates and the margins over LIBOR or other floating rates borne by collateral assets may be lower than those on sold or amortized collateral assets which could cause a significant decline in interest coverage for the Notes.
  - The Issuer may enter into cashflow swap agreements to limit exposure to this risk, but no assurance can be given that such cashflow swap agreements will be executed or will be successful in reducing the exposure to this risk. However, there may be a termination payment related to one or more cashflow swap agreement in the event of a redemption of the deal prior to the expiration of the cashflow swap agreement.
- Impairment of Credit Quality and/or Defaults on the Collateral Assets
  - Decline in credit quality of the collateral or defaults could result in losses which would adversely affect the Notes and the Income Notes.
  - There may be certain industry or sector concentrations in the CDO, all of which could have a material adverse impact on the Notes and the Income Notes in the event of economic downturns or other events affecting the credit quality of any of the collateral.
- Redemption of Class S, A-1, A-2, B, C, and D Notes.
  - If certain over collateralization tests are not met, redemptions of the Class S, A-1, A-2, B, C, and D Notes would be required, which may effect the yields on more subordinated classes of Notes and the Income Notes and will be paid from amounts which otherwise be available for payment to holders of the Income Notes.
  - Mandatory redemption could result in an elimination, deferral or reduction in the amount paid to the Income Notes, which would adversely and materially affect their returns.
- Auction of the Collateral Assets
  - Commencing approximately [8] years following the closing date, the Collateral Manager is require to take steps to conduct an auction of the collateral assets annually. If the minimum bid amount for the collateral assets is met or exceeded, the collateral assets will be sold and the Notes and the Income Notes will be redeemed.
  - There can be no assurance that an auction of the collateral assets will be successful; a successful auction will shorten the duration of the Notes and the Income Notes and is not required to result in any proceeds for distribution to the holder of the Income Notes.
- Portfolio Management/Trading Risk
  - The Collateral Manager has the authority to sell certain collateral within certain parameters. If the transactions result in a net loss, such loss would be borne by the Income Notes and then the Notes and its effect would be magnified, in the case of the Income Notes, due to the leveraged nature and degree of subordination of Income Notes investment.

Risk Factors

GREYWOLF CAPITAL

- International Investing
  - Investing outside the U.S. may involve greater risks which may include (1) less publicly available information, (2) varying levels of governmental regulation and supervision, (3) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws, (4) less stringent accounting practices, (5) different clearance and settlement procedures, (6) economic and political conditions and instability, (7) exchange control and foreign currency risk, (8) insolvency and (9) expropriation risk.
  - A portion of the collateral assets may consist of obligations of an issuer organized under the laws of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, the Netherlands Antilles or other jurisdictions offering favorable tax treatment.
- Relation to *Prior* Investment Results
  - The prior investment results of the Collateral Manager or persons associated with the Collateral Manager are not indicative of the Issuer's future investment results. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities. Prior performance shown reflects management of total return products, which have investment restrictions and policies which are significantly different from those expected to apply to the Issuer.
- Certain Conflicts of Interest
  - Both potential and actual conflicts of interest involving the Collateral Manager may arise from the overall investment activities of the Collateral Manager and its affiliates. The Collateral Manager and its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities for itself or its clients (including the Issuer).
  - Both potential and actual conflicts of interest involving Goldman Sachs include the possibility that some of the Collateral Assets acquired by the Issuer may consist of issuers or obligors, or obligations sponsored or serviced by companies, for which the Underwriter and/or one of its affiliates has acted as underwriter, agent, placement agent or dealer, lender or provided commercial or investment banking services.
  - A portion of the collateral assets purchased by the Issuer on the Closing Date will be purchased from portfolios owned by the Underwriter and in which the Collateral Manager and an affiliate may have an interest. In any event, all purchases of collateral assets from the Underwriter will be on an arms'-length basis.
  - The obligations of the Collateral Manager to the Issuer are not exclusive. The Collateral Manager and its affiliates may have other clients, including certain holders of any class of notes, which may invest, directly or indirectly, in the same or similar securities or financial instruments as those in which the Issuer invests or that would be appropriate for inclusion in the Issuer's holdings.
  - The Collateral Manager may make investment decisions for the other clients and for affiliates that may be different from those made by the Collateral Manager on behalf of the Issuer. The Collateral Manager and its affiliates may also have equity and other investments in, and have other ongoing relationships with, or be affiliates of, companies whose securities are included in the collateral pool. Consequently, the Collateral Manager and its principals, officers, employees and affiliates may have conflicts of interest in allocating investments among the Issuer and other clients. To the extent that a particular investment position is suitable to be taken or liquidated for both the Issuer and the other clients, such investment position taken or liquidated will be allocated among the Issuer and the other clients in a manner that the Collateral Manager determined by in its sole discretion to be fair and equitable.

Risk Factors

GREYWOLF CAPITAL

- Hypothetical Illustrations and Estimates
  - Estimates of the weighted average lives of the Class S, A-1, A-2, B, C, and D Notes and the returns and duration of the Income Notes included herein, together with any other hypothetical illustrations and estimates provided to prospective purchasers of the Class S, A-1, A-2, B, C, and D Notes, are forward-looking statements. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book
  - The hypothetical illustrations are only estimates. Actual results may vary, and the variations may be material. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page at the beginning of this book.
- Yield Due to Prepayments
  - The yield to maturity on the Income Notes could be affected by the rate of prepayment of the collateral assets. Payments to the Income Notes at a rate slower than the rate anticipated by investors purchasing the Income Notes at a discount will result in an actual yield that is lower than anticipated by such investors. Conversely, payments to the Income Notes at a rate faster than the rate anticipated by investors purchasing the Income Notes at a premium will result in an actual yield that is lower than anticipated by such investors.
- Changes in Tax Laws
  - The collateral is not permitted to be subject to withholding tax at the time of purchase, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on the Income Notes.
  - In the event that any withholding taxes are imposed on payments under the Securities, the holders of such Securities will not be entitled to receive "grossed-up" amounts to compensate for such withholding taxes.
  - In case of a Tax Event (as defined in the Offering Circular), holders of at least 66 ⅔% of any affected Income Note, or holders of more than 50% of any Class of Notes which, as a result of such Withholding Tax Event, have not received 100% of payments due to them under the Notes may require the issuer to liquidate the collateral on any Payment Date, and redeem the Class S, A-1, A-2, B, C, and D Notes , prior to any distributions to holders of Income Notes.
- Tax Treatment of Income Notes
  - Since the Issuer will be a passive foreign investment company, a U.S. person holding Income Notes may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Issuer has agreed, and, by its acceptance of an Income Note, each holder of an Income Note will be deemed to have agreed, to treat the Income Notes as equity for tax purposes.
  - Income Note holders should consult their tax advisers about the special U.S. tax regimes that apply to shareholders of passive foreign investment companies and controlled foreign corporations.
  - Special tax considerations may apply to certain types of investors. Prospective investors should consult their own tax advisors regarding the tax implications of their investments.

Risk Factors

GREYWOLF CAPITAL

- Anti Money Laundering Provisions
  - Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), signed into law on and effective as of October 26, 2001, imposes anti money laundering obligations on different types of financial institutions, including banks, broker dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "Treasury") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti money laundering obligations. It is not clear whether Treasury will require entities such as the Issuer to enact anti money laundering policies. It is possible that Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service providers to the Issuers, in connection with the establishment of anti money laundering procedures, to share information with governmental authorities with respect to investors in the Notes and/or the Income Notes. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Notes and/or the Income Notes. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.
- Investment Company Act
  - Neither of the Issuers has registered with the United States Securities and Exchange Commission as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States whose investors resident in the United States are solely Qualified Purchasers and which do not make a public offering of their securities in the United States. Counsel for the Issuers will opine, in connection with the sale of the Securities by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Securities are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.
- ERISA Regulations
  - Investor must review the "ERISA Considerations" section of the Offering Circular to determine their eligibility to hold the Notes and the Income Notes for purposes of the ERISA restrictions. Prospective investors should consult their own advisors regarding the ERISA-related implications of their investments.
- European Securities Regulations
  - The listing of Notes or Income Notes on any European Union stock exchange would subject the Issuer to regulation under certain European regulations, although the requirements applicable to the Issuer are not yet fully clarified. The Indenture will not require the Issuer to apply for, list or maintain a listing for any Class of Notes or the Income Notes on a European Union stock exchange if compliance with these regulations becomes burdensome. Should the Notes or Income Notes be delisted from any exchange, the ability of the holders of such Notes or Income Notes to sell such Notes or Income Notes in the secondary market may be negatively impacted.
- Material Tax Considerations
  - The Issuer does not expect to be subject to net income taxation in the United States. If the Issuer were treated as engaged in a United States trade or business, it would be subject to substantial U.S. income tax on its income.

GREYWOLF CAPITAL

III. Overview of Greywolf Capital Management LP

Note: All information in this section has been provided by Greywolf.

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Greywolf Capital Management LP

GREYWOLF CAPITAL

Description of the Collateral Manager[1]

- Greywolf Capital Management ("Greywolf") is an SEC-registered investment adviser with approximately \$3.5 billion[1] in assets under management (based on long exposure), including approximately \$1 billion[1] in structured product securities.

- Greywolf was founded in 2003 by a team of former employees of Goldman Sachs' fixed income trading division and now has 50 employees, including 27 investment professionals
  - Greywolf was founded by professionals from Goldman's distressed and high yield trading and investing businesses, and the initial Greywolf funds were focused on those strategies
  - Greywolf began investing in structured products in 2005

- Greywolf currently invests across three fund strategies:
  - **Greywolf Structured Products Fund I** which seeks to generate 20%+ per annum returns by investing in structured credit and other structured products including cash and synthetic CDOs. This Fund will subscribe for 50% of the Income Notes in this transaction
  - **Greywolf Special Situations Fund** which seeks to generate 15 – 20% per annum returns in distressed and event-driven investing in leveraged companies
  - **Greywolf High Yield Fund** which seeks to generate 10 – 15% per annum returns with lower volatility through long / short investment strategies in high yield corporate bank debt, bonds and CDS

[1] *This information has been provided by Greywolf, as of February 6, 2007.*

Greywolf Capital Management LP

Description of the Collateral Manager[1] (cont'd)

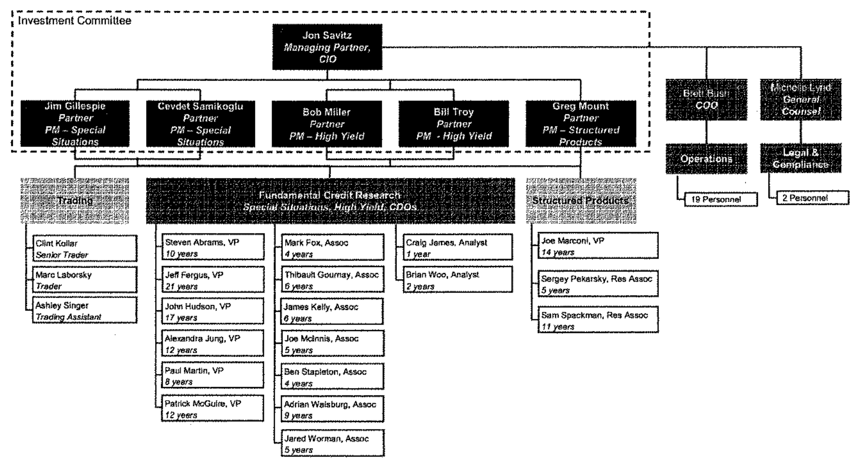
GREYWOLF CAPITAL

- Greywolf's structured product philosophy is to create integrated investment teams that combine expertise in underlying asset classes with structured products and derivative capability
- Greywolf launched its first dedicated structured products fund, Greywolf Structured Products Fund I, in 2006
  - This Fund will invest in 50% of the Income Notes of Timberwolf.
- Greywolf completed its first CLO, Greywolf CLO I, in 2006 as well

[1] *This information has been provided by Greywolf As of February 6, 2007.*

Greywolf Capital Management LP
Functional Organization

GREYWOLF CAPITAL



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Greywolf Capital Management LP
Current Product Mix

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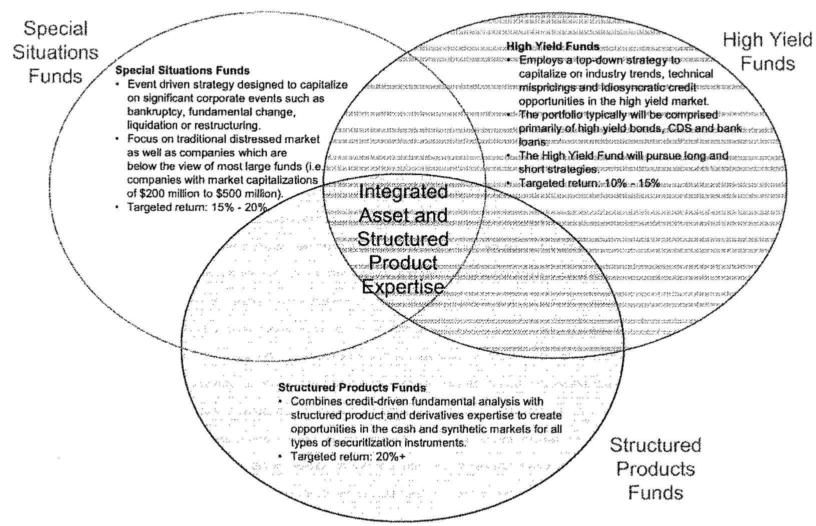


Greywolf Capital Management LP

Portfolio Management Responsibilities

GREYWOLF CAPITAL

- Jon Savitz is Greywolf's Senior Partner, and serves as the CIO for all Greywolf funds
  - Prior to co-founding Greywolf, Mr. Savitz was a Partner of Goldman, Sachs & Co. where he held numerous positions in credit trading and investing, including co-head of Goldman's global distressed sales, trading and research efforts
- Portfolio Management responsibilities are divided as follows:
  - Greg Mount is the Portfolio Manager for the Structured Products Fund
  - Jim Gillespie and Cevdet Samikoglu are the Portfolio Managers for the Special Situations Fund
  - Bob Miller and Bill Troy are the Portfolio Managers for the High Yield Fund
- These individuals also represent Greywolf's Investment Committee
- Greg Mount and Joe Marconi will be the portfolio managers for Timberwolf I, Ltd.

GREYWOLF
CAPITAL

IV. Greywolf Investment Process

Note: All information in this section has been provided by Greywolf.

Greywolf Investment Process

GREYWOLF CAPITAL

Stage 1
Sourcing

Stage 2
Initial Analysis & Pre-Screening

Stage 3
Investment Evaluation

Stage 4
Surveillance & Monitoring

Investment Process

- Greywolf's investment process can be broadly described by the four stages shown to the left, which will be discussed in more detail in the following pages
- Greywolf's investment process for the Timberwolf transaction is the same process that is used to evaluate structured product investments for Greywolf's other funds
- The portfolio construction for Timberwolf, as for each of Greywolf's existing funds, will take into account the fund's specific requirements and constraints
- The primary objectives of Greywolf's structured product investing process as applied to Timberwolf are to identify CDO investments that will provide:
    - diversification of underlying collateral exposures
    - rating stability
    - cash flow performance
    - attractive relative value
- Ultimately, Greywolf's structured product investment process is intended to result in portfolios that will generate positive performance for the benefit of both the debt and equity investors

Greywolf Investment Process

GREYWOLF CAPITAL

Stage 1
Sourcing

Stage 2
Initial Analysis & Pre-Screening

Stage 3
Investment Evaluation

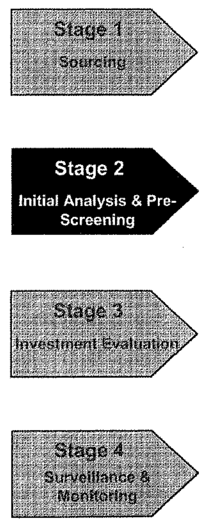
Stage 4
Surveillance & Monitoring

STAGE I: Sourcing

- Sourcing attractive investment opportunities is an important component in creating a portfolio that will meet Greywolf's investment objectives
- Greywolf's structured products team has an active dialogue with all the leading sell-side structured product market participants
- Also, given their long-term participation in the market, Greywolf's principals have established many relationships with market participants that support Greywolf's sourcing activities
- Greywolf focuses on investment opportunities in both the primary and secondary markets and will make investments in either cash or CDS form
- The ability to source investments synthetically through the CDS market permits Greywolf to construct a portfolio without reliance on the new issuance, cash market. This in turn enhances Greywolf's ability to create a tailored risk profile, maximize diversification and minimize risk
- Once attractive CDO investments are identified, Greywolf often will use a competitive BWIC ("bid wanted in comp") process to ensure the CDO investment is sourced synthetically at the best possible spread

Greywolf Investment Process

GREYWOLF CAPITAL



STAGE II: Initial Analysis & Pre-Screening

- The initial analysis in Greywolf's CDO investment process focuses on three primary aspects of a transaction:
  - underlying portfolio composition and credit quality
  - transaction structure
  - collateral manager
- This analytical process involves information from numerous sources, including
  - transaction marketing materials
  - third-party information sources such as Intex and Bloomberg
  - transaction legal documents and trustee reports
  - rating agency and sell-side research

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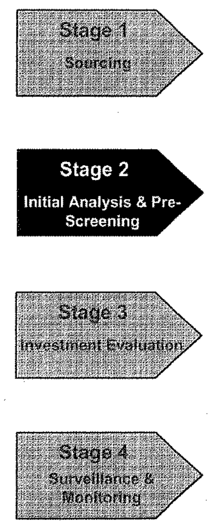
Greywolf Investment Process

GREYWOLF CAPITAL



STAGE II: Initial Analysis & Pre-Screening (cont.)

- At this stage, the objective is to identify and exclude transactions that contain potentially adverse features, including:
  - higher risk, lower quality portfolios (examples include portfolios containing exposures to weaker RMBS vintages, programs or transactions; lower-rated collateral; "off-the-run" assets; more concentrated portfolios)
  - weaker structures (examples include structures with low OC or excess spread; tight cash flow or compliance triggers; short non-call periods; large "other asset" buckets; high fees and expenses)
  - inexperienced or under-performing managers (Greywolf favors experienced managers who have demonstrated a commitment to the CDO business, have an established market reputation and franchise and who invest in their deals)

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Greywolf Investment Process

GREYWOLF CAPITAL

Stage 1
Sourcing

Stage 2
Initial Analysis & Pre-Screening

Stage 3
Investment Evaluation

Stage 4
Surveillance & Monitoring

STAGE III: Investment Evaluation

- If a CDO investment passes the initial screening process, a more detailed credit-driven analysis is then prepared and discussed with the portfolio managers
- At this stage, there are two primary aspects to Greywolf's analysis:
  - a more in-depth focus on the primary elements of Greywolf's initial analysis (namely, underlying portfolio composition and credit quality, transaction structure and manager),
  - an additional analysis of the projected performance of the potential investment with an emphasis on downside risk and an objective of zero loss for CDO debt investments
- This additional component focuses on stress scenario and breakeven analysis tailored to the underlying portfolio composition and transaction structure
- Finally, the impact of the proposed investment on the existing portfolio is analyzed to ensure appropriate diversification across the resulting portfolio
- Greywolf follows an investment evaluation process that emphasizes rigorous discussion, perhaps best characterized as a multi-sided debate, over a formalized multi-stage approval process

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Greywolf Investment Process

GREYWOLF CAPITAL

Stage 1
Sourcing

Stage 2
Initial Analysis & Pre-Screening

Stage 3
Investment Evaluation

Stage 4
Surveillance & Monitoring

STAGE IV: Surveillance & Monitoring

- Greywolf conducts a monthly review of each CDO in which it invests with particular emphasis on:
  - changes in the underlying portfolio composition and credit quality
  - performance relative to cash flow and compliance tests
  - diversification across underlying collateral portfolios
  - performance relative to initial projections and scenario analysis
- In addition, existing positions are monitored continually using a variety of other information sources
  - rating agency and sell-side research
  - discussions with market participants, including collateral managers, rating analysts, sell-side research analysts and other investors
  - information and analysis provided in connection with new transactions
- The over-riding objective of Greywolf's surveillance and monitoring activities is to ensure early detection of sub-performing credits in order to maintain cash flow performance and rating stability
- If a position is viewed as sub-performing, Greywolf intends to be disciplined in regard to selling assets, as permitted by the transaction documents, in order to minimize the adverse impact to its investors

GREYWOLF CAPITAL

V. Current Warehouse Portfolio

Note: As of February 6, 2007, the information in this section is preliminary and subject to change.

Current Warehouse Portfolio [1]

GREYWOLF CAPITAL

Name	Current Face	Moody's	S&P	Asset Type	Coupon Type	Avg. Life
ACABS 2005-2A A3	18,551,004	A3	A-	MEZZ SP CDO	synthetic sprd	9.6
ACABS 2006-1A A3L	19,945,014	A2	A	MEZZ SP CDO	synthetic sprd	7.0
ADMSQ 2006-1A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.5
BFCGE 2006-1A A3L	9,926,160	A2	A	MEZZ SP CDO	synthetic sprd	7.0
BFCSL 2006-1A D	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	7.6
CACDO 2006-1A C1	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	7.5
CAMBR 5A B	15,000,000	A3	A-	MEZZ SP CDO	synthetic sprd	7.6
CETUS 2006-1A B	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.7
CETUS 2006-2A B	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.6
CRNMZ 2006-2A C	3,000,000	A2	A	MEZZ SP CDO	LIBOR03M	6.9
CRNMZ 2006-2A C	17,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.5
DGCDO 2006-2A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.2
DUKEF 2006-10A A3	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.8
FORTS 2006-2A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	5.4
FTDRB 2005-1A A3L	15,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.5
GEMST 2005-4A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	5.3
GSCSF 2005-1A A3	10,000,000	A2	A	MEZZ SP CDO	synthetic sprd	5.3
GSCSF 2006-2A D	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	5.3
GSCSF 2006-4A A3	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.9
ICM 2005-2A C	15,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.2
ICM 2006-3A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.7
ICM 2006-S2A A3L	10,000,000	A2	A	MEZZ SP CDO	LIBOR03M	6.0
INDE7 7A D	20,000,000	A3	A-	MEZZ SP CDO	synthetic sprd	5.1
LSTRT 2006-1A D	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.2
MAYF 2006-1A A3L	10,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.4
MNTRS 2006-1A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.8
NEPTN 2006-3A B	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	5.7

[1] As of February 6, 2007. Neither Greywolf nor Goldman Sachs represents or provides that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above.

Current Warehouse Portfolio [1]

GREYWOLF CAPITAL

Name	Current Face	Moody's	S&P	Asset Type	Coupon Type	Avg. Life
PINEM 2005-A C	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	4.1
RIVER 2005-1A C	15,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.0
SCF 8A C	14,782,894	A2	A	MEZZ SP CDO	synthetic sprd	6.0
SMSTR 2005-1A B	10,000,000	A3	A-	MEZZ SP CDO	synthetic sprd	7.1
STAK 2006-1A 5	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	8.0
STAK 2006-2A 5	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	7.0
TABS 2005-4A D	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.7
TABS 2006-5A A3	20,000,000	A2	A	MEZZ SP CDO	LIBOR03M	6.8
TOPG 2005-1A B	15,000,000	A3	A-	MEZZ SP CDO	synthetic sprd	7.5
TOPG 2006-2A B	10,000,000	A2	A	MEZZ SP CDO	LIBOR03M	7.2
TOPG 2006-2A B	5,000,000	A2	A	MEZZ SP CDO	synthetic sprd	7.2
TRNTY 2005-1A B	10,000,000	A3	A-	MEZZ SP CDO	synthetic sprd	9.6
VERT 2006-1A A3	20,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.4
VERT 2006-2A A3	15,000,000	A2	A	MEZZ SP CDO	synthetic sprd	5.8
VRGO 2006-1A A3	15,000,000	A2	A	MEZZ SP CDO	synthetic sprd	6.8
ADROC 2005-2A C	20,000,000	A2	A	HG SP CDO	synthetic sprd	5.3
BLHV 2005-1A C	15,000,000	A2	A	HG SP CDO	synthetic sprd	6.3
DVSQ 2005-5A C	15,000,000	A2	A	HG SP CDO	synthetic sprd	7.9
GRAND 2005-1A C	20,000,000	A2	A	HG SP CDO	synthetic sprd	7.3
LOCH 2006-1A C	12,000,000	A2	A	HG SP CDO	LIBOR01M	6.2
SHERW 2005-2A C	20,000,000	A2	A	HG SP CDO	synthetic sprd	6.0
APID 2006-QA C	8,000,000	A2	A	CLO	LIBOR03M	11.0
DUANE 2006-3A C	5,000,000	A2	A	CLO	LIBOR03M	10.8
JERSY 2006-1A C	10,250,000	A2	A	CLO	LIBOR03M	7.7
LOOM 2006-1A C	10,000,000	A2	A	CLO	LIBOR03M	11.0
SHINN 2006-1A C	14,000,000	A2	A	CLO	LIBOR03M	9.2
ABAC 2006-HG1A C	6,000,000	A2	A	CDO^2	LIBOR01M	6.8
ABAC 2006-HG1A D	9,000,000	A3	A-	CDO^2	LIBOR01M	6.8

[1] As of February 6, 2007. Neither Greywolf nor Goldman Sachs represents or provides that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above.

GREYWOLF CAPITAL

Appendix A – Greywolf Capital Management LP Biographies

Note: All information in this section has been provided by Greywolf.

Greywolf Capital Management LP
Team Biographies: Structured Products Team

- **Gregory Mount, *Partner*:** Mr. Mount joined Greywolf in September 2005 as a Partner and is responsible for structured product investments. Prior to joining Greywolf, Mr. Mount worked at Goldman Sachs for 9 years from which he retired as a Partner of the firm in 2005. Mr. Mount founded Goldman's CDO business in 1996 and later held numerous senior positions in credit derivatives and structured products, including co-head of the Structured Products Group, which consisted of the CMBS, RMBS, ABS and CDO businesses and head of Portfolio Credit Derivatives which encompassed cash and synthetic CDOs. Mr. Mount also initiated Goldman's proprietary CDO investment activity in 2003 and was the primary decision-maker for that portfolio at its inception. Mr. Mount received a B.S. in Electrical Engineering from M.I.T. in 1987, and an M.B.A., with high honors, from The University of Chicago Graduate School of Business in 1992.

- **Joe Marconi, *Vice President*:** Mr. Marconi joined Greywolf in April 2006 and is responsible for structured product investments. Prior to joining Greywolf, Mr. Marconi was a Managing Director in the Structured Products Group at Goldman Sachs where he was co-head of ABS Finance and a member of the Mortgage Capital Committee (which is responsible for approving capital commitments across the CMBS, RMBS, ABS and CDO businesses). Mr. Marconi joined Goldman Sachs in 1993 and became a Managing Director in 2003. Prior to joining Goldman Sachs, from 1984 to 1993, Mr. Marconi was an attorney with Cravath, Swaine & Moore in New York and London. Mr. Marconi received a B.A. in Economics, *summa cum laude*, from Columbia College in 1983 and was elected to *Phi Beta Kappa*. Mr. Marconi also received a J.D. from Columbia Law School in 1984 and was a Harlan Fiske Stone Scholar each of his three years.

Greywolf Capital Management LP
Team Biographies: Structured Products Team

- **Sergey Pekarsky, *Research Associate:*** Mr. Pekarsky joined Greywolf in May 2006 and specializes in quantitative analysis, structured products and derivative securities. Prior to joining Greywolf, Mr. Pekarsky was a Vice President in the Structured Products Group of IXIS Financial Guaranty ("IXIS") in New York. Mr. Pekarsky began his career in 1998, as a Visiting Research Assistant at Los Alamo National Laboratory working on weather models. In July 2000, he was employed as a Postdoctoral Scholar at California Institute of Technology ("Cal Tech"). Mr. Pekarsky joined Moody's Investors Service in 2001 as an Analyst in the Structured Finance, ABS & Credit Derivatives Group. Mr. Pekarsky graduated in 1992 with a Bachelor/Master of Science degree in Physics, *cum laude*, from Tomsk State University, Tomsk, Russia. Mr. Pekarsky also received a Master of Science in Applied Mathematics in 1996 from Weizmann Institute of Science, Rehovot, Israel, and a Ph.D. in Control and Dynamic Systems from Cal Tech in 2000.

- **Sam Spackman, *Research Associate:*** Mr. Spackman joined Greywolf in January 2006 and specializes in CDO investments and structured products. Prior to joining Greywolf, Mr. Spackman was a Vice President in the Structured Credit Trading group at Rabobank for four years. At Rabobank, he was primarily responsible for sourcing and modeling ABS and CDO purchases in the primary and secondary markets for the various portfolios managed by the Structured Credit group. In addition, Mr. Spackman also evaluated prospective structures to be managed by the group, assisted in structuring and marketing transactions for the group, and served as portfolio manager for two CDO^2s. Prior to joining Rabobank, Mr. Spackman worked in Global Securitization at Citigroup for six years. Mr. Spackman received a B.A. from Vassar College in 1992.

Greywolf Capital Management LP
Team Biographies: Greywolf Partners

The following are biographies for the other Greywolf Partners

- **Jonathan Savitz, *Partner*:** Mr. Savitz co-founded Greywolf in February 2003 and is the Firm's Chief Executive Officer and the Funds' Chief Investment Officer. Prior to co-founding Greywolf, Mr. Savitz worked at Goldman Sachs for over 15 years from which he retired as a Partner of the firm in 2002. From 1998 – 2002, Mr. Savitz led Goldman's global distressed trading, sales and research effort and was a primary decision maker and risk manager in Goldman's proprietary investing activities across the fixed income markets. From 1995 - 1998, Mr. Savitz managed the high yield trading desk and prior thereto held positions in distressed proprietary investing and corporate bond trading. Mr. Savitz joined Goldman in 1987 after graduating with a B.A., with honors, from The Johns Hopkins University.

- **James Gillespie, *Partner:*** Mr. Gillespie is a co-founder of Greywolf and is a Portfolio Manager of the Special Situations Funds. Prior to founding Greywolf, Mr. Gillespie worked at Goldman Sachs for six years. Mr. Gillespie was head of Distressed Bond Investing where he ran Goldman's proprietary distressed bond portfolio on the trading desk. Prior thereto, Mr. Gillespie was director of distressed bond research after having been a distressed analyst for Goldman's bank loan and bond desks. Mr. Gillespie has significant experience in analyzing, valuing and investing in distressed securities as well as managing a large portfolio of distressed investments. He also has experience actively participating in the workout process as both a committee member and large creditor. Prior to Goldman, Mr. Gillespie worked at Salomon Brothers in high yield capital markets. Mr. Gillespie received a Bachelor of Commerce degree, with honors, from the University of British Columbia in 1995 and is a Leslie Wong Fellow. Mr. Gillespie is a CFA charterholder.

Greywolf Capital Management LP

Team Biographies: Greywolf Partners

- **Robert Miller, *Partner*:** Mr. Miller is a co-founder of Greywolf and a Portfolio Manager for the Greywolf High Yield Funds. Prior to founding Greywolf, Mr. Miller worked at Goldman Sachs for 10 years and ran Goldman's high yield trading desks in New York and London from 1998 – 2000. After retiring from Goldman, Mr. Miller was retained by the firm for almost two years as a consultant on electronic bond trading platforms. Prior to heading the high yield trading desk, Mr. Miller was a high yield and corporate bond trader for Goldman and prior thereto was a credit analyst for PNC Bank. During his career, Mr. Miller has traded and analyzed most major industry sectors and held proprietary positions in straight debt, common and preferred stock, futures, convertibles, trust preferred, and credit derivatives. Mr. Miller received a B.A. *magna cum laude* from Franklin and Marshall College in 1983 and an M.B.A., with honors, from UNC-Chapel Hill in 1989.

- **Cevdet Samikoglu, *Partner*:** Mr. Samikoglu is a co-founder of Greywolf and a Portfolio Manager of the Special Situations Funds. Prior to founding Greywolf, Mr. Samikoglu worked at Goldman Sachs for ten years where he was one of three portfolio managers in the Special Situations Investing Group, a Goldman Sachs' proprietary internal hedge fund. Prior to assuming his portfolio management role in 2000, Mr. Samikoglu held numerous positions in distressed investing at Goldman including director of research in both the US and Europe. Mr. Samikoglu joined Goldman in 1992 as a corporate finance generalist before moving to the distressed investing business as a credit analyst in 1998 after returning from business school. Mr. Samikoglu has extensive experience investing in all layers of levered capital structures both on the long and short side and, at times, participating actively in steering and creditors' committees. Mr. Samikoglu received a B.A. *cum laude* from Hamilton College in 1992 and an M.B.A. from Harvard Business School in 1997.

Greywolf Capital Management LP

Team Biographies: Greywolf Partners

GREYWOLF CAPITAL

- **William Troy,** ***Partner*****:** Mr. Troy is a co-founder of Greywolf and a Portfolio Manager of the High Yield Funds, as well has having responsibility for firmwide risk management. Prior to founding Greywolf, Mr. Troy was the key manager for JP Morgan's High Yield business, which he joined following the merger of Smith Barney with Salomon Brothers. At JP Morgan, Mr. Troy was a member of the Senior Trader's Committee, the Underwriting Committee, the Risk Committee and the Credit Committee. Prior to JP Morgan, Mr. Troy joined Smith Barney in 1996 as a Managing Director to co-head the High Yield business, overseeing sales, trading, research and syndicate. Prior to Smith Barney, Mr. Troy joined Goldman Sachs in 1986 as a senior corporate bond trader where he was responsible for risk taking activities with a further mandate to expand the business and develop new trading personnel. He was later asked to join the High Yield department in 1991 as the senior trader. Prior to Goldman Sachs, Mr. Troy joined Salomon Brothers in 1978 as a manager for the international business in cashiering operations and subsequently as a trader on the corporate bond trading desk. Mr. Troy began his 37-year Wall Street career in 1969 at Dean Witter.

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GREYWOLF CAPITAL

Appendix B – Goldman Sachs Contact Information

Timberwolf Team

GREYWOLF CAPITAL

Goldman, Sachs & Co. – Structuring and Placement Agent

Structured Product CDOs – Structuring, Marketing, and Principal Investments

Peter Ostrem, Managing Director	(212) 357-4617
Matt Bieber, Vice President	(212) 357-9193
Connie Kang, Associate	(212) 902-1376
Roman Shimonov, Associate	(212) 902-6964
Eric Siegel, Analyst	(212) 357-9753

Syndication

Bunty Bohra, Managing Director	(212) 902-7645
Scott Wisenbaker, Vice President	(212) 902-2858
Omar Chaudhary, Vice President	+81 (3) 6437-7198
Mitchell Resnick, Executive Director	+44 (20) 7774-3068
Tetsuya Ishikawa, Associate	+44 (20) 7774-1025

Timberwolf I, Ltd.- Closing Portfolio

No securities are being offered by these summary materials. If the securities described herein or other securities are ultimately offered, they will be offered only pursuant to a definitive Offering Circular, and prospective investors who consider purchasing any such securities should make their investment decisions based only upon the information provided therein (including the "Risk Factors" section contained therein) and consultation with their own advisers. This material is for your private information and we are not soliciting any action based upon it. This material is not to be construed as an offer to sell or the solicitation of any offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This material is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. By accepting this material the recipient agrees that it will not distribute or provide the material to any other person. The information contained in this material may not pertain to any securities that will actually be sold. The information contained in this material may be based on assumptions regarding market conditions and other matters as reflected therein. We make no representations regarding the reasonableness of such assumptions or the likelihood that any of such assumptions will coincide with actual market conditions or events, and this material should not be relied upon for such purposes. We and our affiliates, officers, directors, partners and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities mentioned therein or derivatives thereof (including options). Information contained in this material is current as of the date appearing on this material only. Information in this material regarding any assets backing any securities discussed herein supersedes all prior information regarding such assets. All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in any final Offering Circular for any securities actually sold to you. Goldman Sachs does not provide accounting, tax or legal advice. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits expected to be claimed with respect to such transactions, and all materials of any kind (including tax opinions and other tax analyses) relating to those benefits, without Goldman Sachs imposing limitation of any kind.

Permanent Subcommittee on Investigations
EXHIBIT #99b

CUSIP	Name	Currency	Original Face	Factor	Current Face	Moody's	S&P	Fitch	Coupon Index	Avg Life	Asset Type
53959PAD6	LOCH 2006-1A C	USD	12,000,000	1.000	12,000,000	A2	A	-	LIBOR01M	6.2	HG SP CDO
86565MAD9	SMSTR 2005-1A B	USD	10,000,000	1.000	10,000,000	A3	A-	A-	synthetic sprd	7.1	MEZZ SP CDO
87337WAD2	TABS 2006-5A A3	USD	20,000,000	1.000	20,000,000	A2	A	-	LIBOR01M	6.8	MEZZ SP CDO
89053XAE6	TOPG 2005-1A B	USD	15,000,000	1.000	15,000,000	A3	A-	-	synthetic sprd	7.5	MEZZ SP CDO
92534FAD0	VRGO 2006-1A A3	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	6.8	MEZZ SP CDO
00082NAE0	ACABS 2005-2A A3	USD	20,000,000	0.912	18,240,508	A3	A-	-	synthetic sprd	9.6	MEZZ SP CDO
26441NAD3	DUKEF 2006-10A A3	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	6.8	MEZZ SP CDO
3622X4AH6	GSCSF 2006-2A D	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	5.3	MEZZ SP CDO
36868BAE0	GEMST 2005-4A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	5.3	MEZZ SP CDO
722694AD8	PINEM 2005-A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	4.1	MEZZ SP CDO
768277AD7	RIVER 2005-1A C	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	6.0	MEZZ SP CDO
85233TAD8	STAK 2006-1A 5	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	8.0	MEZZ SP CDO
925345AE0	VERT 2006-1A A3	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	6.4	MEZZ SP CDO
239156AD4	DVSQ 2005-5A C	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	7.9	HG SP CDO
13189LAD1	CAMBR 5A B	USD	15,000,000	1.000	15,000,000	A3	A-	-	synthetic sprd	7.6	MEZZ SP CDO
12777CAE9	CRNMZ 2006-2A C	USD	3,000,000	1.000	3,000,000	A2	A	-	LIBOR03M	6.9	MEZZ SP CDO
078451AD3	BLHV 2005-1A C	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	6.3	HG SP CDO

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347199AC5	FTDRB 2005-1A A3L	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	6.5	MEZZ SP CDO
46426RAE9	ICM 2005-2A C	USD	15,000,000	1.000	15,000,000	A2	A	A	synthetic sprd	6.2	MEZZ SP CDO
83743LAJ0	SCF 8A C	USD	15,000,000	0.986	14,782,894	A2	A	-	synthetic sprd	6.0	MEZZ SP CDO
002561AD0	ABAC 2006-HG1A C	USD	6,000,000	1.000	6,000,000	A2	A	-	LIBOR01M	6.8	CDO^2
002561AE8	ABAC 2006-HG1A D	USD	9,000,000	1.000	9,000,000	A3	A-	-	LIBOR01M	6.8	CDO^2
89054BAE3	TOPG 2006-2A B	USD	10,000,000	1.000	10,000,000	A2	A	-	LIBOR01M	7.2	MEZZ SP CDO
12777CAE9	CRNMZ 2006-2A C	USD	17,000,000	1.000	17,000,000	A2	A	-	synthetic sprd	6.5	MEZZ SP CDO
34957YAE7	FORTS 2006-2A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	5.4	MEZZ SP CDO
46426XAE6	ICM 2006-3A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.7	MEZZ SP CDO
00082WAD2	ACABS 2006-1A A3L	USD	20,000,000	0.997	19,939,607	A2	A	-	synthetic sprd	7.0	MEZZ SP CDO
142146AE9	CACDO 2006-1A C1	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	7.5	MEZZ SP CDO
362479AD9	GSCSF 2006-4A A3	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	6.9	MEZZ SP CDO
45377MAL5	INDE7 7A D	USD	20,000,000	1.000	20,000,000	A3	A-	A-	synthetic sprd	5.1	MEZZ SP CDO
543175AJ2	LSTRT 2006-1A D	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.2	MEZZ SP CDO
87337UAD6	TABS 2005-4A D	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.7	MEZZ SP CDO
08861KAC0	BFCSL 2006-1A D	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	7.6	MEZZ SP CDO
46426YAC8	ICM 2006-S2A A3L	USD	10,000,000	1.000	10,000,000	A2	A	-	LIBOR03M	6.0	MEZZ SP CDO
82437XAD0	SHERW 2005-2A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.0	HG SP CDO
007022AD8	ADROC 2005-2A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	5.3	HG SP CDO
38521PAE4	GRAND 2005-1A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	7.3	HG SP CDO
85234AAG1	STAK 2006-2A 5	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	7.0	MEZZ SP CDO
64069PAJ7	NEPTN 2006-3A B	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	5.7	MEZZ SP CDO
25454XAD7	DGCDO 2006-2A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.2	MEZZ SP CDO
006368AC8	ADMSQ 2006-1A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.5	MEZZ SP CDO
615120AE2	MNTRS 2006-1A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.8	MEZZ SP CDO
157197AC8	CETUS 2006-1A B	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.7	MEZZ SP CDO
15719MAC5	CETUS 2006-2A B	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.6	MEZZ SP CDO
3622X0AC5	GSCSF 2006-1A B	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	6.4	HG SP CDO
553129AD9	MKP 6A C	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.6	MEZZ SP CDO
82442VAD7	SHERW 2006-3A A3	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.6	MEZZ SP CDO
74732AAD9	PYXIS 2006-1A C	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	6.8	MEZZ SP CDO
37638NAD3	GLCR 2006-4A C	USD	10,000,000	0.994	9,936,305	A2	A	-	synthetic sprd	4.8	MEZZ SP CDO
578325AD4	MAYF 2006-1A A3L	USD	20,000,000	1.000	20,000,000	A2	A	-	synthetic sprd	6.4	MEZZ SP CDO
89643PAD2	TRNTY 2005-1A B	USD	20,000,000	1.000	20,000,000	A3	A-	-	synthetic sprd	8.8	MEZZ SP CDO
89054BAE3	TOPG 2006-2A B	USD	10,000,000	1.000	10,000,000	A2	A	-	synthetic sprd	7.2	MEZZ SP CDO
23910VAH5	DVSQ 2006-6A C	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	8.2	HG SP CDO
362470AC0	GSCSF 2005-1A A3	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	5.3	MEZZ SP CDO
05539MAD2	BFCGE 2006-1A A3L	USD	20,000,000	0.993	19,852,320	A2	A	-	synthetic sprd	7.0	MEZZ SP CDO
13189BAF8	CAMBR 7A C	USD	20,248,366	1.000	20,248,366	A2	A	-	synthetic sprd	7.6	MEZZ SP CDO
12776YAD4	CRNMZ 2006-1A 5	USD	15,000,000	1.000	15,000,000	A2	A	-	synthetic sprd	7.2	MEZZ SP CDO
925338AD7	VERT 2006-2A A3	USD	20,000,000	1.000	20,000,000	A2	A	A	synthetic sprd	4.1	MEZZ SP CDO

GS MBS-E-001991482

From: Karp, Lauren
Sent: Thursday, March 29, 2007 6:31 AM
To: Bieber, Matthew G.
Subject: timberwolf

Matt,
Where did the single A's trade?
Weren't there 36 mm?

From: GS Syndicate
Sent: Wednesday, March 28, 2007 3:21 PM
To: 'T-Mail Subscribers'
Subject: GS Syndicate Structured Product CDO Axes (INTERNAL) [T-Mail]

INTERNAL ONLY

GREAT JOB CACTUS RAAZI TRADING US OUT OF OUR ENTIRE TIMBERWOLF SINGLE-A POSITION -- $16MM.

SALES - GOOD JOB OVER THE LAST TWO WEEKS MOVING OVER $66MM OF RISK OFF THE AXE SHEET. PLEASE STAY FOCUSED ON TRADING THESE AXES.

Tranche	Deal	Bloomberg ticker	Manager // Surveillance / Liquidation Agent	Class	Mdys	S&P	Deal Type
SS AAA	Anderson Mezz Funding	TBD	Goldman Sachs	A-1a	Aaa	AAA	Mezz
	Anderson Mezz Funding	TBD	Goldman Sachs	A-1b	Aaa	AAA	Mezz
Mezz AAA	Timberwolf I	TBD	Greywolf Capital	A2	Aaa	AAA	Single-A, CDO^2
	Fortius II	FORTS 2006-2A	Aladdin Capital	A2	Aaa	AAA	Mezz
	Davis Square VII	DVSQ 2006-7A	TCW	A3	Aaa	AAA	High Grade
AA-Rated	Timberwolf I	TBD	Greywolf Capital	B	Aa2	AA	Single-A, CDO^2
	Anderson Mezz Funding	TBD	Goldman Sachs	B	Aa2	AA	Mezz
	Lochsong	LOCH 2006-1A	Winchester Capital	B	Aa2	AA	Single-A
	Fortius II	FORTS 2006-2A	Aladdin Capital	B	Aa2	AA	Mezz
	Fort Denison	FORTD 2007-1A	Basis Capital	B	Aa2	AA	Mezz
A-Rated	Anderson Mezz Funding	TBD	Goldman Sachs	C	A2	A	Mezz
	GSC ABS CDO 2006-3g	GSCSF 2006-3GA	GSC	C	A2	A	High Grade
	Altius I	ALTS 2005-1A	Aladdin Capital	C	A2	A	High Grade
	Davis Square VII	DVSQ 2006-7A	TCW	C	A2	A	High Grade

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	Coolidge	COOL 2005-1A	Allianz Risk Transfer	C	A3	A-	Mezz
BBB-Rated	Davis Square VII	DVSQ 2006-7A	TCW	D	Baa2	BBB	High Grade
	GSC ABS CDO 2006-3g	GSCSF 2006-3GA	GSC	D	Baa2	BBB	High Grade
	Lochsong	LOCH 2006-1A	Winchester Capital	D	Baa2	BBB	Single-A
	Altius III	ALTS 2006-3A	Aladdin Capital	D	Baa2	BBB	High Grade
	Adirondack 2005-2	ADROC 2005-2A	Clinton Group	D	Baa2	BBB	High Grade
	Hout Bay	HOUT 2006-1A	Investec	D	Baa2	BBB	High Grade
	Hudson High Grade	HUDHG 2006-1A	Goldman Sachs	D	Baa2	BBB	High Grade
BB-Rated	Camber 7	CAMBR 7A	Cambridge Place	E	Ba1	BB+	Mezz

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From: Sparks, Daniel L
Sent: Wednesday, April 11, 2007 10:39 AM
To: Aliredha, Yusuf; Cornacchia, Thomas; Bash-Polley, Stacy; Schwartz, Harvey; Kengeter, Carsten; Younan, Wassim
Subject: FW: GS Syndicate Structured Product CDO Axes (INTERNAL)

Your focus on this ax would be very helpful - we are trying to clean up deals and this is our priority.

From: Wisenbaker, Scott
Sent: Wednesday, April 11, 2007 10:15 AM
To: Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Recktenwald, Sara; Madoff, Paula; McArdle, Rich F.X.; Pinkos, Steve; Radtke, Lorin; LoBue, Lindsay; Davilman, Andrew; Ricciardi, Steven; Raz, Shlomi; Bhavsar, Avanish R; Mather, Blake; Incorvaia, Rob; Meltzer, Jonathan M (FICC); Waldman, Fred
Cc: Sparks, Daniel L; ficc-spgsyn
Subject: FW: GS Syndicate Structured Product CDO Axes (INTERNAL)

Sales Management,

We are very axed to move the Timberwolf mezz AAA and AA classes (details listed below). This deal is a single A SP CDO^2 managed by Greywolf Capital.

We have 305mm of the mezz AAA and 107mm of the AA's to sell. We have been offering these at wide levels vs where we have sold similarly rated SP CDO risk, but have had limited traction so far. We need levels from accounts that will move this risk. We are planning to pay in the context of $20/bond

Please focus your sales teams on these positions. Thank you for your help getting these bonds sold.

From: GS Syndicate
Sent: Wednesday, April 11, 2007 8:21 AM
To: ficc-tmail-prod; ficc-nasales
Subject: GS Syndicate Structured Product CDO Axes (INTERNAL)

INTERNAL ONLY

SALES - PLEASE CONTINUE TO FOCUS ON THE AXES BELOW - THEY REMAIN A HIGH PRIOIRTY FOR THE DESK

Tranche	Deal	Bloomberg ticker	Manager // Surveillance / Liquidation Agent	Class	Mdys	S&P	Deal Type
SS AAA	Anderson Mezz Funding	TBD	Goldman Sachs	A 1a	Aaa	AAA	Mezz
	Anderson Mezz Funding	TBD	Goldman Sachs	A-1b	Aaa	AAA	Mezz
Mezz AAA	Timberwolf I	TBD	Greywolf Capital	A2	Aaa	AAA	Single-A, CD
	Fortius II	FORTS 2006-2A	Aladdin Capital	A2	Aaa	AAA	Mezz
	Davis Square VII	DVSQ 2006-7A	TCW	A3	Aaa	AAA	High Grade
AA-Rated	Timberwolf I	TBD	Greywolf Capital	B	Aa2	AA	Single-A, CD
	Anderson Mezz Funding	TBD	Goldman Sachs	B	Aa2	AA	Mezz
	Fortius II	FORTS 2006-2A	Aladdin Capital	B	Aa2	AA	Mezz
	Fort Denison	FORTD 2007-1A	Basis Capital	B	Aa2	AA	Mezz
A-Rated	Anderson Mezz Funding	TBD	Goldman Sachs	C	A2	A	Mezz
	GSC ABS CDO 2006-3g	GSCSF 2006-3GA	GSC	C	A2	A	High Grade
	Altius I	ALTS 2005-1A	Aladdin Capital	C	A2	A	High Grade

Permanent Subcommittee on Investigations
EXHIBIT #101

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	Davis Square VII	DVSQ 2006-7A	TCW	C	A2	A	High Grade
	Coolidge	COOL 2005-1A	Allianz Risk Transfer	C	A3	A-	Mezz
	Altius II	ALTS 2005-2A	Aladdin Capital	C	A2	A	High Grade
BBB-Rated	Davis Square VII	DVSQ 2006-7A	TCW	D	Baa2	BBB	High Grade
	GSC ABS CDO 2006 3g	GSCSF 2006 3GA	GSC	D	Baa2	BBB	High Grade
	Lochsong	LOCH 2006-1A	Winchester Capital	D	Baa2	BBB	Single-A
	Altius III	ALTS 2006-3A	Aladdin Capital	D	Baa2	BBB	High Grade
	Adirondack 2005-2	ADROC 2005-2A	Clinton Group	D	Baa2	BBB	High Grade
	Hout Bay	HOUT 2006-1A	Investec	D	Baa2	BBB	High Grade
	Hudson High Grade	HUDHG 2006-1A	Goldman Sachs	D	Baa2	BBB	High Grade
	Altius II	ALTS 2005-2A	Aladdin Capital	D	Baa2	BBB	High Grade
BB-Rated	Camber 7	CAMBR 7A	Cambridge Place	E	Ba1	BB+	Mezz

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From: Bohra, Bunty
Sent: Thursday, April 19, 2007 11:09 AM
To: Sparks, Daniel L
Subject: RE: *UPDATE* GS Syndicate Structured Product CDO Axes (INTERNAL) [T-Mail]

We have done that with timberwolf already. Don't want to roll out any other focus axes until we get some traction there but at same time, don't want to stop showing the inventory. Do you disagree?

From: Sparks, Daniel L
Sent: Thursday, April 19, 2007 11:05 AM
To: Bohra, Bunty
Subject: FW: *UPDATE* GS Syndicate Structured Product CDO Axes (INTERNAL) [T-Mail]

Why don't we go one at a time with some ginormous credits - for example, let's double the current offering of credits for timberwolf

From: GS Syndicate
Sent: Thursday, April 19, 2007 10:29 AM
To: 'T-Mail Subscribers'
Subject: *UPDATE* GS Syndicate Structured Product CDO Axes (INTERNAL) [T-Mail]

INTERNAL ONLY

SALES - WE HAVE UPDATED OFFERING LEVELS FOR MANY OF THE POSITIONS ON OUR RESIDUAL AXE LIST. PLEASE CALL THE DESK FOR UPDATES ON POSITIONS THAT YOUR ACCOUNTS ARE FOCUSED ON.

Bloomberg ticker	Tranche	Deal	Manager // Surveillance / Liquidation Agent	Class	Mdy:
ANDY 07-1A A1A	SS AAA	Anderson Mezz Funding	Goldman Sachs	A-1a	Aaa
ANDY 07-1A A1B	SS AAA	Anderson Mezz Funding	Goldman Sachs	A-1b	Aaa
PTPLS 07-1A A1	Mezz AAA	Point Pleasant 2007-1	Dillon Read	A-1	Aaa
TWOLF 07-1A A2	Mezz AAA	Timberwolf I	Greywolf Capital	A2	Aaa
PTPLS 07-1A A2	Mezz AAA	Point Pleasant 2007-1	Dillon Read	A2	Aaa
FORTS 06-2A A2	Mezz AAA	Fortius II	Aladdin Capital	A2	Aaa
DVSQ 06-7A A3	Mezz AAA	Davis Square VII	TCW	A3	Aaa
TWOLF 07-1A B	AA-Rated	Timberwolf I	Greywolf Capital	B	Aa2
PTPLS 07-1A B	AA-Rated	Point Pleasant 2007-1	Dillon Read	B	Aa2
ANDY 07-1A B	AA-Rated	Anderson Mezz Funding	Goldman Sachs	B	Aa2
FORTS 06-2A B	AA-Rated	Fortius II	Aladdin Capital	B	Aa2
FORTD 07-1A B	AA-Rated	Fort Denison	Basis Capital	B	Aa2
PTPLS 07-1A C	A-Rated	Point Pleasant 2007-1	Dillon Read	C	A2
ANDY 07-1A C	A-Rated	Anderson Mezz Funding	Goldman Sachs	C	A2
GSCSF 06-3GA C	A-Rated	GSC ABS CDO 2006-3g	GSC	C	A2
ALTS 05-1A C	A-Rated	Altius I	Aladdin Capital	C	A2
DVSQ 06-7A C	A-Rated	Davis Square VII	TCW	C	A2
COOL 05-1A C	A-Rated	Coolidge	Allianz Risk Transfer	C	A3
ALTS 05-2A C	A-Rated	Altius II	Aladdin Capital	C	A2

Permanent Subcommittee on Investigations
EXHIBIT #102

Confidential Treatment Requested by Goldma GS MBS-E-01053932

PTPLS 07-1A D	BBB-Rated	Point Pleasant 2007-1	Dillon Read	D	Baa:
DVSQ 06-7A D	BBB-Rated	Davis Square VII	TCW	D	Baa:
GSCSF 06-3GA D	BBB-Rated	GSC ABS CDO 2006-3g	GSC	D	Baa:
LOCH 06-1A D	BBB-Rated	Lochsong	Winchester Capital	D	Baa:
ALTS 06-3A D	BBB-Rated	Altius III	Aladdin Capital	D	Baa:
ADROC 05-2A D	BBB-Rated	Adirondack 2005-2	Clinton Group	D	Baa:
HOUT 06-1A D	BBB-Rated	Hout Bay	Investec	D	Baa:
HUDHG 06-1A D	BBB-Rated	Hudson High Grade	Goldman Sachs	D	Baa:
ALTS 05-2A D	BBB-Rated	Altius II	Aladdin Capital	D	Baa:
CAMBR 7A E	BB-Rated	Camber 7	Cambridge Place	E	Ba1
ARE3R 2007-1A A2	AAA-rated	Ares IIIR/IVR CLO LTD.	Ares	A2	AAA

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From: Schwartz, Harvey
Sent: Friday, May 11, 2007 7:12 PM
To: Mullen, Donald; Montag, Tom; Sparks, Daniel L
Subject: Re: Lester Called

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Yes. Completely agree.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Mullen, Donald
To: Montag, Tom; Sparks, Daniel L; Schwartz, Harvey
Sent: Fri May 11 19:07:59 2007
Subject: Re: Lester Called

Agreed we just need to make sure the proper communication occurs w clients. And we have thought thru post sale pricing.

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L; Schwartz, Harvey; Mullen, Donald
Sent: Fri May 11 19:01:29 2007
Subject: Re: Lester Called

Of course we should but this is how we find value by showing assets and seeing where bid comes. If [redacted] can value bad debt from [redacted] they can do this. They don't look to us for guidance they pay what they think its worth. Is there a different issue? We will value where the market shows us it is if we find a bid won't we?

----- Original Message -----
From: Sparks, Daniel L
To: Schwartz, Harvey; Mullen, Donald
Cc: Montag, Tom
Sent: Fri May 11 18:47:57 2007
Subject: Re: Lester Called

Sounds fine

----- Original Message -----
From: Schwartz, Harvey
To: Mullen, Donald; Sparks, Daniel L
Cc: Montag, Tom
Sent: Fri May 11 18:16:38 2007
Subject: Re: Lester Called

Don't think we should slow or delay and discussions. However we need to huddle quickly before hitting bids I think.

Is that not an option?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Mullen, Donald
To: Sparks, Daniel L

Permanent Subcommittee on Investigations
EXHIBIT #103

Cc: Montag, Tom; Schwartz, Harvey
Sent: Fri May 11 17:46:13 2007
Subject: Re: Lester Called

I doubt they will sell over weekend. And harvey is concerned about the representations we may be making to clients as well as how we will price assets once we sell them to clients. I think we need to sort these things out before we make sales.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald
Sent: Fri May 11 17:25:33 2007
Subject: FW: Lester Called

There are some people working on Timberwolf - [redacted] is continuing to work, [redacted] sales person feels there is a decent chance (but it will be a week out as they are traveling). Also, Cornac team working on it. If we get strong bids, can't we hit them?

From: Lehman, David A.
Sent: Friday, May 11, 2007 4:58 PM
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh
Subject: Lester Called

He wants to us to talk with him or Mullen before we sell any of our retained positions

I posted Ben and Bieber

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85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com
Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

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From: Lehman, David A.
Sent: Thursday, June 07, 2007 7:26 AM
To: Sparks, Daniel L; Chaudhary, Omar; Bohra, Bunty
Cc: Lee, Jay
Subject: Re: TWOLF / Korea (internal only)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Yes - go for it

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Sparks, Daniel L
To: Chaudhary, Omar; Lehman, David A.; Bohra, Bunty
Cc: Lee, Jay
Sent: Thu Jun 07 07:07:06 2007
Subject: Re: TWOLF / Korea (internal only)

Get 'er done

----- Original Message -----
From: Chaudhary, Omar
To: Lehman, David A.; Bohra, Bunty; Sparks, Daniel L
Cc: Lee, Jay
Sent: Thu Jun 07 04:39:28 2007
Subject: TWOLF / Korea (internal only)

David:

Jay and I spoke to the head of Korea Sales today. He said that he feels like he can push for [redacted] to increase their size from the 36mm of AAA's and wanted to see if we would pay more GC's if he got it done. Told him that if we sell ~45-50mm+ that we would honor the 7.0% even if we trade at 84.5 dollar px (the expected price relative to the client). Trust you will support this as we are pushing on our personal relationships to get this done.

Permanent Subcommittee on Investigations
EXHIBIT #104

From: Montag, Tom
Sent: Friday, June 22, 2007 4:32 PM
To: Sparks, Daniel L
Subject: RE: Few trade posts

[redacted] = Redacted by the Permanent Subcommittee on Investigations

boy that timeberwof was one shitty deal

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, June 22, 2007 4:30 PM
To: Montag, Tom
Subject: Re: Few trade posts

Yes - main thing left is 300mm timberwolfs Other large positions were tmts - gone, octan - gone, abacus - we will collapse against short There were some small rmbs positions

I will get you a complete summary with details

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Fri Jun 22 16:22:56 2007
Subject: RE: Few trade posts

can I get complete rundown on everything we bought from [redacted] and whats left?

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, June 22, 2007 3:00 PM
To: Montag, Tom
Subject: Fw: Few trade posts

----- Original Message -----
From: Lehman, David A.
To: Mullen, Donald; Sparks, Daniel L; Brafman, Lester R
Cc: Swenson, Michael; Birnbaum, Josh
Sent: Fri Jun 22 14:28:20 2007
Subject: Few trade posts

Traded $20mm of the OCTAN 06-2 A3A mezz CDO bonds to [redacted] @ $82....we bot these bonds @ $80 from [redacted]...trying to upsize the ticket to 40mm @ $82 which will clean us out...Egol did a great job w/ [redacted] on this one.

Also, we have sold $40mm RMBS A3/A- out of the WH account to [redacted] and another $10mm to [redacted]

Only 40mm RMBS A3/A- remain in the WH accounts, 1/2 of which is Long Beach paper - Edwin/Deeb continue to work.

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e-mail: david.lehman@gs.com

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Sachs

David Lehman

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Permanent Subcommittee on Investigations
EXHIBIT #105

Confidential Treatment Requested by Goldman GS MBS-E-010849103

From: Bieber, Matthew G.
Sent: Monday, September 17, 2007 10:00 PM
To: Creed, Christopher J
Subject: Re: Timberwolf

3/27 - a day that will live in infamy.

----- Original Message -----
From: Creed, Christopher J
To: McHugh, John; Lehman, David A.; Bieber, Matthew G.
Cc: Williams, Geoffrey
Sent: Mon Sep 17 21:57:59 2007
Subject: RE: Timberwolf

Well, the deal didn't exist until 3/27/07... but, here is a basic history of prices for the A2

3/31/07	94-12
4/30/07	87-25
5/31/07	83-16
6/29/07	75-00
7/31/07	30-00
8/31/07	15-00
Current	15-00

Hope this helps,
-c

-----Original Message-----
From: McHugh, John
Sent: Monday, September 17, 2007 9:33 PM
To: Creed, Christopher J; Lehman, David A.; Bieber, Matthew G.
Subject: Re: Timberwolf

Not sure, a class that went from near par in Jan to around 15 now.

----- Original Message -----
From: Creed, Christopher J
To: McHugh, John; Lehman, David A.; Bieber, Matthew G.
Sent: Mon Sep 17 21:25:20 2007
Subject: RE: Timberwolf

which class, exactly?

-----Original Message-----
From: McHugh, John
Sent: Monday, September 17, 2007 9:25 PM
To: Creed, Christopher J; Lehman, David A.; Bieber, Matthew G.
Subject: Fw: Timberwolf

Can you pro-ide?

----- Original Message -----
From: Passingham, Amy
To: McHugh, John
Cc: Kaprelian, Michael; Stern, Matt; Alexander, Lee

Permanent Subcommittee on Investigations
EXHIBIT #106

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Sent: Mon Sep 17 20:59:37 2007
Subject: FW: Timberwolf

Can we pls get the price action on this CDO squared so we can overlay it on the New Century/ American Home stock price graph

-----Original Message-----
From: Montag, Tom
Sent: Monday, September 17, 2007 7:20 PM
To: Brafman, Lester R; Lahey, Brian; Passingham, Amy
Subject:

To the market move slide can we also graph price action of timberwolf equity or some other mortgage product which ha gone from 98 to 15

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Tourre, Fabrice
Sent: Wednesday, December 20, 2006 7:19 AM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Paulson

Remember Paulson doesn't really care abt us placing bbb risk. They are mostly looking at higher rated layers of risk

----
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Wed Dec 20 07:14:13 2006
Subject: Re: Paulson

Guys I think we need to be more mindful of distribution effectiveness if our goal is to place further down. So not sure [redacted] or [redacted] rank highly. We know that if we show us with [redacted] or [redacted] (to name 2) [redacted] is in for 15mm single-As on the wire plus maybe triple-Bs. This does not cannibalize our other distribution because they like those two managers so much. Perhaps we should focus on [redacted] since we have lower chance to do other stuff with them.

----- Original Message -----
From: Tourre, Fabrice
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Wed Dec 20 06:39:28 2006
Subject: RE: Paulson

Am thinking also [redacted], [redacted] [redacted], and... Well, why don't we try [redacted] as well, I think it's a low delta but might be worth trying. Let's brainstorm so that we can identify a couple of managers that:

-- will be ok acting as portfolio selection agent
-- will not need to take risk
-- will be flexible w.r.t. portfolio selection (i.e. ideally we will send them a list of 200 Baa2-rated 2006-vintage RMBS bonds that fit certain criteria, and the portfolio selection agent will select 100 out of the 200 bonds)
-- will be ok working for at most $[750]k p.a. for 3 years, given a $2bn transaction where we distribute CLNs between 9% attach and 35% detach

-----Original Message-----
From: Tourre, Fabrice
Sent: Wednesday, December 20, 2006 11:31 AM
To: ficc-mtgcorr-desk
Subject: RE: Paulson

Agreed. Do we want to talk to [redacted] or [redacted] about this ? Trying to figure out what manager it makes sense to talk to... If you guys are ok, Gerstie and I will flash this idea by [redacted] and/or [redacted] to see if this makes sense

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #107

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Williams, Geoffrey
Sent: Tuesday, December 19, 2006 5:48 PM
To: Tourre, Fabrice; Egol, Jonathan; Gerst, David; ficc-mtgcorr-desk
Subject: RE: Paulson

There are more managers out there than just [redacted]/ [redacted]. The way I look at it, the easiest managers to work with should be used for our own axes. Managers that are a bit more difficult should be used for trades like Paulson given how axed Paulson seems to be (i.e. I'm betting they can give on certain terms and overall portfolio increase).

-----Original Message-----
From: Tourre, Fabrice
Sent: Monday, December 18, 2006 5:30 PM
To: Egol, Jonathan; Williams, Geoffrey; Gerst, David; ficc-mtgcorr-desk
Subject: Re: Paulson

Do you think [redacted] is easier to work with than [redacted] ? They will never agree to the type of names paulson want to use, I don't think [redacted] will be willing to put [redacted]s name at risk for small economics on a weak quality portfolio whose bonds are distributed globally

----
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Williams, Geoffrey; Gerst, David; ficc-mtgcorr-desk
Sent: Mon Dec 18 16:49:15 2006
Subject: Re: Paulson

Guys -- we should be suggesting [redacted]

----- Original Message -----
From: Williams, Geoffrey
To: Gerst, David; ficc-mtgcorr-desk
Sent: Mon Dec 18 12:48:00 2006
Subject: RE: Paulson

We already have a portfolio in front of [redacted] they probably will be willing to structure a short that I believe we would want to keep for ourselves…not sure if this is the best fit.

From: Gerst, David
Sent: Monday, December 18, 2006 12:44 PM
To: Gerst, David; ficc-mtgcorr-desk
Subject: RE: Paulson

Spoke with Fabrice about this - he suggested [redacted]as a potential portfolio selection agent since they are relatively inexpensive and easy to work with.

From: Gerst, David
Sent: Monday, December 18, 2006 9:33 AM
To: ficc-mtgcorr-desk
Subject: Paulson

Paolo called to check in; he was concerned that his comments to the engagement letter had delayed us. I told him that the delay was still related to market conditions and deals in the pipelines and that we still needed to discuss his proposals with legal and rating agencies.

Paolo also suggested that he was open to the use of a manager to select a portfolio and including some higher-rated names in the portfolio.

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e-mail: david.gerst@gs.com

Goldman

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achs

David Gerst
Structured Products Trading

From: Tourre, Fabrice
Sent: Wednesday, January 10, 2007 11:54 AM
To: 'lschwartz@aca.com'
Cc: Gerst, David; Kreitman, Gail; ficc-mtgcorr-desk
Subject: Transaction Summary

Laura: we wanted to summarize ACA's proposed role as "Portfolio Selection Agent" for the transaction that would be sponsored by Paulson (the "Transaction Sponsor"). Feel free to let David and I know if you have any questions.

-- CDO Transaction Size: between $1bn and $2bn notional
-- Reference Portfolio: static, fully identified upfront, and consisting of approx 100 equally-sized mezzanine subprime RMBS names issued between Q4 2005 and today. Starting portfolio would be ideally what the Transaction Sponsor shared, but there is flexibility around the names.
-- Portfolio monitoring required: none
-- Transaction reporting: on a monthly basis, done by trustee (trustee expected to be Lasalle)
-- Portfolio reinvestments required: none
-- Portfolio Selection Agent would be disclosed as having selected the Reference Portfolio
-- Portfolio Selection Agent would not be required to retain any risk in the CDO transaction, although it would have the option to buy CDO notes/unfunded swaps that will be distributed in the market.
-- Portfolio Selection Agent would be asked to facilitate the marketing of the notes (including putting together marketing materials on ACA, discussing with customers on conference calls). No roadshow is expected; no travel is expected.
-- No BWICs required to be run by the Portfolio Selection Agent
-- Timing: the Transaction Sponsor is working under the assumption that Goldman be in the market with this transaction early February

Contemplated Capital Structure -- subject to Reference Portfolio:

- [34]% - [100]%: unfunded supersenior tranche distributed to a supersenior protection writer
- [22]% - [34]%: Aaa/AAA class A tranche distributed broadly on a best efforts' basis by Goldman
- [15]% - [22]%: Aa2/AA class B tranche distributed broadly on a best efforts' basis by Goldman
- [9]% - [15]%: A2/A class C tranche distributed broadly on a best efforts' basis by Goldman
- [0]% - [9]%: pre-committed first loss

-- Economics: for transactions like this, where the Portfolio Selection Agent is not required to retain any risk, we have seen fees in the order of 15bps to 20bps paid on the portfolio notional amount (that's what we have been seeing for most of the Magnetar-sponsored transactions). In the context of this transaction, the portfolio selection fees will be paid in the form of a spread on the outstanding amount of the class A through class C tranches. For example, if you are asking to be paid:

- Class A Portfolio Management Fee: 0.25% p.a. (the tranche is [12]% thick)
- Class B Portfolio Management Fee: 0.50% p.a. (the tranche is [7]% thick)
- Class C Portfolio Management Fee: 1.00% p.a. (the tranche is [6]% thick)

This would mean that if Goldman is able to distribute 100% of the class A, class B and class C notes, the Portfolio Selection Agent would, on a blended basis, receive 0.125% p.a. on the portfolio notional. This compensation structure aligns everyone's incentives: the Transaction Sponsor, the Portfolio Selection Agent and Goldman.

-- The Transaction Sponsor is in discussions with a couple of potential CDO managers, and will work with the manager who will provide the most appealing economic proposal and will be able to address all the stated objectives.

We will send to you later today a termsheet that outlines the transaction structure. What would be constructive is for you to think about the fees that you would need to get paid to act as Portfolio Advisor, and also a draft portfolio that you would select, based upon the preliminary work you mentioned to us during the call.

Thanks,

Permanent Subcommittee on Investigations
EXHIBIT #108

Regards,

Fabrice

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917-[redacted]
Email: fabrice.tourre@gs.com

Fabrice Tourre Goldman Sachs
Structured Products Group

Disclaimer:

From: Kreitman, Gail
Sent: Sunday, January 14, 2007 4:58 PM
To: lschwartz@aca.com
Subject: Re: Call with Fabrice on Friday

Absolutely not-fabrice and the team hold you in the highest regard and would very much like to have you involved in this transaction, but only if you are comfortable with it. I will have the analysis on Tuesday and welcome your feedback. Safe travel tomorrow_gail

----- Original Message -----
From: Laura Schwartz <lschwartz@aca.com>
To: Kreitman, Gail
Cc: Keith Gorman <kgorman@aca.com>
Sent: Sun Jan 14 16:08:29 2007
Subject: Call with Fabrice on Friday

Gail,

I certainly hope I didn't come across too antagonistic on the call with Fabrice last week but the structure looks difficult from a debt investor perspective. I can understand Paulson's equity perspective but for us to put our name on something, we have to be sure it enhances our reputation. I am looking forward to the analysis that he will come back with on Tuesday.

Permanent Subcommittee on Investigations
EXHIBIT #109

From: Laura Schwartz [lschwartz@aca.com]
Sent: Monday, January 22, 2007 1:52 PM
To: Tourre, Fabrice; Kreitman, Gail; Gerst, David
Cc: Keith Gorman
Subject: proposed Paulson Portfolio
Attachments: Paulson Portfolio 1-22-07.xls

Attached please find a worksheet with 86 sub-prime mortgage positions that we would recommend taking exposure to synthetically. Of the 123 names that were originally submitted to us for review, we have included only 55. We do not recommend including the other 68 names because either: 1) we did not like them at the recommended attachment point; 2) there are lower rated tranches that are already on negative watch; and 3) some names (i.e. Long Beach and Fremont) are very susceptible to investor push back.

The 31 new names are heavily weighted to new issue since we believe the underlying collateral to be of better quality.

We provided a total of 86 names to give us some room since the term-sheet mentioned 80 names at 1.25% each.

Please let me know if you have any questions.

Permanent Subcommittee on Investigations
EXHIBIT #110

From: Tourre, Fabrice
Sent: Sunday, January 28, 2007 2:50 PM
To: Kreitman, Gail; Gerst, David
Subject: RE: ABACUS - Initial Draft Engagement Letter for ACA

Any time during the day works. David and I should be there

-----Original Message-----
From: Kreitman, Gail
Sent: Sunday, January 28, 2007 1:31 PM
To: Tourre, Fabrice; Gerst, David
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

What time works on the 5th to have a paulson discussion who should be there?

----- Original Message -----
From: Tourre, Fabrice
To: 'lschwartz@aca.com' <lschwartz@aca.com>; Gerst, David
Cc: Kreitman, Gail; ficc-mtgcorr-desk; 'kgorman@aca.com' <kgorman@aca.com>
Sent: Sun Jan 28 12:32:01 2007
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

Thanks Laura for your email, this is confirming my initial impression that Paolo wanted to proceed with you subject to agreement on portfolio and compensation structure. Let's meet on Feb 5th to discuss this transaction.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Laura Schwartz <lschwartz@aca.com>
To: Tourre, Fabrice; Gerst, David
Cc: Kreitman, Gail; ficc-mtgcorr-desk; Keith Gorman <kgorman@aca.com>
Sent: Sun Jan 28 08:56:00 2007
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

So I met with Paolo last night. We first talked about the collateral - why only 55 names from the first list and why the Baa3 and A3 names. He had summary performance and credit statistics on each piece of collateral on a spreadsheet (he may as much of a nerd as I am since he brought a laptop to the bar and he also seemed to have a worksheet from DB and another manager). I don't think he wants the A3 names and wasn't too keen on the Baa3 names. Let's do the Baa3 names at Baa2. He also wanted to know if we had to have so many names - I said Goldman needed 100 to help sell the debt. He also wanted to talk about the super senior - I said we would definitely look at it if Goldman planned on placing it. We also talked about the auction call - he wants a 2 year. This may be tough to sell without a makewhole. We left it that we would both work on our respective engagement letters this week - I certainly got the impression the he wanted to go forward on this with us. He is also headed to ASF. Can we meet sometime on Feb 5th to discuss mechanics of this deal?

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #111

From: Laura Schwartz
To: 'Fabrice.Tourre@gs.com' <Fabrice.Tourre@gs.com>; 'David.Gerst@gs.com' <David.Gerst@gs.com>
CC: 'Gail.Kreitman@gs.com' <Gail.Kreitman@gs.com>; 'ficc-mtgcorr-desk@ny.email.gs.com' <ficc-mtgcorr-desk@ny.email.gs.com>; Keith Gorman; 'melanie.herald@gs.com' <melanie.herald@gs.com>
Sent: Sat Jan 27 14:38:04 2007
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

I am in Jackson Hole and Paolo is out here with his family skiing for a week and we ran into each other last night. He called me this morning and wants to meet for a drink and discuss the deal this afternoon. Will keep you informed.

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

-----Original Message-----
From: Tourre, Fabrice <Fabrice.Tourre@gs.com>
To: Laura Schwartz; Gerst, David <David.Gerst@gs.com>
CC: Kreitman, Gail <Gail.Kreitman@gs.com>; ficc-mtgcorr-desk <ficc-mtgcorr-desk@ny.email.gs.com>; Keith Gorman; Herald - Granoff, Melanie <Melanie.Herald@gs.com>
Sent: Fri Jan 26 09:32:35 2007
Subject: RE: ABACUS - Initial Draft Engagement Letter for ACA

Laura -- all good questions. Some thoughts:

1- What expenses do you envision would be incurred in connection with the transaciton ? I think we/Paulson can envision paying your expenses in connection with marketing the transaction, subject to a reasonable cap.

2- In the engagement letter, the Portfolio Selection Fee is structured such that you get paid a spread (the "Portfolio Selection Fee Rate") on the tranches that are issued, subject to a floor of $1mm per annum. The Portfolio Selection Fee Rate is equal to 0.25% p.a. for the "AAA" tranche, 0.50% for the "AA" and "AA-" tranches, and 1.00% for the "A" tranche. Using our draft capital structure for a $1bn transaction and assuming we issue all the "AAA" through "A" notes, the aggregate Portfolio Selection Fees would be approx $1.25mm p.a. If we are able to upsize for a $2bn transaction and if we are able to issue all the "AAA" through "A" notes, the aggregate Portfolio Selection Fees would be approx $2.50mm p.a.

3- We are using McKee Nelson as deal counsel since they have a deep knowledge of the ABACUS transaction documents. I am afraid that if we use counsel not familiar with our deal structure, legal expenses might be significantly higher than otherwise, and the transaction execution might take more time.

4- Paolo at Paulson is out of the office until Wednesday of next week. We are trying to get his feedback on the target portfolio you have in mind, as well as on the compensation structure we have been discussing with you. Subject to Paolo being comfortable with those 2 aspects, it sounds like we will be in a position to engage you on this transaction.

From: Laura Schwartz [mailto:lschwartz@aca.com]
Sent: Friday, January 26, 2007 9:03 AM
To: Gerst, David
Cc: Kreitman, Gail; Tourre, Fabrice; ficc-mtgcorr-desk; Keith Gorman; Herald - Granoff, Melanie
Subject: RE: ABACUS - Initial Draft Engagement Letter for ACA

Just a few questions before I send it to my counsel:

1. it says that any expenses we incur are for our account - I think the issuer/deal should pay our out of pocket in connection with this transaction (such as any travel etc)
2. the fee rate is set at $1 million - is this regardless of the ultimate size?
3. we generally like our counsel (Schulte) to be deal counsel 4. do you believe that we have this deal? do we need to do the work on the engagement letter before we know if we have the deal?

From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Thursday, January 25, 2007 10:53 AM
To: Laura Schwartz
Cc: Kreitman, Gail; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: ABACUS - Initial Draft Engagement Letter for ACA

Laura,

Attached is an initial draft of an Engagement Letter for the proposed ABACUS transaction. Please let us know your availability to discuss the draft and answer any questions you may have.

Thanks,

David

<<ABACUS ACA Engagement Letter 20070124.pdf>>

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85 Broad Street | New York, NY 10004
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e-mail: david.gerst@gs.com

Goldman

S

achs

David Gerst
Structured Products Trading

From: Tourre, Fabrice
Sent: Monday, January 29, 2007 1:01 PM
To: Egol, Jonathan
Subject: RE: GSC post

LDL

-----Original Message-----
From: Egol, Jonathan
Sent: Monday, January 29, 2007 12:43 PM
To: Tourre, Fabrice
Subject: Re: GSC post

Where are you going with this?

----- Original Message -----
From: Tourre, Fabrice
To: Herrick, Darryl K; Rosenblum, David J.; Ostrem, Peter L; ficc-spgtrading; Bieber, Matthew G.
Sent: Mon Jan 29 11:18:30 2007
Subject: RE: GSC post

GSC would select names they like. Here are a few nice things about this idea:

1) we can decide to go long single-names we like through BWICs done by GSC.

2) we can decide to go long ABX from Birnbaum's book, and ask GSC to do OWICs to hedge the ABX index names that GSC would not include in the reference portfolio

3) if we decide to do this trade as principal and delta-hedge, we do not have to sell residual cashflow risk for consolidation reasons, and we can keep our partial call rights

5) if we don't like this trade as principal and decide to cross this trade into a hedge funds for a fee, we can do that (either through a Paulson-like fund who would be outright short, or through a Citadel/Stark type hedge fund who would go long synthetic residual first loss)

In a nutshell, we have a lot of flexibility from a risk management standpoint, while committing to take little risk.

-----Original Message-----
From: Herrick, Darryl K
Sent: Monday, January 29, 2007 11:00 AM
To: Rosenblum, David J.; Tourre, Fabrice; Ostrem, Peter L; ficc-spgtrading; Bieber, Matthew G.
Subject: Re: GSC post

What is the selection process for non indexed names?

----- Original Message -----
From: Rosenblum, David J.
To: Tourre, Fabrice; Ostrem, Peter L; ficc-spgtrading; Herrick, Darryl K; Bieber, Matthew G.
Sent: Mon Jan 29 10:54:27 2007
Subject: Re: GSC post

Permanent Subcommittee on Investigations
EXHIBIT #112

Sort of like mg'd index, no?
Or more like mg'd index meets huds mezz one, wrt portfolio...

D

----- Original Message -----
From: Tourre, Fabrice
To: Ostrem, Peter L; Rosenblum, David J.; ficc-spgtrading; Herrick, Darryl K; Bieber, Matthew G.
Sent: Mon Jan 29 10:51:09 2007
Subject: GSC post

I was discussing earlier this morning with Stefflin and Bissu the ACA/Paulson trade. As you know, a couple of weeks ago we had approached GSC to ask them to act as portfolio selection agent for that Paulson-sponsored trade, and GSC had declined given their negative views on most of the credits that Paulson had selected. But as a follow-up, the GSC guys mentioned that they would like to see from us a trade where they are acting as portfolio selection agent (and potentially full portfolio manager depending on fees) on a portfolio that would be described as follows:

-- ABX.HE.06-1.BBB/BBB- minus worse [3] credits, ABX.HE.06-2.BBB/BBB- minus worse [3] credits, ABX.HE.07-1.BBB/BBB- minus worse [3] credits -- they would select the [3] worse from each of these indices

-- [40] additional BBB/BBB- names selected by GSC

-- GSC's name disclosed in the transaction documents

-- GSC fees paid on the credit-linked notes sold -- expectation should be 20bps p.a. vs. portfolio notional

-- GSC potentially investing themselves into some of the senior layers of risk (triple-As and double-As) off that portfolio

-- This is a trade we would show to IKB for the reverse inquiry program we have been working with them on.

-- GS Hedging strategy: we would have the choice of either (A) delta-hedging as principal, or (B) crossing for a fee into a Paulson-like hedge fund (we have had multiple discussions over the last month with accounts wanting to do that).

Would like to show them an email and/or termsheet proposal outlining this idea, please let me know if you have questions or comments.

From: Gerst, David
Sent: Wednesday, January 31, 2007 6:25 PM
To: 'Laura Schwartz'
Cc: Kreitman, Gail; Herald - Granoff, Melanie; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: RE: ABACUS Transaction - update

Laura,

In place of the 2 SAIL obligations mentioned below, Paulson has suggested we substitute GSAMP 06-HE4 M8 and GSAMP 06-HE5 M8.

Can you please let us know your thoughts on including these names.

Thanks,

David

From: Gerst, David
Sent: Wednesday, January 31, 2007 5:42 PM
To: 'Laura Schwartz'
Cc: Kreitman, Gail; Herald - Granoff, Melanie; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: ABACUS Transaction - update

Laura,

We wanted to provide you with an update on the transaction:

From the 100 name portfolio that you had agreed to with Paolo (attached hereto), we would like to exclude SAIL 2006-BNC1 M7 and SAIL 2006-BNC2 M7, which are both on negative credit watch by Moody's. This leaves us with a portfolio of 98 names, for which we have been updating our model to refresh the capital structure. In addition, we have been working on a flipbook and termsheet in anticipation of marketing the transaction.

We will continue our discussions with Paolo to confirm his agreement with the proposed transaction as structured and look forward to discussing the transaction and draft Engagement Letter on Monday. In the meantime, can you please send us recent ACA marketing materials that we can include in our draft flipbook and termsheet.

Thanks,

David

<< File: Paulson Portfolio 1-22-07 (2) (2).xls >>

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Goldman Sachs

David Gerst
Structured Products Trading

Permanent Subcommittee on Investigations
EXHIBIT #113

From: Lehman, David A.
Sent: Thursday, February 08, 2007 7:06 AM
To: Rosenblum, David J.; Tourre, Fabrice; Sparks, Daniel L
Cc: Gerst, David; Swenson, Michael; Egol, Jonathan; Ostrem, Peter L
Subject: RE: ACA/Paulson

yes

-----Original Message-----
From: Rosenblum, David J.
Sent: Thursday, February 08, 2007 6:08 AM
To: Tourre, Fabrice; Sparks, Daniel L
Cc: Gerst, David; Swenson, Michael; Lehman, David A.; Egol, Jonathan; Ostrem, Peter L
Subject: Re: ACA/Paulson

Still reputational risk, so I suggest yes to MCC.

D

----- Original Message -----
From: Tourre, Fabrice
To: Sparks, Daniel L
Cc: Gerst, David; Swenson, Michael; Lehman, David A.; Egol, Jonathan; Ostrem, Peter L; Rosenblum, David J.
Sent: Wed Feb 07 22:49:45 2007
Subject: ACA/Paulson

Dan:

Gerstie and I are finishing up engagement letters with ACA and Paulson for the large RMBS CDO ABACUS trade that will help Paulson short senior tranches off a reference portfolio of Baa2 subprime RMBS risk selected by ACA. We intend to go out in the market and distribute ABACUS notes off this trade starting on February 23. At the time we distribute, we will cross the tranches into Paulson -- therefore no commitment for us to take down any risk. Happy to sit down tomorrow to walk you through the economics. Do you need us to go to Mortgage Capital Committee for this trade ? Let us know, thanks.

Permanent Subcommittee on Investigations
EXHIBIT #114

▬ = Redacted by the Permanent Subcommittee on Investigations

From: Tourre, Fabrice
Sent: Wednesday, February 21, 2007 10:14 PM
To: Lehman, David A.
Subject: RE: ACA/Paulson post

My idea to broker the short. Paulson's idea to work with a manager. My idea to discuss this with ACA who could do supersenior at the same time...

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, February 21, 2007 9:50 PM
To: Tourre, Fabrice
Subject: Re: ACA/Paulson post

Ok - but how long have we been working on this and whose idea was it? Need to refresh my memory

Walk josh through the $, if that makes sense let's go

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Tourre, Fabrice
To: Lehman, David A.
Sent: Wed Feb 21 21:47:39 2007
Subject: RE: ACA/Paulson post

Sorry, just saw your email. I think people will be on board with this - Egol, Ostrem, Rosi and even Sweny sound ok with it, it is really Josh I need to walk carefully through my thinking. Sparks is really relying on us at this point. He is mostly focused on covering our single-names/idyosyncratic short trades to get better observability.

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, February 21, 2007 10:50 AM
To: Tourre, Fabrice
Subject: Re: ACA/Paulson post

Put the #s in front of josh and/or swenny (live) as a gut check and walk them through it.

As u know, I am for doing this deal for them/with them, let's just make sure we are charging enough for it given our axe as principal in this type of risk

Also post sparks live (I'm assuming he is sitting next to you)

Permanent Subcommittee on Investigations
EXHIBIT #115

■ = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Tourre, Fabrice
To: Lehman, David A.
Sent: Wed Feb 21 10:00:58 2007
Subject: RE: ACA/Paulson post

14mm before. We are asking for higher min fee and wider strikes

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, February 21, 2007 10:00 AM
To: Tourre, Fabrice; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.; Birnbaum, Josh
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Subject: Re: ACA/Paulson post

The 19mm compares to what # before ? (assuming equal not'l sold)

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Tourre, Fabrice
To: Lehman, David A.; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.; Birnbaum, Josh
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Sent: Tue Feb 20 16:29:16 2007
Subject: RE: ACA/Paulson post

OK, based on the price thoughts circulated in the previous email for the ABACUS 2007-AC1 transaction, I would like to update the Paulson engagement letter to reflect the following:

-- Up to $1,300mm of supersenior @ a strike spread of 60bps. Distribution fee of 0.25% + 1/2 the upside vs. the strike spread
-- Up to $240mm of Aaa/AAA @ an all-in strike spread (including portfolio advisory fees) of 125bps. Distribution fee of 1.25% + 1/2 the upside vs. the strike spread
-- Up to $100mm of Aa2/AA @ an all-in strike spread (including portfolio advisory fees) of

2

200bps. Distribution fee of 2.50% + 1/2 the upside vs. the strike spread
-- Up to $80mm of Aa3/AA- @ an all-in strike spread (including portfolio advisory fees) of 250bps. Distribution fee of 3.00% + 1/2 the upside vs. the strike spread
-- Up to $100mm of A2/A @ an all-in strike spread (including portfolio advisory fees) of 500bps. Distribution fee of 4.00% + 1/2 the upside vs. the strike spread

My assumption is that we can execute at the levels below, and P&L in that case would be up to $19mm for this trade:

-- supersenior @ 50bps
-- Aaa/AAA @ L+75bps (+25bps of portfolio advisory fees) = 100bps
-- Aa2/AA @ L+90bps (+50bps of portfolio advisory fees) = 140bps
-- Aa3/AA- @ L+115bps (+50bps of portfolio advisory fees) = 165bps
-- A2/A @ L+300bps (+100bps of portfolio advisory fees) = 400bps

Please let me know if you have comments on this, thanks.

From: Tourre, Fabrice
Sent: Thursday, January 18, 2007 9:59 AM
To: Lehman, David A.; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Subject: ACA/Paulson post

ACA is going to be ok acting as portfolio selection agent for Paulson, in exchange for a portfolio advisory fee of at least $1mm per year. We will have to distribute supersenior through single-A rated notes off a static portfolio of mezzanine subprime RMBS obligations selected by ACA.

The transaction will not be broadly marketed until February 23 since ACA is already locked with another investment bank until that date. If everyone agrees, the idea is to quietly show this trade to a select number of accounts, and broadly announce the transaction on Feb 23 if it fits with the overall CDO pipeline and if we feel ok with our existing Baa2 RMBS risk position.

We are trying to get Paulson to give us an order on the following tranches:

-- Up to $1,300mm of supersenior @ a strike spread of 34bps. Distribution fee of 0.20% + 1/2 the upside vs. the strike spread
-- Up to $240mm of Aaa/AAA @ an all-in strike spread (including portfolio advisory fees) of 100bps. Distribution fee of 1.00% + 1/2 the upside vs. the strike spread
-- Up to $100mm of Aa2/AA @ an all-in strike spread (including portfolio advisory fees) of 150bps. Distribution fee of 2.00% + 1/2 the upside vs. the strike spread
-- Up to $80mm of Aa3/AA- @ an all-in strike spread (including portfolio advisory fees) of 175bps. Distribution fee of 2.50% + 1/2 the upside vs. the strike spread
-- Up to $100mm of A2/A @ an all-in strike spread (including portfolio advisory fees) of 425bps. Distribution fee of 3.00% + 1/2 the upside vs. the strike spread

My assumption is that we can execute at the levels below, and P&L in that case would be up to $15mm for this trade ($7.5mm for a $1bn trade):

-- supersenior @ 25bps
-- Aaa/AAA @ L+60bps (+20bps of portfolio advisory fees) = 85bps
-- Aa2/AA @ L+80bps (+50bps of portfolio advisory fees) = 130bps
-- Aa3/AA- @ L+95bps (+50bps of portfolio advisory fees) = 145bps
-- A2/A @ L+275bps (+100bps of portfolio advisory fees) = 375bps

From: GS Syndicate
Sent: Tuesday, February 27, 2007 8:58 AM
To: T-Mail Subscribers
Subject: ABACUS 2007-AC1 -- Marketing Points (INTERNAL ONLY) [T-Mail]

*****INTERNAL ONLY*****

ABACUS 2007-AC1 - 2bn synthetic RMBS CDO

OVERVIEW
- Static portfolio consisting entirely of "Baa2"-rated midprime/subprime RMBS selected by ACA
- ACA is one of the largest and most experienced CDO managers in the world (see Overview of ACA below)
- Goldman's market-leading ABACUS program currently has $5.1bn in outstanding CLNs with strong secondary trading desk support

RELATIVE VALUE
- Reference Portfolio more conservative (360 WARF) than traditional mezz ABS CDOs (450-500 WARF)
- Capital Structure less aggressive than traditional mezz ABS CDOs (see comp below)
- Attractive spreads relative to ABS CDOs currently in the market (see comps below)

PORTFOLIO
- Granular portfolio of 90 equally-sized reference obligations selected by ACA
- Static reference portfolio fully-identified, with no reinvestment, removals, substitutions or discretionary trading
- 100% Baa2 Moody's-rated subprime/midprime (360 Moody's WARF)
- Diversified across 30 shelves and 24 servicers

STRUCTURE
- Tranches offered across the entire capital structure
- No IC/OC tests: ABACUS notes will be uncapped and non-deferrable
- Sequential Principal Paydown Sequence: no subordination is leaked to residual tranches under any circumstance
- No upfront structuring fees
- Investors will not bear WAC and/or available funds cap risk
- Projected 4- to 5- year tranche WALs at the reference portfolio pricing speed
- Tranches available in unfunded CDS format as well as in CLN format (in all major currencies).

OVERVIEW OF ACA MANAGEMENT LLC
- One of the largest CDO managers in the world
- Currently manages approximately $16bn in collateral assets across 22 CDOs
- No rated notes in any ACA's CDOs have ever been downgraded
- ACA team consists of 30 dedicated credit and portfolio management professionals with on average 13 years of relevant experience
- Portfolio Selection Fee structure aligns manager's incentive with investors'

COMPs:

	ABACUS 2007-AC1	TABS 2007-7	Alpha Mezz CDO	Draco 2007-1

Permanent Subcommittee on Investigations
EXHIBIT #116

Confidential Treatment Requested by Goldm

GS MBS-E-008042545

Pricing Date		Feb-07	Feb-07	Jan-07
Portfolio Advisor	ACA	Tricadia	Countrywide	Declaration
Underlying Portfolio				
WARF:	360	450	525	450
Lowest Moody's:	Baa2	Ba2	Ba2	
% NIG:	0%	5%	5%	0%
% ABS CDOs:	0%	22%	15%	3%
% RMBS:	100%	78%	85%	97%
Reinvestment Period:	N/A	4 years	4 years	5 years
Principal Repayments:	Sequential	Mod Pro-Rata	Mod Pro-Rata	Mod Pro-Rata
Interest Shorfalls:	N/A	Fixed Cap	Fixed Cap	Fixed Cap
Capital Structure				
Aaa/AAA C/E:	21.0%	25.7%	21.0%	23.4%
Aa2/AA C/E:	18.0%	15.0%	15.0%	17.4%
Aa3/AA- C/E:	13.0%		14.0%	
A2/A C/E:	10.0%	11.9%	9.4%	11.2%
Pricing				
Aaa/AAA Pricing:	L+[ ]	L+55	L+44	L+48
Aa2/AA Pricing:	L+[ ]	L+65	L+55	L+58
Aa3/AA- Pricing:	L+[ ]		L+62	
A2/A Pricing:	L+[ ]	L+275	L+160	L+225

Expected Timing:
Price Guidance & Red - w/o March 5, 2007

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This memorandum is solely for internal use in the offices of Goldman, Sachs, and copies of this memorandum or any portion thereof may not be made available to customers or otherwise distributed outside the offices of Goldman, Sachs. If applicable, the information contained herein should be considered in conjunction with the prospectus or other official offering document relating to these securities which may be subject to completion or amendment.

DRAFT 2/5/2007

CONFIDENTIAL

February [ ], 2007

Paulson Credit Opportunities Master Ltd.
c/o Paulson & Co. Inc.
590 Madison Avenue, 29th Floor
New York, NY 10022

Dear Sirs:

This letter (the "**Letter Agreement**"), when countersigned by you, will confirm that Paulson Credit Opportunities Master Ltd. (Paulson Credit Opportunities Master Ltd., together with its affiliates, "**PCO**") has retained Goldman, Sachs & Co. to (1) purchase credit protection on the Targeted Tranches of a portfolio of residential mortgage backed securities (each, a "**Reference Obligation**", and collectively, the "**Reference Portfolio**"), through one or more credit default swaps (each a "**Back-to-Back CDS**") between Goldman and certain counterparties (each such counterparty, a "**Back-to-Back Protection Seller**") and/or through the offering of multiple tranches of secured securities (such securities, the "**Notes**") of a synthetic resecuritization (the "**CDO**") that are expected to be issued from a special purpose company (the "**Issuer**") and (2) simultaneously sell to PCO, subject to the provisions of Paragraph 10, credit protection through one or more credit default swaps between PCO and Goldman (each, a "**PCO CDS**") matching each Back-to-Back CDS and/or Issuer CDS (except to the extent described in this Letter Agreement). For the purpose of this Letter Agreement, "**Goldman**" means Goldman, Sachs & Co. or any of its affiliates, provided however, that Goldman Sachs & Co. will guaranty the performance of this agreement by any such affiliate. Capitalized terms used herein and not otherwise defined have the meanings assigned to such terms in Annex B attached hereto.

The final terms and conditions of any Notes issued in connection with the CDO and the final terms and conditions of any Back-to-Back CDS will be set forth in complete documentation suitable in form and substance to Goldman and PCO.

Permanent Subcommittee on Investigations
EXHIBIT #117

1. Services of Goldman. It is currently contemplated that, in connection with the CDO, the Issuer will undertake one or more offerings and/or placements of securities (each an "**Offering**", the first such Offering, the "**Initial Offering**", and the securities placed, the "**Notes**"), pursuant to Regulation S and/or Rule 144A, as the case may be, under the Securities Act of 1933, as amended, in the United States or otherwise. It is agreed that Goldman, subject to the conditions herein, will be offered the right to act as the sole book-running lead manager and/or lead placement agent in each Offering. If Goldman agrees to act in such capacity, the Issuer and Goldman will enter into an appropriate form of underwriting, placement agency or other agreement relating to the type of transaction involved and containing customary terms and conditions, including provisions relating to our indemnity. Except to the extent that Goldman may separately commit in such an underwriting, placement agency or other agreement to purchase securities, there is no understanding or obligation, expressed or implied, on Goldman's part of a commitment by Goldman to act as underwriter or placement agent with respect to an Offering or to purchase or place any securities in connection therewith and that any securities will be placed on a best efforts basis. Goldman's execution of such underwriting, placement agency or other agreement will be subject in its complete discretion to, among other things, mutual agreement as to the underwriting and offering documentation and terms, satisfactory completion of its due diligence investigation, its internal approval processes and, of course, market conditions.

   In addition, there is no understanding or obligation, expressed or implied, on Goldman's part of a commitment by Goldman to enter into any Back-to-Back CDS and Goldman will only enter into such Back-to-Back CDS on a best efforts basis. Goldman's execution of any documentation related to a Back-to-Back CDS will be subject in its complete discretion to, among other things, mutual agreement as to the documentation and terms, its internal approval processes and, of course, market conditions.

   Subject to paragraph 8 of this Letter Agreement, the timing, amount and other terms of any issuance of the Notes or Goldman's entry into any Back-to-Back CDS shall be determined by Goldman in its sole discretion. Goldman agrees to consult with PCO regarding the timing of such issuance of the Notes or Goldman's entry into any Back-to-Back CDS. PCO agrees to promptly provide Goldman with all relevant information regarding the timing, status or other aspects of any other CDO transactions which may have a bearing on the marketing of the Notes or Goldman's ability to enter into any Back-to-Back CDS.

2. Contemplated Offering. We understand, in connection with the CDO, that when the Issuer offers Goldman the right to act as the sole underwriter and/or sole placement agent in accordance with Paragraph 1 of this Letter Agreement, Goldman expects, subject to, among other things, the satisfactory completion of due diligence and the terms and conditions set forth in one or more placement agency agreements or other appropriate form of documentation, that it will purchase the securities issued as part of the Offering and offer them to prospective purchasers at a price to be agreed upon at the time of execution of such agreement.

The appointment of any co-managers in respect of any Offering will be subject to prior consent by Goldman.

As stated in Paragraph 1 above, PCO understands that until any such related placement or other agreement is signed, Goldman is not under any obligation, express or implied, to purchase or place securities in connection herewith. Goldman understands that the Issuer is under no obligation, express or implied, to complete an Offering until any such related placement or other agreement is signed.

In addition, as stated in Paragraph 1, PCO understands that until any such related documentation is signed, Goldman is not under any obligation, express or implied, to enter into any Back-to-Back CDS in connection herewith.

3. Issuer and its Structure; Additional Roles of Goldman. In connection with the Initial Offering of the CDO, it is anticipated that Goldman will enter into several agreements with the Issuer, including (i) a credit derivative transaction (the "**Issuer CDS**"), (ii) a basis swap transaction (the "**Basis Swap**"), (iii) a collateral put agreement (the "**Collateral Put**"), (iv) a collateral disposal agreement (the "**Collateral Disposal Agreement**"), and that the Portfolio Selection Agent will enter into a portfolio selection agency agreement with the Issuer (the "**Portfolio Selection Agency Agreement**").

Pursuant to the Issuer CDS, it is anticipated, among other things, that:

- Goldman Sachs Capital Markets (or an affiliate thereof) will act as protection buyer (the "**Protection Buyer**"), buying protection on all or a portion of the Targeted Tranches;
- The Protection Buyer will make premium payments to the Issuer on an actual/360 day count convention on the notional amount of such Issuer CDS corresponding to the stated spread over the benchmark index for each Class of Notes, as reduced from time to time upon (1) principal repayments on any Reference Obligation (to the extent the cumulative principal repayments exceed one minus the Exhaustion Point (as set forth in Annex B) of the related Targeted Tranche immediately prior to such determination), (2) Credit Events with respect to any Reference Obligation (to the extent the cumulative Loss Amounts exceed the related Targeted Tranche Attachment Point (as set forth in Annex B) immediately prior to such determination), and (3) any Partial Optional Redemption or optional redemption in whole of the Notes);
- The notional amount of each tranche will be reduced in sequential order of priority in connection with the amortization of the Reference Portfolio and the notional amount of each tranche will be reduced in reverse sequentially order of priority in connection with Credit Events related to the Reference Portfolio;

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- The Protection Buyer will make an upfront payment to the Issuer in order to cover, among other things, upfront expenses as described in paragraph 6 of this agreement;

- The Issuer will use the proceeds received from the issuance of the Notes to invest in senior triple-A structured product securities (the "**Collateral Securities**") and eligible investments ("**Eligible Investments**") (collectively, the "**Collateral**") selected by the Protection Buyer. Any principal repayments on Collateral will be reinvested into replacement Collateral selected by the Protection Buyer and meeting the applicable criteria specified in the Issuer CDS;

- The Protection Buyer will make ongoing payments to the Issuer covering ongoing transaction administrative expenses and any Portfolio Selection Fees;

- "Failure to Pay Principal" and "Writedown" (as defined in a manner consistent with the current form of the Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Dealer Form**")) will be the sole credit events (the "**Credit Events**") under the CDO governing documents;

- A loss amount (a "Loss Amount") shall be determined following the occurrence of a Credit Event. Such Loss Amount will be equal to (a) the related "Writedown Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Writedown and (b) the related "Principal Shortfall Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Failure to Pay Principal;

- Following a Credit Event, the Protection Buyer will receive a cash settlement amount equal to the amount by which the related Loss Amount reduces the notional amount of the Targeted Tranche;

- There will be no discretionary substitution, reinvestment or replacement of Reference Obligations;

- The Protection Buyer will be sole notifying party of a Credit Event;

- The Protection Buyer, in its sole discretion, will have the right to terminate (with no termination payment payable by the Protection Buyer) portions of the Issuer CDS related to the classes of Notes on any Payment Date occurring after the date that is specified in the indenture or related pricing supplement (in each case, the "**Applicable Non-Call Period**" and any such redemption, a "**Partial Optional Redemption**"), and the Notes redeemed in connection with any such Partial Optional Redemption will be redeemed at par; for the avoidance of doubt, based on market conditions, Goldman, in its sole discretion, will have the right to cause the Issuer to issue Notes with Non-Call Periods longer than the Non-Call Period described above;

- The Protection Buyer shall be the calculation agent; and

- Termination payments payable to the Protection Buyer will be subordinated to payment of principal of the related Notes solely in the event of a termination of the Issuer CDS (i) in respect of which the Protection Buyer is the "Defaulting Party" (as such term is defined in the Issuer CDS) or (ii) for which the Protection Buyer was the sole "Affected Party" (as such term is defined in the Issuer CDS) (other than in connection with a "Tax Event" or "Illegality", in each case as defined in the Issuer CDS).

A preliminary Reference Portfolio is identified in Annex C. Goldman and PCO have appointed [ACA Entity] (the "**Portfolio Selection Agent**") to help select the final Reference Portfolio in return for the payment of the Portfolio Selection Fees. The Reference Portfolio selected may be modified upon the mutual agreement of Goldman, PCO and the Portfolio Selection Agent.

"**Moody's**" means Moody's Investors Service, Inc. and any successor or successors thereto.

"**S&P**" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to the ratings business thereof.

Pursuant to the Basis Swap, it is anticipated, among other things, that:

- Goldman Sachs Mitsui Marine Derivatives Product Inc. (or an affiliate thereof) will act as basis swap counterparty (the "**Basis Swap Counterparty**");

- Each payment period, the Issuer will swap with the Basis Swap Counterparty the total interest proceeds received on the Collateral held by the Issuer in exchange for the benchmark index of the Notes, based upon the aggregate outstanding amount of the Notes, as reduced from time to time by principal amortization of the Reference Portfolio, Credit Events, and/or Partial Optional Redemption or optional redemption in whole of the Notes;

- The Basis Swap Counterparty shall be the calculation agent; and

- Termination payments payable to the Basis Swap Counterparty will be subordinated to payment of principal of the related Notes solely in the event of a termination of the Basis Swap (i) in respect of which the Basis Swap Counterparty is the "Defaulting Party" (as such term is defined in the Basis Swap), (ii) resulting from a downgrade of the Basis Swap Counterparty's credit rating or (iii) in which the Basis Swap Counterparty was the sole "Affected Party" (as such term is defined in the Basis Swap) (other than in connection with a "Tax Event" or "Illegality", in each case as defined in the Basis Swap).

Pursuant to the Collateral Put, it is anticipated, among other things, that:

- Goldman Sachs International (or an affiliate thereof) will act as collateral put provider (the "**Collateral Put Provider**") and as compensation for acting as Collateral Put Provider will receive a fee of [0.06]% per annum accrued on an actual/360 day count convention on a notional amount equal to the aggregate outstanding amount of the Notes at the beginning of the related accrual period;

- The Collateral Put Provider will cover any shortfall to par plus accrued interest arising from the liquidation of Collateral Securities and certain Eligible Investments held by the Issuer solely in connection with (i) principal amortization of the Reference Portfolio, (ii) recoveries on Reference Obligations following Credit Events, in the case of (i) and (ii) leading to principal amortization of one or more Classes of Notes, (iii) a Partial Optional Redemption or optional redemption in whole of the Notes and (iv) a redemption of the Notes at maturity;

- The Collateral Put Provider will not cover any shortfalls in paying cash settlement amounts to Goldman following Credit Events if the Collateral Securities and certain Eligible Investments liquidated to make such payment is liquidated at a price of below 100% (in which case such market value risk will be borne by the Protection Buyer for such aforementioned Collateral who will be deemed to have been paid the related cash settlement amount in full) and (ii) with respect to the liquidation of Collateral in connection with a mandatory redemption (following a default of any Collateral Security, a default of Goldman, an adverse tax event, an event of default (as defined in the related CDO indenture) or other mandatory redemption events);

- The Collateral Put Provider shall be the calculation agent; and

- No termination payment will be payable under any circumstances in connection with the Collateral Put.

Pursuant to the Collateral Disposal Agreement, it is anticipated, among other things, that:

- Goldman, Sachs & Co. (or an affiliate thereof) will act as collateral disposal agent (the "**Collateral Disposal Agent**"); and

- In connection with any liquidation of Collateral Securities held by the Issuer that may be required from time to time, whether in connection with (i) a Credit Event or (ii) principal amortization of the Notes (including pursuant to an Optional Redemption in part), the Collateral Disposal Agent shall select in its sole discretion which Collateral Security or Collateral Securities shall be liquidated to satisfy such requirement.

4. Back-to-Back CDS.

Goldman will, subject to the terms of this Letter Agreement, purchase credit protection from swap counterparties of its choice under one or more Back-to-Back CDS.

Pursuant to each Back-to-Back CDS, it is anticipated, among other things, that:

- The Protection Buyer will buy protection on all or a portion of the Targeted Tranches;

- The Protection Buyer will make premium payments to the related Back-to-Back Protection Seller on an actual/360 day count convention on the notional amount of such Back-to-Back CDS, as reduced from time to time upon (1) principal repayments on any Reference Obligation (to the extent the cumulative principal repayments exceed one minus the Exhaustion Point (as set forth in Annex B) of the related Targeted Tranche immediately prior to such determination), (2) Credit Events with respect to any Reference Obligation (to the extent the cumulative Loss Amounts exceed the related Targeted Tranche Attachment Point (as set forth in Annex B) immediately prior to such determination), and (3) any optional termination of the Back-to-Back CDS following the expiration of its Applicable Non-Call Period (as defined below);

- The notional amount of each tranche will be reduced in sequential order of priority in connection with the amortization of the Reference Portfolio and the notional amount of each tranche will be reduced in reverse sequentially order of priority in connection with Credit Events related to the Reference Portfolio;

- "Failure to Pay Principal" and "Writedown" (as defined in a manner consistent with the ISDA Dealer Form) will be the sole Credit Events;

- A loss amount (a "Loss Amount") shall be determined following the occurrence of a Credit Event. Such Loss Amount will be equal to (a) the related "Writedown Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Writedown and (b) the related "Principal Shortfall Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Failure to Pay Principal;

- Following a Credit Event, the Protection Buyer will receive a cash settlement amount equal to the amount by which the related Loss Amount reduces the notional amount of the Targeted Tranche;

- There will be no substitution, reinvestment or replacement of Reference Obligations;
- The Protection Buyer will be sole notifying party of a Credit Event;
- The Protection Buyer, in its sole discretion, will have the right to terminate (with no termination payment payable by the Protection Buyer) a Back-to-Back CDS on any Payment Date occurring after the date that is specified for such Back-to-Back CDS (in each case, the "**Applicable Non-Call Period**"); and
- The Protection Buyer shall be the calculation agent.

5. Breakage. If this Letter Agreement is terminated prior to the completion of the distribution of a notional amount of each Targeted Tranche equal to the Maximum Notional Amount of such Targeted Tranche by notification from PCO (in such capacity, the "**Terminating Party**") to Goldman (in such capacity, the "**Non-Terminating Party**") of such termination, then the Non-Terminating Party will be entitled to payment in an amount equal to the aggregate of any reasonable and documented out-of-pocket expenses (including, without limitation, attorneys, rating agency and accounting fees and printing costs) borne by the Non-Terminating Party in connection with its activities under this agreement and submitted to the Terminating Party, provided however that (i) no payment shall be due to the extent that such out of pocket expenses are less than the total amount paid by PCO to Goldman under Paragraph 6 hereof and (ii) if such out of pocket expenses exceed the total amount paid by PCO to Goldman under Paragraph 6 hereof, PCO shall be liable to Goldman only as to the amount of such excess. Any such amounts payable pursuant to this paragraph will be paid in immediately available funds to the Non-Terminating Party by the Terminating Party.

6. Fees; Expenses. On the closing date of the CDO (the "**Closing Date**") or as promptly as practicable after such closing date, the Issuer shall pay (using proceeds received from an upfront payment (the "**Upfront Payment**") made by the Protection Buyer at the Closing Date), without duplication, (i) reasonable fees and expenses of Goldman's outside counsel incurred in connection with the CDO, (ii) reasonable fees and expenses of counsel to the Issuer (if different from outside counsel to Goldman) and any other agents or professionals engaged by Goldman in structuring the CDO (other than the Portfolio Selection Agent) and executing the Initial Offering including local legal counsel, trustee, accountant, local administrator, printer, rating agency and their respective counsels, and other fees and expenses, plus any sales, use or similar taxes (including additions to such taxes, if any) arising in connection with any matter referred to in this Letter Agreement and (iii) the cost (in excess of par) of any Collateral Securities acquired by the Issuer on the Closing Date.

   Each Back-to-Back CDS or Issuer CDS, as the case may be, and the matching PCO CDS shall be executed simultaneously (such date of execution, an "Effective

Date"). On each Effective Date, PCO will make a payment to Goldman equal to, for each Targeted Tranche for which an Issuer CDS or Back-to-Back CDS was executed on such Effective Date, the product of (a) the Upfront Fee Rate for such Targeted Tranche, as defined in Annex B, and (b) the notional amount of the PCO CDS for such Targeted Tranche. In addition, on the later of (i) the Closing Date and (ii) the first Effective Date on which cumulatively at least $[500,000,000] aggregate notional amount of the Targeted Tranches have been distributed on or prior to such date, PCO will make a payment to Goldman equal to $[2,000,000].

