

BASIC REPORT
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Golden West Financial

BUY

(GDW-NYSE)

Simply The Best

Golden West Financial is a savings and loan holding company for World Savings Bank, Atlas Advisers (an investment adviser and manager), and Atlas Securities (a registered broker-dealer). Golden West, the second largest thrift institution in the nation, is a member of the S&P 500, and has the highest credit rating among the thrifts.

INVESTMENT CONCLUSION: We initiate coverage of Golden West Financial with a BUY rating and a \$75 price target. While consensus expectations for the mortgage industry are that originations will decline sharply, causing downward revisions to EPS estimates, we do not believe this is the case for Golden West. Our 2005E EPS of \$4.85 is Street high, as we believe 2005 originations are likely to decline only 9.0% from a record in 2004. Golden West focuses on adjustable rate mortgages (ARMs) that become more popular in a rising rate environment, and despite a tightening of the spread between ARMs and fixed rate mortgages, Golden West is poised to increase its market share as it already has added staff in its lending division. Even if origination volumes are worse than expected, Golden West is poised to have sequential quarter net interest margin (NIM) expansion in 2005, as the repricing lags begin to move up to market rates. Superior revenue growth is likely to be driven by NIM expansion that should occur as long as rates move higher. Golden West has a history of producing some of the best and most consistent returns in the industry with a 15 year CAGR of 13.0% for revenue, 16.6% for EPS, and most important, 25.4% stock appreciation. We believe the market is finally beginning to understand that Golden West is in a class by itself and with the consistent returns, high growth, and a low risk business, it deserves to trade at a premium multiple to the large cap bank and thrifts.

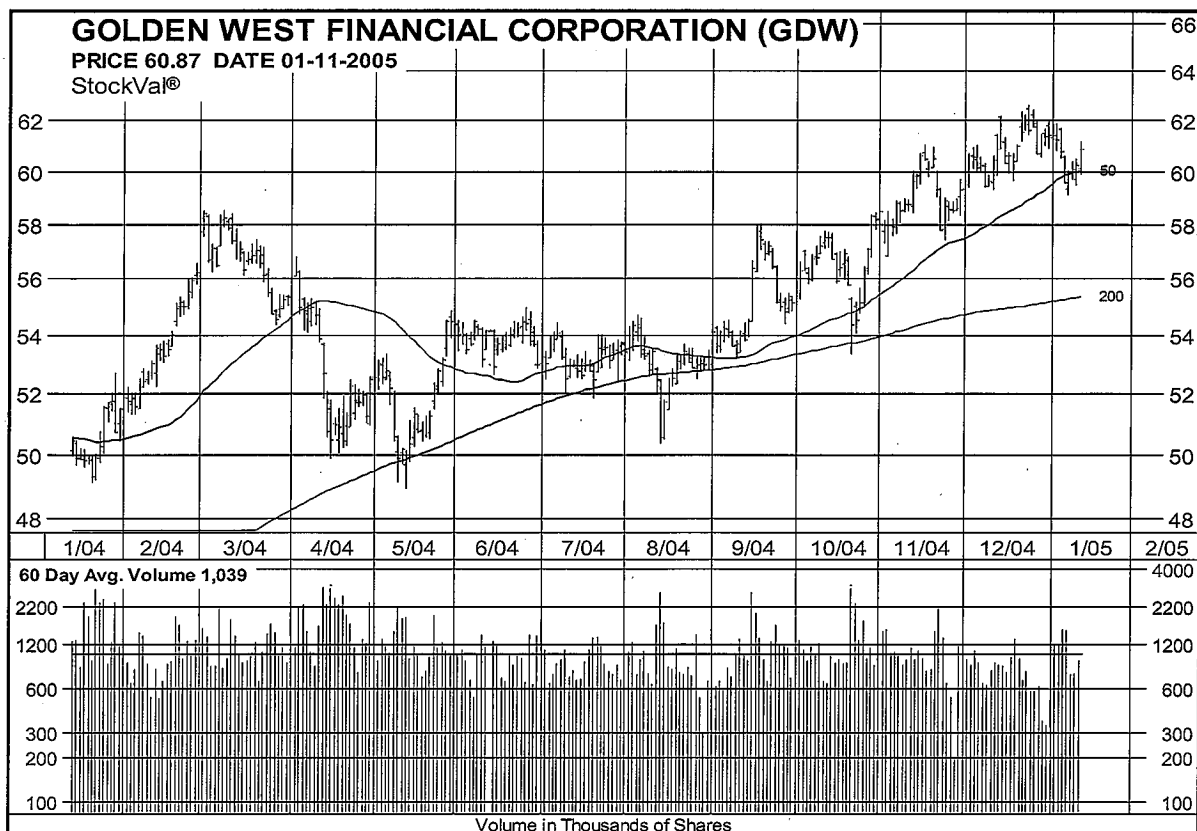
VALUATION SUMMARY: GDW trades at 12.6x our 2005E EPS, which is below its current multiple and its 13.8x average since 2003. We expect the P/E multiple to expand as Golden West separates itself from the rest of the pack. Clearly, Golden West is the gold standard among the thrifts and on a risk adjusted basis, offers higher returns than its bank brethren. However, no other bank or thrift has a similar history of consistent revenue and EPS growth, and we believe that this will lead to multiple expansion. When compared to other members of the S&P 500 index, GDW has a unmatched track record, and the same or better outlook than stocks that trade at premium multiples.

Recent Price	52-Wk. Range	Earnings Per Share (December)			P/E Ratios			Dividend	Yield
		2003A	2004E	2005E	2004E	2005E	Relative ('05E)		
\$61.19	\$63-48	\$3.54	\$4.13	\$4.85	14.8x	12.6x	74%	0.24	0.4%
Quarterly EPS					As of 09/30/04				
		2003A	2004E	2005E	Tangible Book Value/Share:			\$22.51	
Q1 - March		\$0.83	\$0.97A	\$1.09	Shareholders' Tangible Equity:			\$6,890.8	Million
Q2 - June		\$0.88	\$1.02A	\$1.17	Shares Outstanding:			306.1	Million
Q3 - September		\$0.91	\$1.05A	\$1.25					
Q4 - December		\$0.92	\$1.09E	\$1.34					
Average Daily Volume:				1,167,590	Market Capitalization:			\$18.7	Billion
Three Year Proj. EPS Growth Rate:				17%	12-Month Price Objective:			\$75	

KEY POINTS

- Consistent growth, high returns, and low risk generate superior stock returns.
- We believe there is upside to 2005E EPS even with a flattening of the yield curve.
- Golden West is poised to gain market share despite industry forecasts for significant declines in originations.
- The flattening of the yield curve should slow originations, but fixed-ARM rate spreads are still high.
- As the yield curve flattens, revenue growth should still accelerate.
- We believe GDW will have multiple expansion as it distinguishes itself from those that cannot drive revenue growth.
- GDW has an unmatched history of producing high and consistent returns and the market is beginning to notice.
- Management is highly respected and successors have been identified throughout several layers of management.
- Golden West is an asset generator that cannot gather deposits at the same pace as it funds loans.
- The company's credit rating is the highest among the thrifts and one of the bests among the banks.
- In the company's 40+ year history, net loan charge-offs have never been an issue, even during the savings and loan crisis of the late 1980s to early 1990s

One Year Stock Price Performance



Source: Stock Val

INVESTMENT SUMMARY

When talking about Golden West to people in the financial services industry, the same comments are used: consistency, low risk, and high returns. We believe these three comments are going to be very important in 2005. We believe the bank and thrift stocks are likely to face significant pressure in 2005 and a separation will occur among the large cap stocks that can grow revenues and those that have to resort to cost cutting for EPS growth. Those that are able to grow revenues are likely to receive premium valuations while those that can't are likely to see multiples compress. We believe the difference between the haves and have nots will become more dramatic in 2005. Golden West has historically generated revenue and EPS growth in the mid-teens, in an industry that generally has EPS growth around 8%.

Our 2005E EPS of \$4.85 is Street high. We believe Golden West is prepared for a declining, but still very healthy ARM origination market. ARMs are more popular in a rising rate environment. Short-term rates have already increased and the forward curve is expecting short-term rates to rise through 2005. Even though the consensus forecast for the mortgage origination market call for a 17.2% decline in ARM originations in 2005, we believe originations at Golden West are likely to decline by only 9%. 2005 is forecasted to be the second best year ever for ARM originations, and Golden West has been preparing by adding staff. Full time equivalent employees rose nearly 11% through 3Q04, on top of a rise of 22% in 2003, 11% in 2002, and 18% in 2001. With a favorable ARM market and the staff to serve it, Golden West is poised to gain market share.

Due to the rise in short-term rates, we expect the yield curve to flatten and the spread between fixed rate mortgages and ARMs to compress. While a narrowing of the spread is not an ideal circumstance for loan originations, we believe the spread will remain steep enough that ARMs will be attractively priced. Even if this assumption proves false, because of a flatter yield curve than expected, Golden West should still be able to generate mid teens revenue growth. As short-term rates rise, refinancing activity is likely to decline, causing prepayment speeds to fall. Under this scenario, loan originations do not have to be at record levels to achieve above average loan growth. We expect prepayment speeds to fall in the low 20s% in 2005 compared to the low 30s% in 2004.

The popularity of ARMs in a rising rate environment, despite a compression of the spread between fixed and adjustable rate mortgages, combined with the staff additions that Golden West has made should generate above average loan growth. As the balance sheet grows and loans reprice higher, Golden West should be poised for acceleration in revenue growth as the net interest margin (NIM) expands and prepayment speeds decline. In summary, the outlook for 2005 and 2006 is favorable for Golden West and we believe its performance will separate them from peers resulting in multiple expansion.

INVESTMENT THESIS

Consistent Growth, High Returns, And Low Risk Generate Superior Stock Returns

In our opinion, Golden West is a leader in the financial services industry. Since its IPO in 1968, Golden West has increased annual EPS at 18% compared to a 15 year EPS CAGR of 16.6%, a ten year CAGR of 22.7%, a five year CAGR of 24.8%, and a three year CAGR of 16.7%. No financial services company can match Golden West's track record for consistent high teens EPS growth.

Golden West is able to achieve this consistent performance with low risk. Interest rate risk, usually the biggest risk banks and thrifts face, is mitigated by its signature lending product, a monthly adjustable rate mortgage. ARMs are tied to indices that have repricing lags, so Golden West's NIM will fluctuate with the movement of interest rates, but should return to "steady state" once the repricing lags work through (which is usually in about one year). Golden West is very conservative in its underwriting and always has been. In its history, net-charge-offs to average loans have never been more than 0.18% and over the past seven years net charge-offs have been virtually nonexistent. Liquidity risk is also very low, as Golden West has the best credit rating among the thrifts and among the best in the banking industry. ✓

With the low risk profile, Golden West is able to generate high returns. ROA and ROE are generally in the 1.50% and 20.00% range, respectively. Operating in a commodity business, Golden West understands the need to control costs and its efficiency ratio is among the best in the nation with a ratio in the high 20s%. Credit-related costs are

minimal due to solid underwriting and the focus on residential mortgage loans, which typically have minimal credit risk. The low cost and consistent balance sheet expansion drives profitability.

With consistent and high EPS, coupled with low risk, GDW has generated significant returns for shareholders. For the past 15, 10, 5, and 3 years, GDW rose 25.4%, 26.5%, 17.2% and 31.9% CAGRs, respectively. Obviously, the company is doing something right. With a difficult outlook for bank and thrift stocks, we recommend sticking to the proven winners and Golden West is clearly the leader in the group.

Golden West Has The Highest Credit Ratings Among The Thrifts And One Of The Highest For The Banks

S&P Ratings				Moody's Ratings			
Company	Ticker	S&P LT Issuer	S&P LT Issuer	Company	Ticker	Moody's Sr. Unsec.	Moody's Sr. Unsec.
		Credit Rating	Credit Rating Date			Issuer Rating	Issuer Rating Date
Citigroup	C	AA-	NA	Citigroup	C	Aa1	09/20/2004
Fifth Third	FITB	AA-	12/03/2004	Wells Fargo	WFC	Aa1	09/25/2003
Northern Trust	NTRS	AA-	05/10/2004	Bank of America	BAC	Aa2	10/27/2003
State Street	STT	AA-	11/05/2002	Fifth Third	FITB	Aa2	12/02/2004
Wells Fargo	WFC	AA-	10/13/2003	Bank of New York	BK	Aa3	01/08/2003
Bank of America	BAC	A+	04/01/2004	JPMorgan Chase	JPM	Aa3	06/29/2004
Bank of New York	BK	A+	01/08/2003	State Street	STT	Aa3	11/05/2002
Golden West	GDW	A+	11/08/2002	SunTrust	STI	Aa3	10/12/2004
JPMorgan Chase	JPM	A+	07/01/2004	U.S. Bancorp	USB	Aa3	08/16/2004
Mellon Financial	MEL	A+	NA	Wachovia	WB	Aa3	06/21/2004
Mercantile	MRBK	A+	04/08/2003	BB&T	BBT	A1	01/21/2003
SunTrust Banks	STI	A+	05/10/2004	Golden West	GDW	A1	01/16/2002
U.S. Bancorp	USB	A+	07/25/2003	Marshall & Ilsley	MI	A1	07/15/2004
BB&T	BBT	A	01/21/2003	Mellon Financial	MEL	A1	05/16/2000
Comerica	CMA	A	01/21/2004	National City	NCC	A1	02/17/2004
Marshall & Ilsley	MI	A	07/06/2004	Northern Trust	NTRS	A1	04/04/2003
National City	NCC	A	07/01/2004	Regions Financial	RF	A1	01/23/2004
Regions Financial	RF	A	07/01/2004				
Synovus Financial	SNV	A	NA				
Wachovia	WB	A	06/21/2004				

Note: See rating definitions in the Appendix.

Source: SNL Financial

Consistent Growth And Returns

Annual Growth	Annual Growth				
	Total Assets	Total Loans And MBS	Operating Revenue	Operating EPS	Stock Price
1990	15.6	18.1	15.4	14.3	(8.4)
1991	7.7	13.3	25.5	30.2	77.2
1992	6.6	9.4	15.0	19.2	(0.6)
1993	11.3	8.8	5.0	(5.4)	(10.1)
1994	9.9	18.6	(5.0)	(13.5)	(9.6)
1995	10.8	11.7	0.8	7.4	56.7
1996	7.4	8.9	18.4	32.8	14.3
1997	4.9	8.1	7.6	17.2	54.9
1998	(2.8)	(3.6)	13.7	26.5	(6.3)
1999	9.5	10.7	3.1	11.2	9.6
2000	32.2	32.4	15.2	18.8	101.5
2001	5.2	5.6	42.4	49.9	(12.8)
2002	16.8	16.8	16.0	18.6	22.0
2003	20.7	20.5	16.3	17.2	43.7
2004E	31.6	32.4	15.3	16.3	20.0
15 Year CAGR	11.9	13.4	13.0	16.6	25.4
10 Year CAGR	13.4	14.1	16.0	22.7	26.5
5 Year CAGR	18.2	18.4	22.0	24.8	17.2
3 Year CAGR	26.0	26.3	15.8	16.7	31.9

Source: SNL Financial, Bloomberg, and company data

We Believe There Is Upside To 2005E EPS Even With A Flattening Yield Curve

Golden West has a history of producing high teens EPS growth across many interest rate and mortgage cycles. We have confidence in management, and do not see any reason why this should not be the case in 2005. ARMs become more popular in a rising rate environment because the monthly payment is less than fixed rate mortgages. In the past when interest rates were rising, Golden West has been able to increase originations and gain market share. For example, in 1998 rates were low and then began to rise, Golden West originated \$8.2 billion of loans. In 1999, originations rose 9.6% to \$12.7 billion and its national market share doubled to 1.0% from 0.5%.

