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EXCHANGE --- What It's Like Inside Goldman When a Big Project Fails --- The Wall Street firm was looking to get out of consumer lending, once a big area of expansion. But Apple dumped it first.

By AnnaMaria Andriotis
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At an off-site in upstate New York last month, during a dinner lasting roughly three hours, Goldman Sachs Chief Executive David Solomon told partners that the firm had made some mistakes with consumer lending. But, he said, the business wasn't as bad as they thought and they didn't understand the details. He wouldn't tolerate partners trash-talking Goldman's decision to get into consumer lending, he told them.

Goldman has known for a while that consumer lending wasn't really working out, and the bank has been looking for the exits. But it was Apple that sealed it. The tech giant recently sent a proposal to Goldman that would pull the plug on their credit-card partnership, the crown jewel of the business.

The split will effectively bring an end to Goldman's once-grand plan to be a bank for the masses -- an experiment it began about a decade ago as a way to build something different after the global financial crisis. But the old and new never fit together. Engineering hires wooed from Silicon Valley grumbled about a stuffy culture. Executives in trading and investment banking, Goldman's traditional powerhouses, groused about the money-losing consumer endeavors.

In the fall of 2021, Goldman was forging ahead with plans to expand the consumer business. It was in the process of making a massive acquisition and was courting new credit-card partners. Solomon told deputies that if Goldman was going to be in the consumer business, it needed to go big.

Still, even Solomon began to think the business was weighing Goldman down, according to people familiar with the matter. Shares were around $400 at the time, already near their record high, but shareholders had expressed skepticism to Goldman about its consumer plans. Solomon told colleagues he thought the stock could go much higher if Goldman was to get an outside investor for the consumer business.

Goldman began talking to a private-equity firm, Silver Lake, to see whether it could spin the consumer business into a joint venture, according to people familiar with the matter. It called the plan Project Maryland, the "M" a reference to Marcus, the name for its consumer brand. Goldman code-named itself "Georgia," and Silver Lake was "South Carolina." The talks fell apart after the two sides couldn't agree on how much control each would have over the new venture.

There were plenty of reasons for Goldman's top brass to be on edge.

Goldman had agreed in 2021 to buy GreenSky, a lender that makes home-improvement loans, at a hefty price. Some executives had told Solomon that it wouldn't be a good fit.

Solomon had also been pushing for Goldman to expand into checking accounts. After top executives in the consumer business urged him not to, saying the bank should stay focused on a small number of products, Solomon told them they had no vision, according to people familiar with the matter.

The Apple credit card went live in 2019 with great fanfare, promising cash rewards. The partnership had red flags from the outset.

Goldman badly wanted to get that deal, and that meant accepting a number of unusual terms from Apple. For example, Goldman agreed not to charge late fees or sell customer data, trading away two massive streams of income.

When Apple unveiled the credit card in 2019, it did so with a zinger. "Designed by Apple, not a bank," its ads chirped.

Goldman partners complained that the firm was throwing good money after bad. Soon, that wasn't the only issue.

In 2022, the Federal Reserve found problems with the bank's consumer business. It had concerns that Goldman didn't have proper monitoring and control systems.

That same year, Goldman disclosed that the Consumer Financial Protection Bureau was investigating its credit-card practices, including how the bank resolved billing disputes and refunded cardholders. Those probes continue.

Employees in the consumer business were frustrated. They had been asking since at least 2019 for the bank to invest more money in the operations that handle customer complaints, according to people familiar with the matter.

Some also blamed Apple, at least privately, for the regulatory problems. Most card programs send out cardholders' bills on a rolling basis throughout the month. Apple insisted that its cardholders get their bills at the beginning of each month. That means Goldman customer-service employees are flooded with complaints and requests during the first few days of every month, making it hard for them to keep up.

