

**PROGRESS REPORT**

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# Golden West Financial

## BUY

### GDW – NYSE

### *Why We Are Not Worried About Credit Quality*

*Golden West Financial is a savings and loan holding company for World Savings Bank, Atlas Advisers (an investment adviser and manager), and Atlas Securities (a registered broker-dealer). Golden West, the second largest thrift institution in the nation, is a member of the S&P 500, and has the highest credit rating among the thrifts.*

**INVESTMENT CONCLUSION:** Since reaching its 52-week high of \$68.92 on July 19, 2005, GDW has declined about 10%. We believe investors have concerns about credit quality, net interest margin compression, and ultimately EPS growth. We believe these concerns are overblown. We are not worried about credit quality, and in this note we outline why based on our worst case scenario analysis. As for as the NIM, we continue to expect expansion as the loan repricing lags cause yields to rise faster than funding costs. As for EPS growth, investors now seem to be focused on the lower level of originations and the impact on loan growth. We continue to expect originations and loan growth to slow with the flat yield curve, but we do not expect the loan portfolio to shrink, as the Option ARM still provides borrowers significant value due to the payment options, as we discuss in this note. Even if we are incorrect on origination volume, prepayment penalties will likely drive earnings growth if the portfolio shrinks. We reiterate our BUY rating.

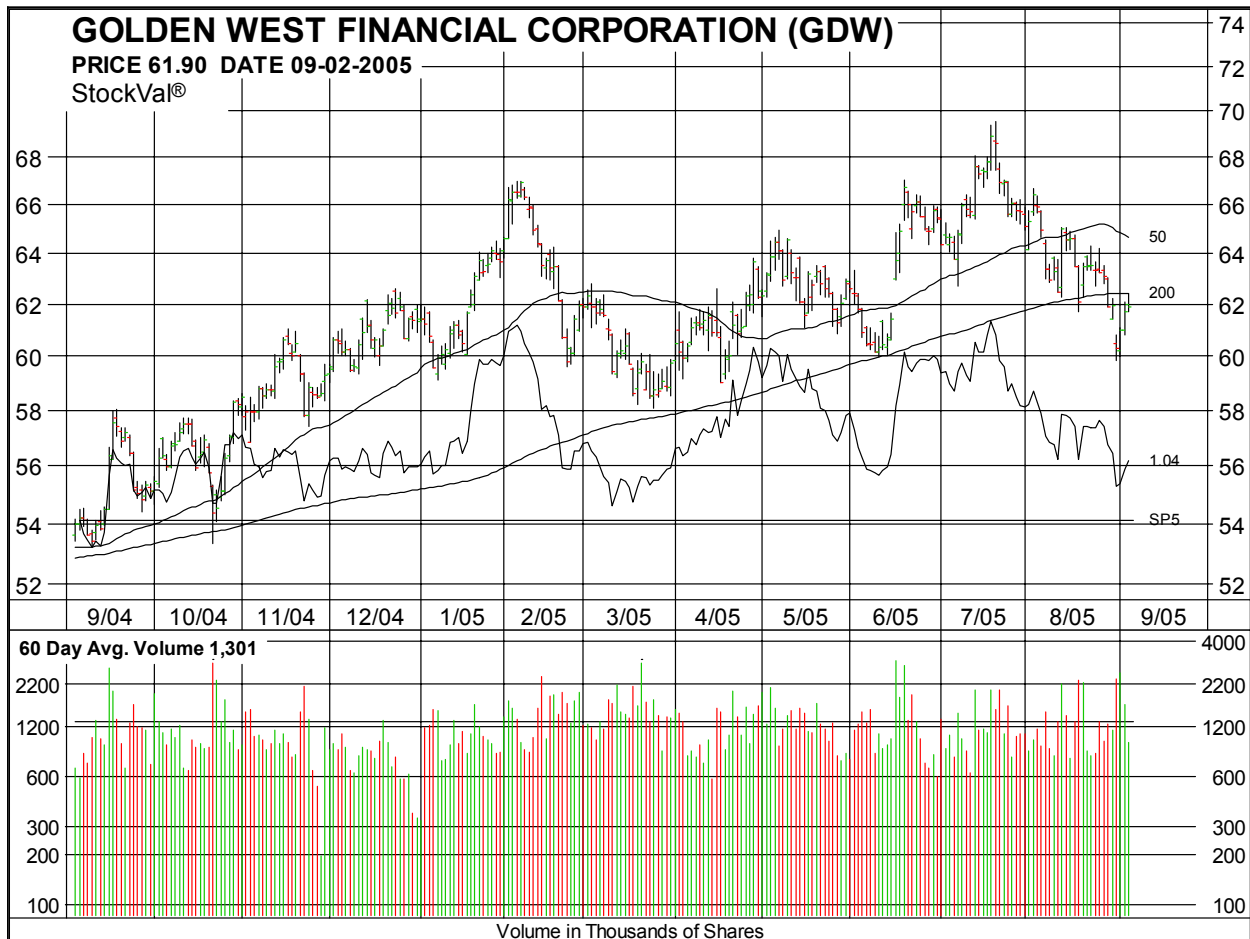
**VALUATION SUMMARY:** GDW trades at 12.9x our 2005E EPS and 10.9x our 2006E EPS. We expect continued P/E multiple expansion, as Golden West continues to deliver positive earnings surprises and solid financial performance. GDW has an unmatched earnings track record relative to other banks and thrifts and its fellow members of the S&P 500. In our opinion, Golden West has the same or better outlook than stocks that trade at premium multiples with lower earnings growth prospects. We believe the current risk/reward ratio is very attractive as GDW trades at the low end of our \$61-\$95 (10.6-16.5x 2006E EPS) expected trading range. We reiterate our BUY rating. Our estimated twelve-month fair value estimate is \$86 (15.0x 2006E EPS).

Recent Price	52-Week Range		Dividend	Yield	Valuation				
	High	Low			2005E P/E	12.9x	Price/Book	2.4x	
\$62.62	\$69.49	\$53.20	\$0.24	0.4%	2006E P/E	10.9x	Price/Tang. Book	2.4x	
					Deposit Premium	19.1%	Core Deposit Premium	44.6%	
					EPS			Fundamentals	
	2004A	2005E	2006E		Total Assets (billions) (\$)	117.5			
Q1 - March	\$0.97	\$1.12A	\$1.37		Tangible Equity/Assets (%)	6.76			
Q2 - June	\$1.02	\$1.16A	\$1.43		2006E Operating ROA (%)	1.27			
Q3 - September	\$1.05	\$1.25E	\$1.47		2006E Operating ROE (%)	18.59			
Q4 - December	\$1.09	\$1.32E	\$1.48		Book Value Per Share (\$)	25.79			
Annual Operating	\$4.13	\$4.85E	\$5.75		Tangible Book Value Per Share (\$)	25.79			
Annual Reported	\$4.13	\$4.85E	\$5.75		Shares Outstanding (millions)	307.8			
Average Daily Volume				269,618	Market Capitalization (billions)	\$19.3			
Average Daily Dollar Volume (Millions)				\$16.9	Three Year Proj. EPS Growth Rate	17%			

## KEY POINTS

- **The Option ARM Can Have Negative Amortization, But Golden West Controls The Risks.** Golden West has offered the Option ARM product for over 20 years and has had opportunities to see how the product acts in various interest rate and economic cycles. We view deferred interest as a more cost effective home equity line of credit and GDW controls the risk through conservative underwriting.
- **Our Worst Case Scenario Analysis Indicates Minimal Losses.** We compare the Option ARM to fixed rate and interest-only mortgages with rising rates and declining housing values. Our worst case scenario analysis indicates minimal losses for the Option ARM product due to conservative underwriting and active servicing.
- **The Option ARM Is Still A Valuable Product With A Flat-To-Slightly Inverted Mortgage Curve.** The Option ARM provides borrowers with trade-offs: payment options with low minimum requirements and little payment shock for the possibility of negative amortization. The minimum payment requirement makes the loan attractive to borrowers, even with ARM rates higher than fixed rate mortgages, as long as the benefit of the minimum payment does not outweigh the reduction of equity.

