

United States Senate

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman

Tom Coburn, Ranking Minority Member

E X H I B I T S

Hearing On

***WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF HIGH RISK HOME LOANS***

April 13, 2010

EXHIBIT LIST

Hearing On

***WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF HIGH RISK HOME LOANS***

April 13, 2010

1. a. Memorandum from Permanent Subcommittee on Investigations Chairman Carl Levin and Ranking Minority Member Tom Coburn to the Members of the Subcommittee.
- b. *Washington Mutual Practices That Created A Mortgage Time Bomb*, chart prepared by the Permanent Subcommittee on Investigations.
- c. *Securitized of Washington Mutual Subprime Home Loans*, chart prepared by the Permanent Subcommittee on Investigations.
- d. *Washington Mutual's Subprime Lender: Long Beach Mortgage Corporation ("LBMC") Lending and Securitization Deficiencies*, chart prepared by the Permanent Subcommittee on Investigations.
- e. *Washington Mutual's Prime Home Loan Lending and Securitization Deficiencies*, chart prepared by the Permanent Subcommittee on Investigations.
- f. *Washington Mutual Compensation and Incentives*, chart prepared by the Permanent Subcommittee on Investigations.
- g. *Select Delinquency and Loss Data for Washington Mutual Securitizations, as of February 2010*, chart prepared by the Permanent Subcommittee on Investigations.
- h. *Washington Mutual CEO Kerry Killinger: \$100 Million In Compensation, 2003-2008*, chart prepared by the Permanent Subcommittee on Investigations.
- i. *WaMu Product Originations and Purchases By Percentage - 2003-2007*, chart prepared by the Permanent Subcommittee on Investigations.
- j. *Estimation of Housing Bubble: Comparison of Recent Appreciation vs. Historical Trends*, chart prepared by Paulson & Co, Inc.
- k. Washington Mutual Organizational Chart, prepared by Washington Mutual, taken from Home Loans 2007 Plan, Kick Off, Seattle, Aug 4, 2006.

Documents Related to Higher Risk Lending Strategy:

2. a. *Washington Mutual, Higher Risk Lending Strategy, "Asset Allocation Initiative," Board of Directors, Finance Committee Discussion, January 2005.*
- b. *Washington Mutual, Asset Allocation Initiative: Higher Risk Lending Strategy and Increased Credit Risk Management, Board of Director Discussion, December 21, 2004.*
- c. *Washington Mutual, Higher Risk Lending Strategy, And Increased Credit Risk Management, Board of Director Discussion, January 2005.*

3. *Washington Mutual, Home Loan Discussion Board of Directors Meeting, April 18, 2006* (excerpts).
4. *WaMu Presentation, Way2Go, Be Bold!*, prepared by David Schneider, Home Loans President (*We are all in sales.*).
5. *Washington Mutual, Subprime Mortgage Program, January 2007* (excerpts).
6.
 - a. *Washington Mutual Chairman and CEO Kerry Killinger Memorandum to the Board of Directors, dated June 2007, re: WaMu Strategic Direction.*
 - b. *Washington Mutual Home Loans - 2007 Strategy Team Goals, Updated 11/1/2007.*
7. *Management Presentation, WaMu Home Loans* (excerpts).

Documents Related to Long Beach:

8.
 - a. *OTS internal email, dated April 2005, re: Fitch - LBMC Review ([Securitizations] prior to 2003 have horrible performance. LBMC finished in the top 12 worst annualized [net credit losses] in 1997 and 1999 thru 2003. ... At 2/05, LMBC was #1 with a 12% delinquency rate. Industry was around 8.25%).*
 - b. *FDIC/Washington State Joint Visitation Report of Washington Mutual Bank, dated January 13, 2004 (It concluded that 40% (109 of 271) of loans reviewed were considered unacceptable due to one or more critical errors. This raised concerns over LBMC's ability to meet the representations and warranty's made to facilitate sales of loan securitizations, and management halted securitization activity.).*
9. *Washington Mutual, LBMC Post Mortem - Early Findings Read Out, November 1, 2005 (First Payment Defaults (FPD's) are preventable and/or detectable in nearly all cases (~99%) ... High incident rate of potential fraud among FPD cases.).*
10. *Washington Mutual Memorandum to the Washington Mutual, Inc. and WaMu Board of Directors' Audit Committees, dated April 17, 2006, re: Long Beach Mortgage Company - Repurchase Reserve Root Cause Analysis (LBMC experienced a dramatic increase in EPDs during the third quarter of 2005. ... [R]elaxed credit guidelines, breakdowns in manual underwriting processes, and inexperienced subprime personnel ... coupled with a push to increase loan volume and the lack of an automated fraud monitoring tool, exacerbated the deterioration in loan quality.).*
11. *WaMu internal email, dated April 2006, re: Jax ([D]elinquencies are up 140% and foreclosures close to 70%. ... It is ugly.).*
12. *WaMu internal email, dated September 2006, re: nat city mid-quarter update (LBMC is terrible [W]e are cleaning up a mess. Repurchases, EPDs, manual underwriting, very weak servicing/collections practices and a weak staff.).*

13. a. WaMu internal email, dated December 2006, re: SubPrime Analysis (*Short story is this is not good. ... [L]arge potential risk from what appears to be a recent increase in repurchase requests. ... We are all rapidly losing credibility as a management team.*).
13. b. FDIC Memorandum, dated June 2, 2007, re: *WaMu - Long Beach Mortgage Company Repurchases.*
14. *WaMu, Home Loans - SubPrime, Quarterly Credit Risk Review, December 2006* (excerpts).
15. WaMu internal email, dated December 2006, re: *It's supprime day at WSJ* (attaching Wall Street Journal articles on subprime)(*...our Long Beach securities have much higher delinquency rates early in their life than the 2003 and 2005 vintages.*).
16. WaMu internal email, dated January 2007, re: *Confidential (Long Beach represents a real problem for WaMu.)*
17. WaMu internal email, dated February 2007, re: *Long Beach 2nd Lien Disposition (In 2006 Beck's team started sprinkling in deals as they could.)*.
18. *WaMu HL Risk Management, Quarterly Credit Risk Review, Subprime, 1st Quarter, 2007 (The root cause of over 70% of FPDs involved operational issues such as missed fraud flags, underwriting errors, and condition clearing errors.)*(excerpts).
19. *WaMu Audit Report, Long Beach Mortgage Loan Origination & Underwriting, August 20, 2007 ([T]he overall system of risk management and internal controls has deficiencies related to multiple critical origination and underwriting processes. ... These deficiencies require immediate effective corrective action to limit continued exposure to losses.)*.
20. WaMu internal email, dated August 2007, re: *Long Beach Mortgage Loan Origination & Underwriting (Requires Improvement)(This seems to me to be the ultimate in bayonetting the wounded, if not the dead.)*.
21. *WaMu Corporate Credit Review, Home Loans, Wholesale Specialty Lending-FPD, September 2007 Targeted Review (132 of the 187 (71%) files were reviewed [and] ... confirmed fraud on 115 [and 17 were] ... "highly suspect". ... 80 of the 112 (71%) stated income loans were identified for lack of reasonableness of income[.] 133 (71%) had credit evaluation or loan decision errors 58 (31%) had appraisal discrepancies or issues that raised concerns.)*.

Documents Related to WaMu Retail Channel:

22. a. WaMu internal memorandum, dated November 17, 2005, re: *So. CA Emerging Markets Targeted Loan Review Results (Of the 129 detailed loan reviewed that have been conducted to date, 42% of the loans reviewed contained suspect activity or fraud, virtually all of it attributable to some sort of employee malfeasance or failure to execute company policy.*
22. b. *WaMu Retail Fraud Risk Overview, Prepared by Risk Mitigation, November 16, 2005.*

23. a. WaMu internal email chain, dated November 2005: re: *Retail Fraud Risk Overview (I had a very quick meeting with David Schneider, Tony Meola and Steve Stein today to review the deck and the memo regarding the retail fraud risk review. The good news is that people are taking this very seriously.)*.
23. b. WaMu internal email chain, dated August 2005, re: *[names redacted] - Risk Mit Loan review data "Confidential" (...he "did not want to give axes to the murderers.")*.
24. WaMu Privileged and Confidential Memorandum, dated April 2008, re: *Memorandum of Results: AIG/UG and OTS Allegation of Loan Frauds Originated by [name redacted]* .
25. Office of Thrift Supervision Memorandum, dated June 19, 2008, re: *Loan Fraud Investigation*.
26. WaMu *OTS Exam Summary As of July 22, 2008 (OTS AQ #22 Loan Fraud Investigation.)* (excerpts).
27. WaMu internal email chain, dated August 2006, re: *Hudson 3010598427 Purchase (Sales has NOT hit our [sic] funding goals.)*.
28. WaMu *Market Risk Committee (MRC), Minutes of the December 12, 2006 Meeting (The primary factors contributing to increased delinquency appear to be caused by process issues include the sale and securitization of delinquent loans, loans not underwritten to standards, lower credit quality loans and seller servicers reporting false delinquent payment status.)*.
29. WaMu internal Memorandum, dated September 2007, re: *Westlake HLC Investigation Update*.
30. WaMu *Significant Incident Notification (SIN), Date Incident Reported - 04/01/2008, Loss Type - Mortgage Loan (One Sales Associate admitted that during that crunch time some of the Associates would "manufacture" assets statements from previous loan docs and submit them to the LFC. She said the pressure was tremendous from the LFC to get them the docs since the loan had already funded and pressure from the Loan Consultants to get the loans funded.)*.
31. WaMu *Internal Investigative Report*, dated May 2008, re: *Westlake Home Loan Center (...tremendous pressure from Loan Consultants and from the LFC Team Manager to get the asset documents to the LFC because the loan was already funded.)*.
32. a. WaMu internal email chain, dated December 2007, re: *Employee HELOC Fraud (...75 suspect HELOC loans have been identified (approved & in pipeline) ... with a current outstanding balance of \$3,318,101.)*.
32. b. WaMu *Significant Incident Notification (SIN), Date Incident Reported - 05/01/2008, Loss Type - HELOC Fraud (Risk Mitigation reviewed 25 HELOC loans ... with a total exposure of \$8,538,600.00.), Exposure - \$8,538,600.)*.
33. Radian Guaranty Inc. Review of Washington Mutual Bank, August-September 2007 (*This results in an overall "Unacceptable" rating with a score of 68.)*(excerpts).

34. *WaMu Corporate Credit Review, 2008 Home Loans, Risk Mitigation and Mortgage Fraud, September 2008 Targeted Review* (excerpts).

Documents Related to Option Arms:

35. *Washington Mutual, Option ARM Focus Groups - Phase II, WaMu Option ARM Customers, September 17, 2003.*
36. *Washington Mutual, Option ARM Focus Groups - Phase I, WaMu Loan Consultants and Mortgage Brokers, August 14, 2003* (excerpts).
37. *Washington Mutual, Option ARM Credit Risk, August 2006.*
38. *Washington Mutual, Option ARM, Board of Directors Meeting, October 17, 2006.*
39. *WaMu internal email, dated April 2007, re: Option ARM (I think we better be well prepared to defend the option ARM portfolio.).*
40. a. *WaMu internal email, dated September 2006, re: Tom Casey visit (...equity investors are totally freaking about housing now.).*
- b. *WaMu internal email, dated February 2007, re: Option ARM MTA and Option ARM MTA Delinquency (We are contemplating selling a larger portion of our Option ARM than we have in the recent past. Gain on sale is attractive and this could be a way to address California concentration, rising delinquencies, falling house prices in California with a favorable arbitrage given that the market seems not to be yet discounting a lot for those factors.).*
41. *WaMu internal email, dated, February 2007, re: Some thoughts on targeted population for potential Option ARM MTA loan sale (I thought it might be helpful insight to see the information Bob Shaw provides below about the components of the portfolio that have been the largest contributors to delinquency in recent times.).*
42. a. *WaMu internal email, dated February 2007, re: HFI selection criteria changes (Effective March 7, 2007, modify the portfolio option ARM and COFI ARM retention criteria ... to include only following loans for the portfolio HFI. . . . As a result of this change, we expected to securitize and settle about \$2 billion more option/COFI ARMs in Q1-07.... Also included in the attachment, is a pool of \$1.3 billion option/COFI ARMs funded to portfolio between January 1st and February 22nd that will be re-classified as HFS based on the above recommendations.).*
- b. *WaMu internal email, dated February 2007, re: HFI Option Arms redirected to HFS (...that amounts to roughly 3B option arms available for sale. I would like to get these loans into HFS immediately so that I can sell as many as possible in Q1.).*

43. *WaMu Market Risk Committee (MRC), Minutes of March 9, 2007 Meeting (...approval to transfer up to \$3.0 billion of saleable Option ARM and COFI ARM loans originated since January 1, 2007 from HFI to Held for Sale (HFS).).*
44. *WaMu Market Risk Committee Minutes, July 11, 2008 (NPA HFI HELOC Loan Sales. ...it is in our best interest to let some one else assume the risk of these loans.)(excerpts).*

Documents Related to Securitization:

45. *WaMu Wholesale Speciality Lending, Securitization Performance Summary, June 2008 (\$77 billion in subprime securitizations listed).*
46. *Washington Mutual Mortgage Securities Corp., Securitization Performance Summary, June 2008 Distribution. (\$196 billion in prime securitizations listed)*
47.
 - a. Two diagrams of a Long Beach mortgage backed security, attached to a FDIC Memorandum, dated May 15, 2006, re: *WaMu Mortgage Securitizations*.
 - b. List of WaMu-Goldman Loans Sales and Securitizations.
 - c. WaMu PowerPoint presentation by David Beck, Executive Vice President, WaMu Capital Markets, June 11, 2007 (excerpts).
48. *WaMu Wholesale Specialty Lending, Bond Rating Changes, As of June 2008 Distribution (excerpts).*
49. *WaMu internal email, dated August 2004, re: Interesting Friedman Billings piece re: Mortgage Brokers (Which Product Should Capital Markets Be Pushing?).*
50. *WaMu internal email, dated November 2006, re: Goldman Sachs New Issues Home Eq Commentary (External) (LBMC paper is among the worst performing paper in the mkt in 2006.).*
51. *WaMu internal email, dated February 2008, re: Screen shot (Attaching copy of Evidence of "Walking Away" In WaMu Mortgage Pool, February 23, 2008, Misch's Global Economic Trend Analysis.*
52. *WaMu internal email, dated March 2007, re: our discussion yesterday and what the street perception will be (WaMu subprime ABS delinquencies top ABX components).*
53. *WaMu Leads in Risky Type of Lending; Analysis Shows Thrift Makes Frequent Loans for Investment Homes, April 17, 2007, Wall Street Journal.*
54. a./b./c.: *WaMu/Goldman Sachs email chains, dated March, May, and July 2007, regarding repurchase issues.*

55. WaMu internal email, dated August 2007, re: *Scenarios (From today's meeting, I understand that we don't have the courage to evaluate this scenario.)*.
56. WaMu internal email, dated May 2008, re: *WSJ on repurchases - likely will lead to some IR questions although we are not mentioned (7 Step process)*.
57. WaMu internal email, dated June 2008, re: *Repurchase Recommendations W/E 6/20/08 (The actual loans we do buy back are real stinkers.)*.
58. *Worst Ten in the Worst Ten*, document prepared by the Office of the Comptroller of the Currency (OCC), 11/13/08 (*the table below sets forth the ten metropolitan areas experiencing the highest rates of foreclosure as report by Realty Trac (the "Worst Ten" MSAs) . . . Long Beach Mortgage Corp . . . 11,736.*).

Documents Related to Compensation:

59. a./b.: Documents regarding Long Beach compensation, 2004 (excerpts) and 2007.
60.
 - a. *WaMu Home Loans, 2007 Product Strategy, Strategy and Business Initiatives Update (Retail Loan Consultant 2007 Incentive Plan Focus on High Margin Products)*(excerpts).
 - b. *Washington Mutual, Home Loan Credit Risk F2F*, December 6, 2006 (*Internal Forces...Overages; Internal Forces...Overage Proposal*). (excerpts)
 - c. Excerpt from Washington Mutual Lender's Closing Instructions, September 2007 (showing inclusion of *Yield Spread Premium* in compensation of third part mortgage broker).
61. Long Beach processing center internal email, dated September 2004, re: *Daily Productivity - Dublin (...it's time for the mad dash to the finish line!)*.
62. WaMu Home Loans flyer, dated November 2006, *President's Club - Take the Lead!*.
63.
 - a. *Washington Mutual, Home Loans Group, President's Club 2005 - Maui, Awards Night Show Script* (excerpts).
 - b. *Washington Mutual, Home Loans Group, President's Club 2006, Funeral Skit* related to Countrywide.
 - c. *WaMu, Home Loans Groups, President's Club 2006, "I Like Big Bucks" Skit*.
64. Cheryl Feltgen 2007 Performance Review (*Growth 35%*).
65. WaMu internal email, dated January 2008, re: *comp (But we have to convince our folks that they will all make a lot of money by being with WaMu.)*.
66. WaMu internal email, dated July 2008, re: *comp (We would like to have the HR committee approve excluding the exec com from the 2008 bonus and to approve the cash retention grants to the non NEOs. This would allow me to respond to questions next week regarding the bonus plan on the analyst call. And it would help calm down some of the EC members.)*.

67. WaMu internal email, dated March 2008, re: *WaMu Board Shields Executives' Bonuses - WSJ Article* (March 5, 2008).
68. *WaMu creditors could challenge payments to Killinger, others*, The Seattle Times, October 1, 2008.

Documents Related to Various Issues:

69. a. WaMu internal email, dated October 2007, re: *Can you take a look at this before Monday and give your blessing? (I don't trust Goldy on this. They are smart, but this is swimming with the sharks. They were shorting mortgages big time while they were giving CfC advice.)*.
b. WaMu/Goldman email chain, dated February 2007, re: *Request to talk (...Goldman and Long Beach/WaMu have had a long standing and successful relationship for years.)*.
70. WaMu internal email, dated May 2005, re: *Strategic Planning Meeting (The avalanche of publicity on interest only, home equity, neg am and sub-prime expansion that has occurred in just the last three or four weeks is amazing.)*.
71. WaMu internal email, dated March 2006, re: *Organizational Changes in Enterprise Risk Management*.
72. Washington Mutual Internal Memorandum, dated October 2006, re: *State of ERM: Effectiveness and Resource Adequacy Overview*.
73. WaMu internal email, dated January 2007, re: *Year-End 2006 Message for the Home Loans Risk Management Team (Recognize that "we are all in sales" passionately focused on delivering great products and service to our customers.)*.
74. WaMu internal email, dated February 2008, re: *Credit Cost Forecast (Un)reliability (...I would add poor underwriting quality which in some cases causes our origination data to be suspect....)*.
75. WaMu internal email, dated February 2008, re: *4pm 10K Audit Committee Meeting (I would suggest using the word "majority" and deleting the word "significantly"....)*.
76. WaMu internal email, dated March 2007, re: *Draft Subprime Mortgage Guidance - Draft WaMu Position (Based on today's conversation, I don't see a need to do anything now.)*.
77. WaMu internal email, dated March 2007, re: *Follow-up information to last evening's call regarding subprime interagency guidance, etc. (If we implement the NTM changes to all loans, then we'll see additional drop of 33% of volume.)*.

78. WaMu internal email chain, dated March 2005, re: *Updates (I have never seen such a high risk housing market as market after market thinks they are unique and for whatever reason are not likely to experience price declines. This typically signifies a bubble.)*.
79. WaMu internal email, dated August 2007, re: *Looking back (Your fingers must be smoking.)*.
80. *WaMu July 2008 Home Loans Story, External & Internal Views*.
81. WaMu internal email, dated February 2007, re: *Long Beach 2nd Lien Disposition (...how best to dispose of 433MM of performing 2nd lien loans in the Long Beach warehouse.)*.
82. *Long Beach Mortgage Loan Coordinator Convicted of Lying to Grand Jury In Connection With Mortgage Fraud Investigation*, Department of Justice News Release, December 17, 2007
83. *Subprime Lending: A Net Drain on Homeownership*, Center for Responsible Lending Issue Paper No. 14, March 27, 2007.
84. Long Beach Mortgage Loan Purchase Agreement, January 2006.
85. Washington Mutual Bank Mortgage Loan Purchase and Sale Agreement, October 2005.
86. WaMu Prospectus Supplements (excerpts):
 - a. WaMu 2007-OA3.
 - b. WMALT 2007-OA3.
 - c. WaMu 2007-OA4.
 - d. WMALT 2007-OA4.

✧ ✧ ✧

MEMORANDUM

To: Members of the Permanent Subcommittee on Investigations

From: Senator Carl Levin, Subcommittee Chairman
Senator Tom Coburn, Ranking Member

Date: April 13, 2010

Re: **Wall Street and the Financial Crisis: The Role of High Risk Loans**

On Tuesday, April 13, 2010, beginning at 9:30 a.m., the Permanent Subcommittee on Investigations will hold its first in a series of hearings examining some of the causes and consequences of the recent financial crisis. This hearing will focus on the role of high risk loans, using a case study involving Washington Mutual Bank.

The Financial Crisis. In July 2007, two Bear Stearns offshore hedge funds specializing in mortgage related securities collapsed; the credit rating agencies suddenly downgraded hundreds of subprime residential mortgage backed securities; and the formerly active market for buying and selling subprime residential mortgage backed securities went cold. Banks, mortgage brokers, securities firms, hedge funds, and others were left holding suddenly unmarketable mortgage backed securities whose value began plummeting.

Banks and mortgage brokers began closing their doors. In January 2008, Countrywide Financial Corporation, a \$100 billion thrift specializing in home loans, was sold to Bank of America. That same month, one of the credit rating agencies downgraded nearly 7,000 mortgage backed securities, an unprecedented mass downgrade. In March 2008, as the financial crisis worsened, the Federal Reserve facilitated the sale of Bear Stearns to JPMorgan Chase. In September 2008, in rapid succession, Lehman Brothers declared bankruptcy; AIG required a \$85 billion taxpayer bailout; and Goldman Sachs and Morgan Stanley converted to bank holding companies to gain access to Federal Reserve lending programs.

In this context, Washington Mutual Bank, the sixth largest depository institution in the country with \$307 billion in assets, \$188 billion in deposits, and 43,000 employees, found itself losing billions of dollars in deposits as customers left the bank, its stock price tumbled, and its liquidity worsened. On September 25, 2008, after a century in the lending business, Washington Mutual Bank was closed by its primary regulator, the Office of Thrift Supervision ("OTS"). On the same day, the Federal Deposit Insurance Corporation ("FDIC"), having been appointed receiver, facilitated sale of the bank to JPMorgan Chase. It was the largest bank failure in the history of the United States.

The sudden financial losses and forced sales of multiple financial institutions put the U.S. economy into a tailspin. The stock market fell; business loans dried up; and unemployment exploded. Hidden liabilities associated with financial firms' proprietary positions in mortgage backed securities, credit default swaps, collateralized debt obligations ("CDOs"), structured investment vehicles, and other complex financial instruments created concerns about the stability of major financial institutions. The contagion spread worldwide as financial institutions holding similar financial instruments lost value and curtailed transactions with other firms. In October

2008, Congress enacted the \$700 billion Troubled Asset Relief Plan (“TARP”) to stop the U.S. economy from falling off a cliff and taking the rest of the world economy with it. The United States and other countries are still recovering today.

Subcommittee Investigation. In November 2008, the Permanent Subcommittee on Investigations initiated a bipartisan investigation into some of the causes and consequences of the financial crisis. Since then, the Subcommittee has engaged in a wide-ranging inquiry, issuing subpoenas, conducting over 100 interviews and depositions, and consulting with dozens of government, academic, and private sector experts. The Subcommittee has also accumulated and initiated review of over 50 million pages of documents, including court pleadings, filings with the Securities and Exchange Commission, trustee reports, prospectuses for securities and private offerings, corporate board and committee minutes, mortgage transactions and analyses, memoranda, marketing materials, correspondence, and email. The Subcommittee has also reviewed documents prepared by or sent to or from banking and securities regulators, including bank examination reports, reviews of securities firms, enforcement actions, analyses, memoranda, correspondence, and email.

To provide the public with the results of its investigation, the Subcommittee plans to hold a series of hearings addressing aspects of the financial crisis, including the role of high risk home loans, regulators, credit rating agencies, and Wall Street. These hearings will examine issues related to mortgage backed securities, CDOs, credit default swaps, and other complex financial instruments. After the hearings, a report summarizing the investigation will be released.

Washington Mutual Case History. This initial hearing in the series examines Washington Mutual Bank as a case study in the role of high risk loans in the U.S. financial crisis. Headquartered in Seattle, with offices across the country and over 100 years of experience in the home loan business, Washington Mutual Bank had grown to become the nation’s largest thrift. Each year, it originated or acquired billions of dollars of home loans through multiple channels, including loans originated by its own loan officers, loans brought to the bank by third party mortgage brokers, and loans purchased in bulk from other lenders or firms. In addition, its affiliate, Long Beach Mortgage Company (“Long Beach”), originated billions of dollars in home loans brought to it by third party mortgage brokers specializing in subprime lending.

Washington Mutual kept a portion of these home loans for its own investment portfolio, and sold the rest either to Wall Street investors, usually after securitizing them, or to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac).

At first, Washington Mutual worked with Wall Street firms to securitize its home loans, but later built up its own securitization arm, Washington Mutual Capital Corporation, which gradually took over the securitization of Washington Mutual and Long Beach loans. In addition, from 2001 to 2007, Washington Mutual sold about \$430 billion in loans to Fannie Mae and Freddie Mac, representing nearly a quarter of its loan production during those years.

High Risk Home Loans. Over a five-year period from 2003 to 2008, Washington Mutual Bank made a strategic decision to shift its focus from traditional 30-year fixed and government-backed loans to higher risk home loans. This shift included originating more home loans for higher risk borrowers, with increased loan activity at Long Beach, which was exclusively a subprime lender. Washington Mutual also financed subprime loans brought to the

bank by third party mortgage brokers through its "Specialty Mortgage Finance" and "Wholesale" channels, purchased subprime loans through its "Correspondent" channel, and purchased subprime loans in bulk through its "Conduit" channel.

Washington Mutual decided to shift to higher risk loans, because it had calculated those loans were more profitable. Higher risk loans typically charged borrowers a higher rate of interest and higher fees. Once securitized, a large percentage of the mortgage backed securities received AAA ratings, yet offered investors a higher rate of return than other AAA investments, due to the higher risk involved. As a result, mortgaged backed securities relying on higher risk loans typically fetched a better price on Wall Street than those relying on lower risk loans.

Washington Mutual's most common subprime loans were hybrid adjustable rate mortgages, known as "2/28," "3/27," or "5/25" loans. These 30-year mortgages typically had a low fixed "teaser" rate, which then reset to a higher floating rate after two years for the 2/28, three years for the 3/27, or five years for the 5/25. The initial payment was typically calculated to pay down the principal and interest at the initial low, fixed interest rate. In some cases, the payments covered only the interest due on the loan and not any principal. After the fixed period expired, the monthly payment was typically recalculated to cover both principal and interest at the higher floating rate. The suddenly increased monthly payments sometimes caused borrowers to experience "payment shock" and to default on their loans, adding to the risk.

In addition to subprime loans, Washington Mutual made a variety of high risk loans to "prime" borrowers, including its flagship product, the Option Adjustable Rate Mortgage ("Option ARM"). Washington Mutual's Option ARMs typically allowed borrowers to pay an initial teaser rate, sometimes as low as 1% for the first month, and then imposed a much higher floating interest rate linked to an index, but gave borrowers the choice each month of paying a higher or lower amount. These loans were called "Option" ARMs, because borrowers were typically given four options: (1) paying the fully amortizing amount needed to pay off the loan in 30 years; (2) paying an even higher amount to pay off the loan in 15 years; (3) paying only the interest owed that month and no principal; or (4) making a "minimum" payment that covered only a portion of the interest owed and none of the principal. If the minimum payment option were selected, unpaid interest would be added to the loan principal. If the borrower repeatedly selected the minimum payment, the loan principal would increase rather than decrease over time, creating a negatively amortizing loan.

After five years or when the loan principal reached 110% (sometimes 115% or 125%) of the original loan amount, the Option ARM would "recast." The borrower would then be required to make the fully amortizing payment needed to pay off the loan within the remaining loan period. The new monthly payment amount was typically much greater, causing payment shock and increasing loan defaults. For example, a borrower taking out a \$400,000 loan, with a teaser rate of 1.5% and subsequent interest rate of 6%, could have a minimum payment of \$1,333. If the borrower then made only the minimum payments until the loan recast, the new payment using the 6% rate would be \$2,786, an increase of more than 100%. What began as a 30-year loan for \$400,000 became a 25-year loan for \$432,000. To avoid having the loan recast, Option ARM borrowers typically refinanced their loans. A significant portion of Washington Mutual's Option ARM business consisted of refinancing existing loans. Borrowers unable to refinance were at greater risk of default.

Washington Mutual and Long Beach sold or securitized most of the subprime home loans they acquired. Initially, Washington Mutual kept most of its Option ARMs in its proprietary investment portfolio, but eventually began selling or securitizing those loans as well. From 2000 to 2007, Washington Mutual and Long Beach securitized at least \$77 billion in subprime home loans. Washington Mutual sold or securitized at least \$115 billion of Option ARM loans, as well as billions more of other types of high risk loans, including hybrid adjustable rate mortgages, Alt A, and home equity loans. According to its internal documents, by 2006, Washington Mutual was the second largest Option ARM originator and the eleventh largest subprime loan originator in the country.

Lending and Securitization Deficiencies. Over the years, both Long Beach and Washington Mutual were the subject of repeated criticisms by the bank's internal auditors and reviewers, as well as its regulators, OTS and the FDIC, for deficient lending and securitization practices. Long Beach loans repeatedly suffered from early payment defaults, poor underwriting, fraud, and high delinquency rates. Its mortgage backed securities were among the worst performing in the marketplace. In 2003, for example, Washington Mutual stopped Long Beach's securitizations and sent a legal team for three months to address problems and ensure its securitizations and whole loan sales were meeting the representations and warranties in Long Beach's sales agreements.

In 2005, Long Beach had to repurchase over \$875 million of nonperforming loans from investors, suffered a \$107 million loss, and had to increase its repurchase reserve by nearly \$75 million. As a result, Long Beach's senior management was removed, and Long Beach's subprime lending operations were made subject to oversight by Washington Mutual's Home Loans Division. Despite those changes, early payment defaults and delinquencies surged again in 2006, and several 2007 reviews identified multiple lending, credit, and appraisal problems. By mid-2007, Washington Mutual shut down Long Beach as a separate entity and took over its subprime lending operations. At the end of the year, a Long Beach employee was indicted for having taken kickbacks to process fraudulent or substandard loans.

In addition to problems with its subprime lending, Washington Mutual suffered from lending and securitization deficiencies related to its own mortgage activities. It received, for example, repeated criticisms for unsatisfactory underwriting procedures, loans that did not meet credit requirements, and loans subject to fraud, appraisal problems, and errors. For example, a 2005 internal investigation found that loans originated from two top loan producing offices in southern California contained an extensive level of fraud caused primarily by employees circumventing bank policies. Despite fraud rates in excess of 58% and 83% at those two offices, no steps were taken to address the problems, and no investors who purchased loans originated by those offices were notified in 2005 of the fraud problem. In 2006, securitizations with elevated delinquency rates were found to contain lower quality loans that did not meet the bank's credit standards. In 2007, fraud problems resurfaced at the southern California offices, and another internal review of one of the offices found a fraud rate of 62%. In 2008, the bank uncovered evidence that employees at still another top producing loan office were "manufacturing" false documentation to support loan applications. A September 2008 internal review found that loans marked as containing fraudulent information had nevertheless been securitized and sold to investors, identifying ineffective controls that had "existed for some time."

