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Section 3

Inside the Nation's Best-Run S.&L.

Terrence McCarthy for The New York Times

Herbert M. and Marion O. Sandler, co-chief executives of the Golden West Financial Corporation at headquarters in Oakland, Calif.

A Husband and Wife Team Playing By The Old Rules Has Won Wall Street's Heart.

By RICHARD W. STEVENSON

OAKLAND, Calif.

HERBERT M. and Marion O. Sandler, the husband-and-wife team that runs the Golden West Financial Corporation, have had the good sense never to invest company funds in "junk bonds," windmill farms or any of the other far-fetched ventures that have sunk so many savings and loans.

They have also had the good fortune to do business primarily in California—which in recent years has enjoyed strong economic growth—rather than in depressed states like Texas and Arizona, now savings and loan graveyards.

But the Sandlers are more than just survivors in the shrinking universe of healthy savings institutions. They have made Golden West—whose branch network operates under the name of World Savings—into what many analysts consider the nation's best-managed savings and loan.

And even as doubts increase about whether there is a place in the world of financial services for a savings and loan industry distinct from commercial banking, they have proven that there is still considerable profit—and growth potential—in the

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mundane business of attracting savings deposits and carefully lending the money back out again in the form of home mortgages.

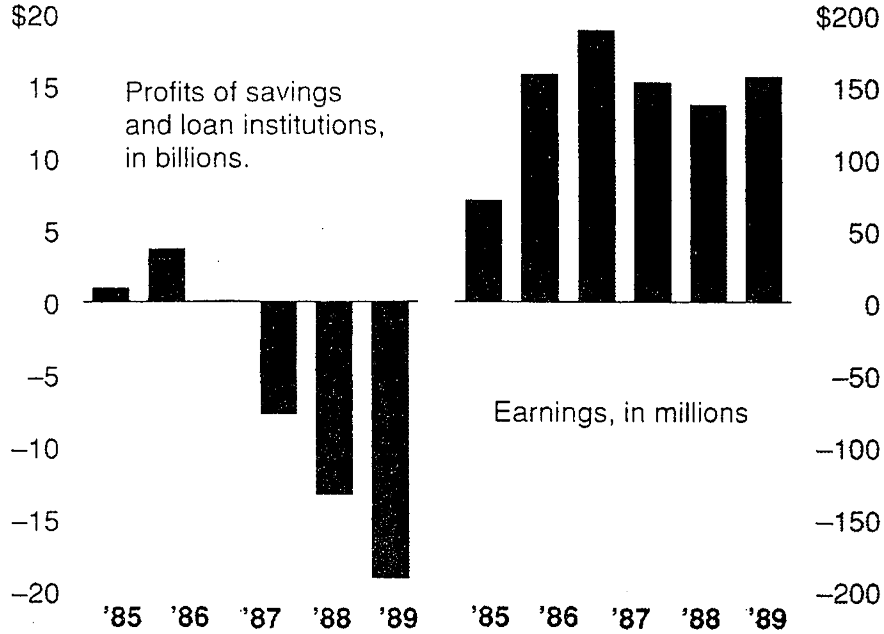
"Golden West is one of the best financial firms in the country, period," said Peter Treadway, an analyst at Smith Barney, Harris Upham & Company.

There has not been much good news from the savings and loan industry for the past five years. Hundreds of institutions have collapsed and hundreds more are in danger of failure, victims of regional economic downturns, poor management and outright fraud. The cost to taxpayers will reach into the hundreds of billions of dollars. Industry executives are widely viewed as incompetent or criminal, and all too often the stereotype is true.

But a significant portion of the industry has always remained profitable and honest. The Sandlers, for example, are conservative, methodical, penny-pinching and risk-averse in the extreme—and they have spent nearly three decades shaping Golden West, now the nation's sixth-largest savings and loan, in their image. The antithesis of the high-rollers attracted to the industry by deregulation, they remain downright boring—and proudly so.

Weathering the Storm

While savings and loan losses grew larger . . . **. . . Golden West's profits remained high.**



Sources: Office of Thrift Supervision; company reports

An Appetite for Calm

"Perhaps we can best characterize Golden West's attitude toward lending by simply saying that your management likes to sleep undisturbed by worries and nightmares," the Sandlers wrote in a letter to shareholders in their most recent annual report.

The Sandlers use all the techniques of modern financial management, paying especially close attention to cost control. But the core of their business is decidedly—some might say refreshingly—old-fashioned: The company lends out Federally insured deposits almost exclusively in the form of home mortgage loans, forgoing potentially more lucrative but far riskier loans and direct investments in shopping centers, office buildings and other commercial real estate. Of the 27,436 loans it made last year, 93 percent went to single-family homes and virtually all of the rest to multi-unit residential housing.

