Mr. Graham Messick
Producer, 60 Minutes

February 12, 2009

Dear Graham:

We understand that you intend to air a story about Golden West based on allegations of Mr. Paul Bishop. We think you are making a reckless mistake by not carefully vetting Mr. Bishop and the reasons for his termination. We are providing you with the following information to correct some fundamental errors your source may be building into your story.

<u>Clarification of Terms and Metrics</u>

Because many of the questions you have posed appear to be based on assumptions that are not accurate, I thought I'd address some of those issues first. This is important because I believe you may not have a full understanding of some fairly basic terminology.

The "Quick Qualifier" Tool. You continue to treat "Quick Qualifier" loans and "stated income" loans as the same thing. They are not. It is critical that you understand that stated income loans and the "Quick Qualifier" tool are two totally different things. Stated income loans started in the subprime market by nonregulated state chartered companies and ultimately spread to the non-subprime market when certain mortgage banking companies aggressively entered the ARM market, circa 2003. The lender simply accepted as true what the borrower stated was his income, ordered a FICO, and then sold the loan to an institution that bundled the loans for sale to investors in the secondary market, passing on the risk.

The Quick Qualifier, as utilized by Golden West, was a tool designed to highlight faster service with a potential reduction in paperwork. For example, assume the borrower said that he was a high school teacher in the Albany, CA school district and said he earned $45,000. The underwriter would verify employment. Based on experience and other available data, the underwriter knew that teachers in that school district earned from $45,000 to $50,000. We would then review the application, the credit report, and the appraisal, and, assuming the home price for someone with that income was appropriate, everything else was consistent, and there were no other issues with the application, we might forego some additional and unnecessary documentation. But if that borrower had said his income was $70,000, we would have required further documentation of his income, and depending on circumstances, might have required full documentation. In fact, many of our Quick Qualifiers ended up with additional or full documentation.

One factor that contributed to the development of our own internal application procedures, including Quick Qualifiers, was our diminished confidence in the standard "fully-documented" application package that was being used in the industry, including by Fannie Mae and Freddie Mac. There were a significant number of frauds perpetrated in the standard packages, including on W-2s or other parts of the application. As you know, our business strategy, reported on extensively in the financial community, depended on very low costs, both general and administrative and credit. Thus, avoidance of credit risk was enunciated not only in our widely distributed corporate and loan department objectives, but was embedded in our culture and training.

Incidentally, you may be unaware of the fact that we had been utilizing the Quick Qualifier program since 1985 and, as I have already said, our delinquency, foreclosure, and loss record had been unequalled for all the subsequent years by any other financial institution.

"Instant Underwriting Days". You appear to believe that "Instant Underwriting Days" were created solely to increase volume. They were not. "Instant Underwriting Days" were local office events aimed at introducing new broker and realtor offices to the company, its products, and its underwriting expectations and procedures. It also gave us an opportunity to answer a customer's questions about our loan products in an efficient and cost-effective way. Potential customers were attracted by the ability to submit their current loan offerings directly to a trained professional underwriter. These underwriters could underwrite these potential loans on the spot and issue a conditional approval, subject to a review of the credit report, an appraisal, and whatever further information and analysis was needed. There were no special qualifying rules for this event; in other words, the loans were underwritten just as they would have been otherwise. It is estimated that loan rejections at these meetings ranged between 25 and 40%, which was consistent with the overall rate for applications in the company.

Exceptions to Policy (ETPs). You apparently believe that exceptions to policy were, as a rule, inappropriate. They were not. An exception to policy was principally based on an individual manager's or underwriter's signing authority, and did not have to do with whether a borrower qualified for the loan. Just as with most organizations of size, and I'm sure it is true for 60 Minutes as well, there are standards, practices and policies. No written set of policies and standards can cover every situation, so provision is made for exceptions; these can only be granted when appropriate by more experienced individuals higher in the hierarchy.

For instance, if a loan was turned in requesting a waiver of the application fee or funding the application fee at closing, this would require an ETP from the regional manager; this type of ETP accounted for the overwhelming percentage of total ETPs at the company. Other examples of ETPs included: (a) allowing a supervisor at an appropriate level to make an exception to a policy restricting loans to $500,000 if an application requested a $525,000 loan and had other positive features, such as a 50% down payment; or (b) allowing a supervisor at an appropriate level to make an exception to a policy restricting loans to a 70% loan to value (LTV) if the borrower wanted a 75% LTV loan and demonstrated substantial assets and had a strong credit history. The overwhelming majority of ETPs had to do with getting higher-level authorities because more junior staff had strict and limited approval authority.