## One-Year Stock Price Performance



Source: StockVal.

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## **NEGATIVE AMORTIZATION – BACKGROUND INFORMATION AND SIZE**

**What Is Negative Amortization?** Golden West's primary mortgage product, the Option ARM, provides the borrower with payment flexibility. The payment options include anything over the minimum payment (usually a fully amortizing mortgage at 1.95% for 30 years). In some cases, the minimum payment does not cover the accrued interest, which creates negative amortization (also referred to as deferred interest). Negative amortization is the shortfall of the payment versus accrued interest that is added back to principal. With all of the media attention and uncertainty regarding this product, we will try to separate fact from fiction and ease investors' fears regarding the Option ARM at Golden West.

**Characteristics Of The Option ARM.** Every month, the borrower receives a statement indicating four payment options. These payment options include a fully amortizing payment, an interest-only payment, a minimum payment, and a payment that enables the loan to pay off 15 years from origination. We focus on the minimum payment as this is what the media and investors consider the most risky. If a borrower continues to make just the minimum payment, deferred interest will build. Every year the minimum payment amount can increase by a maximum of 7.5%. The lesser increase of the fully amortized payment or a 7.5% increase is used. For example, using a \$350,000 mortgage at 5.50% the minimum payment would be \$1,293 per month in the first year. The payment in the second year would be the lesser increase of 7.5% (\$1,390 monthly payment) or the fully amortized rate (\$2,036 monthly payment). For most loans, the 7.5% annual increase does not apply in the tenth annual payment change and every fifth payment change thereafter. Deferred interest may occur as long as the loan balance remains below either 125% or 110% of the original mortgage amount. The 125% cap applies to loans with an original LTV at or below 85%, while the 110% cap applies to loans with original LTVs over 85%. If the loan reaches the cap limit, Golden West may require the loan to become fully amortizing over the remaining life.

**OTS Has Addressed Negative Amortization By Providing Frameworks For Exams.** In June 2005, the OTS (Golden West's primary regulator) updated its Examination Handbook to address the more "exotic" mortgage products. One of the revised sections included loans that have negative amortization features. According to the OTS, "Loan performance data has shown that prudent underwritten ARM mortgages with a negative amortization feature in the contract generally perform as well as fixed-rate mortgages. In fact, during a period when such loans would negatively amortize, many borrowers typically pay additional principal to minimize loss of equity...Focus your attention on loans where borrowers are only making the minimum required payments. Such borrowers may be at risk should the rate increase or they experience financial difficulties...Also determine the amount of mortgages in the portfolio that are actually negatively amortizing as opposed to those where the loan contract merely allows it."<sup>1</sup> Golden West has been originating the Option ARM since the early '80s and the regulators had ample opportunity to scrutinize and review the product across many economic and interest rate cycles. While it is possible that all of the risks were not uncovered, we believe it is likely the major risks have been identified and addressed.

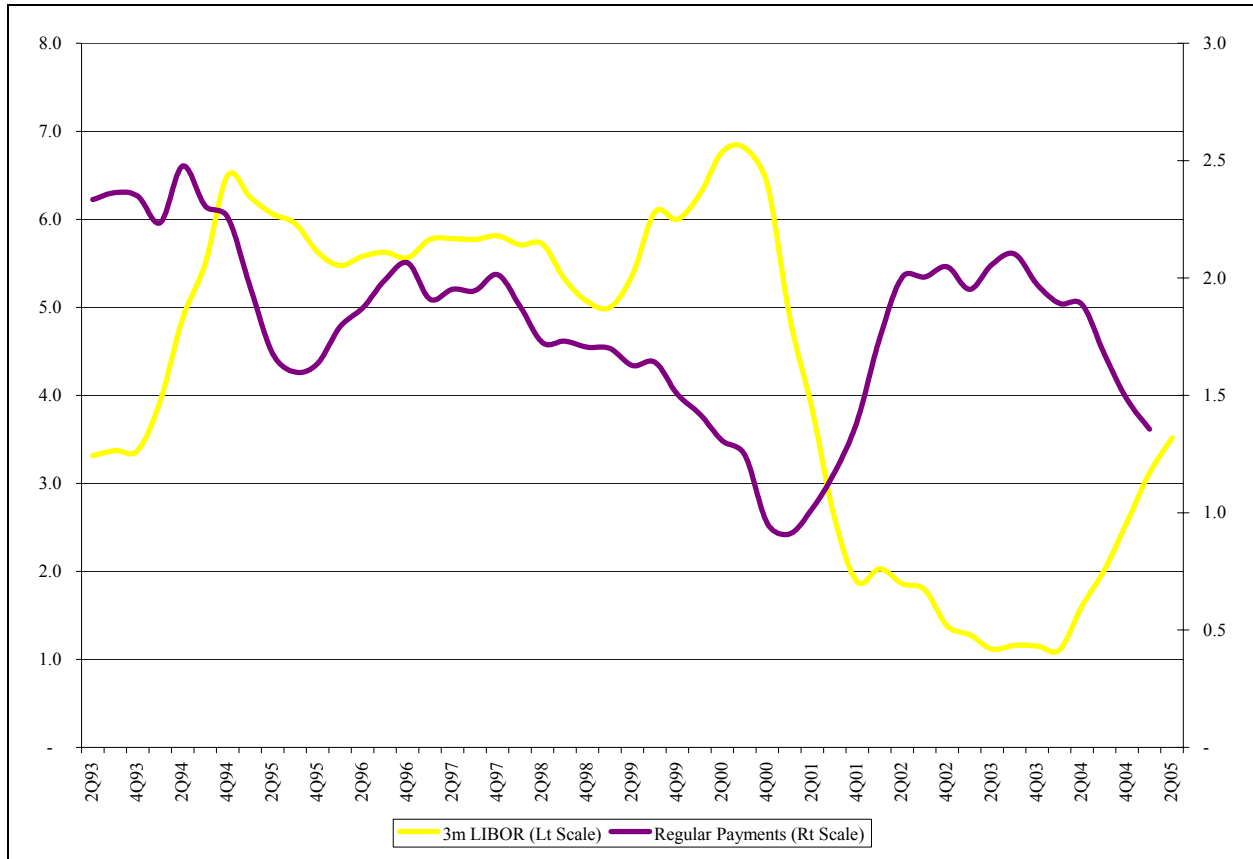
**Deferred Interest Was A Small Portion Of The Portfolio.** Deferred interest was \$160.2 million in 2Q05 (14 bps of total loans and MBS) compared to \$90.2 million in 1Q05 (8 bps), and \$27.0 million in 2Q04 (3 bps). We note as a percentage of loans and MBS, deferred interest reached a high of 38 bps in 2001. Deferred interest as a percentage of total revenue is estimated at 8.4% in 2Q05 and 4.5% in 1Q05. Deferred interest as a percentage of loans and MBS is expected to increase as short-term rates rise and then decline as rates stabilize or fall.

**Historically A Large Percentage Of Borrowers Chose The Lower Monthly Payment.** We examined quarterly monthly payments from 1Q93-1Q05 when the company separated payoffs from monthly repayments (We note the company did not disclose this information in 2Q05). Over this time period, the average monthly payment speed averaged 1.8%. We conclude from this that borrowers take full advantage of the minimal monthly payments to provide cash flow flexibility. As expected, as interest rates increased (we used 3-month LIBOR) the payment speed declined and as interest rates decreased, the payment speed rose. See Exhibit 1 below for further details.