ARM Originations Increase When Refinancing Activity Declines And Interest Rate Rise

(\$ in billions)

	4QO4E	3QO4	2QO4	1QO4	4QO3	3QO3	2QO3	1QO3
Industry								
Industry Refinance	266.0	226.0	436.0	328.0	310.2	815.3	663.0	537.0
Industry Purchase	368.0	458.0	454.0	291.0	322.8	383.7	312.0	220.0
Industry Total	634.0	684.0	890.0	619.0	633.0	1,199.0	975.0	757.0
Refinance %	42.0	33.0	49.0	53.0	49.0	68.0	68.0	70.9
Purchase %	58.0	67.0	51.0	47.0	51.0	32.0	32.0	29.1
ARMs	240.9	259.9	320.4	167.1	170.9	215.8	146.3	121.1
Fixed	393.1	424.1	569.6	451.9	462.1	983.2	828.8	635.9
Total	634.0	684.0	890.0	619.0	630.0	1,199.0	975.0	757.0
ARMs %	38.0	38.0	36.0	27.0	27.1	18.0	15.0	16.0
Fixed %	62.0	62.0	64.0	73.0	72.9	82.0	85.0	84.0
Golden West								
Refinance	8.7	9.6	8.8	6.8	7.4	7.2	5.6	5.0
Purchase	3.6	4.5	3.6	2.6	3.5	2.9	2.4	1.9
Total	12.3	14.1	12.4	9.4	10.9	10.1	8.0	6.9
Refinance %	71.0	68.0	71.0	72.0	67.7	71.0	70.1	72.0
Purchase %	29.0	32.0	29.0	28.0	32.3	29.0	29.9	28.0
ARMs	12.2	14.0	12.3	9.2	10.7	9.4	7.3	6.3
Fixed	0.1	0.1	0.1	0.2	0.2	0.7	0.7	0.6
Total	12.4	14.1	12.4	9.4	10.9	10.1	8.0	6.9
ARMs %	99.0	99.0	99.0	98.0	98.0	93.0	91.0	91.0
Fixed %	1.0	1.0	1.0	2.0	2.0	7.0	9.0	9.0
Golden West Market Share (%)								
Refinance	3.3	4.2	2.0	2.1	2.4	0.9	0.9	0.9
Purchase	1.0	1.0	0.8	0.9	1.1	0.8	0.8	0.9
Total	1.9	2.1	1.4	1.5	1.7	0.8	0.8	0.9
ARMs	5.1	5.4	3.8	5.5	6.3	4.3	5.0	5.2
Fixed	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Total	1.9	2.1	1.4	1.5	1.7	0.8	0.8	0.9

Source: JMS estimates, Mortgage Bankers Association, and company data

Golden West Annual Production Annual Market Share: Heading Into A Favorable Environment

(\$ in billions)

Industry	2004E	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Industry Refinance	1,256.0	2,530.0	1,472.0	1,149.0	198.0	459.0	758.0	243.3	225.6	145.3	211.5	534.3	421.6	176.5	69.5
Industry Purchase	1,571.0	1,280.0	1,011.0	882.0	827.0	825.0	749.0	590.4	559.3	494.2	557.2	485.5	472.0	385.5	388.9
Industry Total	2,827.0	3,810.0	2,483.0	2,031.0	1,025.0	1,284.0	1,507.0	833.7	784.9	639.4	768.7	1,019.9	893.7	562.1	458.4
Refinance %	44.4	66.4	59.3	56.6	19.3	35.7	50.3	29.2	28.7	22.7	27.5	52.4	47.2	31.4	15.2
Purchase %	55.6	33.6	40.7	43.4	80.7	64.3	49.7	70.8	71.3	77.3	72.5	47.6	52.8	68.6	84.8
ARMs	988.4	723.9	413.3	243.7	256.3	282.5	180.8	183.4	211.9	211.0	299.8	204.0	178.7	129.3	128.4
Fixed	1,838.6	3,086.1	2,069.7	1,787.3	768.8	1,001.5	1,326.2	650.3	573.0	428.4	468.9	815.9	714.9	432.8	330.1
Total	2,827.0	3,810.0	2,483.0	2,031.0	1,025.0	1,284.0	1,507.0	833.7	784.9	639.4	768.7	1,019.9	893.7	562.1	458.4
ARMs %	35.0	19.0	16.6	12.0	25.0	22.0	12.0	22.0	27.0	33.0	39.0	20.0	20.0	23.0	28.0
Fixed %	65.0	81.0	83.4	88.0	75.0	78.0	88.0	78.0	73.0	67.0	61.0	80.0	80.0	77.0	72.0
Golden West															
Refinance	33.9	25.3	16.5	12.2	6.7	5.0	3.6	2.5	2.4	1.9	2.7	3.7	3.7	2.3	1.4
Purchase	14.3	10.7	10.1	8.6	13.1	7.7	4.6	5.0	4.6	4.0	3.9	2.7	2.8	2.6	2.9
Total	48.2	36.0	26.7	20.8	19.8	12.7	8.2	7.5	7.0	5.9	6.6	6.4	6.5	4.9	4.3
Refinance %	70.3	70.3	62.0	58.8	34.0	39.4	43.9	32.9	34.3	32.0	40.7	58.3	56.7	46.9	31.9
Purchase %	29.7	29.7	38.0	41.2	66.0	60.6	56.1	67.1	65.7	68.0	59.3	41.7	43.3	53.1	68.1
ARMs	47.6	33.7	24.4	17.4	19.0	11.6	6.7	7.1	6.3	5.5	6.1	4.8	5.2	4.3	4.0
Fixed	0.6	2.3	2.3	3.4	0.8	1.1	1.5	0.4	0.7	0.4	0.5	1.6	1.3	0.6	0.3
Total	48.2	36.0	26.7	20.8	19.8	12.7	8.2	7.5	7.0	5.9	6.6	6.4	6.5	4.9	4.3
ARMs %	98.8	93.7	91.5	83.8	95.8	91.0	82.0	95.0	90.0	93.0	91.9	75.0	80.0	87.8	93.0
Fixed %	1.2	6.3	8.5	16.2	4.2	9.0	18.0	5.0	10.0	7.0	8.1	25.0	20.0	12.2	7.0
Golden West Market Share (%)															
Refinance	2.7	1.0	1.1	1.1	3.4	1.1	0.5	1.0	1.1	1.3	1.3	0.7	0.9	1.3	2.0
Purchase	0.9	0.8	1.0	1.0	1.6	0.9	0.6	0.9	0.8	0.8	0.7	0.5	0.6	0.7	0.7
Total	1.7	0.9	1.1	1.0	1.9	1.0	0.5	0.9	0.9	0.9	0.9	0.6	0.7	0.9	0.9
ARMs	4.8	4.7	5.9	7.1	7.4	4.1	3.7	3.9	3.0	2.6	2.0	2.3	2.9	3.3	3.1
Fixed	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Total	1.7	0.9	1.1	1.0	1.9	1.0	0.5	0.9	0.9	0.9	0.9	0.6	0.7	0.9	0.9

Source: JMS estimates, Mortgage Bankers Association, and company data

Poised To Gain Market Share Despite Industry Forecasts For Significant Declines In Originations

The 2005 consensus forecast is that mortgage originations are going to fall off a cliff after several years of record production. We examined the mortgage forecast from three organizations: Mortgage Bankers Association, Freddie Mac (FRE, \$70.62, NR), and Fannie Mae (FNM, \$70.33, NR). Using the median of the three forecasts, total loan originations are expected to decline 27.8% to \$2.75 trillion in 2004 and an additional 14.5% to \$2.35 trillion in 2005 from \$3.81 trillion in 2003. 2003 was a record year of originations and 2004 is likely to be the second best year ever. If the projections for 2005 hold true, it would be the fourth best year of originations for the industry.

2005 ARM Originations Expected To Be Better Than 2003

(\$ in billions)	2003	2004	2005	Percentage Change		
				2004/ 2003	2005/ 2004	2005/ 2003
Total Originations						
Mortgage Bankers Association	\$3,810.0	\$2,827.0	\$2,351.0	(25.8)	(16.8)	(38.3)
Freddie Mac	2,860.0	2,750.0	2,420.0	(3.8)	(12.0)	(15.4)
Fannie Mae	3,832.0	2,736.0	2,146.0	(28.6)	(21.6)	(44.0)
Median	3,810.0	2,750.0	2,351.0	(27.8)	(14.5)	(38.3)
Adjustable Rate Mortgage Originations						
Mortgage Bankers Association	\$723.9	\$989.5	\$869.9	36.7	(12.1)	20.2
Freddie Mac	543.4	935.0	774.4	72.1	(17.2)	42.5
Fannie Mae	728.1	930.2	622.3	27.8	(33.1)	(14.5)
Median	723.9	935.0	774.4	29.2	(17.2)	7.0
Fixed Rate Mortgage Originations						
Mortgage Bankers Association	\$3,086.1	\$1,837.6	\$1,481.1	(40.5)	(19.4)	(52.0)
Freddie Mac	2,316.6	1,815.0	1,645.6	(21.7)	(9.3)	(29.0)
Fannie Mae	3,103.9	1,805.8	1,523.7	(41.8)	(15.6)	(50.9)
Median	3,086.1	1,815.0	1,523.7	(41.2)	(16.1)	(50.6)

Source: Mortgage Bankers Association, Freddie Mac, and Fannie Mae

However, originations are dominated by fixed rate mortgages, an area where Golden West does not really participate. Golden West is an ARM lender. According to the median forecast from the same organizations, ARMs are expected to increase 29.2% in 2004 to \$935.0 billion from \$723.9 billion in 2003, but decline 17.2% to \$774.4 billion in 2005. 2005 ARM originations are expected to be 7% higher than 2003. To put this in perspective, 2004 is expected to be a record year for ARM originations, and 2005 is expected to be the second best year. In 2003, Golden West's originations increased 34.9% to \$36.0 billion. In 2004, we expect originations to rise 34.1% to \$48.3 billion. In 2005, originations are expected to decline 9% to \$43.9 billion. For Golden West, we believe 2005 originations will be 21.9% higher than 2003.

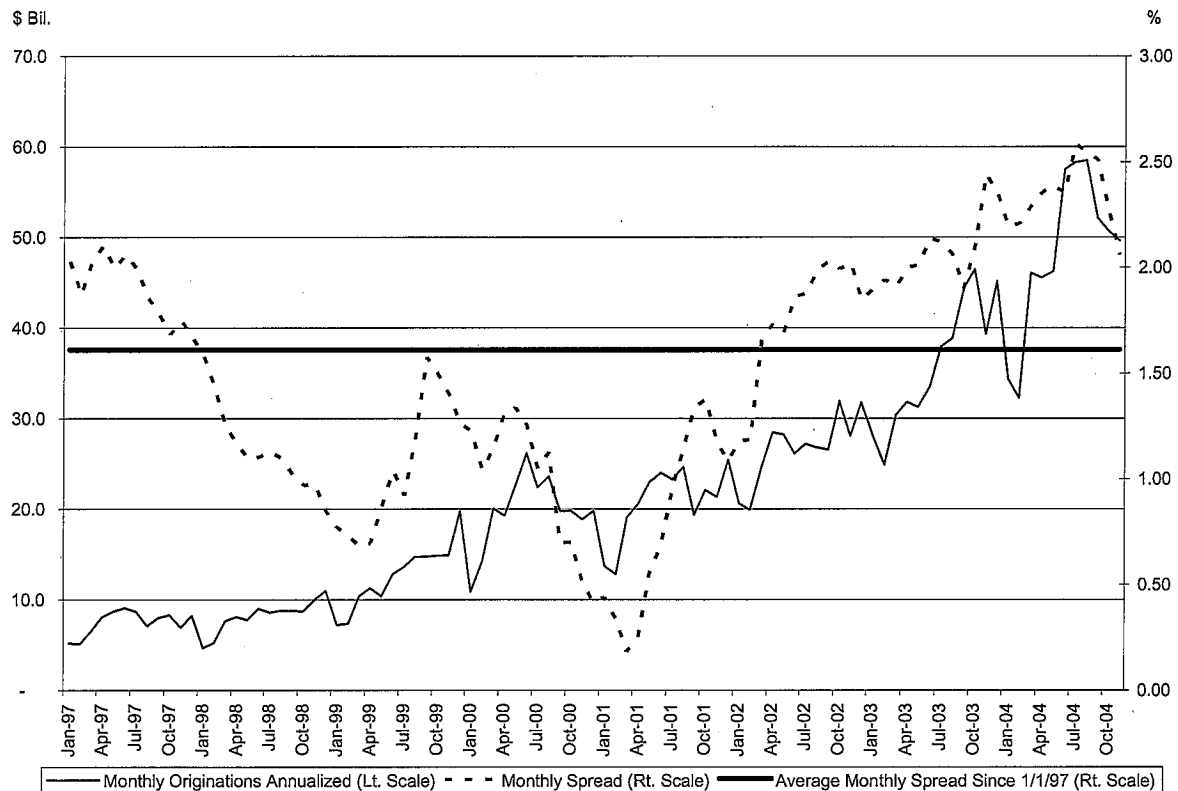
We are very confident that Golden West will be able to gain market share, primarily because the company has been adding producers. In 2003, full time equivalent employees totaled 8,949, which was a 21.9% increase from 2002. In 3Q04, full time equivalent employees rose 10.9% to 9,927. Since 2000 and 2002, the compounded annual growth rate of full time equivalent employees has risen 12.8% and 11.6%, respectively. Most of the staff additions have been in the lending area, split between originations, underwriting, and servicing. With this type of growth in staff, we believe Golden West will be able to increase mortgage production at a faster rate than the industry, which is likely to cut staff as overall originations decline. Golden West is able to increase its lending staff without compressing overall profit margins, due to the acceleration of revenue growth.

The Flattening Of The Yield Curve Should Slow Originations, But Fixed-ARM Spreads Are Still High...

We believe the yield curve is likely to flatten in 2005 as short-term rates rise significantly (to 3.0%-5.0% for the Fed funds rate, which is currently 2.25%), and the long-end remains flat to a slight increase (to 4.50%-5.00% for the yield on the 10-year US Treasury Bond, which is currently about 4.25%-4.30%). Traditionally, a flatter yield curve

is not ideal for ARM lenders due to the narrowing of the spread between fixed rate and ARM mortgage rates. Since 1997, this spread has averaged about 161 bps. This spread reached a high of 258 bps in July 2004 and a low of 18 bps in March 2001. The current spread is about 180 bps. We compare this spread to annualized monthly originations lagged by one quarter at Golden West to determine the relationship between lending volumes and the spread between fixed and adjustable rate mortgages. As shown in the table below, monthly originations tend to track the fixed and adjustable rate mortgage spread. The correlation was about .57 over the period shown. We expect the spread between fixed and adjustable rate mortgages to compress, and it could fall below 160 bps, but we expect it to remain above 100 bps. This is likely to slow down ARM originations, but this would impact 2006 more than 2005.

Annualized Monthly Originations Versus 30Yr-1Yr ARM Monthly Spread Lagged One Quarter



Source: Bloomberg and company data

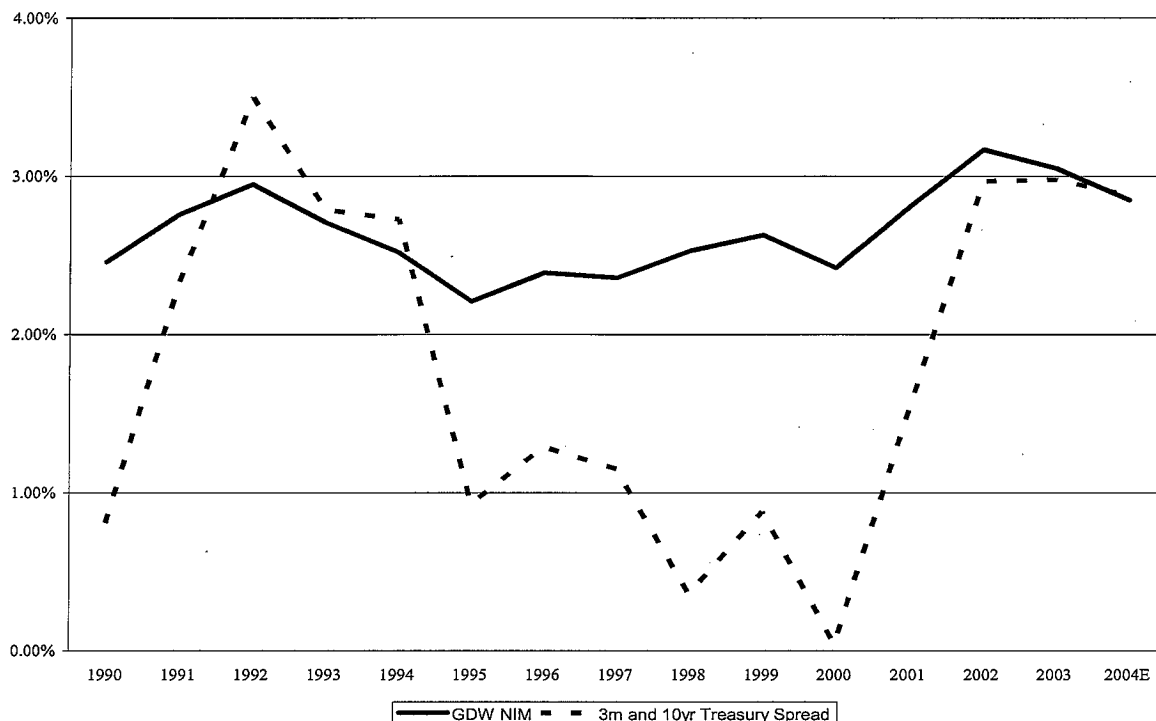
...But As The Yield Curve Flattens, Revenue Growth Should Accelerate At Golden West

While 2006 originations are expected to slow, we are not overly concerned about declines in EPS growth because Golden West's business model has built in operating leverage. Its ARM products have repricing lags that protect the NIM in a falling rate environment (as deposit reprice faster than loans) and hurt the NIM in a rising rate environment (as deposits reprice faster than loans) until the lags have a chance to catch up. With a flatter yield curve after a rising rate environment, the NIM is likely to expand as the repricing lags diminish. Loans will reprice at higher rates, causing the NIM to expand. Positive operating leverage should occur, as expense growth would decline with a decrease in mortgage volumes. Additionally, as Golden West expands its balance sheet, the impact of the repricing becomes greater. Revenue growth is likely to exceed its mid-teens historical average in this scenario.

