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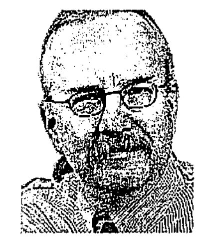
Virtue Well Rewarded

California banker proves there is great value in bringing old-fashioned standards to modern lending



HERB SANDLER, one of the good guys in the banking business, has sold out. After 43 years of running perhaps the most successful, most by-the-book and most innovative savings and loan companies in the country, he's handing the keys to a new owner, Wachovia Corp., one of the biggest financial institutions in the nation.

But it's not as bad as it sounds. Herb says the North Carolina-based conglomerate hews to the values he has promoted for decades – in particular, paying careful attention to the needs of borrowers and their circumstances. That, he says, can benefit everybody.

For anyone who doesn't know his name, Herb Sandler was a hero of the savings and loan crisis. In the late 1980s and early 1990s, he was a regular in Washington, scolding his industry, its regulators and lawmakers for allowing the crooks to loot the vaults.

Along with his wife, Marion, he's the co-CEO of Golden West Financial Corp., the operating company for World Savings, the nation's second-largest thrift, based in Oakland, Calif. Herb has always been the more public of the two; Marion just made the company run well.

A banker who does his job, who treats his borrower as a 'partner' and who isn't out there just churning paper, can use flexible lending terms to benefit all parties.

Their story is a lesson for those who believe bankers can't be good citizens, or that banks must be tightly constrained to keep unscrupulous fat cats from ripping off people at every turn.

For example, Herb cried foul over the actions of Charles Keating before his Lincoln Savings and Loan imploded, ruining the life savings of hundreds of Keating's investors. He complained that the U.S. League of Savings Institutions, which represented the industry and lobbied to permit its excesses, was in the pockets of the high-fliers and buying big trouble for those thrifts (like his) that wanted to stick to their knitting. And he harangued the lawmakers whom the league had cajoled.

When it came time to close down hundreds of failing and weakened thrifts, Herb was in the audience on Capitol Hill making sure it was done right. For the most part, it was – at a final cost to the taxpayers of about $120 billion.

In the aftermath of that crisis, Golden West Financial thrived, buying up the shards of a destroyed industry and doing what it had always done – taking deposits and making home loans with the money. Nothing fancy.

Along the way, Herb and Marion prospered, but so did their customers and shareholders. Golden West's stock trades on the New York Stock Exchange. Its share price was about $10 a decade ago and is close to $75 today. The two-branch thrift they bought in 1963 now has 285 branches in 10 states and more than 10,000 employees. The company makes mortgage loans in 39 states. With $125 billion in assets – almost every dollar a mortgage loan originally underwritten by Golden West – the company has shown how it should be done.

Last week, Wachovia, a bank that also started small and is now the fourth largest in the country, agreed to buy Golden West for $25 billion. Herb holds Wachovia in almost as high regard as his own bank, and he and Marion will join it as advisers and major shareholders.

TAKING CARE

The thing about Herb Sandler is that he's a stickler for getting things exactly right.

He gets quite annoyed, for example, at loose talk about the risks posed – to lenders and borrowers alike – by so-called exotic mortgages. These include loans that allow borrowers to pay nothing but interest for a time and "option ARMs" that allow borrowers to choose how much to pay each month based on their cash flow.

Bank regulators have been warning lenders to be more careful about who gets these loans and to be prepared in case a financial shock leads to a spate of delinquencies and defaults.

But there's nothing at all "exotic" about these loans, Sandler insists. They've been bread and butter for World Savings since 1981. Not a single loan his company has made in the past quarter-century has gone bad simply because it was an option ARM, he says. That's a period that covered three recessions and two very long economic booms. Through good times and bad, these loans have worked for World Savings and its customers, he says, because the bank is careful in its underwriting standards and careful in its appraisals.

Of those $125 billion in loans that World Savings carries on its books, virtually all are option ARMs. Other lenders sell off the loans they make to finance additional lending, but not World.

"Have some lenders made lots of loans to people who should not qualify? Almost undoubtedly, yes," Sandler says. "Has there been lousy underwriting? Undoubtedly, yes."

He comes close to blowing the whistle on greed and he blames a change in attitude in the last few years. "It comes out of – if you will, in my opinion, I may have some biases here – a rush for volume." But he wants it known plainly that a banker who does his job, who treats his borrower as a "partner" – Sandler's term – and who isn't out there just churning paper, can use flexible lending terms to benefit all parties. World Savings is proof of that.

The problem is, World isn't like all banks. And that may be why you just can't let the financial wizards run loose without regard for basic principles. So no one should doubt that the Sandlers will continue to speak up when necessary. Herb will, anyway.