Compensation. The Long Beach and Washington Mutual compensation systems contributed to these problems by creating misplaced incentives that encouraged high volumes of

risky loans but little or no incentives to ensure high quality loans that complied with the bank's credit requirements. Long Beach and Washington Mutual loan officers, for example, received more money per loan for originating higher risk loans and for exceeding established loan targets. Loan processing personnel were compensated according to the speed and number of the loans they processed. Loan officers and their sales associates received still more compensation if they charged borrowers higher interest rates or points than required in bank rate sheets specifying loan prices, or included prepayment penalties in the loan agreements. That added compensation created incentives to increase loan profitability, but not loan quality.

A second problem related to compensation was the millions of dollars paid to Washington Mutual senior executives even as their higher risk lending strategy began to lose money and increase the risk in the bank's own investment portfolio. Washington Mutual's chief executive officer, Kerry Killinger, for example, received each year a base salary of \$1 million, cash bonuses, stock options, and multiple stock awards. He also received benefits from four pension plans, a deferred bonus plan, and a separate deferred compensation plan. In 2008 alone, the year he was asked to leave the bank, he received \$21 million, including a \$15 million severance payment. Altogether, from 2003 to 2008, Washington Mutual paid Mr. Killinger nearly \$100 million, on top of multi-million-dollar corporate retirement benefits.

Failure of Washington Mutual. In July 2007, after the Bear Stearns hedge funds collapsed and the rating agencies downgraded hundreds of mortgaged backed securities, including over 40 Long Beach securities, the secondary market for subprime loans dried up. By September 2007, Washington Mutual had discontinued its subprime lending. It also became increasingly difficult for Washington Mutual to sell its high risk loans and related mortgage backed securities, including its Option ARMs. By the end of the year, Washington Mutual began to incur significant losses, reporting a \$1 billion loss in the fourth quarter of 2007, and another \$1 billion loss in the first quarter of 2008.

In February 2008, based upon increasing deterioration in the bank's asset quality, earnings, and liquidity, OTS lowered the bank's safety and soundness rating to a 3 on a scale of 1 to 5, signaling that it was a troubled institution. In April, the bank closed multiple offices, firing thousands of employees. That same month, Washington Mutual's parent holding company raised \$7 billion in new capital, providing \$3 billion of those funds to the bank.

In July 2008, a \$30 billion mortgage lender, IndyMac, failed and was placed into receivership by the government. In response, depositors became concerned about Washington Mutual and withdrew over \$9 billion in deposits, putting pressure on the bank's liquidity. After the bank disclosed a \$3.2 billion loss for the second quarter, its stock price continued to drop, and more deposits left.

On September 15, 2008, Lehman Brothers declared bankruptcy. Three days later, on September 18, OTS and the FDIC lowered Washington Mutual's rating to a "4," indicating that a bank failure was a distinct possibility. The credit rating agencies also downgraded the bank's credit ratings. Over the span of eight days starting on September 15th, nearly \$17 billion in deposits left the bank. At that time, the federal Deposit Insurance Fund contained about \$45 billion, an amount which could have been exhausted by the failure of a \$300 billion institution like Washington Mutual. As the financial crisis worsened each day, regulatory concerns about the bank's liquidity and viability intensified.

On September 25, 2008, OTS placed Washington Mutual Bank into receivership, and the FDIC facilitated its immediate sale to JPMorgan Chase for \$1.9 billion. The sale eliminated the need to draw upon the federal Deposit Insurance Fund.

Findings. Washington Mutual was not the only mortgage lender to fail during the financial crisis. Nor was its high risk lending practices unusual. To the contrary, the Subcommittee investigation indicates that Washington Mutual was emblematic of practices at a number of financial institutions that originated, sold, and securitized high risk home loans from 2004 to 2008. Based upon the Subcommittee's investigation to date, we make the following findings of fact related to Washington Mutual Bank and its parent holding company, Washington Mutual Inc.

- (1) **High Risk Lending Strategy.** Washington Mutual ("WaMu") executives embarked upon a high risk lending strategy and increased sales of high risk home loans to Wall Street, because they projected that high risk home loans, which generally charged higher rates of interest, would be more profitable for the bank than low risk home loans.
- (2) **Shoddy Lending Practices.** WaMu and its affiliate, Long Beach Mortgage Company ("Long Beach"), used shoddy lending practices riddled with credit, compliance, and operational deficiencies to make tens of thousands of high risk home loans that too often contained excessive risk, fraudulent information, or errors.
- (3) **Steering Borrowers to High Risk Loans.** WaMu and Long Beach too often steered borrowers into home loans they could not afford, allowing and encouraging them to make low initial payments that would be followed by much higher payments, and presumed that rising home prices would enable those borrowers to refinance their loans or sell their homes before the payments shot up.
- (4) **Polluting the Financial System.** WaMu and Long Beach securitized over \$77 billion in subprime home loans and billions more in other high risk home loans, used Wall Street firms to sell the securities to investors worldwide, and polluted the financial system with mortgage backed securities which later incurred high rates of delinquency and loss.
- (5) **Securitizing Delinquency-Prone and Fraudulent Loans.** At times, WaMu selected and securitized loans that it had identified as likely to go delinquent, without disclosing its analysis to investors who bought the securities, and also securitized loans tainted by fraudulent information, without notifying purchasers of the fraud that was discovered.
- (6) **Destructive Compensation.** WaMu's compensation system rewarded loan officers and loan processors for originating large volumes of high risk loans, paid extra to loan officers who overcharged borrowers or added stiff prepayment penalties, and gave executives millions of dollars even when its high risk lending strategy placed the bank in financial jeopardy.

###

Washington Mutual Practices That Created A Mortgage Time Bomb

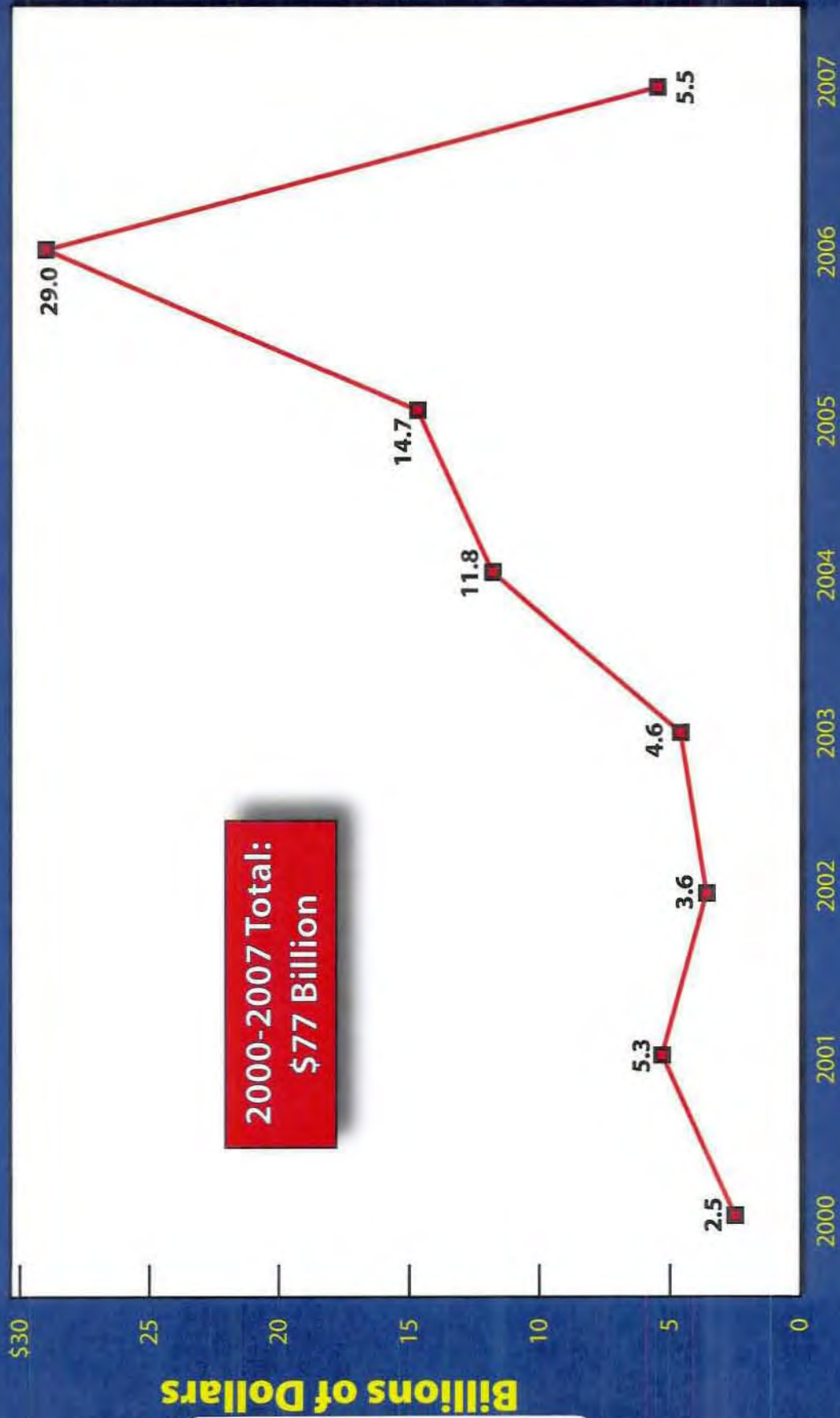
- Targeting Higher Risk Borrowers
- Steering Borrowers to Higher Risk Home Loans
- Increasing Sales of High Risk Home Loans to Wall Street
- Offering Teaser Rates
- Offering Interest Only and “Pick a Payment” Loans
- Offering Negative Amortizing Loans
- Not Verifying Income (Accepting Stated Income or “Liar” Loans)
- Requiring Low or No Documentation
- Qualifying Borrowers By Ability to Make Initial Low Payments
- Ignoring Signs of Fraudulent Borrower Information
- Presuming Rising Home Prices When Approving Loans
- Making Loans That Are Dependent on Refinancing to Work
- Using Lax Controls over Loan Approvals
- Offering Higher Pay for Making Higher Risk Home Loans
- Offering Higher Pay for Charging Excess Interest Rates or Points
- Rewarding Employees for Loan Volume over Loan Quality
- Securitizing Home Loans Identified as Likely to Fail
- Securitizing Home Loans Identified as Fraudulent

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

Permanent Subcommittee on Investigations

EXHIBIT #1b

Securitizations of Washington Mutual and Long Beach Subprime Home Loans



**Excerpts from Documents Related to
Washington Mutual's Subprime Lender:
Long Beach Mortgage Corporation ("LBMC")
Lending and Securitization Deficiencies**

"An internal residential quality assurance (RQA) report for LBMC's first quarter 2003 ... concluded that 40% (109 of 271) of loans reviewed were considered unacceptable due to one or more critical errors. This raised concerns over LBMC's ability to meet the representations and warranty's made to facilitate sales of loan securitizations, and management halted securitization activity. A separate credit review report ... disclosed that LBMC's credit management and portfolio oversight practices were unsatisfactory. ... Approximately 4,000 of the 13,000 loans in the warehouse had been reviewed ... of these, approximately 950 were deemed saleable, 800 were deemed unsaleable, and the remainder contained deficiencies requiring remediation prior to sale. ... [O]f 4,500 securitized loans eligible for foreclosure, 10% could not be foreclosed due to documentation issues.

--FDIC-Washington State joint visitation report, 1/13/04, FDIC-EM_00102515, Exhibit 8(b)

"[Securitizations] prior to 2003 have horrible performance. LBMC finished in the top 12 worst annualized [net credit losses] in 1997 and 1999 thru 2003. ... At 2/05, LMBC was #1 with a 12% delinquency rate. Industry was around 8.25%."

--OTS email, 4/14/05, OTSWME05-0120000806, Exhibit 8(a)

"In 24 of 27 (88%) of the refinance transactions reviewed, policies established to preclude origination of loans providing no net tangible benefit to the borrower were not followed."

--WaMu audit of Long Beach, 9/21/2005, JPM_WM04656627

"LBMC experienced a dramatic increase in [Early Payment Defaults] during the third quarter of 2005. ... [R]elaxed credit guidelines, breakdowns in manual underwriting processes, and inexperienced subprime personnel ... coupled with a push to increase loan volume and the lack of an automated fraud monitoring tool, exacerbated the deterioration in loan quality."

--Wamu audit of Long Beach, 4/17/06, JPM_WM02533760-61, Exhibit 10

"[D]elinquencies are up 140% and foreclosures close to 70%. ... It is ugly."

--Steve Rotella email, 4/27/06, JPM_WM05380911, Exhibit 11

"LBMC is terrible.... Repurchases, [Early Payment Defaults], manual underwriting, very weak servicing/collections practices and a weak staff."

--Steve Rotella email, 9/14/06, JPM_WM00810317, Exhibit 12

"LBMC paper is among the worst performing paper in the mkt [sic] in 2006."

--David Beck email, 11/7/06, JPM_WM03871491, Exhibit 50

“Short story is this is not good. ... [L]arge potential risk from what appears to be a recent increase in repurchase requests. ... We are all rapidly losing credibility as a management team.”
 --David Schneider email, 12/22/06, JPM_WM03100333, Exhibit 13(a)

“Long Beach represents a real problem for WaMu. ... Appraisal deficiencies Material misrepresentations Legal documents were missing or contained errors or discrepancies ... Credit evaluation or loan decision errors ... [D]eterioration was accelerating in recent vintages with each vintage since 2002 having performed worse than the prior vintage.”
 --Ron Cathcart and Cynthia Abercrombie emails, Jan. 2007 & Dec. 2006, JPM_WM025556, Exhibit 16

“Washington Mutual Inc.’s subprime bonds are suffering from some of the worst rates of delinquency among securities in benchmark indexes, according to JPMorgan Chase & Co. research. ... Delinquencies of 60 days or more on loans supporting WaMu’s Long Beach LBMLT 2006-1 issue jumped ... to 19.44 percent ... the highest among the 20 bonds in the widely watched ABX-HE 06-2 index of bonds backed by residential loans to risky borrowers.”
 --“WaMu subprime ABS delinquencies top ABX components,” Reuters, 3/27/07, Exhibit 52

“[T]he overall system of risk management and internal controls has deficiencies related to multiple critical origination and underwriting processes These deficiencies require immediate effective corrective action to limit continued exposure to losses.”
 --Wamu audit of Long Beach, 8/20/07, JPM_WM02548940, Exhibit 19

“This [2007 audit report of Long Beach] seems to me to be the ultimate in bayonetting the wounded, if not the dead.”
 --Steve Rotella email, 8/21/07, JPM_WM04859837, Exhibit 20

“132 of the 187 (71%) files were reviewed ... confirmed fraud on 115 [and 17 were] ... ‘highly suspect’. ... 80 of the 112 (71%) stated income loans were identified for lack of reasonableness of income[.] 133 (71%) had credit evaluation or loan decision errors 58 (31%) had appraisal discrepancies or issues that raised concerns.”
 --Wamu Corporate Credit Review of Long Beach, 9/28/07, JPM_WM04013925, Exhibit 21

Excerpts from Documents Related to Washington Mutual's Prime Home Loan Lending and Securitization Deficiencies

“Craig [Chapman, Wamu executive,] has been going around the country visiting home lending and fulfillment offices. His view is that band-aids have been used to address past issues and that there is a fundamental absence of process.”

--OTS internal email, 8/13/04, Franklin_Benjamin-00003956_001

“[A]mong the referred cases there is an extremely high incidence of confirmed fraud (58% for [Downey office], 83% for [Montebello office]).”

--Wamu internal email, 8/30/05, JPM_WM04026075, Exhibit 23

“Fraud Loan Samples[:] Loan #0694256827 Misrepresentation [of] the borrower's identification and qualifying information were confirmed in every aspect of this file, including: - Income – SSN – Assets – Alternative credit reference letters – Possible Strawbuyer or Fictitious borrower[.] The credit package was found to be completely fabricated. Throughout the process, red flags were over-looked, process requirements were waived, and exceptions to policy were granted.”

--Retail Fraud Risk Overview, 11/16/05, JPM_WM02481943, Exhibit 22(b)

“[A]n extensive level of loan fraud exists in the Emerging Markets [loan processing centers in southern California], virtually all of it stemming from employees in these areas circumventing bank policy surrounding loan verification and review. Of the 129 detailed loan review[s] ... conducted to date, 42% of the loans reviewed contained suspect activity or fraud, virtually all of it attributable to some sort of employee malfeasance or failure to execute company policy. ... Based on the consistent and pervasive pattern of activity amount these employees, we are recommending firm action be taken to address these particular willful behaviors on the part of the employees named.”

--Wamu So. CA Emerging Markets Targeted Loan Review Results, 11/17/2005, JPM_WM01083051, Exhibit 22(a)

“[D]elinquency behavior was flagged in October [2006] for further review and analysis The primary factors contributing to increased delinquency appear to be caused by process issues including the sale and securitization of delinquent loans, loans not underwritten to standards, lower credit quality loans and seller servicers reporting false delinquent payment status.”

--WaMu Market Risk Committee Minutes, 12/12/06, JPM_WM02095545, Exhibit 28

“Our appetite for credit risk was invigorated with the expansion of credit guidelines for various product segments including the 620 to 680 FICO, low doc loans, and also for home equity. ... In 2007, we must find new ways to grow our revenue. Home Loans Risk Management has an important role to play in that effort.”

--Home Loans Chief Risk Officer's message to risk management team, 12/26/06, JPM_WM02555659, Exhibit 73

“I said the other day that HLs [Home Loans] (the original prime only) was the worst managed business I had seen in my career. (That is, until we got below the hood of Long [B]each.)”

--Steve Rotella email, 8/23/07, JPM_WM00675851, Exhibit 79

“One Sales Associate admitted that during that crunch time some of the Associates would ‘manufacture’ asset statements ... and submit them to the [loan processing center]. She said the pressure was tremendous ... since the loan had already [been] funded and pressure from the Loan Consultants to get the loans funded.”

--Significant Incident Notification re Westlake Village Home Loan Center, 4/1/08, JPM_WM05452386, Exhibit 30

“Risk Mitigation reviewed 25 HELOC [Home Equity Lines of Credit] loans originated between 2/6/08 and 4/19/08 ... with a total exposure of \$8,538,600.00. The review found that the borrowers indicated they owned the property free and clear when in fact existing liens were noted on the properties. The properties are located in California, Arizona and Washington. ... WaMu used ... Abbreviated Title reports [that] ... do not provide existing lien information on the subject property.”

--Significant Incident Notification re HELOC Fraud, 5/1/08, JPM_WM05452389, Exhibit 32(b)

“[A] third party mortgage insurer, notified WaMu of fraud concerns in June 2007. Resolution of this complaint was not completed WaMu Legal and [Home Loan] senior management had no method of knowing the existence of this complaint or its resolution status. ... [F]or the September and October 2007 sampled time period, the volume of misrepresentation and suspected loan fraud continued to be high for [Montebello, a southern California loan processing center](62% of the sampled loans). ... Loan Producers were compensated for volume of loans closed and Loan Processors were compensated for speed of loan closing rather than a more balanced scorecard of timeliness and loan quality. ... Risk Mitigation conducted loan reviews on loans produced from September 9, 2003 to August 8, 2005 and found excessive levels of fraud related to loan qualifying data particularly in the retail broker loans (78%). ... Outside of training sessions ... in late 2005, there was little evidence that any of the recommended strategies were followed or that recommendations were operationalized. There were no targeted reviews conducted ... on the Downey or Montebello loan portfolios between 2005 and the actions taken in December 2007.”

--WaMu internal memorandum, 4/4/08, pages 1-2, 6-7, 9, Exhibit 24

“The controls that are intended to prevent the sale of loans that have been confirmed ... to contain misrepresentations or fraud are not currently effective. There is not a systematic process to prevent a loan ... confirmed to contain suspicious activity from being sold to an investor. ... Of the 25 loans tested, 11 reflected a sale date after the completion of the investigation which confirmed fraud. There is evidence that this control weakness has existed for some time.”

--WaMu internal Corporate Credit Review, 9/8/08, JPM_WM00312502, Exhibit 35

Excerpts from Documents Related to Washington Mutual Compensation and Incentives

“To those of you who have not yet reached President’s Club, I want each and every one of you to believe you have the potential to achieve this great reward. Now is the time to really kick it into high gear and drive for attending this awesome event! Rankings are updated and posted monthly I’m especially pleased with your ability to change with the market and responsibly sell more higher-margin product – Option ARM, Home Equity, Non-prime, and Alt A.”

--WaMu internal document to Home Loans sales force, Nov. 2006, JPM_WM03077124, Exhibit 62

“Incentive Tiers reward high margin products ... such as the Option ARM, Non-Prime referrals and Home Equity Loans Wamu also provides a 15 bps ‘kicker’ for selling 3 year prepayment penalties.”

--WaMu Retail Loan Consultant 2007 Incentive Plan, undated, JPM_WM03097217, Exhibit 60(a)

“Overages ... [give a] Loan Consultant [the] [a]bility to increase compensation [and] [e]nhance compensation/incentive for Sales Management Major national competitors have a similar plan in place in the market. ”

--WaMu proposal, adopted in 2007, to pay overages – added compensation to loan officers who sell loans with a higher interest rate or points than required on WaMu’s daily rate sheet, undated, JPM_WM02583396, 98, Exhibit 60(b)

“[W]e have to convince our folks that they will all make a lot of money by being with WaMu.”

--Kerry Killinger email, 1/3/08, JPM_WM01335818, Exhibit 65

“The board of Washington Mutual Inc. has set compensation targets for top executives that will exclude some costs tied to mortgage losses and foreclosures when cash bonuses are calculated this year.”

--“WaMu Board Shields Executives’ Bonuses,” Wall Street Journal, 3/5/08, Exhibit 67

“Loan Producers were compensated for volume of loans closed and Loan Processors were compensated for speed of loan closing rather than a more balanced scorecard of timeliness and loan quality. ... A design weakness here is that the loan consultants are allowed to communicate minimal loan requirements and obtain various verification documents from the borrower that [are] need[ed] to prove income, employment and assets. Since the loan consultant is also more intimately familiar with our documentation requirements and approval criteria, the temptation to advise the borrower on means and methods to game the system may occur. Our compensation and reward structure is heavily tilted for these employees toward production of closed loans.”

--WaMu internal memorandum, 4/4/08, page 11, Exhibit 24

“[T]he review defines an origination culture focused more heavily on production volume rather than quality. An example of this was a finding that production personnel were allowed to participate in aspects of the income, employment, or asset verification process, a clear conflict of interest. ... Prior OTS examinations have raised similar issues including the need to implement incentive compensation programs to place greater emphasis on loan quality.”

--OTS Memo No. 22, Loan Fraud Investigation, 6/19/08, JPM_WM02448184, Exhibit 25

“Chief Risk Officer – Home Loans ... Employee Goals ... GROWTH 35% ... Achieve Net Income - \$340 MM for 2007 ... Subprime -\$32B ... Option ARM - \$33B ... RISK MANAGEMENT 25%”

--Performance Review Form for Chief Risk Officer, undated, JPM_WM01365325, Exhibit 64

“We would disclose the exclusion of [Executive Committee] members from the bonus plan. There would be no disclosure of the retention cash payments. Option grants would be held off until whenever other comp. actions were done.

--Kerry Killinger email, 7/16/08, JPM_WM01240144, Exhibit 66

“Creditors in Washington Mutual Inc.’s bankruptcy could go after a \$16.5 million cash severance payment promised to ousted CEO Kerry Killinger ... [and] a \$7.5 million signing bonus for his successor, Alan Fishman, who ran the bank for 18 days before it failed.”

--“WaMu creditors could challenge payments to Killinger, others,” Seattle Times, 10/1/08, Exhibit 68

SELECT DELINQUENCY AND LOSS DATA FOR WASHINGTON MUTUAL SECURITIZATIONS

AS OF FEBRUARY 2010

Securitization Series	Loan Type	Delinquent	Foreclosure	REO	Total Loan Delinquency Rate	Total Loss Since Issuance
LBMLT 2006-WL1	Subprime	38.09%	14.09%	4.47%	56.65%	18.97%
WAMU 2007-HE1	Subprime	37.39%	12.26%	5.30%	54.95%	19.77%
WAMU 2007-HE2	Subprime	12.88%	11.14%	6.14%	30.16%	18.48%
WAMU 2007-HE3	Subprime	42.17%	11.39%	3.85%	57.41%	14.95%
LBMLT 2006-A	Subprime/2nd Lien	39.64%	.17%	0%	39.81%	65.61%
WAMU 2007-OA6	Option ARM	19.32%	24.9%	4.37%	48.59%	5.85%
WMALT 2007-OA3	Option ARM	23.66%	25.45%	5.74%	54.85%	7.99%
WMALT 2007-OC1	Hybrid ARM	25.48%	31.64%	6.94%	64.06%	17.58%

Source: www.wamusecurities.com

Delinquent – Percentage of outstanding loans (by dollar amount) that have missed payments but are not yet in default

Foreclosure - Percentage of outstanding loans (by dollar amount) that are in foreclosure

REO – Percentage of outstanding loans (by dollar amount) that have completed foreclosure, resulting in bank-owned real estate

Total Loan Delinquency Rate – Total calculated by adding the Delinquent, Foreclosure and REO columns

Loss Since Issuance – Cumulative percentage loss relative to initial principal balance of the securities

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

**WASHINGTON MUTUAL CEO KERRY KILLINGER:
\$100 MILLION IN COMPENSATION, 2003-2008**

	Salary	Cash Bonus	Dollar Value of Stock Awards	Dollar Value of Stock Option Awards	Gain from Exercising Stock Options	Other**	401(k) Pension Benefits	SERP Pension Benefits	SERAP Pension Benefits	ETRIP Pension Benefits	Deferred Bonus Plan	Deferred Compensation Plan	Total Compensation +
2003	\$1 million	\$2.9 million	\$5.3 million	760,000 options: \$19-\$48 million value	108,000 stock options exercised: \$2.7 million value	\$76,000	\$11,200	\$333,241	\$481,079	Not in effect	Not reported	Not reported	\$11.9 million
2004	\$1 million	\$1.9 million	\$8.9 million	0	105,150 stock options exercised: \$3.4 million value	\$105,500	\$8,200	\$306,693	\$2.3 million lump sum value	\$854,000 lump sum value	\$260,978 in accrued benefits	\$14.6 million total value	\$15.3 million
2005	\$1 million	\$3.5 million	\$8.7 million	268,000 options: \$7-\$18 million value	168,000 stock options exercised: \$5.4 million value	\$119,000	\$8,400	\$222,573 (\$2.7 million lump sum value)	\$2.5 million lump sum value	\$2.1 million lump sum value	\$285,661 in accrued benefits	\$20.8 million total value	\$18.7 million
2006	\$1 million	\$4.1 million	\$8.7 million	458,900 options: \$3.9 million value	216,893 stock options exercised: \$7.2 million value	\$154,772	\$10,000	\$346,800 (\$3.1 million lump sum value)	\$2.6 million lump sum value	\$3.9 million lump sum value	\$336,304 in accrued benefits	\$22.6 million total value	\$21.1 million
2007	\$1 million	0	\$10.1 million	355,800 options: \$3.1 million value	0	0	\$9,000	\$387,920 (\$3.7 million lump sum value)	\$2.8 million lump sum value	\$4.1 million lump sum value	\$352,170 in accrued benefits	\$8 million total value	\$11.1 million
2008	\$686,000	0	\$1.7 million	3.2 million options expiring in 2015: no value given	Stock option deferred gain: \$365,000 value	\$15.3 million; \$445,200; \$300,669	\$148,000	\$3.8 million lump sum payment	\$2.9 million lump sum value	Not reported	Not reported	\$2.6 million distribution	\$25.1 million

Grand Total: \$103.2 million

Source: Washington Mutual Proxy Statements, Schedule 14A, 2004-2008; 2008 compensation data from Washington Mutual Inc., which Mr. Killinger left in Sept. 2008.

Dollar value of stock awards, stock option awards, stock option gains, pension benefits, and deferred compensation taken from proxy statements.

** Amounts taken from proxy statements, and include compensation for financial and tax planning, car and parking expenses, corporate jet travel, tax gross-up expenses.

In 2008, includes \$15.3 million severance payment; \$445,200 lump sum payment for vacation benefits; and \$300,669 "special payment."

+ Totals include salary, bonus, stock awards value, stock option gains, other compensation. In 2008, also includes SERP and deferred compensation distributions.

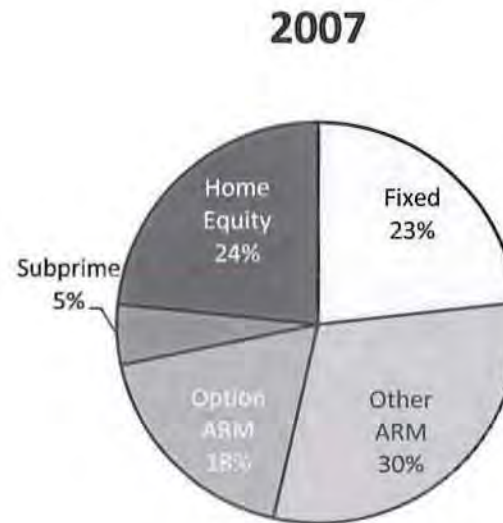
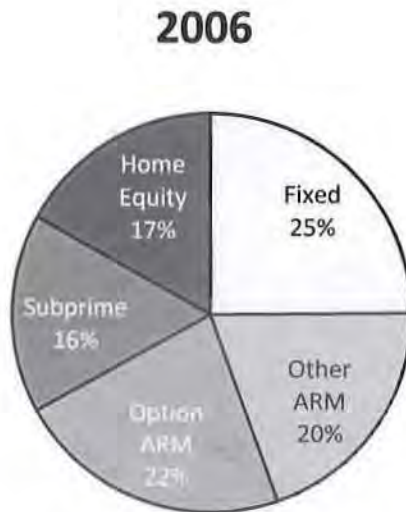
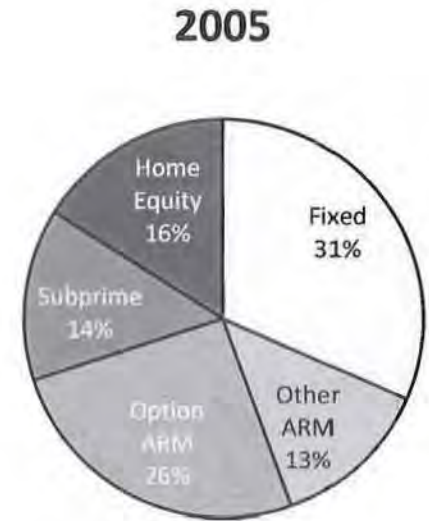
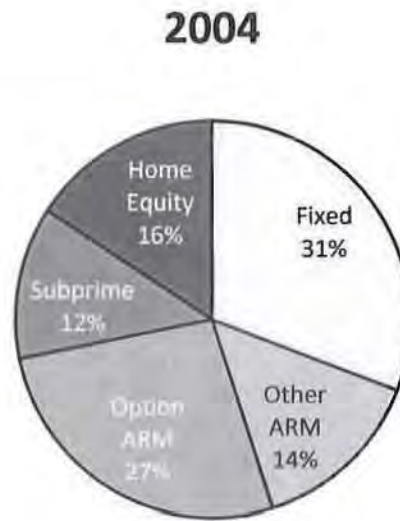
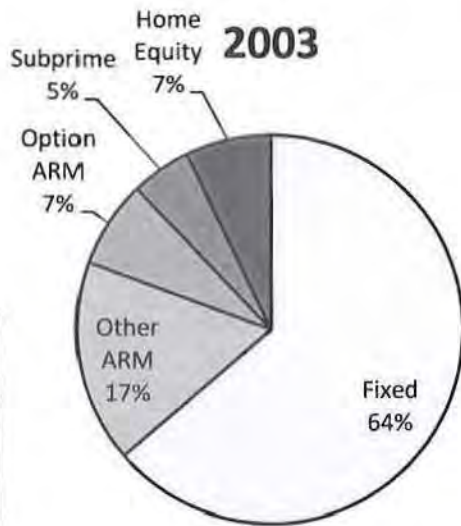
Totals do not include value of stock option awards, pension benefits, or deferred compensation or deferred bonus plans.