To demonstrate how Golden West's NIM fluctuates in various yield curve environments, we have plotted its NIM versus the spread between three month and ten year US Treasuries. From 1990 to 2004 (using our estimate), Golden West's NIM has ranged from a low of 2.21% in 1995 and a high of 3.05% in 2002, for a spread of 84 bps. In contrast, the spread between the three month and 10 year US Treasuries has reached a high of 3.50% in 1992 and a

low of 0.04% in 2000 for a difference of 301 bps. In our opinion, Golden West has effectively removed interest rate risk as a significant factor over the long haul.

Golden West's NIM Versus 3M-10Y Treasury Spread: A Stable NIM Versus A Volatile Spread



Source: Bloomberg and company data

We believe Golden West also has another source for revenue growth. In a rising rate environment, refinancing activity is likely to slow, causing prepayment speeds to decline. If prepayment speeds decline, Golden West should be able to grow loans faster and would not need to generate a large amount of originations to generate double-digit loan growth. We believe prepayment speeds at Golden West are likely to decline to the low 20s% in 2005, compared to low 30s% in 2004. The larger the loan portfolio, the greater the revenue enhancement from upward adjustments in the repricing lags. This should lead to sequential quarter NIM expansion, in a period when most thrifts are likely to experience NIM compression.

PRICE TARGET AND VALUATION

In our opinion, GDW trades at a low P/E that is not deserved given its consistent high teens EPS growth, minimal interest rate risk, and superior credit rating. Over the past ten years, GDW's median forward P/E has been 10.8x with a high of 14.7x and a low of 7.9x. We believe GDW gets stung with the mortgage stigma, which implies that earnings are volatile and cyclical. However, this has not been the case historically, and we believe the company is even better positioned for the future. GDW's current multiple is 12.6x or below the average of large cap banks. We believe GDW should trade at a premium to the large cap banks due to its superior growth prospects, consistency of earnings growth, and low risk balance sheet. From 2003 to present, GDW has traded at an average P/E multiple of 13.8x. In our opinion, the market is beginning to understand the company and rewarding it with a more deserving P/E. We expect the P/E multiple to continue to expand, as the market recognizes GDW as one of the gold standards of the banking industry.

Our dividend discount model projects 12-month price target range of \$73-\$103, which assumes a discount rate of 11.50% and a payout ratio of 4%. We have conservatively estimated only 12% EPS growth in 2006. A higher EPS growth rate would imply upside to our valuation range. We believe a fair terminal P.E value is 13.0x-15.0x, which is

in line with GDW's current valuation and its average since 2003. Our estimated long-term EPS growth rate is in the 15%-19% range and is among the best in the industry. Our 12-month price target is \$75. Risks to our price target include an inverted yield curve, asset quality deterioration, sector rotation, regulatory changes, an economic downturn, and terrorism.

Valuation Sensitivity For GDW

EPS Growth Rate	Terminal P/E Multiple	10.00%	12.00%	14.00%	16.00%	18.00%	20.00%
	10.0 x	\$52.40	\$56.27	\$60.36	\$64.67	\$69.21	\$73.98
	11.0 x	57.53	61.79	66.28	71.02	76.00	81.25
	12.0 x	62.67	67.31	72.21	77.37	82.80	88.52
	13.0 x	67.80	72.83	78.13	83.72	89.60	95.79
	13.5 x	70.37	75.59	81.09	86.89	93.00	99.43
	14.0 x	72.93	78.34	84.05	90.07	96.40	103.06
	14.5 x	75.50	81.10	87.01	93.24	99.80	106.70
	15.0 x	78.07	83.86	89.97	96.42	103.20	110.34
	15.5 x	80.63	86.62	92.94	99.59	106.60	113.97
	16.0 x	83.20	89.38	95.90	102.77	110.00	117.61
	17.0 x	88.34	94.90	101.82	109.11	116.80	124.88

Assumptions: Discount rate 11.5%, 2006 EPS growth of 12%, and 4% payout ratio

Source: JMS Estimates

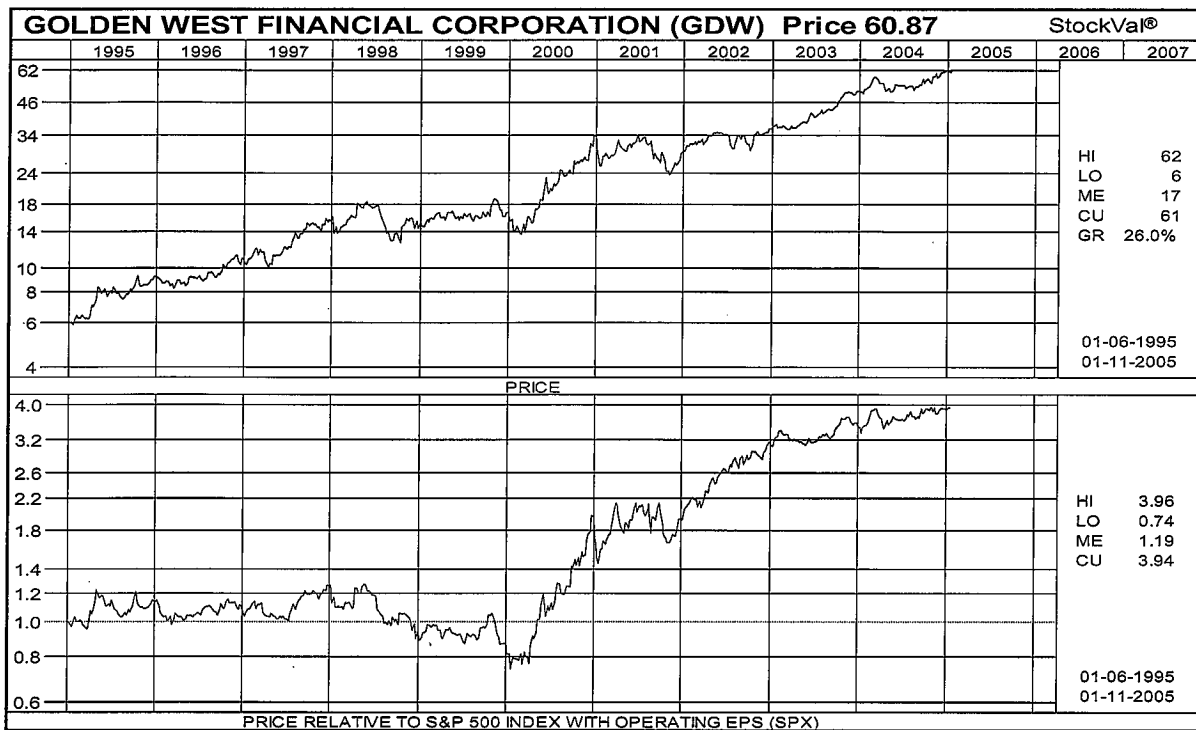
To determine what an appropriate P/E multiple is for GDW, we compare it to other members of the S&P 500. As the following table shows, the overall 2005 growth rate for the S&P 500 is 6%, which is 11% below our estimated EPS growth rate for GDW. Yet, GDW still trades at a 26% discount to the S&P 500 index. GDW has outperformed the S&P 500 index in terms of annual EPS growth rates for the past three, five, and ten years by 2%, 23%, and 18%, respectively. Clearly, Golden West has a proven track record and, in our opinion, the outlook remains bright. When compared to financials and the other sectors within the S&P 500, GDW has one of the highest 2005 EPS growth rate and has the highest five and ten year annual EPS growth rate, but yet still trades at only a 0.5x multiple premium to the financial sector. In our opinion, GDW deserves to trade at a significant premium to the financials and closer to the index multiple, if not at a premium to the index. Its superior business model has proven more than effective in generating consistent and industry-leading EPS growth, and the company has continued to invest in its infrastructure to increase capacity. With approximately 1.7% market share of total loan originations, we believe Golden West has plenty of opportunities to increase market share and drive earnings growth.

Despite Superior Past And Future Growth Expectations, GDW Still Trades At A Discount

Sector	P/E		Historical EPS Growth Rate			% Of S&P 500	Expected Future EPS Growth Rates (%)	
	2004	2005	3 Year (%)	5 Year (%)	10 Year (%)		2004/2003	2005/2004
Consumer Discretion	22.0	18.7	21.0	-3.0	-	11.8	17.0	17.0
Consumer Staples	20.1	18.2	4.0	9.0	-	10.7	5.0	11.0
Energy	12.1	12.6	25.0	9.0	-	7.1	47.0	-4.0
Financials	13.4	12.1	18.0	8.0	9.00	20.8	13.0	11.0
Health Care	19.1	17.6	10.0	9.0	-	12.8	10.0	9.0
Industrials	21.7	18.4	7.0	2.0	5.00	11.7	18.0	18.0
Information Tech	25.6	22.3	38.0	-10.0	-	15.9	37.0	15.0
Materials	18.3	14.8	32.0	-5.0	-	3.1	80.0	24.0
Telecommunication	17.8	16.8	2.0	-11.0	-	3.3	5.0	6.0
Utilities	16.3	14.4	-16.0	-9.0	1.00	2.9	1.0	13.0
S&P 500	17.9	16.9	15.0	2.0	5.00	100.0	19.0	6.0
Golden West	14.8	12.6	16.7	24.8	22.7	0.2	16.7	17.4

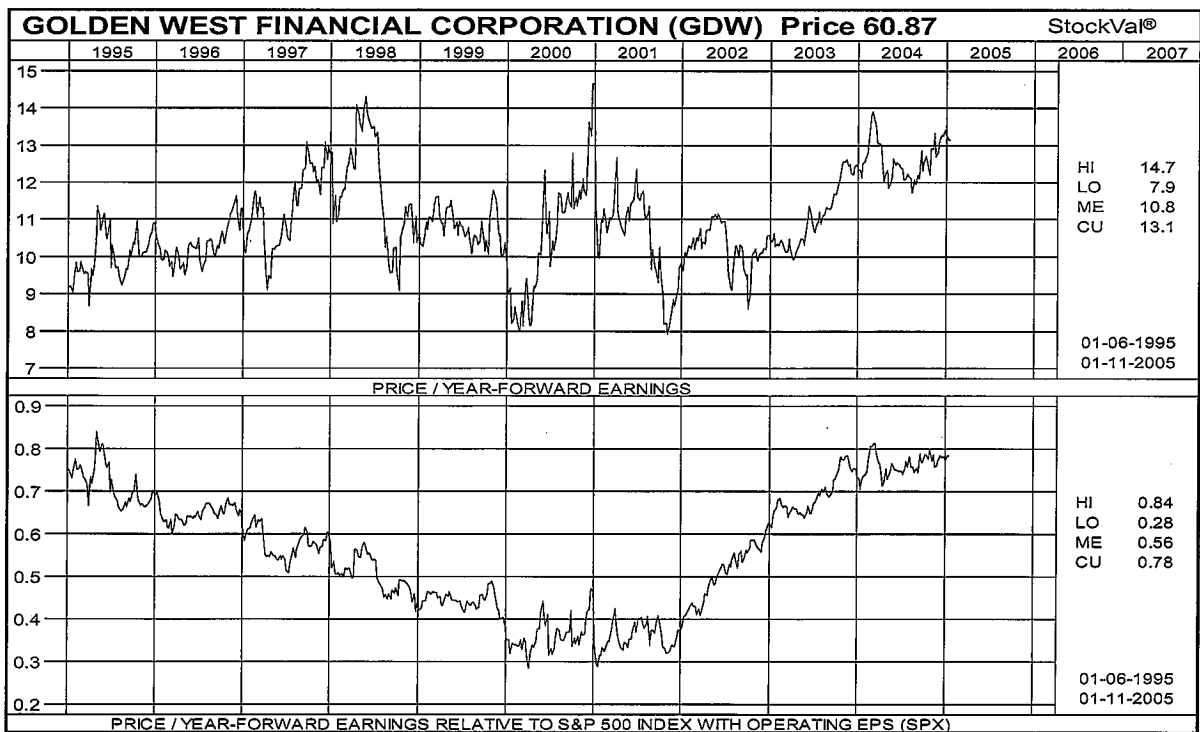
Source: Baseline, JMS estimates

Relative Price Performance Versus The S&P 500



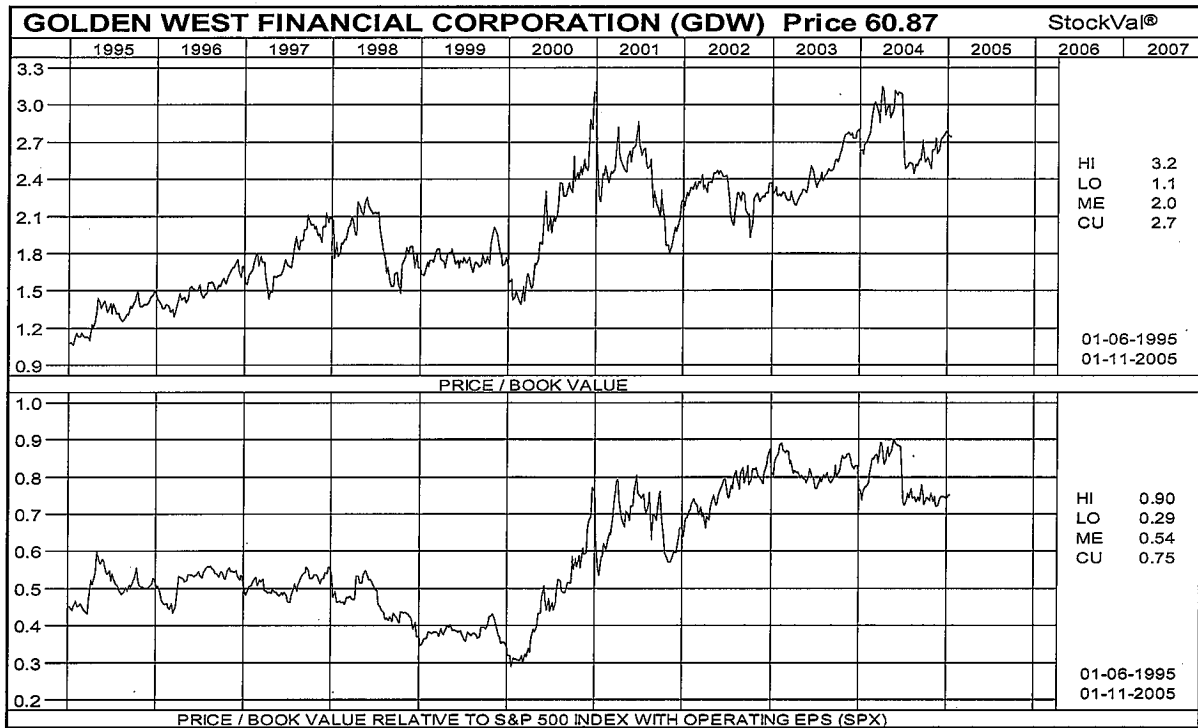
Source: Stock Val

Relative Price-To-Year Forward Earnings Performance Versus The S&P 500



Source: Stock Val

Relative Price-To-Book Value Performance Versus The S&P 500



Source: Stock Val

Historically, Golden West has traded at a discount to the S&P 500 forward P/E multiple. However, this gap is closing. For the past ten years, the median P/E multiple of GDW relative to the S&P 500 multiple has been 56%, with a high of 84% and a low of 28%. Currently, the relative multiple is 74%. We believe the market is starting to appreciate Golden West's business model and is slowly rewarding it with a higher relative multiple. Since 2003, the relative multiple has averaged 73% or 1700 bps (basis points) above the ten year median. We expect GDW will trade at the high end of its relative multiple range and expect the valuation gap to close over time.