Adding to the tension: Investment banking fell off a cliff in 2022, both at Goldman and at rivals, hurt by rising interest rates and a big drop in stock prices. Goldman's usual power brokers became more incensed that the bank was spending money on a consumer business they didn't want. Later, Goldman would disclose that a big chunk of its consumer-lending operations had lost billions of dollars.

The internal noise to kill the consumer experiment grew. Solomon's No. 2, bank president John Waldron, ordered a review of the entire consumer operation.

At a management-committee meeting last fall, Marc Nachmann, one of the most senior partners at Goldman, blasted another Goldman partner, Stephanie Cohen, about her business, according to people familiar with the matter. He told Cohen, who was coleading the consumer push, that she wasn't making sense, according to people who were present.

Some committee members looked on uncomfortably.

Cohen had been a star in Goldman's investment bank, and Solomon had tapped her two years before to help run the consumer unit. She inherited a troubled business. At the management-committee meeting blowup, she had just returned from a personal leave.

There were other instances where Nachmann criticized Cohen's business, people familiar with the matter said. Solomon at times spoke up in defense of the business.

While Cohen was away, Solomon and his deputies decided to reorganize the entire bank, including her domain. The bank announced in October 2022 that Cohen would be head of a new unit called Platform Solutions. That unit would include GreenSky and the bank's two credit-card partnerships -- the one with Apple and another with General Motors.

The deposits -- arguably the most enviable part of the consumer franchise -- would move to another new unit called asset and wealth management, run by Nachmann.

What Goldman did made clear to the world: It announced, finally, that it was scaling back its Main Street ambitions.

The Waldron-ordered review had concluded that the consumer business couldn't produce the returns that Goldman wanted within the near term, according to people familiar with the matter.

By early this year, Goldman executives began looking for ways out of the Apple partnership, and even approached American Express to gauge their interest. Still doubting, they forged ahead anyway with new Apple products. A savings account launched in the spring, as well as a **buy now**, **pay later** service.

One worst-case internal projection: The savings account would lose money for the next 10 years after operating expenses were factored in.

Now, the consumer unit is quickly disappearing piece by piece.

The checking accounts never materialized. The bank has stopped originating personal loans and sold off most of those balances. It is unloading GreenSky at a steep loss. In November, it informed employees that it will move to unload its credit-card partnership with GM.

Cohen went back on leave in June. Some employees who were once tasked with consumer lending have been moved to focus on fixing regulatory issues.

The bank for now is still responsible for the Apple card and the GM card, an arrangement that includes providing customer service. Goldman employees will also have to prepare for transferring balances to the company or companies that take over the cards, a process that needs employees with experience.

At a meeting last month, when the bank told employees it would be unloading the GM card, it offered them a sweetener to stay. Many will be eligible for pay equal to one year of their compensation if their jobs are eliminated. People familiar with the matter said the same will apply for employees who work on the Apple card.

As for Apple, it wants out within the next roughly 12 to 15 months.

Laura Cooper contributed to this article.

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Financial CEOs Are Mum on China At Hong Kong Panel

By Elaine Yu
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HONG KONG -- When some of Wall Street's most powerful executives assembled in Hong Kong this week, one topic was noticeable by its absence: China.

The chief executives of U.S. banks including Citigroup, Goldman Sachs and Morgan Stanley were in the city on Tuesday for the Global Financial Leaders' Investment Summit, where they rubbed shoulders with local government officials and senior Chinese regulators. They spoke about broad topics such as financial stability, interest rates and capital markets.

But U.S. bankers said almost nothing about mainland China -- and even less about the geopolitical tensions that have made their jobs harder. The relationship between the U.S. and China has worsened in recent years, and Wall Street banks have come under political pressure to reduce their links to the world's second-largest economy.

"The big discussion -- I think maybe not officially, but obviously in private discussions -- is going to be the Chinese-U.S. freeze and what does that really mean for growth prospects and general opportunities for these banks," said Mark Williams, a specialist in capital markets and risk management at Boston University.