The ETP process was established because we established very tight lending policies to restrict the discretion given to most lending staff. As a result, the total number of ETP loans would be of less importance than the percentage of applications we funded and declined to fund. These numbers are far more relevant to understanding our underwriting process. We consistently funded less than 60% of the loan applications we received; greater than 40% were dropped because of outright loan denials and loans withdrawn during the underwriting process.

The Role of FICO Scores. You also appear to misunderstand the role of FICO scores at Golden West. Golden West, unlike most other lenders, did not rely on FICO scores as a sole or primary determinant in a loan application. There are several factors that call the veracity of FICO scoring into question: (a) FICO scores were originally adopted for consumer credit and have never been fully validated for residential mortgage lending; (b) 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; (c) 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 (d) 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.

Negative Amortization. You appear to misunderstand the structure of the Option ARM and how it was designed to operate. The rise and fall of negative amortization in Golden West's portfolio has historically been driven principally by interest rate cycles. The Option ARM loan was designed to allow negative amortization to grow when interest rates rose and negative amortization to decline when interest rates declined. This pattern repeated itself many times over a quarter of a century. Negative amortization increased during the mid-2000s, when interest rates increased, and has started to stabilize, and will eventually move down, as interest rates move down. Based on declining interest rates over the past year or so, we would expect that negative amortization would now be growing by less than $100 million and would actually start to decline by the end of 2009.

Particularly in Golden West's case, a negative amortization increase, in whatever amount, is of limited relevance to the question of whether the individual borrower could or could not have afforded the loan. All of Golden West's borrowers were underwritten at the fully indexed rate, meaning that borrowers had to be able to afford the fully amortizing payment, not just a minimum payment. Borrowers who chose to make a lower payment than a fully amortizing payment did so because they thought it was in their best interest, since the underwriting process made it clear that they had to have the ability to pay the fully indexed rate.

Since 1981, when regulators first authorized the use of adjustable rate mortgages, virtually all major portfolio lenders originated the negatively amortizing ARM (the Option ARM) rather than a so-called No-Neg ARM (an ARM that did not permit negative amortization). The simple reason was that thousands of simulations proved that a No-Neg ARM was far riskier to borrowers because it *increased* the potential for payment shock. By contrast, the Option ARM's safeguards—including annual payment caps, long recast triggers, *and* negative amortization—mitigated against payment shock.

Defaults and losses in the Golden West portfolio are not due to the structure of the Option ARM or the amount of negative amortization. The historically unprecedented decline in house prices is the critical driver of foreclosures and losses. $10,000 of negative amortization on a Golden

West loan is totally inconsequential to a borrower when compared to a $200,000 price decline; indeed, the ability to make lower payments and accumulate negative amortization could very well put that Golden West borrower in a better place than his neighbor with a fixed-rate loan and a similar house price decline. Most modification efforts with borrowers today are designed to ease the pressure off borrowers by lowering their payment, and this is precisely what the Golden West Option ARM structure permits.

Company Policies and Practices

In addition, you appear to have incorrect information regarding Golden West's policies, business practices, and governing philosophy. I will do my best to clarify any misunderstandings you may have.

The Option ARM Product. The Option ARM, as implemented by Golden West, has proven for over a quarter of a century to be an extremely favorable loan for the vast bulk of borrowers, more favorable in most circumstances than the traditional 30 year fixed-rate mortgage. That said, there are borrowers for whom the Option ARM is not suitable, such as borrowers who could not qualify for the loan making the full amortizing payment (as opposed to just a minimum payment), borrowers who were not comfortable with an adjustable rate index, borrowers who could not understand the loan terms, and so forth. It was company policy not to make ARMs to such borrowers. The company spent a significant amount of time training loan officers and brokers on the details of how the product worked. We reviewed, and improved, disclosures to borrowers about the loan product. We required that all training and marketing materials about the loan go through a multi-step internal review process by individuals in departments that were independent from the loan sales team, including a loan support team, compliance personnel, and legal counsel.

Loans to the Elderly. You have asked whether it is appropriate to sell Pick-a-Pay mortgages to the elderly over the phone. As a basic matter, it is illegal to discriminate against individuals based on age. Therefore, if we received an application from an individual who was elderly, we were not permitted to treat them differently. We had a telefinance department whose staff was specifically trained to discuss our loan products with customers. It would have been impermissible for the telefinance staff to refuse to talk to individuals based on their age. Any lender could be subject to age discrimination claims for denying loan applications or other actions treating older customers differently. That said, we did not "target" individuals who were older. With all our originations, we assessed suitability of the Option ARM loan for the borrower.