On a price-to-book-value basis, GDW has a median multiple of 2.0x over the past ten years with a high of 3.2x and a low of 1.1x. Currently, the price-to-book multiple is 2.7x. Tangible book value is the same as stated book value, as Golden West does not have any goodwill on its balance sheet. Relative to the S&P 500, GDW has a median price-to-book value multiple of 54% with a high of 90% and a low of 29%. The current relative multiple is 75%. Like its relative P/E, we expect GDW's relative price-to-book value to trade in the upper end of its historical range with the valuation gap closing over time.

GDW trades at a 23% deposit premium and a 30% core deposit premium, which is about in line with industry averages. We believe deposit and core deposit premiums are more appropriate metrics for valuing a company in a merger. If a company intends to remain independent, these metrics are less meaningful, in our opinion. Given the EPS growth rate of the company, which is among the best in the industry, and a ROE that has consistently been in the high teens and has recently been over 20%, we believe there is no economic reason for Golden West to consider a sale. We do not believe Golden West is a likely merger candidate in the near-term.

STRATEGIC OVERVIEW

The strategy at Golden West is simple – provide high returns at the lowest possible risk. The company has structured its business model to effectively limit the major risks surrounding financial services firms. In our opinion, the most important risk that faces the banking industry today is interest rate sensitivity. Golden West has effectively reduced this risk through the promotion and emphasis of its monthly adjustable rate mortgages (ARM). Golden West's ARM

product is tied to indices that closely follow the company's cost of deposits and borrowings with some repricing lags, implying the NIM can remain relatively stable over the cycle. The company has effectively managed credit risk through disciplined underwriting, as net loan charge-offs have been negligible over the past seven years. Liquidity risk is greatly diminished through the company's credit ratings, which are among the best in the banking industry and at the top for the thrifts. Operations risk, which will exist in every organization no matter how tight the internal controls, is mitigated by the depth of the management team and the focus on employee training and development.

Golden West originates adjustable rate mortgages for portfolio and funds those originations through deposits and borrowings. Golden West is an asset generator and gathers loans faster than it can raise deposits, creating the need to borrow. The company wants to have the lowest borrowing costs possible, and has earned one of the highest credit ratings among banking institutions and the highest among the thrifts. The company does not have a complex business model. It does not have other lines of business or enter into higher credit risk lending. Golden West competes in a commoditized business and understands the importance of keeping all costs low to maintain a competitive advantage. Golden West is conservatively managed. This mantra is enforced throughout the company with succession plans several layers deep within the organization. To provide superior customer service and maintain its competitive advantage, Golden West emphasizes training for its professionals and "runs a university" (in the words of Herb Sandler, CEO). We believe it is this type of commitment and discipline that drives the consistent revenue and earnings growth of the company.

MARKETS

Golden West lends in 38 states and has branch operations in ten states. The company's largest lending markets are in California, Florida, New Jersey, and Texas. California is by far the largest market with 63% of total loans. The next largest market is Florida with almost 6% of total loans. Golden West's adjustable rate mortgages are more popular on the west coast than the east coast, and the overall geographic concentration has not changed significantly from 2001 to September 30, 2004. This implies that Golden West has generated consistent loan growth across all its markets. We note annual loan growth has been in the high teens/low twenties over the past three years.

Due to the uniqueness of its adjustable rate mortgages, the origination process is more educational and sales oriented. In addition, the underwriting process is more thorough and expensive than conforming originations. We believe this is one of the reasons why Golden West has superior credit quality. The typical Golden West borrower has a mortgage less than \$400,000 and loan-to-value ratio less than 70%. This implies that Golden West operates in the mid-tier of the housing market, which usually does not have the same pricing swings as the upper end. Due to the equity borrowers typically have in their houses, Golden West has a cushion if real estate values do decline. We believe this process truly reflects the risk averse nature of the company and demonstrates one of the reasons why it is able to generate high returns.

Loan Composition By State: California Is The Top Market With 63% Of Total Loans

(\$ in millions)

(\$ in millions)

	September 30, 2004					2003	2002	2001
	Residential		Commercial		Percent	Percent	Percent	Percent
	Real Estate		Real Estate	Total	Of	Of	Of	Of
	1-4	5+	Estate	Loans	Portfolio	Portfolio	Portfolio	Portfolio
Northern California	\$ 31,636.4	\$ 1,786.9	\$ 9.9	\$ 33,433.3	35.3	36.0	35.4	33.7
Southern California	24,589.6	1,477.2	1.0	26,067.8	27.5	27.6	28.5	30.6
California	56,226.0	3,264.1	10.9	59,501.1	62.8	63.6	63.9	64.3
Florida	5,510.3	61.1	0.0	5,571.4	5.9	5.7	5.4	5.1
New Jersey	4,059.1	-	0.4	4,059.5	4.3	3.9	3.7	3.6
Texas	3,145.8	144.4	0.2	3,290.4	3.5	3.8	4.2	4.1
Illinois	2,358.0	141.6	-	2,499.6	2.6	2.5	3.1	3.2
Washington	1,573.1	712.4	-	2,285.5	2.4	2.7	2.6	2.8
Colorado	1,776.3	181.6	3.5	1,961.4	2.1	2.2	2.4	2.6
Other	15,348.6	194.9	1.0	15,544.5	16.4	15.4	14.7	14.3
Total	\$ 89,997.2	\$ 4,700.0	\$ 16.0	\$ 94,713.3	100.0	100.0	100.0	100.0
Percent Of Total Loans	95.0	5.0	0.0					

Source: Company data

Loan Growth By State: Across the Board Growth

(\$ in millions)

	% Of Total	9/30/04	12/31/03	12/31/02	12/31/02	YTD 2004 (%)	2003/ 2002 (%)	2002/ 2001 (%)
Northern California	36.0	33,433.3	27,682.7	22,667.8	18,457.0	20.8	22.1	22.8
Southern California	27.6	26,067.8	21,193.2	18,264.9	16,719.2	23.0	16.0	9.2
California	63.6	59,501.1	48,875.9	40,932.7	35,176.3	21.7	19.4	16.4
Florida	5.7	5,571.4	4,400.4	3,449.9	2,791.5	26.6	27.6	23.6
New Jersey	3.9	4,059.5	3,020.5	2,390.6	1,989.7	34.4	26.4	20.1
Texas	3.8	3,290.4	2,954.1	2,671.2	2,242.6	11.4	10.6	19.1
Illinois	2.5	2,499.6	1,926.0	1,676.9	1,526.4	29.8	14.9	9.9
Washington	2.7	2,285.5	2,076.5	1,973.4	1,745.4	10.1	5.2	13.1
Colorado	2.2	1,961.4	1,694.3	1,567.6	1,412.8	15.8	8.1	11.0
Other	15.4	15,544.5	11,862.3	9,421.0	7,807.9	31.0	25.9	20.7
Total	100.0	94,713.3	76,810.0	64,083.4	54,692.6	23.3	19.9	17.2

Source: Company data

Golden West has 276 branches in ten of the wealthier states. California represents 55.4% of total deposits at Golden West, followed by Florida (13.5%), Colorado (9.5%), and Texas (8.3%). Unlike the loan portfolio, deposit growth has not been consistent across all states. In 2004, California deposits increased only 6.1% compared to 9.9% for the entire company. Florida, on the other hand, had 15.8% deposit growth in 2004. While the percentage deposit growth rates were not consistent, we note that California has a much larger base and actually had the largest dollar growth of deposits in 2004. The company seeks the high balance customer and is not interested in gaining the largest market share in any particular area. It is known for its aggressive deposit rates and the uniqueness of its deposit products. This strategy has generated a high average balance per branch. In California, Golden West's average deposits per branch is \$224.7 million; the company ranks second among the top ten companies with the largest market share in terms of average balances per branch. In seven out of ten states, Golden West ranks number one or number two in average deposits per branch among the top ten market share companies. Golden West needs large average deposit balances per branch to support its low cost model and to fund its origination machine.

Deposit Growth By State: Growth Accelerated Outside Of California

(\$ in millions)

	% Of Total	2004	2003	2002	2001	2004/ 2003 (%)	2003/ 2002 (%)	2002/ 2001 (%)
California	55.4	27,408.0	25,840.4	21,373.7	18,919.6	6.1	20.9	13.0
Florida	13.5	6,659.0	5,751.3	4,460.3	3,711.8	15.8	28.9	20.2
Colorado	9.5	4,700.0	4,461.9	3,807.7	3,462.8	5.3	17.2	10.0
Texas	8.3	4,122.0	3,340.4	2,665.3	1,926.2	23.4	25.3	38.4
Arizona	5.1	2,500.0	1,979.6	1,595.1	1,277.7	26.3	24.1	24.8
New Jersey	3.9	1,910.0	1,736.4	1,245.0	1,222.9	10.0	39.5	1.8
Kansas	2.3	1,126.0	1,053.5	918.3	800.9	6.9	14.7	14.7
Illinois	1.1	565.1	505.8	252.2	225.8	11.7	100.5	11.7
Nevada	1.0	513.4	359.5	233.2	126.6	42.8	54.2	84.2
New York	0.2	80.4	-	-	-	-	-	-
Total	100.2	49,503.5	45,028.8	36,550.8	31,674.3	9.9	23.2	15.4

Note: Deposit balances for the year ended June 30

Source: SNL Financial

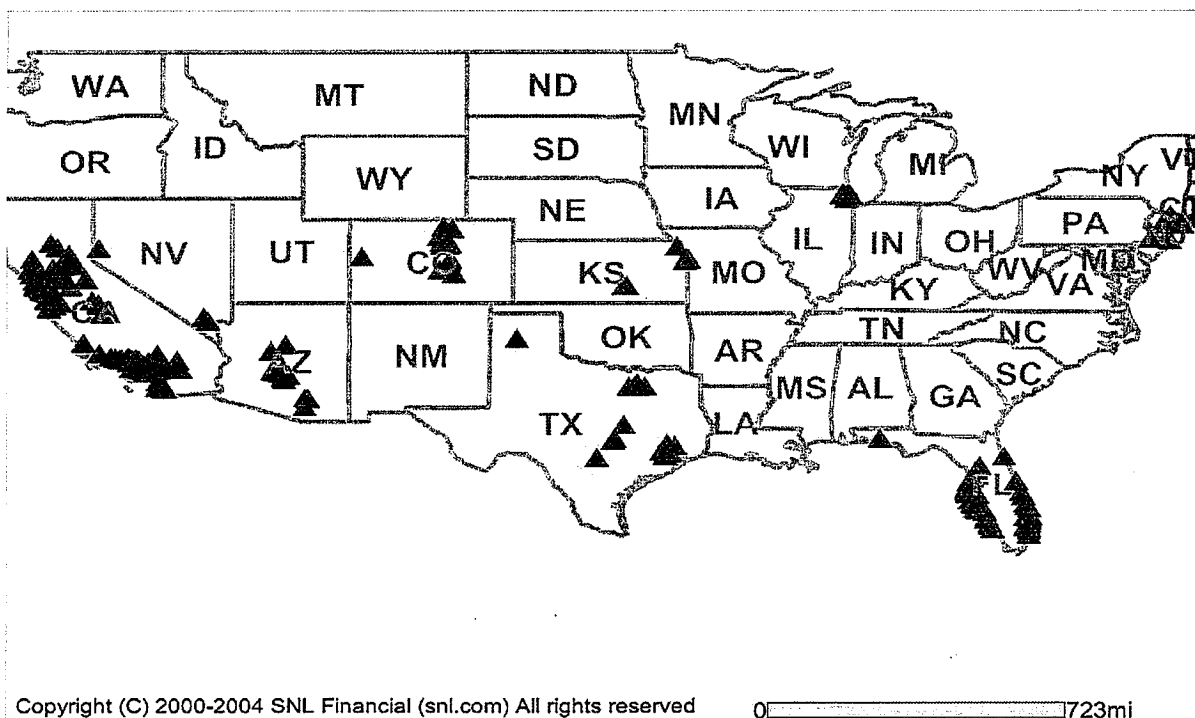
Golden West ranks in the top five in deposit market share in only two of the ten states in which it operates. It only has market share greater than 5% in one state (Colorado). Its markets are the high population growth and income markets. Weighting the population growth based on the composition of deposits by state, population growth from 2000-2004 was 6.46% compared to 4.09% for the national average. This is expected to rise to 7.38% and 4.84%, respectively, from 2004-2009. The average median household income for Golden West's markets is over \$50,000 or 8.6% higher than the average of \$46,500 for the nation. Lastly, the projected household income change from 2004-2009 is 12.3% for Golden West compared to 11.02% for the nation. The bottom line is that Golden West seeks the wealthier markets in the nation that have above average population and household formation growth.

Golden West Seeks High Balance Depositors In Growing Markets

State	Deposit Market Share						Demographic Statistics					
	Deposit Market Share Rank	Number Of Branches	Deposits (\$ Mil.)	Deposit Market Share (%)	% Of Deposits (%)	Avg. Branch Size (\$ Mil.)	Total Pop. 2004 (Mil.)	Pop. Change 00-04 (%)	Projected Pop. Change 04-09 (%)	Median HH Inc. 2004 (\$ 000)	HH Inc. Change 04-09 (%)	Projected HH Inc. Change 04-09 (%)
California	6	122	27,408.0	4.10	55.3	224.7	35.8	5.84	6.75	52.6	9.74	12.64
Florida	7	49	6,659.0	2.22	13.4	135.9	17.3	8.00	9.33	42.8	8.88	10.51
Colorado	4	34	4,700.0	7.51	9.5	138.2	4.6	6.89	7.15	54.0	13.38	15.35
Texas	11	25	4,122.0	1.47	8.3	164.9	22.4	7.46	8.59	44.3	9.68	11.05
Arizona	5	15	2,500.0	4.05	5.0	166.7	5.7	10.80	12.22	45.0	9.44	10.46
New Jersey	19	12	1,910.0	0.96	3.9	159.2	8.7	3.24	3.80	61.8	10.50	12.46
Kansas	8	8	1,126.0	2.42	2.3	140.8	2.7	1.61	1.99	44.8	9.24	10.60
Illinois	64	6	565.1	0.2	1.1	94.2	12.7	2.30	2.69	51.4	9.43	12.49
Nevada	13	3	513.4	1.27	1.0	171.1	2.3	14.93	16.08	48.6	7.80	11.20
New York	167	1	80.4	0.01	0.2	80.4	195.2	1.36	1.54	47.7	8.04	11.09
Weighted Average For Golden West							6.46		7.38	50.5	9.94	12.30
National Total							4.09		4.84	46.5	8.77	11.02

Source: SNL Financial

A Coast-to-Coast Deposit Franchise Focusing On Wealthy Markets



EARNINGS OUTLOOK

We expect 2004 to be another great year for Golden West. Our 2004E EPS is \$4.13, which implies 16.7% growth and is in line with its historical average. Average earning assets are expected to increase 24.1% in 2004 to \$92.6 billion compared to \$74.6 billion in 2003. Average loans and MBS should rise 28.5% in 2004 compared to 18% in 2003. Originations are expected to reach a record \$48.3 billion in 2004, up 34.1% compared to \$36.0 billion in 2003. Prepayment speeds remained high at 31.08% in 2004 compared to 31.58% in 2003. The growth in deposits did not keep pace with loan growth. Average deposits only are expected to rise 10.8% in 2004 compared to 19.6% in 2003.