Wall Street banks are being forced to tread carefully on China. They have for years considered the country an important growth market, but the costs are rising: China's tighter control of information has made due diligence harder, a backlash by American politicians has increased reputational risks, and the shaky reopening of China's economy has raised questions about its decadeslong growth story.

The amount of money banks can earn from Chinese clients has also dwindled: A sharp reduction in overseas listings from mainland Chinese companies has reduced the fees available to investment banks.

Most of the discussions steered clear of these questions. Morgan Stanley Chief Executive James Gorman and UBS Group Chairman Colm Kelleher joined a panel on financial stability. Goldman Sachs CEO David Solomon talked about the U.S. banking system, among other things. Citigroup CEO Jane Fraser took part in a discussion later in the day that largely focused on **technology**.

The heads of investment firms were the first Western executives to discuss mainland China. When Carlyle Group Co-Chairman David Rubenstein asked Citadel founder Ken Griffin for his assessment of the country, he complimented the strength of managers in China and said it led the way in areas such as solar power and electric vehicles.

"If you're a global investor, you've got to be watching and investing here in China," Griffin said.

Noel Quinn, the chief executive of British bank HSBC, joined an afternoon panel that focused on the Greater Bay Area, a project linking Hong Kong and parts of southern China. He was joined by Ge Haijiao, the chairman of Bank of China, and Neil Shen, founding partner of Sequoia China, which is separating from venture-capital firm Sequoia Capital and rebranding as HongShan.

The broad nature of these discussions was in line with the Hong Kong Monetary Authority's plans for the event, said Eric Pan, president of the Washington-based Investment Company Institute, an industry group.

"The intellectual environment, the networking, the idea that you come to Hong Kong and you can talk about all these global issues -- it's very consistent with their desire to be the leading global financial center in Asia," Pan said.

That desire has been challenged in recent years, particularly after Hong Kong's strict approach to Covid-19 turned off some foreign executives and encouraged new entrants to look elsewhere. Several companies that considered setting up in Hong Kong turned to Singapore instead. In the middle of 2022, the number of American companies operating in the city fell to its lowest level in nearly two decades.

Foreign investors have also reduced their exposure to Hong Kong's stock market, where many of China's biggest companies are listed. The city's benchmark Hang Seng Index is down more than 10% this year.

John Lee, Hong Kong's chief executive, said the city would remain the gateway between mainland China and global markets, thanks in part to its status as the only jurisdiction in China that uses common law. But he acknowledged threats facing the territory. "Geopolitical risks continue to proliferate, squeezing international trade and complicating global supply chains. Hong Kong, a free and open economy, is hardly immune to global economic headwinds," he said.

Lee has been under U.S. sanctions since August 2020, after Beijing pushed through a national-security law for Hong Kong that the U.S. government said undermined Hong Kong's autonomy.

Senior officials from China's central bank and financial regulators also addressed the visiting executives. Zhang Qingsong, deputy governor of the People's Bank of China, talked about the property sector and local government debt, two causes of concern for foreign investors.

More than 90 CEOs and group chairpeople from banks, asset managers and other investment firms attended the summit at the Four Seasons hotel, city officials said.

On Monday, authorities welcomed the executives with a banquet at the new harborfront Palace Museum, where dishes such as "char siu"-style marinated salmon pastrami with osmanthus honey dressing and red date sponge paired with goji berry cream, were served.

The financial summit is part of a busy calendar for Hong Kong at the moment. A similar event for large investors will take place on Wednesday. The city hosted a **fintech** conference last week. The China-United States Exchange Foundation, a nonprofit group based in Hong Kong set up to build relationships between the two countries, is organizing a two-day forum on U.S.-China relations starting Thursday.

Hong Kong is also hosting the Gay Games this month, the first time the event has been held in Asia. The city's politicians have clashed over the games, with some conservative lawmakers calling for a top government adviser who supported the games to resign.

