

Goldman Sachs: Financial & Reputation Crisis Management Case Study  
By Rich Mazikani  
Thecasesolutions.com

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## Organization:

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Founded in 1869 Goldman Sachs is a premier global investment banking, securities, and investment management firm headquartered in New York with offices in all major financial centers around the world. Their services include financial services to a very large client base including high-end corporations, financial institutions, governments, and high net-worth individuals. All according to the firm's website. Goldman Sachs' top four business criteria are investment banking, institutional client services, investing and lending, and investment management.

# Brief Situation Summary

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Housing Market had been showing hints of a potential collapse since late 2006 to early 2007

The housing bubble burst after peaking in 2006 values of securities tied to US real estate pricing fell along with global financial institutions.

September, 2008: Goldman Sachs switched from investment banking and became bank holding company in order to have easier access to funds.

October 2008: Goldman Sachs received a \$10b taxpayer bailout from the government's Troubled Asset Relief Program in an attempt to stabilize the country's financial system, restore economic growth, and prevent foreclosures according to investopedia.

Manager of Paulson and Co. hedge funds, John Paulson identified more than 100 bonds with the lowest credit ratings that had high potential to default.

# Brief Situation Summary Cont.

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Paulson then favored adjustable mortgage rates by targeting borrowers with low credit scores and states that were not performing well in the housing market.

Paulson met with the Vice President of Goldman Sachs, Fabrice Tourre and asked for help in terms of how to bet against the bonds without getting caught by using credit default swaps.

Shortly after Goldman Sachs Paulson began betting against a package of low rated bonds.

ACA Management:

would act as a portfolio selection agent



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Feb. Mar. Apr. (2007) Goldman Sachs sends longtime purchaser of assets IKB Deutsche Industriebank copies of the marketing materials for \$150m.

ACA Management is stated as the largest factor in the implimentation of the marketing plan without ACA even knowing about the behind the doors fraud attempts.

Result:

- Investors end up losing up to \$1b according to the SEC.
- The guilty parties denied illegal involvement pertaining to fraud for failing to disclose Paulson's contradictory interests and the role in choosing the marketing materials in the portfolio.



# Relevant Publics

Goldman Sachs: Biggest name in the organization and oversaw fraudulent investment from the time it began to the time it ended

John Paulson: Permitted to make bets on the collapsing housing market and make billions off it to help select securities in the CDO (according to money.cnn)

CEO Lloyd Blankfein: Had to testify

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