SERP: Supplemental Executive Retirement Plan; SERAP: Supplemental Executive Retirement Accumulation Plan; ETRIP: Executive Target Retirement Income Plan.

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

WAMU PRODUCT ORIGINATIONS AND PURCHASES BY PERCENTAGE - 2003-2007

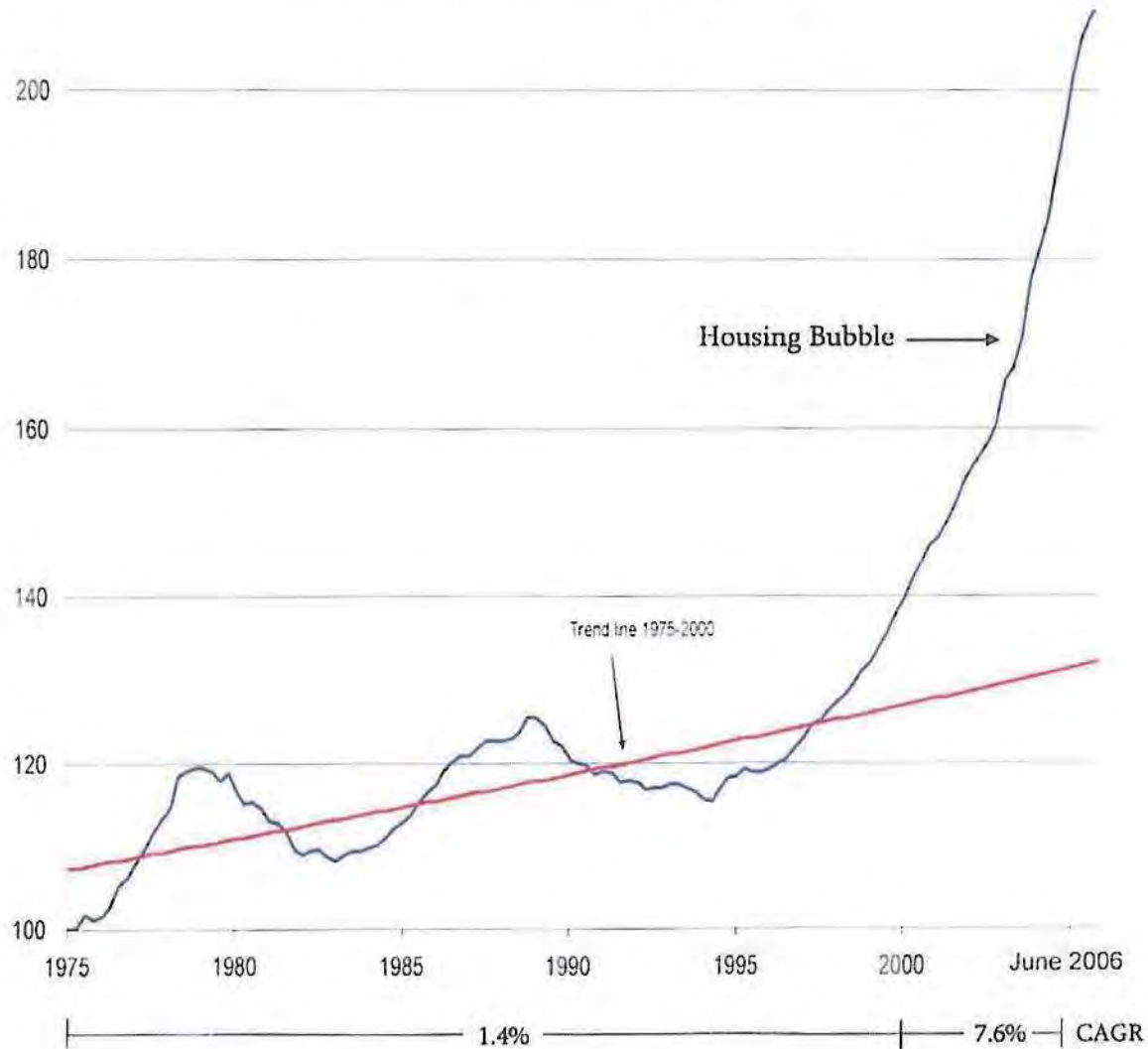
Permanent Subcommittee on Investigations
EXHIBIT #11



Source: Washington Mutual Inc. SEC Filings, 2003-2007. Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

ESTIMATION OF HOUSING BUBBLE: Comparison of Recent Appreciation vs. Historical Trends

Real Home Price Index (1975 = 100)



Permanent Subcommittee on Investigations
EXHIBIT #1j

Source: Office of Federal Housing Enterprise Oversight, Bureau of Economic Analysis

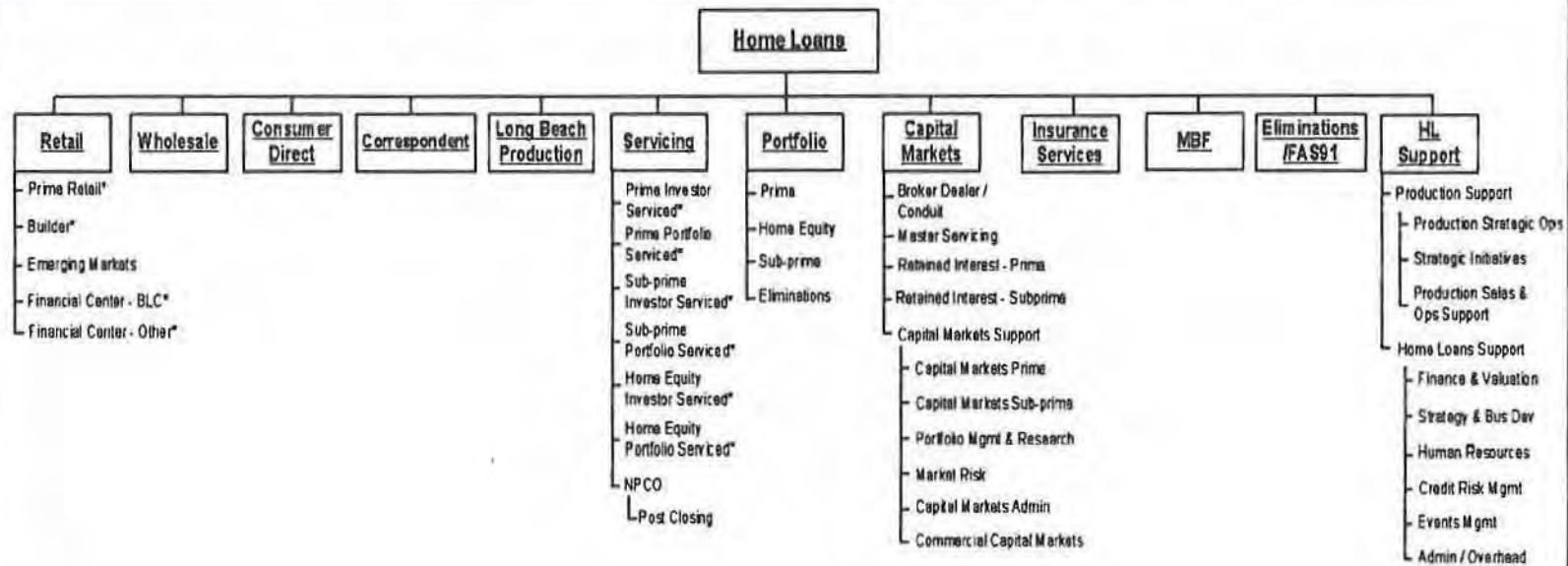
All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. This material may not be distributed to other than the intended recipient. Unauthorized reproduction or distribution of all or any of this material is strictly prohibited.

PAULSON
& CO.
INC.

PSI-Paulson&Co-02-00003

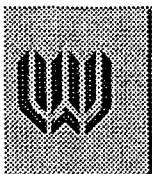


Org Profitability: Future State Hierarchy



Permanent Subcommittee on Investigations
EXHIBIT #1k

* Likely not completed until Phase II
Confidential - Internal Use Only



Washington Mutual

Higher Risk Lending Strategy

“Asset Allocation Initiative”

Board of Directors
Finance Committee Discussion

January, 2005

-CONFIDENTIAL, INTERNAL USE ONLY-

JPM_WM00302975

Permanent Subcommittee on Investigations

EXHIBIT #2a

Table of Contents

	<u>Page</u>
▪ Overview	B1.2
▪ Regulatory Requirements	B1.3
▪ Definition of "Higher Risk Lending"	B1.4
▪ Exposure in Higher Risk Lending	B1.5
▪ Existing Credit Objectives	B1.6
▪ Net Charge-Off Objectives	B1.7
▪ Expected Loss Rates	B1.8
▪ Immediate Impact of 2005 Plan on Credit KPI's	B1.9
▪ Longer-Term Impact – NPA ratio	B1.10
▪ Longer-Term Impact – Projected Net Charge-Offs and Variability Range	B1.11
▪ Lags in Effects of Expansion	B1.12
▪ Capital related Considerations	B1.13
▪ Capital Concentration Limit – Staged Check Points	B1.14
▪ Higher Risk Lending Allocation Mechanism	B1.15
▪ Proposed Concentration Limits	B1.16
▪ Governance and Infrastructure Requirements	B1.17
▪ Next Steps	B1.18



- In order to generate more sustainable, consistent, higher margins within Washington Mutual, the **2005 Strategic Plan** calls for a shift in our mix of business, increasing our Credit Risk tolerance while continuing to mitigate our Market and Operational Risk positions.
- The Corporate Credit Risk Management Department has been tasked, in conjunction with the Business Units, to develop a framework for the execution of this strategy. Our numerous activities included:
 - Selecting best available credit loss models
 - Developing analytical framework foundation
 - Identifying key strategy components per Regulatory Guidance documents
- A strong governance process will be important as peak loss rates associated with this higher risk lending strategy will occur with a several year lag and correlation between high risk loan products is important. For these reasons, the Credit Department will pro-actively review and manage the implementation of the Strategic Plan and provide quarterly feedback and recommendations to the Executive Committee and timely reporting to the Board.



Regulatory Requirements

- As we implement our Strategic Plan we need to address OTS/FDIC 2004 Safety and Soundness Exam Joint Memos 8 & 9.
- These inter-related memos recommended, and we agreed to:

Joint Memo 8:

- Adopt a definition of "Higher Risk Loans"
- Monitor, measure and report on these by Legal Entity and Business
- Establish Board-approved "Higher Risk" portfolio concentration limits as a % of Capital

Joint Memo 9:

- Develop and present a Sub Prime/Higher Risk Lending Strategy to the Board



Washington Mutual

Definition of Higher Risk Lending

- For the purpose of establishing concentration limits, Higher Risk Lending strategies will be implemented in a “phased” approach. Later in 2005 an expanded definition of Higher Risk Lending--encapsulating multiple risk layering and expanded underwriting criteria--and its corresponding concentration limit--will be presented for Board approval.
- The initial definition is “Consumer Loans to Higher Risk Borrowers”, which at 11/30/04 totaled \$32 Billion or 151% of total risk-based capital,* comprised of:
 - Subprime loans, or all loans originated by Long Beach Mortgage or purchased through our Specialty Mortgage Finance program.
 - SFR and Consumer Loans to Borrowers with low credit scores at origination.**

* Total risk-based capital is defined as Tier I and Tier II regulatory capital or total WMI equity, less goodwill, plus loan loss reserves and qualifying subordinated debt. Total risk-based capital was \$21.1 billion as of 9/30/04.

** In the case of 1st lien Single-family Residential (SFR), Home Equity Loans (HEL), or Home Equity Line of Credit (HELOC) these are defined as loans to borrowers with credit scores less than 620 on the FICO scale. In the case of HEL/HELOCs in 2nd lien position and other Consumer loans these are defined as loans to borrowers with credit scores less than 660 on the FICO scale.

B1.4



Washington Mutual

Exposure in Higher Risk Lending

	\$ in Billions	
	Nov <u>2004</u>	2005 <u>Plan</u>
Total Consumer Loans to Higher Risk Borrowers	32.0	44.5
 <u>Subprime Loans</u>	 17.0	 28.3
<input type="checkbox"/> Specialty Mortgage Finance	16.9	23.3
<input type="checkbox"/> Long Beach Mortgage	0.1	5.0
 <u>Loans to borrowers with low credit scores at origination</u>	 15.0	 16.2
<input type="checkbox"/> Single-family Residential	13.2	13.9
<input type="checkbox"/> HEL/HELOC	1.4	1.8
<input type="checkbox"/> Other	0.4	0.5

Consumer Loans to Higher Risk Borrowers represent 151% of Capital available for risk-based purposes (\$21.1 billion) as of 9/30/04, and for year-end 2005 Plan are projected to represent 197% of risk-based Capital (\$22.5 billion).

B1.5

Existing Credit Objectives

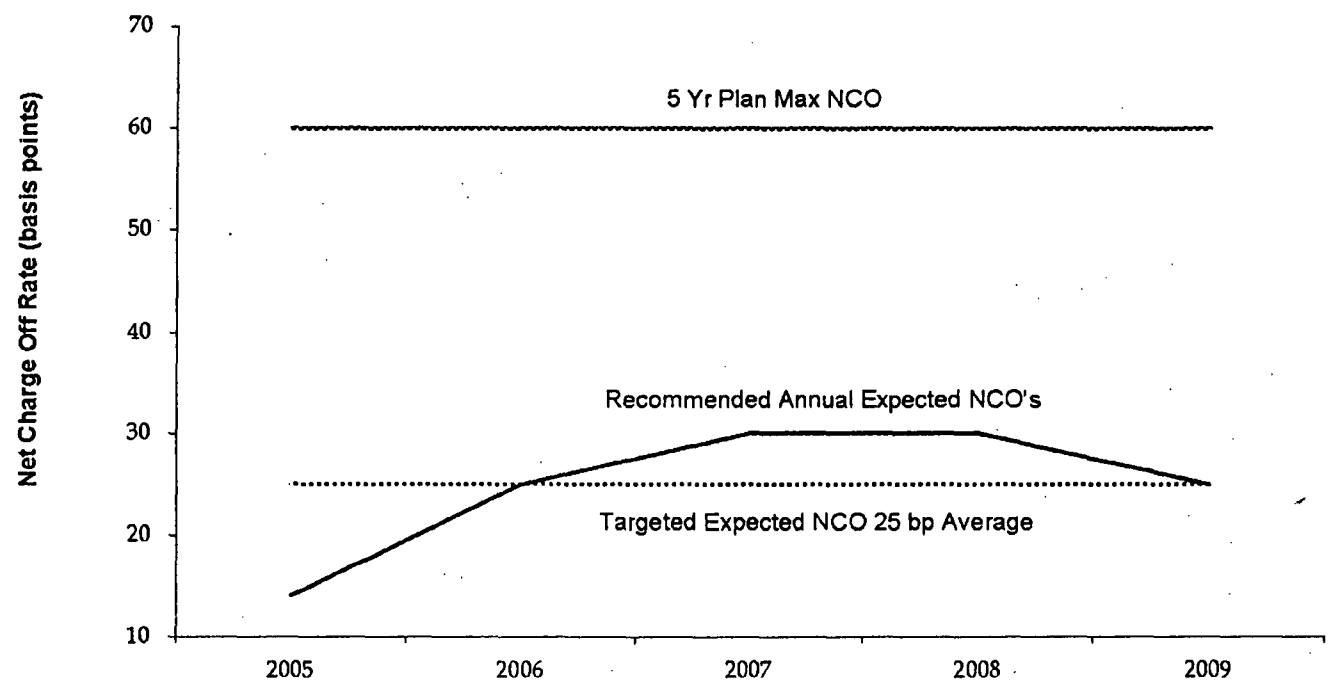
Existing Credit Key Performance Indicators (KPI's):

- Non-performing assets to total assets below 1 percent over the cycle.
- The recent Strategic Plan introduced net charge-off (NCO) objectives, as follows:
 - target of 25 basis points expected NCO rate on average over the five year planning horizon,
 - capping the modeled volatility of the NCO rate to a maximum unexpected loss realization of no more than two times the target (but not to exceed 60 bps) in any single year of the planning horizon

B1.6

Net Charge-Off Objectives

We recommend annual expected NCO rates that drop to at least the average by the end of that five year horizon.



B1.7



Expected Loss Rates

	2005 <u>Plan</u>
Weighted average expected loss rate for consumer loans to higher risk borrowers	3.5% *

Subprime Loans

- | | |
|---|------|
| <input type="checkbox"/> Specialty Mortgage Finance | 3.3% |
| <input type="checkbox"/> Long Beach Mortgage | 3.8% |

Loans to borrowers with low credit scores at origination

- | | |
|--|------|
| <input type="checkbox"/> Single-family Residential | 0.9% |
| <input type="checkbox"/> HEL/HELOC ** | 6.7% |

* Lifetime (10 year) cumulative net charge-off rates as a percentage of original balance.

** 2nd liens make up more than 95% of this population.

Immediate Impact of 2005 Plan on Credit KPI's

With the implementation of the 2005 Plan, the following highlights the first year impact on the Credit KPI's:

- ✓ NPA's remain below 1.00% of total assets at year-end 2005 (even without additional NPL sales)
- ✓ Over the course of 2005 NCO's remain below 25 bps of total held for investment loans *
- ✓ At modeled volatility, 2005 results show a maximum unexpected NCO rate well below the Five Year Plan maximum of 60 bps

Other considerations such as timing, lag effects of loss, and volatility concepts are illustrated on the next few slides.

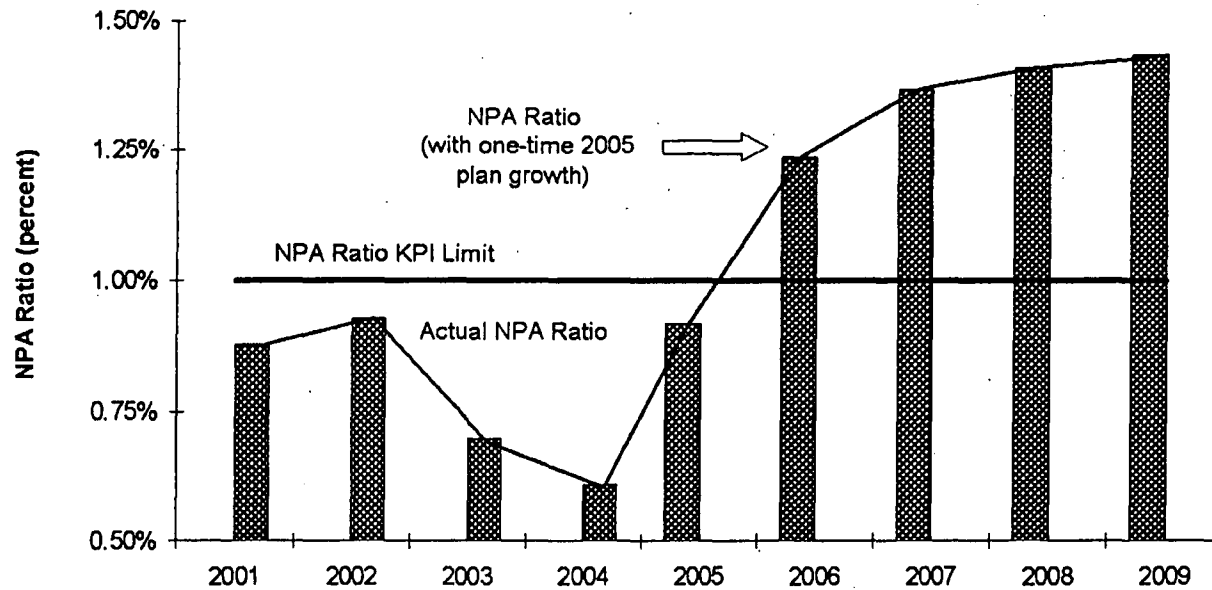
* We project NCO's will range between 10 bps - 15 bps, depending on loan sale activity.



Washington Mutual

Longer-Term Impact – NPA ratio

Implementing the 2005 Higher Risk Lending (HRL) Strategic Plan-- with no further HRL growth subsequent to 2005-- results in NPAs piercing our NPA target limit of 1% in 2006 and beyond (absent any non performing loan sales).



B1.10

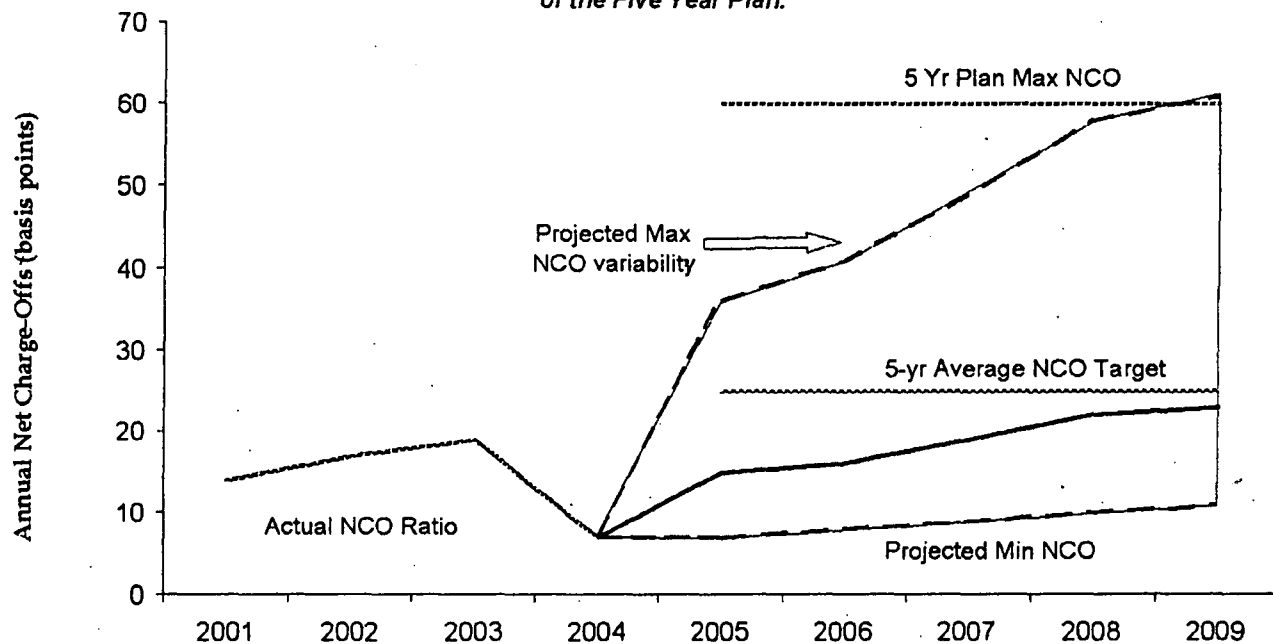
JPM_WM00302985



Washington Mutual

Longer-Term Impact – Projected Net Charge-Off and Variability Range

With either one-time 2005 HRL Plan growth or continued HRL growth through 2009, expected net charge-offs approach our goal of having NCOs average 25 bps annually over the Five Year Strategic Plan timeframe. Unexpected net charge-offs, however, will need to be mitigated in the last several years of the Five Year Plan.



B1.11



Washington Mutual

Lags in Effects of Expansion

The *illustration* below shows the lagged effect of losses on a Higher Risk Lending Portfolio. Our modeling indicates that credit-related losses from a newly originated HRL portfolio (one-time growth in 2005) will occur several years after origination.



The lagging effect is accentuated if HRL continues in 2006 through 2009 at the 2005 Plan pace.

B1.12

Capital Related Considerations

With phased implementation of the Basel II requirements at Washington Mutual, we will need to integrate our internal approaches to management of higher risk lending with evolving regulatory risk-based capital requirements.

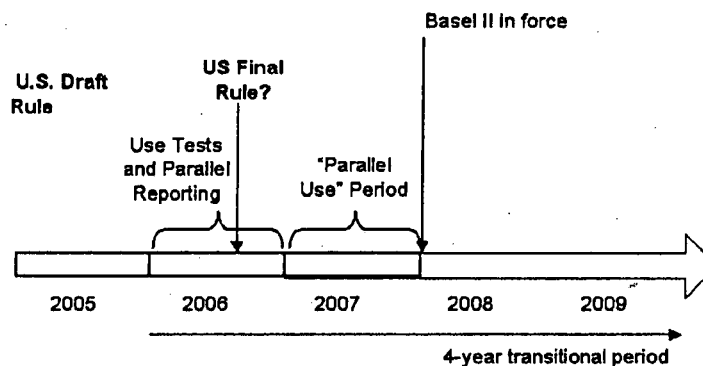
•Under the current Regulatory requirements, there is sufficient capital to grow the level of loans to Higher Risk Borrowers as in the 2005 Plan.

•As Basel II is implemented, the requirements may constrain the amount of higher risk lending that we do at some point.

•Capital ratios also affect our debt rating through Rating Agency surveillance, including reviews of Market and Operational risk capital adequacy.

•Increased credit risk, if managed prudently and priced adequately, could help us reduce the predominance of Market and Operational Risk and build available Capital through enhanced net interest margin income.

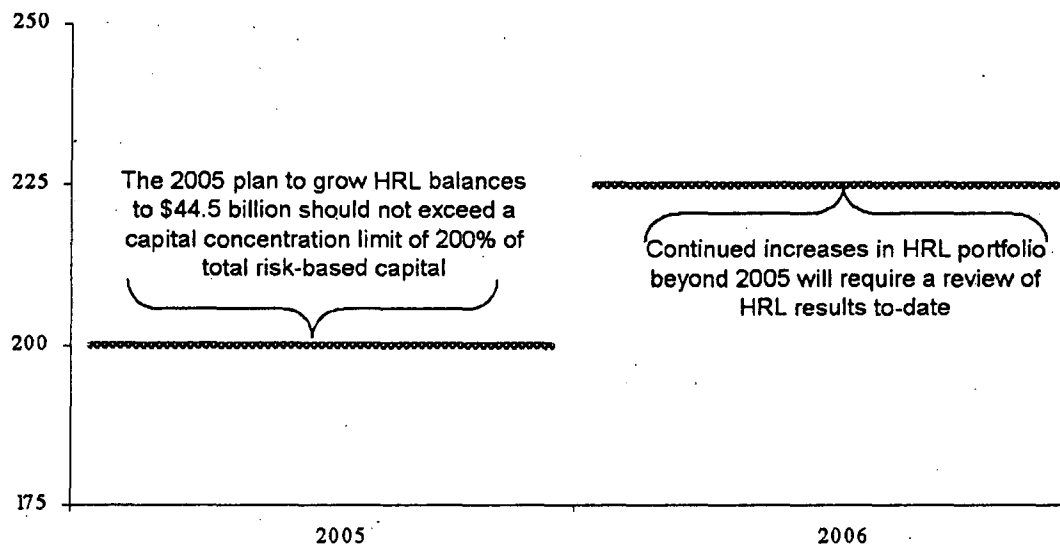
•Capital capacity for increased credit risk is highly dependent on managing well the predominant Market and Operational Risk.



Capital Concentration Limit – Staged Check Points

Higher Risk Lending activity is not likely to be constrained by a capital concentration limit of 200% in 2005. Continued growth in HRL balances beyond 2005 likely would exceed 200% of risk based capital. Thus, the capital concentration limit will be subject to staged check points throughout 2005 prior to any adjustment.

Capital Concentration Limit HRL Balances as % of Total Risk-Based Capital



B1.14



Higher Risk Lending Allocation Mechanism

The primary oversight process for higher risk lending activities will be the responsibility of an Asset Allocation Committee (AAC), which will be a sub-committee of the Credit Policy Committee. The AAC will meet quarterly to:

- Review HRL portfolio results to-date
- Manage the HRL portfolio within established constraints
- Utilize approved credit risk management tactics when necessary, including NPL sales or other credit enhancements
- Communicate potential overages and pertinent issues and recommendations to the Executive Committee
- Develop a process for 2006 Planning, to include portfolio composition



Washington Mutual

Proposed Concentration Limits

We are **recommending approval** of the 2005 Operating Plan amounts of Consumer Loans to Higher Risk Borrowers at the projected **200%** of total risk based capital at the Washington Mutual, Inc. (WMI) level.

This recommendation **does not** imply approval of individual, specific lending programs. All programs must still comply with Credit Policy and follow the required approval processes, which include Credit Policy Committee approval and complete compliance with the requirements of the Joint Memos 8 & 9, as well as the Interagency Guidance documents on sub prime lending.

B1.16



Washington Mutual

Governance and Infrastructure Requirements for Higher Risk Lending Strategy

To ensure that we have the proper governance and continue to have adequate risk analytics to support our higher risk lending initiatives, the following key requirements need to be adequately addressed:

People

✓ Build on current expertise in Sub Prime lending Best Practices and financial management, as well as increase staff capabilities for modeling and predictive tools.

Management Controls

✓ Continuous review and pro-active credit risk management is a must. This includes having strong portfolio surveillance procedures within business units, consistent credit policies, and ongoing procedures for management oversight and governance including the Asset Allocation Committee, Front End Guidance, and Quarterly Business Reviews.

Technology

✓ Continue investment in decisioning and modeling tools, fraud prevention, and default servicing.