PCO will also pay all fees and expenses of PCO's outside counsel incurred in connection with each PCO CDS and the arrangements contemplated hereby.

The Notes may be issued in US Dollars or other currencies at Goldman's sole discretion. If Goldman elects to place any Notes in a currency other than US Dollars, PCO shall have the option to either (i) bear the currency risk associated with such non-US Dollar placement or (ii) allow Goldman to bear such risk, in which case PCO will pay the Strike Spread associated with such notional amount of the related tranche on the US Dollar equivalent of such issued notional amount.

7. Reserved.

8. Term of Letter Agreement. This Letter Agreement shall terminate on the earlier of (i) [June 30], 2007 (the "**Expiration Date**") and (ii) the pricing date on which, for each Targeted Tranche, the aggregate notional amount of the PCO CDS is at least equal to the Maximum Notional Amount of the Targeted Tranche (the earlier of (i) and (ii), the "**Final Date**"), or such earlier date upon receipt by either party hereto of written notice of the other party's desire to terminate the Letter Agreement. Notwithstanding the foregoing, the provisions of Paragraphs 4, 5, 9 and 19 shall survive any such termination hereof.

9. Nature of Relationship. As you know, Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates in various activities, including securities trading, investment management, financing and brokerage activities and financial planning and benefits counseling for both companies and individuals. In the ordinary course of these activities, Goldman Sachs may actively trade the debt and equity securities (or related derivative securities) of PCO and other companies which may be the subject of the matters contemplated by this Letter Agreement for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities.

PCO recognizes that pursuant to this Letter Agreement Goldman Sachs will rely upon and assume the accuracy and completeness of all of the financial, accounting, tax and other information discussed with or reviewed by Goldman Sachs for such purposes, and it does not assume responsibility for the accuracy or completeness thereof. Goldman Sachs will have no obligation to conduct any independent evaluation or appraisal of the assets or liabilities of PCO or any other party or to advise or opine on any related solvency issues. It is understood and agreed that

Goldman Sachs will act under this Letter Agreement as an independent contractor and nothing in this letter or the nature of our services shall be deemed to create a fiduciary, advisory or agency relationship between Goldman Sachs and PCO or their respective stockholders, employees or creditors. Nothing in this Letter Agreement is intended to confer upon any other person (including stockholders, employees or creditors of PCO) any rights or remedies hereunder or by reason hereof.

In connection with any transaction contemplated in this Letter Agreement, Goldman Sachs is acting as arms'-length counterparty to PCO. Goldman Sachs is not acting as agent or advisor to PCO with respect to any such transaction or the terms thereof. PCO, together with its legal, accounting and independent financial advisors, if any, must determine whether to accept the terms of any such transaction.

10. Agreement to Trade. On each Effective Date, PCO will enter into one or more PCO CDS under which PCO will purchase from Goldman credit protection on a Targeted Tranche, in an amount equal to the notional amount of the Back-to-Back CDS executed on such Effective Date or Notes sold on such date with respect to the same Targeted Tranche, in each case only if (1) the Pricing Spread for such Back-to-Back CDS or such Notes is less than or equal to the Strike Spread for the Targeted Tranche as described in Annex B, (2) the Applicable Non-Call Period is three years from the first Payment Date, (3) the aggregate notional amount of Back-to-Back CDS and Issuer CDS for such Targeted Tranche (taking into account the Back-to-Back CDS or Issuer CDS for such Targeted Tranche executed on such Effective Date) is less than or equal to the Maximum Notional Amount of the Targeted Tranche and (4) such Effective Date occurs prior to the Expiration Date; provided that, in its discretion, PCO may waive the requirements set forth in clauses (2) and (3) with respect to any Back-to-Back CDS or Notes and any Effective Date. The terms and conditions of the each PCO CDS shall be identical to the terms and conditions of the related Back-to-Back CDS or Issuer CDS, as the case may be, as summarized in this Letter Agreement (except for Goldman's role as calculation agent under each such CDS, terms related to the Collateral Securities and in connection with any amounts payable pursuant to Paragraph 6 of this Letter Agreement) unless such terms and conditions are revised subject to mutual agreement by Goldman and PCO.

11. Disclosure of Transaction. Without the prior consent of Goldman, PCO may not discuss or disclose any information about the Offering, any Back-to-Back CDS, any PCO CDS or any transaction relating thereto with any third party other than (i) to its legal, tax, accounting and other professional advisors and (ii) to the extent required by any applicable law. After the closing of the Offering, Goldman may publish a notice of the transaction in such format, in such publications and at such times as Goldman may deem appropriate and consistent with its customary practices. Communication of an approval or disapproval of any such notice referred to in this paragraph shall be made by the end of the second business day following the date such notice is submitted for approval.

12. Reserved.

13. Amendments. This Letter Agreement may not be amended or modified or any term hereof waived except in a writing executed by each of the parties hereto.

14. Assignments. Goldman may, in the performance of its services hereunder, delegate the performance of all or certain of such services as it may select to other Goldman affiliates or any affiliated entities; provided, however, that no such delegation by Goldman shall in any respect affect the terms hereof, and Goldman shall be responsible for any acts or omissions by any of its affiliated entities in the performance of any services delegated hereunder to such entity. In connection therewith, Goldman may direct with reasonable advance notice, prior to the payment of any amount to be made to it hereunder, that payment of such amount be made, in whole or in part, to a Goldman affiliated entity in satisfaction of the payment of such amount due to Goldman hereunder.

15. Enforceability of Provisions. The invalidity or enforceability of any provisions of this Letter Agreement shall not affect the validity or enforceability of any other provisions of this Letter Agreement, which shall remain in full force and effect.

16. Reserved.

17. Choice of Law; Waiver of Jury Trial; Submission to Jurisdiction. This Letter Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of laws provisions thereof. ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM OR ACTION ARISING OUT OF THIS LETTER AGREEMENT OR CONDUCT IN CONNECTION WITH THIS LETTER AGREEMENT IS HEREBY WAIVED. The parties hereto submit to the exclusive jurisdiction of the federal and New York State courts located in the Borough of Manhattan of the City of New York in connection with any dispute related to this Letter Agreement or any of the matters contemplated hereby.

18. No Third Party Beneficiaries. There are no beneficiaries of this Letter Agreement other than the named parties.

19. Miscellaneous. Goldman does not provide accounting, tax or legal advice. Notwithstanding anything herein to the contrary, PCO is authorized to disclose to any person, the U.S. federal and state income tax treatment and tax structure of the potential transaction and all materials of any kind (including tax opinions and other tax analyses) provided to PCO relating to that treatment and structure, without Goldman imposing any limitation of any kind. However, any information relating to the tax treatment and tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent necessary to enable any person to comply with securities laws. For this purpose, "tax structure" is limited to any facts that may be relevant to that treatment.

If this Letter Agreement correctly sets forth PCO's understanding, please so confirm by countersigning and returning the enclosed copy. Upon receipt of the copy by Goldman, this Letter Agreement shall be deemed a binding agreement.

We are delighted to accept this agreement and look forward to working with you on this assignment.

Very truly yours,

____
(GOLDMAN, SACHS & CO.)

PAULSON CREDIT OPPORTUNITIES MASTER LTD.

By: ________________________

Name: ______________________

Title: _______________________

Date: _______________________

Annex A

Reserved

Annex B

"**Targeted Tranche**" means each of the Super Senior, Class A, Class B, Class C and Class D tranche that Goldman will distribute on a best efforts basis, as set forth in the column "Tranche" in the table below.

"**Distributed Tranche**" means, with respect to an Effective Date, a tranche that has been distributed (through Goldman's purchase of credit protection through a Back-to-Back CDS or Issuer CDS) on such Effective Date.

"**Executed Spread**" means, with respect to a PCO CDS, the Pricing Spread of the related Distributed Tranche.

"**Minimum Fee Rate**" means for each Distributed Tranche the rate as set forth in the table below in the column "Minimum Fee Rate" corresponding to the row related to such tranche.

"**Payment Date**": With respect to any Back-to-Back CDS or Issuer CDS, the 28th of each month or if such day is not a Business Day, the next succeeding Business Day, commencing on the month following the Effective Date and ending on the date specified in the related documentation.

"**Portfolio Selection Fee**": With respect to any Targeted Tranche and any Payment Date, the product of (i) the average daily Aggregate Outstanding Amount of Notes of such Targeted Tranche during the related accrual period, (ii) the per annum Portfolio Selection Fee Rate for such Targeted Tranche as set forth in the table below and (iii) the actual number of days in such accrual period divided by 360; provided that the aggregate Portfolio Selection Fees for the period commencing on the Closing Date and ending 1 year later and for each annual period thereafter during the Non-Call Period shall be no less than $[1,000,000].

"**Pricing Spread**" means, (i) for each Class of Notes, the sum of (a) the stated spread above or below the index stated for the Notes of such Class issued on the Closing Date, as set forth in the indenture or issuing and paying agency agreement relating to the Notes, as applicable, and on the related Notes; provided that, with respect to any Class of Notes issued at a discount or premium to par, the amount determined pursuant to this subclause (a) shall be the discount margin (to maturity) to the index stated for the Notes of such Class, (b) 0.06% per annum related to the Collateral Put Provider fee and (c) the per annum Portfolio Selection Fee Rate with respect to such Targeted Tranche as set forth in the table below and (ii) for each Back-to-Back CDS, the stated fixed rate spread with respect to such tranche.

"**Initial Reference Portfolio Notional Amount**" means $[2,000,000,000]

"**Strike Spread**" means, with respect to each Distributed Tranche, the percentage corresponding to such tranche as set forth in the column "Strike Spread" in the table below.

"**Maximum Notional Amount**": For each Targeted Tranche, the product of (i) the percentage corresponding to such tranche as set forth in the column "Tranche Notional Amount (%)" in the table below and (ii) the Initial Reference Portfolio Notional Amount.

"**Upfront Fee Rate**" means, for each Distributed Tranche, the sum of (A) the Minimum Fee Rate for such tranche and (B) the product of (i) 50%, (ii) 3 and (iii) the greater of (a) zero and (b) the difference between (x) the Strike Spread and (y) the Executed Spread.

Tranche	Target Ratings (Moody's/S&P)	Attachment Point (% of Initial Reference Portfolio Notional Amount)*	Exhaustion Point (% of Initial Reference Portfolio Notional Amount)*	Notional Amount (% of Initial Reference Portfolio Notional Amount)	Maximum Notional Amount of Targeted Tranche ($mm)	Strike Spread	Minimum Fee Rate	Portfolio Selection Fee Rate
Super Senior	*	[35.00]%	[100.00]%	[65.00]%	[1,300.00]	[0.34]%	[0.20]%	NA
Class A	[Aaa]/[AAA]	[21.00]%	[35.00]%	[14.00]%	[240.00]	[0.90]%	[1.00]%	[0.25]%
Class B	[Aa2]/[AA]	[18.00]%	[21.00]%	[3.00]%	[100.00]	[1.45]%	[2.00]%	[0.50]%
Class C	[Aa3]/[AA-]	[13.00]%	[18.00]%	[5.00]%	[80.00]	[1.75]%	[2.50]%	[0.50]%
Class D	[A2]/[A]	[9.50]%	[13.00]%	[3.50]%	[100.00]	[4.25]%	[3.00]%	[1.00]%
Class FL	[NR]/[NR]	[0.00]%	[9.50]%	[9.50]%	[180.00]	NA	NA	NA

*The Super Senior Tranche may be shadow rated by Moody's and/or S&P.

The capital structure is subject to change upon feedback from the rating agencies.

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Annex C

Reference Portfolio*

CUSIP	Reference Obligation	Moody's Rating	S&P Rating	Fitch Rating	Reference Obligation Notional Amount
00075QAM4	ABFC 2006-OPT1 M8	Baa2	BBB	BBB	22,222,222.22
00075XAP2	ABFC 2006-OPT2 M8	Baa2	BBB	BBB	22,222,222.22
04541GXK3	ABSHE 2006-HE3 M7	Baa2	BBB	BBB	22,222,222.22
04544GAP4	ABSHE 2006-HE4 M7	Baa2	BBB	BBB	22,222,222.22
00442CAN9	ACE 2006-FM2 M8	Baa2	BBB		22,222,222.22
00441YAP7	ACE 2006-OP2 M9	Baa2	BBB-		22,222,222.22
040104RQ6	ARSI 2006-W1 M8	Baa2	BBB+	BBB+	22,222,222.22
144538AN5	CARR 2006-FRE1 M9	Baa2	A	BBB+	22,222,222.22
14454AAN9	CARR 2006-FRE2 M8	Baa2	BBB+		22,222,222.22
144531FF2	CARR 2006-NC1 M8	Baa2	BBB+	BBB	22,222,222.22
14453FAM1	CARR 2006-NC2 M8	Baa2	BBB	BBB	22,222,222.22
144528AN6	CARR 2006-NC3 M9	Baa2	BBB-	BBB-	22,222,222.22
144531FV7	CARR 2006-OPT1 M8	Baa2	A-	BBB+	22,222,222.22
17309PAL0	CMLTI 2006-AMC1 M8	Baa2	BBB		22,222,222.22
172983AN8	CMLTI 2006-NC1 M8	Baa2	BBB		22,222,222.22
17309MAN3	CMLTI 2006-WFH2 M9	Baa2	BBB-		22,222,222.22
17307G2F4	CMLTI 2006-WMC1 M8	Baa2	BBB+	A-	22,222,222.22
17311CAM3	CMLTI 2007-WFH1 M9	Baa2	BBB-		22,222,222.22
23243HAN1	CWL 2006-24 M8	Baa2	BBB		22,222,222.22
32028PAP0	FFML 2006-FF11 M8	Baa2	BBB	BBB	22,222,222.22
32027GAN6	FFML 2006-FF12 M8	Baa2	BBB	BBB	22,222,222.22
32027LAP0	FFML 2006-FF14 M8	Baa2	BBB	BBB	22,222,222.22
32028GAP0	FFML 2006-FF15 M8	Baa2	BBB	BBB	22,222,222.22
320275AN0	FFML 2006-FF16 M8	Baa2	BBB+		22,222,222.22
32028KAP1	FFML 2006-FF17 M8	Baa2	BBB	BBB	22,222,222.22
320277AP1	FFML 2006-FF7 M8	Baa2	BBB	BBB	22,222,222.22
320276AP3	FFML 2006-FF9 M8	Baa2	BBB+	BBB+	22,222,222.22
35729RAN6	FHLT 2006-A M7	Baa2	BBB	BBB+	22,222,222.22
35729QAN8	FHLT 2006-B M8	Baa2	BBB	BBB+	22,222,222.22
31659EAM0	FMIC 2006-2 M8	Baa2	BBB+		22,222,222.22
316599AN9	FMIC 2006-3 M8	Baa2	BBB		22,222,222.22
36245DAN0	GSAMP 2006-FM2 M8	Baa2	BBB+		22,222,222.22
437084UZ7	HEAT 2006-3 M8	Baa2	BBB+	BBB+	22,222,222.22
437096AQ3	HEAT 2006-5 M8	Baa2	BBB+	BBB+	22,222,222.22
437097AP3	HEAT 2006-6 M8	Baa2	A-	A-	22,222,222.22
43709NAP8	HEAT 2006-7 M8	Baa2	BBB+	BBB+	22,222,222.22
43709QAP1	HEAT 2006-8 M8	Baa2	BBB+	BBB	22,222,222.22
46602UAM0	IXIS 2006-HE3 B2	Baa2	BBB	BBB	22,222,222.22
46629BBA6	JPMAC 2006-CW2 MV8	Baa2	BBB	BBB	22,222,222.22
46626LFV7	JPMAC 2006-FRE1 M8	Baa2	BBB	BBB	22,222,222.22
46629KAP4	JPMAC 2006-WMC3 M8	Baa2	BBB	BBB	22,222,222.22
542512AN8	LBMLT 2006-11 M8	Baa2	BBB		22,222,222.22
54251MAN4	LBMLT 2006-4 M8	Baa2	A-		22,222,222.22
54251RAN3	LBMLT 2006-6 M8	Baa2	BBB+	BBB+	22,222,222.22
54251TAN9	LBMLT 2006-7 M8	Baa2	A-	BBB+	22,222,222.22
542514RD8	LBMLT 2006-WL1 M8	Baa2	BBB		22,222,222.22
576455AN9	MABS 2006-HE5 M9	Baa2	BBB-		22,222,222.22
55275BAP2	MABS 2006-NC2 M9	Baa2	BBB-	BBB	22,222,222.22
57645MAP7	MABS 2006-WMC4 M8	Baa2	BBB+		22,222,222.22
59020U4H5	MLMI 2006-WMC1 B2A	Baa2	BBB+		22,222,222.22

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61750MAP0	MSAC 2006-HE7 B2	Baa2	BBB		22,222,222.22
61750SAP7	MSAC 2006-HE8 B2	Baa2	BBB		22,222,222.22
61748LAN2	MSAC 2006-NC4 B2	Baa2	BBB	BBB	22,222,222.22
61749BAQ6	MSAC 2006-NC5 B3	Baa2	BBB-		22,222,222.22
61744CXV3	MSAC 2006-WMC1 B2	Baa2	A-	BBB+	22,222,222.22
61749KAP8	MSAC 2006-WMC2 B2	Baa2	BBB	BBB	22,222,222.22
617505AN2	MSAC 2007-NC1 B2	Baa2	BBB		22,222,222.22
617451FD6	MSC 2006-HE2 B2	Baa2	BBB+	BBB	22,222,222.22
617463AM6	MSIX 2006-2 B2	Baa2	BBB		22,222,222.22
66988YAN2	NHEL 2006-5 M8	Baa2	BBB+		22,222,222.22
65536HCF3	NHELI 2006-FM1 M8	Baa2	BBB+		22,222,222.22
65537FAN1	NHELI 2006-FM2 M8	Baa2	BBB+	BBB+	22,222,222.22
65536QAN8	NHELI 2006-HE3 M8	Baa2	BBB+	BBB+	22,222,222.22
68400DAP9	OOMLT 2007-1 M8	Baa2	BBB		22,222,222.22
81375WJY3	SABR 2006-FR1 B2	Baa2	A-	BBB+	22,222,222.22
813765AH7	SABR 2006-FR3 B2	Baa2	BBB	BBB+	22,222,222.22
81377AAM4	SABR 2006-HE2 B2	Baa2	BBB	BBB+	22,222,222.22
86360WAM4	SAIL 2006-4 M7	Baa2	BBB	BBB	22,222,222.22
86360RAN3	SASC 2006-EQ1A M8	Baa2	BBB		22,222,222.22
86359UAN9	SASC 2006-OPT1 M7	Baa2	BBB	BBB	22,222,222.22
84752BAQ2	SURF 2007-BC1 B2	Baa2	BBB		22,222,222.22
83611XAM6	SVHE 2006-EQ2 M8	Baa2	BBB	BBB	22,222,222.22
83611MMF2	SVHE 2006-OPT1 M7	Baa2	BBB	BBB+	22,222,222.22
83611MMT2	SVHE 2006-OPT2 M7	Baa2	A-		22,222,222.22
83611MPR3	SVHE 2006-OPT3 M7	Baa2	BBB		22,222,222.22
83612CAN9	SVHE 2006-OPT5 M8	Baa2	BBB		22,222,222.22
04544QAP2	ABSHE 2006-HE7 M9	Baa2	BBB-	BBB-	22,222,222.22
07389MAP2	BSABS 2006-HE9 M9	Baa2	BBB-		22,222,222.22
17311BAL7	CMLTI 2007-AMC1 M8	Baa2	BBB		22,222,222.22
32028TAN7	FFML 2007-FF1 B2	Baa2	BBB		22,222,222.22
44328BAP3	HASC 2006-HE2 M8	Baa2	BBB+	BBB+	22,222,222.22
43710LAN4	HEAT 2007-1 M8	Baa2	BBB+	BBB	22,222,222.22
54251UAN6	LBMLT 2006-8 M8	Baa2	A-		22,222,222.22
54251WAN2	LBMLT 2006-9 M8	Baa2	BBB+		22,222,222.22
59023XAN6	MLMI 2006-HE6 B3	Baa2	BBB-		22,222,222.22
59022VAN1	MLMI 2006-OPT1 B2	Baa2	BBB		22,222,222.22
617526AP3	MSAC 2007-HE1 B2	Baa2	BBB		22,222,222.22
68389BAM5	OOMLT 2006-3 M9	Baa2	BBB-		22,222,222.22
86361EAP6	SASC 2006-WF3 M9	Baa2	BBB-	BBB-	22,222,222.22
83611YAM4	SVHE 2006-OPT4 M7	Baa2	BBB+		22,222,222.22

*The Reference Portfolio may be modified upon the mutual agreement of Goldman, PCO and the Portfolio Selection Agent.

MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Jonathan Egol
David Gerst
Jordan Kaufman
Darren Thomas
Fabrice Tourre
Geoff Williams
Shin Yukawa

Cc: Armen Avanessians
Robert Berry
Justin Gmelich
Margaret Holen
Bill McMahon
Bunty Bohra
Slim Bentami
Josh Birnbaum
David Lehman
Peter Ostrem
Matt Schroeder
Mike Swenson
Mike Turok
Steve Elia
Glade Jacobsen
Rob Leventhal
Darren Littlejohn
Mary Marr
Mitch Resnick

Date: March 12, 2007

Re: **ABACUS Transaction sponsored by ACA**

I. Introduction

The Structured Product Correlation Trading Desk is currently structuring a synthetic CDO, ABACUS 2007-AC1 ("AC1", or the "Transaction"). AC1 will reference a $2 billion static portfolio consisting entirely of Baa2-rated midprime and subprime RMBS (such portfolio, the "Reference Portfolio"). ACA Capital Management (the "Portfolio Selection Agent"), will be the portfolio selection agent for the transaction. The Desk will distribute on a best efforts basis the super senior through A/A2 layers of credit risk of AC1 (such risk layers, the "Targeted Tranches"), and consistent with prior ABACUS transactions, Goldman will act as protection buyer in connection with the Transaction. Simultaneously with the distribution of AC1, Goldman will write protection on the Targeted Tranches to Paulson Credit Opportunities Master Ltd. ("Paulson"). Goldman will receive an upfront premium from Paulson for distributing risk at or within specified strike spreads. Through this arrangement, Goldman is effectively working an order for Paulson to buy protection on specific layers of the AC1 capital structure at or inside specific spread levels.

Permanent Subcommittee on Investigations
EXHIBIT #118

Several additional key aspects of the AC1 transaction include:

- The tranches offered in connection with AC1 (other than the super senior tranche, which is expected to be executed privately through one or more supersenior swaps) are intended to be distributed broadly to suitable investors through the Structured Products Syndicate Desk.
- This will be the first ABACUS transaction in which a portfolio selection agent has been appointed. There have been three prior ABACUS transactions that were lightly-managed by a third party, the first being ABACUS 2005-CB1, which priced in November 2005, the second being ABACUS 2006-NS1 which priced in July 2006 and the third being ABACUS 2006-HGS1, which priced in November 2006. We expect the strong brand-name of ACA as well as our market-leading position in synthetic CDOs of structured products to result in a successful offering.
- Goldman is not taking any warehouse risk in this transaction. The underlying portfolio will not be ramped in the CDS market. Goldman is solely working as agent and but retains the option to underwrite the risk as principal.
- As described below, we project the profitability of the transaction to be between $15 million and $20 million, depending on the amount of CDO tranches distributed, and the levels at which those CDO tranches are distributed at.
- We do not expect the transaction to result in the creation of additional EITF 02-3 balances, as the tranches that are distributed will be immediately be crossed to Paulson, resulting in no retained unobservable tranches on the closing date.

We are pursuing this transaction for the following reasons:

- Partnering with ACA on this innovative, franchise-building transaction will enhance our leadership position in the market for structured product synthetic CDOs. We expect that the role of ACA as Portfolio Selection Agent will broaden the investor base for this and future ABACUS offerings.
- As described above, upon execution of the Distributed Tranches, Goldman will simultaneously sell protection on such CDO tranches of the Reference Portfolio to Paulson for a fee, which will depend on the notional amount the CDO tranche executed and the spread it was executed at. This format therefore enables Goldman to work as agent on a best efforts basis, with the ability to principal any layer of risk of the Transaction.
- This transaction will enhance Goldman's franchise as a leading firm in the synthetic structured product CDO sector.

We expect to price the Transaction by the end of March, and close by the end of April.

Given the franchise value and innovative nature of this transaction, as well as the potential to benefit the overall structured products business, we request the Committee's approval to execute the proposed synthetic CDO.

II. Transaction Overview

A Cayman's special purpose vehicle will be established for the sole purpose of issuing approximately $700 million of Notes (such special purpose vehicle, the "Issuer").

The Issuer will enter into a CDS with Goldman to write protection on the mezzanine layers of risk of the Reference Portfolio. Under the CDS, the Issuer will write protection to Goldman covering cumulative losses between 10.00% and 45.00% of the notional amount of the Reference Portfolio. The Issuer's obligations to Goldman under the CDS will be collateralized by triple-A securities selected by Goldman. In return for this credit protection, Goldman will pay a stated premium equal to the periodic administrative expenses of the Issuers, the spread over LIBOR on the outstanding classes of Notes and the portfolio selection fees accrued actual/360 and paid monthly on the outstanding classes of the Notes. The structure is described in more detail in the Appendix.

We intend to separately purchase credit default swap protection from one or more suitable counterparties approved by Credit on the super senior 45% to 100% risk layer. The Desk has been in discussions with ACA and [redacted] to transact on this supersenior tranche at a level of approximately 40bps. The structure

[redacted] = Redacted by the Permanent Subcommittee on Investigations

and margin terms of such exposure will be reviewed and approved by Legal and Credit prior to execution of such private CDS trades.

The expected issuance is summarized below:

Tranche	Notional Amount ($MM)	Loss Exposure	ACA Selection Fees [(b)]	Expected Ratings (Moody's/S&P)	Target Investors / Distribution
Super Senior [(a)]	1,100.00	45.00% - 100.00%	NA	Not Applicable	ACA, other hedge funds, monolines
Class A1	200.00	35.00% - 45.00%	0.250%	Aaa/AAA	Syndicated Tranche
Class A2	180.00	21.00% - 35.00%	0.250%	Aaa/AAA	Syndicated Tranche
Class B	60.00	18.00% - 21.00%	0.500%	Aa2/AA	Syndicated Tranche
Class C	100.00	13.00% - 18.00%	0.500%	Aa3/AA-	Syndicated Tranche
Class D	60.00	10.00% – 13.00%	1.000%	A2/A	Syndicated Tranche
First Loss	200.00	0.00% - 10.00%	NA	NR/NR	Not Offered
Total	2,000.00				

(a) We expect to buy protection on the super senior tranche of the AC1 transaction from one or more suitable counterparties. Such super senior trade would be executed in the form of a private credit default swap transaction.

(b) ACA will earn portfolio selection fees accrued actual/360 and paid monthly on the outstanding notional amount (as reduced from time-to-time by amortization or credit losses) of the Notes as set forth above.

We expect on the closing date to issue up to $700 million of Notes as summarized in the table above. All of the Notes will be rated by both S&P and Moody's.

We intend to target suitable structured product investors who have previously participated in ACA-managed cashflow CDO transactions or who have previously participated in prior ABACUS transactions.

The Notes will have a legal maturity of 30 years. However, the expected average life of the Notes will be between 3 and 5 years. Goldman shall have the option to terminate the CDS and cause one or more classes of Notes to be redeemed on any payment date occurring on or after 2 years following the closing date.

The Reference Portfolio has been selected and mutually agreed upon by ACA and Goldman. Following is a summary of the Reference Portfolio characteristics expected to pertain as of the pricing date:

- 90 equally-sized Reference Obligations, $22.22 million notional per name.
- Each Reference Obligation is a midprime or subprime RMBS obligation.
- All of the Reference Obligations were issued after January 1, 2006.
- Each Reference Obligation has an actual rating by Moody's of "Baa2".

Pursuant to a portfolio selection agency agreement that ACA will enter into on the Closing Date with the Issuer, ACA will select the initial Reference Portfolio. Following the Closing Date, the Reference Portfolio will remain static, and no discretionary removals, substitutions nor reinvestments will be permitted.

III. ACA's role

ACA Capital Management (the "Portfolio Selection Agent"), will be the portfolio selection agent for the transaction. ACA has selected a Reference Portfolio of 90 Baa2 rated RMBS obligations for the Transaction. ACA has approximately $16 billion of assets in 22 CDOs under management. ACA currently employs 30 full-time professionals who are dedicated to the CDO asset management business and is active in both the cash and synthetic structured product markets. We expect to leverage ACA's credibility and franchise to help distribute this Transaction.

The financial guarantee insurance company arm of ACA has also indicated its interest in participating as risk taker at the supersenior level of the capital structure. ACA has indicated that they would have interest in writing protection on the 45% - 100% supersenior tranche of the Reference Portfolio at a spread of approximately 40bps. This level does not include intermediation costs that will be incurred in order to be able to hedge the ACA counterparty risk. We expect the cost of such intermediation to be 10bps p.a. The Desk is still working on identifying counterparties that will be able to take ACA's counterparty risk.

IV. Paulson's role

Paulson is a large macro hedge fund that has taken directional views on the subprime RMBS market for the past few months. In 2006 the Desk worked an order for Paulson to buy protection on a supersenior tranche off a portfolio similar to the Reference Portfolio selected by ACA, and the AC1 Transaction is another mean for Paulson to accomplish their trading objective: buying protection in tranched format on the subprime RMBS market.

The Desk expects to enter over the next few days into a letter agreement with Paulson. Under such agreement, Goldman will work an order for Paulson to buy protection on specific layers of the AC1 capital structure (such layers, the "Targeted Tranches") at or inside specific spread levels (the "Strike Spreads"). If Goldman succeeds in placing a given Targeted Tranche inside the related Strike Spread, Goldman will receive from Paulson a fee on the notional amount of such Targeted Tranche distributed. Such fee will have a floor component (the "Minimum Fee Rate") and an upside sharing component, under which Goldman will share with Paulson any execution delivered at levels tighter than the Strike Spreads.

Using reasonable pricing assumptions for the super senior and the mezzanine layers of risk as disclosed below, in conjunction with the Strike Spreads that we expect to negotiate with Paulson, we project the all-in profit for this transaction to be between $15mm and $20mm.

Tranche	Expected Ratings (Moody's/S&P)	Strike Spread (% p.a.)	Expected Pricing Spread (% p.a.)
Super Senior [a]	Not Applicable	0.95%	0.50%
Class A1	Aaa/AAA	L+1.25%	L+1.00%
Class A2	Aaa/AAA	L+1.50%	L+1.25%
Class B	Aa2/AA	L+2.40%	L+1.75%
Class C	Aa3/AA-	L+2.90%	L+2.50%
Class D	A2/A	L+5.75%	L+5.00%
First Loss	NR/NR	NA	NA

V. Accounting Treatment

With respect to Goldman's accounting treatment, AC1 has been reviewed and approved by Mary Marr in Accounting Policy, and the transaction contains the same structural provisions which were approved by Accounting Policy for the prior ABACUS transactions. In particular, given that the junior-most class of notes in each transaction is exposed to the substantial majority of expected losses in the structure and the expectation that Goldman will not purchase any of the junior-most class of notes, Accounting Policy is comfortable that Goldman would not be required to consolidate the transaction. Similar to the prior ABACUS transactions, AC1 uses the so-called Beneficial Interest Exchange ("BIE") Option structure approved by Accounting Policy which permits Goldman to sell the initial triple-A collateral to the Issuer at fair market value without requiring Goldman to consolidate the transaction. The BIE Option allows noteholders to substitute the triple-A collateral securities held by the Issuer with other eligible securities of their choosing, subject to approval of Goldman (such approval not to be unreasonably withheld).

Mary Marr in Accounting Policy has reviewed and approved this aspect of the transaction with respect to regulatory and accounting considerations. To the extent Goldman was to purchase Notes on the Closing Date, further review might be required to confirm the FIN 46 and FAS 140 analysis of this transaction. Tim Saunders has received this memo and will sign off on the legal considerations prior to pricing.

P&L recognition and valuation adjustments for ABACUS transactions will follow the valuation adjustment policy as approved by Brian Lee and Rob Leventhal in Controllers. As noted above, we expect to have full capital structure price observability on the pricing date.

The CDS transaction will be marked to market, and P&L will be recognized reflecting observable spread movements on the reference obligations. For example, a general widening of spreads, holding implied correlation constant, would result in the recognition of a gain on the transaction, and conversely a general tightening of spreads would result in the recognition of a loss. Spreads on the reference obligations will be marked to market by the secondary traders responsible for cash and synthetic trading of such securities, and will be subject to price verification by Controllers. However, so long as Goldman's offsetting credit default swap trades with Paulson remain outstanding, Goldman should remain mark to market neutral following any such spread movements.

VI. Model and Booking Policy

There is not yet an industry standard model for ABACUS type transactions. FICC Strategies have developed and Derivatives Analysis has approved a pricing model and tradable infrastructure specifically for the ABACUS CDS transactions which are in compliance with Firm policy. The model reflects the economic and legal structure of the reference obligations, the specialized credit events and settlement mechanisms applicable to the ABACUS CDS transactions, and a correlation framework for the structured product portfolios referenced in the ABACUS CDS transactions. This ABACUS CDS model is fully consistent with the pricing model and infrastructure which has already been put in place for single-name credit default swaps on structured products. No model waiver will be required for this transaction.

As with the prior ABACUS transactions, the issuance of Notes will require the relevant Goldman affiliates to enter into a new basis swap and a new collateral security put. These aspects of the ABACUS structure are described in more detail in the Appendix. FICC Strategies has recently developed a pricing model for the basis swap and the put options for ABACUS trades. This model has been blessed by FICC Strategies, approved by Derivatives Analysis and affirmed by Model Control.

VII. Strengths / Issues to Consider

Strengths

- **Franchise**: This transaction is a new and innovative transaction for Goldman Sachs and the CDO market; it is the first ABACUS transaction using a Portfolio Selection Agent, using an attractively structured reference portfolio of Baa2 midprime and subprime RMBS obligations that will be appealing to investors, in a challenging market environment. This transaction addresses the objectives of multiple clients of the firm: it helps ACA increase their assets under management and their fee income; it enables Paulson to execute a macro hedge on the RMBS market; it offers to CDO investors an attractive product relative to other structured credit products available in the market. Our ability to structure and execute complicated transactions to meet multiple client's needs and objectives is key for our franchise.
- **Attractive Risk/Return Profile:** Goldman is not taking any warehouse risk in this transaction. No underlying risk is ramped before the execution of AC1, and Goldman's profits come directly from the purchase of credit protection on tranches of an RMBS portfolio (selected by ACA) from the CDO market and simultaneous re-offering of such protection under the same terms for a pre-negotiated

premium that will be payable by Paulson. Goldman is therefore acting as agent, but retains the option to principal this AC1 transaction.

- **Establish Leadership in Growing Market Segment**: Executing this transaction and others like it helps position Goldman to compete more aggressively in the growing market for synthetics written on structured products.
- **Profit**: Assuming distribution in full of the super senior through "A2/A" tranches this transaction is expected to generate, after fees and expenses, between $15 and $20 million in P&L.

Issues to Consider

- **Potential Conflicts of Interest**: Although the reference portfolio has been selected by AC1 as portfolio selection agent, as in all the ABACUS transactions Goldman is acting as principal as a protection buyer in these transactions (as well as taking other principal roles summarized in the Appendix). The transaction disclosure notes the various capacities in which Goldman entities act as counterparty to the transactions and the risk factors section notes the potential for conflicts of interest. As with prior ABACUS transactions, we receive advice of outside counsel (McKee Nelson) regarding disclosure in ABACUS securities offerings and all such disclosure will be reviewed and approved by Tim Saunders in Legal.
- **Expense and Protection Cost**: The AC1 transaction will entail non-refundable upfront expenses which are expected to be paid from an upfront expense payment made by Paulson to Goldman pursuant to the letter agreement expected to be entered into between Goldman and Paulson as well as ongoing protection costs (inclusive of portfolio selection fees paid to ACA) that will match the ongoing protection costs payable by Paulson to Goldman under our credit default swaps with Paulson.
- **Distribution Cannibalization**: This transaction will be appealing to the same type of investors who traditionally purchase mezzanine ABS CDOs. The firm is currently prioritizing the sale of ABS CDOs for which the risk has already been aggregated vs. CDOs that have not been ramped. For this reason the AC1 transaction is only being showed to accounts that have already declined to participate in other ABS CDO transactions where Goldman has taken warehouse risk.
- **Contingent Market Value Risk on Collateral Securities**: Similar to the prior ABACUS transactions, in the event that some or all of the collateral securities need to be liquidated to fund protection payments to Goldman under the credit default swap, or to fund certain other principal payments on the notes, Goldman will be exposed to the risk that such collateral securities have a market value less than par at the time of liquidation. This risk is mitigated somewhat by the facts that (1) the collateral securities will be triple-A floating rate structured securities selected by Goldman, (2) Goldman may select the particular securities to be liquidated and thus may select the securities expected to trade at or above par at such time and (3) only a relatively small amount of securities are expected to be liquidated at any given time. The exception to this third point is the case of optional redemption, which is entirely at Goldman's discretion.
- **Accounting**: We do not expect any consolidation issues with respect to this transaction. P&L recognition, valuation adjustment policies and infrastructure/control enhancements are continuing subjects of discussion with Brian Lee and Rob Leventhal in Controllers.

VIII. Appendix: Structural Summary

The Issuer will enter into a CDS with GSCM (as protection buyer), as well as several other hedging transactions with other Goldman entities as described below. Under the CDS, the Issuer will be obligated to pay GSCM for credit losses experienced on the Reference Portfolio to the extent a relevant tranche is impacted by such losses and the Issuer has sold protection to Goldman under the CDS on such tranche. In exchange for the protection payments, GSCM will be obligated to pay a stated running premium to the Issuer, which shall be used to make interest payments under the notes.

No Goldman entity shall be required to own or be otherwise exposed to any of the reference obligations as a condition for payment under the CDS.

The CDS will be cash settled immediately upon satisfaction of conditions to settlement after a credit event. All credit events and related settlement mechanics are consistent with the current form of the Standard Terms Supplement for a Credit Derivative Transaction on a Mortgage- Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) and Form of Confirmation.

The Notes will be collateralized by relatively liquid triple-A structured product securities (none of which shall be issued by the same issuer as any reference obligation). GSCM (as protection buyer) will have the right to select the collateral securities, subject however to several constraints specified in the Offering Circular. Note that selection of high-quality collateral is generally in Goldman's interest and that in this respect our incentives are largely aligned with that of Noteholders. The collateral securities will be reviewed by Credit prior to closing.

GSCM will enter into a basis swap with the Issuer, under which the accrued interest payments on the collateral securities (which bear interest at rates indexed to LIBOR) will be paid to GSCM and GSCM shall pay the related Issuer LIBOR flat. Noteholders will bear the credit risk of collateral security non-payment, as failure of the Issuer to pay the accrued coupons on the collateral securities to GSCM will be an event of default under the notes, and GSCM will not be required to continue payments under the basis swap. Amounts owed to GSCM under the basis swap will be senior to payments due under the notes. The combination of the LIBOR index payments by GSCM and the CDS premium by GSCM will always equal the sum of ongoing expenses of the Issuer and interest payments under the Notes.

The rating agencies require that noteholders be protected against market value declines in the collateral securities, in the event that collateral must be liquidated to fund (1) cash settlements to GSCM, (2) amortization of the Notes (other than a mandatory early redemption), or (3) an optional redemption of the Notes if GSCM exercises its termination option under the CDS.

Goldman, Sachs & Co. (as collateral disposal agent) will select which collateral securities are to be liquidated in each case above, and will be responsible for determining in good faith the strategy (in its commercially reasonable discretion) likely to achieve the highest proceeds for the collateral securities to be liquidated.

In the first circumstance (cash settlements under the CDS), Goldman will bear the risk that the collateral has declined in value. When a loss amount is determined, a commensurate face amount of collateral will be liquidated, and GSCM under the CDS will only be entitled to receive such proceeds received on such liquidation.

With respect to the other two circumstances, GSI (as put provider) shall be required to buy the collateral securities to be liquidated at par, if GS&Co. (as collateral disposal agent) is unable to obtain a price in the market of at least par.

In the case of optional termination, the put is not really a risk to Goldman, since our decision to terminate the transaction will by definition include both the value of the CDS termination and the value of the collateral securities. We view the put more as a modest reduction in the value of our option to terminate the CDS.

We believe the put risk arising from amortization of the notes (other than in connection with Goldman terminating the CDS) is small for the following reasons:

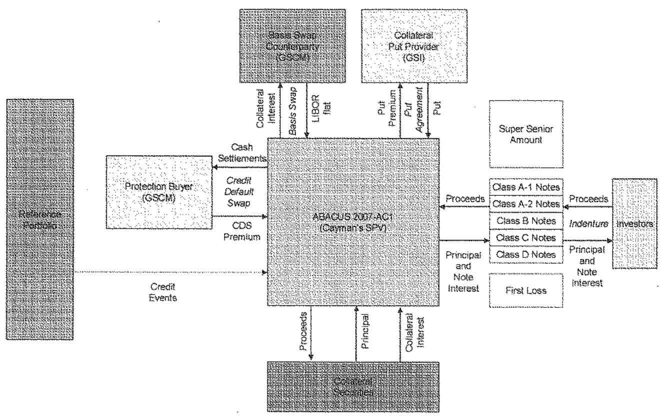
- The notes cannot begin to amortize until after the super senior notional has been reduced to zero. We do not expect any of the Notes to receive any principal payments for at least 4.0 years under base-case prepayment assumptions.

- The amount of collateral required to be liquidated in any month is purely a function of reference portfolio amortizations in that month, which is likely to be small in relation to the principal balance of the notes and should be smoothly distributed over time.
- Goldman (as protection buyer) has the right to direct reinvestment of any principal on collateral securities. The initial collateral securities are expected to have approximately a 2- to 3-year weighted average life. In the future, prior to any amortization of the notes occurring, we could direct the trustee to keep a suitable portion of the collateral invested in cash, incurring more negative carry on our protection in exchange for negligible put risk.

The spread on the initial collateral securities is expected to be approximately 7-10 bps over LIBOR. It is the put to Goldman which enables us to select high-quality collateral and earn this positive spread over LIBOR in the ABACUS structure. For these reasons outlined above, we believe that this positive carry generated by the put feature creates significant value for the synthetic transaction and more than adequately compensates for the put risk.

Lastly, as noted above, in a mandatory early redemption of the Notes (arising from an adverse tax event or from a default of one or more Goldman entities that are parties to the transaction), the put would not be exercisable against Goldman, exposing noteholders to the market value of the collateral.

The transaction structure is depicted in the schematic below.



From: Tourre, Fabrice
Sent: Monday, March 12, 2007 1:47 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Abacus ACA

As discussed with Nartey, we are taking his feedback into account and once we have gotten more feedback from accounts accross the cap structure we will decide what the best cours of action is.

Gerstie, we need to have a follow up call with Paulson to see how they feel about the strike spreads and upfront fees we mentioned to them. When is this call happening ?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Mon Mar 12 14:32:55 2007
Subject: RE: Abacus ACA

So what do you suggest we say to Joerg?

-----Original Message-----
From: Tourre, Fabrice
Sent: Monday, March 12, 2007 2:29 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Abacus ACA

I suggest to hold off for the time being. Paulson will likely not agree to this unless we tell them that nobody will buy these bonds if we don't make that change.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: ficc-mtgcorr-desk
Sent: Mon Mar 12 14:18:07 2007
Subject: FW: Abacus ACA

I suggest we ask Gail to relay. Thoughts?

From: Zimmermann, Jörg [mailto:joerg.zimmermann@ikb-cam.de]
Sent: Monday, March 12, 2007 1:51 PM
To: Nartey, Michael
Cc: Egol, Jonathan; Tourre, Fabrice
Subject: Abacus ACA

Permanent Subcommittee on Investigations
EXHIBIT #119

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M,

did you hear something on my request to remove Fremont and New Cenutry serviced bonds ? I would like to try to the advisory comitee this week and would need consent on it.

Rgds

J

Jörg Zimmermann

Vice President – Portfolio Investments

IKB Credit Asset Management GmbH

Uerdinger Straße 90

40474 Düsseldorf

Tel.: +49 (0)211 8221-6283

Fax: +49 (0)211 8221-6383

E-Mail: joerg.zimmermann@ikb-cam.de

Internet: www.ikb-cam.de

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Permanent Subcommittee on Investigations
EXHIBIT #120

ABACUS 2007-AC1

$2 Billion Synthetic CDO

Referencing a static RMBS Portfolio

Selected by ACA Management, LLC

March 23, 2007

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular. Capitalized terms but not defined herein shall have the meanings set forth in the definitive Offering Circular.

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Disclaimer

The information contained herein is confidential information regarding securities that may in the future be offered by ABACUS 2007-AC1, Ltd. (the "Issuer"). The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use. By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with any applicable securities laws. For this purpose, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction.

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. The information contained herein is preliminary and material changes to the proposed terms of the securities described herein may be made at any time. If any offer of securities is made, it shall be made pursuant to a definitive offering circular (the "Offering Circular") prepared by or on behalf of the Issuer, which would contain material information not contained herein and which shall supersede, amend and supplement this information in its entirety. Any decision to invest in the securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary or appropriate and consulting the investor's own legal, accounting, tax, and other advisors in order to make an independent determination of the suitability and consequences of an investment in the securities.

The securities described herein (the "Notes") will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular.

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The Portfolio Selection Agent's participation in the transaction is subject to review and approval of its credit committee, senior management and counsel. No credit or other approval is implied, or shall be construed, by delivery of the information contained herein.

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HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions. Such potential outcomes are not a prediction by the Issuer, Goldman Sachs, the Portfolio Selection Agent or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Goldman Sachs, the Portfolio Selection Agent or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Goldman Sachs, the Portfolio Selection Agent or their respective affiliates assumes any duty to update any such statement. Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the reference portfolio, any Credit Events on the reference portfolio, the timing of any Credit Events and subsequent reimbursements, changes in interest rates, any weakening of the specific credits included in the reference portfolio, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein.

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer. The Reference Portfolio selected by the Portfolio Selection Agent on behalf of the Issuer may differ substantially from investments made by the Portfolio Selection Agent on behalf of collateralized debt obligation funds managed by it. Meaningful comparisons between the Transaction and any prior transaction managed by the Portfolio Selection Agent (including those described herein) may be difficult. The Issuer has no operating history.

In addition, there can be no assurance that any member of the senior management team of the Portfolio Selection Agent will remain with the Portfolio Selection Agent for the duration of the Transaction.

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No person has been authorized to give any information or to make any representations other than those to be contained in the Offering Circular regarding the offering of any securities described herein. An investment in the securities described herein, when and if offered, will involve substantial risk. Prior to investing, prospective investors should carefully consider the risks, which will be described in the Offering Circular, and should consult their own investment advisors, and tax, legal, accounting and other regulatory advisors. Due to the risks involved in the securities described herein, investors should be prepared to suffer a loss of their entire investment.

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Risk Factors

PROSPECTIVE INVESTORS SHOULD READ THE OFFERING CIRCULAR FOR A MORE COMPLETE DESCRIPTION OF RISK FACTORS RELEVANT TO A PARTICULAR INVESTMENT

- Purchasing the Notes involves certain risks. Prospective investors should carefully consider the following factors, as well as the risk factors included in the final Offering Circular, prior to purchasing the Notes. The following is not intended to be an exhaustive list of the risks involved in the Transaction.
- The final Offering Circular will include more complete descriptions of the risks described below as well as additional risks. Any decision to invest in the Notes described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the Notes.

Leveraged Credit Exposure to Reference Entities

- Investors will have leveraged exposure to the credit of a number of Reference Entities because the notional amount of the Reference Portfolio is significantly larger than the principal amount of the Notes. Following the delivery of a Credit Event Notice by Goldman Sachs in relation to a Credit Event with respect to a Reference Entity and the satisfaction of the other Conditions to Settlement, the outstanding principal amount of the investment may be reduced. Investors in the Notes may suffer significant reductions in their outstanding principal amounts. The maximum loss for investors is the full principal amount.

No Legal or Beneficial Interest in Obligations of Reference Entities

- Participation in the Transaction does not constitute a purchase or other acquisition or assignment of any interest in any obligation of any Reference Entity. Neither the Issuer nor investors will have recourse against any Reference Entities. Neither the investors nor any other entity will have any rights to acquire from Goldman Sachs any interest in any obligation of any Reference Entity, notwithstanding any reduction in the principal of the relevant class with respect to such Reference Entity. Neither the Issuer nor any investor will have the benefit of any collateral delivered by any Reference Entity nor any right to enforce any remedies against any Reference Entity.

Tax/Regulatory Impact

- There may be a tax or regulatory impact of investing in the Notes. Goldman Sachs does not provide any opinion on these issues. Any investor should consult with its own advisors prior to investing in the Notes.

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Risk Factors

Limited Liquidity of the Transaction

- There is currently no market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide the holder of the Notes with liquidity, or that it will continue for the life of the Notes. Moreover, the limited scope of information available to the investors regarding the Reference Entities and the nature of any Credit Event, including uncertainty as to the extent of any reduction to be applied to the notional amount of each class if a Credit Event has occurred but the amount of the relevant reduction in the notional amount has not been determined, may further affect the liquidity of the Notes. Consequently, any investor in the Notes must be prepared to hold such Notes for an indefinite period of time or until final maturity.

Mark-to-Market Risk

- Investors are exposed to considerable mark-to-market volatility following changes in any of the following: spreads of the credits in the Reference Portfolio, comparable CDO spreads, ratings migration in the reference portfolio, ratings migration of the Notes, ratings migration of the Collateral or issuers or providers thereof, and Credit Events in the Reference Portfolio (and hence reduction of subordination). These will be reflected in mark-to-market valuations which are likely to be more volatile than an equivalently rated unleveraged investment.

Credit Events may vary from Defaults

- Historical default statistics may not capture events that would trigger a Credit Event affecting the Notes. All Credit Event definitions will be defined in the final legal documents and will be governed by the 2003 ISDA Credit Derivatives Definitions and any amendment or supplement thereto.

Credit Ratings

- Credit ratings represent the rating agencies' opinions regarding credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and/or interest payments and do not evaluate the risks of fluctuations in market value. Accordingly, the credit ratings may not fully reflect the true risks of the Transaction. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than its rating indicates.

Rating Volatility

- Rating agencies may from time to time change the ratings of the Notes (or the Reference Obligations in the Reference Portfolio) even if no losses have been incurred under the Notes due to changes in rating methodology or rating migration of the Reference Obligations in the Reference Portfolio. Due to the leveraged nature of the Transaction, the rating may be significantly more volatile than corporate debt with an equivalent credit rating.

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Risk Factors

Certain conflicts of interest relating to Goldman Sachs and its Affiliates; No reliance

- Goldman Sachs does not provide investment, accounting, tax or legal advice and shall not have a fiduciary relationship with any investor. In particular, Goldman Sachs does not make any representations as to (a) the suitability of purchasing Notes, (b) the appropriate accounting treatment or possible tax consequences of the Transaction or (c) the future performance of the Transaction either in absolute terms or relative to competing investments. Potential investors should obtain their own independent accounting, tax and legal advice and should consult their own professional investment advisor to ascertain the suitability of the Transaction, including such independent investigation and analysis regarding the risks, security arrangements and cash-flows associated with the Transaction as they deem appropriate to evaluate the merits and risks of the Transaction.
- Goldman Sachs may, by virtue of its status as an underwriter, advisor or otherwise, possess or have access to non-publicly available information relating to the Reference Obligations, the Reference Entities and/or other obligations of the Reference Entities and has not undertaken, and does not intend, to disclose, such status or non-public information in connection with the Transaction. Accordingly, this presentation may not contain all information that would be material to the evaluation of the merits and risks of purchasing the Notes.
- Goldman Sachs does not make any representation, recommendation or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained herein or in any further information, notice or other document which may at any time be supplied in connection with the Transaction and accepts no responsibility or liability therefore. Goldman Sachs is currently and may be from time to time in the future an active participant on both sides of the market and have long or short positions in, or buy and sell, securities, commodities, futures, options or other derivatives identical or related to those mentioned herein. Goldman Sachs may have potential conflicts of interest due to present or future relationships between Goldman Sachs and any Collateral, the issuer thereof, any Reference Entity or any obligation of any Reference Entity.
- Goldman Sachs & Co. will act as the initial purchaser for all classes of Notes, and affiliates of Goldman Sachs & Co. will act as the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider and the Collateral Disposal Agent.

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Risk Factors

Reliance on Creditworthiness of the Collateral

- The ability of the Issuer of the Notes to meet its obligations under the Notes will depend on, amongst other things, the receipt by it of payments of interest and principal from the Collateral. Consequently, investors are exposed not only to the occurrence of Credit Events in relation to any of the Reference Obligations, but also to the ability of the Collateral or the issuer or provider thereof, to perform its obligations to make payments to the Issuer of the Notes. Although at the time of purchase, such Collateral will be highly rated, there is no assurance that such rating will not be reduced or withdrawn in the future, nor is a rating a guarantee of future performance.

Creditworthiness of Goldman Sachs

- Premium payments will be required to be made by Goldman Sachs to the Issuer throughout the life of the Transaction. Consequently, investors are exposed not only to the occurrence of Credit Events in relation to any of the Reference Obligations, but also to the ability of Goldman Sachs to perform its obligations to make payments to the Issuer of the Notes, amongst other secured parties.

Historical Performance does not Predict Future Performance of Transaction

- Individual Reference Entities may not perform as indicated by historical performance for similarly rated credits. Furthermore, even if future credit performance is similar to that of historic performance for the entire market, investors must make their own determination as to whether the Reference Portfolio will reflect the experience of the universe of rated credits. The frequency of Credit Events experienced under the Notes may be higher than that of historical rates, and/or that of future rates for the market as a whole.

Projections, Forecasts and Estimates

- Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Issuer considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only estimates. Actual results may vary from the projections, and the variations may be material.

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I. Transaction Overview

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Transaction Overview

Executive Summary

- ABACUS 2007-AC1 is a $2 billion notional synthetic CDO (the "Transaction") referencing a portfolio (the "Reference Portfolio") consisting of RMBS obligations.
- ACA Management, LLC ("ACA") will be acting as Portfolio Selection Agent in this Transaction.
- ACA currently manages 22 outstanding CDOs with underlying portfolios consisting of $15.7 billion of assets [1].
- The 360 WARF target Reference Portfolio selected by ACA consists of 90 Baa2-rated mid-prime and subprime RMBS bonds issued over the past 18 months.
- The CDO tranches amortize principal using a full sequential amortization sequence, avoiding any reduction in the relative subordination of the CDO tranches.
- The CDO tranches will have a projected average life[2] of 3.8 to 4.9 years, which is shorter than the average life of most traditional ABS CDOs executed in the current market environment.
- The CDO tranches do not bear any available funds cap risk and other related interest shortfall risks.
- Goldman Sachs' market-leading ABACUS program currently has $5.1 billion in outstanding CLNs with strong secondary trading desk support.

ACA Capital

(1) Source: ACA as of December 31, 2006
(2) Based upon Modeling Assumptions described in the "Summary-Notes" section of the Offering Circular

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Transaction Overview

The Reference Portfolio[1]

- The Portfolio Selection Agent has selected a target granular Reference Portfolio containing 90 equally-sized (by notional amount) Reference Obligations fully disclosed to investors.
  - Each Reference Obligation is issued by a distinct issuer
  - Each Reference Obligation has an actual rating of Baa2 by Moody's.
    - Reference Portfolio WARF of 360, which represents a higher rating quality than mezzanine ABS CDOs sold in the current market environment.
  - The Reference Portfolio includes a wide cross-section of shelves and servicers
    - 31 different shelves represented, with the largest shelf (FFML) representing 11% of the Reference Portfolio
    - 21 different servicers represented, with the largest servicer (Wells Fargo) representing 29% of the Reference Portfolio
- The Reference Portfolio is static, with no substitutions, discretionary removals, notional reinvestments or discretionary trading of Reference Obligations permitted.
- The Reference Portfolio is focused on the subprime and midprime RMBS sector and will not contain any exposure to CDOs or Option ARMs.
- 4.1-year projected Reference Portfolio weighted average life.

(1) As of March 23, 2007. Goldman Sachs. neither represents nor provides any assurances that the actual Reference Portfolio on the Closing Date or any future date will have the same characteristics as represented above.

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ACA Sponsorship

- ABACUS 2007-AC1 will be the 25th CDO sponsored by ACA and the 5th utilizing synthetic RMBS.
- ACA will earn portfolio selection fees accrued on the principal amount of the Notes, and not on the super senior tranche or the first loss tranche
- The portfolio selection fee rate for each tranche is set forth under "Structure Overview–Capital Structure".
  - Portfolio selection fee rates are higher on the lower-rated Notes.
  - The upward-sloping fee structure increases ACA's incentives to avoid losses relative to a standard flat fee accrued on the overall reference portfolio notional amount.

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(1) Source: ACA as of February 26, 2007

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Structure Overview

Capital Structure(1)

Tranche	Initial Tranche Notional Amount (US$)	Rating (Moody's / S&P)	Tranche Size (%)(2)	Tranche Attach (%)(2)	Tranche Exhaust (%)(2)	Projected WAL (yrs)(3)	Legal Final	Portfolio Selection Fee Rate	Coupon
Super Senior	$[1,100,000,000]	N/A	[55.00]%	[45.00]%	[100.00]%	[3.8]	2037	NA	[ ]%
Class A-1	$[200,000,000]	[Aaa]/[AAA]	[10.00]%	[35.00]%	[45.00]%	[4.3]	2037	[0.25]%	1mL+[ ]%
Class A-2	$[280,000,000]	[Aaa]/[AAA]	[14.00]%	[21.00]%	[35.00]%	[4.4]	2037	[0.25]%	1mL+[ ]%
Class B	$[60,000,000]	[Aa2]/[AA]	[3.00]%	[18.00]%	[21.00]%	[4.6]	2037	[0.50]%	1mL+[ ]%
Class C	$[100,000,000]	[Aa3]/[AA-]	[5.00]%	[13.00]%	[18.00]%	[4.7]	2037	[0.50]%	1mL+[ ]%
Class D	$[60,000,000]	[A2]/[A]	[3.00]%	[10.00]%	[13.00]%	[4.9]	2037	[1.00]%	1mL+[ ]%
First Loss	$[200,000,000]	NA	[10.00]%	[0.00]%	[10.00]%	[5.1]	2037	NA	Not Offered

(1) As of March 23, 2007. Goldman Sachs does not represent or provide any assurances that the actual capital structure on the Closing Date or any future date will have the same characteristics as represented above. See the final Offering Circular for the final capital structure.
(2) As a percentage of the Initial Reference Portfolio Notional Amount
(3) Based upon Modeling Assumptions described in the "Summary-Notes" section of the Offering Circular

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Structure Overview

Structural Features of Offered Tranches

- Large benchmark CDO transaction with tranches offered from the super senior tranche to the "A2/A"-rated tranche.
- CDO tranches can be offered in credit linked note format or in unfunded swap format.
- All Notes offered at par and may be issued in all major currencies.
- Interest payments on the Notes are non-deferrable
  - Goldman Sachs bears the WAC and/or available funds cap risk on the Reference Portfolio.
- The Transaction has no over-collateralization ("O/C") or interest coverage ("I/C") cashflow diversion triggers
- The tranches will be allocated principal sequentially, avoiding any leakage of principal to subordinated tranches
- Each Class of Notes is callable by the Issuer at par plus accrued interest on the outstanding principal amount of such Class of Notes on any Payment Date on or after April 2009.

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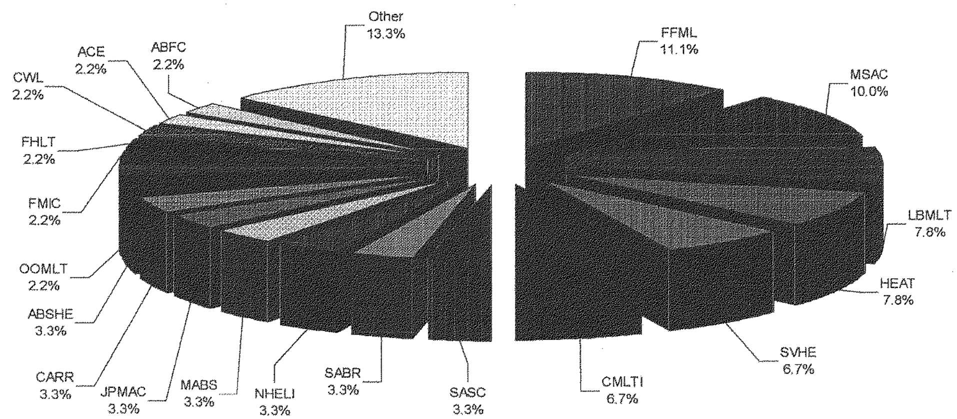
Reference Portfolio Summary

Broad Cross-Section of Issuance Shelves(1), (2), (3)



- Reference Portfolio includes 31 distinct issuing shelves, with the top 19 comprising 87% of the Reference Portfolio notional amount.
- Issuance shelves that have the highest concentration in the ABACUS 2007-AC1 portfolio are FFML(11.1%), MSAC(10.0%), LBLMT(7.8%) and HEAT (7.8%).

(1) As of March 23, 2007. Goldman Sachs, neither represents nor provides any assurances that the actual Reference Portfolio on the Closing Date or any future date will have the same characteristics as represented above.
(2) Source: Bloomberg
(3) Percentages are based on notional amounts

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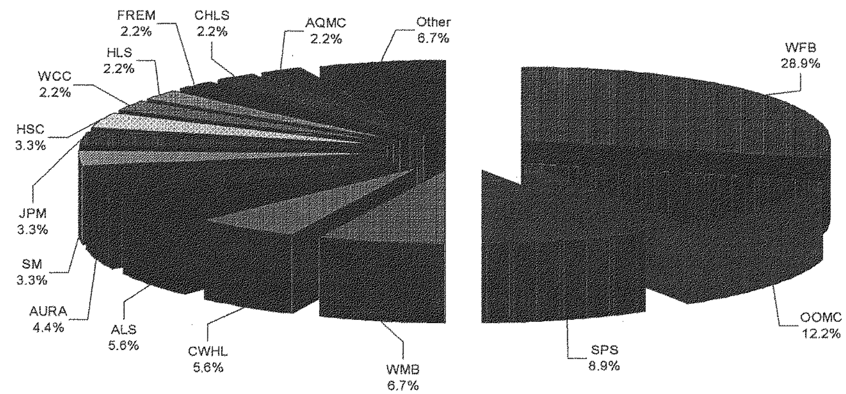
Reference Portfolio Summary

Servicer Diversification(1), (2), (3)



- Reference Obligations in the Reference Portfolio are serviced by 21 different servicers.
- Wells Fargo is the most represented servicer in the ABACUS 2007-AC1 Reference Portfolio, servicing 28.9% of the Reference Obligations.

ACA Capital

(1) As of March 23, 2007. Goldman Sachs neither represents nor provides any assurances that the actual Reference Portfolio on the Closing Date or any future date will have the same characteristics as represented above.
(2) Source: Bloomberg
(3) Percentages are based on notional amounts

Goldman Sachs

Credit Events

Overview and Settlement Mechanics

- Credit Events applicable to Reference Obligations will include:
  - **Writedown**, a writedown or applied loss, forgiveness of principal or an Implied Writedown; and
  - **Failure to Pay Principal** at the legal final maturity of the reference obligation or earlier if the assets securing the reference obligation are liquidated in full.
- Credit Events adhere to the current (as of the Closing Date) ISDA Standard Terms Supplement for a Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) and Form of Confirmation ("ISDA Dealer Form") definitions.
- Interest Shortfall shall not constitute a floating amount event under the Transaction: ABACUS 2007-AC1 noteholders will not bear either (a) the WAC risk (b) the available funds cap risk on the Reference Portfolio.
- Credit Events will be settled on a Pay-As-You-Go basis.
- A Reference Obligation will not be removed from the Reference Portfolio upon the occurrence of a Credit Event. Following a Writedown, further Credit Events are possible in respect of such Reference Obligation.
- Physical settlement will not apply to any Credit Event.

ACA Capital

(1) These terms are for illustrative purposes only and may not represent the final structure. Refer to the final Offering Circular for the final structure and terms.

Goldman Sachs

Transaction Overview

Key Transaction Terms

Issuer:	ABACUS 2007-AC1, Ltd., incorporated with limited liability in the Cayman Islands
Co-Issuer:	ABACUS 2007-AC1, Inc., a corporation organized under the laws of the State of Delaware
Portfolio Selection Agent:	ACA Management, L.L.C. ("ACA")
Initial Purchaser:	Goldman, Sachs & Co. (sole)
Protection Buyer:	Goldman Sachs Capital Markets, L.P. ("GSCM"), an affiliate of the Initial Purchaser
Portfolio Advisor:	None
Closing Date:	[ ], 2007
Legal Final Maturity Date:	[ ] 2037
Offering Type:	Reg S (Non-US Persons only), Rule 144A Rule 144A purchasers must be qualified purchasers under the Investment Company Act of 1940
Debt Minimum Denominations:	$250,000 for each Class of Notes under Rule 144A and $100,000 for each Class of Notes under Reg S, in each case in increments of $1 thereafter
Control:	Majority of the Notes voting together in the aggregate
Trustee/Issuing & Paying Agent:	LaSalle Bank NA (Trustee for the Class A-1 through Class [C] Notes; Issuing & Paying Agent for the Class [D] Notes)
Notional Ramp-Up Period:	None. 100% of the Reference Obligations will be identified on the Closing Date.
Discretionary Reference Obligation Substitution, Reinvestment or Removals:	None. There will be no substitutions, notional reinvestments or discretionary removals in respect of the Reference Portfolio at any time subsequent to the Closing Date.
Non-Call Period:	Approximately two years from the Closing Date, ending on the Payment Date in [ ] 2009
Interest on the Notes:	Accrued daily on the Outstanding Principal Amount of the Notes and payable in arrears on an actual/360 basis on the 28th of each month or following Business Day commencing [ ] 2007
Listing, Clearing & Settlement:	Application will be made to list the Notes on an exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be granted. The Notes will settle through Euroclear/Clearstream/DTC.
Tax Treatment:	It is expected that the Class A-1 through Class [C] Notes will be treated as debt.
ERISA Eligibility:	The Class A-1 Notes through Class [C] Notes are expected to be ERISA eligible, assuming that the purchase is not a prohibited transaction for the purchaser.
Governing Law:	The Class A-1 through Class [C] Notes will be governed by, and construed in accordance with, the law of the State of New York. The Class [D] Notes will be governed by, and construed in accordance with, the laws of the Cayman Islands.

These terms are for illustrative purposes only and may not represent the final structure. Refer to the final Offering Circular for the final terms and structure.

ACA Capital

Goldman Sachs

II. Portfolio Selection Agent Overview[1]

ACA Capital

(1) All information concerning ACA Capital, its prior experience and its personnel contained herein has been provided by ACA Capital as of February 19, 2007 (unless otherwise specified herein) and no such data has been independently verified by Goldman Sachs.

Goldman Sachs

ACA - Business Strategy

- Specialty financial services company
  - Assume, manage and trade credit risk
- Three principal operating divisions
  - Municipal Finance
    - Financial guaranty insurance company
    - Only "A" (S&P) rated financial guarantor in business
  - CDO Asset Management
    - Asset (collateral) management platform
  - Structured Credit
    - Diversified credit selection and trading platform
    - Alternative executions (principally synthetic)

ACA Capital

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Goldman Sachs

ACA - Equity and Ownership Structure (1)

Investor	Ownership %	Board Seats
BSMB	28%	2
Public Ownership	20%	0
Stephens Group	13%	1
Third Avenue Trust	13%	1
Chestnut Hill ACA	11%	1
Management & Others	15%	4

ACA Capital

Source: ACA Capital
(1) As of November 9, 2006

Goldman Sachs

ACA Capital Strategy

- Financial guaranty subsidiary 'A' rated by S&P
- Commitment to long-term bondholder and counterparty security
  - Durability and stability emphasized
- Philosophy is to maintain insurance company capital at close to "AA" margin of safety while pursuing an "A" rated business strategy

ACA Capital

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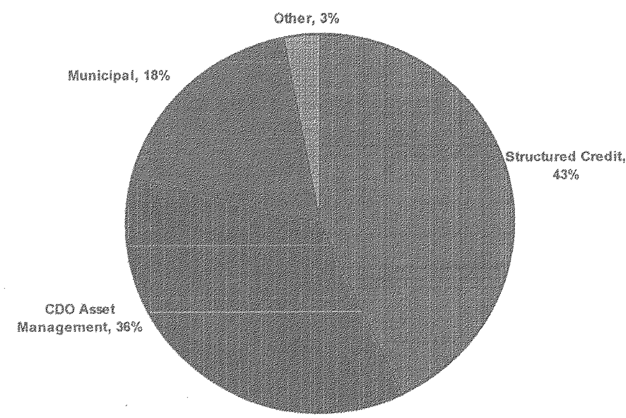
Goldman Sachs

ACA - Business Mix as of December 31, 2006

Contribution to Net Operating Income



ACA Capital

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GS MBS-E-002807106

ACA - Senior Management Team

Name and Title	Experience
Alan Roseman *Chief Executive Officer*	■ Ambac, Capital Re, ACE ■ 25 Years of Industry Experience
Edward Gilpin *Executive Vice President & Chief Financial Officer*	■ MBIA, Prudential ■ 22 Years of Industry Experience
James Rothman *Senior Managing Director & Head of Structured Credit*	■ GE Capital, Deutsche Bank, Paine Webber ■ 13 Years of Industry Experience
Peter Hill *Executive Vice President & Head of Public Finance*	■ JPMorgan ■ 20 Years of Industry Experience
Joseph Pimbley *Executive Vice President & Head of Institutional Risk Management*	■ Sumitomo Mitsui, FGIC, Moody's, Citigroup ■ 13 Years of Industry Experience
Laura Schwartz *Senior Managing Director & Head of CDO Asset Management*	■ Merrill Lynch, New York Life ■ 22 Years of Industry Experience

Goldman Sachs

ACA - Investment Philosophy

- Focus primarily on ABS and Corporate markets to identify attractive opportunities in several ways
- Asset selection and asset management premised on credit fundamentals and then optimized for relative value
- ACA Management will utilize proprietary models to stress and confirm the adequacy of cash flows
- 30 professionals are dedicated to the CDO asset management business representing a combination of skills and experience relating to credit underwriting and capital markets analysis and execution
- Preserve capital
- Willing to use excess spread to hedge or sell deteriorated credits
- Defensive trading
- Minimize real market value exposure
- Minimize maturity and interest rate risk through asset/liability matching and hedging

ACA Capital

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Goldman Sachs

Why ACA Management LLC?

- Alignment of Economic Interest
  - ACA has invested over $200 million in internally managed CDOs
  - A portion of management fees are subordinated and performance based
- Investment Philosophy
  - Investment decisions are credit driven and conducted by industry specialists
  - Every investment is approved by a heavily experienced investment committee
- Deep Expertise
  - 30 dedicated credit and portfolio management professionals with an average of 13 years relevant experience
  - Committee members have industry experience across several credit cycles
- Asset Management Scale
  - Approximately $15.7 billion of assets in 22 CDOs under management as of 12/31/2006.
  - Supported by a large infrastructure including an IT group, a legal team and a risk management department
  - Significant resources invested in systems and databases
- Track Record
  - No rated notes in any of ACA's CDOs have ever been downgraded

ACA Capital

Goldman Sachs

ACA Capital – Overview

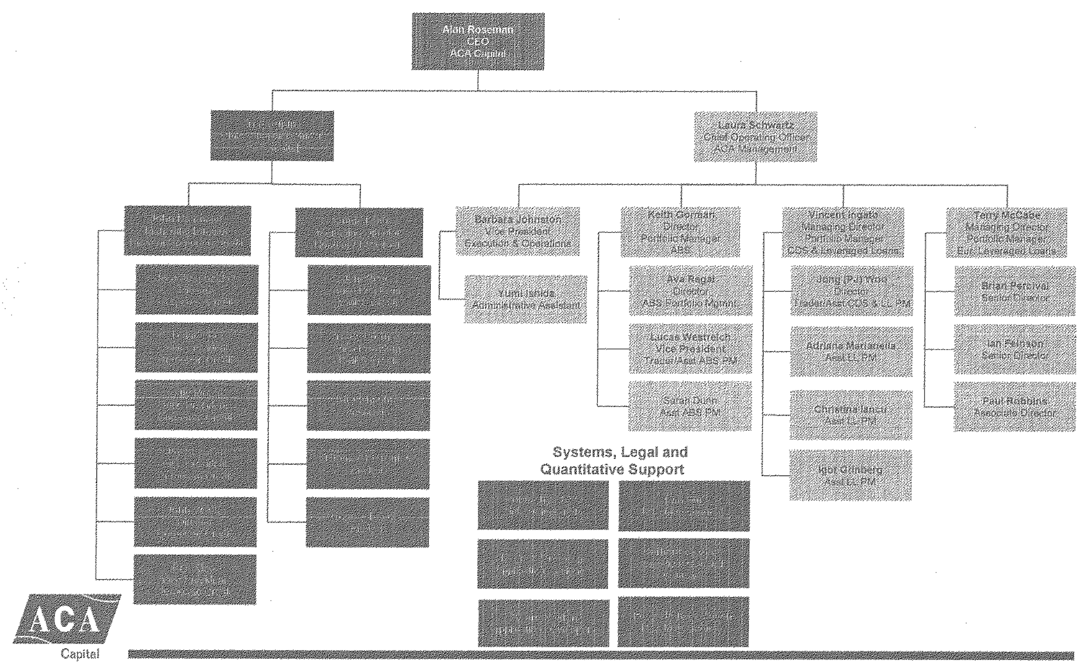
Core Competencies in Analyzing Credit Risk

- ACA Capital's CDO Asset Management Platform has extensive capabilities in analyzing credit risk in a variety of areas including:
  - Corporate Securities
    - Credit Default Swaps
    - High Grade Bonds
    - Crossover Bonds
  - Leveraged Loans (U.S. and Europe)
    - Traditional as well as middle market loans
  - Asset Backed Securities
    - Residential Mortgages
    - CLOs, CBOs, CSOs
    - Commercial Mortgages
    - Consumer Assets and Receivables
    - Corporate Assets and Receivables

ACA Capital

Source: ACA Capital

ACA - CDO Asset Management Organization Chart



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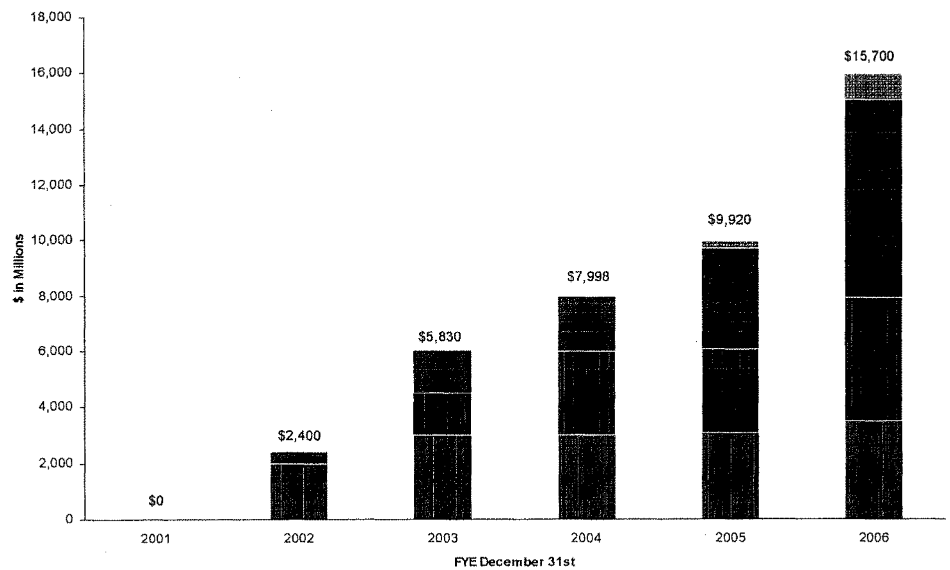
Assets Under Management

ACA Management, L.L.C.



Note: Euro amounts converted at the rate on 12/31/2006, 1.31 dollars/euro

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ACA - 22 Proprietary CDOs Originated to Date(1)

Corporate Transactions

ACA CDS 2001-1	ACA CDS 2002-1	ACA CDS 2002-2	Argon 49	ACA CLO 2005-1	Argon 57	Tribune/ Sentinel	ACA CLO 2006-1	ACA CLO 2006-2	
CDS	CDS	CDS	CDS	LL	CDS	CDS	LL	LL	Type
01/25/02	06/26/02	04/09/03	05/25/05	08/17/05	04/29/06	06/30/06	07/27/06	12/07/06	Date Closed
$1,000	$1,000	$1,000	€ 50	$300	€ 50	$330	$341	$300	Notional Portfolio (millions)
BBB/BBB+	BBB/BBB+	BBB/BBB+	BBB/BBB-	B+/B	BBB/BBB-	A/A-	B+/B	B+/B	Asset Quality
$22.5	$22.0	$25.0	N.A.	$5.0	N.A.	N.A.	N.A.	$2.4	ACA Equity (millions)
Commerz-bank	UBS Inv. Bank	WestLB	Merrill Lynch	Bear Stearns	Merrill Lynch	RBC	UBS Inv. Bank	RBS Greenwich Capital	Investment Bank

ABS Transactions

ACA ABS 2002-1	ACA ABS 2003-1	Grenadier Funding	ACA ABS 2003-2	ACA ABS 2004-1	Zenith Funding	ACA ABS 2005-1	Khaleej II	ACA ABS 2005-2	Lancer Funding	ACA ABS 2006-1	Aquarius	ACA ABS 2006-2
ABS	ABS	ABS	ABS	ABS	ABS	ABS	Syn ABS	ABS	ABS	ABS	ABS	ABS
07/29/02	06/20/03	07/21/03	11/18/03	04/27/04	12/21/04	03/02/05	09/22/05	08/30/05	03/14/06	04/27/06	09/12/06	11/29/06
$400	$400	$1,500	$725	$450	$1,500	$452	$750	$450	$1,500	$750	$2,000	$750
BBB/BBB-	BBB/BBB+	AA	BBB/BBB+	BBB/BBB+	AA-	BBB/BBB+	BBB/BBB+	BBB/BBB-	AA-/A+	BBB/BBB-	BBB/BBB-	BBB/BBB-
$18.0	$18.0	$22.5	$33.5	$10.0	$13.0	$4.4	$5.6	$2.25	$1.5	$1.965	N.A.	$4.2
CSFB	Banc of America	Citigroup	UBS Inv. Bank	Merrill Lynch	Citigroup	RBS Greenwich Capital	Merrill Lynch	UBS Inv. Bank	UBS Inv. Bank	Bear Stearns	UBS Inv. Bank	Bear Stearns

ACA Capital

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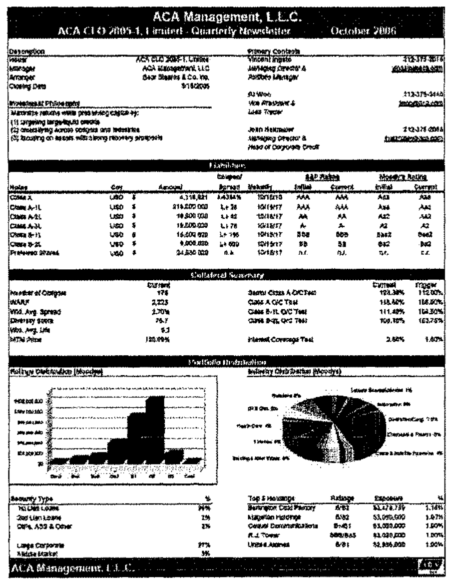
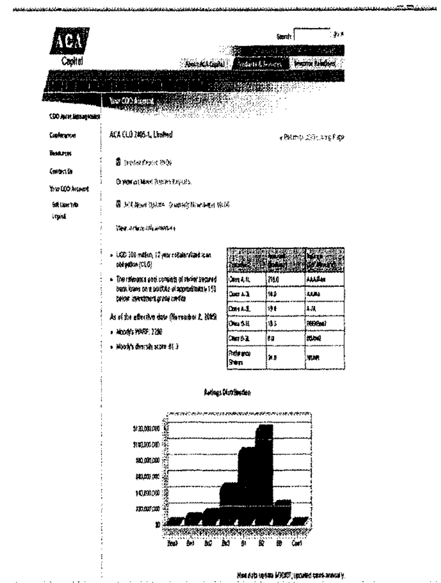
ACA Capital – Overview

Investor Relations - ACA Website





ACA Capital

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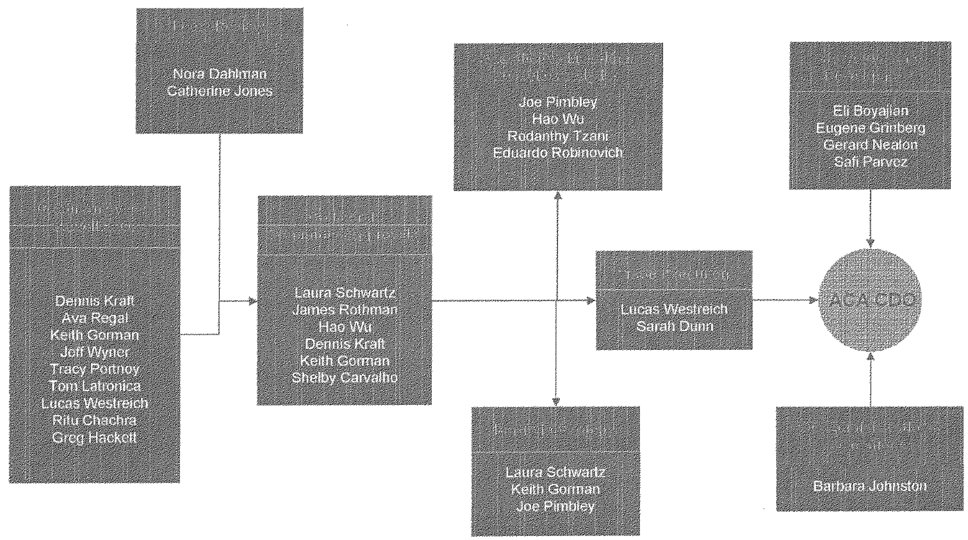
ACA - ABS CDO Process



ACA Capital

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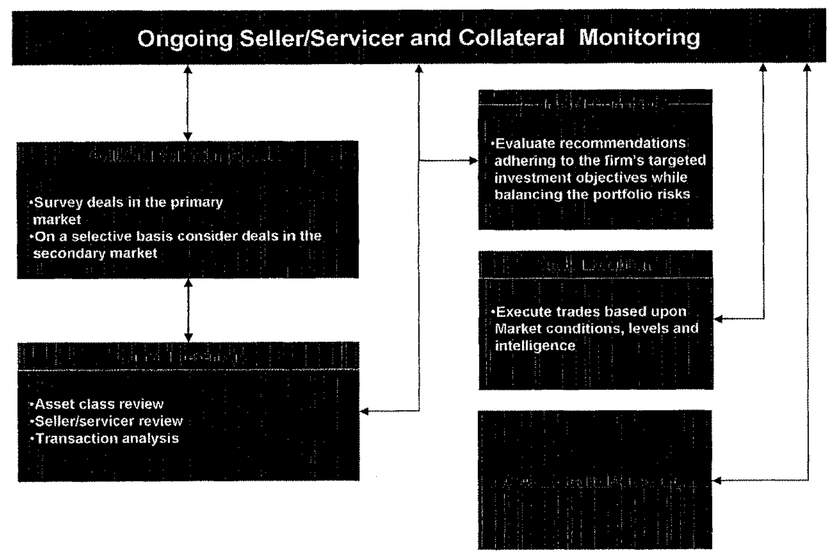
Goldman Sachs

ACA Capital: ABS Credit Process

- ABS Credit Selection Process
  - Asset Class Analysis
  - Seller/Servicer Analysis
    - On-Site Visit
    - Performance Review
  - Deal Analysis
    - Collateral Analysis
    - Structural Analysis

ACA Capital

ACA - ABS Credit Selection Process



ACA Capital

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ACA - ABS Credit Selection Process (Cont.)

- Collateral Committee
  - Written credit report distributed to all committee members.
  - Analyst presents investment opportunity to committee.
  - 6 voting members.
  - Majority vote required for all decisions.
  - Credits approved by the committee are eligible to be included in the portfolio.

Goldman Sachs

ACA - ABS Credit Analysis Criteria

- Seller/Servicer Tiering
- ACA Capital will rank each seller/servicer according to a tiering system with the following criteria:=
  - Tier One – Strong companies with established track records and proven performance
  - Tier Two – Below investment grade, un-rated or private companies with established track records and proven performance
  - Tier Three – Companies with material issues relating to financial strength, performance or capabilities

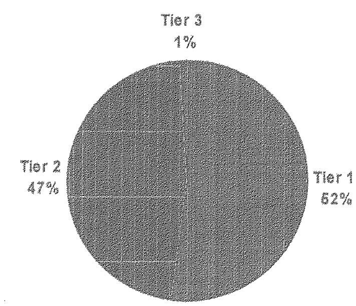
ACA Capital

Goldman Sachs

ACA - Servicer Tiering Criteria

- Criteria for Tiering (not in order of importance):
  - Corporate Status
  - Operations Due Diligence
  - Historical Performance
  - Portfolio Growth
  - Servicer Ratings

ACA Exposure by Tier (as of 12/31/06)



ACA Capital

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ACA - ABS Credit Analysis Criteria

- Collateral Analysis
  - Loan Level Analysis
  - Historical Static Pool Data: Delinquencies, loss, recoveries, prepayments
  - Set expected net losses and loss curve

ACA Capital

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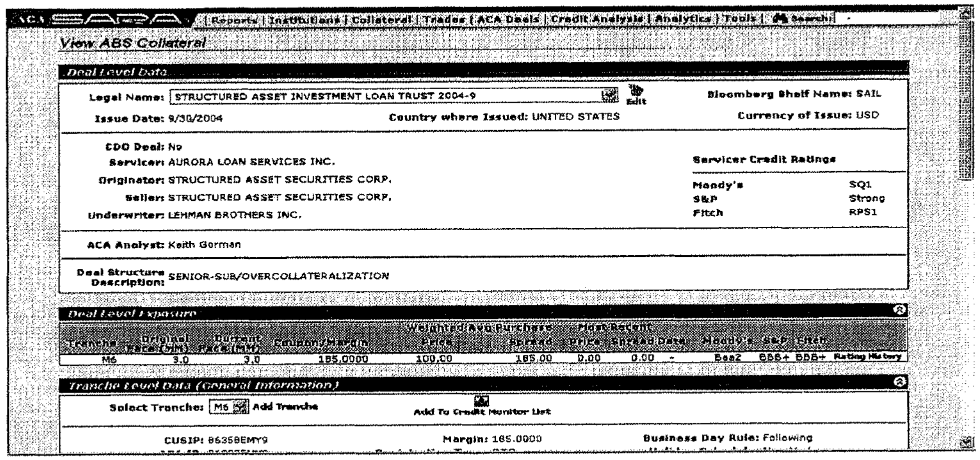
ACA - Structural and Stress Analysis

- Structural Analysis
  - Credit Enhancement
  - Interest Rate Hedges
  - Triggers
  - Available Funds Cap Risk
  - Deal Comparison
- Stress Analysis
  - Break-even using ACA default ramp
  - Sensitivity analysis using issuer-specific delinquency curve

Goldman Sachs

ACA - ABS Collateral



ACA Capital

Table is a hypothetical example and is used for illustration purposes only

Goldman Sachs

ACA Capital – Overview

External Information Sources and Tools

Credit Analysis

[redacted]

Collateral Data and Other

[redacted]

Trade Publications

[redacted]

Pricing Services

[redacted]

ACA Capital

Source: ACA Capital

ACA - Internal Information Sources and Tools

- Portfolio Management and Surveillance

  SARA – Surveillance and Reporting Analytics

  – Internally developed collateral database monitoring systems

  CDO Portfolio Evaluator

  – Internal CDO compliance application

  ACA Wizard

  – Internal risk management and pricing application for CDO's

  – Internally developed application which generates projected cash flows

GS MBS-E-002807125

Goldman Sachs

ACA - ABS CDO Experience

ACA ABS 2002-1 $400 million, multi sector ABS CDO		Trigger	Effective Date 10/11/2002	Current 12/31/2006
Moody's Weighted Average Rating Factor	Max	400	347	707
Moody's Diversity Score	Min	20	25	31.62
S&P Minimum Average Recovery Rate	Min	30.0%	36.9%	34.5%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class C)	Min	101.5%	104.0%	102.93%
Number of Positions Experiencing Writedowns				2

ACA ABS 2003-1 $400 million, multi sector ABS CDO		Trigger	Effective Date 05/20/2003	Current 12/04/2006
Moody's Weighted Average Rating Factor	Max	400	289	408
Moody's Diversity Score	Min	18	20	19.18
S&P Minimum Average Recovery Rate	Min	30%	35%	35.4%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class D)	Min	100.0%	104.5%	105.16%
Number of Positions Experiencing Writedowns				0

ACA ABS 2003-2 $725 million, multi sector ABS CDO		Trigger	Effective Date 11/06/2003	Current 12/29/2006
Moody's Weighted Average Rating Factor	Max	350	277	349
Moody's Diversity Score	Min	19	19	23.22
S&P Minimum Average Recovery Rate	Min	34%	38%	37.3%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class C)	Min	101.6%	105.1%	105.15%
Number of Positions Experiencing Writedowns	Max			0

Source: ACA ABS 2002-1 from Trustee Report dated 12/31/2006; ACA ABS 2003-1 from Trustee Report dated 12/04/2006; ACA ABS 2003-2 from Trustee Report dated 12/29/2006.

ACA Capital

Goldman Sachs

ACA - ABS CDO Experience

ACA ABS 2004-1 $450 million, multi sector ABS CDO		Trigger	Effective Date 10/11/2002	Current 01/02/2007
Moody's Weighted Average Rating Factor	Max	350	346	332
Moody's Diversity Score	Min	15	15	25
S&P Minimum Average Recovery Rate	Min	33.75%	37.2%	38.6%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class C)	Min	101.0%	104.0%	105.12%
Number of Positions Experiencing Writedowns				0

ACA ABS 2005-1 $452 million, multi sector ABS CDO		Trigger	Effective Date 05/20/2003	Current 12/28/2006
Moody's Weighted Average Rating Factor	Max	340	338	330
Moody's Diversity Score	Min	15	15	23
S&P Minimum Average Recovery Rate	Min	53.00%	53.60%	54.50%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class C)	Min	101.70%	103.70%	104.07%
Number of Positions Experiencing Writedowns				0

ACA ABS 2005-2 $450 million, multi sector ABS CDO		Trigger	Effective Date 11/06/2003	Current 12/29/2006
Moody's Weighted Average Rating Factor	Max	585	542	540
Moody's Diversity Score	Min	N/A	N/A	N/A
S&P Minimum Average Recovery Rate	Min	30.0%	32.40%	32.5%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class B)	Min	103.0%	105.56%	105.85%
Number of Positions Experiencing Writedowns				0

Source: ACA ABS 2004-1 from Trustee Report dated 01/02/2007; ACA ABS 2005-1 from Trustee Report dated 12/28/2006; ACA ABS 2005-2 from Trustee Report dated 12/29/2006.

ACA Capital

ACA - ABS CDO Experience

Khaleej II $750 million, multi sector Synthetic ABS CDO		Trigger	Effective Date 10/11/2002	Current 12/15/2006
S&P Minimum Average Recovery Rate	Min	49.5%	Pass	Pass
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Number of Positions Experiencing Writedowns				0

ACA Aquarius $2 billion, multi sector ABS CDO		Trigger	Effective Date 11/03/2006	Current 01/03/2007
S&P Minimum Average Recovery Rate	Min	44%	46.56%	46.56%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Number of Positions Experiencing Writedowns				0

ACA ABS 2006-1 $750 million, multi sector ABS CDO		Trigger	Effective Date 05/31/2006	Current 12/04/2006
Moody's Weighted Average Rating Factor	Max	540	514	514
Moddy's Asset Correlation	Min	22.5	21.3	21.3
Moody's Minimum Average Recovery Rate	Min	22.75%	24.29	23.5%
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test (Class B-1L)	Min	110.0%	118.11%	118.05%
Number of Defaulted Positions				0

ACA Capital

Khaleej II from Trustee Report dated 12/15/2006; ACA Aquarius from Trustee Report dated 01/03/2007; ACA ABS 2006-1 from Trustee Report dated 12/04/2006.

Goldman Sachs

ACA - CDS CDO Experience

ACA CDS 2001-1 $1 billion, 5-year synthetic investment grade corporate credits		Trigger	Effective Date 02/14/2002	Current 11/10/2006
Moody's Weighted Average Rating Factor	Max	260	219	694
Diversity Score	Min	54	55	55
Overcollateralization Test	Min	113.2%	121.4%	122.35%
Number of Defaulted Positions				1

ACA CDS 2002-1 $1 billion, 5-year synthetic investment grade corporate credits		Trigger	Effective Date 08/22/2002	Current 12/29/2006
Moody's Weighted Average Rating Factor	Max	260	215	498
Diversity Score	Min	54	55.41	56.13
S&P CDO Monitor	Pass/Fail	Pass	Pass	Pass
Overcollateralization Test	Min	112%	121.89%	118.75%
Number of Defaulted Positions				1

ACA CDS 2002-2 $1 billion, 5-year synthetic investment grade corporate credits		Trigger	Effective Date 05/09/2003	Current 11/30/2006
Moody's Weighted Average Rating Factor	Max	260	216	455
Diversity Score	Min	54	58	59
Overcollateralization Test	Min	112.50%	120.80%	121.96%
Number of Defaulted Positions				0

ACA Capital

ACA CDS 2001-1 from Trustee Report dated 11/10/2006; ACA CDS 2002-1 from Trustee Report dated 12/29/2006; ACA CDS 2002-2 from Trustee Report dated 11/30/2006.

ACA - High Grade ABS CDO Experience

Grenadier Funding, Limited $1.5 billion, high grade multi sector ABS CDO		Trigger	Effective Date 01/20/2004	Current 12/29/2006
Moody's Weighted Average Rating Factor	Max	30	9	18
Moody's Diversity Score	Min	25	46.1	48.3
S&P Minimum Average Recovery Rate	Pass/Fail	Pass	Pass	Pass
Number of Defaulted Positions				0

Zenith Funding, Limited $1.5 billion, high grade multi sector ABS CDO		Trigger	Effective Date 06/15/2005	Current 12/29/2006
Moody's Weighted Average Rating Factor	Max	40	40	41
Moody's Diversity Score	Min	15	23	34
S&P Minimum Average Recovery Rate	Pass/Fail	Pass	Pass	Pass
Number of Defaulted Positions				0

Lancer Funding, Limited $1.5 billion, high grade multi sector ABS CDO		Trigger	Effective Date 03/14/2006	Current 10/31/2006
Moody's Weighted Average Rating Factor	Max	59	57	58
Moody's Asset Correlation Test	Min	23	21	21.47
S&P Minimum Average Recovery Rate	Pass/Fail	Pass	Pass	Pass
Number of Defaulted Positions			0	0

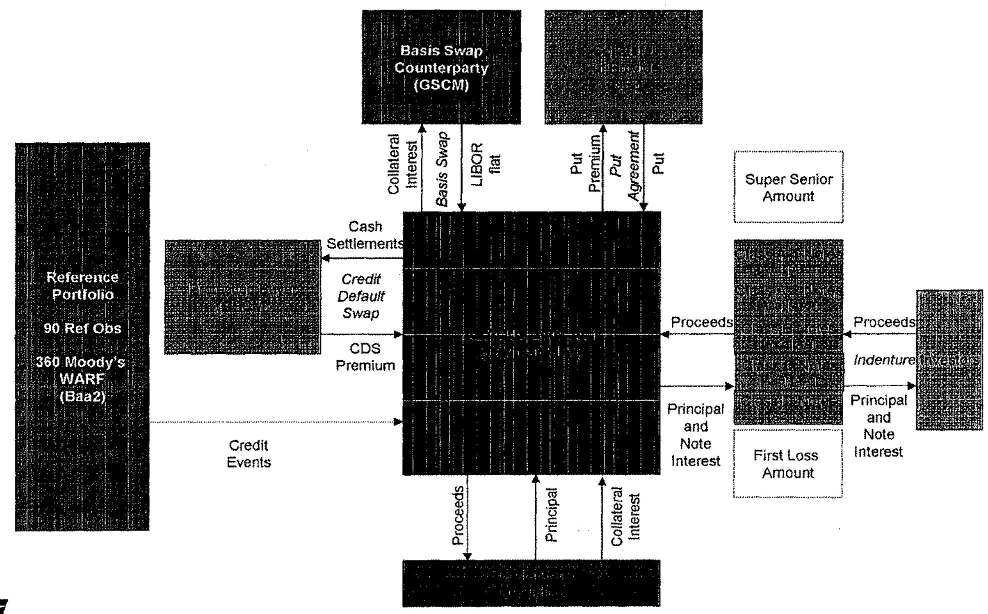
Source: Grenadier Funding, Limited from Trustee Report dated 12/29/2006; Zenith Funding, Limited from Trustee Report dated 12/29/2006; Lancer Funding, Limited from Trustee Report dated 10/31/2006.

ACA Capital

III. Structure Overview

Credit-Linked Note Structure

Structural Diagram



These terms are for illustrative purposes only and may not represent the final structure. Refer to the final Offering Circular for the final terms and structure.

ACA Capital

Credit-Linked Note Structure[1]

Issuance and Use of Proceeds

- ABACUS 2007-AC1, Ltd. (the "Issuer") a Cayman Islands SPV, will issue the Notes on the closing date.
- Goldman Sachs will not be paid any structuring, underwriting or placement fees by the Issuer.
- The proceeds of the issuance of the Notes will be invested in senior, floating-rate, triple-A structured product securities (the "Collateral Securities").
  - Collateral Securities will be selected by Goldman Sachs, subject to the limitations set forth in the Offering Circular.
  - Any proceeds not invested in Collateral Securities on or after the closing date will be held in cash or cash equivalents ("Eligible Investments") pending investment in eligible Collateral Securities.
  - There will be no trading or substitution of Collateral Securities by Goldman Sachs; only reinvestment of principal paydowns into new eligible Collateral Securities will be permitted.
- Goldman Sachs will enter into a CDS with the Issuer to buy protection on Reference Portfolio losses related to the Class A-1 through Class D Notes.
  - The Collateral Securities and/or Eligible Investments will be available to make payments to Goldman Sachs in the case of writedowns or other Credit Events occurring on the Reference Portfolio, which in each case incur writedowns on the Class A-1 through Class D Notes.
- Goldman Sachs will cover all upfront expenses of the Issuer through an upfront payment under the CDS.
- Goldman Sachs will cover all ongoing expenses of the Issuer through periodic payments under the CDS.

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Credit-Linked Note Structure[1]

Interest Payments on the Notes

- The Notes will pay interest monthly at the applicable Series Interest Rate, accrued actual/360 on the daily Outstanding Principal Amount of the Notes.
- Goldman Sachs will pay the applicable spread over LIBOR[2] on the Notes to the Issuer via the CDS premium.
- Goldman Sachs will pay the applicable LIBOR[2] index on the Notes to the Issuer via the Basis Swap, versus receiving from the Issuer the interest collections in the relevant period paid on the Collateral Securities and/or Eligible Investments.

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(2) USD LIBOR, or for any Notes issued in Approved Currencies other than USD, the Applicable Index for such Notes.

Goldman Sachs

Credit-Linked Note Structure[1]

Principal Payments on the Notes

- Any notional principal amortization on Credit Events are applied to amortize the Transaction sequentially.
- If notional principal is allocated to a Class of Notes, a like par amount of Collateral Securities and/or Eligible Investments will be liquidated to fund a payment of principal to such Notes.
- Goldman Sachs writes a par put (the "Collateral Put") to the Issuer if Collateral Securities are liquidated in order to fund:
  - Cash settlements to Goldman Sachs under the CDS;
  - Principal amortization of the Notes reflecting principal amortization of the Reference Portfolio; and
  - Optional Redemption of one or more Classes of Notes.
- The Collateral Put will not be exercisable upon the occurrence of a Mandatory Redemption of the Notes.

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(1) These terms are for illustrative purposes only and may not represent the final structure. Refer to the final Offering Circular for the final structure and terms.

A. Initial Reference Portfolio

Goldman Sachs

Reference Portfolio

Security	Type	Notional Amount	CUSIP	Fitch	Moody's	S&P	Base WAL (yrs)	Dated Date	Legal Final	Servicer
ABFC 2006-OPT1 M8	Subprime	22,222,222	00075QAM4	BBB	Baa2	BBB	3.8	8/10/2006	9/25/2036	OOMC
ABFC 2006-OPT2 M8	Subprime	22,222,222	00075XAP2	BBB	Baa2	BBB	4.0	10/12/2006	10/25/2036	OOMC
ABSHE 2006-HE3 M7	Subprime	22,222,222	04541GXK3	BBB	Baa2	BBB	3.7	4/17/2006	3/25/2036	OOMC
ABSHE 2006-HE4 M7	Subprime	22,222,222	04544GAP4	BBB	Baa2	BBB	3.7	4/28/2006	5/25/2036	SPS
ABSHE 2006-HE7 M9	Subprime	22,222,222	04544QAP2	BBB-	Baa2	BBB-	4.3	11/30/2006	11/25/2036	SPS
ACE 2006-FM2 M8	Midprime	22,222,222	00442CAN9		Baa2	BBB	4.4	10/30/2006	8/25/2036	WFB
ACE 2006-OP2 M9	Subprime	22,222,222	00441YAP7		Baa2	BBB-	4.2	10/30/2006	8/25/2036	WFB
ARSI 2006-W1 M8	Subprime	22,222,222	040104RQ6	BBB+	Baa2	BBB+	3.7	2/7/2006	3/25/2036	AQMC
BNCMT 2007-1 M8	Subprime	22,222,222	05569GAN6	BBB	Baa2	BBB	4.6	2/25/2007	3/25/2037	ALS
CARR 2006-FRE1 M9	Subprime	22,222,222	144538AN5	BBB+	Baa2	A	3.7	6/28/2006	7/25/2036	FREM
CARR 2006-FRE2 M8	Subprime	22,222,222	14454AAN9		Baa2	BBB+	4.0	10/18/2006	10/25/2036	FREM
CARR 2006-OPT1 M8	Subprime	22,222,222	144531FV7	BBB+	Baa2	A-	3.1	3/14/2006	2/25/2036	OOMC
CMLTI 2006-AMC1 M8	Subprime	22,222,222	17309PAL0		Baa2	BBB	4.0	9/28/2006	9/25/2036	AQMC
CMLTI 2006-NC1 M8	Subprime	22,222,222	172983AN8		Baa2	BBB	3.7	6/29/2006	8/25/2036	WFB
CMLTI 2006-WFH2 M9	Subprime	22,222,222	17309MAN3		Baa2	BBB-	3.9	8/30/2006	8/25/2036	WFB
CMLTI 2006-WMC1 M8	Midprime	22,222,222	17307G2F4	A-	Baa2	BBB+	3.6	1/31/2006	12/25/2035	WFB
CMLTI 2007-AMC1 M8	Subprime	22,222,222	17311BAL7		Baa2	BBB	4.5	3/9/2007	12/25/2036	CWHL
CMLTI 2007-WFH1 M9	Subprime	22,222,222	17311CAM3		Baa2	BBB-	4.4	2/9/2007	1/25/2037	WFB
CWL 2006-24 M8	Subprime	22,222,222	23243HAN1		Baa2	BBB	4.8	12/29/2006	5/25/2037	CHLS
CWL 2007-2 M8	Subprime	22,222,222	12668NAN7		Baa2	BBB	5.2	2/28/2007	2/25/2037	CHLS
FFML 2006-FF11 M8	Midprime	22,222,222	32028PAP0	BBB	Baa2	BBB	3.8	9/6/2006	8/25/2036	WFB
FFML 2006-FF12 M8	Midprime	22,222,222	32027GAN6	BBB	Baa2	BBB	4.2	8/25/2006	9/25/2036	ALS
FFML 2006-FF14 M8	Midprime	22,222,222	32027LAP0	BBB	Baa2	BBB	4.2	9/25/2006	10/25/2036	AURA
FFML 2006-FF15 M8	Midprime	22,222,222	32028GAP0	BBB	Baa2	BBB	4.3	10/25/2006	11/25/2036	AURA
FFML 2006-FF16 M8	Midprime	22,222,222	320275AN0		Baa2	BBB+	4.3	11/30/2006	12/25/2036	NCHL
FFML 2006-FF17 M8	Midprime	22,222,222	32028KAP1	BBB	Baa2	BBB	4.3	11/25/2006	12/25/2036	ALS
FFML 2006-FF7 M8	Midprime	22,222,222	320277AP1	BBB	Baa2	BBB	3.5	5/31/2006	5/25/2036	WFB
FFML 2006-FF9 M8	Midprime	22,222,222	320276AP3	BBB+	Baa2	BBB+	3.6	7/7/2006	6/25/2036	WFB
FFML 2007-FF1 B2	Midprime	22,222,222	32028TAN7		Baa2	BBB	4.7	1/26/2007	1/25/2038	HLS
FFML 2007-FF2 B2	Midprime	22,222,222	32029GAN4		Baa2	BBB	4.7	2/28/2007	3/25/2037	HLS
FHLT 2006-A M7	Subprime	22,222,222	35729RAN6	BBB+	Baa2	BBB	3.8	5/10/2006	5/25/2036	WFB
FHLT 2006-B M8	Midprime	22,222,222	35729QAN8	BBB+	Baa2	BBB	4.2	8/3/2006	8/25/2036	WFB
FMIC 2006-2 M8	Midprime	22,222,222	31659EAM0		Baa2	BBB+	4.0	7/6/2006	7/25/2036	WFB
FMIC 2006-3 M8	Midprime	22,222,222	316599AN9		Baa2	BBB	4.3	10/27/2006	11/25/2036	WFB
GSAMP 2006-FM2 M8	Midprime	22,222,222	36245DAN0		Baa2	BBB+	3.9	9/29/2006	9/25/2036	WFB
HASC 2006-HE2 M8	Midprime	22,222,222	44328BAP3	BBB+	Baa2	BBB+	4.0	12/5/2006	12/25/2036	CMB
HEAT 2006-3 M8	Midprime	22,222,222	437084UZ7	BBB+	Baa2	BBB+	3.4	3/30/2006	7/25/2036	SPS
HEAT 2006-5 M8	Midprime	22,222,222	437096AQ3	BBB+	Baa2	BBB+	3.7	6/25/2006	10/25/2036	WFB
HEAT 2006-6 M8	Midprime	22,222,222	437097AP3	A-	Baa2	A-	3.9	8/1/2006	11/25/2036	SPS
HEAT 2006-7 M8	Midprime	22,222,222	43709NAP8	BBB+	Baa2	BBB+	4.1	10/3/2006	1/25/2037	SPS
HEAT 2006-8 M8	Midprime	22,222,222	43709QAP1	BBB	Baa2	BBB+	4.3	12/1/2006	3/25/2037	SPS
HEAT 2007-1 M8	Midprime	22,222,222	43710LAN4	BBB	Baa2	BBB+	4.4	2/1/2007	5/25/2037	SPS
HEAT 2007-2 M8	Subprime	22,222,222	43710KAN6	BBB	Baa2	BBB	4.6	4/2/2007	7/25/2037	SPS
IXIS 2006-HE3 B2	Midprime	22,222,222	46602UAM0	BBB	Baa2	BBB	4.7	9/29/2006	1/25/2037	WFB
JPMAC 2006-CW2 MV8	Midprime	22,222,222	46629BBA6	BBB	Baa2	BBB	4.1	8/8/2006	8/25/2036	CWHL

As of March 23, 2007. Goldman Sachs neither represents nor provides any assurances that the actual Reference Portfolio on the Closing Date or any future date will have the same characteristics as represented above. See the final Offering Circular for the Initial Reference Portfolio.

Reference Obligations are designated as "Midprime" herein if the weighted average FICO score of the underlying collateral that secures such Reference Obligation is greater than 625. All other Reference Obligations are designated as "Subprime" herein.

ACA Capital

Goldman Sachs

Reference Portfolio

Security	Type	Notional Amount	CUSIP	Fitch	Moody's	S&P	Base WAL (yrs)	Dated Date	Legal Final	Servicer
JPMAC 2006-FRE1 M8	Midprime	22,222,222	46626LFV7	BBB	Baa2	BBB	3.5	1/27/2006	5/25/2035	JPM
JPMAC 2006-WMC3 M8	Midprime	22,222,222	46629KAP4	BBB	Baa2	BBB	4.2	9/14/2006	8/25/2036	JPM
LBMLT 2006-11 M8	Midprime	22,222,222	542512AN8		Baa2	BBB	4.6	12/14/2006	12/25/2036	WMB
LBMLT 2006-4 M8	Midprime	22,222,222	54251MAN4		Baa2	A-	3.8	5/9/2006	5/25/2036	WMB
LBMLT 2006-6 M8	Midprime	22,222,222	54251RAN3	BBB+	Baa2	BBB+	4.0	7/26/2006	7/25/2036	WMB
LBMLT 2006-7 M8	Midprime	22,222,222	54251TAN9	BBB+	Baa2	A-	4.1	8/30/2006	8/25/2036	WMB
LBMLT 2006-8 M8	Midprime	22,222,222	54251UAN6		Baa2	A-	4.2	9/21/2006	9/25/2036	WMB
LBMLT 2006-9 M8	Midprime	22,222,222	54251WAN2		Baa2	BBB+	4.3	10/12/2006	10/25/2036	WMB
LBMLT 2006-WL1 M8	Midprime	22,222,222	542514RD8		Baa2	BBB	3.1	2/8/2006	1/25/2036	LBMC
MABS 2006-HE5 M9	Subprime	22,222,222	576455AN9		Baa2	BBB-	4.4	12/28/2006	11/25/2036	WFB
MABS 2006-NC2 M9	Subprime	22,222,222	55275BAP2	BBB	Baa2	BBB-	4.1	9/28/2006	8/25/2036	WFB
MABS 2006-WMC4 M8	Midprime	22,222,222	57645MAP7		Baa2	BBB+	4.5	11/30/2006	10/25/2036	WFB
MLMI 2006-WMC1 B2A	Midprime	22,222,222	59020U4H5		Baa2	BBB+	3.6	2/14/2006	1/25/2037	WCC
MSAC 2006-HE7 B2	Subprime	22,222,222	61750MAP0		Baa2	BBB	4.9	10/31/2006	9/25/2036	CWHL
MSAC 2006-HE8 B2	Midprime	22,222,222	61750SAP7		Baa2	BBB	5.0	11/29/2006	10/25/2036	WFB
MSAC 2006-NC4 B2	Subprime	22,222,222	61748LAN2	BBB	Baa2	BBB	4.4	6/23/2006	6/25/2036	WFB
MSAC 2006-NC5 B3	Midprime	22,222,222	61749BAQ6		Baa2	BBB-	5.0	11/28/2006	10/25/2036	CWHL
MSAC 2006-WMC1 B2	Midprime	22,222,222	61744CXV3	BBB+	Baa2	A-	4.1	1/26/2006	12/25/2035	JPM
MSAC 2006-WMC2 B2	Midprime	22,222,222	61749KAP8	BBB	Baa2	BBB	4.6	6/28/2006	7/25/2036	WFB
MSAC 2007-HE1 B2	Subprime	22,222,222	617526AP3		Baa2	BBB	5.1	1/26/2007	11/25/2036	SM
MSAC 2007-HE2 B2	Midprime	22,222,222	61753EAM2		Baa2	BBB	5.3	2/28/2007	1/25/2037	SM
MSAC 2007-NC1 B2	Subprime	22,222,222	617505AN2		Baa2	BBB	5.2	1/26/2007	11/25/2036	CWHL
MSC 2006-HE2 B2	Midprime	22,222,222	617451FD6	BBB	Baa2	BBB+	4.4	4/28/2006	3/25/2036	WFB
MSHEL 2007-1 B2	Midprime	22,222,222	61751QAM7		Baa2	BBB	5.2	2/28/2007	12/25/2036	SM
MSIX 2006-2 B2	Midprime	22,222,222	617463AM6		Baa2	BBB	4.9	11/28/2006	11/25/2036	SAX
NHEL 2006-5 M8	Subprime	22,222,222	66988YAN2		Baa2	BBB+	3.9	9/28/2006	11/25/2036	NOVA
NHELI 2006-FM1 M8	Midprime	22,222,222	65536HCF3		Baa2	BBB+	3.3	1/30/2006	11/25/2035	WFB
NHELI 2006-FM2 M8	Midprime	22,222,222	65537FAN1	BBB+	Baa2	BBB+	4.1	10/31/2006	7/25/2036	WFB
NHELI 2006-HE3 M8	Subprime	22,222,222	65536QAN8	BBB+	Baa2	BBB+	3.9	8/31/2006	7/25/2036	WFB
OOMLT 2006-3 M9	Subprime	22,222,222	68389BAM5		Baa2	BBB-	3.9	10/27/2006	2/25/2037	OOMC
OOMLT 2007-1 M8	Subprime	22,222,222	68400DAP9		Baa2	BBB	4.2	1/24/2007	1/25/2037	OOMC
SABR 2006-FR1 B2	Midprime	22,222,222	81375WJY3	BBB+	Baa2	A-	4.5	2/23/2006	11/25/2035	HSC
SABR 2006-FR3 B2	Subprime	22,222,222	813765AH7	BBB+	Baa2	BBB	4.8	8/3/2006	5/25/2036	HSC
SABR 2006-HE2 B2	Subprime	22,222,222	81377AAM4	BBB+	Baa2	BBB	4.0	9/28/2006	7/25/2036	HSC
SAIL 2006-4 M7	Subprime	22,222,222	86360WAM4	BBB	Baa2	BBB	4.4	6/25/2006	7/25/2036	ALS
SASC 2006-EQ1A M8	Subprime	22,222,222	86360RAN3		Baa2	BBB	4.6	7/17/2006	7/25/2036	AURA
SASC 2006-OPT1 M7	Subprime	22,222,222	86359UAN9	BBB	Baa2	BBB	3.6	4/25/2006	4/25/2036	AURA
SASC 2006-WF3 M9	Subprime	22,222,222	86361EAP6	BBB-	Baa2	BBB-	4.3	9/25/2006	9/25/2036	ALS
SURF 2007-BC1 B2	Subprime	22,222,222	84752BAQ2		Baa2	BBB	4.8	1/24/2007	1/25/2038	WCC
SVHE 2006-EQ2 M8	Midprime	22,222,222	83611XAM6	BBB	Baa2	BBB	4.5	12/28/2006	1/25/2037	OLS
SVHE 2006-OPT1 M7	Subprime	22,222,222	83611MMF2	BBB+	Baa2	BBB	3.5	3/10/2006	3/25/2036	OOMC
SVHE 2006-OPT2 M7	Subprime	22,222,222	83611MMT2		Baa2	A-	3.5	4/7/2006	5/25/2036	OOMC
SVHE 2006-OPT3 M7	Subprime	22,222,222	83611MPR3		Baa2	BBB	3.6	5/12/2006	6/25/2036	OOMC
SVHE 2006-OPT4 M7	Subprime	22,222,222	83611YAM4		Baa2	BBB+	3.5	5/26/2006	6/25/2036	OOMC
SVHE 2006-OPT5 M8	Subprime	22,222,222	83612CAN9		Baa2	BBB	4.1	6/19/2006	7/25/2036	OOMC

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ACA Capital

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B. Selected ACA Biographies[1]

ACA Capital

(1) All information concerning ACA Capital, its prior experience and its personnel contained herein has been provided by ACA Capital as of February 19, 2007 (unless otherwise specified herein) and no such data has been independently verified by Goldman Sachs.

Select ACA Biographies

ALAN ROSEMAN
President and Chief Executive Officer

Alan Roseman is President and Chief Executive Officer of ACA Capital which he joined in May 2004. He also serves as Deputy Chairman of the Board of Directors. Prior to joining ACA Capital, Mr. Roseman was the Executive Vice President and Co-Chief Operating Officer, as well as a member of the Executive and Underwriting Committees of ACE Financial Solutions. Before joining ACE, he served for ten years as General Counsel and as a member of the Executive Committee of Capital Re Corporation, a financial guaranty reinsurance company.
Mr. Roseman's career in the financial guaranty industry began as a first vice president with Ambac Indemnity Corporation. From 1982-1984, he practiced law as an associate with Mordrall, Sperling, Roehl, Harris & Sisk in Albuquerque, NM and then with Kirkland & Ellis in Denver, Colorado. Mr. Roseman was admitted to the Bar of the State of New York in 1984 and is a member of the New York Bar Association.

Mr. Roseman received his Bachelor's degree in Economics from the University of Rochester and his J.D. from Boston University School of Law.

LAURA SCHWARTZ
Senior Managing Director

Laura Schwartz is Senior Managing Director of ACA Capital and COO of ACA Management, responsible for the company's CDO Asset Management, platform, including overseeing all proprietary CDO business encompassing ABS, CMBS, corporate credits and leveraged loans. Prior to joining ACA Capital, Ms. Schwartz was a director in the Asset Backed Finance Group at Merrill Lynch responsible for the origination and execution of U.S. sub-prime residential mortgage backed securities and whole loan mortgage pool purchases. Her clients included specialty finance companies, national and regional banks, international mortgage originators, money managers, and internet originators. Ms. Schwartz was previously a director in Merrill Lynch's Global Real Estate Finance Group, responsible for origination and execution of commercial mortgage backed and residential mortgage backed securities outside of the United States with primary focus on Canada and Latin America. Transactions included single property, large loan securitization and seasoned loan portfolio securitizations including the use of derivative contracts such as interest rate, prepayment and credit default swaps. Ms. Schwartz began her career at New York Life Insurance Company as a senior analyst in the Commercial Mortgage Loans Group before becoming real estate vice president in the Mortgage Finance Group. Her last position there was as managing director in the Structured Finance Group, managing the public and private asset-backed and commercial mortgage backed securities portfolios of New York Life Insurance Company and its managed accounts.

Ms. Schwartz received her BA, cum laude, in Political Science from the University of Michigan and her MBA from New York University. She holds a CFA designation.

ACA Capital

Select ACA Biographies

JAMES ROTHMAN
Senior Managing Director

James Rothman heads ACA's Structured Credit group. Prior to his current role, Mr. Rothman developed ACA's senior structured credit business and also served as a credit analyst, covering mortgage and asset-backed securities and corporate credit.
From 2000-2001, Mr. Rothman was a Vice President at GE Capital Commercial Finance, responsible for the origination of trade accounts receivable securitization transactions. From 1998-2000, Mr. Rothman was a Director in the ABS Group of Deutsche Bank Securities, responsible for managing key customers and executing securitization transactions in the home equity and recreational vehicle sectors. From 1996-1998, he was a Vice President in PaineWebber's Asset Finance Group, responsible for managing securitized and whole loan transactions in multiple asset classes, including mortgages, home equity loans, subprime auto loans and trade accounts receivable. Prior to joining PaineWebber, Mr. Rothman was Vice President for Chase Manhattan Mortgage Corporation, responsible for managing a variety of structured mortgage transactions involving performing and non-performing residential mortgages.

A graduate of the University of Pennsylvania's Wharton School with a Bachelor of Science in Economics, Mr. Rothman holds a Masters degree in Public and Private Management from the Yale School of Management.

HAO WU
Managing Director

Hao Wu is Managing Director, Head of Structured Finance Risk and Modeling for ACA Capital. Mr. Wu is responsible for portfolio and credit risk management issues for ACA's proprietary CDO business and the structured credit business.
Prior to joining ACA, Mr. Wu was Senior Vice President, Managing Director and Head of Global Structured Product – Financial Products for Radian Asset Assurance Inc. His mandate was to develop and grow credit derivatives and synthetic products business. He was instrumental in building a book of business of single tranche CDOs, CDO^2, ABS CDOs and other Credit Default Swap products, and developing new products such as Options on Single Tranche CDOs and First to Default Basket of ABS. He also helped in establishing a U.K broker-dealer subsidiary based in London. Prior to Radian, he was senior financial analyst for American International Group, structuring and executing derivative transactions and analyzing portfolio risk and devising hedging strategies. He was a member of AIG Derivatives Committee.

Mr. Wu received both a Ph.D. in Electrical Engineering and an MBA in Finance from University of Southern California, Los Angeles. He also attended Executive Education Programs at Harvard Business School. Mr. Wu holds CFA designation.

Goldman Sachs

Select ACA Biographies

DENNIS KRAFT
Managing Director

Dennis Kraft is Managing Director for ACA, responsible for ABS credit.
Prior to joining ACA, Mr. Kraft was director and head of consumer ABS research at Wachovia. Before joining Wachovia, he was head of credit research and trading at Conning Asset Management in Hartford, Connecticut. Mr. Kraft has an extensive background in structured finance. He spent eight years at The Hartford Financial Services Group. He was director of structured securities and sector manager, responsible for more than $10 billion of ABS and CMBS portfolios for Hartford. He spent five years at The Travelers Cos., as asset class manager for over $5 billion of mortgage-backed securities.
Mr. Kraft was head of mathematical and statistical applications at DRI/McGraw-Hill, and was an economist at the Federal Reserve Board and at The President's Council on Wage and Price Stability.

Mr. Kraft has a Ph.D. in economics from the University of California – San Diego.

KEITH GORMAN
Director

Keith Gorman is a Director in the CDO Asset Management and is the Portfolio Manager for the ABS CDOs. Mr. Gorman's previous role at ACA Capital was Senior Credit Analyst, responsible for overseeing the credit team and leading ACA's RMBS credit analysis and originator and servicer reviews. Prior to joining ACA Capital in 2003, Mr. Gorman was an analyst in the RMBS group at Fitch Ratings. His primarily responsibilities were loan level analysis and structuring of sub-prime transactions, as well as surveillance of sub-prime mortgage, manufactured housing, and net interest margin transactions. He began his career as an analyst with Lewtan Technologies.

Mr. Gorman holds a B.S. as well as an M.A. in Economics from the University of Delaware.

AVA REGAL
Director

Ava Regal is Director in the CDO Asset Management Group of ACA Capital. She is responsible for the student loan and CDO asset classes as well as analysis and credit approval for ACA's asset management activities. Ms. Regal also participates in documentation and deal execution on the ABS CDOs.
Prior to joining ACA Capital, Ms. Regal worked in the Credit Structured Products Group at Gen Re Securities working to expand Gen Re's capabilities into structured finance through proprietary and third party CDOs. Before joining Gen Re, she was an Investment Banking Analyst with Prudential Securities in the CDO Group where her responsibilities included marketing presentations to clients as well as assistance in deal execution.

Ms. Regal received her Bachelor's degree in Finance from Boston University in 1999.

ACA Capital

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Select ACA Biographies

SHELBY CARVALHO
Director

Shelby Carvalho is a Director in ACA's Structured Credit group. Mr. Carvalho leads the Structured Credit group's investment efforts in the U.S. for risk related to ABS CDOs and other asset-backed products. Prior to joining the Structured Credit group in July 2004, he was responsible for structuring and documenting ACA's proprietary ABS CDOs. From February 2003 to July 2004 and concurrent with his work on ACA's CDOs, Mr. Carvalho traded single-name credit default swaps for ACA's corporate CDOs and served as a corporate credit analyst for various industries including airlines, aerospace and defense, cargo transportation and retailers. From July 2001 to February 2003, he was responsible for analyzing asset-backed credits for investment by ACA's proprietary CDOs, covering various asset classes including business loans, equipment leases, aircraft, EETCs, and tobacco litigation receivables.

Prior to joining ACA in July 2001, Mr. Carvalho worked as an Associate in the Asset Backed Finance Group of Prudential Securities. At Prudential Securities, he was involved in all aspects of asset securitization including relationship management, transaction execution and structuring interim loan facilities for securitization assets. Mr. Carvalho covered several asset sectors, including equipment leases, mortgage-related ABS, repackaged securities and pooled aircraft receivables. From 1996 – 1999, Mr. Carvalho served as an Analyst in Prudential's Asset Backed Finance Group.

Mr. Carvalho received a Bachelor of Arts in Economics from Yale University.

JEFFREY WYNER
Vice President

Jeffrey Wyner is a Vice President in the ABS Credit Group of ACA Capital. As ACA Capital's commercial real estate specialist, he is responsible for assessment and investment in CMBS, REIT and other real estate related securities for ACA Capital. Prior to joining ACA Capital, Mr. Wyner advised companies acquiring and financing real estate assets and securities. Before forming his advisory firm, Mr. Wyner was a Vice President at Lehman Brothers, Inc. where he provided CMBS deal management for the securitization of more than $15 billion of high yield and large loans. Prior to Lehman Brothers, he was a commercial real estate asset manager with GE Capital and a Senior Financial Analyst for a company of real estate joint venture partnerships held by Olympia & York, Inc. (USA). Mr. Wyner began his career working in architecture/ engineering firms providing urban planning and land development services for projects in the US and overseas.

Mr. Wyner received his Bachelors degree in Natural Resources from the University of Michigan and his MBA from the Wharton School, University of Pennsylvania.

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Select ACA Biographies

TRACY PORTNOY
Vice President

Tracy Portnoy is a Vice President in the ABS Credit Group of ACA Capital. Prior to joining ACA Capital, Ms. Pôrtnoy worked at JPMorgan in CDO investor relations and more recently in US asset-backed research covering Home Equity, Autos, Student Loans, and Credit Cards.

Ms. Portnoy completed her B.S. at Cornell University in Applied Resource Managerial Economics.

LUCAS WESTREICH
Vice President

Lucas Westreich is a Vice President in the CDO Asset Management Group of ACA. He is responsible for Execution and Operation functions within the ABS areas.Prior to joining ACA, Mr. Westreich was an Economics Research Assistant at Boston University responsible for collecting data on international markets. Before joining the economics department, Mr.Westreich held an internship with a division of Carlin Equities. He was a trading floor assistant where his responsibilities included tracking equity positions and analyzing market trends.

Mr. Westreich received both his Bachelor's and Master's degree in Economics from Boston University. He graduated from the combined BA/MA program in four years.

SARAH DUNN
Assistant Portfolio Manager

Sarah Dunn is an Assistant Portfolio Manager in the CDO Asset Management Group at ACA. Prior to joining ACA, Ms. Dunn worked as an analyst in the CDO Global Trust Services Department of LaSalle Bank. Her duties included running trade compliance models and developing monthly investor reports.
Ms. Dunn earned her B.A. in Business Administration and English Literature from Trinity University

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Select ACA Biographies

RITU B. CHACHRA
Associate

Ritu B. Chachra is an Associate in the ABS Credit Group of ACA Capital. Prior to joining ACA Capital, Ms. Chachra worked at JPMorgan Asset Management where she was responsible for credit research and analytics relating to term asset-backed securities and asset-backed commercial paper investments. Prior to this role, she worked with Strategic Investment Advisory Group and performed specialized asset/liability and asset allocation analyses for pension funds and endowments.

Ms.Chachra holds a B.A. in Economics from Delhi University, India and an M.A. in Economics from University of Virginia. Ms. Chachra is a CFA charter holder.

GREG HACKETT
Analyst

Greg Hackett is an Analyst in ABS Credit Group of ACA Capital. Prior to joining ACA Capital, Mr. Hackett worked at Fitch Ratings, where he was an analyst in the RMBS group. While at Fitch, Mr. Hackett assigned ratings for deals from several issuers, including scratch-and-dent deals. In addition, he was responsible for cash flow modeling and structuring for NIM transactions for all issuers.

Mr. Hackett earned a B.S in Finance from Pace University.

THOMAS LATRONICA
Analyst

Thomas Latronica is an Analyst in the ABS Credit Group of ACA Capital. Prior to joining ACA Capital, Mr. Latronica held an internship with a Connecticut based brokerage firm.

Mr. Latronica graduated from Sacred Heart University where he earned his B.S. in Business Administration.

C. Goldman Sachs Contact Information

Goldman Sachs Contacts

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CONFIDENTIAL

ABACUS 2007-AC1, LTD.

(Incorporated with limited liability in the Cayman Islands)

ABACUS 2007-AC1, INC.

Class SS Variable Rate Notes
U.S.$50,000,000 Class A-1 Variable Rate Notes, Due 2038
U.S.$142,000,000 Class A-2 Variable Rate Notes, Due 2038
Class B Variable Rate Notes
Class C Variable Rate Notes
Class D Variable Rate Notes
Class FL Variable Rate Notes

ACA Management, L.L.C.

Portfolio Selection Agent

Secured Primarily by (i) the Collateral and (ii) the Issuer's rights under (a) the Collateral Put Agreement, (b) the Basis Swap and (c) as Protection Seller, the Credit Default Swap referencing a pool of Residential Mortgage-Backed Securities

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The Notes are being offered hereby by Goldman, Sachs & Co. to Qualified Institutional Buyers in the United States in reliance on Rule 144A under the Securities Act. In addition to the offering of the Notes in the United States, Goldman, Sachs & Co., selling through its agent, Goldman Sachs International is concurrently offering the Notes outside the United States to non-U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act. See "Underwriting".

The Notes of any Class may be issued in more than one Series due to differences in one or more of the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue.

See "Risk Factors" beginning on page 21 to read about factors you should consider before buying the Notes.

There is no established trading market for the Notes. Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that any such admission will be sought, granted or maintained.

It is a condition of the issuance of the Notes issued on the Closing Date that the Class A-1 Notes and the Class A-2 Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's"), and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings of the Notes".

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Notes by the Initial Purchaser.

CERTAIN PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE NOTES, GOLDMAN, SACHS & CO., GOLDMAN SACHS INTERNATIONAL, THE ADMINISTRATOR, THE SHARE TRUSTEE, THE PROTECTION BUYER, THE BASIS SWAP COUNTERPARTY, THE COLLATERAL PUT PROVIDER, THE COLLATERAL DISPOSAL AGENT, THE PORTFOLIO SELECTION AGENT OR ANY OF THEIR RESPECTIVE AFFILIATES. THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, AND NEITHER OF THE ISSUERS WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE NOTES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO PERSONS WHO ARE (1) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS PROVIDED BY RULE 144A UNDER THE SECURITIES ACT AND (2) QUALIFIED PURCHASERS (FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT), AND IN ACCORDANCE WITH ANY OTHER APPLICABLE LAW. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "TRANSFER RESTRICTIONS".

The Notes are offered by the Initial Purchaser or its agent as specified herein, subject to its right to reject any order in whole or in part. It is expected that the Global Notes will be ready for delivery in book-entry form only in New York, New York, on or about April 26, 2007, through the facilities of DTC (or Euroclear, with respect to Notes issued in Approved Currencies other than Dollars, if any), against payment therefor in immediately available funds. The Notes will have the minimum denominations set forth in "Summary—Notes".

Goldman, Sachs & Co.

Offering Circular dated April 26, 2007.

Permanent Subcommittee on Investigations
EXHIBIT #121

THIS OFFERING CIRCULAR SUPERSEDES IN ALL RESPECTS ALL EARLIER DATED OFFERING CIRCULARS.

GENERAL NOTICE

The information contained in this Offering Circular has been provided by the Issuers and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchaser, the Protection Buyer or the Portfolio Selection Agent (except, with respect to the Protection Buyer only, the information set forth under the heading "The Protection Buyer" and except, with respect to the Portfolio Selection Agent only, the information set forth under the heading "The Portfolio Selection Agent") as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser, the Protection Buyer or the Portfolio Selection Agent (except, with respect to the Protection Buyer only, the information set forth under the heading "The Protection Buyer" and except, with respect to the Portfolio Selection Agent only, the information set forth under the heading "The Portfolio Selection Agent").

The Issuers (and, with respect to the information contained in this Offering Circular under the heading "The Protection Buyer", the Protection Buyer and, with respect to the information contained in this Offering Circular under the heading "The Portfolio Selection Agent", the Portfolio Selection Agent), having made all reasonable inquiries, confirm that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make any of such information or the expression of any such opinions or intentions misleading. The Issuers (and, with respect to the information contained in this Offering Circular under the heading "The Protection Buyer", the Protection Buyer and, with respect to the information contained in this Offering Circular under the heading "The Portfolio Selection Agent", the Portfolio Selection Agent) take responsibility accordingly.

The Initial Collateral Security set forth in this Offering Circular in the table under the heading "The Collateral Securities—Initial Collateral Securities" that is a CLO Security is described in the offering circular attached hereto, and prospective purchasers of the Notes should refer to such offering circular for a description of the terms of such Initial Collateral Security.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Notes.

The delivery of this Offering Circular at any time does not imply that the information herein is correct at any time subsequent to the date of this Offering Circular.

Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuers or the Initial Purchaser specified herein shall have any responsibility therefor. Persons into whose possession this Offering Circular comes are required by the Issuers and the Initial Purchaser to inform themselves about and to observe such applicable laws and regulations. For a further description of certain restrictions on offering and sales of the Notes, see "Transfer Restrictions" and "Underwriting". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful.

No invitation may be made to the public in the Cayman Islands to subscribe for the Notes.

INFORMATION APPLICABLE TO NON–U.S. INVESTORS

NOTICE TO RESIDENTS OF UNITED KINGDOM

There are restrictions on the offer and sale of the Notes in the United Kingdom. No action has been taken to permit the Notes to be offered to the public in the United Kingdom. This document may only be issued or passed on in or into the United Kingdom to any person to whom the document may lawfully be issued or passed on by reason of, or of any regulation made under, section 21 of the Financial Services and Markets Act 2000 of the United Kingdom. It is the responsibility of all persons under whose control or into whose possession this document comes to inform themselves about and to ensure observance of all applicable provisions of the Public Offers of Securities Regulations 1995 and the Financial Services and Markets Act 2000 in respect of anything done in relation to the Notes in, from or otherwise involving the United Kingdom. See "Underwriting".

NOTICE TO RESIDENTS OF GERMANY

The Notes will not be offered or sold in the Federal Republic of Germany other than in accordance with the German Securities Sales Prospectus Act of December 13, 1990 of the Federal Republic of Germany, as amended (Wertpapierverkaufsprospektgesetz), the German Investment Act of December 15, 2003 of the Federal Republic of Germany, as amended (Investmentgesetz) and any other legal or regulatory requirements applicable in the Federal Republic of Germany governing the issue, offer and sale of securities. Upon the request of a German investor, the Issuer will (i) make available to the German investors the information required pursuant to § 5 (1) sentence 1 nos. 1 and 2 in connection with sentence 2, § 5 (1) sentence 1 no. 4 and § 5 (3) sentence 1 of the Investmentsteuergesetz (the "German Investment Tax Act"), (ii) furnish to the German Federal Tax Office (Bundesamt für Finanzen) upon its request within three months proof of the correctness of the information referred to under clause (i) above in accordance with § 5 (1) sentence 1 no. 5 of the German Investment Tax Act and (iii) make the publication in the electronic edition of the Federal Gazette (elektronischer Bundesanzeiger) required pursuant to § 5 (1) sentence 1 no. 3 of the German Investment Tax Act in the German language. All prospective German investors are urged to seek independent tax advice. The Initial Purchaser does not give tax advice.

NOTICE TO RESIDENTS OF NETHERLANDS

The Notes may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

NOTICE TO RESIDENTS OF HONG KONG

The Notes may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

NOTICE TO RESIDENTS OF SINGAPORE

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Notes to the public in Singapore.

NOTICE TO RESIDENTS OF JAPAN

The Notes have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (2) in compliance with any other applicable requirements of Japanese law.

INFORMATION APPLICABLE TO U.S. INVESTORS

This Offering Circular is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Notes described herein. Except as otherwise authorized under the following paragraph, any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

EACH PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF SUCH PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATIONS OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. HOWEVER, ANY SUCH INFORMATION RELATING TO THE TAX TREATMENT OR TAX STRUCTURE IS REQUIRED TO BE KEPT CONFIDENTIAL TO THE EXTENT REASONABLY NECESSARY TO COMPLY WITH APPLICABLE FEDERAL OR STATE SECURITIES LAWS. FOR PURPOSES OF THIS PARAGRAPH, THE TERMS "TAX TREATMENT", "TAX STRUCTURE", AND "TAX ANALYSES" HAVE THE MEANING GIVEN TO SUCH TERMS UNDER UNITED STATES TREASURY REGULATION SECTION 1.6011-4(c) AND APPLICABLE STATE OR LOCAL LAW.

THE NOTES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (THE "RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY

REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with the Securities Act in connection with the sale of the Notes in reliance on Rule 144A, the Issuer will be required under the Indenture and the Issuing and Paying Agency Agreement to furnish upon request to a Holder or beneficial owner who is a Qualified Institutional Buyer of a Note sold in reliance on Rule 144A or a prospective investor who is a Qualified Institutional Buyer designated by such Holder or beneficial owner the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g-3-2(b) under the Exchange Act.

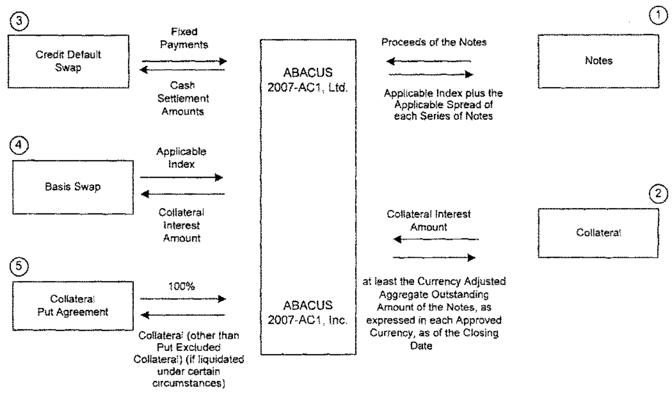
In accordance with the Indenture and the Issuing and Paying Agency Agreement, the Trustee and the Issuing and Paying Agent, as applicable, also will make available for inspection by Holders of the Notes certain reports or communications received from the Issuers.

Prior to making an investment decision, prospective investors should ensure that they have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in the Notes and should carefully consider the nature of the Notes, the matters set forth elsewhere in this Offering Circular and the extent of their exposure to the risks described in "Risk Factors".

TABLE OF CONTENTS

TRANSACTION OVERVIEW

This overview is not complete and is qualified in its entirety by reference to (i) the detailed information appearing elsewhere in this Offering Circular, (ii) the terms and conditions of the Notes and (iii) the provisions of the documents referred to in this Offering Circular.



On or prior to the Closing Date, the Initial Reference Portfolio will be selected by the Portfolio Selection Agent.

① On the Closing Date, the Notes will be issued in the Original Principal Amount set forth in the "Summary—Notes". From time to time following the Closing Date, additional Notes of any Class may be issued.

② The Issuer will use the net proceeds of the offering of the Notes, together with part or all of the Upfront Payment, to purchase the Initial Collateral Securities and Eligible Investments selected by the Protection Buyer; *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.

③ On the Closing Date, the Issuer and Goldman Sachs Capital Markets, L.P., as the Protection Buyer, will enter into the Credit Default Swap whereby the Issuer (a) sells credit protection to the Protection Buyer with respect to a Reference Portfolio of RMBS and (b) receives from the Protection Buyer (i) an Upfront Payment on the Closing Date and (ii) a Fixed Payment on the Closing Date and each Payment Date. Following the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, the Issuer will pay to the Protection Buyer an amount equal to any Cash Settlement Amount. For a description of all payments to be made under the Credit Default Swap, see "The Credit Default Swap—Payments".

④ On the Closing Date, the Issuer and Goldman Sachs Capital Markets, L.P., as the Basis Swap Counterparty, will enter into the Basis Swap whereby the Issuer (a) pays to the Basis Swap Counterparty any Collateral Interest Amount and (b) receives an amount from the Basis Swap Counterparty equal to the sum of the products for each Approved Currency in which Outstanding Notes are denominated of: (i) the Applicable Index for the Applicable Period; (ii) the average daily Currency Adjusted Aggregated Outstanding Amount of such Notes *during* the preceding Basis Swap Calculation Period; and (iii) the actual number of days in the preceding Basis Swap Calculation Period in which a payment is made *divided by* 360.

⑤ On the Closing Date, the Issuer and Goldman Sachs International, as the Collateral Put Provider, will enter into the Collateral Put Agreement whereby the Issuer will have the right to put Collateral (other than Put Excluded Collateral) to the Collateral Put Provider in return for a payment of 100% of the principal amount of such Collateral if the Collateral cannot be liquidated for an amount equal to at least 100% of par in connection with (i) the payment by the Issuer to the applicable Noteholders of any Currency Adjusted Notional Principal Adjustment Amount, (ii) an Optional Redemption in Whole or a Partial Optional Redemption and/or (iii) a Stated Maturity.

 GS MBS-E-001918040

SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For a discussion of certain factors to be considered in connection with an investment in the Notes, see "Risk Factors".

Capitalized terms used herein but not defined shall have the meanings set forth under "Glossary of Defined Terms".

The Issuers	ABACUS 2007-AC1, Ltd. (the "**Issuer**"), a company incorporated under the laws of the Cayman Islands for the sole purpose of issuing the Notes, acquiring the Collateral, entering into the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Portfolio Selection Agreement and engaging in certain related transactions. The Issuer will not have any material assets other than (i) the Collateral, (ii) its rights under the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Portfolio Selection Agreement and (iii) certain other assets. ABACUS 2007-AC1, Inc. (the "**Co-Issuer**" and, together with the Issuer, the "**Issuers**"), a company incorporated under the laws of the State of Delaware for the sole purpose of co-issuing the Co-Issued Notes. The Co-Issuer will not have any assets (other than $10 of equity capital) and will not pledge any assets to secure the Notes. The Co-Issuer will have no claim against the Issuer in respect of the Issuer Assets. The authorized share capital of the Issuer consists of 300 ordinary shares, par value $1.00 per share (the "**Issuer Ordinary Shares**"), 300 of which will be issued on or prior to the Closing Date. The Issuer Ordinary Shares that have been issued will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands and any successor thereto (the "**Administrator**"), as the trustee pursuant to the terms of a charitable trust (the "**Share Trustee**"). The common stock of the Co-Issuer will be held by the Issuer.
The Portfolio Selection Agent.......	The Initial Reference Portfolio will be selected by ACA Management, L.L.C. ("**ACA Management**" and in such capacity, the "**Portfolio Selection Agent**") pursuant to the terms of the Portfolio Selection Agreement, dated as of the Closing Date (the "**Portfolio Selection Agreement**"), between the Issuer and the Portfolio Selection Agent. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral. See "The Portfolio Selection Agent" and "The Portfolio Selection Agreement".

Notes

Class Designation	SS	A-1	A-2	B	C	D	FL
Original Principal Amount (as expressed in Dollars)[1]	$0	$50,000,000	$142,000,000	$0	$0	$0	$0
Initial Class Notional Amount (as expressed in Dollars)	$1,100,000,000	$200,000,000	$280,000,000	$60,000,000	$100,000,000	$60,000,000	$200,000,000
Class Series	Series 1	Series 1	Series 1	Series 1	Series 1	Series 1	Series 1
Stated Maturity	March 1, 2038						
Average Life (in years)[2]	3.5	4.0	4.2	4.3	4.4	4.6	5.1
Minimum Denomination (Integral Multiples):							
Rule 144A	$250,000, ($1)						
Reg S	$100,000, ($1); €100,000, (€1); £100,000, (£1); ¥10,000,000, (¥1); A$100,000, (A$1); C$100,000, (C$1); NZ$100,000, (NZ$1)						
Applicable Investment Company Act of 1940 Exemption	3(c)(7)						
Initial Ratings:							
S&P		AAA	AAA				
Moody's		Aaa	Aaa				
Pricing Date	April 10, 2007						
Closing Date	April 26, 2007						
Issue Price	The Notes will be offered for sale from time to time in negotiated transactions, or otherwise, at various prices to be determined at the time of such sale						
Series Interest Rate for Series Issued on Closing Date[3]		LIBOR + 0.85%	LIBOR + 1.10%				
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	Floating
Interest Accrual Period	Each period from and including the preceding Payment Date (or, the Closing Date, with respect to the first Payment Date) to but excluding the current Payment Date (or, in the case of the Payment Date preceding the Stated Maturity, to but excluding the Stated Maturity)						
Payment Date	On the 28th calendar day of each month (or if such day is not a Business Day, the next succeeding Business Day) and at Stated Maturity						
First Payment Date	May 29, 2007						
Record Date	15 days prior to the applicable Payment Date						
Frequency of Payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360
Co-Issued Notes or Issuer Notes	Co-Issued Notes	Co-Issued Notes	Issuer Notes	Issuer Notes	Issuer Notes	Issuer Notes	Issuer Notes
Form of Notes:							
Global	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CUSIPS Rule 144A	00256UAA2	00256UAB0	00256YAA4	00256YAB2	00256YAC0	00256YAD8	00256YAE6
CUSIPS Reg S	G0010JAA7	G0010JAB5	G0010AAA6	G0010AAB4	G0010AAC2	G0010AAD0	G0010AAE8
ISIN Reg S	USG0010JAA72	USG0010JAB55	USG0010AAA63	USG0010AAB47	USG0010AAC20	USG0010AAD03	USG0010AAE85
Common Code	029629897	029630569	029630780	029630941	029631026	029631174	029631662
Clearing Method:							
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	DTC
Reg S	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream
Certificated	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Pursuant to the Indenture (in the case of the Co-Issued Notes) and the Issuing and Paying Agency Agreement (in the case of the Issuer Notes), the Notes of any Class may be issued from time to time following the Closing Date. See "Description of the Notes—The Indenture—Additional Issuance" and "Description of the Notes—The Issuing and Paying Agency Agreement—Additional Issuance."

2 Under a hypothetical scenario in which (i) each Reference Obligation will make a repayment of principal in full on a single date corresponding to the projected weighted average life of such Reference Obligation determined on the basis of a 30/360 day-count convention, whether or not such date falls on a Business Day or a Payment Date, (ii) principal payments on the Notes will occur on Payment Dates in accordance with the applicable cut-off dates, (iii) the Notes will be repaid in accordance with the Priority of Payments and (iv) no Credit Events will have occurred with respect to the Reference Portfolio. The assumptions set forth above are not predictive or a forecast, nor do they necessarily reflect historical performance and defaults.

3 The Series Interest Rate with respect to any Series of a Class will be determined at the time of issuance of such Series, and will equal the Applicable Index for such Series plus or minus the Applicable Spread to such Applicable Index. The Series Interest Rate with respect to different Series of a Class may vary. The Notes of any Class may be issued in more than one Series due to differences in one or more of the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue. See "Additional Issuance" herein.

The Issuer Notes	The Issuer Notes will be issued in accordance with one or more deeds of covenant (each, a "**Deed of Covenant**") and will be subject to the Issuing and Paying Agency Agreement, dated as of the Closing Date including the terms and conditions of such Notes contained therein (the "**Issuing and Paying Agency Agreement**"), between the Issuer and LaSalle Bank National Association, as Issuing and Paying Agent (in such capacity, the "**Issuing and Paying Agent**"). See "Description of Notes—The Issuing and Paying Agency Agreement".
Status and Subordination	The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer. On (i) each Payment Date and (ii) any other Business Day on which Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Noteholders, the Class SS Notes will be senior in right of payment to the Class A-1 Notes, the Class A-1 Notes will be senior in right of payment to the Class A-2 Notes, the Class A-2 Notes will be senior in right of payment to the Class B Notes, the Class B Notes will be senior in right of payment to the Class C Notes, the Class C Notes will be senior in right of payment to the Class D Notes and the Class D Notes will be senior in right of payment to the Class FL Notes.
Use of Proceeds	The aggregate net proceeds of the offering of the Notes are expected to equal approximately $192,000,000 (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). The Issuer will use such net proceeds, together with part or all of the Upfront Payment, to purchase Collateral Securities and Eligible Investments that will have an aggregate principal amount of at least $192,000,000 (including the USD Equivalent of the Collateral Securities denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.
Distributions of Interest Proceeds	Interest Proceeds will be distributable monthly to Holders of the Notes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments".
Non-Call Period	With respect to each Series of Notes issued on the Closing Date, the period from the Closing Date to and including the Business Day immediately preceding the April 2009 Payment Date and, with respect to any Series of Notes issued after the Closing Date, the period designated for such Series at the time of issuance in the related offering circular supplement (the "**Non-Call Period**"). So long as the Non-Call Period for each Series of Notes Outstanding has expired, the Notes will be redeemed in full at

the option of the Protection Buyer if the Protection Buyer elects to terminate the Credit Default Swap prior to the Scheduled Termination Date and certain conditions are satisfied. See "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date and Mandatory Redemption Date" and "The Credit Default Swap—Credit Default Swap Early Termination—Credit Default Swap Termination Events".

After the applicable Non-Call Period, one or more Series of Notes may be redeemed in full if the Protection Buyer, in its sole discretion, elects to redeem such Series prior to its Stated Maturity and certain conditions are satisfied. In addition, if the Protection Buyer and/or one or more Affiliates thereof acquires any Notes prior to the end of the related Series' applicable Non-Call Period (such Notes, "**Protection Buyer Notes**"), such Notes may be redeemed notwithstanding that any such redemption may occur during the applicable Non-Call Period. See "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Priority of Payments—Principal Proceeds—Other Payment Dates" and "The Credit Default Swap—Payments—Payment on a Partial Optional Redemption Date".

Principal Payments on the Notes .... The following table sets forth the general circumstances and dates upon which Holders of the Notes will receive principal payments on their Notes prior to the Stated Maturity:

Event	Date of Payment	Amounts Payable in accordance with the Priority of Payments
Payment of Currency Adjusted Notional Principal Adjustment Amounts	The Payment Date immediately following the Due Period in which such amounts were determined by the Credit Default Swap Calculation Agent	Notional Principal Adjustment Amounts
Optional Redemption in Whole due to an optional termination of the Credit Default Swap by the Protection Buyer	Any Payment Date after the expiration of the Non-Call Period for each Series of Notes Outstanding	Currency Adjusted Aggregate Outstanding Amount *plus*, if the consent of each Holder of Notes of a Reversible Loss Series has not been obtained, with respect to each such Reversible Loss Series, the Optional Redemption Reimbursement Amount

Event	Date of Payment	Amounts Payable in accordance with the Priority of Payments
Partial Optional Redemption due to the election by the Protection Buyer to redeem one or more Series of Notes in full	Any Payment Date after the applicable Non-Call Period	Currency Adjusted Aggregate Outstanding Amount of each Series of Notes being redeemed *plus*, if any such Series is a Reversible Loss Series and the consent of each Holder of such Reversible Loss Series has not been obtained, the Optional Redemption Reimbursement Amount for any such Reversible Loss Series
Partial Optional Redemption due to the election by the Protection Buyer to redeem Protection Buyer Notes	Any Payment Date	Currency Adjusted Aggregate Outstanding Amount of the Protection Buyer Notes being redeemed
Mandatory Redemption (other than a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (iii) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, for which there would be insufficient liquidation proceeds to pay (a) items (i) through (iii) of the Priority of Payments and (b) with respect to each of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes of such Class and accrued interest thereon (if any))	Any Business Day	Principal Proceeds
Mandatory Redemption (other than as described above)	Any Business Day	Principal Proceeds and/or delivery of Collateral Securities subject to Special Termination Liquidation Procedure

See "Description of the Notes—Principal", "Description of the Notes—Optional Redemption in Whole and Partial Optional

	Redemption", "Description of the Notes—Mandatory Redemption", "Description of the Notes—Priority of Payments" and "Description of the Notes—The Indenture—Events of Default".
Decrease in the Class Notional Amount of each Class of Notes	The Class Notional Amount of each Class of Notes will be decreased by an amount (as expressed in Dollars) equal to: (i) on the fifth Business Day following the calculation of any Loss Amount, if greater than zero, the lesser of (a)(i) the aggregate Loss Amount determined on the related Credit Default Swap Calculation Date *less* (ii) the Class Notional Amount of all Classes of Notes that are subordinated to such Class immediately prior to such determination and (b) the Class Notional Amount of such Class immediately prior to such determination (such amount, the "**Unscaled Credit Event Adjustment Amount**"); and (ii) on the Payment Date immediately following the Due Period in which such Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), if greater than zero, the lesser of (x) (A) the aggregate Notional Principal Amount allocable on such date *less* (B) the Class Notional Amount of all Classes of Notes that are senior to such Class immediately prior to such determination, and (y) the Class Notional Amount of such Class immediately prior to such determination (such amount, the "**Unscaled Notional Principal Adjustment Amount**"). On any date of determination, increases and decreases to the Class Notional Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate Loss Amount (if any), (ii) aggregate Reference Obligation Reimbursement Amount (if any), and (iii) aggregate Notional Principal Amount (if any). See "Description of Notes—Principal".
Increase in the Class Notional Amount of each Class of Notes	On the Payment Date immediately following the Due Period during which a Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent with respect to one or more Reference Obligation(s), and so long as such Reference Obligation(s) remains in the Reference Portfolio at the time of such Reference Obligation Reimbursement, the Class Notional Amount of each Class of Notes will be increased by an amount (as expressed in Dollars) equal to, if greater than zero, the lesser of (i) such Reference Obligation Reimbursement Amount *less* the sum of the ICE Class Notional Amount

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Differentials for the Classes of Notes that are senior to such Class immediately prior to such determination, and (ii) the ICE Class Notional Amount Differential of such Class immediately prior to such determination (such amount, the **"Unscaled Reinstatement Adjustment Amount"**) (if any).

On any date of determination, increases and decreases to the Class Notional Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate Loss Amount (if any), (ii) aggregate Reference Obligation Reimbursement Amount (if any) and (iii) aggregate Notional Principal Amount (if any).

See "Description of Notes—Principal".

Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes..

The Aggregate USD Equivalent Outstanding Amount of each Class of Notes will be decreased by an amount (as expressed in Dollars) equal to:

(i) on the fifth Business Day following the calculation of any Loss Amount, without paying any principal on such Class of Notes, the product of (a) the related Unscaled Credit Event Adjustment Amount and (b) the related Note Scaling Factor (such amount determined under this subclause (i), the **"Credit Event Adjustment Amount"**);

(ii) on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), a payment of principal representing the product of (a) the related Unscaled Notional Principal Adjustment Amount and (b) the related Note Scaling Factor (such amount determined under this subclause (ii), the **"Notional Principal Adjustment Amount"**);

(iii) on any Stated Maturity related to a Series of such Class, after giving effect to clauses (i) and (ii) above, the Aggregate USD Equivalent Outstanding Amount of each such Series maturing on such date; and

(iv) on a Partial Optional Redemption Date, after giving effect to clauses (i) through (iii) above, with respect to a Class of Notes for which (A) one or more Series of such Class is redeemed in full on such date or (B) Protection Buyer Notes are redeemed, in each case in connection with a Partial Optional Redemption, a payment of principal representing the Aggregate USD Equivalent Outstanding Amount of the Notes of such Class redeemed in connection with such Partial Optional Redemption.

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For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclauses (i) through (iv) above will be based on the Aggregate USD Equivalent Outstanding Amount of each applicable Series of such Class, as expressed in Dollars.

On any date of determination, increases and decreases to the Aggregate USD Equivalent Outstanding Amount of any Class of Notes will be determined by giving effect, in the following order, to (i) the aggregate related Unscaled Credit Event Adjustment Amount (if any), (ii) the aggregate related Unscaled Reinstatement Adjustment Amount (if any) and (iii) the aggregate related Unscaled Notional Principal Adjustment Amount (if any).

See "Description of Notes—Principal".

Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes .... The Aggregate USD Equivalent Outstanding Amount of each Class of Notes will be increased by an amount (as expressed in Dollars) equal to:

(i) on the Payment Date immediately following the Due Period during which a Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent (with the related Currency Adjusted Reinstatement Adjustment Amount (other than with respect to that portion of Reference Obligation Repayment Amount which will be applied to make principal payments on the Notes on such Payment Date) to be invested in Collateral Securities, or pending such investment, in Eligible Investments, as described under "—The Collateral Securities"), the product of (a) the related Unscaled Reinstatement Adjustment Amount and (b) the related Note Scaling Factor with respect to such Class of Notes (such amount, the "**Reinstatement Adjustment Amount**"); *provided* that the Aggregate USD Equivalent Outstanding Amount of each Class of Notes may only be increased by an amount less than or equal to the ICE Aggregate USD Equivalent Outstanding Amount Differential of such Class; and

(ii) on any day on which additional Notes of such Class are issued, the principal amount of such additional issuance (or the USD Equivalent of such principal amount if issued in an Approved Currency other than Dollars).

For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclause (i) above will be based on the Aggregate USD Equivalent Outstanding Amount of each Series of such Class, as expressed in Dollars.

	See "Description of Notes—Principal".
Decrease in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes	The Currency Adjusted Aggregate Outstanding Amount of any Series of Notes will be decreased, with respect to (A) any event described under clauses (i) and (ii) of "—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", by an amount equal to the quotient of (a) such Notes' allocation of any related Credit Event Adjustment Amount or Notional Principal Adjustment Amount, as applicable, *divided by* (b) the Applicable Series Foreign Exchange Rate (such quotient, the "**Currency Adjusted Credit Event Adjustment Amount**" or the "**Currency Adjusted Notional Principal Adjustment Amount**", as applicable), (B) on the Stated Maturity with respect to a Series of Notes, the Currency Adjusted Aggregate Outstanding Amount of such Notes maturing on such date, after giving effect to any reductions pursuant to subclause (A) above and (C) a Partial Optional Redemption of such Notes, by the Currency Adjusted Aggregate Outstanding Amount of such Notes, after giving effect to any reductions pursuant to subclauses (A) and (B) above.
Increase in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes	The Currency Adjusted Aggregate Outstanding Amount of any Series of Notes will be increased, with respect to any event described under clause (i) of "—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", by an amount equal to the quotient of (a) such Notes' allocation of any related Reinstatement Adjustment Amount *divided by* (b) the Applicable Series Foreign Exchange Rate (such quotient, the "**Currency Adjusted Reinstatement Adjustment Amount**").
Cancellation of Notes	A Class of Notes will be deemed to be cancelled and no longer Outstanding on the date that the ICE Class Notional Amount of such Class has been reduced to zero.
The Credit Default Swap	
Credit Default Swap	On or prior to the Closing Date, the Issuer will enter into a credit default swap transaction (the "**Credit Default Swap**") with Goldman Sachs Capital Markets, L.P. (in such capacity, the "**Protection Buyer**") pursuant to which the Issuer will sell credit protection to the Protection Buyer with respect to a portfolio of Reference Obligations consisting of RMBS.
Documentation	The Credit Default Swap will be documented by a confirmation that will be governed by, form part of and be subject to a 1992 Master Agreement (Multicurrency-Cross Border) (the "**ISDA Master Agreement**") published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"), and Schedule thereto. The definitions and provisions of the ISDA Credit Derivatives Definitions will be incorporated into the Credit Default Swap by reference (as supplemented by the May 2003 Supplement to such definitions published by ISDA), subject to certain

	amendments as set out in the Credit Default Swap. The Credit Default Swap will be governed by New York law.
Reference Portfolio	On the Closing Date, it is expected that the Credit Default Swap will reference 90 Reference Obligations (collectively, the **"Reference Portfolio"**). See Schedule A. The Protection Buyer is not required to have any credit exposure to any Reference Entity or any Reference Obligation.
Modification of the Reference Portfolio	The Reference Portfolio is static and no replacement Reference Obligations may be included in the Reference Portfolio. Following the redemption or amortization in full of a Reference Obligation, the Reference Obligation that has been redeemed or amortized in full, will be removed from the Reference Portfolio. Subject to the foregoing, if the Reference Obligation Notional Amount of a Reference Obligation that suffered one or more Credit Events is reduced to zero at any time on or prior to the Scheduled Termination Date and remains at zero for a period of one calendar year, such Reference Obligation shall be removed from the Reference Portfolio as of the last day of such one calendar year period; *provided* that, if such Reference Obligation that suffered one or more Credit Events experiences a Reference Obligation Reimbursement for which the Reference Obligation Repayment Amount equals the ICE Reference Obligation Notional Amount Differential of such Reference Obligation immediately prior to such determination, the Reference Obligation shall be removed from the Reference Portfolio immediately following the determination of such Reference Obligation Repayment Amount by the Credit Default Swap Calculation Agent.
Credit Events	The following Credit Events (each a **"Credit Event"**) shall apply with respect to each Reference Obligation: (i) Failure to Pay Principal; or (ii) Writedown. See "The Credit Default Swap—Credit Events".
Conditions to Settlement...........	The **"Conditions to Settlement"** will be satisfied upon delivery to the Issuer and the Trustee of a Credit Event Notice and a Notice of Publicly Available Information.
Notifying Party............................	The Protection Buyer.
Credit Default Swap Calculation Agent....................	Goldman Sachs Capital Markets, L.P. will be the calculation agent (in this capacity the **"Credit Default Swap Calculation Agent"**) under the Credit Default Swap.
Settlement Method	Cash.

Loss Amount	On the Business Day on which the Protection Buyer satisfied the Conditions to Settlement (in each case, a "**Credit Default Swap Calculation Date**"), the Credit Default Swap Calculation Agent will determine the loss amount (a "**Loss Amount**") with respect to the related Credit Event as follows: (i) with respect to a Writedown, the Loss Amount will be an amount equal to the related Writedown Amount; and (ii) with respect to a Failure to Pay Principal, the Loss Amount will be an amount equal to the related Principal Shortfall Amount.
Cash Settlement Amount	On the fifth Business Day following a Credit Default Swap Calculation Date (a "**Credit Default Swap Settlement Date**"), subject to the provision described in the following paragraph, the Issuer will pay to the Protection Buyer an amount (a "**Cash Settlement Amount**") equal to the aggregate of any Currency Adjusted Credit Event Adjustment Amounts determined on such day payable in the currencies of such Currency Adjusted Credit Event Adjustment Amounts. Pursuant to the terms of the Credit Default Swap, if the liquidation proceeds of Eligible Investments and Collateral Securities would have been sufficient to pay a Cash Settlement Amount had such Collateral (other than Put Excluded Collateral) been liquidated at least at 100% of par (instead of below 100% of par), the Issuer will be deemed to have paid such Cash Settlement Amount in full upon the Protection Buyer's receipt of the actual related liquidation proceeds. See "The Credit Default Swap—Payments".
Reimbursement following a Credit Event	If, after the occurrence of a Credit Event, a Reference Obligation Reimbursement occurs with respect to the related Reference Obligation, and so long as such Reference Obligation remains in the Reference Portfolio at the time of such Reference Obligation Reimbursement, the Protection Buyer will pay to the Issuer, on the Payment Date immediately following the Due Period during which the related Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent, an amount equal to the aggregate of: (i) the Currency Adjusted Reinstatement Adjustment Amounts payable on such date; and (ii) the ICE Currency Adjusted Interest Reimbursement Amounts payable on such date.
Credit Default Swap Early Termination.....................	The Credit Default Swap may be terminated by the Issuer or by the Protection Buyer ("**Credit Default Swap Early Termination**") at the option of the non-defaulting or non-affected party, as applicable, upon the occurrence of a Credit Default Swap Event of Default or a Credit Default Swap Termination Event. Upon the Trustee becoming aware of the occurrence of

	any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Basis Swap or the Collateral Put Agreement, the Trustee or the Issuing and Paying Agent, as applicable, will as promptly as practicable notify the Noteholders of such event and will terminate any such agreement on behalf of the Issuer at the direction of (i) in the case of the Credit Default Swap or the Basis Swap, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes and (ii) in the case of the Collateral Put Agreement, 100% of the Aggregate USD Equivalent Outstanding Amount of the Notes, in each case voting as a single class. In connection with any Noteholder vote to terminate the Collateral Put Agreement, any Notes held by or on behalf of the Collateral Put Provider or any of its Affiliates will have no voting rights and will be deemed not to be Outstanding in connection with any such vote. See "The Credit Default Swap—Credit Default Swap Early Termination".
The Collateral Securities	
The Initial Collateral Securities...	On the Closing Date, the Issuer will use part of the proceeds of the offering to purchase at least $192,000,000 principal amount of Collateral Securities and Eligible Investments selected by the Protection Buyer as described in "The Collateral Securities—The Initial Collateral Securities" (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.
Supplemental Collateral Securities	
Substitution	Any Noteholder may request that the Issuer substitute one or more Collateral Securities in accordance with the terms of the Indenture. See "Collateral Securities—Substitution of Collateral Securities".
Purchase of Supplemental Collateral Securities.............	Upon or subsequent to: (i) the redemption or amortization, in whole or in part, of a Collateral Security (an "**Amortized Collateral Security**" and the principal amount of such redemption or amortization, the "**Collateral Security Amortization Amount**"), (ii) the additional issuance of Notes from time to time on any Payment Date after the Closing Date (the principal amount of such issuance, the "**Additional Issuance Principal Amount**"),

(iii) the receipt of Disposition Proceeds in connection with the liquidation of any principal amount of a Collateral Security in excess of the amount necessary to pay any Cash Settlement Amount, Currency Adjusted Notional Principal Adjustment Amount or in connection with a Partial Optional Redemption or a Stated Maturity (for the avoidance of doubt, excluding any Excess Disposition Proceeds) (such excess principal amount, the "**Excess Principal Amount**"), or

(iv) the Issuer's receipt of a Currency Adjusted Reinstatement Adjustment Amount (other than with respect to that portion of any Reference Obligation Repayment Amount which shall be applied to make principal payments on the Notes on such Payment Date),

the Protection Buyer may, in its sole discretion, direct the Issuer to purchase (and the Issuer shall so purchase) one or more replacement Collateral Securities or additional Collateral Securities (together, the "**Supplemental Collateral Securities**"), as the case may be, subject to (a) the Collateral Security Eligibility Criteria, (b) the Collateral Weighted Average Life Test and (c) the Collateral Security Quantity Constraint (in each case as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent);

provided that (1) in the case of clauses (i) and (iii) above, such Supplemental Collateral Securities will be denominated in the same Approved Currency as the Collateral Security that has been amortized, redeemed, or otherwise disposed of and (2) in the case of clauses (ii) and (iv) above, such Supplemental Collateral Securities will be denominated in the same currency as such Notes that are issued or reinstated. See "The Collateral Securities—Supplemental Collateral Securities". Pending any such reinvestment, the Issuer will invest the Collateral Security Amortization Amount, Additional Issuance Principal Amount, Excess Principal Amount or Currency Adjusted Reinstatement Adjustment Amount, as the case may be, in Eligible Investments.

If the Issuer liquidates a Collateral Security in order to pay a Cash Settlement Amount, a Currency Adjusted Notional Principal Adjustment Amount or in connection with a Partial Optional Redemption or a Stated Maturity, as the case may be, and the Issuer receives Disposition Proceeds in respect of such Collateral Security which exceed 100% of the principal amount of such Collateral Security (the excess proceeds described above, excluding any accrued and unpaid interest, "**Excess Disposition Proceeds**"), the Protection Buyer may, in its sole discretion, direct the Issuer to use such Excess Disposition Proceeds to purchase (and the Issuer shall so purchase) one or more Supplemental Collateral Securities in any Approved Currency, subject to clauses (iv), (v) and (vii) through (xiii) of the Collateral Security Eligibility Criteria (as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent). See

"The Collateral Securities—Supplemental Collateral Securities". Pending any such reinvestment, the Issuer will invest such Excess Disposition Proceeds in Eligible Investments.

Liquidation of Collateral Securities .... The Collateral Securities will only be liquidated in connection with the events described below:

(i) on a Credit Default Swap Calculation Date, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay the Protection Buyer the Cash Settlement Amount on the related Credit Default Swap Settlement Date;

(ii) five Business Days prior to the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined, in each case by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), if any Currency Adjusted Notional Principal Adjustment Amount will be paid to any Noteholders by the Issuer on the related Payment Date, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than in connection with any Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay to the applicable Noteholders such Currency Adjusted Notional Principal Adjustment Amount on the related Payment Date (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to a price of 100% for any such Selected Collateral Security, *plus* accrued and unpaid interest thereon);

(iii) after the occurrence and continuation of an Event of Default, if the Trustee is directed to liquidate the Collateral Securities in accordance with the terms of the

Indenture, the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities;

(iv) in connection with any Optional Redemption in Whole, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, *plus* accrued and unpaid interest thereon);

(v) in connection with any Partial Optional Redemption, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay to the applicable Noteholders the principal amount of such Notes redeemed in connection with such Partial Optional Redemption (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, *plus* accrued and unpaid interest thereon);

(vi) in connection with a Mandatory Redemption other than a Mandatory Redemption caused by a (a) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (b) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (c) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities;

(vii) in connection with a Mandatory Redemption other than as described in subclause (vi) above, Collateral Securities will be selected for liquidation and/or delivery to Noteholders pursuant to the Special Termination Liquidation Procedure;

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(viii) in connection with the Stated Maturity of any Series of Notes, the Issuer or Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay the applicable Noteholders the principal amount of such Notes maturing on the related Stated Maturity (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, *plus* accrued and unpaid interest thereon); and

(ix) in connection with the satisfaction of the Replacement Counterparty Procedures, the Issuer, or the Trustee on behalf of the Issuer, will notify the Collateral Disposal Agent to liquidate all Collateral Securities.

Determination of Compliance of Reference Obligations and Collateral Securities with the Requirements under the Credit Default Swap and Certain Calculations pursuant to the Indenture and the Credit Default Swap ....

The Credit Default Swap Calculation Agent will supply information and calculations to (i) the Collateral Administrator for use in the Collateral Administrator's confirmation of compliance of the Collateral (after the proposed addition of a Collateral Security) with any of the Collateral Security Eligibility Criteria, the Collateral Weighted Average Life Test and the Collateral Security Quantity Constraint, and (ii) the Trustee for use in the Trustee's confirmation of the BIE Collateral Security Eligibility Criteria.

To the extent there is any difference between any of the Collateral Administrator's or the Trustee's (as the case may be) and the Credit Default Swap Calculation Agent's determination of the satisfaction of any of the Collateral Security Eligibility Criteria, the Collateral Weighted Average Life Test or the Collateral Security Quantity Constraint, the Collateral Administrator will use commercially reasonable efforts to resolve such difference.

For the avoidance of doubt, the obligations of the Collateral Administrator under the Collateral Administration Agreement are

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solely the obligations of the Collateral Administrator and not those of the Credit Default Swap Calculation Agent, the Protection Buyer or any of its Affiliates.

The Basis Swap

The Basis Swap........................ On or prior to the Closing Date, the Issuer will enter into a basis swap transaction (the "**Basis Swap**") with Goldman Sachs Capital Markets, L.P. (in such capacity, the "**Basis Swap Counterparty**").

Terms.. On each Payment Date, the Issuer will pay to the Basis Swap Counterparty an amount (the "**Basis Swap Payment**") equal to the Collateral Interest Amount.

"**Collateral Interest Amount**" means, with respect to any Payment Date (including the Optional Redemption Date and the Stated Maturity) or the Mandatory Redemption Date, without duplication (i) all interest payments that are scheduled to be paid by obligors of Collateral in accordance with the Underlying Instruments of such Collateral during the preceding Due Period, *plus* (ii) all amendment and waiver fees, late payment fees, make-whole premiums and other fees that are either (a) scheduled to be paid by obligors of Collateral during the preceding Due Period or (b) obligors of such Collateral have agreed to pay to holders of such Collateral during the preceding Due Period, *plus* (iii) all accrued and unpaid amounts described in subclause (i) and (ii) above that a buyer of such Collateral has agreed to pay to the Issuer upon the sale of such Collateral during the preceding Due Period, less any Purchased Accrued Interest Amount that the Issuer used in connection with the purchase of a Supplemental Collateral Security during the preceding Due Period, which in each of clauses (i) through (iii) above, for the avoidance of doubt, includes (a) amounts actually received by the Issuer and (b) amounts due and payable to the Issuer but not received by the Issuer.

On each Payment Date, the Basis Swap Counterparty will pay to the Issuer the Monthly Basis Swap Payment.

See "The Basis Swap" and "Description of the Notes—Priority of Payments—Interest Proceeds".

The Collateral Put Agreement

The Collateral Put Agreement................................ On or prior to the Closing Date, the Issuer will enter into a put agreement (the "**Collateral Put Agreement**") with Goldman Sachs International ("**GSI**" or in such capacity, the "**Collateral Put Provider**").

Terms.. With respect to the Issuer's liquidation of Collateral (other than Put Excluded Collateral) in connection with (i) the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the applicable Noteholders, (ii) an Optional Redemption in Whole or a Partial Optional Redemption or (iii) a Stated Maturity of any Series of Notes, if (x) the Collateral

	Disposal Agent is unable to obtain at least 100% of par for a Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (*ii*) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above). The Trustee will then, on behalf of the Issuer, exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Trustee will deliver such Collateral (other than Put Excluded Collateral) to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider of an amount equal to 100% of par for such Collateral (*plus* accrued and unpaid interest). See "The Collateral Put Agreement".
The Collateral Disposal Agreement	
The Collateral Disposal Agreement................................	On or prior to the Closing Date, the Issuer will enter into a collateral disposal agreement (the **"Collateral Disposal Agreement"**) with Goldman, Sachs & Co. (in such capacity, the **"Collateral Disposal Agent"**).
Terms..	Pursuant to the terms of the Collateral Disposal Agreement, the Collateral Disposal Agent will (i) subject to subclause (iii) below in connection with any partial liquidation of the portfolio of Collateral Securities, choose the Selected Collateral Securities to be liquidated (*provided* that any such Selected Collateral Securities will be denominated in the same currency as the Notes, the Currency Adjusted Aggregate Outstanding Amount of which is reduced by the related Credit Event Adjustment Amount, Notional Principal Adjustment Amount, Partial Optional Redemption or Stated Maturity), (ii) in connection with any liquidation of any Collateral Security, solicit bids on behalf of the Issuer and (iii) in connection with any liquidation of Collateral Securities as described in subclause (vii) under "—The Collateral Securities—Liquidation of Collateral Securities", perform the acts described under "Description of the Notes—Mandatory Redemption", including, but not limited to, those acts described in the Special Termination Liquidation Procedure.
Additional Issuance......................	The Notes of any Class may be issued from time to time following the Closing Date. See "Description of the Notes—The Indenture—Additional Issuance" and "Description of the Notes—The Issuing and Paying Agency Agreement—Additional Issuance".
Governing Law.............................	The Co-Issued Notes, the Indenture, the Issuing and Paying Agency Agreement, the Credit Default Swap, the Basis Swap, the Collateral Put Agreement, the Collateral Disposal Agreement and the Portfolio Selection Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Notes, the terms and conditions of the Issuer Notes (as set forth in the Issuing and Paying Agency Agreement) and each Deed of Covenant will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Listing and Trading	There is no established trading market for the Notes. Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained. See "Listing and General Information".
Tax Status	See "Income Tax Considerations".
ERISA Considerations	See "ERISA Considerations".

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Notes. Although the Initial Purchaser has advised the Issuers that it intends to make a market in the Notes, the Initial Purchaser is not obligated to do so, and any such market-making with respect to the Notes may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the Holders of such Notes with liquidity of investment or that it will continue for the life of such Notes. Consequently, a purchaser must be prepared to hold the Notes for an indefinite period of time or until Stated Maturity. In addition, no sale, assignment, participation, pledge or transfer of the Notes may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Notes will not be registered under the Securities Act or any state securities laws, and the Issuer has no plans, and is under no obligation, to register the Notes under the Securities Act. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Transfer Restrictions". Such restrictions on the transfer of the Notes may further limit their liquidity. See "Transfer Restrictions". Application will be made to list the Notes on a stock exchange of the Issuer's choice, if practicable, but there can be no assurance that such admission will be sought, granted or maintained.

Limited Recourse Obligations. The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer, payable solely from the Issuer Assets pledged by the Issuer to secure the Notes. None of the Noteholders, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Portfolio Selection Agent, the Trustee, the Issuing and Paying Agent, the Administrator, the Share Trustee or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Notes. Consequently, Holders of the Notes must rely solely on distributions on the Issuer Assets pledged to secure the Notes for the payment of principal and interest thereon. If distributions on the Issuer Assets are insufficient to make payments on the Notes, no other assets (and, in particular, no assets of the Noteholders, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Portfolio Selection Agent, the Trustee, the Issuing and Paying Agent, the Administrator, the Share Trustee or any affiliates of any of the foregoing) will be available for payment of the deficiency and following realization of the Issuer Assets pledged to secure the Notes, the obligations of the Issuers to pay such deficiency shall be extinguished and shall not thereafter revive. Each Holder of a Note by its acceptance of such Note will agree or be deemed to have agreed not to take any action or institute any proceedings against the Issuers under any insolvency law applicable to the Issuers or which would be likely to cause the Issuers to be subject to, or to seek the protection of, any insolvency law applicable to the Issuers, subject to certain limited exceptions.

Subordination of the Notes. The rights of the Holders of the Notes with respect to the Issuer Assets will be subject to prior claims of the Trustee, the Issuing and Paying Agent, the Portfolio Selection Agent, the Protection Buyer, the Basis Swap Counterparty and the Collateral Put Provider, and may be subject to the claims of any other creditor of the Issuer that is entitled to priority as a matter of law or by virtue of any nonconsensual lien that such creditor has on the Issuer Assets or pursuant to the Priority of Payments.

The Class A-1 Notes are subordinated to the Class SS Notes, Class A-2 Notes are subordinated to the Class A-1 Notes, the Class B Notes are subordinated to the Class A-2 Notes, the Class C Notes are subordinated to the Class B Notes, the Class D Notes are subordinated to the Class C Notes and the Class FL Notes are subordinated to the Class D Notes, in each case as described under "Summary—

Notes—Status and Subordination". No payments of interest from Interest Proceeds will be made on any Class of Notes on any Payment Date until current and defaulted interest on the Notes of each Class to which such Class is subordinated has been paid, and no payments of principal will be made on any such Class of Notes (i) on any Payment Date or (ii) any other Business Day on which payments of Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Noteholders, until principal of the Notes of each Class to which such Class is subordinated has been paid in accordance with the Priority of Payments described herein. See "Description of the Notes—Priority of Payments".

In addition, if an Event of Default occurs, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will be entitled to determine the remedies to be exercised under the Indenture including the sale and liquidation of the Collateral in accordance with the procedures set forth in the Indenture. Remedies pursued by a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class could be adverse to the interests of the Holders of a particular Class or Classes of Notes. See "Description of the Notes—The Indenture—Events of Default".

Mandatory Redemption and the Special Termination Liquidation Procedure. If a Mandatory Redemption occurs and the Special Termination Liquidation Procedure is applied, the Holders of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes voting as a single class will be entitled to determine whether Collateral Securities allocated to such Classes of Notes will be liquidated or delivered to such Noteholders in accordance with the Special Termination Liquidation Procedure. With respect to any of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, such determination through voting as a single class could be adverse to the interests of the Holders of the Classes of Notes subordinated to such senior Classes, as the case may be, as Holders of any such senior Classes of Notes may elect to receive Collateral Securities with a market value in excess of the Aggregate USD Equivalent Outstanding Amount of such senior Classes of Notes (*plus* accrued and unpaid interest thereon) rather than have the Collateral Securities allocated to such senior Classes liquidated, which would allow Holders of subordinated Classes of Notes to benefit from the liquidation of such Collateral Securities at a premium. See "Description of the Notes—Mandatory Redemption".

Leverage. The Aggregate USD Equivalent Outstanding Amount of the Notes will be $192,000,000 on the Closing Date (including, for the avoidance of doubt, the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). However, the Reference Portfolio Notional Amount will equal $2,000,000,000 on the Closing Date, which amount represents the aggregate Reference Obligation Notional Amount on the Closing Date. Through the Credit Default Swap, investors in the Notes will be effectively providing the Protection Buyer loss protection with respect to each Reference Obligation up to the Reference Obligation Notional Amount of such Reference Obligation. Losses incurred will be borne by the Noteholders. Since the Reference Portfolio Notional Amount for the Reference Portfolio exceeds the Aggregate USD Equivalent Outstanding Amount of the Notes, investors in the Notes are providing such loss protection to the Protection Buyer on a leveraged basis.

Volatility. Because investors in the Notes are providing loss protection to the Protection Buyer on a leveraged basis, the market value of the Notes may be subject to changes that are greater than the changes in market value that might occur to the Reference Portfolio. The market value of the Notes may vary over time and could be significantly less than par (or even zero) in certain circumstances.

Credit Linkage of the Notes. The Credit Default Swap will be linked to the credit of the Reference Entities. The amount payable in respect of principal of the Notes will depend upon, among other factors, whether and to the extent Credit Events have occurred under the Credit Default Swap. Under the Credit Default Swap, upon the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, the Issuer will be obligated to pay the Protection Buyer a Cash Settlement Amount in an amount equal to any Currency Adjusted Credit Event Adjustment Amounts. Any Cash Settlement Amount paid by the Issuer will reduce the Aggregate USD Equivalent Outstanding Amount of the Notes (in reverse order of seniority). See "Summary—Notes—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes". Except in the limited circumstances as described under "Summary—Notes—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", a decrease in the Aggregate USD Equivalent Outstanding Amount of the Notes will be permanent and irreversible and the Noteholders will never receive a payment of principal in the amount of such decrease and from and after the date of such decrease, no interest will accrue on the amount of such decrease. See "—Subordination of the Notes" and "Description of the Notes—Priority of Payments".

Cash Available to Make Payments on the Notes. The ability of the Issuer to make payments on the Notes will depend primarily on several factors. To the extent (i) one or more Credit Events occur, (ii) the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider or the Collateral Disposal Agent fails to perform its obligations or (iii) there is a default in payments due in respect of any Collateral, the amount of available cash to make payments on the Notes in accordance with the Priority of Payments will be reduced. In addition, in the event that an Event of Default occurs in respect of the Notes or on the Mandatory Redemption Date, the Issuer may not be able to pay the principal of the Notes as a result of (a) paying unpaid Credit Default Swap Termination Payments, if any, owing to the Protection Buyer, (b) paying unpaid Basis Swap Termination Payments, if any, owing to the Basis Swap Counterparty, (c) amounts owed to the Collateral Put Provider pursuant to the Collateral Put Agreement and (d) the then applicable market value of the Collateral Securities being less than their principal amount. In the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

Retention of a Portfolio Selection Agent. The Issuer will retain a portfolio selection agent to select the Initial Reference Portfolio, but following the Closing Date the Reference Portfolio will be static, subject to modification only in connection with the amortization of the Reference Portfolio. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral.

Interest Payments Dependent Primarily upon the Protection Buyer's Performance under the Credit Default Swap and the Basis Swap Counterparty's Performance under the Basis Swap. Payments made by the Protection Buyer under the Credit Default Swap and payments made by the Basis Swap Counterparty under the Basis Swap are the Issuer's primary sources of funds to make interest payments on the Notes. Since the ability of the Issuer to make interest payments on the Notes prior to the occurrence of a Credit Default Swap Early Termination or a Basis Swap Early Termination will be dependent on its receipt of payments from the Protection Buyer under the Credit Default Swap and the Basis Swap Counterparty under the Basis Swap, the Noteholders are relying on the Protection Buyer to perform its obligations under the Credit Default Swap and the Basis Swap Counterparty to perform its obligations under the Basis Swap. Accordingly, if a Credit Default Swap Early Termination or a Basis Swap Early Termination occurs prior to a Payment Date, the Issuer may not have sufficient funds to make interest payments on all Classes of Notes.

The insolvency of the Protection Buyer will be a Credit Default Swap Event of Default under the Credit Default Swap. In the event of the insolvency of the Protection Buyer, the Issuer will be treated as a general creditor of the Protection Buyer. Additionally, certain events with respect to a Credit Default Swap Early Termination (which can occur due to the insolvency of the Protection Buyer) will result in a Mandatory Redemption. Upon the occurrence of a Mandatory Redemption, the Trustee will liquidate all or a portion of the Collateral and will make any payments due to the Protection Buyer pursuant to the Credit Default Swap (other than a Protection Buyer Default Termination Payment), the Basis Swap Counterparty pursuant to the Basis Swap (other than a Basis Swap Counterparty Default Termination Payment) and the Collateral Put Provider pursuant to the Collateral Put Agreement prior to making

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payments to the Noteholders. Under such circumstances, Noteholders may not receive sufficient funds to repay the principal of the Notes and, as a result, Noteholders should expect to lose a substantial part, if not all, of their principal investment in the Notes and to receive no interest on the Notes. In addition, in the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

The insolvency of the Basis Swap Counterparty will be a Basis Swap Event of Default under the Basis Swap. In the event of the insolvency of the Basis Swap Counterparty, the Issuer will be treated as a general creditor of the Basis Swap Counterparty. Additionally, certain events with respect to a Basis Swap Early Termination (which can occur due to the insolvency of the Basis Swap Counterparty) will result in a Mandatory Redemption. Upon the occurrence of a Mandatory Redemption, the Trustee will liquidate the Collateral and will make any payments due to the Protection Buyer pursuant to the Credit Default Swap (other than a Protection Buyer Default Termination Payment), the Basis Swap Counterparty pursuant to the Basis Swap (other than a Basis Swap Counterparty Default Termination Payment) and the Collateral Put Provider pursuant to the Collateral Put Agreement prior to making payments to the Noteholders. Under such circumstances, Noteholders may not receive sufficient funds to repay the principal of the Notes and, as a result, Noteholders should expect to lose a substantial part, if not all, of their principal investment in the Notes and to receive no interest on the Notes. In addition, in the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

Collateral Put Provider Default. In connection with an Optional Redemption in Whole, a Partial Optional Redemption, a Stated Maturity of any Series of Notes or the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the Noteholders, if (x) the Collateral Disposal Agent is unable to obtain at least 100% of par for a Selected Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above), who will then direct the Issuer to exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Issuer will deliver such Selected Collateral Security and/or such Eligible Investment to the Collateral Put Provider in exchange for 100% of the principal amount of such Selected Collateral Security and/or such Eligible Investments (*plus* accrued and unpaid interest). If a Collateral Put Provider defaults in its obligations under the Collateral Put Agreement, the Collateral Disposal Agent will be required to liquidate the Collateral in an amount which may be insufficient to pay such Currency Adjusted Notional Principal Adjustment Amount or to redeem the Notes in full (in connection with an Optional Redemption in Whole) or in part (in connection with a Partial Optional Redemption) or the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

No Claims on the Reference Entities. The Credit Default Swap does not constitute a purchase or other acquisition or assignment of any interest in any obligation of any Reference Entity. The Issuer will have a contractual relationship only with the Protection Buyer and not with any Reference Entity, and generally will have no rights to enforce directly compliance by any Reference Entity with the terms of its obligations that are referred to in the Credit Default Swap, no rights of set-off against a Reference Entity, and no voting rights with respect to any Reference Entity. The Issuer will not directly benefit from any collateral securing the obligations of the Reference Entities, and the Issuer will not have the benefit of the remedies that would normally be available to a holder of such secured obligation.

To the extent that the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates holds any obligation of a Reference Entity, neither the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent nor any of their affiliates will be, or will be deemed to be acting as, the Issuer's agent or trustee in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates arising under or in connection with its or their holding of any such obligation. None of the Issuer, the Trustee, the Issuing and Paying Agent, nor any Holder of any Note will have any right to acquire from the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates (or to require the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates to transfer, assign or otherwise dispose of) any interest in any Reference Obligation or other obligation of any Reference Entity pursuant to the Credit Default Swap. Furthermore, to the extent that the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates holds any obligation of a Reference Entity, none of the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent nor any of their affiliates will grant the Issuer, the Trustee or the Issuing and Paying Agent any security interest in such obligation.

In addition, in the event of the bankruptcy or insolvency of the Protection Buyer, the Issuer will be treated as a general creditor of the Protection Buyer and will not have any claim with respect to the Reference Entities. Consequently, the Issuer will be subject to the credit risk of the Protection Buyer as well as that of the Reference Entities.

Limited Provision of Information about Reference Obligations/Reference Entities. This Offering Circular does not provide any information with respect to any Reference Obligation or Reference Entity other than that contained in a description of the Reference Portfolio set forth under "The Credit Default Swap—The Reference Portfolio". As the occurrence of a Credit Event may result in a permanent decrease in the amounts payable in respect of the Notes, investors should review the list of Reference Obligations set forth herein and conduct their own investigation and analysis with respect to the creditworthiness of each Reference Obligation and the likelihood of the occurrence of a Credit Event with respect to each Reference Entity and Reference Obligation.

The Protection Buyer or its affiliates and/or the Portfolio Selection Agent or its affiliates may have information, including material, non-public information, regarding the Reference Obligations and the Reference Entities. Neither the Protection Buyer nor the Portfolio Selection Agent will provide the Issuer, the Trustee, the Issuing and Paying Agent, any Noteholder or any other Person with any such non-public information. In addition, neither the Protection Buyer nor the Portfolio Selection Agent will provide the Issuer, the Trustee, the Issuing and Paying Agent, any Holder of any Note or any other Person with any such information that is public (including financial information or notices), except in the case of information pertaining to one or more Credit Events with respect to each Reference Entity and one or more Reference Obligation(s) of such Reference Entity in connection with which the Protection Buyer is seeking payment of one or more Cash Settlement Amounts.

The Issuer will be required pursuant to the Indenture to provide the Noteholders with periodic reports. See "Description of the Notes—The Indenture—Reports Prepared Pursuant to the Indenture." None of the Initial Purchaser, the Protection Buyer, the Portfolio Selection Agent or any of their respective affiliates has any obligation to keep the Issuer, the Trustee, the Issuing and Paying Agent or the Noteholders informed as to any other matters with respect to any Reference Entity or any Reference Obligation, including whether or not circumstances exist that give rise to the possibility of the occurrence of a Credit Event with respect to any Reference Obligation or a Reference Entity.

None of the Issuer, the Trustee, the Issuing and Paying Agent or the Noteholders will have the right to inspect any records of the Initial Purchaser, the Protection Buyer, the Portfolio Selection Agent or any of their respective affiliates. Except for the information contained in this Offering Circular, none of the Initial Purchaser, the Protection Buyer, the Portfolio Selection Agent nor any of their respective affiliates will have any obligation to disclose any information or evidence regarding the existence or terms of any obligation of any Reference Entity or any matters arising in relation thereto or otherwise regarding any Reference Entity, any guarantor or any other person.

Concentration Risk. The concentration of the Reference Obligations in the Reference Portfolio in any one particular type of Structured Product Security subjects the Notes to a greater degree of risk with respect to credit defaults within such type of Structured Product Security. Investors should review the list of Reference Obligations set forth herein and conduct their own investigation and analysis with regard to each Reference Obligation. See "The Credit Default Swap—The Reference Portfolio".

Collateral Default. To the extent that defaults occur with respect to any Collateral, a Mandatory Redemption will occur and the Collateral Disposal Agent will be required to liquidate the Collateral Securities. Thereafter, liquidation proceeds will be applied in accordance with "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". Depending on the market value of the remaining Collateral and the value of the Credit Default Swap and the Basis Swap at such time, the proceeds of such liquidation may not be sufficient to pay the unpaid principal of and interest on all of the Notes.

Assets included in the Reference Portfolio or held as Collateral Securities. The risks generally described below under Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, CDO Cashflow Securities and Asset-Backed Securities could affect payments on the Notes to the extent any such asset is (i) included in the Reference Portfolio as a Reference Obligation and experiences a Credit Event or (ii) held by the Issuer as a Collateral Security and subsequently experiences a Collateral Default.

Commercial Mortgage-Backed Securities. The Collateral Securities may include Commercial Mortgage-Backed Securities.

CMBS bear various risks, including credit, market, interest rate, structural and legal risks. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, self-storage, nursing homes and senior living centers. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real

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estate. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of commercial mortgage-backed securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of CMBS servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation. The failure of the performance of such CMBS servicers or special servicers could result in cash flow delays and losses on the related issue of CMBS.

At any one time, a portfolio of CMBS may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Mortgage loans underlying a CMBS issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of CMBS could experience delays in cash flow and losses.

In addition, interest payments on CMBS may be subject to an available funds-cap and/or a weighted average coupon cap (which cap will, in each case, have the practical effect of deferring part or all of such interest payments) if interest rate rises substantially.

Residential Mortgage-Backed Securities. The Reference Obligations will include and the Collateral Securities may include Residential Mortgage-Backed Securities.

RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by Agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

In addition, interest payments on RMBS may be subject to an available funds-cap and/or a weighted average coupon cap (which cap will, in each case, have the practical effect of deferring part or all of such interest payments) if interest rate rises substantially.

Structural and Legal Risks of CMBS and RMBS. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

In addition, structural and legal risks of CMBS and RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of CMBS or RMBS.

It is not expected that CMBS or RMBS (other than the RMBS Agency Securities) will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on CMBS and RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Some of the CMBS may, and the RMBS referenced in the Initial Reference Portfolio will, be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of CMBS and certain RMBS, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

CDO Cashflow Securities. The Collateral Securities may include CDO Cashflow Securities. CDO Cashflow Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer ("**CDO Collateral**") or proceeds thereof. Consequently, CDO Cashflow Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Cashflow Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer to pay such deficiency shall be extinguished.

CDO Cashflow Securities are subject to credit, liquidity and interest rate risks. CDO Collateral may consist of high yield debt securities, loans, structured finance securities and other debt instruments. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The below investment grade ratings of high yield securities reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative.

Issuers of CDO Cashflow Securities may acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

CDO Cashflow Securities are subject to interest rate risk. The CDO Collateral of an issuer of CDO Cashflow Securities may bear interest at a fixed (floating) rate while the CDO Cashflow Securities issued by such issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Cashflow Securities and CDO Collateral which bears interest at a fixed rate and there may be a timing mismatch between the CDO Cashflow Securities and assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Cashflow Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Cashflow Securities.

In addition, certain CDO Cashflow Securities may by their terms defer payment of interest or pay interest "in-kind".

Asset-Backed Securities. The Collateral Securities may include Asset-Backed Securities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing, acquiring synthetic exposure through the Credit Default Swap or holding Asset-Backed Securities include the relative seniority or subordination of the class of Asset-Backed Securities, the relative allocation of principal and interest payments in the priorities by which such payments are made under the governing documents, how credit losses affect the issuing vehicle and the return on the different classes, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to any of the classes of securities. With respect to some types of Asset-Backed Securities, the risk is more closely correlated with the default risk on corporate bonds of similar terms and maturities than with the performance of a pool of receivables. In addition, certain Asset-Backed Securities (particularly subordinated Asset-Backed Securities) provide that the non-payment of interest in cash on such securities will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies.

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the issuer's or servicer's failure to perform. These two elements may be related, as, for example, in the case of a servicer which does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Market risk arises from the cash flow characteristics of the security, which for most Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to holders of securities and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. For the holder of the security, interest rate risk depends on the expected life of the Asset-Backed Securities which may depend on prepayments on the underlying assets or the occurrence of wind-down or termination events.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with non-standard receivables or receivables originated by private retailers who collect many of the payments at their stores. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the Issuer could be treated as never having been truly sold by the originator to the Issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions on the Asset-Backed Securities. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Recent Developments in Subprime Residential Mortgage Lending. Recently, delinquencies, defaults and losses on residential mortgage loans have increased and may continue to increase, which may affect the performance of RMBS, in particular RMBS Residential B/C Mortgage Securities which are backed by subprime mortgage loans. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, mortgage loans backing RMBS Residential B/C Mortgage Securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. Market interest rates have been increasing and accordingly, with respect to adjustable rate mortgage loans and hybrid mortgage loans that have or will enter their adjustable-rate period, borrowers are likely to experience increases in their monthly payments and become increasingly likely to default on their payment obligations. Discovery of fraudulent mortgage loan applications in connection with rising default rates with respect to subprime mortgage loans may indicate that the risks with respect to these mortgage loans are particularly acute at this time. Such risks may result in further increases in default rates by subprime borrowers as it becomes more difficult for them to obtain refinancing.

These economic trends have been accompanied by a recent downward trend or stabilization of property values after a sustained period of increase in property values. Because subprime mortgage loans generally have higher loan-to-value ratios, recoveries on defaulted mortgage loans are more likely not to result in payment in full of amounts owed under such mortgage loans, resulting in higher net losses than would have been the case had property values remained the same or increased. A decline in property values will particularly impact recoveries on second lien mortgage loans that may be included in the mortgage pools backing RMBS Residential B/C Mortgage Securities.

Structural features of RMBS may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS structured to limit interest payable to investors based on a weighted average coupon cap. Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS. In addition, delinquencies, defaults and lower recoveries on underlying mortgage loans will reduce interest and principal actually paid to investors to less than the amounts owed to investors in accordance with the terms of their RMBS. RMBS may not be structured with significant or any overcollateralization, so performance will be sensitive to delays or reductions in payments, particularly in the case of subordinated tranches of RMBS. To the extent that RMBS provide for writedowns of principal, interest will cease to accrue on the portion of principal of an RMBS that has been written down.

RMBS may provide that the servicer is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

Recently, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding loan quality. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. The inability of the originator to repurchase such mortgage loans in the event of early payment defaults and other loan representation breaches may also affect the performance of RMBS backed by those mortgage loans.

Under certain circumstances, including a failure to perform its servicing obligations or a bankruptcy of the servicer, investors will be entitled to remove and replace the existing servicer. There is no guarantee, however, that a suitable servicer could be found to assume the obligations of the existing servicer, and the transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and a resulting increase in delinquencies and losses and decreases in recoveries.

Transfers of mortgage loans by the originator or seller will be characterized in the applicable sale agreement as a sale transaction. Nevertheless, in the event of a bankruptcy of the originator or seller, the trustee in bankruptcy could attempt to recharacterize the sale of the mortgage loans as a borrowing secured by a pledge of the mortgage loans. If such attempt were successful, the trustee in bankruptcy could prevent the trustee for the RMBS from exercising any of the rights of the owner of the mortgage loans and also could elect to liquidate the mortgage loans. Investors may suffer a loss to the extent that the proceeds of the liquidation of the underlying mortgage loans would not be sufficient to pay amounts owed in respect of their investments. If this occurs, investors would lose the right to future payments of interest and may fail to recover their initial investment. Regardless of whether a trustee elects to foreclose on the underlying mortgage loan pool, delays in payments on their investments and possible reductions in the amount of these payments could occur.

These adverse changes in market conditions may reduce the cashflow which the Issuer receives from RMBS held by the Issuer (or a Credit Default Swap that reference RMBS), decrease the market value of such RMBS and increase the incidence and severity of Credit Events under the Credit Default Swap.

Currency Exchange Risk. The Reference Portfolio may include non-Dollar denominated Reference Obligations. At the time that such non-Dollar denominated Reference Obligation is included in the Reference Portfolio, the Credit Default Swap Calculation Agent will determine the Notional Foreign Exchange Rate with respect to such non-Dollar denominated Reference Obligation. This Notional Foreign Exchange Rate will not change during the time such non-Dollar denominated Reference Obligation is in the Reference Portfolio, and, as such, will protect the Issuer from any unfavorable fluctuation of the applicable currency rate (which would increase the amount of any Cash Settlement Amount and/or Notional Principal Adjustment Amount relating to such non-Dollar denominated Reference Obligation). However, because the Notional Foreign Exchange Rate is fixed, the Issuer will not benefit from any favorable fluctuation of the applicable currency exchange rate (which would reduce the amount of any Cash Settlement Amount and/or Notional Principal Adjustment Amount relating to such non-Dollar denominated Reference Obligation).

In addition, in connection with a Mandatory Redemption, Collateral Securities may be liquidated and the proceeds of such liquidation may be insufficient to pay the Currency Adjusted Aggregate Outstanding Amount of each Series in full. To the extent that a Series of Notes is denominated in an Approved Currency for which there is insufficient proceeds in such Approved Currency (at the applicable level of priority) to pay the Currency Adjusted Aggregate Outstanding Amount of such Series of Notes in full, available proceeds denominated in other Approved Currencies will be exchanged for such needed Approved Currency at the applicable currency exchange rates at such time. Other Notes of such Class denominated in any such other Approved Currency and Notes junior to such Class may experience losses due to any adverse fluctuation of the applicable exchange currency rates. In addition, to the extent there would be insufficient Principal Proceeds after giving effect to any such exchange to make all principal payments on the Notes in connection with a Mandatory Redemption, with respect to any Class in which Notes are denominated in more than one Approved Currency, such shortfall shall be borne *pro rata* by Holders of such Class based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, rather than the Applicable Series Foreign Exchange Rate for each related Series.

Average Life and Prepayment Considerations. The Stated Maturity of the Notes issued on the Closing Date is March 1, 2038. The Stated Maturity may vary with respect to any additional issuance of Notes; however, the average life of each Series of Notes is expected to be shorter than the number of years until the Stated Maturity.

The approximations of the average life of each Class of Notes set forth in the table in "Summary—Notes" with respect to the average life of each Class of Notes are not predictive and do not necessarily reflect historical performance of the Reference Obligations. Such approximations will also be affected by any Optional Redemption in Whole, Partial Optional Redemption, Mandatory Redemption or the characteristics of the Reference Obligations, including the existence and frequency of exercise of any optional redemption, mandatory prepayment or sinking fund features, the prevailing level of interest rates and the actual default rate.

Certain Conflicts of Interest Relating to the Initial Purchaser and its Affiliates. Various potential and actual conflicts of interest may nevertheless arise from the activities of the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their affiliates. The following, together with "—Limited Provision of Information about Reference Obligations/Reference Entities", briefly summarize some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

It is expected that the Initial Purchaser and/or its respective affiliates will have placed or underwritten certain of the Reference Obligations and/or Collateral Securities at original issuance and/or will have provided investment banking services, advisory, banking and other services to issuers of Reference Obligations and/or Collateral Securities. The Initial Purchaser may not have completed its resale of the Notes by any date certain, which may affect the liquidity of the Notes as well as the ability, if any, of the Initial Purchaser to make a market in the Notes. From time to time, the Issuer may purchase or sell Collateral Securities from and/or through Goldman, Sachs & Co. and/or any of its affiliates (collectively, "**Goldman Sachs**"). The Issuer may invest in money market funds that are managed by Goldman Sachs or for which the Trustee or its affiliates provides services, provided that such money market funds otherwise qualify as Eligible Investments.

The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and certain of their respective affiliates are acting in a number of capacities in connection with the transactions described herein. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and each of their respective affiliates acting in such capacities will have only the duties and responsibilities expressly agreed to by such entity in the relevant capacity and will not, by virtue of acting in any other capacity, be deemed to have other duties or responsibilities, other than as expressly provided with respect to each such capacity. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates in their various capacities may enter into business dealings from which they may derive revenues and profits in addition to the fees stated in the various transaction documents, without any duty to account therefor. In such dealings, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may act in the same manner as if the Notes had not been issued, regardless of whether any such action (including without limitation, any action that might constitute or give rise to a Credit Event) might have an adverse effect on a Reference Entity, a Reference Obligation or any guarantor in respect thereof or otherwise.

The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may hold long or short positions with respect to Reference Obligations and/or other securities or obligations of related Reference Entities and may enter into credit derivative or other derivative transactions with other parties pursuant to which it sells or buys credit protection with respect to one or more related Reference Entities and/or Reference Obligations. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may act with respect to such transactions and may exercise or enforce, or refrain from exercising or enforcing, any or all of its rights and powers in connection therewith as if it had not entered into the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Collateral Disposal Agreement, and without regard to whether any such action might have an adverse effect on the Issuer, the Noteholders, a related Reference Entity or any Reference Obligation. If the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or their respective affiliates, holds claims against a Reference Entity or a Reference Obligation other than in connection with the transactions contemplated in this Offering Circular, such party's interest as a creditor may be in conflict with the interests of the Issuer.

Certain Conflicts of Interest Relating to the Portfolio Selection Agent and its Affiliates. Various potential and actual conflicts of interest may arise from the overall investment activities of the Portfolio Selection Agent and its Affiliates. The Portfolio Selection Agent and its Affiliates will select the Initial Reference Portfolio. The Portfolio Selection Agent, its Affiliates and accounts managed by any of the foregoing may invest or invest for the account of others in debt obligations that would be appropriate for inclusion in the Reference Portfolio and have no duty in making such investments or in acting in a way that is favorable to the Issuer and to the Noteholders. Such investments may be different from those debt obligations included in the Reference Portfolio. The Portfolio Selection Agent, its Affiliates and accounts managed by any of the foregoing may have economic interests in, or other relationships with, Reference

Entities or Reference Obligations. The Portfolio Selection Agent, its Affiliates or any account managed by any of the foregoing may make and/or hold an investment in an issuer's securities, sell credit protection under a credit default swap referencing securities or issue financial guaranty insurance policies covering securities (or make loans) that may be *pari passu*, senior or junior in ranking to a Reference Obligation or in which partners, security holders, officers, directors, agents or employees of the Portfolio Selection Agent, its Affiliates or any account managed by any of the foregoing serve on boards of directors or otherwise have ongoing relationships. In such instances, the Portfolio Selection Agent and its Affiliates may in their discretion make investment recommendations and decisions (on behalf of itself or an account managed by it) that may be the same as or different from those made with respect to the Issuer's investments. Accordingly, the Portfolio Selection Agent or any Affiliate of the Portfolio Selection Agent may be seeking, on behalf of itself or accounts for which it serves as manager, to acquire or dispose of securities which are included in the Initial Reference Portfolio (or securities of Reference Entities whose securities constitute Reference Obligations in the Initial Reference Portfolio) at the same time that the Issuer enters into the Credit Default Swap to sell protection with respect to the Initial Reference Portfolio.

The Portfolio Selection Agent and its Affiliates may also serve as managers or co-managers of one or more other companies organized to invest in, or sell or buy credit protection with respect to, RMBS, CMBS, CDO Cashflow Securities or other types of Asset-Backed Securities. The Portfolio Selection Agent and its Affiliates may pursue its own interests as an issuer or servicer of obligations which are Reference Obligations or as an owner of, or seller of credit protection with respect to, other securities issued by an issuer of Reference Obligations, without considering the effect of its actions or omissions on the Issuer.

The Portfolio Selection Agent, its Affiliates and client accounts for which the Portfolio Selection Agent or its Affiliates act as investment advisor may at times own Notes. Any Notes owned by the Portfolio Selection Agent or its Affiliates are subject to disposition by such parties in their discretion. At any given time the Portfolio Selection Agent and its Affiliates will be entitled to vote with respect to any Notes held by them and by such accounts with respect to all other matters. The ownership of Notes by the Portfolio Selection Agent or its Affiliates may give the Portfolio Selection Agent an incentive to take actions that vary from the interests of other holders of the Notes.

Relation to Prior Investment Results. The prior investment results of Portfolio Selection Agent and the persons associated with the Portfolio Selection Agent or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Evolving Nature of the Credit Default Swap Market. Credit default swaps are relatively new instruments in the market. While ISDA has published and supplemented the ISDA Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the ISDA Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that changes to the ISDA Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Amendments or supplements to the ISDA Credit Derivatives Definitions that are published by ISDA will only apply to the Credit Default Swap if the Credit Default Swap is amended. Therefore, in addition to the credit risk of Reference Obligations, Reference Entities and the credit risk of the Protection Buyer, the Issuer is also subject to the risk that the ISDA Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

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DESCRIPTION OF THE NOTES

The Co-Issued Notes will be issued pursuant to an Indenture (the "**Indenture**"), dated as of the Closing Date, among the Issuers and LaSalle Bank National Association, as Trustee. Each Class of Issuer Notes will be issued in accordance with a Deed of Covenant and will be subject to the Issuing and Paying Agency Agreement including the terms and conditions of such Notes contained therein. The following summary describes certain provisions of the Notes, the Indenture and the Issuing and Paying Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Issuing and Paying Agency Agreement, copies of which may be obtained as described under "Listing and General Information".

Status and Security

The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer, secured as described below. Accordingly, payments of interest on and principal of the Notes will be made solely from the proceeds of the Issuer Assets, in accordance with the priorities described under "—Priority of Payments" and in certain circumstances described under "—Mandatory Redemption" subject to the Special Termination Liquidation Procedure.

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit of the Secured Parties, a security interest in the Issuer Assets that is of first priority (subject to the Trustee's lien described under "Description of the Notes—The Indenture—Events of Default"), free of any adverse claim or the legal equivalent thereof, as applicable, to secure the Issuers' obligations with respect to the Secured Parties.

Interest

The Notes will bear interest from the Closing Date at the annual rates set forth under "Summary—Notes", payable, in each case, monthly in arrears on each Payment Date commencing May 29, 2007 and ending on the Stated Maturity.

Interest will cease to accrue on each Note, or, in the case of a partial repayment, write-down, or Partial Optional Redemption on such part, from the date of such repayment, write-down, Partial Optional Redemption of such Series or Protection Buyer Notes or Stated Maturity unless payment of principal is improperly withheld or unless a default is otherwise made with respect to such payments of principal. See "—Principal". To the extent lawful and enforceable, interest on any Defaulted Interest on the Notes will accrue at the interest rate applicable to such Notes, until paid as provided herein.

The interest rate per annum payable on the Notes will be calculated based on the applicable Day Count Fraction, commencing on the Closing Date. In the event that the date of any Payment Date or the Stated Maturity, as the case may be, shall not be a Business Day, then payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Payment Date or the Stated Maturity, as the case may be, and, other than with respect to any Interest Accrual Period for a Series of Notes ending on the Stated Maturity of such Series of Notes, no interest shall accrue on such payment of interest for the period from and after any such nominal date; *provided* that interest shall accrue from and including the immediately preceding Payment Date or, in the case of the first Payment Date, the Closing Date to but excluding the following Payment Date or the Stated Maturity, as applicable.

For purposes of calculating the Series Interest Rates, the Issuers will appoint as calculation agent LaSalle Bank National Association (solely in such capacity, the "**Note Calculation Agent**"). Absent manifest error, the Note Calculation Agent will determine each Series Interest Rate using the determination of each Applicable Index made by the Basis Swap Calculation Agent under the Basis Swap. The Basis Swap Calculation Agent will determine each Applicable Index in accordance with the provisions set forth under the definitions of "LIBOR", "EURIBOR", "GBP-LIBOR", "AUD-LIBOR", "CAD-LIBOR", "JPY-LIBOR" and "NZD-BBR"; *provided* that such determinations will be made only with respect to any Applicable Index for which Notes denominated in the related Approved Currency are Outstanding in such Applicable Period.

The Note Calculation Agent may be removed by the Issuers at any time. If the Note Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, or if the Note Calculation Agent fails to determine the Series Interest Rates and the Series Interest Amounts for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Note Calculation Agent a leading bank which is engaged in transactions in deposits in the Euro-zone interbank market and the London interbank market and which does not control or is not controlled by or under common control with the Issuers or their Affiliates. The Note Calculation Agent may not resign its duties without a successor having been duly appointed. For so long as any of the Notes remain Outstanding, there will at all times be a Note Calculation Agent for the purpose of calculating the Series Interest Rates. In addition, for so long as any of the Notes are listed on any stock exchange and the rules of such exchange so require, the Issuer will notify such stock exchange of the appointment, termination or change in the office of such Note Calculation Agent.

The Note Calculation Agent will cause the Series Interest Rates, the Series Interest Amounts and Payment Date to be communicated to Euroclear, Clearstream and if any Class of Notes is listed on any stock exchange, notify such stock exchange by the Business Day immediately following each Applicable Index Determination Date. The determination of the Series Interest Rates and the Series Interest Amounts by the Note Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

Principal will not be payable on the Notes prior to the Stated Maturity, except in connection with (i) payment of any Currency Adjusted Notional Principal Adjustment Amount, (ii) an Optional Redemption in Whole or Partial Optional Redemption and/or (iii) a Mandatory Redemption. See "—Optional Redemption in Whole and Partial Optional Redemption", "—Mandatory Redemption", "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and "—Priority of Payments—Other Payment Dates".

The Aggregate USD Equivalent Outstanding Amount of each Class of Notes and the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes will be adjusted from time to time in accordance with the methodologies described in "Summary—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", "Summary—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", "Summary—Decrease in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes" and "Summary—Increase in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes".

From and after the date on which the Currency Adjusted Aggregate Outstanding Amount of any Series of Notes is reduced, no interest will accrue with respect to such reduced amount. From and after the date on which the principal amount of any Class of Notes is increased, interest will accrue with respect to such increased amount.

Optional Redemption in Whole and Partial Optional Redemption

The Notes will be redeemed in whole on any Payment Date after the latest Non-Call Period of any Series of Notes by the Issuer if (i) the Protection Buyer elects to terminate the Credit Default Swap prior to the Scheduled Termination Date (an "**Optional Redemption in Whole**") and (ii) the Collateral Put Agreement has not been terminated at such time; *provided, however*, that if one or more Credit Events have caused the Aggregate USD Equivalent Outstanding Amount of one or more Classes of Notes to be

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reduced, (i) Noteholders of each Reversible Loss Series must consent in writing to such redemption or (ii) the Protection Buyer must have agreed to pay the Issuer, prior to the Optional Redemption Date, for each Reversible Loss Series, an amount equal to the Optional Redemption Reimbursement Amount (and the Issuer shall pay such Optional Redemption Reimbursement Amount to Holders of any such Series of Notes in accordance with the Priority of Payments on the Optional Redemption Date).

Notwithstanding the foregoing sentence, the Issuer may not sell any Collateral unless, after giving effect to such sale, there will be sufficient funds to pay the amounts described in "—Optional Redemption in Whole Procedures" below (when taking into consideration the exercise of the Issuer's rights under the Collateral Put Agreement and whether the Protection Buyer will make any End Payment to the Issuer).

Any Optional Redemption in Whole of the Notes will be made at a price of, with respect to Notes denominated in any Approved Currency, 100% of the Currency Adjusted Aggregate Outstanding Amount of such Notes (including accrued and unpaid interest) *plus*, under the circumstances described above with respect to each Series of Notes of each Reversible Loss Series, the Optional Redemption Reimbursement Amount.

(a) The Notes of one or more Series will be redeemed in whole on any Payment Date after the applicable Non-Call Period or (b) any Protection Buyer Notes will be redeemed on any Payment Date, in each case by the Issuer if (i) the Protection Buyer elects to optionally redeem such Series or Protection Buyer Notes, as applicable, prior to the Scheduled Termination Date (a "**Partial Optional Redemption**"), (ii) the Collateral Put Agreement has not been terminated at such time and (iii) in the case of a Partial Optional Redemption of any of the Issuer Notes, the Issuer receives an opinion of counsel on or prior to such Partial Optional Redemption Date to the effect that the tax analysis of the Co-Issued Notes contained herein will not be affected by such Partial Optional Redemption; *provided*, *however*, that with respect to a Partial Optional Redemption pursuant to clause (a) above, if one or more Credit Events have caused the Aggregate USD Equivalent Outstanding Amount of one or more Series of Notes to be redeemed on such Payment Date to be reduced, (i) Noteholders of each such Reversible Loss Series must consent in writing to such redemption or (ii) the Protection Buyer must have agreed to pay the Issuer, prior to the Partial Optional Redemption Date, with respect to each such Reversible Loss Series, an amount equal to the Optional Redemption Reimbursement Amount (and the Issuer shall pay such Optional Redemption Reimbursement Amount to Holders of such Notes in accordance with the Priority of Payments on the Partial Optional Redemption Date). Notwithstanding the foregoing sentence, the Issuer may not sell any Collateral unless, after giving effect to such sale, there will be sufficient funds to pay the amounts described in "—Partial Optional Redemption Procedures" below (when taking into consideration the exercise of the Issuer's rights under the Collateral Put Agreement and whether the Protection Buyer will make any Partial Optional Redemption End Payment to the Issuer).

Any Partial Optional Redemption of the Notes will be made at a price of 100% of the Currency Adjusted Aggregate Outstanding Amount of such Notes (including accrued and unpaid interest) *plus*, under the circumstances described above with respect to each Reversible Loss Series being redeemed, the Optional Redemption Reimbursement Amount.

Optional Redemption in Whole Procedures. In connection with an Optional Redemption in Whole, if the Protection Buyer wishes to terminate the Credit Default Swap after the Non-Call Period of each Series of Notes Outstanding has expired, and therefore requires the Issuer to optionally redeem the Notes in whole, the Protection Buyer shall notify the Issuer, the Portfolio Selection Agent, the Trustee and the Issuing and Paying Agent in writing no less than 15 Business Days prior to the proposed redemption date (which date must be a Payment Date). If one or more Reversible Loss Series exist at such time, the Trustee or the Issuing and Paying Agent, as applicable, shall deliver a notice to each Noteholder of each such Reversible Loss Series, (i) notifying each such Noteholder (1) that the Protection Buyer has sought to terminate the Credit Default Swap prior to the Scheduled Termination Date, (2) of the proposed Optional Redemption Date and (3) that the consent of each such Noteholder is required under the Indenture or else Holders of each such Reversible Loss Series must receive the Optional Redemption

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Reimbursement Amount allocable to each Series of such Class, (ii) providing any other information that the Trustee or the Issuing and Paying Agent, as applicable, may deem appropriate in its sole discretion and (iii) soliciting the consent of each such Noteholder. If the Trustee or the Issuing and Paying Agent, as applicable, does not receive the consent of each such Noteholder within ten Business Days of the transmittal of such notice, the consent of each such Noteholder will be deemed not to have been obtained and an Optional Redemption in Whole may occur only if the Protection Buyer agrees to pay to the Issuer, for each Reversible Loss Series, the Optional Redemption Reimbursement Amount prior to the Optional Redemption Date.

The Trustee and the Issuing and Paying Agent, as applicable, will then provide notice of Optional Redemption in Whole by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the scheduled redemption date, to each Noteholder at such Holder's address in the Note Register or the Issuer Note Register, as applicable, and for so long as any Class of Notes is listed on a stock exchange and the rules of such stock exchange shall so require, provide notice of an Optional Redemption in Whole to the Listing, Paying and Transfer Agent for such stock exchange.

The Notes shall not be optionally redeemed in whole unless the Trustee has determined (based on the advice of the Collateral Disposal Agent with respect to Collateral Securities) that the proceeds expected to be received upon the liquidation of the Collateral, together with any other amounts available to be used for such optional redemption (including any End Payment, Optional Redemption Reimbursement Amount and/or termination payments to be received by the Issuer under the Credit Default Swap and the Basis Swap), are equal to an amount sufficient to pay the amounts specified under subclauses (i) through (vii) in "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". See "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". In determining whether sufficient proceeds will be available to redeem the Notes in whole under the preceding sentence, the Issuer's right under the Collateral Put Agreement to require the Collateral Put Provider to purchase Collateral (other than Put Excluded Collateral) at 100% of par of such Collateral and the Issuer's ability to enter into a currency exchange (if necessary) shall be taken into consideration.

Partial Optional Redemption Procedures. In connection with a Partial Optional Redemption, if the Protection Buyer elects to have the Issuer redeem one or more Series of Notes after the applicable Non-Call Period(s) (or, with respect to any Protection Buyer Notes, on any Payment Date), the Protection Buyer shall notify the Issuer, the Portfolio Selection Agent, the Trustee and the Issuing and Paying Agent in writing no less than 15 Business Days prior to the proposed redemption date (which date must be a Payment Date). If one or more Reversible Loss Series exist and will be redeemed at such time, the Trustee or the Issuing and Paying Agent, as applicable, shall deliver a notice to each Noteholder of each such Reversible Loss Series, (i) notifying each such Noteholder (1) that the Protection Buyer has sought to redeem such Series of Notes prior to the Stated Maturity, (2) of the proposed Partial Optional Redemption Date and (3) that the consent of each such Noteholder is required under the Indenture or else Holders of such Reversible Loss Series must receive the Optional Redemption Reimbursement Amount allocable to such Series, (ii) providing any other information that the Trustee or the Issuing and Paying Agent, as applicable, may deem appropriate in its sole discretion and (iii) soliciting the consent of each such Noteholder. If the Trustee or the Issuing and Paying Agent, as applicable, does not receive the consent of each such Noteholder within 10 Business Days of the transmittal of such notice, the consent of each such Noteholder will be deemed not to have been obtained and a Partial Optional Redemption of such Series may occur only if the Protection Buyer agrees to pay to the Issuer, for each such Reversible Loss Series, the Optional Redemption Reimbursement Amount prior to the Partial Optional Redemption Date.

Neither the Notes of any Series nor any Protection Buyer Notes shall be optionally redeemed in connection with a Partial Optional Redemption unless the Trustee has determined (based on the advice of the Collateral Disposal Agent with respect to Collateral Securities) that the proceeds expected to be received upon the liquidation of the Eligible Investments and Selected Collateral Securities, together with any other amounts available to be used for such optional redemption (including any Partial Optional Redemption End Payment and/or Optional Redemption Reimbursement Amount), are equal to an amount sufficient to pay the principal amount of such Series of Notes and any Series senior to such Series under subclause (iii) in "—Priority of Payments—Principal Proceeds—Other Payment Dates". See "—Priority of Payments—Principal Proceeds—Other Payment Dates". In determining whether sufficient proceeds will be available to redeem the Notes in part under the preceding sentence, the Issuer's right under the Collateral Put Agreement to require the Collateral Put Provider to purchase Collateral (other than Put Excluded Collateral) at 100% of the principal amount of such Collateral Security and the Issuer's ability to enter into a currency exchange (if necessary) shall be taken into consideration.

The Trustee and the Issuing and Paying Agent, as applicable, will then provide notice of a Partial Optional Redemption by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the scheduled redemption date, to each Holder of a Note to be redeemed at such Holder's address in the Note Register or the Issuer Note Register, as applicable, and for so long as any Class of Notes is listed on any stock exchange and the rules of such stock exchange shall so require, provide notice of a Partial Optional Redemption to the Listing, Paying and Transfer Agent for such stock exchange.

Mandatory Redemption

The occurrence of (i) either a termination event or an event of default (as such term is defined in the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable) for which the Protection Buyer, Basis Swap Counterparty or Collateral Put Provider is the sole defaulting party or Affected Party (as such term is defined in the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable) under the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable, (ii) any termination event (other than a termination event triggered by an Event of Default or an event described in subclause (i) or, after the Non-Call Period for each Series of Notes Outstanding has expired, the Protection Buyer's election to terminate the Credit Default Swap prior to its scheduled termination date) or (iii) any event of default (other than an event described in subclause (i)), in each case under the Credit Default Swap, the Basis Swap or the Collateral Put Agreement where (x) in the case of subclause (i) the Replacement Counterparty Procedures are not satisfied within 30 days of the termination of the swaps or (y) in the case of subclause (ii) or (iii) the party entitled to terminate such agreement has exercised such right shall constitute a **"Mandatory Redemption"**.

Upon the occurrence of a Mandatory Redemption other than a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (iii) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, the Trustee will liquidate all Eligible Investments and the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities and apply such proceeds as described under "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date".

In the case of a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (iii) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, the Trustee will request that the Collateral Disposal Agent solicit bids for all of the Collateral Securities and take the actions described below.

If the Trustee determines that the expected liquidation proceeds of the Collateral Securities (as advised by the Collateral Disposal Agent) and the Eligible Investments will be an amount equal to or greater than the aggregate of (i) the amounts required to be paid under subclauses (i) through (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and (ii) with respect to the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of such Classes of Notes plus any accrued interest thereon, the Trustee will liquidate the Eligible Investments and will notify the Collateral Disposal Agent to liquidate all Collateral Securities and, thereafter, apply such liquidation proceeds in accordance with the Priority of Payments.

If the Trustee determines that the expected liquidation proceeds of the Collateral Securities (as advised by the Collateral Disposal Agent) and the Eligible Investments cannot be sold in an amount equal to or greater than the aggregate of (i) the amounts required to be paid under subclauses (i) through (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and (ii) with respect to the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of such Classes of Notes plus any accrued interest thereon, the Trustee will notify (such notice, the "**Special Termination Notice**") Holders of the Class SS Notes, the Class A Notes, the Class B Notes and Class C Notes (a) of such occurrence, (b) that such Noteholders have the following options: (1) with the consent of 100% of such Noteholders, the Issuer will direct the Collateral Disposal Agent to liquidate all Collateral Securities distributable to such Classes of Notes pursuant to the Special Termination Liquidation Procedure and (2) if such consent is not obtained, each such Noteholder will have the option of either requesting the Issuer to (A) deliver to it the Collateral Securities distributable to such Noteholder pursuant to the Special Termination Liquidation Procedure or (B) direct the Collateral Disposal Agent to liquidate the Collateral Securities distributable to such Noteholder pursuant to the Special Termination Liquidation Procedure and (c) of the identity of any Collateral Securities distributable to such Noteholders pursuant to the Special Termination Liquidation Procedure.

Each Holder of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes may, within ten Business Days of receipt of a Special Termination Notice, notify (such notice, a "**Special Termination Request Notice**") the Trustee the option(s) that it chooses to exercise under the Special Termination Notice and the delivery instructions for such Noteholder with respect to any Collateral Securities to be delivered to such Noteholder pursuant to the Special Termination Liquidation Procedure. If a Noteholder fails to so notify the Trustee within 10 Business Days of receipt of such Special Termination Notice, such Noteholder will be deemed to have selected option (1) of the Special Termination Notice.