The NIM has declined since the start of 2003, and we expect this trend to continue. For 2004, our NIM assumption is 2.81% compared to 3.05% in 2003. The combination of the NIM compression and the average earning asset growth is expected to increase net interest income 18.8% to \$2.6 billion in 2004 from \$2.2 billion in 2003. Fee income should rise 17.8% to \$269.9 million in 2004 compared to \$230.2 million in 2003, due to higher prepayment fees and deposit fees. Overall operating income is expected to rise 15.3% in 2004 compared to 15.8% in 2003. We find it impressive that the company can generate mid-teens revenue growth in an industry that generally grows mid-single digits. Operating expenses should rise 16.2% to \$837.0 million in 2004 compared to \$720.5 million in 2003. The increase is primarily due to staff additions and the related rise in volume. Credit quality should remain pristine. We expect net charge-offs-to-average loans to be 1 basis point (bp) or less for the seventh consecutive year. With minimal net charge-offs and a reduction in nonperforming assets, we expect the reserves-to-loans ratio to continue to decline. We have modeled a flat effective tax rate of 38.2%. With capital needed to support balance sheet growth, we do not expect Golden West to repurchase any shares.

For 4Q04, our EPS estimate is \$1.09 or 18.5% annual growth and \$0.02 above the Street consensus. Golden West has exceeded Street consensus estimates for eleven out of the past twelve quarters, and we expect the streak to continue. Average earning assets are expected to rise 32.9% in 4Q04 to \$103.8 billion, compared to \$78.1 billion in 4Q03. This growth should be driven by the 32.0% increase in average loans and MBS. Originations are expected to total \$12.4 billion, up 13.3% from \$10.9 billion in 4Q03. Prepayment speeds should decline slightly to 25.73% in 4Q04 compared to 27.99% in 4Q03. Like for all of 2004, we expect 4Q04 loan growth to exceed deposit growth and to come in at 12.5%. The NIM should compress in 4Q04 for the eighth consecutive sequential quarter, but only two basis points to 2.68% compared to 3.01% in 4Q03. Operating revenue should rise 16.7% in 4Q04 compared to 15.2% in 4Q03. Noninterest expense should rise 14.0% in 4Q04, generating positive operating leverage. We believe positive operating leverage could expand once interest rates have stabilized and the repricing lags have a chance to catch up. Credit quality should remain pristine with minimal net charge-offs and possibly a slight improvement in NPAs. The effective tax rate should be around 38.3% in 4Q04 compared to 37.2% in 4Q03.

Our 2005E EPS of \$4.85 implies 17.4% growth and is Street high. We are \$0.27 above the Street consensus, which we believe is primarily due to a higher NIM assumption. We expect the NIM to only decline eight basis points to 2.73% in 2005 compared to 2.81% in 2004. We believe with higher short-term rates, the benefit from the repricing lags should help the NIM expand in 2H05. Average earning assets are expected to rise 25.4% in 2005, led by the 25.9% increase in average loans and deposits. We expect originations to decline 9.0% in 2005 to \$43.9 million, compared to \$48.3 million in 2004. More important, we believe prepayment speeds should decline significantly to 23.8% in 2005 from 31.1% in 2004. The slower prepayment speeds combined with solid originations should drive loan and MBS growth. Average deposits are only expected to increase 9.4%, and we believe Golden West will continue to issue more debt. Operating revenue should rise 18.6% in 2005 as the NIM expands in 2H05 and average earnings assets increase. We expect a decline in fee income, as prepayment fees slow as refinancings decline. Operating expenses should rise 17.7%, generating positive operating leverage. We are not expecting significant credit quality issues. The effective tax rate should remain relatively flat at 38.3%.

We have provided two sensitivity analyses for key assumptions in our earnings models. First, we determine 2005 EPS sensitivity relative to loan originations and prepayment speeds. These two items are the key drivers in determining asset growth. For 2005, we assumed total originations of \$43.9 billion and prepayment speed of 23.8%. An increase in loan originations or a decrease in prepayment speeds should accelerate loan growth and have a favorable impact on earnings. Conversely, a slow down in originations and an increase in prepayment speeds would have a negative impact on loan growth and could cause downward EPS revisions.

For the second sensitivity analysis, we reviewed the key revenue drivers of average earning asset growth and NIM. We assumed average earning asset growth of 25.4% and a NIM of 2.73% in 2005. Per our sensitivity analysis below, if average earning asset growth is 20.0% and the NIM is 2.48%, EPS would be \$4.03 or 16.9% lower than our estimate. On the flip side, if average earning asset growth is 33.4% and the NIM is 2.78%, EPS would be \$5.38 or 10.9% higher than our estimate.

Sensitivity Of Loan Originations And Prepayment Speeds

Prepayment Speed	Originations (\$ Mil.)	20.0%	21.0%	22.0%	23.0%	23.8%	25.0%	26.0%	27.0%	28.0%
	30,000.0	4.28	4.23	4.18	4.13	4.09	4.04	3.99	3.94	3.89
	32,000.0	4.39	4.34	4.29	4.24	4.20	4.15	4.10	4.05	4.00
	35,000.0	4.55	4.50	4.45	4.41	4.36	4.31	4.26	4.21	4.16
	38,000.0	4.71	4.66	4.62	4.57	4.53	4.47	4.42	4.37	4.32
	40,000.0	4.82	4.77	4.72	4.68	4.64	4.58	4.53	4.48	4.43
	43,900.0	5.03	4.98	4.93	4.89	4.85	4.79	4.74	4.69	4.64
	45,000.0	5.09	5.04	4.99	4.95	4.91	4.85	4.80	4.75	4.70
	48,000.0	5.25	5.20	5.16	5.11	5.07	5.01	4.96	4.91	4.87
	50,000.0	5.36	5.31	5.26	5.22	5.18	5.12	5.07	5.02	4.97
	52,000.0	5.47	5.42	5.37	5.32	5.28	5.23	5.18	5.13	5.08
	55,000.0	5.63	5.58	5.53	5.49	5.45	5.39	5.34	5.29	5.24

Percentage Upside/(Downside) To Our 2005E EPS

Prepayment Speed	Originations (\$ Mil.)	20.0%	21.0%	22.0%	23.0%	23.8%	25.0%	26.0%	27.0%	28.0%
	30,000.0	(11.8)	(12.8)	(13.8)	(14.8)	(15.7)	(16.7)	(17.7)	(18.8)	(19.8)
	32,000.0	(9.5)	(10.5)	(11.5)	(12.6)	(13.4)	(14.4)	(15.5)	(16.5)	(17.5)
	35,000.0	(6.2)	(7.2)	(8.2)	(9.1)	(10.1)	(11.1)	(12.2)	(13.2)	(14.2)
	38,000.0	(2.9)	(3.9)	(4.7)	(5.8)	(6.6)	(7.8)	(8.9)	(9.9)	(10.9)
	40,000.0	(0.6)	(1.6)	(2.7)	(3.5)	(4.3)	(5.6)	(6.6)	(7.6)	(8.7)
	43,900.0	3.7	2.7	1.6	0.8	-	(1.2)	(2.3)	(3.3)	(4.3)
	45,000.0	4.9	3.9	2.9	2.1	1.2	-	(1.0)	(2.1)	(3.1)
	48,000.0	8.2	7.2	6.4	5.4	4.5	3.3	2.3	1.2	0.4
	50,000.0	10.5	9.5	8.5	7.6	6.8	5.6	4.5	3.5	2.5
	52,000.0	12.8	11.8	10.7	9.7	8.9	7.8	6.8	5.8	4.7
	55,000.0	16.1	15.1	14.0	13.2	12.4	11.1	10.1	9.1	8.0

Source: JMS Estimates

Sensitivity Of 2005E EPS Growth

Average Earning Asset Growth	NIM	20.0%	22.0%	24.0%	26.0%	25.4%	27.4%	29.4%	31.4%	33.4%
	2.48%	4.03	4.13	4.22	4.31	4.28	4.37	4.46	4.55	4.64
	2.53%	4.14	4.24	4.33	4.42	4.39	4.49	4.58	4.67	4.77
	2.58%	4.25	4.35	4.44	4.54	4.51	4.60	4.70	4.79	4.89
	2.63%	4.36	4.46	4.56	4.65	4.62	4.72	4.82	4.91	5.01
	2.68%	4.47	4.57	4.67	4.77	4.74	4.84	4.94	5.03	5.13
	2.73%	4.58	4.68	4.78	4.88	4.85	4.95	5.05	5.15	5.25
	2.78%	4.69	4.80	4.90	5.00	4.97	5.07	5.17	5.27	5.38
	2.83%	4.80	4.91	5.01	5.11	5.08	5.19	5.29	5.39	5.50
	2.88%	4.91	5.02	5.12	5.23	5.20	5.30	5.41	5.52	5.62
	2.93%	5.02	5.13	5.24	5.35	5.31	5.42	5.53	5.64	5.74
	2.98%	5.13	5.24	5.35	5.46	5.43	5.54	5.65	5.76	5.86

Percentage Upside/(Downside) To Our 2005E EPS

Average Earning Asset Growth	NIM	20.0%	22.0%	24.0%	26.0%	25.4%	27.4%	29.4%	31.4%	33.4%
	2.48%	(16.9)	(14.8)	(13.0)	(11.1)	(11.8)	(9.9)	(8.0)	(6.2)	(4.3)
	2.53%	(14.6)	(12.6)	(10.7)	(8.9)	(9.5)	(7.4)	(5.6)	(3.7)	(1.6)
	2.58%	(12.4)	(10.3)	(8.5)	(6.4)	(7.0)	(5.2)	(3.1)	(1.2)	0.8
	2.63%	(10.1)	(8.0)	(6.0)	(4.1)	(4.7)	(2.7)	(0.6)	1.2	3.3
	2.68%	(7.8)	(5.8)	(3.7)	(1.6)	(2.3)	(0.2)	1.9	3.7	5.8
	2.73%	(5.6)	(3.5)	(1.4)	0.6	-	2.1	4.1	6.2	8.2
	2.78%	(3.3)	(1.0)	1.0	3.1	2.5	4.5	6.6	8.7	10.9
	2.83%	(1.0)	1.2	3.3	5.4	4.7	7.0	9.1	11.1	13.4
	2.88%	1.2	3.5	5.6	7.8	7.2	9.3	11.5	13.8	15.9
	2.93%	3.5	5.8	8.0	10.3	9.5	11.8	14.0	16.3	18.4
	2.98%	5.8	8.0	10.3	12.6	12.0	14.2	16.5	18.8	20.8

Source: JMS Estimates

GDW Earnings Model (\$ in millions, except per share data)

	1Q03A	2Q03A	3Q03A	4Q03A	2003A	1Q04A	2Q04A	3Q04A	4Q04E	2004E	1Q05E	2Q05E	3Q05E	4Q05E	2005E
Net Interest Income	528.7	541.6	553.3	584.7	2,208.4	619.3	642.7	665.1	695.7	2,622.7	719.8	764.9	819.2	870.4	3,174.2
Loan Loss Provision	4.5	3.5	2.1	1.8	11.9	0.2	0.4	0.2	0.5	1.3	1.0	1.0	1.0	1.0	4.0
Adj. Noninterest Income (NII)	48.9	58.9	61.8	60.6	230.2	55.8	74.8	69.7	69.6	269.9	66.9	67.3	66.2	66.2	266.6
Net Gains	18.2	24.0	29.0	12.0	83.2	4.0	6.4	1.9	2.0	14.3	1.8	1.5	1.3	1.3	5.8
Nonrecurring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Noninterest Income	67.1	82.9	90.7	72.6	313.3	59.8	81.1	71.6	71.6	284.2	68.7	68.8	67.5	67.4	272.4
Operating Income	595.8	624.6	644.1	657.3	2,521.7	679.1	723.8	736.7	767.3	2,906.9	788.4	833.7	886.6	937.8	3,446.5
Adj. Noninterest Expense	169.7	177.2	181.1	192.6	720.5	199.5	207.5	210.5	219.5	837.0	235.4	242.8	250.4	256.3	985.0
Nonrecurring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Noninterest Expense	169.7	177.2	181.1	192.6	720.5	199.5	207.5	210.5	219.5	837.0	235.4	242.8	250.4	256.3	985.0
Pretax Income	421.6	443.9	460.9	462.9	1,789.3	479.3	515.9	526.1	547.3	2,069.6	552.0	589.9	635.2	680.5	2,457.5
Income Taxes	161.5	171.4	178.0	172.3	683.2	179.6	199.2	201.3	209.3	789.4	211.1	225.6	243.0	260.3	940.0
Net Income	260.1	272.5	282.9	290.7	1,106.1	299.7	316.7	324.8	337.9	1,279.2	340.9	364.2	392.2	420.2	1,517.5
Diluted Shares	311.7	310.2	309.6	309.7	310.3	310.1	310.4	310.6	311.1	310.5	311.6	312.1	312.6	313.1	312.3
Reported EPS	0.83	0.88	0.91	0.94	3.56	0.97	1.02	1.05	1.09	4.13	1.09	1.17	1.25	1.34	4.85
Operating EPS	0.83	0.88	0.91	0.92	3.54	0.97	1.02	1.05	1.09	4.13	1.09	1.17	1.25	1.34	4.85
Cash EPS	0.83	0.88	0.91	0.92	3.54	0.97	1.02	1.05	1.09	4.13	1.09	1.17	1.25	1.34	4.85
Dividends Per Share	0.04	0.04	0.04	0.05	0.18	0.05	0.05	0.05	0.06	0.21	0.06	0.06	0.06	0.06	0.24
Book Value Per Share	17.00	17.75	18.55	19.55	19.55	20.47	21.49	22.51	23.69	23.69	24.86	26.10	27.43	28.85	28.85
Tangible Book Value Per Share	17.00	17.75	18.55	19.55	19.55	20.47	21.49	22.51	23.69	23.69	24.86	26.10	27.43	28.85	28.85
Mortgage Assumptions															
Originations	6,943	8,044	10,092	10,906	35,985	9,394	12,439	14,072	12,357	48,262	11,500	11,100	10,800	10,500	43,900
Prepayment Speed (%)	25.36	30.25	33.41	27.99	31.58	23.87	31.28	28.37	25.73	31.08	23.99	22.49	20.99	19.83	23.83
Average Balances															
Loans And MBS	65,323	67,438	69,897	75,544	69,852	80,498	85,818	92,977	99,729	89,756	105,481	110,631	115,570	120,349	113,008
Earning Assets	69,986	71,823	74,766	78,101	74,610	83,305	88,256	96,071	103,831	92,604	108,563	113,735	118,718	123,459	116,119
Deposits	42,380	43,900	45,367	46,449	44,528	47,029	47,798	50,230	52,255	49,328	52,673	53,594	54,285	55,390	53,985
Equity	5,118	5,316	5,525	5,787	5,437	6,100	6,402	6,729	7,096	6,582	7,466	7,860	8,284	8,736	8,086
Year-Over-Year % Change															
Operating EPS	9.2	22.2	19.7	15.0	16.4	16.9	15.9	15.4	18.5	16.7	12.4	14.7	19.0	22.9	17.4
Operating Income	11.0	21.0	16.4	15.2	15.8	14.0	15.9	14.4	16.7	15.3	16.1	15.2	20.3	22.2	18.6
Average Earning Assets	17.9	15.6	15.1	16.7	17.8	19.0	22.9	28.5	32.9	24.1	30.3	28.9	23.6	18.9	25.4
Average Loans And MBS	17.9	17.1	15.4	19.7	18.0	23.2	27.3	33.0	32.0	28.5	31.0	28.9	24.3	20.7	25.9
Average Deposits	20.3	21.9	20.6	15.8	19.6	11.0	8.9	10.7	12.5	10.8	12.0	12.1	8.1	6.0	9.4
Originations	27.9	16.6	50.4	42.7	34.9	35.3	54.6	39.4	13.3	34.1	22.4	(10.8)	(23.3)	(15.0)	(9.0)
Profitability and Capital Ratios (%)															
ROA	1.50	1.53	1.53	1.47	1.50	1.42	1.41	1.33	1.28	1.36	1.23	1.26	1.30	1.34	1.28
ROE	20.32	20.50	20.48	20.09	20.33	19.65	19.79	19.31	19.05	19.43	18.26	18.54	18.94	19.24	18.77
Net Interest Margin (NIM)	3.14	3.13	3.07	3.01	3.05	2.99	2.91	2.70	2.68	2.81	2.65	2.69	2.76	2.82	2.73
Noninterest Inc./Oper. Inc.	11.26	13.28	14.09	11.05	12.43	8.81	11.21	9.72	9.34	9.78	8.71	8.25	7.61	7.19	7.90
Efficiency Ratio	28.48	28.37	28.11	29.30	28.57	29.38	28.67	28.57	28.61	28.79	29.86	29.13	28.25	27.33	28.58
Effective Tax Rate	38.32	38.61	38.62	37.21	38.18	37.47	38.61	38.26	38.25	38.16	38.25	38.25	38.25	38.25	38.25
Tang. Eq./Assets	7.42	7.50	7.40	7.20	7.20	7.21	7.05	6.87	6.70	6.70	6.83	6.69	6.85	6.90	6.90
Credit Quality Ratios (%)															
Allowance/Loans	0.43	0.42	0.40	0.37	0.37	0.35	0.33	0.30	0.28	0.28	0.27	0.25	0.24	0.24	0.24
Allowance/NPLs (incl. 90 days)	65.00	65.20	70.38	70.46	70.71	72.50	78.52	83.67	79.71	79.71	75.92	72.42	69.08	65.88	65.97
NPLs (incl. 90 days)/Assets	0.63	0.62	0.56	0.51	0.51	0.48	0.41	0.35	0.34	0.34	0.35	0.34	0.35	0.35	0.35
Net Charge-Off Ratio	0.01	0.00	0.01	0.00	0.00	0.00	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: JMS estimates and company data.

