February 17, 2009

Comments on 60 Minutes Piece

To Whom It May Concern:

I was perplexed by the interview with Paul Bishop on **60 Minutes** last evening, having worked for World Savings for 13 years I saw none of what he described occurring during my tenure. While the country is in an economic crisis not seen since the Great Depression, and there is a rush to affix blame I find CBS's behavior unconscionable. I will not attempt to rebut every point; however, a cursory review of public data and knowledge of the mortgage business would have allowed the producers to paint a more balanced and accurate picture abet a less sensational piece. Finally, my observations of the Sandler's are of a frugal couple that desired only to give most of their fortune to charitable causes.

While financial markets are in disarray largely due to the collapse of real estate values which began with sub-prime loans, World did not offer these toxic mortgages. World did not offer 100% financing, or 2 to 3 year "bullet" loans, or ARM's tied to LIBOR (a volatile index). Additionally, World's loans did not recast, whereby borrowers' payment could increase immediately without limits, to a fully amortizing level. Recast occurs due to product design flaws, and unfortunately was common in competitors' products.

World made good quality adjustable rate loans which it kept in its portfolio and income was derived not so much from fees, but from the interest earned over time. Every employee had a vested interest in making good, sound, lending decisions, our futures depended upon it.

World made many of its loans in areas particularly hard hit by the real estate crisis (58% in California and 10% in Florida) by August 2008 an analysis of loans in the portfolio showed that values had dropped by 32% from their value at origination. In the analysis by First American Core Logic, comparisons to sub-prime, alt-A, industry prime, and prime neg-am portfolios showed that World's loans performed better than all others with the exception of industry prime. However, this analysis did not compensate for geographical differences i.e., that World's portfolio was significantly over-weighted in distressed markets. Had this adjustment been made I feel that World's loans would have performed better than all the other loan classifications.

The point that deferred interest was a major factor in World's losses, or the housing crisis, is ludicrous. At the end of the third quarter deferred interest totaled 3.5% of the portfolio which is not overwhelming when compared to the 32% decline in housing values in key markets. It should also be noted that about half the borrowers paid a minimum payment during the past 6 months and only 40% paid the minimum for the past 12 months. A more astute analysis would have determined that a large portion of the deferred interest was caused by rising interest rates beginning with a .25% increase by the Fed on June 2004 and continuing with another 16 quarter point increases, ending with the Fed's rate reduction in August 2007. Deferred interest helps the client in a properly designed adjustable rate product avoid payment shock.

The notion that World's underwriters were complicit, that the sales force committed fraud, and that quantity was pursued at all cost while quality was ignored is categorically incorrect. Losses in the portfolio appear to be driven by the local economies particularly local real estate values rather than the loan product or slipshod underwriting. Further, values collapsed in large part due to toxic mortgages found predominantly in the alt-A and sub-prime markets; World did not offer these toxic mortgages.

The information above came from Wachovia's press releases for the second and third quarters of 2008, and the fed funds history from the New York Federal Reserve Bank. It is disconcerting that CBS failed to adequately research material for its story featuring World Savings and I can only conclude that this lack of rigor carried over into the investigation of the veracity of Mr. Bishop's allegations.

Regards,

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