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Thriving Thrift

If Only All the S&Ls Had Been Managed Like Golden West

Husband-Wife Team Reveled in Stodginess To Boost Loan Profits, Stock Price

No Junk Bonds, No Perks

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OAKLAND, Calif. — They met on a beach in the Hamptons in 1960. He tried to impress her with his business acumen, talking at length about securities documents known as "red herrings." She was coy, not letting on that she certainly knew a lot more about such matters than he did. Only later would the talk turn to the topic that would soon become their shared secret passion: Savings and loans.

No kidding. Herb Sandler was a gangly New York lawyer, and Marion Osher was a sharp-minded Wall Street financial analyst from Maine, and from that chance encounter would spring a partnership that has become one of the more intriguing—and successful—in American business.

The Sandlers, who married in 1961, run Golden West Financial Corp. here, an S&L that is truly a mom-and-pop operation, albeit one with $20 billion in assets.


Marion Sandler

While the air is full of doomsday talk about the thrift industry these days, by many measures Golden West, whose main operating unit is World Savings and Loan Association, is among the nation's strongest financial institutions. Annual growth in earnings from its traditional lending operations has averaged 19% over the past 20 years. Analysts expect Golden West's 1990 net income to surge about 27% to some $200.3 million, or $3.19 a share.

Starting with a $4 million investment in 1962, the Sandlers now own about 7% of a company with a current market capitalization of nearly $2 billion.They have achieved this through a remarkable combination of savvy marketing and relentlessly stodgy—some say boring—business principles. First among them is a ferocious devotion to penny-pinching that has kept their costs lower than any other large depository institution's, bringing new meaning to the term "thrift."

The Sandlers rarely stray beyond making adjustable-rate loans in the snooze-inducing home mortgage market, declining to offer even automated teller machines. They do without corporate jets and corporate dining rooms and even corporate receptionists: Visitors to the company's 17-story headquarters are instructed by a placard to announce their own arrival on an old black telephone. Marion says she does allow herself the extravagance of a chauffeur: It is her husband, who handles that extra chore for free.

Two other principles have been to hoard capital and concentrate only on conservatively priced home loans. The Sandlers, for example, basically refused to compete with S&Ls that in the '80s were routinely making below-market loans or venturing into commercial real estate.


Herbert Sandler

"It's the quintessential application of common sense to the thrift industry," says Alex Sheshunoff, a banking consultant based in Austin, Texas. "If Benjamin Franklin were alive today he'd be comfortable sitting on Golden West's board."

Along the way, mom and pop

Thriving Thrift : If Only All S&Ls Operated The Way Husband - Wife Team Runs California's Golden West

Sandler have openly and often gratuitously insulted some of their competitors, riled government regulators, influenced federal thrift policy with high-profile political lobbying and generally earned a reputation as the shrewdest thrift operators in the country.

Golden West's story illustrates an oft-overlooked truth about the battered and much-maligned thrift industry, which collectively lost $19 billion last year. About half of the nation's S&Ls—some 1,250 or so of the nation's remaining 2,500 thrifts not in government conservatorship—actually are relatively healthy. Many are even thriving, by sticking close to thrifts' traditional business of making home mortgages and by squeezing costs.

It remains to be seen how many of these healthy thrifts will survive the wrenching changes in the industry augured by the thrift bailout bill and fierce competition from commercial banks and government-sponsored mortgage agencies. Moreover, they still depend on healthy mortgage markets, which may turn sickly this year if the sharp downturn in home construction continues. Golden West in particular has to prove that it, unlike most other big thrifts, can manage its recent rapid growth.

But Golden West's success is all the more striking because the Sandlers have achieved something far more rare than rich profits in the thrift industry: jointly running a multibillion-dollar business and avoiding divorce. Many couples who've tried, like Susie and Doug Tompkins of apparel-maker Esprit de Corp., have seen their marriages dissolve amid feuding over the direction or control of the company. "A lot of couples would wind up strangling each other in [the Sandlers'] situation," says Herbert Gold, a San Francisco writer and a friend of the Sandlers. "Most people vow to stay together for better or worse but not for lunch. It's a real testament to the uniqueness of Herb and Marion's relationship."

Herb, 58, is chairman of the board and co-chief executive. Marion, 59, is president and co-chief executive. They've split their duties as equally as their titles. Herb tends to focus on big-picture issues, credit matters and public speaking. Marion, an inveterate numbers cruncher, handles financial analysis, marketing and deposit gathering; she also personally writes the company's annual reports.

Marion's Idea

Their strategy evolved largely from Marion's work as a thrift analyst on Wall Street in the early 1960s. "Marion concluded that the thrift business was almost a guaranteed moneymaker," recalls Bernard Osher, her brother, who now runs Butterfield & Butterfield, a San Francisco auction house. "It was a regulated industry, and she saw that if you kept right on top of things, kept your costs down and stayed with the basics, there were profits to be made." It was Marion's idea to head west from New York—partly to buy a thrift, and partly to combat her lifelong asthma.

In 1962, the Sandlers packed up their belongings, drove to California and eventually bought Golden West, then a sleepy institution with $34 million of assets and two offices.

Golden West has grown steadily since, but the truly explosive growth has come in the past two years. During the mid-1980s, as many thrifts grew madly, the Sandlers retrenched, thinking that home loans were being irrationally priced too low to be profitable.

