February 23, 2009

World Savings Underwriting

To whom it may concern,

I am writing this letter after watching the "60 Minutes" show because I was an underwriter at the "Vicente" loan office for World Savings since 1992 and I believe the underwriting practices need to be defended. Underwriting loans was a passion for me because it was based on common sense and life experience. This was often a frustration for those in sales because it was not "cut and dry"; they couldn't easily distinguish a quality loan from a risky loan and we didn't base our decisions on a simple formula.

We were trained in underwriting to use common sense and review our decisions on the three C's – <u>capacity</u> of the borrower to repay the loan based on their employment, income, assets; the borrower's overall <u>credit</u> history based on credit depth and not just the Fico score; and the <u>collateral/</u>property that the borrower was purchasing or refinancing. We further communicated this philosophy in training the sales team as well as the mortgage broker community.

We also focused on "red flags", meaning anything in the loan package that didn't make sense or warranted more explanation or documentation. Our goal in underwriting was to make sound decisions and to protect the assets of the bank based on policy and procedure as well as common sense. As underwriters we were often trained and re-trained specifically on predatory lending. During our regular meetings we would review case studies of loans that were complicated and potentially risky.

World Savings had local underwriters for a good reason. We had local knowledge of the economic trends in our community as well as the local real estate market. Over the years we were able to distinguish the reputable mortgage brokers who provided high quality loans with low default rates. I did not have a problem underwriting a stated income loan because the borrower had to have an excellent credit history, a job that was verifiable and income that made sense. In 2008 I turned down a stated income loan with great argument from the sales team. In this specific case the borrower was refinancing his home that he had lived in for many years. The red flags were that he had a pattern of refinancing yearly with cash out each time and his stated income did not make sense to me since I was familiar with the local hardware store in which he was employed. The argument from the sales team was that the borrower had a Fico 700+, still had 30% equity left in his home, had $20k in a savings account, and had never missed a mortgage payment with World. My counter argument was that I didn't believe the income shown on the application and would consider this loan only if paystubs/w-2's were provided. This loan was not approved, and as a side note, the hardware store owner has gone out of business. The underwriting team faced numerous occasions where this type of loan scenario was reviewed.

As a portfolio loan underwriter I had always considered World Savings to be a very conservative lender compared with loans that we denied and were told funded ultimately with Wamu or Countrywide. We evaluated risk carefully, we were audited regularly and required to respond to these audits in order to learn from any mistakes and ensure they didn’t reoccur. Quality was our main objective in underwriting loans.

Very truly yours,

Nancy Murphy