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<sup>1</sup> Source: Office of Thrift Supervision Examination Handbook, Section 212, page 18, June 2005.

**Exhibit 1: Three Month LIBOR Versus Monthly Payment Rate – An Inverse Relationship**



Source: JMS and company data.

**SCENARIO ANALYSIS:**

**Comparison Of Option Arms, Interest Only, And Fixed Rate Mortgages With Stable Housing Values**

**The Assumptions For Our Analysis: Focus On California.** We focus our analysis on the average loan in California, which comprises about two-thirds of Golden West’s loan portfolio. California had rapid price appreciation over the past several years and according to media reports, is one of the prime markets that have a high percentage of Option ARM or similar products to total originations. The average loan size in California for Golden West was about \$333,000 in 2Q05, \$315,000 in 1Q05 and \$325,000 in 1H05. Loan-to-value (LTV) ratios were below 70% on average. For simplicity we assume that current mortgage rates on the Option ARM and fixed rate mortgages are 5.50%, the average loan size is \$350,000, and LTV ratio is 70%. We compare the 30-year fixed rate mortgage to the Option ARM and to a five-year interest only loan (and then fully amortizing). (According to National Mortgage News, interest-only loans accounted for 26% of all mortgages funded in 2Q05, 21% in 1Q05, and 15% in 4Q04.) We then look at different rate scenarios: flat and an immediate rise and fall of 200 bps. For the Option ARM, we assume the minimum payment is made to assess the worst case scenario. We initially assume no change in the value of the home, but then relax this assumption. See Exhibits 12 - 16 for the amortization schedules for each loan type.

**Year 1 Comparison: Little Change In Outstanding Principal And LTV.** With a flat or slightly inverted mortgage yield curve, the Option ARM product is still attractive to borrowers due to the payment options. In all rate scenarios (flat, up 200 bps, down 200 bps), the Option ARM minimum monthly payment is \$1,293 or \$714 below the \$2,007 monthly payment for 30-year fixed rate mortgage and \$311 below the interest-only mortgage. We note the Option ARM borrower can always make the fully amortized payment (or more than the minimum payment), but the minimum payment provides more flexibility. The payment option impacts the annual principal reduction. For the

30-year fixed rate mortgage, the annual percentage reduction of principal was 1.4%, compared to additions of principal of 1.1% for the minimum payment for the Option ARM in a flat rate environment, 2.1% for the minimum payment with a rise of 200 bps, 0.1% for the minimum payment for rates down 200 bps, and no change for the interest-only mortgage. This impacted the initial 70.0% LTV ratios minimally: 69.0% for the 30-year fixed rate mortgage, 70.7% for the minimum payment with flat rates, 71.4% for the minimum payment with a 200 bps increase in rates, and 70% each for the minimum payment with a 200 bps decline in interest rates and the interest-only mortgage. Overall, in the first year of the mortgage, the payment options clearly provide a benefit to the borrower (lower monthly payments) while having little impact on the LTV ratio. We view the additional deferred interest similar to a home equity line of credit, as the borrower has the flexibility to draw down or repay the line depending on cash flow needs. See Exhibit 2 for the summary comparison table.

### Exhibit 2: Summary Statistics Per Loan Type For Year 1

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	1.4%	1.4%	69.0%
Min Payment - Flat Rates	15,520	1,293	-1.1%	-1.1%	70.7%
Min Payment - Up 200 bps	15,520	1,293	-2.1%	-2.1%	71.4%
Min Payment - Down 200 bps	15,520	1,293	-0.1%	-0.1%	70.0%
Interest Only Mortgage	19,250	1,604	0.0%	0.0%	70.0%

Source: JMS

**Year 2 Comparison: A Rise In Monthly Payments And An Increase LTV Ratio.** In the second year of these mortgages, a slight shift begins to occur. The Option ARM product had an increase in the minimum payment by 7.5% for all rate scenarios (flat, up 200 bps, and down 200 bps) to \$1,390, which is \$617 lower than the monthly payment for the 30-year fixed rate mortgage and \$214 lower than the interest-only mortgage. As expect, deferred interest increased for the Option ARM product assuming flat and up 200 bps rate scenarios, by 0.8% and 2.8% of the beginning of the year principal balance, respectively, while the declining rate environment had principal reduction of 1.3%. The deferred interest continued to impact the LTV ratios: 68.0% for the 30-year fixed rate mortgage, 71.3% for the minimum payment with flat rates, 73.5% for minimum payment with rates up 200 bps, 69.2% for the minimum payment with rates down 200 bps, and 70.0% for the interest-only mortgage. The spread between the LTVs for 30-year fixed rate mortgages and minimum payment with an increase of 200 bps of rates was 5.5%. This information is summarized in Exhibit 3. We note that even with the increase in deferred interest, the LTV ratios are still conservative.

### Exhibit 3: Summary Statistics Per Loan Type For Year 2

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	1.5%	2.8%	68.0%
Min Payment - Flat Rates	16,684	1,390	-0.8%	-1.9%	71.3%
Min Payment - Up 200 bps	16,684	1,390	-2.8%	-5.0%	73.5%
Min Payment - Down 200 bps	16,684	1,390	1.3%	1.2%	69.2%
Interest Only Mortgage	19,250	1,604	0.0%	0.0%	70.0%

Source: JMS

**Year 3 Comparison: A Further Separation In The LTV Ratios.** We would characterize the differences in the third year as a widening of the spread in the LTV ratios for the 30-year fixed rate mortgages and the minimum payment with a rise in rates of 200 bps. The LTV is 66.9% for the 30-year fixed rate mortgage and 75.4% for the minimum payment – up 200 bps in rates, for a spread of 8.5%. For minimum payment with flat rates, the LTV was

71.6% (4.7% spread), while the minimum payment with interest rates down 200 bps was 68.0% (1.1% spread) and the interest-only mortgage was 70.0% (3.1% spread). Again, we view the spreads similar to a home equity line of credit with the added benefit of a lower first mortgage payment. The difference in the monthly payments remained steep with a \$512 lower payment for the Option ARM (all rate scenarios) versus the 30-year fixed rate mortgages and a \$109 lower payment for all Option ARMs versus the interest-only loans. See Exhibit 4 for details.

#### Exhibit 4: Summary Statistics Per Loan Type For Year 3

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	1.6%	4.4%	66.9%
Min Payment - Flat Rates	17,936	1,495	-0.5%	-2.3%	71.6%
Min Payment - Up 200 bps	17,936	1,495	-2.6%	-7.7%	75.4%
Min Payment - Down 200 bps	17,936	1,495	1.7%	2.9%	68.0%
Interest Only Mortgage	19,250	1,604	0.0%	0.0%	70.0%

Source: JMS

**Year 4 Comparison: The Minimum Payment For The Option ARM Barely Exceeds The Interest-Only Mortgage And Is Still Way Below The Fixed Rate Loan.** The changes in interest rates worked its way through the Option ARM in year 3 and will be stable until the loan matures. The monthly payment on the Option ARM (all scenarios) increased another 7.5% in year 4 to \$1,607, but was still \$400 less than the 30-year fixed rate mortgage and only \$3 more than the interest only loan. The pace of growth in the deferred interest is starting to slow as well. The annual principal reduction was 1.7% for the 30-year fixed rate mortgage, compared to increase of 0.1% for the minimum payment with flat rates, 2.4% increase for the minimum payment with rates up 200 bps, a decrease of 2.2% for the minimum payment with rates down 200 bps (0.5% greater than the fixed rate mortgage), and no change for the interest-only loan. The LTVs for these products were: 65.8% for the fixed rate mortgage, 71.7% for the minimum payment with flat rates (5.9% spread), 77.2% for the minimum payment with rates up 200 bps (11.4% spread), 66.5% for the minimum payment with rates down 200 bps (0.7% spread), and 70.0% for the interest only mortgage (4.2% spread). See Exhibit 5 for further details. We note that all of these LTV ratios are still under 80% and would generally be considered conservative.