B1.17



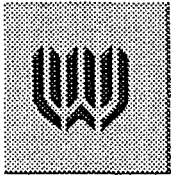
Next Steps

- **Given Board support for this Strategy, we will expand resources to further develop our infrastructure and address potential gaps for the successful management of higher risk lending.**

- **We will also build control processes which include an Asset Allocation Committee, Front End Guidance, Quarterly Business Reviews, and Credit Risk Oversight.**

- **Executive Committee and Board review will be required for any deviation from the 2005 Plan that impacts the 200% concentration limit.**

- **In addition, we will address future phases of Higher Risk Lending strategies with the Executive Committee and the Board. This will include greater delineation of HRL risk limits by product and Washington Mutual legal entity.**



Washington Mutual

Asset Allocation Initiative:
Higher Risk Lending Strategy
and Increased
Credit Risk Management

Board of Director Discussion

December 21, 2004

-CONFIDENTIAL, INTERNAL USE ONLY-

Permanent Subcommittee on Investigations

EXHIBIT #2b

1



Executive Summary

- Background
- Definition of "Higher Risk Loans"
- Higher Risk Lending by Loan Type
- Concentration Limits on Higher Risk Lending
- Higher Risk Lending Strategic Plan
 - Volume and Portfolio Growth
 - Risks
 - Strategies
 - Product Eligibility & Pricing Adequacy
 - Upstream/Downstream Referral Policy
 - Organizational Infrastructure & Gap Assessment
 - Policy Changes



Background

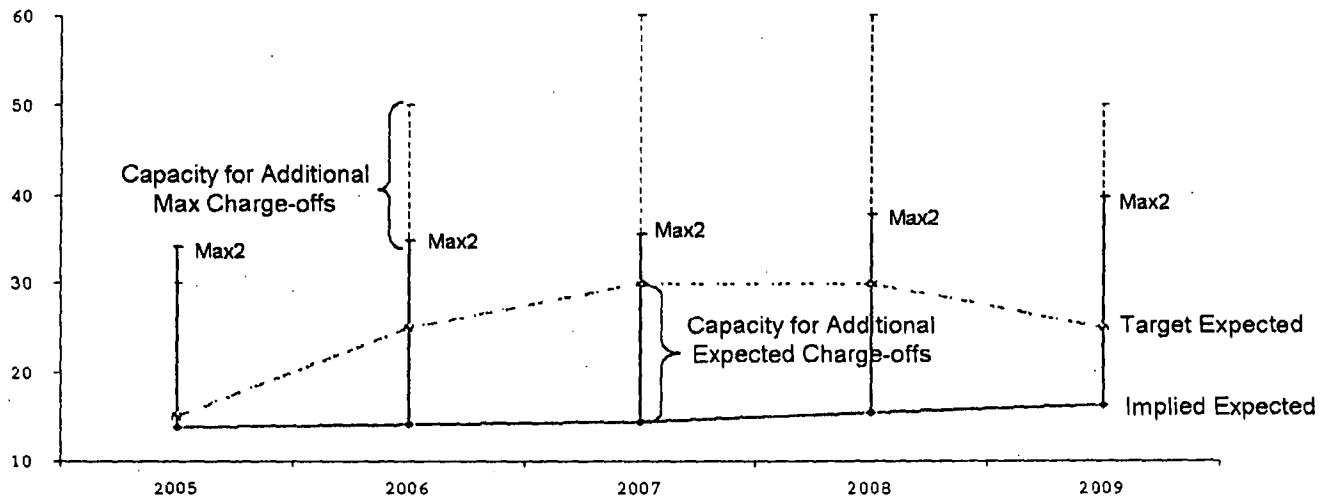
- Interdepartmental ERM team leading an effort to increase Credit Risk Management aspect of Higher Risk Lending strategy and implementation
- Credit Key Performance Indicator – 25 basis points in expected net charge-offs and keeping volatility potential within prescribed range
- 2004 Safety and Soundness Exam Joint Memos 8 & 9
 - Definition of “Higher Risk Lending”
 - Monitor, measure and report by Legal Entity and Business
 - Establish Board-approved capital concentration limits on Higher Risk Lending
 - Develop a Higher Risk Lending Strategy



Washington Mutual

Net Charge-Off Implications: Current Portfolio Mix Held Constant

With our current portfolio mix, we have additional capacity relative to the Strategic Plan Credit KPI of averaging 25 basis points in Net Charge-offs (NCOs) over 2005-20091



	2005	2006	2007	2008	2009
Implied Expected	14	14	14	15	16
Targeted Expected	15	25	30	30	25
Implied Max	34	36	36	38	40
Targeted Max	30	50	60	60	50

Expected NCOs are 14 to 16 bp over the Plan horizon

1Charge-off timing shown for homogeneous loan types is based on economic loss cash flow timing. Because accounting recordation of losses via FFIEC write downs is taken earlier, actual realization of charge-offs will be slightly sooner than shown.
2Implied maximums of current portfolio mix



Definition of Higher Risk Lending

- Loans to Higher Risk Borrowers
 - All loans sourced through LBM and SMF
 - SFR loans with FICO < 620
 - HEL/HELOC 1st lien loans with FICO < 620
 - HEL/HELOC 2nd lien loans with FICO < 660
 - Credit Card loans with FICO < 660
 - Small Business loans with LCS < 190 or FICO < 660
 - Auto loans with FICO < 660
 - Other Secured and Unsecured Consumer loans with FICO < 660
 - Multi-Family and NRE loans with FICO < 660
- Higher LTV/CLTV Loans
 - SFR
 - LTV \geq 80% (if not credit enhanced)
 - CLTV \geq 95% (irrespective of credit enhancement)
 - HEL/HELOC
 - 1st lien - LTV > 90%
 - 2nd lien - CLTV > 80%
 - Commercial Multi-family, Non-residential Real Estate and Business loans
 - LTV > supervisory max + 5
 - Advance Rate > supervisory max + 5
- Higher Risk Loans from Multiple Risk Layering and Expanded Criteria
 - Expanded Criteria
 - "No Income" loan documentation type
 - All Manufactured Housing loans
 - Commercial Multi-family, Nonresidential RE and Business loans w/ initial risk rating of 6 or higher
 - Multiple Risk Layering in SFT and 1st lien HEL/HELOC loans
 - Higher A- credit score or lacking LTV as strong compensating factor and
 - An additional risk factor from at least three of the following:
 - Higher uncertainty about ability to pay or "stated income" documentation type
 - Higher uncertainty about willingness to pay or collateral value



Higher Risk Lending by Loan Type

Loan Type	Higher Risk Product Type	Incorporated in Subprime Strategy in	
		2005	2006 or later
SFR	Alt-A: Tier 2 (660 min FICO up to 100 CLTV, NINA)	n.a	n.a
	Gap (580 min FICO)	n.a	n.a
Sub-prime	Expanded SMF Purchases	Yes	Yes
	Long Beach Originated to Portfolio	Yes	Yes
	Retail through FCs/HLCs	n.a	Yes
Consumer	HEL/HELOC: 620-660 FICO	n.a	n.a
	HEL/HELOC: to 100 CLTV	n.a	n.a
	Credit Card: Prime	n.a	n.a
	Credit Card: Sub-prime	No	No
Multi-Family	Lower DSCR/Higher LTV	n.a	n.a

n.a.: Not applicable; item is a form of higher risk lending and a possible margin for expansion, but not a subprime consumer product. Higher risk lending strategy also will consider retention of structured credit risks (securitization interests, recourse).



Washington Mutual

Higher Risk Lending Concentration Limits

- Proposed Concentration Limits
 - Higher Risk HFI Lending – 250% of total capital (\$51.9 Billion limit)
 - Loans to Higher Risk Borrowers – 200% (\$41.6 billion limit)
 - Higher LTV/CLTV Loans – 100% (\$20.8 billion limit)
 - Higher Risk Loans from Multiple Risk Layering or Expanded Approval – 50% (\$10.4 billion limit)
- Current Concentration Limits (% of tier 1, total capital, total assets)
 - Higher Risk HFI Lending – 263%, 197%, 15%
 - Loans to Higher Risk Borrowers – 199%, 149%, 11%
 - Higher LTV/CLTV Loans – 47%, 36%, 3%
 - HRLs with Multiple Risk Layering or Expanded Approval – 19%, 14%, 1%
- Capacity
 - Higher Risk HFI Lending - \$41 billion (current), \$11 billion (additional)
 - Loans to Higher Risk Borrowers - \$31.1 billion (current), \$10.5 billion (additional)
 - Higher Risk Loans from Multiple Risk Layering or Expanded Criteria - \$3 billion (current), \$7.4 billion (additional)



Washington Mutual

Diversified Higher Risk Loan Originations

Market availability and organizational readiness constraints limit the extent to which any one higher risk loan type would be used as a substitute for portfolio SFR originations. With equal distribution of SFR origination capacity across the four major loan types and some diversification within these loan types, higher risk lending product expansions could be in the \$4 billion to \$13 billion range for each of 8 products.

Diversified Higher Risk Loan Originations
(\$Billions)

Loan Type	Higher Risk Product Type	Substitute for	Increment to Substitute Expected NCO Rate (bps) if Higher Risk	Diversified Higher Risk Loan Originations (\$Billions)				
				2005	2006	2007	2008	2009
SFR	All-A: Tier 2 (660 min FICO)	Standard SFR	10	5	5	6	6	7
	Gap (580 min FICO)	Standard SFR	20	5	5	6	6	7
Sub-prime	Expanded SMF Purchases	Standard SFR	50	4	4	4	4	4
	Retail through FCs/HLCs	Standard SFR	60	4	4	4	4	4
	Long Beach Originated	Standard SFR	70	4	4	4	4	4
Consumer	HEL/HELOC: 620-660 FICO	Standard SFR	15	5	5	6	6	7
	HEL/HELOC: to 100 CLTV	Standard SFR	20	5	5	6	6	7
	Credit Card: Prime ¹	Standard SFR	550	0	0	0	0	0
	Credit Card: Sub-prime ¹	Standard SFR	1200	0	0	0	0	0
Multi-Family	Lower DSCR/Higher LTV	Standard SFR	20	11	11	11	12	13
Total Diversified Higher Risk Loan Originations				43	44	45	49	53



Washington Mutual

Portfolio Balances by Business

Loan Balances from the Strategic Plan Long-Range Forecast
(\$Billions as of period end)

	2005	2006	2007	2008	2009
SFR	150	169	184	199	215
Sub-prime	22	26	30	32	35
Consumer	50	61	71	77	83
Multi-Family	30	39	47	50	55
Nonresidential RE	11	15	20	22	23
Commercial	8	13	20	21	23
Total Portfolio	272	323	372	402	434



Washington Mutual

Assessment of Risks

- Operational
- Legal
- Financial
- Reputation
- Other

Integrated Strategies

- **Enterprise Decision Engine**
 - Standardized & Centralized execution of decision strategies from a single platform
 - Consistent application across Business Units and Channels
 - Product parameters, pricing and credit policy oversight
 - Improvement of cycle times and operational efficiency
 - Increased Risk Management control over strategy execution
- **Portfolio Strategy**
 - HRL Product eligibility and pricing adequacy
 - Funding and Capital sourcing & allocation
 - Portfolio Management (Investment, Scratch & Dent, New Product)
 - Higher risk-adjusted returns on economic capital
 - Policy adjustments triggered by NCO and Concentration Limit thresholds
 - Geographic Diversification
- **Infrastructure Strategy**
 - Mitigation of HRL risks (operational, legal, financial, reputation, other)
 - Upstream & downstream referral mechanism
 - Dedicated, segregated HRL processing
 - Improvements in staff productivity and efficiency
 - Move 3rd party servicing in-house
- **Marketing Strategy**
 - Utilize existing channels (LBM, SMF, Consumer, Home Loans)
 - Source HRL through broker community
 - Compete on service (reliability, availability, velocity, communications)
 - Low Cost Provider by leveraging Capital Markets and operational efficiencies
 - Development of "portfolio" products
- **Financial Strategy**
 - Funding
 - Capital
 - Liquidity
 - Return



Product Eligibility and Pricing Adequacy

- Products
 - Existing: Fixed, Hybrid ARMs, 2nd Lien Fixed
 - Proposed: "Portfolio" ARMs (payment options, down payment flexibility)
- Parameters - LLPAs by FICO, LTV/CLTV & Multiple Risk Layering by class
 - SFR
 - HEL/HELOC
 - Commercial Multi-family, Non-residential RE and Business Loans
- HFI Pricing – RAROC controlled pricing policy
- HFS Pricing – GOS controlled pricing policy
- Sell vs. Portfolio – Pricing mechanism to monitor basis for sell/hold strategy
 - Evaluation of merit to sell "portfolio" volume (liquidity)
 - Evaluation of merit to hold "salable" volume (return)



Washington Mutual

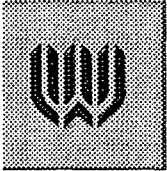
Upstream/Downstream Referral Policy

- Referral Policy
- LBM
- SMF
- Consumer
- Home Loans



GAP Assessment

- Goals
 - Develop higher risk lending industry best practices in identified primary assessment categories of lending and shared services
 - Assess internal competencies and readiness in the context of best practices required to support achievement of strategic business and credit objectives
 - Identify and rank order highest priority gaps that require closure
 - Develop the resource and project task plan required to narrow/close gaps
- Scope – the gap assessment will include secured and unsecured lending in Consumer and Commercial lending, reviewing "primary assessment categories" of business operation as they relate to the execution of higher risk lending strategies for loans held for investment:
 - Operational Plan
 - Organization/Infrastructure
 - Risks & Mitigations
 - Marketplace positioning
 - Financial Considerations
 - Upstream/downstream referral processes
 - Concentration Limits
 - Servicing
 - Policy Changes



Washington Mutual

--DRAFT as of

Higher Risk Lending Strategy *And Increased Credit Risk Management*

Board of Director Discussion

January, 2005

-CONFIDENTIAL, INTERNAL USE ONLY-

Permanent Subcommittee on Investigations

EXHIBIT #2c

1

Table of Contents

	<u>Page</u>
▪ Overview	3
▪ Governance and Infrastructure Investment for Successful Credit Risk Management	4
▪ Summary of Risks	5
▪ Asset Allocation Strategy	6
▪ Enterprise Portfolio Credit Risk Management	
▪ Overview	7
▪ Capital Concentration Limits	8
▪ Net charge-off Loss Value-at-Risk Concentration Limits	9
▪ Credit Standards for Implementing New Elements of Credit Policy	10
▪ Gap Assessment	
▪ Industry Best Practices	11
▪ Washington Mutual Current Practices	12
▪ Plans for Narrowing Gaps	13
▪ Business Unit Portfolio Credit Risk Management	
▪ Specialty Mortgage Finance (SMF)	14
▪ Long Beach Mortgage Specialty Home Loans	15
▪ Board of Director's Credit Policy Approval Request	16

Overview

We seek Board approval of new governing mechanisms for Higher Risk Lending and outline plans for adding risk management infrastructure needed for success.

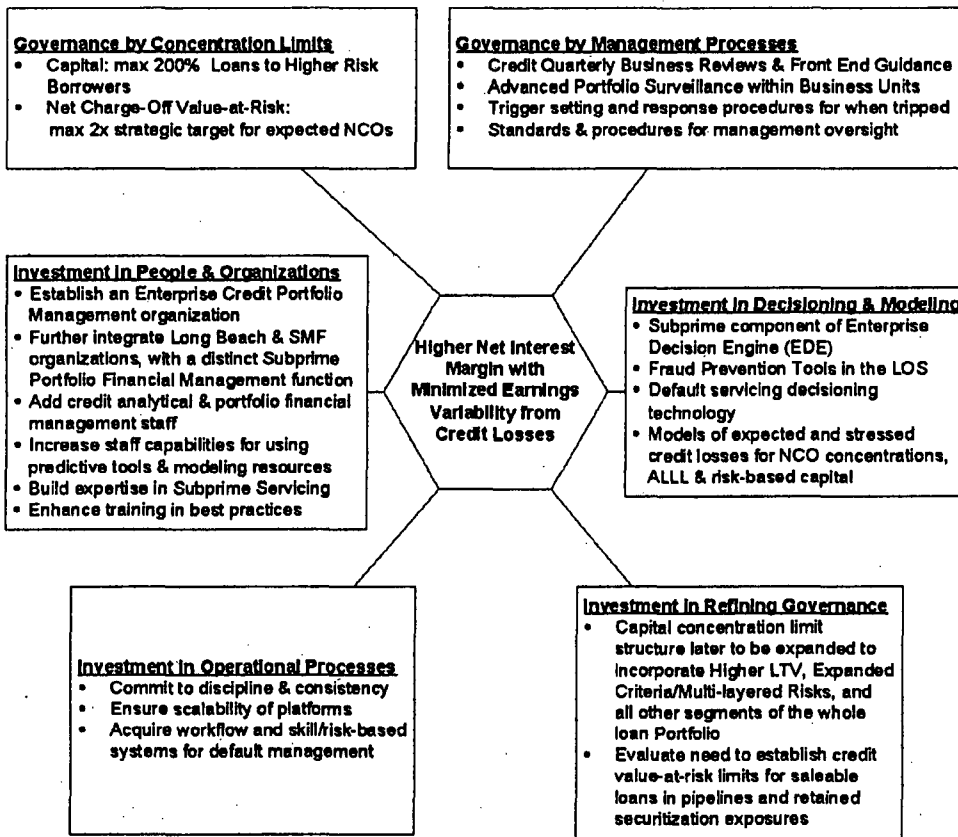
The governing mechanisms are in two forms of concentration limits:

- Capital adequacy is protected by a limit on the ratio of Higher Risk Lending balances to capital in place.
- Earnings volatility potential is reduced by credit loss net charge off value-at-risk limits similar in form to those we have for market risk management.

The infrastructure investments are in people, processes and technologies.

Do we still want to reflect 2nd bullet??

**Governance and Infrastructure Investment
for Successful Credit Risk Management**





Summary of Risks

Credit Risks

Although we expect the Higher Risk Lending strategy to result in increased financial returns, owing to wider loan pricing spreads, actual performance is subject to notable credit risks:

- The potential for unexpectedly high credit-related losses increases roughly in proportion to the increase in expected credit-related losses.
- Additional capital will need to be set aside for the higher potential for unexpected losses. If actual performance is worse than expected, the measured potential for unexpectedly high losses would increase further, and additional capital would need to be held.

Financial Risks

Earnings also are subject to increased volatility from interest rate fluctuation (market) risks and from increased potential variability in interest rate margin income.

- Subprime loans generally have fixed rates for at least an initial two-year period. An unexpectedly rapid increase in the general level of interest rates during the fixed rate period would lead to extension of the life of these mortgages at a time of higher funding costs and higher returns on alternative investments of these funds.
- Interest margin income would be compressed by such an event and/or by unexpectedly high rates of non-accruing loans. The latter also could induce spikes in loan loss provisioning.

Compliance Risk

Regulatory and Legal Compliance risks are higher.

- Regulators understand the heightened risks and will monitor the bank's activities more closely. Any severe shortfalls in regulatory compliance could induce regulators to lessen management's independent control.
- Any failure of operational excellence in compliance with Fair Lending or Responsible/Anti-Predatory Lending and Default Servicing could trigger class-action lawsuits with quite expensive direct costs of resolution. Furthermore, the tarnishing of the bank's strong reputation could limit consumer willingness to place deposits with us and jeopardize our strong funding base.

Execution Risk

Our expectations of increased profitability assume we can achieve industry standard returns, but if our operational execution is poor, our actual returns will fall far short.

- We have major gaps relative to competitors in the technologies, people and operationally disciplined processes that let them effectively measure and manage credit loss exposures.
- If we fail to identify and implement well these requisite building blocks for success, our financial performance will suffer.



Washington Mutual

Our Asset Allocation Strategy Includes Other Higher Margin Loans

Other Higher Margin Loans

Subprime residential consumer lending to higher risk borrowers is only one of several forms of higher credit spread lending in our asset allocation strategy.

- For any given target for credit risk spread income, diversification of the type of credit risk exposure beyond consumer lending to higher risk borrowers can help keep down portfolio-wide loss volatility potential.
- Other lending with higher credit margin income includes
 - Higher LTV lending, and
 - Lending with expanded criteria or multi-layered risks
- Some of our current single-family residential (SFR) home lending is to consumers with higher credit risk but in products with insufficient price differentiation to capture the credit spread income.

Consumer Loans to Higher Risk Borrowers

In 2005, we will manage these consumer loans to higher risk borrowers (HRBs) as an identified portfolio with a specified limit on overall outstanding balances.

- Management actions that reduce origination or retention of lower-yielding SFR loans to higher risk borrowers will increase capacity available for higher-margin lending.
- The initial design of the concentration limits on consumer loans to higher risk borrowers is discussed more fully below.

Current Asset Allocation

Now, near the end of 2004, we have more than \$30 billion in consumer loans to higher risk borrowers in our investment portfolio.

- In addition to the \$17 billion of subprime residential mortgage loans mentioned above, this includes substantial acquisitions through our single-family-residential (SFR) prime channel.
- About \$13 billion of SFR mortgages were to borrowers with non-prime credit characteristics as measured by FICO scores below 620, albeit at lending rates little differentiated from those offered to prime borrowers.

Future Asset Allocation

Beyond 2005, focus will shift to other types of loans with higher credit spread.

- Currently, the HEL/HELOC lending component of the retail bank product set is available primarily to lower risk borrowers and at relatively low LTVs compared with the market. We see tremendous opportunity to expand in these segments once appropriate credit risk management infrastructure is deployed. Revised automated underwriting scorecards are available for new strategies.
- We also plan to take fuller advantage of our industry-leading position in Multifamily lending beyond 2005.



Washington Mutual

Enterprise Portfolio Credit Risk Management

ERM Past Success

Enterprise Risk Management has provided effective oversight of the prudent, profitable expansion of the SMF subprime portfolio to its current level of \$17 billion in loans outstanding.

- Oversight was provided primarily via Credit Policy and standards implementation. These include the Credit Front End Guidance (FEG) process in which business units describe portfolio goals and strategies and the Credit Quarterly Business Reviews (QBR) where goal achievement was monitored, and strategy modifications were suggested if indicated.
- Other ERM-affiliated processes, including Audit, Credit Review, and Counterparty Risk Management also have been key enablers of risk-reduced expansion.

New Ongoing Processes

Beginning now, we are introducing new Portfolio Credit Risk Management processes to be effective both in the initial 2005 expansion phase and beyond.

- Capital adequacy is protected by a limit on the ratio of Consumer Loans to Higher Risk Borrowers to adjusted total capital.
- Earnings volatility potential is reduced by credit net charge off value-at-risk limits, similar in form to those we have for market risk management.

Current ERM Process Review

In developing this strategy implementation plan, we reviewed current ERM credit portfolio risk management processes.

- We confirmed what is evident in regulatory guidance, that we need new processes for governing capital adequacy and for limiting potential earnings volatility.
- Upon approval of the new Portfolio Credit Risk Management processes, with Board consent to proceed, we will use our standing forums (e.g., Corporate Credit Policy Committee meetings) to review, adjust, and approve as appropriate the specific portfolio credit policy issues that need resolution for plan implementation. This will include establishing triggers for further review of new portfolios.

Future Process Refinements

Prior to expansion of Higher Credit Margin Lending beyond the 2005 plans, we will return to the Board with proposed enhancements to the Concentration Limits structure.

- The enhanced Concentration Limits structure also will include Higher LTV lending, Lending with expanded criteria or multi-layered risks, and various additional portfolio subsets to which useful concentration sub-limits should be attached.
- By ensuring diversification among forms of higher credit margin lending, the enhanced limits structure will provide an additional margin of capital adequacy.



Washington Mutual

New Enterprise Portfolio Credit Risk Management Processes

May need to revise

Capital Adequacy Protection from a Concentration limit on Consumer Loans to Higher Risk Borrowers.

- As of the end of the third quarter of this year, we had \$31 billion of such Held-for-Investment loans outstanding, with slightly more than one-half of this from holdings of SMF Subprime loans.
- We propose that future holdings be limited to 200 percent of Total Adjusted Capital at both the Washington Mutual, Inc. (WMI) and Washington Mutual Bank, FA (WMB, FA) entity levels.
- With total adjusted capital at \$21 billion at quarter-end, the current concentration is about 150 percent of Total Adjusted Capital. Upon adoption, in addition to the currently available capacity of about \$27 billion in additional consumer lending to higher risk borrowers, the limit would permit Subprime Lending portfolio growth through either increased capital holdings or reduction in other forms of consumer lending to higher risk borrowers.
- For purposes of ensuring that capital is adequate to withstand stressed financial circumstances, capital at its current level of \$21 billion is estimated to provide a substantial buffer in excess of actual needs, even if consumer loans to Higher Risk Borrowers were to expand to the maximum allowable percentage. We estimate that at the A- rating agency grade stress level used to calibrate Bank regulatory capital standards, which is roughly a 1 in 1000 probability, total internal model risk-based credit capital needs are about \$6 billion; these internal models produce results similar to those to be adopted by our regulators when the new Basel accord Internal Ratings Based approach is fully implemented.
- Choosing a lower than proposed threshold for the Consumer Loans to Higher Risk Borrowers capital concentration limit, such as the current concentration level of about 150 percent, would imply only a relatively small increase in what already is a very substantial capital buffer: we estimate that the credit capital need (potential for unexpectedly high credit losses at the A- stress level) is about 4 percent of outstanding subprime loan balances, so using fully the currently available \$27 billion in additional subprime lending capacity consumes only about \$1-1/4 billion of this excess capital.

*Consumer Loans to Higher Risk Borrowers includes all Held-for-Investment Subprime loans originated/purchased through Long Beach Mortgage and SMF, as well as SFR and HEL/HELOC 1st lien position loans to borrowers with FICO credit scores below 620 and 2nd lien HEL/HELOC and other consumer and small business loans to borrowers with FICO credit scores below 660. In the case of small business loans, a Liquid Credit Score (LCS) threshold of 190 also is used.



Washington Mutual

New Enterprise Portfolio Credit Risk Management Processes

Earnings Volatility Protection from a Concentration Limit on Maximum Net Charge-off Value-at-Risk*

- We also recommend adopting a portfolio-wide loss volatility governance mechanism in the form of a concentration limit on the composition of held-for-investment whole loan holdings relative to the potential for unexpectedly high net charge-off rates.
- Specifically, we recommend limiting the portfolio to compositions that have a maximum net charge-off value-at-risk rate of no more than twice that of a specified strategic target for expected average net charge-offs over a rolling five-year ahead period, with that strategic target to be no more than a 25 basis point annual net charge-off rate.
- At the current held-for-investment whole loan portfolio size of slightly in excess of \$200 billion, a 25 basis point rate of net charge-offs is about one-half billion dollars. Thus, the maximum modeled net-charge off amount at a two standard deviation event would be one billion dollars.
- The reserve Allowance for Loan and Lease Losses (ALLL) will be available to absorb such losses, buffering the impact on earnings. However, note that if/when the credit event leading to the unexpected spike in losses is of a persistent nature, reserving needs will increase for potential future continuation of higher-than-initially-expected losses, thereby reducing net income earlier.
- For comparison, note that our Risk Management Strategies Standard for Interest Rate Risk Activities limits the one-quarter (versus annual) value-at-risk from specified two standard deviation market events at about one-half billion dollars.
- Substantial additional credit risk portfolio management infrastructure is needed to implement the modeling and oversight processes required under this proposed Credit value-at-risk standard. However, the capital concentration limits on Consumer Loans to Higher Risk Borrowers constrain 2005 exposure in a way that gives us time to build this infrastructure.

*We are developing a Portfolio Credit Risk Management Strategies Standard that describes in detail the processes for measuring expected and maximum net charge-off value-at-risk. This new Standard is parallel in structure to the existing Risk Management Strategies Standard that governs Interest Rate Risk Activities of WMI and Banking Affiliates. In particular, the new Credit Standard describes the Risk Measures and Limits at the overall portfolio level and describes the management process for defining and managing sub-limits for the individual businesses.



***New Enterprise Portfolio
Credit Risk Management Processes***

May need to revise

Draft Credit Standards and Processes for Implementing these new elements of Credit Policy

- The Chief Credit Officer and his designees will administer the process of monitoring the position of actual loan exposures relative to the concentration limits and will oversee processes for eliminating emerging overages relative to the concentration limits. This will include determining an annual sequence of target expected net charge-off rates for the five-year period consistent with the overall strategic target for the five-year average of expected net charge-offs over the full period.
- For capital concentration limits, monitoring will be by direct calculation of loan balances and capital available. Emerging overages will be eliminated under the direction of the Operating Committee.
- For the net charge-off concentration limits, monitoring will be conducted first at the business unit level by application of models of the expected future level and potential variability of net charge-offs. This will be required for both current outstanding balances and projected future portfolio additions.
- Projected net charge-off rates then will be aggregated to the level of the whole WMI portfolio by Enterprise Portfolio Credit Risk Management (EPCRM) staff designated by the Chief Credit Officer. The EPCRM staff also will ensure that business unit methodologies for projecting net charge-offs comply with approved standards and will assess the degree to which enterprise level portfolio diversification reduces potential loss variability.
- Emerging overages of net charge-offs relative to the limits will be eliminated by Portfolio Credit Risk Management Activities. Individual business units will have one quarter subsequent to the identification of an emerging overage in which to take corrective actions. Thereafter, any remaining overages will be eliminated within one quarter by Portfolio Credit Risk Management Activities directed by EPCRM.
- EPCRM will obtain the required information from business units through modified versions of the established annual Front End Guidance (FEG) and Quarterly Business Reviews (QBR) processes. During FEG, EPCRM will gather forecasted net charge-offs from each business unit, prepared using the methodologies approved by EPCRM. During QBR, actual performance will be compared with projected performance targets and established limits.

(U)

Washington Mutual

Gap Assessment: Industry Best Practices

Management Controls

Our survey of practices at best-in-class institutions in higher risk lending revealed an emphasis on management's ability to control lending processes.

- Even in highly de-centralized organizations, we found a strong corporate view underpinning the design of lending programs. Specific product features and lending processes were derived from this conceptual foundation, often with the goal of enhancing predictability of loan quality (reducing the span of quality variation).
- Establishing management control points was viewed as an integral component of lending process design, including in the areas of fraud risk mitigation and legal and regulatory compliance.

People

The most successful firms are comprised of experts in higher risk lending.

- Management and staff are highly talented and experienced in higher risk lending.
- Staffing levels are adequate to the workload, particularly in default management and credit risk analytics.
- Compensation structures balance incentives for volume and quality of performance.
- The disciplined nature of organizational style/culture provides social reinforcement of goals to minimize process variation.

Technology

Best practice firms are data-centric, measurement-oriented, with infrastructure supporting this:

- The infrastructure is adaptable to meet changing markets and risks, either through a high degree of customization of vendor-supplied tools or through solely proprietary technology.
- Queuing of loans/calls to appropriately skilled staff is aided by proprietary risk models.
- Risk-adjusted pricing is deployed to the point-of-sale, and pricing control is automated. Pricing is tailored to individual products.
- Decisioning support systems include Fraud, 3rd Party Credit Surveillance, Appraisal, and Default Servicing.

Servicing

Servicing best practices balance the loss mitigation effects of intensive, frequent contact with borrowers and the legal/reputation risk of proactive default management.

- Technological aids promote consistency of staff practice and mitigate risks. Includes risk-based queuing models that drive calls/work to appropriately-skilled resources and adaptive control techniques.
- Practices include initial welcome calls to review terms, establish expectations, and develop relationships. Thereafter, high customer service level minimizes call abandonment and tactics focus on early collection.
- Loss mitigation and foreclosure options proceed in parallel.



Gap Assessment: Washington Mutual Current Practices

Management Controls

SMF generally has tight management controls, and its primary supplier has received strong originator reviews from rating agencies. Management controls of Long Beach operations are improving but remain below best-in-class. Both fall short of best practice in portfolio financial and credit risk management.

- In addition to the absence of enabling technologies, Long Beach operational control gaps to best practice primarily are in the areas of testing staff competencies prior to granting underwriting Risk-Level-Authority (RLA), credit exceptions, appraisal service optimization, fraud risk mitigation and other early warning systems.

Technology

SMF could benefit from more advanced technology in the areas of underwriting due diligence, servicing oversight, and portfolio financial and credit risk management. Needs at Long Beach are more acute, owing to prior underinvestment and to its full handling of loans from application through termination.

- Long Beach would benefit greatly from a Loan Operating System (LOS) that called an Enterprise Decision Engine housing eligibility rules for both subprime and prime products. This would aid consistency of customer referrals to products and help fine-tune risk-adjusted pricing.

People

The SMF management team is small and hence lacks depth; analytical/portfolio credit functions also are understaffed. Long Beach management expertise appears sufficient, but staff expertise is untested in some key areas.