As a result, World Savings, the main lending unit, basically was shut down from 1985 to 1987, generating no asset growth. The Sandlers buoyed profits by selling off huge bundles of mortgage-backed securities; net income from such sales and other nonlending activities totaled $90.9 million in 1985 and 1986.

Golden West at the time had lending operations in just two states, California and Colorado. The Sandlers saw the need for expansion, but decided they needed time to overhaul their lending procedures and risk controls before barreling into unfamiliar territories. They also dispatched teams to scrutinize possible new markets.

Who's Laughing Now?

"People said we were through, they said we'd lost our marketing touch," Herb recalls. "Wall Street crucified us. Well, we knew what we were doing. One thing you don't do is let Wall Street run your business."

He adds, with great satisfaction: "Of the competitors that laughed at us, not a single one is still in business today."

In its quiet period the company built its capital ratios far above government requirements, giving it the extra cash to finance expansion—through acquisitions and the opening of new offices—into 16 new states, and allowing it to pile on billions of dollars of new mortgages. The company has also been lucky; its return to a growth mode coincided with a prolonged boom in the California housing market, still its main turf.

Assets jumped from $12.9 billion at the end of 1987 to more than $20 billion now.

Such fevered growth usually is a precursor of disaster in the thrift industry, but the Sandlers reduced that risk by keeping things boring. During the growth spurt, and throughout their history, they eschewed junk bonds, condominium loans, commercial real estate and some of the other hot new lending games opened up by deregulation in the early 1980s. Their one foray outside of home mortgages, a two-year flirtation with car loans, was a bust; they abandoned that business in 1987.

Their lending standards also are tougher than those of most thrifts, in part because of a change the Sandlers made during their lending lull: Most loans must be approved by a committee of top executives. "There is too much potential for myopia when you have decision-makers at too low a level," Herb explains. "There is a tendency to push for volume because it looks good."

Furthermore, the Sandlers generally won't lend more than 80% of a home's purchase price; many lenders in California will go to 90%.

Primarily for these reasons, World Savings' bad loans are phenomenally low: Its repossessed real estate amounted to only 0.1% of its roughly $20 billion in assets at year-end.

Even more important to the Sandlers' success has been their fanatical cost-cutting. Top executives—even the Sandlers—never fly first class. James Judd, Golden West's chief operating officer, stays in mid-priced hotels and rents economy cars when he's on the road, and expects other executives to do the same.

Shortly after acquiring one new branch a few years back, Mr. Judd noticed that "there were times when the lobby was so barren of customers that you could fling a dead cat through there and not hit anybody. Yet we still had the same number of tellers as at the peak hours." Mr. Judd arranged for more tellers during heavy hours and fewer during light ones.

While the Sandlers pay their employees well—and reward them with stock options that the company's success has made very valuable—they stretch their manpower to save money. Golden West has about 3,100 employees; by comparison, CalFed Inc., which is slightly larger in asset base, has 5,620.

Bonuses are awarded partly on the basis of a manager's ability to meet or beat budget. That prompted one branch manager to shut off half the lights in his branch during working hours; even Marion says "that was going a little too far."

Some competitors say this simple, low-cost approach—particularly the fact that Golden West offers no ATM machines or credit cards—could backfire some day. "They may one day wake up to discover that they are behind the times," says Patrick Price, retired chairman of San Francisco Federal Savings & Loan. One generally admiring rival chief executive says he wonders whether the Sandlers are deferring expenditures on such products as ATMs so the company's profits would look better to a possible acquirer.

"That is an incredibly naive and extraordinarily stupid comment," Herb replies caustically. "Who said that? Is he in the business? He ought to find out what his costs are on ATMs. He obviously doesn't know how to analyze anything." There are no plans to sell, either, he says.

"We have analyzed this thoroughly, and we see no evidence that our customers want ATMs," says Marion. Moreover, the company has installed spaces for ATMs in all its branches. "If the customers want ATMs, we can have them put in virtually overnight," adds Herb.

Though witty and personable, Herb can be vicious when on the attack, and among his favorite targets are the fast-buck thrift operators, regulators and members of Congress he and Marion blame for a thrift crisis they've been predicting since the early '80s.

Herb was in full battle cry at congressional hearings in August 1988. He figured that losses in the mounting thrift crisis then were at least $100 billion, and in a now-legendary performance, he denounced official estimates that the problem was no more than $15 billion as "pure unadulterated nonsense right out of Alice and Wonderland." Arms flailing, voice roaring, he also liberally invoked such words as "incompetent" and "insane."

Marion is no slouch as a critic, either. "Every time I go to Washington I am simply amazed at the pathetic quality of this country's leadership," she declares.

Such tirades have earned the Sandlers as many enemies as friends, but subsequent events have proved them largely correct. The cost of paying and financing the thrift industry's losses over the next decade will range from $400 billion to $500 billion, according to a recent study by Mr. Sheshunoff, the banking consultant.

So where do the Sandlers turn for an encore? They're tightlipped about their future course, but privately, Herb has remarked on Golden West's growing capital cushion and coyly noted that "you don't go hunting for elephant without an elephant gun." Friends take that to mean that the couple may be cooking up a big acquisition.

That might change the look of the company, but as long as the Sandlers are there, **Golden West** will continue to bear their unique stamp.