

Investor's Daily

Monday, April 9, 1990

LEADERS & SUCCESS

Golden West: No Mess for a No-Frills Thrift

The Big California S&L Shuns The 'Glamour,' But Its Bottom Line Gets Star Billing

By Karen Padley

Visitors to Golden West Financial Corp.'s executive offices face an empty lobby when they step off the elevator.

There's no receptionist, just a solitary desk. On it sits a phone and a card: "Lift receiver for assistance."

The setup exemplifies the sixth-largest U.S. savings and loan association's no-frills business concept.

Based in Oakland, Calif., Golden West has one of the thrift industry's best records for cost control. Its overhead expenses last year were only 0.98% of assets, compared with an industrywide average of 1.61%.

The difference adds up. Golden West was the nation's second-



most profitable thrift in 1989, earning \$157.9 million, or \$2.51 a share, on assets of \$19 billion. The most profitable thrift, H. F. Ahmanson & Co. of Los Angeles, made \$36 million more, but on double the assets.

Golden West's performance was the kind that observers have come to expect from the thrift. The average annual growth rate of its core earnings has been 28% over the last five years and 19% over the last 20 years.

Golden West now has 200 offices in 18 states, but the company's business strategy has changed little since Herbert Sandler and his wife, Marion, bought their first thrift in 1963. It takes in customer deposits and makes single-family mortgages. Period.

The company offers no credit cards, no automatic teller machines. It has only a few commercial real estate loans and has never owned a "junk" bond. The management and directors still hold between 20% and 30% of the thrift's stock.

It's not that Golden West is opposed to diversification, a trend that hit the savings and loan industry in the 1980s and helped lead to its downfall. But the grass

has never been all that much greener on the other side.



"There's all the expenses of development, all the risk of being first, and the benefits are not all that obvious," said Marion Sandler, president and co-chief executive with her lawyer husband. "We tend to stay away from the glamour, the bells and whistles."

She noted that many businesses, not just the thrift industry, have gotten in trouble when they strayed from their basic function. "I took very, very seriously a lesson I learned when in graduate school," she said. "The riskiest business is one that has no history, no way of anticipating what will happen."

(continued on back)

Extra Capital

Those who want to get into riskier segments of the business should be required to put up extra capital, she believes. The Sandlers felt so strongly about the issue that they ran an advertisement to that effect in *The Washington Post* last year during debate on thrift bailout legislation.

Golden West is one of the few thrifts to meet all of the stricter capital requirements eventually enacted, even those that won't be fully phased in until 1995.

The company has higher internal capital standards than the federal government requires, mostly to ensure access to the capital markets. Those standards also allow Golden West room to grow, either through internal expansion or acquisitions.

Marion Sandler estimated assets could grow about 10% to 15% annually, even without acquisitions, because of its current capital position and low dividend.

And any acquisitions will be made very selectively. "We're not going to do it at the risk of jeopardizing what we've worked to build," she said. "We're very bottom-line oriented." However, she acknowledged, "It is highly likely that we'll be able to do mergers that fit with our situation."

The company previously has

expanded into Colorado, Ohio, Washington and Texas by buying failed thrifts and manages Beach Federal Savings & Loan Association of Boynton Beach, Fla., for the Resolution Trust Corp. Golden West currently is conducting a financial review of Beach Federal, Sandler said, but hasn't decided whether to exercise its option to buy the thrift.

She shrugged off talk that real estate prices in California, its primary market, may be cooling. "That comes up every six or seven years," she said. "Any time there's been rapid price appreciation, there seems to be digestion or a plateau." Analysts note that Golden West has been very conservative about the mortgages it makes and is less likely than many other institutions to have problems if a slowdown occurs.

Bruce Harting of Salomon Brothers Inc. in New York, who studied underwriting standards at thrifts last fall, puts Golden West among the most conservative.

In a recent research report, Alan Bortel and E. Gareth Plank of Shearson Lehman Hutton Inc. estimated that "the only major risk in GDW's loan portfolio is a slide in the value of existing residential properties of 20% to 30%."

Even if that were to occur, analysts noted that Golden West now has an extremely low number of

non-performing loans, less than 0.5% at the end of 1989. Dan Williams of Sutro & Co. said the average of 17 thrifts he tracks was 1.17% in 1989, with values ranging from 0.05% to 2.34%.

Perhaps the worst thing analysts have to say about Golden West is that its current stock price already reflects the positive outlook. It sells at roughly nine times annual earnings, the highest price-earnings ratio of any bank or thrift in California.

"The stock always looks expensive, but it consistently performs," said David Hochstim, an analyst with Bear, Stearns & Co. in New York. "The question is: At what point is it a good buy?"

Peter Treadway, an analyst with Smith Barney Harris Upham & Co., rates the stock a hold, although a strong one because the group as a whole has been under pressure. "I'm not sure that, even if the group did better, a higher multiple would be that easy to achieve," he said.

"It was up so strong last year that the chances of it getting out in front of the group this year are not very great at this point," said Harting of Salomon Brothers. But Golden West is on the short list of thrifts he thinks can weather the "chaos" currently rocking the industry.