#### Exhibit 5: Summary Statistics Per Loan Type For Year 4

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	1.7%	6.0%	65.8%
Min Payment - Flat Rates	19,281	1,607	-0.1%	-2.5%	71.7%
Min Payment - Up 200 bps	19,281	1,607	-2.4%	-10.3%	77.2%
Min Payment - Down 200 bps	19,281	1,607	2.2%	5.0%	66.5%
Interest Only Mortgage	19,250	1,604	0.0%	0.0%	70.0%

Source: JMS

**Year 5 Comparison: Divergence In Option ARM Payments But LTVs Still Below 80%...** In year 5, the Option ARM had a 7.5% payment increase for the flat and up 200 bps rate scenarios. In the down 200 bps scenario, the payment only increased 2.1%. Even with increase for the Option ARM, the monthly payment is still \$280 less than the fixed rate mortgage. The cumulative difference in payment between the Option ARM (flat or up 200 bps) and the 30-year fixed rate mortgage was \$30,261 or lower than \$504 per month on average. The trade off is a higher loan balance. The LTV of the 30-year fixed rate mortgage was 64.6%, compared to 71.5% for the minimum payment with flat rates (6.9% higher), 78.8% for the minimum payment with rates up 200 bps (14.2% higher), 64.9% for the minimum payment with rates down 200 bps (0.3% higher), and 70.0% for the interest-only mortgage (5.4% higher).

See Exhibit 6 for further details. Over five years, deferred interest was less than 10% of the value of the house (or less than \$50,000). We view the increase in the LTV ratio similar to a home equity line of credit or second mortgage and all the LTVs were below 80%.

**...And Last Year Of Low Payments For The Interest Only Loan.** We note that year five is the last year of low payments for the interest-only loan and the borrower is going to have payment shock in year 6, as the monthly payment increase 35.5% to \$2,174 from \$1,604 (assuming stable rates). The monthly payment would increase to \$2,586 (up 61.2%) if we assume rate increased 200 bps over the past five years. We believe this could be troubling for some borrowers. If we assume the rising interest rate scenario, the borrower would have a monthly payment of \$2,447 (52.6% higher than year 5) if the loan was refinanced into a 30-year fixed rate mortgage at 7.50%. If the borrower were to refinance into another interest only mortgage at 7.50% (200 bps higher than the original loan), the monthly payment would be \$2,188 or 36.4% higher. If the borrower could not afford this increase, we believe the home would be sold so the borrower could retain his/her 30% equity. We assume that the interest-only borrower does not plan on remaining in the house for the full five years. We have more concerns that payment shocks would cause credit quality issues than a modest decline in housing values.

### Exhibit 6: Summary Statistics Per Loan Type For Year 5

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	1.8%	7.7%	64.6%
Min Payment - Flat Rates	20,727	1,727	0.3%	-2.2%	71.5%
Min Payment - Up 200 bps	20,727	1,727	-2.1%	-12.6%	78.8%
Min Payment - Down 200 bps	19,691	1,641	2.4%	7.3%	64.9%
Interest Only Mortgage	19,250	1,604	0.0%	0.0%	70.0%

Source: JMS

**Year 7 Comparison: Option ARM Monthly Payments Are About Equal To The Fixed Rate Mortgage And The LTV Creeps Above 80%.** It took seven years for the monthly minimum payment of the Option ARM (with a 200 bps increase in rates) to reach the fixed rate mortgage (\$1,996 compared to \$2,007, a difference of \$11). Over this time, the borrower had \$32,192 in lower payments or an average savings of \$383 per month. Deferred interest on this loan increased to 16.5% of the original mortgage (\$57,750) but still had a LTV of 81.5%. We also note that the Option ARM with a decline in rates of 200 bps has a LTV of 61.5% or 0.5% lower than the fixed rate mortgage. We believe the benefit of the Option ARM (payment flexibility and low monthly minimum payments) clearly outweighs the risk (an increasing LTV ratio) as long as the borrower has enough equity in the property. We also note the average life of mortgages has fallen from 7-8 years about 5-10 years ago to about 3-4 years today (July prepayment speeds at Golden West indicate an average life of 3.2 years). As a result, the increase in the LTV ratio is not likely to have a major impact on credit quality (assuming the average life of mortgages stays low). See Exhibit 7 for summary statistics per loan type.

### Exhibit 7: Summary Statistics Per Loan Type For Year 7

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	2.1%	11.4%	62.0%
Min Payment - Flat Rates	23,952	1,996	1.2%	-0.2%	70.1%
Min Payment - Up 200 bps	23,952	1,996	-1.5%	-16.5%	81.5%
Min Payment - Down 200 bps	19,691	1,641	2.7%	12.1%	61.5%
Interest Only Mortgage	26,092	2,174	0.0%	2.1%	67.2%

Source: JMS

**Year 10 Comparison: The Last Year Of Deferred Interest.** By the tenth year of just making the minimum payment with an increase of 200 bps in rates, the borrower just about covers the accrued interest. Negative amortizations added in year ten was only 0.3% or \$1,419. The LTV ratio peaked at 83.4% in year 10 compared to 57.6% for the 30-year fixed rate mortgage (25.8% spread). The monthly payment for the Option ARM with a rise of 200 bps in rates was \$2,279 13.6% higher than the fixed rate mortgage, but over the past 10 years payments have averaged \$177 lower than the fixed rate mortgage. In a declining 200 bps rate environment, the Option ARM payment remained 18.2% lower than the fixed rate mortgage and repaid principal at faster pace (the Option ARM has a LTV ratio of 56.0% compared to 57.6% for the fixed rate mortgage). See Exhibit 8 for further details.

### Exhibit 8: Summary Statistics Per Loan Type For Year 10

	Annual Payment	Monthly Payment	Annual Principal Reduction Percentage	Cumulative Principal Reduction Percentage	LTV
30-Year Fixed Rate Mortgage	\$24,082	\$2,007	2.6%	17.8%	57.6%
Min Payment - Flat Rates	27,344	2,279	2.6%	6.6%	65.4%
Min Payment - Up 200 bps	29,756	2,480	-0.3%	-19.2%	83.4%
Min Payment - Down 200 bps	19,691	1,641	3.3%	20.0%	56.0%
Interest Only Mortgage	26,092	2,174	0.0%	2.6%	62.4%

Source: JMS

#### Key Conclusions:

- The Option ARM Provides The Borrower Payment Flexibility And Allows Participation In Changing Rate Environments.** In a rising rate environment, the Option ARM borrower was able to trade off a lower monthly payment for an increasing loan balance. Said differently, the borrower was able to take a home equity line of credit out at the first mortgage rates, which is generally lower. With manageable payment increases each year (7.5% maximum), the borrower is not subject to payment shock (as in the case of the interest only loan). In a falling rate environment, the borrower repays principal at a faster rate than fixed rate borrowers by only making the minimum payment. We believe these features are what attracts borrowers to this product and why we do not believe a significant reduction in Option ARM originations would occur with a flat-to-slightly inverted mortgage curve (ARMs higher than fixed rate mortgages). If the mortgage curve were to invert (adjustable rates higher than fixed rates) significantly to where the trade off between the payment options and having equity in the home were no longer favorable, we believe this would cause a sharp drop in Option ARM originations. We would be concerned that Option ARM origination volumes would slow significantly if the spread inverted to 50-75 bps.
- Underwriting Standards Are Important.** Our analysis demonstrated the importance of equity in the home for the Option ARM product with a rise in interest rates. This analysis would be drastically different if the initial LTV ratio was above 80% or if the house lost value to the point where the borrower has little or no equity. We would have major credit quality concerns for Golden West if the LTV ratios were over 80%, but we are not worried since the average LTV is under 70% and the company has insurance for the small amount of the portfolio with an LTV over 80%. Additionally, we would have concerns if borrowers were qualified at the minimum payment rate. While the increase in the minimum payment is a modest 7.5% per year, the difference in the minimum monthly payment between year 1 and year 3 was 15.6% or \$202 in the plus 200 bps rate scenario. This increase could cause modest payment shock if qualified at the lower rate (and would be even more troublesome combined with a high LTV). Golden West qualifies borrowers at the fully indexed amortizing rate, which provides some comfort that the borrower can afford to make monthly payments at higher rates.