It does this through a network that seems almost anachronistic in this age of one-stop financial shopping. It has 205 branches in California and five other states and operates 65 loan offices in 16 states, including New York, New Jersey and Connecticut.

To keep costs low, the company does not even have automated teller machines, almost certainly making it the largest financial institution in the

A Traditional Mortgage Lender

Loans made by Golden West in 1989.

Type Of Loan	Number Of Loans	% of Total	Amount	% of Total
Single family	25,609	93.3	$4,035,390,000	85.9
2 to 4 units	1,113	4.1	225,012,000	4.8
5 or more units	712	2.6	435,641,000	9.3
Commercial	1	—	162,000	—
Unimproved land	1	—	338,000	—

Source: Company reports

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nation not to offer that service. Most of its customers are old-fashioned savers, who patiently deposit their funds in return for competitive interest rates. "They've identified their customer and the services the customer wants, and they don't provide anything else," Mr. Treadway said. "They have tremendous control of expenses."

As archaic as the strategy might seem, it has worked. Golden West's earnings have been consistently strong at a time when the industry as a whole has been running up huge losses. The company's shares are worth 10 times what they were at the beginning of the 1980's. It has almost no bad loans.

Even as most other institutions scramble to raise more capital to meet the Government's tougher new standards for financial strength, Golden West is in the enviable position of having far more capital than regulations require. Unlike most savings and loans, Golden West has also been able to raise new capital in the financial markets in recent months, completing two subordinated debt offerings totaling $215 million.

As a result, it is one of the few institutions with the capability of expanding, either by acquisition or internal growth. In May, for example, the company acquired from the Government the $725 million in deposits held by a failed savings institution in Colorado, already its second-largest market after California. And just last week, the company completed the acquisition of Community Federal Savings and Loan in Mahwah, N.J. Community Federal, with six branches and assets of $460 million, gives Golden West its first deposit-taking offices in the Northeast.

The Partnership

The Sandlers have been running Golden West together since acquiring it for $4.1 million in 1963, when it had $34 million in assets. They took it public in 1968, and today, assets have grown to $20 billion.

Mr. Sandler, 58 years old, is a former New York lawyer who serves as chairman and co-chief executive and, in his three-piece suit, looks very much the old-fashioned banker. Mrs. Sandler, 59, learned about the industry as a securities analyst on Wall Street. She holds the titles of co-chief executive and president. The two finish each other's sentences, prompt each other to tell favorite stories and appear to have long since worked out whatever problems might have cropped up in the marriage of their personal and business lives.

"You know that old saying about it being lonely at the top?" asked Mr. Sandler. "Well, it's not here."

Moreover, they are clearly enjoying the vindication of their cautious approach after having been roundly criticized by Wall Street for not being aggressive enough and disparaged by competitors for running something of a dinosaur. "Over 20 years, running the institution in our fashion, through all the turmoil that's taken place, our compound annual rate of growth and earnings is 20 percent," said Mr. Sandler, ticking off the kind of statistic that has turned Golden West into a current favorite among stock analysts. "To my knowledge, no bank or thrift has done that."

Looking at Change

The Sandlers say they have nothing against change. After Congress and the state legislatures deregulated the industry during the early 1980's, "We researched discount brokerage," said Mr. Sandler. "We just couldn't figure out how to make money in it. Everyone else got into it and a few years later they were all getting out."

The Sandlers freely admit that they see no advantage to plunging into new businesses just to be trendy or to match the competition.

Golden West's most clearly visible advantage is its low operating costs. The company's general and administrative expenses last year—the cost of running the company—were $181.8 million, or 0.97 percent of total assets, down from 1.14 percent the year before. That compares to1.57 percent of assets on average last year for the 10 other largest savings and loan companies in California.

If the company's expense ratio had been the same as that of its competitors, its earnings last year would have been $86.5 million, or $1.37 a share, instead of its actual profits of $157.9 million, or $2.51 a share. In this year's second quarter, Golden West earned $49 million, or 78 cents a share, a 22 percent increase over the same period in 1989.

The greater profit margin gives the company more flexibility in deciding how many new loans to make—and therefore it may say no to riskier loans that other institutions might consider as they try to generate higher earnings.

"Because we're such a profitable company, we can operate well with a lower volume," Mrs. Sandler said. "We don't have a high-fixed-overhead loan machine that we have to feed continually."

