December 30, 2008

Mr. Bill Keller
Executive Editor
The New York Times
620 Eighth Avenue
New York, NY 10018

Dear Mr. Keller:

Your article on December 25th by Michael Moss and Geraldine Fabrikant attacking Golden West Financial Corporation and its former top management, namely, the two of us, seriously distorts the truth. We are asking your help to set the record straight. Our request is that you compare the story and its headline against the actual facts. We expect that if you do that, you will conclude that this case merits an "Editor's Note" in your corrections column.

We counted at least 40 statements in the story that were inaccurate, misleading, and/or at best, confusing, demonstrating a lack of understanding of the loan portfolio that Golden West had originated successfully for a quarter of a century. It's not our purpose to debate those 40 statements, although we're fully prepared to do so if you wish. Rather, we'd like to focus on the central premise of the story, which is false, and the headline, which, in addition to being factually wrong, is unsupported by the story it introduces.

The story's theme is that after years of success, we had a fall from grace because we came to rely on a supposedly consumer-unfriendly mortgage product, the Option ARM. The fact is that for the last 25 years of our tenure, our principal mortgage product was the Option ARM. During this entire period, Golden West Financial had a record of the fewest delinquencies, foreclosures, and losses of any major financial company in the country. It had both strong earnings and a reputation for high ethical standards. One of the major reasons for our success was that we carefully screened our borrowers to make sure they could afford the loans we issued. Why? Because we retained these loans in Golden West's own portfolio, and if the borrower had problems, we were at risk. Unlike many of our competitors, we did not package mortgages for sale, passing on the risk to others, a central point that was only referred to in passing.

Why, then, did Option ARMs come under attack? The answer, which Moss and Fabrikant inexplicably ignored, is that a large number of lenders (including many that focused on sub-prime borrowers) began to use a bastardized version of the original Option ARM. Among other things, they required lower down payments, and they assessed a borrower's ability to repay the loan based on the initial "teaser" rate, rather than the fully indexed rate. Unlike Golden West, these institutions did not keep these loans in their own portfolios. Rather, their *modus operandi* was to profit from producing a large volume of these corrupted Option ARMs and sell them in complex packages in the secondary market passing on the risk to the investors. (This practice essentially began in 2004.)

Option ARMs made by portfolio lenders such as Golden West were properly structured and carefully underwritten and appraised. They thus were sound loans for many, if not most, borrowers. And, in fact, of those Golden West Option ARM borrowers who experienced problems, few, if any, suffered because of the structure of the loan or its underwriting. Further, in contrast to the implications in your story, few, if any, borrowers got into trouble because their interest payment rates rose or their principal increased.

Why then did Wachovia, the company that acquired Golden West, begin to experience sizable losses on our portfolio, with forecasts of further problems? Frankly, you do not need to be a rocket scientist to figure it out. The answer is simply that home prices in many parts of California, our primary lending area, rapidly declined by a shocking 50% or more, a truly history-making event. This disaster was both accompanied by and caused by such serious increases in unemployment and underemployment that even the best lender in the country (which we were known to be) would sustain serious losses. It made little difference whether the loans were a conventional Option ARM or a 30-year fixed-rate mortgage.

One additional point about the story itself. The reporters wrote that we "pocketed" $2.3 billion in shares and cash" when the bank was sold, implying we had significantly changed our financial standing.

First of all, our stock in Golden West was worth close to $2 billion prior to the acquisition. The premium paid by Wachovia was 15%. Second, before the transaction was approved, we conveyed approximately $1.3 billion to our philanthropic foundation with a commitment to transfer the balance of our assets either during our lifetime or on our death. What possible incentive was there for us to change our life-long core principles – of honesty, integrity, fair-dealing and a concern for the least fortunate among us? To suggest otherwise, as your story does, is highly misleading. At the very least, if Moss and Fabrikant were going to dwell on how much we "pocketed," shouldn't they also have included these facts, which they were told?

Finally, let me address the headline. Mr. Keller, there is no basis for saying that we are "pariahs." The dictionary defines "pariah" as "social outcast." We can walk on the sidewalks of New York and San Francisco and countless places in between, usually in welcome anonymity. In those cases where we are recognized, we are almost always greeted warmly – hardly evidence that we are pariahs. The closest we have come to pariahhood is a brief skit on Saturday Night Live, which was factually wrong and offensive (when we pointed out the errors, the producers apologized profusely and eliminated any reference to us from the online archive of the show). But, SNL's treatment of us pales in comparison to the volume of barbs the show has tossed at, say, Sarah Palin or Barney Frank, neither of whom have been branded as pariahs in your pages.

Mr. Keller, Herb grew up in New York City. Both of us launched our careers there before moving to California. We brought the New York Times habit with us, and have been devoted readers forever. This article and its headline do not meet your standards. We hope that you will renew our faith by invoking the credibility of the editor's note to correct the most serious errors in this deeply flawed piece.

As we're sure you understand, the longer this story is left unrebutted, the greater the harm it poses to our reputation, which has been our biggest asset for 50 years. We, therefore, would appreciate a prompt response. We would be happy to fly to New York to meet with you in person, if you think that would be helpful. We'll contact your office next week to check on next steps.

Sincerely,

Herbert M Sandler
Marion O. Sandler