"Packaging" Loans. You appear to have been told that Golden West trained personnel to improperly "package" loans and create fictitious documents. This allegation is categorically false. Our brokers were trained to give us the full and accurate picture of the borrowers. No matter who pulled the different pieces of the application together (broker, sales, rep, realtor, processor), our underwriters were trained to question any part of the application that did not make sense and to verify that the loan application was complete, including employment verification, credit history, and assets to analyze the borrowers' ability to pay. Many of our loans, even in our Quick Qualifier program, ultimately required full or additional documentation

prior to approval. We trained brokers to not lump income together, but in fact to separate income out on the application so we could fully understand the different income sources.

It also is categorically false to suggest that we trained or permitted employees to falsify a borrower's income. That may or may not have been an accepted practice at other lenders, but it was totally unacceptable in our culture. Anyone attempting anything like that would be terminated on the spot, and there have been terminations for activities less despicable than what is alleged. In calling around to ascertain whether any of our former employees knew or heard about such a practice, the answers were categorical denials and anger at even the intimation of improper activities. Again, your "sources" are maligning and slandering the reputations of long-tenured managers whose ethics, integrity and honesty have never been questioned.

Loan Volume. You apparently have been told that at some point, Golden West became focused on volume. I would be interested in when your source says the rules changed. There were frequent meetings of the loan executives, and whenever a new marketing proposal was made, the first question asked would always be whether there would be any negative effect on quality and if that was a possibility, the proposal would be rejected. As I told you previously, Golden West held its loans on its own books. This created a strong incentive to ensure that our loans were based on sound underwriting.

Compensation. You have been given incorrect information regarding the compensation policies at Golden West. First, brokers are not employees of the company. Loan representatives at Golden West were paid based on loans originated, but they were trained and encouraged to produce high-quality loans and they were only paid if a loan made it all the way through the underwriting process and was actually funded. Because the loans were held on Golden West's books and failure to focus on quality would impact the company's health, we considered the quality of the loans generated by an employee as part of his or her overall performance. Managers and executives were paid based on quality, expense control management and volume. Our underwriters and appraisers were expected to review a minimum number of files, but they were not paid for volume and their income was not determined by loan sales volume. Quality trumped everything, since it was fundamental to our strategy and since all loans were kept on our books.

Statistical Data Regarding Golden West and/or Wachovia

With respect to your inquiries seeking statistical data related to Golden West and/or Wachovia, I do not have any direct current knowledge as to these issues because I have had less involvement with the company since its 2006 sale. I can, however, make some estimates and general statements based on information currently available to me.

Defaults of and Losses on Loans Generated by Golden West. I understand that the Golden West defaulted or foreclosed loans are materially lower than those made by other lenders, and that Golden West's Option ARM defaults and foreclosures are comparable to defaults and foreclosures of other institutions making fixed rate loans and other forms of adjustable rate mortgages in the same geographical areas. This makes sense in view of the fact that vast bulk of delinquencies and foreclosures relate to the historically unprecedented decline in home prices in a number of the areas in which Golden West originated loans, combined with the economic crisis' impact on borrowers' incomes.

As a result, whatever the ultimate net loss on the World portfolio will be experienced by Wells Fargo, many of the losses will have emanated from loans originated after the October 2006 sale. As for losses on loans made prior to the sale, these were due predominantly to historically severe home price declines of 50% or more in many areas where Golden West originated loans, combined with significant declines in borrower income in this unprecedented extraordinary economic environment, including due to unemployment, salary and bonus freezes, accepting jobs at lower salary levels, and so forth.

I am sure that in our portfolio, as in the portfolio of any lending institution, there were loans that, in hindsight, one wishes had not been made, or where circumstances changed since the loan was originated, such as medical emergency, unemployment, or divorce. We always maintained the same culture, the same high standards, the same focus of originating high quality loans, and the same focus on being risk averse. We continued with all of our redundancies of quality checking, including van tours, problem loan committees, quality control audits, etc. Had the economic crisis not caused borrower incomes to decline significantly and housing prices to drop by 50% or more in many of the areas in which we loaned, our losses would have been consistent with our 40-year history.

Finally, I have not been contacted by anybody regarding the Reuters report that you quoted. We intend to cooperate fully with any government investigation.

I hope these responses are helpful to you. As I said earlier, Golden West was a company that operated with the highest integrity, and we encourage you to review the many available public documents that contradict many of what appear to be your basic assumptions.

Sincerely,

Herbert M. Sandler

cc: Munger, Tolles & Olson LLP