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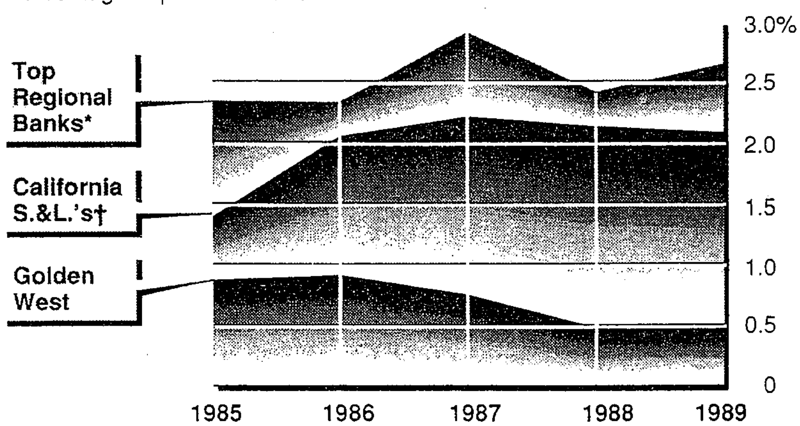
Golden West's Strong Loan Portfolio

Percentage of problem loans.



*21 institutions with $20 billion or more in assets and top ratings from credit agencies.
†10 largest publicly held companies, excluding Golden West.

Source: Golden West Financial Corp.

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The company's cost advantage comes from many things, large and small. It does not have the expense of installing and maintaining automated teller machines. Cost-consciousness is so ingrained that branch managers charge executives visiting from headquarters for the phone calls they make from the branch.

The company also studies the work load in its branches and has an hour-by-hour and day-by-day model for each staffing requirement. Of the 1,050 employees who work in its branches, more than 500 are on permanent, part-time status, keeping payroll costs low.

Just as important to Golden West's success as cost-cutting is the high quality of its loan portfolio, a result, to some extent, of its almost total concentration on home mortgage lending. Borrowers, after all, are less likely to default on their mortgages than on any other type of loan.

And even within the field of mortgage lending, Golden West stands out. Last year, an impressive 93 percent of its residential loans were made with downpayments of 20 percent or more, considerably higher than the industry average. The result has been to keep the number of bad loans to a minuscule five-tenths of 1 percent of total loans last year.

Just Say No

How do they do this? The Sandlers point to a deeply ingrained corporate culture, which holds that there is no shame for a loan officer to say no. Indeed, when in two periods in the last decade economic conditions or intense competition suggested that they would have to lower credit standards to attract borrowers, they instead virtually swore off making new loans, even at the cost of not growing for a year or two.

"We were damned by Wall Street," Mrs. Sandler said. "When you have zero loan growth for two years, you really feel the heat."

But by retaining earnings at a time when it was not growing in asset size, Golden West improved its underlying financial strength. The strategy paid off when Congress, in legislation passed last year to bail out and reform the industry, substantially increased capital requirements.

Today, as one of the few institutions whose capital levels greatly exceed all three of the Government's new minimum tests for financial strength, Golden West has options closed to most institutions. Chief among them is the ability to grow.

Many analysts think the company's next big move will be in Florida, where it holds an option to acquire Beach Federal Savings.

But whatever Golden West does—and however it chooses to adapt to growing competition from banks and to the always changing regulatory climate—as long as the Sandlers stay in charge, it is certain to remain conservative, even dull. "We have a jewel of a company," Mrs. Sandler said, "and we're not about to do anything to jeopardize it."

The Sandlers, Side by Side

It is not always easy for Herb and Marion Sandler to be husband and wife as well as co-chief executives. They will occasionally be at a dinner party or business gathering when the men and women drift into separate groups. "The wives gather here and the gentlemen gather there, and I want to be over there, where Herb is talking about business," Mrs. Sandler said. "It can be a little awkward."

But aside from that type of situation, the Sandlers say they have almost no problems working alongside each other. "If we came at things differently all the time, it would be impossible, but that's true for any executives working closely together, not just husbands and wives," Mrs. Sandler said.

After graduating from City College of New York and Columbia University Law School, Mr. Sandler became a lawyer and represented a number of savings institutions. Mrs. Sandler, after graduating from Wellesley and New York University's business school, worked as a securities analyst, following the stocks of savings and loan companies. After their marriage, in 1961, they talked constantly about how they were unimpressed by the quality of the management running most savings institutions. Finally, deciding to see if they could do better, they moved to the West Coast from New York to scout small savings institutions that might be takeover candidates. In 1963, they made a deal for Golden West.

Today, they work in adjacent offices and are in and out of meetings together all day. And although it's clear that they run the company, they stress repeatedly how much they rely on the two other members of their office of the chairman—James T. Judd, 51 years old, and Russell W. Kettell, 46, both senior executive vice presidents. "This isn't the Herb and Marion show," Mr. Sandler said.

Although they are not planning on retiring any time soon, the Sandlers have a succession plan in place, in case of the unexpected. Mr. Judd and Mr. Kettell are at the top of the list. "We call it the Mack Truck question," Mr. Sandler said. "We all have backups ready to go in case something happens. The idea of somebody being indispensable is anathema to corporate governance."