MYTHS AND FACTS

Golden West Financial Corporation/World Savings Bank

(Last Updated June 25, 2010)

Background:

In the aftermath of the housing and economic crisis, the media and others wanted to understand who was to blame for the crisis and some rushed to judgment without any understanding of the subject matter. Knowledgeable observers have ultimately concluded that the crisis was facilitated by certain key factors, most notably:

1. A credit bubble, particularly in residential subprime and other mortgages, fueled by the origination, securitization and sale of huge volumes of loans by mortgage bankers into complex mortgage-backed securities (MBS). These MBS, including collateralized debt obligations (CDOs), were marketed by investment banks, purchased by hedge funds and other Wall Street investors, and blessed with AAA-ratings by rating agencies who were complacent (or worse).
2. The development and growth of complicated derivative instruments that magnified risks, including synthetic CDOs and credit default swaps (CDS). These derivative markets were neither transparent nor regulated and created a tangled web of counterparties that increased systemic risk when the credit bubble burst.
3. The destabilizing use of high leverage by financial institutions, which was made possible because of inadequate capital regulations. The use of high leverage also meant that many institutions were operating with inadequate liquidity, which increased their risk once credit markets contracted.
4. A variety of regulatory (or, perhaps more accurately, deregulatory) missteps, including the abolition of the Glass-Steagall Act, the maintenance of historically low interest rates for too long, ineffective regulatory oversight of financial institutions, and the existence of a completely unregulated shadow financial system (including mortgage brokers).

Residential mortgage <u>portfolio</u> lenders like Golden West Financial Corporation, that had operated in the same risk-averse fashion for more than 40 years, <u>did not</u> participate in the risky activities that contributed to and fueled the crisis – e.g. Golden West did not abandon traditional underwriting principles to generate huge volumes of loans, did not securitize and sell loans to investors, did not engage in the subprime practice of selling high-interest loans to borrowers, and did not enter into complex derivative instruments or participate in the CDO/CDS markets. Instead, Golden West stuck to its conservative residential mortgage <u>portfolio business model of making high-quality loans that stayed on the company's books</u>, keeping loan losses to a minimum (the lowest in the industry, including those who made only traditional 30-year fixed-rate loans), keeping tight controls over expenses, maintaining high capital and liquidity, achieving a long-term earnings record unparalleled in American corporate history (with the possible exception of Warren Buffett's Berkshire Hathaway), and actively advocating for stronger capital and mortgage regulations.

Unfortunately, in the immediate post-crisis hysteria, some in the media and elsewhere jumped to many erroneous conclusions about Golden West based on false, flawed or incomplete information.

The information on the following pages lays out some of the myths and facts about Golden West.

Myths

Here are some of the myths that are false:

1. ***Myth:** Golden West securitized its loans and sold them to investors.*
2. ***Myth:** The adjustable rate mortgage (ARM) offered by Golden West was a "tricky" loan, harmful to borrowers.*
3. ***Myth:** All Option ARMs are the same.*
4. ***Myth:** Golden West originated subprime mortgages.*
5. ***Myth:** Prior to its 2006 sale to Wachovia, Golden West changed from a 40+ year focus on quality to a focus on volume.*
6. ***Myth:** Golden West was to blame for the housing and economic crisis.*
7. ***Myth:** Golden West was responsible for Wachovia's demise.*
8. ***Myth:** The losses from the Golden West portfolio will be $36 billion.*
9. ***Myth:** The CEOs of Golden West, Herbert and Marion Sandler, pocketed $2.3 billion from the sale of Golden West to Wachovia.*

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1. **Myth:** Golden West securitized its loans and sold them to investors.

FACTS:

- Golden West was a portfolio lender, meaning it kept its loans on its books and retained the risk. Unlike every other major mortgage lender in the country, Golden West maintained a conservative, risk-averse portfolio lending business model throughout its more than 40-year history.
- Golden West was not a mortgage banker like Countrywide, IndyMac, or Washington Mutual, whose business models required them to originate huge volumes of loans for securitization and sale to investors. These mortgage bankers are the ones who shifted to shortcut underwriting and appraisal practices to make vast numbers of loans faster, packaged them into collateralized debt obligations (CDOs) and other complex securitizations with multiple tranches, and sold the securitized structures to investors, while retaining no skin in the game.

