



Presentation to GS Board of Directors Subprime Mortgage Business

March 26, 2007



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I. Subprime Overview





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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



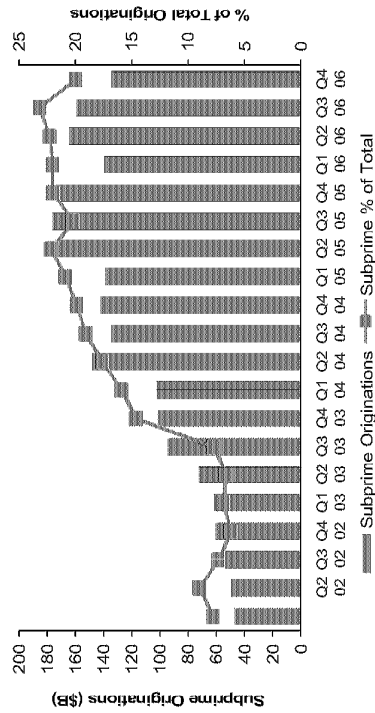
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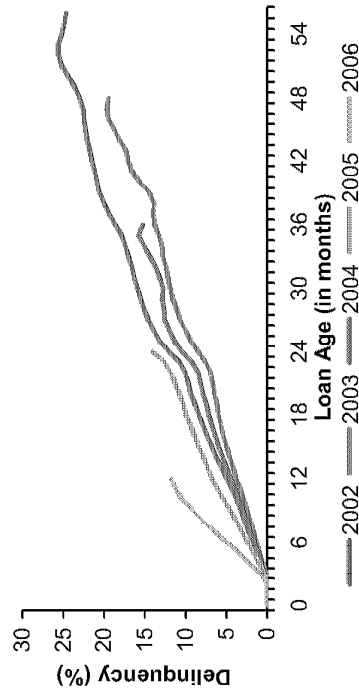


Market Trends

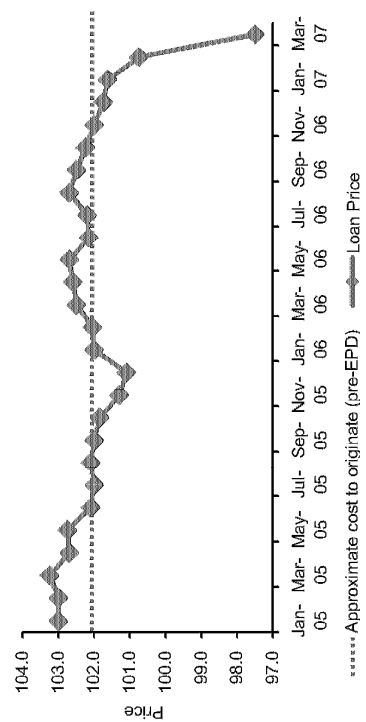
Volumes Increase Significantly



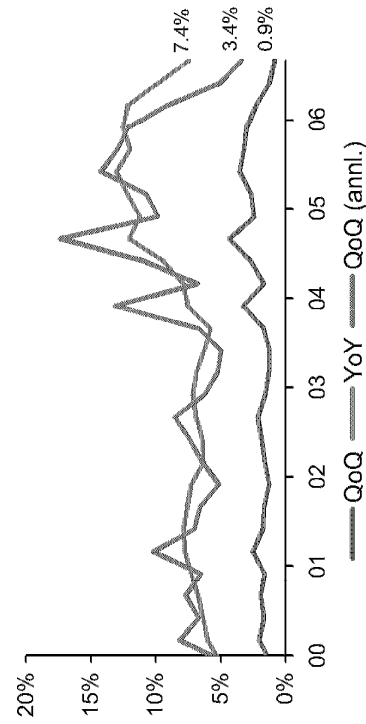
Credit Quality Declines: Relaxed Underwriting Standards