## Comparison Of Option Arms, Interest-Only, And Fixed Rates With Declining Housing Values

**Equity Is An Important Factor For Underwriting.** For the second scenario, we examine the impact of declining housing values on the same loan products. We used a total of three cases: stable housing values, a 5% annual decline for five years (and then stable), and a 20% initial decline and then stable. The goal is to determine how these products differ under adverse conditions. We already showed that deferred interest increases as rates rise and that equity is important to minimize losses. Declining housing values and an increase in deferred interest is likely to eat up some/most of the borrowers' equity and could cause credit quality issues. Below we examine the LTV ratios for each of the products in each of the cases.

**LTVs For Stable Housing Prices: Still Plenty Of Equity Across The Board.** The stable housing prices are similar to the previous analysis. The 30-year fixed rate mortgage had an initial LTV of 70.0% that declined every year thereafter due to the principal repayments. The Option ARM (assuming flat rates and only the minimum payment) had a peak LTV of 71.7% in year 4 and decline every year thereafter. In an up 200 bps rate environment and only making the minimum payment, the Option ARM reached a peak LTV of 83.4% in year 10 and then declined. In a down 200 bps rate environment, the Option ARM never increased above 70.0% by just making the minimum payment. The interest-only loan never had a LTV above the initial 70.0% as well. See Exhibit 9 below for further details.

### Exhibit 9: LTV Ratios With Stable Housing Values

(%)

Year	30-Year Fixed Rate	Min. Payment Flat Rates	Min. Payment Up 200 Bps	Min. Payment Down 200 Bps	Interest Only
0	70.0	70.0	70.0	70.0	70.0
1	69.0	70.7	71.4	70.0	70.0
2	68.0	71.3	73.5	69.2	70.0
3	66.9	71.6	75.4	68.0	70.0
4	65.8	71.7	77.2	66.5	70.0
5	64.6	71.5	78.8	64.9	70.0
6	63.3	71.0	80.3	63.2	68.6
7	62.0	70.1	81.5	61.5	67.2
8	60.6	68.8	82.5	59.7	65.7
9	59.1	67.1	83.1	57.9	64.1
10	57.6	65.4	83.4	56.0	62.4
11	55.9	63.5	83.3	54.0	60.6
12	54.2	61.5	82.6	51.9	58.7
13	52.3	59.4	81.5	49.8	56.7
14	50.4	57.2	79.6	47.6	54.6
15	48.3	54.9	77.0	45.4	52.4
16	46.2	52.4	74.1	43.0	50.0
17	43.9	49.9	70.9	40.6	47.6
18	41.5	47.1	67.5	38.1	45.0
19	39.0	44.3	63.8	35.5	42.2
20	36.3	41.2	59.9	32.8	39.3
21	33.5	38.0	55.7	30.0	36.3
22	30.5	34.6	51.1	27.1	33.1
23	27.4	31.1	46.2	24.1	29.7
24	24.1	27.3	41.0	21.0	26.1
25	20.6	23.4	35.3	17.8	22.3
26	16.9	19.2	29.2	14.5	18.3
27	13.0	14.8	22.7	11.0	14.1
28	8.9	10.1	15.7	7.5	9.6
29	4.6	5.2	8.1	3.8	4.9
30	0.0	0.0	0.0	0.0	0.0

Source: JMS

**LTVs For A 5% Decline For Five Years: LTVs Do Not Exceed 108%.** The loan with the most risk with a 5% decline in housing values for five years is the Option ARM with a 200 bps increase in rates that makes only the minimum payment. The LTV breaks 100% in year five, peaks at 107.8% in year 10, and has a total of ten years with an LTV over 100% (years 5-14). If the borrower has payment issues during this time period, losses would be likely, but would be less than 10%. We believe the ability to pay rather than the value is the primary reason for default. We do not expect that many ARMs have a 10-year life, as borrowers are likely to refinance and/or move. Even if the average ARM life extends, we do not expect the entire portfolio of borrowers to have payment issues and default. The other loan types have the following peak LTVs: 30-year fixed rate mortgage was 83.5% in year 5, Option ARM with flat rates was 92.4% in year 5, Option ARM with rates down 200 bps was 83.9% in year 5, and interest-only loans was 90.5% in year 5 (See Exhibit 10 below). A period of continuing declining housing values would reduce borrower's equity, but based on these analysis losses would not be overwhelming.

**Exhibit 10: LTV Ratios With A 5% Decline In Housing Values For 5 Years And Then Stable**

(%)

Year	30-Year Fixed Rate	Min. Payment Flat Rates	Min. Payment Up 200 Bps	Min. Payment Down 200 Bps	Interest Only
0	70.0	70.0	70.0	70.0	70.0
1	72.7	74.5	75.2	73.7	73.7
2	75.4	79.0	81.4	76.6	77.6
3	78.1	83.6	87.9	79.3	81.6
4	80.8	88.1	94.8	81.7	85.9
5	83.5	92.4	101.9	83.9	90.5
6	81.9	91.8	103.8	81.7	88.7
7	80.1	90.6	105.4	79.5	86.8
8	78.3	88.9	106.6	77.2	84.9
9	76.4	86.8	107.4	74.8	82.8
10	74.4	84.5	107.8	72.3	80.6
11	72.3	82.0	107.6	69.8	78.3
12	70.0	79.5	106.8	67.1	75.8
13	67.6	76.8	105.3	64.4	73.3
14	65.1	73.9	102.9	61.6	70.6
15	62.5	70.9	99.6	58.6	67.7
16	59.7	67.8	95.7	55.6	64.7
17	56.7	64.4	91.7	52.4	61.5
18	53.6	60.9	87.2	49.2	58.1
19	50.4	57.2	82.5	45.8	54.6
20	46.9	53.3	77.4	42.3	50.8
21	43.3	49.1	71.9	38.7	46.9
22	39.4	44.8	66.1	35.0	42.7
23	35.4	40.2	59.7	31.1	38.3
24	31.1	35.3	52.9	27.1	33.7
25	26.6	30.2	45.6	23.0	28.8
26	21.8	24.8	37.8	18.7	23.6
27	16.8	19.1	29.3	14.3	18.2
28	11.5	13.0	20.3	9.7	12.5
29	5.9	6.7	10.5	4.9	6.4
30	0.0	0.0	0.0	0.0	0.0

Source: JMS

**LTVs For A 20% Initial Decline: Maximum Loss Should Be About 4%.** The initial 20% decline in collateral value is a less severe loss scenario for these mortgage products. The product most exposed is the Option ARM with an increase of 200 bps in rates and borrowers just making the minimum payment. The LTV reached 100% in year 6, peaked at 104.3% in year 10, and has an LTV over 100% for 8 years (years 6-13). This loss rate for the mortgager

would be about 4% if the borrowers had payment issues and had to foreclose. This compared to a maximum LTV of 86.3% for the 30-year fixed rate mortgage (in year 1), 89.6% for the Option ARM with flat rates (year 4), 87.6% for the Option ARM with 200 bps decline in rates (year 1), and 87.5% for the interest-only mortgage (years 1-5). See Exhibit 11 below for further details.