- Long Beach default servicing expertise has not yet been extended to the Real-Estate-Owned management (REO) function.
- Long Beach sales/underwriting compensation structures do not yet incorporate best practice in incentives for quality.

Servicing

SMF oversees servicing by others who generally have strong, albeit not always top, subprime servicer ratings. Long Beach's own distinct default servicing group, with REO management outsourced, recently has made noticeable improvement; our overall servicer rating is strong but not best-in-class.

- Long Beach's outsourced REO management appears to fall far short of best practice.
- Long Beach does not yet incorporate the most advanced decisioning automation (e.g., logic of rules determining which workout alternatives to offer) or workflow system.

Plans to Narrow Identified High-Priority Gaps

Management Controls

Long Beach's new Sr. Credit Officer developed and has begun to implement a detailed plan to narrow high-priority gaps in management controls.

- Elements include review/revamping of Credit Guidelines, underwriting Risk-Level-Authority and skills, exceptions, fraud risk mitigation, appraisal, new product approval process, servicing and default policy, reporting, credit modeling, and business-unit wide (operational, legal and regulatory compliance) risk review processes.
- This is being supplemented by Corporate Credit Risk Management's improved integration of Long Beach (and SMF) policies and procedures into the overall framework used by other business units.

People

We plan to hire additional experts and develop staff.

- Further integration of the Long Beach and SMF organizational structures is recommended to promote internal transfer of best practices and prepare for possible needs for management succession.
- This should include adding credit analytical and portfolio financial management staff within the business units.

Technology

Long Beach decisioning and modeling will be upgraded.

- Immediate plans are to integrate new vendor tools into existing Loan Origination System and Default Servicing System process flows.
- Proprietary decisioning technology is needed for scalability and adaptive process control. We recommend additional resources build a subprime component of the Enterprise Decision Engine (EDE).
- We also plan to acquire or build more advanced technology for modeling expected and stressed credit performance of subprime loans as part of an effort to synchronize loss modeling methods for loan loss reserving and risk-based regulatory capital (Basel).

Servicing

We plan to reach the top rating as a subprime servicer.

- We will have a focused organizational commitment to operational excellence in this area.
- Increased control of REO management will be a first step.
- Development of scorecards, rules, and other components of default servicing decisioning systems will be given high priority.

**Business Unit Portfolio Credit Risk Management:
Long Beach Mortgage Specialty Home Loans****Business Unit Past Success**

Long Beach Mortgage has contributed substantially to earnings through its gain-on-sale/securitization business model. However, the business unit has not had a core Held-for-Investment portfolio.

- Loans are submitted by brokers into Long Beach for underwriting by LBMC staff. Fulfillment processes generally focus on ensuring readiness of loans for sale. The primary sources of earlier disruptions to this process of maintaining certified marketability of loans in the pipeline recently have been eliminated.
- The dedicated default servicing group for LBMC loans has produced noticeable improvements in performance.
- Pricing and product design have enabled profitability.

New Ongoing Processes

Long Beach is implementing several new credit risk management processes to increase credit quality of loans for Portfolio.

- A forum for coordinating management of business-unit-wide risks (including operational and compliance) has been initiated, following Enterprise Risk concepts.
- New tools for fraud risk mitigation are being implemented. These include the Appintell fraud detection system, and the HistoryPro collateral fraud screening tool.
- The processes managing the matching of loan risk/complexity to underwriter skill levels are being improved.

Current Business Unit Process Review

Our recent review identified a need to improve several credit-related processes, and we are beginning to make progress in some of these areas.

- Parameters used in underwriting cannot be centrally controlled through technology, nor do we have technological efficiencies in underwriting compliance management.
- Default servicing still is not to the standards of the highest Subprime Servicer rating. Current form of outsourcing of REO management is not optimizing performance there.
- Pricing generally appears to adequately compensate LBMC for borrower credit and loan risk, although it is not yet tuned to a portfolio buy and hold focus.

Future Process Refinements

Additional process improvements will be achieved through a variety of initiatives.

- Credit Decisioning will be managed through an Enterprise Decision Engine that provides standardized and centralized execution from a single platform. This will promote consistency of strategy across businesses/channels and increase Risk Management control over strategy execution, including regulatory and legal compliance objectives.
- Default Servicing also will incorporate improved decisioning technology.
- Portfolio Credit Risk Management activities within the business unit will monitor actual vs. expected performance by finer portfolio segments.

**Business Unit Portfolio Credit Risk Management:
Specialty Mortgage Finance (SMF)****Business Unit Past Success**

SMF has contributed a lot to earnings in recent years, and with the current portfolio level and composition this trend of substantial positive earnings contributions appears likely to continue in 2005 and 2006.

- Well-executed underwriting due diligence limited defaults.
- Intensive oversight of the servicers and their default servicing and real-estate-owned property management decisions on individual loans helped reduce loss severity.
- Pricing of specified pools of loans was determined by loan-level valuation models, limiting the potential for concentration of acquired loans in lowest profit types.

New Ongoing Processes

SMF is establishing some new credit risk management processes at the business unit level, including those needed to participate in the new ERM credit portfolio management processes.

- A distinct SMF Credit Portfolio Risk Management function is being established within the business unit, with assistance from a new Higher Risk Lending group in ERM. The business unit Credit risk function will develop more detailed portfolio segment analyses and enable more active product and pricing adaptation to emerging trends.
- The SMF appraisal process is being reconfigured so that implementation takes place within the business unit with independent oversight from our Appraisal Oversight staff.

Current Business Unit Process Review

Our recent review identified a need to improve several credit-related processes, and we are beginning to make progress in some of these areas.

- The Standards and Procedures that implement Credit Policy are being reviewed and improved.
- We established new Counterparty Risk management procedures to reduce Seller/Servicer concentration risk.
- We are highly dependent on the substantial skills and experience in subprime lending of a few senior managers in the SMF group. We need to add management depth.
- Also, we need a better-staffed, distinct Portfolio Financial Management function with clear accountability for modeling likely future performance and tools to do it.

Future Process Refinements

Sellers retain servicing on these loans, limiting our flexibility to sell non-performing loans or modify default servicing procedures in response to changed circumstances. We plan to refine processes for managing credit risks under these constraints.

- Alternative forms of contractual agreements that increase servicing right transferability will be explored.
- A "hot backup" default servicing capability will be established.



Board of Directors Credit Policy Approval Request

We have attached a draft amendment to section 220 of our Credit Policy, which we submit for approval.

Capital Concentration Limit:

- Held-for-Investment loans to Consumer Higher Risk Borrowers will be limited to the following maximum percentages of Adjusted Total Capital
 - Washington Mutual Inc. 200%
 - Washington Mutual Bank FA 200%

Net Charge-off Concentration Limit:

- Held-for-Investment loan holdings of Washington Mutual, Inc. will be limited to compositions that have a maximum net charge-off value-at-risk rate of no more than twice that of target expected average net charge-offs over a rolling five-year ahead period.

Need to remove NCO limit ???



Home Loans Discussion
Board of Directors Meeting

April 18, 2006

Confidential

David Schneider
President, Home Loans

Permanent Subcommittee on Investigations
EXHIBIT #3

JPM_WM00690890

Table of Contents



	<u>Page</u>
Home Loans Business Model	2
Home Loans Strategic Positioning	3
Shift to Higher Margin Products	4 – 5
Reduce Earnings Volatility	6
Continue to Attack Cost Structure	7 – 8
Risks	9
Summary – Next Steps	10
Appendix – Project Plan	11

Financial Model Output pages – Model Output tab - second to last tab

Key Performance Indicators and Model Assumptions – Assumptions tab - last tab

Home Loans Business Model



The prime mortgage banking business model was built to take advantage of large refinance cycles, and is not well positioned in more challenging environments.

- **"Mono-line" structure focused on low-margin, prime market segment**
 - In 2005, 85% of production was Prime
 - <4% of production volume was sourced from Financial Centers
- **Goals were largely driven by overall market share growth**
 - Attracted and retained a high producing and high cost sales structure
 - Pricing strategy targeted within top 3
- **Profitability is disproportionately influenced by market factors**
 - Fee-based (Gain on Sale) model dependent on market cycles for high returns, and is not consistent with low efficiency ratio
 - Volatile MSR contributed >50% of net income over last 2 years

The effects of the model have created unacceptable levels of volatility and risk for Washington Mutual.

April 2006 Board Meeting: Home Loans

(Confidential)

Page 2

In 2005, 85% of production was Prime

- 2005 volume by product (data behind slide)

<4% of production volume was sourced from Financial Centers

- FC first mortgage referrals (PFRs) was <4% of total origination volume \$248B
- The amount of Home Equity product funded through the FCs in 2005 was \$4.4B, which is <4% of total LC Retail volume of \$103B
- In 2008, the LCs paired with the Retail Bank are estimated to originate \$10.4B in the FCs, and another \$5.7B which is generated by the PFRs
 - 28% of the total Retail volume in 2008 of \$57B
 - 7% of total Production of \$232B

Goals were largely driven by overall market share growth

- Market share slides (data behind slide)

Home Loans Strategic Positioning



Home Loans is accelerating significant business model changes to achieve consistent, long-term financial objectives.

- Shift from low-margin business to high-margin products
- Reallocate risk from market-based to credit
- Continue to attack the cost structure

Financial Objectives

	Q1 2006	Target
Net Income Growth (from Q1 2005)	(90%)	10-12%
Return on Tangible Equity	5%	~18%
Efficiency Ratio	91%	<50%
Net Cost to Hedge MSR (annualized)	\$502M	<\$100M

April 2006 Board Meeting: Home Loans

(Confidential)

Page 3

Definition of High Margin Products

- Home Equity, Subprime, Alt A, Option ARM

Historical net income:

- 2005 Actual: \$1,235M
- 2006 March Forecast: \$323M

ROE

- 2005 Actual: 26%
- 2006 March Forecast: 7%

Efficiency Ratio

- 2005 Actual: 56%
- 2006 March Forecast: 82%

Cost to Hedge

- 2005 Actual: \$621M (pre-tax)
- 2006 March Forecast (annualized): (\$502M)

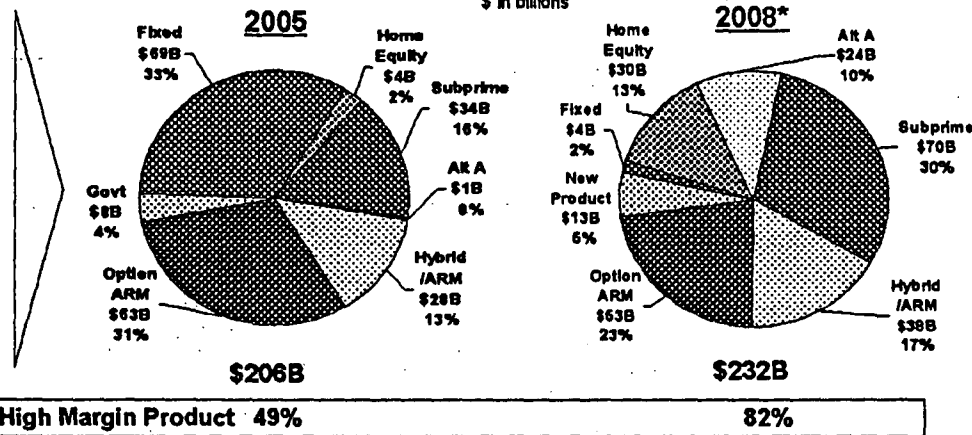
Shift to Higher Margin Products



2005 WaMu Gain on Sale Margin by Product in bps

Government	13
Fixed	19
Hybrid/ARM	25
Alt A	40
Option ARM	109
Home Equity	113
Subprime	150

WaMu Volume by Product \$ in billions



* Assumes a \$2.3 trillion origination market

Strategic Response

- Refine distribution to target specific higher-margin products – Subprime, Alt A, and Home Equity
- De-emphasize low-margin products by realigning Correspondent channel
- Leverage balance sheet advantage by introducing a series of innovative products

Execution

- De-emphasize Fixed Rate and cease Govt
- Deploy Alt A to Retail and Wholesale
- Deploy Home Equity in Retail and Wholesale
- Create a Home Equity Conduit Q2 06
- Develop a new product Q4 06 – Q1 07

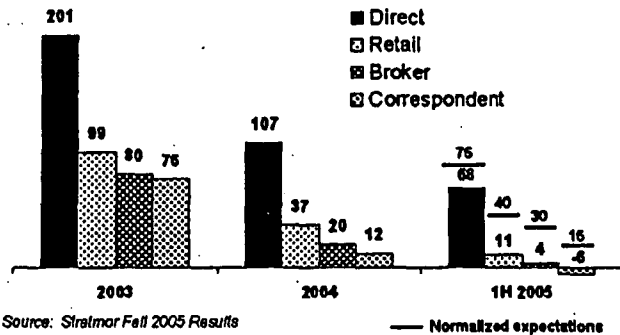
Grow market share in targeted product segments

Shift to Higher Margin Channels



Industry Margin Compression

In bps



2005 Correspondent Product Mix

\$ in billions

Sources of Fixed & Government Volume

Retail	\$12	18%
Wholesale	\$11	16%
Consumer Direct	\$8	12%
Correspondent	\$35	54%

Correspondent Volume by Product

Fixed	\$28	74%
Government	\$7	18%
ARM	\$1	4%
Option ARM	\$2	5%

Correspondent channel produces disproportionately more Fixed and Government product

Correspondent Realignment

Correspondent

- Disproportionate generator of expensive MSR product
- Traditionally low-margin channel
- Acquires customers that are out of Footprint
- Limited cross-sell opportunities, low retention

Conduit

- Focus exclusively on high-margin products
- Highly variable and more efficient cost structure
- Leverage Capital Markets distribution and underwriting
- Flexibility to manage volumes

Execution

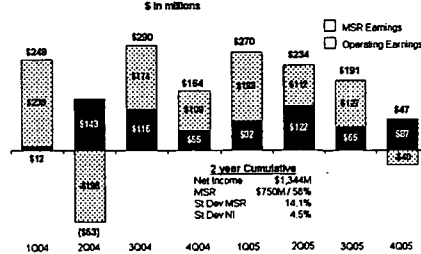
- Focus Conduit on high-margin products
 - Subprime
 - Alt A
 - Home Equity Q2 06
- Reposition Correspondent channel Q3 06
- Leverage Consumer Direct to include Subprime Q3 06

Realign Correspondent to Conduit

Reduce Earnings Volatility



Prime Home Loans Net Income



MSR as a % of Shareholders' Equity (at year end)

Company	2005 (%)
Countrywide	98%
Wells Fargo	31%
Washington Mutual	29%
JP Morgan Chase	6%
Citigroup	4%
Bank of America	3%
Golden West	<1%

MSR Risk Profile (As of February 28, 2006)

Current Risk Profile	Unpaid Principal Balance (\$B)	Market Value (RV) (\$B)	Annual Hedge Cost (\$M)	% Cost to MV
Option ARM/ARM	\$123.5	\$1.5	(\$21)	1.4%
Fixed	\$401.8	\$8.0	(\$14)	5.3%
Government	\$55.0	\$1.0	(\$8)	4.7%
Subprime	\$28.3	\$0.2	(1)	0.5%
Total	\$608.6	\$8.7	(\$39)	4.4%
2006 pro-forma	\$410.6	\$4.4	(\$122)	2.8%

• 94% of hedge costs attributable to Fixed and Govt
 • Portfolio loans = \$0 MSR

Execution

- Eliminate excess service fee on Fixed rate
- Price Fixed rate at higher margin targets
- Cease Govt lending in Retail and Wholesale
- Negotiate 1/8 basis points service fee
- Build whole loan portfolio Q3 06
- Evaluate sale of Govt and Fixed rate servicing Q3 06 - Q4 07

Reduce MSR exposure, limit volatility and realign distribution

April 2006 Board Meeting: Home Loans

(Confidential)

Page 8

Q1 2005 and Q1 2006 prime and all-in net income split

- Q1 2005 - \$176M Operating / \$151 MSR = \$324M
- Q1 2006 - \$131M Operating / (\$92) MSR = \$38M

MSR Comparison - % of Market Cap (data behind slide)

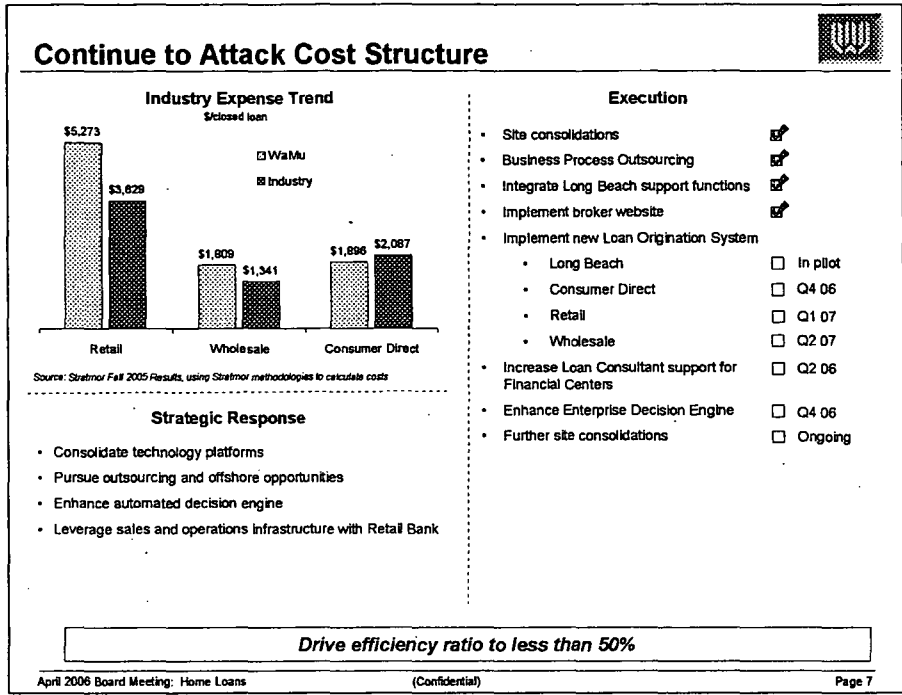
Cease Govt Lending in Retail and Wholesale

- Retail is scheduled for 5/2/06
- Wholesale was on 3/15/06

1/8 Basis Point will be implemented in July 2006

Post Sales Dates

- Q3 06 - \$47.5B (GNMA)
- Q1 07 - \$137.5B (Fixed)



FTE Outsourcing

- 350 FTE offshored in 2004
- Targeting 1,100 by end of 2006
- TSG support is an additional 60

Site Consolidations (see Quad 1-pagers by business unit in Appendix)

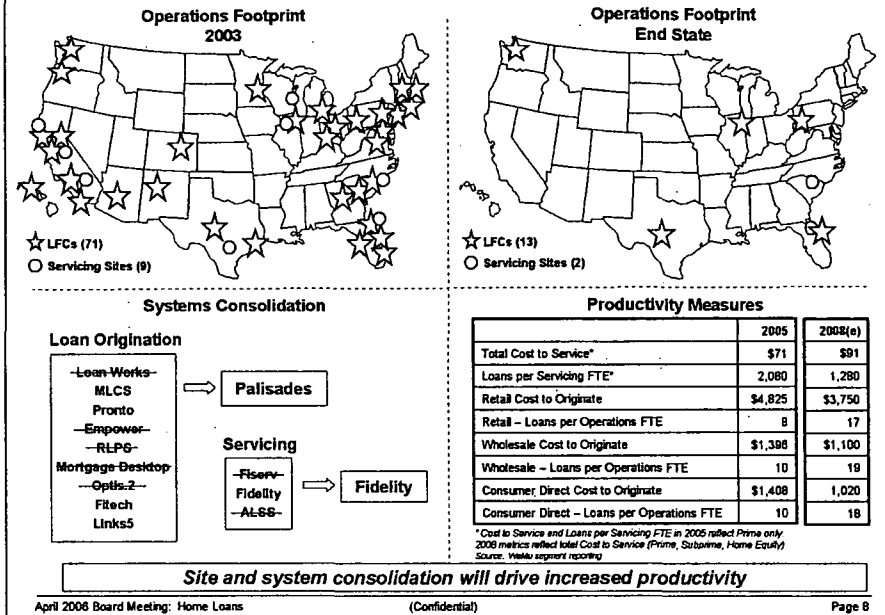
Status of Long Beach pilot

Active Loans: 107
 Funded Loans: 2
 Loans submitted (max in single day during pilot): 23 on 4/6/2006
 Peak users: 41 LBM LOS
 First loan e-submitted via BFO: 4/11/2006
 First loan funded and confirmed GL file received: 4/11/2006
 Pilot is at Denver LFC. As of 4/10/2006, entire LFC is "up" on LBM LOS.
 Last code release into production (a pricing update, 5.6.6.3) done 4/11/2006.

Loans Consultants – 2,200 financial centers covered by year-end 2008

*Note 1: The Stratmor study excludes Subprime
 *Note 2: A list of Stratmor Study company participants is behind slide

Continue to Attack Cost Structure



Date of Palisades full implementation

- The first phase of what is called the STeP program has been defined – it's the Palisades implementation for Consumer Direct slated for Q4 2006
- Retail – 1Q07
- Wholesale – 2Q07

2008 Servicing breakout (Prime, Subprime, Home Equity)

Loans per FTE Summary:	2006	2007	2008
Prime servicing	1,689	1,770	1,813
Sub Prime servicing	489	499	514
Home Equity servicing	1,721	1,756	1,809
Total	1,450	1,338	1,287

Cost to Service (per unit)	2006	2007	2008
Prime servicing	76	69	69
Sub Prime servicing	207	197	187
Home Equity servicing	108	96	94
Total	85	87	91

Productivity Measures – 2005 and March 2006 Forecast for Prime only (behind slide)

Risks



- Margin compression on current high-margin products
- Transaction costs on Servicing sales
- Organizational capability to manage credit risk
- Successful technology implementation
 - Enterprise Decision Engine at point of sale
 - Loan Origination System in all channels
- Organization's ability to execute on significantly accelerated pace of change

Summary – Next Steps



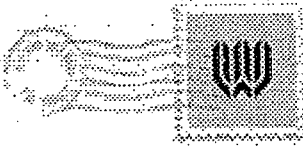
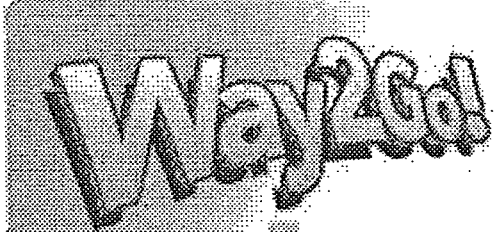
- **Shift from low-margin business to high-margin products**
 - De-emphasize Fixed rate and cease Government
 - Realign Correspondent to Conduit
 - Invest in Direct-to-Consumer platform
- **Reallocate risk from market-based to credit-based assets to reduce earnings volatility**
 - Significantly reduce exposure to MSR
 - Market Government and Fixed rate servicing
 - Build Home Loans portfolio
- **Continue to attack the cost structure**
 - Consolidate additional sites
 - Implement new Loan Origination System and enhance Enterprise Decision Engine
 - Leverage distribution in Financial Centers

Appendix – Project Plan



	2006			2007			2008				
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
RETAIL	Q3 '06 Develop new recruiting strategy and training programs										
	Q4 2006 First consolidation phase for HLCs and LFCs										
	1/07 Profit-driven comp plans to the field										
	4/07 New Integrated POS and LOS										
LONG BEACH	Through '06 and '07 Selective market exits										
	Q4 2006 BFO Rollout and LOS Deployment										
WHOLESALE	2008 LFC Consolidation										
	6/06 P&Ls by business line, WLC and Broker										
	Q3 2006 Bundled HELOCs on wamubroker.com and Premier Broker Program										
	Q4 2006 Standalones Introduced										
CONSUMER DIRECT	Q4 '06 Site closures: 3 in Q4 2006										
	Q1 '08 3 in Q1 2008										
	Q3 2007 LOS Implementation										
	Q1 2008 New product rollout										
	Q4 2006 Subprime and Alt A processing capabilities										
	Q4 2006 New Prime LOS										
CONDUIT/CAPITAL MARKETS	Q3 2007 Robust Internet Site										
	Q1 2007 Siebel 7 Upgrade										
	Q2 2007 Acquisition marketing execution and Upgraded telephony technology										
	Q2 2006 Realign Corr to Conduit										
	Q4 2006 - 2007 MSR Sales										
	Q4 2006 • Develop HE Conduit Team and Corporate Credit Approvals • Transfer Pricing and Capital • Develop Portfolio and MSR Sales Capabilities • Recognize Market Risk Management functions										
	Q1 '07 Implement OAS										
SERVICING	Q2 2006 Sale of CRC										
	Q3 2006 • Fusion Completion • Sale of GNMA Servicing • HE line/loan servicing capability										
	Q1 2007 Migration of Chatsworth subprime default servicing to Jacksonville										
	Q1 2007 Sale of Fixed Rate loans										
	Q2 2007 Custodial Strategy										
Q1 2008 Migration of Milwaukee functions to Jacksonville and Florence											

Refer to quad 1-pagers on each business unit (behind slide)



you've been

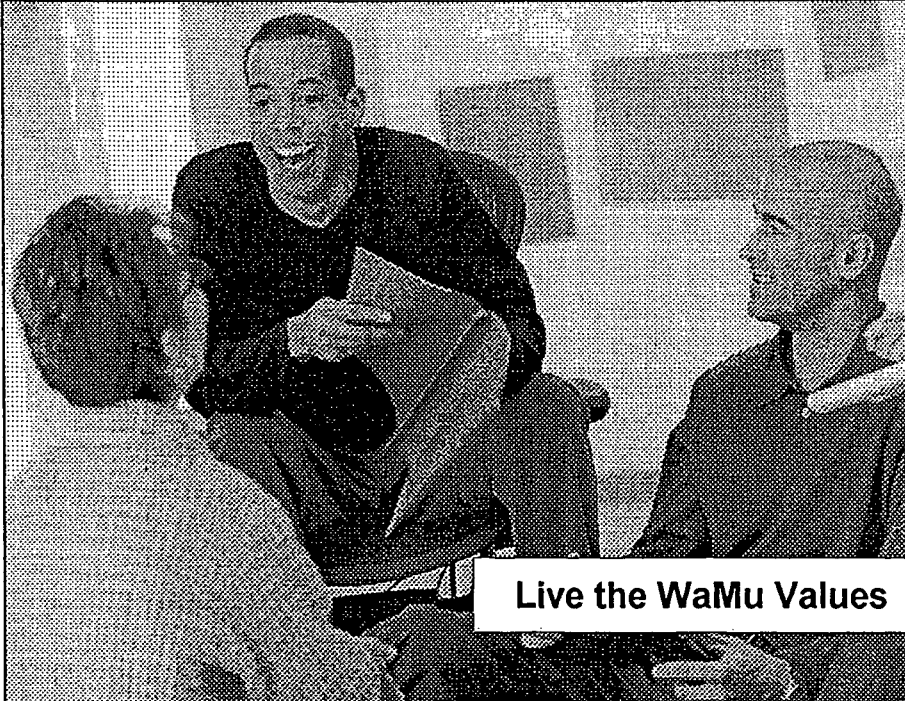
Be Bold!

