Golden West's Secret Of Success Pays Off

BY LORNA DOUBET

Golden West Financial Corp. has plenty of original art in the 194 branches of its World Savings and Loan unit, but not a single automated teller machine.

Not exactly the current formula for success in financial services, but the Oakland-based company has become the nation's sixth-largest S&L with the highest return on equity among the top 15.

The secret of Golden West's earnings success is not a glamorous tale. It's the product of a patient long-term strategy, attention to basics and tight controls over expenses and risks.

Under co-chief executives Herbert and Marion Sandler, Golden West and its World Savings subsidiary have grown from two savings offices in Oakland in 1963 to a 194-branch network spread over four states.

"We do everything judiciously," Herbert Sandler said when he was asked to comment on Golden West's enviable earnings record.

"You can characterize us as conservative and aggressive at the same time," Marion Sandler interjected in an interview last week at their Oakland offices. Golden West is aggressive when risks are low but conservative in making loans, she said.

"We're very long-term oriented," Herbert went on. "The strategic plan really doesn't change that much," Marion elaborated. Golden West isn't "hidebound," she said, but a short-term change in the economic environment "doesn't throw us off our five-year plan."

For example, while many S&Ls are eager to offer fixed-rate mortgages now that interest rates are low, the Sandlers are sticking with adjustables.

Keeping costs down and emphasizing customer service are other Sandler hallmarks.

World Savings branches don't have automated teller machines, basically because management has found that they are not cost-effective. On the other hand, World has set a standard that no customer at any branch should have to wait more than five minutes to be helped.

Another Golden West advantage is management stability resulting from the Sandlers' long reign. Their earlier careers also give them a valuable perspective: he was a lawyer, she a securities analyst specializing in the S&L industry.

But, Herbert points out, the attention that he and Marion get as a husband-and-wife team obscures the depth of management at the company.

Industry analysts like what they see at Golden West and consistently cite it for its low costs and the high quality of its loan portfolio.

The company concentrates on home mortgages, restricts construction lending and avoids what Golden West calls "exotic lending" for hotels, high-rise office buildings, credit cards and commercial loans.

The result: one of the industry's lowest levels of bad loans — 0.65 percent at the end of last year.

More than most, it has stayed close to the traditional business of S&Ls — buying stable deposits from individual savers and making home loans. It has avoided discount brokerage, loan servicing and other popular diversification moves.

"We are not pioneers; we have no need to be the first," said Marion Sandler, adding, "there are enormous risks for being the first and the rewards are not that great."

To minimize the risks of interest rate swings, Golden West has built up the ratio of adjustable-rate loans to 50 percent of total loans vs. 37 percent at the end of 1984 and only 7 percent in 1982.

BY MICHAEL MALONEY

Herbert and Marion Sandler say they can be characterized as both conservative and aggressive

It is working to get that ratio still higher and now makes fixed-rate loans only to the extent that competition dictates.

Back in the early 1980s, even World Savings couldn't avoid a couple of red-ink years as it got caught in a squeeze that wreaked havoc on the nation's thrifts. Old fixed-rate mortgages paying low interest rates wiped out profits when deregulation of deposits forced the industry to pay much higher market rates of interest.

Now, the Sandlers are in the vanguard of industry leaders who speak out against the excesses of S&Ls who use their new lending and investment powers to speculate wildly with their depositors' money.

Herbert shook up the routine at an industry meeting earlier this month in San Francisco with an impassioned attack against the federal deposit insurance system.

Instead of rewarding soundly run S&Ls, Sandler said, the Federal Savings and Loan Insurance Corp. punishes them by charging extra assessments — money which is then used to bail out sick S&Ls who have gotten into trouble through uncontrolled growth and risky loans.

The Sandlers want FSLIC assessments based on an institution's capital strength and level of risk, not just on the amount of its deposits.

But, Golden West has not stopped growing and plans to expand mainly through acquisitions outside its four-state network. Not surprisingly, the Sandlers emphasized last week, growth will be prudent and selective.