- As a portfolio lender, Golden West made money if borrowers stayed current on their loans and lost money if borrowers could not perform on their loans. This gave Golden West every incentive to originate only high-quality loans that would perform and work for borrowers. By contrast, mortgage bankers made money by generating fees from selling loans to investors and passing on the risk of loss to investors, and were therefore incented to make greater volume of loans. See http://www.goldenwestworld.com/business-model/ for a more detailed description of the differences between the portfolio business model and the mortgage banking business model.
- Portfolio lenders (like Golden West), who keep the loans on their books, can work directly and quickly with borrowers who might experience problems or need to modify or restructure their loans. By contrast, mortgage bankers are often unable to work with borrowers who may experience problems because the loans have been securitized and sold to others.

2. **Myth:** The adjustable rate mortgage (ARM) offered by Golden West was a "tricky" loan, harmful to borrowers.

FACTS:

- Starting in 1981, bank regulators authorized, and urged, portfolio lenders to make ARMs. In the aftermath of the savings and loan crisis, fixed-rate loans were seen as too risky for portfolio lenders because a spike in interest rates would cause the bank to owe more on its shorter-term liabilities than the bank would earn on its long-term fixed-rate assets (referred to as "borrowing short and lending long").
- The portfolio ARM used by Golden West maintained the same core structure since 1981, when major west coast portfolio lenders (e.g. Great Western, Home Savings, American Savings, Golden West) started making ARMs. This ARM became known as an Option ARM only much later. See http://www.goldenwestworld.com/wp-content/uploads/great-western-arm-white-paper.pdf for a white paper produced by Great Western in 1989, describing some of the history and structural benefits of the portfolio Option ARM.
- The key for risk-averse portfolio lenders (like Golden West) was to structure their Option ARM to reduce or eliminate the risk that a borrower could experience a significant and sudden payment increase if interest rates rose (known as "payment shock"). The portfolio Option ARM was structured to minimize the risk of payment shock. In Golden West's 25-year history with the portfolio Option ARM, few, if any, loans ever resulted in a payment increase to borrowers of more than 7.5% of the prior year's payment. Even today, after the worst economic crisis since the Great Depression, Wells Fargo (which now owns the Golden West portfolio) reports that they expect only a nominal number of Golden West portfolio ARMs to trigger a payment increase of more than 7.5% of the prior year's payment in the coming years.
- As described in the response to Myth 3, the portfolio Option ARM used by Golden West is structured differently, and more safely, than a riskier version of an ARM (also referred

to as an Option ARM) sold in great volumes by mortgage bankers (such as Countrywide, Washington Mutual and IndyMac) starting around 2003.

- There is significant evidence, including a long history at Golden West and other portfolio lenders, that properly structured and underwritten Option ARMs are safe for borrowers and lenders and result in lower costs to borrowers than fixed-rate loans. A Golden West borrower had the flexibility to convert their ARM loan to a fixed-rate loan or to make a payment on their ARM equivalent to a 30-year or 15-year fixed-rate amortizing payment (these payment amounts were listed on each borrower's monthly statement).
- Golden West underwrote its loans based on the borrower's ability to make a fully-indexed payment that would pay down both principal and interest on the loan. By contrast, many others only underwrote to a minimum or "teaser" payment that was significantly lower than a fully-indexed payment and would often only cover a portion of the interest accruing on the loan.
- The portfolio Option ARM loan is a more flexible, and less expensive, way for borrowers to tap into (or pay down) their home equity than higher-cost second deeds of trust, home equity lines of credit, or credit cards.

3. **Myth:** All Option ARMs are the same.