David Schneider, President

BOLD

28

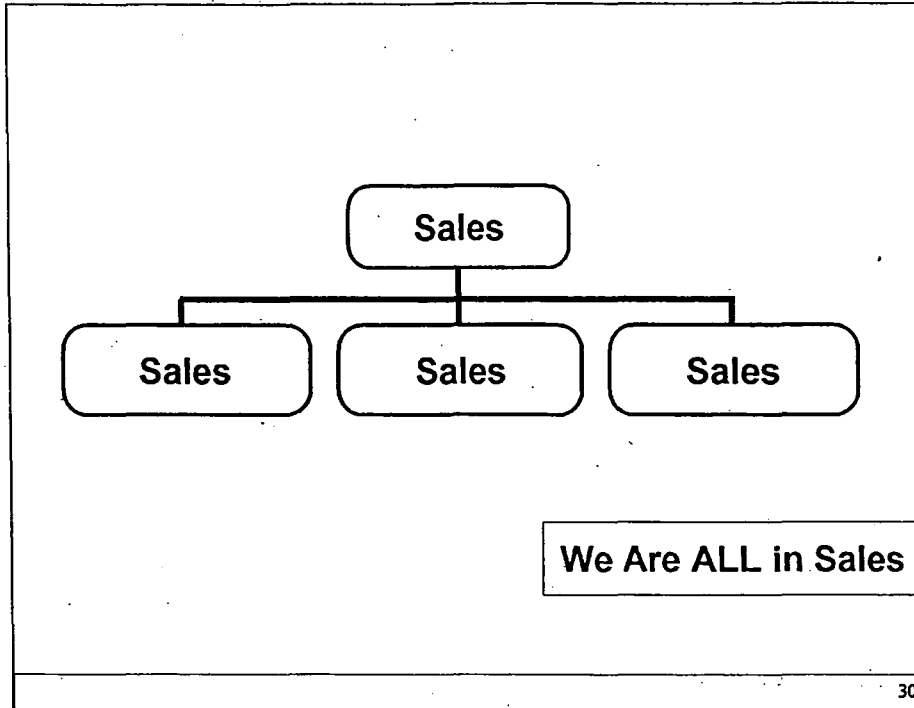
JPM_WM0308868



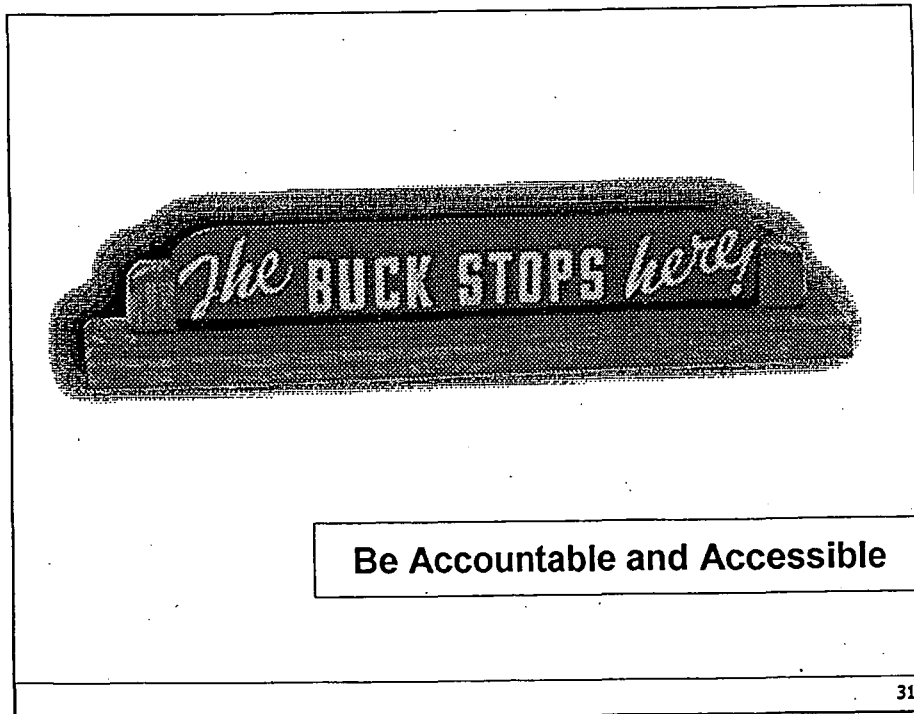
Live the WaMu Values

JPM_WM0308869

Permanent Subcommittee on Investigations
EXHIBIT #4

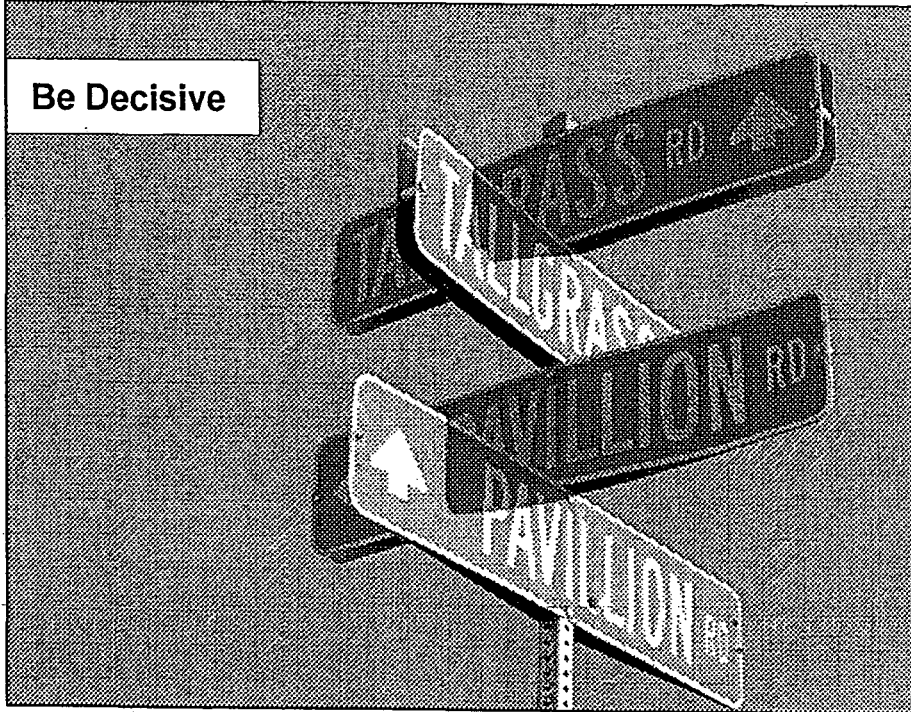


JPM_WM03088870



JPM_WM03088871

Be Decisive

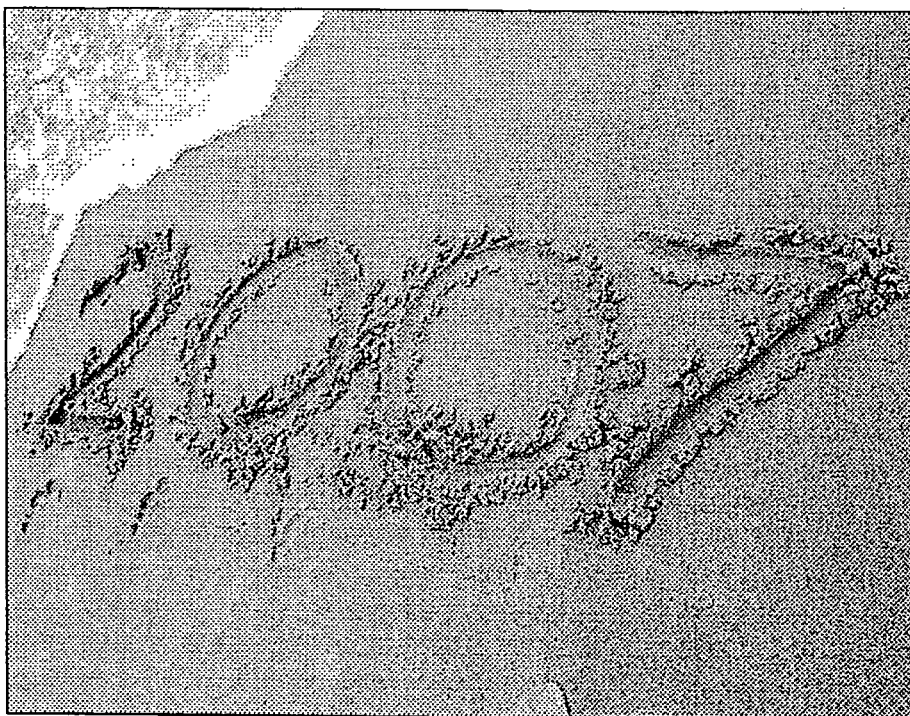


JPM_WM0308872

Have Fun



JPM_WM0308873



JPM_WM0308874

2007 Focus Areas

Growth

- Simple Loan Manager
- WaMu Mortgage Plus
- Expand Subprime
- Grow Prime Sales Force
- Expand Investor Sales Capability

35

JPM_WM0308875

Q & A



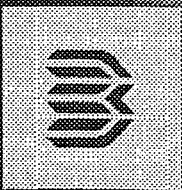
36

JPM_WM03088876

be
BOLD

37

JPM_WM03088877



Washington Mutual

Subprime Mortgage Program

January 2007

Permanent Subcommittee on Investigations

EXHIBIT #5

Free Writing Prospectus

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you so request.

Forward-Looking Statement

This presentation contains forward-looking statements, which are not historical facts and pertain to future operating results. These forward-looking statements are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this document that are not historical facts. When used in this presentation, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may" are generally intended to identify forward-looking statements. These forward-looking statements are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the results discussed in these forward-looking statements for the reasons, among others, discussed under the heading "Factors That May Affect Future Results" in Washington Mutual's 2005 Annual Report on Form 10-K/A and "Cautionary Statements" in our Form 10-Q/A for the quarter ended March 31, 2006 and Forms 10-Q for the quarters ended June 30, 2006 and September 30, 2006 which include:

- Volatile interest rates and the impact on mortgage rates;
- Economic trends that negatively impact the real estate lending environment;
- Risks related to the option adjustable-rate mortgage product;
- Risks related to subprime lending;
- Operational risks;
- Risks related to credit card operations;
- Changes in the regulation of financial services companies, housing government-sponsored enterprises and credit card lenders;
- Competition from banking and nonbanking companies;
- General business and economic conditions, including movements in interest rates, the slope of the yield curve, and the potential overextension of housing prices in certain geographic markets; and
- Reputational risk.

There are other factors not described in our 2005 Form 10-K/A and 2006 Forms 10-Q, and which are beyond the Company's ability to anticipate or control that could cause results to differ.



Washington Mutual

Index

Page		Page	
1	Cover	23	Documentation trends
2	Forward looking statement	24	Loan purpose trends
3	Index	25	Occupancy trends
4	Subprime Mortgage Overview	26	Long Beach Deal Stats 2006 - 2007
5	Subprime business expansion	28	Appraisal review
6	Mortgage business realignment	29	Consumer compliance
7	Organization Chart	30	Subprime Mortgage Conduit Overview
8	Management experience	31	Conduit strategy
9	Long Beach Mortgage Overview	32	Risk management- sellers
10	Historical timeline	33	Risk management - mortgages
11	Map of loan fulfillment centers	34	Collateral profile
12	Production trend	35	Subprime Servicing Overview
13	Changes in credit standards	36	Default management organization chart
16	2004 shift in credit quality	37	Servicing management experience
17	Serious delinquent trends	38	Servicer ratings
18	Piggyback performance trends	39	Recent improvements
19	FICO distribution trends	40	Impact of improvements
20	FICO distribution trends	42	Washington Mutual Overview
21	Piggyback trends	48	Contacts
22	Piggyback stated income trends		



Washington Mutual

Subprime Mortgage Program Overview



Washington Mutual

WaMu is focusing on higher margin products

- WaMu is committed to residential mortgage lending across the entire credit spectrum
- Improve profitability by expanding into higher-margin products offering a favorable risk/return profile
 - Long Beach Mortgage (broker-sourced subprime mortgage lender)
 - Subprime mortgage conduit (flow and bulk purchases)
 - Alt-A mortgage conduit expansion
 - Mortgage Banker Finance expansion (mortgage warehouse lending)
- Leverage existing expertise and infrastructure to improve efficiency
 - Subprime mortgage acquisition platform: Since 1999, WaMu has purchased \$44 billion (\$14 billion outstanding as of Aug. 2006) in subprime mortgages from third-parties
 - Infrastructure: Credit, compliance, capital markets, legal infrastructure already in place to serve needs of Long Beach Mortgage
 - Above average servicing platform: \$45 billion in subprime mortgages serviced at September 30, 2006 on a platform that is highly rated by rating agencies

Realignment of all WaMu's residential mortgage businesses under one roof

✓ All residential lending channels integrated into the Home Loans division in 2006

- *Long Beach Mortgage, previously under the Commercial division*

✓ Capital markets realignment due to integration of residential lending channels

- *All subprime mortgage capital markets activities, including Long Beach Mortgage, under the direction of one manager*
- *Evaluation of best execution the same no matter which channel sources the loan*
- *Subprime execution distinct from other product types*

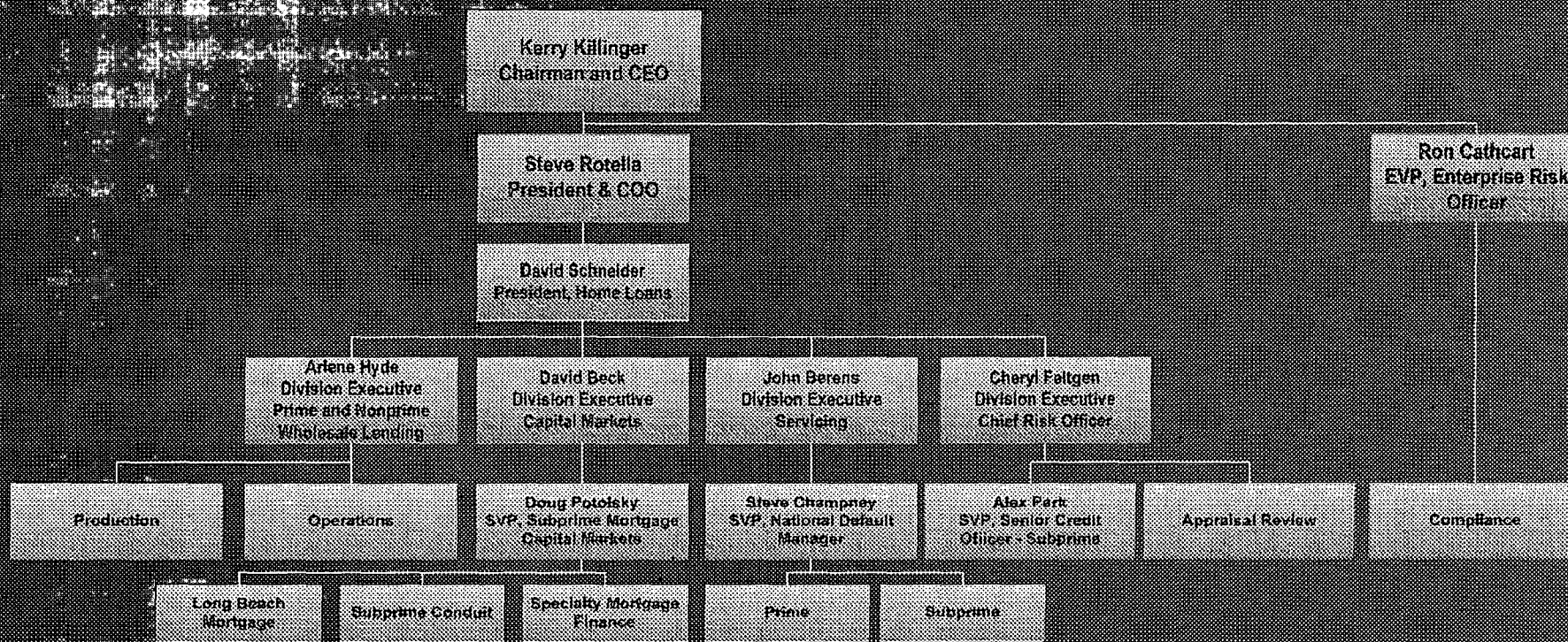
✓ Subprime servicing default management fully integrated into WaMu servicing management structure

- *Upon integrating Long Beach Mortgage into Home Loans, default management for the Long Beach Mortgage portfolio also moved into Home Loans;*
- *Separate default management teams and strategies for prime and subprime;*
- *Both the Head of Servicing and the National Default Manager's careers based in subprime servicing*



Washington Mutual

WaMu Subprime Organization



Seasoned Management Team

Executive	Division	Title	Joined WaMu	Total Relevant Experience	Previous Employer
Doug Potolsky	Subprime Capital Markets	SVP Capital Markets	2005	25 years	JP Morgan Chase
Susan Sinn	Long Beach Mortgage	Wholesale Nonprime Operations Manager	2005	25 years	JP Morgan Chase
Dennis Lau	Specialty Mortgage Finance	FVP	1987	19 years	Washington Mutual
Jay Weisbrod	Long Beach Mortgage	Wholesale Production Manager	1994*	16 years	Beneficial
Dave Coultas	Long Beach Mortgage	FVP Capital Markets	2004	13 years	Washington Mutual
Alex Park	Credit Policy	Senior Credit Officer	2006	14 years	Fremont
John Berens	Servicing	SVP, Servicing	2005	24 years	JP Morgan Chase
Steve Champney	Servicing	SVP, Default Manager	2005	20 years	JP Morgan Chase

* joined Long Beach Bank, F.S.B.



Washington Mutual

Long Beach Mortgage

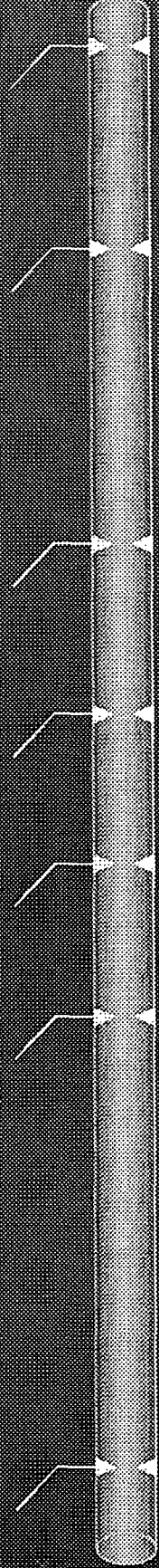
a division of Washington Mutual Bank



Washington Mutual

The Subprime Mortgage Industry's Most Experienced Broker-Sourced Lender

<p>1938 Long Beach, F.S.B. establishes Broker-Sourced operation</p>	<p>1994 Long Beach surrenders its bank charter. Broker-sourced operations expand outside California</p>	<p>1996 Origination volume exceeds \$1 billion in 43 states</p>	<p>1997 Broker-sourced division sold to newly formed public company*</p>	<p>1999 Long Beach Mortgage Company acquired by Wamu</p>	<p>2004 New Strategy Implemented</p>	<p>2006 Long Beach Mortgage became division of WMB</p>
--	--	--	---	---	---	---

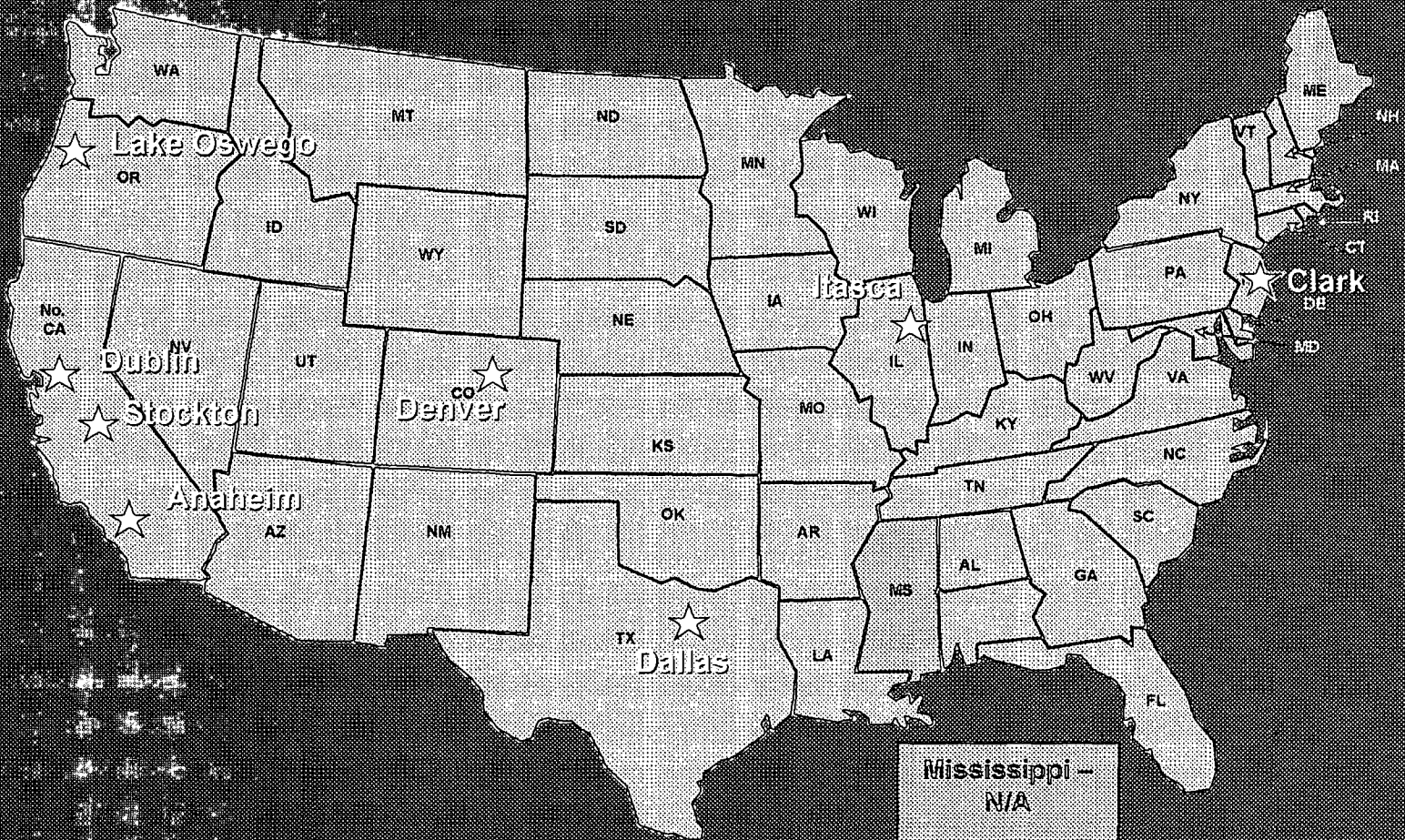


* New companies commence business as Long Beach Financial Corp and Long Beach Mortgage Company, respectively



Washington Mutual

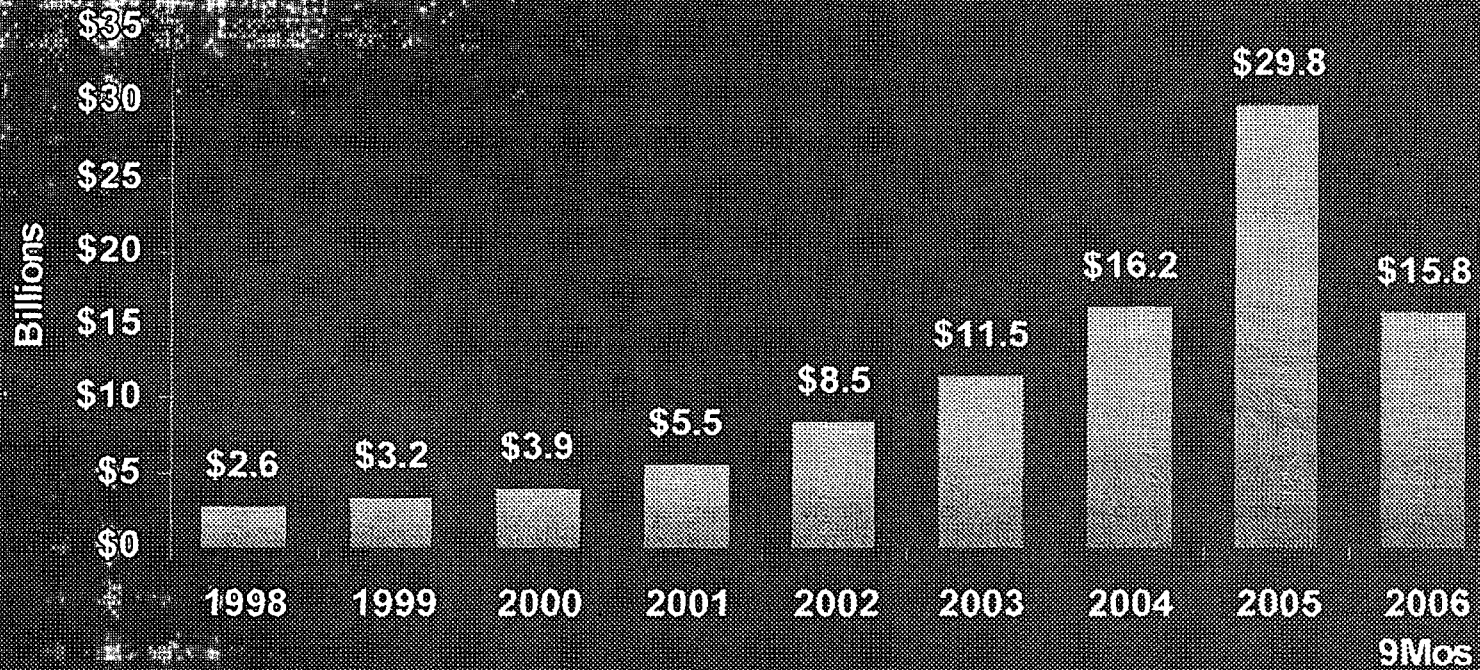
Loan Fulfillment Centers



Mississippi -
N/A



Long Beach Mortgage* Annual Origination Volume



* Subprime mortgage broker channel



Improving credit standards since 2004

- Jan 2004 → Disallowed ≤ 500 FICO primary borrowers
- Ceased lending on manufactured housing
- Jun 2005 → Eliminated "D" credit eligibility
- Dec 2005 → Raised minimum FICO from 575 to 600 on piggyback loans
- Mar 2006 → Lowered maximum LTV for Full Doc "C" borrowers
- Established minimum FICO score for Non-owner Occupied loans
- Disallowed private, party 2nd liens for Non-owner Occupied loans
- Implemented DISSCO screening for all loan submissions to minimize fraud related to incorrect applicant information and property overvaluation
- Apr 2006 → Increased minimum Net Disposable Income requirements
- Reintroduced bankruptcy seasoning requirements
- Established First Time Home Buyer definition: no residential ownership for 24 months
- Eliminated stated income wage earner loans for First Time Homebuyers
- May 2006 → Raised piggyback stated income FICO score minimum to 620
- Established additional guidelines for First Time Homebuyers
 - ✓ *Owner-occupied only*
 - ✓ *Minimum credit scores established:*
 - Full Doc $\leq 90\%$ LTV/CLTV = 550
 - Full Doc $> 90\%$ LTV/CLTV = 600
 - Stated Income = 620
 - ✓ *Property type 1-2 units only*
 - ✓ *Maximum combined loan amount \$750k*
 - ✓ *Non-financial institutions 2nd lien loans disallowed for LTV/CLTV $\geq 95\%$*
 - ✓ *Debt-to-income ratio maximum 50%*
 - ✓ *2 months reserves (PITI) required on stated income loans with LTV/CLTV $> 80\%$*
 - ✓ *Bankruptcy seasoning ≥ 36 months*
 - ✓ *Payment shock maximum 200% on PITI*



Washington Mutual

Improving credit standards since 2004 (cont.)

- Jun 2006 → Established maximum loan of \$500,000 for non-owner occupied properties with LTV > 85%
- Oct 2006 → Raised minimum credit history standard for high CLTV loans
- Nov 2006 → Raised piggyback stated income FICO score minimum to 640
 - Revised bankruptcy discharge seasoning requirement to be dependent on LTV/CLTV rather than borrower quality (note Premium A+ requires minimum 24 months since bankruptcy regardless of LTV/CLTV)
 - ✓ 36 months: LTV/CLTV = 90.01% - 100.00% (previously 95.01% - 100%)
 - ✓ 24 months: LTV/CLTV = 85.01% - 90.00%
 - ✓ 18 months: LTV/CLTV = 80.01% - 85.00%
 - First Time Home Buyers
 - ✓ Stated Income non-piggyback loan, established FICO minimum at 620
 - ✓ HistoryPro report on all subject properties
 - New guidelines for borrowers with a vested interest in a property but with no mortgage history
 - Minimum credit history
 - ✓ LTV/CLTV ≥ 90%: 1 of 3 trade lines minimum high credit balance of \$2,500
 - ✓ Premium A+: 3 trade lines with a minimum of 24 months activity on at least one
 - Disallowed borrowers from switching to Stated Income from Full/Limited Doc
- Jan 2007 → Minimum loan amount increased to \$50,000 for 1st liens and \$15,000 for 2nd liens
 - Maximum loans to one borrower decreased from 10 loans to 3 loans
 - Maximum aggregate loan amount to one borrower decreased from \$6MM to \$2.5MM
 - Minimum credit score for non-piggyback 1st liens increased
 - ✓ Stated income and 95% LTV/CLTV = 640
 - ✓ Full doc and >80% LTV/CLTV = 540
 - ✓ Full doc and ≤ 80% = 500



Washington Mutual

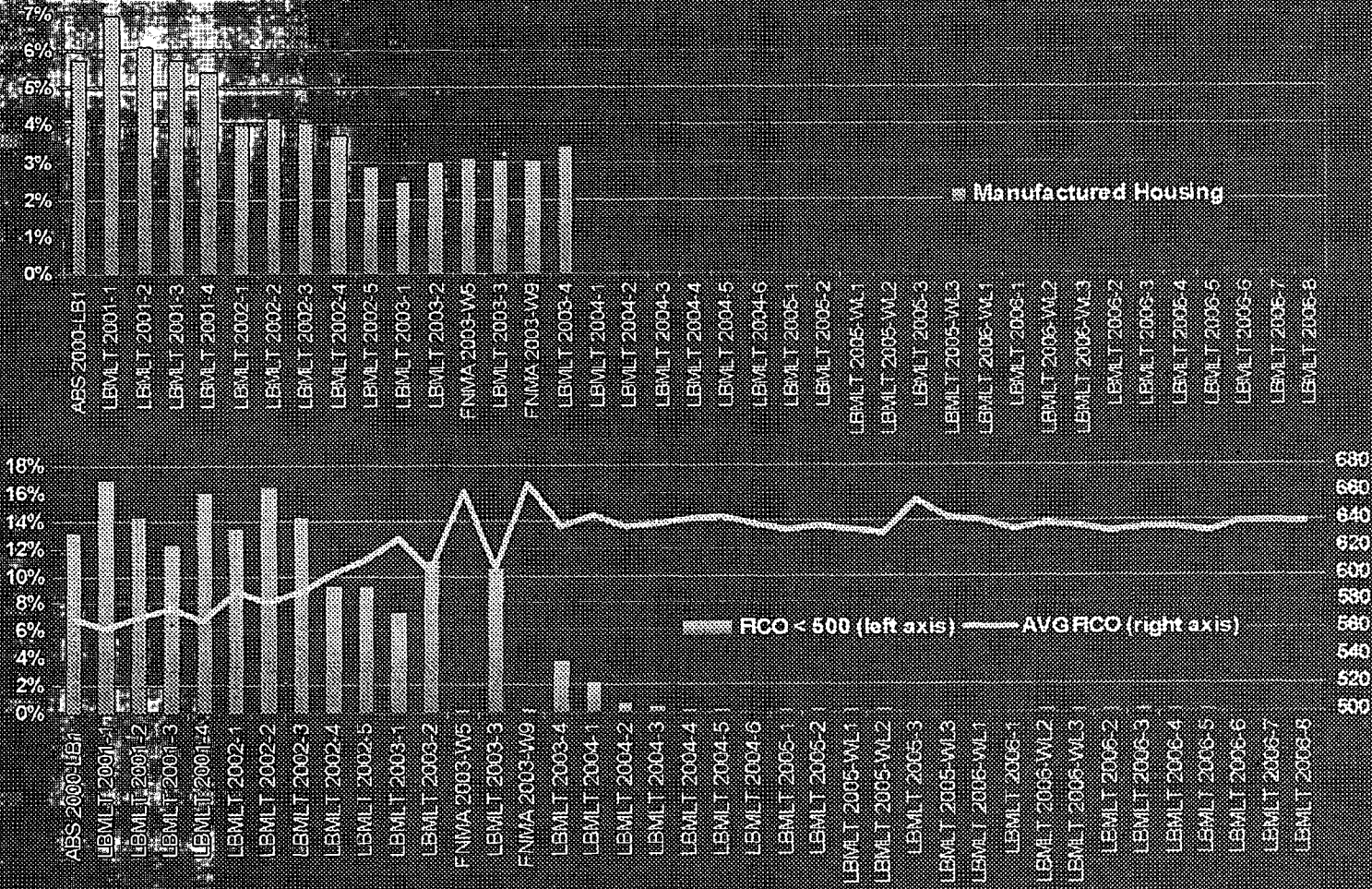
Improving credit standards since 2004 (cont.)

