**Don't Pin the Blame On Us**
By Herbert and Marion Sandler
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We must set the record straight. TIME made a mistake by listing us among their 25 people to blame for the economic mess. We wish TIME had reviewed the facts with us and knowledgeable professionals prior to publication, but do thank the editors for allowing us to respond.

For more than 40 years, we built and ran a traditional, residential mortgage portfolio lender, Golden West Financial Corporation (and its subsidiary World Savings Bank). The Company had a reputation for its ethics, integrity, transparency, risk-averse lending practices, as well as outstanding operating results. With discipline and a talented work force, the Company grew from a local, two-branch operation in 1962 to a national, 520-office operation in 39 states at the time of its sale in 2006. For more on the Company, see www.goldenwestworld.com.

During that 40+ year period:

- we had the lowest loan losses in the industry;
- we achieved a long-term earnings record unparalleled in American corporate history, with the possible exception of Warren Buffet's Berkshire Hathaway;
- we always advocated for strong regulatory oversight of the banking industry and never experienced a single regulatory lapse or scandal; and
- **we were always a <u>portfolio</u> lender**, meaning we kept our mortgage loans on our own books and did not package and sell loans to investors.

Since portfolio lenders like Golden West suffer direct losses if their loans go bad, we had a risk-averse approach:

- our in-house staff underwrote and appraised each loan, scrutinizing borrowers' ability to perform and maintaining our average loan-to-value (LTV) ratio at just 71% (even as other lenders were routinely making loans with LTVs of 90%, 100% or even more);
- we made high-quality loans, avoiding subprime loans that charge higher rates to certain borrowers;
- we worked directly with borrowers who might experience problems; and
- we maintained ample capital as a safeguard against the unexpected.

In essence, we focused on high-quality mortgages that would work for borrowers, since our business model depended on keeping loan losses as low as possible. We never set volume targets, we were a small player in a huge market (never exceeding 1.75% of the total U.S. residential mortgage market), and we were alone among lenders in openly and vigorously opposing proposed new capital rules that would have further facilitated rapid loan growth by weakening the amount of capital banks had to hold for residential mortgages.

While we maintained our traditional, conservative portfolio business model, most every major mortgage lender in the country shifted to a completely different model: mortgage banking. A mortgage banker makes and promptly sells large volumes of loans to investors, often in complex securitization tranches, while retaining little or no “skin in the game” or a relationship with the original borrower. Mortgage bankers’ earnings depend on fees generated by selling ever larger volumes of loans. Their underwriting standards could often be summed up as follows: *We’ll make any loan, as long as someone is willing to buy it*. Most knowledgeable observers agree that this volume-driven approach to lending is what led to the economic mess.

TIME and others also have their facts wrong about adjustable rate mortgages (ARMs), particularly with respect to Golden West. **The portfolio ARM used by Golden West since 1981, a quarter of a century, was fundamentally different and safer for consumers than ARMs sold and securitized by mortgage bankers in huge volumes starting around 2003.**

Some background is in order. A risk-averse residential portfolio lender can sensibly make and hold only ARMs on their books. Fixed-rate loans are too risky to hold because if interest rates spike, the bank would owe more on its shorter-term liabilities than it would earn on its long-term assets (this concern about “borrowing short and lending long” spurred regulators to authorize and encourage portfolio ARM lending in 1981). But risk-averse ARM lenders have to carefully structure their ARM to reduce or eliminate the risk that a borrower could experience a significant payment increase (referred to as “payment shock”) if interest rates rise. Golden West and other major West Coast portfolio lenders carefully structured their portfolio ARM to ensure the loan worked for borrowers. In our 25-year history with the portfolio ARM loan, few, if any, loans ever resulted in a significant payment increase to borrowers. Even today, after the worst economy since the Great Depression, Wells Fargo (which now owns the Golden West portfolio) reports they expect that only a nominal number of Golden West portfolio ARMs might trigger a significant payment increase in the coming years. Unfortunately, Golden West’s safer portfolio ARM gets confused with the mortgage banker ARM that eliminated Golden West’s structural safeguards and was sold and securitized in huge volumes starting around 2003, thereby significantly increasing the risk of payment shock, default and foreclosure.

TIME also had its facts wrong about Wachovia. There is no disputing, with the benefit of hindsight, that Wachovia bought Golden West at a peak market, and clearly losses resulted from Golden West’s portfolio. However, no lender, no matter how conservatively run or whether they did ARM or fixed-rate lending, can avoid loan losses when housing prices decline at historically unprecedented levels of 50% or more, accompanied by surging unemployment. Also overlooked is that Wachovia’s actual losses from non-Golden West activities were approximately $15 billion in the final five quarters before its sale to Wells Fargo, almost ten times more than the $1.6 billion of actual losses from the Golden West portfolio in the same period. Wells Fargo has also said that the old Golden West portfolio is performing better than it anticipated, suggesting that actual losses could be well below the reserves they established at the time of the Wachovia acquisition. Finally, we estimate that 35-55% of the actual losses Wells might incur from the mortgage portfolio it acquired were generated by Wachovia after it had acquired Golden West.

Many critical facts about Golden West’s portfolio lending, our safer ARM structure and the actual and potential losses in the Company’s portfolio have been overlooked by the media, including TIME. **An article published in December 2008 by *The New York Times* falsely portrayed us as responsible for contributing to the economic crisis. The *Times* issued a series of retractions and corrections conceding problems with the original article, cancelled publication of a book that would have reprinted the article, and subsequently referred to us**

**as bankers "who were recognized as the gold standard of integrity" in the banking industry. A *60 Minutes* story that aired in February 2009, which was built around the claims of a disgruntled former employee suing World Savings, has also been discredited. We had warned *60 Minutes* before the show aired that their principal source, Paul Bishop, was unreliable. An independent arbitrator, after a full examination of Mr. Bishop's employment records and depositions and testimony from a variety of witnesses, decided there was no basis for Mr. Bishop's claim and awarded Mr. Bishop nothing. The arbitrator noted that Mr. Bishop was continuously rude to his co-workers, was not a whistleblower, and could not identify any loan or employee to be checked for potential illegalities. Here is the result: http://www.goldenwestworld.com/wp-content/uploads/bishop-final-decision-3-18-10.pdf. A story in the March/April 2010 edition of the Columbia Journalism Review (CJR), a respected publication affiliated with the prestigious Columbia School of Journalism with a mission to "encourage and stimulate excellence in journalism in the service of a free society," called into question the accuracy of the reporting about us and Golden West. Here it is: http://www.cjr.org/feature/the_education_of_herb_and_marion.php?page=all&print=true.**

Once the facts are known, it is just plain wrong to pin the blame on us.

Finally, prior to Golden West's sale, we transferred the majority of our personal, long-term holdings in Golden West to a spend-down charitable foundation, and the remainder remains committed for philanthropic use, as was always our family's plan. We are devoting the rest of our lives to our long-held charitable interests to try and make the world a better place for the most vulnerable among us, including fighting predatory lending, exposing corruption and human rights abuses, and advancing scientific research to cure asthma and third-world parasitic diseases.