Following the period in which the Trustee may receive timely Special Termination Request Notices, the Trustee and the Collateral Disposal Agent, at the direction of the Issuer, will follow the procedures described below (such procedure, the "**Special Termination Liquidation Procedure**"):

(i) the Trustee will liquidate all Eligible Investments;

(ii) to the extent the liquidation proceeds of Eligible Investments are insufficient to make the payment described in this subclause (ii), the Collateral Disposal Agent will liquidate the highest-priced Collateral Security in the smallest principal amount that, when added to the proceeds obtained pursuant to subclause (i), will be sufficient to provide the Issuer with funds to pay amounts owed pursuant to subclause (ii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date", subject to the Administrative Expense Cap on the Mandatory Redemption Date (and the Issuer shall make such payment); *provided*, that if more than one Collateral Security has received the highest bid price, the Collateral Disposal Agent will liquidate any of such Collateral Securities that it determines in a commercially reasonable manner would maximize the liquidation proceeds received on all Collateral Securities;

(iii) (A) if less than 100% of the Aggregate USD Equivalent Outstanding Amount of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes voting as a single class provide the Trustee with an effective Special Termination Request Notice exercising option (1) under the related Special Termination Notice, the Trustee will cause the remaining

Early Termination

The Collateral Disposal Agreement will terminate on the earlier of (i) the final Stated Maturity of any Series of Notes, (ii) the Optional Redemption Date, (iii) the Mandatory Redemption Date, (iv) a liquidation of all Collateral Securities following the occurrence of an Event of Default and (v) the termination of the Indenture in accordance with its terms.

Exercise of Put, Repurchase or Similar Right

Notwithstanding any provision to the contrary contained herein, the Collateral Disposal Agent will direct the Trustee to exercise any put right, right under repurchase agreement or other similar right that the Issuer has under any Collateral Security within the applicable time period.

Credit Support Amount Due and Payable

If a Credit Support Annex has been entered into by the Collateral Put Provider and the Issuer and any credit support amount becomes due and payable pursuant to the terms thereof, the Collateral Disposal Agent will (i) calculate the market value of each Collateral Security and (ii) notify the Collateral Put Provider of any such Collateral Security that has a market value of 95% or less.

Amendment

The Collateral Disposal Agreement may be amended only (i) if the S&P Rating Condition and the Moody's Rating Condition have been satisfied and (ii) with the consent of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class and the Protection Buyer. However, the Collateral Disposal Agreement may be amended at any time without the consent of the Noteholders so long as such amendment will not (i) reduce in any manner the amount of, or delay the timing of, payments which are required to be made to the Issuer or (ii) materially adversely affect the Noteholders (as evidenced by a failure of a Majority of the Noteholders to object to such amendment within 10 Business Days of the Issuer's delivering a notice of such amendment to all Noteholders).

THE PORTFOLIO SELECTION AGENT

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Portfolio Selection Agent and has not been independently verified by the Issuers, the Initial Purchaser or any other person or entity. None of the Issuers or the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. Accordingly, the Portfolio Selection Agent assumes sole responsibility for the accuracy, completeness or applicability of such information. The Portfolio Selection Agent does not assume responsibility for any other information in this Offering Circular.

General

The Portfolio Selection Agent will, pursuant to the terms of the Portfolio Selection Agreement, (a) select the Initial Reference Portfolio and (b) have the right to review the calculations of the Credit Default Swap Calculation Agent and the Trustee on any Determination Date. The Portfolio Selection Agent will not be responsible for producing or providing reports, notices or other information relating to the Notes or the Reference Portfolio. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral.

The Portfolio Selection Agent is not permitted under the terms of the Credit Default Swap to remove or replace any Reference Obligations at any time.

The Portfolio Selection Agent, its Affiliates or client accounts for which the Portfolio Selection Agent or its Affiliates act as investment advisor may at times own Notes. Any Notes owned by the Portfolio Selection Agent or its Affiliates are subject to disposition by such parties in their discretion. At any given time the Portfolio Selection Agent and its Affiliates will be entitled to vote with respect to any Notes held by them and by such accounts with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest Relating to the Portfolio Selection Agent and its Affiliates".

ACA Management, L.L.C.

ACA Management, L.L.C. ("**ACA Management**"), a Delaware limited liability company formed on May 4, 2001 to provide asset management services to affiliated and non-affiliated investors, will be the portfolio selection agent under the Portfolio Selection Agreement (in such capacity, together with any successor, the "**Portfolio Selection Agent**").

ACA Management is registered as an "investment adviser" under the U.S. Investment Advisers Act of 1940, as amended (the "**Advisers Act**").

ACA Management is an indirect wholly-owned subsidiary of ACA Capital Holdings, Inc. ("**ACA Capital Holdings**"). ACA Capital Holdings is a publicly traded company listed on the New York Stock Exchange under the ticker "ACA." Shareholders owning more than 5% of ACA Capital Holdings' outstanding common stock include Bear Stearns Merchant Banking, GCC Investments, Inc., S.F. Holding Corp., Third Avenue Value Fund and Perry Corp. In addition to ACA Management, ACA Capital Holdings' significant subsidiaries include ACA Risk Solutions, L.L.C. ("**ACA Risk Solutions**"), ACA Management's direct parent corporation, ACA Service, L.L.C. ("**ACA Service**"), the holding company for the ACA Capital Holding's U.S. structured finance businesses and direct parent corporation of ACA Risk Solutions, and ACA Financial Guaranty Corporation ("**ACA Guaranty**"), a financial guaranty insurance corporation and the direct parent corporation of ACA Service. Both ACA Risk Solutions and ACA Service are Delaware limited liability corporations and ACA Guaranty is a Maryland stock insurance company. ACA Capital Holdings and its subsidiaries, including ACA Management, are referred to herein as "**ACA Capital**". The offices of ACA Capital and all of its U.S. domiciled subsidiaries are located at 140 Broadway, 47th Floor, New York, New York 10005.

ACA Service will assist the Portfolio Selection Agent in selecting the Initial Reference Portfolio.

ACA Guaranty has "A" financial strength and financial enhancement ratings from S&P. The S&P rating reflects S&P's current assessment of the creditworthiness of ACA Guaranty and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the S&P's rating may be obtained only from S&P. The S&P rating is not a recommendation to buy, sell or hold any securities, and such rating may be subject to revision or withdrawal at any time by S&P.

THE PORTFOLIO SELECTION AGREEMENT

The following summary describes certain provisions of the Portfolio Selection Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Portfolio Selection Agreement.

The Portfolio Selection Agent will, pursuant to the Portfolio Selection Agreement, select the Initial Reference Portfolio and have the right to review the calculations of the Credit Default Swap Calculation Agent and the Trustee on any Determination Date.

As compensation for the performance of its obligations as Portfolio Selection Agent under the Portfolio Selection Agreement, the Portfolio Selection Agent will receive a fee (the "**Portfolio Selection Fee**"), to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Portfolio Selection Fee will accrue daily from the Closing Date and will be an amount equal to the sum of (x) with respect to each Payment Date, the sum of the quotients determined for each Class of

Notes on each day of the related Interest Accrual Period of (i) the product of (a) the average daily Aggregate USD Equivalent Outstanding Amount of such Class during the preceding Interest Accrual Period, (b) the Applicable Class Portfolio Selection Fee Rate with respect to such Class of Notes and (c) the actual number of days in the preceding Interest Accrual Period divided by (ii) 360, payable in arrears on each Payment Date and (y) on the Payment Date occurring in April 2008 and occurring in each successive April to and including the Payment Date immediately following the end of the Non-Call Period, an amount equal to the excess (if any) of (1) $1,000,000 over (2) the aggregate of all Portfolio Selection Fees payable to the Portfolio Selection Agent from and excluding the Payment Date occurring in April of the immediately preceding year (or in the case of the Payment Date occurring in April 2008, from the Closing Date) and the Portfolio Selection Fee that is payable by the Issuer to the Portfolio Selection Agent pursuant to clause (x) on such date.

To the extent not paid on any Payment Date when due, any accrued Portfolio Selection Fee will be deferred and will be payable on the next subsequent Payment Date on which funds are available for the payment thereof in accordance with the Priority of Payments. Any unpaid Portfolio Selection Fee that is deferred due to the operation of the Priority of Payments will not accrue interest.

The Portfolio Selection Agent will be responsible for its own expenses and costs incurred in the course of performing its obligations under the Portfolio Selection Agreement.

The Portfolio Selection Agent will not be liable to the Issuers, the Trustee, the Initial Purchaser, the Noteholders, the Protection Buyer, the Collateral Put Provider, the Basis Swap Counterparty, the Collateral Disposal Agent or any of their respective Affiliates, partners, shareholders, officers, directors, employees, agents, accountants and attorneys for any losses, damages, claims, liabilities, costs or expenses (including attorney's fees) incurred as a result of the actions taken or recommended by or on behalf of the Portfolio Selection Agent under the Portfolio Selection Agreement, the Credit Default Swap or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties and obligations thereunder.

The Portfolio Selection Agent and any of its Affiliates may engage in other businesses and may furnish investment management and advisory services to related entities whose investment policies may differ from or be similar to those followed by the Portfolio Selection Agent on behalf of the Issuer, as required by the Portfolio Selection Agreement. The Portfolio Selection Agent and its Affiliates will be free, in their sole discretion, to make recommendations to others, or effect transactions on behalf of themselves or others which may be the same as or different from those effected with respect to the Reference Portfolio. In addition, the Portfolio Selection Agent and its Affiliates may, from time to time, cause, direct or recommend that their clients buy or sell securities of the same or different kind or class of the same issuer as securities that are part of the Reference Portfolio and that the Portfolio Selection Agent directs to be included in or removed from the Reference Portfolio. See "Risk Factors—Certain Conflicts of Interest Relating to the Portfolio Selection Agent and its Affiliates."

Neither the Portfolio Selection Agent nor any of its Affiliates are under any obligation to maintain any investment in the Notes.

ACCOUNTS

Interest Collection Account and Principal Collection Account

Interest Proceeds and interest payments received on the Collateral Securities (which interest payments shall be paid to the Basis Swap Counterparty pursuant to the Basis Swap) shall be deposited into a segregated trust account (within which related subaccounts may be created to deposit such amounts in different Approved Currencies) held in the name of the Issuer for the benefit of the Holders of the Notes (the "**Interest Collection Account**"). Amounts deposited in the Interest Collection Account will be available, together with reinvestment earnings thereon, for application to the payment of the amounts set forth under "Description of the Notes—Priority of Payments".

Schedule A

Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
1	22,222,222	ABFC 2006-OPT1 M8	ABFC 2006-OPT1	00075QAM4	Residential B/C Mortgage Security	22,222,222	12,445,000	1.0000000000	BBB	Baa2	BBB	9/25/2036	3.4	Option One Mortgage Corp	
2	22,222,222	ABFC 2006-OPT2 M8	ABFC 2006-OPT2	00075XAP2	Residential B/C Mortgage Security	22,222,222	10,443,000	1.0000000000	BBB	Baa2	BBB	10/25/2036	3.7	Option One Mortgage Corp	
3	22,222,222	ABSHE 2006-HE3 M7	ABSHE 2006-HE3	04541GXK3	Residential B/C Mortgage Security	22,222,222	11,585,000	1.0000000000	BBB	Baa2	BBB	3/25/2036	3.3	Option One Mortgage Corp	
4	22,222,222	ABSHE 2006-HE4 M7	ABSHE 2006-HE4	04544GAP4	Residential B/C Mortgage Security	22,222,222	6,819,000	1.0000000000	BBB	Baa2	BBB	5/25/2036	3.3	Select Portfolio Servicing, Inc	
5	22,222,222	ABSHE 2006-HE7 M9	ABSHE 2006-HE7	04544QAP2	Residential B/C Mortgage Security	22,222,222	11,891,000	1.0000000000	BBB-	Baa2	BBB-	11/25/2036	3.9	Select Portfolio Servicing, Inc	
6	22,222,222	ACE 2006-FM2 M8	ACE 2006-FM2	00442CAN9	Residential B/C Mortgage Security	22,222,222	6,582,000	1.0000000000		Baa2	BBB	8/25/2036	4.0	Wells Fargo Bank	
7	22,222,222	ACE 2006-OP2 M9	ACE 2006-OP2	00441YAP7	Residential B/C Mortgage Security	22,222,222	11,597,000	1.0000000000		Baa2	BBB-	8/25/2036	3.8	Wells Fargo Bank	
8	22,222,222	ARSI 2006-W1 M8	ARSI 2006-W1	040104RQ6	Residential B/C Mortgage Security	22,222,222	31,850,000	1.0000000000	BBB+	Baa2	BBB+	3/25/2036	3.3	Ameriquest Mortgage Company	
9	22,222,222	BNCMT 2007-1 M8	BNCMT 2007-1	05569GAN6	Residential B/C Mortgage Security	22,222,222	8,305,000	1.0000000000	BBB	Baa2	BBB	3/25/2037	4.3	Aurora Loan Services Inc	
10	22,222,222	CARR 2006-FRE1 M9	CARR 2006-FRE1	144538AN5	Residential B/C Mortgage Security	22,222,222	13,476,000	1.0000000000	BBB+	Baa2	A	7/25/2036	3.3	Fremont Investment And Loan	
11	22,222,222	CARR 2006-FRE2 M8	CARR 2006-FRE2	14454AAN9	Residential B/C Mortgage Security	22,222,222	12,805,000	1.0000000000		Baa2	BBB+	10/25/2036	3.6	Fremont Investment And Loan	
12	22,222,222	CARR 2006-OPT1 M8	CARR 2006-OPT1	144531FV7	Residential B/C Mortgage Security	22,222,222	12,954,000	1.0000000000	BBB+	Baa2	A-	2/25/2036	3.1	Option One Mortgage Corp	
13	22,222,222	CMLTI 2006-AMC1 M8	CMLTI 2006-AMC1	17309PAL0	Residential B/C Mortgage Security	22,222,222	9,366,000	1.0000000000		Baa2	BBB	9/25/2036	3.6	Ameriquest Mortgage Company	
14	22,222,222	CMLTI 2006-NC1 M8	CMLTI 2006-NC1	172983AN8	Residential B/C Mortgage Security	22,222,222	6,814,000	1.0000000000		Baa2	BBB	8/25/2036	3.3	Wells Fargo Bank	
15	22,222,222	CMLTI 2006-WFH2 M9	CMLTI 2006-WFH2	17309MAN3	Residential B/C Mortgage Security	22,222,222	11,666,000	1.0000000000		Baa2	BBB-	8/25/2036	3.6	Wells Fargo Bank	
16	22,222,222	CMLTI 2006-WMC1 M8	CMLTI 2006-WMC1	17307G2F4	Residential B/C Mortgage Security	22,222,222	10,313,000	1.0000000000	A-	Baa2	BBB+	12/25/2035	3.2	Wells Fargo Bank	
17	22,222,222	CMLTI 2007-AMC1 M8	CMLTI 2007-AMC1	17311BAL7	Residential B/C Mortgage Security	22,222,222	16,661,000	1.0000000000		Baa2	BBB	12/25/2036	4.2	Countrywide Home Loans, Inc	
18	22,222,222	CMLTI 2007-WFH1 M9	CMLTI 2007-WFH1	17311CAM3	Residential B/C Mortgage Security	22,222,222	4,465,000	1.0000000000		Baa2	BBB-	1/25/2037	4.0	Wells Fargo Bank	
19	22,222,222	CWL 2006-24 M8	CWL 2006-24	23243HAN1	Residential B/C Mortgage Security	22,222,222	9,408,000	1.0000000000		Baa2	BBB	5/25/2037	4.5	Countrywide Home Loans, Inc	
20	22,222,222	CWL 2007-2 M8	CWL 2007-2	12668NAN7	Residential B/C Mortgage Security	22,222,222	12,480,000	1.0000000000		Baa2	BBB	8/25/2037	4.8	Countrywide Home Loans, Inc	
21	22,222,222	FFML 2006-FF11 M8	FFML 2006-FF11	32028PAP0	Residential B/C Mortgage Security	22,222,222	20,600,000	1.0000000000	BBB	Baa2	BBB	8/25/2036	3.6	Wells Fargo Bank	
22	22,222,222	FFML 2006-FF12 M8	FFML 2006-FF12	32027GAN6	Residential B/C Mortgage Security	22,222,222	8,397,000	1.0000000000	BBB	Baa2	BBB	9/25/2036	4.1	Aurora Loan Services Inc	
23	22,222,222	FFML 2006-FF14 M8	FFML 2006-FF14	32027LAP0	Residential B/C Mortgage Security	22,222,222	7,559,000	1.0000000000	BBB	Baa2	BBB	10/25/2036	4.1	Aurora Loan Services Inc	
24	22,222,222	FFML 2006-FF15 M8	FFML 2006-FF15	32028GAP0	Residential B/C Mortgage Security	22,222,222	15,612,000	1.0000000000	BBB	Baa2	BBB	11/25/2036	4.2	Aurora Loan Services Inc	
25	22,222,222	FFML 2006-FF16 M8	FFML 2006-FF16	320275AN0	Residential B/C Mortgage Security	22,222,222	8,428,000	1.0000000000		Baa2	BBB+	12/25/2036	4.0	Home Loan Services, Inc.	
26	22,222,222	FFML 2006-FF17 M8	FFML 2006-FF17	32028KAP1	Residential B/C Mortgage Security	22,222,222	4,663,000	1.0000000000	BBB	Baa2	BBB	12/25/2036	4.2	Aurora Loan Services Inc	
27	22,222,222	FFML 2006-FF7 M8	FFML 2006-FF7	320277AP1	Residential B/C Mortgage Security	22,222,222	8,701,000	1.0000000000	BBB	Baa2	BBB	5/25/2036	3.3	Wells Fargo Bank	

[1] Source: Bloomberg. As of April 10, 2007.

Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
28	22,222,222	FFML 2006-FF9 M8	FFML 2006-FF9	320276AP3	Residential B/C Mortgage Security	22,222,222	13,478,000	1.0000000000	BBB+	Baa2	BBB+	8/25/2036	3.4	Wells Fargo Bank	
29	22,222,222	FFML 2007-FF1 B2	FFML 2007-FF1	32028TAN7	Residential B/C Mortgage Security	22,222,222	15,254,000	1.0000000000		Baa2	BBB	1/25/2038	4.4	Home Loan Services, Inc.	
30	22,222,222	FFML 2007-FF2 B2	FFML 2007-FF2	32029GAN4	Residential B/C Mortgage Security	22,222,222	19,500,000	1.0000000000		Baa2	BBB	3/25/2037	4.4	Home Loan Services, Inc.	
31	22,222,222	FHLT 2006-A M7	FHLT 2006-A	35729RAN6	Residential B/C Mortgage Security	22,222,222	13,264,000	1.0000000000	BBB+	Baa2	BBB	5/25/2036	3.4	Wells Fargo Bank	
32	22,222,222	FHLT 2006-B M8	FHLT 2006-B	35729QAN8	Residential B/C Mortgage Security	22,222,222	12,544,000	1.0000000000	BBB+	Baa2	BBB	8/25/2036	3.8	Wells Fargo Bank	
33	22,222,222	FMIC 2006-2 M8	FMIC 2006-2	31659EAM0	Residential B/C Mortgage Security	22,222,222	10,800,000	1.0000000000		Baa2	BBB+	7/25/2036	3.1	Wells Fargo Bank	
34	22,222,222	FMIC 2006-3 M8	FMIC 2006-3	316599AN9	Residential B/C Mortgage Security	22,222,222	12,026,000	1.0000000000		Baa2	BBB	11/25/2036	3.3	Wells Fargo Bank	
35	22,222,222	GSAMP 2006-FM2 M8	GSAMP 2006-FM2	36245DAN0	Residential B/C Mortgage Security	22,222,222	11,750,000	1.0000000000		Baa2	BBB+	9/25/2036	3.6	Wells Fargo Bank	
36	22,222,222	HASC 2006-HE2 M8	HASC 2006-HE2	44328BAP3	Residential B/C Mortgage Security	22,222,222	14,484,000	1.0000000000	BBB+	Baa2	BBB+	12/25/2036	5.2	CitiMortgage, Inc.	
37	22,222,222	HEAT 2006-3 M8	HEAT 2006-3	437084UZ7	Residential B/C Mortgage Security	22,222,222	14,700,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.1	Select Portfolio Servicing, Inc	
38	22,222,222	HEAT 2006-5 M8	HEAT 2006-5	437096AQ3	Residential B/C Mortgage Security	22,222,222	10,625,000	1.0000000000	BBB+	Baa2	BBB+	10/25/2036	3.4	Select Portfolio Servicing, Inc	
39	22,222,222	HEAT 2006-6 M8	HEAT 2006-6	437097AP3	Residential B/C Mortgage Security	22,222,222	10,200,000	1.0000000000	A-	Baa2	A-	11/25/2036	3.5	Select Portfolio Servicing, Inc	
40	22,222,222	HEAT 2006-7 M8	HEAT 2006-7	43709NAP8	Residential B/C Mortgage Security	22,222,222	11,000,000	1.0000000000	BBB+	Baa2	BBB+	1/25/2037	3.7	Select Portfolio Servicing, Inc	
41	22,222,222	HEAT 2006-8 M8	HEAT 2006-8	43709QAP1	Residential B/C Mortgage Security	22,222,222	10,350,000	1.0000000000	BBB	Baa2	BBB+	3/25/2037	4.0	Select Portfolio Servicing, Inc	
42	22,222,222	HEAT 2007-1 M8	HEAT 2007-1	43710LAN4	Residential B/C Mortgage Security	22,222,222	10,500,000	1.0000000000	BBB	Baa2	BBB+	5/25/2037	4.0	Select Portfolio Servicing, Inc	
43	22,222,222	HEAT 2007-2 M8	HEAT 2007-2	43710KAN6	Residential B/C Mortgage Security	22,222,222	14,400,000	1.0000000000	BBB	Baa2	BBB	7/25/2037	4.3	Select Portfolio Servicing, Inc	
44	22,222,222	IXIS 2006-HE3 B2	IXIS 2006-HE3	46602UAM0	Residential B/C Mortgage Security	22,222,222	12,837,000	1.0000000000	BBB	Baa2	BBB	1/25/2037	4.3	Wells Fargo Bank	
45	22,222,222	JPMAC 2006-CW2 MV8	JPMAC 2006-CW2	46629BBA6	Residential B/C Mortgage Security	22,222,222	11,432,000	1.0000000000	BBB	Baa2	BBB	8/25/2036	3.8	Countrywide Home Loans, Inc	
46	22,222,222	JPMAC 2006-FRE1 M8	JPMAC 2006-FRE1	46626LFV7	Residential B/C Mortgage Security	22,222,222	14,174,000	1.0000000000	BBB	Baa2	BBB	5/25/2035	3.0	JPMorgan Chase Bank	
47	22,222,222	JPMAC 2006-WMC3 M8	JPMAC 2006-WMC3	46629KAP4	Residential B/C Mortgage Security	22,222,222	11,510,000	1.0000000000	BBB	Baa2	BBB	8/25/2036	3.8	JPMorgan Chase Bank	
48	22,222,222	LBMLT 2006-11 M8	LBMLT 2006-11	542512AN8	Residential B/C Mortgage Security	22,222,222	11,250,000	1.0000000000		Baa2	BBB	12/25/2036	4.2	Washington Mutual Bank, FA.	
49	22,222,222	LBMLT 2006-4 M8	LBMLT 2006-4	54251MAN4	Residential B/C Mortgage Security	22,222,222	22,111,000	1.0000000000		Baa2	A-	5/25/2036	3.4	Washington Mutual Bank, FA	
50	22,222,222	LBMLT 2006-6 M8	LBMLT 2006-6	54251RAN3	Residential B/C Mortgage Security	22,222,222	19,413,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.6	Washington Mutual Bank, FA.	
51	22,222,222	LBMLT 2006-7 M8	LBMLT 2006-7	54251TAN9	Residential B/C Mortgage Security	22,222,222	15,966,000	1.0000000000	BBB+	Baa2	A-	8/25/2036	3.7	Washington Mutual Bank, FA.	
52	22,222,222	LBMLT 2006-8 M8	LBMLT 2006-8	54251UAN6	Residential B/C Mortgage Security	22,222,222	11,046,000	1.0000000000		Baa2	A-	9/25/2036	3.9	Washington Mutual Bank, FA.	
53	22,222,222	LBMLT 2006-9 M8	LBMLT 2006-9	54251WAN2	Residential B/C Mortgage Security	22,222,222	15,961,000	1.0000000000		Baa2	BBB+	10/25/2036	4.0	Washington Mutual Bank, FA.	
54	22,222,222	LBMLT 2006-WL1 M8	LBMLT 2006-WL1	542514RD8	Residential B/C Mortgage Security	22,222,222	23,864,000	1.0000000000		Baa2	BBB	1/25/2036	3.0	Long Beach Mortgage Company	
55	22,222,222	MABS 2006-HE5 M9	MABS 2006-HE5	576455AN9	Residential B/C Mortgage Security	22,222,222	10,393,000	1.0000000000		Baa2	BBB-	11/25/2036	4.1	Wells Fargo Bank	
56	22,222,222	MABS 2006-NC2 M9	MABS 2006-NC2	55275BAP2	Residential B/C Mortgage Security	22,222,222	11,214,000	1.0000000000	BBB	Baa2	BBB-	8/25/2036	3.7	Wells Fargo Bank	
57	22,222,222	MABS 2006-WMC4 M8	MABS 2006-WMC4	57645MAP7	Residential B/C Mortgage Security	22,222,222	11,399,000	1.0000000000		Baa2	BBB+	10/25/2036	4.1	Wells Fargo Bank	

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Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
58	22,222,222	MLMI 2006-WMC1 B2A	MLMI 2006-WMC1	59020U4H5	Residential B/C Mortgage Security	22,222,222	13,953,000	1.0000000000		Baa2	BBB+	1/25/2037	3.1	Wilshire Credit Corp	
59	22,222,222	MSAC 2006-HE7 B2	MSAC 2006-HE7	61750MAP0	Residential B/C Mortgage Security	22,222,222	12,851,000	1.0000000000		Baa2	BBB	9/25/2036	4.5	Countrywide Home Loans, Inc	
60	22,222,222	MSAC 2006-HE8 B2	MSAC 2006-HE8	61750SAP7	Residential B/C Mortgage Security	22,222,222	17,398,000	1.0000000000		Baa2	BBB	10/25/2036	4.9	Wells Fargo Bank	
61	22,222,222	MSAC 2006-NC4 B2	MSAC 2006-NC4	61748LAN2	Residential B/C Mortgage Security	22,222,222	23,729,000	1.0000000000	BBB	Baa2	BBB	6/25/2036	4.1	Wells Fargo Bank	
62	22,222,222	MSAC 2006-NC5 B3	MSAC 2006-NC5	61749BAQ6	Residential B/C Mortgage Security	22,222,222	18,795,000	1.0000000000		Baa2	BBB-	10/25/2036	4.9	Countrywide Home Loans, Inc	
63	22,222,222	MSAC 2006-WMC1 B2	MSAC 2006-WMC1	61744CXV3	Residential B/C Mortgage Security	22,222,222	14,285,000	1.0000000000	BBB+	Baa2	A-	12/25/2035	3.8	JPMorgan Chase Bank	
64	22,222,222	MSAC 2006-WMC2 B2	MSAC 2006-WMC2	61749KAP8	Residential B/C Mortgage Security	22,222,222	27,331,000	1.0000000000	BBB	Baa2	BBB	7/25/2036	4.3	Wells Fargo Bank	
65	22,222,222	MSAC 2007-HE1 B2	MSAC 2007-HE1	617526AP3	Residential B/C Mortgage Security	22,222,222	9,779,000	1.0000000000		Baa2	BBB	11/25/2036	5.0	Saxon Mortgage	
66	22,222,222	MSAC 2007-HE2 B2	MSAC 2007-HE2	61753EAM2	Residential B/C Mortgage Security	22,222,222	9,830,000	1.0000000000		Baa2	BBB	1/25/2037	5.2	Saxon Mortgage	
67	22,222,222	MSAC 2007-NC1 B2	MSAC 2007-NC1	617505AN2	Residential B/C Mortgage Security	22,222,222	9,375,000	1.0000000000		Baa2	BBB	11/25/2036	5.1	Saxon Mortgage	
68	22,222,222	MSAC 2006-HE2 B2	MSAC 2006-HE2	617451FD6	Residential B/C Mortgage Security	22,222,222	29,469,000	1.0000000000	BBB	Baa2	BBB+	3/25/2036	4.0	Wells Fargo Bank	
69	22,222,222	MSHEL 2007-1 B2	MSHEL 2007-1	61751QAM7	Residential B/C Mortgage Security	22,222,222	8,601,000	1.0000000000		Baa2	BBB	12/25/2036	5.1	Saxon Mortgage	
70	22,222,222	MSIX 2006-2 B2	MSIX 2006-2	617463AM6	Residential B/C Mortgage Security	22,222,222	12,472,000	1.0000000000		Baa2	BBB	11/25/2036	4.9	Saxon Mortgage	
71	22,222,222	NHEL 2006-5 M8	NHEL 2006-5	66988YAN2	Residential B/C Mortgage Security	22,222,222	9,100,000	1.0000000000		Baa2	BBB+	11/25/2036	3.6	Novastar Mortgage, Inc	
72	22,222,222	NHELI 2006-FM1 M8	NHELI 2006-FM1	65536HCF3	Residential B/C Mortgage Security	22,222,222	12,139,000	1.0000000000		Baa2	BBB+	11/25/2035	2.9	Wells Fargo Bank	
73	22,222,222	NHELI 2006-FM2 M8	NHELI 2006-FM2	65537FAN1	Residential B/C Mortgage Security	22,222,222	15,954,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.7	Wells Fargo Bank	
74	22,222,222	NHELI 2006-HE3 M8	NHELI 2006-HE3	65536QAN8	Residential B/C Mortgage Security	22,222,222	15,048,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.5	Wells Fargo Bank	
75	22,222,222	OOMLT 2006-3 M9	OOMLT 2006-3	68389BAM5	Residential B/C Mortgage Security	22,222,222	17,250,000	1.0000000000		Baa2	BBB-	2/25/2037	3.6	Option One Mortgage Corp	
76	22,222,222	OOMLT 2007-1 M8	OOMLT 2007-1	68400DAP9	Residential B/C Mortgage Security	22,222,222	20,462,000	1.0000000000		Baa2	BBB	1/25/2037	3.9	Option One Mortgage Corp	
77	22,222,222	SABR 2006-FR1 B2	SABR 2006-FR1	81375WJY3	Residential B/C Mortgage Security	22,222,222	14,343,000	1.0000000000	BBB+	Baa2	A-	11/25/2035	3.9	Homeq Servicing Corp	
78	22,222,222	SABR 2006-FR3 B2	SABR 2006-FR3	813765AH7	Residential B/C Mortgage Security	22,222,222	12,839,000	1.0000000000	BBB+	Baa2	BBB	5/25/2036	4.3	Homeq Servicing Corp	
79	22,222,222	SABR 2006-HE2 B2	SABR 2006-HE2	81377AAM4	Residential B/C Mortgage Security	22,222,222	7,686,000	1.0000000000	BBB+	Baa2	BBB	7/25/2036	3.7	Homeq Servicing Corp	
80	22,222,222	SAIL 2006-4 M7	SAIL 2006-4	86360WAM4	Residential B/C Mortgage Security	22,222,222	18,571,000	1.0000000000	BBB	Baa2	BBB	7/25/2036	4.0	Aurora Loan Services Inc	
81	22,222,222	SASC 2006-EQ1A M8	SASC 2006-EQ1A	86360RAN3	Residential B/C Mortgage Security	22,222,222	20,587,000	1.0000000000		Baa2	BBB	7/25/2036	5.0	Aurora Loan Services Inc	
82	22,222,222	SASC 2006-OPT1 M7	SASC 2006-OPT1	86359UAN9	Residential B/C Mortgage Security	22,222,222	12,749,000	1.0000000000	BBB	Baa2	BBB	4/25/2036	3.5	Aurora Loan Services Inc	
83	22,222,222	SASC 2006-WF3 M9	SASC 2006-WF3	86361EAP6	Residential B/C Mortgage Security	22,222,222	16,901,000	1.0000000000	BBB-	Baa2	BBB-	9/25/2036	4.2	Aurora Loan Services Inc	
84	22,222,222	SURF 2007-BC1 B2	SURF 2007-BC1	84752BAQ2	Residential B/C Mortgage Security	22,222,222	8,250,000	1.0000000000		Baa2	BBB	1/25/2038	4.4	Wilshire Credit Corp	
85	22,222,222	SVHE 2006-EQ2 M8	SVHE 2006-EQ2	83611XAM6	Residential B/C Mortgage Security	22,222,222	8,262,000	1.0000000000	BBB	Baa2	BBB	1/25/2037	4.1	Wells Fargo Bank	
86	22,222,222	SVHE 2006-OPT1 M7	SVHE 2006-OPT1	83611MMF2	Residential B/C Mortgage Security	22,222,222	13,085,000	1.0000000000	BBB+	Baa2	BBB	3/25/2036	3.1	Option One Mortgage Corp	
87	22,222,222	SVHE 2006-OPT2 M7	SVHE 2006-OPT2	83611MMT2	Residential B/C Mortgage Security	22,222,222	18,400,000	1.0000000000		Baa2	A-	5/25/2036	3.1	Option One Mortgage Corp	

Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
88	22,222,222	SVHE 2006-OPT3 M7	SVHE 2006-OPT3	83611MPR3	Residential B/C Mortgage Security	22,222,222	27,000,000	1.0000000000		Baa2	BBB	6/25/2036	3.2	Option One Mortgage Corp	
89	22,222,222	SVHE 2006-OPT4 M7	SVHE 2006-OPT4	83611YAM4	Residential B/C Mortgage Security	22,222,222	10,000,000	1.0000000000		Baa2	BBB+	6/25/2036	3.3	Option One Mortgage Corp	
90	22,222,222	SVHE 2006-OPT5 M8	SVHE 2006-OPT5	83612CAN9	Residential B/C Mortgage Security	22,222,222	38,750,000	1.0000000000		Baa2	BBB	7/25/2036	3.7	Option One Mortgage Corp	

S-A-4

ph44585 on D330-44585-7600 with DISTILLER

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00857 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

57322.649

From: Tourre, Fabrice
Sent: Wednesday, April 11, 2007 5:14 PM
To: Raazi, Cactus
Subject: Paulson

Just spoke to Nico in GS credit. In order to make sure we don't have issues trading with Paulson going fwd, you need to ask Peter Kellman (the GS credit officer covering Paulson) to do an updated review of Paulson to enable us to put more trades with these guys. Also, it appears that they have done, since Jan 2007, over 2bn notional single name RMBS, which is utilizing most of the credit capacity we have for Paulson. We need to be sensitive of the profitability of these trades vs. profitability of abacus - we should prioritize the higher profit margin businesses with Paulson.

Sent from my BlackBerry Wireless Handheld

Permanent Subcommittee on Investigations
EXHIBIT #122

From: Williams, Geoffrey
Sent: Tuesday, May 08, 2007 9:46 PM
To: Tourre, Fabrice
Subject: Fw: Post on Paulson and ABACUS 07-AC1

Don't think they're worried about charging too much...am guessing the opposite is true

----- Original Message -----
From: Birnbaum, Josh
To: Tourre, Fabrice; Egol, Jonathan; Williams, Geoffrey
Cc: Swenson, Michael; Lehman, David A.
Sent: Tue May 08 21:24:02 2007
Subject: RE: Post on Paulson and ABACUS 07-AC1

Ok, thanks. LDL in the morning.

From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 9:22 PM
To: Birnbaum, Josh; Salem, Deeb
Subject: RE: Post on Paulson and ABACUS 07-AC1

2006 vintage. Tier 2/Tier 3 names. Avg spread of approx 450bps mid-market. We already executed a few trades on 21-35 tranche (got that done at 110bps $150mm notional, VERY good level), also traded 35-45 (got that done at 85bps $50mm notional, also good level, more to be printed over the next few weeks). Give me a buzz if you want to discuss live.

From: Birnbaum, Josh
Sent: Tuesday, May 08, 2007 9:19 PM
To: Tourre, Fabrice; Salem, Deeb
Subject: RE: Post on Paulson and ABACUS 07-AC1

vintage? tier?

what do we think is the portfolio spread?

From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 9:17 PM
To: Birnbaum, Josh
Subject: RE: Post on Paulson and ABACUS 07-AC1

100% Baa2 RMBS selected by ACA/Paulson

From: Birnbaum, Josh
Sent: Tuesday, May 08, 2007 9:17 PM
To: Tourre, Fabrice; Sparks, Daniel L
Cc: Egol, Jonathan; Lehman, David A.; Gerst, David; Williams, Geoffrey; Swenson, Michael

Permanent Subcommittee on Investigations
EXHIBIT #123

Subject: RE: Post on Paulson and ABACUS 07-AC1

Remind me, what is the ref portfolio?

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 8:35 PM
To: Sparks, Daniel L
Cc: Egol, Jonathan; Lehman, David A.; Gerst, David; Williams, Geoffrey; Swenson, Michael; Birnbaum, Josh
Subject: Post on Paulson and ABACUS 07-AC1

Dan,

As you know we have been working on the ABACUS 07-AC1 trade, the RMBS CDO short that we are brokering for Paulson. The supersenior tranche off that portfolio is most likely going to be executed with ACA, through ABN Amro as intermediation counterparty. The exact trade would be the following: GS would buy protection on $1bn notional of 50-100 tranche off the reference portfolio at an all-in level 67bps. Paulson was initially expecting to short the 45-100 tranche, and at this point we are not 100% sure they would want to execute on 50-100. Here are the options we are going to walk them through:

Option 1: we offer them protection on 50-100 @ 80bps running, 1pt upfront, $1bn notional. We would make risk-free approx $14mm

Option 2: we offer them protection on 45-100 @ 80bps running, 1.50pt upfront, $1.1bn notional. We would be at risk on $100mm of the 45-50 tranche, but assuming we can trade that tranche at approx 100bps spread (which i am confident we can do), we would make $18mm.

Let me know if you have any questions on this.

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: [redacted]
Email: fabrice.tourre@gs.com
Goldman Sachs
Fabrice Tourre
Structured Products Group

From: Herald - Granoff, Melanie
Sent: Thursday, May 31, 2007 2:24 PM
To: Tourre, Fabrice; Gerst, David
Cc: Bash-Polley, Stacy; Kreitman, Gail
Subject: ACA - We are done !
Attachments: Abacus 2007 AC-1 Portfolio 5-31-07.xls

Fabrice & David - Thank you for your tireless work and perseverance on this trade !! Great job.

From: Nathalie Rushe [mailto:nrushe@aca.com]
Sent: Thursday, May 31, 2007 1:23 PM
To: Tourre, Fabrice; Herald - Granoff, Melanie; stephen.potter@uk.abnamro.com; wade.newmark@uk.abnamro.com
Cc: Shelby Carvalho
Subject: Abacus 2007 AC-1

ACA Credit Products - ABN AMRO L.L.C. sells protection to ABN AMRO Bank NV London Branch on a super senior tranche backed by a $1,818,181,818.18 portfolio of Baa2 RMBS:

Initial Tranche Notional Amount:	$909,090,909
Premium:	50 bps per annum net to ACA (67 bps gross)
Attachment:	50%
Detachment:	100%
Rating (S&P):	AAA
S&P AAA Attachment Point:	21%
Portfolio:	$1,818,181,818.18 portfolio referencing 90 RMBS names rated Baa2 by Moody's (portfolio attached)
Reinvestment:	None
Trade Date:	5/31/2007
Effective Date:	5/31/2007
Scheduled Termination Date:	3/1/2038
Payment Date:	One business day after the 28th calendar day of each month, commencing June 28, 2007
Floating Amounts:	Writedown amounts and Failure to Pay Principal amounts that exceed available subordination
Physical/Cash Settlement:	No physical settlement or valuation/cash settlement of underlying assets or ACA's tranche
Optional Call:	3 years
CSA Terms:	ACA S&P rating of A- or higher, infinity threshold ACA S&P rating of BBB+, $500,000 threshold ACA S&P rating of BBB or below, $0 threshold

Nathalie Rushe
Vice President
ACA Capital
140 Broadway, 47th Floor
New York, NY 10005

Permanent Subcommittee on Investigations
EXHIBIT #124

From: Tourre, Fabrice
Sent: Wednesday, May 30, 2007 7:03 PM
To: Lehman, David A.; Swenson, Michael; Birnbaum, Josh; ficc-mtgcorr-desk
Subject: RE: Paulson update

Quick post on the trade:

(A) ABN Amro/ACA has agreed to do $909mm notional of 50-100 tranche at an-all in level of 67bps (50 credit+17 intermediation). This is contingent on GS writing $27mm corp CDS protection to ABN Amro on ACA Financial Guaranty Corp @ 60bps. We just bought $20mm of such protection from a client @ 110bps, still working on the other $7mm but will take the risk for the time being and keep working on this remaining $7mm ACA corp CDS (we are exploring several different avenues -- i can post you live on those). We expect over the next couple of days to firm up the $909mm notional trade with ABN Amro/ACA.

(B) Paulson has agreed to buy $1,000mm notional of 45-100 tranche at an all in level of 85bps p.a. + 1.00% upfront. This would leave us net/net with $91mm of 45-50 tranche risk that we would work on over the next few weeks - we are showing this tranche to a few accounts @ 80bps. As an FYI we priced the 35-45 tranche @ L+85 last month.

Pls let me know if you have any questions.

From: Tourre, Fabrice
Sent: Tuesday, May 15, 2007 11:53 AM
To: Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Cc: ficc-mtgcorr-desk
Subject: Paulson update

As you know we are working on the $1bn notional 50-100 supersenior trade with ACA, intermediated by ABN. I think there is a 90% chance that ABN gets there on the ACA intermediation side by Thursday, but given that the ABX market has been rallying over the past 2 weeks, Paulson is starting to get "cold feet" on this supersenior trade, and I think we might loose their order if we wait too long. Would like to take down their supersenior risk tomorrow in order to avoid loosing their order.

If ABN/ACA does comes through, we would either (a) trade directly with ACA (since these guys are good to go), and keep looking for intermediaries that could help us step in the middle (in the mean time we would reserve any P&L associated with the ACA trade), or (b) keep this trade as principal and use it as a hedge of the supersenior shorts we have executed back in December, since it would be an attractive way to hedge our correlation/capital structure risk.

Let me know if you are ok with me proceeding on this basis.

Goldman, Sachs & Co.

Permanent Subcommittee on Investigations
EXHIBIT #125

From: Gerst, David
Sent: Tuesday, June 05, 2007 10:35 AM
To: Egol, Jonathan
Cc: Tourre, Fabrice
Subject: ABACUS 2007-AC1 Portfolio and OC for BSAM

Attachments: ABACUS 07-AC1 Final OC w-CLO 20070426.pdf; ABACUS 2007-AC1 Reference Portfolio 20070531.xls

Attached are the OC and portfolio for the ABACUS 2007-AC1 transaction.

We can offer approximately $91mm Class Junior SS Notes (a newly formed Class) to BSAM @ par, L+0.75% coupon.

- $2bn Reference Portfolio selected by ACA, manager of over 20 CDOs
- Static portfolio consisting of 90 mid and subprime RMBS securities each rated Baa2 by Moody's (360 portfolio WARF)
- Sequential principal paydown sequence, no IC/OC tests
- The Junior SS Class represents the 45%-50% tranche off the Reference Portfolio
- no WAC and/or AFC risk

ABACUS 07-AC1 Final OC w-CLO 2... ABACUS 2007-AC1 Reference Port...

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

Goldman Sachs

David Gerst
Structured Products Trading

Permanent Subcommittee on Investigations
EXHIBIT #126

From: Lehman, David A.
Sent: Tuesday, November 27, 2007 8:12 AM
To: Sparks, Daniel L
Cc: Williams, Geoffrey; Gerst, David
Subject: FW: ACA

From: Tourre, Fabrice
Sent: Monday, November 26, 2007 4:43 PM
To: Sparks, Daniel L
Cc: Williams, Geoffrey; Gerst, David; Lehman, David A.; Egol, Jonathan
Subject: ACA

Dan, as mentioned to Geoff and David, our desk (and to my knowledge, the corporate credit derivatives businesses) have never executed any derivatives trades with ACA. We have $2.3mm notional of net exposure on ACA CDS, and we have been discussing with Paul Huchro (the CDS trader for financials) and GS legal what would happen upon an ACA bankruptcy (which is the most likely scenario in our opinion). David Gerst or I can give you more color live on the credit, and next steps given our CDS exposure. Bigger issue in my view is the fact that our counterparties for all the supersenior trades we have indirectly executed with ACA (those counterparties are [redacted] and [redacted]) are most likely going to come back to us to ask us for MTM on the trades they are intermediating - some of these trades have been outright short trades for us, and some of them have been crosses for Paulson.

Goldman Sachs International
Peterborough Court | 133 Fleet Street | London EC4A 2BB
Tel: +44-20-7051-6588 | Fax: +1-212-493-0106 | Cell: +1-917-[redacted]
Email: fabrice.tourre@gs.com

Goldman Sachs

Fabrice Tourre
Structured Products Trading

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #127

From: Egol, Jonathan
Sent: Wednesday, April 23, 2008 2:33 PM
To: Tourre, Fabrice; Lehman, David A.; Gerst, David; Williams, Geoffrey; Bieber, Matthew G.
Subject: RE: [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

I am available any time after 3:30pm NY time

From: Tourre, Fabrice
Sent: Wednesday, April 23, 2008 2:29 PM
To: Egol, Jonathan; Lehman, David A.; Gerst, David; Williams, Geoffrey; Bieber, Matthew G.
Subject: RE: [redacted]

Good idea. FYI he said that [redacted] was all over them on "hedging ideas". Am going to see them with Patrick Street and Zara on Wednesday next week on reg cap trade ideas and hedging ideas for their ABS/CDOs -- we want to see their entire book. Before that let's talk over the phone through ideas we could show them on their portfolio of neg basis/intermediation trades, I have a few thoughts that I want to share with you guys. Can we pencil a time tomorrow night my time ?

From: Egol, Jonathan
Sent: Wednesday, April 23, 2008 7:25 PM
To: Tourre, Fabrice; Lehman, David A.; Gerst, David; Williams, Geoffrey; Bieber, Matthew G.
Subject: RE: [redacted]

This is very interesting -- I'd suggest we focus on the 07-AC1 leg for now, and show out the CMBS stuff after figuring out where we are on that.

From: Tourre, Fabrice
Sent: Wednesday, April 23, 2008 2:12 PM
To: Egol, Jonathan; Lehman, David A.; Gerst, David; Williams, Geoffrey; Bieber, Matthew G.
Subject: [redacted]

Had a long call with Steve at [redacted] yesterday - he inherited the neg basis book and the intermediation book from ABN Amro. We are having conversations with Steve on a private side trade, but we spoke at length about (a) ACA intermediation trades done with ABN (our infamous ABAC 07-AC1), and (b) CMBS supersenior trades intermediated for [redacted]

On ACA he expressed interest in taking off the entire trade if level makes sense. On [redacted], he asked that we show him hedging alternatives for the risk he has. My thoughts:

** On ABAC 07-AC1, we indicate to him roughly where the trade would come out, without giving him any firm level -- this portfolio is worse than ABX.06-1.BBB- and INDX, assuming 50pct loss severity on 60+ delinq + REO + foreclosure there is not one single bond that has any "coverage" in this portfolio so 99.99% probability of full writedown within 2-3yrs - this has become a pure rate trade. So would be inclined to give him an indication of 6-00 to 8-00 and see how he reacts. W.r.t. the $27.3mm notional ACA corp CDS trades, he may think these hedges are worth a lot more than they actually are (given that the delivery ability is pretty much limited to wrapped muni bonds that trade at 60+ price levels), so not inclined to offer anything on those for now.

Have asked Cactus to ask Paulson whether they would consider unwinding ABAC 07-AC1. If answer is yes, we should try to use same route as INDX - i.e. get an order at a reasonable level from Paulson and work with [redacted] on a firm unwind level.

<< File: Book3 (5).xls >>

** On the [redacted] intermediation trades, there are 3 trades we can look at:

Permanent Subcommittee on Investigations
EXHIBIT #128

Confidential Treatment Requested by Goldm GS MBS-E-002479040

- CMBX.BBB- 06-1/06-2 30-100 ($1.05bn notional)
- ABACUS 07-18 47-100 ($530mm notional)
- ABACUS 07-INDE1 32-100 ($441.4mm notional)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Idea is that we show them some "deltas" against the [redacted] risk, i.e. we show them a supersenior protection offering in a notional amount equal to a fraction of the notional amount they intermediated for [redacted], such fraction corresponding roughly to the market implied [redacted] default probability. For example, given [redacted] is trading at around 750bps mid for 5yrs, this implies a risk neutral expected loss of approx ~25%, and assuming LGD for [redacted] is very hi, this should correspond to a ~25% risk neutral expected default proba for [redacted] -- therefore we should go back to [redacted] with an outright supersenior protection on up to 25% of the notional of the trades they intermediated for [redacted].

Comments pls ?

Goldman Sachs Makes Further Comments on SEC Complaint

April 16, 2010

New York, April 16, 2010 - The Goldman Sachs Group, Inc. (NYSE: GS) said today:We are disappointed that the SEC would bring this action related to a single transaction in the face of an extensive record which establishes that the accusations are unfounded in law and fact.

We want to emphasize the following four critical points which were missing from the SEC's complaint.

• **Goldman Sachs Lost Money On The Transaction.** Goldman Sachs, itself, lost more than $90 million. Our fee was $15 million. We were subject to losses and we did not structure a portfolio that was designed to lose money.

• **Extensive Disclosure Was Provided.** IKB, a large German Bank and sophisticated CDO market participant and ACA Capital Management, the two investors, were provided extensive information about the underlying mortgage securities. The risk associated with the securities was known to these investors, who were among the most sophisticated mortgage investors in the world. These investors also understood that a synthetic CDO transaction necessarily included both a long and short side.

• **ACA, the Largest Investor, Selected The Portfolio.** The portfolio of mortgage backed securities in this investment was selected by an independent and experienced portfolio selection agent after a series of discussions, including with Paulson & Co., which were entirely typical of these types of transactions. ACA had the largest exposure to the transaction, investing $951 million. It had an obligation and every incentive to select appropriate securities.

• **Goldman Sachs Never Represented to ACA That Paulson Was Going To Be A Long Investor.** The SEC's complaint accuses the firm of fraud because it didn't disclose to one party of the transaction who was on the other side of that transaction. As normal business practice, market makers do not disclose the identities of a buyer to a seller and vice versa. Goldman Sachs never represented to ACA that Paulson was going to be a long investor.

Background

In 2006, Paulson & Co. indicated its interest in positioning itself for a decline in housing prices. The firm structured a synthetic CDO through which Paulson benefitted from a decline in the value of the underlying securities. Those on the other side of the transaction, IKB and ACA Capital Management, the portfolio selection agent, would benefit from an increase in the value of the securities. ACA had a long established track record as a CDO manager, having 26 separate transactions before the transaction. Goldman Sachs retained a significant residual long risk position in the transaction.

IKB, ACA and Paulson all provided their input regarding the composition of the underlying securities. ACA ultimately and independently approved the selection of 90 Residential Mortgage Backed Securities, which it stood behind as the portfolio selection agent and the largest investor in the transaction.

The offering documents for the transaction included every underlying mortgage security. The offering documents for each of these RMBS in turn disclosed the various categories of information required by the SEC, including detailed information concerning the mortgages held by the trust that issued the RMBS.

Any investor losses result from the overall negative performance of the entire sector, not because of which particular securities ended in the reference portfolio or how they were selected.

The transaction was not created as a way for Goldman Sachs to short the subprime market. To the contrary, Goldman Sachs's substantial long position in the transaction lost money for the firm.

Permanent Subcommittee on Investigations
EXHIBIT #129

The Goldman Sachs Group, Inc. is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world.

Media Contact:
Lucas van Praag
Tel: 212-902-5400

Investor Contact:
Dane Holmes
Tel: 212-902-0300

From: Montag, Tom
Sent: Sunday, February 11, 2007 2:09 PM
To: Blankfein, Lloyd (EO 85B30)
Subject: Re: Mortgage Risk - Credit residential

Should we have done before? Most likely but we did mark them up last year and the strategy seemed to be to do the deals and keep the cheap equity piece-not sure but think doing for years

One of first things I did do is push them to move residuals out of origination and into traders. That had started well before this As for other books thinking about bill young deals or clo looking into it

----- Original Message -----
From: Blankfein, Lloyd (EO 85B30)
To: Montag, Tom
Sent: Sun Feb 11 06:47:00 2007
Subject: Re: Mortgage Risk - Credit residential

Tom, you refer to losses stemming from residual positions in old deals. Could/should we have cleaned up these books before and are we doing enough right now to sell off cats and dogs in other books throughout the division.

----- Original Message -----
From: Montag, Tom
To: Blankfein, Lloyd
Sent: Sun Feb 11 06:04:55 2007
Subject: Re: Mortgage Risk - Credit residential

Try to be brief

Riskiest in terms of likelihood not amount is still 2nd liens-stopped buying in the summer but still down 40 already. Another 20-30 possible

Subprime-could lose 30i-50 over next 6 months all resids and old bonds

Alt-A - nothing has happened here yet, better credits if gets here 30-40. All in residual altho balance sheet here is over 4 billion

Scratxh and dent just wrote down 30. Loan book could lose this again, residuals and retained bonds could lose 20-30

Most of the risk is in old residual positions from deals done over the last few years. The majority of warehouse seems fine and has hedges with basis risk of course

If looked at by category residuals and retained bonds are 100-150 of potential losses -- and again these are aged items by and large. For ezample our subprime residuals are 204 million and over half is pre 2005.

Loans are only 25-40 but here is where the basis risk is

Hope that was helpful if not clear let me know

If things got no worse the desk,perhaps in wishful mode, feels they have gains we haven't shown-they did make 21 on friday outside of write down

Tom

Permanent Subcommittee on Investigations
EXHIBIT #130

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00869 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
ph44585 on D330-44585-7600 with DISTILLER
57322.661

----- Original Message -----
From: Blankfein, Lloyd (EO 85B30)
To: Montag, Tom; Winkelried, Jon (EO 85B30)
Sent: Sun Feb 11 01:40:31 2007
Subject: Re: Mortgage Risk - Credit residential

Tom, what is the short summary of our risk and the further writedowns that are lilkely.

----- Original Message -----
From: Montag, Tom
To: Winkelried, Jon; Blankfein, Lloyd
Sent: Sun Feb 11 01:26:26 2007
Subject: Fw: Mortgage Risk - Credit residential

Very good writeup of our positions in each sector hedges we have on and potential for further write-down over next six months. Need to view on regular email to see tables.

We are moving residuals to traders which has been a focus before the latest problems

Tom

----- Original Message -----
From: Gasvoda, Kevin
To: Montag, Tom
Cc: Sparks, Daniel L; Ruzika, Richard
Sent: Thu Feb 08 23:40:34 2007
Subject: Mortgage Risk - Credit residential

Tom,

For clarity, none of the below includes cash bonds in the ABS 2ndry book (Swenson) or CDO retained positions (FYI - the stress case in CDO positions looks like down $25mm, although bonds have been trading at our marks) . Below pertains strictly to risk in the whole loan trading businesses:

OVERVIEW

These are our primary reidiential mortgage businesses w/ credit risk:
* Subprime (Matt Nichols)
* Scratch & Dent (Michael Cawthon)
* Alt-A (Genevieve Nestor)
* Prime Hybrids/Option Arms (Clay DeGiacinto) => I'll send details on this tmrw
* 2nd liens (Dariush Pouraghabagher)

Each of these desks buy resi whole loans, securitize them and generally keep some or all of the levered equity (residuals). They have 3 primary positions with the following risks:
* Loans (held pre-securitization on average 4-8 weeks)
* Bond spreads widen pre-securitization, hedged with ABX/CDS and eurodollars/swaps
* Duration or rates, hedged w/ swaps, mortgages, UST and ED's
* Liquidity - no bids for bonds
* Residuals or equity (created in securitization, levered first loss risk held at after-loss yields of 12-30%)
* Actual losses hedged w/ CDS/ABX since there is some correlation
* Duration (ED's, swaps)

(Note, a lot of the performance is dependent on loss timing rather than loss magnitude - big late losses may be less painful than small early losses)
* Retained bonds and NIMs (bonds not sold at securitization time)
* Spreads (ABX/CDS)
* Duration (ED's, swaps, UST)

(Note, NIM's are rated bonds we create w/ residual cashflows that are very short duration and lever our residual returns)

At your and Dan's urging, we are moving all retained bonds to 2ndry trading hands next week (mostly Mike Swenson). Also, we are moving all residual positions to a central residual trading desk next week (Cyrus Pouraghabagher).

****

SUMMARY OF LOSSES

Where we have gotten hurt this year:

* 2nd lien residual - took $20-25mm write-downs over last 3 months (could lose $5-15mm more)
* 2nd lien retained bonds - took $18mm write-down this week (could lose $5-15mm more)
* Subperforming loan book - taking $28mm write-down this week (could lose $20-40mm more)

What do these areas have in common? - most HPA sensitive sectors. They've crumbled under HPA slowdown as these are the most levered borrowers.

What have we done to mitigate? - we stopped buying subprime 2nd liens in the summer of '06 and have focused on alt-a and prime
- more emphasis at moving new issue bonds at any clearing levels
- moving retained bonds out of primary desk hands to 2ndry desk

Next shoe to drop? - '05 vintage subprime residuals, possible creep in bad performance up into alt-a

****

SUMMARY OF POSITIONS
(Note loss ranges below are not predictions. Overall feel good a/b our marks at this point but trying to show possible nearer term downsides.)

SUBPRIME

* Loans - net short spreads significantly <<Picture (Metafile)>> (mostly ABX) and long $3B loans. Don't see a lot of near term P&L risk in this position.
<<Picture (Metafile)>>

* Residuals - $204mm (60% is pre-2005 vintage and less risky). Actively marketing $21mm resid trust position (aggregation of a bunch of old deals). OK w/ overall valuation, if loss performance de <<Picture (Metafile)>> teriorates rather substantially over next 3-9 months, we could lose $20-40mm in these positions (mostly '06 vintage).

<<Picture (Metafile)>>

* Bonds/NIMs - much larger than usual as a byproduct of jamming out a lot of deals in Dec and Jan (some of the ABX short intentionally covers us here). Long $115mm bonds and $81mm NIMS. Downside on <<Picture (Metafile)>> bo <<Picture (Metafile)>> nds is probably $5mm and NIMs could be $10-15mm (we've seen some stronger 2ndry prints last 2 days but haven't sold any NIMs, have sold $40mm bonds).

<<Picture (Metafile)>> <<Picture (Metafile)>>

ALT-A
Sector has not been effected yet by lower credit contagion but we expect it to come so we've upped due dilg and are turning the book fast

* Loans - Long $5.2B loans (on the high side of normal). Higher quality loans so t <<Picture (Metafile)>> hey produce far less lower rated bonds. Hedging w/ AAA and BBB ABX but net long spreads above BBB's (flat BBB's). Priced $660mm deal today so this drops to $4.4B. Feel good a/b executing out of loans here.

<<Picture (Metafile)>>

ph44585 on D330-44585-7600 with DISTILLER VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00871 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT 57322.663

* <<Picture (Metafile)>> Residuals - Importantly, we plan to bring our first Alt-A resid trust in March w/ a goal of selling $50-100mm of this risk (we'll sell all we get demand for). If defaults spiked up in Alt-a over next 6-9 months we cou <<Picture (Metafile)>> ld <<Picture (Metafile)>> drop $20-30mm here.

<<Picture (Metafile)>>

* Bonds/NIMS - Good shape here w/ $182mm bonds but $132mm of them AAA and new, working on a large BB trade ($44mm owned) and $21mm NIMs (mostly single A). Risk is in the BB's, could lose $5mm in big spread widening.

<<Picture (Metafile)>> <<Picture (Metafile)>>

2nd LIENS
* Loans - $550mm of this is seasoned 2nd lien subprime ('05 vi <<Picture (Metafile)>> ntage) that is performing well and will be securitized next month. $250mm is Alt-A 2nds (again performing well) and $250mm is prime HELOCs. Overall slightly long spreads above BBB and short below. Execution looks OK still on these but we could lose $5mm in this space if spreads had to widen more dramatically to place all the bonds.
<<Picture (Metafile)>>

* Residuals - $48mm but $38mm of this is Alt-A 2nds (performing well) and $10mm subprime (has been written down $20-25m <<Picture (Metafile)>> m over last 3 months). The $10mm is mostly prepay penalty value, no value in the credit IO's. Could lose $5-15mm if performance problems creeps up into Alt-A 2nd liens in next 3-6 months.

* Bonds/NIMs - Took $18mm write down this week. Could drop another $5-15mm if performance falls further. Big focus t <<Picture (Metafile)>> o reduce these positions but bids are hard to come by.

<<Picture (Metafile)>>

S&D
* Loans - Net long top of the capital structure and short the bottom for the securitizable portion of this loan book ($380mm). Remaining subperforming book ($854mm) was written down $28mm this week do to poorer cashflows. Very credit sensitive, could lose another $20-40mm if performance falls further

<<Picture (Metafile)>>

* Residuals - $55mm total value, these are cashflowing and less levered struct <<Picture (Metafile)>> ures than Alt-a, subprime, etc. (but lower credit quality). Could lose $5-15mm in this book if losses increased more than expected.

* Retained bonds - The BBB-BB bonds are retained for investment generally and the higher rated are marketed. Tougher bond sales since the sizes are small, the deals are private and credit work is extensive. We could lose $5-15mm here if losses stepped up and bond spreads widened materially.

<<Picture (Metafile)>>

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Tel: 212-902-8768 | Fax: 212-902-1691
email: kevin.gasvoda@gs.com

Kevin S. Gasvoda Goldman

From: Cohn, Gary
Sent: Tuesday, March 20, 2007 6:41 PM
To: Blankfein, Lloyd
Subject: RE: Daily Estimate 03-20-07 - Net Revenues $111.0 M

No market rallied a bit still short

-----Original Message-----
From: Blankfein, Lloyd
Sent: Tuesday, March 20, 2007 7:27 PM
To: Cohn, Gary
Subject: Fw: Daily Estimate 03-20-07 - Net Revenues $111.0 M

Anything noteworthy about the losses in mortgages?

----- Original Message -----
From: Davydova, Bella
To: gs-fr-daily-est-ny <gs-fr-daily-est-ny@ny.email.gs.com>
Sent: Tue Mar 20 19:17:58 2007
Subject: Daily Estimate 03-20-07 - Net Revenues $111.0 M

Enclosed please find the Daily Estimate for Tuesday, March 20th, 2007.

Daily Estimate - As of March 20, 2007
($ in Millions, Except Diluted EPS)

	DAY
Revenues	$ 111
Expenses	74
Pre-Tax Earnings	37
Provision for Taxes	13
Net Earnings	24
Preferred Stock Dividends	0
Net Earnings to Common Shares	24
Diluted Earnings Per Common Share	$ 0.05

Highlights include:

* Redacted by the Permanent Subcommittee on Investigations
* Mortgages -21.4 (Resi Credit -11.1 / CDO-CLO -5.9 / SPG trading -5.0)

[redacted]

Redacted By
Permanent Subcommittee on Investigations

[redacted]

*

<<Daily Estimate_2007_03_20.xls>>

Thank you,
Bella

Permanent Subcommittee on Investigations
EXHIBIT #131

Confidential Treatment Requested by Goldma GS MBS-E-00967228

From: Cohn, Gary
Sent: Saturday, July 21, 2007 12:32 PM
To: Blankfein, Lloyd
Subject: Fw: Mortgages Estimate

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Viniar, David; Cohn, Gary; Salame, Pablo
Sent: Sat Jul 21 08:33:39 2007
Subject: FW: Mortgages Estimate

The combination of our large AAA ABX index shorts and the relatively new volatility in the AAA part of the index will result in much larger daily swings in P&L both ways - like Thursday when we were down $50mm mid-day but ended flat, and Friday where about half of the P&L was from the AAA index short. Much of the shorts are hedges for loans and some senior AAA CDOs (basis risk), but there is also a large net short that we are chipping away to cover - it will take time as liquidity is tough.

From: Bin, Ki-Jun
Sent: Friday, July 20, 2007 6:02 PM
To: ficc-eod
Subject: Mortgages Estimate

FICC Mortgages - Daily P&L Estimate

I. SUMMARY

	TOTAL
Structured Products	71,410,000
- Resi Prime/Mtg Derivs	(375,000)
- Resi Credit	25,200,000
- CRE LT	4,585,000
- ABS L&F	-
- SPG Trading	64,000,000
- CDO / CLO	(22,000,000)
- Other Structure Products	-
Europe	1,225,000
Other (Advisory, PFG, Managers/Other)	-
MORTGAGES	72,635,000
Mortgages WTD	102,262,015
Mortgages MTD	32,535,380

II. DETAIL

Business Strategy Desk	Daily Total	Comments
STRUCTURED PRODUCTS		
Mortgage Derivative	-	
Agency Derivatives	-	
Whole Loan Derivs	-	
MSR	-	
Residential Prime	(375,000)	

Permanent Subcommittee on Investigations
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FHA/VA - Primary	-	
FHA/VA - Secondary	-	
Prime Hybrid - Primary	1,500,000	ABX
Prime Hybrid - Secondary	(1,750,000)	non-agency spreads wider
Agency Hybrid	-	
Prime Fixed	-	
Agency CMO - Primary	(125,000)	
Agency CMO - Secondary	-	
Residential Credit	25,200,000	
Scratch and Dent	4,500,000	ABX widening
Subprime	13,000,000	ABX widening
Alt-A	14,700,000	ABX widening
2nd Liens	-	
Subs	(7,000,000)	Spreads Wider
Residuals - Scratch & Dent	-	
Residuals - Subprime	-	
Residuals - Alt-A	-	
Residuals - 2nd Liens	-	
CRE Loan Trading	4,585,000	
Fixed Large Loan	50,000	
Floater Large Loan	4,450,000	Hedges Wider; 50/50 CMJV
Fixed Conduit	50,000	
Transitional Loans	35,000	
CRE CDO	-	
ABS Loans & Finance	-	
Consumer	-	
Commercial	-	
Europe	-	
Warehouse		
SPG Trading	64,000,000	
CMBS Trading	(5,000,000)	CMBS CDS
CRE CDO		
ABS Trading	57,000,000	ABS CDS
Property Derivatives		
Correlation	12,000,000	ABS CDS, CMBS CDS
CDO/CLO	(22,000,000)	
ABS / MBS CDO	(22,000,000)	Reserve
GSI SP Credit Warehouse	-	
US CLO	-	
EURO CLO	-	
CRE CDO	-	
Retained Principal Positions	-	
Tax Related Securities	-	
Non-economic residuals	-	
Economic residuals		
Warehouse Lending	-	
Residential	-	
Commercial	-	
Asset Backed	-	
Syndicate	-	
ABS	-	
CMBS	-	
CDO	-	
RMBS	-	
Other	-	

Total Structured Products			71,410,000	
EUROPE				
Acquisition Finance				–
Syndicate		–		
Trading		–		
European CMBS		1,225,000		
Syndicate		–		
Trading	1,225,000			
Total Europe	1,225,000			
Total Advisory			–	
Total PFG JV			–	
Total Manager's Account / Other				–

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10038 Goldman Sachs
Tel: 212-357-7385
e-mail: ki-jun.bin@gs.com

Ki-Jun Bin
Finance Division

From: Blankfein, Lloyd
Sent: Thursday, July 26, 2007 6:48 PM
To: Montag, Tom
Subject: RE:

If the shorts went up today, shouldn't the longs have dropped (unless they're already at zero......)

-----Original Message-----
From: Montag, Tom
Sent: Thursday, July 26, 2007 6:39 PM
To: Blankfein, Lloyd
Subject: Re:

We marked things down 100 yesterday. Could have done 15 or more today but don't know. Other than super senior not a lot left. We have great gamma in correlation book

----- Original Message -----
From: Blankfein, Lloyd (EO 85B30)
To: Montag, Tom
Sent: Thu Jul 26 18:32:29 2007
Subject: RE:

I assume we are properly marking down our longs?

-----Original Message-----
From: Montag, Tom
Sent: Thursday, July 26, 2007 6:20 PM
To: Blankfein, Lloyd
Subject: Re:

Now 170 hopefully

----- Original Message -----
From: Blankfein, Lloyd (EO 85B30)
To: Montag, Tom
Sent: Thu Jul 26 18:12:10 2007
Subject: RE:

Is that right?

-----Original Message-----
From: Montag, Tom
Sent: Thursday, July 26, 2007 5:49 PM
To: Blankfein, Lloyd; Cohn, Gary
Subject:

Mortgages goimg to show up 135 or so today it seems

Permanent Subcommittee on Investigations
EXHIBIT #133

From: Montag, Tom
Sent: Tuesday, July 31, 2007 6:37 PM
Cc: Blankfein, Lloyd

Another will day. Lcdx up early on no volume as people praying to have good month end marks. Then with cbass news and rumours of caxton market crapped out again in a hurry to close the day

Still have loads of index shorts vs cash or single name risk in mtg and credit which will bite us sometime. Dealers keep pounding marks funds go to sell the bids aren't there and we start again. Leverage comong out

Big bid on cbass loans no one better than lenders so jp dresdner end up owning the whole billion more than five points over our bid

Returns and redemptions will be key. Did cover 500 million of short single A ABX still one million to go. [redacted] has covered 3 billion of risk overast three weeks. Still showing [redacted] and others risk but not biting

Still plenty of mortgage product with no discernible bid Lcdx ended up down 1.5 points after starting up 2.75-huge volume

Tom

= Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #134

Confidential Treatment Requested by Goldr

GS MBS-E-009612556

From: Kraus, Peter
Sent: Wednesday, September 26, 2007 10:15 PM
To: Blankfein, Lloyd
Subject: Re: Fortune: How Goldman Sachs defies gravity

I met with 10+ individual prospects and clients (and 5 institutional clients) since earnings were announced. The institutions don't and I wouldn't expect them to, make any comments like ur good at making money for urself but not us. The individuals do sometimes, but while it requires the utmost humility from us in response I feel very strongly it binds clients even closer to the firm, because the alternative of take ur money to a firm who is an under performer and not the best, just isn't reasonable. Client's ultimately believe association with the best is good for them in the long run.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Blankfein, Lloyd (EO 85B30)
To: Winkelried, Jon (EO 85B30); van Praag, Lucas (EO PBC09); Cohn, Gary (EO 85B30); Viniar, David; Rogers, John F.W. (EO 85B30); Forst, Edward (FIN PBC009); Kraus, Peter; Spilker, Marc
Cc: Robinson, Samuel (EO CKC68); Miner, Heather (Kennedy); Raphael, Andrea (EO 85B07); Rachman, Andrea (EO 85B07); DuVally, Michael (EO 85B07); Canaday, Ed (EO 85B07); Williams, Christopher (EO 85B07); Horwitz, Russell (EO 85B30)
Sent: Wed Sep 26 13:46:18 2007
Subject: Re: Fortune: How Goldman Sachs defies gravity

Also, the short position wasn't a bet. It was a hedge. Ie, the avoidance of a bet. Which is why for a part it subtracted from var, not added to var.

----- Original Message -----
From: Winkelried, Jon
To: van Praag, Lucas; Blankfein, Lloyd; Cohn, Gary; Viniar, David; Rogers, John F.W.; Forst, Edward; Kraus, Peter; Spilker, Marc
Cc: Robinson, Samuel; Miner, Heather; Raphael, Andrea; Rachman, Andrea; DuVally, Michael; Canaday, Ed; Williams, Christopher (EO, 85B/07); Horwitz, Russell
Sent: Wed Sep 26 13:41:02 2007
Subject: RE: Fortune: How Goldman Sachs defies gravity

Once again they completely miss the franchise strength and attribute it all to positions and bets

---

From: van Praag, Lucas
Sent: Wednesday, September 26, 2007 1:37 PM
To: Blankfein, Lloyd; Winkelried, Jon; Cohn, Gary; Viniar, David; Rogers, John F.W.; Forst, Edward; Kraus, Peter; Spilker, Marc
Cc: Robinson, Samuel; Miner, Heather; Raphael, Andrea; Rachman, Andrea; DuVally, Michael; Canaday, Ed; Williams, Christopher (EO, 85B/07); Horwitz, Russell
Subject: Fortune: How Goldman Sachs defies gravity

How Goldman Sachs defies gravity
While the credit markets went sour, one investment bank made a huge, shrewd bet - and seems to have won big. Fortune's Peter Eavis explains the stunning strategy.
By Peter Eavis <mailto:peavis@fortunemail.com> , Fortune writer September 20 2007: 5:46 PM EDT NEW YORK (Fortune) -- It is one of the most stunning bets Wall Street has seen in decades.
As the credit markets fell apart over the summer, causing the prices of hundreds of billions of dollars of mortgage-backed bonds to plunge, Goldman Sachs <http://money.cnn.com/quote/quote.html?symb=GS&source=story_quote_link> (Charts

Permanent Subcommittee on Investigations
EXHIBIT #135

<http://money.cnn.com/quote/chart/chart.html?symb=GS&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/575.html?source=story_f500_link>) had already positioned itself so that it would profit massively from a decline in those securities. Thursday, Goldman reported earnings for its fiscal third quarter that were far above expectations.

While several businesses were surprisingly strong in a difficult period, the chief contributor to the earnings blowout were trades that made money from price drops in mortgage-backed securities. Goldman indicated this in its press release when it said that "significant losses" on certain bonds were "more than offset by gains on short mortgage products." (In Wall Street parlance, being "short" a stock or bond means that you will make money if it goes down in price.) "Goldman Sachs showed an ability to not only protect itself from the problems in the market but also to capitalize on them," says Mike Mayo, banks analyst at Deutsche Bank (Mayo rates Goldman a buy.) When asked on a public conference call Thursday, Goldman's chief financial officer David Viniar declined to give a number for the amount of money Goldman made on its mortgage short in the third quarter.

Lehman sits on the hedge </2007/09/18/magazines/fortune/eavis_lehman.fortune/index.htm>

Goldman doesn't provide enough numbers in its public financials to come up with an informed guess, but the firm's statement that the short trades "more than offset" bond losses that were "significant" is a clear sign that it took time to deliberately set itself up for an expected crash in the market for mortgage-backed bonds. Indeed, Merrill Lynch analyst Guy Moszkowski said Goldman's trading results were $1.7 billion above his forecast in the third quarter, according to a research note released Thursday. (He rates Goldman a buy.) Amassing a large bearish position in mortgages would have required planning and direction from a senior level. On the conference call, Viniar said the bet was executed across the whole mortgage business, implying that it wasn't the work of one swashbuckling trader or trading desk. Of course, the prescience of the short sale would seem to confirm the view that Goldman is the nimblest, and perhaps smartest, brokerage on Wall Street. Morgan Stanley <http://money.cnn.com/quote/quote.html?symb=MS&source=story_quote_link> (Charts <http://money.cnn.com/quote/chart/chart.html?symb=MS&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/905.html?source=story_f500_link>), Goldman's biggest rival, wasn't as well hedged to bond losses, while Bear Stearns' <http://money.cnn.com/quote/quote.html?symb=BSC&source=story_quote_link> (Charts <http://money.cnn.com/quote/chart/chart.html?symb=BSC&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/1341.html?source=story_f500_link>) mortgage business suffered considerably in the quarter.

True, from third quarter numbers, it appears that Lehman Brothers <http://money.cnn.com/quote/quote.html?symb=LEH&source=story_quote_link> (Charts <http://money.cnn.com/quote/chart/chart.html?symb=LEH&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/780.html?source=story_f500_link>) also benefited from a short position in mortgages, but its bet wasn't big enough to allow the bank to report earnings that grew from either the previous or year-ago quarters. Goldman's net third quarter profits of $2.8 billion were substantially higher than in both those two prior periods, a notable achievement during a very testing period.

While the short sale allowed Goldman to show outstandingly strong earnings in the quarter, it may actually cause problems for the bank in other ways. First, investors in Goldman's two large poorly performing hedge funds will want to know why the savvy deployed in trading for Goldman's own account was not deployed in their funds. If a strategic decision to be short certain bonds was made high up, why didn't this end up helping the Global Alpha hedge fund and the Global Equity Opportunities fund, which were down 30% and 20%, respectively, in the third quarter alone?

Subprime: Let the finger-pointing begin! </galleries/2007/fortune/0709/gallery.subprime_blame.fortune//index.html>

Goldman spokesman Lucas van Praag responds: "We're always disappointed when we don't meet our clients' expectations. We're working hard to adjust our strategies to reflect the lessons we learned in August." In addition, the large gains from the mortgage trade will also deepen investors' desires to get a better handle on how brokerages like Goldman make money.

One of the figures that didn't seem to make sense in Goldman's earnings was a number that estimates the market risk on a broker's balance sheet. This indicator, called Value at Risk, or VaR, moved up only 5% in the third quarter from the second. If Goldman was placing big bets in volatile markets - like the short trade in mortgages - VaR might be expected to move up by more.

In other words, Goldman seems implausibly immune from the general rule in investing that higher returns almost always carry higher levels of risk. Van Praag responds that VaR didn't go up by much because Goldman reduced positions as volatility in the markets went up.
Goldman does seem to have institutionalized a higher level of trading savvy - the third quarter numbers bear that out. The market recognizes that in awarding the broker a valuation that is higher than that of its peers. Quarter in, quarter out, Goldman posts a return on equity in excess of 30%, even though it's highly leveraged, like all brokers. The high leverage should translate into at least some rough quarters. That was the case for Goldman's ailing hedge funds in the third quarter. Why is it never the case for Goldman itself? \l "TOP" << OLE Object: Picture (Metafile) >> \l "TOP"

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anna.leath@gs.com

Anna Leath
Executive Office

Goldman
Sachs

From: Viniar, David
Sent: Tuesday, October 30, 2007 6:27 PM
To: Blankfein, Lloyd
Subject: RE:

Extremely well. You will be very pleased. When I scheduled the review with you for Monday I didn't realize you are in on Friday so I've changed the meeting to Friday at 10:30.

-----Original Message-----
From: Blankfein, Lloyd (EO 85B30)
Sent: Tuesday, October 30, 2007 7:26 PM
To: Cohn, Gary (EO 85B30); Viniar, David
Subject:

How did the review of the mortgage and cdo books go?

Permanent Subcommittee on Investigations
EXHIBIT #136

To avoid crises, we need more transparency

Op-Ed, The Financial Times by Lloyd Blankfein, October 13, 2009

One lesson from the crisis is the need for more effective systemic regulation. There has been a focus on who should exercise this responsibility. But the most critical question is what the systemic regulator should do, and what responsibilities will make it effective – not who, so much as how?

Regulators need to be able to identify risk concentrations early and prevent them from growing so large as to threaten the system. If systemic problems arise, regulators need to take prompt action to limit their impact and protect the safety of the system.

To do this, the systemic regulator must be able to see all the risks to which an institution is exposed and require that all exposures be clearly recognised. Consider off-balance sheet vehicles, such as Structured Investment Vehicles, which represented big sources of funding for many institutions. Many risk models ignored these activities, even though their sponsors had exposure to them. If existing and contingent liabilities, credit commitments and other exposures are not transparent, how can risk managers and regulators see all the risks an institution is exposed to?

It is not enough even that all exposures be identified. An institution's assets must also be valued at their fair market value – the price at which willing buyers and sellers transact – not at the (frequently irrelevant) historic value. Some argue that fair value accounting exacerbated the credit crisis. I see it differently. If institutions had been required to recognise their exposures promptly and value them appropriately, they would have been likely to curtail the worst risks. Instead, positions were not monitored, so changes in value were often ignored until losses grew to a point when solvency became an issue.

At Goldman Sachs, we calculate the fair value of our positions every day, because we would not know how to assess or manage risk if market prices were not reflected on our books. This approach provides an essential early warning system that is critical for risk managers and regulators.

Regulators also need to ensure that prices are tested through an independent verification process. It would make sense to compare pricing information for similar positions across firms. Where wide discrepancies exist, so, often, will problems.

The importance of fair value accounting to responsible systemic risk management is hard to overstate. We also believe regulators should avoid implementing a more comprehensive fair value regime in the midst of a fragile market. But, we support the Financial Accounting Standard Board's efforts to begin that process.

In extreme circumstances of systemic illiquidity, an institution is not required to use a distressed price – it is only required to use reasonable judgments and estimates to determine an asset's fair market value. We believe the broader aspiration, however, is a guiding one: markets, and ultimately investors, are better served with information that more closely reflects the judgment of the market rather than the historical price.

More generally, we have to build a culture whereby firms are required to share concerns about systemic risks with regulators. I remember being told by my mentors we do not fire people for losses or mistakes that were honestly made. But if anyone conceals or fails to escalate a problem, they must be held accountable immediately. The same principle should inform regulatory oversight.

Regulators could establish a multi-firm business practices committee to examine issues such as underwriting standards. If practices slip, regulators would be among the first to know. They should ask questions such as "Where are policies being stretched and pressures building? Where are you seeing concentrations in risk, crowded trades or one-way bets?"

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EXHIBIT #137

Understandably, there has been much discussion about the concept of "too big to fail". There is consensus that a clear resolution authority – the mechanism to oversee and execute an orderly liquidation of a failing firm – is necessary. But, when systemic problems surface, regulators need the tools to limit their impact and minimise the need for public capital.

For instance, regulators need the authority of a fast trigger to force any big shortfalls in capital to be swiftly addressed by reducing risk, raising capital or both. The quality, not just quantity, of a bank's capital matters. Hybrid securities, like preferred equity, combine elements of debt and equity. They are a key part of a capital structure but, in a crisis, can feel more debt-like; they do not absorb losses, and failure to pay dividends may compound a crisis of confidence.

Certainly, raising capital requirements will reduce systemic risk. But we should not overlook liquidity concerns. An institution can have a very low leverage ratio, but that tells you nothing about its liquidity.

If a significant portion of an institution's assets are impaired and illiquid, and its funding is reliant on short-term borrowing, low leverage will not be much comfort. Problems within financial institutions nearly always become life-threatening as liquidity begins to dry up. That is why systemic regulators should lay out standards that emphasise prudence and the need for longer-term maturities depending on the assets being funded. Institutions should also be required to carry a significant liquidity reserve at all times, insuring against extreme events. Because of the interconnected nature of finance, one institution's liquidity crisis can swiftly be transmitted around the system. In determining a robust level of liquidity, regulators should insist on recurring stress tests that include government-supplied (ie tougher) assumptions.

The task of a systemic regulator will be superhuman without the transparency and tools to instil market discipline. The trouble with the old system is it is too easy for institutions to deny problems that allow systemic risks to fester and grow. This denial contributed significantly to the distrust that froze the system.

Our People

Our clients' interests always come first.
Our experience shows that if we serve our clients well, our own success will follow.

Our assets are our people, capital and reputation.
If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard.

Our goal is to provide superior returns to our shareholders.
Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders.

We take great pride in the professional quality of our work.
We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

We stress creativity and imagination in everything we do.
While recognizing that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry.

We make an unusual effort to identify and recruit the very best person for every job.
Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm.

We offer our people the opportunity to move ahead more rapidly than is possible at most other places.
Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. That means we must attract, retain and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be.

We stress teamwork in everything we do.
While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the firm and its clients.

The dedication of our people to the firm and the intense effort they give their jobs are greater than one finds in most other organizations. We think that this is an important part of our success.

We consider our size an asset that we try hard to preserve.
We want to be big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, intimacy and the esprit de corps that we all treasure and that contribute greatly to our success.

We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs.
We know that the world of finance will not stand still and that complacency can lead to extinction.

We regularly receive confidential information as part of our normal client relationships.
To breach a confidence or to use confidential information improperly or carelessly would be unthinkable.

Our business is highly competitive, and we aggressively seek to expand our client relationships.
However, we must always be fair competitors and must never denigrate other firms.

Integrity and honesty are at the heart of our business.
We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives.

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Amended and restated as of May 2009

CODE OF BUSINESS CONDUCT AND ETHICS

Introduction

This Code of Business Conduct and Ethics (the "Code") embodies the commitment of The Goldman Sachs Group, Inc. and its subsidiaries to conduct our business in accordance with all applicable laws, rules and regulations and the highest ethical standards. All employees and members of our Board of Directors are expected to adhere to those principles and procedures set forth in this Code that apply to them. We also expect the consultants we retain generally to abide by this Code. (For purposes of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder, Section I of this Code shall be our code of ethics for Senior Financial Officers (as defined below).)

The Code should be read in conjunction with Our Business Principles, which provide in part that, "Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives." Our Business Principles are attached to this Code. Each employee, consultant and director should also read and be familiar with the portions of the Compendium of Firmwide Compliance Policies (the "Compendium") applicable to such employee, consultant or director, which Compendium is not part of this Code.

SECTION I

A. Compliance and Reporting

Employees and directors should strive to identify and raise potential issues before they lead to problems, and should ask about the application of this Code whenever in doubt. Any employee or director who becomes aware of any existing or potential violation of this Code should promptly notify, in the case of employees, an appropriate contact listed in the Directory of Contacts included in the Compendium and, in the case of directors and the Chief Executive Officer, the Chief Financial Officer and the Principal Accounting Officer (the "Senior Financial Officers"), one of the firm's General Counsel (we refer to such contacts as "Appropriate Ethics Contacts"). The firm will take such disciplinary or preventive action as it deems appropriate to address any existing or potential violation of this Code brought to its attention.

Any questions relating to how these policies should be interpreted or applied should be addressed to an Appropriate Ethics Contact.

B. Personal Conflicts of Interest

A "personal conflict of interest" occurs when an individual's private interest improperly interferes with the interests of the firm. Personal conflicts of interest are prohibited as a matter of firm policy, unless they have been approved by the firm. In particular, an employee or director must never use or attempt to use his or her position at the firm to obtain any improper personal benefit for himself or herself, for his or her

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family members, or for any other person, including loans or guarantees of obligations, from any person or entity.

Service to the firm should never be subordinated to personal gain and advantage. Conflicts of interest should, to the extent possible, be avoided.

Any employee or director who is aware of a material transaction or relationship that could reasonably be expected to give rise to a conflict of interest or perceived conflict of interest should discuss the matter promptly with an Appropriate Ethics Contact.

C. Public Disclosure

It is the firm's policy that the information in its public communications, including SEC filings, be full, fair, accurate, timely and understandable. All employees and directors who are involved in the company's disclosure process, including the Senior Financial Officers, are responsible for acting in furtherance of this policy. In particular, these individuals are required to maintain familiarity with the disclosure requirements applicable to the firm and are prohibited from knowingly misrepresenting, omitting, or causing others to misrepresent or omit, material facts about the firm to others, whether within or outside the firm, including the firm's independent auditors. In addition, any employee or director who has a supervisory role in the firm's disclosure process has an obligation to discharge his or her responsibilities diligently.

D. Compliance with Laws, Rules and Regulations

It is the firm's policy to comply with all applicable laws, rules and regulations. It is the personal responsibility of each employee and director to adhere to the standards and restrictions imposed by those laws, rules and regulations. The Compendium provides guidance as to certain of the laws, rules and regulations that apply to the firm's activities.

Generally, it is both illegal and against firm policy for any employee or director who is aware of material nonpublic information relating to the firm, any of the firm's clients or any other private or governmental issuer of securities to buy or sell any securities of those issuers, or recommend that another person buy, sell or hold the securities of those issuers.

More detailed rules governing the trading of securities by the firm's employees and directors are set forth in the Compendium. Any employee or director who is uncertain about the legal rules involving his or her purchase or sale of any firm securities or any securities in issuers that he or she is familiar with by virtue of his or her work for the firm should consult with an Appropriate Ethics Contact before making any such purchase or sale.

SECTION II

A. Corporate Opportunities

Employees and directors owe a duty to the firm to advance the firm's legitimate business interests when the opportunity to do so arises. Employees and directors are prohibited from taking for themselves (or directing to a third party) a business opportunity that is discovered through the use of corporate property, information or position, unless the firm has already been offered the opportunity and turned it down. More generally, employees and directors are prohibited from using corporate property, information or position for personal gain or competing with the firm.

Sometimes the line between personal and firm benefits is difficult to draw, and sometimes both personal and firm benefits may be derived from certain activities. The only prudent course of conduct for our employees and directors is to make sure that any use of firm property or services that is not solely for the benefit of the firm is approved beforehand through the Appropriate Ethics Contact.

B. Confidentiality

In carrying out the firm's business, employees and directors often learn confidential or proprietary information about the firm, its clients/customers, prospective clients/customers or other third parties. Employees and directors must maintain the confidentiality of all information so entrusted to them, except when disclosure is authorized or legally mandated. Confidential or proprietary information includes, among other things, any non-public information concerning the firm, including its businesses, financial performance, results or prospects, and any non-public information provided by a third party with the expectation that the information will be kept confidential and used solely for the business purpose for which it was conveyed. Employees and directors should refer to the policies set forth in the Compendium under "The Use and Misuse of Information – Policies and Procedures Regarding Confidential or Proprietary Information, The Chinese Wall" and "Additional Policies Regarding the Protection of Information – Intellectual Property Belonging to Goldman Sachs" for more detailed guidance on this topic.

C. Fair Dealing

We have a history of succeeding through honest business competition. We do not seek competitive advantages through illegal or unethical business practices. Each employee and director should endeavor to deal fairly with the firm's clients, service providers, suppliers, competitors and employees. No employee or director should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any unfair dealing practice.

D. Equal Employment Opportunity and Harassment

Our focus in personnel decisions is on merit and contribution to the firm's success. Concern for the personal dignity and individual worth of every person is an indispensable element in the standard of conduct that we have set for ourselves. The firm affords equal employment opportunity to all qualified persons without regard to any impermissible criterion or circumstance. This means equal opportunity in regard to each individual's terms and conditions of employment and in regard to any other matter that affects in any way the working environment of the employee. We do not tolerate or condone any type of discrimination prohibited by law, including harassment.

E. Protection and Proper Use of Firm Assets

All employees should protect the firm's assets and ensure their efficient use. All firm assets should be used for legitimate business purposes only.

SECTION III

Waivers of This Code

From time to time, the firm may waive certain provisions of this Code. Any employee or director who believes that a waiver may be called for should discuss the matter with an Appropriate Ethics Contact. Waivers for executive officers (including Senior Financial Officers) or directors of the firm may be made only by the Board of Directors or a committee of the Board.

Any employee or director who is aware of a material transaction or relationship that could reasonably be expected to give rise to a conflict of interest should discuss the matter promptly with an Appropriate Ethics Contact.

From: Tourre, Fabrice
Sent: Friday, June 09, 2006 8:47 PM
To: Tourre, Fabrice; Iyengar, Vijay
Cc: Verrochi, Matthew P.; Churchill, Caroline S; Duthie, Brett; Williams, Geoffrey; Gerst, David; Egol, Jonathan; Swenson, Michael; Birnbaum, Josh
Subject: Re: [redacted] proposal

▬ = Redacted by the Permanent Subcommittee on Investigations

NOT TO BE FORWARDED

Just to emphasize again the potential pros and cons of shorting the subprime RMBS market in the proposed "ABACUS" format vs. using already existing ABS CDO bonds:

- ABACUS enables to create a levered short in significant size vs. shorting several ABS CDO CUSIPs in smaller size

- ABACUS execution will take more time to execute and will be less liquid than the single name ABS CDO short strategy

- ABACUS is a static short vs. potentially shorting ABS CDOs that are actively managed by collateral managers for the benefit of the noteholders

If Derek is also close to [redacted], he might be shown a similar (but inferior) proposal from [redacted], which would look like the following:

- Derek buys protection in single name CDS format from [redacted] on a portfolio of 100 ref obs.

- [redacted] creates a CDO SPV that sells single name CDS protection on the 100 selected ref obs to [redacted] and that issues supersenior, investment grade rated notes and equity (full cap structure transaction)

- the investment grade rated notes are sold in the CDO market and Derek buys back the supersenior and equity, therefore achieving the desired result of being short mezz tranches off that mezz RMBS portfolio.

This structure is inferior to our structure for the following reasons:

- ABACUS is balancesheet-efficient for Derek. If Derek uses the [redacted] structure, Derek would have to buy back 100pct of the equity and therefore consolidate the transaction

- ABACUS is long individual single-tranche call options (i.e. each tranche is callable separately), vs. the transaction format used by [redacted] for which you can either call the entire transaction or nothing.

- the cost of protection to Derek is simply equal to the tranche spread on the notes issued. If those notes write-down, Derek is no longer paying premium on the written down amount. In the [redacted] structure, the waterfall is such that even if portfolio losses increase beyond the investment grade note subordination level, Derek might still be paying full premium on his short.

- ABACUS is flexible: we can issue as many notes as there is demand for the product. If there is more demand for AAs than for AAAs, we can over-issue that specific tranche if it is perceived to be a good short.

- Distribution/Flexibility: we will distribute ABACUS bonds globally in multiple currencies, and we can trade using tranche CDS or credit-linked note issuance. We maximize distribution flexibility and efficiency.

As you can see there are many reasons why he should prefer this route. Let's discuss live Monday

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Confidential Treatment Requested by Goldma GS MBS-E-01266017[illegible]

Fabrice

------Original Message------
From: Tourre, Fabrice
To: Iyengar, Vijay
Cc: Verrochi, Matthew P.
Cc: Churchill, Caroline S
Cc: Duthie, Brett
Cc: Geoffrey Williams
Cc: Gerst, David
Cc: Egol, Jonathan
Cc: Swenson, Michael
Cc: Birnbaum, Josh
Sent: Jun 9, 2006 4:16 PM
Subject: [redacted] proposal

Vijay,

Following our discussion earlier today, please see attached an updated draft proposal to be sent to [redacted] prop. I will be available all next week if you want to set up a conference call to walk Derek through this transaction proposal.

Fabrice

<<[redacted] Hedge Proposal 20060608.pdf>>

Sent from my BlackBerry Wireless Handheld

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Williams, Geoffrey
Sent: Friday, September 22, 2006 5:16 PM
To: gs-mcc-members
Cc: ficc-mtgcorr-desk
Subject: MCC Posting -- ABACUS 2006-14

Attachments: ABACUS 2006-11 Capital Commitee Memo 20060726v2.doc

As you know, we recently priced and closed ABACUS 06-11, with a majority of the bonds going to Aladdin for use in Altius III and Fortius II. Aladdin has requested that we create an additional bespoke transaction for Altius III / Fortius II with identical terms / features / portfolio mix but different reference obligations. Altius III will close next Thursday so we need price this additional bespoke before then. Like ABACUS 06-11 we expect to hedge by crossing the tranched shorts into [redacted] so we do not expect to retain any correlation risk.

ABACUS 2006-14 Details:

- $838.5mm reference portfolio broken down among Aaa conduit CMBS (30.8%) and Baa2/Baa3 RMBS (69.2%)
- The transaction is being sponsored by Aladdin Capital Management ("Aladdin") with whom we expect to place $70mm Aa1 through Baa1 bonds for use in Altius III (which is closing this Thursday) and Fortius II (which is currently being ramped).
- Terms of this transaction are expected to be very similar to ABACUS 11 which recently closed and was also sponsored by Aladdin (there will also be a 30 month ABX reinvestment period during which GS can reinvest amortizations into the on the on-the-run ABX subject to investor veto rights).
- We expect to hedge ABACUS 2006-14 by writing protection in tranched format to the Chicago-based hedge fund [redacted]; these protection sales are will reference the same tranches that we are placing with Aladdin so we do not expect to retain any correlation risk.

For your reference, attached is the ABACUS 2006-11 MCC Memo; MCC originally approved ABACUS 2006-11 on 7/31/2006.

ABACUS 2006-11
Capital Commite...

Please let us know if you have any questions or require additional information.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 357-0818 | Fax: (212) 493-9565
e-mail: geoffrey.williams@gs.com

Goldman
Sachs

Geoff Williams
Structured Products Trading

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MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Jonathan Egol
Fabrice Tourre
Geoff Williams
David Gerst
Shin Yukawa
Darren Thomas

Cc: Armen Avanessians
Robert Berry
Bill McMahon
Will Roberts
Slim Bentami
Alan Brazil
Matt Schroeder
Bunty Bohra
Mike Swenson
David Lehman
Steve Elia
Glade Jacobsen
Rob Leventhal
Darren Littlejohn
Mary Marr
Mitch Resnick
Mike Turok

Date: July 31, 2006

Re: **ABACUS 11 Structured Product Synthetic CDO**

I. Introduction

The Structured Product Correlation Desk is currently structuring a synthetic structured product CDO, ABACUS 11 ("ABACUS 11"). ABACUS 11 will initially reference a $750 million notional portfolio consisting of 66.7% triple-B subprime RMBS, 6.7% triple-B commercial real estate ("CRE") CDOs and 26.7% triple-A conduit CMBS.

The sponsor investor for ABACUS 11 is Aladdin Capital Management ("Aladdin"), a large structured products investor and repeat manager of both CLOs and Structured Product CDOs. (Aladdin is described in more detail under "Sponsor Investor" below.) We expect to place $68.75 million of credit-linked notes from ABACUS 11 with Aladdin for inclusion in their high-grade Altius III and mezzanine-grade Fortius II CDO transactions, both of which are currently being arranged by Goldman. Aladdin has participated in 3 prior ABACUS transactions during 2005 and 2006.

We expect to place up to $137.5 million of "Aaa", "Aa1", "Aa3", "Baa1" and "Baa3" rated credit-linked notes of the ABACUS 11 transaction with other investors through Global Structured Products Syndicate.

Similar to several prior ABACUS transactions, Goldman will be permitted to make certain discretionary reinvestments with respect to the reference portfolio, subject to rules prescribed in the governing documents. Under the terms agreed to by Aladdin, Goldman may, for a period of 30 months after the

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closing date, reinvest notional paydowns of RMBS reference obligations (and no other type of reference obligation) in new reference obligations which are included in the then-current ABX.HE index (such reinvestment, the "ABX Reinvestment"). Furthermore, investors in ABACUS 11 will have a measure of control (via a veto process described herein) to partially constrain Goldman's discretion with respect to ABX Reinvestment. The ABX Reinvestment feature of ABACUS 11 is described in more detail herein. Note that in ABACUS 11, only reinvestments of amortized notional principal will be permitted, not discretionary reference obligation substitutions As with the prior ABACUS transactions in which Goldman has a measure of discretion over the reference portfolio, any such reference portfolio changes will be reviewed and approved by Jon Sobel, Dan Sparks, Armen Avanessians and Bill McMahon. Goldman Legal has reviewed and is comfortable with this procedure for approving discretionary changes in ABACUS reference portfolios.

We are pursuing this transaction for the following reasons:

- The proposed transaction provides Goldman with an efficient, effective and attractive mechanism to buy protection on triple-B subprime RMBS, CMBS conduit and CRE CDO credit risks.
- Trading of single-name credit default swaps ("CDS") on structured product securities (particularly CMBS and subprime RMBS, and, to a lesser extent, CRE CDOs) has become active over the past year and a half, with Goldman taking a market-leading position. Structured product synthetic CDOs like ABACUS have become an important source of liquidity for single-name structured product CDS (and vice versa).
- The desk intends to hedge the spread risk related to ABACUS 11 by writing single name CDS protection to the single name ABS and CMBS trading desks. This transaction will therefore provide each single name trading desk with a strong axe to write protection either (a) in single name CDS format or (b) using the ABX.HE.BBB indices.
- As described below in more detail, we project that the transaction, when fully placed, will generate a day-1 NPV of approximately $8 million, of which approximately $2.5 million will be initially classified as EITF 02-3 and approximately $5.5 million as various valuation adjustments. The profitability estimate above does not attribute any value to the firm from the reinvestment option that the correlation desk is long, the ability to hedge a portion of the ABACUS 11 portfolio related to the ABX.HE.BBB.06-1 index (which trades at a positive basis versus single-name CDS) or trading opportunities created by this short position for the single-name trading desk.

We expect to price the transaction in early August and to close in early September.

Given the franchise value and innovative nature of this transaction, as well as the potential to benefit the overall structured products business, we request the Committee's approval to execute the proposed synthetic CDO.

II. Transaction Overview

As with the prior ABACUS transactions, a Cayman Islands limited liability company (the "Issuer") will be established and will issue on the closing date $68.75 million of credit-linked notes which will be purchased by Aladdin. The Issuer will enter into a CDS with Goldman to write protection on the mezzanine layers of risk of the reference portfolio. Under the CDS, the Issuer will write protection to Goldman covering cumulative losses between 3.875% and 19.000% of the notional principal amount of the reference portfolio in part (notes sold to Aladdin do not comprise the total issuable size of each tranche). In addition, as described herein, we intend to buy protection from other investors on the remaining portions of the 2.5% to 30.0% layer of risk of the ABACUS 11 reference portfolio not covered by the Aladdin's note purchases. The Issuer's obligations to Goldman under the CDS will be collateralized by triple-A securities selected by the desk and approved by Credit. In return for this credit protection, Goldman will pay a stated premium equal to the periodic administrative expenses of the Issuer and the spread over LIBOR on the outstanding classes of notes. The structure is described in more detail in the Appendix.

We intend to separately purchase credit default swap protection from a suitable counterparty approved by Credit on the super senior 30.0% to 100.0% risk layer and on the first loss 0.00% to 2.50% risk layer.

The expected issuance is summarized below:

Tranche	Initial Notional Amount ($MM)	Initial Issued Amount ($MM)	Loss Exposure	Expected Ratings (Moody's/S&P)	Expected Spread	Approximate Expected Annual Cost on Initial Amount Issued
Super Senior Amount[(a)]	525.000	NA	30.000% – 100.000%	Not Issued	0.18%	N/A
Class A-1	82.500	-	19.000% – 30.000%	Aaa/AAA	0.50%	N/A
Class A-2	49.688	20.000	12.375% – 19.000%	Aa1/AAA	0.60%	$120k
Class B	29.063	19.063	8.500% – 12.375%	Aa3/AA+	0.78%	$149k
Class C	19.688	19.688	5.875% – 8.500%	A2/A-	1.80%	$354k
Class D	15.000	10.000	3.875% – 5.875%	Baa1/BBB	3.30%	$330k
Class E	10.313	-	2.500% – 3.875%	Baa3/BBB-	5.00%	N/A
First Loss Amount[(a)]	18. 750	NA	0.000% – 2.500%	Not Issued	18.00%	N/A
Total	**750.000**	**68.750**				**$953k[(b)]**

(a) Subsequent to closing of ABACUS 11, we expect to issue the Class A-1 and Class E Notes and the remaining amount of the Class A-2, Class B, Class C and Class D Notes (potentially in CDS format). We do not expect to buy protection on the super senior or first loss layers of risk immediately, but will seek to purchase such protection from one or more credit-approved counterparties.

(b) Protection cost includes $100,000 of annual ongoing expenses, which are offset by approximately $100,000 of expected annual income on collateral securities which is payable to Goldman under the basis swap.

Aladdin intends to purchase the Class A-2, Class B, Class C and Class D Notes in sizes detailed in the "Initial Amount Issued" column. In aggregate, Aladdin will purchase $68.75 million of credit-linked notes issued by ABACUS 11, referencing the 3.875% to 19.000% credit risk layers of the ABACUS 11 reference portfolio in part. Goldman's cost of protection on the 3.875-19.000% loss layer of the reference portfolio purchased by Aladdin will be approximately $953 thousand per annum, or 13 bps running on the reference portfolio notional amount.

The remaining Class A-1, Class A-2, Class B, Class D and Class E Notes not issued initially will be authorized for issuance on or after the closing date. We expect to market these notes to a select group of suitable investors (primarily portfolio managers of structured product CDOs). Assuming the remaining notes are subsequently issued at the "Expected Spread" levels detailed in the table above, Goldman's cost of protection on the 2.50-30.00% loss layer of the reference portfolio will be approximately $2.35 million per annum, or 31 bps running on the reference portfolio notional amount. The average mid-market CDS spread for the reference portfolio is currently approximately equal to 131bps.

Any subsequent issuance of notes will be subject to rating confirmation by each rating agency rating such notes at the time of such issuance. In the event of such subsequent issuance, additional triple-A collateral securities will be selected by Goldman and procured by the Issuer to collateralize Goldman's protection.

Subsequent to the issuance of ABACUS 11, we expect to negotiate (A) a private super senior CDS trade and (B) a private first loss CDS trade, both referencing the same portfolio and the same credit events as the notes, but covering losses from 30% to 100% (for the super senior CDS trade) and 0.00% to 2.50% (for the first loss CDS trade) of the reference portfolio. The super senior CDS trade might be structured using either (i) a levered super senior note issuance structure similar to the ABACUS 2005-7 transaction (which enables the desk to broaden the super senior counterparties from which we can purchase protection on this type of credit risk) or (ii) a more typical unlevered super senior credit default swap executed with a counterparty approved by Credit. The first loss CDS trade is expected to be executed with hedge funds that will try to either (a) take outright levered exposure to a diversified portfolio of single-A structured product securities or (b) take a long correlation view on a portfolio of single-A structured product securities by writing protection on the first loss tranche and exchanging deltas on the reference obligations. The consequence of these trades would be the release of any EITF 02-3 reserves held in connection with the ABACUS 11 transaction.

The ABACUS 11 transaction will have a legal maturity of 39 years. However, the expected average life of the notes will be roughly 8-9 years. Goldman shall have the option to terminate the CDS and cause the notes to be redeemed at par on any payment date occurring on or after 3 years following the closing date. We would expect to exercise our termination option if spreads (either on the reference obligations or on the issued notes themselves) were to tighten significantly from current levels.

As summarized above, executing the various tranches of the ABACUS 11 transaction at the spreads listed in the table on the preceding page would result in gross day-1 NPV of approximately $8mm and EITF 02-3 of approximately $2.5mm. We would expect to release such EITF 02-3 into P&L upon substantial completion of the capital structure, in accordance with our approved valuation adjustment policy. As a crude measure of execution risk, buying protection on the super senior tranche 1 bp wide of our current assumption would reduce our projected profitability by approximately $160,000. Likewise, buying protection on the first loss tranche 100 bps wide of our current assumption would reduce our projected profitability by approximately $480,000.

As described in more detail under "Model and Booking Policy" below, the current positive basis of the ABX.HE.BBB.06-1 index versus single-name CDS levels is projected to generate additional P&L of approximately $1mm over the expected life of the ABACUS 11 transaction..

The profitability estimate mentioned above does not incorporate any value to the firm from the ABX Reinvestment option or trading and/or hedging opportunities created by this short position for the single-name or origination desks.

III. Reference Portfolio

The initial reference portfolio was selected and mutually agreed upon by Aladdin and the desk. The initial reference portfolio consists of:

- 50 "Baa2" and "Baa3" equally-sized subprime RMBS reference obligations, representing 66.7% of the initial reference portfolio (and includes 100% of the ABX.HE.BBB.06-1 index)
- 4 "Baa2" equally-sized CRE CDO reference obligations, representing 6.7% of the initial reference portfolio
- 25 "Aaa" equally-sized CMBS conduit reference obligations, representing 26.7% of the initial reference portfolio

Under the ABX Reinvestment terms of the transaction, Goldman will have reinvestment rights with respect to any amortizations of RMBS reference obligations in the reference portfolio during the first 30 months subsequent to closing. Such reinvestments will be at Goldman's discretion as protection buyer, but will be consistent with the rating agency concentration and other constraints. Any discretionary reinvestments will be subject to prior review and approval by Jon Sobel, Dan Sparks, Armen Avanessians and Bill McMahon. Goldman Legal has reviewed and is comfortable with this procedure for approving discretionary changes in ABACUS reference portfolios.

Furthermore, the ABACUS 11 disclosure will clearly state that Goldman will act as a protection buyer, not as a fiduciary to noteholders, and will not consider the interests of the noteholders in exercising such reinvestments. Goldman will not be paid any collateral management fees or other similar fees. Tim Saunders in Goldman Legal, deal counsel (McKee Nelson) and Sullivan & Cromwell have reviewed and approved the disclosure used in these ABACUS transactions, and are comfortable that, as a legal matter, Goldman would not be a portfolio advisor or manager for holders of the ABACUS notes.

The ABX Reinvestment procedure will be as follows:

- Following each roll of the ABX.HE index, Goldman may elect to make a reinvestment (in the amount of notional paydowns not previously reinvested) by initiating a voting process among noteholders through the trustee;
- Under this voting process, each noteholder can elect to exclude up to 20% of the reference entities included in the corresponding roll of ABX.HE;

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57322.688

- Cumulative votes by all noteholders will determine the 20% of the reference entities related to the corresponding roll of ABX.HE that will be deemed "Vetoed Reference Entities"; reference obligations issued by each "Vetoed Reference Entity" will be excluded from any reinvestment;
- Following the voting process, Goldman will have 50 business days to make the reinvestment; after the 50 business days, no reinvestment may be made into that specific roll of the ABX.HE index.

The ABX Reinvestment option will likely extend the duration of the ABACUS 11 transaction compared to a static portfolio. Given that the obligations included in the ABX index are selected according to a publicly disseminated algorithm, Aladdin was comfortable that this mechanism functions in a manner that provides a measure of protection for investors against adverse selection by Goldman as protection buyer.

IV. Sponsor Investor

This is the second ABACUS transaction sponsored by Aladdin (and the fourth ABACUS transaction in which Aladdin will participate). Aladdin is a diversified asset management company, which was founded in 1999 as a non-traditional fixed income based money manager. As of November 2005, Aladdin managed $8.1 billion in assets. Aladdin is staffed with 47 investment professionals, including researchers and operations personnel. Goldman has been the structuring and placement agent on two prior structured product cashflow CDO transactions managed by Aladdin (Altius I and Fortius I) and is currently the structuring and placement agent for Altius III and Fortius II, Aladdin's upcoming high grade and mezzanine transactions respectively. It is expected that Aladdin will include the ABACUS 11 notes it intends to purchase in the upcoming Altius III and Fortius II transactions. Our understanding is that Aladdin's investment in this ABACUS transaction is motivated by the following main considerations:

- Through this highly negotiated trade, Aladdin is able to customize the reference portfolio, the layers of risks it will be exposed to, and other key aspects of the structure;
- Aladdin is able to invest in synthetic CDO products pricing at spreads wider than what is currently available in the cash CDO market; and
- Aladdin avoids the risk of being allocated through the usual dealer syndication process, and can rely on an efficient and fast execution.

V. Accounting Treatment

With respect to Goldman's accounting treatment, ABACUS 11 has been reviewed and approved by Mary Marr in Accounting Policy, and the transaction contains the same structural provisions which were approved by Accounting Policy for the prior ABACUS transactions. In particular, given that the junior-most class of notes in each transaction is exposed to the substantial majority of expected losses in the structure and the expectation that Goldman will not purchase any of the junior-most class of notes, Accounting Policy is comfortable that Goldman would not be required to consolidate the transaction. Similar to the prior ABACUS transactions, ABACUS 11 uses the so-called Beneficial Interest Exchange ("BIE") Option structure approved by Accounting Policy which permits Goldman to sell the initial triple-A collateral to the Issuer at fair market value without requiring Goldman to consolidate the transaction. The BIE Option allows noteholders to substitute the triple-A collateral securities held by the Issuer with other eligible securities of their choosing, subject to approval of Goldman (such approval not to be unreasonably withheld).

Both Tim Saunders in Legal and Mary Marr in Accounting Policy have reviewed and approved this aspect of the transaction with respect to legal, regulatory and accounting considerations.

P&L recognition and valuation adjustments for ABACUS transactions will follow the valuation adjustment policy as approved by Brian Lee and Rob Leventhal in Controllers.

The CDS transaction will be marked to market, and P&L will be recognized reflecting observable spread movements on the reference obligations. For example, a general widening of spreads, holding implied correlation constant, would result in the recognition of a gain on the transaction, and conversely a general tightening of spreads would result in the recognition of a loss. Spreads on the reference obligations will be marked to market by the secondary traders responsible for cash and synthetic trading of such securities, and will be subject to price verification by Controllers.

VI. Model and Booking Policy

There is not yet an industry standard model for ABACUS type transactions. FICC Strategies have developed and Derivatives Analysis has approved a pricing model and tradable infrastructure specifically for the ABACUS CDS transactions which are in compliance with Firm policy. The model reflects the economic and legal structure of the reference obligations, the specialized credit events and settlement mechanisms applicable to the ABACUS CDS transactions, and a correlation framework for the structured product portfolios referenced in the ABACUS CDS transactions. This ABACUS CDS model is fully consistent with the pricing model and infrastructure which has already been put in place for single-name credit default swaps on structured products. No model waiver will be required for this transaction.