- Jan 2007 → Non-owner occupied purchase money loans: FICO minimum = 660; LTV/CLTV maximum = 80%
- Revised minimum credit history requirements
 - ✓ *Purchase money and LTV/CLTV ≥ 90% = 3 trade lines open for 24 months plus 1 open trade line with minimum high credit \$2500 open ≥ 12 months*
 - ✓ *All non-owner occupied loans = 3 trade lines open for 24 months plus 1 open trade line with minimum high credit \$2500 open ≥ 12 months*
 - Limited seller concessions
 - Established maximum LTV/CLTV for Georgia, Michigan and Ohio loans
 - ✓ *Full doc = 90%*
 - ✓ *Limited doc / stated income = 80%*
 - Established maximum LTV/CLTV and minimum FICO for Illinois and Indiana loans
 - ✓ *Full doc and LTV/CLTV > 95%; minimum FICO = 640*
 - ✓ *Stated income: minimum FICO = 640 and maximum LTV/CLTV = 95%*
 - Reduced the maximum age at funding of qualifying documents from 90 days to 60 days
 - Require 12 months canceled checks for verification of rent
 - Original LTV/CLTV used when refinancing properties owned ≤ 6 months
 - Original LTV/CLTV used when refinancing owner-occupied properties owned ≤ 12 months
 - Purchase money loans on properties owned by seller ≤ 6 months are disallowed
 - Property value increases > 20% in 12 months require a driveby appraisal and documented support
 - Established guidelines for loans backed by properties inherited within the prior 12 months



Washington Mutual

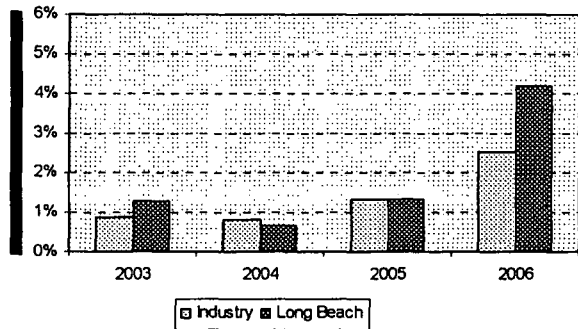
A Major Shift in Characteristics in 2004



Washington Mutual

Proactive response to negative industry trends

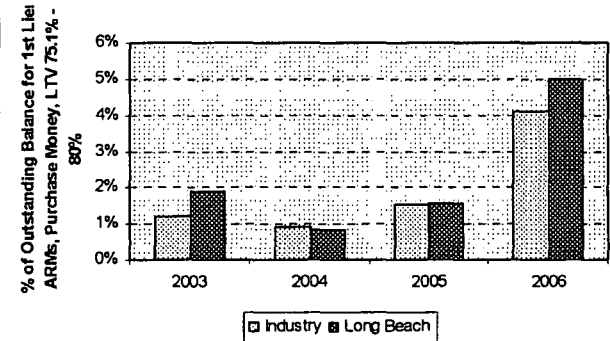
90+ Delinquencies (OTS) at 7 months seasoning
All 1st Liens
Originated January - June



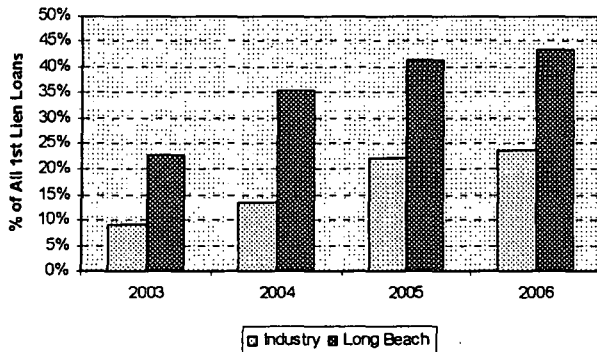
Subprime performance has deteriorated in 2006 more for Long Beach than the industry



90+ Delinquencies (OTS) at 7 months seasoning
Securitized 1st Lien ARMs
Originated January - June
Purchase Money, LTV 75.1% - 80%



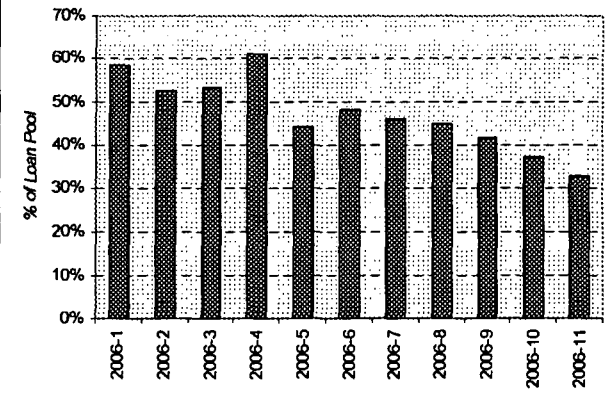
Securitized 1st Lien ARMs
Originated January to June
Purchase Money Loans, LTV 75.1% - 80%



Management actions have been effective in reducing these and other high-risk loan types



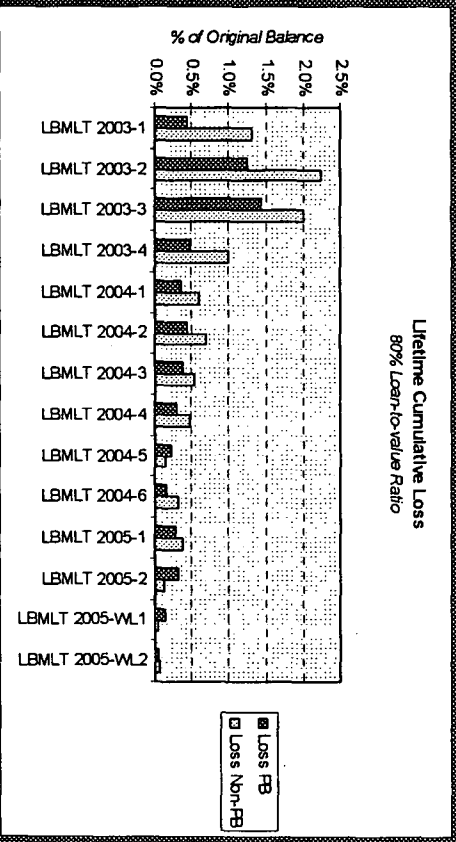
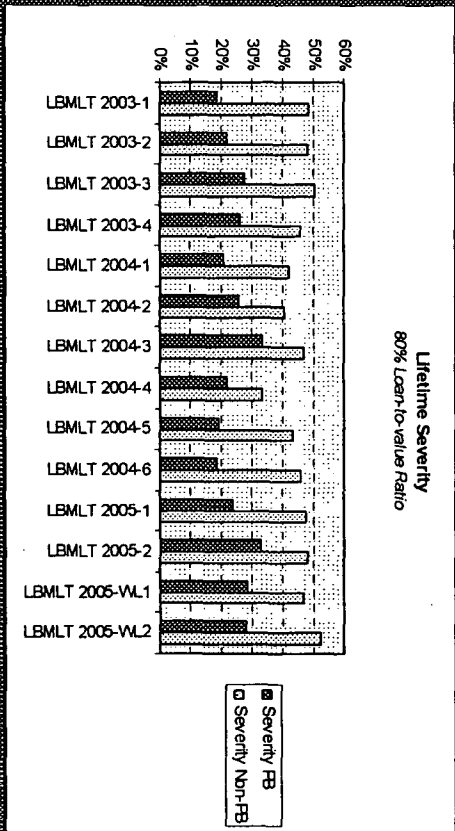
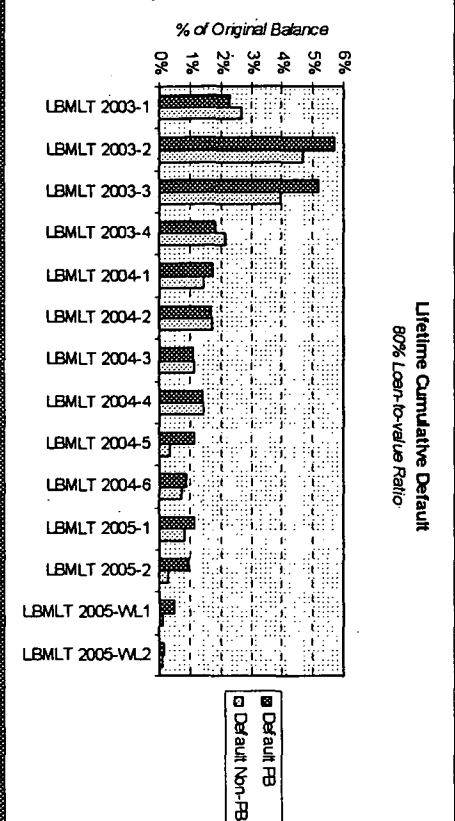
1st liens with Simultaneous 2nd liens



Source: LoanPerformance, Washington Mutual
Data as of December 21, 2006



Historical performance of Piggyback 1st Liens compared to Stand-alone 1sts with 80% LTV

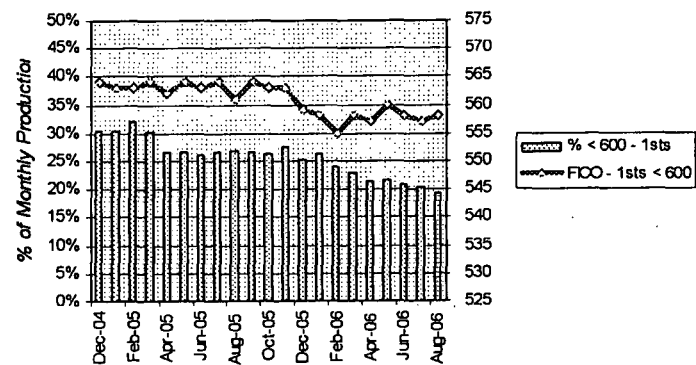


 Washington Mutual

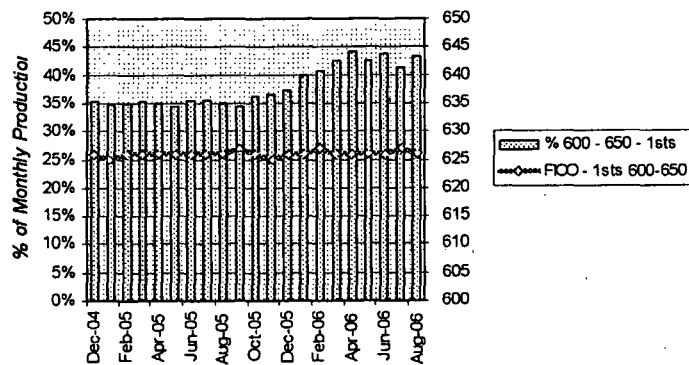
Impact of credit changes on FICO distribution

- ✓ Fewer sub-600 FICOs
- ✓ More FICOs 600 to 650

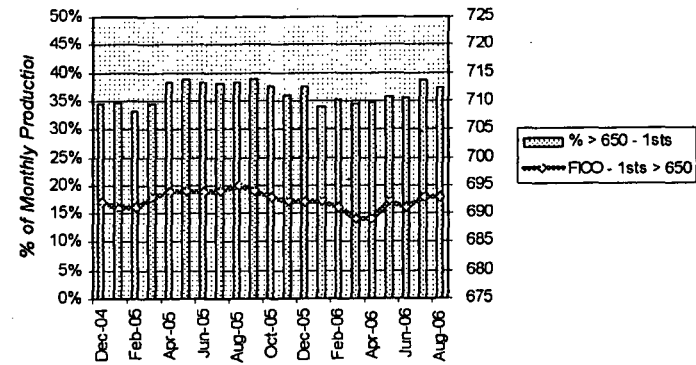
Average FICO Score and % FICO < 600 - 1sts



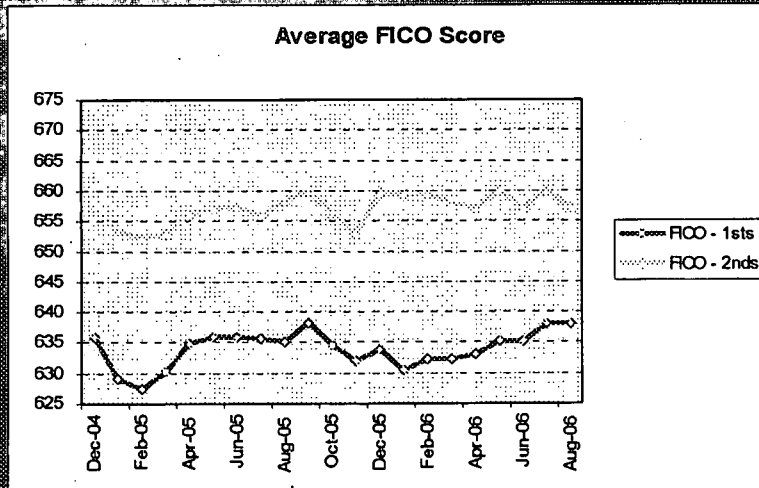
Average FICO Score and % FICO 600 - 650 - 1sts



Average FICO Score and % FICO > 650 - 1sts



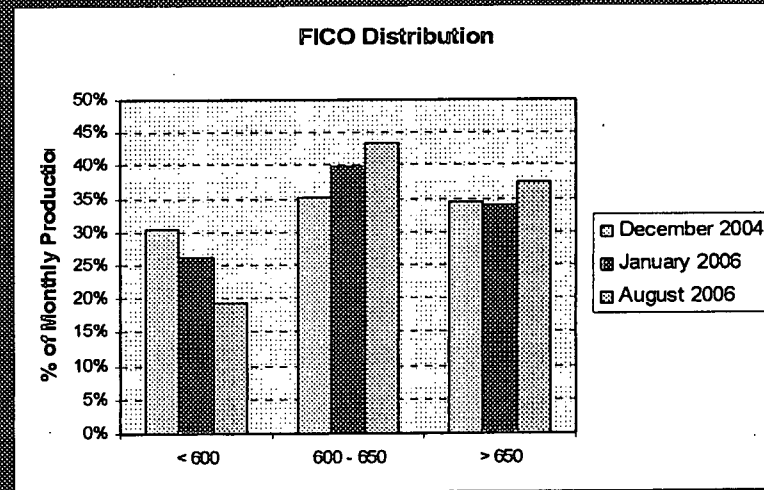
Improved FICO characteristics



Improving Average FICO on 1sts

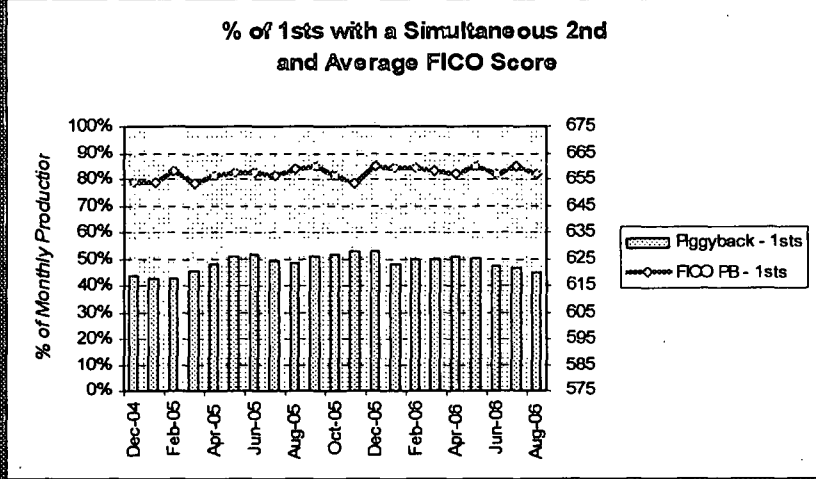


And a tighter FICO distribution



Washington Mutual

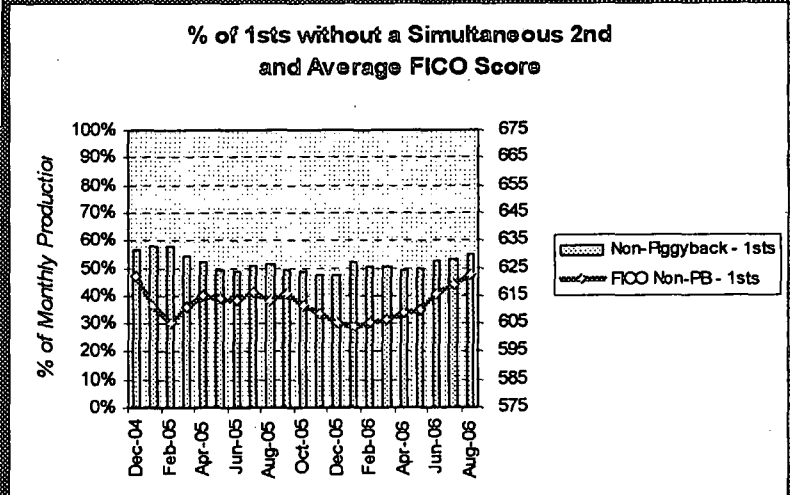
Improvements in collateral mix



Fewer piggyback loans

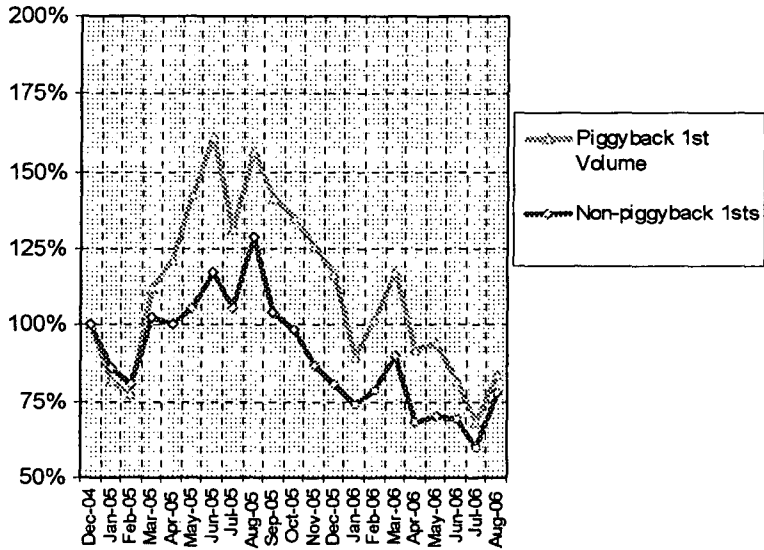


And better FICO scores on non-piggyback loans

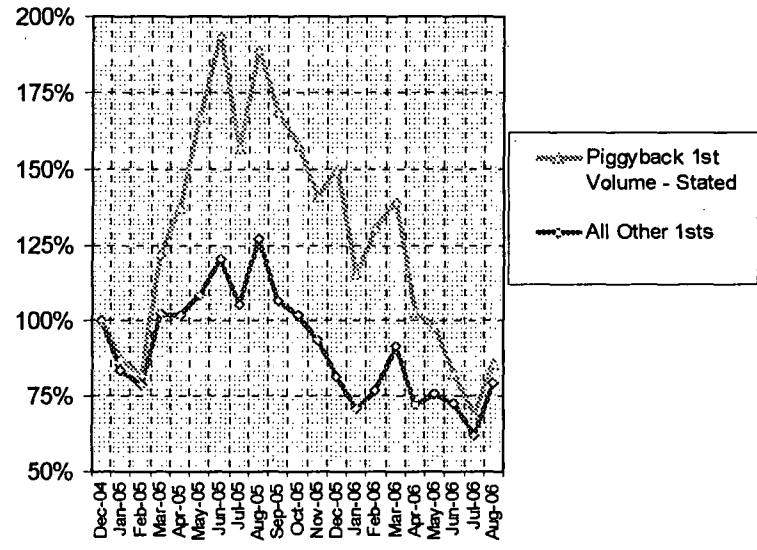


A Shift Away from Piggyback Stated Income

Change in Volume - Piggyback

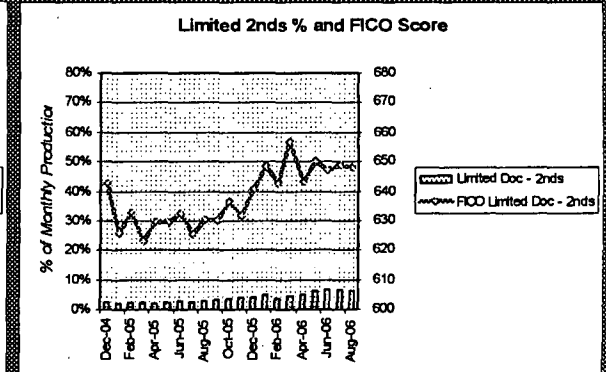
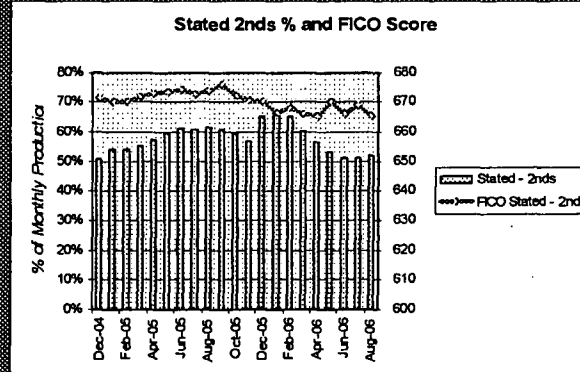
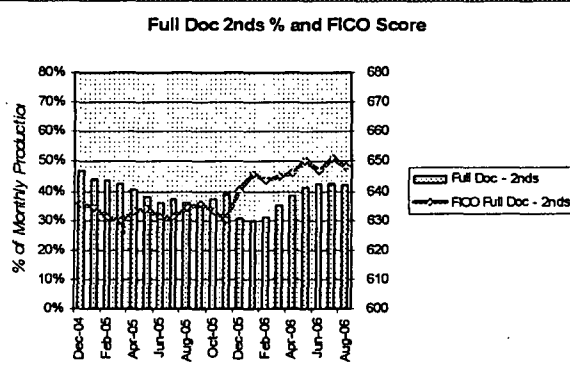
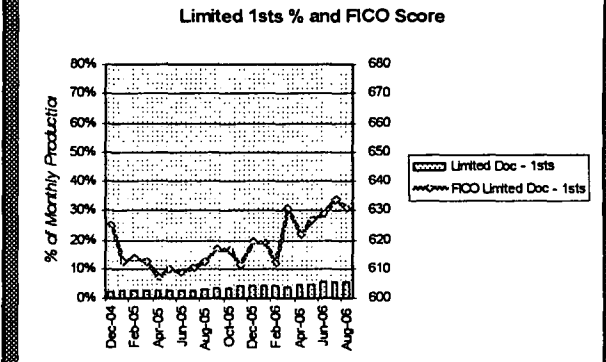
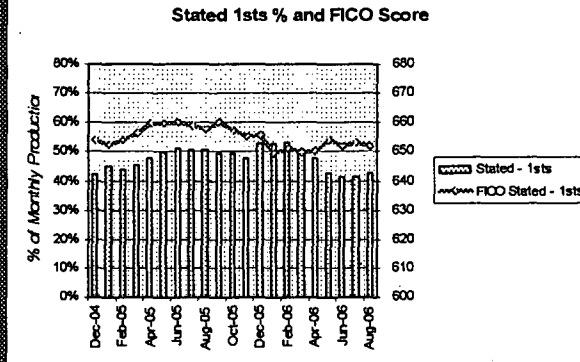
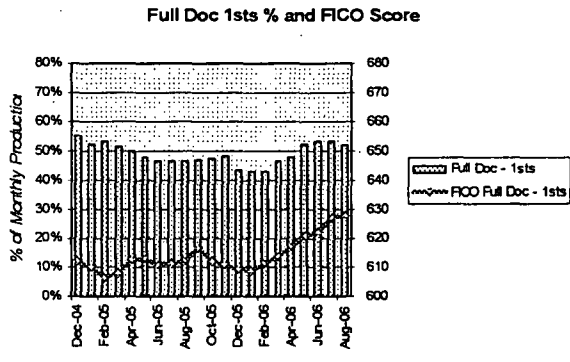


Change in Volume - Piggyback Stated Income



Note: base = Dec 2004 monthly origination volume;
 piggyback = 1st lien loan having a 2nd lien loan
 originated simultaneously

Higher Average FICOs and more Full Docs

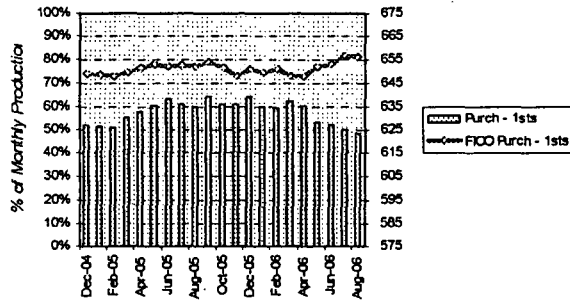


Note: Long Beach Mortgage does not originate stand-alone 2nds

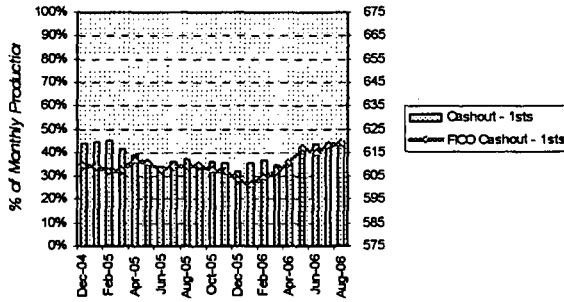


Higher Average FICOs for each loan purpose

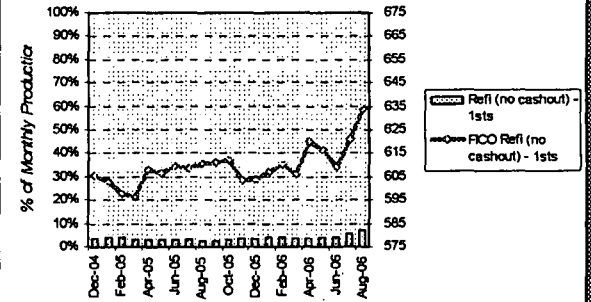
Purchase 1sts % and FICO Score



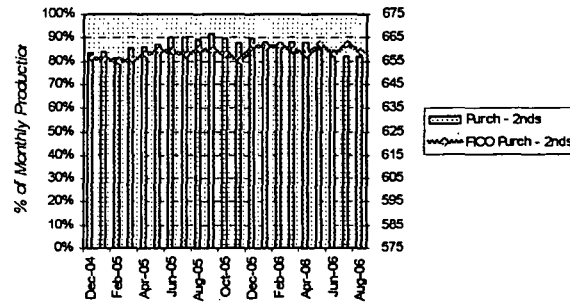
Cashout 1sts % and FICO Score



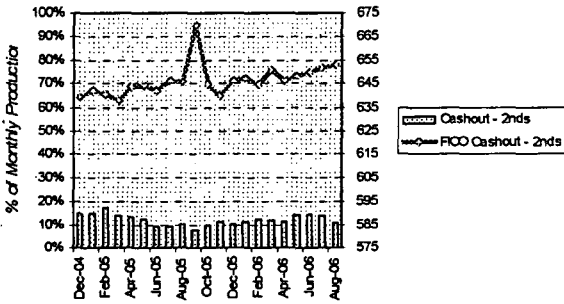
Refi (no cashout) 1sts % and FICO Score



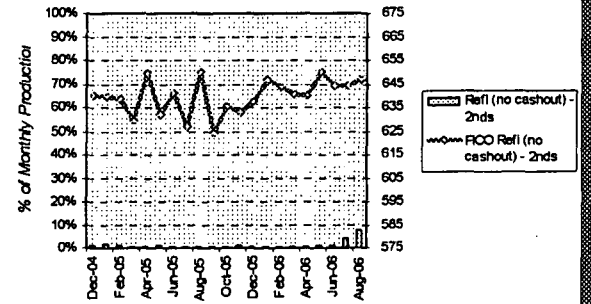
Purchase 2nds % and FICO Score



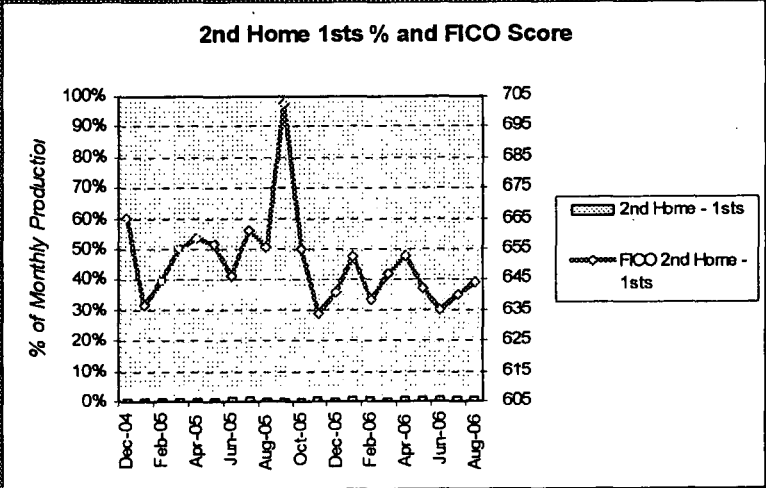
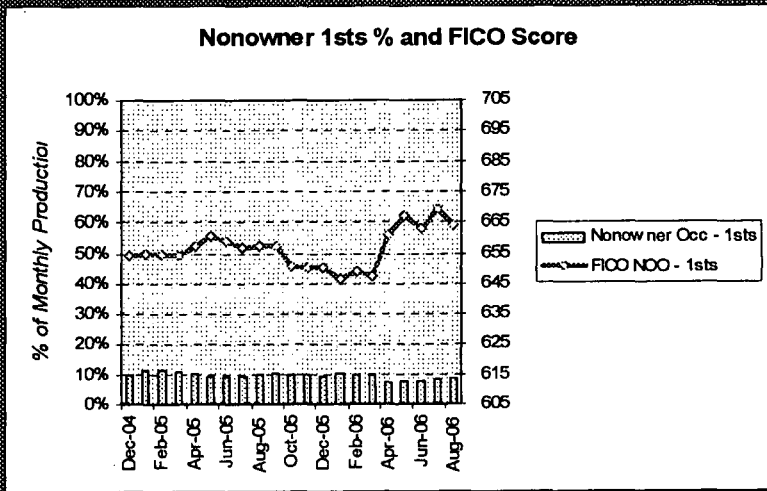
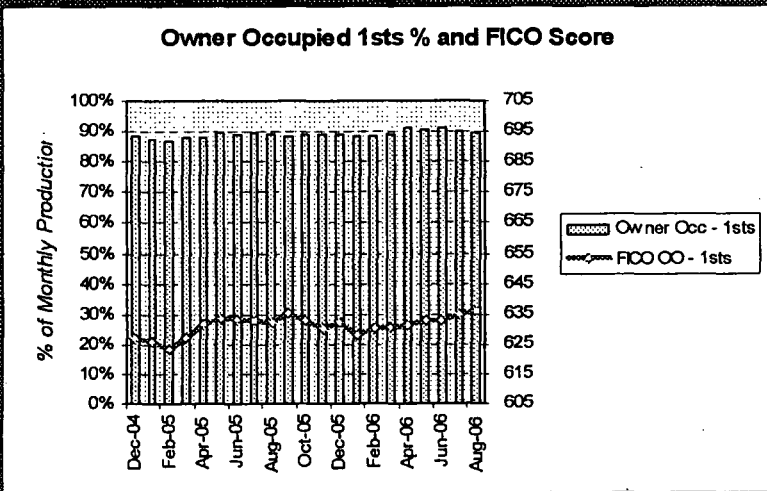
Cashout 2nds % and FICO Score