FACTS:

- There are two totally different Option ARM loan structures: (i) a portfolio Option ARM used safely by Golden West and other residential mortgage portfolio lenders since 1981, and (ii) a riskier mortgage banker Option ARM that was originated in great volumes by Countrywide, Washington Mutual, IndyMac and others for securitization and sale to investors beginning around 2003. Subprime lenders, including the mortgage bankers, also introduced and pushed a very risky ARM called a 2/28 (the loan had a teaser rate for two years before it recast to a much higher rate and payment) or a 3/27 (same idea as the 2/28, but with a three year period before the recast event).
- A portfolio lender (like Golden West) keeps its loans on its books and therefore has every incentive to structure its Option ARM to ensure that borrowers perform on the loan and avoid payment shock. By contrast, mortgage bankers, whose earnings depended on securitizing and selling growing volumes of loans to others (and passing on the risk to others), were motivated to change the structure of the loan to suit investor demand, even though the changed structure significantly increased the risk of payment shock.
- Mortgage bankers bastardized the traditional portfolio Option ARM structure – they shortened the triggers that would cause the loan to be reamortized (known as a "recast" event), they used low payment rates, they made high loan-to-value loans, and reduced or eliminated underwriting and appraisal standards – all of which combined to significantly increase the risk of payment shock, the very risk the Golden West portfolio Option ARM had been designed to avoid. See Exhibit A or http://www.goldenwestworld.com/wp-content/uploads/differences-among-arms.pdf for a chart showing the differences among

the portfolio Option ARM used by Golden West for 25 years, the mortgage banker Option ARM sold and securitized to investors starting in 2003, and the subprime 2/28 loan.

- Virtually all of the negative comments in the media or elsewhere about the Option ARM apply only to the new and riskier mortgage banker version of the loan and not the Golden West portfolio ARM. The New York Times and others have often failed to distinguish among the various types of Option ARMs, resulting in erroneous reporting. For example, the Times referenced Fitch data about Option ARM payment shock and foreclosures in a December 25, 2008 story, suggesting that the data was relevant to Golden West. But Fitch's data only included Option ARMs that were securitized and sold, not Option ARMs held in portfolio (like Golden West's). See http://www.goldenwestworld.com/wp-content/uploads/letter-from-sandler-to-times_4-22-09.pdf for a letter from Golden West CEO Herb Sandler to The New York Times identifying flaws with the Times' article.
- News reports indicate that mortgage banker Option ARMs were causing payment shock just a few years after the loans were originated. Few, if any, Golden West portfolio Option ARMs ever resulted in a payment increase of more than 7.5% during the company's 25 years with the loan. And Wells Fargo has recently reported that, even after the worst economic decline since the Great Depression, only a nominal number of Golden West's loans have the potential to trigger a recast event that could cause a payment increase of more than 7.5% to borrowers. Wells Fargo CEO John Stumpf, at a June 2010 Sanford Bernstein conference, noted that Golden West did the Option ARM loan "better than anyone else."

4. **Myth:** Golden West originated subprime mortgages.

FACTS:

- Golden West made low-yield, low loan-to-value (LTV) loans to a full spectrum of qualifying borrowers.
- The subprime mortgage industry was built around the concept of risk-based pricing, which meant charging different yields for loans based on the borrowers' perceived credit quality. In practice, this meant that a subprime lender charged the borrower a higher interest rate for a subprime loan than the rate for prime loans (even if the borrower might have qualified for a prime loan). Golden West rejected the concept of risk-based pricing, believing it would invariably be discriminatory. At Golden West, any borrower who qualified for a loan would receive a prime rate, irrespective of the borrower's financial information or other characteristics.
- Virtually all of the subprime lending in the early- and mid- 2000s used a "2/28" loan product. The 2/28 loan refers to a loan that was structured to trigger a significantly higher interest rate and monthly payment after two years. For example, a 2/28 might have a "teaser" rate for two years of 7%, but the rate could jump to 12% or more after two years, creating a significant risk of payment shock to the borrower. Another popular subprime

loan was a “3/27”, which had similar features and would recast after three years. Golden West made no 2/28 or 3/27 loans.