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Markets & Finance: Goldman Infrastructure Fund Raises $4 Billion

By Rod James
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Goldman Sachs Group's asset management business has collected $4 billion to invest in midsize infrastructure assets, as investors look to take advantage of a favorable political and economic climate for the sector.

Goldman Sachs Asset Management closed West Street Infrastructure Partners IV at the fund's target and has already committed $2.3 billion across eight investments, the New York-based manager said. Goldman Sachs oversaw a total of more than $2.7 trillion in assets as of June 30.

Investments in the new fund include Synthica Energy, a Cincinnati-based developer of renewable gas plants, Verdalia Bioenergy, a developer and operator of European biomethane plants, and Gridstor, a developer and operator of utility-grade battery storage projects in the U.S., Goldman said.

The new fund attracted capital mainly from institutional investors, with the balance made up by high-net-worth investors, Goldman and its employees, the bank said. The fund's predecessor, West Street Infrastructure Partners III, closed in 2017 with $2.5 billion, a spokesman confirmed.

Goldman said it is investing the fund across infrastructure subsectors that include energy transition, digital infrastructure, transport, logistics and social infrastructure.

The infrastructure asset class stands to benefit from trends, including the transition to a lower-carbon economy, **digital transformation** and shifting demographics, "each of which requires very significant mobilization of private capital," said Goldman's co-head of infrastructure, Scott Lebovitz, in announcing the close of the fund.

Private infrastructure investors in the U.S. are also positioned for a boost from the roughly $1 trillion infrastructure law passed in 2021.

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No Bad News Is Good News For Goldman

By Rob Copeland
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The Wall Street bank disclosed $2 billion in quarterly profit, just above expectations and propelling the bank further in its turnaround.

In what at this point counts as merry news for a thrashed Wall Street giant, Goldman Sachs on Tuesday reported a quarterly profit that came in just above expectations, suggesting that the bank may be on track to extricate itself from its consumer-lending woes.

The bank's third-quarter profit fell about a third from a year earlier, to $2.1 billion, though that drop was expected. Trading revenue stayed steady, an encouraging sign given the slowdown in such activities across Wall Street in the face of a potential recession.

''We're confident that the work we're doing now provides us a much stronger platform for 2024,'' the bank's chief executive, David M. Solomon, said in a statement.

It has been a year to forget for Goldman and Mr. Solomon. The bank continues to write off losses from its money-losing effort to build a Main Street-focused operation, an initiative that began under Goldman's prior chief executive, Lloyd C. Blankfein, and accelerated under Mr. Solomon.

Mr. Solomon has contended with what amounts to a staff revolt, by the buttoned-up standards of a Wall Street bank, as scores of prominent partners have departed and others have complained about his unyielding management style.

Last week, Goldman made good on its promise to offload at a steep loss a ''**buy now**, **pay later**'' firm, GreenSky, that it had bought less than two years ago.

Other banks that have reported third-quarter earnings have shown off a smooth ride. On Tuesday, Bank of America reported a 10 percent rise in profit. Last week, JPMorgan Chase reported a quarterly profit jump of 35 percent, while Wells Fargo and Citigroup beat analyst expectations.

Goldman's stock was flat in premarket trading after the release of the quarterly results. Shares are down 9 percent this year and off roughly 25 percent from the record high set in 2021.

David M. Solomon, Goldman Sachs's C.E.O., has had a tough stretch. (PHOTOGRAPH BY BRENDAN MCDERMID/REUTERS) This article appeared in print on page B4.

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FINANCE

Goldman to Sell Lender After a Brief Ownership

Goldman Sachs said on Wednesday that it would offload GreenSky, a major player in the "**buy now**, **pay later**" lending sector, less than two years after buying the company, in the latest hit to its consumer-finance ambition.

Goldman will take an immediate loss from the transaction in its third-quarter earnings, which are due out next week. The bank is selling GreenSky to a group of money managers, including the private-equity firms Sixth Street and K.K.R. The selling price was not disclosed.