The ABX index generally trades at a basis to the blended single-name CDS spreads (currently the index/single-name basis is significantly positive for the ABX BBB and BBB- sub-indices for both the 06-1 and 06-2 series). The ABACUS model handles this by computing NPVs and risk for pure ABX index tranche trades incorporating the basis (i.e., assuming that such index tranche trades will be hedged using the index) and using the single-name CDS levels for "bespoke" portfolios which include some or all of the ABX names in a broader diversified portfolio. As noted above, the projected NPVs for ABACUS 11 noted in this memo are based upon the single-name CDS levels and give no benefit to the wider spreads available by hedging with the ABX index directly. In exchange for taking index/single-name basis risk (i.e., expressing a trading view that the index will tighten relative to the single-names over time), the desk can earn additional positive carry not reflected in the NPV projections contained herein. We estimate that the NPV of this additional carry is currently worth about $1 million for the ABACUS 11 transaction.

As with the prior ABACUS transactions, the issuance of notes will require the relevant Goldman affiliates to enter into a new basis swap and a new collateral security put. These aspects of the ABACUS structure are described in more detail in the Appendix. ABACUS 11 will be the ninth transaction where the basis swap and the put will be booked both in the front-office systems and in the back-office systems at the time of execution.

VII. Strengths / Issues to Consider

Strengths

- **Franchise Business**: Customers are focusing on structured product synthetics as a leveraged way to access tight collateral markets and achieve their investment objectives. Our ability to structure and execute a complicated transaction to meet these needs and which also fits our trading and hedging objectives is a significant business opportunity for us. The ABACUS 11 transaction also fits the investment goals of our client Aladdin and helps the cash Structured Product CDO business achieve ramp-up targets for the Altius III and Fortius II transactions.
- **Efficient and Effective Spread Short:** This transaction allows Goldman to short spreads in our core structured products businesses. Current market conditions allow Goldman to purchase protection at more efficient levels in the tranched market via synthetic CDOs compared to the underlying single-name CDS markets.
- **Maintain Leadership in Growing Market Segment**: Executing these transactions and others like it will help position Goldman to maintain its leadership position in the growing market for synthetics written on structured products.
- **Profit**: This transaction, when fully placed, is expected to generate, after fees and expenses, approximately $2.5 million in EITF 02-3 before taking into account the reinvestment option, the ABX basis and trading opportunities created for the single name trading desks.

Issues to Consider

- **Potential Conflicts of Interest**: As in all the ABACUS transactions Goldman is acting as principal as a protection buyer in these transactions (as well as taking other principal roles summarized in the Appendix). The transaction disclosure notes the various capacities in which Goldman entities act as counterparty to the transactions and the risk factors section notes the potential for conflicts of interest. As with prior ABACUS transactions, we receive advice of outside counsel (McKee Nelson) regarding disclosure in ABACUS securities offerings and all such disclosure will be reviewed and approved by Tim Saunders in Legal.

- **Expense and Protection Cost**: The ABACUS 11 transaction will entail non-refundable upfront expenses of approximately $800 thousand as well as ongoing protection costs expected to be approximately $953 thousand per annum. Ongoing costs are mitigated by the fact that the desk has optional call rights on each risk tranche beginning after year 3.
- **Contingent Market Value Risk on Collateral Securities**: Similar to the prior ABACUS transactions, in the event that some or all of the collateral securities need to be liquidated to fund protection payments to Goldman under the credit default swap, or to fund certain other principal payments on the notes, Goldman will be exposed to the risk that such collateral securities have a market value less than par at the time of liquidation. This risk is mitigated somewhat by the facts that (1) the collateral securities will be triple-A floating rate senior structured product securities selected by Goldman, (2) Goldman may select the particular securities to be liquidated and thus may select the securities expected to trade at or above par at such time, (3) only a relatively small amount of securities are expected to be liquidated at any given time and (4) GS can choose whether or not to reinvest into new collateral securities upon the redemption and/or amortization of existing collateral securities. The exception to (3) above is the case of early optional redemption, which is entirely at Goldman's discretion. Note that all selections of collateral securities are approved by Pat Welch in GS Credit.
- **Accounting**: We do not expect any consolidation issues with respect to this transaction. P&L recognition, valuation adjustment policies and infrastructure/control enhancements are continuing subjects of discussion with Brian Lee and Rob Leventhal in Controllers.

VIII. Appendix: Structural Summary

The Issuer will enter into the CDS with GSCM (as protection buyer), as well as several other hedging transactions with other Goldman entities as described below. Under the CDS, the Issuer will be obligated to pay GSCM for credit losses experienced on the reference portfolio to the extent a relevant tranche (including the first loss tranche) is impacted by such losses and the Issuer has sold protection to Goldman under the CDS on such tranche. In exchange for the protection payments, GSCM will be obligated to pay a stated running premium to the Issuer, which shall be used to make interest payments under the notes.

No Goldman entity shall be required to own or be otherwise exposed to any of the reference obligations as a condition for payment under the CDS.

The CDS will be cash settled immediately upon satisfaction of conditions to settlement after a credit event. The credit events will be (1) failure to pay principal, either at legal maturity or upon early liquidation of the reference entity's assets and (2) partial write-down of a CMBS, RMBS or CRE CDO reference obligation. For the "failure to pay principal" and "write-down" credit events, the cash settlement shall be the actual amount of such unpaid principal or write-down.

The CLNs will be collateralized by relatively liquid triple-A structured product securities (none of which shall be issued by the same issuer as any reference obligation). GSCM (as protection buyer) will have the right to select the collateral securities, subject however to several constraints specified in the Offering Circular. Note that selection of high-quality collateral is generally in Goldman's interest and that in this respect our incentives are largely aligned with that of Noteholders. The collateral securities will be reviewed by Credit prior to closing.

GSMMDP will enter into a basis swap with the Issuer, under which the accrued interest payments on the collateral securities (which bear interest at rates indexed to LIBOR) will be paid to GSMMDP and GSMMDP shall pay the Issuer LIBOR flat. Noteholders will bear the credit risk of collateral security non-payment, as failure of the Issuer to pay the accrued coupons on the collateral securities to GSMMDP will be an event of default under the notes, and GSMMDP will not be required to continue payments under the basis swap. Amounts owed to GSMMDP under the basis swap will be senior to payments due under the notes. The combination of the LIBOR index payments by GSMMDP and the CDS premium by GSCM will always equal the sum of ongoing expenses of the Issuer and interest payments under the notes.

The rating agencies require that noteholders be protected against market value declines in the collateral securities, in the event that collateral must be liquidated to fund (1) cash settlements to GSCM, (2) amortization of the notes (other than a mandatory early redemption), or (3) an optional redemption of the notes if GSCM exercises its termination option under the CDS.

Goldman, Sachs & Co. (as collateral disposal agent) will select which collateral securities are to be liquidated in each case above, and will be responsible for determining in good faith the strategy (in its commercially reasonable discretion) likely to achieve the highest proceeds for the collateral securities to be liquidated.

In the first circumstance (cash settlements under the CDS), Goldman will bear the risk that the collateral has declined in value. When a loss amount is determined, a commensurate face amount of collateral will be liquidated, and GSCM under the CDS will only be entitled to receive such proceeds received on such liquidation.

With respect to the other two circumstances, GSI (as put provider) shall be required to buy the collateral securities to be liquidated at par, if GS&Co. (as collateral disposal agent) is unable to obtain a price in the market of at least par.

In the case of optional termination, the put is not really a risk to Goldman, since our decision to terminate the transaction will by definition include both the value of the CDS termination and the value of the collateral securities. We view the put more as a modest reduction in the value of our option to terminate the CDS.

We believe the put risk arising from amortization of the notes (other than in connection with Goldman terminating the CDS) is small for the following reasons:

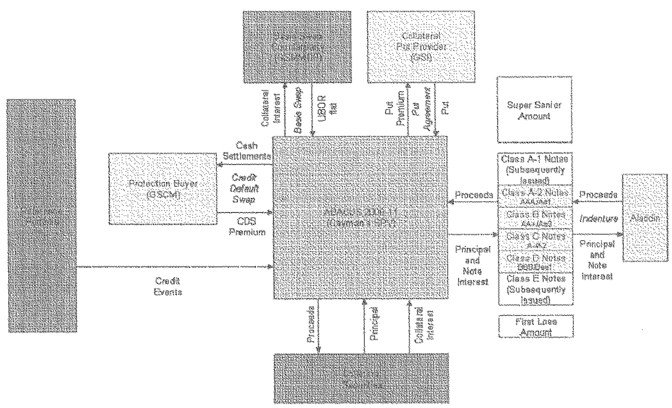
- The notes cannot begin to amortize until after the super senior notional has been substantially reduced. We do not expect any of the notes to receive any principal payments for at least 5 years under base-case prepayment assumptions.

- The amount of collateral required to be liquidated in any month is purely a function of reference portfolio amortizations in that month, which is likely to be small in relation to the principal balance of the notes and should be smoothly distributed over time.
- Goldman (as protection buyer) has the right to direct reinvestment of any principal on collateral securities. The initial collateral securities are expected to have approximately a 2- to 3-year weighted average life. In the future, prior to any amortization of the notes occurring, we could direct the trustee to keep a suitable portion of the collateral invested in cash, incurring more negative carry on our protection in exchange for negligible put risk.

The spread on the initial collateral securities is expected to be approximately 5-10 bps over LIBOR. It is the put to Goldman which enables us to select high-quality collateral and earn this positive spread over LIBOR in the ABACUS structure. For these reasons outlined above, we believe that this positive carry generated by the put feature creates significant value for the synthetic transaction and more than adequately compensates for the put risk.

Lastly, as noted above, in a mandatory early redemption of the notes (arising from an adverse tax event or from a default of one or more Goldman entities that are parties to the transaction), the put would not be exercisable against Goldman, exposing noteholders to the market value of the collateral.

The transaction structure is depicted in the schematic below.



From: Tourre, Fabrice
Sent: Sunday, December 10, 2006 6:40 PM
To: Lehman, David A.
Subject: RE: Opportunities/Challenges

x-gs-classification: Internal-GS

Opportunities:

1- Market value based products (for e.g. levered supersenior, CPPI, CPDO)

2- Managed synthetic CDOs

3- ABACUS-rental strategies, according to which we "rent" our ABACUS platform to counterparties focused on putting on macro short in the sector

Challenges:

1- the ABX position, not allowing us to market new businesses, and not allowing us to implement "ABACUS-rental" strategies

2- confusion of the sales force as to how the different CDO businesses are organized (for e.g. who are sales people supposed to be calling when they get an inquiry)

3- What risks are the different CDO businesses supposed to take (i.e. cash CDO business vs. correlation book, risk/trading business vs. agent business, what desk is supposed to take what risk, supersenior risk placement, risk management of unsold allotments, etc.)

-----Original Message-----
From: Lehman, David A.
Sent: Sunday, December 10, 2006 6:29 PM
To: ficc-mtgcorr-desk
Subject: Opportunities/Challenges

Tomorrow afternoon there is a mortgage MD offsite where we will be discussing opportunities + challenges to our business for 2007.

To that end, pls reply (to me only) with 2 opportunities + 2 challenges in the SP correlation business over the next 12 months.

I will (anonymously) aggregate the opps/challenges and re-send the list to the group.

Will post everyone on the offsite Tuesday morning the latest.

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Confidential Treatment Requested by Goldman GS MBS-E-003453843

From: Sparks, Daniel L
Sent: Thursday, March 01, 2007 9:05 AM
To: Sparks, Daniel L
Subject: dinner

Quick review of subprime mkt - what it is, what has happened, and what is happening, & potential meanings for related mkts

All credit markets generally - credit environment with little risk premium
2004-2006 - strong economies, good fundamental, great liquidity, desire for increased earnings and returns, new financial technology to diseminate risk
Subprime market - caught in this, and demonstrate what can happen when capital markets overshoot
More volume for originators meant more profits - capital markets accepted most everything, you could refinance and relever guys, you could come up with new products that required less down-payments and monthly payments so more people could buy homes, home price appreciation bailed out any mistakes
Business generally is that orginators make loans, those loans are warehoused, they are then sold to the street, securitized or help on the balance sheet often in levered form.
Originators cost to make a loan has been around 2% and for a while they could sell loans for 104, then 103, then 102.
The street was taking out 1 point, then half a point, then a quarter, then just the carry and the chance to create and hold resids.
In securitization, pools of specific loans are pooled together, tranched into different rating categories AAA, AA to BB, and residuals, a servicer is selected, and unique securities are issued.
Demand grow from all types of investors all over the world, including investors in structured vehicles.
The general view was that it was all about the economy and employment, and people generally pay their mortgage.
Margins continued to decrease, participants became vertically integrated to be more competitive, participants accepted more risk, and structured more ways to make money.
The trading business was generally long to flat.
In last 2 years - derivatives market created that allowed a very physical unique CUSIP market became a market where people could get dramatically more exposure on the long side, and now people could play it from the short side.
Early on in synthetics, people wanted more risk because the loss assumption was viewed as out of the money.
Most of the synthetic flows were hedge funds getting short and CDO vehicles getting long.
What happened next.
Home prices stopped going up.
Loan performance information declined.
Lending mistakes started to be a problem - EPDs which are early payment defaults became a real issue leading to losses.
The synthetic market started forecasting signifcantly higher risk premium and losses.
Loans had been bought assuming a 4% cumulative loss projection, derivatives were subjesting 8-10%.
Very levered originators had to deal with putbacks, write downs, concerned lenders and inability to operate business at a profit as loan resale prices went to par.
Put backs can also include reps & warranties including fraud - any type of fraud.
Disarray.
And it became clear that many people should not have been given loans.

Questions about who owns the risk - it's spread out all over the world in various formats including repackaging vehicles.
Not that obvious to find who is feeling the pain.

What is ABX
Each index is 20 names by rating category - AAA,AA,A,BBB,BBB-.
Contracts are pay as you go.
The most sensitive and levered contract is a 2006 originated paper for attactment points from 4 to 5.25% - there is excess spread.
An index that included $300mm of underlyiers had over a hundred billion of trading volume.
Very sensitive to losses.
Loss assumptions doubled.
The index was an out of the money option on cumulative losses became closer to an at-the-money option.
Many loss models - HPA, unemployment, economy, interest rates, borrower behavior.
As this is now close to in-the-money, I don't think anyone is good enough to model this within 20 points.

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You want to be long vol if you can.
There became a very volatile trading market.
Dramatic dislocations between loan trading values, cash RMBS levels, single name CDS and indexes.
Great trading opportunities.
Major stress, pain and volatility.

Who is feeling the pain
Alt A and prime
CDOs
Commercial real estate - [redacted], [redacted], cap rates, fundamentals, demand for space, limited supply, liquidity, capital, but asset repricing and no risk premium.
But I am a lender - so tough to call as fundamentals are good.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Birnbaum, Josh
Sent: Thursday, March 22, 2007 12:28 PM
To: Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Subject: RE: Here is the list of questions. For most of the questions, each of you should be ready to have input.

From: Gmelich, Justin
Sent: Thursday, March 22, 2007 10:30 AM
To: Lehman, David A.; Prabhu, Siddharth; Birnbaum, Josh; Swenson, Michael
Subject: Here is the list of questions. For most of the questions, each of you should be ready to have input.

Also, I like to impromptu stuff, so be ready.

1) Please describe the impetus for the development of the various credit index products The tranche market? What has been the biggest disappointment in the design of the product? How do you see it evolving (Index composition, credit events, ref ob selection, hpa incorporation)? David

2) Your best guess, how big is the synthetic market vis a vis the cash market in each of your indices?

ABX:
Volume - all tranches GS volume > $250Bln, est. market $750-$1Tln
Volume - AAA: 27%, AA: 2%, A: 15%, BBB: 22%, BBB-: 34%, so overall mezz ABX = $500Bln+ volume
OI/Volume = BBB: 46%, BBB-: 50%, so overall mezz index OI = approx $250Bln
07-1: = only 3% of overall ABX volume, so only using 40 deals
40 deals x 1$Bln / deal * 2.5% for BBB/BBB- layers = $1Bln in cash mezz underlyer ABX --> ratio is 250:1 synthetic:cash

Single names:
Volume - GS $70Bln, est. market $250-$350Bln
Volume - BBB: 33%, BBB-: 44%, so overall mezz single name ~ $200-$250Bln
OI/Volume = BBB: 96%, BBB-: 90%, so overall mezz single OI = approx $200Bln
Single name universe in mezz ~ 1000 names @ $25mm/ name = $25Bln in cash mezz underlyer in single names --> ratio is 8-10:1

Does the size disparity pose any problems for your product or business?

- Pay as you go disperses the credit events
- loan buyouts - if executed in the context of a derivatives trade violates SEC Rule 10b relating to Manipulative and Deceptive Practices. Trigger management would not violate this rule.

- loan modifications undertaken by the servicer - hot topic:

in general loan provisions can be amended as long as in the best judgment of the servicer, (1) w/o the modification the borrower would likely default, and (2) the modification would not adversely impact the interests of the bond holders.

Modification delays the inevitable (MH delayed it for 18mo's). Could lead to interest shortfalls and delay principal writedown - NPV of short side looks worse - could lead to impatience on the short side.

3) What impact do the rating agencies have on your market? How do you see that changing? Swenny

4) Currently who are the main users of the various indices?
Hedge funds: 50% (traditional structured product, macro, equity long/short -- hedge fund community net short risk)
CDO: 21%

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Dealer: 27%
Other (banks, money mgr, etc): 2%

Have you seen a change in the accounts that use the products?

Account composition can change dramatically from month to month. For example, December was dominated by > $20Bln in CDO ramping. February by contrast, when 06-2 BBB- dropped 25pts, was hedge fund dominated and almost entirely index. General trend is more and more players outside the traditional mortgage area getting involved as either outright trades or paired trades vs equities or corp credit.

5) Let's talk about the fundamentals in abx.
Valuation tool:
- model collateral prepay and loss vectors given HPA scenarios
- given those vectors - NPV the protection payments + credit events for each tranche in index
- weight the scenarios. Very sensitive to HPA. Some of the indices dP/dHPA > 20pts!
- implied losses: 06-1 : 7%, 06-2: 9%, 07-1: 12%. Worst subprime vintages in history were < 5, so very extrapolative.

Current trading level of indices seems to imply a reasonable level of forward HPA, around flat over next 3yrs. With so much sensitivity to HPA, make not be enough risk premium for longs. If risk clears in the negative territory in HPA forwards for example, then indices would be worth much less.

How do you explain the divergent pricing between the cash, single name CDS market and the index? Do they have to converge? If so, what time period? If they don't have to converge, isn't there a flaw in the construction of the index? Swenny

6) Sid, to date HY has been largely bullet proof to the move in the ABX market? Is the performance of HY credit sustainable in light of the deterioration of the housing market? What is the future "subprime" for the traditional credit market? Sid

7) What are the technicals in your market? Who is moving your markets - CDOS, hedge funds, real money?
All

8) How does HPA (or HPD) effect your market?
David - CMBS contagion

Will the nascent real estate derivatives market cannibalize some of the business in ABX?

To a small extent. ABX penetration with:

Structured product or credit hedge funds - great
Equities - good
Macros - ok.
RV- very little

Expect to see the reverse with prop derivs, as well as participation from bricks and morter players. Overall expect it to be complementary as many RV players play the basis.

9) What are the types of trades you have seen in your market?Swenny
a) directional
b) correlation
c) inter-market rv
d) x market rv

10) Do the panel members hedge or use each other's indices? Has the recent price action b/w abx, cmbx and credit indices changed the way people trader there various products?
Way less than '06. ABX used to closely track CDX/S&Ps. Not anymore.

11) What are the biggest opportunities in your space over the next 12 months? Swenny, distressed

12) How much will the ALT A sector be impacted by some of the cum loss assumptions implied in the ABX

market? Needs work

13) How far along are we in the subprime trade unwind? Why? Does the feds dovish statement yesterday change your framework on the subprime space?
- how much does a fed cut help 200bp reset on subprime?

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CDO Platform Overview

Goldman Sachs

June 2007

Goldman Sachs CDO Platform

Global Bookrunners Collateralized Debt Obligations

		2006 Issuance ($Mil.)	No. of Deals	Market Share (%)	2005 Ranking	2005 Issuance ($Mil.)	No. of Deals	Market Share (%)
1	Merrill Lynch	$54,153.50	67	12.2	2	$27,327.10	45	11.3
2	Deutsche Bank	34,866.10	68	7.8	7	12,281.40	42	5.1
3	Citigroup	32,871.10	60	7.4	1	28,146.60	43	11.7
4	**Goldman Sachs**	**32,440.30**	**51**	**7.3**	**5**	**14,539.60**	**30**	**6.0**
5	Credit Suisse	25,364.70	43	5.7	10	11,179.90	32	4.6
6	Bear Stearns	23,091.90	46	5.2	6	12,963.60	39	5.4
7	UBS	21,937.70	70	4.9	13	7,142.00	18	3.0
8	Banc of America	21,858.80	51	4.9	12	10,072.90	34	4.2
9	J.P. Morgan Chase	20,608.40	43	4.6	8	11,791.80	28	4.9
10	Wachovia	19,519.70	44	4.4	4	17,325.70	32	7.2
11	Morgan Stanley	19,225.40	66	4.3	9	11,305.80	42	4.7
12	Calyon	18,744.70	65	4.2	16	2,698.00	36	1.1
13	Barclays Capital	17,837.60	82	4.0	3	17,705.80	18	7.3
14	IXIS Securities	17,759.50	27	4.0	14	6,664.60	12	2.8
15	Royal Bank of Scotland	16,348.50	26	3.7	15	4,044.00	12	1.7
16	Lehman Brothers	15,776.70	47	3.5	11	10,630.00	37	4.4
17	BNP Paribas	5,221.90	14	1.2	17	2,145.10	19	0.9
18	Fortis Bank	5,090.90	9	1.1	18	594.30	5	0.2
	OTHERS	23,042.00	42	5.2		32,705.40	69	13.5
	TOTAL	**445,279.10**	**965**	**100.0**		**241,263.60**	**593**	**100.0**

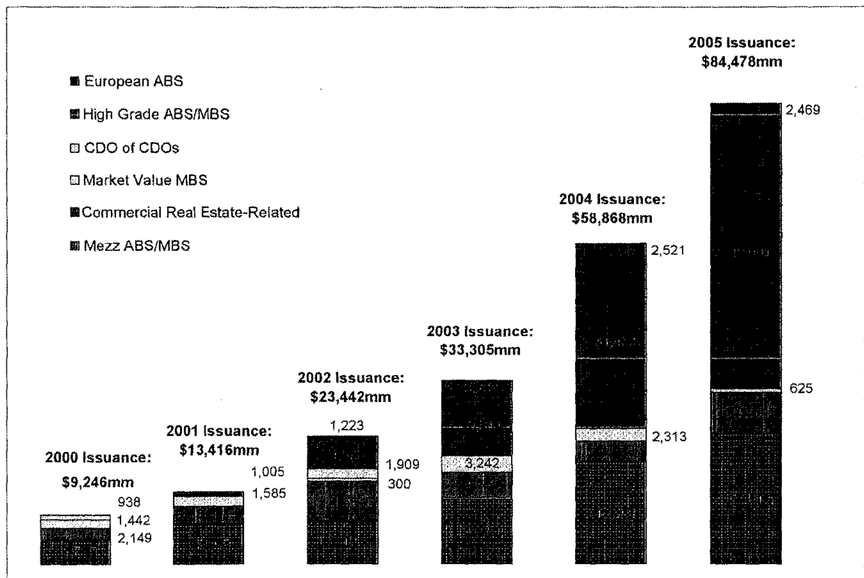
Source: Asset-Backed Alert as of January 2007

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-003415742

Goldman Sachs

ABS CDOs
Issuance – Changing Composition (Deal Sizes)



ph44585 on D330-44585-7600 with DISTILLER VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00910 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT

57322.702

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Bimbaum, Josh
Sent: Thursday, July 12, 2007 12:12 PM
To: [redacted]
Subject: RE: * ABX Markets 07-1, 06-2, 06-1: 12:00pm

He's definitely the man in this space, up 2-3 bil on this trade. We were giving him a run for his money for a while but now are a definitive #2.

-----Original Message-----
From: [redacted] [mailto:[redacted]]
Sent: Thursday, July 12, 2007 12:09 PM
To: Birnbaum, Josh
Subject: RE: * ABX Markets 07-1, 06-2, 06-1: 12:00pm

We hit a bilsky in PNL today....i'm no john paulson though

[redacted]

-----Original Message-----
From: Birnbaum, Josh [mailto:josh.birnbaum@gs.com]
Sent: Thursday, July 12, 2007 12:09 PM
To: [redacted]
Subject: RE: * ABX Markets 07-1, 06-2, 06-1: 12:00pm

Seen massive flows recently. Many accounts "throwing in the towel". Anybody who tried to call the bottom left in bodybags.

-----Original Message-----
From: [redacted] [mailto:[redacted]]
Sent: Thursday, July 12, 2007 12:05 PM
To: Birnbaum, Josh
Subject: RE: * ABX Markets 07-1, 06-2, 06-1: 12:00pm

That's the way to make my markets, joshua, that's my boy!

[redacted]

-----Original Message-----
From: Birnbaum, Josh [mailto:josh.birnbaum@gs.com]
Sent: Thursday, July 12, 2007 12:03 PM
Subject: * ABX Markets 07-1, 06-2, 06-1: 12:00pm

ABX.HE.07-1

	Cpn	Price	Ch	Spread	Ch	Size	SpDur
AAA	9	97-24 / 98-24	0-11+	57 / 36	-7.6	50x 50	4.71
AA	15	91-24 / 93-24	-0-20+	252 / 195	+18.4	25x 25	3.48

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EXHIBIT #146

A	64	74-16 / 76-16	-0-13+	837 / 776	+12.7	25x 25	3.3
BBB	224	54-16 / 56-16	0-141	1646 / 1583	-13.8	10x 10	3.2
BBB-	389	48-00 / 50-00	0-11+	2061 / 1997	-11.6	10x 10	3.11

ABX.HE.06-2

	Cpn	Price	Ch	Spread	Ch	Size	SpDur
AAA	11	98-20 / 99-20	-0-001	42 / 19	+0.1	50x 50	4.42
AA	17	94-00 / 96-00	-0-18+	216 / 150	+19.3	25x 25	3.01
A	44	78-16 / 80-16	-0-25	780 / 712	+26.7	25x 25	2.92
BBB	133	62-00 / 64-00	-0-01	1485 / 1414	+1.1	10x 10	2.81
BBB-	242	54-00 / 56-00	0-085	1933 / 1860	-9.9	10x 10	2.72

ABX.HE.07-1/ABX.HE.06-2 Roll

	Price	Ch	Spread	Ch	Size
AAA	0-24 / 1-00	-0-115	-13 / -18	+7.8	50x 50
AA	2-04 / 2-12	0-017	-37 / -44	+0.9	50x 50
A	3-00 / 5-00	-0-11+	-30 / -91	+14.0	25x 25
BBB	6-16 / 8-16	-0-15	-134 / -196	+14.8	25x 25
BBB-	5-00 / 7-00	-0-027	-100 / -165	+1.6	25x 25

ABX.HE.06-1

	Cpn	Price	Ch	Spread	Ch	Size	SpDur
AAA	18	99-12 / 100-12	0-021	34 / 8	-1.7	50x 50	3.86
AA	32	98-00 / 100-00	-0-01	107 / 32	+1.1	25x 25	2.68
A	54	91-24 / 93-24	-0-08	384 / 304	+10.0	25x 25	2.5
BBB	154	80-16 / 82-16	-0-075	977 / 892	+10.1	10x 10	2.37
BBB-	267	72-08 / 74-08	0-056	1453 / 1367	-7.7	10x 10	2.34

**Spreads computed from prices using a weighted average spread duration (generated at the base Bloomberg speed) for all 20 reference obligations in the index.

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Structured Credit Opportunity Fund

August 2007

Goldman Sachs

Summary
Securitization Market Dislocation

- The securitization market is a critical distribution channel for several asset classes including
  - Residential and commercial mortgages
  - Corporate credit risk, both non-investment grade and investment grade
- Highly leveraged entities have replaced banks and insurance companies as key ABS and CLO/CDO Investors
  - Today more than half of the ABS investors mark portfolios to market
  - Recently almost all securitization mezzanine risk was repackaged into CDOs, increasing leverage
  - Hedge funds were active participants in CDO senior and subordinated risk, often using repo financing
  - Bank sponsored ABCP conduits and SIVs were significant participants in higher yielding AAA/Aaa risk, funding almost exclusively with commercial paper
- Recent market volatility has restricted access to capital for these investors, creating a supply demand imbalance
  - Deterioration in sub-prime performance resulted in downgrades for many MBS and CDO transactions
  - Rating agencies are revising CDO methodology (correlation risk assumptions), closing the CDO market
  - Lack of CDO bid has closed distribution channel for CLO, CMBS and MBS product
  - Spreads are wider in all securitization product, resulting in margin calls and negative carry for ABCP vehicles and conduits
  - Dealer inventory overhang in ABS mezzanine, leveraged loans, commercial mortgages and residential mortgages held for securitization has exacerbated the problem
- The aforementioned dislocation has created a significant and unique investment opportunity
  - We propose to raise a $10 billion + in capital to pursue structured credit investments
  - GSCP, Whitehall, etc may commit equity capital to accelerate the fund raising process
  - We propose to form an internal joint venture to leverage underwriting, sourcing and trading expertise

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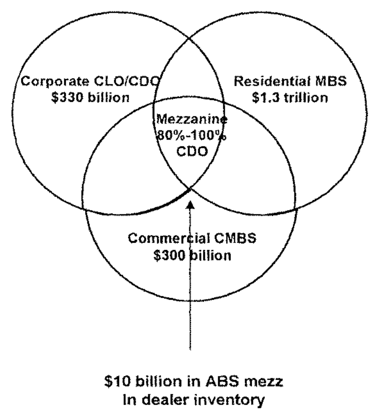
CDO Market
Disruption has Caused Three Markets to Re-Price

Supply Demand Imbalance

- Leveraged loans
  - Banks hold $300-$400 billion in unsold risk
  - 70%-80% of past loan demand tied to CLO/Hedges
  - 80%+ CLO mezzanine distributed to CDOs
- Commercial mortgages
  - Banks are holding $40 billion in unsold risk
  - A majority of the market distributed through CMBS
  - 80% of mezzanine resold through CDOs
- Residential mortgages
  - US residential market for non-conforming loans has ceased to operate
  - $1 trillion in Alt-A, Jumbo and HEL securitization in 2006
  - Almost 100% of mezzanine risk sold through CDOs

Impacted Markets

Impacted Market
2006 Issuance Volumes



Current Market Color

- Leveraged loans
  - No market for new leveraged lending above $1 billion
  - Many loans now trading between 85% and 98%
  - CLO market, AAA and equity bid re-priced, no mezzanine bid
- Commercial mortgages
  - Banks continue extending credit, albeit at a reduced pace
  - Mezzanine now are quoted wider than in 1998 and 2001
  - CMBS B and C note pricing at 20%+ returns
- Residential mortgages
  - No short-term warehouse lines, calling collateral has forced bankruptcies
  - No bid for any part of the capital structure
  - Jumbo and prime collateral now pricing 100-125 bps wider

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Structured Credit Opportunity Fund
Proposed Strategy

- Target $10 billion + <u>term</u> funding vehicle
  - <u>Critical to attack opportunity with significant size/commitment</u>
    - Become one of three entities that can purchase risk in size
    - Ability to facilitate portfolio transactions for banks with collateral
  - No funding or mark-to-market mismatch – term equity and debt funding
  - Important fund can act quickly to commit capital, respond to market opportunities
  - Club equity participants
    - Pool internal sources of capital for the fund: allocation from internal funds (GSCP, Whitehall, etc)
    - Selectively arrange capital from other external participants: AIG, CPPIB, GIC, etc.
    - Provide co-invest opportunity for large positions
  - Raise term lending facility – target 60-70% leverage
  - Traditional management and performance fees (after return of LIBOR + 100 to investors)
- Investment strategy based on traditional credit analysis
  - Three core areas of focus – residential, commercial mortgages, and leveraged loans
  - Focus on preservation of capital: underwriting process
    - Securities held to maturity, detailed underlying cash flow analysis
    - Minimize downside risk, stressed cash flow analysis
  - Upside through re-valuation, trading of residual interests
  - Selectively acquire, create platforms to capitalize on market dislocation
- Target returns
  - Leveraged 15%-20%+

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Summary
External Focus Areas

Structured Credit Opportunity Fund

Residential Mortgage

Target collateral
- Sub-prime and Alt-A collateral
- Direct pools of collateral
- CDO, ABS mezz exposure
- Jumbo performing, non-performing, whole loans

Sellers
- Banks, hedge funds, commercial paper conduits
- Dealers holding inventory for re-securitization

Exit – enhanced value alternatives
- Create new underwriting platform (seek to acquire teams and combine with clean banking platform)
- Fund operating losses during collateral build-up period

Commercial Mortgage

Target collateral
- CMBS B and C pieces
- Secondary market bid
- Direct pools of exposure
- Create product with underwriters

Sellers
- Dealers holding inventory for re-securitization
- Banks, hedge funds, insurance companies

Exit – enhanced value alternatives
- Develop credit platform, available for re-float (Newcastle, Eurocastle)
- Selectively re-sell risk once market liquidity improves

Leveraged Loan

Target collateral
- CLO BB, equity tranches
- Secondary market bid
- Create product with underwriters (BCE or Citigroup)
- Direct loans (private CLO)

Sellers
- Dealers holding inventory for re-securitization
- Banks, hedge funds, insurance companies

Exit – enhanced value alternatives
- Develop credit platform, available for re-float (Newcastle, Eurocastle)
- Selectively re-sell risk once market liquidity improves

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Structured Credit Opportunity Fund
Internal Organization

- Leverage and coordinate different expertise in firm to maximize economic impact of fund
  - Mortgage department
    - Seeking platform opportunities in US
    - Trying to build staff in Europe
      - <u>Residential and commercial mortgage expertise</u>
  - Merchant Bank
    - PIA is pursuing large mortgage platforms
      - <u>Building and owning operating platforms</u>
    - REPIA works in partnership with SSG in Europe on commercial mortgage mezzanine, distressed residential opportunities; in US, REPIA is reinvigorating SSG relationship
      - <u>Underwrite commercial and residential real estate through Whitehall and Archon</u>
  - GSAM
    - Liquidity Partners, target $1 billion
      - <u>Investor network, trading expertise, residential mortgage expertise</u>
  - SSG
- Raise third party capital to leverage firm capital returns, mitigate market risk, validate investment thesis
- Create large fund for risk accumulation
  - Need to speak in size to negotiate favorable transactions with underwriters
  - Fund a joint venture with relevant divisions (GSAM, Merchant Bank, Securities Division)
  - Light staffing, with resources contributed on an as needed basis
  - Public side versus private side fund

Goldman Sachs Returns

- Key assumptions
  - Promote: 20%
  - Management fee: 1% net
- Capital raise
  - $3.2 billion in external equity capital
  - $800 million Goldman Sachs equity capital
- Limited partner returns
  - IRR 16%-17% after fees
  - IRR upside 25%
  - Downside case IRR 10%
- Goldman Sachs gross profit
  - $900 million/31% IRR
  - Upside $1.6 billion/46% IRR
  - Downside case $500 million/19% IRR

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Appendix: Market Background

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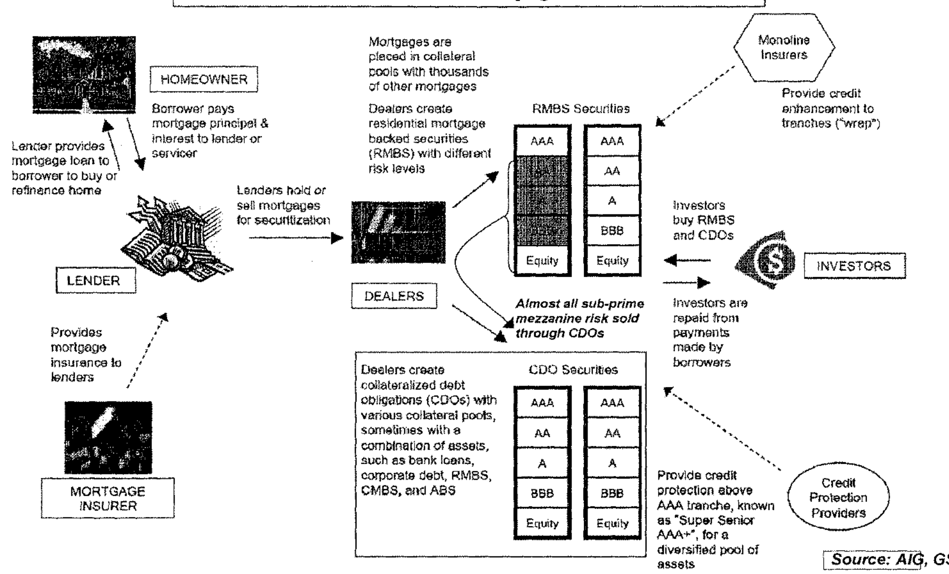
Mortgage Market
How The Problem Started

How does the Residential Mortgage Market function?



Source: AIG, GS

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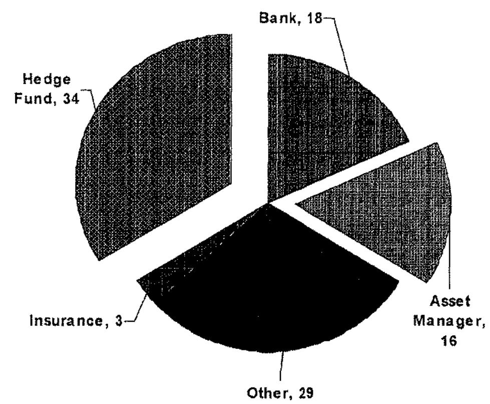
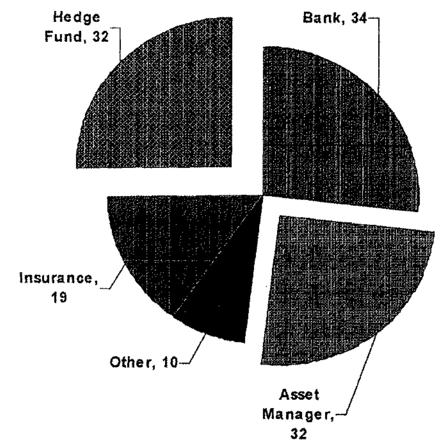
CDO Distribution
Equity and Senior AAA Mezzanine CDO Tranches

Equity Investors



AAA Investors



Source: Citigroup

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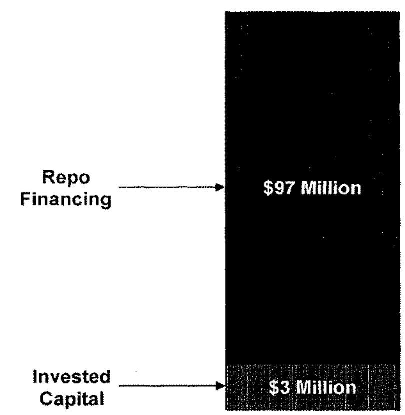
Hedge Fund AAA CDO Distribution
Illustration of margin calls related to repo agreements

Effect on Leveraged Player

- <u>Hedge Funds were significant users of repo financing</u>
- Example uses 4% haircut, LIBOR flat financing
- For asset with L + 45 yield, investor earns over 20% return on carry
- Repo financing mark-to-market, sometimes with recourse to fund
- Market changes result in significant adverse return scenarios for fund manager
  - 2% price drop results in -46% return on invested capital
  - Reduction in leverage to 94% reduces return to 13%
- Absence of liquidity for structured asset backed paper has created severe price movements

Repo Financing on Senior Tranche

$100 Million AAA CDO Tranche
Coupon 3ML + 45 bps



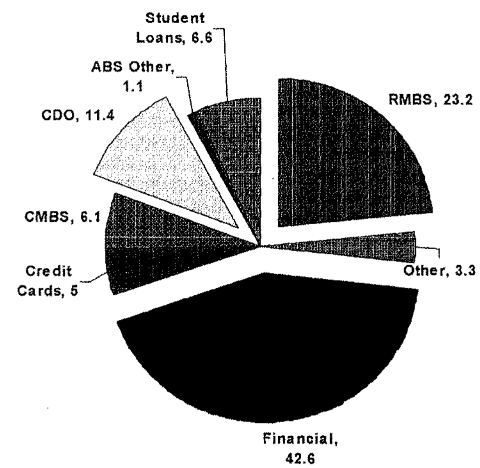
Return = $3M = 20.36%, assuming repo at LIBOR Flat

Commercial Paper Backed Vehicles
Key Participant in AAA and AA investment market

ABCP and SIV Description

- Approximately half the $2 trillion commercial paper market is backed by structured investment vehicles
  - Asset Backed Commercial Paper Vehicles (ABCP) and
  - Structured Investment Vehicles (SIVs)
- The ABCP programs are typically sponsored by banks
  - Banks provide short-term liquidity lines to support CP issuance
  - Historically they earned the difference between high quality asset backed paper and the funding and costs associated with the programs
  - Many liquidity lines are not allowed to repurchase defaulted or distressed assets
- Structured investment vehicles are similar, but for the fact that they carry less than full liquidity
  - SIVs issue about $400 billion in CP market
  - Assets include high quality asset backed paper, predominantly rated AAA
  - Liquidity based in part on market value of collateral
- SIV Lights specialize in specific asset classes
  - Primarily MBS
- SIVs run with extremely high leverage

SIV Asset Composition



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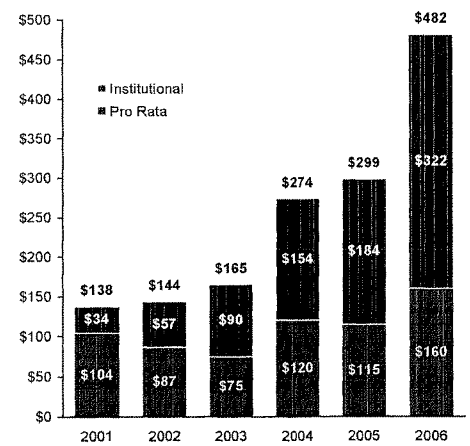
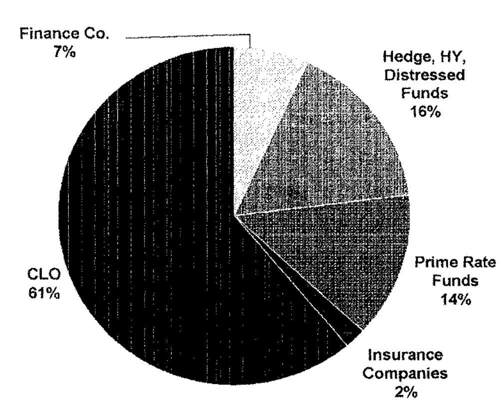
Leveraged Loan Market
CLOs Now Represent a Majority of the Market

US Loan Market Volume



2006 Institutional Loan Market Investors



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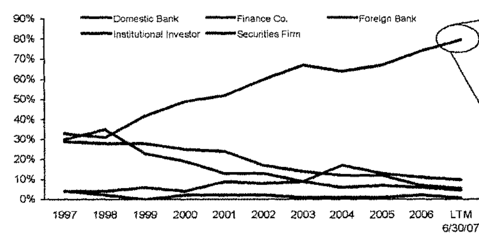
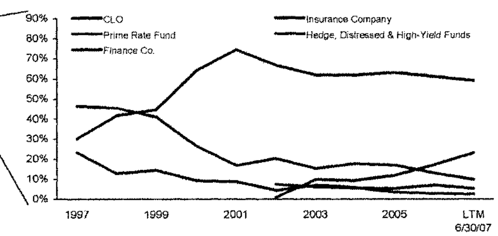
Leveraged Loan Market

Distribution of Risk and Reliance on CLO and Hedge Fund Market

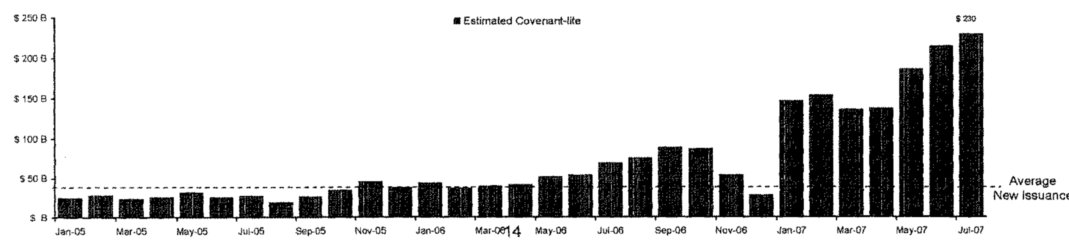
Leveraged Loan Demand by Investor Type



Institutional Market by Investor Type



Loan Forward Calendar



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Tel: 212-902-4762 | Fax: 212-482-3966

Gregory K. Palm
Executive Vice President
and General Counsel

Goldman Sachs

March 1, 2010

Mr. Philip N. Angelides
Chairman
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW
Washington, D.C. 20006-4614

Dear Chairman Angelides:

Many of the questions during the first hearing of the Financial Crisis Inquiry Commission focused on issues with respect to residential mortgage-related products. In light of the Commission's interest in this area, we are submitting this letter in an effort to provide a more comprehensive overview of certain of the issues raised over the course of the hearing.

In this letter, we elaborate on the role Goldman Sachs plays as a market maker, how we manage the risk we assume through that role, especially within the context of residential mortgage-related products, our exposure to the housing market, investors in the market for residential mortgage-related products, the different roles and obligations of underwriters and market makers and the extent of our activities in the residential mortgage-related securitization markets in 2006 and 2007. We also discuss Goldman Sachs' due diligence practices and the disclosures that the firm made to the institutions that considered investing in securities that we underwrote.

Role as a Market Maker

Market makers or financial intermediaries are critical to the efficient functioning of the financial markets: their role is to stand ready to make an offer to buy or sell a given financial instrument whenever a seller or a buyer enters the market. As a market maker, we execute a variety of transactions each day with clients and others, buying and selling financial instruments, which may result in long or short risk exposures to thousands of different instruments at any given time. This does not mean that we know or even think that prices will fall every time we

Permanent Subcommittee on Investigations
EXHIBIT #148

sell or are short, or rise when we buy or are long. In these cases, we are executing transactions in connection with our role of providing liquidity to markets. Clients come to us as a market maker because of our willingness and ability to commit our capital and to assume market risk. Indeed, during the fourth quarter of 2009, for example, our clients asked us to bid on approximately $7 billion (face amount) per week of mortgage- and asset-backed securities. Further, our clients typically have relationships with a number of other financial intermediaries and they compare the products, services and pricing offered by such other intermediaries and us prior to determining with whom to transact.

Without market makers that are ready, willing and able to take the other side of a transaction, a liquid market simply cannot exist. That is why financial intermediation is critical to the functioning of the capital markets and, ultimately, the financial system. Financial intermediaries connect buyers and sellers. When a buyer or seller is not readily available, financial intermediaries take the other side of a transaction and assume the risk of the trade on their own books. These transactions often are initiated by our clients, and when proposed by us are often in response to previously expressed investment interests of the client. We are responding to our clients' desire either to establish, or to increase or decrease, their exposure to a position based on their own investment views. We are not "betting against them."

How We Manage Our Risk

Our willingness to take on risk is fundamental to our role as a financial intermediary. The better we understand and can manage that risk, the more willing we are to transact with clients (regardless of our view on the market) and, thereby, to offer them better prices. Our clients expect us to be willing to transact in all market conditions. They often competitively bid positions, and execute with us depending on whether we satisfy their objectives – e.g., pricing, speed and certainty of full execution – better than competing market makers or other financial intermediaries.

The exposures created through transactions with clients are part of the overall "inventory" of instruments we generally carry as part of our business. This inventory is comprised of long and short positions. Its composition reflects the accumulation of customer trades and our judgments about supply and demand or market direction. If a client asks us to transact in an instrument we hold in inventory, we may be able to give the client a better price than it could find elsewhere in the market and to execute the order without potential delay and price movement. This inventory represents a risk position that we manage continuously.

In so doing, we must also manage the size of our inventory and keep exposures in line with risk limits. We believe that risk limits are an important tool in managing our firm. They are established by senior management, and scaled to be in line with our financial resources (capital, liquidity, etc.). They help ensure that regardless of the opinions of an individual or business unit about market direction, our risk remains within prescribed levels.

In addition to selling positions, we use other techniques to manage risk. These include establishing offsetting positions ("hedges") through the same or other instruments, which serve to reduce the firm's overall exposure. Hedges, however, may give rise to other risks. For example, the use of credit default swaps as hedges in turn results in a new credit risk: the ability of the writer of the credit default swap to perform on the obligation. In order to manage this risk,

ph44585 on D330-44585-7600 with DISTILLER
VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00928 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
57322.720

Goldman Sachs generally requires the writer of the credit default swap to post cash collateral against its obligations to the firm, or may structure other risk mitigants.

In this way, we are able to serve our clients and to maintain a robust client franchise while prudently limiting overall risk consistent with our financial resources.

Goldman Sachs' Exposure to, and Results from Business Relating to, the Residential Housing Market

With that background, we want to outline for you Goldman Sachs' exposure to, and results from business relating to, the residential housing market. While this has been the subject of much recent attention, it has always been a very small part of our overall business. For example, during the period 2003 to 2008, the firm's annual net revenues attributable to residential mortgage-related products never exceeded 2% of our overall net revenues. Through the end of 2006, Goldman Sachs generally was long in exposure to residential mortgages and mortgage-related products, such as residential mortgage-backed securities ("RMBS"), collateralized debt obligations ("CDOs") backed by residential mortgages and credit default swaps referencing residential mortgage products. In late 2006, we began to experience losses in our daily residential mortgage-related products P&L as we marked down the value of our inventory of various residential mortgage-related products to reflect lower market prices.

In response to those losses, we decided to reduce our overall exposure to the residential housing market. We wanted to get "closer to home" – i.e., to reduce our overall exposure to the residential housing market, consistent with our risk protocols – given the uncertainty of the future direction of the housing market and the increased volatility of mortgage-related product markets. Indeed, we reduced both our short positions and our long positions in these products over the course of 2007. For example, during the first quarter of 2007, we reduced various short positions in light of applicable risk limits even though (viewed in isolation) these positions had been profitable. Overall, our residential mortgage-related product positions had a negligible effect on the firm's net revenues or profits for fiscal year 2007. During fiscal year 2008, we had net losses of approximately $1.7 billion on residential mortgage-related product positions. As these results demonstrate, the firm did not generate enormous net revenues or profits by betting against residential mortgage-related products, as some have speculated; rather, our relatively early risk reduction resulted in our losing less money than we otherwise would have when the residential housing market began to deteriorate.

Investors in the Market for Residential Mortgage-Related Products in 2007

The markets for residential mortgage-related products, and subprime mortgage securities in particular, were volatile and unpredictable in the first half of 2007. Goldman Sachs had no "inside information" about the residential housing trends or macroeconomic factors that ultimately would drive market values. Investors in these markets held very different views of the future direction of the housing market based on their outlook on factors that were equally available to all market participants, including housing prices, interest rates and personal income and indebtedness data. Some investors, including some hedge funds, developed aggressively negative views on the residential mortgage market. Other investors, including other hedge funds, believed that any weakness in RMBS and the residential housing market would be relatively mild and temporary. Investors with both sets of views came to Goldman Sachs and other financial intermediaries to establish long and short exposures to the residential housing market, through RMBS, CDOs, credit default swaps and other types of instruments or transactions. We would also note that broadly-disseminated research from Goldman Sachs Economic Research ("Economic Research"), which is independent from other divisions of the firm, expressed consistently negative views on the residential housing market in 2006 and 2007. Indeed, our Economic Research expressed an increasing level of concern about the run up in housing prices in papers dating back to at least 2004. (See Appendix I) Various other firms' broadly-disseminated research reports from 2006 contained warnings of deteriorating residential housing market conditions.

The investors who transacted with Goldman Sachs in CDOs in 2007, as in prior years, were primarily large, global financial institutions, insurance companies and hedge funds (no pension funds invested in these products, with one exception: a corporate-related pension fund that had long been active in this area made a purchase of less than $5 million). These investors had significant resources, relationships with multiple financial intermediaries and access to extensive information and research flow, performed their own analysis of the data, formed their own views about trends, and many actively negotiated the structure and terms of transactions.

These investors entered into transactions having certain characteristics in order to achieve their desired long or short exposure. They were aware of and accepted the market risk they were assuming. For securities backed by residential mortgages, the characteristics of the underlying mortgages were disclosed in detail and investors knew what they were buying. The investment views of different participants in these markets depended on their respective assessments of macroeconomic trends, as well as their analysis of the disclosed characteristics of the mortgages. Neither their views on macroeconomic trends nor their analysis of loan characteristics depended on whether Goldman Sachs hedged or retained the initial exposure we took on as a result of the transaction.

It is also important to note that it is not just a belief in the absolute direction of prices but also the relative level of prices that drive investors' actions. For example, a particular security may trade at a distressed level. The institution holding that asset may nonetheless want to sell the security to remove what it believes is a source of further risk from its balance sheet or to free up capital for other investments. A buyer of that asset believes that the distressed pricing may potentially reflect good value and is willing to take on that risk for a price, even if other investors think otherwise. The process of being able to buy risk from those unwilling or unable to shoulder it is vital to a functioning market and economy.

Residential mortgage-related products issued or underwritten by numerous firms ultimately did not perform as expected because of unprecedented economic developments. Goldman Sachs, as well as the sophisticated investors who invested in these products, certainly did not envision the events that led to such poor performance. With the benefit of hindsight, it is apparent that most participants – including rating agencies, financial institutions and government agencies – put too much faith in historical performance, believing that most residential mortgage assets were highly resilient to downturns. It was clear, however, that many loans with the characteristics disclosed in offering documents for these products would perform poorly in a very rapidly deteriorating housing market and meaningful economic recession, but Goldman

Sachs and most investors simply did not predict or anticipate how severe the contraction in the housing market would become.

Role of an Underwriter

The role of an underwriter differs from that of a market maker. As described above, a market maker is primarily engaged in the business of assisting clients in executing transactions. This business is client-driven, and Goldman Sachs strives to provide a fair price to our clients.

In contrast, an underwriter works with the issuer in connection with offering financial instruments to investors. In this context, the federal securities laws effectively impose a "gatekeeper" role on Goldman Sachs: as an underwriter we are expected to assist the issuer in providing an offering document to investors that discloses all material information relevant to the offering and, absent a showing that we conducted an appropriate review (so-called "due diligence") regarding the securities being offered, we are potentially liable to investors for any losses resulting from any material misstatements or omissions in the offering document. The same disclosure obligations do not apply to a market maker, including because a market maker must execute countless transactions in order to meet the demands of clients and other parties. If a market maker were required to perform extensive due diligence on each security in which it was asked to execute a transaction, and to update disclosures every time it bought or sold securities, real-time, liquid markets could not exist.

In connection with our underwriting of residential mortgage-related securities, Goldman Sachs had a process in place to examine the management, relevant policies and procedures, underwriting standards, creditworthiness and other aspects of each mortgage originator before the firm began purchasing loans for securitization. As a result of these reviews, we determined not to do business with dozens of originators. Goldman Sachs also emphasized maintaining regular contact with major loan originators to understand the issues that they faced and the steps they were taking to address them. We also employed internal and third-party resources to conduct due diligence on the individual loans in the pools backing the securities in its RMBS offerings, including reviewing selected loan files, verifying compliance with state and federal lending statutes, and selective review of property appraisals against comparable values. As a result of these reviews, Goldman Sachs did not accept loans that, based on its review and analysis, appeared to have potentially significant legal, regulatory compliance or other issues. Knowing what we know today, of course, we wish that we had done even more.

Regardless of the degree of due diligence performed by underwriters in connection with RMBS securitizations, however, they cannot guarantee payment, performance or any rate of return. Rather, it is up to the purchaser of securities to evaluate whether the securities are worthy of investment based on the purchaser's own view and analysis of the securities' value in light of the purchaser's expectations about the future of the housing market and the economy and, importantly, the disclosures set forth in the offering documents including, in the case of asset-backed securities, detailed descriptions of the underlying assets. The Securities and Exchange Commission's Regulation AB, which provides extensive requirements and guidance for disclosures in offerings of asset-backed securities, properly focuses on disclosure of the material characteristics of the assets on which investors rely for the cash flows that provide the basis for payment of interest and principal on the securities they are purchasing. Those disclosures for

RMBS include detailed statistical information on the loans in the pool backing the RMBS, including the material originators of the loans, borrower credit scores, locations of the properties, loan to value percentages and the type of loans (e.g., second lien, adjustable rate, or option adjustable rate). The disclosures also included detailed descriptions of the policies and procedures used by the material loan originator or originators to evaluate and determine whether to make a loan. (See Appendix II)

In addition, Goldman Sachs, like other underwriters of RMBS, disclosed extensive data on every individual loan in its securitizations through "loan tapes," and other documents analyzing the underlying loans, which were publicly filed by the issuer with the Securities and Exchange Commission. These documents contained detailed information on each individual loan underlying the securitization, such as: (1) the original term of the loan; (2) the current balance; (3) the applicable interest rate; (4) the type of loan (e.g., adjustable rate or fixed rate); (5) whether the loan was a first or second lien; (6) the original loan-to-value ratio; (7) the property type (e.g., single family home); (8) the borrower's FICO score; (9) whether the property was owner-occupied; and (10) the due date and delinquency status. This information enabled the sophisticated investors that purchased these instruments to run their own models and make their investment decisions based on their views of relevant macroeconomic factors, market and housing trends, as well as the apparent credit of the borrowers whose mortgages backed the securities. (See Appendix III)

Nationally recognized law and accounting firms also were retained in connection with underwritings to assist in ensuring that the disclosures were complete, accurate and in compliance with the securities laws. These disclosures included numerous risk factors, which highlighted those characteristics of loans that increased risk (such as lower quality credit history, high loan-to-value ratio, and lack of documentation or independent verification). (See Appendix II)

Based on these disclosures, and publicly-available macroeconomic, housing and other data, investors could and did employ sophisticated analysis of the characteristics of the loan pool before deciding whether to invest in the transaction and which types of securities to purchase (from the highly rated senior securities that offered the most protection against deterioration of the asset pool and lowest return, to lower rated securities that offered less protection and a higher return).

In short, the securities being sold were as described – the investors purchased what they knowingly determined to buy. In view of what transpired in the housing market and the economy, the securities performed substantially as would have been expected in those unexpected circumstances. At the time of purchase, however, what participants in this market – including Goldman Sachs – could not know was how the housing market and the economy would perform in the future.

For non-synthetic CDOs – i.e., CDOs collateralized by cash securities – the offering materials contained detailed risk disclosures, and set forth each of the securities in the portfolio at or about the time of closing that determined the cash flows to investors. (See Appendix IV) We provided analyses to investors that highlighted how the securities would perform under certain scenarios and based upon stated assumptions, and these investors often had their own models to analyze the credit worthiness of the underlying cash securities. Investors then could (and did) refer to those disclosures in making investment decisions. Again, investors had detailed information that allowed them to analyze how the securities would perform under different assumptions and scenarios.

For CDOs containing predominantly or exclusively synthetic assets – i.e., credit default swaps referencing RMBS or CDO securities, rather than the RMBS or CDO securities themselves – one party (the counterparty to the credit default swap) necessarily has to assume a short position with respect to the synthetic assets in order for there to be a long position for investors to take – there was no "secret" short position. As part of our disclosures, we indicated that Goldman Sachs initially would take the short side of the transaction, where applicable. There was no limitation on our ability to sell some or all of the short position. (See Appendix V) The sophisticated institutions that bought CDO securities did not make their decisions based on whether Goldman Sachs or other firms entering into credit default swaps with the CDO issuer would keep or sell that short position; they made their investment decisions based on their fundamental analysis of the characteristics of the underlying referenced assets and their prediction of where the housing market and the economy would be in the future. In fact, Goldman Sachs' CDOs containing primarily residential mortgage-related synthetic assets were initially created in response to the request of a sophisticated institutional investor that approached the firm specifically seeking that particular exposure. Reverse inquiries from clients were a common feature of this market.

Participation in the Residential Mortgage-Related Securitization Markets

Goldman Sachs has never been a significant originator of mortgages.[1] And, in the context of the overall mortgage markets, we were neither a leading issuer[2] nor a leading underwriter of securitized residential mortgage-related products. During the period 2002 through 2007, our market shares as an issuer and underwriter of Non-Agency RMBS varied between 1.9% and 4.0% as an issuer and 4.7% and 6.7% as an underwriter.[3] In 2007, for example, the firm's market share as an issuer of Non-Agency RMBS was 3.0% and we were not among the top 10 underwriters of these securities.[4] For overall RMBS issuance, including agency securities, Goldman Sachs was ranked 12th as an issuer in 2006 with a market share of 2.3% and 18th as an issuer in 2007, with a market share of 1.2%.[5] Thus, although Goldman Sachs was a participant in the RMBS securitization business, it certainly did not dominate the market as either an issuer or underwriter.

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[1] *In March 2007, Goldman Sachs acquired Senderra, a small mortgage originator.*

[2] *An issuer is the legal entity that owns the pool of residential mortgages or RMBS, CDOs or combination thereof and "issues" securities representing various interests therein. For the purpose of compiling market share data, industry sources treated a firm as the issuer of RMBS if the securities were issued off of one of that firm's shelf registration statements, even though the issuing entity was often a separate legal entity.*

[3] *Source: Inside Mortgage Finance. It was always the case that we were the underwriters of securities that we issued, so all securities issued off of Goldman Sachs' shelf registration statements would be counted in both categories.*

[4] *Source: Inside Mortgage Finance. Rankings below the top ten were not published in 2007, so our market share is unavailable. We note, however, that the 10th ranked underwriter had a market share of 5.5%.*

[5] *Source: Inside Mortgage Finance. Inside Mortgage Finance published overall RMBS market share information with respect to issuer participation only and did not publish such information for years prior to 2006.*

This point is equally true if one focuses solely on the so-called "subprime" segment of the overall RMBS market. During the period 2002 to 2007, our market shares as an issuer and underwriter of subprime RMBS varied between 0.9% and 4.7% as an issuer and less than 4.2% and 6.5% as an underwriter.[6] In 2007, for example, the firm's market share as an issuer was 1.7% (we were ranked 21st) and we were not ranked in the top ten as an underwriter.[7]

Goldman Sachs also was not a dominant participant in new-issue residential mortgage-related CDO activity. During the period 2002 through the first three quarters of 2007 our market share as an underwriter of new-issue CDOs where the collateral consisted primarily of RMBS varied between 2.4% and 8.2%.[8] For example, Goldman Sachs' market share in the first three quarters of 2007 was approximately 5.6%.[9] As discussed above, substantially all CDOs were sold to sophisticated institutions that met the definition of Qualified Institutional Buyers under Securities and Exchange Commission Rule 144A.

Conclusion

Although Goldman Sachs held various positions in residential mortgage-related products in 2007, our short positions were not a "bet against our clients." Rather, they served to offset our long positions. Our goal was, and is, to be in a position to make markets for our clients while managing our risk within prescribed limits. Our predominant view of the risks arising from the residential housing market in early 2007 caused us to reduce our overall exposure to market movements in either direction consistent with established risk protocols.

We certainly did not know the future of the residential housing market in the first half of 2007 any more than we can predict the future of markets today. We also did not know whether the value of the instruments we sold would increase or decrease. It was well known that housing prices were weakening in early 2007, but no one – including Goldman Sachs – knew whether they would continue to fall or to stabilize at levels where purchasers of residential mortgage-related securities would have received their full interest and principal payments. Finally, we were not consistently or significantly overall net "short the market" in residential mortgage-related products, and, contrary to media speculation, we did not generate enormous net revenues or profits from our residential mortgage-related activities.

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6 *Source: Inside Mortgage Finance.*

7 *Source: Inside Mortgage Finance. Rankings below the top ten were not published in 2007 so our market share in unavailable. We note, however, that the 10th ranked underwriter had a market share of 4.2%.*

8 *Source: Asset-Backed Alert. No CDOs were issued off of Goldman Sachs' shelf registration statements and therefore issuer information is not applicable.*

9 *Source: Asset-Backed Alert. Market share data for the fourth quarter of 2007 is not available.*

We hope that the information above is helpful to the continuing work of the Commission.

Very truly yours,

Gregory K. Palm

cc: Hon. Bill Thomas
(Commission Vice Chairman)

Brooksley Born
(Commissioner)

Byron S. Georgiou
(Commissioner)

Senator Bob Graham
(Commissioner)

Keith Hennessey
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Effective Regulation: Part 1
Avoiding Another Meltdown

March 2009

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Permanent Subcommittee on Investigations
EXHIBIT #149a

March 31, 2009

Effective Regulation: Part 1

Avoiding Another Meltdown

Goldman Sachs Global Markets Institute

Fix the system, not just today's problems

This is the first in a series of papers addressing the topic of financial regulation. We analyze the build-up of global economic imbalances; how these imbalances led to housing bubbles in many countries; and how poorly-managed risk related to securitization, along with inconsistencies in the regulations that applied to different financial activities, helped to transform these imbalances into a global financial crisis.

A "global savings glut" fed the housing bubble

Imbalances in the real economy in recent years forced the global financial system to absorb enormous excess liquidity. The problem was not the savings themselves, but the magnitude and speed of their accumulation. The resulting "global savings glut" overwhelmed domestic investment opportunities in emerging markets and instead flowed into developed-country asset markets, especially housing markets.

Systemic firebreaks failed

Securitization – which historically had been useful in reducing risk at the firm level and the regional level – ultimately increased risk at the system-wide level. It reduced the effectiveness of systemic "firebreaks" by spreading what had traditionally been very local risks; this increased correlations across asset classes and regions. At the same time, the regulatory treatment of securitized loans reduced system-wide capital levels, impeding the financial system's ability to manage large shocks. Further damage was caused by the spread of complex financial holding companies. Because different arms of these entities were subject to different accounting rules and regulatory oversight, firms could exploit those differences to drive near-term profits higher while building and warehousing risks that only became apparent later.

Looking ahead

We offer four principles for rebuilding the global financial system: (1) Capital gluts must be managed, and asset bubbles cannot simply be allowed to run their course. (2) Securitized loans should, in aggregate, face the same capital requirements as the underlying loans would if they were held on bank balance sheets. Securitization would then be driven by a desire to reduce hazardous concentrations of risk, rather than a desire for capital relief. (3) Lending institutions should be required to mark large loans to market at origination, forcing symmetry across the recognition of profit and risk. (4) Lending linked to investment banking activities should be consolidated into the investment banking arm and subjected to full mark-to-market discipline and all regulatory and accounting rules that apply to trading assets. This would eliminate the ability to exploit differences in regulation or accounting. Further, financial institutions involved in investment banking should be required to have an independent, appropriately staffed and fully-resourced control group to mark and manage the resulting risks.

Table of contents

Thanks to Richard Ramsden, Brian Foran, Michael Moran, Frederik Thomasen and Annie Chu.

Introduction: credit crisis retrospective and regulatory implications

This paper is the first in a series addressing the topic of financial market regulation. We analyze how imbalances in the global economy built up over the past decade, how these imbalances led to asset bubbles in housing markets around the world, and how securitization and the blurring of traditional lines between commercial and investment banking helped transform these imbalances into a global financial crisis. We offer some thoughts on implications for the regulatory reforms that should emerge from today's crisis.

There is no shortage of proposals for strengthening the international financial system. Many focus on specific aspects of the current crisis – subprime lending, opacity in derivatives markets and unregulated over-the-counter markets, for example. It is easy to see how improved regulations and systems in these areas might have mitigated the contagion and made managing the damage easier. It is harder to see, however, how such measures could have prevented the build-up of underlying risk or checked its geographic and systemic spread.

A smaller number of proposals look at the financial system as whole in an attempt to identify and address the underlying, systemic causes of the crisis. The goal of legislation and regulation enacted in the wake of this crisis should be to remedy structural weaknesses in international finance, not just to allow for a more orderly unwinding the next time.

We would focus on two fundamental issues:

- The build-up of dangerously large global imbalances, and
- The ways in which financial innovation and regulation ultimately made the global financial system riskier, even as they appeared to reduce the level of risk.

The build-up of dangerously large global imbalances. Imbalances in the "real economy" that built up over the past decade forced the global financial system to absorb enormous amounts of excess liquidity. Two factors drove the "global savings glut:" the sharp rise in Asian foreign-exchange holdings in the wake of the 1997-1998 Asian crisis; and soaring oil prices that filled the coffers of the oil-exporting countries.

The problem was not the savings themselves, but the magnitude and speed of their accumulation, which overwhelmed efforts to allocate them efficiently. These excess savings vastly exceeded domestic investment opportunities in the emerging markets that were generating the capital. Accordingly, they flowed instead into the open markets of developed countries, particularly housing markets. Excess liquidity also found weaknesses in the regulatory system – weaknesses that did not become apparent until it was too late.

Inadequate regulation allowed securitization to damage systemic firebreaks. That major problems arose given the size of these capital flows is not, in retrospect, surprising. It is surprising, however, how widespread the damage has been throughout the global financial system – much like a forest fire that was unexpectedly found to have kindling in the firebreaks. Innovations that were intended to reduce risk – namely the spread of securitization, particularly in its application to low-quality assets, and the spread of complex financial holding companies – actually added fuel to the fire.

It is important to note that securitization, by itself, was not problematic. Indeed, **securitization did, for a time, reduce risk** at the firm level and free up capital for lending. Accordingly, regulators allowed individual institutions to enjoy higher leverage ratios and lower capital requirements. In aggregate, however, securitization allowed many financial firms to build positions in (what unexpectedly turned out to be) very risky assets, often employing leverage while enjoying reduced capital requirements. The spreading of risk

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raised correlations across countries and across sectors of the financial industry, **essentially turning the financial system into one highly correlated shared risk pool.** At the same time, due in part to inadequate oversight of the credit rating agencies, securitization also lowered the total amount of capital in the financial system.

An added, though not nearly as important, part of the problem was the spread of the large multi-business financial holding company, which emerged full force in the last decade. These complex holding companies merged a wide variety of businesses, often with very different business models and operating cultures – most notably the mark-to-market culture of investment banks and the held-to-maturity culture of classic commercial banks. Mixing these models without centralized monitoring and sufficiently independent risk controls allowed firms to exploit differences (sometimes accidently) in the rules applying to different parts of the same firm.

While some firms were clearly able to manage these complexities, others failed to develop the needed systems and infrastructure, or did not allow these systems to operate with sufficient independence.

Risk will naturally flow to where it is least monitored and where capital requirements are lowest. There is nothing sinister about this – it is the "invisible hand" of the market at work. It is extremely difficult for regulators to identify in advance all possible loopholes – and equally difficult to close them all.

Rather than focusing on the individual problems that the current crisis has brought to light, we think the most viable solution is to force as much symmetry and equality of treatment of assets across all parts of a firm as possible, thus eliminating odd incentives that encourage activities like poor lending.

As we rebuild the financial system, four things are clear:

1. **Capital gluts must be managed, and asset bubbles cannot simply be allowed to run their course.** Regulators have focused on managing risk at the level of institutions, and have sought to strengthen financial systems against small and local shocks. Major regulators have largely been successful in this – but in the process, they have unintentionally increased the system's vulnerability to global and macro shocks. In the future, regulators should give stronger focus to macro-prudential supervision. This will entail greater international information-sharing and cooperation.
2. **Securitized loans should, in aggregate, face the same capital requirements as the underlying loans would if they were held on bank balance sheets.** Securitization would then be driven by a desire to reduce hazardous concentrations of risk, rather than a desire for capital relief. Regulators should also monitor the quality of the assets being securitized and the ratings assigned by rating agencies.
3. **Lending institutions should be required to mark large loans to market at origination, forcing symmetry across the recognition of profit and risk.** Banks should not be allowed to defer losses via their commercial banking lines while recognizing profits immediately in their investment banking units.
4. **Lending linked to investment banking activities should be consolidated into the investment banking arm and subjected to full mark-to-market discipline and all regulatory and accounting rules that apply to trading assets.** This would eliminate the ability to exploit differences in regulation or accounting. Further, financial institutions involved in investment banking should be required to have an independent, appropriately staffed and fully-resourced control group to mark and manage the resulting risks.

Despite their best efforts in the months ahead, it is unlikely that governments, regulators and market participants can build a regulatory system so flawless that it can perfectly manage another influx of capital like the one we have just seen. Accordingly, the best solution will include finding ways to mitigate capital imbalances that may occur in the future, while simultaneously developing a stronger regulatory system that limits the spread of damage.

The "global savings glut" and the shallow pool of investments

It is now widely accepted that the world economy developed an excess of savings from the start of the decade to the onset of the credit crunch in mid-2007, an excess that has been dubbed the "global savings glut".[1] An excess of savings seems like a good problem to have, but it has in fact proved to be very damaging. Thus, it is worth understanding how this "glut" came about, how the savings accumulated at a pace not seen before, and how this resulted in an asset bubble that ultimately imperiled the global financial system.

The savings glut had two principal drivers: the accumulation of Asian foreign-exchange reserves, and the savings arising from the skyrocketing price of oil. Although these two phenomena operated independently of each other, they did occur simultaneously – and quickly. Had they occurred separately, or more slowly, the world economy might have been able to absorb the excess liquidity without too much strain. Instead, the rapid build-up of savings swamped the available global investment opportunities.

The "global savings glut" (I): Foreign exchange reserves

The first driver of the excess savings was the current account surpluses generated by many emerging market countries, especially in Asia. This was also one of the great anomalies of the global economy in this decade. Under a "normal" state of affairs, domestic savings in emerging markets are usually insufficient to fund the available investment opportunities. These countries will import capital and, in doing so, will run current account deficits. Developed countries, in which savings normally outstrip the attractive investment opportunities, will typically export capital to emerging markets and accordingly will run current account surpluses. A classic example of this occurred in the late 19th century, when the United Kingdom financed much of the rail and canal systems built as the United States expanded westward.

But in recent years this "normal" state of affairs has been turned on its head. Emerging economies responded to a string of financial crises – in Latin America, Asia and Russia – by generating large current account surpluses. Although each crisis differed in cause and severity, the common response was for emerging market economies to "self-insure" by building up large foreign exchange reserves. (See Exhibit 4 for background on the accumulation and role of foreign-exchange reserves.) These were intended to shield their currencies from another round of debt mismatches and currency devaluations.

Robust trade and managed currencies generated large current account surpluses. China's surplus spiraled from less than 2% of GDP in the early part of this decade to a whopping 11% in 2007 – a remarkable position for a major emerging economy. In part by managing their currencies to keep them weak relative to the US Dollar, Asian exporters generated substantial foreign exchange reserves. China is the most obvious example – its foreign exchange reserves have reached nearly $2 trillion (see Exhibit 2) – while South Korea, Taiwan and India also saw significant run-ups in their own reserves. There is no clear rule of thumb to say how much is "too much", but we estimate that developing Asian

[1] The "global savings glut" was first dubbed as such by current Federal Reserve chair Ben Bernanke in 2005. His speech, "The Global Saving Glut and the U.S. Current Account Deficit," is available at www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm.

economies together accumulated several hundred billion dollars above and beyond what prudential macroeconomic management would suggest.

Exhibit 1: What is the current account balance, and why does it matter?

The current account is the combined balances on international trade of goods and services (exports and imports) along with income flows (remittances, dividends and interest) and net unilateral transfers. What is of interest is not the current account itself but the current account balance – whether it is in deficit or in surplus.

The current account balance can be defined in two ways:

- ***The gap between imports and exports:*** *If a country spends more on imports and other payments to foreigners (such as remittances, dividends and interest) than it takes in through exports (and other payments), it runs a current account deficit. If exports exceed imports, it runs a surplus.*
- ***The gap between savings and investment:*** *Countries that invest more than they save must borrow from international capital markets to finance this investment (and consumption); this yields a current account deficit. Countries that save more than they invest, and lend this excess overseas, run a current account surplus.*

At least in theory, developing countries should run current account deficits. They will have more investment opportunities than they can self-finance, and their populations are typically relatively young, with low savings (China, with its rapidly aging population is a key exception). They should be net importers of capital from developed countries, where fewer and lower-yielding investment opportunities and aging populations should together produce a surplus. This has not been the case for much of the past decade, as we discuss in the main text.

Running a current account deficit is not an inherently dangerous position, even for developed economies. But when the deficit reaches about 3% of GDP, and when a high deficit persists for many years, it puts the economy at risk of a disorderly unwinding. If foreign appetite for financing excess spending and saving suddenly disappears, or if the return expected on these investments falls, the country in deficit may face a nasty transition: an abrupt currency collapse and sharply higher domestic interest rates, along with the need to curb spending, reduce imports and increase exports. For countries in deficit, the IMF describes the current account as "the point at which international economics collides with political reality."

Source: Goldman Sachs Global Investment Research.

Market observers developed a variety of explanations for the "bond conundrum". Those who focused on the demand side of capital markets argued that pension funds and insurance companies had increased their demand for long-duration US securities following the bursting of the equity bubble. This was viewed partly as a response to regulation and partly as a consequence of their desire to better match assets to long-term liabilities by reducing the share of equities in their portfolios.

An alternative explanation, first discussed in detail by Ben Bernanke, now Chairman of the Federal Reserve, was that a "global savings glut" was fueling demand for assets in the developed economies. More specifically, some countries – most notably China – channeled their rapid savings build-up into US Treasury and agency securities (see Exhibit 9), and this is what caused long-term rates to remain stubbornly low. Strong demand for corporate bonds and other fixed-income instruments also narrowed the spreads that these securities yielded over Treasuries, compressing the yield premium here. While it is difficult to isolate the demand and supply side effects on long-term rates, we think this supply-side argument more accurately explains the lasting downward pressure on bond yields.

The challenges of controlling capital gluts

Historically, there has been little consensus on how to best deal with global imbalances. In fact, there has never even been agreement on whether they *should* be addressed at all. This lack of consensus arises in part from pronounced differences in the self-interest of individual countries, which make it very challenging to agree on a multilateral approach. It is also unclear how a single central bank could address these global imbalances in isolation – or if monetary policy is even able to address them.

It is unlikely that these problems will be resolved easily, if at all. We suggest that, at a minimum, regulators pay more attention to monitoring global capital flows and governments pay more attention to the restrictions on real investment that created the savings glut in the first place. While energy policy is clearly outside the scope of this paper, had policies been enacted that allowed for larger streams of real investment in commodities, the size of the global imbalances would have been reduced, and sustainable growth would have been supported. Although dampening the savings glut by raising interest rates will never be particularly attractive politically, creating new real investment opportunities to absorb excess savings is better for long-term growth and better politics.

Global savings found a home

The excess liquidity flowing out of Asia and the petrodollar states found an outlet in the housing markets of many developed economies – not just the United States. These savings might have flowed into other assets, so it is helpful to understand why they were so disproportionately channeled into housing. It is also helpful to understand how the dynamics of the housing market itself fuelled the asset bubble.

Why housing?

Several factors made developed-country housing markets an attractive outlet for excess savings:

- **Size.** First, and importantly, developed-economy housing markets are large enough to absorb a significant amount of capital without causing the formation of an instantaneous asset bubble. The value of outstanding residential mortgages in the

United States alone was more than $11 trillion at the end of 2008. For comparison, US GDP that year was $14.3 trillion.

- **Supply growth**. Second, it is easy to expand housing supply beyond underlying demand. Sustainable increases in housing supply should roughly keep pace with population growth, household formation and, to a lesser extent, rising income. These normal dynamics certainly did not constrain growth in the United States during the recent housing boom.[4] In fact, it appears that the only limit imposed on housing supply in the US was the availability of construction machinery, labor and materials. Even land was not in short supply (though it was in other countries that experienced housing bubbles, notably the United Kingdom).
- **Lack of investment discipline**. Third, households often do not impose a high level of investment discipline on themselves. Companies need to earn a rate of return on their investments – and justify them beforehand with plausible assumptions about these returns. This does not guarantee that all investments will succeed as planned, but it does impose an assessment framework and open investment decisions to scrutiny. This is in contrast to households, which do not need to earn a rate of return and which may feel justified in paying for non-cash returns on their housing investments – such as the quality of life to be had in a nicer house or a better neighborhood.

Exhibit 10: Why didn't companies over-lever during the global savings glut?

To convincingly conclude that the global savings glut was the most important fundamental driver of the mortgage-fueled and housing boom requires that we explain why the corporate sector was not similarly vulnerable to over-leveraging. In contrast to the household sector, the corporate sector's financing position had improved notably in many countries since the start of the decade. European firms, particularly in Germany and the United Kingdom, swung from net borrowing in 2000 to net savings. Firms in the United States, which had started the period on much sounder footing, also improved their financing positions.

One explanation is for the accumulation of large cash balances on corporate balance sheets -- the opposite of adding leverage -- is that companies, scarred by their experiences with outsized debt burdens after the bursting of the technology bubble, turned more conservative. Having spent the first part of this decade repairing their own balance sheets, companies were hesitant to repeat their previous errors. With corporate profits near record highs, self-financing became the principal source of corporate funding.

Secondly, internal monitoring and public scrutiny probably played a role in keeping the corporate debt burden to reasonable levels. As we noted in the main text, companies need to earn a rate of return on their investments -- and justify them beforehand with plausible assumptions about these returns. This is in contrast to households, which do not need to earn a rate of return and which may not mind paying for non-cash returns on their housing investments (such as the quality of life to be had in a nicer house or better neighborhood).

A third answer lies with the lenders behind the global savings glut, who sought low-risk fixed-income assets. They viewed mortgage assets as a close substitute for government debt, especially given the implicit US guarantee for Fannie Mae and Freddie Mac debt.

Of course, corporate financing was not entirely immune to the global savings glut. Arguably, the LBO boom that peaked in early 2007 was an attempt by private equity sponsors to arbitrage the relative cheapness of credit. Corporate CFOs might have been tempted to take on more leverage themselves, had it not been for the fact that corporate profits were growing so robustly. Share buybacks rose accordingly, but even so, corporate treasuries filled to overflowing.

Source: Goldman Sachs Global Investment Research.

[4] See Bank for International Settlements Working Paper Number 259; "The housing meltdown: Why did it happen in the United States?" by Luci Ellis; September 2008.

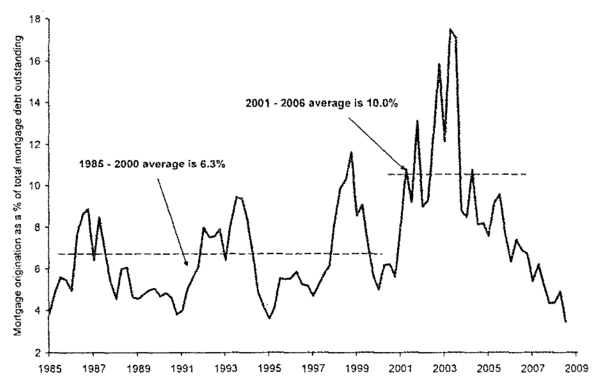
- **Housing market regulations.** Mortgage market regulation, at least in the United States, also played an important role. Widespread home ownership has long been a public-policy objective, and the United States has enacted multiple incentives to support home ownership, including the tax-deductibility of mortgage interest; the government sponsored enterprises (GSEs); and reductions in capital gains taxes on home sales. Partially as a result of these incentives, there was a deep and widely shared belief that a nation-wide decline in home prices was impossible – a view that has clearly been proved wrong in recent months.
- **Cheap credit.** Low real interest rates (a result of the global savings glut) made mortgage credit "cheap", and this drove a surge in mortgage originations. While the availability of cheap credit cannot entirely explain why the housing market absorbed so much excess liquidity, as many other forms of credit were also cheap and easily available, it was a significant contributing factor.

The global housing boom

The impact of this influx of capital on global housing markets is easily seen in the significant growth in mortgage originations, the subsequent erosion of lending standards, and the widespread nature of the increases in home prices.

- **Mortgage originations soared.** Mortgage financing expanded dramatically during the first half of the decade. In the United States, for example, mortgage origination as a percentage of total mortgage debt outstanding surged to an average rate of 10.0% from 2001-2006 (see Exhibit 11), up significantly from the average rate of 6.3% from 1985-2000.

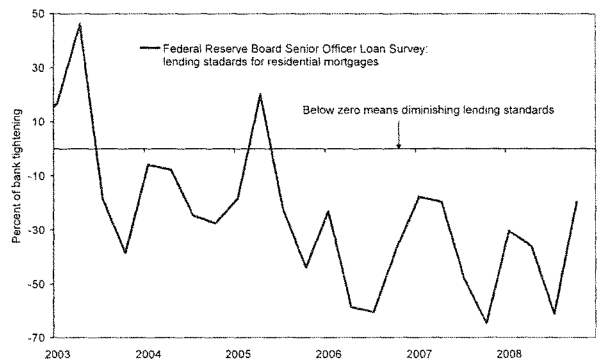
Exhibit 11: Mortgage origination surged – mortgage origination as a percentage of total mortgage debt outstanding



Source: Mortgage Bankers Association, Federal Reserve Board, Goldman Sachs Global Investment Research.

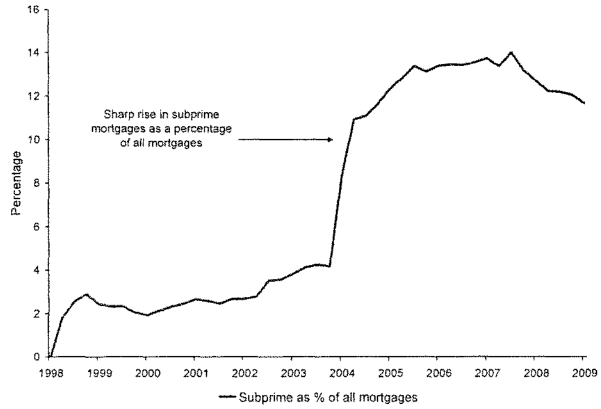
- **Lending standards eroded sharply.** In the United States, the erosion of lending standards was visible in the increase in the number of subprime mortgages that were issued. The share of subprime mortgages rose from 2% to 14% of the total between 2000 and 2007. See Exhibits 12 and 13. It was also visible in lax standards for documentation of information like income and assets. Further, loan-to-valuation (LTV) ratios on new mortgages increased significantly, with the issuance of 100% financing (e.g. no down payment) mortgages increasing dramatically. In parts of the United States, even *negative* down payments were available! The increase in arrears that occurred even prior to the decline in house prices is yet another indicator of how loose lending standards had become during the boom.

Exhibit 12: The surge in capital inflows eroded lending standards



Source: Federal Reserve Board, Goldman Sachs Global Investment Research.

Exhibit 13: The percentage of subprime mortgages soared to record levels



Source: Mortgage Bankers Association, Goldman Sachs Global Investment Research.

- **This erosion of lending standards only worsened when the "bond conundrum" finally ended.** As the yield curve began to flatten and subsequently to rise, demand for mortgages began to decline. In order to stimulate incremental demand, mortgage originators reduced their lending standards even further. This allowed less-qualified borrowers – individuals who might never have taken out a loan – to take out mortgages, and high risk ones at that.
- **The housing bubble was not confined to the United States.** While much of our analysis thus far has focused on the US housing market, the myth that the housing bubble was isolated to the United States should be debunked entirely. The housing bubble was a common phenomenon across developed countries. From 1998 to 2006, real home prices increased rapidly in many countries, including Ireland, the United Kingdom, Australia, France and Spain (see Exhibit 14). In fact, home price appreciation in these countries far outpaced the 49% increase in home prices that occurred in the United States – in Ireland, for example, home price appreciation peaked at nearly 250% from 1998 to 2007.

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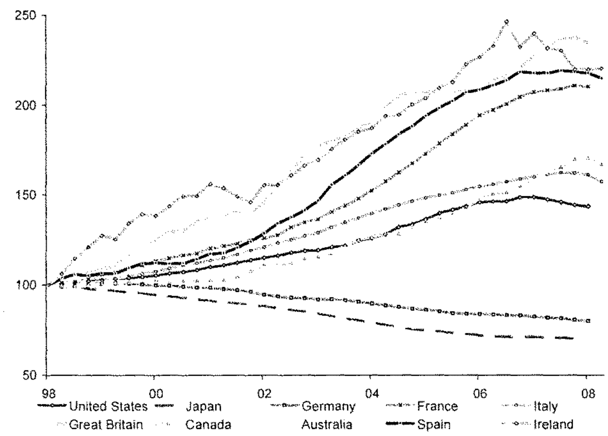
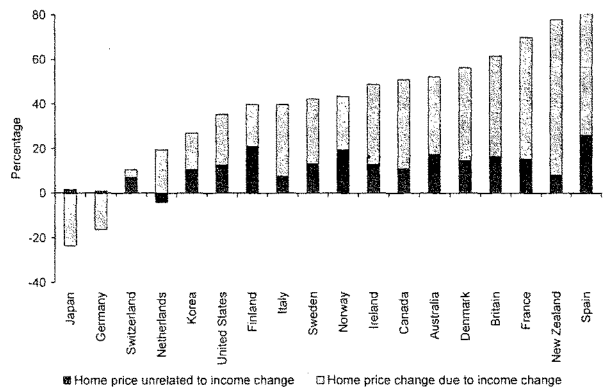
Exhibit 14: Appreciation in real home prices in developed economies 2001-2006
Real home price index; 1998 = 100



Source: OECD, Goldman Sachs Global Investment Research.

Home price appreciation outpaced domestic income growth. Growth in national home prices outstripped income growth between 2001 and 2006 in many countries. As we show in Exhibit 15, in many cases, income growth only drove about two-thirds of the increase in home prices. This sort of outsized growth eventually becomes unsustainable, as home prices inevitably reach a price that local buyers simply cannot afford. Importantly, however, foreign purchasers provided a further source of funds, and the countries that experienced the greatest inflow of foreign savings between 2001 and 2006 also experienced the greatest increase in home prices. Spain, France and the United Kingdom are excellent examples of this.

Exhibit 15: Home price appreciation was driven by more than income growth



Source: OECD, Goldman Sachs Global Investment Research.

Securitizing sub-prime, and other mistakes

The role of securitization

In a different world, these housing bubbles might have remained localized problems – as they had in the past – hurting many individual economies when they burst, but without threatening the entire global financial system. Understanding why they did in fact cause widespread damage is, in our eyes, critical to understanding what regulatory reforms will be most effective in averting another crisis.

Securitization has been one of the real success stories of risk management in the financial industry. It ultimately backfired, however, because the way it was applied to sub-prime and other low-quality assets, and the weakness of the ratings-agency assessments involved, actually lowered the total capital cushion in the financial system.

One of the most celebrated achievements of modern finance was the way in which securitization was able to spread risk across the financial system. Before securitization became widespread, banks had kept loans that they had made on their books and therefore "warehoused" risk. This made individual banks quite vulnerable to sector-specific or regional downturns – but the fact that risk was localized meant that another part of the financial system could always step in to clean up the problems. For example, regional banks filled the lending gap that emerged as a result of the 1990s savings and loan crisis in the United States, and foreign banks bought local banks or specific pools of bad loans in the wake of the 1997-1998 Asian crisis.

The fundamental problem of securitization – one that was missed by regulators and bankers alike until the crisis actually hit – was that the combination of inadequate ratings oversight and the inclusion of poor-quality underlying assets (such as sub-

prime mortgages) allowed for a reduction in the global capital cushion without actually reducing the level of risk. What had made sense on the level of individual institutions ultimately had extremely dangerous consequences when played out on a global scale – as we are now seeing in vivid detail.

The growing gap between risk and capital can be best illustrated using specific examples:[5]

Situation 1: A bank made a sub-prime loan with a face value of $100 and retained the loan as an asset on its books. Under international banking standards (Basel I),[6] the bank was required to hold a capital cushion consisting of two parts: first, the Tier 1 capital ratio of 8% of the face value,[7] adjusted for the risk weighting of the specific asset, which in this case was 50%; and second, minimum reserves of 1% of the face value. Thus the total "cushion" was ($100 x 8% x 50%) + ($100 x 1%), or $5. The details of this transaction are explained and shown graphically in Exhibit 17.

Situation 2: A bank made a sub-prime loan with a face value of $100 and immediately packaged it, along with hundreds of similar sub-prime loans, into a residential-mortgage-backed security (RMBS). The bank received a fee for originating the loans and potentially another for structuring the RMBS, a point that will be important later.

The RMBS was sliced into tranches, each carrying different risk characteristics, generating different yields for investors and thus receiving different ratings from credit ratings agencies. As Exhibit 17 also shows, a typical RMBS securitization moved 75% of the loan into an AAA-rated debt tranche, 10% into an AA tranche, 8% into A, 5% into BBB and 2% into an equity or "first loss" tranche.

Securitization did not change the risk inherent in our single loan. But it did **concentrate** the risk into a single tranche, the "equity tranche," which in our example was comprised of BB assets. Worth 2% of a typical RMBS, the equity tranche was expected to absorb any losses on the loans in aggregate.

Pooling, and the diversification effect it was thought to have brought, allowed regulators to vary capital requirements across tranches. Because most of the risk was held in the equity tranche, this slice bore the highest capital requirements. Specifically:

- The risk weighting for the AAA through BBB tranches – which made up 98% of the value of the RMBS – was roughly 25% on a weighted-average basis. This was just half the risk weight for the whole loan in Situation 1. Moreover, the bank was not required to hold any minimum reserves on the security (compared to the 1% reserve in Situation 1). Thus the capital charge for 98% of the value of the RMBS was ($100 x 8% x 25%) or $2.10.
- Regulators assumed that the "equity tranche" would absorb any losses, and so they imposed a much higher capital charge – 100% on this tranche. In our example, it was ($100 x 2%) or $2.
- Thus the total charge for our "typical" RMBS was just over $4, about 20% lower than under Situation 1.

The fact that the capital requirement was concentrated in the equity tranche, and in the reserves against that tranche, created an arbitrage opportunity. The bank could find a willing buyer for the equity tranche in hedge funds, who were searching for levered

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[5] The examples that follow are meant to be illustrative, and we stress that the details will differ across banks, products and securitization structures.

[6] Virtually all US banks currently use Basel I capital requirements, although banks elsewhere in the world have begun to shift to Basel II standards. We discuss the Basel standards further in Exhibit 21.

[7] The minimum Tier 1 capital requirement under Basel I is 6%. Banks more typically hold 7%-10% capital; we use 8% as a representative average.

exposure and who ultimately held some 25% of all the BBB- and BB-rated tranches (see Exhibit 16 for an example of the arbitrage opportunity). The key fact here is that hedge funds were not subject to Basel requirements. Their capital levels and their leverage were limited only by the amount of financing they could secure from lenders. Insurance funds, which were also not subject to Basel rules (though they were regulated by other institutions), held a further 25% of these lower-rated tranches. See Exhibit 16.

Exhibit 16: Securitization created an arbitrage opportunity between banks and hedge funds

Capital arbitrage between hedge fund investors and banks for RMBS equity tranches - illustrative example

Par value of equity tranche ($) (assumed) 100

Leverage (assumed)	Nil	2.0x	4.0x	6.0x	8.0x	10.0x
Equity	100%	33%	20%	14%	11%	9%
Debt	0%	67%	80%	86%	89%	91%
Return on equity tranche (assumed)	**6%**	**6%**	**6%**	**6%**	**6%**	**6%**
Cost of debt (assumed)	**5%**	**5%**	**5%**	**5%**	**5%**	**5%**
Equity ($)	100.0	33.3	20.0	14.3	11.1	9.1
Debt ($)	0.0	66.7	80.0	85.7	88.9	90.9
Gross return ($)	6.0	6.0	6.0	6.0	6.0	6.0
Interest expense ($)	0.0	3.3	4.0	4.3	4.4	4.5
Net return ($)	6.0	2.7	2.0	1.7	1.6	1.5
ROE hedge fund investor (%)	**6%**	**8%**	**10%**	**12%**	**14%**	**16%**
ROE bank (%)	**6%**	**6%**	**6%**	**6%**	**6%**	**6%**

Source: Goldman Sachs Global Investment Research.

Exhibit 18: Under Basel II, securitization further reduces the capital cushion required

Basel II

Securitization reduces the capital cushion required

Whole loans	(A) Reserve requirement	(B) Risk weighting	(C) Minimum tier 1	(D) Tier 1 allocation (B * C)	(E) Total capital held (A + D)
Pool of mortgage loans	1.00%	35%	8.0%	2.8%	3.8%
Total					3.8%

RMBS	(A) Split	(B) Risk weighting	(C) Minimum tier 1	(D) Tier 1 allocation (of loans) (B * C)	(E) Tier 1 capital held (A * D)
AAA	75%	12%	8.0%	1.0%	0.7%
AA	10%	15%	8.0%	1.2%	0.1%
A	8%	24%	8.0%	1.9%	0.2%
BBB	5%	75%	8.0%	6.0%	0.3%
Equity	2%	1250%	8.0%	100.0%	2.0%
Total	100%				3.3%

Transforming RMBS into CDOs also reduces the capital required

RMBS (BBB tranches)	(A) Split	(B) Risk weighting	(C) Minimum tier 1	(D) Tier 1 allocation (of loans) (B * C)	(E) Tier 1 capital held (A * D)
BBB	100%	75%	8%	6.0%	6.0%
Total	100%				6.0%

CDO	(A) Split	(B) Risk weighting	(C) Minimum tier 1	(D) Tier 1 allocation (of loans) (B * C)	(E) Tier 1 capital held (A * D)
AAA (super senior)	60%	12%	8.0%	1.0%	0.6%
AAA	20%	12%	8.0%	1.0%	0.2%
AA	6%	15%	8.0%	1.2%	0.1%
A	5%	24%	8.0%	1.9%	0.1%
BBB	2%	75%	8.0%	6.0%	0.1%
BB	2%	442%	8.0%	35.3%	0.7%
Equity	5%	1250%	8.0%	100.0%	5.0%
Total	100%				6.8%

Source: Goldman Sachs Global Investment Research.

So while the sale of the equity tranche generated capital relief for the bank (at least under Basel I), it did not necessarily dispose of the risk embedded – and concentrated – in that tranche. The bank might ultimately retain the risk (whether it was aware of the fact or not), by selling to a special-purpose vehicle that ultimately did become the responsibility of the parent bank,[8] or by lending to a hedge fund and relying on the tranche as collateral. Either of these outcomes would have brought the risk back into the regulated financial system – but would have left the capital far beneath the fully-consolidated loan level.

[8] These special-purpose vehicles are the infamous SIVs, special investment vehicles, which allowed banks to move risk off their balance sheets to what were essentially captive buyers. When these SIVs encountered financial trouble beginning in 2007, banks came under pressure to bring these assets back onto their balance sheets, which weakened the parent bank's capital position. The FASB has proposed new rules designed to eliminate this specific arbitrage, as we discuss later in this paper.

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The full danger to the financial system can be seen in the effective leverage ratios that securitization generated. As Exhibit 19 shows, the equity tranche carried no implied leverage (i.e., the capital charge was equivalent to the value of the risk). Direct loans (Situation 1) were levered 20 times under Basel I (and 26 times under Basel II). Under Situation 2, the equity tranches were again not levered at all. But the implied leverage in the other tranches was nearly 50 times (and close to 80 times under Basel II!).

Exhibit 19: Concentrating risk in the equity tranche leads to high implied leverage elsewhere

Exposure to expected vs tail risk	RMBS Equity tranche	RMBS AAA-BB tranches	Direct loans
Implied leverage (Basel I)	1.0x	49.1x	20.0x
Implied leverage (Basel II)	1.0x	78.8x	26.3x

Source: Goldman Sachs Global Investment Research.

Exhibit 20: Global financial institution exposure to CDOs

Holders of CDOs	A and higher rated tranches	BBB and lower-rated tranches	All tranches
Banks and investment banks	38%	33%	42%
Hedge funds / specialists	23%	46%	25%
Insurance companies	31%	4%	24%
Finance companies	5%	9%	5%
Mutual funds / pension funds	2%	8%	3%
Total	**100%**	**100%**	**100%**

Source: Goldman Sachs Global Investment Research.

Situation 3. This repeats the securitization story, with a twist. Banks could gain further capital relief by repackaging RMBS themselves into collateralized debt obligations (CDOs). See Exhibit 17. This second round was conceptually similar to the first: it took a pool of assets – in this example, the BBB tranches of several RMBS.[9] Within the CDO, this pool of assets was then sliced into tranches, with each assigned a rating according to its perceived riskiness. (The banks that structured the CDO also received a fee, as in Situation 2.)

The twist in this situation was that one tranche (typically 20%) of the CDO structure (which, remember, consisted of BBB-rated RMBS paper in this example) could be rated AAA, while another tranche (typically about 60% of the total) could be rated "super-senior" – higher than the ratings of many sovereign governments. As Exhibit 17 shows, the capital held against a CDO of BBB-rated tranches was lower than the capital required for the BBB tranches held separately: $7.10 for the CDO compared to $8.00 for the BBB tranches on a standalone basis. This reflected the assumption that the diversification inherent in the CDO,

[9] Again, this BBB example is illustrative. Residential real estate CDOs were typically made up of RMBS tranches rated from AA to BB.

along with a relatively large equity tranche (5% in the CDO compared to 2% in the RMBS), protected the senior debt holders and thus enabled ratings agencies to assign AAA ratings to some 80% of the total CDO.

This pattern of risk holding is particularly problematic when the underlying assets for securitizations are poor-quality loans such as subprime mortgages, as we have used in our examples. The hedge fund in our example is holding the first loss (the equity tranche) while the banks hold the later losses. With high-quality assets, including prime jumbo mortgage loans, student loans, auto loans and others, this is likely to remain a stable risk formulation.[10] But with poor quality assets, the likelihood of an extremely large shock – in which the risk pool becomes highly correlated and the valuation models fail – rises substantially. If that occurs, the banks are left holding levered risk and inadequate capital. Securitization can only spread risk more efficiently – it cannot make bad lending into good lending.

Since the crisis hit, new rules have been proposed that would force lending banks potentially to consolidate many of their off-balance-sheet entities.[11] There are concerns that the change in accounting treatment would affect capital-adequacy requirements, given the magnitude of the potential transfer. In particular, there are concerns that banks might need to hold the full capital charge for the equity tranche of an RMBS or CDO even if they sold it to an independent investor. These changes to the accounting rules have not yet been implemented, in part because of these concerns.

For now, at least, these proposals have effectively eliminated the appeal of securitization – the potential capital relief – and the market remains essentially closed. We expect that these rules will be weakened over time if regulators want the securitization market to reopen. Alternatively, the banks themselves may find ways of restructuring their off-balance-sheet entities in ways that reduce the new capital burden.

[10] Higher-quality assets could also be securitized. CDOs consisting of these securities typically had a larger proportion of higher-rated tranches, and thinner equity tranches, reflecting their lower perceived riskiness. These CDOs did not cause nearly as much trouble as did the sub-prime CDOs, which we attribute to the fact that these assets were of higher quality.

[11] In 2008 the Financial Accounting Standards Board (FASB), the US standards-setter, proposed revisions to current standards governing the transfer of assets and the consolidation of special-purpose entities (FAS 140 and FIN 46(R)). The change to FAS 140 would eliminate the concept of a "qualifying special purpose entity," which had been critical to securitization. This would apply not only to future QSPEs but also to all existing ones, forcing banks to consolidate many formerly off-balance-sheet entities back onto their balance sheets, and thus potentially raising their capital requirements.

More broadly, as we discuss in the next section, genuine equivalent treatment is the only realistic way of preventing innovation from finding, and exploiting, new stress points in the financial system.

It needs to be said that financial innovation is the result of the natural functioning of markets: finding the most economically efficient way of allocating credit. The "invisible hand" of the market is in this case also the "invisible inventor." Unless regulators impose true neutrality as to form and holder, simple economics will dictate that innovation search out the disparities and find the weak points. But if the accounting and regulatory treatments are harmonized, innovation will shift to finding true risk reduction and other forms of value creation.

Financial holding companies and too many sets of rules

The 1990s saw the spread of highly complex financial holding companies that replaced the classic separation of investment bank, commercial bank and insurance company. This was driven by many causes, both regulatory and economic. **While little has occurred to suggest that this mixing of traditionally distinct activities was in itself problematic, the governance of and regulatory oversight over many of these complex organizations has proven problematic at best.**

Strict rules exist to prevent banks from creating profits simply by shifting an asset from one part of the firm to another. **But arbitrage is rarely so easily defeated.** As an example of the problem, using "mixed accounting" allows banks to enjoy the best of both worlds. Below we outline a classic example (see Exhibit 22 for specific accounting details):

- A bank could generate immediate revenues in its mark-to-market entity (its investment bank) by originating loans for a fee (Situation 2).
- The bank could earn separate underwriting fees by bundling these loans into a security (for example an RMBS) and/or repackaging them into a CDO, as in Situations 2 and 3).
- The bank could then sell all or part of this RMBS or CDO to an off-balance-sheet special-purpose vehicle, which would value and hold the asset at par, often relying on ratings-agency ratings as the basis for the pricing. Under "available-for-sale" accounting, losses would be reflected in the balance sheet, but would not flow through the income statement.

This structure allowed the bank to bypass true mark-to-market discipline while still realizing profits. It deferred losses while at the same time retaining risk. Our banking-sector analysts estimate that commercial and investment banks together held more than 40% of all CDOs, including one-third of the riskiest tranches (see Exhibit 20). Much of this was held in SIVS that were intended to be off-balance-sheet but that ultimately did become liabilities of the parent bank.

This particular arbitrage is now likely to become impossible if the proposed FASB rules discussed above do force banks to bring off-balance-sheet assets back onto their balance sheets. But this is not likely to be the end of the problem. As long as different parts of a financial holding company have different views as to the value of a single asset, and as long as these different units operate under different regulatory or accounting rules for that asset, arbitrage opportunities will exist.

Risk will naturally flow to where it is least monitored and where capital requirements are lowest. That is the nature of markets. While it is not possible to identify today what gaps will emerge in the proposed rules, it is highly likely that innovation will eventually find them.

The only sure way to shut down these arbitrage activities is, as with capital adequacy, to replace the rules rather than continue to patch them. Complex firms should be required to treat similar assets using one consistent set of valuation and accounting conventions, and facing one set of regulatory and capital requirements, across the firm, regardless of the name given to the business unit.[12]

An added problem with complex holding companies, in retrospect, is that not all of them had sufficient operational expertise to deal with the complexity of the risk they were holding. The ability to consolidate positions across related businesses, to mark assets correctly, and to assess total risk correctly is essential. **Without holding-company-wide consolidation of risk management and pricing, bad assets can move to areas of the firm that have weaker risk systems and provide more favorable marks.** This has often led to poor decisions and rapid increases in risk levels. Even with the reforms we are talking about, it is essential that the holding companies themselves can monitor risk in line with the rules. Thus the need to have risk systems that are staffed and empowered – by the organization itself – to monitor risk appropriately relative to the business being done.

This principle of equal treatment will also help to prevent other, similar types of arbitrage, and help to strengthen the financial system against future crises. Mortgages are not the only sector in which the mixed structure has allowed arbitrage opportunities. Similar dynamics were on display in the levered-loan market in 2008, involving problem loans tied to banks' involvement in investment banking transactions. The issue here, much discussed over the years, is that of tying "relationship lending" to fee-based investment-banking business. Although it is illegal for banks to demand formal ties, even so, corporations often link their own willingness to assign investment banking business to (both previous and anticipated) access to funding.

From the banking perspective, the problem is again one of "profits first, losses later." Banks can immediately book profits on investment banking fees, but can defer recognizing losses on loans until they fail to perform. This timing mismatch creates tremendous incentives to lend at below-market rates and to lend in excess, in an effort to generate fee income.

"Profits now and losses later" is always a bad recipe for financial control. Over the past two decades, it has allowed financial institutions with inadequate controls to build up large amounts of under-capitalized risk. Regulatory and accounting controls have sought to block these arbitrage opportunities. In many cases, however, they have had the effect of encouraging complexity (in the form of structuring, like our RMBS and CDO examples), without actually preventing banks from finding the most favorable treatment.

Part of the problem is that regulatory and corporate governance systems develop by trial and error. Gaps in these systems are not often obvious based on first principles, and are often only understood over time as problems emerge. This is why we say that, while we do not know today what gaps will emerge from the proposed FASB rules, we are certain that some will.

The only truly effective way to keep these arbitrage opportunities from running out of control is to limit the mix. This could be done in three inter-related ways:

- Forcing financial institutions to collect linked activities into the same arm of the organization, and to treat **all** linked activities according to the same rules—for capital, accounting, recognition of profit and loss, etc.;

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[12] An equally valid approach would be to require banks to consolidate all of their activities on their balance sheets. This point is argued in an excellent review of the crisis and proposals for reforms issued by the Group of 30 in January 2009. See Financial Reform: A Framework for Financial Stability, http://www.group30.org/pubs/reformreport.pdf . See also The Road to Reform, issued by CPRMG III in August 2008, http://www.crmpolicygroup.org/docs/CRMPG-III.pdf.

- Requiring banks to have strong and independent valuation and reporting functions that operate at the firm-wide level, in order to monitor these risks in the aggregate; and
- Requiring these risk-control entities to screen internal transfers, to ensure that firms cannot change the value of assets simply by moving them to units with more favorable local marks, regulatory or accounting treatments.

Among other things, this would indicate that:

- All activities associated with investment banking activities, including lending, should be consolidated within the investment banking unit. This would subject them to the full discipline of mark-to-market, as well as the capital, leverage and other regulatory restrictions that apply to "investment banking."
- Lending institutions that engage in both investment banking and lending with a single client should be required to mark large loans to market as soon as they are originated. This would erase the timing arbitrage that currently exists, by forcing banks to recognize losses from below-market loans at the same time that they recognize associated fee income. This in turn should reduce the incentives for poor lending practices.
- Securitized assets should have to remain in the investment bank unless sold outside the holding company entirely.

Whatever the specific form of future regulations, the intent should be to force companies to treat transactions consistently, regardless of how they are handled, and to impose a consistent valuation and timing of recognition of profits, losses and risks, regardless of where the assets are held or how they are structured.

Conclusions

As we rebuild the financial system, four things are clear:

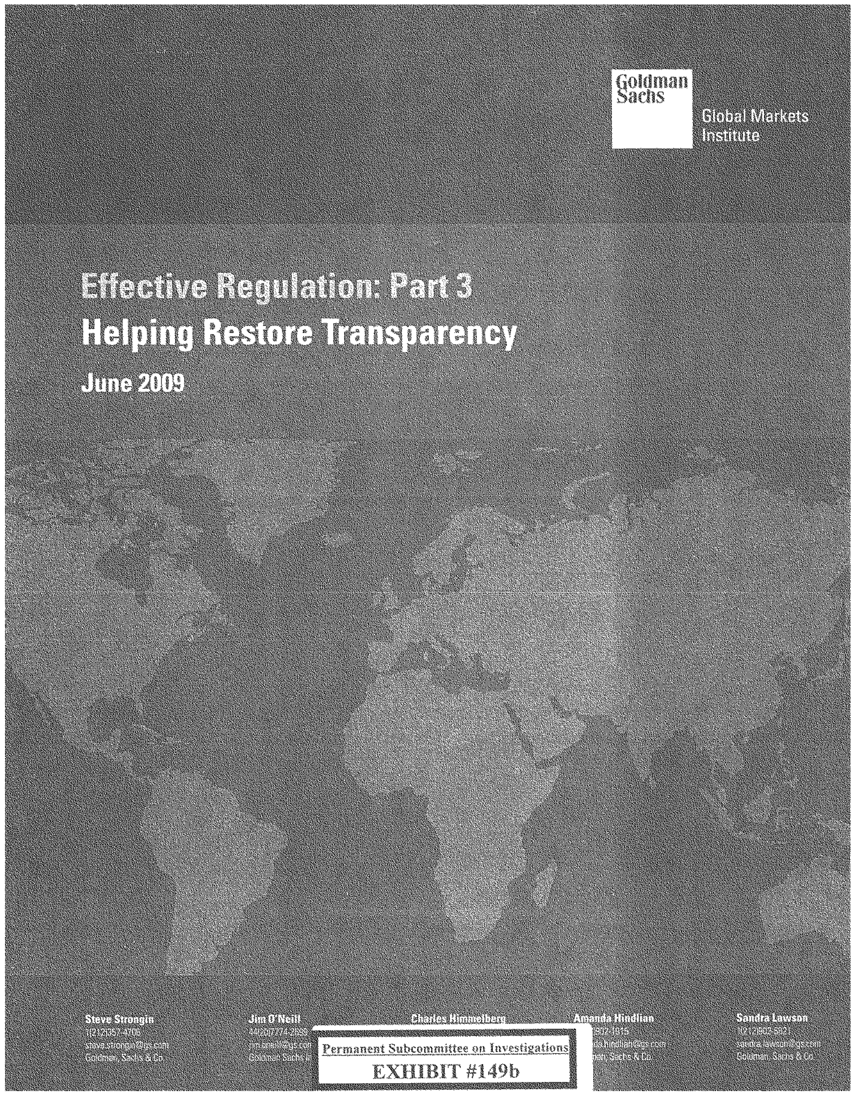
1. **Capital gluts must be managed, and asset bubbles cannot simply be allowed to run their course.** Regulators have focused on managing risk at the level of institutions, and have sought to strengthen financial systems against small and local shocks. Major regulators have largely been successful in this – but in the process, they have unintentionally increased the system's vulnerability to global and macro shocks. In the future, regulators should give stronger focus to macro-prudential supervision. This will entail greater international information-sharing and cooperation.
2. **Securitized loans should, in aggregate, face the same capital requirements as the underlying loans would if they were held on bank balance sheets.** Securitization would then be driven by a desire to reduce hazardous concentrations of risk, rather than a desire for capital relief. Regulators should also monitor the quality of the assets being securitized and the ratings assigned by rating agencies.
3. **Lending institutions should be required to mark large loans to market at origination, forcing symmetry across the recognition of profit and risk.** Banks should not be allowed to defer losses via their commercial banking lines while recognizing profits immediately in their investment banking units.
4. **Lending linked to investment banking activities should be consolidated into the investment banking arm and subjected to full mark-to-market discipline and all regulatory and accounting rules that apply to trading assets.** This would eliminate the ability to exploit differences in regulation or accounting. Further, financial institutions involved in investment banking should be required to have an independent, appropriately staffed and fully-resourced control group to mark and manage the resulting risks.

