

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

Scratch 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

----- 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 likkely.

----- 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 reidential 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)>>

* <<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.

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<<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.

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