BANKSTOCKS.COM

Fudging and Distortions at *60 Minutes*

The show's attack on Herb and Marion Sandler is both factually incorrect and unfair

---

Thomas Brown **(about me)**
Posted 02/19/2009
bankstocks.com
tbrown@bankstocks.com

Did you see the *60 Minutes* report on Herb and Marion Sandler's World Savings on Sunday? If you did, you saw a travesty. The report managed to get virtually all relevant facts related to World's marketing and underwriting practices precisely backwards—and in the process unfairly maligned, even libeled, two of the most able, honorable financial services executives of the past half century. The report was essentially a work of fiction masquerading as journalism. The people at CBS News ought to be ashamed of themselves.

I first began covering World Savings's parent, Golden West Financial, back in 1980, when it and all other thrifts were suffering through a period when an inverted yield curve was thrashing industry profits. Even then, Golden West was the best-run, best performing of publicly traded thrifts—as it had been essentially since the company was founded in 1963. Since 1980, Golden West remained the industry leader, whether measured by credit quality, earnings growth, overall profitability, or just about any other measure you can name. Its reputation for integrity was unquestioned. By the time the Sandlers sold Golden West to Wachovia in 2006, their legacy in the financial services industry was unmatched.

None of this, by the way, is a matter of dispute among people who follow the industry even casually. And yet the *60 Minutes* report would have viewers believe that Herb and Marion Sandler were unethical in their pursuit of corporate profits. That's crazy. I have known many great bankers over the years. But the list of true industry legends is much shorter; it includes people like Lew Preston of JP Morgan, John Medlin and Bud Baker of Wachovia, and Carl Reichardt of Wells Fargo. Herb and Marion Sandler belong on that list, as well. They weren't just great bankers—they were business heroes!

All of which is a long way of saying that the reporters and producers at CBS News (Surprise!) simply don't know what they're talking about.

60 Minutes notes that the Sandlers refused to be interviewed. Given the obviously tendentious nature of CBS's approach, I don't blame them. But Herb Sandler did provide CBS with a huge amount of relevant information about World's business practices in two letters to the show's producer, Graham Messick. In them, Sandler debunks many of the factual assertions CBS would later try to get away with, and cast's material doubt on the credibility of the show's main source, an ex-World employee named Paul Bishop. But CBS essentially ignored everything Sandler had to say. It wasn't about to let facts get in the way of a good story.

Let's look at some *60 Minutes'* charges, and the actual facts, and you'll see what I mean.

1. **Who is the accuser, anyway?** The report largely relies on an interview with Bishop, the ex-employee who worked at World Savings starting in 2002 until he was terminated in 2006. In both his letters, Sandler urges Messick to check Bishop's background, and asks in particular that Messick get Bishop's permission to open up his employment file. (Personnel files can't be legally released without the employee's permission, for privacy reasons.) We don't know if Messick bothered to. Even by CBS's own account, though, Bishop is someone with a career history that ought to arouse some suspicion regarding his credibility. "He'd been a top salesman at IBM and spent years as a stock broker," the report says. "Most everywhere he went, he had a reputation for speaking his mind and ruffling feathers." My translation: the guy couldn't cut it in three different industries, in part because he's an abrasive jerk.

   This is the individual who's the main source for CBS's story. Yet CBS seemed to not have the slightest curiosity as to the details of his background. For a story so damaging to the Sandlers--and all the employees of World Savings, for that matter--to rely so heavily on words of one terminated employee strikes me as half-baked journalism.

2. **World Savings supposedly pushed mortgages on people who couldn't afford them**. This charge isn't just wrong, it's stupid. Remember, World didn't sell the mortgages it originated—*it kept them on its books.* If the company's goal really were to extract fees at origination and then offload credit risk, World would have sold its loans soon as it could. But the company didn't do that. Losses on defaulted mortgages can quickly overwhelm fees earned at origination; if the *60 Minutes* people don't get that, they truly don't have a clue how the lending business works.

3. **World Savings' "Pick-A-Payment" option ARM was a bad product for consumers.** Herb Sandler actually goes into a lot of detail about option ARMs in his letters to Messick. Naturally, everything he says gets ignored. Instead, *60 Minutes* simply avoids telling the story of World Savings's option ARM, why it was offered, why it was successful, and how it was different from other, similar products on the market

place.

So here are the facts. World Savings first started offering the first version of option ARMs in 1981, when it became legal for a thrift to do so. Over the next 25 years the company's average annual net chargeoff rate on the product *was just 4 basis points*, with a peak chargeoff rate of 18 basis points on 1999. This data strongly supports the view that the option Arm product was not inherently risky.

The table below shows annual losses at Golden West from 1968 through 2005, its last year as an independent company. The point—and it should be glaringly obvious—is that Golden West was not the reckless, unethical underwriter portrayed on *60 Minutes*. In fact, it was just the reverse. The people working on the story knew this; Herb Sandler had given them the data. But they ignored him. That's reckless and irresponsible.

Golden West Chargeoffs, 1968-2005:

	Golden West Chargeoffs (Recoveries)
	As % of Average Loans Outstanding (in basis points)
2005	0
2004	0
2003	0
2002	0
2001	0
2000	0
1999	(1)
1998	0
1997	6
1996	10
1995	15
1994	18
1993	16
1992	9
1991	7
1990	7
1989	4
1988	6
1987	8
1986	10

1985	3
1984	0
1983	(1)
1982	(1)
1981	(1)
1980	0
1979	0
1978	(1)
1977	1
1976	1
1975	0
1974	0
1973	(1)
1972	(4)
1971	1
1970	0
1969	(7)
1968	1

(Source: Golden West Financial)

4. **World Savings supposedly changed its underwriting philosophy and went for volume over quality**. Correspondent Scott Pelley reports that "Bishop says he watched the bank famous for quality begin to emphasize quantity." Neither Pelley nor Bishop offers any data to support this claim. Yet in his letter to Messick, Sandler provides data that showed that the percentage of applications funded by Golden West declined steadily between 2005 and 1992, to 58% from 68%. If anything, then, the company was steadily tightening its standards. That totally contradicts Bishop's claim. But, again, the data goes unreported.

Percentage of Golden West Applications that Were Funded, 1992-2005

Year	Funded
2005	58%
2004	58%
2003	58%
2002	59%
2001	57%
2000	58%
1999	56%
1998	57%
1997	60%
1996	60%
1995	61%
1994	67%
1993	68%
1992	68%

(Source: Golden West Financial)

60 Minutes' reckless disregard of the facts is a disgrace. Yes, Golden West's loan portfolio will suffer incredibly high loan losses--not because of shoddy underwriting. Rather, the properties the company lent against are enduring a one-in-100 year event with respect to home prices. In an environment like that, losses will rise, no matter how judicious you are.

Herb and Marion Sandler had an incredibly positive business career. They are in no way responsible for the housing bubble or its subsequent implosion. There's no shortage of bad actors in the credit mess. *60 Minutes* is way off base in claiming that the Sandlers are among them.

What do you think? [*Let me know*]!

Related: