Mr. Graham Messick
Producer, 60 Minutes

February 10, 2009

Dear Graham:

First of all, thank you for the courtesy of sending the allegations made against Golden West.

It is quite clear that there are significant questions concerning the veracity and background of one of your principal sources, Paul Bishop. I hope for your and CBS' sake that you have fully vetted Mr. Bishop. Privacy constraints limit our providing specific details, but you need to carefully review his employment history, his publicly-available history with NASD matters, his performance record and reviews at Golden West, the timing of his allegations as well as his motivations. Please ask Mr. Bishop if he is prepared to allow the company to release his personnel files, including performance reviews, on either an on or off the record basis to you. That is the only way his personnel files could be legally shared with you. We believe these records would provide facts critical to the accuracy of your story and that failure to do this minimal due diligence would be reckless.

This is particularly important because you appear to be taking Mr. Bishop's allegations seriously, even though there has been no legal adjudication of his complaints and you could obtain statements from hundreds of long-tenured former senior and mid-level managers who would dispute Mr. Bishop's claims and speak to the company's focus on quality lending, high integrity, fair dealing and abhorrence of anything smacking of unethical dealings. We would be happy to collect and provide to you letters from these people. Many of these people are retired, have had no recent contact with us, have no dependence on us for anything, but are furious because their long careers based on integrity and decency are being called into question and being compared to the lending practices done by other lenders who aggressively chased volume. Together, we cannot, and will not, stand by quietly, while the company and its management and employees are falsely maligned, defamed and libeled on 60 Minutes.

I request that a copy of this email be made available to Mr. Pelley. I am sending copies directly to Mr. Fager and CBS counsel.

Let us review the facts:

1. **Golden West Held its Loans on Its Own Books and Was Never a High-Volume Lender**. Throughout our 40-year history, we were consistently no more than 1-1.75% of total U.S. mortgage residential originations, we never did subprime loans, and we never securitized and sold loans to investors. Unlike virtually all of our competitors, we thus had every motivation to always make loans that would work for borrowers because we would be holding the loans on our books. By contrast, mortgage banking operations that generated large volumes of prime *and subprime* loans for securitization and sale to Wall Street grew dramatically, particularly from the mid-1990s forward. Attached as Exhibit A is a table that shows that two major mortgage banks both started at less than 1% of

U.S. mortgage originations, but grew to 16% and 10%, respectively in the 2000s; these were the lenders who focused on high volume and high-yielding loans. This information, including the statistics upon which Exhibit A is based, is contained in readily available public documents, including the 10Ks, 10Qs and Annual Reports of the major mortgage banks.

2. **Golden West Maintained Conservative Practices Because Minimizing Losses Was Critical to Our Business Model.** As a risk-averse residential mortgage portfolio lender for 40 years, Golden West's business model required minimizing nonperforming loans in order to keep costs and losses as low as possible. Golden West used traditional, conservative underwriting and appraisal practices to assess the quality of our loans. By contrast, most other lenders shifted to automated and expedited underwriting and appraisal practices to be able to generate greater volumes of loans. The percentage of loan applications that made it through our underwriting process and were funded remained consistently at or below 60% from 1996-2005. See Exhibit B.

   Our practice was to make low loan-to-value loans on moderately priced properties, to assess the borrower's ability to make fully amortizing payments even if the borrower had the option to make a lower minimum payment, and to closely monitor the portfolio to detect potential credit risk issues early. For example: (a) we analyzed market trends in lending territories and adjusted loan terms, such as requiring even lower loan-to-value ratios; in some cases, we stopped lending in certain markets because of perceived risk; (b) we regularly took lending, underwriting and appraisal staff on "van tours" to physically drive by properties and discuss the risks associated with the properties and how to avoid problems in the future; and (c) we worked with customers who might appear to be having difficulties to offer counseling or modification programs to reduce the potential for future problems. We also had a separate centralized unit that operated independently of the lending operation whose sole function was to oversee the quality of work done by field appraisers and underwriters.

3. **Zero Chargeoffs from 1998-2005**. Given the above practices, let me review Golden West's lending results since 1997, a period when a loan department reorganization took place.[1] From 1998 to 2005, the last year of Golden West's independent operation, the company originated in excess of 3 million loans valued at over $224 billion. As you know, loans that have problems generally become delinquent by the second or third year after origination. Strikingly, our losses (known as "chargeoffs") from 1998-2005, after the 1997 reorganization, were zero. When you compare the absence of losses at Golden West with the rest of the industry, you will see that we had the lowest losses in the industry, including residential lenders who focused on fixed-rate loans. Golden West's record of performance is simply not achievable if a focus on quality is not paramount. Attached as Exhibit C is a table showing Golden West's losses from 1968 to 2005, a period in which we experienced many cycles of housing busts and booms, including

[1] Incidentally, many such reorganizations took place in our history. We already provided you email responses from three senior managers who strongly disputed the characterization by your sources that the 1997 reorganization was undertaken to increase volume at the expense of quality, and your colleague Michael spoke to a fourth senior manager as well.

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 in the late 1980s until the mid-1990s. You can obtain all of this information from easily accessible public documents.

4. **Few, if Any, Golden West Option ARMs Will Recast and Cause Borrower Payment Shock.** On December 12, 2008, Scott Pelley did a story for 60 Minutes entitled "A Second Mortgage Disaster on the Horizon?" about a growing number of Option ARMs that would soon reset, or recast, to higher payments. You should know that, throughout our 25-year history, only a nominal number of Golden West Option ARMs ever recast and led to a payment increase of more than 7.5% to borrowers; we expect that record to continue even in the current period. Why? Because for 25 years we held true to the original loan structure adopted in 1981 when ARMs were first permitted by regulators to protect thrifts from the risks of "borrowing short and lending long" – that is, funding 30-year fixed rate loans with short-term money. The Golden West Option ARM was deliberately designed to reduce the likelihood of a recast that would cause a material payment increase to borrowers. The principal causes of delinquencies, foreclosures and losses have historically been divorce, unemployment and medical emergencies. In the current economic crisis, the historically unprecedented decline in housing prices has been the principal cause of losses, together with significant declines in borrower income.

   In 2003, aggressive mortgage banks *changed* the structure of the original Option ARM in order to generate large volumes of Option ARMs for sale. In so doing, many have noted that they significantly increased the risk of an early recast that would cause a material payment shock to borrowers. Attached as Exhibit D is a chart that shows the following key changes mortgage banks made, and which have been criticized by others: (1) they shortened the triggers that would cause the loan to recast, (2) they reduced the starting rate used to calculate the borrower's minimum payment, (3) they made loans with high loan-to-value ratios of 90-100%, and (4) their underwriting standards were reduced, with the principal criteria being whether their loan could be pooled and sold to investors. Exhibit D also references the most popular, and much-criticized, subprime loan in the 2000s, the so-called "2/28" loan.

   Failure to understand how these various factors impact the borrower would result in an inaccurate story.

5. **Golden West Was the Only Financial Institution That Repeatedly Made Early Warnings to Regulators and Others About Risks in the Banking System.** Golden West was an active proponent for sound public policies for the banking industry, even when our positions put the company at odds with others in the industry. On many occasions, Golden West advised and warned regulators and others about potential risks in the banking system, and the company repeatedly called for greater regulatory oversight, transparency and accountability in the industry. We were virtually alone among major banks in publicly sounding these types of concerns, and our positions were totally at odds with the positions that a volume-driven lender would take. For example:

a. **Savings and Loan Crisis**. During the savings and loan crisis, we brought to the attention of Congress and others risky and improper lending activities in the market, testified before Senate and House committees, and urged immediate action to minimize risk and avoid further problems.

b. **The Need for Capital**. We repeatedly urged regulators, members of Congress and their staffs, administration officials and others that banks needed to be required to maintain sufficient capital as a financial cushion against mistakes or difficult economic periods.

c. **Stopping Predatory Lending Practices**. We consistently argued against practices in the industry that could be predatory, including abusive risk-based pricing (charging higher rates to some customers based on internal risk profiling) and high-yield loans (including for mortgages, overdraft fees and payday lending).

d. **Other Early Warnings**. During its history, Golden West also spoke out against a variety of other factors that increased risk in the mortgage industry and the banking system generally, including "mark-to-market" accounting rules, the SEC's and accountants' insistence of not allowing the build-up of reserves, the growth and practices of government sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac, the acquisition of securitized mortgage assets by Federal Home Loan Banks, and "gain on sale" accounting rules that encouraged the push for loan volume by mortgage banking operations.

I hope these materials are helpful to you. Golden West was a company that operated with the highest integrity, that required doing right by customers and other constituents, that did not tolerate shortcuts, that spoke up against abusive practices, and that achieved tremendous success by sticking to its core business as a risk-averse residential mortgage portfolio lender for 40 years. And, most importantly, we had an unbelievably talented and ethical workforce of over 12,000, many of whom were with the company for decades and who remain extremely proud of the way Golden West operated.

We encourage you to review the many publicly available documents that contradict many of what appear to be your basic assumptions. The facts simply do not support where you appear to be headed.

Sincerely,

Herbert M. Sandler

cc: Munger, Tolles & Olson LLP

EXHIBIT A

Approximate Market Share of Single-Family Residential Mortgage Originations
Bank A and Bank B
1990-2005
(Dollars in Billions)

	Total U.S. Originations	Bank A		Bank B	
		$	% 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 Bank B often revised its reporting methodology as it acquired additional lending institutions.
3. Bank A 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. Bank B reorganized in 1994, having previously been a state-chartered bank.

EXHIBIT B

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 C

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

Notes:

(1) One basis point equals one one-hundredth (1/100) of one percent, or 0.01%.
(2) These statistics are from readily available public records.

EXHIBIT D

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

	Golden West	**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)	

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.