- Subprime lending was a small proportion of the overall mortgage market until the late 1990s and early 2000s, when its growth was fueled by the combination of technological advances, investor demand for higher yields, and the purchase of subprime operations by major mortgage banks. In order to generate high volumes of loans, subprime lenders looked for ways to shortcut traditional underwriting. A principal tool they used to expedite underwriting decisions (and to justify charging higher rates to borrowers) were FICO credit scores, which have never been fully validated for residential mortgage lending (they were initially adopted for consumer credit). There are many factors that call the veracity of FICO scoring into question: (a) three different agencies can give widely different FICO scores for the same borrower at the same point in time, and lenders can play games with which FICO scores they choose to use; (b) FICO scores can change quickly for reasons unrelated to true credit risk or, alternatively, the scores can move much too slowly to capture actual risk; and (c) FICO scores can be manipulated; companies exist to help borrowers improve their credit scores in ways that do not meaningfully alter the borrowers’ real risk profile. Golden West, unlike most other lenders, continued to do traditional, holistic underwriting (looking at the borrowers’ actual credit history and the appraisal of the property), rather than relying on shortcut methods like FICO credit scores as a sole or primary determinant for underwriting.

For a comprehensive look at subprime lending, see the materials prepared by the Center for Public Integrity at http://www.publicintegrity.org/projects/entry/1349/.

5. **Myth:** Prior to its 2006 sale to Wachovia, Golden West changed from a 40+ year focus on quality to a focus on volume.

FACTS:

- The New York Times and 60 Minutes erroneously reported that Golden West switched its orientation from quality to quantity. The Times issued a series of retractions and corrections conceding problems with its original article from December 25, 2008, cancelled publication of a book that would have reprinted the article, and subsequently referred to the Golden West CEOs as bankers “who were recognized as the gold standard of integrity” in the banking industry. See http://www.goldenwestworld.com/wp-content/uploads/letter-from-sandler-to-times_4-22-09.pdf for a letter from Golden West CEO Herb Sandler to The New York Times identifying flaws with the Times’ article. See http://www.goldenwestworld.com/wp-content/uploads/letter-from-nyt-keller_0816092.pdf for a letter from Times Editor Bill Keller to the Sandlers. The 60 Minutes story that aired in February 2009 was built around the claims of a disgruntled former employee who was suing the company. 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 a link to the arbitration 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 prestigious publication affiliated with the 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 at the Times and elsewhere. The link is here: http://www.cjr.org/feature/the_education_of_herb_and_marion.php?page=all&print
- Golden West maintained the same risk-averse residential mortgage portfolio lending business model throughout its history. As a portfolio lender that kept its loans on its books, Golden West depended on generating high-quality loans that would perform, not on generating growing volumes of loans that could increase credit risk. By contrast, mortgage bankers like Countrywide and Washington Mutual had business models that required them to generate growing volumes of loans for securitization and sale to investors in order to improve their earnings.
- Because of its risk-averse portfolio business model, Golden West remained a small player in a huge market throughout its history. Golden West let market conditions dictate how many high-quality loans the field could generate, rather than setting firm volume targets. Golden West never exceeded 1.75% of the total U.S. residential mortgage market throughout its 40-year history, while major mortgage bankers grew dramatically in the 1990s and 2000s by generating riskier loan products in geometrically greater volumes. Countrywide grew from 1% of the residential mortgage market in 1990 to 16% by 2005 and publicly announced a goal of reaching 30% of the market, while Washington Mutual grew from 1% in 1995 to more than 10% by 2003. See Exhibit B or http://www.goldenwestworld.com/wp-content/uploads/market-share-of-countrywide-and-wamu.pdf for a chart showing the growth at Countrywide and Washington Mutual.
- There were countless steps Golden West could have taken if it wanted only to generate volume, but the company did not do these, as it was antithetical to the risk-averse portfolio business model to sacrifice quality for volume. For example:
    - Golden West did not join other major lenders, particularly mortgage bankers, in using automated and expedited underwriting and appraisal practices to generate greater volumes of loans. Many others in the market, particularly mortgage bankers, made underwriting decisions based only on unreliable FICO credit scores and appraisals by either automated valuation models (AVMs) or third parties incented to deliver an appraisal value. Instead, Golden West stuck to its conservative, in-house, underwriting and appraisal practices to assess the quality of all its loans. Note that Golden West maintained its manual, loan-by-loan underwriting and appraisal practices, even though the company could have saved a lot of money by matching the shortcut methods used by others (and even though the success of Golden West's business model depended on keeping general and administrative expenses low).