Accordingly:

- All activities associated with investment banking activities, including lending, should be consolidated within the investment banking unit. This would subject them to the full discipline of mark-to-market, as well as the capital, leverage and other regulatory restrictions that apply to "investment banking."
- Lending institutions that engage in both investment banking and lending with a single client should be required to mark large loans to market as soon as they are originated. This would erase the timing arbitrage that currently exists, by forcing banks to recognize the losses from below-market loans at the same time that they recognize the associated fee income. This in turn should reduce the incentives for poor lending practices.
- Securitized assets should have to remain in the investment bank unless sold outside the holding company entirely.

Whatever the specific form of future regulations, the intent should be to force companies to treat transactions consistently, regardless of how they are handled, and to impose a consistent valuation and timing of recognition of profits, losses and risks, regardless of where the assets are held or how they are structured.

Despite their best efforts in the months ahead, it is unlikely that governments, regulators and market participants can build a regulatory system so flawless that it can perfectly manage another influx of capital like the one we have just seen. Accordingly, the best solution will include finding ways to offset capital imbalances that may occur in the future, while simultaneously developing a stronger regulatory system that limits the spread of the damage.



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Permanent Subcommittee on Investigations
EXHIBIT #149b

Effective Regulation: Part 3

Helping Restore Transparency

Goldman Sachs Global Markets Institute

Reduce arbitrage opportunities

In the first paper of our series on effective regulation, entitled "Avoiding Another Meltdown," we outlined key principles for improving financial regulation by reducing opportunities for financial holding companies to arbitrage regulatory and accounting standards, asset pricing, and risk controls. In this paper, we offer proposals that would help to put these principles into practice. We illustrate our ideas with simplified case studies of some key arbitrage problems, and show how our suggestions could potentially reduce them.

Strengthen controls on transfers of risk between affiliates

A serious set of problems that surfaced during the financial crisis relates to transfers of risk within financial holding companies that allowed risks to move to where they would receive favorable accounting or regulatory treatments. The range of failures and the sizeable differences in the way these issues surfaced, suggest that the problem is not so much a specific set of rules, but the generally unconstrained nature of these transfers of risk. We therefore propose that risk transfers between affiliates should be restricted so that risks flow to entities that employ full mark-to-market accounting and on-balance-sheet reporting. In essence this means that, within a financial company, risks should flow only to its investment banking arm, not away from it. Further, affiliates should not be able to subsidize investment banking businesses by offering other financial services at below-market prices. This is especially important when these businesses are subsidized by government-guaranteed deposit insurance or any other government-based advantage.

Additional restrictions are appropriate for securitizations

For transactions involving asset-backed securitizations, we recommend two additional restrictions. First, securitized loans should, in aggregate, face the same capital requirements as the underlying loans would face if they were held on financial institutions' balance sheets. Second, to qualify for regulatory capital relief, securitizations must be sold to true third parties (not to affiliates), and tranches of securitizations must be sold in equal-proportional "slices" relative to their size.

Helping to restore transparency

The current system provided significant incentives for financial companies to hold and internally transfer complex forms of risk. This made monitoring these risks challenging, and therefore made the unwind of the current crisis more difficult than it otherwise might have been. If the incentives to hold and internally transfer complex forms of risk are reduced, then financial firms will likely evolve into simpler and more transparent entities. This should make it easier, in our view, for regulators and investors alike to evaluate the health of financial firms, and would reduce the likelihood of a similar crisis.

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Improving transparency

In the first of a series of papers on effective regulation, entitled "Avoiding Another Meltdown[1]," we offered principles for improving regulation of the global financial system in the wake of the financial crisis. These principles focused on eliminating the opportunities for arbitrage of regulatory and accounting standards, asset pricing, and risk controls that have accompanied the growth of complex financial holding companies and the spread of securitization.

Since the publication of that paper, we have been asked to provide more details on how these suggestions might be implemented. Of course, our suggestions are among many that have been proposed by various regulators and market participants[2]. We hope our ideas will provide an overview of the key requirements for preventing similar problems in the future. **Thus, in this third paper of the series, we sketch out our proposals, illustrating them with simplified examples of arbitrage problems and showing how these problems might be reduced.**

Before we begin, it is worth noting that most financial institutions maintained disciplined risk controls in the face of powerful competitive pressures. The problems that have arisen involved a small number of financial products and firms. Further, by helping to intermediate the global flow of capital between borrowers and savers, the financial system overall helped to support global economic growth. The response to the crisis must continue to permit capital to flow through an efficient market process to where it will be most productive. Nevertheless, we acknowledge that the damage caused has been enormous, and solutions must address the gaps in the financial system that allowed problems to go unchecked.

Unconstrained transfers of risk within financial companies

A serious set of problems that surfaced during the financial crisis relates to transfers of risk within financial holding companies that allowed risks to move to where they would receive favorable accounting or regulatory treatments. The range of failures and the large differences in the way these problems surfaced, suggest that the problem is not so much a specific set of rules, but rather the generally unconstrained nature of these transfers of risk. Specifically:

- For a number of years, major financial institutions have been allowed to operate several business lines—each with potentially different accounting, regulatory standards, and capital requirements, and separate methods of internal pricing.
- This allowed risks to be housed in the units where accounting, regulation, capital requirements and internal pricing were most favorable. Risks often gravitated to areas

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[1] Please see "Effective Regulation Part 1: Avoiding Another Meltdown," published in March 2009 and available at http://www2.goldmansachs.com/ideas/public-policy/index.html.

[2] Some of the key initiatives that have been put forward include the creation of a systemic risk regulator and a resolution authority; higher standards for capital and risk management for systemically important firms; more transparent and comprehensive disclosures for over the counter (OTC) derivatives markets; requirements for money market funds to reduce the risk of rapid withdrawals; and requirements for hedge funds or other private pools of capital above a certain size to register with the SEC. The FASB (the US accounting standard setter), in conjunction with the IASB (the international accounting standard setter), has also established the Financial Crisis Advisory Group (FCAG), which provides advice on the standard-setting implications of the global financial crisis. Several amendments regarding fair value measurements have been made by the FASB since the FCAG was formed. *(Footnote 2 continued on page 4).*

where supervision was weakest, and were permitted to grow beyond appropriate and manageable bounds.

- This is particularly true for certain securitizations, which allowed for complex transfers of risks within financial companies that were difficult to track.

As we noted earlier, a number of regulatory and accounting proposals have been made to address these problems, as well as several other issues that arose during the financial crisis. We add some overriding principles that we believe should help to address a major contributing problem—namely, generally unconstrained risk transfers within financial companies. In our view, risk transfers must be tightened so that risks follow predictable paths and are visible to markets and regulators alike. This would help to simplify the assessment of the health of financial companies by forcing profits and risks reported by financial firms to accurately and fully reflect their true economic value.

This is relatively straightforward in principle, but more complex in execution. Our suggestion for implementation of these principles is as follows:

- Within financial holding companies, risk transfers between affiliates should be restricted so that risks flow to entities that employ full mark-to-market accounting and on-balance-sheet reporting. **In essence, this means that risks should flow only to the investment banking arm and not away from it.**
- **Affiliates should not be able to subsidize investment banking businesses by offering other financial services at below-market prices.** This is especially important when these businesses are subsidized by government-guaranteed deposit insurance or other government-based advantages. In particular, loans to investment banking clients should be marked to market and reported on the balance sheet to ensure that revenues and profits are accurately stated. Without such restrictions, revenues and profits can be substantially overstated and risks hidden.

For transactions involving asset-backed securitizations, we would recommend the following additional restrictions:

- **Securitized loans must, in aggregate, face the same capital requirements as the underlying loans would face if they were held on financial institutions' balance sheets.** Securitization allows for the dispersal of risk—it does not eliminate it. Therefore, the total capital held against the tranches of a securitization should equal the aggregate capital that would have been held against the underlying loans (had they not been securitized).
- **To reduce risks reported on financial statements or receive regulatory capital relief, securitizations must be sold to true third parties (not to affiliates) and tranches of securitizations must be sold in equal-proportional "slices."** These restrictions would force the establishment of market prices for all tranches, and would make these prices visible to both markets and regulators. They should also

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[2] *(Continued from page 3).* Additionally, the FASB has proposed revisions to current standards governing the transfer of assets and the consolidation of special-purpose entities (FAS 140 and FIN 46(R)). The change to FAS 140 would eliminate the concept of a "qualifying special purpose entity," which had been critical to securitization. This would apply not only to future QSPEs but also to all existing ones, forcing banks to consolidate many formerly off-balance-sheet entities back onto their balance sheets, potentially raising their capital requirements. For a substantive and thorough review of the regulatory issues and specific recommendations that have been suggested, we recommend the following pieces: (1) A Framework for Financial Stability, www.group30.org/pubs/reformreport.pdf. (2) The Road to Reform, issued by CPRMG III in August 2008, www.crmpolicygroup.org/docs/CRMPG-III.pdf and (3) Treasury Outlines Framework for Regulatory Reform, www.treasury.gov/press/releases/tg72.htm.

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prevent financial companies from warehousing difficult-to-sell or under-capitalized tranches. Market discipline can only be expected to work if assets are actually sold into the market.

As we discussed in the first paper in our series on effective regulation, and as we will show here in a handful of simplified examples, the regulatory and accounting systems in place today provided significant rewards for complexity. This includes complex structuring of securities, balance sheets, and even financial holding companies themselves. We believe that if proposals such as ours, or proposals that are aimed at removing those incentives, are implemented, much of the complexity that has developed in the financial system will fade. Financial firms may even reorganize so that they are structured along product and client lines rather than according to regulatory distinctions. This would make it easier, in our view, for both markets and regulators to evaluate the health of financial firms, and would reduce the likelihood of a similar crisis.

Illustrative case studies: Detailing the arbitrage opportunities

To better understand how the rules we propose could have affected behavior in the run-up to today's crisis, we provide some illustrative case studies:

Accounting arbitrage

In this illustrative case study, we focus on how financial companies can recognize profits today while deferring the recognition of related losses until tomorrow. This practice can allow financial companies to obscure the true economics of a transaction, and it limits financial statement transparency and encourages poor lending, in our view.

Illustrative case study

- Company A wants to buy a subsidiary from a competitor. To do so, it needs both advice on structuring the transaction and financing in the form of loans.
- The economic profit the financial holding company can earn by providing the combined services is $5 mn.
- A financial institution that can "split" the transaction—offering advice from its investment banking unit and loans from its commercial banking unit—can appear to generate far higher profits. For example, a financial company can charge $50 mn for the investment banking services, but rebate $45 mn by providing the loans needed at below-market interest rates, such that a true mark-to-market on the loan would show a $45 mn loss.
- The underlying economic result is that the financial institution still earns $5 mn on the combined transaction, but it can report **revenues** today of $50 mn.

The bank has two options to show the inflated revenues:

- Hold the loan as an asset on its books at full face value, under "held-to-maturity" accounting. In this case, the financial institution would recognize the $45 mn loss on the loan only if the loan became non-performing over time.
- Alternatively, hold the loan as an asset under "held-for-sale" accounting. Under these rules, the financial institution would need to show a "temporary impairment" to the value of the loan. This impairment would reduce the value of the loan on the financial institution's balance sheet. But it would not be recorded on the profit-and-loss statement, and thus would not diminish revenues today.

Why does the choice of accounting treatment matter?
It matters because choosing a certain method of accounting can allow the financial institution, within existing regulations, to overstate revenues and understate losses—distorting the underlying economics of a transaction. In this example, the unreported loss inherent in below-market lending allows revenues to be overstated and may not be visible to the investor unless the loan becomes impaired at a later date. This "profits today, losses tomorrow" approach not only obscures the true economics of the transaction, but it also makes financial statements less transparent and strongly incentivizes poor lending practices.

Mark-to-market accounting, on the other hand, ensures that revenues reflect the actual economics of the transaction. Further, mark-to-market accounting ensures that balance sheets are more accurate, making it easier for capital markets to assess risk and provide capital in periods of stress. This compares to the recent past, when concerns about the validity of balance sheets undermined the ability of markets to provide capital, forcing financial institutions to turn instead to governments.

However, this does not imply that mark-to-market accounting is necessary or even appropriate in all circumstances. For simple consumer and small business loans, classic held-to-maturity accounting can provide more stable access to credit for communities, and no less a form of transparent reporting. The key problem arises when lending is either directly or indirectly linked to a broader banking relationship, where off-market loans can distort both the reported economics and lending incentives.

How would our suggestions reduce this arbitrage opportunity?
Forcing the loan to be held in the investment bank would subject it to mark-to-market accounting. In our example, this would force the financial institution to realize both the $50 mn in fees and the $45 mn in losses on the loan, at the same time, reducing the net profit to $5 mn. This would make the income and balance sheet reflect the actual economics of the transaction and would reduce the incentive to make bad loans.

Capital arbitrage

Here we focus on how securitization allows for financial companies to reduce their capital reserves without reducing their risk exposure. We explain how our suggestions would address this arbitrage opportunity when we discuss the ratings arbitrage example next.

Illustrative case study

- When a bank makes a loan, it is required under international standards (Basel standards) to hold a certain amount of capital against the risk of the loan going bad. As we show in Exhibit 1, we assume that the capital "cushion" required for a $100 loan is $5.
- However, if the bank securitizes this loan (along with others), and keeps the entire security on its own balance sheet, the same international standards allow the capital cushion to fall to $4.10 (also illustrated below). Securitization has allowed the bank to reduce its capital by a remarkable 20%—while still holding 100% of the risk. While this example is highly simplified, the problem is quite real. In many cases, the simple act of securitizing loans lowered capital requirements substantially—even though the loans were never sold in a public market.

Exhibit 1: Securitization allows for an approximately 20% reduction in capital held

Tier 1 (min)	8%

Whole loans	Reserve requirement	Risk weighting	Minimum tier 1	Tier 1 allocation	Total capital allocation
Pool of loans	1%	50%	8.0%	4.0%	5.0%
Total					5.0%

RMBS	Split (A)	Risk weighting (B)	Tier 1 capital (C)	Tier 1 capital for the tranche (B*C)	Tier 1 capital allocation (A*B*C)
AAA	75%	20%	8.0%	1.6%	1.2%
AA	10%	20%	8.0%	1.6%	0.2%
A	8%	50%	8.0%	4.0%	0.3%
BBB	5%	100%	8.0%	8.0%	0.4%
Equity*	2%	NA	8.0%	100.0%	2.0%
Total	100%				4.1%

*The BB-rated tranche is considered to be 'residual equity.' It has no risk weighting, but the capital requirement is 100%.

Source: Goldman Sachs Global Investment Research.

Ratings arbitrage

Current regulations surrounding securitization tacitly assume that securitized assets are sold, rather than retained on the originating firm's balance sheet. The previous example focused on the arbitrage available when an entire securitized asset is held within a financial holding company rather than sold. This next example focuses on the issues that arise when parts, but not all, of a securitized asset are sold.

Illustrative case study

- An asset-backed security is created, consisting of two tranches, each assigned a rating. The lower-rated tranche contains 80% of the risk of the security, while the higher-rated tranche contains 20% of the risk.
- If capital requirements match the underlying risk of the tranches in this securitized asset, no problems should arise. For example, of the total capital held for the loans, 80% of that capital should be associated with the lower-rated tranche and 20% with the higher-rated tranche.
- There is an arbitrage opportunity, however, if the security is designed and rated such that 90% of the capital required is associated with the lower-rated tranche. In this case, the financial company would have very strong incentives to sell the low-rated tranche and keep the highly rated tranche. This would create a situation where the financial institution was left with less capital than would be appropriate to manage the risk—in this case, just half of the appropriate level (10% of the capital versus 20% of the risk).

How would we propose to reduce these arbitrage opportunities?

- **Capital should add up.** The simplest way to reduce the capital arbitrage opportunity highlighted above is to require that securitized loans, in aggregate, face the same capital requirements as the underlying loans would face if they were held on financial institutions' balance sheets. After all, securitization transfers risk—it does not eliminate it. Thus, the underlying capital cushion should not be dramatically reduced.

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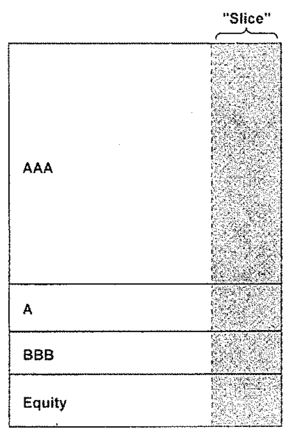
In the capital arbitrage case study above, the financial institution would be required to hold the full $5 in capital against 100% of the risk, even if the loan were securitized, unless and until the institution sold part of that risk to a truly independent third party. This would more accurately reflect the true risk on the financial institution's balance sheet.

- **Securitizations must be sold to true third parties and tranches of securitizations must be sold in equal-proportional "slices."** The easiest way to reduce the ratings arbitrage opportunity outlined above is to allow for regulatory capital relief only when full "slices" of securitizations are sold to true third parties (not to affiliates). We refer to the sale of a "slice" as the sale of all tranches in proportions relative to their size. See Exhibit 2.

Exhibit 2: A "slice" of the tranches of a securitization



Source: Goldman Sachs Global Investment Research.

Assume that in our ratings arbitrage case study, the low-rated tranche contains 25% of the total dollars associated with the securitized assets. In order to achieve capital relief, a financial firm would need to sell $3 of the higher-rated tranche for each $1 of the lower-rated tranche. This requirement may seem too stringent, given that risk was diminished by the sale of a tranche, regardless of what was sold. Yet, although this is true, partial capital relief could easily provide strong incentives to warehouse mispriced risk.

We believe that the rules we propose would strongly encourage underwriters to design securitized assets that would make all tranches attractive for sale. They would further incentivize underwriters not to warehouse the "ugly parts" of securitized assets. This would be likely to bring market discipline back into the process and return securitization to its original intent of reducing hazardous concentrations of risk. At its most basic level, this rule says, "If something is a loan, treat it as a loan. If it is treated as a security, it needs to be sold and not simply labeled as such."

Valuation arbitrage

Here we discuss an arbitrage opportunity that does not exist in theory (as it is technically not allowed), but which can occur in practice. If assets are priced differently in different affiliates within a single holding company, and transfers between those affiliates are allowed, then "phantom" profits can be created by changing an asset's location.

Illustrative case study

- Consider an AAA-rated tranche that a trading desk values at 50 cents on the dollar, based on the desk's actual ability to sell the asset. Consider that the same asset is valued at 100 cents on the dollar by a structured investment vehicle (SIV) of the same financial company, where valuation is driven by ratings.
- In this case study, there are strong incentives for the investment banking arm to continue to produce more AAA-rated tranches, and to sell them to the SIV, as long as the sale price is between $0.50 and $1.00.
- In theory, all parts of a holding company should value the same asset at the same price, and transfers of this type should never produce profits. However, when internal valuation and risk control systems fail to prevent this type of transaction, the potential build-up of risk is tremendous. Collecting risk in the investment bank (rather than shifting it to the SIV) and using trading desk valuations (rather than ratings-based prices) make this type of build-up in risk far less likely, in our view.

How do we propose that this problem be addressed?

We believe that financial holding companies and investment banks, in particular, should be required to have a strong, independent valuation and control group that can require each asset to have a single price, regardless of where it sits within the financial institution. Further, by prohibiting sales between the investment bank that originates securities, on one hand, and affiliates such as SIVs, on the other hand, the potential for building large amounts of this type of risk could be substantially reduced. Further, by making risk move toward the investment bank, where assets are traded rather than held, pricing is likely to become more accurate rather than less.

Conclusions

We believe that regulators and capital market participants are best able to evaluate financial markets when financial firms are required to use similar means to build, mark, and hold risks, and are required to employ the most transparent financial reporting possible. If, instead, firms are allowed to choose which regulatory systems, accounting frameworks, or internal controls suit them, then the likelihood of something going wrong goes up significantly. Although we recognize that the investment banking model is imperfect, we believe that it has the strongest pricing, risk discipline, and transparency of the different models used today. Thus, requiring risk to flow to the investment bank—and remain there unless sold to a true third party—would likely provide the greatest transparency and risk discipline by subjecting the transferred asset to full mark-to-market accounting. This requirement would also likely provide the strongest capital and disclosure requirements.

As we noted earlier, we think that if proposals such as ours or others aimed at removing the incentives to arbitrage the system are implemented, then much of the organizational complexity that has developed in financial holding companies would disappear. We expect that financial firms would be incentivized to reorganize along product and client lines, rather than along regulatory or accounting lines. One possibility for how a financial holding company might organize itself—though clearly not the only one—is as follows:

- A lending bank, funded by deposits and dealing mostly with retail consumers and small- to- medium-sized businesses. Loans made to such clients are best understood in terms of risk to future cash flows rather than market volatility; accordingly, these transactions would be recorded—appropriately—under hold-to-maturity accounting standards.
- An investment bank (or a broker-dealer or a trading company), which would deal with marketable securities and financial services for companies that access public markets for funding, as investors, or both. For these sorts of transactions, market prices are almost always available, and we believe that mark-to-market accounting should be employed. Such accounting provides the most immediate and clear assessment of the health and profitability of the entity.

Such an arrangement, which mirrors how a number of holding companies organize their business relationships today (though not their balance sheets or income statements), would likely make it easier for both market participants and regulators to assess the health and profitability of financial companies. Perhaps even more importantly, if the rules no longer rewarded complexity or allowed the system to be arbitraged, then markets should be able to provide the appropriate rewards for clarity, transparency, and economic value added.

MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Jonathan Egol
David Gerst
Fabrice Tourre
Geoff Williams
Darren Thomas
Shin Yukawa

Cc: Armen Avanessians
Robert Berry
Justin Gmelich
Bill McMahon
Bunty Bohra
Slim Bentami
Josh Birnbaum
David Lehman
Peter Ostrem
Matt Schroeder
Mike Swenson
Mike Turok
Glade Jacobsen
Rob Leventhal
Darren Littlejohn
Mary Marr
Mitch Resnick

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Date: March 12, 2007

Re: **ABACUS Transaction to be Lightly-Managed by [redacted] Capital**

I. Introduction

The Structured Product Correlation Trading Desk is currently structuring a synthetic ABS CDO^2, ABACUS 2007-LC1 ("LC1"). LC1 will reference a $1 billion lightly-managed portfolio consisting entirely of double-A rated tranches issued from cashflow mezzanine ABS CDOs (such portfolio, the "Reference Portfolio"). [redacted] Capital Management Limited ("[redacted]" or the "Portfolio Advisor") will be the portfolio advisor for the transaction. We expect that [redacted] and [redacted] Banking Corp. ([redacted]), an affiliate of [redacted], will commit to purchase a substantial portion of the junior layers of the LC1 capital structure as described herein.

[redacted] was established in 2005 through the merger of [redacted] Asset Management and [redacted] Asset Management. These entities have been managing discretionary funds in Singapore since 1987. [redacted] is one of the largest asset management companies in Singapore, with total assets under management of S$32 billion (USD$20.8 billion) as of December 31, 2006. As of December 31, 2006, CDOs comprised approximately 24% of total assets under management and are one of the focus product areas within [redacted] Capital. [redacted] Capital currently has 23 CDOs under management, spanning sectors such as Mezzanine ABS, High Grade ABS, Emering Market Sovereign, Investment Grade and High Yield (both Global and Asian-focused). Goldman executed a managed synthetic corporate CDO with [redacted] in August 2006.

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

The role of the Portfolio Advisor will be described in more detail below. As with prior ABACUS transactions, Goldman will be the protection buyer in connection with the transaction, in addition to the other roles described herein.

Several additional key aspects of the LC1 transaction include:

- The tranches issued in connection with LC1 and not retained by [redacted] and/or [redacted] are intended to be distributed to suitable investors through the Structured Products Syndicate Desk.
- This will be the fifth ABACUS transaction lightly-managed by a third party. Prior managed ABACUS transactions include ABACUS 2005-CB1 (C-BASS), ABACUS 2006-NS1 (NorthStar), ABACUS 2006-HGS1 (BSAM). We are also currently in the market with ABACUS 2007-AC1 (ACA), a mezzanine RMBS synthetic CDO.
- We project the profitability of the transaction to be approximately $10 million in present value after expenses. This estimate does not attribute any value to the call option and bid/offer the trading desk can earn on the double-A ABS CDO protection generated by the transaction.

We are pursuing this transaction for the following reasons:

- Partnering with [redacted] on this innovative, franchise-building transaction will enhance our leadership position in the market for structured product synthetic CDOs. We expect that the role of [redacted] as portfolio advisor and junior tranche investor will broaden the investor base for this and future ABACUS offerings. Also of note is that the transaction would be the first Goldman structured product CDO sponsored and managed by a leading Asian CDO manager.
- The desk has an axe to short structured product CDOs in bulk. The ABACUS transactions are currently one of the unique formats available to source efficient spread and credit protection in large size on this type of structured product risk.

We expect to begin actively marketing the transaction in April and to price and close the transaction in May.

Given the franchise value and innovative nature of this transaction, as well as the potential to benefit the overall structured products business, we request the Committee's approval to execute the proposed synthetic CDO.

II. <u>Transaction Overview</u>

A Cayman's special purpose vehicle will be established for the sole purpose of issuing up to $350 million of Notes (such special purpose vehicle, the "Issuer").

The Issuer will enter into a CDS with Goldman to write protection on the mezzanine and junior layers of risk of the Reference Portfolio. Under the CDS, the Issuer will write protection to Goldman covering cumulative losses between 0.00% and 35.00% of the notional amount of the Reference Portfolio. The Issuer's obligations to Goldman under the CDS will be collateralized by triple-A securities selected by Goldman. In return for this credit protection, Goldman will pay a stated premium equal to the periodic administrative expenses of the Issuers, the spread over LIBOR on the outstanding classes of Notes and the advisory fees accrued actual/360 and paid monthly on the outstanding classes of the Notes. The structure is described in more detail in the Appendix.

In connection with the transaction, we will seek to separately purchase credit default swap protection from one or more suitable counterparties approved by Credit on the super senior 35% to 100% risk layer. In spite of the current dislocated market for super senior risk layers on structured products, we are optimistic that the unusually high-grade nature of the underlying portfolio (all double-A rated) and the unusually high 35% attachment point of the super senior tranche will be interesting to monolines or other target counterparties at a suitable price point. If we seek to purchase credit protection from one or more monolines, a suitable intermediary approved by Credit willing to post mark-to-market collateral will be obtained in connection with such super senior trade.

Note that Goldman bears no warehouse risk in the LC1 transaction. Reference Obligations identified for the transaction may be freely traded by the single-name CDO CDS desk, without committing to deliver risk to the LC1 transaction at a pre-defined spread. As customers purchase various tranches (including the tranches committed to by [redacted] and/or [redacted]), corresponding model-based short exposures in the

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Reference Obligations will arise (see Model and Booking Policy herein). Such short exposures will be hedged internally or externalized to the market in connection with the overall trading and risk management posture of the structured products trading desk.

The expected issuance is summarized below:

Tranche	Notional Amount ($MM)	Loss Exposure	Lion Advisory Fees [(a)]	Expected Ratings (Moody's/S&P)	Target Investors / Distribution
Super Senior	650.00	35.00% - 100.00%	NA	Not Applicable	Monolines, Hedge Funds
Class A-1	200.00	15.00% - 35.00%	0.20%	Aaa/AAA	Syndicated Tranche
Class A-2	75.00	7.50% - 15.00%	0.35%	Aaa/AAA	Syndicated Tranche
Class B	30.00	4.50% – 7.50%	0.50%	Aa2/AA	Syndicated Tranche
Class C	25.00	2.00% - 4.50%	0.75%	A2/A	100% to [redacted] [(b)]
Class D	10.00	1.00% - 2.00%	1.00 %	Baa2/BBB	At least 55% to [redacted]
Class E	5.00	0.50% - 1.00%	NA	Ba1/BB+	50% to [redacted]
Class FL	5.00	0.00% - 0.55%	NA	NR/NR	20% to [redacted]
Total	1,000.00				

[(a)] [redacted] will earn advisory fees accrued actual/360 and paid monthly on the outstanding notional amount (as reduced from time-to-time by amortization or credit losses) of the Notes as set forth above.

[(b)] [redacted] has indicated potential interest for all $25 million of the Class C Notes, but has not obtained formal approval for such purchase as of the date of this memo.

All of the Notes will be rated by both S&P and Moody's.

We expect [redacted] Capital to be in a position to execute an engagement letter with Goldman on the transaction the week of March 12. Tim Saunders in Legal has reviewed the engagement letter, and our proposed engagement with Lion has cleared background/conflicts checks.

Under the contemplated terms of the engagement letter, we expect that [redacted] will commit to purchase:

- At least 55% ($5.5 million) of the Baa2/BBB Class D Notes, and potentially up to 100% ($10.0 million) of such Class of Notes;
- 50% ($5.0 million) of the Ba1/BB+ Class E Notes; and
- 20% ($1.0 million) of the unrated Class FL Notes.

As each reference obligation comprises 2% of the Reference Portfolio, Lion is effectively committing to purchase a substantial fraction of the first-loss risk in the transaction. The balance of such junior classes would be marketed in connection with the transaction.

We also expect that [redacted]s affiliate [redacted], under a separate purchase commitment, will purchase 100% ($25.0 million) of the A2/A Class C Notes. [redacted]s portfolio manager has indicated interest to invest in this class for [redacted]'s ABS/CDO portfolio, although formal approval for such purchase has not yet been received as of the date of this memo.

With respect to distribution of the $305 million of Notes not pre-placed with [redacted] or [redacted], we intend to target suitable structured product investors who have (a) participated in prior [redacted]managed CDO transactions, (b) participated in prior ABACUS transactions (such as ABACUS 2006-HGS1) or (c) have expressed interest in taking exposure to similar tranches as part of relative value long/short strategies in the structured product CDO space.

The Notes will have a legal maturity of 40 years. However, the expected average life of the Notes will be approximately 7-10 years. Goldman shall have the option to terminate the CDS and cause one or more classes of Notes to be redeemed on any payment date occurring on or after 4 years following the closing

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date. We would expect to exercise our termination option if spreads (either on the Reference Obligations or on the issued Notes themselves) were to tighten significantly from current levels.

The Reference Portfolio has been selected and mutually agreed upon by [redacted] and Goldman. Following is a summary of the Reference Portfolio characteristics expected to pertain as of the pricing date:

- 50 equally-sized Reference Obligations, $20 million notional per name.
- Each Reference Obligation is a mezzanine ABS cashflow CDO (none of which are managed by Lion).
- Substantially all of the Reference Obligations were issued in late 2005 or 2006.
- The Reference Portfolio will consist entirely of obligations rated "Aa2" by Moody's and "AA" by S&P.

Pursuant to portfolio advisory agreements that Lion will enter into on the Closing Date with the Issuer, [redacted] will monitor the Reference Portfolio and may elect to remove credit-impaired obligations using a market-valuation process. The determination of impaired obligations will be made according to objective criteria similar to previous managed ABACUS transactions (e.g., rating downgrade). Upon removal of a credit-impaired obligation, any reduction in market value attributed to the removed obligation will be applied as a loss against the principal balance of the junior-most outstanding tranche, starting with the Class FL tranche.

Pursuant to the portfolio advisory agreement related to the Notes, neither discretionary substitutions nor reinvestments will be permitted.

III. Accounting Treatment

With respect to Goldman's accounting treatment, LC1 has been reviewed and approved by Mary Marr in Accounting Policy, and the transaction contains the same structural provisions which were approved by Accounting Policy for the prior ABACUS transactions. In particular, given that the junior-most class of notes in each transaction is exposed to the substantial majority of expected losses in the structure and the expectation that Goldman will not purchase any of the junior-most class of notes, Accounting Policy is comfortable that Goldman would not be required to consolidate the transaction. Similar to the prior ABACUS transactions, LC1 uses the so-called Beneficial Interest Exchange ("BIE") Option structure approved by Accounting Policy which permits Goldman to sell the initial triple-A collateral to the Issuer at fair market value without requiring Goldman to consolidate the transaction. The BIE Option allows noteholders to substitute the triple-A collateral securities held by the Issuer with other eligible securities of their choosing, subject to approval of Goldman (such approval not to be unreasonably withheld).

Mary Marr in Accounting Policy has reviewed and approved this aspect of the transaction with respect to regulatory and accounting considerations. To the extent Goldman was to purchase Notes issued by either the Investment Grade Issuer or the Non-Investment Grade Issuer on the Closing Date, further review might be required to confirm the FIN 46 and FAS 140 analysis of this transaction. Tim Saunders has received this memo and will sign off on the legal considerations prior to pricing.

P&L recognition and valuation adjustments for ABACUS transactions will follow the valuation adjustment policy as approved by Brian Lee and Rob Leventhal in Controllers.

IV. Model and Booking Policy

There is not yet an industry standard model for ABACUS type transactions. FICC Strategies have developed and Derivatives Analysis has approved a pricing model and tradable infrastructure specifically for the ABACUS CDS transactions which are in compliance with Firm policy. The model reflects the economic and legal structure of the reference obligations, the specialized credit events and settlement mechanisms applicable to the ABACUS CDS transactions, and a correlation framework for the structured product portfolios referenced in the ABACUS CDS transactions. This ABACUS CDS model is fully consistent with the pricing model and infrastructure which has already been put in place for single-name credit default swaps on structured products. No model waiver will be required for this transaction.

As with the prior ABACUS transactions, the issuance of Notes will require the relevant Goldman affiliates to enter into a new basis swap and a new collateral security put. These aspects of the ABACUS structure are described in more detail in the Appendix. FICC Strategies has recently developed a pricing model for

[redacted] = Redacted by the Permanent Subcommittee on Investigations

the basis swap and the put options for ABACUS trades. This model has been blessed by FICC Strategies, approved by Derivatives Analysis and affirmed by Model Control.

V. Strengths / Issues to Consider

Strengths

- **Franchise Business**: This transaction is sponsored by and is an innovative partnership with [redacted] and [redacted] Both [redacted] and [redacted] have been identified as key Asian customers for the structured products business. Our ability to structure and execute opportunistic transactions that meet customer objectives and fit the firm's hedging objectives creates a significant business opportunity for us.
- **Efficient and Effective Spread Short:** These transactions allow Goldman to short spreads in our core structured products businesses in large size. Current market conditions allow Goldman to purchase protection at more efficient levels in the tranched market via synthetic CDOs compared to the underlying single-name CDS markets.
- **Establish Leadership in Growing Market Segment**: Executing these transactions and others like it will help position Goldman to compete more aggressively in the market for synthetics written on structured products.
- **Profit**: This transaction is expected to generate, after fees and expenses, approximately $10 million in present value after expenses, without taking into account either the value of the call options retained by the desk related to LC1, or trading opportunities created for the desk by the contemplated short position in mezzanine ABS CDO spreads.

Issues to Consider

- **Potential Conflicts of Interest**: Although the reference portfolio has been selected by Lion as portfolio advisor, as in all the ABACUS transactions Goldman is acting as principal as a protection buyer in these transactions (as well as taking other principal roles summarized in the Appendix). The transaction disclosure notes the various capacities in which Goldman entities act as counterparty to the transactions and the risk factors section notes the potential for conflicts of interest. As with prior ABACUS transactions, we receive advice of outside counsel (McKee Nelson) regarding disclosure in ABACUS securities offerings and all such disclosure will be reviewed and approved by Tim Saunders in Legal.
- **Contingent Market Value Risk on Collateral Securities**: Similar to the prior ABACUS transactions, in the event that some or all of the collateral securities need to be liquidated to fund protection payments to Goldman under the credit default swap, or to fund certain other principal payments on the notes, Goldman will be exposed to the risk that such collateral securities have a market value less than par at the time of liquidation. This risk is mitigated somewhat by the facts that (1) the collateral securities will be triple-A floating rate structured securities selected by Goldman, (2) Goldman may select the particular securities to be liquidated and thus may select the securities expected to trade at or above par at such time and (3) only a relatively small amount of securities are expected to be liquidated at any given time. The exception to this third point is the case of optional redemption, which is entirely at Goldman's discretion.
- **Aggregation/Short Covering Risk**: The P&L projections have been estimated using the conservative assumption that the blended bid-side CDS spread on the double-A Reference Portfolio is approximately 110 bps per annum. If the single-name CDS market tightens significantly from the current market levels, given that CDO liabilities are usually less elastic that single-name CDS spreads, there is a risk that the actual P&L realized on this transaction would be less than projected. To put this risk in perspective, the transaction approximately breaks even if the blended bid-side CDS spread on the Reference Portfolio tightens by 20 bps from estimated current levels, to 90 bps per annum.

VI. Appendix: Structural Summary

The Issuer will enter into a CDS with GSCM (as protection buyer), as well as several other hedging transactions with other Goldman entities as described below. Under the CDS, the Issuer will be obligated to pay GSCM for credit losses experienced on the Reference Portfolio to the extent a relevant tranche (including the first loss tranche) is impacted by such losses and the Issuer has sold protection to Goldman under the CDS on such tranche. In exchange for the protection payments, GSCM will be obligated to pay a stated running premium to the Issuer, which shall be used to make interest payments under the notes.

No Goldman entity shall be required to own or be otherwise exposed to any of the reference obligations as a condition for payment under the CDS.

The CDS will be cash settled immediately upon satisfaction of conditions to settlement after a credit event. All credit events and related settlement mechanics are consistent with the current form of the Credit Derivative Transaction on Asset-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) published by the International Swaps and Derivatives Association, Inc. (such form, the "ISDA Dealer Form") in June 2006, electing Implied Writedown "applicable", Fixed Cap "applicable" and Interest Compounding "applicable".

The Notes will be collateralized by relatively liquid triple-A structured product securities (none of which shall be issued by the same issuer as any reference obligation). GSCM (as protection buyer) will have the right to select the collateral securities, subject however to several constraints specified in the Offering Circular. Note that selection of high-quality collateral is generally in Goldman's interest and that in this respect our incentives are largely aligned with that of Noteholders. The collateral securities will be reviewed by Credit prior to closing.

GSCM will enter into a basis swap with the Issuer, under which the accrued interest payments on the collateral securities (which bear interest at rates indexed to LIBOR) will be paid to GSCM and GSCM shall pay the related Issuer LIBOR flat. Noteholders will bear the credit risk of collateral security non-payment, as failure of the Issuer to pay the accrued coupons on the collateral securities to GSCM will be an event of default under the notes, and GSCM will not be required to continue payments under the basis swap. Amounts owed to GSCM under the basis swap will be senior to payments due under the notes. The combination of the LIBOR index payments by GSCM and the CDS premium by GSCM will always equal the sum of ongoing expenses of the Issuer and interest payments under the Notes.

The rating agencies require that noteholders be protected against market value declines in the collateral securities, in the event that collateral must be liquidated to fund (1) cash settlements to GSCM, (2) amortization of the Notes (other than a mandatory early redemption), or (3) an optional redemption of the Notes if GSCM exercises its termination option under the CDS.

Goldman, Sachs & Co. (as collateral disposal agent) will select which collateral securities are to be liquidated in each case above, and will be responsible for determining in good faith the strategy (in its commercially reasonable discretion) likely to achieve the highest proceeds for the collateral securities to be liquidated.

In the first circumstance (cash settlements under the CDS), Goldman will bear the risk that the collateral has declined in value. When a loss amount is determined, a commensurate face amount of collateral will be liquidated, and GSCM under the CDS will only be entitled to receive such proceeds received on such liquidation.

With respect to the other two circumstances, GSI (as put provider) shall be required to buy the collateral securities to be liquidated at par, if GS&Co. (as collateral disposal agent) is unable to obtain a price in the market of at least par.

In the case of optional termination, the put is not really a risk to Goldman, since our decision to terminate the transaction will by definition include both the value of the CDS termination and the value of the collateral securities. We view the put more as a modest reduction in the value of our option to terminate the CDS.

We believe the put risk arising from amortization of the notes (other than in connection with Goldman terminating the CDS) is small for the following reasons:

- The notes cannot begin to amortize until after the super senior notional has been substantially reduced. We do not expect any of the Notes to receive any principal payments for at least 5 years under base-case prepayment assumptions.
- The amount of collateral required to be liquidated in any month is purely a function of reference portfolio amortizations in that month, which is likely to be small in relation to the principal balance of the notes and should be smoothly distributed over time.
- Goldman (as protection buyer) has the right to direct reinvestment of any principal on collateral securities. The initial collateral securities are expected to have approximately a 2- to 3-year weighted average life. In the future, prior to any amortization of the notes occurring, we could direct the trustee to keep a suitable portion of the collateral invested in cash, incurring more negative carry on our protection in exchange for negligible put risk.

The spread on the initial collateral securities is expected to be approximately 7-10 bps over LIBOR. It is the put to Goldman which enables us to select high-quality collateral and earn this positive spread over LIBOR in the ABACUS structure. For these reasons outlined above, we believe that this positive carry generated by the put feature creates significant value for the synthetic transaction and more than adequately compensates for the put risk.

Lastly, as noted above, in a mandatory early redemption of the Notes (arising from an adverse tax event or from a default of one or more Goldman entities that are parties to the transaction), the put would not be exercisable against Goldman, exposing noteholders to the market value of the collateral.

From: Lehman, David A.
Sent: Wednesday, December 20, 2006 1:37 PM
To: Gasvoda, Kevin; Bash-Polley, Stacy; Swenson, Michael; Birnbaum, Josh; Ostrem, Peter L; Rosenblum, David J.
Cc: Sparks, Daniel L; Schwartz, Harvey; Pinkos, Steve; Radtke, Lorin; Martin, Nicole; Cornacchia, Thomas
Subject: RE: Mezz Risk

We have selectively been showing tranche pricing out on the ABX1 BBB- + ABX2 BBB- (50%/50%) portfolio.

Below is where we are bidding protection in tranched format:

- 40-100% Tranche -- 30bps running
- 25-40% Tranche -- 80bps running
- 20-25% Tranche -- 110bps running
- 15-20% Tranche -- 250bps running
- 10-15% Tranche -- 500bps running, 600bps upfront (~650 running)
- 5-10% Tranche -- 500bps running, 1750bps upfront (~950 running)
- 0-5% Tranche -- 500bps running, 5000bps upfront (~2050 running)

- Non-Callable
- Sequential pay-down
- Credit events: Writedown and FTP prin (i.e. realized losses)

We will continue to coordinate with the CDO group on the above pricing as well as the below accounts so our tranche efforts do not impede the marketing of Hudson Mezz II.

Hudson Mezz below....

Hudson Mezzanine Funding, 2006-2, Ltd. -- Price Guidance(144a/RegS)
Lead Manager & Sole Bookrunner: Goldman, Sachs & Co.
Liquidation Agent: Goldman, Sachs & Co.
$400mm Static Mezzanine Structured Product CDO

Class	Size($mm)	%Deal	Mdy/S&P	WAL(y)	Init OC	Px Guidance
S	[7.9]	N/A	Aaa/AAA	2.9	N/A	Not Offered
A-1	240.0	60.0%	Aaa/AAA	4.1	166.7%	Call Desk
A-2	46.0	11.5%	Aaa/AAA	4.5	139.9%	1mL+60a
B	56.0	14.0%	Aa2/AA+	4.9	117.0%	1mL+75a
C	20.0	5.0%	A2/A+	5.1	110.5%	1mL+250a
D	18.0	4.5%	Baa1/BBB+	4.8	105.3%	1mL+low 500s
E	4.0	1.0%	Baa3/BBB-	5.4	104.2%	1mL+800a
Inc. Notes	16.0	4.0%	NR	N/A	N/A	N/A

From: Gasvoda, Kevin
Sent: Wednesday, December 20, 2006 10:08 AM
To: Bash-Polley, Stacy; Swenson, Michael; Lehman, David A.; Birnbaum, Josh; Ostrem, Peter L; Rosenblum, David J.
Cc: Sparks, Daniel L; Schwartz, Harvey; Pinkos, Steve; Radtke, Lorin; Martin, Nicole; Cornacchia, Thomas
Subject: RE: Mezz Risk

Makes sense to me

From: Bash-Polley, Stacy
Sent: Wednesday, December 20, 2006 9:01 AM
To: Swenson, Michael; Lehman, David A.; Birnbaum, Josh; Ostrem, Peter L; Rosenblum, David J.; Gasvoda, Kevin
Cc: Sparks, Daniel L; Schwartz, Harvey; Pinkos, Steve; Radtke, Lorin; Martin, Nicole; Cornacchia, Thomas
Subject: Mezz Risk

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ph44585 on D330-44585-7600 with DISTILLER VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 00977 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT 57322.769

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We have been thinking collectively as a group about how to help move some of the risk. While we have made great progress moving the tail risks-ssr and equity -we think it is critical to focus on the mezz risk that has been built up over the past few months. Both through sequential abacus ssr/equ trades and the hudson deals (current and prior). We also recognize the pipeline coming in 07 and want to make sure we have a game plan before the focus shifts to moving the new issues.

While many slsple have talked to their clients abt mezz risk it is not clear that they have current pricing in hand-to make the newer case on break evens etc.. There is a lot of price points in the market ([redacted] tranche indications, Hudson, other dealers' sequential ABX tranches).. So we need to make sure we arm slspeople with our pricing-and have them focus on the more difficult positions-- clearly given where pricing has moved-we should be able to tell a different story. Given some of the feedback we have received so far-it seems that cdo's maybe the best target for moving some of this risk but clearly in limited size (and timing right now not ideal). We would like to appeal to clients that can possibly do larger size at a level that would be attractive when you take into consideration the size of risk we could move. Clearly the ideal trade is to buy protection on ABX...and the obvious targets at these levels are those who are currently short and could take some risk off. (ie[redacted])

Here are a few clients in the US we think make sense to target- We would like to arm the salespple with the pricing matrix--a few breakevens- and make sure they come back with specific feedback.-at a miniumum we will learn a bit more abt appetite and best case--print some trades. We are sure some of these conversations have happened-but we should make sure the right price was presented in the disucssion - feel free to comment. If it is ok we want to start making the targeted calls

Redacted By The Permanent Subcommittee on Investigations

From: Swenson, Michael
Sent: Saturday, January 06, 2007 8:44 PM
To: Tourre, Fabrice
Subject: Re: Post on Paulson

[redacted] = Redacted by the Permanent Subcommittee on Investigations

I wonder who gave bear the liquidity

----- Original Message -----
From: Tourre, Fabrice
To: Swenson, Michael
Sent: Sat Jan 06 20:42:50 2007
Subject: RE: Post on Paulson

The meeting itself was surreal. Am hearing that Paulson bought $2bn of [redacted] CDS protection, sucking all the liquidity on that name in the corporate CDS market.
Also, on the side, [redacted] mentioned to me that he had heard from many different sources that one reason why the ABX market was trading down so much in December was related to [redacted] building a sizable short and buying large amounts of ABX protection from the market.

-----Original Message-----
From: Swenson, Michael
Sent: Saturday, January 06, 2007 8:38 PM
To: Tourre, Fabrice
Subject: Re: Post on Paulson

I can not believe it!!! Absolutely amazing.

----- Original Message -----
From: Tourre, Fabrice
To: Sparks, Daniel L; Swenson, Michael; Lehman, David A.; Rosenblum, David J.; Ostrem, Peter L
Cc: ficc-mtgcorr-desk
Sent: Sat Jan 06 19:06:41 2007
Subject: Post on Paulson

David Gerst, Cactus Razzi and I had a meeting with John Paulson and his team last Friday. The meeting was attended by [redacted] and [redacted] at [redacted]. The purpose of the meeting was for the Paulson team to meet [redacted] and understand whether [redacted] could be a good candidate for acting as portfolio selection agent for an ABACUS CDO trade where all the risk would be provided by Paulson.

At the end of the meeting, the Paulson team told us that they were happy to have met [redacted], and assuming that (1) [redacted] could get comfortable with a sufficient number of obligations that Paulson is looking to buy protection on in ABACUS format, (2) [redacted] could get comfortable being in the market as early as end of January with a transaction under which [redacted] is disclosed as Portfolio Selection Agent (without any credit risk removal rights), and (3) Paulson, Goldman and [redacted] agrees on [redacted]'s required compensation for a transaction like this, then Paulson will want to proceed with [redacted] as soon as possible and be in the market as soon as possible.

One issue remains w.r.t. this Paulson-sponsored transaction: it is related to the fact that Paulson is concerned about Goldman's counterparty risk in this illiquid CDO transaction, even with the existing CSA that is binding Goldman and Paulson. For this reason they are asking us to structure a trade under which they would be acting as protection buyer, facing the ABACUS SPV (as opposed to a structure where Goldman is the

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protection buyer, as is usually the case). As an FYI, for single-name CDS trades that Paulson is executing with dealers such as Goldman, [redacted] and [redacted] they are buying large amounts of corporate CDS protection (on the broker dealer reference entities) to hedge their counterparty credit risk!!!

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Mullen, Donald
Sent: Wednesday, July 25, 2007 8:12 AM
To: Sparks, Daniel L
Subject: Fw: Seeking Approval: Equities trading in SPG

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He is too large [redacted]. Bruce is going to discuss w him today

----- Original Message -----
From: Birnbaum, Josh
To: Montag, Tom; Mullen, Donald; McMahon, Bill; Petersen, Bruce
Cc: Sparks, Daniel L; Gmelich, Justin; Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Sent: Tue Jul 24 20:35:09 2007
Subject: Seeking Approval: Equities trading in SPG

Since 6/21, the SPG Trading group has paused in our equities trading while we work with management and market risk to come up with quantitative limits for these positions. It sounds like we are getting close to having something systematic in place, but in the meantime, we are looking for approval to opportunistically buy puts on certain mortgage originators, insurers, mortgage REITs, broker-dealers, and other related names exposed to RMBS, CMBS. Examples names include:

Countrywide, Indymac, Cap One, NatCity, Bear Stearns, Merrill, Lehman, Morgan Stanley, MBIA, PMI, Ambac, JER Investors, Redwood Trust, etc.

Overall stats on what we'd like to add:

Premium: up to $25mm
$ Delta: up to $200mm
Max potential loss per name in +30% move for name: up to $15mm

In concert with these puts, we would like to buy back up to 50% of the $ delta (i.e. the beta) of these positions with S&P futures recognizing that even as we are bearish on these sectors, we are unlikely to hit our strikes if the broader market rallies.

YTD P&L is +$49mm for our equities portfolio. Our current positions are below (excluding very small ones):

Company	Ticker	Avg Price	Avg Put Strike	Time Exp	Average Value (mm)	Value (mm)	% Delta	$Delta (mm)	Beta	Beta Adj $Delta (mm)
MOODY'S CORP	MCO	55.94	60.12	Dec-07	33.0	9.6	0.58	-128.9	1.36	-175.2
BEAR STEARNS COMPANIES INC	BSC	129.85	143.22	Nov-07	4.9	1.1	0.67	-24.3	1.67	-40.5
NATIONAL CITY CORP	NCC	30.80	33.96	Dec-07	2.3	0.3	0.73	-12.1	0.63	-7.7
PMI GROUP INC/THE	PMI	39.55	43.81	Oct-07	1.3	0.3	0.67	-6.2	0.95	-5.9
WASHINGTON MUTUAL INC	WM	39.09	36.96	Dec-07	0.6	0.3	0.42	-3.7	0.91	-3.4
CAPITAL ONE FINANCIAL CORP	COF	75.36	65.00	Apr-08	0.1	0.1	0.24	-1.1	0.72	-0.8
S&P Futures ESU7								77.8	1.00	77.8
Net					42.6	12.0		-99.3		-157.7

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
September 20, 2007

THE GOLDMAN SACHS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**No. 001-14965**	**No. 13-4019460**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

85 Broad Street New York, New York	**10004**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(212) 902-1000**

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.02 Results of Operations and Financial Condition.

On September 20, 2007, The Goldman Sachs Group, Inc. (the Registrant) reported its earnings for its fiscal third quarter ended August 31, 2007. A copy of the Registrant's press release containing this information is being furnished as Exhibit 99.1 to this Report on Form 8-K and is incorporated herein by reference.

The information furnished pursuant to this Item 2.02, including Exhibit 99.1, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933 or the Exchange Act.

Item 8.01 Other Events.

On September 20, 2007, the Registrant reported net revenues of $12.33 billion and net earnings of $2.85 billion for its third quarter ended August 31, 2007. Diluted earnings per common share were $6.13 compared with $3.26 for the third quarter of 2006 and $4.93 for the second quarter of 2007. Annualized return on average tangible common shareholders' equity (1) was 36.6% for the third quarter of 2007 and 37.5% for the first nine months of 2007. Annualized return on average common shareholders' equity was 31.6% for the third quarter of 2007 and 32.0% for the first nine months of 2007.

Net Revenues

Investment Banking

Net revenues in Investment Banking were $2.15 billion, 67% higher than the third quarter of 2006 and 25% higher than the second quarter of 2007, as mergers and acquisitions activity remained strong. Net revenues in Financial Advisory were $1.41 billion, more than double the amount of net revenues in the third quarter of 2006, reflecting significantly higher client activity. Net revenues in the firm's Underwriting business were $733 million, 8% higher than the third quarter of 2006, due to higher net revenues in equity underwriting, primarily reflecting an increase in industry-wide equity and equity-related offerings, partially offset by lower net revenues in debt underwriting, as the financing environment became less favorable. The decrease in debt underwriting reflected lower net revenues in leveraged finance. The firm's investment banking transaction backlog decreased during the quarter, but was higher than at the end of 2006. (2)

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Trading and Principal Investments

Net revenues in Trading and Principal Investments were $8.23 billion, 70% higher than the third quarter of 2006 and 24% higher than the second quarter of 2007.

Net revenues in Fixed Income, Currency and Commodities (FICC) were $4.89 billion, 71% higher than the third quarter of 2006, reflecting significantly higher net revenues in currencies and interest rate products. Net revenues in mortgages were also significantly higher, despite continued deterioration in the market environment. Significant losses on non-prime loans and securities were more than offset by gains on short mortgage positions. In addition, net revenues in both commodities and credit products were higher compared with the third quarter of 2006. Credit products included substantial gains from equity investments, including a gain of approximately $900 million related to the disposition of Horizon Wind Energy L.L.C. In addition, credit products included a loss of $1.71 billion ($1.48 billion, net of hedges) related to non-investment grade credit origination activities. Although the mortgage and corporate credit markets were characterized by significantly wider spreads and reduced levels of liquidity, FICC benefited from strong customer-driven activity and favorable market opportunities in certain businesses during the quarter.

Net revenues in Equities were $3.13 billion, more than double the amount of net revenues in the third quarter of 2006. Net revenues were significantly higher in derivatives, reflecting strength across all regions, as well as in shares due to higher commission volumes. In addition, net revenues in principal strategies increased compared with the third quarter of 2006. During the quarter, Equities operated in an environment characterized by strong customer-driven activity and higher volatility.

Principal Investments recorded net revenues of $211 million, reflecting gains and overrides from real estate principal investments. Results in Principal Investments included a $230 million gain related to the firm's investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC) and a $261 million loss related to the firm's investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG).

Asset Management and Securities Services

Net revenues in Asset Management and Securities Services were $1.96 billion, 35% higher than the third quarter of 2006 and 8% higher than the second quarter of 2007.

Asset Management net revenues were $1.20 billion, 31% higher than the third quarter of 2006, reflecting a 40% increase in management and other fees, partially offset by lower incentive fees. During the quarter, assets under management increased $38 billion to $796 billion, reflecting money market net inflows of $31 billion, non-money market net inflows of $19 billion spread across all asset classes, and net market depreciation of $12 billion, reflecting depreciation in equity and alternative investment assets, partially offset by appreciation in fixed income assets.

Securities Services net revenues were $762 million, 42% higher than the third quarter of 2006, as the firm's prime brokerage business continued to generate strong results, reflecting significantly higher customer balances in securities lending and margin lending.

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Expenses

Operating expenses were $8.08 billion, 55% higher than the third quarter of 2006 and 20% higher than the second quarter of 2007.

Compensation and Benefits

Compensation and benefits expenses were $5.92 billion, 68% higher than the third quarter of 2006, primarily reflecting the impact of higher net revenues. The ratio of compensation and benefits to net revenues was 48.0% for the first nine months of 2007 compared with 49.4% for the first nine months of 2006. Employment levels increased 7% during the quarter.

Non-Compensation Expenses

Non-compensation expenses were $2.16 billion, 27% higher than the third quarter of 2006 and 16% higher than the second quarter of 2007. The increase compared with the third quarter of 2006 was primarily attributable to continued geographic expansion and the impact of higher levels of business activity. The majority of this increase was in brokerage, clearing, exchange and distribution fees, which principally reflected higher transaction volumes in Equities. Other expenses also increased and included provisions for litigation and regulatory proceedings of $35 million.

Provision For Taxes

The effective income tax rate was 33.2% for the first nine months of 2007, essentially unchanged from the first half of 2007 and down from 34.5% for fiscal year 2006. The decrease in the effective tax rate from fiscal year 2006 was primarily due to changes in the geographic earnings mix and an increase in tax credits.

Capital

As of August 31, 2007, total capital was $190.19 billion, consisting of $39.12 billion in total shareholders' equity (common shareholders' equity of $36.02 billion and preferred stock of $3.10 billion) and $151.07 billion in unsecured long-term borrowings. Book value per common share was $84.65 and tangible book value per common share was $73.10 [(1)], each increasing 4% compared with the end of the second quarter of 2007. Book value and tangible book value per common share are based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 425.5 million at period end.

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The firm repurchased 11.2 million shares of its common stock at an average cost per share of $219.35, for a total cost of $2.45 billion during the quarter. The remaining authorization under the firm's existing share repurchase program is 23.0 million shares.

Dividends

The Board of Directors of The Goldman Sachs Group, Inc. (the Board) declared a dividend of $0.35 per common share to be paid on November 26, 2007 to common shareholders of record on October 29, 2007. The Board also declared dividends of $404.41, $387.50, $404.41 and $399.13 per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, respectively (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock), to be paid on November 13, 2007 to preferred shareholders of record on October 29, 2007.

Cautionary Note Regarding Forward-Looking Statements

This Report on Form 8-K contains "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts but instead represent only the Registrant's beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of the Registrant's control. It is possible that the Registrant's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For a discussion of some of the risks and important factors that could affect the Registrant's future results and financial condition, see "Risk Factors" in Part I, Item 1A of the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2006 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

Statements about the Registrant's investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that the Registrant actually earns from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect the Registrant's investment banking transactions, see "Risk Factors" in Part I, Item 1A of the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

▬▬ = Redacted by the Permanent Subcommittee on Investigations

Qty(mm)	Bond	Price	Coupon	DM	Date	Date	Sales	Client	NI / Secondary	Comments
50.000	ABACUS 07AC1 A1 REGS	100.000	1mL+85	85.0	04/10/07	04/26/07	NARTEY, M UK	IKB DEUTSCH/		
42.000	ABACUS 07AC1 A2 144A	100.000	1mL+110	110.0	04/10/07	04/26/07	KREITMAN, G N	ACA MGMT LL/		
100.000	ABACUS 07AC1 A2 REGS	100.000	1mL+110	110.0	04/10/07	04/26/07	NARTEY, M UK	IKB DEUTSCH/		
87.500	ABACUS 2006-HGS1 AMSS		1mL+40	55.0	02/02/07		Davilman	BSAM	Secondary	
50.000	ALTIUS IV A2A REGS	100.000	1mL+40	40.0	05/15/07	05/31/07	BOU-AOUN	[redacted]		
12.500	ALTIUS IV A2B 144A	100.000	1mL+80	80.0	05/15/07	05/31/07	FERTELS/PHILL	[redacted]		
12.500	ALTIUS IV A2B 144A	100.000	1mL+80	80.0	05/15/07	05/31/07	SOLOMON, G NY	[redacted]		
30.000	ALTIUS IV A2B 144A	99.765	1mL+80	80.0	05/16/07	05/31/07	SHAO, W (CH)	[redacted]		
20.000	ALTIUS IV B 144A	100.000	1mL+120	120.0	05/16/07	05/31/07	SHAO, W (CH)	[redacted]		
4.875	ALTIUS IV C 144A	97.131	1mL+250	310.0	05/15/07	05/31/07	WALDMAN, F N	[redacted]		
3.000	ALTIUS IV C REGS	97.131	1mL+250	310.0	05/15/07	05/31/07	CHEW, P SING	[redacted]		
5.000	ALTIUS IV D 144A	88.939	1mL+600	1000.0	05/15/07	05/31/07	PINKOS, S NY	ALADDIN ASS/		
3.000	ALTIUS IV D REGS	100.000	1mL+600	600.0	05/16/07	05/31/07	OKAMOTO, S TO	[redacted]		
2.750	ALTIUS IV INC NOTES 144A	90.000	1mL+23		05/15/07	05/31/07	PINKOS, S NY	ALADDIN ASS/		
2.000	ALTIUS IV INC NOTES REGS	100.000	1mL+23		05/16/07	05/31/07	OKAMOTO, S TO	[redacted]		
2.000	ANDY 0701 A1B 144A	97.390	1mL+65	125.0	04/03/07	04/09/07	GILLIGAN, B C	[redacted]	Secondary	
15.000	ANDY 0701 A2 144A	96.540	1mL+90	200.0	03/20/07	03/23/07	GILLIGAN, B C	[redacted]	Secondary	
5.000	ANDY 0701 A2 144A	96.230	1mL+90	210.0	03/21/07	03/26/07	LOGGINS, D SF	[redacted]	Secondary	
10.500	ANDY 0701 A2 144A	97.240	1mL+90	177.5	03/26/07	03/29/07	FERTELS/PHILL	[redacted]	Secondary	
5.000	ANDY 0701 B 144A	95.500	1mL+175	300.0	03/20/07	03/23/07	GILLIGAN, B C	[redacted]	Secondary	
10.000	ANDY 0701 C 144A	92.380	1mL+550	800.0	03/21/07	03/26/07	MARTIN, N NY	[redacted]	Secondary	
11.090	ANDY 0701 D REGS	108.206	1mL+200	400.0	03/12/07	03/20/07	WILLING, C NY	[redacted]		part of deal pricing
2.490	ANDY 0701 S 144A	100.000	1mL+20	20.0	04/13/07	04/18/07	DAVILMAN, A N	[redacted]		
5.000	Coolidge C		1mL+180	425.0	03/27/07		Radtke	[redacted]	Secondary	
40.000	Davis Square VII A2		1mL+35	50.0	02/10/07		Hachenberg	[redacted]	Secondary	
4.000	Davis Square VII A3		1mL+41	50.0	02/28/07		Kelly, Peter	[redacted]	Secondary	
6.000	Davis Square VII A3		1mL+41	115.0	04/24/07		Gilligan	[redacted]	Secondary	
10.000	Fort Denison B		1mL+65	65.0	02/09/07		Paige	[redacted]	Secondary	
15.000	Fortius II A-2		1mL+48	105.0	03/02/07		Gilligan	[redacted]	Secondary	
5.000	Fortius II B		1mL+58	200.0	03/02/07		Gilligan	[redacted]	Secondary	
3.500	Fortius II D	83.109	1mL+325	900.0	03/02/07		Gilligan	[redacted]	Secondary	[redacted]
32.000	GSC 2006-3g A1-b		1mL+34	50.0	03/09/07		Hachenberg	[redacted]	Secondary	
7.000	GSC 2006-3g C		1mL+130	430.0	04/12/07		Nardi	[redacted]	Secondary	
2.000	GSC 2006-3g C		1mL+130	416.0	05/09/07		Solomon	[redacted]	Secondary	
10.000	Lochsong B		1mL+55	55.0	01/18/07			[redacted]	Secondary	
15.000	Lochsong B		1mL+55	268.0	04/06/07		Sue / Elaine	[redacted]	Secondary	
127.465	PTPLS 0701 A1 144A	100.000	3mL+100	125.0	04/11/07	04/18/07	WALDMAN, F N	DILLON READ/		part of deal pricing
85.000	PTPLS 0701 A2 144A	100.000	3mL+150	200.0	04/11/07	04/18/07	WALDMAN, F N	DILLON READ/		part of deal pricing
20.000	PTPLS 0701 A2 144A	91.300	3mL+150	340.0	04/24/07	04/27/07	GILLIGAN, B C	[redacted]	Secondary	
50.000	PTPLS 0701 B 144A	100.000	3mL+275	300.0	04/11/07	04/18/07	WALDMAN, F N	DILLON READ/		part of deal pricing
14.000	PTPLS 0701 C 144A	100.000	3mL+500	700.0	04/11/07	04/18/07	WALDMAN, F N	DILLON READ/		part of deal pricing
7.800	PTPLS 0701 C REGS	87.570	3mL+500	725.0	04/10/07	04/18/07	MARCHESIN	[redacted]		
11.000	PTPLS 0701 D REGS	88.390	3mL+700	1000.0	04/10/07	04/18/07	GEORGE,M/CARE	[redacted]		[redacted]
16.000	PTPLS 0701 D REGS	100.000	3mL+700	1000.0	04/11/07	04/18/07	WALDMAN, F N	DILLON READ/		
15.000	PTPLS 0701 D REGS	81.720	3mL+700	1200.0	04/19/07	04/24/07	GEORGE,M/CARE	[redacted]	Secondary	
10.085	PTPLS 0701 INCOME NOTES REGS	100.000	3mL+100		04/11/07	04/18/07	WALDMAN, F N	DILLON READ/		
50.000	TWOLF 0701 A1A 144A	99.450	3mL+25	25.0	03/13/07	03/27/07	DAVILMAN, A N	[redacted]		
50.000	TWOLF 0701 A1A 144A	99.468	3mL+25	25.0	05/02/07	05/07/07	LEE, L/FRASER	[redacted]		
200.000	TWOLF 0701 A1B 144A	100.000	3mL+50	50.0	03/13/07	03/27/07	DAVILMAN, A N	BEAR STEARN/		
100.000	TWOLF 0701 A1C 144A	99.710	3mL+85	85.0	03/13/07	03/27/07	DAVILMAN, A N	BEAR STEARN/		
100.000	TWOLF 0701 A1D 144A	99.700	3mL+70	70.0	03/13/07	03/27/07	DAVILMAN, A N	BEAR STEARN/		
20.000	TWOLF 0701 A2 144A	87.785	3mL+90	530.0	04/23/07	04/26/07	GILLIGAN, B C	[redacted]	Secondary	
16.000	TWOLF 0701 C REGS	72.500	3mL+450	1065.0	03/28/07	04/02/07	RAAZI, C NY H	[redacted]	Secondary	
20.000	TWOLF 0701 C REGS	95.150	3mL+450	500.0	04/04/07	04/11/07	MARTIN, N NY	GREYWOLF CA/		part of deal pricing
30.000	TWOLF 0701 D REGS	92.410	3mL+1000	1200.0	03/13/07	03/27/07	MARTIN, N NY	GREYWOLF CA/		part of deal pricing
11.250	TWOLF 0701 INCOME NOTE REGS	100.000			03/13/07	03/27/07	MARTIN, N NY	GREYWOLF CA/		part of deal pricing

Permanent Subcommittee on Investigations
EXHIBIT #155

GSMBS-E-001864519

From: irma@eq.gs.com

Sent: Wednesday, March 28, 2007 1:31 AM

To: Wilson, Edward; McMahon, Bill; eq-irma-dev; Petersen, Bruce; Birnbaum, Josh

Subject: Full Risk for Mtg NYC ABS Equities Portfolio on 27Mar07

Full Risk for portfolio Mtg NYC ABS Equities Portfolio on 27Mar07

Risk Report by Region for Mtg NYC ABS Equities Portfolio on 27Mar07

Region	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	3m Effervescen
TOTAL	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398	
United States	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398	
N/A	0	0	0	0	0	0	0	0	0	0	0	0	0	

Risk Report by Portfolio for Mtg NYC ABS Equities Portfolio on 27Mar07

Portfolios	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momen
TOTAL	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3
Mtg NYC ABS Equities Portfolio	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3

Risk Report by GICS Sector for Mtg NYC ABS Equities Portfolio on 27Mar07

GICS Sector	Delta$	%	Wgt vs .SPX	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum
TOTAL	(38,205)	100 %	78 %	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398
Financials	(38,205)	100 %	78 %	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398
N/A	0	0 %	0 %	0	0	0	0	0	0	0	0	0	0	0	0

Risk Report by Unknown GICS Sector for Mtg NYC ABS Equities Portfolio on 27Mar07

Unknown GICS Sector	Delta$	%	Wgt vs .SPX	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%
TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mtg NYC ABS Equities Portfolio	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Top Single Name Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Mar07

Equity	Name	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt
TOTAL	TOTAL	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167
EQ LEND.O 0	ACCREDITED HOME LENDERS	(600)	(2,334)	9	4	6	(3)	0	1	1	81
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	(1,031)	(895)	61	12	13	(1)	0	3	1	202
EQ FMT.N 0	FREMONT GENERAL CORP	(1,669)	(6,468)	44	7	12	(6)	0	0	0	214
EQ C.N 0	CITIGROUP INC	(2,204)	(2,312)	231	15	20	(1)	(4)	1	1	396
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	(2,666)	(5,517)	104	14	24	(6)	(2)	5	5	373
Eq PMI.N 0	PMI GROUP INC/THE	(4,274)	(4,040)	200	29	36	(3)	(1)	2	2	657
EQ WM.N 0	WASHINGTON MUTUAL INC	(4,314)	(3,768)	244	28	35	(2)	(12)	2	1	671
EQ MER.N 0	MERRILL LYNCH & CO INC	(5,786)	(10,350)	449	36	51	(3)	(3)	2	2	969
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	(7,546)	(14,132)	363	63	73	(4)	(4)	5	3	1,247
EQ NCC.N 0	NATIONAL CITY CORP	(8,115)	(5,096)	555	61	73	(3)	(27)	5	3	1,356

Top Index Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Mar07

Permanent Subcommittee on Investigations
EXHIBIT #156

Equity	Name	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +Spt	80% +10pt	50%	3m Momentum	3m Effervescence
TOTAL	TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Top JTD Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Mar07

Equity	Name	JTD(1%)	-30%
TOTAL	TOTAL	94,968	21,127
EQ LEND.O 0	ACCREDITED HOME LENDERS	1,319	225
EQ FMT.N 0	FREMONT GENERAL CORP	3,149	661
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	3,714	635
EQ C.N 0	CITIGROUP INC	5,756	1,473
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	7,417	1,319
Eq PMI.N 0	PMI GROUP INC/THE	9,882	2,182
EQ WM.N 0	WASHINGTON MUTUAL INC	9,885	2,216
EQ MER.N 0	MERRILL LYNCH & CO INC	14,818	3,614
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	18,636	4,191
EQ NCC.N 0	NATIONAL CITY CORP	20,392	4,611

Top Takeout Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Mar07

Equity	Name	30%
TOTAL	TOTAL	(5,343)
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	(1,135)
EQ NCC.N 0	NATIONAL CITY CORP	(994)
Eq PMI.N 0	PMI GROUP INC/THE	(705)
EQ MER.N 0	MERRILL LYNCH & CO INC	(650)
EQ WM.N 0	WASHINGTON MUTUAL INC	(598)
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	(403)
EQ FMT.N 0	FREMONT GENERAL CORP	(374)
EQ C.N 0	CITIGROUP INC	(192)
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	(150)
EQ LEND.O 0	ACCREDITED HOME LENDERS	(142)

Top Illiquid Single Name Equities for Mtg NYC ABS Equities Portfolio on 27Mar07

Equity	Name	Delta$	BetaAdjDelta$	Shares	Price	Avg Volume	Liquidity Days	%Vol	Risk
TOTAL	TOTAL	(38,205)	(54,911)	-	-	-	2	-	545
EQ FMT.N 0	FREMONT GENERAL CORP	(1,669)	(6,468)	(221)	7.5	4,672	0	242.7	143
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	(2,666)	(5,517)	(99)	27.0	1,874	0	84.6	84
EQ NCC.N 0	NATIONAL CITY CORP	(8,115)	(5,096)	(218)	37.2	3,766	0	26.3	83
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	(7,546)	(14,132)	(51)	148.8	2,421	0	39.5	70
Eq PMI.N 0	PMI GROUP INC/THE	(4,274)	(4,040)	(95)	45.0	1,047	1	30.1	63
EQ MER.N 0	MERRILL LYNCH & CO INC	(5,786)	(10,350)	(69)	83.9	5,754	0	33.2	34
EQ WM.N 0	WASHINGTON MUTUAL INC	(4,314)	(3,768)	(105)	41.1	6,144	0	32.8	30
EQ LEND.O 0	ACCREDITED HOME LENDERS	(600)	(2,334)	(57)	10.6	17,073	0	484.0	27
EQ C.N 0	CITIGROUP INC	(2,204)	(2,312)	(43)	51.0	12,865	0	28.8	6
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	(1,031)	(895)	(13)	76.6	1,986	0	26.5	4

Liquidity Report for Mtg NYC ABS Equities Portfolio on 27Mar07

Portfolios	Total		<2				2-5				5-10				1	
	# Pos	Value (MM)	Count	Count (%)	Value (MM)	Value (%)	Count	Count (%)	Value (MM)	Value (%)	Count	Count (%)	Value (MM)	Value (%)	Count	Cou (%
TOTAL	10	38	0	0.0	0	0.0	3	30.0	4	10.0	1	10.0	6	15.1	2	20
Mtg NYC ABS Equities Portfolio	10	38	0	0.0	0	0.0	3	30.0	4	10.0	1	10.0	6	15.1	2	20
....Mtg NYC ABS Equities Portfolio	10	38	0	0.0	0	0.0	3	30.0	4	10.0	1	10.0	6	15.1	2	20

Risk Report by Security Type for Mtg NYC ABS Equities Portfolio on 27Mar07

Type	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	3m Effervesc
TOTAL	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398	
Eq Listed Option	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398	
N/A	0	0	0	0	0	0	0	0	0	0	0	0	0	

Risk Report by Country for Mtg NYC ABS Equities Portfolio on 27Mar07

Type	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	3m Effervescen
TOTAL	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398	
United States	(38,205)	(54,911)	2,259	268	343	(31)	(53)	25	19	6,167	13,901	41,763	3,398	
N/A	0	0	0	0	0	0	0	0	0	0	0	0	0	

Delta$ and Topsheet Delta$ Difference by Portfolio for Mtg NYC ABS Equities Portfolio on 27Mar07

Portfolios	Delta$	Topsheet Delta$	Delta$ Difference

Books With Stale Data

Book	Group	Eq Risk	Eq Ts	Eq Sv	Eq Div	Eq Vega	LDN SP Eq GenScen M3

Confidential Treatment Requested by Goldman Sachs GS MBS-E-012990725

From: irma@eq.gs.com

Sent: Saturday, July 28, 2007 2:31 AM

To: eq-irma-dev; Birnbaum, Josh; Turok, Michael; Kaufman, Jordan; Lehman, David A.; Petersen, Bruce

Subject: Full Risk for Mtg NYC ABS Equities Portfolio on 27Jul07

Full Risk for portfolio Mtg NYC ABS Equities Portfolio on 27Jul07

Risk Report by Region for Mtg NYC ABS Equities Portfolio on 27Jul07

Region	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	3m Effervesce
TOTAL	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	24,047	
United States	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	24,047	
N/A	0	0	0	0	0	0	0	0	0	0	0	0	0	

Risk Report by Portfolio for Mtg NYC ABS Equities Portfolio on 27Jul07

Portfolios	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Mome
TOTAL	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	2
Mtg NYC ABS Equities Portfolio	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	2

Risk Report by GICS Sector for Mtg NYC ABS Equities Portfolio on 27Jul07

GICS Sector	Delta$	%	Wgt vs .SPX	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt
TOTAL	(77,682)	100 %	0 %	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756
Consumer Discretionary	10,174	(13)%	(23)%	10,174	0	0	0	(5)	3	0	0	(1,017)	(2,035)
Consumer Staples	9,621	(12)%	(22)%	9,621	0	0	0	(4)	3	0	0	(962)	(1,924)
Energy	11,558	(15)%	(26)%	11,558	0	0	0	(5)	4	0	0	(1,156)	(2,312)
Financials	(160,113)	206 %	186 %	(257,182)	4,536	565	820	(311)	(47)	(58)	(56)	19,971	42,243
Health Care	11,957	(15)%	(27)%	11,957	0	0	0	(5)	4	0	0	(1,196)	(2,391)
Industrials	11,802	(15)%	(27)%	11,802	0	0	0	(5)	4	0	0	(1,180)	(2,360)
Information Technology	16,730	(22)%	(38)%	16,730	0	0	0	(7)	6	0	0	(1,673)	(3,346)
Materials	3,183	(4)%	(7)%	3,183	0	0	0	(1)	1	0	0	(318)	(637)
N/A	0	0 %	0 %	0	0	0	0	0	0	0	0	0	0
Telecommunication Services	3,865	(5)%	(9)%	3,865	0	0	0	(2)	1	0	0	(386)	(773)
Utilities	3,540	(5)%	(8)%	3,540	0	0	0	(2)	1	0	0	(354)	(708)

Top Single Name Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt
TOTAL	TOTAL	(180,644)	(277,713)	4,536	565	820	(302)	(54)	(58)	(56)	22,02
EQ LEND.O 0	ACCREDITED HOME LENDERS	(232)	(1,146)	4	1	2	(4)	0	0	0	2
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	(240)	(490)	1	0	0	(1)	0	0	0	2
EQ FMT.N 0	FREMONT GENERAL CORP	(335)	(1,717)	8	1	2	(4)	0	0	0	4
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	(1,337)	(1,319)	81	10	12	(3)	0	2	1	22
EQ WM.N 0	WASHINGTON MUTUAL INC	(3,645)	(4,589)	191	16	24	(7)	(2)	1	1	51
Eq PMI.N 0	PMI GROUP INC/THE	(6,562)	(8,214)	156	12	20	(10)	0	(2)	(2)	75
EQ NCC.N 0	NATIONAL CITY CORP	(12,032)	(8,529)	255	25	36	(8)	(21)	(4)	(4)	1,37
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	(25,993)	(48,410)	614	63	94	(36)	(4)	(16)	(15)	2,99
EQ MCO.N 0	MOODY'S CORP	(130,269)	(203,299)	3,226	437	629	(230)	(26)	(38)	(36)	16,06

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Top Private Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	3m Effervescence
TOTAL	TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Top Index Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3r Mome
TOTAL	TOTAL	102,962	102,962	0	0	0	(46)	35	0	0	(10,296)	(20,592)	(51,481)	(2
Eq .SPX 0	S&P 500 INDEX	102,962	102,962	0	0	0	(46)	35	0	0	(10,296)	(20,592)	(51,481)	(2

Top JTD Equity Exposures for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	JTD(1%)	-30%
TOTAL	TOTAL	269,687	70,118
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	259	76
EQ LEND.O 0	ACCREDITED HOME LENDERS	432	87
EQ FMT.N 0	FREMONT GENERAL CORP	646	131
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	3,679	722
EQ WM.N 0	WASHINGTON MUTUAL INC	7,840	1,801
Eq PMI.N 0	PMI GROUP INC/THE	8,480	2,410
EQ NCC.N 0	NATIONAL CITY CORP	15,275	4,296
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	33,062	9,540
EQ MCO.N 0	MOODY'S CORP	200,014	51,055

Top Upside Loss Exposures for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	30%	Reference Counter
TOTAL	TOTAL	(34,861)	-
EQ MCO.N 0	MOODY'S CORP	(25,590)	1
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	(4,876)	1
EQ NCC.N 0	NATIONAL CITY CORP	(2,263)	2
Eq PMI.N 0	PMI GROUP INC/THE	(1,237)	1
EQ WM.N 0	WASHINGTON MUTUAL INC	(525)	2
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	(171)	2
EQ FMT.N 0	FREMONT GENERAL CORP	(76)	0
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	(67)	0
EQ LEND.O 0	ACCREDITED HOME LENDERS	(56)	0

Top Downside Loss Exposures for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	-30%	Reference Counter
TOTAL	TOTAL	70,118	-

Top Potential Takeout List (Reference > 3) for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	Reference Counter	30%
TOTAL	TOTAL	-	(34,861)

Risk Report by Unknown GICS Sector for Mtg NYC ABS Equities Portfolio on 27Jul07

Unknown GICS Sector	Delta$	%	Wgt vs .SPX	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%
TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mtg NYC ABS Equities Portfolio	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Top Unknown GICS Sector Equity Exposures for Mtg NYC ABS Equities Portfolio on

27Jul07

Equity	Name	Delta$	%	Wgt vs .SPX	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	Eff
TOTAL	TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Top Illiquid Single Name Equities for Mtg NYC ABS Equities Portfolio on 27Jul07

Equity	Name	Delta$	BetaAdjDelta$	Shares	Price	Avg Volume	Liquidity Days	%Vol	Risk
TOTAL	TOTAL	(180,644)	(277,713)	-	-	-	11	-	7,450
EQ MCO.N 0	MOODY'S CORP	(130,269)	(203,299)	(2,370)	55.0	2,249	7	30.3	6,584
Eq BSC.N 0	BEAR STEARNS COMPANIES INC	(25,993)	(48,410)	(211)	123.1	2,169	1	32.8	433
Eq PMI.N 0	PMI GROUP INC/THE	(6,562)	(8,214)	(173)	37.9	709	2	36.9	195
EQ NCC.N 0	NATIONAL CITY CORP	(12,032)	(8,529)	(403)	29.8	2,382	1	23.1	186
EQ WM.N 0	WASHINGTON MUTUAL INC	(3,645)	(4,589)	(94)	38.6	3,662	0	25.9	25
EQ FMT.N 0	FREMONT GENERAL CORP	(335)	(1,717)	(49)	6.8	755	0	85.4	12
EQ AHM.N 0	AMERICAN HOME MORTGAGE INVES	(240)	(490)	(23)	10.5	1,267	0	124.4	7
EQ COF.N 0	CAPITAL ONE FINANCIAL CORP	(1,337)	(1,319)	(18)	73.0	2,161	0	25.8	5
EQ LEND.O 0	ACCREDITED HOME LENDERS	(232)	(1,146)	(24)	9.5	927	0	71.4	4

Liquidity Report for Mtg NYC ABS Equities Portfolio on 27Jul07

Portfolios	Total		<2				2-5				5-10				1	
	# Pos	Value (MM)	Count	Count (%)	Value (MM)	Value (%)	Count	Count (%)	Value (MM)	Value (%)	Count	Count (%)	Value (MM)	Value (%)	Count	Cou (%
TOTAL	10	284	1	10.0	103	36.3	0	0.0	0	0.0	1	10.0	1	0.5	3	30
Mtg NYC ABS Equities Portfolio	10	284	1	10.0	103	36.3	0	0.0	0	0.0	1	10.0	1	0.5	3	30
...Mtg NYC ABS Equities Portfolio	10	284	1	10.0	103	36.3	0	0.0	0	0.0	1	10.0	1	0.5	3	30

Risk Report by Security Type for Mtg NYC ABS Equities Portfolio on 27Jul07

Type	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	E
TOTAL	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	24,047	
Eq Listed Option	(180,579)	(277,581)	4,536	565	820	(302)	(54)	(58)	(56)	22,017	46,336	127,034	26,383	
EqSp Equity Cash	(65)	(132)	0	0	0	0	0	0	0	6	13	32	51	
N/A	0	0	0	0	0	0	0	0	0	0	0	0	0	
EqSp Future	102,962	102,962	0	0	0	(46)	35	0	0	(10,296)	(20,592)	(51,481)	(2,386)	

Risk Report by Country for Mtg NYC ABS Equities Portfolio on 27Jul07

Type	Delta$	BetaAdjDelta$	Gamma$	Vega$	Std 1y Vega$	Theta	Dividend -10%	Skew$	Std 3m Skew$	90% +5pt	80% +10pt	50%	3m Momentum	3m Effervesce
TOTAL	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	24,047	
United States	(77,682)	(174,751)	4,536	565	820	(348)	(18)	(58)	(56)	11,727	25,756	75,585	24,047	
N/A	0	0	0	0	0	0	0	0	0	0	0	0	0	

Delta$ and Topsheet Delta$ Difference by Portfolio for Mtg NYC ABS Equities Portfolio on 27Jul07

Portfolios	Delta$	Topsheet Delta$	Delta$ Difference

Books With Stale Data

Book	Group	Eq Risk	Eq Ts	Eq Sv	LDN SP Eq GenScen M3

FINAL TRANSCRIPT

Thomson StreetEvents™

GS - Q4 2007 Goldman Sachs Earnings Conference Call

Event Date/Time: Dec. 18. 2007 / 11:00AM ET

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Permanent Subcommittee on Investigations
EXHIBIT #158

Roger Freeman - *Lehman Brothers - Analyst*

Good morning, David.

David Viniar - *Goldman Sachs - CFO*

Good morning, Roger.

Roger Freeman - *Lehman Brothers - Analyst*

With respect to any net impact of your positioning in mortgage credit this quarter, looks like it was pretty much a push, where it was a positive last quarter. Is that a fair assessment?

David Viniar - *Goldman Sachs - CFO*

No, I think what we said was it was still strong or solid, but lower than the record third quarter.

Roger Freeman - *Lehman Brothers - Analyst*

Okay. Would -- where would you characterize your positioning there right now? Are you net long or short, mortgage credit?

David Viniar - *Goldman Sachs - CFO*

I think you can assume that the fact that we told you we were short at the end of the third quarter was a moment in time thing. That is not likely to happen very often. It's not good for us to disclose long or short in a trading position, and it's something that can change every day. So I think you should not expect to see that very often.

Roger Freeman - *Lehman Brothers - Analyst*

Let me just ask this. Last quarter, you thought we were sort of closer to the bottom in valuations. What do you think about the market right now, and specifically, when do you think there's going to be a bid for some of the maybe higher quality, say, CDO, the higher quality tranches in CDOs, and do you expect to actually be a liquidity provider in that area?

David Viniar - *Goldman Sachs - CFO*

I think we are still closer to the bottom, and I don't think there's a problem with the bid. I think there's a bid. I don't think there were many offers. So I, I think it's a question of people actually being willing to sell what they have, not the fact that there aren't buyers. I think there are buyers there. For the right assets at the right price, yes, we would be a buyer.

Roger Freeman - *Lehman Brothers - Analyst*

Well, I mean the transactions that have occurred have largely been institutions that are in a distress situation. I guess the question is when does that bid asset narrow to a point where you actually get a sort of liquid secondary ?

Operator

Your next question will come from the line of Mike Mayo with Deutsche Bank.

Mike Mayo - *Deutsche Bank - Analyst*

Good morning.

David Viniar - *Goldman Sachs - CFO*

Good morning, Mike.

Mike Mayo - *Deutsche Bank - Analyst*

Hi. I might have missed it, but how much in total write-downs did you take? You said maybe 800 million on CDOs and COOs if you could confirm that. Also, if you have write-downs on mortgages or CDOs elsewhere?

David Viniar - *Goldman Sachs - CFO*

We didn't say, so you didn't miss it. It's not a number we disclose. Our mortgage business was profitable over the year. We took some write downs on our loan mortgage inventory, and in cases where we had hedges or other short positions they were up, they were up more than the loans were down, but on both sides of it, and we're not going to disclose the number in the context of some numbers you've seen, both sides were relatively modest.

Mike Mayo - *Deutsche Bank - Analyst*

Would the write-downs have been more than the $500 million of recoveries from the leveraged loans?

David Viniar - *Goldman Sachs - CFO*

We're not going to disclose the number.

Mike Mayo - *Deutsche Bank - Analyst*

Okay, and your leverage loan, you had 42 billion at the end of the third quarter. Where is that now, and how did it get there?

David Viniar - *Goldman Sachs - CFO*

We had $42 billion of unfunded commitments at the end of the, at the end of the third quarter. In the fourth quarter, we sold or canceled 16 billion, 9 billion was funded. We made $10 billion of new commitments and that leaves us with $27 billion of unfunded commitments at the end of the fourth quarter. I think those numbers add up.

4Q07 Fact Sheet

- **Geographic mix:**

Redacted by the Permanent Subcommittee on Investigations

- **Compensation ratio / tax rate 4Q impacts:** Redacted by the Permanent Subcommittee on Investigations

- **Alternative investments:**

Redacted by the Permanent Subcommittee on Investigations

- **Projected 1Q08 incentive fees (as of November 30th 2007):** Redacted by the Permanent Subcommittee on Investigations

- **Mortgages:** 4Q07 Mortgage non-prime balance sheet: \$6.6B (Subprime: \$1.5B; Alt-A: \$4.2B; S&D: \$513M; CDOs: \$355M)
  - 4Q07 P&L: loans/securities -\$1.2B; derivatives +\$1.5B. FY07 P&L: loans/securities -\$4.8B; derivatives +\$5.9B.

- **Leveraged finance:**

Redacted by the Permanent Subcommittee on Investigations

- **Market risk:** 4Q07: Ending VaR: \$134M; High VaR: \$181M-record (10/10); Low VaR: \$128M (11/12); Avg. VaR: \$151M–record.
  - 4Q07 (preliminary): 24 trading loss days (8 days > \$100M loss); 4 (to 6) VaR breaches.
  - FY07 (preliminary): 53 trading loss days; 10 (to 12) VaR breaches.
  - FY06: 56 trading loss days; 3 VaR breaches.

- **Other market risk 10% sensitivities (preliminary):**

Redacted by the Permanent Subcommittee on Investigations

- **Balance sheet:** Redacted by the Permanent Subcommittee on Investigations

- **Level 3 information:**

Redacted by the Permanent Subcommittee on Investigations

- **CVA**

- **Total shareholders' equity:**

Redacted by the Permanent Subcommittee on Investigations

- **Headcount:**

Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #159

Confidential Treatment Requested by Goldman Sa[redacted] GS MBS-E-009724276

- FY07 tax rate

Redacted by the Permanent Subcommittee on Investigations

Securities Division Summary Highlights - Week Ending November 30th, 2007

Financial Performance ($mm)

Equities	WTD	MTD	QTD	YTD	% vs 06 Act	FICC	WTD	MTD	QTD	YTD	% vs 06 Act
Revenues	79	673	3,415	13,406	29%	Revenues	(190)	670	3,294	16,737	15%
Pre-Tax	(83)	(73)	562	4,772		Pre-Tax	(463)	(103)	305	7,858	

Macro Economic Highlights

- Global stocks stormed ahead this wk amid mounting expectations that the Fed would cut interest rates again (DJIA +3.0% / S&P +2.8% / FTSE +2.7% / DAX +3.4% / Nikkei +5.3% / Hang Seng +10%). Further boosts to confidence came from news that Citigroup, had secured a $7.5bn capital injection from the Abu Dhabi Investment Authority & Bernanke, hinting that US borrowing costs would be cut this month. In the eurozone, inflation hit its highest level for more than 6 years, even as economic sentiment took another turn for the worse. BOE warned that the UK economy faced an "uncomfortable" few months. Govts saw sharp price swings, with UST yields hitting 3-yr lows earlier in the wk, but were little changed by Fri. Swooning oil prices have cast doubt over OPEC's willingness to agree to raise output in the coming week. Oil prices have fallen about 10% since the members of the OPEC first signaled the possibility of a production increase.

Competitor, Regulatory, and Emerging Markets Highlights

- Morgan Stanley ousted co-presidents Zoe Cruz & Bob Scully, replacing them with IBD head Walid Chammah & IMD head James Gorman. They also removed Tony Tufariello, head of structured products, & demoted Neal Shear, head of FICC, who will become commodities chair. MS also named Michael Petrick head of trading and co-head of Institutional Securities.
- Citi may cut up to 45,000 jobs out of its 320,000 employees, although exact numbers have not been set
- Bear announced an additional 650 job cuts, mainly from its Federation
- HSBC became the 1st bank to bail out its SIVs, and will take $45bn in mortgage-backed securities and other assets onto its own balance sheet
- JPMorgan has hired Barry Zubrow as its new chief risk officer after a year-long search

Securities Division Summary

- The Securities Division posted preliminary monthly revenues of $1,343mm, with pre-tax of $(176mm): Equities posted $673mm in revenues and $(73mm) in pre-tax while FICC came in at $670mm of revenue and $(103mm) of pre-tax. Despite a difficult month, 2007 set full year revenue and pre-tax records $30,143mm and $12,630mm respectively.

GS Securities Division CVA

- Securities Division CVA: WTD P&L $(88)mm [Commodities $(48)mm / IRP $(15)mm / Credit $(13)mm / FX $(10)mm] as GS Credit spreads tightened across the curve and particularly in the shortend. CVA on the year contributed +$250mm [Commodities +$149mm / IRP +$52mm / Equities +$32mm] as credit spreads finished the year wider; 5y spreads +54bps YoY.

Equities Highlights	FICC Highlights

Mortgages

- Subprime ABS: In ABX, the desk had $700mm in total flows (GS buys $300mm, GS sells $400mm). Volumes picked up prior to remit data as fast money shorts coupled with dealer selling pushed the market wider. Even at these lows, we continue to see short interest. Post remits, we have seen short covering from macro accounts. We have also seen several capital structure trades put on as macro players speculate on convergence.
- **Sub-prime Related News**

[redacted]

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EXHIBIT #160

GS MBS-E-0096486

Mortgages

Mortgages Performance ($mm)					
	WTD	MTD	QTD	YTD	% YTD vs. Act
Resi Prime	(26.3)	(71.2)	(101.5)	(175.0)	-436%
Resi Credit	(27.0)	(112.1)	(302.4)	(981.5)	-474%
CDO/CLO	(8.9)	(132.8)	(252.3)	(1,750.3)	N.M.
SPG	54.1	208.2	947.2	3,742.3	N.M.
Other*	(45.7)	(32.6)	1.0	294.8	30%
Revenues:	**(53.7)**	**(140.4)**	**292.0**	**1,130.4**	**26%**
Expenses:	**(10.2)**	**(61.2)**	**(252.6)**	**(775.2)**	
Pretax P&L:	**(63.9)**	**(201.6)**	**39.4**	**355.2**	

Indices	This Week	Last Week	Change (wow)
Refi Index	2,200	1,490	(710)
ABX.HE.AAA. 07-1 Spread	705	499	(206)
ABX.HE.BBB-.07-1 Spread	3,229	3,145	(84)
BOA AAA 10YR CMBS paper	110.5	103.2	(7.3)
CMBX 07-2 AAA Spread	105.0	75.0	(30.0)
CMBX 07-2 A Spread	515	440	(75)
CMBX 07-2 BBB- Spread	1,200	1,110	(90)

* CRE Loan Trading, ABS Loans & Finance, Tax / Warehouse, European Mtgs, Advisory & Other

Market Color:

Structured Products

- **CMO Secondary:** Volatility in the Mortgage Passthrough, ABX, and interest rate markets kept flows quiet in structured space. We believe that Prime and Alt-A paper may soon capture the tightening that some other mortgage products have experienced, and we continue to recommend buying Non-Agency versus Agency CMOs. In particular, we think short Non-Agency sequentials and SSNR bonds are both fundamentally undervalued and have limited credit risk.
- **Agency New Issue:** The New Issue desk is working on marketing a variety of front sequentials off Gold 5.5s, 10/20 IO collateral and 20 yr 5.5s. We are looking at potential floater deals as well. We also settled our November deal, FH 3383, and are working on a December securitization. Flows have continued to be quiet amidst market volatility.
- **Non-Agency New Issue:** With no paper out for the bid from originators and little action on the securities side, the whole loan market remains quiet. We sold $100mm PACs and are looking to move the rest of our structured inventory, particularly anti-sinkers. The recent rally in rates normally presents refi opportunities for borrowers, yet liquidity problems in the whole loan market have held originators back from setting aggressive mortgage rates.
- **Hybrids/ARMs:** Flows were very light this week, with the majority of activity was in the agency origination space. The Non-Agency market continues to be completely illiquid as investors remain on the sidelines. Single-names and indices gapping tighter this week did not impact the ARMs market.
- **Subprime Newsflow:** Markets rallied on the week with spreads tightening in sympathy with the recovery in equities. However, market fundamentals continue to deteriorate in the housing sector. In addition, liquidity continues to be thin as money managers begin closing their books for their year. In news flow, fresh capital for Citigroup, and Freddie Mac, as well as positive Fed speak contributed to market sentiment.
  - Citigroup received $7.5bn from Abu Dhabi, and will pay 11% against the convertible shares it sold
  - Freddie Mac plans to sell $6bn in preferred stock and cut its dividend in half to shore up capital depleted by record mortgage defaults and foreclosures
  - HSBC said it would move two SIVs and ~$45bn onto its balance sheet in order to prevent fire-sales
  - The Bush administration and major financial institutions are agreeing on a plan to temporarily freeze interest rates on certain troubled subprime home loans
  - MBIA has shrunk its Hudson Thames Capital SIV to about $400mm from $2bn through asset sales to bondholders
  - Wells Fargo will take a $1.4bn Q407 charge tied to increased losses on home equity loans
  - Bear Stearns is cutting 650 jobs of its is global workforce of about 15,500 in response to subprime losses
  - Citadel pumped $2.55bn into E*Trade., whose holdings of home loans and ABS resulted in lost customer business
  - Germany's KfW expects losses from its rescue of subprime casualty IKB to nearly double to €4.8bn ($7.1bn)
  - Moodys said it may lower the credit rating of GMAC LLC because of the lender's continued support for its RESCAP mortgage unit
  - New home sales rose 1.7% in October, according to Commerce Department data; the median price fell 13% year over year
  - S&P/Case-Shiller's U.S. home-price index was reported down 4.5% for Q307 vs. Q306
  - US existing-home sales fell in October by 1.2%; inventory of unsold homes hit 22-year high, rising 1.9%
  - US home foreclosures almost doubled in October, a 94% jump from October 2006 and a 2% increase from the previous month
  - House prices in London declined 0.6% from a month earlier, the biggest drop since August 2005
- **Subprime Primary (US):** The primary market had no news with the outlook remaining bleak for the remainder of the calendar year. Ordinarily, a rally similar to the one we experienced this week would have provided for decent opportunities in the new issue space. However, origination and securitization markets remain severely dislocated and unfavorable. Liquidity concerns should continue to hamper new issue activity into December.
- **Subprime Primary (Europe):** The desk funded its first loans on the warehouse line for Project Chestnut. Approximately £1mm is in principal balance.
- **Subprime Secondary:** In ABX, the desk had $700mm in total flows (GS buys $300mm, GS sells $400mm). Volumes picked up prior to remit data as fast money shorts coupled with dealer selling pushed the market wider. Even at these lows, we continue to see short interest. Post remits, we have seen short covering from macro accounts. We have also seen several capital structure trades put on as macro players speculate on convergence. ABX 06-1 continues to underperformed relative to its counterparts, largely due to being a cheaper short compared to the other indices. Every index continues to trade at its all time low.

  Single-name volume remained light this week. The desk saw roughly $500mm in BWIC/OWIC activity. We continue to see large amounts of short interest even at these all time wides with many line items trading north of 90 points upfront. Dealers remain risk-averse in terms of offering protection.

  In cash trading, we saw active selling up the capital structure. Real money accounts continue to sell short, AAA securities. Non-resi ABS continues to widen, specifically cards and autos. The desk saw over $1bn in non-resi cash up for the bid. Overall, the lack of liquidity has increased frustration amongst investors.
- **CRE Primary:** Little activity on the fixed rate loan origination front. Cost of funds continues to increase with CMBS spreads and the run up in volatility is creating uncertainty to CRE transactions in general. One $10mm loan signed up last week and we rate locked this week. On the disposition front, we priced and circled a $10 mm B note that is expected to settle December 18th. On the floating rate loan origination front, there was also little activity. We settled the following mezzanine loan sales this week: Central Parking (first loss): $22mm (L+390), Calwest Industrial $85.75mm (L+180), $60mm (L+250). In terms of Equity Inns, we continue to market the b-note and mezzanine debt and to date have circled the following sales: (in order of seniority in the capital structure) B-2: $50mm @L+250, M-3: $100mm @ L+400, M-6: $75.5mm @ L+575, M-7 (first loss piece): $75.5mm @ L+625.
- **CMBS Secondary:** We saw a large amount of short covering this week across the capital structure, causing a very sharp rally. Spreads were on average 20-125 bps tighter across most CMBX tranches/time series.

  In cash, AAA spreads tightened about 10 bps over the week, driven by street flow as dealers covered shorts. We saw light retail flow on that side of the market. Our clients actually tried to take advantage of the street firming up cash and sold into the tightening. About $2bn came out in bid lists this week ($1bn on Friday). 23 Away from cash, there was strong two-way flow in TRS as accounts firmed up positions for month end.

Goldman Sachs: Risk Management and the Residential Mortgage Market

I. Executive Summary

The financial crisis has been a humbling experience for every participant in the financial system. The events of the past few years have put a particular focus on risk management, its failures and its economic implications.

At Goldman Sachs, we have dealt with both the challenges of navigating the crisis itself and with questions about our actions before and during the crisis. Our risk management and business practices in the mortgage market have received much attention. In that connection, we would like to make the following points:

- Goldman Sachs did not take a large directional "bet" against the U.S. housing market, and the firm was not consistently or significantly net "short the market" in residential mortgage-related products in 2007 and 2008, as the performance of our residential mortgage-related products business demonstrates.

- Goldman Sachs was not a dominant participant in the residential mortgage-related products market. The firm's net revenues from residential mortgage-related activities were very small, both in total and relative to the rest of our business. In fact, from 2003 to 2008, annual net revenues attributable to mortgage-related products, commercial and residential, never exceeded approximately 2% of the firm's overall net revenues. In fiscal year 2007, the firm had less than $500 million of net revenue from residential mortgage-related products –approximately 1% of the firm's overall net revenues.

- Goldman Sachs did not have access to any special information that caused us to know that the U.S. housing market would collapse. In fact, as a result of the spread of the crisis from subprime to all residential mortgages, Goldman Sachs had overall net losses of approximately $1.7 billion with respect to residential mortgage-related products for fiscal year 2008.

- Goldman Sachs did not engage in some type of massive "bet" against our clients. The risk management of the firm's exposures and the activities of our clients dictated the firm's overall actions, not any view of what might or might not happen to any security or market.

- We maintained appropriately high standards with regard to client selection, suitability and disclosure as a market maker and underwriter. As a market maker in the mortgage market, we are primarily engaged in the business of assisting clients in executing their desired transactions. As an underwriter, the firm is expected to assist the issuer in providing an offering document to investors that discloses all material information relevant to the offering.

Permanent Subcommittee on Investigations
EXHIBIT #161

- Goldman Sachs' risk management decisions were motivated not by any collective view of what would happen next, but rather by fear of the unknown. The firm's risk management processes did not, and could not, provide absolute clarity; they underscored deep uncertainty about evolving conditions in the U.S. residential housing market. That uncertainty dictated our decision to attempt to reduce the firm's overall risk.

- Goldman Sachs sold Collateralized Debt Obligations ("CDOs") principally to large financial institutions, insurance companies and hedge funds with a focus on this type of product.[1] These investors had access to highly detailed information that allowed them to conduct their own independent research and analysis.

- Goldman Sachs never created mortgage-related products that were designed to fail. It is critical to remember that the decline in value of mortgage-related securities occurred as a result of the broader collapse of the housing market. It was not because there were any deficiencies in the underlying instruments. The instruments performed as would have been expected in those unexpected circumstances.

There are valuable lessons to be learned from the financial crisis in general, and the collapse of the mortgage market in particular. It is critical that we and other financial institutions learn the right lessons, if we are to avoid future crises in the financial system.

II. Goldman Sachs as Market Maker

At the heart of Goldman Sachs' sales and trading business is our role as a "market maker." As a market maker, the firm stands ready, willing and able to buy and sell financial instruments at the initiation of our clients. Goldman Sachs' clients expect the firm to do so, regardless of whether the other side of a transaction has been identified or is readily available. In light of the global and complex nature of markets, it would be very difficult for companies, institutions and governments to raise capital, manage their risks and fund their operations without financial institutions committing their capital on behalf of clients.

Our clients' needs are the single biggest factor driving Goldman Sachs to accept risk. The exposures created through transactions with clients are part of the overall "inventory" of instruments we generally carry as part of our business. These risks -- like market price, volatility and credit -- all must be actively managed. Once the firm transacts with a client, thereby taking on an exposure, our most effective risk management tool is to enter into a transaction that counterbalances the risk we have just assumed. In many cases, however, this can be difficult because of imperfect, mismatched or unavailable offsetting exposures. Nevertheless, Goldman Sachs' clients expect the firm to stand ready to transact in all market conditions.

[1] A corporate-related pension fund that had long been active in this area also made a purchase of less than $5 million.

III. Goldman Sachs' Participation in the Residential Mortgage Market

Goldman Sachs' residential mortgage-related business consists of structuring, trading, underwriting and distributing mortgage- and asset-backed related products. These products include loans, securities and derivatives backed by residential real estate loans.

The residential mortgage-backed security (RMBS) is one such product. Through an RMBS, pools of home loans are structured into a security, with the underlying mortgage loans serving as collateral and providing income to the investors in the security.

A Collateralized Debt Obligation (CDO) pools various RMBS and other income-producing assets into different tranches with varying degrees of risk. The most senior tranches carry the least risk of default and, in turn, provide the lowest interest rate to the investor. In a "synthetic" CDO, two parties enter into a derivative transaction, which references particular assets. By the very nature of a synthetic CDO, one counterparty must be long the risk (i.e., hoping to benefit from an increase in the value of the referenced assets), and the other counterparty must be short the risk (i.e., hoping to benefit from a decrease in the value of the referenced assets).

Goldman Sachs has not been a significant participant in the market for originating mortgages. In fact, the number of loans originated by Goldman Sachs, which acquired a small originator in March 2007, never exceeded one-tenth of one percent of total domestic residential mortgages.

In structuring and underwriting RMBS, Goldman Sachs often purchased the underlying loans from banks and other lenders. In other cases, Goldman Sachs acted as an underwriter for securitizations of the loans of mortgage originators. In both situations, Goldman Sachs engaged in a due diligence process to examine (i) the counterparty, (ii) loan level credit, (iii) compliance and (iv) property valuation.

In this context, the firm was acting as an underwriter of financial instruments, rather than a market maker. A market maker is primarily engaged in the business of assisting clients in executing their desired transactions. This business is client-driven, and serves an intermediary function. Goldman Sachs strives to provide a fair price to our clients.

In contrast, an underwriter of financial instruments works with the issuer in connection with offering financial instruments to investors. In this context, federal securities laws effectively impose a "gatekeeper" role on Goldman Sachs: as an underwriter, the firm is expected to assist the issuer in providing an offering document to investors that discloses all material information relevant to the offering.

In connection with our underwriting of residential mortgage-related securities, Goldman Sachs had a process to examine the management, relevant policies and procedures, underwriting standards, creditworthiness and other aspects of each mortgage originator before the firm began purchasing loans for securitization. As a result of these reviews, we determined not to do business with dozens of originators and suspended our business relationships with many more.

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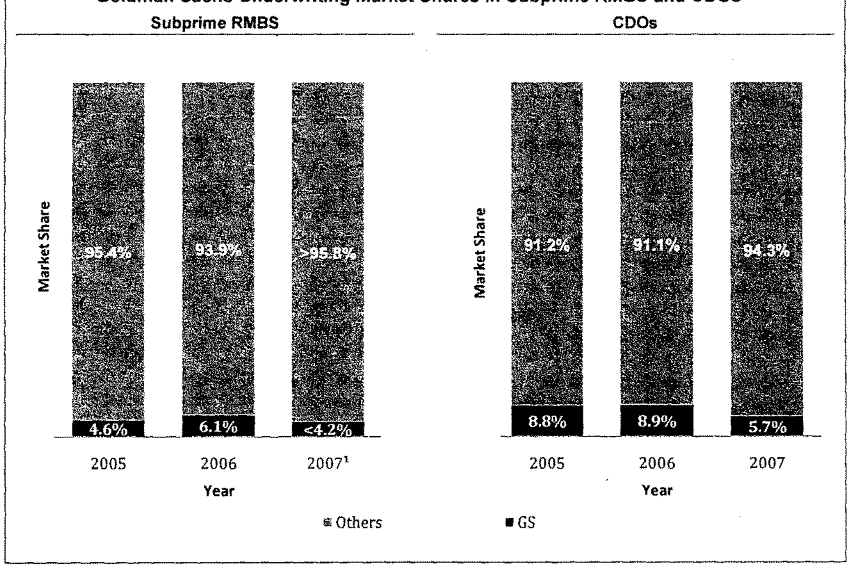
The firm also employed internal and third-party resources to conduct due diligence on the individual loans in the pools backing the securities in our RMBS offerings, including reviewing selected loan files, verifying compliance with state and federal lending statutes, and selective review of property appraisals against comparable values. As a result, Goldman Sachs generally did not accept loans that, based on our review and analysis, appeared to have potentially significant legal, regulatory compliance or other issues. Knowing what we know today, of course, we wish we had done even more.

Regardless of the degree of due diligence performed by underwriters in connection with RMBS securitizations, however, they cannot and do not guarantee payment, performance or any rate of return. Rather, it is up to the purchaser of securities to evaluate whether the securities are worthy of investment based on the purchaser's own view and analysis of the securities' value in light of the purchaser's expectations about the future of the housing market and the economy. Importantly, in the case of asset-backed securities, the disclosures set forth in the firm's offering documents included detailed descriptions of the underlying assets.

IV. Goldman Sachs' Position in the Residential Mortgage and CDO Markets

Goldman Sachs certainly was not the dominant participant in the residential mortgage securities underwriting market. The firm entered this market space relatively late, with a small amount of customer activity and without a significant mortgage origination business.

Goldman Sachs Underwriting Market Shares in Subprime RMBS and CDOs



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Sources: Inside Mortgage Finance and Asset Backed AlertGS [1]For 2007, Inside Mortgage Finance published market share data for only the top 10 underwriters. The 10th largest underwriter in 2007 was Bank of America with a 4.2% market share. As Goldman Sachs did not appear in the top 10, we can deduce that it had a market share of less than 4.2%.

V. Risk Management

A. Getting "Closer to Home"

The foundation of Goldman Sachs' approach to risk management is disciplined mark-to-market accounting. This involves the daily practice of valuing the firm's assets and liabilities to current market levels – that is, the value one might expect to find on the open market. Without a transparent and realistic insight into our own financial position, Goldman Sachs would not be able properly to assess or manage our risk. It was mark-to-market accounting that spurred Goldman Sachs to reduce the firm's risk in the residential mortgage market near the end of 2006.

As a result of this firmwide discipline, Dan Sparks, then head of the mortgage department, was able to tell senior members of the firm in an email on December 5, 2006, that the "Subprime market [was] getting hit hard... At this point we are down $20mm today."[2]

For senior management, the emergence of a pattern of losses, even relatively modest losses, in a business of the firm will typically raise a red flag. Concerned by increasing volatility and repeated daily losses in the firm's mortgage business P&L, David Viniar, the firm's Chief Financial Officer, convened a meeting of the firm's senior mortgage traders and risk managers on December 14, 2006. At that time, Goldman Sachs had a net long exposure to subprime, prime and other residential mortgage risk. It was agreed during the meeting that the firm should reduce its overall exposure to the subprime mortgage market – getting, in effect, "closer to home." To be clear, Mr. Viniar did not instruct the mortgage business to take a particular directional view on the subprime mortgage market. Nor did Mr. Viniar prohibit the mortgage business from taking short positions or becoming net short. Instead, Mr. Viniar's guidance to the mortgage department was to not take a significant directional position -- short or long -- in any direction and to do its best to reduce the size of the department's overall positions in the subprime market.