EXECUTIVE MANAGEMENT

Golden West has a very deep and seasoned management team. Marion and Herbert Sandler, Co-Chairmen and CEOs, have been with the company since its inception in 1963. Morningstar recently named the Sandlers as "2004 CEOs of the Year" due to exemplary corporate stewardship, independent thinking, creating lasting value for shareholders and putting a mark on the industry. We consider the management team at Golden West to be among the best in the industry. Four of the five senior managers have been with the company for nearly 30 years. The Board of Directors is also a very experienced and diverse group. Both of the Sandlers are in their 70s, but the company has a succession plan in place for several layers of management.

- **Marion O. Sandler.** Mrs. Sandler is Chairman of the Board, Chief Executive Officer and founder of the company and World Savings Bank. She previously served as President of the Thrift Institutions Advisory Council to the Federal Reserve. Her financial career commenced at the investment banking firm of Dominick & Dominick and she also worked as a senior analyst for Oppenheimer & Co.
- **Herbert M. Sandler.** Mr. Sandler serves as Chairman of the Board and Chief Executive Officer of the company and World Savings Bank. He founded Golden West with his wife, Marion, in 1963. He also serves as a member of the Thrift Institutions Advisory council to the Federal Reserve. Mr. Sandler is an attorney, admitted to the Bar of the State of New York.
- **Russell W. Kettell.** Mr. Kettell serves as the President and Chief Financial Officer. Previously, he served as Senior Executive Vice President since 1989, Executive Vice President since 1984, Senior Vice President since 1980, and Treasurer from 1976 until 1984 and from 1995 until 2002. Mr. Kettell has been with the company since 1972.
- **James (Jim) Judd.** Mr. Judd has been the President and Chief Operating Officer of World Savings Bank since 1992 and Senior Executive Vice President of the company. Prior to joining Golden West, Mr. Judd worked at Xerox Corporation and Ford Motor Company. He has been with Golden West for 29 years.
- **Michael Roster.** Mr. Roster was elected Executive Vice president, General Counsel, and Secretary in February 2000. Previously, he was General Counsel at Stanford University.

All Directors And Executive Officers (16 people) Own 18.35% Of The Company

Member	Age	Position	Shares Owned	% Of O/S Shares	\$ Mil. Value
Executive Management					
Herbert M. Sandler ⁽¹⁾	72	Chairman of the Board, Chief Executive Officer	31,069,808	10.15	1,901.2
Marion O. Sandler ⁽¹⁾	73	Chairman of the Board, Chief Executive Officer	33,203,888	10.85	2,031.7
James T. Judd	65	President, Chief Operating Officer, World Savings Bank, FSB; Senior Exec. V.	220,000	0.07	13.5
Russell W. Kettell	60	President, Chief Financial Officer	2,449,420	0.80	149.9
Michael Roster	57	Executive Vice President, General Counsel, and Secretary	153,000	0.05	9.4
Board of Directors					
Maryellen C. Herringer	60	General Counsel and Secretary, APL Limited	12,000	0.00	0.7
Louis J. Galen	78	Private Investor	6,294,010	2.06	385.1
Antonia Hernandez	56	President/Gen.Counsel, Mexican American Legal Defense and Educational Fu	10,220	0.00	0.6
Patricia A. King	61	Professor of Law, Georgetown University	900	0.00	0.1
Bernard A. Osher	76	Private Investor	12,607,618	4.12	771.5
Kenneth T. Rosen	55	Professor of Business Administration, Haas School of Business, UC-Berkeley	18,000	0.01	1.1
Herbert M. Sandler ⁽¹⁾	72	Chairman of the Board, Chief Executive Officer	31,069,808	10.15	1,901.2
Marion O. Sandler ⁽¹⁾	73	Chairman of the Board, Chief Executive Officer	33,203,888	10.85	2,031.7
Leslie Tang Schilling	49	President, L.T.D.D., Inc	6,028	0.00	0.4
All directors and executive officers as a group (16 persons)			56,184,974	18.35	3,438.0

(1) Without counting the same shares twice, Herbert and Marion Sandler control or have the right to acquire an aggregate of 34,254,288 shares, representing 11.1% of the company's stock.

Source: Company data

KEY RATIOS

Golden West is highly profitable given that it operates in a commodity business. Golden West has an ROA that usually runs over 1.20%, which is above average for most thrifts (about 1.00%), but less than the banking average of 1.50%. ROE generally runs in the high teens with the past couple of years above 20%. The NIM varies depending on the interest rate cycle, but in a period of no rate changes, the NIM should be in a range of 2.70%-3.00%. Golden West derives most of its revenues from spread income with about 10%-15% of income from fees. Knowing that the company operates in a commodity business, it keeps costs low with an efficiency ratio that generally hovers around 30%. Capital is very important for Golden West. The company tends to conserve capital when loan demand is slow, so as to have enough to support balance sheet growth when the cycle turns. We expect the equity-to-asset ratio to fluctuate between 6.0%-8.0% over the course of the cycle. Credit quality has never been a problem for the company. In its history, net charge-offs-to-average loans have never been higher than 17 bps. Since 1998, this ratio has never been more than 1 bp. Nonperforming assets-to-total assets have probably reached the low end of the range at 35 bps.

A History Of Solid Performance

(%)

	3Q04	2003	2002	2001	2000	1999
ROA	1.33	1.50	1.53	1.43	1.12	1.22
ROE	19.31	20.33	20.62	20.38	16.21	15.19
Net Interest Margin (NIM)	2.70	3.05	3.17	2.93	2.42	2.63
Noninterest Inc./Total Revenue	9.72	12.43	11.35	12.69	12.27	12.55
Efficiency Ratio	28.57	28.57	27.63	27.50	32.38	33.67
Equity/Assets	6.87	7.20	7.35	7.31	6.62	7.58
NCOs/Average Loans	0.00	0.00	0.00	0.00	0.00	-0.01
NPAs/Assets	0.35	0.51	0.62	0.62	0.43	0.56

Source: Company data

BALANCE SHEET REVIEW

Composition. Golden West has a very simple balance sheet, which we like. Loans and MBS generally comprise about 95% of total assets. To fund these loans, the company has deposits, which tend to run 50%-60% of assets, and borrowings, which comprise about 30%-40% of assets. The only other major line item is equity, which tends to be about 6.0%-8.0% of assets. One of the key earnings drivers for Golden West is loan growth, which has driven asset growth to a 20% annualized CAGR since 1999.

A Very Simple Balance Sheet Driven By Loan Growth

	9/30/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Total Assets (\$ millions)	100,248	82,550	68,406	58,586	55,704	42,142
Annualized Growth (%)	28.6	20.7	16.8	5.2	32.2	9.5
Balance Sheet Components As A Percentage Of Assets						
Cash And Investments	1.2	2.6	1.8	1.6	2.0	2.7
Loans And MBS	96.4	94.9	95.0	95.0	94.0	93.9
Other Assets	2.4	2.5	3.2	3.4	4.0	3.4
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0
Deposits	51.5	56.6	60.1	58.9	54.0	65.8
FHLB Advances	31.9	26.7	27.2	30.8	35.4	21.2
Other Borrowings	8.5	8.5	4.3	1.7	2.6	4.4
Other Liabilities	1.2	1.0	1.1	1.3	1.4	1.0
Equity	6.9	7.2	7.3	7.3	6.6	7.6
Total Liabilities And Equity	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data

Loan Composition. Golden West is primarily a one-to-four family lender. At September 30, 2004, 93.5% of the loan and MBS portfolio consisted of one-to-four family residential mortgages. At year end 1999, this amount was 88.7%. When analyzing loans at Golden West, we include MBS because the company originates loans and then securitizes them into MBS, which are then held in portfolio. Golden West securitizes loans into MBS for an easier source of transferable collateral for its borrowings.

Loans Are Predominately One-To-Four Family Mortgages

(\$ in millions)

	9/30/2004	% Of Loans	2003	% Of Loans	2002	% Of Loans	2001	% Of Loans	2000	% Of Loans	1999	% Of Loans
Loans collateralized												
first deeds of trust:												
1-4 family units	\$ 89,997	93.5	\$ 69,587	89.4	\$ 54,934	84.8	\$ 38,327	69.5	\$ 31,354	60.0	\$ 26,041	66.2
>4 family units	4,700	4.9	3,555	4.6	3,257	5.0	2,767	5.0	2,445	4.7	1,979	5.0
Commercial real estate	16	0.0	19	0.0	20	0.0	29	0.1	40	0.1	49	0.1
Land	-	-	-	-	0	0.0	0	0.0	0	0.0	1	0.0
Loans on deposits	11	0.0	12	0.0	13	0.0	17	0.0	21	0.0	20	0.1
Other ⁽¹⁾	1,480	1.5	1,034	1.3	718	1.1	451	0.8	286	0.5	75	0.2
Total loans receivable⁽²⁾	\$ 94,315	98.0	\$ 74,206	95.3	\$ 58,943	90.9	\$ 41,591	75.4	\$ 34,146	65.3	\$ 28,165	71.6
Loans securities into MBS												
collateralized by:												
1-4 family units	NA	NM	2,579	3.3	4,459	6.9	11,822	21.4	16,102	30.8	8,853	22.5
>4 family units	NA	NM	1,071	1.4	1,412	2.2	1,748	3.2	2,023	3.9	2,295	5.8
Total loans securitized into MBS	\$ 1,889		\$ 3,650		\$ 5,871		\$ 13,570		\$ 18,125		\$ 11,148	
Loans including MBS	\$ 96,204	100.0	\$ 77,856	100.0	\$ 64,814	100.0	\$ 55,160	100.0	\$ 52,271	100.0	\$ 39,313	100.0

(1) Includes loans in process, net deferred loan costs, allowance for loan losses, and other miscellaneous discounts

(2) Balances include balances of loans that were securitized and retained as MBS with recourse.

Source: Company data

Most of Golden West's mortgages are tied to one of three indices: Certificate of Deposit Index (CODI), Cost of Savings Index (COSI), or Eleventh District Cost of Funds Index (COFI). CODI is based on the monthly rate of the three-month CDs published by the Federal Reserve. This index is the average of the prior twelve months and has a one-month reporting lag. The index will reprice slower than the overall market in all types of rate environments. However, after the increased short-term rates stabilize, CODI loans will continue to reprice upwards due to the repricing lags. With CODI loans representing 50% of total loans, Golden West should see a rise in loan yields as short-term rates increase. Given the speed with which rates are rising, we believe the NIM is likely to expand in 2H05 due to the repricing lags of CODI moving closer to market rates. The CODI index tends to track Golden West's debt costs. Currently, borrowings total \$40.5 billion or 40% of total assets. We expect deposit gathering to be more difficult in 2005 as pricing competition increases. As a result, we expect borrowings to increase as a percentage of total assets. The margin on CODI loans is about 3.00%.

COSI is the month end weighted average rate paid on savings and checking accounts at Golden West. This index only has a one-month reporting lag. We view this as a highly effective interest rate risk management tool, as asset and liability yields change at roughly the same pace and the margin should be stable. COSI loans total \$14.5 billion and comprise 31.4% of total loans. The margin on COSI loans is about 2.70%.

COFI is the average of deposit and borrowing costs for the members of the FHLB's 11th district (California, Arizona, and Nevada). COFI has a two month reporting lag and changes the most slowly of the primary three indices. COFI loans were \$14.5 billion or 15.5% of total loans in 3Q04. Golden West is phasing out this index to make the company even less sensitive to changes in interest rates. The margin on COFI loans is about 2.90%.

Golden West uses two other indices, which combined comprise 3% of the total loan portfolio. Prime based loans are for the home equity lines of credit and total \$2.5 billion in 3Q04. This portfolio has grown 35% through September 30, 2004. The last portfolio is ARMs tied to the twelve-month rolling average of the one year Treasury constant maturity. This portfolio totaled \$330 million in 3Q04, down 22% year-to-date. Golden West is letting this portfolio run off.

ARM Portfolio Shifts To CODI Indexed Loans

(\$ in millions)

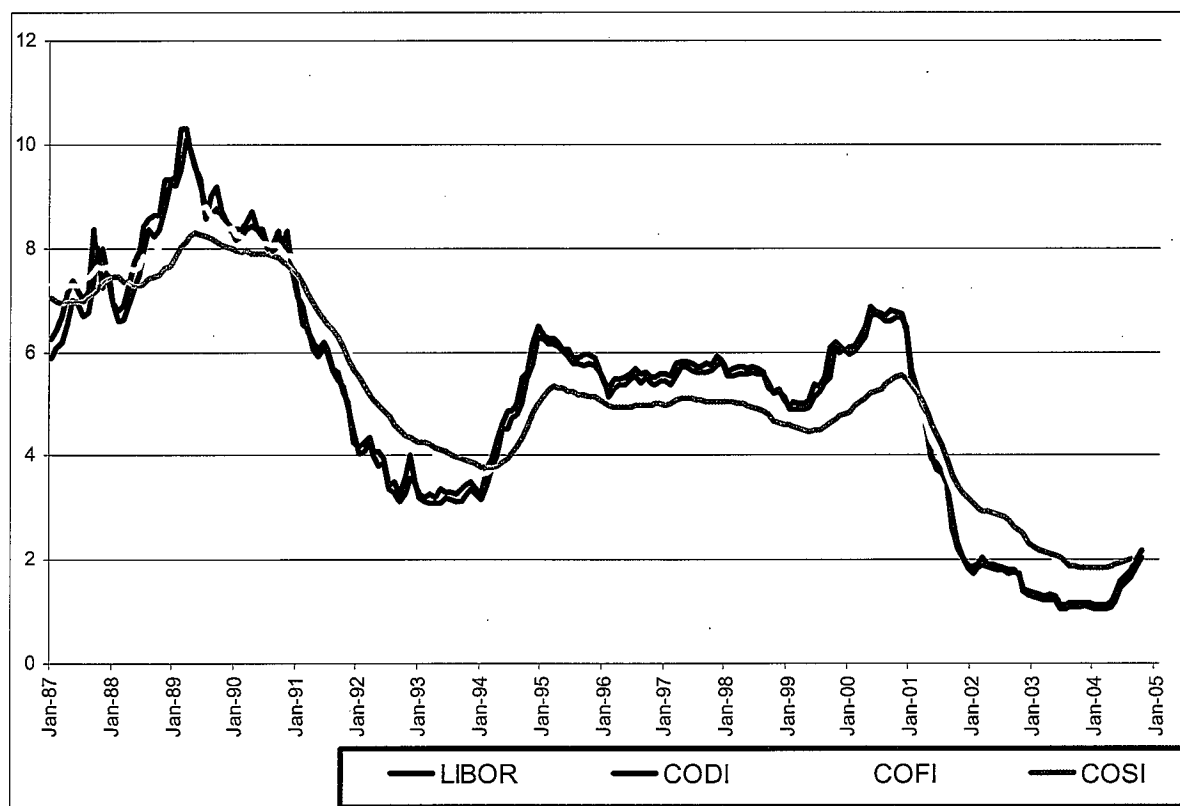
ARM Index	% Of					
	Total	9/30/04	12/31/03	12/31/02	12/31/01	12/31/00
CODI	50.04	\$ 46,751	\$ 30,243	\$ 13,287	\$ 553	\$ -
COSI	31.43	29,360	24,535	22,071	20,944	20,460
COFI	15.53	14,510	18,208	24,755	29,010	27,405
Other ⁽¹⁾	3.00	2,806	2,252	1,657	1,288	1,640
Total	100.00	\$ 93,427	\$ 75,239	\$ 61,770	\$ 51,794	\$ 49,506
Annualized Growth		32%	22%	19%	5%	34%

(1) Primarily consists of equity lines of credit tied to the Prime Rate and ARMs tied to the twelve-month rolling average of the One-Year Constant Maturity.