- Golden West did not move into the business of making loans with loan-to-value (LTV) ratios of 90%, 100%, or more, which became an accepted practice in the early and mid-2000s. Golden West's average LTV ratio remained at about 71%.
- Golden West did not enter the subprime market, even as other major lenders were originating huge volumes of subprime loans. Golden West rejected the idea of acquiring riskier assets in return for charging higher prices (known as "risk-based pricing"). A borrower who qualified for a Golden West loan received the same prime rate, regardless of their background or finances. Golden West rejected, and advocated against, the principal subprime product used in the 2000s, namely the 2/28 loan structured to virtually guarantee payment shock to borrowers within two years.
- Golden West did not match the risky loan terms that Countrywide and others offered on their mortgage banker Option ARMs, even though doing so would have made Golden West's portfolio Option ARM more competitive and allowed the company to generate greater volumes of loans. For example, Countrywide started offering a 1% payment rate on its Option ARMs around 2003, which had the effect of reducing the borrower's minimum payment, accelerating the build-up of negative amortization, and increasing the potential for payment shock. Countrywide stayed at a 1% payment rate, even as interest rates rose rapidly and significantly beginning in mid-2004, further increasing the risks the borrowers. Golden West never reduced its payment rate to 1%. In fact, Golden West began increasing its payment rate in 2005 and 2006 prior to the Wachovia sale agreement to reduce perceived risks; as a portfolio lender, the company maintained its high-quality standards at the expense of losing loan volume.
- Golden West did not join other major lenders in supporting proposed new capital regulations that would have reduced the amount of capital banks had to hold for many assets, including residential mortgages. Rather, Golden West was alone among major lenders in openly and vigorously opposing proposed new Basel 2 capital regulations that would have made it easier for lenders (including particularly Golden West) to significantly grow their residential mortgage volume. See http://www.goldenwestworld.com/wp-content/uploads/world-savings-basel-ii-letter-7-18-03.pdf for a 2003 letter to regulators. See http://www.goldenwestworld.com/wp-content/uploads/world-savings-basel-ii-letter-1-25-05.pdf for a 2005 letter to regulators. See http://www.goldenwestworld.com/wp-content/uploads/world-savings-basel-anpr-1-18-062.pdf for a 2006 letter to regulators.
- Golden West could have increased the percentage of loan applications that were funded. Instead, the proportion of Golden West loan applications that were funded actually declined from the early 1990s into the mid-2000s. If GDW's underwriting were driven by volume concerns, the funding percentages would have stayed the same or gone up. See Exhibit C or http://www.goldenwestworld.com/wp-content/uploads/percentage-of-golden-west-applications-that-were-funded.pdf for a chart showing the percentage of Golden West applications that were funded.

- Golden West had the lowest residential mortgage losses in the industry during its 40-year operating history. In its final eight years as an independent company (1998-2005), Golden West's "chargeoff ratio" (losses divided by outstanding loans) was zero, which was lower than all other major lenders in the country, including lenders who made only conventional 30-year fixed-rate loans. The company could not have achieved these results if it had changed to a focus of quantity instead of quality, as some in the media falsely alleged. See Exhibit D or http://www.goldenwestworld.com/wp-content/uploads/golden-west-chargeoff-ratios1968-2005.pdf for a chart showing Golden West's chargeoff ratios from 1968 to 2005.
- Golden West had a senior management team that had worked together for decades to refine the company's risk-averse strategy and business model, built on making quality loans and rejecting high-volume practices. Golden West's reputation as an ethical and risk-averse company was its hallmark, was a matter of great company pride, and was important to its success. It makes no sense that the company's founders and senior management would fundamentally alter the strategy and business model that had made the company so successful.
- The company's continued focus on risk-averse, high-quality lending is supported by its operating results (extremely low losses), the testimony of hundreds (if not thousands) of former employees from all levels in the company, as well as contemporaneous documentation in the form of corporate objectives, meeting notes, letters to regulators, and speeches. See http://www.goldenwestworld.com/employee-letters/ to see a representative sample of employee letters.

6. **Myth:** Golden West was to blame for the housing and economic crisis.

