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■ *CORPORATE PROFILE*

Trim S&L Prospers Even in Lean Times

BY GAIL E. SCHARES

A lone black telephone is the only thing that greets visitors to the chief executives' office at World Savings and Loan's Oakland headquarters. A notecard on an empty desk in the reception room instructs visitors to pick up the phone and announce themselves.

That receptionless waiting area is just one example of stringent cost controls that have enabled parent Golden West Financial Corp. to post record profits during a time when one-third of the nation's S&Ls are struggling for survival.

Golden West's 1984 profit of $83.7 million was among the highest in the savings-and-loan industry. The year capped a successful rebound from back-to-back losses of $19 million and $20 million in 1981 and 1982, when all S&Ls suffered from soaring interest rates.

The key to Golden West's success, analysts say, is the "dynamic duo" management team of Herbert and Marion Sandler, and their simple, no-nonsense formula for running World Savings.

"This company has come out of nowhere and become the sixth-largest S&L in the country, approaching $11 billion in assets," said Allan G. Bortel, an S&L analyst with Shearson Lehman Brothers Inc. "They stand head and shoulders above the rest of the industry."

BY JERRY TELFER

Marion and Herbert Sandler run a taut ship at World Savings and Loan

Describing the Sandlers, who share the title of chief executive officer, Bortel said, "I don't know any harder-working management. They live and breathe the company. There's no comparable story in the financial services industry."

Herbert Sandler, a former attorney, and Marion, a former S&L securities analyst, acquired a small two-branch savings and loan called Golden West in 1963. Under

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Couple Keeps S&L Trim an

their guidance, the tiny S&L leaped past its competitors, racking up an astounding 14 consecutive years of rising profits and a 25 percent annual growth rate.

(The Sandlers changed the S&L's name to World in 1975 when they acquired World Savings, but retained Golden West as the parent.)

The losses in 1981 and 1982 are still a sore point with Herbert Sandler. If Congress had acted faster to allow S&Ls to make adjustable-rate mortgages, he said, they would have been spared the financial bloodbath that crippled the entire industry.

"We couldn't control the business because we were not allowed to make variable-rate loans. We told Congress what was going to happen and they greeted us like a stone wall," said Sandler, who also holds the title of chairman of Golden West.

GOLDEN WEST AT A GLANCE

GOLDEN WEST FINANCIAL CORPORATION

- ☐ **Business:** Golden West is a savings and loan holding company. Its principal asset is World Savings and Loan Association.
- ☐ **Headquarters:** Oakland
- ☐ **Executives:** Herbert M. Sandler, chairman and chief executive; Marion O. Sandler, president and chief executive officer
- ☐ **1984 revenues:** $1.1 billion
- ☐ **1984 net income:** $83.7 million
- ☐ **1984 earnings per share:** $4.05
- ☐ **Number of branches:** 197
- ☐ **Assets:** $11.2 billion
- ☐ **Deposits:** $7.5 billion (70 percent of World's deposits come from California operations, 27 percent from Colorado and 3 percent from Kansas.)
- ☐ **Employees:** 2200
- ☐ **Stock price:** $32⅛ a share
- ☐ **Stock's 52-week high-low:** $34⅞-11

'Congressional Incompetence'

Deregulation, which was finally triggered by staggering industry losses in 1981, was "congressional incompetence at its most extreme," he said.

Now S&Ls are allowed to offer adjustable-rate loans and own a variety of businesses — from restaurants to insurance companies — to lessen vulnerability to surges in interest rates.

But aside from switching to adjustable-rate mortgages, the Sandlers have stuck to the simple strategy that made them the darling S&L of Wall Street and the envy of their competitors: strict cost controls, customer service with a retailer's touch and a predictable but safe focus on residential mortgage lending.

"The most exciting characteristic about World is its tremendous operating efficiency," said Jonathan E. Gray, an analyst with Sanford C. Bernstein & Co. On average, savings and loans incur $1.80 of operating expense for each $100 of assets they manage, Gray said, but World has managed to slash expenses to $1 for every $100 of assets.

If World had operated at the same level as the rest of the industry, its earnings would have been $33 million less last year, Marion Sandler said.

Tight Control

Tight control of expenses means no club memberships and no corporate jets. And when the Sandlers travel, they pass up hotel suites for a regular room.

"It's a matter of discipline and control. We find we don't have many visitors. Why do we need a receptionist to greet five or six people a day," Marion Sandler said. "Maybe it makes a nice impression, but we decided if there's no good business reason, let's not spend the money."

"We get our jollies from doing well," Herbert Sandler said.

A New York executive who interviewed recently for a top position at World Savings endeared himself to the Sandlers by flying on People Express, the discount airline. (He got the job.)

"You don't save a lot of dollars based on the hotel you stay in, but it's part of an entire corporate culture," Marion Sandler said. For example, World staffs its branches after analyzing traffic patterns, in-

d Fit in Tough Times

stead of relying on industry standards. Out of 2200 employees, about 600 are permanently part-time, Marion Sandler said, because traffic studies show full-time employees are unnecessary.

"They run that company with half as many people as other institutions their size," Bortel said.

Doing Without

Automatic teller machines are another costly item World does without. "We believe it's still premature to invest in ATMs," Marion Sandler said. "Unless the consumer really wants them, you end up spending an enormous amount of money to educate people to want them. Being a pioneer is very expensive."

