Subject: 60 Minutes and New York Times Stories Discredited

Dear Members of the Golden West/World Savings Family:

It has been more than a year since a series of deeply flawed media stories about Golden West appeared. We very much appreciate your steadfast support during this period. We are thankful to the thousands of former employees who helped the company earn a well-deserved reputation for ethics, integrity, transparency, risk-averse lending practices, and outstanding operating results. You deserve to be rightfully proud of Golden West's legacy and of your contribution to the company's growth from a local, two-office operation with $34 million assets in 1963 to a national, 520-office operation in 39 states with $120 billion in assets at the time of its sale in 2006. During that time, Golden West achieved a long-term earnings record unparalleled in American corporate history, with the possible exception of Warren Buffett's Berkshire Hathaway.

We thought you might be interested in recent developments about the media stories, as well as thoughts about the media's responsibility when mistakes are made.

The Media's Rush to Judgment

In the immediate aftermath of the housing and economic crisis, some in the media (and especially those who knew very little about the subject) rushed to judgment about the causes of the crisis and who was to blame. Unfortunately, Golden West was mistakenly caught in the crossfire of some of those reports, even though the company maintained the same risk-averse orientation for more than 40 years and <u>did not</u> participate in the risky activities that knowledgeable observers agree contributed to and fueled the crisis – e.g. Golden West did not abandon traditional underwriting principles to generate huge volumes of loans, did not securitize and sell loans to investors, did not engage in the subprime practice of selling high-interest loans to borrowers, and did not enter into complex derivative instruments or participate in the markets for collateralized debt obligations (CDO) or credit default swaps (CDS).

Instead, as you know, Golden West stuck to its conservative residential mortgage <u>portfolio business model of making high-quality loans that stayed on the company's books</u>. The company focused on keeping loan losses to a minimum (the lowest in the industry, including those who made only traditional 30-year fixed-rate loans), keeping tight controls over expenses, and maintaining high capital and liquidity. All of us at Golden West worked hard to treat customers fairly, to train personnel well, to be transparent in our disclosures, to be fully compliant with legal and regulatory requirements, and to minimize risk while running a profitable operation.

Not once, in the company's decades-long history, did we ever experience a single regulatory lapse or scandal. In fact, throughout our history, Golden West was an active proponent for strong and sound regulation – including greater regulatory oversight, strong capital requirements and fair lending practices – even when these positions put the company at odds with others in the industry. On many occasions, Golden West advised and warned regulators, legislators and others about potential risks in the banking system, including predatory mortgage practices, the growth and practices at the government sponsored entities (Fannie Mae, Freddie Mac, and the Federal

Home Loan Banks), accounting rules that created questionable incentives, etc... Here are some excerpts from letters we filed with regulators and distributed to legislators, rating agencies and others from 2003-2006. Unfortunately, Golden West's warnings were not always heeded. It is ironic that, despite Golden West being one of the only banks that repeatedly and openly sounded these warnings, the company was still subject to poorly researched and inaccurate stories suggesting that Golden West contributed to the crisis.

When you work hard for decades to do the right thing, as we all did, it is all the more devastating to read deeply flawed and inaccurate stories about the company. As you probably know, a website containing historical and other factual information about Golden West was created on behalf of all former employees to ensure that accurate information about the company is available to the media and others. The website has been updated to include recent developments that discredit the early inaccurate stories about Golden West. I encourage you to read www.goldenwestworld.com and share it with others.

A tab on the website called "Myths and Facts" addresses some of the more glaring and common mistakes about Golden West. Principal among these have been: (1) the failure to understand that Golden West's portfolio business model demanded a relentless focus on making quality loans that would perform, in stark contrast to a mortgage banker business model that compelled them to generate huge volumes of loans; (2) disregard for the critical differences between Golden West's portfolio Option ARM that had built-in safeguards for borrowers and a 25-year history of extremely low losses versus a much riskier mortgage banker Option ARM that was securitized into complex tranches and sold in huge volumes beginning only around 2003 (it is no surprise to any of us who understand these critical differences that only the mortgage banker Option ARM has been causing payment shock to borrowers); and (3) blind acquiescence to the idea that Golden West helped cause Wachovia's decline, even though Wachovia's actual losses from its own businesses were many multiples larger than Golden West's actual losses and Wells Fargo's reports now indicate that Golden West's losses are far lower than Wachovia or others projected.