FACTS:

- TIME Magazine erroneously included Golden West CEOs Herbert and Marion Sandler among the "25 People to Blame For The Economic Mess" in its February 23, 2009 issue. TIME personnel admitted they did no fact-checking of their statement about the Sandlers. See http://www.goldenwestworld.com/wp-content/uploads/dont-pin-the-blame-on-us.pdf to see a response by the Sandlers to TIME, which is posted on the TIME website.
- Golden West was a risk-averse portfolio lender that kept its loans on its books and maintained the same business model for 40+ years. The company did not abandon traditional underwriting principles to generate huge volumes of loans, did not securitize and sell loans to investors, did not engage in the subprime practice of selling high-interest loans to borrowers, and did not enter into complex derivative transactions such as synthetic collateralized debt obligations or credit default swaps. As a portfolio lender concerned about how borrowers performed on their loans, Golden West never wavered from its long-standing use of traditional, manual underwriting and appraisal practices.
- Golden West was always a small player in a huge market. Golden West never exceeded 1.75% of the total U.S. residential mortgage market throughout its 40-year history. By contrast, mortgage bankers such as Countrywide and Washington Mutual grew quickly to

16% and 10% of the residential mortgage market, respectively, and their business models incented them to generate growing volumes of loans for sale to investors. All of the mortgage bankers also had significant subprime lending operations.

- Golden West safely originated a carefully structured portfolio Option ARM loan for 25 years, with lower losses than other major lenders, including lenders who originated only 30-year fixed-rate mortgages. Wells Fargo has stated that the Golden West portfolio it acquired is performing better than originally expected and that only a nominal number of loans have any potential to cause payment shock in the coming years. By contrast, mortgage bankers significantly altered the structure of the Option ARMs that they securitized and sold in huge volumes beginning around 2003; these mortgage banker Option ARMs have been reported as causing high levels of payment shock and foreclosures to borrowers.
- Unlike many other financial institutions, Golden West maintained high levels of tangible capital as a safeguard against the unexpected and also strongly advocated for regulations that would require banks to maintain high levels of capital, even for residential mortgages. Golden West was the only major bank that strongly opposed a proposed new capital regulation, Basel 2, that would have permitted banks to significantly reduce the capital they had to hold for many assets, including residential mortgages. See http://www.goldenwestworld.com/wp-content/themes/goldenwest/docs/gov/World-Savings-Basel-II-letter-7-18-03.pdf for a 2003 letter to regulators. See http://www.goldenwestworld.com/wp-content/themes/goldenwest/docs/gov/World-Savings-Basel-II-Letter-1-25-05.pdf for a 2005 letter to regulators. See http://www.goldenwestworld.com/wp-content/uploads/world-savings-basel-anpr-1-18-061.pdf for a 2006 letter to regulators.
- Golden West never experienced a single regulatory lapse or scandal throughout its 40+ year history. Golden West advocated for responsible lending and called for greater regulatory oversight, transparency and accountability. For example, in January 2006, CEO Herbert Sandler submitted a letter to regulators supporting active regulation and oversight of mortgage products and warning regulators about the "more aggressive practices" used by new ARM originators who sold their loans into the securitization market. See http://www.goldenwestworld.com/wp-content/uploads/letter-to-regulators-re-arm-guidance-3-29-06.pdf for the 2006 letter.

7. **Myth:** Golden West was responsible for Wachovia's demise.

FACTS:

- Wachovia did not fail because of losses in Golden West's ARM portfolio. With the benefit of hindsight, we know that Wachovia acquired Golden West at a peak market and that there would be losses in Golden West's ARM portfolio (as there would be in any mortgage portfolio when house prices decline by 50% or more in certain areas). However, the actual losses in Golden West's ARM portfolio were a fraction of Wachovia's actual losses in its other activities during the critical period prior to

Wachovia's acquisition by Wells Fargo. In Wachovia's final five quarters before the Wells Fargo transaction, actual losses (exclusive of reserves) from Wachovia's own activities were approximately $15 billion, almost ten times greater than the $1.6 billion of actual losses from the Golden West portfolio in the same period.

