The New York Times
620 EIGHTH AVENUE
NEW YORK, N.Y. 10018

BILL KELLER
Executive Editor

January 8, 2009

Mr. Herbert Sandler

Dear Mr. Sandler:

Thank you for your response to my letter on the correction of the headline in the Dec. 25 article about World Savings. I will try to address the additional points you raised.

On the matter of Mr. Eakes, condensation of the article during the editing process lost a distinction he made between World Savings and subprime loans made by other institutions in explaining how he had changed his mind about opposing prepayment penalties in products offered by lenders like World Savings. If Mr. Eakes did in fact continue to oppose prepayment penalties on subprime loans by other lenders, we will prepare a correction.

The other points in your letter, however, do not in our judgment establish evidence of further error.

On the discount rate, the article said: "World Savings lending volume dipped again in 2006 shortly after the sale to Wachovia was initiated, according to the company's federal filings. This prompted World Savings to attract more borrowers by taking a step that some regulators were starting to frown upon, and which the company had been resisting for years: it allowed borrowers to make monthly payments based on an annual interest rate of just 1 percent."

Russell Kettell told Michael Moss, during an interview which he said you also attended, that the initial payment had gone to 1% in the summer of 2006, and that while World Savings disliked these low teaser rates, it felt pressured by competitors to use them. Mr. Kettell said that higher rates had "started to kill volume" and that "we took it down starting in the summer 06, and got down to one." When Mr. Moss asked you about this in a telephone call on Dec. 24, he said you explained that the company had to lower its start rate because otherwise independent brokers would refuse to send "good" borrowers its way. Exactly when the rate reached 1 percent does not materially invalidate the statement in the article.

On your letter to regulators, the article reported this: "In March 2006, two months before the Wachovia deal, Mr. Sandler wrote regulators and objected to several aspects of the new rules, including the regulator's conclusion that option ARMS 'were untested in a stress environment.' He argued in the letter that World Savings had few loan losses in the recession of the early 1990s. Then again, the current financial crisis is far more severe than what occurred then — far more severe than anything the country has faced since the Great Depression."

Part of the text of your letter says: "The guidance inaccurately states that alternative mortgages are 'untested in a stress environment' (pp. 14 and 20) and that 'the limited performance history of these products, particularly in a stressed environment, increases performance uncertainty' (p. 26.) In fact, we have run literally thousands of scenarios to test for potential risks associated with individual Option ARM loans or a portfolio of Option ARM loans, and other experienced lenders have similarly run their own simulations." The letter goes on to cite your and others' experience in California in the 1990s.

Several paragraphs toward the beginning of the article reported why your bank's loans had not run into trouble in the 1990s — because you tested for that. The article makes no statement about the letter that is inaccurate.

You object to the statement in the article that World Savings, in the recent housing boom, expanded marketing of the Option ARM to a much broader audience. The videos cited at the beginning of the article show that this is true about the ***marketing***, and it would be even if the marketing did not significantly change the customer base.

Finally, the points you raise about the correction: Surely you do not dispute that World Savings was one of the pioneers in the adjustable rate Option ARM, or that it originated many such loans. And the correction does not say that Pick-a-Pay caused foreclosures — it says that such mortgages led to many foreclosures because of the collapse of the real estate market and the economy. Other kinds of mortgages and the financial crisis have led to many other kinds of foreclosures, of course, but this is an article about a kind of mortgage that World Savings pioneered.

Thank you, again, for your considered response.

Sincerely yours,