Specific Media Gaffes

On the www.goldenwestworld.com site, you will also find information about some of the interactions we had with *The New York Times* and *60 Minutes* to try and set the record straight about their inaccurate and flawed reports about Golden West. If you have limited time, you may just want to scan the documents in the far right column labeled "Recent Developments."

The *Times* has taken the virtually unprecedented steps of issuing four corrections to its December 25, 2008 story, canceling publication of a book that was advertised for sale and scheduled to be released (which would have reprinted the article), posting on its site a letter from us outlining how the article was deeply flawed, inaccurate and misleading, and also posting a letter from New York Times Executive Editor Bill Keller to us. In his letter, Mr. Keller noted that had they known of the additional information we and others supplied them they "would have taken it into account in the original article," and he also acknowledged that we were "recognized as the gold standard of integrity in [the banking] industry." Despite these steps, the *Times* has never publicly acknowledged the more fundamental problems with the article. These fundamental errors no doubt resulted from the *Times* assigning a reporter with no background in banking or financial matters who was rushing to meet a deadline for an article predetermined to be part of a series of negative stories exploring the causes of the financial crisis.

The *60 Minutes* piece, which aired in February 2009 and was partly stimulated by the flawed and inaccurate *Times'* article, has been discredited. The story was based almost entirely on unsupported allegations of a disgruntled former employee, Paul Bishop. Before the show aired, we warned *60 Minutes* that Mr. Bishop was not the whistleblower he claimed to be and that the story was flawed and inaccurate. Despite these efforts, and our offer to provide contrary statements of numerous senior executives and mid-level managers, *60 Minutes* went ahead with a show containing false and defamatory accusations about Golden West breaking the law, being worse than Enron, and engaging in predatory lending or fraud. After a full examination of Mr. Bishop's employment records and sworn depositions and testimony from a variety of witnesses, an independent arbitrator ruled against Mr. Bishop in a decision that totally vindicated Golden West and confirmed our warnings to *60 Minutes* before the show aired. Here is the independent arbitrator's decision. (This is a must read document) The arbitrator ruled that Mr. Bishop had been terminated for being "continuously rude to his co-workers and bullying and condescending to his support staff," that Mr. Bishop was not a whistleblower, and that Mr. Bishop could not identify any loan or employee to be checked for potential illegalities.

It is clear that *60 Minutes* would not, and could not, have aired its show if the arbitrator's ruling against Mr. Bishop had been handed down earlier, or if the show had fully vetted Mr. Bishop as we urged them to do. Our understanding is that Mr. Bishop had shopped his tale to several media outlets before *60 Minutes*, to no avail, and had also approached the U.S. Attorney's office with his allegations. In other words, what we had was an orchestrated attempt by Mr. Bishop to harm Golden West, at the very time that he was engaged in a meritless lawsuit against the company. Unfortunately for all of us, *60 Minutes* erroneously got caught up in his scheme. *60 Minutes* has posted a link to the arbitration result on its site, along with an April 2010 letter from us describing the problems with the *60 Minutes* show. Separately, CBS sent us this letter in February 2010 stating that they now better understand Golden West's position that it never changed from its historic focus on quality lending to a focus on volume, and that they have come to appreciate why our ethics and integrity "have been recognized as the gold standard in the industry." However, the show has not issued any corrective statement about the veracity of its original show or apologized for its grievous errors. Here is a letter to *60 Minutes* Executive Producer Jeffrey Fager requesting an equitable resolution.

You may be interested to know that a story in the March/April 2010 edition of the Columbia Journalism Review (CJR) called into question the accuracy of the reporting about Golden West, including by *The New York Times* and *60 Minutes* (the CJR piece was published before the arbitration result against Mr. Bishop was released). CJR is a respected publication affiliated with the prestigious Columbia School of Journalism with a mission to "encourage and stimulate excellence in journalism in the service of a free society."