**Exhibit 11: LTV Ratios With 20% Initial Decline In Housing Values And Then Stable**

(%)

Year	30-Year Fixed Rate	Min. Payment Flat Rates	Min. Payment Up 200 Bps	Min. Payment Down 200 Bps	Interest Only
0	70.0	70.0	70.0	70.0	70.0
1	86.3	88.4	89.3	87.6	87.5
2	85.0	89.1	91.8	86.5	87.5
3	83.7	89.5	94.2	85.0	87.5
4	82.3	89.6	96.5	83.1	87.5
5	80.8	89.4	98.5	81.1	87.5
6	79.2	88.7	100.4	79.1	85.8
7	77.5	87.6	101.9	76.9	84.0
8	75.8	86.0	103.1	74.7	82.1
9	73.9	83.9	103.9	72.4	80.1
10	71.9	81.7	104.3	70.0	78.0
11	69.9	79.4	104.1	67.5	75.7
12	67.7	76.9	103.3	64.9	73.4
13	65.4	74.3	101.8	62.3	70.9
14	63.0	71.5	99.5	59.5	68.2
15	60.4	68.6	96.3	56.7	65.5
16	57.7	65.6	92.6	53.8	62.6
17	54.9	62.3	88.6	50.7	59.5
18	51.9	58.9	84.4	47.6	56.2
19	48.7	55.3	79.8	44.3	52.8
20	45.4	51.5	74.9	40.9	49.2
21	41.9	47.5	69.6	37.5	45.3
22	38.1	43.3	63.9	33.8	41.3
23	34.2	38.8	57.8	30.1	37.1
24	30.1	34.1	51.2	26.2	32.6
25	25.7	29.2	44.1	22.2	27.9
26	21.1	24.0	36.5	18.1	22.9
27	16.2	18.4	28.4	13.8	17.6
28	11.1	12.6	19.6	9.4	12.0
29	5.7	6.5	10.1	4.8	6.2
30	0.0	0.0	0.0	0.0	0.0

Source: JMS

**Key Conclusion: Equity Is Important If Housing Values Decline.** We believe the above analysis demonstrates the importance of borrower’s equity in the underwriting of Option ARMs. By historical standards, these declines in housing values were extreme (see our industry report titled “Housing Bubble? A Historical Look” Dated June 28, 2005). As long as interest rates rise at a gradual pace, we do not expect significant deterioration in housing values. Specifically for Golden West, we do not expect the loan portfolio to blow up because borrowers all of a sudden cannot make payments and the value of home declines significantly. As shown above, even an extreme decline in housing values would result in less than a 10% loss rate and that would occur over five years from now. Even under extreme duress, we do not expect the entire portfolio to have issues all at once, as not all loans are expected to reach years 6-13. However, we would expect the loss rate to increase at Golden West as net charges-offs were 1 bp or less since 1998.

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**Other Ways Golden West Mitigates Credit Risk.** The above scenario analysis assumed what we would consider the worst case (i.e. interest rates rising another 200 bps and housing valuing declining 20%-25%). We determined that underwriting is an important factor in limiting credit losses, specifically low loan to value ratios and qualifying borrowers at the fully indexed amortizing rate. There are other factors at Golden West to consider as well. First, the company has been originating and servicing this product for over 20 years. During this time, the product has been tested through many interest rate and economic cycles and management had an opportunity to make adjustments as necessary. We believe this is one of the reasons that net charge-offs have never been more than 18 bps of average loans in a period when the industry had loss rate near or above 100 bps. Another reason why net charge-offs have never been high is the company has an active servicing department that we believe tries to anticipate problems before they occur. The company has its own appraisal department to determine the value of the house. If it uses another appraiser, that appraiser must be trained by Golden West and the final appraisal is reviewed in-house. This helps the company to determine a true fair value, and we would not be surprised if Golden West uses more conservative values than others. Lastly, the company does not originate loans in the high end of the housing market, which typically have the largest swings in value. Golden West generally stays in the middle of the housing spectrum, which historically had low price decline in periods of stress. These factors, along with the scenario analysis reviewed above, provide us comfort that credit quality issues will not become significant.

## Exhibit 12: Amortization Schedule For A 30-Year Fixed Rate Mortgage

Assumptions:	
Purchase Price	500,000
Loan Amount:	350,000
Rate:	5.50%
Years:	30

Year	Accrued Interest (\$)	Total Payment (\$)	Monthly Payment (\$)	Principal Reduction (\$)	Remaining Balance (\$)	LTV (%)	Principal Reduction	
							Per Year (%)	Cumulative (%)
0					350,000	70.0		
1	19,250	24,082	2,007	4,832	345,168	69.0	1.4	1.4
2	18,984	24,082	2,007	5,098	340,070	68.0	1.5	2.8
3	18,704	24,082	2,007	5,378	334,692	66.9	1.6	4.4
4	18,408	24,082	2,007	5,674	329,019	65.8	1.7	6.0
5	18,096	24,082	2,007	5,986	323,033	64.6	1.8	7.7
6	17,767	24,082	2,007	6,315	316,718	63.3	2.0	9.5
7	17,419	24,082	2,007	6,662	310,055	62.0	2.1	11.4
8	17,053	24,082	2,007	7,029	303,026	60.6	2.3	13.4
9	16,666	24,082	2,007	7,415	295,611	59.1	2.4	15.5
10	16,259	24,082	2,007	7,823	287,788	57.6	2.6	17.8
11	15,828	24,082	2,007	8,254	279,534	55.9	2.9	20.1
12	15,374	24,082	2,007	8,708	270,827	54.2	3.1	22.6
13	14,895	24,082	2,007	9,186	261,640	52.3	3.4	25.2
14	14,390	24,082	2,007	9,692	251,949	50.4	3.7	28.0
15	13,857	24,082	2,007	10,225	241,724	48.3	4.1	30.9
16	13,295	24,082	2,007	10,787	230,937	46.2	4.5	34.0
17	12,702	24,082	2,007	11,380	219,556	43.9	4.9	37.3
18	12,076	24,082	2,007	12,006	207,550	41.5	5.5	40.7
19	11,415	24,082	2,007	12,667	194,884	39.0	6.1	44.3
20	10,719	24,082	2,007	13,363	181,520	36.3	6.9	48.1
21	9,984	24,082	2,007	14,098	167,422	33.5	7.8	52.2
22	9,208	24,082	2,007	14,874	152,548	30.5	8.9	56.4
23	8,390	24,082	2,007	15,692	136,857	27.4	10.3	60.9
24	7,527	24,082	2,007	16,555	120,302	24.1	12.1	65.6
25	6,617	24,082	2,007	17,465	102,837	20.6	14.5	70.6
26	5,656	24,082	2,007	18,426	84,411	16.9	17.9	75.9
27	4,643	24,082	2,007	19,439	64,971	13.0	23.0	81.4
28	3,573	24,082	2,007	20,508	44,463	8.9	31.6	87.3
29	2,445	24,082	2,007	21,636	22,826	4.6	48.7	93.5
30	1,255	24,082	2,007	22,826	-	-	100.0	100.0

Source: JMS

**Exhibit 13: Amortization Schedule For An Option ARM With Flat Rates**

<b>Assumptions:</b>	
Purchase Price	500,000
Loan Amount:	350,000
Rate:	5.50%
Years:	30

