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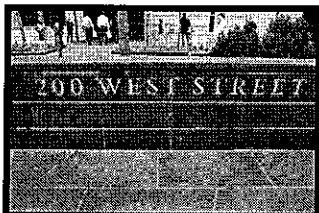
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STORY PHOTO

Goldman Sachs CDO Labeled 'Shiy Deal' by Montag (Update1)**

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By Jody Shenn



April 26 (Bloomberg) -- **Thomas Montag**, the former head of sales and trading in the Americas at **Goldman Sachs Group Inc.**, called a set of mortgage-linked investments sold by his firm "one shi**y deal," according to an excerpt from internal e-mails released today by Senate lawmakers.

The transaction was Timberwolf Ltd., a \$1 billion collateralized debt obligation holding pieces of other CDOs, according to a statement today from the Permanent Subcommittee on Investigations. The CDO also included optimistic side-bets on the performance of CDOs, or derivatives, in which the firm took the opposite pessimistic side in "many" cases, the panel said.

"Boy that timberwo[lf] was one shi**y deal," Montag, who is now **Bank of America Corp.**'s president of global banking and markets, said in a June 22, 2007, e-mail to **Daniel Sparks**, who ran Goldman Sachs's mortgage business at the time, according to the panel's statement. Within five months of Timberwolf's debut, the CDO had lost 80 percent of its value, and it was liquidated in 2008, according to the panel.

The CDO was among securities that Goldman Sachs sold to clients after deciding the New York-based firm needed to reduce its mortgage holdings, **Carl Levin**, a Michigan Democrat who leads the panel, said in the statement. Chief Executive Officer **Lloyd Blankfein** and six other current and former executives will testify tomorrow in front of the panel about practices in mortgage securities markets before they collapsed.

Truncated Text

The committee, which began to release documents before tomorrow's hearing, didn't release the full text of the e-mails. A person briefed on the Timberwolf e-mail confirmed that Montag was the author.

Montag, now 53, didn't respond to a request for comment and Bank of America spokeswoman **Jessica Oppenheim** had no immediate comment. Blankfein, 55, will tell the panel his firm didn't wager against clients, according to a prepared text of his remarks.

"We respectfully disagree with Chairman Levin's statement," according to an e-mail from Goldman Sachs spokesman **Lucas van Praag**. "We did not have a big bet against the housing market, as our performance in residential mortgages demonstrates, and we believe we at all times worked appropriately with our clients. We did try to manage our risk, as our shareholders and regulators would expect."

The Timberwolf CDO was issued in March 2007, following a Goldman Sachs quarter that ended February 2007 in which one department of the bank shifted from \$6 billion of bets that mortgage bonds would perform to \$10 billion they would default, according to Bloomberg data and information the panel released.

Cioffi Buys

Bear Stearns Asset Management, the manager of two hedge funds overseen by **Ralph Cioffi** whose collapse in June 2007 roiled global markets, was among the buyers, purchasing about \$300 million, according to the committee.

Sparks, who left the bank in 2008, in one e-mail urged "personnel working on a potential Korean sale to [g]et 'er done," and sent a mass e-mail to the sales force promising "ginormous credits" for selling "the debt, according to Levin's statement. "A congratulatory e-mail was sent to an employee who sold a number of the securities: 'Great job ... trading us out of our entire Timberwolf Single-A position,'" the panel said, potentially referring to \$36 million of A rated notes.

Montag's Career

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Montag retired from Goldman Sachs in December 2007, and was recruited in April 2008 by then Merrill Lynch & Co. CEO **John A. Thain** to his firm. Merrill Lynch was bought by Bank of America in a government-assisted deal at the start of 2009.

Montag started his career at Goldman Sachs in 1985 as an associate in the bank's fixed-income, currencies and commodities department. Blankfein said in a memo when he left that "since that time, Tom has played a leading role in the development of the firm's derivatives businesses in Europe and Asia."

CDOs repackage pools of assets such as mortgage bonds, bank capital notes and buyout loans into new securities with varying risks. While Timberwolf was initially intended to be about half invested in mortgage-bond CDOs and half invested in collateralized loan obligations tied to company debt, the bank sold many of its "best-performing" CLOs separately after a rebound in their values, Levin's statement said.

Levin's committee also released e-mails with references to Hudson Mezzanine 2006-1, Anderson Mezzanine 2007-1 and Abacus 2007-AC1, the CDO at the heart of a Securities and Exchange Commission suit filed April 16 against Goldman Sachs.

CDO Managers

The U.S. claims Goldman Sachs misled investors by failing to disclose that hedge fund Paulson & Co. -- which was betting against the U.S. mortgage market -- helped the Abacus CDO manager select securities to include in the portfolio. Goldman Sachs has called the SEC's lawsuit "completely unfounded." Paulson wasn't accused of any wrongdoing.

CDO managers select the collateral going into the vehicles, and sometimes reinvest as the underlying positions pay down, trading in and out of holdings.

In Timberwolf's case, the manager was Purchase, New York-based Greywolf Capital Management LP. The firm's partners included the late **Greg Mount**, who joined in 2005 after nine years at Goldman Sachs, where he helped build its CDOs business, according to the prospectus and the firm's website.

Greywolf, which focuses on corporate debt and says on its Web site it manages \$848 million, planned to buy \$41 million of the CDO's junior-most tranches, according to the prospectus. In January 2007, Goldman Sachs underwrote a \$502 million CLO managed by Greywolf tied to high-yield company loans, according to Bloomberg data.

Conflicts Disclosed

The conflicts of interest section of Timberwolf's prospectus said that Greywolf might "take into consideration research and other brokerage services" from investment banks in its decision-making for the CDO and also make separate investments with "interests different from or adverse to" the CDO's collateral.

"Under the terms of the Collateral Management Agreement," Greywolf "will be permitted to take whatever action is in the Collateral Manager's best interest regardless of the impact on the Collateral Assets," according to the prospectus.

Mount died last April, the company said in a statement at the time. Greywolf CEO **Jon Savitz** didn't immediately return a message seeking comment. On Goldman Sachs's role, the prospectus said the firm would act as the sole counterparty for the bullish derivative bets on CDOs that the vehicle was making through so-called **credit- default swaps**, "which creates concentration risk and may create certain conflicts of interest."

The Goldman trader responsible for managing Timberwolf later characterized the day that the CDO was issued as "a day that will live in infamy," according to part of an e-mail released by the panel.

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