Worth noting briefly are the following other media mistakes based on false, flawed, incomplete or recycled information:

- The first widely viewed piece against us came in a satire on Saturday Night Live in October 2008 (in the middle of a heated Presidential campaign and right after Wachovia, Golden West's purchaser, had announced its own sale). Every statement in the sketch was false (e.g. that Golden West engaged in subprime lending, that the company bundled and sold loans to Wall Street, and that we urged Congressman Barney Frank to block oversight of our corrupt activities). Lorne Michaels, SNL's executive producer, in an interview with the *L.A. Times*, said: "I, in a state of complete ignorance, thought they were characters in the piece…First of all, I pleaded incompetence, which is not a thing I do often, and the fact that I did not know they were real is 100% my responsibility… There is absolutely no evidence that the Sandlers engaged in any wrongful behavior." In addition to the even more contrite personal apologies made to us by Michaels and a senior officer of NBC, the portion of the sketch involving us was expunged from the show's archives, an action we understand was unprecedented in SNL's 35 plus year history.

- In February 2009, TIME Magazine included us in a list of the "25 People to Blame for the Financial Crisis", basing much of its information on flawed information from *The New York Times* story. In a sad commentary on the state of much journalism today, TIME admitted in a phone conversation that they did not "fact check" their piece because they lacked the resources to do so. TIME posted a letter from us on its website.

- In September 2009, Vanity Fair published a list of "The 100 to Blame" for the economic mess. The print magazine included our names in their original list. To Vanity Fair's credit, however, the magazine reviewed substantial factual information provided to them and removed us from their on-line list.

There are, of course, a range of other irrational, indefensible and untrue statements published about Golden West or us in other media, especially the blogosphere. Many of you have encouraged us to ignore these, and we have. In fact, considering the sources, we regard most of these attacks as a badge of honor.

The Media's Responsibilities When Errors are Made

As we all know, the media plays a critical role in a functioning democracy, and First Amendment protections are critical. We value high-quality journalism so much that our foundation has provided substantial support to found ProPublica (www.propublica.org), an independent, non-profit and nonpartisan newsroom that produces investigative journalism in the public interest. ProPublica produces work that exposes corruption and abuses of power.

We know that journalism is a difficult profession requiring challenging judgments, and that errors are inevitable. But given the power and influence of the media, as well as the evolving landscape of newsgathering in the face of declining revenues and the emergence of on-line media, it is important to consider the media's obligation when it makes errors that harm innocent people or institutions.

As you know from your time at Golden West, it was always our practice to fight vigorously for the company and its employees when we were falsely accused of wrongdoing. However, if we were in the wrong, which we were from time to time, as any company is, we insisted that we own up to the mistake, apologize and make it right.

Unfortunately, our experience in defending Golden West is that many major media outlets do not share the ethos of “making it right” when mistakes are made. Instead, too often news organizations are loathe to publicly acknowledge substantive errors, whether out of habit, legal caution, internal politics, arrogance, protection of egos or otherwise. Though nobody expects a well-functioning newsroom to be free from error, we repeatedly experienced a “circle the wagons” mentality that dismissed the possibility of substantive errors (“we stand by our story”), even when confronted with contrary and irrefutable factual information. Unfortunately, all too often the media organizations were oblivious to, or disinterested in, the harm caused by their reporting.

We have certainly encountered some noble and well-meaning individuals within media organizations who have tried to figure out ways to make amends for the flawed and inaccurate stories, but those individuals have invariably been constrained by an institutional culture that resents the inconvenience, concedes little and, at most, offers a Kafkaesque resolution that is indirect, distorted, hollow and at times mean-spirited.

News organizations could, and should, do better. Addressing errors head-on would not increase their liability, but rather would diminish their subjects’ impulse to sue (in practice, the strength of First Amendment protections discourages most lawsuits already, particularly since newsroom negligence or incompetence can often be valid defenses to a lawsuit). And a newsroom’s occasional *mea culpa* on a story would actually enhance the organization’s reputation and help reinforce professional standards of practice; by contrast, the failure to acknowledge substantive errors, particularly in the face of contrary evidence, only diminishes the newsroom’s reputation for integrity.

Conclusion

We deeply regret that members of the Golden West family have had to endure seeing negative reports about the company. We have tried to set the record straight as best we could and wanted to keep you informed of developments once we had more to share. Unfortunately, it took much longer than any of us expected to get even the results we did.

We remain thankful to all of you who dedicated many years of your professional lives to building an outstanding company and who deserve to remain proud of your work and legacy. We look fondly on our time at the company, as we hope you do, and have been extremely moved by letters and thoughts many of you have shared with us about your years at Golden West.

With much gratitude and appreciation,

Herb and Marion Sandler