Source: Company data

The three primary indices are closely tied to movements with three month LIBOR. Below we plot LIBOR, CODI, COFI, and COSI yields from 1987-2004. LIBOR and CODI virtually move hand-in-hand and have a correlation of 0.997 over this time period. COFI and LIBOR have a correlation of 0.919, while COSI and LIBOR have a correlation of 0.916. However, if we lag the changes in COFI and COSI by three months, the correlation to LIBOR increases to 0.950 and 0.952, respectively. In our opinion, this proves that Golden West operates in the short end of the yield curve, and the only exposure to long-term interest rates is the yield on fixed rate mortgages.

Golden West Three Loan Indices Are High Correlated With LIBOR



Source: Baseline, FHLB San Francisco, Federal Reserve and company data

While the interest rate on ARM loans changes monthly, the payment only changes once a year. The maximum amount the payment can change in every year is only 7.5%. In a period of rapidly rising interest rates, negative amortization can occur. Conversely, in a period of falling interest rates, the borrower pays off the mortgage more rapidly, causing prepayment speeds to increase. ARMs have lifetime caps and floors. The weighted average lifetime cap on the ARM portfolio was 12.19%, or 8.37% above the actual weighted average rate at September 30, 2004. Approximately \$5.3 billion or 5.7% of total loans have a lifetime floor, and \$1.9 billion reached the floor as of 3Q04. The weighted average rate on these loans was 5.31% or 1.02% higher than the rate without the floor.

Credit Quality. With a history of conservative underwriting, Golden West has not had significant write-offs. Net-charge offs have never been higher than 18 bps in the company's 40+ year history. In the early '90s when thrifts had significant credit quality issues, nonperforming assets rose to over 1% of total assets. This was better than its peers, but is high compared to today's standards. In 3Q04, this ratio was only 36 bps. From 1998 to 3Q04, total net charge offs were only \$5.3 million on a loan portfolio that has grown from \$36 billion to nearly \$97 billion. Clearly, the company is concerned about credit risk and has proven to be a conservative underwriter.

The reserves-to-loans ratio declined to 30 bps in 3Q04 compared to 37 bps at year end 2003, and 70 bps at year end 1998. While reserves have not kept pace with loan growth, we are not overly concerned given underwriting standards and the history of losses. Additionally, Golden West has nearly 94% of loans and MBS in one-to-four family loans that typically have low credit risk. At some point, we expect reserves to hit a floor as a percentage of total loans, but we believe this ratio could fall further.

Changes In Allowances For Loan Losses: Net Charge-Offs Have Been Minimal

(\$ in millions)

	YTD						
	9/30/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99	12/31/98
Beginning allowance for loan losses	\$289.9	\$281.1	\$261.0	\$236.7	\$232.1	\$244.5	\$233.3
Provision for (recovery of) loan losses	0.8	11.9	21.2	22.3	9.2	(2.1)	11.3
Loans charged off	(1.8)	(3.6)	(1.9)	(2.4)	(0.6)	-	(1.4)
Recoveries	1.1	0.6	0.9	0.4	0.5	1.8	1.3
Net transfer of allowance (to) from recourse liability	-	-	-	4.1	(4.5)	(12.0)	-
Ending allowance for loan losses	\$290.1	\$289.9	\$281.1	\$261.0	\$236.7	\$232.1	\$244.5
Ratio of net charge-offs (recoveries) to average loans outstanding (including MBS with recourse and MBS-REMICs)	0.00%	0.00%	0.00%	0.00%	0.00%	(0.01)%	0.00%
Allowance/NPAs	81.6%	68.4%	66.2%	66.3%	98.9%	98.2%	80.2%
Allowance/Loans (including MBS)	0.30%	0.37%	0.43%	0.47%	0.45%	0.59%	0.70%

Source: Company data

Golden West has very low nonperforming assets. However, when looking at the composition of nonperforming asset by regions, a couple of trends were significant. California, Golden West's largest lending market, has NPAs-to-assets of only 24 bps and is lower than the company total. The company's other markets have higher NPAs-to-assets, led by Texas at 1.41%. The local economy in Texas is still struggling, and the company has made some underwriting missteps. The housing market in Texas has not experienced the same amount of appreciation as other parts of the country.

Nonperforming Assets By State: Few Problems In California But Texas Is Still Struggling

(\$ in millions)

State	9/30/2004										12/31/2003		12/31/2002		12/31/2001	
	Nonaccrual Loans					Foreclosed Real Estate (FRE)					NPAs		NPAs		NPAs	
	Residential		Commercial		Real Estate	Residential		Commercial		Real Estate	As A % Of		As A % Of		As A % Of	
	1-4	5+	1-4	5+		1-4	5+	1-4	5+		Total NPAs	% Of Loans	Total NPAs	% Of Loans	Total NPAs	% Of Loans
California	\$144.3	\$ -	\$ -	\$ 0.1	\$ 0.6	\$ -	\$ -	-	-	\$145.1	0.24	0.24	\$ 198.1	0.25	\$ 204.7	0.50
Florida	20.9	-	-	-	0.4	-	-	-	-	21.3	0.38	0.38	30.0	0.68	35.5	1.03
New Jersey	21.8	-	-	-	-	-	-	-	-	21.8	0.54	0.54	20.5	0.68	18.9	0.79
Texas	42.4	-	-	-	3.9	-	-	-	-	46.3	1.41	1.41	43.5	1.47	30.4	1.14
Illinois	15.4	-	-	-	0.1	-	-	-	-	15.5	0.62	0.62	14.5	0.75	18.2	0.92
Washington	12.7	0.4	-	-	-	-	-	-	-	13.1	0.58	0.58	14.3	0.69	16.0	0.96
Colorado	7.9	0.2	-	-	0.5	-	-	-	-	8.5	0.43	0.43	9.3	0.55	5.4	0.34
Other	80.5	-	-	-	3.3	-	-	-	-	83.8	0.54	0.54	93.8	0.79	95.6	1.01
Total	\$345.9	\$0.6	\$ -	\$ 0.1	\$ 8.8	\$ -	\$ -	-	-	\$355.4	0.38	0.38	\$ 424.0	0.55	\$ 424.6	0.66
FRE allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	(0.3)	-	(0.3)
Total Nonperforming Assets	-	-	-	-	-	-	-	-	-	\$355.4	0.38	0.38	\$ 424.0	0.55	\$ 424.4	0.66
NPLs/Loan and MBS type	0.38%	0.01%	-	-	0.65%	-	-	-	-	-	-	-	-	-	-	-

Source: Company data

Golden West has higher underwriting costs than its peers, which is one of the reasons for its stellar asset quality. For Golden West, the average loan-to-value ratio is less than 70%. However, the company does make loans with loan-to-value ratios above 80%. At September 30, 2004, \$647 million (less than 1%) of loans had loan-to-value ratios greater than 80%, but 75% of these loans had mortgage insurance. First and second mortgages with combined loan-to-value ratios greater than 80% totaled \$7.4 billion (7.0% of total loans) with 85% having mortgage insurance. We believe this demonstrates the company's risk averse nature and its desire to limit credit-related costs.

Balance Of Mortgages With Loan To Value And Combined Loan To Value Ratios Greater Than 80%

(\$ in millions)

	September 30,		December 31,			
	2004	2003	2003	2002	2001	2000
First mortgages with loan to value ratios greater than 80%:						
With mortgage insurance	\$ 484	\$ 583	\$ 567	\$ 554	\$ 431	\$ 389
With no mortgage insurance	163	175	160	294	549	824
Total	\$ 647	\$ 758	\$ 727	\$ 848	\$ 980	\$ 1,212
% Of Total Loans And MBS With Mortgage Insurance	0.5	0.8	0.7	0.9	0.8	0.7
% Of Total Loans And MBS With No Mortgage Insurance	0.2	0.2	0.2	0.5	1.0	1.6
% Of Total Loans And MBS	0.7	1.0	0.9	1.3	1.8	2.3
First and second mortgages with combined loan to value ratios greater than 80%:						
With pool insurance on second mortgage	6,257	4,460	4,991	3,700	2,397	2,194
With no pool insurance	485	415	611	292	454	723
	<u>6,742</u>	<u>4,875</u>	<u>5,602</u>	<u>3,992</u>	<u>2,851</u>	<u>2,917</u>
Total	\$ 7,389	\$ 5,633	\$ 6,329	\$ 4,839	\$ 3,831	\$ 4,129
% Of Total Loans And MBS With Mortgage Insurance	6.5	6.2	6.4	5.7	4.3	4.2
% Of Total Loans And MBS With No Mortgage Insurance	0.5	0.6	0.8	0.5	0.8	1.4
% Of Total Loans And MBS	7.0	6.7	7.2	6.2	5.2	5.6

Source: Company data

Deposits. Golden West is an asset generator and funding is needed to feed the machine. The company seeks the high balance deposit customer and is willing to pay a premium rate for funding. For example, interest bearing checking accounts have a yield of 1.36%, while most banks and thrifts have rates well below 1.00%. For Golden West, the amount paid for deposits is not that significant, as its loans are tied to deposit costs. Golden West is willing to give up a little bit of margin to gather deposits. COSI index loans have about a 25 bps lower margin than CODI and COFI index loans. This strategy enables the company to attract its high balance customer to fund loans that have a shorter repricing lag. Core deposits were 77.4% of total deposits in 3Q04, but have a cost of 1.80%. Overall deposit costs were 1.97%. We expect deposit costs to continue to rise in 2005 as short-term rates increase; however, we do not expect growth to be as robust (up 14.1% annualized year-to-date September 30, 2004) as other alternatives become more attractive. We also believe that the deposit composition is more likely to start to shift back to CDs, since customers might be more willing to lock up funds for longer periods if rates continue to rise.

Deposit Composition: High Cost Of Core Deposits, But Shift Is Likely To Swing Back To CDs

(\$ in millions)

	% Of Total	September 30,		December 31,			
		2004		2003		2002	
		Rate	Amount	Rate	Amount	Rate	Amount
Interest bearing checking accounts	10.88	1.36 %	\$ 5,622.0	1.38 %	\$ 5,555.2	1.77 %	\$ 4,573.0
Savings	66.56	1.87	34,391.0	1.72	30,193.0	2.46	22,516.3
Time certificates of deposit with original maturities of:							
4 weeks to 1 year	9.04	1.77	4,673.0	1.32	3,767.0	1.86	4,714.7
1 to 2 years	3.76	1.49	1,945.0	1.32	2,331.2	2.52	4,197.3
2 to 3 years	2.57	2.27	1,327.0	2.73	1,491.9	3.82	1,857.2
3 to 4 years	2.53	3.45	1,308.0	3.78	1,317.2	4.48	1,286.0
4 years and over	4.57	4.64	2,361.0	4.80	2,015.5	5.07	1,794.1
Retail jumbo CDs	0.08	1.69	40.0	2.33	56.0	3.85	100.2
All other	0.00	-	-	3.75	0.1	4.88	0.1
Total Deposits	100.00	1.97 %	\$ 51,667.0	1.80 %	\$ 46,727.0	2.53 %	\$ 41,038.8
Transaction Accounts	77.44	1.80	40,013.0	1.69	65,941.2	2.40	49,605.5
CDs	22.56	2.55	11,654.0	2.45	10,978.8	2.99	13,949.6
Annualized Deposit Growth			14.1%		13.9%		19.0%

Source: Company data

Borrowings. Borrowings are an important funding source for Golden West, because the company is able to originate loans faster than it can gather deposits. Golden West has several sources from which it can borrow, with the largest being the FHLB at 79% of total borrowings. Reverse repurchase agreements total 10% of total borrowings, while issued debt is about 14%. Golden West has an \$8 billion shelf offering available for funding. Of this, \$3 billion has already been issued. We believe Golden West wants an open shelf offering to provide another funding option. Golden West is able to issue debt at very attractive terms due to its credit rating, which is the highest among the thrifts and among the highest for the banks.

Borrowings Composition: Mostly FHLB Advances

(\$ in millions)

	% Of Total	9/30/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99	12/31/98
FHLB advances	79.0	\$32,017	\$22,000	\$18,635	\$18,038	\$19,732	\$8,915	\$6,163
Reverse repurchase agreements	9.0	3,650	3,021	522	224	857	970	1,252
Dollar reverse repurchase agreements	-	-	-	-	-	-	75	-
Bank notes	2.1	869	3,016	1,210	-	-	-	-
Senior debt	9.9	3,998	991	990	198	-	-	-
Subordinated debt	-	-	-	200	600	599	813	912
Total Borrowings	100.0	40,534	29,029	21,557	19,059	21,188	10,773	8,328
Annualized Growth		52.8%	34.7%	13.1%	-10.0%	96.7%	29.4%	-31.0%
Weighted average interest rate		1.87%	1.37%	1.85%	2.72%	6.66%	5.77%	5.87%

Source: Company data

INCOME STATEMENT REVIEW

Revenues. With a basic business model focusing on gathering deposits and originating mortgage loans, Golden West derives most of its revenue from spread earnings. Net interest income comprises 90% of total revenue. The spread between earnings asset yields and cost of funds has declined since 2001, as interest rates have fallen. With rising interest rates, the spread is expected to have some compression in the short-term before expanding, as the repricing lags include higher rates. We expect the NIM to expand in 2H05 after slight compression in 1H05.

Net Interest Income Accounts For 90% Of Total Revenues

(\$ in millions)

	% Of Total	Year-To-Date 3Q04	3Q03	2003	2002	2001	3Q04/ 3Q03	2003/ 2002	2002/ 2001
Net Interest Income	90.1%	\$1,927.1	\$1,623.7	\$2,208.4	\$1,909.1	\$1,609.1	18.7%	15.7%	18.6%
Noninterest Income:									
Fees	7.0%	150.6	122.1	163.3	139.4	150.7	23.3%	17.1%	-7.5%
Gains on securities, loans and MBS	0.5%	11.2	62.5	72.3	45.1	42.5	-82.1%	60.1%	6.2%
Change in fair value of derivatives	0.1%	1.1	8.6	10.9	7.6	(9.7)	-86.8%	43.1%	NM
Other income	2.3%	49.7	47.5	66.9	54.8	53.3	4.6%	21.9%	2.9%
Total Noninterest Income	9.9%	212.6	240.7	313.3	247.0	236.7	-11.7%	26.9%	4.3%
Total Revenue	100.0%	2,139.6	1,864.4	2,521.7	2,156.1	1,845.8	14.8%	17.0%	16.8%

Source: Company data

The Spread Has Declined Due To The Low Rate Environment, But Should Rebound In 2005

Yields (%):	3Q04	2003	2002	2001	2000
Loans	4.59	4.61	5.28	6.38	8.03
Investments	1.90	0.93	1.94	2.86	7.12
Earning Assets	4.57	4.54	5.25	6.36	8.02
Deposits	1.97	1.85	2.56	3.39	5.53
Borrowings	1.87	1.37	1.85	2.72	6.66
Cost Of Funds	1.93	1.67	2.32	3.15	5.99
Spread	2.64	2.87	2.93	3.21	2.03

Source: Company data

Noninterest Income. Noninterest income represents about 10% of total revenue. Fee income, which includes deposit service fees and prepayment penalties, is the major contributor. Golden West has prepayment penalties for loans that repay within three years. Golden West services \$4.8 billion of loans for others and records servicing fee income. We estimate that serving fee income is less than 4% of earnings. The company did set up a valuation reserve on its mortgage servicing rights (MSR) in 3Q04 of \$4.4 million (about \$0.01 per share). Golden West does originate some fixed rate loans that are sold for additional income. Golden West earns fees from its Atlas mutual funds and annuities. The company no longer has any derivatives.