The outlook for both Goldman and the **buy now**, **pay later** industry was vastly different in 2021 when the bank paid $1.7 billion for GreenSky, which focuses on home improvement loans. The New York bank was reaping bumper profits and expanding in an effort to attract new customers who are less wealthy than Goldman's typical clientele. Rising interest rates, however, have crimped the sector. ROB COPELAND

AIRLINES

Summer Surge Lifts Delta To a $1.11 Billion Profit

Planes packed with summer travelers boosted Delta Air Lines to a $1.11 billion profit in the third quarter, and the carrier said Thursday that it expected revenue to keep rising into the holiday season.

Profit was up 59 percent from a year earlier, as strong ticket sales, especially for premium seats and international flights, helped the airline shrug off higher labor costs.

Delta increased its passengercarrying capacity an aggressive 16 percent and was able to fill all those extra seats. Travelers flew 64 billion miles on the airline in the quarter, a 17 percent increase, and they filled 88 percent of the seats on the average flight, a point higher than last summer.

Revenue from ticket sales in the main cabin grew 12 percent -- and 17 percent for premium seating. Money from Delta's loyalty program soared 21 percent. Quarterly revenue rose 11 percent to $15.49 billion. ASSOCIATED PRESS

REGULATORY

OSHA Recommends Fines Over Battery Plant Safety

U.S. investigators on Thursday proposed $270,000 in fines for a General Motors and LG Energy Solution joint venture battery plant in Warren, Ohio, for safety and health violations.

Occupational Safety and Health Administration investigators examining the cause of a March explosion and fire at the Ultium Cells plant prompted the agency to issue 19 safety and health violations, 17 of them serious.

OSHA inspectors found the company exposed workers to hazards by failing to train them on safety and emergency response procedures and did not comply with federal standards for personal protective equipment use.

Ultium Cells said on Thursday it had taken "safety seriously and have requested a hearing with OSHA, which is the next step in this process."

OSHA said it had also issued a hazard alert letter asking the company to voluntarily reduce accumulations of metal dust. REUTERS

(PHOTOGRAPH BY MIKE SEGAR/REUTERS) This article appeared in print on page B2.

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Business News: Goldman Sachs Passed on Higher Offer for GreenSky

By Peter Rudegeair, AnnaMaria Andriotis and Laura Cooper
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The steep loss Goldman Sachs is facing from its agreement to sell specialty lender GreenSky could have been smaller.

A group led by fintechPagaya Technologies, which specializes in nontraditional underwriting that helps lenders approve more consumers for loans, offered roughly $700 million to buy GreenSky, according to people familiar with the matter.

But Goldman spurned the offer and instead entered into exclusive discussions around mid-September with the group led by Sixth Street that sealed a deal yesterday to buy the business with a bid in the neighborhood of $500 million.

After The Wall Street Journal reported that the Sixth Street group was in exclusive conversations with Goldman, the Pagaya group told Goldman it was willing to increase its offer, people familiar with the matter said. Goldman didn't respond to the offer.

Pagaya then contacted Sixth Street and offered to buy GreenSky from the investment firm once it closed the deal. That offer also was rebuffed.

Goldman executives say that they passed on the higher offer in large part because they had less confidence in the Pagaya-led group's ability to complete the deal in a timely manner.

People familiar with the matter say financing was in place for the Pagaya offer.

As part of a deal with Pagaya, which has a market value of about $1 billion, private-equity firms Apollo Global Management and Blackstone would have acquired GreenSky's loan portfolio.

Goldman disclosed on Wednesday that it expects the sale of GreenSky to result in a hit of 19 cents a share to the bank's third-quarter results.

Goldman bought GreenSky, which specializes in extending loans to consumers for home renovations, for roughly $1.7 billion last year, hoping it would help the Wall Street giant be a bigger competitor in consumer lending. Soon after it closed on the acquisition, Goldman began pulling back on its consumer-lending efforts amid internal concerns about its strategy and the money being spent on it.

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