- Wachovia's $15 billion in non-Golden West losses in its final five quarters, all of which were publicly reported, included approximately $8.4 billion from market disruption losses (including for trading losses, leverage finance, collateralized debt obligations, and other structured investment vehicles), other net chargeoffs of almost $3 billion, as well as billions in other losses from auction rate securities settlements, SILO (sale in/lease out) leasing transactions, and BOLI (bank-owned life insurance) hedge fund investment losses. During that period, Wachovia also announced the payment of $144 million to settle a telemarketing scam stemming from the use of bank-account data from elderly Wachovia customers, as well as a federal criminal investigation into alleged laundering of drug money that ultimately settled with the Justice Department for $160 million.

8. **Myth:** The losses from the Golden West portfolio will be $36 billion.

FACTS:

- As background, Golden West had the lowest loan losses in the industry during its operating history, averaging under 5 basis points per year. In its final eight years as an independent company (1998-2005), Golden West's "chargeoff ratio" (losses divided by outstanding loans) was zero, which was lower than all other major lenders in the country, including lenders who made only 30-year, fixed-rate loans. See Exhibit D or http://www.goldenwestworld.com/wp-content/uploads/golden-west-chargeoff-ratios1968-2005.pdf for a table showing Golden West's chargeoff ratio from 1968 to 2005. During that period from 1968-2005, the company experienced many cycles of housing busts and booms, including periods with declines in housing prices of 20%, decreasing and increasing interest rates and a number of recessions (including a very severe recession in 1982), an oil patch recession in the mid-1980s, and a real estate depression in Southern California between the late 1980s and mid 1990s.
- Golden West's legacy ARM portfolio has not lost $36 billion. As any acquirer is wont to do when confronting a financial meltdown, Wells Fargo set up a large reserve of $36 billion when it acquired Wachovia, in order to cover the outer range of potential losses. However, almost four years after Wachovia's purchase of Golden West, Wells Fargo's public reports suggest that losses from the loans originated under Golden West's management will be well below what Wachovia and some others were predicting, and certainly below the $36 billion in reserves set aside by Wells Fargo – even though the economic meltdown, house price declines and unemployment figures turned out to be worse than forecast in the geographic regions in which Golden West operated. Wells Fargo CEO John Stumpf stated at a June 2010 Sanford Bernstein conference that the Golden West Pick-a-Pay portfolio was performing better than expected and that "[w]e feel good about where we are in the Pick-a-Pay portfolio."

- Based on Wells Fargo's public disclosures, a fair estimate of Wells Fargo's total losses to date from the Option ARM portfolio is in the range of $10 to 12 billion. However, Wells Fargo's reports suggest that somewhere around 50% of these losses came from loans made under Wachovia's watch after its purchase of Golden West. Accordingly, losses to date from the legacy Golden West portfolio are probably in the range of about $5 to $6 billion in 2010 almost four years after Golden West's sale.
- Recent losses on Golden West's legacy portfolio have been caused by the greatest economic downturn since the Great Depression. This downturn has led to house price declines of 50% or more in some geographic areas in which Golden West operated, high unemployment, and substantial declines in borrower income. Losses on the Golden West portfolio have not been due to the structure of Golden West's Option ARM loan. No lender, no matter how conservatively run and irrespective of whether they made fixed or ARM loans, can avoid losses when housing prices decline at historically unprecedented levels of 50% or more, accompanied by surging unemployment and underemployment. If house prices had declined by 20%, which would have been high by historical standards, Golden West's portfolio would have performed exceedingly well, with its 71% average loan-to-value (LTV) ratio and conservative underwriting, while other lenders (including fixed-rate lenders) who routinely made 90+% LTV loans using expedited underwriting practices would have suffered huge losses.

9. **Myth:** The CEOs of Golden West, Herbert and Marion Sandler, pocketed $2.3 billion from the sale of Golden West to Wachovia.