Pricing Pressure: Subprime Mortgage Loan Pricing Levels



US Home Price Appreciation Moderates



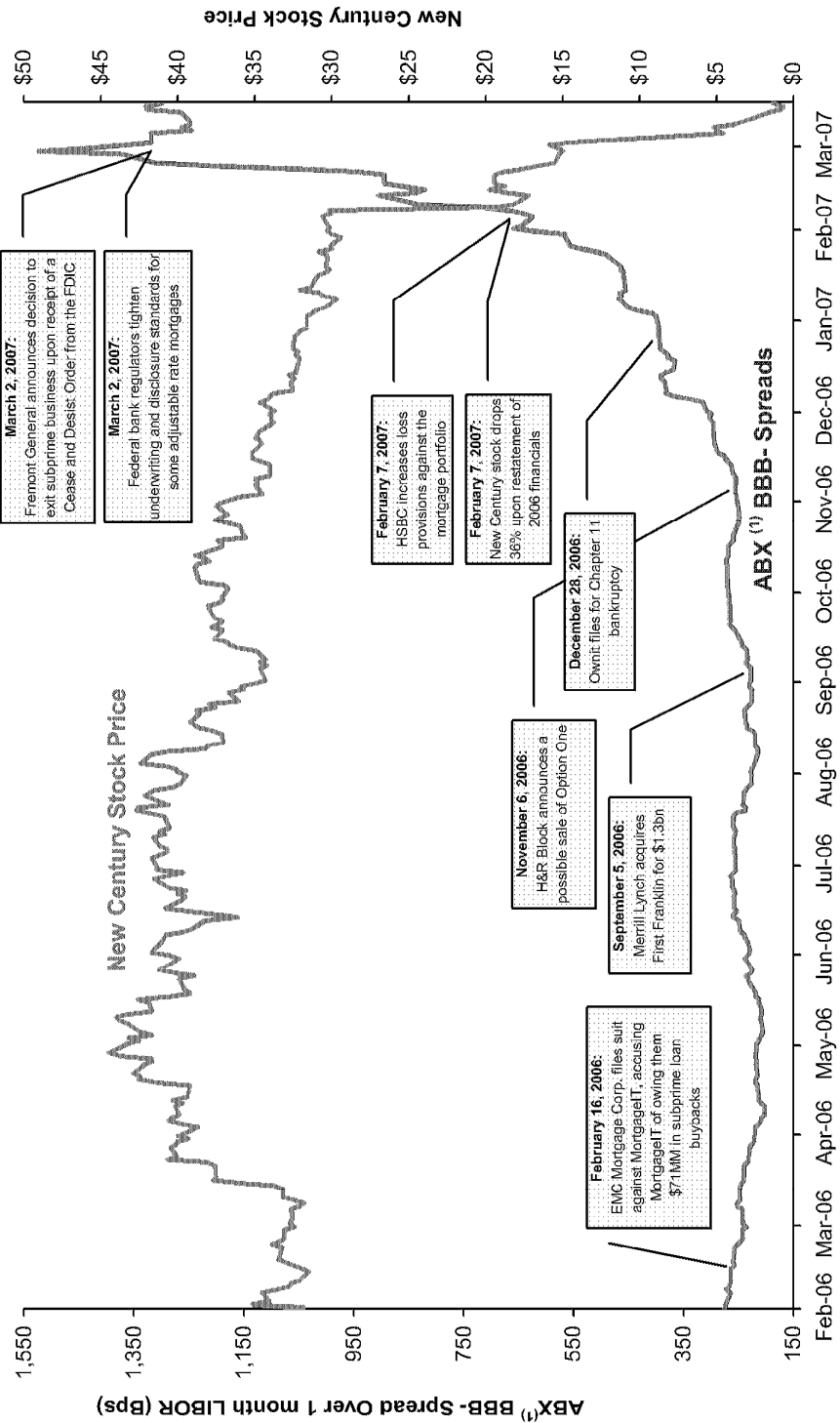


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The Subprime Meltdown Timeline of Recent Events





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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	Owinit 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 Citidel
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 originations (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 (Citidel)

Closed/Bankrupt/Suspended

- Ameriquest Mortgage
- Meritage Mortgage
- Sebring Capital
- Owinit 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 in for sale may also be suspended or in bankruptcy



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II. GS in the Subprime Mortgage Space





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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 agent 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



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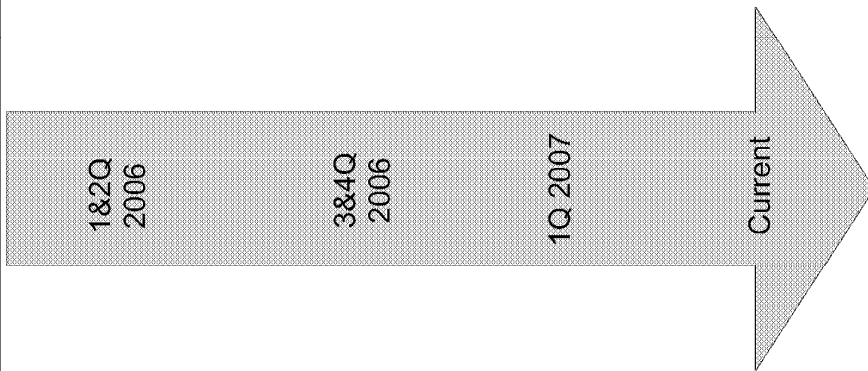
Timeline of Major Events & GS Response

Subprime Sector

- 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)
- 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

GS Response

- 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
- 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
- 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



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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



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GS Subprime Mortgage Business

Subprime Risk: Current Position as of 3/15/07

Structured Products Trading ⁽¹⁾ Platforms

Residential Mortgages Warehouse Lending

Current Position

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.