Year	Accrued Interest (\$)	Total Payment (\$)	Average Monthly Payment (\$)	Principal Reduction (\$)	Remaining Balance (\$)	LTV (%)	Principal Reduction		Payment Increase (%)
							Per Year (%)	Cumulative (%)	
0					350,000	70.0			
1	19,250	15,520	1,293	(3,730)	353,730	70.7	(1.1)	(1.1)	
2	19,455	16,684	1,390	(2,771)	356,501	71.3	(0.8)	(1.9)	7.5
3	19,608	17,936	1,495	(1,672)	358,173	71.6	(0.5)	(2.3)	7.5
4	19,699	19,281	1,607	(419)	358,591	71.7	(0.1)	(2.5)	7.5
5	19,723	20,727	1,727	1,004	357,587	71.5	0.3	(2.2)	7.5
6	19,667	22,281	1,857	2,614	354,973	71.0	0.7	(1.4)	7.5
7	19,524	23,952	1,996	4,429	350,544	70.1	1.2	(0.2)	7.5
8	19,280	25,749	2,146	6,469	344,075	68.8	1.8	1.7	7.5
9	18,924	27,344	2,279	8,420	335,655	67.1	2.4	4.1	6.2
10	18,461	27,344	2,279	8,883	326,772	65.4	2.6	6.6	-
11	17,972	27,344	2,279	9,372	317,401	63.5	2.9	9.3	-
12	17,457	27,344	2,279	9,887	307,514	61.5	3.1	12.1	-
13	16,913	27,344	2,279	10,431	297,083	59.4	3.4	15.1	-
14	16,340	27,344	2,279	11,005	286,078	57.2	3.7	18.3	-
15	15,734	27,344	2,279	11,610	274,468	54.9	4.1	21.6	-
16	15,096	27,344	2,279	12,248	262,220	52.4	4.5	25.1	-
17	14,422	27,344	2,279	12,922	249,298	49.9	4.9	28.8	-
18	13,711	27,344	2,279	13,633	235,665	47.1	5.5	32.7	-
19	12,962	27,344	2,279	14,382	221,283	44.3	6.1	36.8	-
20	12,171	27,344	2,279	15,174	206,109	41.2	6.9	41.1	-
21	11,336	27,344	2,279	16,008	190,101	38.0	7.8	45.7	-
22	10,456	27,344	2,279	16,889	173,213	34.6	8.9	50.5	-
23	9,527	27,344	2,279	17,817	155,396	31.1	10.3	55.6	-
24	8,547	27,344	2,279	18,797	136,598	27.3	12.1	61.0	-
25	7,513	27,344	2,279	19,831	116,767	23.4	14.5	66.6	-
26	6,422	27,344	2,279	20,922	95,845	19.2	17.9	72.6	-
27	5,271	27,344	2,279	22,073	73,773	14.8	23.0	78.9	-
28	4,057	27,344	2,279	23,287	50,486	10.1	31.6	85.6	-
29	2,777	27,344	2,279	24,567	25,919	5.2	48.7	92.6	-
30	1,426	27,344	2,279	25,919	-	-	100.0	100.0	-

Source: JMS

**Exhibit 14: Amortization Schedule For An Option ARM With 200 Bps Increase In Rates In One Year**

<b>Assumptions:</b>	
Purchase Price	500,000
Loan Amount:	350,000
Rate:	5.50%
Years:	30

Year	Average Interest Rate (%)	Accrued Interest (\$)	Total Payment (\$)	Average Monthly Payment (\$)	Principal Reduction (\$)	Remaining Balance (\$)	LTV (%)	Principal Reduction Per Year (%)	Principal Reduction Cumulative (%)	Payment Increase (%)
0	5.50					350,000	70.0			
1	6.50	22,750	15,520	1,293	(7,230)	357,230	71.4	(2.1)	(2.1)	
2	7.50	26,792	16,684	1,390	(10,108)	367,338	73.5	(2.8)	(5.0)	7.5
3	7.50	27,550	17,936	1,495	(9,615)	376,952	75.4	(2.6)	(7.7)	7.5
4	7.50	28,271	19,281	1,607	(8,991)	385,943	77.2	(2.4)	(10.3)	7.5
5	7.50	28,946	20,727	1,727	(8,219)	394,162	78.8	(2.1)	(12.6)	7.5
6	7.50	29,562	22,281	1,857	(7,281)	401,443	80.3	(1.8)	(14.7)	7.5
7	7.50	30,108	23,952	1,996	(6,156)	407,599	81.5	(1.5)	(16.5)	7.5
8	7.50	30,570	25,749	2,146	(4,821)	412,420	82.5	(1.2)	(17.8)	7.5
9	7.50	30,931	27,680	2,307	(3,251)	415,671	83.1	(0.8)	(18.8)	7.5
10	7.50	31,175	29,756	2,480	(1,419)	417,091	83.4	(0.3)	(19.2)	7.5
11	7.50	31,282	31,988	2,666	706	416,385	83.3	0.2	(19.0)	7.5
12	7.50	31,229	34,387	2,866	3,158	413,227	82.6	0.8	(18.1)	7.5
13	7.50	30,992	36,966	3,080	5,974	407,253	81.5	1.4	(16.4)	7.5
14	7.50	30,544	39,738	3,312	9,194	398,059	79.6	2.3	(13.7)	7.5
15	7.50	29,854	42,719	3,560	12,864	385,195	77.0	3.2	(10.1)	7.5
16	7.50	28,890	43,638	3,636	14,748	370,447	74.1	3.8	(5.8)	2.2
17	7.50	27,784	43,638	3,636	15,854	354,593	70.9	4.3	(1.3)	-
18	7.50	26,594	43,638	3,636	17,043	337,549	67.5	4.8	3.6	-
19	7.50	25,316	43,638	3,636	18,321	319,228	63.8	5.4	8.8	-
20	7.50	23,942	43,638	3,636	19,696	299,532	59.9	6.2	14.4	-
21	7.50	22,465	43,638	3,636	21,173	278,360	55.7	7.1	20.5	-
22	7.50	20,877	43,638	3,636	22,761	255,599	51.1	8.2	27.0	-
23	7.50	19,170	43,638	3,636	24,468	231,131	46.2	9.6	34.0	-
24	7.50	17,335	43,638	3,636	26,303	204,828	41.0	11.4	41.5	-
25	7.50	15,362	43,638	3,636	28,276	176,553	35.3	13.8	49.6	-
26	7.50	13,241	43,638	3,636	30,396	146,157	29.2	17.2	58.2	-
27	7.50	10,962	43,638	3,636	32,676	113,481	22.7	22.4	67.6	-
28	7.50	8,511	43,638	3,636	35,127	78,354	15.7	31.0	77.6	-
29	7.50	5,877	43,638	3,636	37,761	40,593	8.1	48.2	88.4	-
30	7.50	3,044	43,638	3,636	40,593	-	-	100.0	100.0	-

Source: JMS

**Exhibit 15: Amortization Schedule For An Option ARM With 200 Bps Decrease In Rates In One Year**

<b>Assumptions:</b>	
Purchase Price	500,000
Loan Amount:	350,000
Rate:	5.50%
Years:	30