In a December 15, e-mail to Tom Montag, then co-head of the Securities Division, Mr. Viniar recounted the meeting of the day before, stating, "Dan and team did a very good job going through the risks. On ABX[3], the position is reasonably sensible but is just too big. Might have to spend a little to size it appropriately. On everything else my basic message was let's be aggressive distributing things [i.e., reducing risk] because there will be very good opportunities as the markets goes into what is likely to be even greater distress and we want to be in position to take advantage of them [i.e., opportunities]."[4] In an email two days later, Dan Sparks updated senior management: "We made progress last week, but still more work to do...Below shows risk reduction trade[s]."[5]

[2] GS MBS-E-010930468 (December 5, 2006 e-mail from Dan Sparks to Tom Montag, et a.l) (All "GS MBS-E references are to materials provided to the Permanent Subcommittee on Investigations.)
[3] ABX is an index that tracks the performance of subprime residential mortgage bonds.
[4] GS MBS-E-009726498 (December 15, 2006 e-mail from David Viniar to Tom Montag)
[5] GS MBS-E-009726143 (December 17, 2006 e-mail from Dan Sparks to Tom Montag, et al)

In an e-mail to the firm's senior management on February 14, 2007, Mr. Sparks outlined the efforts to reduce long risk that his department had commenced:

> Over the last few months, our risk reduction program consisted of:
>
> (1) selling index outright
> (2) buying single name protection
> (3) buying protection on super-senior portions of the BBB/BBB- index (40-100% of the index).[6]

On February 22, 2007, Mr. Sparks sent an e-mail to several people on the mortgage desk urging them to continue getting closer to home, including reducing short positions:

> We need to buy back $1 billion single names and $2 billion of the stuff below – today. I know that sounds huge, but you can do it – spend bid/offer, pay through the market, whatever to get it done. It is a great time to do it – bad news on HPA, originators pulling out, recent upticks in unemployment, originator pain. I will not want us to trade property derivatives until we get much closer to home as it will be a significant distraction from our goal. This is a time to just do it, show respect for risk, and show the ability to listen and execute firm directives.[7]

Attempting to reduce its overall risk to subprime residential mortgage-related securities meant that the firm at various times would find itself net short, though not significantly so.

B. Concerns about Short Positions

It was well known that housing prices were weakening in early 2007. But no one knew when the market would reach bottom and whether values would continue to fall, rebound, or at least stabilize at levels where buyers of residential subprime mortgage-related securities would receive their full interest and principal payments. The impact of subprime mortgage-related securities on the housing market and broader economy was similarly unclear. In March 2007, Federal Reserve chairman Ben Bernanke told lawmakers that "the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained."[8] Other policy makers and economists repeated this assertion through the summer and early fall, while still others took the reverse view.

Goldman Sachs continued to attempt to reduce its risk in the subprime market and to move to a more balanced position, which at various times caused the firm to have a net short bias. At the time, however, there was no internal consensus on the future of the subprime residential housing market. On one hand, for instance, Josh Birnbaum, a managing director in the mortgage department, believed very strongly that the firm should take a larger net short position. On the other hand, there was a concern among some that the firm might be too short, as emails from the time period reflect:

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6 GS MBS-E-010989331 (February 14, 2007 e-mail from Dan Sparks to Tom Montag, et al)
7 GS MBS-E-010381411 (February 22, 2007 e-mail from Dan Sparks to Josh Birnbaum et al.)
8 Testimony of Federal Reserve Chairman Ben Bernanke before the Joint Economic Committee of the US Congress, March 28, 2007.

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- Gary Cohn, the firm's President and Chief Operating Officer, remarked in a March 6, 2007 e-mail that "A big plus would hurt the Mortgage business but Justin thinks he has a big trade lined up for the morning to get us out of a bunch of our short risk[.]"[9]

- Dan Sparks noted on March 8, 2007 that "Aside from the counterparty risks, the large risks I worry about are... [c]overing our shorts. We have longs against them, but we are still net short."[10]

- On March 14, 2007, Tom Montag told Lloyd Blankfein that the firm "[c]overed another 1.2 billion in shorts in mortgages – almost flat – now need to reduce risk[.]"[11]

- On April 11, 2007, Mr. Sparks received an estimate of the mortgage department's exposure to certain products and noted to Kevin Gasvoda, a member of the department: "Subprime down 3mm from shorts? Is that right and are we too short?" Mr. Gasvoda replied: "Yes. Subprime has near zero loans and is short some mez abx and $2B aaa abx[.] [T]he aaa short is painful . . . . Plan is to chip away at covering on every chance."[12]

During this period, the mortgage department covered more than $2.8 billion in single-name short positions. Even though these short positions proved profitable when viewed in isolation, this meaningfully reduced the firm's net exposure to subprime residential mortgages by several billion dollars -- in effect, getting the firm closer to home. In addition, by March, the firm's net long exposure to prime and other residential mortgages had grown as a result of meeting client needs in the mortgage market.

C. Different Views In The Firm

In the spring of 2007, there was continued debate amongst senior managers about the direction of the residential mortgage market.[13] For instance, on March 14, Jon Winkelried e-mailed Mr. Sparks, and others, indicating that the firm should be prepared for a downturn in the performance of securities backed by prime loans and asked what it was doing to insulate itself from losses.[14] Mr. Sparks replied: "Trying to be smaller... We are also short a bunch of sub-prime AAA index for jump risk protection."[15]

9 GS MBS-E-009686278 (March 6, 2007 e-mail from Gary Cohn to senior management).

10 GS MBS-E-009718900 (March 8, 2007 e-mail from Dan Sparks).
11 GS MBS-E-009685739 (March 14, 2007 e-mail from Tom Montag to Lloyd Blankfein).
12 GS MBS-E-010952383-85 (April 11, 2007 e-mail from Dan Sparks to Kevin Gasvoda).
13 GS MBS-E-009718900 (March 8, 2007 e-mail from Daniel Sparks to Jon Winkelreid, et al).
14 GS MBS-E-009718239 (March 14, 2007 e-mail from Jon Winkelried to Lloyd Blankfein, et al).
15 GS MBS-E-009718239 (March 14, 2007 e-mail from Dan Sparks to Jon Winkelried, et al).

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Richard Ruzika, a senior Securities Division partner, on the other hand, replied:

> It does feel to me like the market in general underestimated how bad it could get. And now could be overestimating where we are heading. . . . While undoubtedly there will be some continued spillover, I'm not so convinced this is a total death spiral. In fact, we may have terrific opportunities. Dan's team is working hard (literally around the clock) so we have a shot at them . . . .[16]

As Mr. Ruzika's e-mail indicates, Goldman Sachs carefully monitored our short positions and explored the possibility of increasing long positions and other opportunities in the mortgage markets if market conditions appeared favorable. The firm even explored the possibility of buying interests in, or pools of assets from, subprime originators. In a March 9, 2007 e-mail that Gary Cohn subsequently forwarded to Lloyd Blankfein, Dan Sparks discussed potential investments that the firm might make in subprime originators.[17] The firm also continued to respond to client requests to sell mortgage securities and submit bids on long positions. Various bids were accepted by clients, and the firm took on additional long risk.

In the third quarter of 2007, the subprime mortgage market deteriorated further. As David Viniar stated in the third quarter earnings conference call, "The mortgage sector continues to be challenged and there is a broad decline in the value of mortgage inventories during the quarter. As a result, we took significant markdowns on our long inventory positions during the quarter as we had in the previous two quarters. However, our risk bias from that market was to be short and that net short position was profitable."[18] The firm, however, did not amass a large net short position to "bet against the housing market." For the quarter, the firm's net revenues from residential mortgage-related activities were less than 5% of its total revenues.

Some in Goldman Sachs' mortgage business began to argue that the firm should consider buying more mortgage assets, believing that prices may have bottomed. For example:

- In an e-mail on August 20, 2007, Mr. Sparks told Mr. Winkelried (and others) that "We think it is now time to start using balance sheet and it is a unique opportunity with real upside—specifically for AAA RMBS." Mr. Sparks also said that he was going to devise a "plan describing the opportunity and parameters (including funding and risk) relating to buying billions."[19]

- In an August 21, 2007 e-mail, Josh Birnbaum told Tom Montag and others, "The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form."[20]

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16 GS MBS-E-009718239 (March 14, 2007 e-mail from Richard Ruzika to Dan Sparks, et al).
17 GS MBS-E-009656302 (March 9, 2007 e-mail from Dan Sparks to Gary Cohn et al, forwarded to Lloyd Blankfein)
18 Goldman Sachs Earnings Conference Call dated Sept. 20, 2007, at 3.

19 GS MBS-E-011035212 (August 20, 2007 e-mail from Dan Sparks to senior management)
20 GS MBS-E-009721274 (August 21, 2007 e-mail from Josh Birnbaum to Tom Montag, et al)

In late August, the mortgage department again purchased $350 million in triple-B ABX and covered $150 million in single-name shorts. Without greater clarity on the direction of the housing market, the firm sought to maintain a balanced position in the subprime mortgage market. A mortgage presentation to the Board of Directors, dated September 17, 2007, shows the subprime mortgage position on a notional basis and indicates a substantially balanced position.[21]

D. End of 2007/Beginning of 2008

On November 18, 2007 Lucas van Praag, global head of Corporate Communications, sent an e-mail to Lloyd Blankfein and Gary Cohn about a *New York Times* article suggesting that Goldman Sachs profited on the subprime market collapse.[22] Mr. Blankfein responded, "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts. Also, it's not over, so who knows how it will turn out ultimately."[23] Mr. Cohn qualified, "We were just smaller in the toxic products."[24]

A November 2007 document entitled "How Did GS Avoid the Mortgage Crisis," prepared for David Viniar in advance of earnings conference calls, summarized the firm's position following our prudent risk reduction efforts. After outlining the actions in late 2006 and early 2007, the document states:

> However, one should not be lead [sic] to believe that we went through this period unscathed and somehow significantly profited from a 'bet' on the downturn in mortgage markets. The actions that I outlined led to significant write downs in the value of our long mortgage inventory over the course of this year. We mentioned during our second quarter conference call that a weak quarter in Mortgages contributed to lower results in our FICC businesses. A better characterization of the situation is that we effectively avoided greater losses by taking these proactive steps and in fact during the third quarter we were able to make money on mortgages as a result of our net short position.[25]

By November 30, 2007, Goldman Sachs' net exposure to subprime residential mortgages was balanced. The firm's prime and other residential mortgage exposure continued to be long cash instruments of approximately $13.5 billion.

21 GS MBS-E-001793915-930 (September 17, 2007 presentation to Board of Directors at p. 6.)
22 GS MBS-E-009671378 (November 18, 2007 e-mail from Lucas van Praag to Lloyd Blankfein, et al).
23 GS MBS-E-009671378 (November 18, 2007 e-mail from Gary Cohn to Lloyd Blankfein, et al).
24 GS MBS-E-009671378 (November 17, 2007 e-mail from Lloyd Blankfein to Lucas van Praag, et al.)
25 GS MBS-E-009713204-07 (Goldman Sachs internal document, "How Did GS Avoid the Mortgage Crisis.")

For much of 2007, Goldman Sachs and most other market participants, economists and policy makers believed that the credit crisis was contained to the subprime mortgage market. During this period, the firm continued market making and underwriting activities in residential mortgages, which resulted in an increase in prime and other residential mortgage exposure. Unfortunately, in 2008, it became clear that these other asset classes were deteriorating as well. For the fiscal year ending November 2008, although profitable overall, the deterioration of these asset classes was a meaningful contributor to the firm's overall net loss of approximately $1.7 billion in residential mortgage-related products.

E. Increases in Value at Risk (VaR)

Throughout the course of our risk-reduction efforts starting in late 2006, the mortgage department experienced periodic spikes in VaR, or "Value at Risk." VaR is a risk metric that measures the potential loss in value of trading inventory due to adverse moves in the market over a defined period of time. The key inputs to VaR are the size and type of positions in the respective assets (both long and short) as well as the volatility of the underlying assets. Between November 24, 2006 and February 23, 2007, daily VaR in the mortgage department increased from $13 million to $85 million, predominantly from increases in volatility.[26]

Increases in VaR were the result of dramatic fluctuations in the mortgage market (which had a corresponding effect on VaR), not an effort on the part of Goldman Sachs to take a large directional bet on the subprime market. In fact, because of the volatility of the markets, the increases in VaR occurred despite efforts by the firm to reduce our overall exposure to the mortgage market.

In a February 14, 2007 e-mail, Dan Sparks wrote, "Over var due to massive spike in subprime volatility and we are working with bruce on that. Over limit on cre loan scenario list but will correct next week with large securitization pricing. Over limit on cdo risk but that will adjust as moving positions to desks. Bad week in subprime."[27]

A February 21, 2007 e-mail from Mr. Sparks to Jon Winkelried described the volatility in the subprime market:

> We are net short, but mostly in single name CDS and some tranched index vs the some [sic] index longs. We are working to cover more, but liquidity makes it tough. Volatility is causing our VAR numbers to grow dramatically.[28]

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26 GS MBS-E-010037310 (Mortgage VaR Change (Q1'07 vs. Q4'06)

27 GS MBS-E-002203268 (February 14, 2007 e-mail notes taken by Dan Sparks)

28 GS MBS-E-010381094 (February 21, 2007 e-mail from Dan Sparks to Jon Winkelried)

That volatility continued into the summer of 2007, as Bill McMahon, then COO & Head of Risk Management for the Securities Division, communicated to Gary Cohn and David Viniar in an email on August 15, 2007:

> The volatilities and correlations among our assets are really driving the swings in var right now. Robert Berry [the firm's Chief Market Risk Officer] sent out a note last night indicating that the sensitivity of our var models to correlations suggests that the var can swing between 140 and 160 without any changes in the complexion of our trading books – essentially, it is noise. The only solution is to reduce the size of the books, which is what we are working on with mortgages and credit trading.[29]

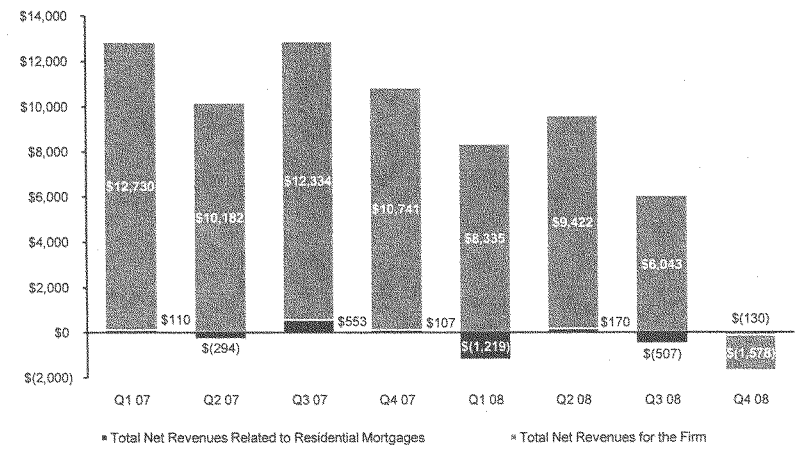
VI. <u>The Effect of Goldman Sachs' Risk Management on Our Profits and Losses During the Financial Crisis</u>

Given the deteriorating performance of the mortgage market in 2007 and 2008 and the corresponding decline in the value of mortgage-related products, the best and most relevant proof of whether Goldman Sachs had a large net short position is our actual revenues in mortgages. The relative consistency of revenues underlines the firm's on-going market making activities and prudent risk management– not a massive proprietary, directional view of where the market might have been headed.

The firm's mortgage-related positions had a relatively small effect on our net revenues or profits for fiscal year 2007. The firm had net revenues of less than $500 million from our residential mortgage-related products business in 2007. During fiscal year 2008, the firm had net losses of approximately $1.7 billion related to our residential mortgage-related products business.

[29] GS MBS-E-009778573 (August 15, 2007 e-mail from Bill McMahon to Gary Cohn and David Viniar)

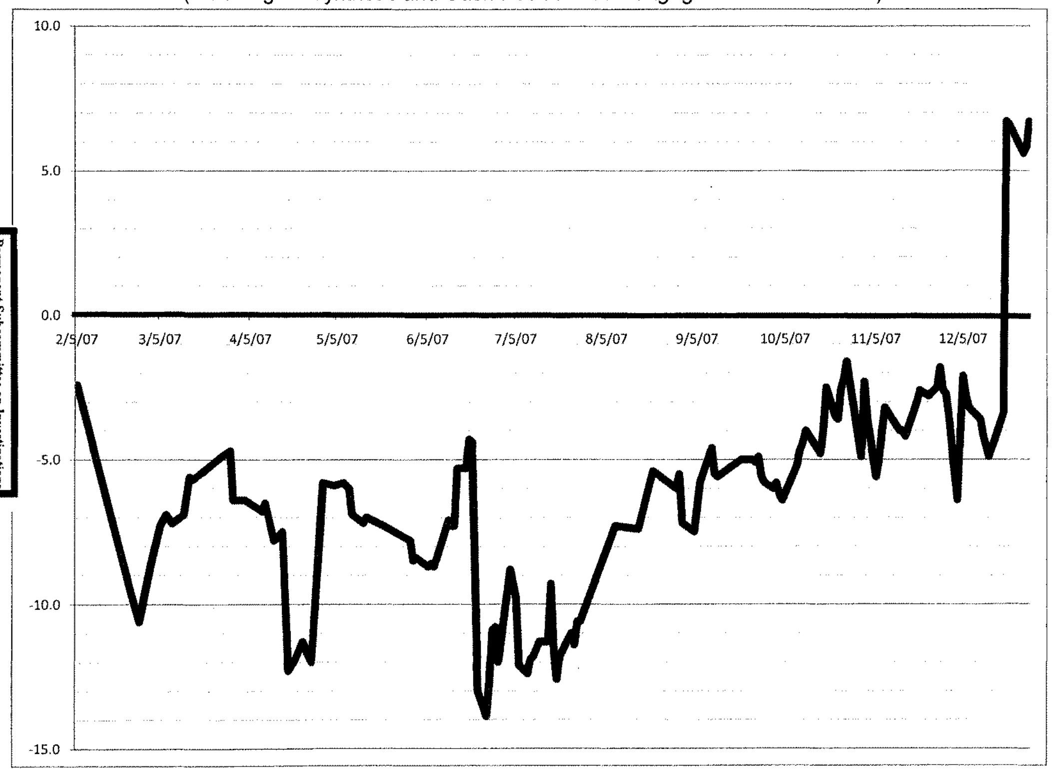
Firm Residential Mortgage Quarterly Net Revenues Compared to Total Net Revenues: 2007 – 2008 ($ in millions)



As Lloyd Blankfein and Gary Cohn explained in a letter to shareholders on April 7, 2010, "The firm did not generate enormous net revenues or profits by betting against residential mortgage-related products, as some have speculated; rather, our relatively early risk reduction resulted in our losing less money than we otherwise would have when the residential housing market began to deteriorate rapidly... Although Goldman Sachs held various positions in residential mortgage-related products in 2007, our short positions were not a 'bet against our clients.' Rather, they served to offset our long positions. Our goal was, and is, to be in a position to make markets for our clients while managing our risk within prescribed limits."[30]

30 Goldman Sachs 2009 Annual Report, letter to shareholders.

Goldman Sachs Mortgage Department Total Net Short Position, February - December 2007 in $ Billions
(Including All Synthetic and Cash Positions in Mortgage Related Products)



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.
Derived from Goldman Sachs Mortgage Strategies, Mortgage Dept Top Sheets provided by Goldman Sachs.

Permanent Subcommittee on Investigations
EXHIBIT #162

GS Mortgage Dept Total Net Short Position in $ Billions
(Including All Synthetic and Cash Positions)

2/5/07	-2.4
2/23/07	-9.5
2/26/07	-10.6
3/2/07	-8.6
3/5/07	-7.3
3/7/07	-6.9
3/9/07	-7.2
3/13/07	-6.9
3/15/07	-5.6
3/16/07	-5.7
3/20/07	-5.4
3/26/07	-4.9
3/29/07	-4.7
3/30/07	-6.4
4/3/07	-6.4
4/9/07	-6.8
4/10/07	-6.5
4/13/07	-7.8
4/16/07	-7.5
4/18/07	-12.3
4/20/07	-12.0
4/23/07	-11.3
4/25/07	-11.8
4/26/07	-12.0
4/30/07	-5.8
5/4/07	-5.9
5/7/07	-5.8
5/9/07	-6.0
5/10/07	-6.9
5/14/07	-7.2
5/15/07	-7.0
5/21/07	-7.3
5/30/07	-7.8
5/31/07	-8.5
6/1/07	-8.4
6/5/07	-8.7
6/6/07	-8.6
6/7/07	-8.7
6/8/07	-8.4
6/12/07	-7.1
6/13/07	-7.3
6/14/07	-7.3
6/15/07	-5.3
6/18/07	-5.3
6/19/07	-4.3
6/20/07	-4.4

6/22/07	-13.0
6/25/07	-13.9
6/26/07	-12.7
6/27/07	-10.9
6/28/07	-10.8
6/29/07	-12.0
7/3/07	-8.8
7/5/07	-9.8
7/6/07	-12.1
7/9/07	-12.4
7/10/07	-11.9
7/11/07	-11.8
7/13/07	-11.3
7/16/07	-11.3
7/17/07	-9.3
7/18/07	-11.7
7/19/07	-12.6
7/20/07	-11.8
7/24/07	-11.0
7/25/07	-11.4
7/26/07	-10.6
7/27/07	-10.6
8/8/07	-7.3
8/16/07	-7.4
8/21/07	-5.4
8/29/07	-6.0
8/30/07	-5.5
8/31/07	-7.2
9/4/07	-7.5
9/6/07	-5.8
9/7/07	-5.5
9/10/07	-4.6
9/11/07	-5.5
9/12/07	-5.6
9/20/07	-5.0
9/24/07	-5.0
9/25/07	-5.1
9/26/07	-4.9
9/27/07	-5.6
9/28/07	-5.8
10/1/07	-6.0
10/2/07	-5.8
10/3/07	-6.2
10/4/07	-6.4
10/9/07	-5.2
10/10/07	-4.7

10/11/07	-4.4
10/12/07	-4.0
10/17/07	-4.8
10/18/07	-3.9
10/19/07	-2.5
10/22/07	-3.5
10/23/07	-3.6
10/24/07	-2.6
10/25/07	-2.2
10/26/07	-1.6
10/30/07	-4.3
10/31/07	-4.9
11/1/07	-2.3
11/2/07	-3.6
11/5/07	-5.6
11/6/07	-5.0
11/7/07	-4.0
11/8/07	-3.2
11/13/07	-4.0
11/14/07	-4.0
11/15/07	-4.2
11/19/07	-3.0
11/20/07	-2.6
11/23/07	-2.8
11/26/07	-2.5
11/27/07	-1.8
11/28/07	-2.6
11/29/07	-2.7
11/30/07	-3.5
12/3/07	-6.4
12/4/07	-4.1
12/5/07	-2.1
12/6/07	-2.8
12/7/07	-3.2
12/11/07	-3.6
12/12/07	-4.2
12/14/07	-4.9
12/19/07	-3.4
12/20/07	6.7
12/21/07	6.6
12/26/07	5.6
12/27/07	5.8
12/28/07	6.7

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.
Source: Goldman Sachs Mortgage Strategies, Mortgage Dept Top Sheet for dates provided by Goldman Sachs.
Highlighted positions are high and low figures over time.

Goldman Sachs **Mortgage Strategies** Date: 5Feb07 E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

		Market Value($MM)(Notional for CDS)												Spread DV01($K)					
									Loan	Sec Resid		Total	Rate						
Group	Sector	Total	AAA	AA	A	BBB	BBB-	NR	Resid	< '06	>= '06	Resid	DV01($K)	AAA	AA	A	BBB	BBB-	NR
Dept	**Total**	**-2,429**	**4,581**	**362**	**-6,160**	**-3,036**	**-660**	**1,658**	**157**	**208**	**462**	**826**	**251**	**1,079**	**-231**	**2,187**	**980**	**173**	**-278**
Prime/AltA	**Total**	**5,727**	**4,675**	**131**	**88**	**52**	**51**	**441**	**48**	**62**	**178**	**289**	**-56**	**-198**	**-32**	**-19**	**3**	**-0**	**-87**
	Alt-A	5,727	4,675	131	88	52	51	441	48	62	178	289	-56	-198	-32	-19	3	-0	-87
RMBS Subprime	**Total**	**4,200**	**1,651**	**215**	**205**	**206**	**168**	**1,217**	**109**	**146**	**283**	**537**	**307**	**1,040**	**-49**	**84**	**92**	**2**	**-191**
	2nd Lien	1,336	801	104	75	83	60	100	57	1	54	112	-52	54	-29	1	-5	-8	-32
	Scratch&Dent	1,051	184	25	54	59	60	597	19	20	32	71	2	-22	-9	10	2	-15	-16
	Subprime	1,812	666	85	76	64	48	519	32	124	198	354	358	1,009	-10	73	94	25	-144
RMBS Synthetics	**Total**	**-9,968**	**-1,514**	**-24**	**-4,433**	**-3,117**	**-880**						**0**	**139**	**-98**	**1,117**	**798**	**171**	
	Index >= '06	6,310	2,615	115	1,723	-166	2,023						0	-1,100	-40	-553	49	-551	
	Index < '06	-3,360	-3,030	230	-3,387	29	2,797						0	1,147	-69	945	-8	-730	
	Sgl Name >= '06	-4,675	0	175	-502	-1,383	-2,966						0	0	-81	170	430	862	
	Sgl Name < '06	-368	294	144	-288	164	-681						0	-19	-32	68	-46	178	
	Syn CDO >= '06	-912	0	0	-489	-248	-175						0	0	0	154	73	50	
	Syn CDO < '06	-6,964	-1,393	-688	-1,491	-1,514	-1,878						0	112	124	333	299	361	
RMBS CDO Syn	**Total**	**-2,388**	**-231**	**40**	**-2,019**	**-177**	**0**						**0**	**97**	**-53**	**1,005**	**87**	**0**	
	HG Sgl Name	-45	10	20	-45	-30	0						0	-5	-10	20	16	0	
	HG Syn CDO	-335	-60	-57	-218	0	0						0	26	27	105	0	0	
	Mezz Sgl Name	-172	0	458	-553	-77	0						0	-1	-234	305	45	0	
	Mezz Syn CDO	-1,835	-181	-381	-1,204	-70	0						0	78	184	575	25	0	

Goldman Sachs **Mortgage Strategies** Date: 26Feb07 E-mail: ficcantystrat

Mortgage Dept Top Sheet

Group	Sector	Type	Market Value(MM$)(Notional for CDS) Total	AAA	AA	A	BBB	BBB-	NR	Loan Resid	Sec Resid <2006	Sec Resid >=2006	Total Resid	Rate DV01(k$)	Spread DV01(K$) AAA	AA	A	BBB	BBB-	NR
Dept	Total		-10,621.8	-191.7	403.1	-7,066.2	-3,775.2	-1,604.6	678.9	243.0	212.0	478.8	933.8	-596.3	1,074.1	-204.0	2,308.6	888.0	327.1	-205.0
Prime/AltA	Total		2,102.8	1,829.7	99.5	-30.1	-14.9	-19.5	33.8	39.8	59.2	105.4	204.4	-416.6	124.9	-23.5	14.4	4.3	1.7	-55.5
	AltA	Total	2,102.8	1,829.7	99.5	-30.1	-14.9	-19.5	33.8	39.8	59.2	105.4	204.4	-416.6	124.9	-23.5	14.4	4.3	1.7	-55.5
		Bulk Loan	2,213.5	2,052.8	56.3	40.2	20.1	17.2	0.2	26.7	0.0	0.0	26.7	-345.5	-304.9	-12.0	-6.1	-4.0	-5.3	-0.0
		Conduit Loan	1,573.6	1,461.5	43.2	28.2	14.6	12.3	0.7	13.1	0.0	0.0	13.1	-282.5	-242.2	-11.5	-6.7	-3.5	-3.2	-0.2
		Bond	126.1	90.3	0.0	1.6	0.3	1.0	32.9	0.0	0.0	0.0	0.0	-11.2	-26.1	0.0	-0.2	-0.0	-0.0	-22.3
		Residual	164.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	59.2	105.4	164.6	-499.3	0.0	0.0	-0.2	0.0	0.0	-32.9
		ABX	-1,975.0	-1,775.0	0.0	-100.0	-50.0	-50.0	0.0	0.0	0.0	0.0	0.0	0.0	698.2	0.0	29.7	11.8	10.2	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	704.4	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17.4	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Subprime	Total		327.6	-394.1	30.5	-345.4	-228.3	90.5	645.1	203.2	152.8	373.4	729.5	-178.8	778.1	-13.1	87.1	35.4	-45.5	-149.6
	Scratch&Dent	Total	618.5	214.3	-73.5	-144.7	-2.6	69.8	476.1	25.6	20.2	33.3	79.1	30.9	-21.6	28.7	43.6	-1.7	-18.3	-11.2
		Bulk Loan	812.8	214.3	26.5	19.2	26.5	16.0	485.7	25.6	0.0	0.0	25.6	-38.8	-21.6	-7.6	-5.4	-7.5	-6.1	-0.0
		Bond	122.2	0.0	0.0	36.1	40.9	54.8	-9.6	0.0	0.0	0.0	0.0	-11.1	0.0	0.0	-11.3	-10.8	-12.2	4.7
		Residual	53.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.2	33.3	53.5	-22.3	-0.0	0.0	0.0	0.0	0.0	-15.8
		ABX	-370.0	0.0	-100.0	-200.0	-70.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	36.3	60.3	16.7	0.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.2	0.0	0.0	0.0	0.0	0.0	0.0
		ED Future	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.0	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.8	0.0	0.0	-0.0	0.0	0.0	0.0
	Subprime 1st Lien	Total	-865.1	-1,054.7	35.9	-180.7	-199.8	23.0	169.0	139.0	131.1	272.2	542.3	-120.3	718.9	-24.9	33.9	29.9	-27.3	-119.2
		Bulk Loan	1,020.8	740.5	93.6	44.4	22.9	31.7	0.0	87.7	0.0	0.0	87.7	-166.0	-135.8	-33.5	-15.3	-7.6	-11.7	0.0
		Conduit Loan	645.4	470.1	60.7	29.9	12.2	21.3	0.0	51.3	0.0	0.0	51.3	-83.7	-61.9	-20.7	-12.6	-6.0	-14.3	0.0
		Bond	169.0	0.0	0.0	0.0	0.0	0.0	169.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0	-45.3
		Residual	403.3	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	131.1	272.2	403.3	-75.8	0.0	0.0	-0.8	-4.0	-7.2	-73.9
		ABX	-2,645.0	-2,250.0	-50.0	-150.0	-170.0	-25.0	0.0	0.0	0.0	0.0	0.0	0.0	914.6	19.5	44.5	40.4	5.1	0.0
		CDS	-258.6	-15.3	-68.4	-105.0	-65.0	-5.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	9.8	18.0	7.3	0.8	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	202.1	0.0	0.0	0.0	0.0	0.0	0.0
	2nd Lien	Total	374.3	246.3	68.1	20.0	-25.9	-2.3	0.0	38.7	1.5	67.9	108.0	-90.3	80.8	-16.9	9.7	7.2	0.1	-19.2
		Bulk Loan	739.9	546.3	68.1	40.0	24.1	22.7	0.0	38.7	0.0	0.0	38.7	-76.5	-43.0	-16.9	-8.1	-4.6	-5.0	0.0
		Residual	69.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	67.9	69.4	-86.1	0.0	0.0	0.0	0.0	0.0	-19.2
		ABX	-435.0	-300.0	0.0	-60.0	-60.0	-25.0	0.0	0.0	0.0	0.0	0.0	0.0	123.8	0.0	17.8	11.8	5.1	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	52.2	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Synthetics	Total		-10,558.8	-1,194.8	204.0	-4,391.7	-3,380.8	-1,675.5						0.0	74.1	-190.4	1,194.0	752.3	370.9	
	CDO	Total	-8,598.8	-1,374.2	-669.4	-1,879.2	-2,117.2	-2,559.8						0.0	109.8	117.6	444.8	438.9	505.0	
		>=06	-1,089.6	0.0	0.0	-434.8	-340.0	-314.8						0.0	0.0	0.0	133.7	92.5	81.2	
		< 06	-7,510.3	-1,374.2	-669.4	-1,444.4	-1,777.2	-2,245.0						0.0	109.8	117.6	311.1	344.4	423.8	
	Index	Total	1,031.9	-115.0	567.0	-1,943.5	-546.8	3,070.1						0.0	-16.5	-199.6	491.8	130.1	-659.3	
		>=06	3,452.7	1,065.0	337.0	1,455.5	-415.8	1,011.0						0.0	-436.7	-129.4	-431.9	98.9	-206.1	
		< 06	-2,420.8	-1,180.0	230.0	-3,399.0	-130.9	2,059.1						0.0	422.2	-70.2	923.7	31.2	-453.2	
	Single Name	Total	-2,990.8	294.4	306.5	-769.0	-636.9	-2,185.8						0.0	-19.2	-108.4	257.4	185.4	525.2	
		>=06	-3,116.5	0.0	162.5	-729.1	-1,050.8	-1,499.1						0.0	0.0	-76.8	246.9	290.8	354.0	
		< 06	125.7	294.4	144.0	-39.9	413.9	-686.7						0.0	-19.2	-31.6	10.5	-105.3	171.1	
RMBS CDO Syn	Total		-2,493.8	-232.4	89.0	-2,099.0	-231.2	0.0						0.0	97.0	-67.9	1,013.1	106.0	0.0	
	HG CDO		-340.5	-61.5	-55.8	-223.2	0.0	0.0						0.0	26.7	25.8	106.0	0.0	0.0	
	HG Single Name		-44.9	10.0	20.0	-45.0	-29.9	0.0						0.0	-4.8	-10.1	19.7	15.1	0.0	
	Mezz CDO		-1,865.8	-180.9	-361.5	-1,237.5	-85.9	0.0						0.0	75.9	154.7	578.4	29.3	0.0	
	Mezz Single Name		-242.4	0.0	486.3	-593.3	-115.4	0.0						0.0	-1.0	-237.5	309.0	61.6	0.0	

Goldman Sachs **Mortgage Strategies**

Date: 29Mar07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

		Market Value / Hedge Equivalent Market Value for CDS ($MM)								Sec Resid			Rate	Spread DV01 ($k)					
Group	Sector	Total	AAA	AA	A	BBB	BBB-	NR	Loan Resid	< 2006	>= 2006	Total Resid	DV01 ($k)	AAA	AA	A	BBB	BBB-	NR
Total		**-4,686.9**	**-385**	**295.1**	**-3,986.5**	**-2,510**	**548.4**	**531.3**	**203.5**	**234.2**	**382.1**	**619.8**	**-1,005.8**	**867.2**	**-248.6**	**1,318.8**	**544.2**	**-226.2**	**-22.3**
Prime/AltA	**Total**	**1,718.3**	**1,339.2**	**89.8**	**-26.3**	**-17.7**	**-7.1**	**34.2**	**63.9**	**69.8**	**172.4**	**306.1**	**-891.1**	**52.5**	**-29.6**	**9.2**	**1**	**-4.1**	**-22.3**
	AltA	1,718.3	1,339.2	89.8	-26.3	-17.7	-7.1	34.2	63.9	69.8	172.4	306.1	-891.1	52.5	-29.6	9.2	1	-4.1	-22.3
RMBS Subprime	**Total**	**50.8**	**-750.1**	**25.1**	**-356.8**	**-32**	**153.9**	**497.1**	**139.7**	**164.4**	**209.6**	**513.6**	**-114.7**	**810.5**	**-10.1**	**89.4**	**-2.9**	**-38.4**	**-0**
	Scratch & Dent	608.6	223.9	-66.5	-191.7	-2.8	67.6	497.1	25.4	20.7	34.9	81	13.4	-21.3	24.9	53.3	-2.2	-17.7	-0
	Subprime 1st Lien	-1,118	-1,326.6	28.4	-178.2	-32	64.9		77.2	142.3	106.1	325.6	-42.1	808.4	-19.5	36.8	-1	-15.9	
	2nd Lien	560.2	352.7	63.2	13.1	2.7	21.4		37.1	1.5	68.6	107.1	-86	23.5	-15.5	-0.6	0.3	-4.8	
RMBS Synthetics	**Total**	**-4,024.9**	**-769.2**	**203.2**	**-1,643.4**	**-2,217.1**	**401.6**							**-75.4**	**-193.1**	**373.9**	**441.4**	**-183.8**	
	CDO	-8,154.3	-1,285.9	-701.1	-1,769.1	-2,105.6	-2,292.6							96.4	116.2	397.8	417.4	429.7	
	Index	3,612.9	285	589	-166.5	-5.8	2,911.1							-156.5	-198.4	20.9	1.5	-611.7	
	Single Name	516.5	231.7	315.3	292.2	-105.7	-217							-15.2	-110.9	-44.9	22.5	-1.8	
RMBS CDO Syn	**Total**	**-2,431.1**	**-285**	**-23**	**-1,959.9**	**-243.2**								**79.5**	**-15.9**	**846.4**	**104.6**		
	HG CDO	-339.2	-61.1	-58.6	-219.4									26	26.7	102.6			
	HG Single Name	18.9	10	20	8.8	-19.9								-4.5	-9.7	-11.4	10.2		
	Mezz CDO	-1,890.7	-178.9	-392.4	-1,235.9	-83.5								74	166.1	559.7	27.5		
	Mezz Single Name	-220.1	25	408	-513.3	-139.8								-16	-199	195.5	66.9		

Books not currently captured: Prime Hybrid, Prime Fixed, CMO, Cash CDO and warehouse, CREL, CMBS, Cash ABS

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GS MBS-E-002208989

Goldman Sachs **Mortgage Strategies** Date: 18Apr07 Email: ficc-mgstrat

Mortgage Dept Top Sheet

		Market Value / Hedge Equivalent Market Value for CDS ($MM)								Sec Resid			Rate	Spread DV01 ($k)					
Group	Sector	Total	AAA	AA	A	BBB	BBB-	NR	Loan Resid	< 2006	>= 2006	Total Resid	DV01 ($k)	AAA	AA	A	BBB	BBB-	NR
Total		-12,313.2	-2,768.7	54.9	-4,146.5	-2,137.0	-150.1	375.2	86.5	235.9	488.9	811.3	-1,127.2	1,288.1	-163.8	1,357.0	437.8	-81.7	-0.1
Prime/AltA	Total	-1,770.4	503.9	63.9	-31.8	-29.3	-13.5	9.4	42.6	69.1	227.2	339.0	-967.9	228.4	-20.0	15.6	4.5	-1.9	-0.1
	AltA	-1,770.4	503.9	63.9	-31.8	-29.3	-13.5	9.4	42.6	69.1	227.2	339.0	-967.9	228.4	-20.0	15.6	4.5	-1.9	-0.1
RMBS Subprime	Total	-3,541.6	-2,064.0	-155.1	-453.5	-81.9	115.2	375.8	43.9	166.8	261.7	472.3	-159.3	936.8	44.5	116.1	13.0	-25.4	-0.0
	Scratch & Dent	-1,170.9	164.1	-70.8	-194.0	-4.2	67.1	375.8	20.5	20.3	35.2	76.2	-13.2	-17.0	26.7	54.5	-0.5	-17.1	-0.0
	Subprime 1st Lien	-2,301.1	-2,135.9	-93.6	-239.6	-60.2	45.8		17.9	144.8	153.7	316.4	-71.9	897.3	20.9	55.5	9.2	-7.6	
	2nd Lien	-69.6	-92.2	9.3	-19.9	-17.5	2.2		5.5	1.5	72.9	79.8	-74.2	56.5	-3.1	6.1	4.3	-0.6	
RMBS Synthetics	Total	-4,387.0	-908.2	205.4	-1,646.4	-1,786.0	-251.8							-19.6	-192.5	357.4	317.8	-54.5	
	CDO	-8,184.0	-1,270.9	-698.9	-1,804.6	-2,131.6	-2,277.9							91.0	-112.0	398.1	414.9	420.6	
	Index	3,227.4	135.0	589.0	-11.5	154.2	2,360.6							-96.5	-194.7	-32.4	-56.9	-511.7	
	Single Name	569.6	227.7	315.3	169.7	191.4	-334.5							-14.0	-109.7	-8.4	-60.3	36.5	
RMBS CDO Syn	Total	-2,614.3	-300.4	-59.3	-2,014.8	-239.8								122.5	4.2	867.9	102.4		
	HG CDO	-337.6	-60.6	-58.2	-218.8									25.6	26.1	101.6			
	HG Single Name	-0.9	10.0	20.0	-11.2	-19.7								-4.4	-9.7	-3.0	10.0		
	Mezz CDO	-1,882.9	-174.8	-395.6	-1,230.7	-80.9								73.2	165.9	548.2	26.1		
	Mezz Single Name	-392.9	-75.0	375.5	-554.1	-139.2								28.1	-178.2	221.2	66.3		

Books not currently captured: Prime Hybrid, Prime Fixed, CMO, Cash CDO and warehouse, CREL, CMBS, Cash ABS

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Goldman Sachs

Mortgage Strategies

Date: 19Jun07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

Group	Sector	Market Value / Hedge Equivalent Market Value for CDS ($MM) AAA	AA	A	BBB	BBB-	NR	Loan Resid	Sec Resid < 2006	Sec Resid >= 2006	Total Resid	Rate DV01 ($k)	Spread DV01 ($k) AAA	AA	A	BBB	BBB-	NR
Total		-4,182.3	-17.8	-1,201.5	-430.3	328.2	482.5	93.3	220.0	432.1	745.4	-1,550.1	2,399.2	-61.2	462.5	122.7	4.5	-8.8
Prime/AltA	Total	-1,798.3	107.5	-7.6	-62.7	194.7	24.7	8.5	29.1	257.2	295.8	-1,005.3	1,398.3	-21.4	20.7	1.1	-45.6	-1.8
	Hyb + ARMS Deriv	-1,168.0	76.5	27.4	-48.5	168.5	23.9			95.2	95.2	180.9	912.3	-10.1	-8.4	-0.8	-36.7	-1.6
	AltA	-616.3	30.9	-35.0	-14.2	26.3	0.9	8.5	29.1	162.0	200.6	-1,186.2	486.1	-11.3	29.1	1.8	-8.9	-0.3
Subprime/2nd/S&D	Total	-1,429.3	-36.6	-273.3	-20.1	133.4	457.7	83.8	191.0	174.8	449.7	-644.8	899.9	18.2	96.3	5.1	-38.8	-6.8
	Subprime 1st Lien	-1,458.3	-10.0	-80.1	-23.1	46.2		69.2	170.1	65.3	304.7	-452.7	848.8	0.1	27.1	-0.3	-22.1	
	Scratch & Dent	138.2	-74.4	-179.4	8.7	72.1	440.1	10.7	19.4	53.3	83.3	-34.9	-19.3	33.6	63.1	3.8	-15.0	-0.0
	2nd Lien	-109.2	48.0	-13.8	-5.8	12.0	17.6	3.9	1.4	56.3	61.6	-57.2	60.3	-17.4	6.1	1.8	-1.5	-6.7
Correlation	Total	-711.7	-156.8	-181.4	-289.6	0.1							3.6	2.7	51.3	93.2	88.8	
	CDO	-1,238.7	-698.7	-1,780.9	-2,088.6	-2,502.4							113.3	125.5	481.9	516.7	812.7	
	Index	100.0	228.0	575.0	933.0	1,588.3							-40.6	-86.8	-159.9	-268.0	-385.2	
	Single Name	427.1	313.9	1,004.5	886.0	914.2							-89.0	-56.0	-240.7	-155.5	-138.7	
RMBS CDO Syn	Total	-255.1	67.8	-739.2	-77.8								97.4	-58.8	314.2	23.4		
	HG CDO	-74.3	-62.6	-206.3									29.3	-28.3	90.3			
	HG Single Name	10.0	20.0	22.2									-4.2	-8.7	-9.0			
	Mezz CDO	-205.8	-418.3	-1,233.6	-89.8								81.5	165.2	523.8	28.0		
	Mezz Single Name	15.0	526.7	680.5	12.0								-9.2	-241.4	-290.8	-4.6		

Books not currently captured: Prime Fixed, Prime Hybrid Secondary, CMO, Cash CDO and warehouse, CREL, CMBS, Cash ABS

Goldman Sachs

Mortgage Strategies

Date: 25Jun07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

		Market Value / Hedge Equivalent Market Value for CDS ($MM)										Rate	Spread DV01 ($k)					
								Loan	Sec Resid		Total	DV01						
Group	Sector	AAA	AA	A	BBB	BBB-	NR	Resid	< 2006	>= 2006	Resid	($k)	AAA	AA	A	BBB	BBB-	NR
Total		-6,819.1	69.4	-4,654.2	-1,356.0	-2,352.7	735.5	72.3	167.4	287.3	527.1	-862.1	3,905.8	-110.4	2,027.7	352.5	1,201.4	-50.4
Prime/AltA	Total	-2,354.3	81.2	-16.7	-88.3	181.5	46.7	11.0	30.9	278.8	318.7	-307.8	1,388.2	-22.1	19.2	0.1	-44.3	-1.8
	Hyb + ARMS Deriv	-1,703.7	59.0	18.8	-84.3	156.0	47.8			98.8	98.8	124.5	906.7	-10.2	-8.4	-0.9	-35.7	-1.5
	AltA	-650.6	32.2	-35.5	-14.0	25.5	0.9	11.0	30.9	178.0	219.9	-432.4	481.5	-11.9	27.6	1.0	-8.6	-0.3
Subprime/2nd/S&D	Total	-1,498.7	-94.2	-369.2	-98.4	37.7	433.0	61.3	135.6	10.5	206.4	-374.2	898.7	38.5	126.8	22.8	-12.7	-0.0
	Subprime 1st Lien	-1,437.1	-20.8	-112.8	-36.7	17.4		46.7	136.6	10.5	193.8	-393.6	649.2	5.1	36.6	3.3	-7.7	
	Scratch & Dent	137.7	-80.0	-235.0	-41.2	19.0	433.0	10.7			10.7	20.5	-10.3	35.8	82.1	14.6	-4.8	-0.0
	2nd Lien	-108.2	8.6	-21.6	-18.5	1.3		3.9			3.9	-0.9	58.7	-2.4	8.0	4.9	-0.4	
Correlation	Total	-1,317.9	-157.7	-1,173.6	-589.1	-944.5							186.3	-21.7	519.0	239.0	877.3	
	HG CDO	-75.9	-48.5	-178.0									29.5	20.4	76.3			
	Mezz CDO	-228.9	-73.6	-536.4	-82.9								38.9	-65.1	227.7	24.8		
	CLO	-33.5	-57.0	-31.0	-13.9								-10.8	27.8	5.9	7.4		
	CMBS	-12.9	80.5	-73.0	-95.8	-756.5							19.1	-31.1	43.2	88.4	539.6	
	RMBS Alt-A			-7.4											2.6			
	RMBS Subprime	-923.3	-158.0	-90.8	-393.0	-180.9							18.3	1.3	23.4	106.6	137.6	
	CDO CRE	-8.7	-28.4	-78.3	-14.2	-5.0							5.5	14.8	54.0	5.7	0.1	
	ABS	-36.8		-197.6	-59.2								16.1		85.8	26.2		
CDO Warehouse	Total	91.1	23.7	-212.8	-86.5	-174.2	73.5						-102.4	38.7	38.8	5.9	38.7	-25.5
	CDO	-17.4	6.0	2.7									-0.0	-0.0	-0.0			
	HG CDO	1,124.5	-36.5	116.4	36.5	4.4	21.2						-609.3	17.4	-53.2	-13.4	-2.0	-9.5
	Mezz CDO	387.0	-7.4	341.2	63.5	4.4	38.5						-58.8	27.2	-125.9	-25.8	-1.8	-9.8
	CDO Squared	277.0	111.6	6.5	9.5		13.8						-80.1	-25.8	-2.5	-3.6		-6.2
	RMBS Subprime	-1,550.0		-706.0	-176.0	-183.0							628.1		218.2	47.8	42.4	
	ABS			26.5											-0.0			
	Unmapped	-50.0	-50.0										18.8	18.0				
CMBS Secondary	Total	-2,248.2	63.5	-885.8	-90.0	-1,032.4	48.9						1,545.0	-60.2	559.0	66.3	896.5	-22.9
	CMBS	-2,341.3	37.3	-540.6	-86.3	-912.5	6.1						1,590.4	-48.4	369.0	59.8	820.1	-3.7
	CDO CRE	93.2	26.2	-345.2	-3.7	-119.9	42.8						-45.4	-11.8	190.1	6.4	76.4	-19.3
	Other																	-0.0
ABS Secondary	Total	418.8	142.9	-1,898.0	-497.8	-420.6	131.5						-19.0	-81.8	767.1	19.4	-164.8	-0.1
	CDO	282.0	1.6	2.0									-0.0	-0.0	-0.0			
	HG CDO	-25.3	-29.3	-23.6	-13.0								14.6	14.1	4.6	8.6		
	Mezz CDO	-171.5	-357.9	-1,149.7	-168.6	0.7							74.2	172.7	447.6	66.3	-0.3	
	RMBS Prime			-7.0											1.5		-0.6	
	RMBS Alt-A	1.5		-313.0	-218.0	-57.0							-0.2		101.9	70.2	12.7	
	RMBS Subprime	-64.2	528.5	-773.0	-53.2	-364.3	1.1						-11.2	-266.5	176.9	-146.4	-186.4	-0.0
	ABS	382.0		266.4	-45.0	0.1	130.5						-87.5		35.5	19.7	-0.0	-0.1
	Other	2.3		1.9									-0.2		-0.0			

Books not currently captured: Prime Fixed, Prime Hybrid Secondary, CMO, CREL.

Goldman Sachs **Mortgage Strategies** Date: 10Sep07 Email: ficc-mtgstrat

Mortgage Dept Top Sheet

Market	Sub Market	Notional ($MM)			Market Value ($MM)**			Spread DV01 ($	Rate DV01 ($k)
		Total	Long	Short	Total	Long	Short	Total	
Total		21,320.4	155,889.3	-134,568.9	-4,595.1	115,742.6	-120,338.7	587.6	-437.7
RMBS	Total	15,638.2	55,012.2	-39,373.0	12,575.4	41,319.5	-28,744.0	-3,982.4	-4,184.1
	Subprime/2nds	115.3	38,507.6	-38,392.3	-1,014.3	26,929.7	-27,944.1	-732.9	-352.1
	Alt-A	897.7	1,739.1	-841.4	506.8	1,170.7	-662.9	-122.0	-790.1
	Prime	13,369.9	13,509.2	-139.2	12,106.3	12,242.3	-136.0	-3,052.6	-2,992.9
	Scratch & Dent	1,233.8	1,233.6		954.2	954.2		-83.0	-48.0
	Other	22.8	22.8		22.4	22.4		-1.9	
ABS (Non-Res)	Total	1,617.2	2,333.2	-716.0	-69.0	645.8	-714.8	209.3	
	ABS	-640.1	75.0	-715.1	-639.2	74.7	-713.8	306.3	
	ABS Auto Prime	2,042.1	2,042.1		383.7	383.7		-45.5	
	ABS Credit Cards Prl	41.5	42.4	-1.0	34.9	35.8	-0.9	-10.4	
	ABS Other	83.8	83.8		66.4	66.4		-23.9	
	ABS Student Loans Pr	89.9	89.0		85.2	85.2		-17.0	
CMBS	Total	10,594.6	77,802.2	-67,207.4	261.1	66,880.6	-66,619.6	690.1	
	CMBS	10,594.6	77,802.2	-67,207.4	261.1	66,880.6	-66,619.6	690.1	
CDO	Total	9,445.9	16,343.1	-6,897.2	-1,960.2	2,499.3	-4,459.5	853.1	
	CDO CRE	-463.7	676.4	-1,140.1	-432.6	531.1	-963.6	285.3	
	CDO Squared	838.0	843.2	-5.2	213.2	218.4	-5.2	-96.4	
	CLO	-156.6		-156.6	-156.6		-156.6	89.1	
	HG CDO	9,078.4	10,672.3	-694.0	-278.4	196.8	-475.3	115.1	
	Mezz CDO	-750.2	4,151.1	-4,901.3	-1,305.8	1,553.0	-2,858.8	480.1	
Rate Hedges	Total	-15,968.6	4,398.6	-20,367.2	-15,402.3	4,398.6	-19,801.0	2,827.1	3,746.4
	ED Futures	-1,060.0		-1,060.0	-1,060.0		-1,060.0		26.4
	ESwap	-894.9	15.0	-909.9	-894.9	15.0	-909.9		164.9
	Passthru	-7,881.3	2,448.8	-10,330.2	-7,881.3	2,448.8	-10,330.2	2,827.1	2,190.2
	Swap	-5,491.0	583.0	-6,074.0	-5,491.0	583.0	-6,074.0		1,666.0
	TBA PassThru	-586.3		-586.3					43.0
	Treasury	-75.1	1,351.8	-1,426.9	-75.1	1,351.8	-1,426.9		-264.1

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Goldman Sachs **Mortgage Strategies** Date: 4Oct07 Email: ficc-mtgstrat

Mortgage Dept Top Sheet

Market	Sub Market	Notional ($MM)*			Market Value ($MM)**			Spread DV01 ($k)	Rate DV01 ($k)
		Total	Long	Short	Total	Long	Short		
Total		**20,381.5**	**165,933.7**	**-145,552.2**	**-6,374.4**	**119,577.5**	**-125,951.9**	**631.0**	**-255.2**
RMBS	**Total**	**15,434.7**	**60,217.2**	**-44,782.6**	**12,252.5**	**42,327.5**	**-30,075.0**	**-4,721.6**	**-4,912.2**
	Subprime/2nds	407.6	43,572.0	-43,164.3	-696.2	27,960.7	-28,656.9	-857.9	-279.9
	Alt-A	606.6	2,090.3	-1,483.8	151.9	1,438.6	-1,286.7	-38.2	-685.4
	Prime	13,168.8	13,303.2	-134.5	11,892.3	12,023.7	-131.3	-3,746.7	-3,880.1
	Scratch & Dent	1,233.0	1,233.0		885.9	885.9		-78.2	-66.9
	Other	18.7	18.7		18.6	18.6		-0.5	
ABS Non-Resi	**Total**	**1,672.7**	**2,589.8**	**-917.2**	**61.0**	**975.9**	**-915.0**	**163.6**	
	ABS	-746.9	165.0	-911.9	-745.9	163.8	-909.6	302.6	
	ABS Auto Prime	1,961.6	1,961.6		380.6	380.6		-40.6	
	ABS Credit Card Prime	0.0	0.2	-0.2	0.0	0.2	-0.2	-0.0	
	ABS Other	457.9	462.6	-4.7	426.3	430.9	-4.6	-98.4	
	ABS Student Loans Private	0.0	0.4	-0.4	0.0	0.4	-0.4	-0.0	
CMBS	**Total**	**8,993.2**	**76,670.1**	**-67,676.9**	**-1,323.4**	**65,727.5**	**-67,050.9**	**1,047.2**	
	CMBS	8,993.2	76,670.1	-67,676.9	-1,323.4	65,727.5	-67,050.9	1,047.2	
CDO	**Total**	**8,552.1**	**19,518.2**	**-10,966.1**	**-2,698.1**	**4,207.4**	**-6,905.5**	**1,216.4**	
	CDO Commercial Real Estate	0.0	10.1	-10.1	0.0	9.0	-9.0	-0.0	
	CDO CRE	-440.7	685.5	-1,126.2	-415.9	540.3	-956.2	273.1	
	CDO Squared	836.1	850.7	-14.7	202.7	209.0	-6.3	-91.7	
	CLO	-173.7	31.7	-205.5	-173.7	30.2	-203.9	75.5	
	HG CDO	9,534.2	12,111.4	-2,577.3	-656.5	1,307.0	-1,963.5	298.1	
	Mezz CDO	-1,203.7	5,828.7	-7,032.4	-1,654.6	2,111.9	-3,766.5	661.3	
Rate Hedges	**Total**	**-14,271.2**	**6,938.4**	**-21,209.5**	**-14,666.4**	**6,339.1**	**-21,005.5**	**2,925.4**	**4,657.1**
	ED Future	-375.0		-375.0	-375.0		-375.0		9.3
	ESwap	-370.0		-370.0	-370.0		-370.0		73.6
	Option	600.0	600.0		0.8	0.8			
	Passthru	-7,534.4	4,925.1	-12,459.4	-7,328.4	4,925.1	-12,253.4	2,925.4	2,653.4
	Swap	-5,721.0	458.0	-6,179.0	-5,721.0	458.0	-6,179.0		1,763.7
	Treasury	-870.8	955.3	-1,826.1	-872.8	955.3	-1,828.1		-157.1

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values. **Market value of bonds/loans, bond equiv mkt val for synthetics.

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57322.814

Goldman Sachs

Mortgage Strategies

Date: 26Oct07
Email: ficc-mtgstrat

Mortgage Dept Top Sheet

Market	Sub Market	Notional ($MM)* Total	Notional ($MM)* Long	Notional ($MM)* Short	Market Value ($MM)** Total	Market Value ($MM)** Long	Market Value ($MM)** Short	Spread DV01 ($k)	Rate DV01 ($k)
Total		**26,617.9**	**168,944.0**	**-142,326.2**	**-1,603.4**	**114,792.0**	**-116,395.4**	**-2,136.9**	**-413.2**
RMBS	**Total**	**17,118.2**	**61,091.6**	**-43,973.4**	**12,799.0**	**36,981.4**	**-24,182.5**	**-4,521.8**	**-4,192.0**
	Subprime/2nds	1,233.1	43,584.0	-42,350.9	-514.6	22,299.2	-22,813.8	-782.7	-280.3
	Alt-A	484.0	1,975.3	-1,491.3	33.7	1,277.1	-1,243.4	-5.2	-450.5
	Prime	14,070.0	14,201.2	-131.2	12,312.0	12,437.2	-125.3	-3,612.9	-3,377.7
	Scratch & Dent	1,220.7	1,220.7		857.1	857.1		-77.7	-83.6
	Other	110.4	110.4		110.8	110.8		-43.5	
ABS Non-Resi	**Total**	**1,722.1**	**2,554.2**	**-832.1**	**175.4**	**1,005.2**	**-829.7**	**143.2**	
	ABS	-643.0	165.0	-808.0	-642.0	163.8	-805.8	306.0	
	ABS Auto Prime	1,909.6	1,909.6		395.7	395.7		-41.3	
	ABS Credit Card Prime	0.0	0.1	-0.1	0.0	0.1	-0.1	-0.0	
	ABS Other	455.5	479.3	-23.8	421.7	445.2	-23.6	-121.5	
	ABS Student Loans Private	0.0	0.2	-0.2	0.0	0.2	-0.2	-0.0	
CMBS	**Total**	**13,802.6**	**79,212.7**	**-65,410.2**	**4,259.1**	**68,440.8**	**-64,181.7**	**-1,391.0**	
	CMBS	13,802.6	79,212.7	-65,410.2	4,259.1	68,440.8	-64,181.7	-1,391.0	
CDO	**Total**	**8,678.2**	**19,269.8**	**-10,591.6**	**-2,568.5**	**3,164.6**	**-5,733.1**	**1,127.1**	
	CDO Commercial Real Estate	0.0	10.1	-10.1	0.0	9.0	-9.0	-0.0	
	CDO CRE	-467.0	684.8	-1,151.8	-438.1	527.8	-965.9	285.4	
	CDO Squared	836.9	850.7	-13.8	145.7	151.1	-5.4	-57.6	
	CLO	-172.3	31.1	-203.4	-172.3	30.0	-202.3	75.0	
	HG CDO	9,461.3	11,878.3	-2,417.0	-712.8	965.8	-1,678.6	309.9	
	Mezz CDO	-980.7	5,814.9	-6,795.6	-1,391.0	1,480.9	-2,871.9	514.3	
Rate Hedges	**Total**	**-14,703.2**	**6,815.6**	**-21,518.9**	**-16,268.4**	**5,199.9**	**-21,468.3**	**2,505.7**	**3,778.9**
	ESwap	-367.0		-367.0	-367.0		-367.0		65.1
	Option	1,620.0	1,620.0		4.3	4.3			
	Passthru	-6,562.1	2,972.1	-9,534.3	-6,510.1	2,972.1	-9,482.3	2,505.7	2,185.3
	Swap	-9,857.5	409.5	-10,267.0	-9,857.5	409.5	-10,267.0		1,888.8
	Treasury	463.4	1,814.0	-1,350.6	462.0	1,814.0	-1,352.0		-360.4

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values. **Market value of bonds/loans, bond equiv mkt val for synthetics.

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 01023 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
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57322.815

Goldman Sachs

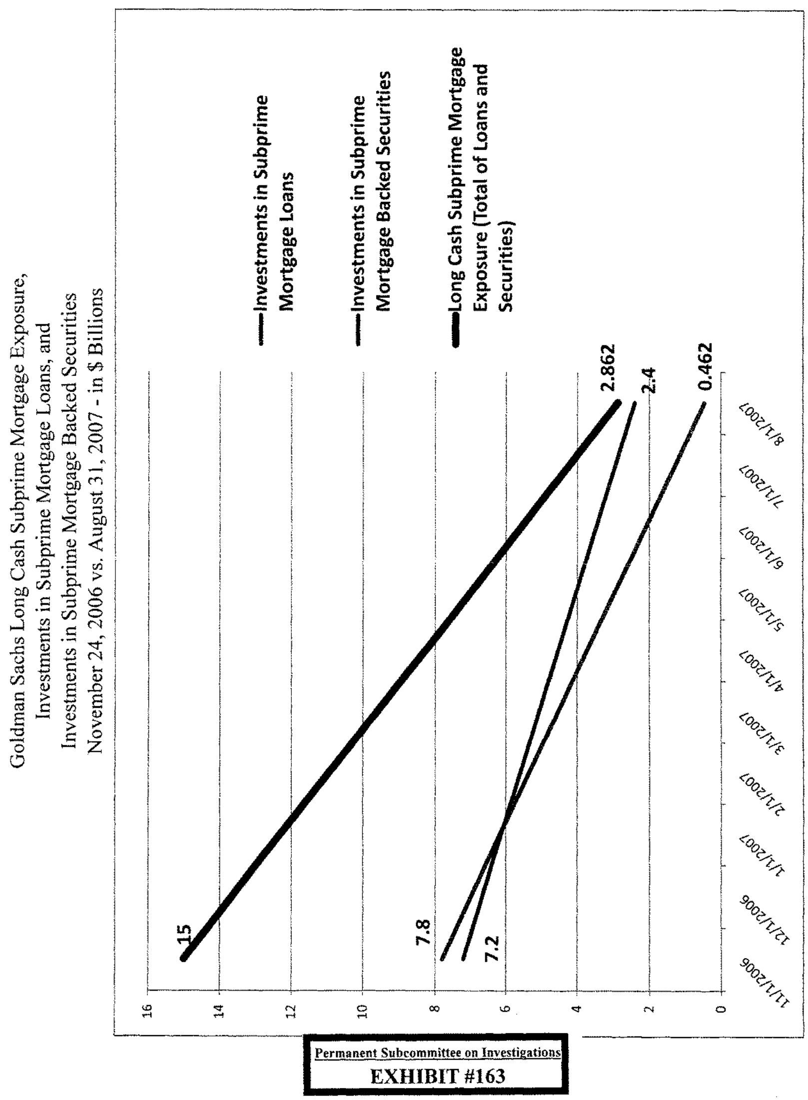
Mortgage Strategies

Date: 20Dec07
Email: ficc-mtgstrat

Mortgage Dept Top Sheet

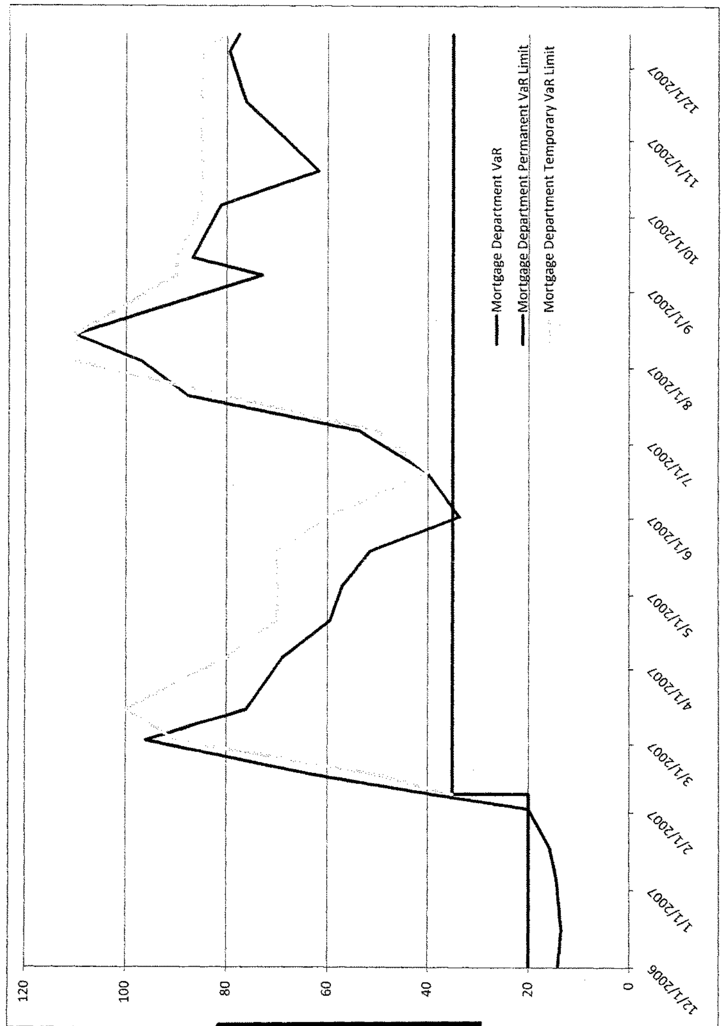
Market	Sub Market	Notional ($MM)*			Bond Equiv Market Value ($MM)**		
		Total	Long	Short	Total	Long	Short
Total		**5,907.9**	**147,489.7**	**-141,581.9**	**6,688.8**	**110,028.2**	**-103,339.4**
RMBS	**Total**	**17,453.1**	**55,241.5**	**-37,788.4**	**14,422.6**	**29,705.4**	**-15,282.6**
	Subprime/2nds	4,001.3	40,138.0	-36,136.7	2,900.5	16,828.0	-13,927.5
	Alt-A	481.6	1,959.7	-1,478.1	9.1	1,197.1	-1,188.0
	Prime	11,764.6	11,938.2	-173.6	10,625.9	10,793.0	-167.1
	Scratch & Dent	1,185.5	1,185.5		868.2	868.2	
	Other	20.1	20.1		19.0	19.0	
ABS Non-Resl	**Total**	**2,207.7**	**2,490.1**	**-282.3**	**790.8**	**1,069.0**	**-278.2**
	ABS		265.0	-265.0	0.6	261.5	-260.9
	ABS Auto Prime	1,715.9	1,731.2	-15.3	342.9	358.3	-15.4
	ABS Other	491.9	493.9	-2.0	447.2	449.2	-2.0
CMBS	**Total**	**23,426.6**	**70,192.5**	**-46,765.9**	**24,096.6**	**69,513.9**	**-45,417.3**
	CMBS	23,426.6	70,192.5	-46,765.9	24,096.6	69,513.9	-45,417.3
CDO / Correln	**Total**	**-22,494.2**	**13,946.5**	**-36,440.7**	**-16,967.0**	**5,116.7**	**-22,083.7**
	CDO CRE	-11,690.3	2,033.2	-13,723.4	-9,760.1	1,689.1	-11,449.2
	CDO Squared	105.2	850.3	-745.1	-197.0	27.7	-224.7
	CLO	-15.0	15.0	-30.0	-15.0	13.6	-28.6
	HG CDO	-2,776.2	2,797.6	-5,573.8	-2,128.7	1,313.6	-3,442.3
	Mezz CDO	-5,193.3	7,169.4	-12,362.7	-4,096.6	1,646.4	-5,743.0
	Tranched ABX	-2,924.6	1,081.0	-4,005.6	-769.6	426.2	-1,195.8
Rate Hedges	**Total**	**-14,685.4**	**5,619.1**	**-20,304.5**	**-15,654.3**	**4,623.2**	**-20,277.5**
	ESwap	-131.9		-131.9	-131.9		-131.9
	Option	1,000.0	1,000.0		4.1	4.1	
	Passthru	-5,998.3	2,281.1	-8,279.4	-5,971.3	2,281.1	-8,252.4
	Swap	-9,641.5	635.5	-10,277.0	-9,641.5	635.5	-10,277.0
	Treasury	86.3	1,702.5	-1,616.2	86.3	1,702.5	-1,616.2

Books not currently captured: CRE Loans, SPG Syndicate. All ratings shown herein are the lowest of the original Moody's, S&P & Fitch ratings (as applicable). *Notional amounts for interest only bonds are mkt values. **Market value of bonds/loans, bond equiv mkt val for synthetics.



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.
Data from Nov. 7, 2007, letter from Goldman Sachs to the Securities and Exchange Commission, GS MBS-E-015713460, at 5 (Exhibit 50).

Goldman Sachs Mortgage Department Value at Risk (VaR)
December 2006 - December 2007 (in $ Millions)



Derived from Goldman Sachs Firmwide Risk Committee Appendices and Market Risk End of Day Summaries provided by Goldman Sachs.
Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.

Permanent Subcommittee on Investigations
EXHIBIT #164

From: Egol, Jonathan
Sent: Thursday, October 19, 2006 6:52 AM
To: Tourre, Fabrice; Williams, Geoffrey
Subject: Fw: BBB RMBS

Pls get looped in in case they have anything

----- Original Message -----
From: Rosenblum, David J.
To: Resnick, Mitchell R; Egol, Jonathan; Herrick, Darryl K
Cc: Brazil, Alan; Marschoun, Michael; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Bieber, Matthew G.; Case, Benjamin; Ostrem, Peter L
Sent: Thu Oct 19 06:42:24 2006
Subject: Re: BBB RMBS

So amazing you should ask -- we had this convo for an hour last night-- brazil and marschoun and primer-- THIS IS WHAT WE'RE TALKING ABOUT! Can you come to the rescue here?

Thx
D

----- Original Message -----
From: Resnick, Mitchell R
To: Egol, Jonathan; Herrick, Darryl K
Cc: Rosenblum, David J.
Sent: Thu Oct 19 04:54:25 2006
Subject: BBB RMBS

do we have anything talking about how great the BBB sector of RMBS is at this point in time... a common response I am hearing on both Hudson & HGS1 is a concern about the housing market and BBB in particular?

We need to arm sales with a bit more - do we have anything?

Permanent Subcommittee on Investigations
EXHIBIT #165

 GS MBS-E-00955739

From: GS Syndicate
Sent: Friday, June 22, 2007 8:55 AM
To: T-Mail Subscribers
Subject: SENIOR CDO AXES (INTERNAL USE ONLY) [T-Mail]

INTERNAL USE ONLY

Sales - Please focus on the CDO axes below. Please contact the CDO Trading desk for more information on either offering.

GSC Super Senior Offering
$1.1BB GSCSF 06-3G A1LT @ $99.5 (6.7yr, ~30 bps DM)

- Backed by high grade assets (A3 minimum) with a diverse portfolio of 256 positions, each position is approx 0.4% of the portfolio - compare that with a 1% average
- Moody's WARF is ~118 (A1/A2)
- 30% subordination to super senior class, compare that with the typical high-grade transaction (14-20%)
- Current portfolio composition: (19% CDOs, 18% CMBS conduit, 5% CRE CDO, 58% RMBS)
- Compare to recent HG super senior print ~ Altius 4 (May 2007) (14-100%, with 10% CDO bucket) @ ~24 DM

****New Purchase** Timberwolf Super AAA Offering**
$200mm TWOLF 07-1A A1B @ $98.5 (6.1yr, ~80 bps DM)
$100mm TWOLF 07-1A A1C @ $95 (7.6yr, ~170 bps DM)

- Timberwolf is an A2/A backed ABS CDO^2 issued in March 2007
- Current portfolio composition: (84% Mezz CDOs, 16% High Grade CDOs)
- A1B represents the 70-90% tranche of the transaction while the A1C tranche represents the 60-70% tranche
- The TWOLF Junior Aaa/AAA tranche attaches @ ~20%, so A1B and A1C have ~40% and ~50% Aaa/AAA bonds below them
- Recent prints over the past three weeks in TWOLF paper include ~200mm A2s (20-50% tranche) in the mid $80s and 50mm AAs (10-20% tranche) in the high $70s

Permanent Subcommittee on Investigations
EXHIBIT #166

From: GS Syndicate
Sent: Tuesday, June 26, 2007 8:48 AM
To: T-Mail Subscribers
Subject: SENIOR CDO AXES (INTERNAL USE ONLY) [T-Mail]

INTERNAL USE ONLY

Sales - Please focus on the CDO axes below. Please contact the CDO Trading desk for more information on either offering.

GSC Super Senior Offering
$1.1BB GSCSF 06-3G A1LT @ $99.5 (6.7yr, ~30 bps DM)

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- Moody's WARF is ~118 (A1/A2)
- 30% subordination to super senior class, compare that with the typical high-grade transaction (14-20%)
- Current portfolio composition: (19% CDOs, 18% CMBS conduit, 5% CRE CDO, 58% RMBS)
- Compare to recent HG super senior print - Altius 4 (May 2007) (14-100%, with 10% CDO bucket) @ ~24 DM

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- Recent prints over the past three weeks in TWOLF paper include ~200mm A2s (20-50% tranche) in the mid $80s and 50mm AAs (10-20% tranche) in the high $70s

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ph44585 on D330-44585-7600 with DISTILLER
57322.821

From: GS Syndicate
Sent: Sunday, July 01, 2007 6:46 PM
To: ficc-spgasia
Cc: Walter, Scott; Chaudhary, Omar; Lee, Jay; Sugioka, Hirotaka
Subject: Structured Product New Issue Pipeline (INTERNAL USE ONLY / VERBAL ONLY)

****INTERNAL USE ONLY****

Structured Products Syndicate Tokyo +81 3 6437 7198
Scott Walter from NY is on Tokyo desk this week.

NEW ISSUE UPDATE

Top Priority AXES
DEAL: Timberwolf I
DETAILS: $1bn Single-A Defensively Managed SP CDO^2 for Greywolf, GS Sole lead / book
TIMING: Termsheet, marketing book and final OC available.

Deals in the Market
US CLO
DEAL: US CLX 2007-1
DETAILS: Full Leverage, US Index Based, Lightly Managed Cash CLO for Gulf Stream, GS Sole lead / book
TIMING: Pricing mid July. Termsheet and marketing book available.

DEAL: Del Mar CLO II
DETAILS: $400mm Cash CLO for Caywood-Scholl Capital Management, GS Joint lead / book
TIMING: Pricing mid/late July. Termsheet and marketing book available.

EUR CLO
DEAL: Harbourmaster Low Leveraged Fund
DETAILS: €1bn Low Leverage, Global Index Based, Managed Cash CLO for Harbourmaster, GS Sole lead / book
TIMING: Pricing end July (long settle will allow for orders through Aug). Marketing book available.

CDO
DEAL: Landgrove Synthetic CDO
DETAILS: $[ ]mm Corporate Managed IG Synthetic CDO for Wellington. GS Sole lead / Book
TIMING: Price guidance, red, termsheet, marketing book and portfolio available.

RMBS
DEAL: STARM 2007-S1
DETAILS: $691mm ARM deal for Sun Trust, GS Co-mgr without retention.
TIMING: Pricing w/o June 25.

Upcoming Deals
CLO
DEAL: U.S. AMPS I
DETAILS: $200-300mm CLO sponsorship vehicle for Credit Suisse Alternative Capital, GS Sole lead / Book
TIMING: Expected first closing Jan 2008.

RMBS
DEAL: IMSC 2007-AR2
DETAILS: $275mm Indymac 5 year Hybrids done off the trading desk, GS Sole lead / Book
TIMING: Announcing w/o July 2.

CRE CDO
DEAL: Hartford Mezzanine Investors CRE CDO 2007-1
DETAILS: $[500]mm Cash Flow CRE CDO managed by Hartford and Key Capital, GS Joint lead / Book
TIMING: Announcing w/o July 2.

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From: GS Syndicate
Sent: Tuesday, July 24, 2007 2:46 AM
To: ficc-london-spgsales
Subject: Structured Products/ABS Morning Update (Internal Use Only)

****Internal Use Only****

US & European Structured Products/ABS
London Desk +44 20 7774 3068
Tony Kim is on the desk in London

<u>**Top Priority AXES**</u>
DEAL: ***Timberwolf I***
DETAILS: $1B Single-A Defensively Managed SP CDO^2 for Greywolf, GS Sole lead / book
COMMENT: Termsheet, marketing book and final OC available.

DEAL: ***GSCSF 2006-3G A1LT (Aaa/AAA)***
DETAILS: $1.6B Single A Focused High Grade ABS CDO
COMMENT: SS Aaa, attach @ 30%

<u>**Deals in the Market**</u>
CMBS
Deal: *Windermere XII*
Details: €1.5B single asset securitisation of Coeur Defense in Paris, GS co lead/book
Timing: Investor presentation available, available, expect price guidance this morning, pricing late this week/early next

CLO
DEAL: *Harbourmaster Index Low Leveraged Fund*
DETAILS: €1B Global Large Cap Index Low Leveraged Fund for Harbourmaster, GS Sole Lead / Book
TIMING: Expected pricing August. Revised investor presentation to reflect the new structure is available.

DEAL: *US CLX 2007-1*
DETAILS: $1B Full Leverage, US Index Based, Lightly Managed Cash CLO for Gulf Stream, GS Sole lead / book
TIMING: Expected pricing late July/early August. Investor presentation, termsheet & portfolio available.

DEAL: *US AMPS I*
DETAILS: $200-300mm CLO sponsorship vehicle for Credit Suisse Alternative Capital, GS Sole lead / Book
TIMING: European sales presentation last week, expected closing Q407

CDO (Commercial Real Estate)
DEAL: *Gramercy CDO 2007-1*
DETAILS: $1.1B CRE CDO managed by GKK Manager, GS co-lead / Joint book with Wachovia
TIMING: Price guidance available; expected pricing early this week.

CDO (Corporate)
DEAL: *Landgrove Synthetic CDO*
DETAILS: $[ ]mm Corporate Managed IG Synthetic CDO for Wellington. GS Sole lead / book
TIMING: European Roadshow last week. Updated price guidance, termsheet, marketing book, portfolio available. Pricing next week.

RMBS
DEAL: *First AZ*
DETAILS: $300mm deal for First Arizona composed of 70% fixed and 30% hybrid collateral, GS Sole Lead / Book

TIMING: Announcing w/o 23 July

Upcoming Events
GS RMBS London Conference:
Rescheduled from earlier this year, GS will be hosting a conference to discuss the current state of the RMBS & CDO markets. 10-11 Sep 07 in our London offices.

From: Resnick, Mitchell R
Sent: Tuesday, July 03, 2007 10:43 AM
To: Bieber, Matthew G.
Subject: RE: Timberwolf I Ltd. - Computational Materials and Final OM (144a/RegS)(external)

I know you are - there are those people I trust… you are one of them

From: Bieber, Matthew G.
Sent: Tuesday, July 03, 2007 3:31 PM
To: Resnick, Mitchell R
Subject: FW: Timberwolf I Ltd. - Computational Materials and Final OM (144a/RegS)(external)

Another FYI....I'm all over these guys.

From: Castelino, Kenneth
Sent: Tuesday, July 03, 2007 10:30 AM
To: Turok, Michael; Bieber, Matthew G.; Primer, Jeremy; Lilov, Krastio
Subject: RE: Timberwolf I Ltd. - Computational Materials and Final OM (144a/RegS)(external)

I just spoke with Matt and am working on it right now

From: Turok, Michael
Sent: Tuesday, July 03, 2007 10:29 AM
To: Bieber, Matthew G.; Primer, Jeremy; Lilov, Krastio; Castelino, Kenneth
Subject: RE: Timberwolf I Ltd. - Computational Materials and Final OM (144a/RegS)(external)

Krastio is out today. Ken, would possibly be able to take a quick look at the spreadsheet?

From: Bieber, Matthew G.
Sent: Tuesday, July 03, 2007 8:16 AM
To: Turok, Michael; Primer, Jeremy; Lilov, Krastio; Castelino, Kenneth
Subject: FW: Timberwolf I Ltd. - Computational Materials and Final OM (144a/RegS)(external)

Is it possible to update the RMBS categorization for the TWOLF look through today? The "FICO Sect" tab and "Sector" tabs don't match up for the RMBS asset class. New Israeli account looking at the AA's and would like to see the look through.

From: GS Syndicate
Sent: Wednesday, May 30, 2007 1:56 PM
Subject: Timberwolf I Ltd. - Computational Materials and Final OM (144a/RegS)(external)

Strictly Confidential and Proprietary

<< File: Timberwolf Summary 30May2007.zip >> << File: Timberwolf - Final Offering Circular (disclaimed).pdf >>
Important Changes:

- On the raw data page of the prior version of this file, attachment and exhaustion points for CDOs were computed inconsistently with our stated definition and should not be used. The attachment points on the CDO Stats page conform to the definition, and they remain the same as before.
- LTV, Lien, and Documentation are now based only on Loan Performance and not on Intex data. Consequently, CUSIP counts will be different from the prior version, because we are not

discarding CUSIPs that show discrepancies between Intex and Loan Performance in these fields.

The attached electronic version of the confidential Offering Circular is for your personal use only. Any reproduction or distribution of the Offering Circular, in whole or in part (including by forwarding of this e-mail to any person) is prohibited. Any disclosure of its contents or use of any information therein for any purpose other than considering an investment in the Securities described therein is also prohibited.

Upon receipt of the paper version of the attached Offering Circular please destroy the electronic version of the Offering Circular attached to this email. By receipt of this email, you agree to the foregoing.

Risk Factors: An investment in the securities presents certain risks, please see the Final Offering Circular for a description of certain risk factors.

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This communication shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State. These securities are being offered by the issuer and represent a new financing. A final prospectus relating to these securities may be obtained from the offices of Goldman, Sachs & Co., 85 Broad Street, New York, NY 10004.

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From: GS Syndicate
Sent: Wednesday, August 22, 2007 3:54 AM
To: ficc-london-spgsales
Cc: Resnick, Mitchell R; Reis, Jessica
Subject: Structured Products/ABS Morning Update (Internal Use Only)

Attachments: SIV-Lite S&P Article.pdf; CDO/TABX Commentary (internal use only)

****Internal Use Only****

US & European Structured Products/ABS
London Desk +44 20 7774 3068
Omar Chaudhary is on the London desk. Mitch is on the Tokyo desk this week.

Comment:
Relatively light flows overnight in the ABS secondary market skewed towards the sell side. S&P released a report taking rating action on SIV-lite structures with subprime exposure (see attached). Also, please take a moment to read the commentary from our secondary ABS CDO trading desk which came out late last night (attached).

SIV-Lite S&P Article.pdf   CDO/TABX mmentary (internal

Top Priority AXES
DEAL: ***Fleet Street III***
Details: €1.1B CMBS priced by GS in June
COMMENT: We have some residual positions that we need to move prior to quarter end. Please revert to Andy Bristow or the Syndicate desk with interest

DEAL: *Timberwolf I*
DETAILS: $1B Single-A Defensively Managed SP CDO^2 for Greywolf, GS Sole lead / book
COMMENT: Termsheet, marketing book and final OC available.

DEAL: *GSCSF 2006-3G A1LT (Aaa/AAA)*
DETAILS: Single A Focused High Grade ABS CDO
COMMENT: SS Aaa, attach @ 30%

Deals in the Market
CLO
DEAL: *Harbourmaster Index Low Leveraged Fund*
DETAILS: €1B Global Large Cap Index Low Leveraged Fund for Harbourmaster, GS Sole Lead / Book
TIMING: Expected pricing September. Updated investor presentation has been circulated (hard copies available at the desk).

DEAL: *Muir Grove CLO*
DETAILS: $500mm Cash Flow CLO for Tall Tree Investment Management, GS Joint Lead / Book
TIMING: Expected pricing w/o Aug. 27. Termsheet, marketing book and red available; call desk for collateral portfolio.

DEAL: *US AMPS I*
DETAILS: $200-300mm CLO sponsorship vehicle for Credit Suisse Alternative Capital, GS Sole lead / Book
TIMING: Expected closing Q407

CRE
DEAL: *CalWest Industrial Portfolio*
DETAILS: $1.348bn Floating Rate Mezzanine Loan Syndication. GS Joint Bookrunner with BARC + LB
TIMING: Price guidance and materials available. Indications due Aug 23; Pricing by Aug 27. Deal is being run directly off the CRE desk.

Goldman Sachs

Washington Mutual, Inc.

Follow Up - Subprime Mortgage Market

Goldman, Sachs & Co.
January 2004

Confidential Treatment Requested by Goldman Sachs GS MBS-E-001856677

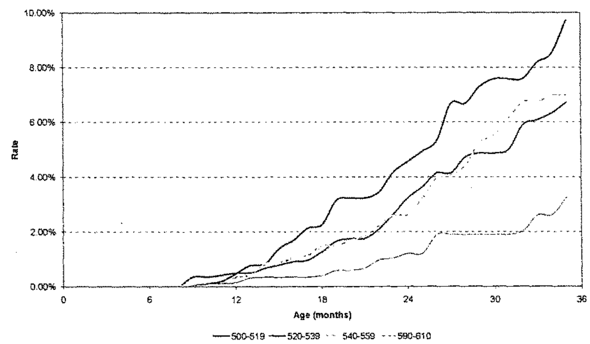
Permanent Subcommittee on Investigations
EXHIBIT #167a

Goldman Sachs

Performance by FICO Distribution – Fixed Rate Loans

Cumulative Defaults – Long Beach Portfolio

Actual Long Beach experience has been more disparate than the aggregate subprime market. While the 590-610 tier is in line with aggregate performance, the lower FICO tier performed worse than the aggregate.



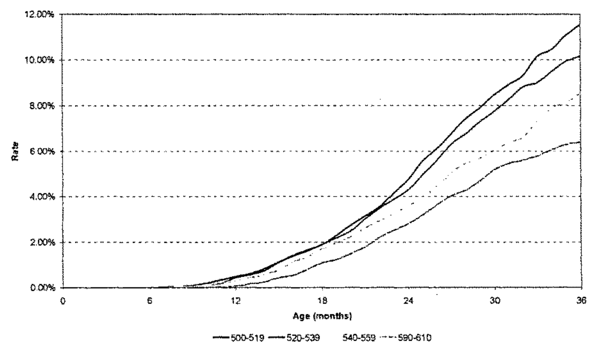
SOURCE: Loan Performance Corp.

Goldman Sachs

Performance by FICO Distribution – ARM Loans

Cumulative Defaults – Long Beach Portfolio

As was the case with fixed-rate loans, Long Beach's actual lower FICO experience in ARMs trails the industry.



SOURCE: Loan Performance Corp.

From: Gasvoda, Kevin
Sent: Thursday, March 24, 2005 9:27 AM
To: Gething, Christopher; Lewellen, Richard F
Cc: Weiss, Mark; Gill, Michelle; Flamino, Marc; Sparks, Daniel L
Subject: RE: Presentation in St. Petersburg, FL

Dennis and Don are on the WAMU portfolio side, not on the Long Beach origination side. I don't know the others. They have possibly the largest subprime portfolio on the planet, funded by the bank, not securitizations. They buy monthly from Fremont and Ameriquest in size (and others). I think they bought over $20B last year from various originators. They traditionally have not purchased much Long Beach collateral directly but just recently did buy $2-3B. I expect that they will be doing more of this going fwd. Dennis is a very smart credit guy and they have carved out the sweet spot of the loan market. I expect them to largely cherry-pick the LB originations.

In addition to this relatively new direct loan exposure to Long Beach, WAMU has traditionally securitized all their Long Beach loan production and retained the residuals. Therefore, as an institution they have a lot of exposure to Long Beach loan performance - traditionally as a securitization/resid holder and henceforth (possibly more often) as a whole loan owner. Long Beach is planning to originate $24B in 2005 and possibly securitize 1/2 of that. The lion's share of the other half will likely end up in Dennis' hands in the bank portfolio.

Remember this is a platform they purchased from Ameriquest (formerly known as Long Beach) in the late '90's. They had substantial integration problems and servicing platform nightmares. Started to work thru them in the last year or two. Additionally, they were late to the FICO based lending decision model and were big in MH so their '98-'01 vintage originations have underperformed the market (they've had a number of deals downgraded, etc.).

Couple other points - they are trying to phase out/down their i/o program (currently lower FICO than the rest of the market, more full doc than the industry, and 2 yr i/o period vs. the quickly emerging consenses of 5 yr io period). They launched a 40 yr mrtg product for this reason. 40 due in 40. Expect most of it to be hybrids 3/37.

-----Original Message-----
From: Gething, Christopher
Sent: Thursday, March 24, 2005 7:11 AM
To: Lewellen, Richard F
Cc: Gasvoda, Kevin; Weiss, Mark; Gill, Michelle
Subject: RE: Presentation in St. Petersburg, FL

Good work Rick. Please make sure to have a conference call to discuss with them the specifics of what they would like to see so that we can tailor the presentation.........and let me know the plans for a dinner

-----Original Message-----
From: Lewellen, Richard F
Sent: Thursday, March 24, 2005 7:06 AM
To: Gething, Christopher
Subject: FW: Presentation in St. Petersburg, FL

Attendees for the WAMU/Longbeach presentation April 13th

-----Original Message-----
From: Vitug, Michelle A. [mailto:michelle.vitug@wamu.net]
Sent: Wednesday, March 23, 2005 8:47 PM
To: Lewellen, Richard F
Subject: RE: Presentation in St. Petersburg, FL

Rick,

The following are the attendees from WaMu:

Permanent Subcommittee on Investigations
EXHIBIT #167b

Dennis Lau, FVP, Capital Markets Mgr
Don Roden, SVP, Specialty Mortgage Finance
Lenice Johnson, FVP, Due Diligence-SMF
Nathan Hennigan, VP, Nat'l Servicing Mgr
Angie Dotson, VP, Portfolio Mgr

Please let me know if you need additional information.

Michelle
949.580.6655 direct

-----Original Message-----
From: Lewellen, Richard F [mailto:Richard.Lewellen@gs.com]
Sent: Wednesday, March 23, 2005 11:39 AM
To: Vitug, Michelle A.
Cc: Gething, Christopher
Subject: RE: Presentation in St. Petersburg, FL

I would recommend the Hyatt, Tampa Bay. This hotel is close to the Tampa airport and only a short drive to our office in St. Petersburg. I would like to schedule a dinner for the evening of the 12th. If you could send me a complete list of who will be here from WAMU I would appreciate it.
Thanks
Rick
727-825-3819

-----Original Message-----
From: Vitug, Michelle A. [mailto:michelle.vitug@wamu.net]
Sent: Wednesday, March 23, 2005 2:18 PM
To: Lewellen, Richard F
Subject: Presentation in St. Petersburg, FL

Richard,

Good morning.

I am coordinating the travel plans for Dennis Lau, Don Roden and the other attendees for your meeting on April 13 at St. Petersburg. They will all be flying in on the evening of the 12th at the Tampa airport.

Can you please suggest some hotels near your office?

Thank you,

Michelle

Michelle Vitug

Specialty Mortgage Finance

Washington Mutual Bank

Ph 949.580.6655 | Fax 949.580.6672

Michelle.Vitug@wamu.net

From: Verrochi, Matthew P.
Sent: Tuesday, November 21, 2006 1:54 PM
To: Pouraghabagher, Dariush; Salem, Deeb; Heagle, Jonathan; Chin, Edwin
Cc: Swenson, Michael; Gasvoda, Kevin; Bash-Polley, Stacy; Willing, Curtis
Subject: Cohen

Attachments: Picture (Enhanced Metafile); Picture (Enhanced Metafile); Picture (Enhanced Metafile)

Cohen Recap
- They are focused on reducing exposure down in credit (BBB) within 2 of their more recent CDO's that have higher (compared to historic) second lien buckets
- They have been getting negative feedback from CDO investors on 2nd liens in general and are looking to unwind some of their underlying exposure
- Not looking to exit the sector but will focus higher up in the capital structure in the near future

Position They Are Looking To Sell
- 12.516mm Long Beach 2006 A M5 (Baa1)
    - This deal priced on April 27th of this year @ 1ml+115
    - Cohen purchased the whole class
    - Its been marked by GS at 100-00 since the deal priced

Performance
The following graphs compare performance (losses, speed) of this Long Beach deal versus other GS 2nd Lien deals issued in 2006

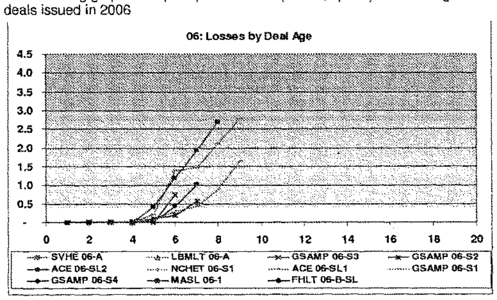


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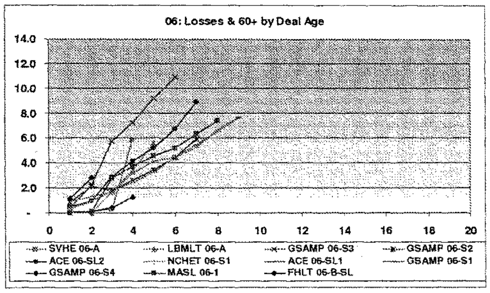
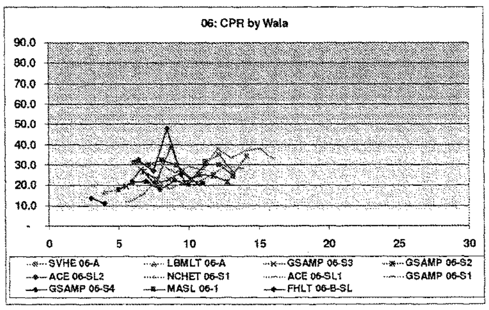
EXHIBIT #167c





Goldman Sachs

85 Broad Street | 26th Floor | New York, New York 10004
Tel: 212-902-4570 | Fax: 212-428-1538
matthew.verrochi@gs.com

Matthew P. Verrochi
Fixed Income Division

From: Tourre, Fabrice
Sent: Thursday, February 08, 2007 11:46 PM
To: Serres, Marine
Subject: FW: 2006 Subprime 2nds Deals Continue to Underperform **INTERNAL ONLY**

Attachments: Picture (Metafile); Picture (Metafile); Picture (Metafile); Picture (Metafile); Picture (Metafile); Picture (Metafile); Picture (Enhanced Metafile); INTERNAL ONLY Subprime 2nds 05 vs 06 compare.pdf

You should take a look at this...

From: Pouraghabagher, Dariush
Sent: Thursday, February 08, 2007 3:01 PM
To: ficc-sales-spg
Cc: Bash-Polley, Stacy; Sparks, Daniel L; Gasvoda, Kevin; Swenson, Michael; Pinkos, Steve; Radtke, Lorin; Bohra, Bunty
Subject: 2006 Subprime 2nds Deals Continue to Underperform **INTERNAL ONLY**

INTERNAL ONLY
INTERNAL ONLY

Market Overview:

Since the last performance update (Nov 16 of last year), 2006 vintage Subprime closed-end seconds (CES) issuance has continued to deteriorate. There has been an increase in early delinquencies and defaults in the Subprime market, most notably those deals backed by CES collateral originated in mid-to-late 2005 and 2006. We have seen this trend in our 2006 Subprime CES deals (GSAMP 06-S1, S2, S3, S5), although thus far, our Alt-A CES deals have held up and have not experienced such a shift in performance (GSAMP 06-S4, GSAMP 06-S6 and GSAA 06-S1). GS currently owns the equity in all of its CES deals, and on a relative basis, our 2006 Subprime CES deals are performing in the context of the market, as non-GS Subprime CES deals are categorically experiencing similar negative behavior across shelves, originators, and servicers. Primary issuers include Deutsche (ACE), Greenwich (SVHE), Bear (SACO), C-BASS (CBASS), Lehman (SASC), Merrill (MLMI), UBS (MASL), Fremont (FHLT), Long Beach (LBMLT), New Century (NCHET) and Countrywide (CWL).

This deteriorating market trend applies widely to later 2005 and 2006 Subprime 80/20 originations that back 2006 issuance (while Subprime production backing 2004 and early 2005 deals continues to outperform). Collateral from all Subprime originators, large and small, has exhibited a notable increase in delinquencies and defaults, however, deals backed by Fremont and Long Beach collateral have generally underperformed the most. The poor performance results from a combination of weaker underwriting standards, the turn in the appreciation of housing prices and subsequent guideline tightenings. Weaker borrowers without equity growth in their homes do not have the same avenues to refinance, leading to slower prepayments and higher delinquency and default rates. Past guideline relaxation has also been a contributor, increasing the pool of weaker borrowers as most originators expanded their offerings to the furthest fringes of credit in early 2005. Having witnessed the deteriorating performance, originators have made significant guideline changes in late 2006 and early 2007. While these revisions bode well for the loans originated going forward, they are exacerbating the level of delinquencies and defaults in past originations as underperforming borrowers' refinancing options are eliminated.

Outlook:
-2006 vintage Subprime CES losses could eventually reach 4-5+ times that of 2004/early 2005 vintages (more than double that of RA expected losses). This would mean lifetime losses in the teens, and over 20% in some deals
-The vast majority, if not every 2006 Subprime CES deal (across all originators and shelves), is likely to experience some form of downgrade in their life, and potentially sub-bond writedowns
-Identification of breach of reps and warrants will continue to be a central focus industry-wide, and will put added pressure on originator survival, including the major players

How GS is Addressing / Other Measures:
-Our Asset Mgmt group is closely monitoring servicers to make sure the most effective delinquency mitigation and foreclosure equity analysis procedures are implemented
-Our Asset Mgmt is diligently scrubbing pools to identify systematic problems in credit. We will enforce our originator

Permanent Subcommittee on Investigations
EXHIBIT #167d

repurchase obligations when and if we find breaches or reps and warrants
-We will continue to perform a greater level of due diligence
-Many originators have reversed guideline expansion and have been tightening back credit on current originations shown out for bid. We will continue to be vocal to originators about performance problems we experience
-We have not purchased a newly originated Subprime 2nd lien pool since April of 06 (10 months ago) and our pipeline consists entirely of Alt-A CES, prime HELOCs, and very seasoned (2 yrs) Subprime CES paper

We have had regular dialog with many of your accounts the last few months and we encourage more moving forward. We are here to discuss the performance and management of our deals and our outlook on the state of the market. We currently own first loss risk and various sub-bonds in all of our deals, so our interests are aligned with our investors.

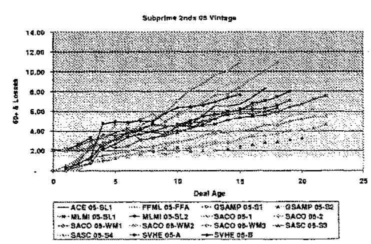
-Dariush Pouraghabagher (x2-2131)
-Jon Heagle
-Jon Brosterman

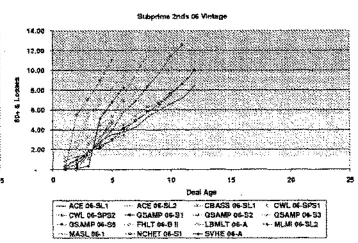
Performance Details:

2005 Issuance -- General Performance (see comp charts below):
-Backed by late 2004 and 2005 production with meaningful HPA since origination
-Fast prepayments and low losses to-date (eg, our debut CES deal, GSAMP 05-S1, is currently at a 18% factor with 2.2% of cum loss, significantly outperforming original assumptions)
-Since 2002, S&P had granted 92 CES upgrades and not a single downgrade until Q2 2006
-All three of our 2005 Subprime CES deals (GSAMP 05-S1, GSAMP 05-S2 and FFML 05-FFA) are among the top performers of deals issued in 2005 backed by Subprime CES collateral

2006 Issuance -- General Performance (see comp charts below):
-Performance decline focused on Subprime CES collateral, while Alt-A CES deals have held up more favorably
-Mainstream production exhibits overall lower quality credit profile than previous years, again reflecting the guideline loosening that occurred in 2005
-Reduction in HPA has left levered borrowers without equity and without avenues to refinance (see Case Shiller Weiss chart at bottom)
-Subsequent guideline tightening has negatively impacted performance of loans, as fewer originators are willing to refinance loans to weaker borrowers
-Speeds have slowed and delinquencies have risen out of the gates, leading to early default, but mitigated partially by greater excess spread
-Performance expectations are definitively worse than rating agency expectaions, downgrades are imminent
-Our deals are performing in the context of the market, however, our GSAMP 06-S3 and GSAMP 06-S5 deals are underperforming the average
-On the other hand, our GSAMP 06-S1 and GSAMP 06-S2 deals are outperforming the average, though the industry as a whole is underperforming to a much greater extent

Deal Performance Comparisons:





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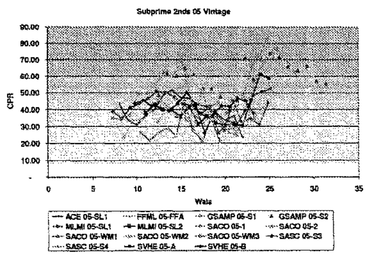
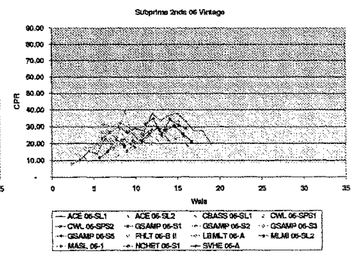


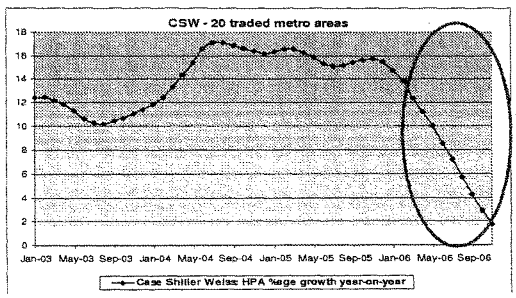


Subprime 2nd 05 Deals

Bloomberg Name	FICO	CLTV	Collat	Issuer
ACE 05-SL1	663	99	Ameriquest (53%), Fremont (29%)	Deutsche Bank
FFML 05-FFA	663	99	First Franklin	GS
GSAMP 05-S1	660	100	New Century	GS
GSAMP 05-S2	671	100	Long Beach	GS
MLMI 05-SL1	661	99	Fremont, MILA, Decision One	Merrill Lynch
MLMI 05-SL2	654	99	Option One, Decision One, Fremont, MILA, Michigan Fidelity, Fieldstone, and 11 others.	Merrill Lynch
SACO 05-1	676		Ownit(25%), Waterfield (24%)	Bear Steams
SACO 05-2	673		SouthStar (32%), Waterfield (10%)	Bear Steams
SACO 05-WM1	653	100	Long Beach Mortgage	Bear Steams
SACO 05-WM2	656	100	Long Beach Mortgage	Bear Steams
SACO 05-WM3	657	100	Long Beach Mortgage	Bear Steams
SASC 05-S3	673	98	Aurora, Option One	Lehman
SASC 05-S4	623	99	First Franklin (38%), Option One (25%), Fremont (23%), Aurora (14%)	Lehman
SVHE 05-A	645	99	Countrywide (54%), Aames (21%), Fremont (18%)	Greenwich
SVHE 05-B	642	99	Long Beach Mortgage (40%), Countrywide (34%), New Century (19%)	Greenwich

Subprime 2nd 06 Deals

Bloomberg Name	FICO	CLTV	Collat	Issuer
ACE 06-SL1	662	100	New Century (40%), Ameriquest (29%), Fremont (34%)	Deutsche Bank
ACE 06-SL2	656	99	Long Beach (60%), Fremont (30%)	Deutsche Bank
CBASS 06-SL1	637	98	Countrywide (73%), Ownit (19%)	C-BASS
CWL 06-SPS1	640	97	Countrywide	Countrywide
CWL 06-SPS2	635	97	Countrywide	Countrywide
FHLT 06-B - SL	648	100	Fremont	Fremont
GSAMP 06-S1	661	100	Long Beach	GS
GSAMP 06-S2	664	100	New Century	GS
GSAMP 06-S3	664	99	Fremont (54%), Long Beach (35%), GS 2nds Conduit (10%)	GS
GSAMP 06-S5	665	99	Fremont (58%), Impac (15%), GS 2nds Conduit (9%), New Century (11%), Other (6.91%)	GS
LBMLT 06-A	658	100	Long Beach	Long Beach
MLMI 06-SL2	677	97	Fieldstone (30%), Citibank (12%), Decision One (11.54%)	Merrill Lynch
MASL 06-1	670	97	Fremont (47%), American Home (29%), Accredited	UBS
NCHET 06-S1	658	100	New Century	New Century
SVHE 06-A	659	100	Ameriquest (51%), New Century (30%), Fremont (15%)	Greenwich



PDF of Charts Above (Internal Only):

INTERNAL ONLY
Subprime 2nds 05...

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STRUCTURED FINANCE **Special Report**

Moody's Update On 2006 Closed-End Second Lien RMBS:
Performance and Ratings Activity to Date

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CONTENTS

INTRODUCTION

Closed-end second lien-backed RMBS ('CES securities') originated in 2006 have seen material and unexpectedly rapid credit deterioration. To date, Moody's has downgraded at least some tranches - and in many cases all tranches - from most deals in this category.

The poor performance of 2006 CES mortgage loans is due to a combination of factors, including among other things the aggressive lending atmosphere that peaked in 2006, increasingly 'layered risks' such as lower documentation levels and lower FICO scores, and the sustained slowdown in property values.

This paper will highlight performance issues and will cover ratings activity to date on the entire 2006 CES vintage. Moody's has previously discussed the 2006 subprime vintage in general, and CES securities in particular, in a number of reports[1,2].

1 See "Closed-End Seconds: Recent Performance and Update to Methodology," Moody's Investors Service, April 2, 2007

2 See www.moodys.com/Subprime

Moody's Investors Service

August 30, 2007

Permanent Subcommittee on Investigations
EXHIBIT #167e

SUMMARY OF RATINGS ACTIVITY

Nearly all 2006 CES deals have seen some rating activity. Moody's began deal specific actions in early 2007, focusing on a handful of deals from the GSAMP, Terwin, and MASTR second lien issuance programs. In light of the more systemic sector performance issues that became evident, Moody's completed the first sector-wide actions in April, followed by a second round of actions in June, by which time three-quarters of Moody's-rated 2006 CES deals had at least one tranche affected by negative rating activity.

The latest round of actions on 2006 CES deals, on August 16, was the broadest action to date, affecting 705 securities ($19.7 billion original face value) - including **Aaa**-rated tranches from most deals. These actions reflect the unabated pace of CES loan pool losses and Moody's view that losses will ultimately, in many cases, very significantly exceed initial expectations. Moody's also notes that many underlying first lien mortgages might be subject to interest rate resets in coming months, thereby exacerbating the pressure on borrowers to default on their second lien loans.

Table 1 shows lifetime rating migrations for Moody's-rated 2006 CES securities, weighted by dollar volume at origination and excluding securities benefiting from a monoline guarantee. For example, 30% of the **Aaa**-rated CES securities issued in 2006 remain **Aaa** as of today, while 54% have been downgraded to **Aa**, 11% to **A** and 5% to **Baa**. Note that this table shows migrations by broad rating category; so for example, securities downgraded from **Aa1** to **Aa3** will appear as part of the 26% of originally **Aa**-rated securities that did not migrate to a lower rating category. See *Appendix A* for a lifetime migration table by alpha-numeric rating category.

Table 1
Rating Migration Table
(by Broad Rating Category)

	Current Rating Level								
Original Rating Level	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C
Aaa	30%	54%	11%	5%					
Aa		26%	45%	20%	6%	2%	0%	1%	
A			[illegible]	34%	38%	10%	0%	6%	6%
Baa				[illegible]	14%	18%	7%	15%	40%
Ba					[illegible]	6%	0%	4%	88%

Table 2 shows the percentage of 2006 CES securities, classified by original rating category, that have been downgraded and/or are currently on review for possible downgrade. The downgrade rates in *Table 2* are also weighted by dollar volume at issuance, and reflect all actions, including those where downgrades were within the same broad rating category (i.e. from **Aa1** to **Aa3**, etc).

Table 2
Downgrades/Reviews by Rating Category

Original Rating	% of CES Securities Downgraded and / or on Review for Possible Downgrade
Aaa	71%
Aa	88%
A	96%
Baa	98%
Ba	100%

SEVERAL ORIGINATORS STAND OUT

Although the 2006 CES vintage as a whole is performing very poorly, there is variation in performance of loans from different originators. In the course of Moody's review of the vintage, Moody's looked at several metrics to evaluate performance by originator.

One such metric was the cumulative loss-to-liquidation rate, which represents the percentage of the aggregate pool principal reduction that is attributable to losses. In other words, if a deal has a reduction of principal of $100, $75 of which is principal repayment and $25 of which is losses, the loss-to-liquidation rate would be 25%. (A limitation on this measure is that deals with large amounts of loans over 180 days delinquent may report fewer losses and thus may erroneously appear to perform better than deals where loans are succinctly charged off after 180 days of delinquency.) *Table 3* lists some of the notably poor performers based on the loss-to-liquidation measure.

Table 3

Deal Name	Closing Date	Pool Factor	Cum Loss	Loss-to-Liquidation	Originator(s)
Fremont Home Loan Trust 2006-B	Aug-06	73%	13%	50%	Fremont Investment & Loan
Long Beach Mortgage Loan Trust 2006-A	May-06	64%	16%	45%	Long Beach Mortgage Company
CWABS Asset-Backed Certificates Trust 2006-SPS1	Jun-06	74%	12%	45%	Countrywide Home Loans, Inc.
GSAMP Trust 2006-S5	Aug-06	67%	14%	44%	Fremont Investment & Loan (62%), Impac Funding Corporation (14%), NC Capital Corporation (11%)
GSAMP Trust 2006-S3	Apr-06	59%	16%	40%	Fremont Investment & Loan (54%), Long Beach Mortgage Company (36%)
First Franklin Mortgage Loan Trust 2006-FFB	Nov-06	91%	4%	37%	First Franklin Financial Corporation
CWABS Asset-Backed Certificates Trust 2006-SPS2	Aug-06	78%	8%	36%	Countrywide Home Loans, Inc.
First Franklin Mortgage Loan Trust 2006-FFA	Oct-06	88%	4%	31%	First Franklin Financial Corporation
Structured Asset Securities Corp Trust 2006-ARS1	Jun-06	69%	9%	31%	Ameriquest Mortgage Company / Argent
GSAMP Trust 2006-S1	Jan-06	57%	12%	27%	Long Beach Mortgage Company
C-BASS Mortgage Loan Asset-Backed Certificates, Series 2006-SL1	Sep-06	77%	6%	24%	Countrywide Home Loans (72%), Ownit Mortgage Solutions (19%)
GSAMP Trust 2006-S2	Mar-06	63%	9%	24%	New Century Mortgage Corporation
Terwin Mortgage Trust 2006-12SL*	Nov-06	83%	4%	24%	Various
Merrill Lynch Mortgage Investors Trust 2006-SL2	Aug-06	76%	6%	23%	Fieldstone Mortgage Company (30%), Decision One Mortgage Company (12%), Citibank (12%)
ACE Securities Corp. Home Equity Loan Trust, Series 2006-SL2	Mar-06	67%	8%	23%	Long Beach Mortgage Company (60%) Fremont Investment & Loan (31%)
IndyMac Home Equity Mortgage Loan Asset-Backed Trust, INDS 2006-A	May-06	72%	7%	23%	IndyMac Bank, F.S.B.
MASTR Second Lien Trust 2006-1	Feb-06	54%	11%	23%	Fremont Investment & Loan (48%), American Home (30%), Accredited (16%)
Soundview Home Loan Trust 2006-A	Jul-06	68%	7%	23%	Ameriquest Mortgage Company (51%), New Century (29%) Fremont Investment & Loan (15.5%)
Terwin Mortgage Trust 2006-10SL*	Oct-06	81%	4%	22%	Various
Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2006-S5	Dec-06	82%	4%	21%	American Home Mortgage Corp. (27%), Ownit Mortgage Solutions, Inc. (16%)

* The Aaa tranches from these deals have the benefit of monoline guarantees

As clearly seen in the table above, a few originators stand out as the worst performers on a loss-to-liquidation basis. Fremont, Long Beach, Countrywide, New Century, and First Franklin appear in 11 of the 12 worst deals by this metric. Transactions backed by these originators' collateral have seen numerous rating actions to date or, as in the case of First Franklin, have seen significant losses after a reduction of just 10% to 12% in the pool factor.

