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Monday, April 11, 2016

Goldman Sachs Agrees to Pay More than \$5 Billion in Connection with Its Sale of Residential Mortgage Backed Securities

The Justice Department, along with federal and state partners, announced today a \$5.06 billion settlement with Goldman Sachs related to Goldman's conduct in the packaging, securitization, marketing, sale and issuance of residential mortgage-backed securities (RMBS) between 2005 and 2007. The resolution announced today requires Goldman to pay \$2.385 billion in a civil penalty under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and also requires the bank to provide \$1.8 billion in other relief, including relief to underwater homeowners, distressed borrowers and affected communities, in the form of loan forgiveness and financing for affordable housing. Goldman will also pay \$875 million to resolve claims by other federal entities and state claims. Investors, including federally-insured financial institutions, suffered billions of dollars in losses from investing in RMBS issued and underwritten by Goldman between 2005 and 2007.

"This resolution holds Goldman Sachs accountable for its serious misconduct in falsely assuring investors that securities it sold were backed by sound mortgages, when it knew that they were full of mortgages that were likely to fail," said Acting Associate Attorney General Stuart F. Delery. "This \$5 billion settlement includes a \$1.8 billion commitment to help repair the damage to homeowners and communities that Goldman acknowledges resulted from its conduct, and it makes clear that no institution may inflict this type of harm on investors and the American public without serious consequences."

"Today's settlement is another example of the department's resolve to hold accountable those whose illegal conduct resulted in the financial crisis of 2008," said Principal Deputy Assistant Attorney General Benjamin C. Mizer, head of the Justice Department's Civil Division. "Viewed in conjunction with the previous multibillion-dollar recoveries that the department has obtained for similar conduct, this settlement demonstrates the pervasiveness of the banking industry's fraudulent practices in selling RMBS, and the power of the Financial Institutions Reform, Recovery and Enforcement Act as a tool for combatting this type of wrongdoing."

"Today's settlement is yet another acknowledgment by one of our leading financial institutions that it did not live up to the representations it made to investors about the products it was selling," said U.S. Attorney Benjamin B. Wagner of the Eastern District of California. "Goldman's conduct in exploiting the RMBS market contributed to an international financial crisis that people across the country, including many in the Eastern District of California, continue to struggle to recover from. I am gratified that this office has developed

investigations, first against JPMorgan Chase and now against Goldman Sachs, that have led to significant civil settlements that hold bad actors in this market accountable. The results obtained by this office and other members of the RMBS Working Group continue to send a message to Wall Street that we remain committed to pursuing those responsible for the financial crisis.”

The \$2.385 billion civil monetary penalty resolves claims under FIRREA, which authorizes the federal government to impose civil penalties against financial institutions that violate various predicate offenses, including wire and mail fraud. The settlement expressly preserves the government’s ability to bring criminal charges against Goldman, and does not release any individuals from potential criminal or civil liability. In addition, as part of the settlement, Goldman agreed to fully cooperate with any ongoing investigations related to the conduct covered by the agreement.

Of the \$875 million Goldman has agreed to pay to settle claims by various other federal and state entities: Goldman will pay \$575 million to settle claims by the National Credit Union Administration, \$37.5 million to settle claims by the Federal Home Loan Bank of Des Moines as successor to the Federal Home Loan Bank of Seattle, \$37.5 million to settle claims by the Federal Home Loan Bank of Chicago, \$190 million to settle claims by the state of New York, \$25 million to settle claims by the state of Illinois and \$10 million to settle claims by the state of California.

Goldman will pay out the remaining \$1.8 billion in the form of relief to aid consumers harmed by its unlawful conduct. \$1.52 billion of that relief will be paid out pursuant to an agreement with the United States that Goldman will provide loan modifications, including loan forgiveness and forbearance, to distressed and underwater homeowners throughout the country, as well as financing for affordable rental and for-sale housing throughout the country. This agreement represents the largest commitment in any RMBS agreement to provide financing for affordable housing—a crucial need following the turmoil of the financial crisis. \$280 million will be paid out by Goldman pursuant to an agreement separately negotiated with the state of New York.

The settlement includes a statement of facts to which Goldman has agreed. That statement of facts describes how Goldman made false and misleading representations to prospective investors about the characteristics of the loans it securitized and the ways in which Goldman would protect investors in its RMBS from harm (the quotes in the following paragraphs are from that agreed-upon statement of facts, unless otherwise noted):

- Goldman told investors in offering documents that “[l]oans in the securitized pools were originated generally in accordance with the loan originator’s underwriting guidelines,” other than possible situations where “when the originator identified ‘compensating factors’ at the time of origination.” But Goldman has today acknowledged that, “Goldman received information indicating that, for certain loan pools, significant percentages of the loans reviewed did not conform to the representations made to investors about the pools of loans to be securitized.”
- Specifically, Goldman has now acknowledged that, even when the results of its due diligence on samples of loans from those pools “indicated that the unsampled portions of the pools likely contained additional loans with credit exceptions, Goldman typically did

not . . . identify and eliminate any additional loans with credit exceptions.” Goldman has acknowledged that it “failed to do this even when the samples included significant numbers of loans with credit exceptions.”