FACTS:

- The Sandlers acquired Golden West in 1963 and managed the company for more than 40 years, with one of the highest compound earnings growth in American corporate history (the only company that might have had higher compound earnings during that period was Berkshire Hathaway, though Berkshire does not publicly release that information).
- The value of the Sandlers' shares in Golden West increased gradually over time, alongside those of other shareholders, and were valued at approximately $2.0 billion prior to the sale to Wachovia. The sale of Golden West to Wachovia did not materially change the wealth of the Sandlers.
- Before the merger with Wachovia closed, the Sandlers contributed more than $1.3 billion of their Golden West stock to a philanthropic foundation, and the remainder of their proceeds had always been intended for philanthropic use. The $1.3 billion contribution was the second largest philanthropic gift in the country in 2006, which was widely reported in the press. Any remaining wealth in the Sandlers' estate has been earmarked for philanthropic purposes.

EXHIBIT A

Differences Among ARMs:
Golden West Portfolio Option ARM, Made for Sale Option ARM, Subprime 2/28 ARM

	Golden West Porfolio Option ARM	Option ARM Made for Sale	Subprime 2/28
Market Entry	1981	Circa 2003	
Method of Operation	Hold in portfolio	Originate/sell to be packaged in mortgage securities that have recently been found to be toxic	
Institutions Making the Loan	Portfolio lenders (e.g. Golden West, Home Savings)	Mortgage bankers	State-chartered subprime lenders or mortgage bankers
Risk	Retained	Passed on to investors	
Recast Triggers			
- Time	10 years	5 years	2 years
- Loan Balance [1]	125%	110%	n/a
Typical Minimum Payment Rate [2]	1.95%-2.85% or higher	1.0% or lower	n/a
Loan to Value Ratio (LTV) [3]	Up to 80%, average 71%	Up to 100%	
Underwriting	Traditional underwriting based on borrower's ability to make the full amortizing payment	Automated underwriting, often based on borrower's ability to make a minimum payment	Little, if any, underwriting performed
Appraisal	Most appraised in-house; every loan individually reviewed	Use of either fee appraiser or AVM (automated valuation model)	

Notes:

1 If the loan balance exceeds 125% (or 110%, as the case may be), of the original loan balance, the lender can recast the loan.

2 The minimum payment rate is used to calculate the initial minimum payment the borrower can make on the loan. The lower the rate, the greater the potential for, and magnitude of, payment shock.

3 Golden West originated a limited number of loans with LTVs above 80%; the company obtained mortgage insurance for such loans.

EXHIBIT B

Approximate Market Share of Single-Family Residential Mortgage Originations
Countrywide and Washington Mutual
1990-2005
(Dollars in Billions)

	Total U.S.	Countrywide		Washington Mutual	
	Originations	$	% of U.S.	$	% of U.S.
1990	459	4.5	0.98		
1991	563	12.1	2.15		
1992	893	32.3	3.62		
1993	1,020	52.4	5.14		
1994	769	27.8	3.62	6.9	0.90
1995	640	34.5	5.39	7.4	1.16
1996	785	37.8	4.82	10.8	1.38
1997	833	48.7	5.85	23.7	2.85
1998	1,656	92.8	5.60	44.6	2.69
1999	1,379	66.7	4.84	45.0	3.26
2000	1,139	68.9	6.05	51.2	4.50
2001	2,243	123.9	5.52	165.6	7.38
2002	2,854	251.9	8.83	290.9	10.19
2003	3,812	434.8	11.41	384.1	10.08
2004	2,773	363.3	13.10	212.3	7.66
2005	3,027	495.3	16.36	207.7	6.86

Notes:

(1) Total U.S. mortgage originations data from Mortgage Bankers Association. Lender data comes from 10-K filings.

(2) Lender data includes prime and nonprime first and second mortgage originations. Lender data are best approximations of single-family residential mortgage originations, excluding commercial, multifamily, manufactured and construction loans. Exact year-over-year comparisons are difficult because each company changed how it reported loan originations several times and Washington Mutual often revised its reporting methodology as it acquired additional lending institutions.

(3) Countrywide had a fiscal year ending February 28 until 2001, and thereafter converted to a calendar year; 2001 data covers a 10-month period from 3-1-01 to 12-31-01. Washington Mutual reorganized in 1994, having previously been a state-chartered bank.

EXHIBIT C

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%

EXHIBIT D

Golden West Chargeoff Ratios, 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

Notes:

(1) One basis point equals one one-hundredth (1/100) of one percent, or 0.01%