As mentioned above, a potential drawback of the loss-to-liquidation metric is that it may be skewed by servicer practices. Some deals require strict write-off of delinquent loans within 6 months of delinquency. However, in some deals, servicers don't necessarily charge off loans in a set timeframe. As a result, some deals may recognize losses sooner than others (see discussion below in "Impact of Servicer Practices").

In order to minimize the impact of varying servicer practices, a second useful metric is the combined "cumulative loss plus pipeline" (that is, losses plus severe delinquencies, both taken as a percentage of original balance). (See *Table 4*.) This metric will capture both lifetime-to-date losses as well as potential pending losses. For example, New Century Home Equity Loan Trust, Series 2006-S1 appears to be one of the weaker performers by this metric, although losses to date have been relatively limited. The table includes seasoning to allow for a more consistent comparison of the data.

Table 4

Deal Name	60+ Delinq as % Orig Balance	Cumulative Loss as % Orig Balance	60+ Delinq plus Cum Loss	Months Seasoned	Originator(s)
GSAMP Trust 2006-S3	8.0%	16.5%	24.4%	15	Fremont Investment & Loan (54%), Long Beach Mortgage Company (36%)
GSAMP Trust 2006-S5	9.3%	14.4%	23.7%	11	Fremont Investment & Loan (62%), Impac Funding Corporation (14%), NC Capital Corporation (11%)
Fremont Home Loan Trust 2006-B	10.3%	13.4%	23.7%	11	Fremont Investment & Loan
Long Beach Mortgage Loan Trust 2006-A	6.9%	16.3%	23.2%	14	Long Beach Mortgage Company
New Century Home Equity Loan Trust, Series 2006-S1	18.6%	4.0%	22.6%	17	New Century Mortgage Corporation
ACE Securities Corp. Home Equity Loan Trust, Series 2006-SL2	13.6%	7.6%	21.2%	16	Long Beach Mortgage Company (60%) Fremont Investment & Loan (31%)
CWABS Asset-Backed Certificates Trust 2006-SPS1	7.4%	11.8%	19.2%	13	Countrywide Home Loans, Inc.
Structured Asset Securities Corp Trust 2006-ARS1	7.8%	9.5%	17.3%	13	Ameriquest Mortgage Company
GSAMP Trust 2006-S1	5.0%	11.6%	16.6%	18	Long Beach Mortgage Company
CWABS Asset-Backed Certificates Trust 2006-SPS2	7.2%	7.9%	15.1%	11	Countrywide Home Loans, Inc.
Soundview Home Loan Trust 2006-A	7.5%	7.5%	15.0%	12	Ameriquest Mortgage Company (51%), New Century (29%) Fremont Investment & Loan (15.5%)
MASTR Second Lien Trust 2006-1	4.1%	10.6%	14.7%	17	Fremont Investment & Loan (48%), American Home (30%), Accredited (16%)
GSAMP Trust 2006-S2	5.8%	8.8%	14.6%	16	New Century Mortgage Corporation
ACE Securities Corp. Home Equity Loan Trust, Series 2006-SL1	6.7%	7.7%	14.4%	18	New Century Mortgage Corporation (40%), Ameriquest Mortgage Company (30%), Fremont (24%)
Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2006-S5	10.4%	3.8%	14.3%	7	American Home Mortgage Corp (27%), Ownit Mortgage Solutions, Inc. (16%)

As evidenced by the *Tables 3* and *4* above, which list the worst-performing pools for each metric, there is clearly variation in CES pool performance within the 2006 vintage, and the very worst-performing CES pools tend to consist of loans originated by Fremont Investment & Loan, Long Beach Mortgage Company, and New Century Mortgage Corporation. Although pool performance is not the sole driver of ratings - capital structure and enhancement levels are also integral to ratings, so there is not a perfect correlation between CES loan performance and rating activity - it is still fair to say that deals backed by these originators' collateral tended to see more severe downgrades, higher up in the capital structure.

RAPID DETERIORATION IN CES DEALS: 2006 VERSUS 2005 ORIGINATIONS

When looking at the 2006 vintage compared to the 2005 vintage, there is a stark deterioration in collateral quality, even between deals backed by collateral from the same originator. Taking Long Beach CES mortgage performance as an example, we can examine GSAMP 2005-S2 and 2006-S1 (issued in May 2005 and January 2006, respectively). Although both are backed by Long Beach originated collateral and were issued only 8 months apart, the deals have performed very differently. After 18 months of seasoning, the 2005 deal had only 1.3% of cumulative losses while the 2006 deal had 11.6% of cumulative losses. (See *Chart 1*.) Furthermore, severe delinquencies as a percentage of original balance at 18 months seasoning were over 5% in the 2006 deal while the 2005 deal had less than 2% severe delinquencies at the same seasoning. (See *Chart 2*.)

Chart 1

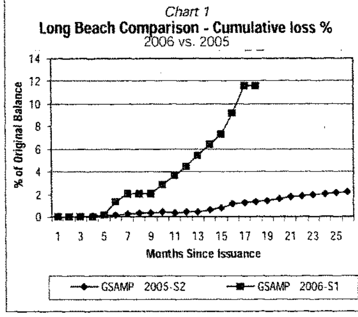
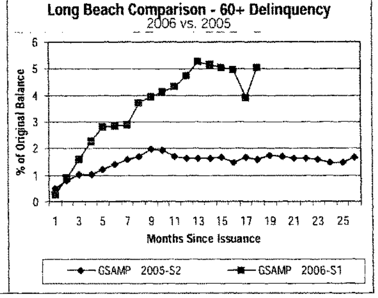


Chart 2



The collateral pools from these deals had a few key differences that are likely to have contributed to the difference in performance. Specifically, CES mortgage loans backing the 2006 deal had slightly lower documentation standards and less seasoning than those backing the 2005 deal. (See *Table 5*).

Table 5

Deal Name	Closing Date	% Full Documentation	% Stated Documentation	% No Documentation	FICO	CLTV	Seasoning (at closing)
GSAMP Trust 2005-S2	May-05	45%	55%	0%	671	99%	11
GSAMP Trust 2006-S1	Jan-06	34%	64%	2%	661	100%	4

The weaker collateral characteristics may justify some level of weaker performance. However, the vast difference in performance indicates that other drivers are contributing to the considerable deterioration of the 2006 pool. One such driver is the more limited refinancing opportunities available to the borrowers whose loans back the 2006 transactions. The recent combination of falling home prices and more stringent lending guidelines has made it difficult for the 2006 borrowers, compared to the 2005 borrowers, to refinance their way out of trouble. The 2005 Long Beach pool has been amortizing at a much faster pace than the 2006 pool (see *Chart 3* below), likely due to the higher number of voluntary prepayments made when borrowers had greater opportunities to refinance.

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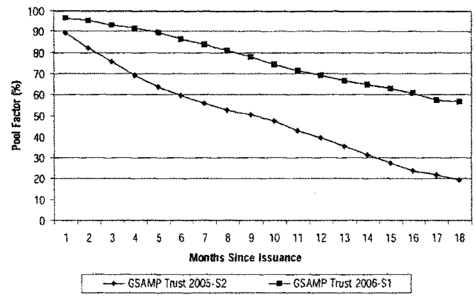
Chart 3
Long Beach Comparison - Pool Factor over Time
2006 vs. 2005



Moody's believes that these factors - lower documentation, weakened home price environment and fewer refinancing opportunities - which are driving the weakened performance of the Long Beach 2006 pool described above, are similarly impacting the 2006 CES vintage as a whole and its poor performance vis-à-vis the 2005 vintage. In addition, other contributing factors may include the presence of more first-time homebuyers in 2006 pools, as well as other potentially less visible factors.

SURVEILLANCE CHALLENGES

Several aspects of CES deals pose a challenge in the credit monitoring process. Significantly, the rapid velocity of collateral write-offs provides little advance warning. From the 2006 CES vintage, many deals saw pipelines build and then proceeded to take large collateral losses within a 6-month time horizon. First-lien mortgages, on the other hand, take on average around one and a half years to go through the foreclosure, REO, and sale process before losses are realized.

An additional challenge in monitoring is forecasting ultimate expected losses on the 2006 CES deals. The dramatic early delinquencies and losses could, in the best case, represent a culling of the worst performers, and the remaining loans could in theory perform in line with initial expectations. A less desirable, but at this point more likely case would be that the pace of losses may continue unabated for a period of time before leveling off. In performing its review of 2006 CES deals, Moody's generally assumed that the entire current 90+ day delinquency pipeline of a deal would flow through and result in collateral write-offs. For the rest of the pool (i.e. the non-delinquent loans), Moody's assumed a loss expectation based on our original loss expectation for the entire pool magnified by a stress factor. The stress factor is typically 20-30%, as noted in a recent report[3].

As mentioned briefly above, a further cause for concern is the pending interest rate resets on underlying first-lien mortgages, which are likely to exacerbate the pressure on borrowers to default on their second lien mortgages. As part of its effort to dimension the risks associated with resets in the current real estate and mortgage origination environment, Moody's is surveying major mortgage servicers in order to measure servicers' preparedness to implement loan modifications where appropriate. Moody's believes that judicious modifications, including extension of pre-reset or "teaser" interest rates, will in general reduce losses on the collateral and benefit RMBS trusts.[4]

3 See "Closed-End Seconds: Recent Performance and Update to Methodology," Moody's Investors Service, April 2, 2007
4 See "Loan Modifications in U.S. RMBS: Frequently Asked Questions" Moody's Investors Service, June 7, 2007

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IMPACT OF SERVICER PRACTICES

Although loan quality and performance is the main driver of the rapid losses on the 2006 CES vintage, servicer practices have also had an impact on the timing of losses. In some cases servicers have kept delinquent loans on the trust's books for over half a year, expecting some recovery on the loans. This has delayed ultimate write-downs. In some occasional cases, such delays may be due to servicers not following transaction guidelines, such as in the case of Long Beach 2006-A where roughly $50 million of collateral that had been held in foreclosure status was written down in one month.

Timing of CES collateral write-offs makes a difference in excess spread available to offset losses in a deal. When non-cashflowing collateral remains on the trust's books and is not written down, there is no associated writedown to certificates. As the deal's interest expenses have not, therefore, been reduced, there is less excess spread available to the deal to cover losses. Servicers' CES write-off policies, which are governed uniquely from deal to deal, can therefore make a difference in the outcomes for certificateholders.

POOR COLLATERAL PERFORMANCE RAPIDLY IMPACTS CES DEALS: A CASE STUDY

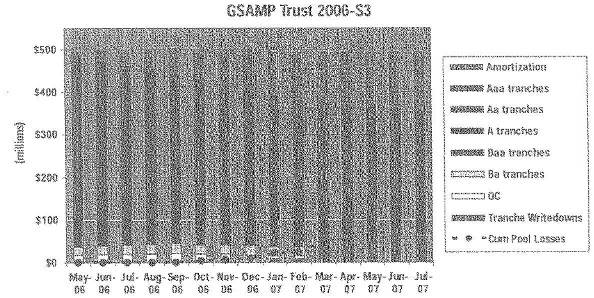
This section will show performance from a sample deal - GSAMP 2006-S3 - to demonstrate how the timing and velocity of losses can impact a deal's credit quality quickly and at every level of the capital structure.

This transaction is backed by closed-end second lien subprime collateral originated by Fremont Investment & Loan and Long Beach Mortgage Company. The velocity and magnitude of losses have been particularly dramatic in this transaction's performance. Over 5% of loans became severely delinquent within three months of closing, and the bottom Moody's-rated tranche (originally rated **Ba2**) was written off 11 months after closing.

The following graph illustrates the amortization, tranche write-downs, and cumulative losses over the life of the deal to date:

Chart 4

GSAMP Trust 2006-S3



Overcollateralization ("OC"), which was pre-funded in the amount of roughly $14 million when the deal closed in April 2006, was intended to build to a target balance of over $32 million. The OC only built up to approximately $22 million in September 2006 before starting to decline as losses hit the deal. OC was completely depleted in March 2007, and in the past several months, the originally-rated **Ba2**, **Ba1**, **Baa3**, **Baa2**, and most of the **Baa1** tranches have been written down. The result is like a "race" between, on the one hand, pool losses working their way up the capital structure causing writedowns on the OC and then the junior tranches, and, on the other hand, pool amortization paying down the tranches from the top down. Given the substantial pace of losses, Moody's has downgraded this deal's tranches multiple times. The (originally) **Aaa**-rated tranches have been downgraded to **Baa1** and the **Aa2** tranche to **B2**, and all the remaining junior tranches have been downgraded to **Caa** or below, indicating that these tranches have already suffered losses or are likely to do so.

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While performance of most 2006 CES deals is not this dramatically poor, many deals have failed to build to target OC levels before losses have overtaken excess spread and started to erode OC and, in some cases, junior tranches. This "race" between losses from the bottom and amortization at the top of the capital structure is present, to some degree, in many 2006 CES deals and is one of the drivers of current rating levels. In many cases, securities originally rated Aaa remain relatively insulated from losses, but no longer warrant a Aaa rating; hence the many downgrades of senior tranches to Aa and in some cases lower ratings.

CONCLUDING REMARKS

The poor performance of the 2006 CES vintage has been both dramatic and far in excess of expectations. The 2006 subprime vintage as a whole, including first-lien mortgages, has underperformed, but 'piggyback' CES loans, at the riskier end of the subprime spectrum, have shown particularly poor performance. The poor CES performance manifested itself rapidly in deals: delinquency pipelines grew very large very rapidly in a great number of CES deals, and since these delinquencies are typically written off after 180 days, and since by nature CES mortgages are less likely to see recoveries than first-lien mortgages, many CES deals have seen very large losses within single reporting periods - in some extreme cases losses have wiped out most of a tranche in one period.

As a result of the volatile nature of 2006 CES deal performance, Moody's ratings have also been more volatile than usual, with most tranches having experienced downgrades. Going forward, the trends Moody's will monitor in the sector include the extent to which the pace of delinquencies and losses levels off, and also the potential impact of pending interest rate resets on underlying first-lien mortgages.

APPENDIX A:

Rating Migration Table - 2006 CES
By Alpha-Numeric Ratings
(weighted by original dollar volume and excluding wrapped tranches)

	Current Rating																				
Original Rating	**Aaa**	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**	**Ba1**	**Ba2**	**Ba3**	**B1**	**B2**	**B3**	**Caa1**	**Caa2**	**Caa3**	**Ca**	**C**
Aaa	[illegible]	21%	25%	7%	8%	1%	2%	3%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Aa1		[illegible]	10%	18%	13%	24%	4%	7%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Aa2			[illegible]	5%	10%	22%	21%	11%	7%	0%	1%	3%	4%	1%	3%	0%	0%	0%	0%	0%	0%
Aa3				[illegible]	1%	18%	6%	32%	16%	6%	8%	0%	2%	0%	0%	2%	2%	0%	0%	4%	0%
A1					[illegible]	0%	0%	21%	13%	27%	6%	14%	6%	3%	1%	0%	0%	0%	0%	0%	2%
A2						[illegible]	0%	10%	10%	13%	28%	10%	3%	2%	4%	3%	0%	0%	0%	5%	5%
A3							[illegible]	0%	5%	10%	15%	11%	16%	12%	1%	2%	1%	0%	0%	11%	11%
Baa1								[illegible]	0%	8%	6%	9%	7%	7%	5%	13%	7%	0%	0%	13%	22%
Baa2									[illegible]	0%	7%	5%	1%	7%	4%	9%	6%	3%	0%	17%	39%
Baa3										[illegible]	0%	2%	6%	3%	0%	3%	4%	2%	1%	14%	62%
Ba1											[illegible]	0%	0%	5%	1%	3%	0%	0%	0%	5%	86%
Ba2												[illegible]	0%	0%	0%	0%	0%	0%	0%	2%	91%
Ba3													[illegible]	0%	0%	0%	0%	0%	0%	0%	100%

Credit Ratings:
Long Beach Mortgage Loan Trust 2006-A
US$520.121 mil asset backed certificates series 2006-A

This Export copy displays all available data for the selected tab(s), including filtered data that may not currently appear on the screen.

Last Updated: 25-Apr-2010 15:29:48 EST

	Type	Rating Date	Rating Action	Rating
Tranche: A-1	Local Long-Term	28-May-2008	Downgrade	D
Tranche: A-1	Local Long-Term	20-Dec-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-1	Local Long-Term	25-Sep-2007	CreditWatch/Outlook	A+
Tranche: A-1	Local Long-Term	25-Sep-2007	Downgrade	A+
Tranche: A-1	Local Long-Term	25-May-2006	New Rating	AAA
Tranche: A-2	Local Long-Term	28-May-2008	Downgrade	D
Tranche: A-2	Local Long-Term	20-Dec-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2	Local Long-Term	25-Sep-2007	CreditWatch/Outlook	A+
Tranche: A-2	Local Long-Term	25-Sep-2007	Downgrade	A+
Tranche: A-2	Local Long-Term	25-May-2006	New Rating	AAA
Tranche: A-3	Local Long-Term	28-May-2008	Downgrade	D
Tranche: A-3	Local Long-Term	20-Dec-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-3	Local Long-Term	25-Sep-2007	CreditWatch/Outlook	A+
Tranche: A-3	Local Long-Term	25-Sep-2007	Downgrade	A+
Tranche: A-3	Local Long-Term	25-May-2006	New Rating	AAA
Tranche: B-1	Local Long-Term	26-Sep-2007	Not Rated	NR
Tranche: B-1	Local Long-Term	17-May-2007	Downgrade	D
Tranche: B-1	Local Long-Term	25-May-2006	New Rating	BB+
Tranche: B-2	Local Long-Term	26-Sep-2007	Not Rated	NR
Tranche: B-2	Local Long-Term	17-May-2007	Downgrade	D
Tranche: B-2	Local Long-Term	25-May-2006	New Rating	BB
Tranche: C	Local Long-Term	16-May-2006	Not Rated	NR
Tranche: M-1	Local Long-Term	29-May-2008	Not Rated	NR
Tranche: M-1	Local Long-Term	10-Mar-2008	Downgrade	D
Tranche: M-1	Local Long-Term	20-Dec-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-1	Local Long-Term	25-Sep-2007	CreditWatch/Outlook	BB+
Tranche: M-1	Local Long-Term	25-Sep-2007	Downgrade	BB+
Tranche: M-1	Local Long-Term	19-Jul-2007	Downgrade, CreditWatch/Outlook	A
Tranche: M-1	Local Long-Term	25-May-2006	CreditWatch/Outlook	AA

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Tranche: M-1	Local Long-Term	25-May-2006	New Rating	AA
Tranche: M-2	Local Long-Term	12-Mar-2008	Not Rated	NR
Tranche: M-2	Local Long-Term	24-Jan-2008	Downgrade	D
Tranche: M-2	Local Long-Term	20-Dec-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-2	Local Long-Term	19-Jul-2007	CreditWatch/Outlook	B
Tranche: M-2	Local Long-Term	19-Jul-2007	Downgrade, CreditWatch/Outlook	B
Tranche: M-2	Local Long-Term	17-May-2007	Downgrade, CreditWatch/Outlook	BBB
Tranche: M-2	Local Long-Term	25-May-2006	New Rating	AA-
Tranche: M-3	Local Long-Term	12-Mar-2008	Not Rated	NR
Tranche: M-3	Local Long-Term	19-Nov-2007	Downgrade	D
Tranche: M-3	Local Long-Term	19-Jul-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-3	Local Long-Term	17-May-2007	Downgrade, CreditWatch/Outlook	BB
Tranche: M-3	Local Long-Term	25-May-2006	New Rating	A
Tranche: M-4	Local Long-Term	12-Mar-2008	Not Rated	NR
Tranche: M-4	Local Long-Term	25-Sep-2007	Downgrade	D
Tranche: M-4	Local Long-Term	19-Jul-2007	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-4	Local Long-Term	17-May-2007	Downgrade, CreditWatch/Outlook	B
Tranche: M-4	Local Long-Term	25-May-2006	New Rating	A-
Tranche: M-5	Local Long-Term	12-Mar-2008	Not Rated	NR
Tranche: M-5	Local Long-Term	25-Sep-2007	Downgrade	D
Tranche: M-5	Local Long-Term	17-May-2007	Downgrade	CCC
Tranche: M-5	Local Long-Term	25-May-2006	New Rating	BBB+
Tranche: M-6	Local Long-Term	26-Sep-2007	Not Rated	NR
Tranche: M-6	Local Long-Term	19-Jul-2007	Downgrade	D
Tranche: M-6	Local Long-Term	17-May-2007	Downgrade	CCC
Tranche: M-6	Local Long-Term	25-May-2006	New Rating	BBB
Tranche: M-7	Local Long-Term	26-Sep-2007	Not Rated	NR
Tranche: M-7	Local Long-Term	17-May-2007	Downgrade	D
Tranche: M-7	Local Long-Term	25-May-2006	New Rating	BBB-
Tranche: P	Local Long-Term	16-May-2006	Not Rated	NR
Tranche: R	Local Long-Term	16-May-2006	Not Rated	NR

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Presentation to:

Washington Mutual

Regarding:

Management of Purchased Sub-Prime Portfolio

Goldman, Sachs & Co.
August 2005

Permanent Subcommittee on Investigations
EXHIBIT #168a

Table of Contents

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I. Executive Summary

Executive Summary
Assumed Objectives & Proposed Solutions

GS has developed strategic alternatives for WaMu's $17 billion portfolio of sub-prime loans that balance a number of assumed objectives, while maximizing WaMu's retained earnings. In measuring the impact of each alternative, GS has focused on the following:

Objective	Issue	Proposed Solution
Increase liquidity	■ A large seasoned sub-prime mortgage portfolio is less liquid than a large pool of securities backed by a seasoned portfolio	■ Convert mortgage loans into rated securities to achieve more direct access to the capital markets by holding bonds rather than loans
Obtain Capital Relief	■ Regulators require a minimum level of capital to be held against the sub-prime mortgage loans	■ Convert sub-prime mortgage loans into an alternate form that requires less regulatory capital ■ Undertake some level of risk transfer to achieve regulatory capital relief without giving up all the upside associated with the loans
Hedge Portfolio Risks (Credit and Spread)	■ Currently retain credit and spread risk associated with the portfolio in order to continue to maintain 100% of the earnings on the portfolio	■ Undertake a hedging strategy that allows WaMu to continue to retain a majority of the earnings associated with the portfolio but insulates WaMu from some of the downside associated with the portfolio
Preserve Income	■ As a result of retaining 100% of the earnings associated with the portfolio, retain the above enumerated risks	■ To the extent any of the above solutions require the sale of securities, reinvest proceeds in alternative investments that continue to meet intended objective
Maximize ROE	■ Seek to maximize profitability but at the same time reduce above enumerated risks	■ Use the above solutions to reduce regulatory capital without an offsetting reduction in income

Executive Summary
Accounting and Regulatory Framework

Reducing risk on the portfolio and achieving regulatory capital relief require specific accounting and regulatory hurdles to be met:

Accounting

- In order for a securitization to be accounted for as a sale, the issuer must either (a) sell at least 10% of the fair value of the bonds to third parties or (b) undertake a third party wrap on the bonds
  - To the extent the issuer elects to sell 10%, need to ensure that 10% sold remain outstanding throughout the life of the transaction to achieve off-balance sheet treatment (once 10% is paid off, loans come back on balance sheet)
  - 10% sold does not need to be representative of the transaction (i.e. can sell all AAA bonds or all lower rated tranches)
  - The portion of the transaction that is sold must be accounted for as a sale and thereby requires gain or loss recognition upon sale, rather than over time
- If sale treatment is not achieved, the proceeds raised from securitization will be accounted for as a liability, and 100% of the assets will remain on balance sheet
- In order to achieve regulatory capital relief (described to the right), a securitization must be accounted for as off-balance sheet

Regulatory

- To be considered well-capitalized, a bank must maintain total capital of at least 10%
- Sub-prime mortgage loans have 100% risk weighting
- Rated ABS and MBS are generally risk-weighted from 20% to 200% of required capital, depending on the rating:

Rating	Risk-Weight	Required Equity
AAA and AA	20%	2%
A	50%	5%
BBB	100%	10%
BB	200%	20%
B and below	Dollar-for-dollar	Dollar-for-dollar

Unrated securities and residual interests are generally not risk-weighted and instead require dollar for dollar capital

- Calculations undertaken quarterly to ensure continued regulatory capital compliance
- Given difference in the risk weighting of mortgage loans vs rated securities (above single-A), it is possible to reduce regulatory capital requirements while preserving yield through an off-balance sheet securitization
- The securitization must satisfy certain conditions to be treated as off-balance sheet

 GS MBS-E-002370526

Executive Summary

Management of Purchased Sub-prime Portfolio – Menu of Options

The alternatives presented meet a number of liquidity and risk reduction objectives, with varying impacts on income and ROE. Securitization strategies are the starting point, with add-ons providing additional value. Synthetic risk transfers and whole loan sales of targeted loan segments supplement the other strategies.

		Strategy	Liquidity	Capital Relief	Hedge Credit Risk	Hedge Spread Risk	Upside / Downside	Income[1]	ROE	Tax and Accounting
Securitization Alternatives	1	Off-balance sheet securitization (Retain 90% securities)	●	◑	○	○	Retain both	⇩	⇧	Gain on 10% sold
	2	Off-balance sheet securitization (Retain all securities + Wrap)	●	◑	○	○	Retain both	⇩	⇩	No gain on sale
Securitization Add-Ons	3	+ CDS				●	Retain and minimize both	⇩	⇩	Unchanged
	4	+ Deep MI / Pool Policy	◑	●	●		Retain and minimize both	⇩	⇧	Unchanged
Synthethic Risk Transfer	5	Synthetic Risk Transfer (Loans)	○	●	◕	○	Retain upside & sell downside	⇩	⇩	Unchanged
	6	Synthetic Risk Transfer (Securities)	●	●	◕	○	Retain upside & sell downside	⇩	⇩	Unchanged
Loan Sale	7	Sell Non-Performing Loans	●	●	●	●	Sell both	(2)	(2)	Gain on sale

(1) Assumes no securitization expenses (underwriting fees, rating agency fees, etc)

(2) Depends on loan loss provisions on the NPLs

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Presentation to:

Long Beach Mortgage
Specialty Home Loans
Washington Mutual

Regarding:
Plan for 2006

Goldman, Sachs & Co.
January 2006

Goldman Sachs

Permanent Subcommittee on Investigations
EXHIBIT #168b

Confidential Treatment Requested by (

GS MBS-E-002219145

Goldman Sachs

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I. 2006 Outlook and Economic Forecast

Goldman Sachs

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Mortgage Industry Overview

What does the mortgage industry landscape look like in 2006?

Prediction	Rationale
Origination volumes down in 2006	■ Total subprime securitization for 2005 was approximately $500bn ■ 2005 volume was artificially stimulated by below market WACs and the resulting unprofitable originations. With rates higher in 2006 and importantly, WACs even higher, volume is expected to fall 15-20% in 2006 ■ Resetting ARMs will continue to be an important source of volume in 2006 with approximately $9B each month resetting and potentially refinanceable
More market share consolidation	■ Many large players will continue to gain market share (top 10 originated approximately 70% in 2005) ■ This will be exacerbated by the margin "crunch" as less efficient (often smaller) originators are forced out
Street's aggressiveness may diminish	■ Less favorable securitization leverage as a result of conservative changes in ratings methodology requires more $'s invested in residuals which will dampen Street interest ■ To counter, originators will be adding or expanding their own securitization programs to boost margin and offset Street appetite change
The oft predicted, overly anticipated subprime blow up MAY occur	■ Actually, less likely to be a blowup and more likely to be a fizzle out ■ The business is very different from 1998 as originators are better capitalized (many have large investment grade parents) and the NIM market coupled with whole loan trading has limited risk retained by originators ■ That said, significant margin adjustment still under way as overly aggressive environment has led to substantial losses and will not return to heady days of 2 point GOS. Some will win (eventually) and many will lose
Housing prices soften	■ Eventually we will be right. Signs of cracking have surfaced ■ GS economists believe US housing prices are overvalued by 15%+ ■ Certain pockets will be hit harder than others; we are unlikely to see nationwide downward repricing of any significant magnitude

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Subprime Industry Overview

What does the Subprime MBS landscape look like in 2006?

Prediction	Rationale
Tiering at many levels will return in 2006	■ Bond investors will introduce more program preferences which will be driven by prior deal performance more than current collateral characteristics ■ However, CDO's will continue to be a large factor in bond pricing and thereby tiering will not be as pronounced in bonds as it should be ■ More judicious tiering will occur in capital allocations for warehouse loans, equity infusions and whole loan purchases. Smaller more challenging market will force players to pick partners to compete
Servicing will be a larger investor focus by late 2006	■ Fairbanks hangover was surprisingly short lived ■ Phenomenal performance of recent years due to low rates, strong employment and tremendous housing price appreciation has lulled many investors to sleep ■ With loan performance likely to return to earth, investors will be focused on loss mitigation and delinquency management
Credit Default Swaps	■ Grew faster than even we predicted with more than $150B of structured product CDS outstanding at year-end '05 (vs. $2B at year-end '04) ■ $35B+ of BBB CDS trading in Q4 alone (vs. '05 BBB cash bond issuance of approximately $25B for the entire year) ■ CDS index (ABX) launched January 19 will be THE market event of 1H '06 ■ ABX will drive sub bond cash pricing and the basis (CDS/cash and CDS single name/ABX) will be volatile early on ■ six of top ten originators will be using CDS to hedge by year end '06
Bond Spreads	■ Technicals remain very positive with our predicted volume down and non-US and CDO demand remaining brisk and growing ■ Relative value fundamentals look good with spreads compelling versus other fixed income opportunities ■ Credit fundamentals are OK with rates remaining low, Fed apparently nearing their finish line and employment remaining high. In addition, conservative rating agency methodologies continue to drive enhancement levels up. ■ Volatility will be in lower part of the capital structure from CDS activity

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Interest rate Environment

Key Numbers in U.S. Business – 2006 Outlook

In the coming year, the GS forecast looks at

	'05 Q4E	'06 Q1E	'06 Q2E	'06 Q3E	'06 Q4E	2005E	2006E	2007E
Real GDP[1]	3.5%	3.5%	4.0%	3.5%	2.5%	3.6%	3.6%	2.6%
Personal Consumption[1]	0.5	3.0	2.5	2.0	2.0	3.5	2.4	2.1
Business Fixed Investment[1]	12.5	10.0	10.0	7.5	5.0	9.1	9.5	5.0
Industrial Production, Mfg[1]	7.5	4.0	4.5	5.0	4.0	3.7	4.4	3.7
Unemployment rate	5.0 A	4.9	4.8	4.7	4.7	5.1 A	4.8	5.0
CPI excl food & energy[2]	2.1	2.1	2.1	2.4	2.5	2.2	2.3	2.5
After-tax adjusted profits[2]	5.0	6.5	2.5	7.5	3.5	6.9	5.0	0.0
Current Account Balance[3]	-6.9	-6.9	-6.8	-6.7	-6.7	-6.6	-6.7	-6.1
Federal funds rate[4]	4.25 A	4.75	5.00	5.00	5.00	4.16 A	5.00	4.00
10-year Treasury yield[4]	4.47 A	4.75	5.00	4.80	4.50	4.47 A	4.50	4.40
Dollar/Euro[4]	1.19 A	1.20	1.25	1.28	1.30	1.19 A	1.30	1.30
Yen/Dollar[4]	118 A	109	102	98	95	118 A	95	95

- Employment and interest rates are competing drivers of home prices; a decline in unemployment should indicate firmer home prices
- Foreign exchange rates will have a big impact on foreign investment, particularly from Asia: as China is letting the yuan fluctuate (and appreciate in general vs the dollar) they will not need to buy as many dollar securities, so the demand from Asia for dollars should decline.
- The increase in interest rates signals a potential for slowing turnover (ie refis), and this would have a significant impact on mortgage valuations and technical factors

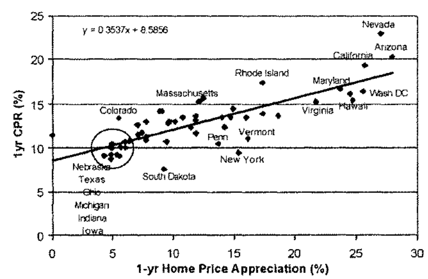
[1] *Sequential percent change, annualized*
[2] *Year-on-year percent change*
[3] *Percent of GDP*
[4] *End month of period*

Mortgage Market Outlook

Home Prices Have Driven Increased Turnover

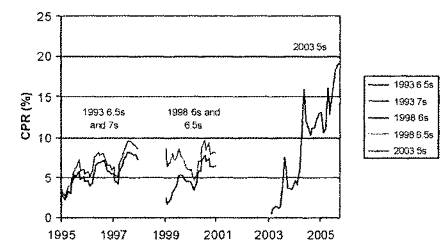
- Every 10% increase in home prices has boosted turnover approximately 3.5% CPR
- Based turnover has been roughly 8.5% CPR (FNMA 5s of 2003 over 2005-06)
- Idiosyncratic rules have dampened speeds in certain states, such as NY
- Turnover has been double normal levels recently

Home Price Appreciation



source: Goldman Sachs, Freddie Mac, CPRCDR

Increasing CPR

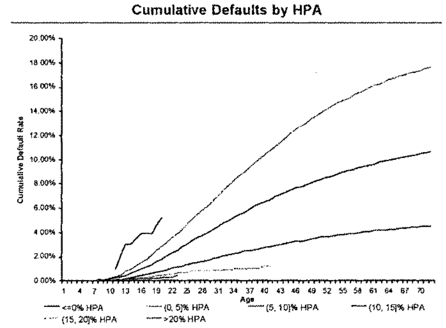


Mortgage Market Outlook

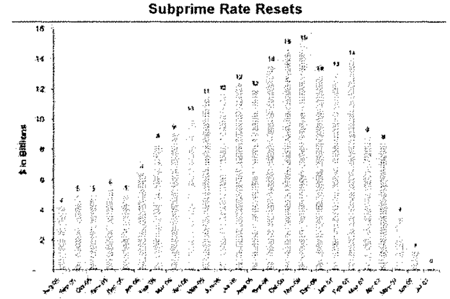
Home Prices and Payment Shocks Will Increase Defaults

- Home prices have driven defaults, as we can see from Cumulative Defaults by annualized HPA for subprime loans with LTVs between 90 and 100
- 2006 will witness a significant number of subprime loans reach their first reset

Cumulative Defaults by HPA



Subprime Rate Resets



From: Akunwafor, Obianyo
Sent: Thursday, January 04, 2007 12:36 PM
To: Broderick, Craig
Cc: Welch, Patrick; Hemphill, Lee; Baker, Carey; Kelman, Peter; Katz, Brian; Akunwafor, Obianyo
Subject: Sub-prime_Presentation to Viniar

Attachments: Sub-prime_Presentation to Viniar2.doc

Craig,

See attached for the Sub-prime Presentation to Viniar. We are momentarily going to be walking through these pages with Alan.

Sub-prime_Present
ation to Vini...

Thanks

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Obi Akunwafor Goldman
Credit Risk Management & Advisory Sachs

Permanent Subcommittee on Investigations
EXHIBIT #169

Goldman Sachs

Sub-Prime Mortgage Lenders – Update

Goldman Sachs – Credit Risk Management & Advisory
4-Jan-2007

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Goldman Sachs

I. Summary of Exposures

Goldman Sachs

Summary of Exposures

Overview

Type of Exposure	Total Notional Exposure ($mm)	Total Potential Exposure ($mm)
Warehouse Lending (Funded/Total Commitment):	$1,025/$5,060	$52
Whole Loan Purchases: Pre-Settlement Exposure ("Sub-Prime")	$1,541	$53.3
Whole Loan Purchases: Post-Settlement Exposure (EPDs)	$914	$137

- Warehouse lending
  - GS lends directly to sub-prime mortgage originators to provide their funding when mortgages are in the pipeline (have been originated but not yet sold or securitized)
  - Lending is done on a secured basis with a first lien on the underlying mortgage assets
  - Key risk is that value of loans drops below our haircut amount; loans are not fully underwritten
- Whole Loan Purchases: Pre-Settlement Exposure
  - GS buys pools of mortgages from sub-prime mortgage originators
  - The value of the mortgages may change during the settlement period, creating credit risk as rates decline
- Whole Loan Purchases: Post-Settlement Exposure (Early payment defaults or EPDs)
  - Once pools of mortgages settle, individual mortgages may suffer from defaults on the first payment by the homeowner
  - GS has the right to put those loans (now worth less than original sale price) back to the mortgage originator creating a new obligation of the mortgage originator to GS

Additional risk exists in MBS Forward Settlement product area. Most concerning are MBS exposures to MLN and Netbank.

Goldman Sachs

Summary of Exposures
Warehouse Borrowers – all exposures

Facility Information								
Client	Facility Size	Commitment Status	Current Outstanding (a)	Potential Exposure	Maturity Date	Max Advance Rate	Structure	Recourse
Accredited	$660.00	Fully Committed	$420.25	$25.22	12/15/2007	97%	Repo	Full Recourse
CBASS (Securities)	300.00	$200mm Committed	220.92	$13.26	3/30/2009	95%	Repo	Full Recourse
CBASS (Warehouse)	1,000.00	Uncommitted	0.00	$0.00	7/13/2007	98%	Repo	Full Recourse
CLC Home Loans	50.00	Fully Committed	0.00	$0.00	7/27/2007	97%	Repo	Full Recourse
Fremont	1,000.00	$500mm Committed	0.00	$0.00	2/26/2007	90%	Repo	Full Recourse
Lown Home	100.00	Fully Committed	75.55	$4.53	6/11/2007	99%	Repo	Full Recourse
Mortgage Lenders Network	500.00	$150mm Committed	150.30	TBD	2/23/2007	97%	Repo	Full Recourse
New Century (TPO) (b)	300.00	$100mm Committed	134.94	$8.10	2/14/2007	98%	Repo	Full Recourse
New Century Mortgage	1,000.00	Uncommitted	0.00	$0.00	11/29/2007	98%	Repo	Full Recourse
Senderra	150.00	Fully Committed	22.84	1.37	1/8/2008	98%	Repo	Full Recourse
Totals	$5,060.00		$1,024.80	$62.47				

(a) Facility Information as of 1/2/2007
(b) Third Party Originators (TPO) re-warehousing facility

Goldman Sachs

Summary of Exposures

Whole Loan Purchases – top exposures

- Top 10 EPD exposure for listed counterparties is $513.7mm, which is 56.2% of aggregate EPD exposure

Seller Name	Total EPD
Aames	$ 149.6
SouthStar Funding	$ 59.4
Fremont	$ 57.5
American Home Mtg	$ 50.9
New Century (Home123)	$ 46.7
Aegis Mtg Corp	$ 41.9
Novastar	$ 35.0
MandT	$ 28.2
Indymac	$ 23.2
Opteum Fin Services	$ 21.3

- Top 10 Sellers via Total Settled Amount for listed counterparties is $45.0bn, which is 65.7% of total amount

Seller Name	Total Settled
Countrywide	$ 11,011.7
Bank of America	$ 5,948.3
Fremont	$ 5,183.5
First Franklin	$ 5,043.9
Indymac	$ 3,357.6
Wells Fargo	$ 3,341.7
National City	$ 3,056.7
American Home Mtg	$ 2,730.5
New Century	$ 2,674.9
Greenpoint	$ 2,621.9

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Summary of Exposures

Credit Watch List EPD > $5mm (November 2006)

- Credit Watch List used for prioritization of Credit monitoring
- Watch List criteria are either EPD/NW >10% or NW decline >10%, and include both active and suspended counterparties
- EPD claims > $5mm for names on Credit Watch List are 25.3% of total EPD claims

	EXPOSURE			NET WORTH			CRITERIA		
Credit Watchlist	Current EPD's (mm)	PE Amt @15%	as of 12/7/06	2005 NW (mm)	2006 NW (mm)	PTR	EPD / NW	NW change	2006 Financials Received?
Southstar	64.9	9.7	p	45.4	38.7	92%	168%	-15%	Y
Aegis	35.5	5.3	p	135.6	146.9	95%	24%	8%	Y
Opteum	21.5	3.2	m	49.9	34.1	93%	63%	-32%	Y
Mandalay*	17.8	2.7	s	20.6	2.5	73%	700%	NA	Y
Mortgage Investment Lending Associates	12.6	1.9	w	N/A	N/A	88%	NA	N/A	N
Alliance Bancorp	11.4	1.7	m	31.6	54.6	80%	21%	73%	Y
MLN*	11.0	1.7	m	-	86.1	83%	13%	NA	Y
Weichert*	10.9	1.6	s	-	44.6	97%	24%	NA	Y
Quicken	10.1	1.5	p	142.5	121.1	94%	8%	-15%	Y
GMFS*	10.0	1.5	s	5.3	-	84%	188%	NA	N
CTX	7.6	1.1	p	-	61.6	96%	12%	19%	Y

Counterparties marked with asterisk are suspended from GS business

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Summary of Exposures

Credit Watch List EPD < $5mm (November 2006)

- EPD claims < $5mm for names on Credit Watch List are 7.3% of total EPD claims

	EXPOSURE			NET WORTH		CRITERIA			
Credit Watchlist	Current EPD's (mm)	PE Amt @15%	as of 12/7/06	2005 NW (mm)	2006 NW (mm)	PTR	EPD / NW	NW change	2006 Financials Received?
Amencorp Credit Corporation*	4.6	0.7	s	-	-	66%	356%	NA	N
Freedom Mtg Corp	4.6	0.7	m	20.8	26.2	90%	17%	26%	Y
Stone Creek Funding*	4.1	0.6	w	1.2	1.6	78%	254%	40%	Y
Silver State*	4.1	0.6	s	-	-	84%	42%	NA	N
Ameritrust Mortgage Company*	3.8	0.6	s	2.9	3.3	78%	116%	13%	Y
Home Loan Expanded Mortgage Credit	3.7	0.6	m	4.7	20.4	88%	18%	339%	Y
First Greensboro*	3.6	0.5	w	8.8	8.3	69%	43%	-5%	Y
American Lending Group*	3.5	0.5	s	3.1	3.5	63%	97%	16%	Y
LoanCity*	2.8	0.4	p	13.0	4.1	88%	67%	-68%	Y
Bayrock	2.7	0.4	w	11.0	14.0	79%	19%	27%	Y
SCME	2.7	0.4	p	20.8	22.9	97%	12%	10%	Y
Centennial Mortgage	2.3	0.4	m	2.3	2.3	48%	103%	-1%	Y
Maribella Mortgage*	2.1	0.3	s	2.6	0.5	69%	462%	-82%	Y
Camaron	1.9	0.3	s	4.8	10.1	88%	19%	109%	Y
American Mtg Express Financial*	1.9	0.3	s	-	-	95%	34%	NA	N
Alliance Mortgage*	1.7	0.3	s	4.2	4.4	71%	39%	4%	Y
Oak Street*	1.3	0.2	s	19.0	16.8	69%	8%	-11%	Y
Secured Funding	1.3	0.2	w	17.8	13.7	72%	9%	-23%	Y
Platinum Capital*	1.2	0.2	s	4.4	3.8	55%	31%	-15%	Y
Corestar Financial Group*	1.0	0.2	s	1.8	1.3	68%	78%	-27%	Y
Residential Mortgage Group	1.0	0.1	p	1.9	1.9	0%	51%	-2%	Y
UniMortgage*	0.9	0.1	s	1.8	1.6	58%	60%	-13%	Y
Harbourton Mortgage Investment Corpora	0.9	0.1	w	5.2	5.1	55%	18%	22%	Y
Nation One	0.8	0.1	m	3.4	3.8	100%	22%	10%	Y
Fidelity & Trust	0.8	0.1	p	37.7	7.3	92%	10%	-2%	Y
ComUnity Lending	0.5	0.1	m	-	32.9	86%	1%	NA	Y
American Home Equity	0.4	0.1	p	2.1	1.4	97%	30%	-34%	Y
Willow Bend Mortgage Company	0.4	0.1	p	-	1.4	95%	26%	26%	Y
Credit Northeast Inc	0.3	0.0	w	2.2	2.2	74%	15%	0%	Y
Valley Vista	0.3	0.0	p	2.0	1.6	89%	18%	-20%	Y
Barrington	-	-	m	4.6	4.0	86%	0%	-13%	Y
Cherry Creek Mortgage	-	-	w	7.3	6.5	78%	0%	-10%	Y
College Loan Corp	-	-	p	8.4	3.3	100%	0%	-31%	Y
Equity One	-	-	p	11.3	7.6	94%	0%	-33%	Y
First Financial*	-	-	s	6.7	-	72%	0%	NA	N
Mortgage Network	-	-	m	36.0	31.8	91%	0%	-12%	Y
NYMC*	-	-	s	0.8	-	76%	0%	NA	N
Pacific Community Mortgage*	-	-	p	1.8	1.6	88%	0%	-10%	Y
Prime Lending	-	-	m	32.3	38.0	79%	0%	18%	Y
Reliant Mortgage Company*	-	-	p	2.2	1.9	96%	0%	-15%	Y
Sebring*	-	-	s	-	4.7	78%	0%	-39%	Y
Transnational Financial Network, Inc.*	-	-	p	3.6	2.3	100%	0%	-36%	Y
WR Starkey	-	-	p	8.4	5.5	100%	0%	-35%	Y

Counterparties marked with asterisk are suspended from GS business

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Summary of Exposures
Recent Actions taken by Credit

- Reviewed all counterparties with which we conduct business (approx. 170)
- Counterparties added to suspend list by Credit since September 30, 2006
  - Suspend decision predicated upon financial performance, pull-through rates and EPD exposure

Allstate Home Loans	Jersey
Ameriquest	LoanCity
CNN	Meritage
Continental Mtg Corp	Pacific Comm Mtg
Fairmont Funding Ltd	PHM
First Greensboro Home Equity	Reliant Mtg Co
Flick Mtg Investors	Sterling Empire Funding
Guaranteed Rate	Transnational Fin Network
Guardhill	Weststar Mtg
Harbourton Mtg Inv Corp	Winstar

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Summary of Exposures
Recent Actions Taken by Credit *(cont'd)*

- Due Diligence Requests
  - Home Loan Corp
  - Loan Center of California
  - Southstar
- Recommendation for suspend by Credit, which will be resolved by Main St within the week
  - Alliance Bancorp (subject to due diligence)
  - American Home Equity
  - Centennial Mortgage
  - Hobson (Franklin Fin)
  - Prime Mortgage
  - Sterling Empire Funding
  - Valley Vista
  - Willow Bend Mtg Co
  - Cornerstone Mortgage Company
  - Guaranteed Rate
- Originally suspended counterparties granted business approval by Credit
  - IndyMac (rated NR/BBB-)
  - Option One (owned by H&R Block, which provides visibility on performance)
  - PHH Mortgage (rated Baa3/BBB)

Goldman Sachs

II. Update on Mortgage Lenders Network

Goldman Sachs

Update on MLN
Exposure Update

- Loan amount down to $150.3mm from $181.4mm at 12/1/2006, after payments
  - 12/22/05: $11.1mm from MER (0.5mm from the company, 10.6mm from MER; MER has retained all excess funds from sales of collateral held against their lines to top up their margin claims)
  - 1/3/06: $19.5mm from LEH
    - Also, LEH's $20.1mm purchase on 1/2/06 was originally scheduled as a $30.8mm trade on 12/29/05
    - LEH was to have purchased $107mm of loans on 12/28/05; they failed, claiming that they wanted a lower price, which they have yet to determine
  - Collateral value = $150.7mm; we have made a call for $8.6mm (company has unmet margin calls dating to Dec 8)
- EPD claims = $17.0mm UPB; estimated MTM = $2.7mm; we purchased no loans after September 2006, so EPD claims should stabilize
- MBS Extended Settlements due 1/11/06 and 2/12/06; currently, we owe them $500k

Summary

Type	Notional	MTM
Warehouse Loan	$150.3mm	$0[1]
EPD Claims	$17.0mm	$2 7mm
MBS Extended Settlements	$198.7mm	-$500k

[1] *We hold $400,000 of collateral with a market value in excess of the loan amount but, after haircut, there is a collateral deficit of $8.6mm*

Goldman Sachs

Update on MLN

Company Update

- A new loan product introduced in mid-2006 contained a programming glitch that caused the company to commit to loans at below-market rates; MLN made $750mm such loans before correcting the error
  - — The losses created in Nov 2005 when most of the loans funded caused the company to be in violation of two loan covenants (leverage, positive net income)
  - — The additional liquidity required to finance the loans exhausted available cash by early December, with the result that the company was unable to honor EPD claims
- RFC lent the company additional funds in mid-December and offered a possible rescue, but has since gone silent; MER and LEH are clearly trying to maximize their recoveries
- 1/2/2006, MLN announces that it will no longer fund wholesale loans and that much of its staff has been "furloughed"

Goldman Sachs

Appendix: Risk Management Procedures

Goldman Sachs

Risk Management Procedures
On-boarding process

- In order to ensure that names are only added to Main Street's approved seller list with Credit approval, we have recently created an on-boarding process
  - Main Street receives financials from counterparties as part of the business approval process, which are then uploaded onto a shared Web site
  - GS Credit then reviews financials as part of the initial due diligence process
  - Due diligence potentially includes site visits and meetings with company management
  - Bids will not commence until Main Street confirms Credit approval

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Risk Management Procedures

On-going surveillance

- CRMA and Main Street have established an intensive working relationship to enhance controls for the whole loan business
  - Created a "watchlist" and agreed criteria for identifying counterparties that appear to be in trouble, and for identifying names that should be suspended (i.e., no-bid)
  - Setup an online database for sharing updated financial information
  - Weekly Credit/Main Street meetings to discuss developments and projects, and to highlight counterparty concerns
  - CRMA reviews updated financial statements as frequently as they are available (e.g. monthly or quarterly). Names are discussed during monthly Credit review meeting and a weekly email outlining significant reviews and new financial information is distributed to business Main Street

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Risk Management Procedures
Reporting

- CRMA reporting encompasses a number of reports designed to enhance diligence, prioritize EPD workout and highlight counterparties for addition to the Main Street suspend lists. Reports include:
  - — Total Settled Amount greater than $100mm report
  - — Credit Watch List comprising entities with either EPD/NW >10% or NW decline >10%
  - — Shareholders' Equity less than $5mm list
  - — Pull-through performance report
  - — Suspend List comprising entities prohibited from GS business
- CRMA receives a daily margin report for warehouse loan counterparties

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Risk Management Procedures

Potential Exposure Methodology

Potential exposure (PE) for residential whole loans is the market value decline in our collateral versus our purchase price of that collateral (or in the case of Warehouse Lending, the dollar amount advanced against the collateral)

- The potential exposure (PE) model is currently under development
- The main factors for PE calculation include:
  - Interest rate risk
  - Volatility risk
  - Swap Spread risk
  - Option adjusted spread risk "OAS"
  - Credit spread risk based on securitization exit pricing
  - Instrument specific risk, (reflecting additional risks for the particular instrument including: liquidity risk, prepayment risk, originator risk etc)
- The methodology will cover prime and sub-prime mortgage (both bulk and conduit). A potential exposure model for commercial mortgages will be developed subsequent to finalizing the residential model
- The PE methodology will use the securitization exit pricing approach for whole loans (i.e., the assumption that pools of mortgage loans can be securitized and credit tranched, prepay sensitivity tranched and tenor tranched. The PE methodology will employ different estimated capital structures for different product types (i.e., Prime Fixed, Prime Hybrids, Alt-A, Subprime, 2nds, Option ARMs and Scratch & Dent) resulting in different PE outputs
- The capital structure's primary exposure is sensitivity to credit spreads. The PE calculator will shock credit spreads, residual yields, OC levels and OC tests parameters to determine the pool's PE. In addition, stresses to incorporate originator risk, servicer risk, EPD's and PRs will be applied, when arriving at the final PE figure
- For Warehouse Lending, given the collateralized repo-nature of the transactions, the initial haircut will be factored into the PE calculation
- Credit Quant group is currently preparing to conduct extensive simulation tests with inputs and outputs provided by DCP

Goldman Sachs

Risk Management Procedures
Limit Setting/Exposure Monitoring

Limit Setting:

- Limits will be set using at two Product Groups levels, see below;
  - 1. Residential Whole Loans
  - 2. Warehouse Lending

Product Groups should be available in Crystal on January 12th, 2007 and limits will be set for servicers and originators

Exposure Monitoring:

Live trade/position feeds and PEs will be available in Crystal later in 1Q'07.

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HUDSON HIGH GRADE FUNDING 2006-1, LTD.
HUDSON HIGH GRADE FUNDING 2006-1, CORP.
U.S.$11,650,000 Class S Floating Rate Notes Due 2011
U.S.$1,275,000,000 Class A-1 Floating Rate Notes Due 2042
U.S.$123,750,000 Class A-2 Floating Rate Notes Due 2042
U.S.$60,750,000 Class B Floating Rate Notes Due 2042
U.S.$20,250,000 Class C Deferrable Floating Rate Notes Due 2042
U.S.$12,750,000 Class D Deferrable Floating Rate Notes Due 2042
U.S.$7,500,000 Income Notes Due 2042

Secured (with respect to the Secured Notes) Primarily by a Portfolio of Residential Mortgage-Backed Securities, CDO Securities and Synthetic Securities

The Secured Notes (as defined herein) and the Income Notes (as defined herein) (collectively, the "Offered Notes") are being offered hereby by Goldman, Sachs & Co. in the United States to qualified institutional buyers (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in reliance on Rule 144A under the Securities Act, and, solely in the case of the Income Notes, to accredited investors (as defined in Rule 501(a) under the Securities Act) who have a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act. The Offered Notes are being offered hereby in the United States only to persons that are also "qualified purchasers" for purposes of Section 3(c)(7) under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition, the Offered Notes are being offered hereby by Goldman, Sachs & Co., selling through its agents, outside the United States to non U.S. Persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. See "Underwriting."

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

It is a condition of the issuance of the Notes that the Class S Notes, the Class A-1 Notes and the Class A-2 Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P" and, together with Moody's, the "Rating Agencies"), that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A2" by Moody's and at least "A" by S&P, that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P and that the Income Notes be issued with a rating of at least "Ba2" by Moody's (which rating addresses the ultimate payment of the Income Note Rated Amount only). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings of the Notes."

Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained. No application will be made to list the Notes to any other exchange.

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Offered Notes by the Initial Purchaser.

THE ASSETS OF THE ISSUER (AS DEFINED HEREIN) ARE THE SOLE SOURCE OF PAYMENTS IN RESPECT OF THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE NOTES, THE LIQUIDATION AGENT (AS DEFINED HEREIN), THE HEDGE COUNTERPARTY (AS DEFINED HEREIN), THE INITIAL PURCHASER (AS DEFINED HEREIN)), THE ADMINISTRATOR (AS DEFINED HEREIN), THE AGENTS (AS DEFINED HEREIN), THE TRUSTEE, THE SHARE TRUSTEE (AS DEFINED HEREIN) OR ANY OF THEIR RESPECTIVE AFFILIATES

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND NEITHER OF THE ISSUERS (AS DEFINED HEREIN) WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE OFFERED NOTES ARE BEING OFFERED HEREBY ONLY TO (A) (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND, SOLELY IN THE CASE OF THE INCOME NOTES, ACCREDITED INVESTORS (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) THAT HAVE A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND, WHO ARE (2) QUALIFIED PURCHASERS FOR PURPOSES OF SECTION 3(c)(7) UNDER THE INVESTMENT COMPANY ACT AND (B) CERTAIN NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PURCHASERS AND SUBSEQUENT TRANSFEREES OF INCOME NOTES (OTHER THAN THE REGULATIONS S INCOME NOTES) WILL BE REQUIRED TO EXECUTE AND DELIVER A LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS, AND PURCHASERS AND SUBSEQUENT TRANSFEREES OF CLASS S NOTES, CLASS A NOTES, CLASS B NOTES, CLASS C NOTES, CLASS D NOTES AND REGULATION S INCOME NOTES WILL BE DEEMED TO HAVE MADE SUCH REPRESENTATIONS AND AGREEMENTS, AS SET FORTH UNDER "NOTICE TO INVESTORS." THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Offered Notes are being offered by Goldman, Sachs & Co. (in the case of the Notes offered outside the United States, selling through its selling agent) (the "Initial Purchaser"), subject to the Initial Purchaser's right to reject any order in whole or in part, in one or more negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date (as defined herein). It is expected that the Class S Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes and the Regulation S Income Notes will be ready for delivery in book entry form only in New York, New York, on or about November 1, 2006 (the "Closing Date"), through the facilities of DTC and in the case of the Notes sold outside the United States, for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), against payment therefor in immediately available funds. It is expected that the Income Notes (other than the Regulation S Income Notes) will be ready for delivery in definitive form in New York, New York on the Closing Date, against payment therefor in immediately available funds. The Notes sold in reliance on Rule 144A and, solely in the case of the Income Notes, to Accredited Investors, will be issued in minimum denominations of U.S.$250,000 and integral multiples of U.S.$1 in excess thereof. The Notes sold in reliance on Regulation S will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof.

Goldman, Sachs & Co.
Offering Circular dated October 30, 2006.

Permanent Subcommittee on Investigations
EXHIBIT #170a

on the Determination Date immediately preceding a Payment Date or the Class D Interest Coverage Test is not met on the Determination Date immediately preceding a Quarterly Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Income Notes will be used to redeem the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes in full in the order described in the Priority of Payments. The foregoing redemptions could result in an elimination, deferral or reduction in the amounts available to make payments to the Holders of the Class C Notes, the Class D Notes and payments to Holders of the Income Notes. See "Security for the Secured Notes—The Coverage Tests." Any such redemptions will shorten the average life of the redeemed Notes, may lower the yield to maturity of the Notes. If a Class C Coverage Test or a Class D Coverage Test is not satisfied or if the Class D Overcollateralization Ratio is less than 95% on any Determination Date related to a Payment Date other than a Quarterly Payment Date, no amounts will be distributed to the Holders of the Class C Notes or the Class D Notes and certain amounts based on the principal balance of such Notes will instead be deposited to the Collection Account for distribution in accordance with the Priority of Payments on the next Payment Date.

Collateral Accumulation. In anticipation of the issuance of the Notes, an affiliate of Goldman, Sachs & Co. has agreed to "warehouse" up to U.S.$1,500,000,000 aggregate principal amount (or, in the case of Synthetic Securities, notional amount) of Collateral Assets, for resale to the Issuer pursuant to the terms of a forward purchase agreement (the "Forward Purchase Agreement"). No collateral manager or other person acting on behalf of the Issuer has reviewed the prices established pursuant to such Forward Purchase Agreement (nor has there been any third party verification of such prices). Of such amount, it is expected that a portion will be purchased from affiliates of Goldman, Sachs & Co. and a portion will be purchased from third parties. It is also expected that a portion of such amount will be represented by one or more Synthetic Securities entered into between the Issuer and Goldman, Sachs & Co. or an affiliate thereof, wherein the Issuer will be selling credit protection. Pursuant to the terms of the Forward Purchase Agreement, the Issuer will be obligated to purchase the "warehoused" assets, *provided* that such Collateral Assets satisfy certain eligibility criteria on the Closing Date for a formula purchase price designed to reflect the yields or spreads (or premiums in the case of Synthetic Securities) at which the Collateral Assets were purchased (using the prepayment speed and other assumptions used to set the initial price of each individual asset), as adjusted for any hedging gain or loss and any loss or gain on any Collateral Assets sold to a party other than the Issuer during the warehousing period. Consequently, the market values of "warehoused" Collateral Assets at the Closing Date may be less than or greater than the formula purchase price paid by the Issuer. In addition, if a Collateral Asset becomes ineligible during the warehousing period and is not purchased by the Issuer on the Closing Date, or if a Collateral Asset is otherwise sold at the direction of Goldman, Sachs & Co. (which sale may only occur with the consent of Goldman, Sachs & Co.'s affiliate), the Issuer will bear the loss or receive the gain on the sale of such Collateral Asset to a third party.

Disposition of Collateral Assets by the Liquidation Agent Under Certain Circumstances. Under the Indenture, the Liquidation Agent will be required to sell, on behalf of the Issuer, all Collateral Assets that are Directed Sale Securities and all Collateral Assets that are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to meet the definition of Credit Risk Obligations subject to satisfaction of the conditions described herein. The Liquidation Agent will have twelve (12) months to sell such Directed Sale Securities and Credit Risk Obligations. The Liquidation Agent will not have the right, or the obligation, to exercise any discretion with respect to the method or the price of any sale of a Collateral Asset that is a Directed Sale Security or that is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation; the sole obligation of the Liquidation Agent will be to execute the sale of such Directed Sale Security or Credit Risk Obligation in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance that the Liquidation Agent will be able to sell any such Directed Sale Security or Credit Risk Obligation. Any such sales of Directed Sale Securities and Credit Risk Obligations may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. See "—No Collateral Manager."

Average Lives, Duration and Prepayment Considerations. The average lives of the Notes (other than the Class S Notes) are expected to be shorter than the number of years until their Stated Maturity. See "Weighted Average Life and Yield Considerations."

The average lives of the Notes will be affected by the financial condition of the obligors on or issuers of the Collateral Assets and the characteristics of the Collateral Assets, including the existence and frequency of exercise

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Trade Date	Settlement	CUSIP	Name	Counterparty	Contact	Asset Type	Currency	Original Face	Factor at Purchase	Current Factor	Current Face	Currency Adjusted Curr Face	Mdy	Mdy Notch	S&P	S&P Notch	Fitch	Cpn Freq	Coupon Index	Coupon/Margin	Spread Info	Spread	Purchase Price (6 decimals)	Current MTM
10/18/2006	10/23/2006	004421UK7	ACE 2005-HE7 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A	A	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	03072SV86	AMSI 2005-R11 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	040104NL1	ARSI 2005-W2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	A-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	0738793U0	BSABS 2005-HE11 M7	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	126670NM8	CWL 2005-BC5 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	32027NYD7	FFML 2005-FF12 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	362341KK4	GSAMP 2005-HE4 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	437084QQ4	HEAT 2005-6 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	46626LAM2	JPMAC 2005-OPT1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	542514NJ9	LBMLT 2005-WL2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	57643LMX1	MABS 2005-NC2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A+	A+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	59020UG58	MLMI 2005-AR1 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	61744CUZ7	MSAC 2005-HE5 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	64352VNB3	NCHET 2005-4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	76112BD31	RAMP 2005-EFC4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	76110W7L4	RASC 2005-KS11 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A	A	-	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	81375WGK6	SABR 2005-HE1 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	86358EXE1	SAIL 2005-HE3 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	863576DN1	SASC 2005-WF4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	83611MKM9	SVHE 2005-4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.30%		130	100.00000	100.00000
10/18/2006	10/23/2006	004421UL5	ACE 2005-HE7 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	03072SV93	AMSI 2005-R11 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	040104NM9	ARSI 2005-W2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	BBB+	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	0738793V8	BSABS 2005-HE11 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	126670NN4	CWL 2005-BC5 B	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	32027NYE5	FFML 2005-FF12 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	362341KL2	GSAMP 2005-HE4 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	437084QR2	HEAT 2005-6 B1	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	46626LAN0	JPMAC 2005-OPT1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	542514NK6	LBMLT 2005-WL2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	57643LMY9	MABS 2005-NC2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	A	A	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	59020UG66	MLMI 2005-AR1 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	61744CVA1	MSAC 2005-HE5 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	64352VNC1	NCHET 2005-4 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	76112BD49	RAMP 2005-EFC4 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	76110W7M2	RASC 2005-KS11 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	81375WGL4	SABR 2005-HE1 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	86358EXF8	SAIL 2005-HE3 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	863576DP6	SASC 2005-WF4 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	83611MKN7	SVHE 2005-4 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.45%		245	100.00000	100.00000
10/18/2006	10/23/2006	004421VB6	ACE 2006-NC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	040104RQ6	ARSI 2006-W1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	07387UHZ7	BSABS 2006-HE3 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	144531FF2	CARR 2006-NC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	045427AM3	CWL 2006-8 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	362334GC2	FFML 2006-FF4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	36244KAN5	GSAMP 2006-HE3 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	437084VY9	HEAT 2006-4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	46626LFV7	JPMAC 2006-FRE1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	542514RV8	LBMLT 2006-1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	57643LNP7	MABS 2006-NC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	59020U3N3	MLMI 2006-HE1 B2A	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB-	BBB+	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	61749KAP8	MSAC 2006-WMC2 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	617451FD6	MSC 2006-HE2 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	75156TAL4	RAMP 2006-NC2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	76113ABT7	RASC 2006-KS3 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	81375WJN7	SABR 2006-OP1 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	86360WAM4	SAIL 2006-4 M7	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	86360LAM8	SASC 2006-WF2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	83612CAN9	SVHE 2006-OPT5 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.45%		145	100.00000	100.00000
10/18/2006	10/23/2006	004421VC4	ACE 2006-NC1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	040104RR4	ARSI 2006-W1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	BBB+	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	07387UJA0	BSABS 2006-HE3 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	144531FG0	CARR 2006-NC1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	BBB-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	045427AN1	CWL 2006-8 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	362334GJ7	FFML 2006-FF4 B1	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	36244KAP0	GSAMP 2006-HE3 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	437084VZ6	HEAT 2006-4 B1	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	46626LFW5	JPMAC 2006-FRE1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	542514RW6	LBMLT 2006-1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	57643LNQ5	MABS 2006-NC1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	59020U3Q6	MLMI 2006-HE1 B3A	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	61749KAQ6	MSAC 2006-WMC2 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	617451FE4	MSC 2006-HE2 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	75156TAM2	RAMP 2006-NC2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	76113ABU4	RASC 2006-KS3 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	81375WJP2	SABR 2006-OP1 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	86360WAN2	SAIL 2006-4 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	86360LAN6	SASC 2006-WF2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	83612CAP4	SVHE 2006-OPT5 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	15,000,000	1.0000	1.0000	15,000,000	15,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.65%		265	100.00000	100.00000
10/18/2006	10/23/2006	04541GTS1	ABSHE 2006-HE5 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	04544PAN9	ABSHE 2006-HE5 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	125673L75	AMIT 2005-2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	A	A	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	03072SA62	AMSI 2005-R3 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	14453EAM4	CARR 2005-RFC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	A	A	BBB+	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	126670BC1	CWL 2005-10 MV8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	32027NUT6	FFML 2005-FF7 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	35729PPJ3	FHLT 2006-1 M7	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	35729PQF0	FHLT 2006-2 M7	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	3623415A3	GSAMP 2006-HE1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	40430KAP8	HASC 2006-OPT4 M7	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB+	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	46626RAN5	JPMAC 2006-ACC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	46626LGP9	JPMAC 2006-HE1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	61744CYX8	MSHEL 2006-2 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	BBB+	12	Synthetic Spread	1.15%		115	100.00000	100.00000

GS MBS-E-001627556

Hudson Mezz 1 Trade Portfolio Dated 11/16/2006

Permanent Subcommittee on Investigations
EXHIBIT #170b

Trans Date	Settlement	CUSIP	Name	Counterparty	Contact	Asset Type	Currency	Original Face	Factor at Purchase	Current Factor	Current Face	Currency Adjusted Curr Face	Mdy	Mdy Notch	S&P	S&P Notch	Fitch	Cpn Freq	Coupon Index	Coupon/Margin	Spread Info	Spread	Purchase Price ($ decimals)	Current MTM
10/18/2006	10/19/2006	64352VPG0	NCHET 2005-C M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	66987WCU9	NHEL 2005-2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	A	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	66988VAM0	NHEL 2006-2 M7	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	A	A	A	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	68402CAN4	OOMLT 2006-2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	69121FDP5	OWNIT 2006-2 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	75406AAL3	RASC 2006-EMX2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	A-	A-	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	81375WDJ2	SABR 2005-EC1 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	81375WCX2	SABR 2005-OP1 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB+	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	86358BBK2	SASC 2005-WMC1 M4	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	805564GK8	SAST 2005-2 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB	BBB	BBB	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	84751PKL2	SURF 2006-BC1 B2A	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	04541GRC8	ABSHE 2005-HE3 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	00437NAN2	ACCR 2006-2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	004421XQ1	ACE 2006-ASP2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	A	A	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	03072SMB5	AMSI 2005-R8 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	BBB+	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	073879SK0	BSABS 2005-EC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	07387UBE0	BSABS 2006-PC1 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	14453FAN9	CARR 2006-NC2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	12498QAN6	CBASS 2006-CB4 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	BBB-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	17307GUZ9	CMLTI 2005-OPT4 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	126673J94	ECR 2005-2 B	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	29445FCW8	EMLT 2005-1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	86359DBT3	FFML 2005-FF3 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	BBB	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	320278AN4	FFML 2006-FF8 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	35729PKE9	FHLT 2005-B M10	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	31659TFJ9	FMIC 2006-1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	316596AN8	FMIC 2006-2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	367910AN6	GEWMC 2005-1 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB+	BBB+	BBB+	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	362463AP6	GSAMP 2006-NC2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	46629BBB4	JPMAC 2006-CW2 MV9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	68389FKZ6	OOMLT 2006-1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	A	A	A-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	73316PKB5	POPLR 2006-A M6	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	761128VX5	RAMP 2005-EFC2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB	BBB	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	76110W2Q8	RASC 2005-EMX2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	32027GAP1	FFML 2006-FF12 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB-	BBB-	BBB-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	83611MMU9	SVHE 2006-OPT2 M8	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	9497EUAR8	WFHET 2006-1 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Subprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	75156UAM9	RAMP 2006-RZ2 M9	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	13,000,000	1.0000	1.0000	13,000,000	13,000,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	36242D4C4	GSAA 2005-6 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Prime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	362341CZ0	GSAA 2005-8 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Prime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	36242DWY5	GSAA 2005-3 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	362334CB8	GSAA 06-3 B3	Goldman Sachs-Other Desk	Edwin Chin	RMBS Prime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa3	Baa3	BBB-	BBB-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	362348AJ3	GSAA 06-8 B1	Goldman Sachs-Other Desk	Edwin Chin	RMBS Midprime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa2	Baa2	BBB+	BBB+	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	362381AK1	GSAA 06-12 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Prime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa3	Baa3	A-	A-	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000
10/18/2006	10/19/2006	36298YAJ9	GSAA 06-14 B1	Goldman Sachs-Other Desk	Edwin Chin	RMBS Prime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa2	Baa2	BBB	BBB	-	12	Synthetic Spread	1.15%		115	100.00000	100.00000
10/18/2006	10/19/2006	362256AL3	GSAA 06-16 B2	Goldman Sachs-Other Desk	Edwin Chin	RMBS Prime	USD	15,500,000	1.0000	1.0000	15,500,000	15,500,000	Baa3	Baa3	BBB+	BBB+	-	12	Synthetic Spread	2.10%		210	100.00000	100.00000

GS MBS-E-001627556
Hudson Mezz 1 Trade Portfolio Dated 11/16/2006

From: Herrick, Darryl K
Sent: Thursday, October 12, 2006 12:14 AM
To: Ishikawa, Tetsuya
Subject: RE: Hudson Mezz

Very interesting

From: Ishikawa, Tetsuya
Sent: Wednesday, October 11, 2006 7:44 AM
To: Herrick, Darryl K
Subject: FW: Hudson Mezz

You may want to ask Sarah about this when she's there tomorrow and Friday...
She said "AIB are too smart to buy this kind of junk" to jess and now getting radio silence

From: Ishikawa, Tetsuya
Sent: Wednesday, October 11, 2006 11:14 AM
To: Lawlor, Sarah C.
Subject: Hudson Mezz

Understand AIB do bespoke deals but what specifically did AIB say was "junk" about the hudson mezz deal?

Permanent Subcommittee on Investigations
EXHIBIT #170c

From: Egol, Jonathan
Sent: Tuesday, October 24, 2006 10:08 AM
To: Williams, Geoffrey; ficc-mtgcorr-desk
Subject: RE: Structured Product New Issue Pipeline (Internal Only / Verbal Only)

LDL

From: Williams, Geoffrey
Sent: Tuesday, October 24, 2006 9:40 AM
To: ficc-mtgcorr-desk
Subject: FW: Structured Product New Issue Pipeline (Internal Only / Verbal Only)

Thinking we need to better leverage syndicate to move open risk from our bespoke trades given that most of them did not go through the initial syndication process; guessing sales people view the syndicate "axe" email we have used in the past as a way to distribute junk that nobody was dumb enough to take first time around. We should have a distinct email that distinguishes our open risk that we have not broadly shown out versus cash transactions that did not clear. Thoughts?

From: GS Syndicate
Sent: Tuesday, October 24, 2006 9:05 AM
To: ficc-nasales
Subject: Structured Product New Issue Pipeline (Internal Only / Verbal Only)

****INTERNAL ONLY****

NEW ISSUE UPDATE

Deals in the Market

Resi ABS

GSAMP 2006-HE7
$854.3mm floating-rate residential Subprime deal
GS Lead-Manager & Sole Bookrunner
Debt Termsheet and Price Guidance available
Expected Pricing - early w/o Oct 23

FHLT 2006-D
$950.4mm floating-rate residential Subprime deal for Fremont
GS Co-Manager (all pot)
Debt Termsheet and Price Guidance available
Expected Pricing - w/o Oct 23

CDO

Hudson Mezzanine Funding 2006-1
$2bn floating-rate Static Mezzanine SP CDO
GS Lead Manager & Sole Bookrunner
Debt Termsheet, Warehouse Portfolio, Debt Marketing Book, Red and Price Guidance available
Expected Pricing - w/o Oct 23

ABACUS 2006-HGS1
$900mm floating-rate Synthetic CDO^2 for Bear Stearns Asset Management Inc.
GS Lead Manager & Sole Bookrunner
Debt Termsheet, Reference Portfolio, Marketing Materials, Red and Price Guidance

Permanent Subcommittee on Investigations
EXHIBIT #170d

available
  Expected Pricing - w/o Oct 23

  Ballyrock 2006-2
  $600mm floating-rate US Cashflow CLO for Fidelity Management Research
  GS Lead Manager & Sole Bookrunner
  Debt Termsheet, Warehouse Portfolio, Marketing Materials and Red available
  Expected Price Guidance - w/o Oct 23
  Expected Pricing - w/o Oct 30

  Davis Square VII
  $2bn floating-rate Managed High Grade SP CDO for TCW
  GS Lead Manager & Sole Bookrunner
  Debt Termsheet, Warehouse Portfolio, Marketing Materials, Red and Price Guidance
available
  Expected Pricing - w/o Oct 30

  Aladdin Synthetic CDO II **(US ONLY)**
  $[ ]mm floating-rate Managed IG Synthetic CDO for Aladdin
  Marketing Book and Price Guidance available
  Expected First Tab - late Oct

Upcoming Deals

CDO

  Fortius II
  $500mm floating-rate Defensive Mezzanine SP CDO for Aladdin
  GS Lead Manager & Sole Bookrunner
  Expected Announcement- w/o Oct 23

Highlander II
  €500mm Euro-denominated floating-rate CLO for Highland Capital Management
  GS Lead Manager and Sole Bookrunner
  Expected Announcement - late Oct

  AMMC VII
  $500mm floating-rate cashflow CLO for American Money Management Corp.
  GS Lead Manager & Sole Bookrunner
  Expected Announcement - late Oct / early Nov

  GSC ABS CDO 2006-3
  $1.6bn floating-rate Managed High Grade SP CDO for GSC
  GS Lead Manager & Sole Bookrunner
  Expected Announcement - Nov

  Camber VII
  $600mm floating-rate Managed Mezzanine SP CDO for Cambridge Place
  GS Lead Manager & Sole Bookrunner
  Expected Announcement - Nov

Prime Residential Update

  AGENCY CMO

  FHR 2942 ZN
  $26+mm Support Z off of 30yr Gold 5.5's
  15.2yr avl; 5.5% coupon
  Offered @ 95-03
  $3.00 Gross Credits

  FNR 05-108 QZ

$65+mm Support Z off of 30yr Fannie 5's
12.8yr avl; 5.5% coupon
Offered @ 97-02+ vs FN5 @ 95-16+
$3.00 Gross Credits

Prime Jumbo CMO

GSR 06-5F 2A1
$67+mm 3.5yr PAC off of 6.31gw 6's, wide 104-301 bands
Good pickup vs Agency 3yr PACs
Offered @ 99/c/300
$3.50 Gross Credits

From: O'Brien, John
Sent: Wednesday, May 03, 2006 9:01 AM
To: Rashid, Malik
Subject: RE: Broadwick Funding.
Sure. Call me when you're free.

John

-----Original Message-----
From: Rashid, Malik
Sent: Tuesday, May 02, 2006 9:32 PM
To: O'Brien, John
Subject: RE: Broadwick Funding.

John,

Let's re-group on this tomorrow at a time that suits you; I realize that the closing date is coming soon. I apologize for not being able to partake in the call today; issues cropped up in nearly every transaction I'm currently staffed on.

Malik

-----Original Message-----
From: Meyer, Chris
Sent: Monday, May 01, 2006 9:08 PM
To: O'Brien, John
Cc: Rashid, Malik
Subject: RE: Broadwick Funding.

John,

I'm not sure what they are talking about in terms of the modeling based solution, but I'm not sure how you can model the counterparty risk with respect to Writedown Reimbursement Amounts. In addition, you can tell them that if the are referring to ABACUS 2006-12, which closed lastThursday, that is the last trade that will not be required to post Writedowns (unless they can demonstrate conclusively that our concern is otherwise dealt with in the structure). It was a known flaw not only in that particular ABACUS trade, but in pretty much all ABACUS trades (which between the three of us were all rated by the same person...who neglected to catch other important criteria issues...or ignored them after being told to correct them by Team Leaders and business managers). The ABS desk at Goldman has already been told that the all of the de-linking criteria would need to be addressed in future ABACUS trades, and this includes posting of Writedown Amounts.

In terms of the CSA and opinion language, they do have a point...if we indeed have RAC. Nevertheless, I always copy and past the description of the opinion from the counterparty criteria article and ask why they can't include the language. It's very generic and doesn't ask them to speak to any details.

It looks like swap termination payments to the swap counterparty are netted senior out of the Synthetic Security Counterparty Account. Is this the case?

I'm not sure if this helps. At this point, I'm not thinking all that clearly.

Permanent Subcommittee on Investigations
EXHIBIT #171a

PSI-SP-000339

Regards,
Chris

-----Original Message-----
From: O'Brien, John
Sent: Mon 5/1/2006 5:55 PM
To: Meyer, Chris
Cc: Rashid, Malik
Subject: FW: Broadwick Funding.

Chris - Would really appreciate any/all guidance on this you can offer. Trying to wrap this up as soon as possible.

Thanks,
John

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 5:23 PM
To: Rashid, Malik
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Malik thanks for the feedback -

1. GS has not agreed to this hold back provision in any of our previous transactions (including the ABACUS deal that just closed last week) - and we cannot agree to it in this deal. We'd discussed the modeling based solution with respect to this counterparty risk back on April 13th - and it was ultimately communicated to us the following week there would be no changes in this transaction on this point.

2. I agreed with your long term rating comment (BBB+) as well as the 10 day delivery of the opinion. I thought this was reflected in the document - but I assure you it will be so in the next deal.

3. In terms of timeliness - the CDO holds the collateral and as soon as there is a termination and the appropriate termination payments have been made - the lien that the synthetic security counterparty has on the collateral is released to the trustee. this is outlined in section 12.2 of the indenture. Is there specific language you'd like to see here? if so, I'd be happy to review and try and incorporate, where appropriate.

4. Given that the CSA is will be subject to RAC, S&P will have ability to refview the opinion and to the extent it is not satisfactory, act accordingly. We cannot agree to specifically enumerate the carve outs at this time, due to the fact that there may be changes in case law, market practice, etc. that would have an impact on the opinion between now and the time when any opinion would be required.

From: Rashid, Malik [mailto:malik_rashid@standardandpoors.com]
Sent: Monday, May 01, 2006 4:53 PM
To: Bieber, Matthew G.
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt,

I realize that GS abd the CDO group have differences in opinion over certain

PSI-SP-000340

provisions, but I understand from conversations on Friday and today that the group reiterates their view. Below are our comments from our review of the revised CDS documents circulated on 4/21. This reflects the latest feedback from the CDO group related to the downgrade/posting provisions for this specific transaction, and you'll find that these are repetitive from our last set of comments on the CDS.

Malik

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1. To de-link GS's counterparty risk with respect to reimbursements, Writedown amounts need to be posted for one year as long as its rating is below AA- or A-1+. This posting for one year should remain and should not be extinguished if the swap terminates early as a result of GS being the defaulting/affected party. Writedowns can be considered permanent after the expiration of one year.

2. On p.5 of the Schedule:

- the second level rating trigger should be A-2 or BBB+, not BBB-.

- It looks like GS is choosing to remain in the swap by posting when its rating falls below the second level rating trigger. The opinion with respect to the collateral should be delivered within 10 days, not 30.

- Re: my earlier comment on the opinion addressing the timeliness issue - because this is a situation where Party A's credit rating is low, there is greater concern over the CDO's ability to avoid loss arising from exposure to Party A credit risk. While the CSA does speak to Party B's rights as Secured Party, we need more comfort that the CDO terminate the CDS (when the need arises) and liquidate the collateral to make itself whole in a timely manner without undue delay.

- Also on the opinion, we are not certain as to what "customary and usual assumptions, carveouts, and exceptions" mean. Our concern is whether such language limits the opinion's scope. We're trying to de-link GS's credit risk so it can choose to remain in the CDS regardless of what its rating is, so we'd like to make sure that the opinion's description today does not limit its scope.

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 3:14 PM
To: O'Brien, John
Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

ok. the sooner the better. just a reminder - we cannot agree to holding write downs in the deal for a year or any short term rating triggers.

From: O'Brien, John [mailto:john_o'brien@standardandpoors.com]
Sent: Monday, May 01, 2006 2:58 PM
To: Bieber, Matthew G.

PSI-SP-000341

Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt - Malik will be sending you comments to the last draft of the swap later today.

Regards,
John O'Brien

-----Original Message-----
From: Bieber, Matthew G.
[mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 9:48 AM
To: O'Brien, John; Kim, Jeong-A
Cc: Mangalgiri, Vickram S.; Mishra, Deva R.
Subject: Broadwick Funding.

John and Jeong-A

Hope the weekend and vacation was enjoyable. As discussed last week, I'd like to finalize all outstanding points on Broadwick Funding by the end of the day this Wednesday. To that end, would you please let me know when its most convenient for you to discuss any remaining comments you have to the documents over the next day or so? Additionally, it appears we'll be slightly increasing the size of the S Note in the transaction by approx. $1.5mm. Look forward to hearing from you.

Best Regards,
Matt

PSI-SP-000342

From: Guarnuccio, Keith
Sent: Monday, April 24, 2006 6:36 AM
To: Ghetti, Belinda
Subject: FW: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

I thought Chui had a meeting with these guys ect and vetted the issues with them - lets sit down on this today to make sure we are looking at this the correct way. Also - today may be the day to take him out to lunch.

Keith

-----Original Message-----
From: Meyer, Chris
Sent: Sun Apr 23 18:49:51 2006
To: Ghetti, Belinda
Cc: Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Belinda,

Don't even get me started on the language he cites...which is one of the reasons I said the counterparty criteria is totally messed up. Oh...and ABACUS 2006-8 was a Moody's and Fitch only trade that was apparently reviewed and approved by Chui. I can't tell you how upset I have been in reviewing these trades. And not only have these trades consumed tons of my time, but they have generated an enormous amount of stress since I'm the one that has to break the news that these trades are wrong...which makes us look like idiots. They've done something like fifteen of these trades, all without a hitch. You can understand why they'd be upset (pissed even) to have me come along and say they will need to make fundamental adjustments to the program.

Regards,
Chris

-----Original Message-----
From: Ghetti, Belinda
Sent: Sun 4/23/2006 6:25 PM
To: Meyer, Chris
Cc: Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Completely unaware of this language.

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun Apr 23 18:24:02 2006
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

See 10.3(f) of the Indenture of this transaction. This was negotiated with S&P in connection with our last transaction, ABACUS 2006-8.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]

Permanent Subcommittee on Investigations
EXHIBIT #171b

PSI-SP-000001

Sent: Sunday, April 23, 2006 6:18 PM
To: Williams, Geoffrey; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Geoff,

I'm unaware of market related information ever being used to determine the amount that should be posted in connection with Writedowns of any kind. Given that Belinda, Keith Guarnuccio and I are highly involved with issues relating to PAYGOs, we'd be most interested in knowing where we've approved this type of language -- since this would be a significant departure from our current criteria. As you point out, it is a conservative position for S&P to take, but it is one we've taken with all Dealers. Since time is of the essence, this may be another issue that we table for 2006-12, but would have to be addressed in future trades.

Regards,
Chris

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun 4/23/2006 3:25 PM
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris -- we're happy to build in the appropriate 1 year / 3 year CDO language that you describe in your first point below. However, we are not going to be able to accommodate your second request. We drafted this language in the spirit of the clause that we recently incorporated (and had approved by both you and Moody's) into our cds confirm which governs the amount that must be posted given an implied writedown of a CDO reference obligation. The premise is that market information is very relevant in determining whether or not a reference obligation that has sustained writedowns is expected to write back up and I do not see why this methodology is relevant only in determining the amount that should be posted under the cds.

I would add that this scenario is very different from an optional redemption as you point out below since the optional redemption is at Goldman's option and a stated maturity is not. We therefore cannot settle for the most conservative alternative as I believe you are suggesting.

David -- can you please point Chris to language he is looking for on his third point?

Let us know if you have any questions. Thanks. Geoff.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]
Sent: Saturday, April 22, 2006 6:03 PM
To: Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin;

PSI-SP-000002

Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

David,

I've had an opportunity to review the proposed language this afternoon.

1. Clause (b) -- the one calendar year "cure period" is only applicable to non-CDO Reference Obligations in this case, the RMBS and CMBS Reference Obligations). For CDO Reference Obligations, our criteria is that we'll deem a Reference Obligation, which has experienced a Writedown, to be "defaulted" (a) after one year if the Reference Obligation is undercollateralized by more than 25% and (b) after three years if the Reference Obligation is undercollateralized by 25% or less.

2. Clause (A) -- I'm a little confused. I thought the proposal put forth on Wednesday was that to the extent there was any Writedown which (per our tests) hadn't been deemed permanent, then Goldman would reimburse the full amount of the Writedown. The current formula suggests Goldman may pay an amount less that the full amount of the Writedown. I was expecting to see language similar to the Optional Redemption Reimbursement Amount, which addresses the exact same concern in the context of when Notes are optionally redeemed.

If you can direct me to the specific location in the Schedules of the Basis Swap and Put that contain the identical language to Part 1.3(v) of the CDS Schedule, I would appreciate it.

Chris

-----Original Message-----
From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Fri 4/21/2006 9:30 AM
To: Meyer, Chris
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin
Subject: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris,

Below is our proposed language to determine how much Goldman has to pay the Issuer if a writedown occurred shortly before maturity of the Notes.

On the Stated Maturity for any Series of Notes, if (i) any such Series of Notes maturing on such date has an ICE Currency Adjusted Aggregate Outstanding Amount Differential greater than zero and (ii) an ICE Reference Obligation Notional Amount Differential is greater than zero with respect to one or more Reference Obligations (a) that remain in the Reference Portfolio at such time of determination, (b) with respect to which the ICE Reference Obligation Notional Amount Differential was equal to zero on the day that was one calendar year prior to such Stated Maturity, (c) that, at the time of such Stated Maturity, has an Actual Rating above (1) if rated by Moody's, "Ca" (2) if rated by S&P, "CC" or (3) if rated by Fitch, "CC" and (d) with respect to which no Credit Event (other than a Writedown) has occurred at any time on or prior to such Stated Maturity, Goldman will pay to

PSI-SP-000003

Counterparty an amount, if greater than zero, equal to the lesser of (A) the aggregate of the difference, determined for each such Reference Obligation, of (i) the ICE Reference Obligation Notional Amount Differential of such Reference Obligation and (ii) if greater than zero, the ICE Reference Obligation Notional Amount of such Reference Obligation less the related Current Dollar Price and (B) the ICE Currency Adjusted Aggregate Outstanding Amount Differential of each Series of Notes for which the Stated Maturity is such date.

Also, please note that Section 7.10 of the Indenture (issuing ordinary shares) and the Basis Swap and Put Schedules (regarding Bankruptcy) address your concerns as previously drafted. Let me know if you need me to point you to the appropriate provisions.

Thanks,

David

PSI-SP-000004

From: Bieber, Matthew G.
Sent: Thursday, March 15, 2007 10:36 PM
To: Ostrem, Peter L
Subject: RE: Structured Note Methodology

We'll get this done - right now, we're resizing tranching based on revised methodology this evening. Will confirm with agencies in the morning. By mid day I'll have a better idea of whether we need to delay settlement.

-----Original Message-----
From: Ostrem, Peter L
Sent: Thursday, March 15, 2007 11:34 PM
To: Bieber, Matthew G.
Subject: Re: Structured Note Methodology

Yep

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Thu Mar 15 23:15:44 2007
Subject: RE: Structured Note Methodology

Moody's doesn't know our price - and GSC economics will be preserved:

Proceeds + premium = $12mm
Coupon is 400
DM is 200

-----Original Message-----
From: Ostrem, Peter L
Sent: Thursday, March 15, 2007 11:00 PM
To: Bieber, Matthew G.
Subject: Re: Structured Note Methodology

Only one option for GSC. Higher attachment point and ok to have higher exhaustion point. Always 12mm cost for premium. Always Baa2 for them and always 12mm cost for 400cpn at 200dm. By the way, moodys should not know our price. Tell them its par and we will charge a higher fee if necessary.

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Thu Mar 15 22:28:34 2007
Subject: RE: Structured Note Methodology

No - not tonight. May need to get you on the phone with Moody's tomorrow, since Eric responds most to you. We'll see how they react to my second email.

Deva and Michelle incorporating the methodology into model tonight - as a shortcut, we've asked moody's what the incremental subordination necessary to get to a Baa2 rating would need to be from their perspective.

Either way, we'll still have to go back to GSC tomorrow with the changes (size/premium) for their given dm.

Permanent Subcommittee on Investigations
EXHIBIT #171c

Confidential Treatment Requested by Gol

GS MBS-E-000908317

Depending on how quickly this resolves itself, we'll figure out what to do in terms of delaying settlement.

Will update you tomorrow morning when I have more color.

-----Original Message-----
From: Ostrem, Peter L
Sent: Thursday, March 15, 2007 10:22 PM
To: Bieber, Matthew G.
Subject: Re: Structured Note Methodology

Agree with that. Can I help tonight?

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Thu Mar 15 21:55:26 2007
Subject: RE: Structured Note Methodology

We didn't print. Pursuing your suggestion. We'll see if we need to delay settlement tomorrow.

This is still an issue. We need clarity on how moody's, who doesn't make markets in CDOs, feels it has the expertise to establish "market" levels.

-----Original Message-----
From: Ostrem, Peter L
Sent: Thursday, March 15, 2007 9:53 PM
To: Bieber, Matthew G.
Subject: Re: Structured Note Methodology

Raise attachment to get to Baa2. Get signoff from moody's and reprint black. Lengthen settlement date a day or 2 if necessary.

Right?

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Thu Mar 15 21:36:31 2007
Subject: FW: Structured Note Methodology

We're going to have an issue with this. Moody's tells us we get a Baa3 rating on the note. Two options:

1) we can talk to Ed an josh and tell them about the revised rating agency methodology - and that they have a Baa3/BBB note - we should still be able to get the same

2) we can kick and scream to Moody's (and of course make coherent arguments) - although I'm not sure how much good this will do

In the process of coming back to moody's - but I wanted to see if you thought this is something we should bring up with Ed. timing is rather tight.

From: Kolchinsky, Eric [mailto:Eric.Kolchinsky@moodys.com]
Sent: Thursday, March 15, 2007 9:25 PM
To: Bieber, Matthew G.; Paroda, Prashant
Cc: Ostrem, Peter L; Chitson, Michele; Mishra, Deva R.; Lin, Shelly
Subject: Re: Structured Note Methodology

Matt

The structured note methodology is internded to be applied to any bond with an off-market coupon.

Since the coupon/spread is used to discount losses, it is a crucial part of the rating. The structured note overcomes the distortions produced by off-market coupons by discounting both the promise and the result by the same risk-free rate.

As you can imagine, we have needed to apply the methodolody numerous times in the past few months.

Thank you
Eric

-----Original Message-----
From: Bieber, Matthew G. <matthew.bieber@gs.com>
To: Kolchinsky, Eric; Paroda, Prashant
CC: Ostrem, Peter L <Peter.Ostrem@gs.com>; Chitson, Michele <Michele.Chitson@gs.com>; Mishra, Deva R. <deva.mishra@gs.com>; Lin, Shelly <shelly.lin@gs.com>
Sent: Thu Mar 15 20:47:11 2007
Subject: Structured Note Methodology

Eric and Prashant -

One issue that has just come to my attention is that we're being asked to run the structured note methodology for the Class D Notes in Anderson Mezzanine Funding. The rating we are targeting on the note addresses the full payment of interest and principal on the note at maturity (just like the other pik-able notes in the transaction).

I wanted to get a better understanding why the change in methodology for rating this tranche, given its payment characteristics are no different than any other Baa2 tranche we've asked Moody's to rate. We're printing this evening, and the rating Prashant is telling the team here he gets on the Class D Notes is Baa3 rather than the Baa2 we are requesting. I'd like to discuss with you this evening, if possible.

I can be reached at the office at 212-357-9193 or on my cell 917-533-1417.

Regards,
Matt

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From: Wisenbaker, Scott
Sent: Thursday, March 01, 2007 6:34 PM
To: Ostrem, Peter L; Bieber, Matthew G.
Cc: ficc-spgsyn
Subject: Anderson questions from Maltezos

wants more color on asset selection process, especially with respect to GSC involvment
what is the overlap with names in the ABX indicies.

wants to try to position the trade as a opportunity to get exposure to a good pool of assets and wants to make sure the deal isnt seen as a risk reduction/position cleanup trade by accounts.

Permanent Subcommittee on Investigations
EXHIBIT #172

From: Ostrem, Peter L
Sent: Tuesday, March 13, 2007 9:01 AM
To: Wisenbaker, Scott; Bieber, Matthew G.
Cc: Lehman, David A.
Subject: Anderson and Timberwolf - Internal talking points

Scott, can you add some comps on each deal type. Good comps for Anderson are (Halcyon, Tourmaline, STACK, and E Trade). Good comp for Timberwolf is Lancer and Harding's deal.

Anderson Funding, a $305mm Mezzanine SP CDO
AXE: Senior AAAs, Subordinate AAAs, AAs, As. BBBs are SOLD. Equity interest send to SP CDO desk.

- Portfolio selected by GSC. Goldman is underwriting the equity and expects to hold up to 50%. GSC is underwriting all the BBB rated notes.
- Low fee structure (no upfront fees to GS or GSC and only 5bp ongoing fee to GS) further enhances notes when compared to other Mezz SP CDOs with high upfront and ongoing expenses (typically 1pt upfront and 20-35bp ongoing).
- No reinvestment risk. Shortens WAL of all debt tranches and eliminates exposure to reinvestment risk. Portfolio is 100% identified and available for review. From a WAL standpoint, this deal will be significantly shorter than other Mezz SP CDOs in the market.
- Higher subordination vs. other Mezz SP CDO deals in the market. Comparison of current deals shown below (Scott please add).

Timberwolf, a $1bln Single-A SP CDO Squared
AXE: Subordinate AAAs, AAs, As. Senior AAAs are SOLD. BBBs are SOLD. EQUITY is SOLD.

- Portfolio selected and to be defensively managed by Greywolf (Greg Mount). Goldman and Greywolf are each taking half the equity.
- Higher in credit trade (portfolio is 100% rated at least single-A) with a focus on Mezz and HG SP CDO debt.
- No reinvestment risk. Greywolf has ability to sell assets that they feel are underperforming vs. expectations but all principal proceeds paydown debt.
- Super senior note is already presold and we are focused on finding buyers in the sub-triple-A, double-A, and single-A tranches. Goldman and Greywolf have committed on equity, triple-B, and single-A debt. This deal has significant support from both the underwriter and manager and is an opportunity to invest alongside us.

From: Ha, Olivia
Sent: Tuesday, March 13, 2007 9:39 AM
To: Bieber, Matthew G.; Fraser, Bridget
Subject: RE: on anderson - how did you get comfortable with all the new cent

Deva and I are calling wendy at 11am to allay her new century concerns. If you have the capacity to join that call, that's great. If you are swamped and we are fine in Deva's capable hands, that works too. This wil be our opportunity to help arm her with ammo for her credit who is getting jittery on the new century exposure / servicing concertration.

-----Original Message-----
From: Bieber, Matthew G.
Sent: Tuesday, March 13, 2007 10:37 AM
To: Ha, Olivia; Fraser, Bridget
Subject: RE: on anderson - how did you get comfortable with all the new cent

Did you talk with deva? Do you still need me?

-----Original Message-----
From: Ha, Olivia
Sent: Tuesday, March 13, 2007 9:46 AM
To: Ostrem, Peter L; Bieber, Matthew G.; Mishra, Deva R.
Cc: Fraser, Bridget; Recktenwald, Sara
Subject: FW: on anderson - how did you get comfortable with all the new cent
Importance: High

Can we gety ou on the phone with wendy from rabo to get her more comfort on the below - they are getting credit resistance on the new century concentration . We are getting busy signals on your lines

-----Original Message-----
From: oha@bloomberg.net [mailto:oha@bloomberg.net]
Sent: Tuesday, March 13, 2007 9:43 AM
To: Ha, Olivia
Subject: on anderson - how did you get comfortable with all the new cent

on anderson - how did you get comfortable with all the new centu ry collateral in particular the new century serviced deals - con sidering you are holding the equity and their servicing may not be around is that concerning to you at all?

VerDate Nov 24 2008 10:59 Jan 06, 2011 Jkt 057322 PO 00000 Frm 01119 Fmt 6601 Sfmt 6601 P:\DOCS\57322.TXT SAFFAIRS PsN: PAT
ph44585 on D330-44585-7600 with DISTILLER
57322.911

From: Ha, Olivia
Sent: Tuesday, March 13, 2007 12:49 PM
To: Ostrem, Peter L; Bieber, Matthew G.; Mishra, Deva R.
Cc: Fraser, Bridget; Recktenwald, Sara
Subject: Rabo VMG on Anderson - FW: AT THIS POINT IN TIME WE ARE NOT GOING TO BE ABLE TO PA

We just got this disapopinting news from Rabo - they are getting turned down by credit having to do with NC concentration.
They are also having trouble with a few other SP deals going thru committee right now. Their credit is very jittery and uncomfortable with the headline risks despite our efforts to help allay their concerns.
They are disappointed given the work and time they invested in this as well and will be sorting out where they stand with their credit on SP CDO NI's in general.

-----Original Message-----
From: oha@bloomberg.net [mailto:oha@bloomberg.net]
Sent: Tuesday, March 13, 2007 1:41 PM
To: Ha, Olivia
Subject: Fwd: AT THIS POINT IN TIME WE ARE NOT GOING TO BE ABLE TO PA

----- Original Message -----
From: WENDY ROSENFELD, RABOBANK NEDERLAND
At: 3/13 13:40:14

AT THIS POINT IN TIME WE ARE NOT GOING TO BE ABLE TO PARTICIPATE
IN THE ANDERSON. THERE ARE MANY CONCERNS REGARDING THE PERCENT
OF NC ORIGINATED AND SERVICED COLLATERAL.
AND WHILE NOT THE MAIN CULPRIT ANOTHER DIFFICULT TASK IS OPERAT
ING WITHOUT A RED OR BLACK.

From: Wisenbaker, Scott
Sent: Friday, March 16, 2007 6:26 PM
To: Ostrem, Peter L; Bieber, Matthew G.
Subject: RE: Smith breedan on Anderson

we are following up monday am.

-----Original Message-----
From: Ostrem, Peter L
Sent: Friday, March 16, 2007 6:26 PM
To: Wisenbaker, Scott; Bieber, Matthew G.
Subject: Re: Smith breedan on Anderson

Yeah? So - fix the miscommunication so the probability goes up.

----- Original Message -----
From: Wisenbaker, Scott
To: Bieber, Matthew G.; ficc-spgsyn; Ostrem, Peter L; Lehman, David A.
Sent: Fri Mar 16 18:02:04 2007
Subject: RE: Smith breedan on Anderson

we will follow up with nicole to make sure that they understand the deal correctly, but regardless, it looks like they are lower probability to be involved...

From: Bieber, Matthew G.
Sent: Friday, March 16, 2007 5:59 PM
To: Wisenbaker, Scott; ficc-spgsyn; Ostrem, Peter L; Lehman, David A.
Subject: RE: Smith breedan on Anderson

The deal does not have interest coverage tests

From: Wisenbaker, Scott
Sent: Friday, March 16, 2007 5:54 PM
To: ficc-spgsyn; Bieber, Matthew G.; Ostrem, Peter L; Lehman, David A.
Subject: Smith breedan on Anderson

From: Brocato, Russell
Sent: Friday, March 16, 2007 3:33 PM
To: Wisenbaker, Scott
Subject: Nicole called

Smith Breeden is out on Anderson - they feel like the deal will be dowgraded and will have interest coverage issues.

From: Bieber, Matthew G.
Sent: Sunday, March 18, 2007 4:43 PM
To: Wisenbaker, Scott; Black, Robert N
Cc: Ostrem, Peter L
Subject: RE: Anderson

Anything more from these guys - or are they officially dead now? Question of spread?

From: Wisenbaker, Scott
Sent: Wednesday, March 14, 2007 4:37 PM
To: Bieber, Matthew G.; Black, Robert N
Cc: Ostrem, Peter L
Subject: RE: Anderson

Sandelman still not dead... trying to get a level on some A1B and/or A2's... they will likely want to finance

---

From: Bieber, Matthew G.
Sent: Wednesday, March 14, 2007 4:36 PM
To: Wisenbaker, Scott; Black, Robert N
Cc: Ostrem, Peter L
Subject: Anderson

Looking like both dcp and terwin out. New century issues.

From: Ostrem, Peter L
Sent: Tuesday, March 20, 2007 4:21 PM
To: Bieber, Matthew G.; Mishra, Deva R.
Subject: Re: Moneygram -- Anderson Mezz

Profit!

----- Original Message -----
From: Bieber, Matthew G.
To: Mishra, Deva R.; Ostrem, Peter L
Sent: Tue Mar 20 17:19:35 2007
Subject: RE: Moneygram -- Anderson Mezz

Sales were inside of our takedown levels of
225 on A-2's
350 on B's.

-----Original Message-----
From: Mishra, Deva R.
Sent: Tuesday, March 20, 2007 5:18 PM
To: Ostrem, Peter L
Cc: Bieber, Matthew G.
Subject: Moneygram -- Anderson Mezz

Sold:
15mm of A-2s at 200
5mm of Bs at 300

CDO Structuring, Marketing, and Principal Investments
(212) 902-7002

From: Ostrem, Peter L
Sent: Tuesday, March 27, 2007 8:09 PM
To: Bieber, Matthew G.
Subject: Timber / Anderson

Excellent job pushing to closure these deals in a period of extreme difficulty. You showed your ability to execute and maintain leadership amongst the team. Good job Bieber. Thanks.

From: Herald - Granoff, Melanie
Sent: Thursday, November 16, 2006 10:29 AM
To: Kreitman, Gail
Subject: ACA and Freemont deal

Yesterday when I spoke with Luke and he said they were dropping from the Freemont deal he said he had set up a call with them. (we offered to do this for him, but they know david wells and just set up themselves). Luke said that he would give me feedback on the call, which is below. After receiving this, I called Luke to thank him, get the verbal version, and just confirm that they still wanted to be out of our deal. That is still the case. They didn't feel like the learned a lot of new information and that the changes Fremont is making aren't that major. They are concerned about all the Fremont exposure they alreaady have, are going to put Fremont "in the box" for the time being.

our meeting was pushed till about 4 but here's the short version

fremont has tightened guidelines on 80/20's, first time homebuyers, second liens, and stated income borrowers. They believe that performance is worse across the board not just in their pools and that servicers explain some of the inconsistancy. The think their servicing shop does a better job with their loans. My hope is that all these stretched borrowers who were saved by HPA in the past are getting out of the pools early and that the fremont core borrower continues to perform but fremont refused to make any forward looking statements so we really got nothing from them on the crap pools that are out there now. best, luke

---

Permanent Subcommittee on Investigations
EXHIBIT #173

Subject:	Canceled: Meet with Paulson, potential equity investor
Location:	57th & Madison
Start:	Mon 1/8/2007 9:30 AM
End:	Mon 1/8/2007 11:30 AM
Recurrence:	(none)
Meeting Status:	Not yet responded
Importance:	High

Permanent Subcommittee on Investigations
EXHIBIT #174

From: Laura Schwartz [lschwartz@aca.com]
Sent: Monday, January 08, 2007 7:05 PM
To: gkreitman1@bloomberg.net
Cc: Keith Gorman
Subject: Paulson meeting

I have no idea how it went - I wouldn't say it went poorly, not at all, but I think it didn't help that we didn't know exactly how they want to participate in the space. Can you get us some feedback?

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

From: Laura Schwartz [lschwartz@aca.com]
Sent: Tuesday, January 09, 2007 2:31 PM
To: Ava Regal
Subject: FW: Paulson Portfolio

Attachments: Paulson Portfolio.xls

Paulson Portfolio.xls

Subject:	Call with Fabrice re Paulson
Location:	Laura's office
Start:	Wed 1/10/2007 10:30 AM
End:	Wed 1/10/2007 11:00 AM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded

From: Laura Schwartz [lschwartz@aca.com]
Sent: Sunday, January 28, 2007 11:43 AM
To: Alan Roseman; Ted Gilpin
Subject: Not a boon doggle

Well I went to the UBS CDO conference in Jackson Hole which I expected to be the very first boon doggle I attended. It turned out to be very worthwhile from a business perspective - I sat down and hammered out collateral and structural issues on two deals; with both the Paulson pm and the Morgan Stanley prop head. The Paulson pm wasn't even at the conference but came over to me in the mountain cafeteria and asked to get together. In addition several of our "real" money investors were at the conference - Alfa Insurance, Crystal Fund, Munich Re. Ambac was also there and Scott Gordon told me they had a very ambitious 2007 plan (they are looking at our euro clo).
After seeing our schedule, I asked Dennis to bring another credit analyst to the ASF conference in Vegas (Tracy is coming) so it will be me, Keith, Dennis and Tracy. We have 15 new and existing investor meetings and 11 mortgage originator meetings so we are dividing and conquering. We are officially marketing Lancer II and ABS 07-1.

I will be back in the office on Thursday.

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

From: Laura Schwartz [lschwartz@aca.com]
Sent: Sunday, January 28, 2007 1:28 PM
To: Gail.Kreitman@gs.com
Subject: Re: Our discussion

Ok. Can you arrange a meeting on the 5th to discuss Paulson?

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

-----Original Message-----
From: Kreitman, Gail <Gail.Kreitman@gs.com>
To: Laura Schwartz
Sent: Sun Jan 28 13:03:46 2007
Subject: Re: Our discussion

Would like to do a call on this with geoff williams and fabrice after asf if that makes sense.

----- Original Message -----
From: lschwartz@aca.com <lschwartz@aca.com>
Sent: Sun Jan 28 11:27:52 2007
Subject: Our discussion

Well I have a cdo question and given our past discussion, I would love to have someone at Goldman that I could as a question. I don't know who to go to but here is the question. Why would a magnetar like equity investor not want abs cdo bespoke tranches in a portfolio? I understand that they can't short those but from a return perspective they should be beneficial - higher spreads, no triggers, etc. What am I missing?

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

From: Keith Gorman [kgorman@aca.com]
Sent: Monday, February 05, 2007 3:10 PM
To: Laura Schwartz; Lucas Westreich
Subject: RE: Revised Portfolio

Looks good to me. Did they give a reason why they kicked out all of the Wells deals?

Keith X Gorman
Director
ACA Capital
212-375-2421

-----Original Message-----
From: Laura Schwartz
Sent: Monday, February 05, 2007 3:06 PM
To: Keith Gorman; Lucas Westreich
Subject: Revised Portfolio

Attached is the revised portfolio that Paulson would like us to commit to - all names are at the Baa2 level. The final portfolio will have between 80 and these 92 names. Are "we" ok to say yes on this portfolio?

x

From: Paolo Pellegrini [Paolo.Pellegrini@paulsonco.com]
Sent: Tuesday, February 13, 2007 6:23 PM
To: Laura Schwartz
Subject: Sorry I was not yet able to return your call ...

Laura,

In answer to your question, the reasons why we decided to go ahead with ACA are that, on the one hand, you have an impressive infrastructure and track record and, on the other, you are willing to execute a relatively less lucrative assignment with the same level of diligence and energy that you apply to all your deals. I also appreciated your direct personal involvement in selecting the deal's portfolio of reference obligations.

I will be in first thing in the morning and look forward to speaking with you then.

Best,
Paolo

Paolo M. Pellegrini
Vice President
Paulson & Co. Inc.
590 Madison Avenue, 29th Floor
New York, NY 10022
Phone: (212) 956-4129 (direct)
(212) 956-2221 (main)
(212) 977-9505 (fax)

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From: Laura Schwartz [lschwartz@aca.com]
Sent: Tuesday, April 10, 2007 4:12 PM
To: Alan Roseman; Ted Gilpin; Joseph Pimbley; Nora Dahlman; James Rothman; Brad Larson
Subject: Abacus 2007-AC1

We did price $192 million in total of Class A1 and A2 today to settle April 26th. Paulson took down a proportionate amount of equity (0-10% tranche). Goldman does expect to issue more over the next 2 weeks as well.

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

From: McHugh, John
Sent: Friday, November 16, 2007 5:57 PM
To: Sparks, Daniel L
Subject: FICC 2008 business plan presentation to Firm

Lahey's team is preparing Montag for this presentation on Monday and Tom asked for more color in several areas...here's what I've collected today, let me know if you want me to change anything...thanks.

General market expectations / assumptions built in
We are expecting mortgage delinquencies to continue to increase due to ARM resets and declining HPA, losses will begin to accumulate with increasing severity as foreclosures work through the system causing rating agency downgrades of RMBS and CDOs to continue through 2008. Whole loan trading and securitization market will continue to be dislocated in subprime and Alt A sectors, with Prime AAAs functioning at reduced volumes. CDO origination will be negligible. Cash RMBS and CDO prices continue to decline until distressed investing comes in and creates a bottom. Single name RMBS and ABX prices continue to decline from current levels until the cash market finds a bottom and fundamentals improve.

CRE loan origination volumes will continue at the depressed levels seen at the end of 2007. CRE securitization market will function at lower volumes and subject to greater volatility. CMBS synthetic market is expected to grow with new customers entering the space looking for recession hedges with expectations of CRE fundamentals weakening.

Banks and broker dealers will continue to report writedowns from declining RMBS and CDO prices/ratings. Competitors will be scaling back mortgage risk taking and operations, giving us a competitive advantage.

Senderra / Avelo

Redacted By
Permanent Subcommittee on Investigations

Assumptions/Initiatives in ABS p&l:

- Capturing greater cash and synthetic market flows from weakened competitors
- Facilitating SIV/CDO liquidations and portfolio changes
- Good prop opportunity capitalizing on selling pressure, selective distressed asset purchases
- Expect prop flow split to be roughly 50/50

European expansion

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Correlation desk - ABACUS related exit price

Permanent Subcommittee on Investigations
EXHIBIT #175

Approximately $150mm exit price valuation adjustment expected to be released in 1st half of 2008 from unwinding Super Senior trades, in addition to bid offer realized on trading.

<u>Prop vs flow</u>
Prop/flow components of SPG Trading will be roughly equal
Majority of CRE Loan Trading, Structured Finance JV will be flow revenue
Residential mortgage business will be more prop oriented due to dislocations in the securitization market:

- Focus will be on establishing SSG JV (i.e., Litton purchase)
- Distressed asset (loan pools, portfolios) purchases

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