- Goldman’s Mortgage Capital Committee, which included senior mortgage department personnel and employees from Goldman’s credit and legal departments, was required to approve every RMBS issued by Goldman. Goldman has now acknowledged that “[t]he Mortgage Capital Committee typically received . . . summaries of Goldman’s due diligence results for certain of the loan pools backing the securitization,” but that “[d]espite the high numbers of loans that Goldman had dropped from the loan pools, the Mortgage Capital Committee approved every RMBS that was presented to it between December 2005 and 2007.” As one example, in early 2007, Goldman approved and issued a subprime RMBS backed by loans originated by New Century Mortgage Corporation, after Goldman’s due diligence process found that one of the loan pools to be securitized included loans originated with “[e]xtremely aggressive underwriting,” and where Goldman dropped 25 percent of the loans from the due diligence sample on that pool without reviewing the unsampled 70 percent of the pool to determine whether those loans had similar problems.
- Goldman has acknowledged that, for one August 2006 RMBS, the due diligence results for some of the loan pools resulted in an “unusually high” percentage of loans with credit and compliance defects. The Mortgage Capital Committee was presented with a summary of these results and asked “How do we know that we caught everything?” One transaction manager responded “we don’t.” Another transaction manager responded, “Depends on what you mean by everything? Because of the limited sampling . . . we don’t catch everything . . .” Goldman has now acknowledged that the Mortgage Capital Committee approved this RMBS for securitization without requiring any further due diligence.
- Goldman made detailed representations to investors about its “counterparty qualification process” for vetting loan originators, and told investors and one rating agency that Goldman would engage in ongoing monitoring of loan sellers. Goldman has now acknowledged, however, that it “received certain negative information regarding the originators’ business practices” and that much of this information was not disclosed to investors.
- For example, Goldman has now acknowledged that in late 2006 it conducted an internal analysis of the underwriting guidelines of Fremont Investment & Loan (an originator), which found many of Fremont’s guidelines to be “off market” or “at the aggressive end of market standards.” Instead of disclosing its view of Fremont’s underwriting, Goldman has acknowledged that it “[u]ndertook a significant marketing effort” to tell investors about what Goldman called Fremont’s “commitment to loan quality over volume” and “significant enhancements to Fremont underwriting guidelines.” Fremont was shut down by federal regulators within several months of these statements.
- In another example, Goldman was aware in early-mid 2006 of certain issues with Countrywide Financial Corporation’s origination process, including a pattern of non-responsiveness and inability to provide sufficient staff to handle the numerous loan pools Countrywide was selling. In April 2006, while Goldman was preparing an RMBS backed by Countrywide loans for securitization, a Goldman mortgage department manager circulated a “very bullish” equity research report that recommended the

purchase of Countrywide stock. Goldman's head of due diligence, who had just overseen the due diligence on six Countrywide pools, responded "If they only knew"

- Meanwhile, as Goldman has acknowledged in this statement of facts, "[Around the end of 2006], Goldman employees observed signs of uncertainty in the residential mortgage market [and] by March 2007, Goldman had largely halted new purchases of subprime loan pools."

Assistant U.S. Attorneys Colleen Kennedy and Kelli Taylor of the Eastern District of California investigated Goldman's conduct in connection with RMBS, with the support of the Federal Housing Finance Agency's Office of the Inspector General (FHFA-OIG) and the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

"Goldman Sachs had a fiduciary responsibility to investors, which they blatantly side stepped," said Deputy Inspector General for Investigation Rene Febles of FHFA-OIG. "They knowingly put investors at risk and in so doing contributed significantly to the financial crisis. The losses caused by this irresponsible behavior deeply affected not only financial institutions but also taxpayers and one can only hope that Goldman Sachs has learned the difference between risk and deceit. Two Federal Home Loan Banks suffered significant losses so we are pleased to see both entities receive a portion of this settlement. We will continue to work with our law enforcement partners to hold those accountable who have engaged in misconduct."

"Goldman took \$10 billion in TARP bailout funds knowing that it had fraudulently misrepresented to investors the quality of residential mortgages bundled into mortgage backed securities," said Special Inspector General Christy Goldsmith Romero for TARP. "Many of these toxic securities were traded in a taxpayer funded bailout program that was designed to unlock frozen credit markets during the crisis. While crisis investigations take time, SIGTARP is committed to working with our law enforcement partners to protect taxpayers and bring accountability and justice."

The settlement is part of the ongoing efforts of President Obama's Financial Fraud Enforcement Task Force's RMBS Working Group, which has recovered tens of billions of dollars on behalf of American consumers and investors for claims against large financial institutions arising from misconduct related to the financial crisis. The RMBS Working Group brings together attorneys, investigators, analysts and staff from multiple state and federal agencies, including the Department of Justice, U.S. Attorneys' Offices, the FBI, the U.S. Securities and Exchange Commission (SEC), the Department of Housing and Urban Development (HUD), HUD's Office of Inspector General, the FHFA-OIG, SIGTARP, the Federal Reserve Board's OIG, the Recovery Accountability and Transparency Board, the Financial Crimes Enforcement Network and multiple state Attorneys General offices around the country. The RMBS Working Group is led by Director Joshua Wilkenfeld and five co-chairs: Principal Deputy Assistant Attorney General Mizer, Assistant Attorney General Leslie R. Caldwell of the Justice Department's Criminal Division, Director Andrew Ceresney of the SEC's Division of Enforcement, U.S. Attorney John Walsh of the District of Colorado and New York Attorney General Eric Schneiderman. This settlement is the fifth multibillion-dollar RMBS settlement announced by the working group.

Learn more about the RMBS Working Group and the Financial Fraud Enforcement Task Force at www.StopFraud.gov.

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