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CORRECTION TO THIS ARTICLE

An earlier version of this story incorrectly said an e-mail about how Goldman would profit from the downgrading of mortgage-related investments was written by trader Michael Swenson. The e-mail was written by executive Donald Mullen.

Goldman executives cheered housing market's decline, newly released e-mails show

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As the U.S. housing market began its epic fall nearly three years ago, top executives at Wall Street powerhouse Goldman Sachs cheered the large financial gains the firm stood to make on certain bets it had placed, according to newly released documents.

The documents show that the firm's executives were celebrating earlier investments calculated to benefit if housing prices fell, a Senate investigative committee found. In an e-mail sent in the fall of 2007, for example, Goldman executive Donald Mullen predicted a windfall because credit-rating companies had downgraded mortgage-related investments, which caused losses for investors.

"Sounds like we will make some serious money," Mullen wrote.

Lawmakers said the internal e-mails, released Saturday by the Senate Permanent Subcommittee on Investigations, contradict what they said are Goldman's assertions that the bank was not trying to profit from the decline of the housing market in 2007 and was merely seeking to protect itself if prices collapsed.

Goldman admits it had reduced its exposure to the overheated U.S. property market and had sought to limit possible losses through a strategy that would make money if home prices fell. It says such "hedging" is a routine part of its business and is intended to moderate risk to the firm, an especially vital function when markets shift violently, as they did in 2008.

The clash between Washington and Wall Street is intensifying ahead of the scheduled testimony this week of Goldman chief executive Lloyd C. Blankfein and fellow executives, which itself comes as Congress weighs legislation that would overhaul financial regulation in the United States. President Obama and congressional Democrats are pushing hard to finalize legislation that would much more strictly regulate the activities of Goldman and other Wall Street firms. The full Senate could begin to debate financial reform legislation -- already passed by the House -- as early as Monday.

Obama sharply rebuked Wall Street in his radio address Saturday. "In the absence of common-sense rules, Wall Street . . . hurt just about every sector of our economy," he said.

The findings of the Senate panel also come as Goldman is facing a fraud suit, filed earlier this month by the Securities and Exchange Commission, alleging that the bank misled its clients by selling them a mortgage investment that was secretly designed to fail. Senate investigators this weekend were interviewing Goldman Vice President Fabrice Tourre, who is implicated in the fraud suit and will testify Tuesday.

The Senate panel's findings do not touch directly on the fraud suit but suggest that Goldman's alleged behavior in that case was indicative of a larger pattern of duplicitous conduct on the eve of the economy's collapse.

"Investment banks such as Goldman Sachs . . . were self-interested promoters of risky and complicated financial schemes that helped trigger the crisis," said Carl M. Levin (D-Mich.), chairman of the Senate panel. "They bundled toxic mortgages into complex financial instruments, got the credit rating agencies to label them as AAA securities and sold them to investors, magnifying and spreading risk throughout the financial system and all too often betting against the instruments they sold and profiting at the expense of their clients."

Until recently, Goldman largely escaped the fallout from the financial crisis, quickly repaid federal aid and did not receive the kind of scrutiny and blame that Washington had showered on such firms as Countrywide Financial, Lehman Brothers, and Fannie Mae and Freddie Mac. Countrywide and Lehman are out of business, and Fannie and Freddie are under federal control.

By contrast, Goldman is financially stronger and denies the allegations that it committed fraud or acted inappropriately.

"We did not make a significant amount of money in the mortgage market," Lucas van Praag, a Goldman spokesman, said Saturday. Van Praag said Goldman, which turned over 18 million pages of documents to the Senate committee, lost $1.2 billion in its mortgage business in 2008. "As a firm, we obviously could not have been significantly net short since we lost money in a declining housing market," van Praag said.

Levin said the documents obtained by his committee contradict Goldman's assertion that it didn't seek to profit from the housing downturn. "Goldman made a lot of money by betting against the mortgage market," Levin said.

In one of the e-mails obtained by the committee, Goldman's chief financial officer, David A. Viniar, responded to a report that the firm earned $50 million in one day with "short" positions, or bets that the housing market would decline. "Tells you what might be happening to people who don't have the big short," Viniar wrote to his colleagues.

In another e-mail, Goldman executives discussed how the securities of one subprime mortgage lender the company worked with were facing "wipeout" and another collapse was "imminent." Goldman helped this lender bundle and sell its loans to investors. But one executive, Deeb Salem, wrote that the "good news" was that Goldman would profit $5 million from a bet against the very same bundles of loans it had helped create.

In a November 2007 e-mail, Blankfein wrote that the firm "lost money" on the housing market, "then made more than we lost because of shorts."

The e-mails portray a different narrative than the one Goldman conveys in an internal document summarizing the company's experience in the mortgage crisis.

On Dec. 14, 2006, Viniar called Goldman's mortgage traders and risk managers to a meeting and concluded they would reduce overall exposure to the subprime mortgage market. This was largely done by making bets against the market to cancel out bets it had placed that the market would rebound. The company's document acknowledges that Goldman at times shorted the overall market but describes those periods as temporary while the firm was rebalancing its portfolio.

At some moments, executives were actually considering making new investments in mortgages, buying potentially undervalued securities that could pay off when the market turned around. A day after Viniar met with the traders and risk managers, he wrote to Tom Montan, co-head of the securities division, saying, "There will be very good opportunities as the market goes into what is likely to be even greater distress and we want to be in position to take advantage of them."

This back-and-forth typified exchanges at the firm over whether to continue to neutralize its exposure to subprime mortgages or expand investment in them well into 2007. By Nov. 30, 2007, Goldman had largely canceled out its exposure to subprime mortgages by increasing its bets that the market would continue to slide, according to the document.