But in a characteristic move to hedge their bet, the Sandlers are wiring all new or remodeled branches for ATMs.

Cost-control isn't a dreary task at World. Branch managers receive bonuses for keeping an eye to the bottom line. "We don't want the image of a tight-fisted organization leaning on its employees. We get them on our side by making it in their interest to watch expenses carefully," she said.

The stay-lean strategy does not affect the image of World in customers' eyes either, Marion Sandler said. The Sandlers cater to their customers by investing in contemporary art and architecture. Each of World's 197 branches is commissioned separately and each contains original artwork.

"It's a retailing point of view. Stores such as Macy's spend money in public areas, but behind the scenes, the furnishings are not opulent, they're functional," Marion Sandler said.

A former Bloomingdale's executive, Marion Sandler also has brought a few retail marketing strategies to World. Executives "shop" World's branches, checking up on service and efficiency by pretending to be customers.

A number of World's top managers were plucked from Xerox, whom the Sandlers regard as "masters at motivation and efficiency."

Stick to Lending

Finally, World has stuck to single-family mortgage lending at a time when the rest of the industry has rushed into a broad range of new businesses and stepped up risky construction lending.

"We are very very cautious," Herbert Sandler said. "We don't lend on high-rise office buildings between Houston and Denver. Our loan officers don't get brownie points for making high-risk loans. We'd rather do less volume."

Even in the traditionally safe residential mortgage business, the Sandlers lend in separate geographic regions to spread the risk. Cautious lending policies have given Golden West one of the lowest ratios of bad loans to total assets in the industry: only 0.36 percent, compared to an industry average of about 1.5 percent. (The bad-loan ratio for the nation's largest association, American Savings and Loan, is 4.1 percent).

Some competitors contend that World's conservative approach may become a disadvantage, because the S&L industry is being surrounded by "financial supermarkets" that offer a wide range of services.

John Williamson, executive vice president at Gibraltar Savings in Beverly Hills, said expanded services are necessary for survival. "All types of institutions are blending together. To maintain a customer base, you need to offer more products," he said.

The Sandlers have stuck to their simple strategy of strict cost controls, customer service with a retailer's touch and a safe focus on residential mortgage lending.

So far, however, analysts find no fault in the Sandlers' philosophy of sticking to basics.

"I see their failure to diversify as a distinct plus," Gray said. "If you do something well, there's no need to diversify." Companies that have diversified have only boosted their operating expense and gotten into trouble with risky development

Continued

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Fit S&L Stays Prosperous

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loans, he said.

Bell Savings in San Mateo and United Bank in San Francisco recently have been stung by huge losses from real estate development loans and joint ventures during the past two years.

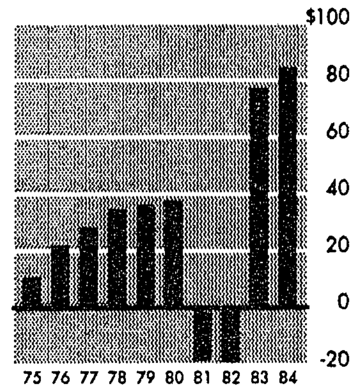
World cautiously ventured into consumer lending last year, mainly auto and equity loans, "because it complements our customer base and our regular business," Marion Sandler said. But the foray was a tentative one, with World lending only $38.7 million compared with $1.86 billion in mortgage loans.

Instead of diversifying, the Sandlers would prefer to continue expanding their 192-branch mortgage lending operation, which already includes offices in Colorado and Kansas.

"There are no secrets. We think we're in an extremely good business if you operate efficiently, avoid losses on loans, and control your interest rate risks," Herbert Sandler said. (During the early 1980s, competitors criticized the Sandlers for virtually halting all mortgage lending, and investing depositors' funds in money market instruments such as Ginnie Mae securities. But World's aggressive lending during the past two years put those criticisms to rest.)

Among its peers, World was slightly slower to build up the number of adjustable-rate mortgages in its loan portfolio — an essential step for all S&Ls who wish to avoid another round of losses when interest rates rise again.

GOLDEN WEST ANNUAL EARNINGS



Net income in millions

However, analysts said World now has caught up, with 43 percent of its portfolio in adjustable-rate loans, compared with 18 percent at the end of 1983. By yearend, World will pass many other S&Ls, they said, with a 50-50 mix.

"We — and other S&Ls — can survive now. We've run computer simulations where interest rates rose 5-to-6 points. We'd survive and even do well," Herbert Sandler said. "If they rose 7 points and didn't come down for five years...that's another story."

To prosper during any kind of rate movement, analysts said, S&Ls should hold about 70 percent adjustable-rate loans. It will take another two years before most associations reach that level, they said.

Dynamic Personalities

A vital factor in Golden West's success, analysts said, are the dynamic personalities of Herbert and Marion Sandler.

"They're both very smart and they complement each other," Gray said. While Herbert Sandler watches industry trends and manages broad strategic issues like acquisitions, Marion tends to the mechanics of operations, keeping a hawklike-eye on expenses.

"The individual matters so much in this industry. The institutions that have gotten into trouble have had leadership that's misdirected," said Kenneth Rosen, a professor in the graduate school of business at the University of California at Berkeley who is an outside director of Golden West.

Indeed, the main concern about Golden West on Wall Street, is who will replace the Sandlers (both of whom are 53) when the time comes.

"It will be difficult to find a successor to run the company as efficiently as they do," Gray said.