Operating Expenses. The company has expense growth that is roughly in line with revenue growth. Banking is a people business, and personnel expense is generally the highest cost. Personnel expense represents 65% of total expenses and increases about 20% per year. The company invests in its people to ensure a high level of customer service and for staff additions. From 3Q03 to 3Q04, Golden West increased its full time equivalent employees 17.5% to 9,927 from 8,446. Most of the staff additions were in the lending area, including originators, underwriters, and servicers. Golden West realizes it operates in a commodity business and needs to control expenses to drive profitability. However, the company prudently invests for future growth. Technology and communications expense was 10% of total expense. Golden West will invest in infrastructure to make processes more efficient, when it expects loan demand to increase. Lastly, stock options are currently not expensed but are not expected to have a meaningful impact. Annualized stock option expense for the first nine months of 2004 was \$7.8 million or less than \$0.02 per share.

Expense Growth Keeps Pace With Revenue Growth

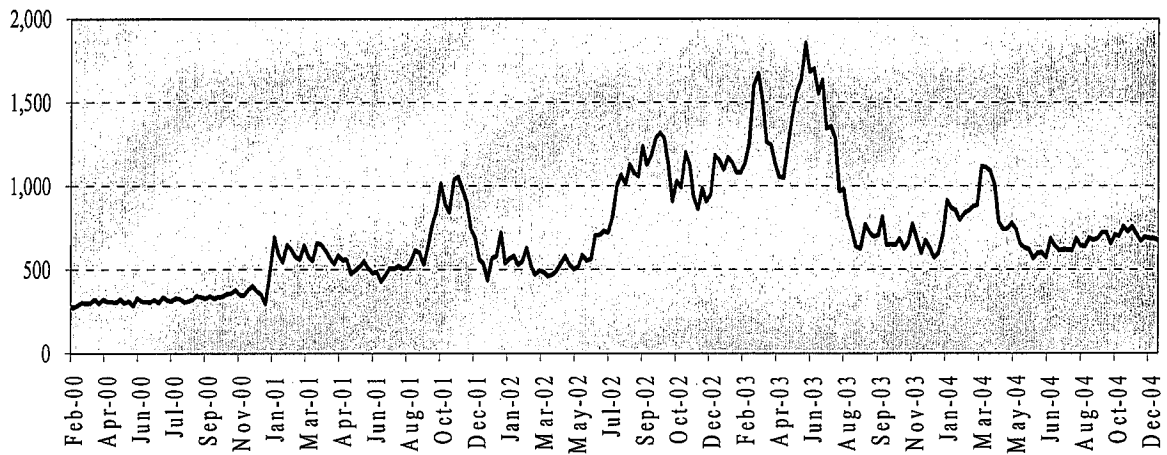
(\$ in millions)

	% Of Total	Year-To-Date		2003	2002	2001	3Q04/ 3Q03	2003/ 2002	2002/ 2001
		3Q04	3Q03						
Personnel	65.4%	\$404.1	\$331.2	\$453.5	\$378.1	\$316.0	22.0%	19.9%	19.7%
Occupancy	10.2%	62.8	56.8	76.6	69.6	64.7	10.6%	10.2%	7.4%
Technology And Telecommunications	9.6%	59.1	59.6	78.7	66.3	52.6	-0.8%	18.7%	26.0%
Deposit Insurance	0.9%	5.3	5.0	6.7	6.1	5.7	6.0%	10.2%	NM
Advertising	3.0%	18.5	16.5	22.5	16.5	15.0	11.7%	36.2%	10.1%
Other	11.0%	67.8	58.9	82.5	64.9	59.7	15.1%	27.0%	8.7%
Total Noninterest Income	100.0%	617.5	527.9	720.5	601.5	513.8	17.0%	19.8%	17.1%

Source: Company data

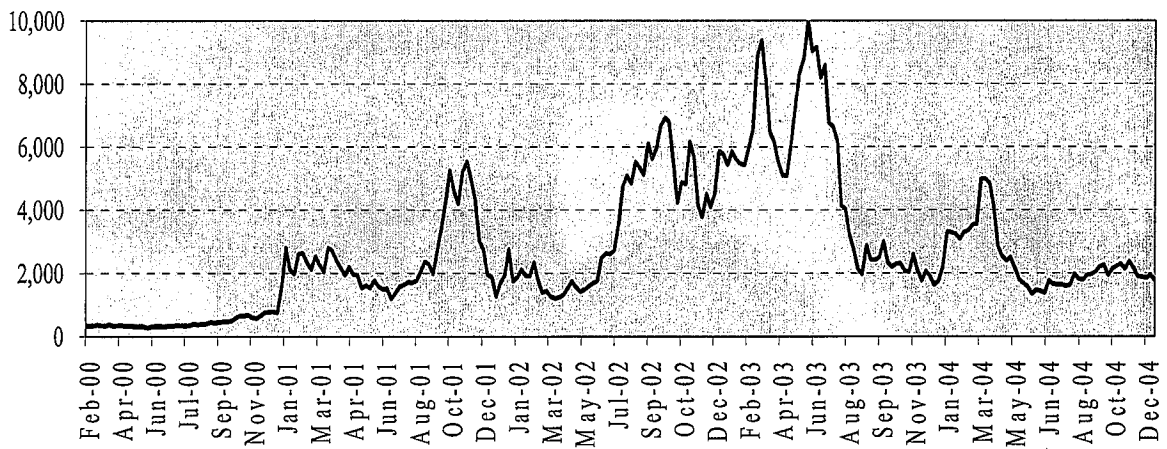
Appendix

Mortgage Application Index Is Still Strong....



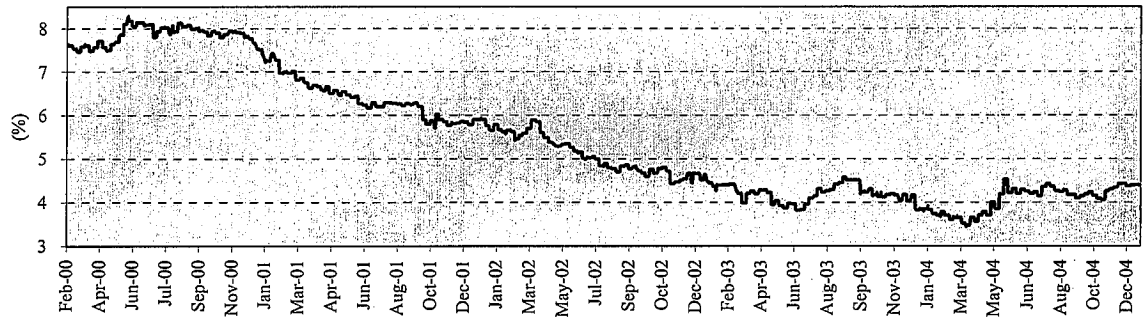
Source: Bloomberg

...Despite The Decline In The Mortgage Refinancing Index



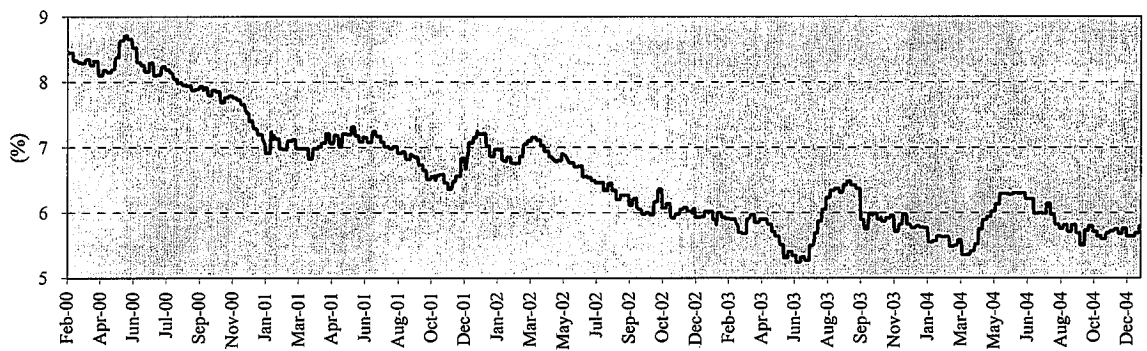
Source: Bloomberg

One-Year Adjustable Mortgage Rates Are Starting To Rise...



Source: Bloomberg

...As Thirty-Year Fixed Mortgage Rates Have Not Increased As Much



Source: Bloomberg

Mortgage Bankers Association Of America Finance Forecast (December 20, 2004)

(\$ in thousands, except where indicated)

	2004				2005				2006		2007	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Housing Measures												
Housing starts	1,943	1,920	1,989	1,967	1,913	1,869	1,838	1,795	1,745	1,745	1,848	1,854
Single-family	1,570	1,596	1,632	1,620	1,569	1,528	1,500	1,459	1,410	1,410	1,499	1,514
Two or more	373	323	357	346	344	341	337	336	335	335	349	340
Home Sales												
Existing homes	6,203	6,787	6,677	6,542	6,109	5,994	5,996	5,873	2,736	2,736	6,105	5,986
New homes	1,197	1,206	1,154	1,154	1,106	1,064	1,047	1,024	989	989	1,088	1,059
Median price of existing homes	170.8	183.5	188.2	186.1	181.5	191.7	197.0	193.2	191.9	191.9	169.2	190.8
Median price of new homes	212.9	216.6	211.4	209.3	211.5	222.6	224.8	220.6	220.4	220.4	191.4	219.9
Interest Rates (%)												
30-Yr. fixed mortgage	5.6	6.1	5.9	5.8	5.9	6.1	6.2	6.3	6.4	6.4	5.8	6.1
10-Yr. treasury yield	4.0	4.6	4.3	4.2	4.3	4.4	4.5	4.5	4.8	4.8	4.0	4.5
1-Yr. treasury ARM	3.5	3.9	4.1	4.2	4.3	4.3	4.5	4.7	4.8	4.8	3.8	4.4
1-Yr. treasury yield	1.2	1.8	2.1	2.4	2.6	2.6	2.9	3.1	3.3	3.3	1.2	2.8
Mortgage Originations												
Total 1-4 family (\$B)	619	891	684	633	551	663	645	493	436	436	3,810	2,351
Refinance share (%)	53	49	33	42	44	35	33	30	30	30	66	36
ARM share (%)	27	36	38	38	37	37	37	37	36	36	19	37

Notes:

Housing starts and home sales are seasonally adjusted at an annual rate.

Total 1-4 family originations and refinance share are MBA estimates, and exclude second mortgages and home equity loans.

Refinance share is a percentage of the total dollar volume of closed loans.

ARM share is a percentage of the total number of closed conventional purchase loans.

Source: Mortgage Bankers Association

Freddie Mac Housing Market Forecast (December 7, 2004)

(millions in housing units, except where indicated)

	2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Housing Measures												
Housing starts	1.94	1.92	1.97		1.95	1.79	1.77	1.69	1.70	1.70	1.85	
Home sales	7.40	7.99	7.83	8.00	7.20	7.50	7.90	7.40	6.93	7.00	7.19	1.80
												7.50
Interest Rates (%)												
30-Yr. fixed mortgage	5.6	6.1	5.9		6.0	6.1	6.1	6.2	6.3	6.4	5.8	6.1
10-Yr. treasury yield	4.0	4.6	4.3		4.5	4.6	4.7	4.7	4.8	4.9	4.0	4.6
1-Yr. treasury yield	1.2	1.8	2.1		2.9	3.1	3.2	3.3	3.4	3.5	1.3	3.1
Mortgage Originations												
Total 1-4 family (\$B)	639	733	689	650	570	636	654	560	463	554	3,860	2,420
Refinance share (%)	59	39	39	45	43	35	34	34	35	29	65	37
ARM share (%)	27	36	38	36	37	33	30	28	26	24	19	34
												32

Notes:

Housing starts and home sales are seasonally adjusted at an annual rate.

Total 1-4 family originations and refinance share are MBA estimates, and exclude second mortgages and home equity loans.

Refinance share is a percentage of the total dollar volume of closed loans.

ARM share is a percentage of the total number of closed conventional purchase loans.

Source: Freddie Mac

Fannie Mae Housing Market Forecast (December 15, 2004)

(\$ in thousands, except where indicated)

	2004				2005				2003	2004	2005
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Housing Measures											
Housing starts (thou. in units)	1,943	1,920	1,969	1,975	1,859	1,869	1,842	1,829	1,848	1,952	1,850
Single-family	1,570	1,596	1,634	1,625	1,543	1,544	1,530	1,519	1,499	1,606	1,534
Two or more	373	324	335	350	316	325	312	310	349	346	316
Home sales (thou. in units)											
Existing homes	6,203	6,787	6,676	6,552	6,109	6,099	6,046	5,962	6,105	6,555	6,054
New homes	1,197	1,206	1,154	1,197	1,094	1,092	1,085	1,074	1,086	1,189	1,086
Median price of existing homes	170.8	183.6	188.3	182.4	183.2	188.5	190.6	185.9	169.2	181.2	187.0
Median price of new homes	213.0	216.6	211.5	205.0	216.1	218.5	216.8	222.5	191.4	211.6	218.5
Interest Rates (%)											
30-Yr. fixed mortgage	5.61	6.13	5.90	5.75	5.80	5.93	6.11	6.18	5.82	5.85	6.01
1-Yr. treasury ARM	3.55	3.85	4.06	4.14	4.33	4.57	4.81	4.90	3.76	3.90	4.65
Mortgage Originations											
Total 1-4 family (\$B)	632	819	635	650	528	602	557	459	3,832	2,736	2,146
Refinance share (%)	61	53	39	52	54	38	32	33	69	51	40
ARM share (%)	27	36	38	36	32	29	28	27	19	34	29

Note: Housing starts are seasonally adjusted

Source: Fannie Mae

S&P Rating Definitions

- AAA** An obligor rated AAA has **EXTREMELY STRONG** capacity to meet its financial commitments. AAA is the highest Issuer Credit Rating assigned by Standard & Poor's.
- AA** An obligor rated AA has **VERY STRONG** capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.
- A** An obligor rated A has **STRONG** capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
- BBB** An obligor rated BBB has **ADEQUATE** capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments
- BB** An obligor rated BB is **LESS VULNERABLE** in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to obligor's inadequate capacity to meet its financial commitments.
- B** An obligor rated B is **MORE VULNERABLE** than the obligors rated BB, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
- CCC** An obligor rated CCC is **CURRENTLY VULNERABLE**, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
- CC** An obligor rated CC is **CURRENTLY HIGHLY VULNERABLE**.

Source: Bloomberg

Moody's Rating Definitions

Aaa	Counterparties rated Aaa offer exceptional financial security and have the smallest degree of risk. While the financial strength of these entities may change, such changes as be visualized are most unlikely to impair the entities' strong position.
Aa	Counterparties rated Aa offer excellent financial security but are rated lower than Aaa counterparties because long-term risks appear somewhat larger. The margins of protection may not large as with Aaa counterparties, or fluctuations of protective elements may be of greater amplitude.
A	Counterparties rated A offer good financial security. However, elements may be present that suggest a susceptibility to impairment at some time in the future.
Baa	Counterparties rated Baa offer adequate financial security. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.
Ba	Counterparties rated Ba offer questionable financial security. Often the ability of these entities to meet counterparty obligations maybe be uncertain and thereby not well safeguarded in the future.
B	Counterparties rated B offer poor financial security. Assurance of punctual payment of obligations over any long term period of time is small.
Caa	Counterparties rated Caa offer very poor financial security. Such counterparties may be in default, or there may be present elements of danger with regard to financial capacity.
Ca	Counterparties rated Ca offer extremely poor financial security. Such counterparties are often in default on their obligations.
C	Counterparties rated C are the lowest rated class of counterparties, are usually in default on their obligations, and potential recovery values are low.

Source: Bloomberg

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