February 20, 2009

Response to 60 Minutes

I am proud to add my voice to the many other former employees of World Savings and Golden West Financial Corporation who adamantly reject the unfounded and vicious allegations set forth in the 60 Minutes story aired on CBS February 15, 2009.

<u>Background</u>

I was an employee/officer of World Savings from February 1979 until its acquisition by Wachovia Corporation in October 2006. For most of my career, I was actively involved in managing various departments engaged in originating, funding and servicing residential mortgage loans. During the last several years of my career, I was responsible for representing the Company to federal and state policy makers and for helping formulate the Company's positions on important matters regarding mortgage lending rules, consumer disclosures and bank safety and soundness.

<u>The 60 Minutes "Story"</u>

Many assertions in the 60 Minutes story are just plain inaccurate, lacking even a modicum of substantiation. The very first claim by the central witness, that World was "breaking the law," has no basis in fact, has never been asserted by any competent authority, and is absolutely false. The overall thesis, namely that as a matter of Company policy, we engaged in practices designed to maximize short term revenues and profits at the expense of borrowers, was <u>never</u> true. World operated with the highest standards for fair and responsible lending of any lender in the entire mortgage industry. That is not to claim that individual employees or the mortgage brokers who brought loans to us in some few cases may have acted inappropriately. But World's quality control systems were carefully designed to minimize any such lapses, and when a lapse was brought to our attention, we took appropriate steps to hold harmless the consumer so affected and deal appropriately with bad behavior. I was personally involved in addressing a couple of those situations. I believe our record was at least as good if not superior to the record or any other lender. I can recall no year in which formal complaints against World amounted to more than one one-thousandth of one percent of our annual transaction volume. We were not perfect, but we were closer than any company I know. <u>And we aggressively advocated to federal and state policy makers that products should be fair, that disclosures should be effective, and that all lenders, whether state or federally licensed or not at all, should be examined and regulated on those issues.</u>

Of course, we had no motivation to originate irresponsible loans, because loans were the assets on which our entire business model depended. The context in which the 60 Minutes story was crafted makes sense only if we had been originating crummy loans and selling them to someone else. We never sold our adjustable rate loans to other investors, instead keeping them on our own books, working with our borrowers from the day they applied for their loans till the day they paid them off, hopefully earning an opportunity to serve our borrowers forever.

And it was simply not in our gene pool to behave as irresponsibly as the 60 Minutes story asserted. Just look at the record we established over more than 40 years. And the integrity and morality of the Company started at the very top, with the Co-CEOs, Herb and Marion Sandler. Any suggestion that they ran an operation with any resemblance to the nonsense described on 60 Minutes is stunning and outrageous.

It could certainly be the case that some borrowers might not have thoroughly understood all the terms and conditions of their loan agreements, even though we always tried very hard to ensure full, accurate and effective disclosure, both in writing and in our conversations with applicants. In fact, my career at World included the entire period during which World offered option adjustable rate loans, so I know that virtually all our borrowers got loans at interest rates below what was otherwise generally available in the market place. Our borrowers not only saved money with their loans, they also had loans which provided them financial flexibility should circumstances make that important. In that 25 + year period, not one borrower – not one, none, not any – ever lost his/her home due to "payment shock" with their World ARM.

Loan Quality

The percentage of World loans that were delinquent, that were in default or that ended in foreclosure has always been below – in most cases, well below – our competitors, even those originating long term, fixed rate loans. We made good loans and serviced them responsibly for over 40 years.

So it is ironic that in the current environment, some observers are suggesting that virtually overnight we turned into an irresponsible, money-grubbing predatory lender. Unfortunately, there were some actors in the home loan business over the past few years that fit that description, but they're well known, and they're not us!

Loan underwriting is an art, not a science – if anyone had perfect underwriting skills, then every borrower who deserved to get a good loan would get one, and no loan would ever default. Sometimes underwriters make honest mistakes in evaluating credit, but most often defaults occur because the borrower's situation changes – job loss or at least a significant loss of income, a substantial new expense like a medical emergency, etc. World's loans are subject to the same life events as loans made by any honest lender, though history suggests we were absolutely one of the best and brightest at the underwriting function. We have experienced defaults in our portfolio over the years, though none in the last five years prior to the current meltdown. In this cycle, losses are disproportionately associated with huge declines in property values, which in some cases leads otherwise responsible borrowers to just walk away from their obligations. And by the way, even with our spectacularly good performance record, we also were a leader in serving low income and minority borrowers in our markets, as reported even by some consumer advocates. Yes, Dorothy, it is possible to make good loans and serve all consumers responsibly.

To give this loan loss neurosis some context, consider the following. Some have suggested that we caused the downfall of the bank that acquired us and possibly are contributing to the dim prospects for the bank that acquired our acquirer. As evidence, it has been asserted that losses on our loan portfolio may reach as much as $40 billion. Does that really make any sense?

At the time of the sale of the Company, we had about $120 billion of option ARMs. Though I don't have hard data, I assume over the ensuing 2 + years, at least 1/3 of the $120 billion paid off in full due to the borrower's sale of the home collateralizing our loan or a refinance – that would be consistent with borrower behavior for at least the past decade even with the housing slump. That leaves $80 billion in mortgage loans to generate the $40 billion in losses if these projections were to materialize.

Think about it. That would seem to require <u>every</u> remaining loan to go through foreclosure <u>and</u> generate a loss of 50%. Individually, those loans averaged only about 70% of the original estimated home value. That means the write offs would come to roughly 2/3s of the original property value for each and every loan. No one has produced any evidence to support anything remotely approaching such an outcome.

So how does such a fabrication arise? I can't say for sure, but maybe some bankers are trying to hide losses elsewhere on their balance sheets by focusing all the scrutiny on World's portfolio, or maybe they have some kind of tax liability management plan that motivates them to overestimate losses. At the moment, Wall Street isn't too impressed, to say the least.

<u>The Bad, Old Option ARM!</u>

One of the criticisms in the 60 Minutes story is that World's primary product, the payment option Adjustable Rate Mortgage (option ARM), is abusive on its face. That's another example of the complete misunderstanding and incompetence exhibited in the story.

If borrowers want long term home loans, and if the secondary market can't fill that need effectively (which it obviously hasn't lately), the only other strategy available is the ARM. But not all ARMs are created equal, and we believe our option ARM is superior to other structures, both for borrowers and investors/lenders. ARMs with no options either provide insufficient interest rate sensitivity for lenders or they provide excessive interest rate risk for borrowers.

World's option ARM solves that problem. Borrowers get flexibility in their payment requirements if/when they need it, while investors earn a fair, sustainable return. That is not to say these loans never encounter stress. If property values decline 30%, 40%, even 50%, <u>all</u> loans are in trouble. And if originators don't disclose clearly, or if they don't underwrite responsibly, there will be losses for borrowers, investors or both. But that's not a problem with the loan structure, and it was never a problem at World – never.

<u>Conclusion</u>

World had as close to a perfect record over the last 40 years as any financial institution ever had prior to being acquired by Wachovia. It is inaccurate and unconscionable to assert that during <u>any</u> part of that period we acted other than responsibly. The product that became our main asset, that we largely developed and introduced in this country, and that we offered to homeowners successfully for a generation, may turn out to be the best mortgage product for investors and consumers, certainly based on the performance of our loans. It's a record for which thousands of employees are extremely proud, me among them, and from which millions of consumers benefited.

Go ahead, show me anything better.

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