Year	Average Interest Rate (%)	Accrued Interest (\$)	Total Payment (\$)	Average Monthly Payment (\$)	Principal Reduction (\$)	Remaining Balance (\$)	LTV (%)	Principal Reduction		Payment Increase (%)
								Per Year (%)	Cumulative (%)	
0	5.50					350,000	70.0			
1	4.50	15,750	15,520	1,293	(230)	350,230	70.0	(0.1)	(0.1)	
2	3.50	12,258	16,684	1,390	4,426	345,804	69.2	1.3	1.2	7.5
3	3.50	12,103	17,936	1,495	5,832	339,971	68.0	1.7	2.9	7.5
4	3.50	11,899	19,281	1,607	7,382	332,589	66.5	2.2	5.0	7.5
5	3.50	11,641	19,691	1,641	8,050	324,539	64.9	2.4	7.3	2.1
6	3.50	11,359	19,691	1,641	8,332	316,207	63.2	2.6	9.7	-
7	3.50	11,067	19,691	1,641	8,624	307,583	61.5	2.7	12.1	-
8	3.50	10,765	19,691	1,641	8,926	298,657	59.7	2.9	14.7	-
9	3.50	10,453	19,691	1,641	9,238	289,419	57.9	3.1	17.3	-
10	3.50	10,130	19,691	1,641	9,561	279,858	56.0	3.3	20.0	-
11	3.50	9,795	19,691	1,641	9,896	269,962	54.0	3.5	22.9	-
12	3.50	9,449	19,691	1,641	10,242	259,719	51.9	3.8	25.8	-
13	3.50	9,090	19,691	1,641	10,601	249,118	49.8	4.1	28.8	-
14	3.50	8,719	19,691	1,641	10,972	238,146	47.6	4.4	32.0	-
15	3.50	8,335	19,691	1,641	11,356	226,790	45.4	4.8	35.2	-
16	3.50	7,938	19,691	1,641	11,753	215,037	43.0	5.2	38.6	-
17	3.50	7,526	19,691	1,641	12,165	202,872	40.6	5.7	42.0	-
18	3.50	7,101	19,691	1,641	12,591	190,282	38.1	6.2	45.6	-
19	3.50	6,660	19,691	1,641	13,031	177,250	35.5	6.8	49.4	-
20	3.50	6,204	19,691	1,641	13,487	163,763	32.8	7.6	53.2	-
21	3.50	5,732	19,691	1,641	13,959	149,804	30.0	8.5	57.2	-
22	3.50	5,243	19,691	1,641	14,448	135,356	27.1	9.6	61.3	-
23	3.50	4,737	19,691	1,641	14,954	120,402	24.1	11.0	65.6	-
24	3.50	4,214	19,691	1,641	15,477	104,925	21.0	12.9	70.0	-
25	3.50	3,672	19,691	1,641	16,019	88,906	17.8	15.3	74.6	-
26	3.50	3,112	19,691	1,641	16,579	72,327	14.5	18.6	79.3	-
27	3.50	2,531	19,691	1,641	17,160	55,167	11.0	23.7	84.2	-
28	3.50	1,931	19,691	1,641	17,760	37,407	7.5	32.2	89.3	-
29	3.50	1,309	19,691	1,641	18,382	19,025	3.8	49.1	94.6	-
30	3.50	666	19,691	1,641	19,025	-	-	100.0	100.0	-

Source: JMS



**Exhibit 16: Amortization Schedule For An Interest Only Mortgage**

<b>Assumptions:</b>	
Purchase Price	500,000
Loan Amount:	350,000
Rate:	5.50%
Years:	30

Year	Accrued Interest (\$)	Total Payment (\$)	Average Monthly Payment (\$)	Principal Reduction (\$)	Remaining Balance (\$)	LTV (%)	Principal Reduction		Payment Increase (%)
							Per Year (%)	Cumulative (%)	
0					350,000	70.0			
1	19,250	19,250	1,604	-	350,000	70.0	-	-	-
2	19,250	19,250	1,604	-	350,000	70.0	-	-	-
3	19,250	19,250	1,604	-	350,000	70.0	-	-	-
4	19,250	19,250	1,604	-	350,000	70.0	-	-	-
5	19,250	19,250	1,604	-	350,000	70.0	-	-	-
6	19,250	26,092	2,174	6,842	343,158	68.6	2.0	2.0	35.5
7	18,874	26,092	2,174	7,219	335,939	67.2	2.1	4.0	-
8	18,477	26,092	2,174	7,616	328,324	65.7	2.3	6.2	-
9	18,058	26,092	2,174	8,034	320,289	64.1	2.4	8.5	-
10	17,616	26,092	2,174	8,476	311,813	62.4	2.6	10.9	-
11	17,150	26,092	2,174	8,943	302,870	60.6	2.9	13.5	-
12	16,658	26,092	2,174	9,434	293,436	58.7	3.1	16.2	-
13	16,139	26,092	2,174	9,953	283,482	56.7	3.4	19.0	-
14	15,592	26,092	2,174	10,501	272,982	54.6	3.7	22.0	-
15	15,014	26,092	2,174	11,078	261,903	52.4	4.1	25.2	-
16	14,405	26,092	2,174	11,688	250,216	50.0	4.5	28.5	-
17	13,762	26,092	2,174	12,330	237,885	47.6	4.9	32.0	-
18	13,084	26,092	2,174	13,009	224,877	45.0	5.5	35.7	-
19	12,368	26,092	2,174	13,724	211,153	42.2	6.1	39.7	-
20	11,613	26,092	2,174	14,479	196,674	39.3	6.9	43.8	-
21	10,817	26,092	2,174	15,275	181,399	36.3	7.8	48.2	-
22	9,977	26,092	2,174	16,115	165,283	33.1	8.9	52.8	-
23	9,091	26,092	2,174	17,002	148,282	29.7	10.3	57.6	-
24	8,155	26,092	2,174	17,937	130,345	26.1	12.1	62.8	-
25	7,169	26,092	2,174	18,923	111,421	22.3	14.5	68.2	-
26	6,128	26,092	2,174	19,964	91,457	18.3	17.9	73.9	-
27	5,030	26,092	2,174	21,062	70,395	14.1	23.0	79.9	-
28	3,872	26,092	2,174	22,221	48,175	9.6	31.6	86.2	-
29	2,650	26,092	2,174	23,443	24,732	4.9	48.7	92.9	-
30	1,360	26,092	2,174	24,732	-	-	100.0	100.0	-

Source: JMS

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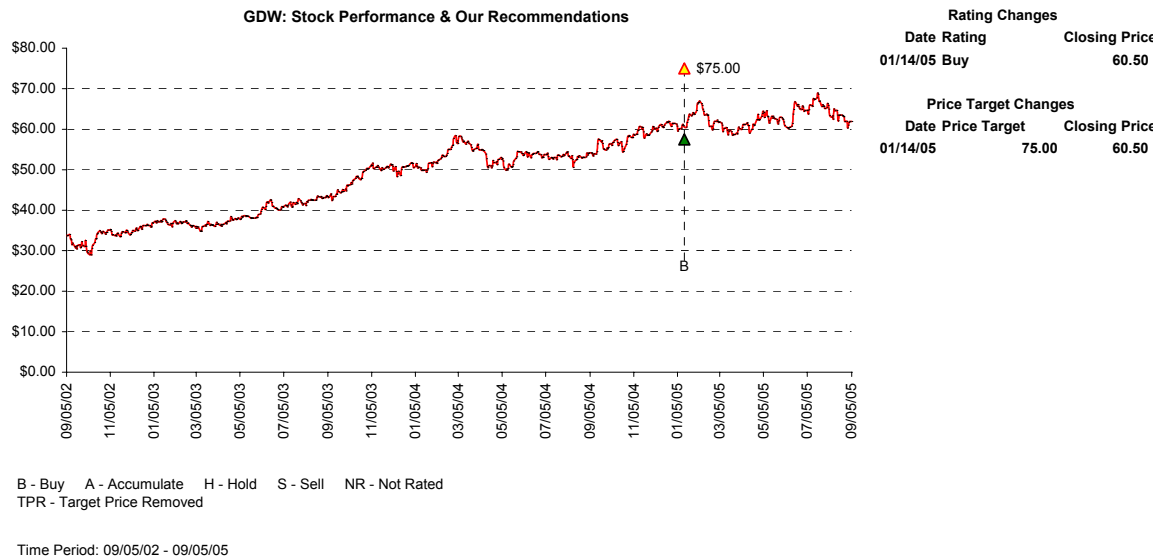
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