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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	



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III. Lessons Learned / Looking Forward





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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



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Strategic Considerations Regarding Vertical Integration

Buy vs. Build

Buy **Build**

Competitive Reaction	Value Enhancing	Intelligence	Complements Existing Mortgage Franchise	Valuation / Timing
<ul style="list-style-type: none"> ■ Competitors are largely vertically integrated ■ Capture immediate loan volume in the near term 	<ul style="list-style-type: none"> ■ Do it our way ■ Slower, but less expensive 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ "Field level knowledge" of lending environment makes us better risk takers with our capital when buying loans ■ 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 	<ul style="list-style-type: none"> ■ 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



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Appendix A: Goldman Sachs' Residential Mortgage Business Organizational Structure



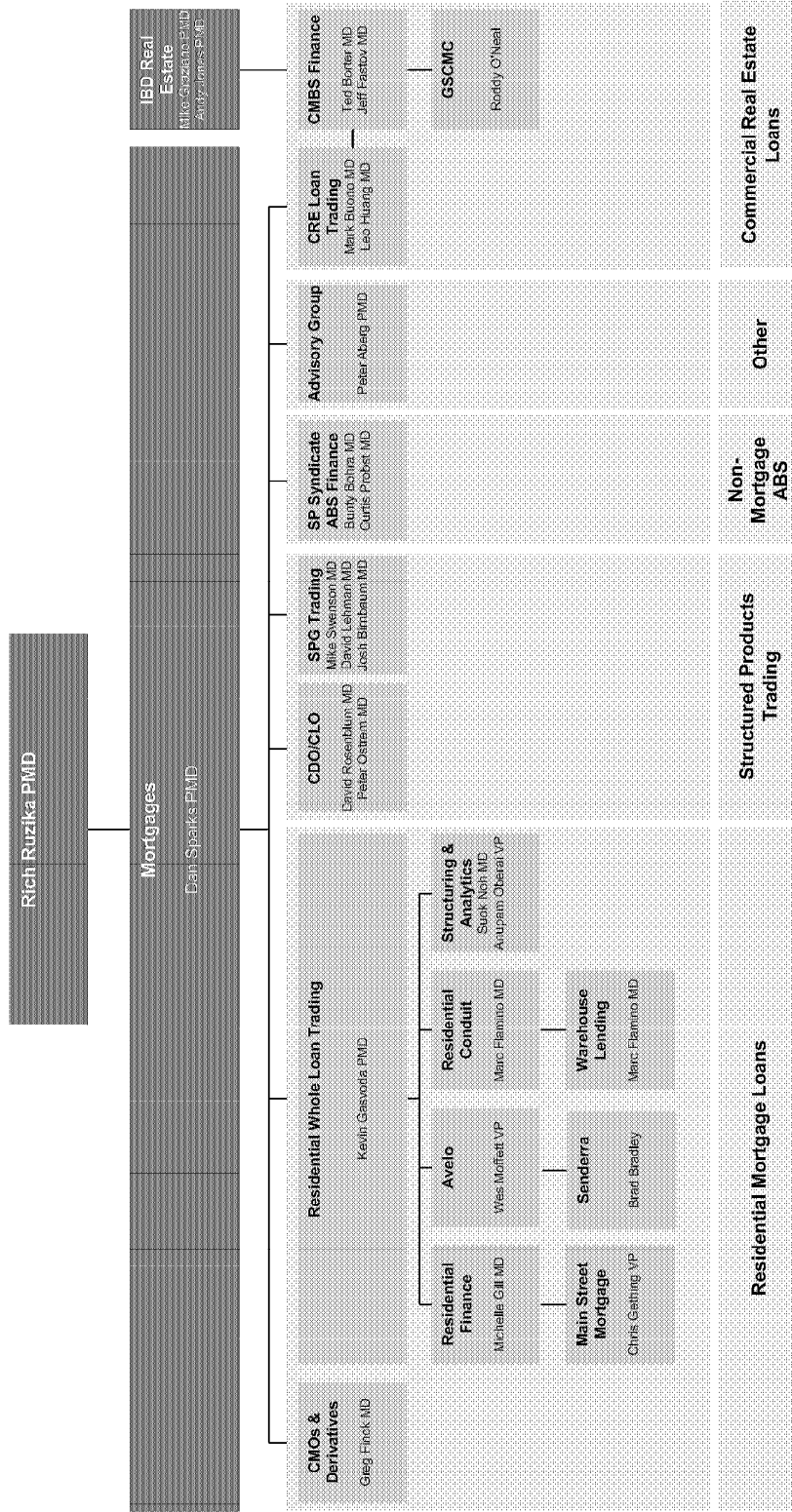
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Mortgage Business Organizational Structure

North America Mortgages





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Appendix B: Competitive Landscape





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Leading Subprime Underwriters (\$ in millions)

Rank	Underwriter	2006		Change 2005-2006
		Volume	Market Share	
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%



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Top Subprime Shelves by Volume as of Q3 2006 (\$ million)

Rank	Lender	Total	2006			YTD	Change 2Q06- 3Q06
			3Q	2Q	1Q		
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	12,866.3	369,896.6	(20.0)%



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Leading CDO Underwriters Structured products (not including CMBS)

Rank	Bookrunner	2006		2005	
		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



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Residential Loan Competitors

Broker	Origination			International Presence	Platform Name	Servicer Name
	Direct	Conduit	Servicing			
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



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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 led 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

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

Implementation



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