Refi (no cashout) 2nds % and FICO Score



Higher Average FICOs for loans to investors



2006 Transaction Statistics

	2006-1		2006-2		2006-3		2006-4		2006-5		2006-6		2006-7		2006-8		2006-9		2006-10		2006-11		
Issue Date	Feb 7, 2006		Mar 7, 2006		Apr 6, 2006		May 9, 2006		Jun 15, 2006		Jul 26, 2006		Aug 30, 2006		Sep 21, 2006		Oct 12, 2006		Nov 9, 2006		Dec 14, 2006		
Aggregate Pool Size (billions)	\$ 2.50		\$ 3.00		\$ 1.74		\$ 1.92		\$ 1.93		\$ 1.69		\$ 1.60		\$ 1.98		\$ 1.52		\$ 1.01		\$ 1.50		
Average Loan Size	\$ 221,219	\$ 203,813	\$ 213,779	\$ 194,309	\$ 200,960	\$ 212,127	\$ 212,862	\$ 214,166	\$ 217,404	\$ 216,152	\$ 235,110												
Weighted Average Coupon	8.25%	8.54%	8.51%	8.55%	8.60%	8.39%	8.39%	8.46%	8.53%	8.47%	9.20%												
ARM Gross Margin	5.11%	5.10%	5.10%	5.10%	5.10%	5.10%	5.09%	5.11%	5.10%	5.11%	5.11%												
FICO	633	632	634	635	631	639	636	639	639	635	639												
FICO < 600	26.7%	25.7%	23.0%	20.0%	23.1%	18.7%	18.8%	18.7%	18.9%	21.2%	21.1%												
Original Loan to Value Ratio	79.7%	80.9%	80.7%	80.8%	80.9%	80.9%	80.8%	81.2%	81.8%	81.7%	81.3%												
Combined Loan to Value Ratio	90.7%	90.8%	90.6%	92.4%	89.2%	90.2%	89.7%	89.8%	89.9%	88.9%	87.7%												
Debt to Income Ratio	41.6%	41.7%	41.4%	41.7%	41.0%	41.5%	41.5%	39.4%	39.5%	39.5%	39.3%												
1st Liens	100.0% 633	96.3% 631	96.0% 633	95.0% 633	95.0% 630	95.0% 638	94.6% 637	94.0% 638	93.8% 637	93.8% 634	93.8% 638												
2nd Liens	0.0% na	3.7% 659	4.0% 661	5.0% 660	5.0% 657	5.0% 658	5.4% 658	6.0% 658	6.3% 658	6.2% 655	6.3% 659												
1sts Liens with 2nd Liens (Total)	58.4% 653	52.5% 654	53.1% na	81.1% 650	44.1% 651	48.3% 657	48.2% 657	44.7% 657	41.8% 667	37.3% 654	32.9% 657												
1sts Liens with 2nd Liens (% of)	58.4% 653	54.5% 654	55.4% na	84.3% 650	46.4% 651	50.9% 657	48.9% 657	47.6% 657	44.5% 657	39.6% 654	35.1% 657												
Adjustable Rate Mortgages	91.3% 633	88.1% 632	87.3% 633	85.9% 634	82.8% 630	83.9% 638	83.9% 636	82.6% 636	81.9% 636	78.8% 631	75.3% 634												
Fixed Rate Mortgages	8.7% 628	11.9% 632	12.7% 638	14.1% 639	17.3% 637	16.2% 643	16.1% 649	17.4% 655	18.2% 653	21.2% 652	24.2% 657												
Loans with Prepay Penalties	67.8% 633	66.1% 632	67.9% 634	67.3% 636	67.9% 631	71.7% 640	69.1% 640	75.1% 640	74.9% 641	75.6% 637	79.5% 640												
Interest Only Loans	7.6% 674	8.5% 657	8.1% 664	7.1% 662	7.3% 668	6.4% 669	6.3% 668	7.5% 666	6.3% 671	8.5% 669	8.8% 665												
40 Year Amortization	44.6% 648	45.0% 645	44.8% 649	41.7% 652	46.0% 640	52.8% 647	52.1% 648	46.3% 648	49.3% 646	43.8% 640	49.9% 642												
Full Documentation	46.3% 610	43.6% 609	42.6% 612	44.0% 614	48.7% 617	51.0% 624	53.6% 629	52.3% 629	52.5% 628	57.7% 628	60.3% 652												
Stated Income	49.2% 655	52.5% 652	53.6% 653	52.4% 652	46.8% 648	44.2% 656	41.4% 653	41.9% 654	42.1% 653	38.3% 649	34.9% 652												
Limited Documentation	4.6% 616	3.9% 616	3.8% 614	3.7% 629	4.5% 621	4.8% 634	5.0% 632	5.8% 629	5.5% 631	4.0% 630	4.8% 630												
Owner Occupied	89.6% 631	89.1% 630	88.7% 632	90.6% 634	89.2% 628	91.4% 636	91.4% 636	91.1% 637	89.7% 636	90.5% 632	91.4% 638												
Non-owner Occupied	9.1% 649	9.6% 646	9.8% 649	8.6% 646	9.2% 660	7.4% 665	7.1% 665	7.5% 669	8.5% 665	7.9% 662	7.3% 670												
2nd Home	1.3% 641	1.3% 650	1.5% 642	0.8% 644	1.6% 645	1.2% 643	1.4% 641	1.4% 650	1.8% 638	1.7% 660	1.3% 649												
Purchase	63.2% 649	61.9% 650	60.7% 652	68.3% 649	56.8% 647	56.2% 654	52.3% 656	51.7% 657	49.5% 655	46.0% 654	40.1% 657												
Cashout	33.2% 604	34.2% 603	35.5% 606	28.6% 605	39.7% 611	39.4% 619	43.9% 619	41.3% 619	42.0% 619	45.8% 617	52.3% 625												
Rate/Term Refi	3.7% 607	3.8% 602	3.9% 613	3.1% 602	3.6% 609	4.4% 617	3.8% 611	6.9% 631	8.5% 640	8.2% 632	7.6% 639												
California	39.9% 644	39.8% 643	41.4% 645	38.2% 647	38.2% 641	41.8% 648	39.5% 648	39.6% 648	40.1% 647	35.9% 645	45.6% 649												
Florida	8.2% 629	7.5% 632	8.7% 626	9.1% 636	9.8% 628	10.4% 636	11.6% 633	11.8% 635	9.8% 635	10.3% 630	7.1% 627												
Illinois	6.7% 639	5.5% 633	4.6% 639	5.6% 632	4.7% 632	4.0% 645	4.8% 636	2.9% 639	4.5% 641	3.5% 632	3.3% 639												
Texas	4.8% 610	4.5% 617	4.2% 613	5.3% 623	5.5% 620	5.1% 624	5.2% 629	4.8% 631	4.6% 630	4.9% 637	3.8% 624												


Washington Mutual

2007 Transaction Statistics

Issue Date	2007-1
Aggregate Pool Size (Millions)	Jan-16, 2006 \$ 1.39B
Average Loan Size	\$ 228,759
Weighted Average Coupon	8.15%
ARM Gross Margin	5.13%
FICO	637
FICO < 600	21.4%
Original Loan to Value Ratio	61.4%
Combined Loan to Value Ratio	87.2%
Debt to Income Ratio	40.2%
1st Liens	93.8% 636
2nd Liens	6.2% 655
1sts Liens with 2nd Liens (Total Pool)	30.4% 655
1sts Liens with 2nd Liens (% of 1sts)	32.4% 655
Adjustable Rate Mortgages	74.2% 632
Fixed Rate Mortgages	25.8% 653
Loans with Prepay Penalties	79.8% 638
Interest Only Loans	9.4% 668
40 Year Amortization	46.1% 639
Full Documentation	61.7% 630
Stated Income	32.7% 653
Limited Documentation	5.6% 628
Owner Occupied	90.2% 635
Non-owner Occupied	7.9% 662
2nd Home	1.9% 660
Purchase	38.6% 653
Cashout	49.4% 624
Rate/Term Refi	12.0% 643
California	40.5% 648
Florida	7.3% 632
Illinois	3.9% 634
Texas	4.8% 625



Washington Mutual

Risk Management – Appraisal Review

- 100% appraisal review by Long Beach Mortgage underwriters
- 100% appraisal review to Washington Mutual standards
 1. OptisValue System is WMB's rules-based system and checks eligibility of 100% of appraisals
 2. CoreLogic's HistoryPro and ThirdParty Scorecard are used to reduce the risk of fraud
 - HistoryPro calculates an f-score (0 – 25) that represents the likelihood of flipping
 - Score 0: appraisal review complete
 - Score 1 – 3: CoreLogic's AVMSelect used to verify value
 - 15 AVM vendors tested on > 44,000 properties purchased Q4 2005
 - Top 5 vendors assigned by county
 - Choice of vendor based on accuracy and hit rate of AVM
 - Verification annually
 - AVM value triggers technical review if < 85% or > 120% of appraisal
 - Score 4 – 25: Appraisal sent to vendor management company for a technical review
 - ThirdParty Scorecard calculates a score (0 – 25) that represents the likelihood the broker is committing collateral fraud; scores > 5 require vendor management company to complete a technical review
- Technical reviews performed by eAppraiseIT (First American) and LSI (Fidelity)
 1. Certified or licensed appraisers perform desktop or driveby review on about 30% of appraisals
 2. Currently, each vendor assigned half of all reviews for each geographic area
 3. Eventually, choice will be based on review quality, valuation accuracy and speed
- Loans underwritten using lower of appraised or revised value (0% tolerance)



Washington Mutual

Strong Compliance Culture

- ✓ Compliance reporting lines are independent of business units
- ✓ LBM compliance officers dedicated to loan fulfillment centers
- ✓ High cost calculations automated in the loan origination system and prohibit approval of high cost loans
- ✓ 100% of loans are reviewed for, among other things, compliance with key consumer regulations prior to funding
- ✓ 100% of refinance loans must pass a net tangible benefits test
- ✓ Corporate Compliance Risk reviews a sample of closed loans every month for compliance by loan fulfillment center and the grades are part of the loan fulfillment center's Key Performance Indicators



Washington Mutual

Risk Management – Sellers

- Seller due diligence focused on developing a long-term profitable relationship
 - *Thorough review of business and lending practices, underwriting philosophy and guidelines*
 - Comparison to industry standards
 - Focus on prudent risk management of seller
 - Limit exposure to predatory lending and full compliance with consumer regulations
 - *Review historical performance and compare to industry norms*
 - *Net worth ≈ \$5MM on average*
 - Sellers have room to grow their businesses but are not too big to control
 - WaMu can provide full menu of banking services
- Ongoing “Deep Dive” seller performance monitoring using proprietary risk management models
 - *Focus on credit and churning*
 - *Performance vs. expectations*
 - *Performance vs. other WaMu partners*
 - *Performance vs. industry*
 - *Seller reps/warrants strictly enforced*

Risk Management – Mortgages

- Extensive use of models drives performance expectations
 - Models are constantly re-calibrated to incorporate recent performance history
- Clearly established minimum standards
 - Credit standards reviewed and approved by Washington Mutual Credit Policy Committee
 - Seller pools are filtered to so that loans meet minimum standards prior to due diligence
 - NO FICO < 500
 - MAX LTV/CLTV 100
 - NO High-risk property types: MH, 5+ units, condotels, coops, time shares
- Significant level of loan level due diligence by third-party due diligence firms
 - 100% complete re-underwrite on pools purchased from new sellers
 - 25% - 100% complete re-underwrite for repeat sellers
 - 100% validation of appraisal using third-party appraisal valuation product
 - 20% - 100% appraisals reviewed using appraiser drive-by review
 - 100% collateral file review by custodian
 - 100% review for consumer compliance
 - 100% review for predatory practices: flipping, equity stripping, fraud
- Washington Mutual management reviews all due diligence decisions by third-parties



Collateral profile of conduit channel

Transaction		2006-HE1	2006-HE2	2006-HE3	2006-HE4	2006-HE5
Closing Date		Apr 20, 2006	May 25, 2006	Sep 29, 2006	Oct 27, 2006	Oct 28, 2006
Pool Size		\$ 389,194,677	\$ 472,002,321	\$ 411,288,638	\$ 291,043,919	\$ 641,653,881
Loan Type	2nd Lien %	3%	6%	4%	5%	5%
	Adjustable Rate Mortgages	84%	86%	76%	86%	76%
	Interest Only Loans	35%	21%	20%	12%	11%
	40 Year Amortization	2%	18%	32%	42%	36%
	Piggyback 1sts	42%	41%	27%	24%	36%
Coupon	Weighted Average Coupon	7.38%	8.30%	8.18%	8.50%	8.31%
	ARM Gross Margin	5.69%	6.08%	5.60%	6.42%	6.62%
Loan Size	Average Loan Size	\$ 208,039	\$ 183,018	\$ 222,559	\$ 155,389	\$ 192,805
	Loans < \$50,000	1%	2%	1%	2%	2%
	Loans > \$500,000	13%	12%	14%	6%	10%
Borrower Quality	FICO	635	625	623	631	626
	FICO < 600	24%	31%	35%	26%	29%
	0x30 Mortgage/Rent History	79%	79%	79%	58%	0%
	Debt to Income Ratio	41%	42%	42%	42%	42%
	DTI > 55%	0%	2%	0%	0%	0%
Loan-to-Value	Original Loan to Value Ratio	79%	81%	80%	83%	83%
	OLTV > 90%	29%	30%	37%	32%	49%
	Combined Loan to Value Ratio	87%	89%	84%	92%	85%
	CLTV > 80%	69%	70%	60%	78%	77%
Documentation	Full Documentation	45%	54%	51%	50%	47%
	Stated Income	49%	43%	45%	26%	50%
Property	Owner Occupied	96%	98%	93%	94%	94%
	SFR + PUD	94%	88%	84%	88%	87%
	California	40%	37%	39%	17%	28%
Purpose	Cashout	48%	45%	65%	37%	58%
	Purchase	47%	51%	27%	58%	38%



Washington Mutual

Washington Mutual Overview



Leading Player in All Business Lines

National Rankings

Retail Banking

Total deposits and retail banking stores	6 th
Debit cards outstanding	3 rd
Bank credit card issuer ¹	6 th

Commercial Group

Multi-family portfolio holdings	1 st
---------------------------------	-----------------

Home Loans

Home lending originations and servicing ²	3 rd
Home equity loans	6 th
Subprime lending ³	9 th

¹ Nilson Report, 8/06, mid-year 2006 ranking.

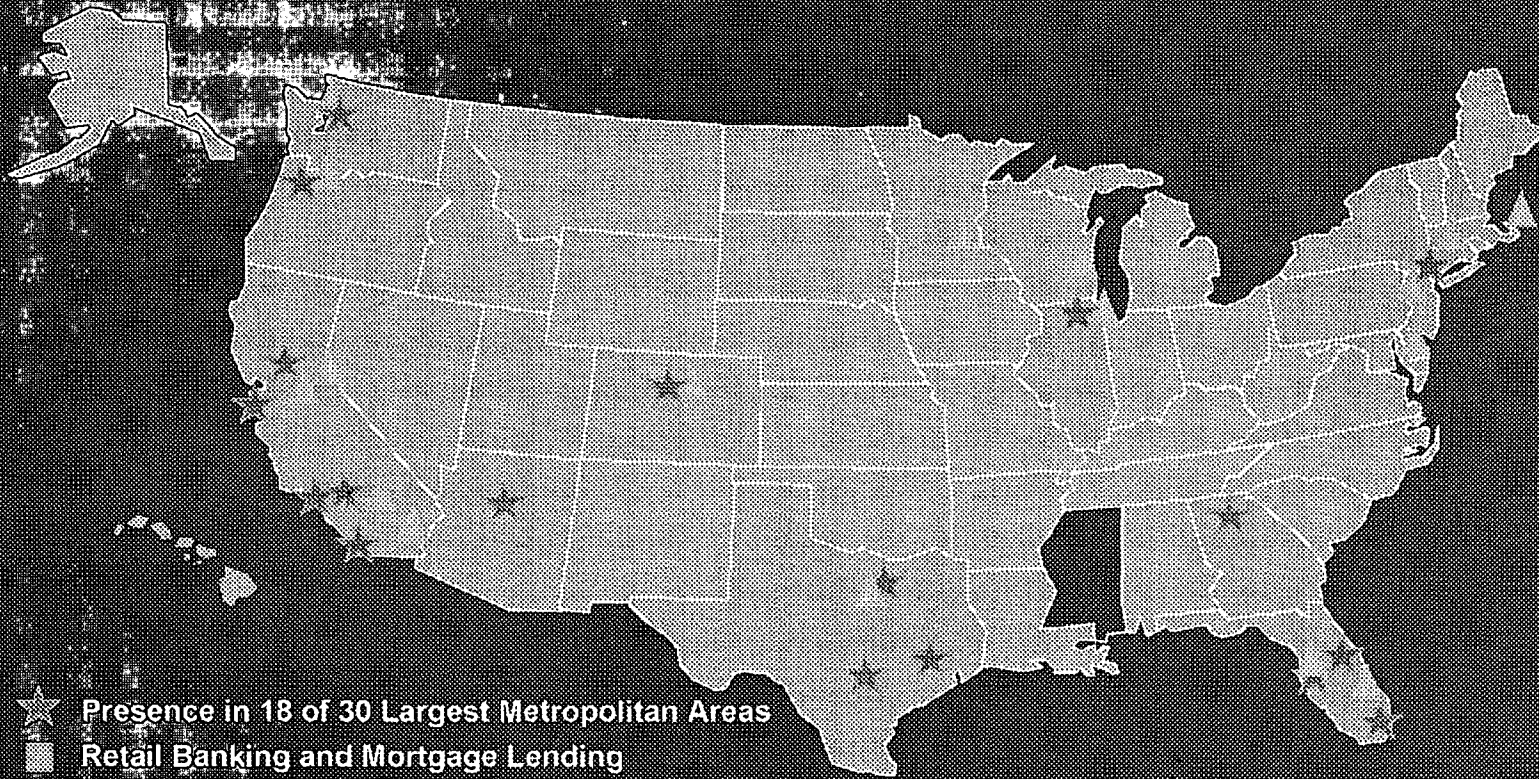
² Inside Mortgage Finance, YTD through 9/30/06 (originations), as of 9/30/06 (servicing)

³ Inside B&C Lending, YTD through 9/30/06



Washington Mutual

Powerful Distribution Franchise



- ★ Presence in 18 of 30 Largest Metropolitan Areas
- Retail Banking and Mortgage Lending
 - 2,225 Retail Stores in 15 States
 - 3,912 ATMs
 - 325 Home Loan Centers in 22 States
- Wholesale, Consumer Direct and/or Long Beach Mortgage Lending in 49 States
- ▲ Multi-Family Lending through 54 Offices in 17 Markets

As of 12/31/06



Washington Mutual

Strong Credit Ratings

Based on WaMu's strong deposit base, lending franchise and financial strength

Washington Mutual, Inc.

WM Bank

	Moody's	S&P	Fitch	DBRS		Moody's	S&P	Fitch	DBRS
Senior Unsecured LT	A3	A-	A	A		A2	A	A	A
Short Term	P2	A2	F1	R-1		P1	A1	F1	R-1
Subordinated	Baa1	BBB+	A-	A		A3	A-	A-	A
Deposit	--	--	--	--		A2	n/r	A+	A
Preferred Stock	Baa2	BBB	A-	BBB		n/r	n/r	n/r	n/r
Outlook	S	P*	S	S		S	P*	S	S

On Positive Outlook

Moody's¹

Ratings reflect its solid consumer and mortgage franchises, with strong market shares in many different geographic markets, as well as its good earnings, sound asset quality and solid management.

¹ Source: Moody's, 4/06

² Source: Standard and Poor's, 2/16/06

Standard & Poor's²

The outlook revision reflects the significant improvement in risk management practices within WaMu's mortgage bank operations, in particular the risks of managing a large servicing portfolio.



Washington Mutual

Contacts

Doug Potolsky
WaMu Subprime Capital Markets
Senior Vice President
(212) 702-6961
doug.potolsky@wamu.net

Dave Coultas, CFA, CPA
Long Beach Mortgage
FVP, Capital Markets
(206) 302-4158
dave.coultas@wamu.net

Henry Engelken, CFA
WaMu Subprime Capital Markets
FVP, Director of Investor Relations
(212) 702-6965
henry.engelken@wamu.net

Long Beach Mortgage performance information:

www.longbeachmortgage.com
wmsubprime.lewtan.com

Lead underwriter contacts:

Vincent Varca
WaMu Capital Corp.
Director
(212) 702-6931
vincent.varca@wamu.net

Kevin Richmond
WaMu Capital Corp.
Subprime Trader
(212) 702-6921
Kevin.richmond@wamu.net



Washington Mutual



WaMu

To: Board of Directors
From: Kerry Killinger, Chairman and CEO
Date: June 18, 2007
Re: WaMu Strategic Direction

Introduction

WaMu has generated superior returns over the 24 years since becoming a public company in 1983. We have delivered nearly 20% per year of total shareholder return versus nearly 13% for the S & P 500. We have achieved this by focusing on our customers, delivering excellent value and outstanding service. We have also prudently taken risks, especially interest rate risk, over the years. And we have been excellent managers of our capital by making smart acquisitions, repurchasing our stock when that made sense, and growing our balance sheet when risk-adjusted returns were attractive. Very importantly, we have always focused on the long term and have not veered off of plan when various cycles or bubbles caused our short-term results to lag others. Conversely, we didn't become over confident and do economically irresponsible things when we were in periods of strong relative performance.

Beginning in 1990, we adopted five-year plans as a way to better focus our strategies and to set specific financial targets. Since then, we successfully executed three five-year plans and are approximately 50% of the way towards completing the current five-year plan (covering the years 2005 through 2009). We have set goals of achieving double-digit earnings per share growth, high teens return on common equity (ROCE), an operating efficiency ratio below 50%, a nonperforming asset-to-total asset ratio of 1% or less over the economic cycle and maintaining a ratio of tangible equity to assets of 5.5% (revised upward from 5.0% in 2005).

Because of a very difficult interest rate environment in 2005, 2006 and thus far in 2007, we have not been able to achieve our financial targets. Through the first quarter of this year, our EPS growth has averaged 6%, the ROCE has averaged 14% and our operating efficiency ratio has averaged 58%. We continue to be cautiously optimistic that we can meet or exceed our financial targets over the five-year period, but we need the yield curve to return to more normal levels in 2008 and 2009 for this to occur.

The duration of the current flat-to-inverted yield curve environment is unprecedented since the high inflation period of 1978 to 1982. Driven by excess worldwide liquidity, robust economic growth (in most parts of the world) as well as tame inflation, long-term interest rates have remained very low in relation to short-term interest rates for nearly a year now and there is little indication that this condition will change in the near future. Historically, periods of flat-to-inverted yield curves have averaged six to 24 months.

As you will recall, the financial projections in our annual long-range forecasts have been higher than actual results for the past three years. We have generally based our long-range forecasts on the forward yield curve at the time of the forecast, which in each case has turned out to be wrong. In other words, investors have routinely predicted the yield curve to return to a more normal positively sloped shape and thus far that has not occurred.

Permanent Subcommittee on Investigations

EXHIBIT #6a

Once again, we face the prospect of forecasting significantly improved results in 2008, 2009 and beyond, in part, because the yield curve is expected by investors to eventually return to more normal levels. Probabilities favor a return to a more normal yield curve but this is by no means a certainty. As a result, we are presenting a base case scenario which reflects a gradual return to a more normal yield curve, but we are also presenting alternative scenarios, one of which is the continuation of a flat yield curve.

Aside from the impact of changing interest rates, we are also impacted by a slowing housing market, overcapacity in the mortgage banking industry, intense competition in all of our business lines, and a changing regulatory and political landscape. Despite these challenges, we see the opportunity to create excellent shareholder value by crisply executing our plan. We have a unique franchise capable of producing excellent growth and positive operating leverage (revenues rising at a faster rate than expenses). And our team has never been stronger. We have people capable of taking this company to the next level of performance. In my view, we just need to keep executing the plan and an improved environment will eventually allow the progress to be reflected in stronger operating results.

Our Vision for the Company

Our vision is to be a national leader in consumer and small business banking. By accomplishing our vision and adhering to our core values of being fair, caring, human, dynamic and driven, we will deliver superior long-term returns for our shareholders.

We are building a unique and very valuable franchise in some of the highest growth regions of the country. Our business model is especially well suited to serve middle market consumers and small businesses that are often ignored by our competitors. We brand ourselves as the bank that provides "Simpler Banking and More Smiles" for our customers.

Two important measures of our success are annual household growth and customer service scores. We believe that continual growth of our customer base and continuously improving customer service will ultimately lead to the financial results we are targeting.

The Business Environment in 2008

The business environment will have a significant impact on our financial results in 2008.

- **U.S. Economy:** Most forecasters expect the U.S. economy to experience slow growth in 2008. Consumer spending should moderate as the effects of a slowing housing market work their way through the economy. On the other hand, corporate spending should be solid. This probably leads to 2% to 3% GDP growth and some upward pressure on unemployment. Recession is a possibility if the housing market turns down harder than currently expected, but most forecasters still see this as unlikely. We based our long-range forecast on moderate economic growth, but we have presented alternative scenarios for higher and lower GDP growth. The major variables that change in these scenarios are the net interest margin, gain-on-sale, and credit cost assumptions for our credit card, commercial real estate, residential and home equity portfolios.
- **World Economy:** Most economies in the world are performing very well. Many countries such as India and China are growing at two to three times faster than the U.S. This growth is being aided by increased trade, improved productivity driven by low cost labor, technology investments, low inflation and immense liquidity. Both China and India boldly predict that their economies will surpass the U.S. economy in 20 years. Capital is flowing into these and other developing countries at a rapid rate and many large U.S. based companies are now driving a substantial portion, and in many cases, the majority of their earnings from outside of the U.S. It is estimated that the majority of S & P 500 company earnings now come from outside of the U.S. For WaMu, this is significant because we do not currently operate outside of the U.S. and our growth is dampened on a relative basis to those S & P 500 companies, including many banks, which are benefiting from higher non-U.S. growth rates.

CONFIDENTIAL

Page 2 of 10

- **Interest rates:** Most forecasters are confused right now. A few weeks ago, the consensus was for a Fed cut in the second half of this year. Today, the consensus is for no cut this year. If the economy continues in slow growth mode, there is little incentive for the Fed to change much. So unless the housing market turns down harder than expected and brings consumer spending down, rates will probably stay at or close to current levels through much of 2008. The absolute level of interest rates has an impact on our net interest margin (NIM) and our mortgage banking earnings. No change by the Fed is neutral to both the NIM and mortgage banking revenues, while cuts are helpful and increases hurt.
- **Yield curve:** The yield curve has been flat to inverted for an extended period. The world is currently flush with liquidity and as long as this continues, many experts are forecasting a continuation of a flat curve throughout 2008. A flat yield curve hurts our NIM. We lose margin on our loan pipelines, our MSR hedging costs are increased, and the spread we usually earn on slightly longer maturity assets versus our liabilities is negatively impacted.
- **Credit spreads:** Credit spreads are currently very tight. Baa credit spreads, for example, are currently at 1.3% versus an average of 2.6% over the past ten years. Tight credit spreads hurt our NIM because our asset yields, which reflect credit spreads, tend to come down in relation to our liability costs, which are not affected. For WaMu, this is a big deal. Many of our key asset categories such as medium-term residential ARMs, mortgage backed securities, medium-term commercial real estate ARMs, and most corporate bonds do not currently provide the required mid-teens ROCE. In fact, tight credit spreads and immense liquidity in hedge funds are causing many asset categories to be better financed on hedge fund balance sheets rather than bank balance sheets. This is leading to a shrinkage of bank balance sheets (accompanied by increased cash dividends and share repurchases) and an expansion in hedge fund balance sheets. We expect credit spreads to eventually widen if there is a major credit event, but timing is hard to predict.
- **Asset bubbles:** Immense liquidity is leading to the creation of many asset bubbles. For example, real estate values in many developing countries are rising in the 10% to 20% range. In most countries, housing prices are rising at above-average rates. Commodity prices have soared over the past two years as evidenced by copper (+95%) and silver (+88%). Stock prices have risen to all time highs in most markets around the world. Even art and other collectibles have increased dramatically in price over the past few years. Increasing asset prices have led to wealth creation and the availability of increased financial leverage, which amplifies the phenomenon. Total global new debt issuance has increased 34% since 2004. The main beneficiaries of these liquidity-driven asset bubbles have been hedge funds and private equity firms. WaMu has little direct exposure to these bubbles, but we will feel the impact through increased credit costs and improved net interest margins when the inevitable unwinding takes place.
- **Housing market:** For the past two years, we have been predicting the bursting of the housing bubble and the likelihood of a slowing housing market. This scenario has now turned into a reality. Housing prices are declining in many areas of the country and sales are rapidly slowing. This is leading to an increase in delinquencies and loan losses. The sub-prime market was especially rocked as many sub-prime borrowers bought houses at the peak of the cycle and now find their houses are worth less and they are having difficulties refinancing their initial low-rate loans. Because housing prices became so extended, we expect the market to be soft for another couple of years. It is difficult to correct this much excess in a short period of time. However, the good news is that as long as the economy remains sound and people have jobs, delinquencies should start peaking within the next few quarters.
- **Private equity and hedge funds:** Talk about a bubble! Enormous amounts of capital are flowing into private equity and hedge funds. Private equity currently accounts for approximately one-third of all acquisition activity. It has been estimated that the potential of private equity acquisitions has driven up stock prices across the board by 10% to 20%. Hedge funds have now replaced the high-yield bond market and commercial banks as the primary provider of financing for the private equity acquisitions. So far, it has been a great ride in which excess liquidity has driven higher asset prices, which has created more gains, which has produced even more liquidity to drive asset values up even higher. Many Wall Street executives believe that this bubble could break at any time. But they also don't want to miss out on the gains, so they continue to participate. Thus, most capital markets players

CONFIDENTIAL

Page 3 of 10

are getting caught up in perpetuating the cycle. This is a similar scenario to when the Internet bubble was taking place. WaMu should not directly be impacted by the end of this bubble other than how it might impact real estate values in financial services centers like New York. And if the stock market was to go through a major correction, it would no doubt impact consumer confidence and perhaps result in a recession, which would have both positive and negative implications for WaMu. As you will recall, we had the opportunity to participate in the financing of major private equity transactions. So far, we would have been financially better off to have done this. But I still think it was wise to avoid this sector.

- **Regulatory and Congressional activity:** The Regulatory environment has been fairly quiet. Financial health is good for most banks and there haven't been serious credit issues. Our primary regulator, the OTS, appears to be doing well. The quality of their staff continues to improve and their Director is doing a good job within Washington, D.C. They are also attracting some new client banks. Basel II is nearing implementation. There are inconsistent rules between U.S. and European Regulators for implementing Basel II, which threaten to put U.S. banks at a permanent disadvantage to European banks. If this isn't fixed, we expect to see European banks be even more aggressive in acquiring U.S. banks because they will need to hold significantly less tangible common equity at their holding companies. On the Congressional front, we expect a lot of hearings relating to consumer protection issues. Areas of focus include sub-prime lending, student lending and credit card lending. We do not anticipate significant new legislation at this time. Congress seems willing to let the regulators and the marketplace resolve the more glaring practices that have been so far highlighted in the hearings.
- **Federal Home Loan Banks:** The Federal Home Loan Banks provide low-cost collateralized borrowings for member banks. Each bank is owned by its members through shares of stock. For many years, WaMu was the largest borrower and owner of the Seattle and San Francisco banks. Last year, the regulator of the FHLB system proposed a regulation that would confiscate capital from the members. WaMu vigorously opposed this regulation and accelerated our plans to reduce our borrowings and share ownership. We were successful in delaying and then modifying the new regulation while we reduced our share ownership from \$4.3 billion at the beginning of 2006 to \$2.7 billion at the end of the year. The financial health of the FHLBs appears to be stable and even the Seattle bank, which went through a difficult phase, is now paying a dividend. We have diversified our borrowing sources to include covered bonds and other collateralized borrowing sources. In many cases, these sources of borrowing are superior to the FHLBs because of lower costs, lower collateral requirements and no need to tie up capital with stock ownership. But we do recognize that the FHLBs might become a more attractive borrowing source during periods of tighter liquidity. Accordingly, we will maintain our membership in the FHLB system.
- **Merger and Acquisition Activity:** We expect bank acquisition activity to be brisk. Most deals will be done on friendly terms where cost savings and capital optimization are the driving forces. In some cases, shareholder activists will force companies into play. The acquisition of ABN AMRO has emboldened shareholder activists who see that they can help force transactions with relatively little ownership. Private equity is also becoming a force in financial services acquisitions. There are bank holding company capital and ownership restrictions which have deterred private investment in the past, but many private equity players are currently working on ways around these limitations. If they figure something out here, private equity could also become a significant force in bank acquisitions. At WaMu, we will continue to actively explore acquisitions. We will maintain our pricing discipline, but we will try to get one or more acquisitions done in the coming year. Priorities include bank branch expansion, new asset categories that can be delivered through our retail stores (e.g., auto loans) and companies that help with our balance sheet diversification.
- **Foreign Banks:** As noted above, foreign banks have a huge competitive capital advantage over U.S. banks. Many of the European banks operate on 2% to 3% tangible common equity, whereas most U.S. banks operate on 5 to 6% tangible common equity. This has led to foreign banks buying U.S. banks at a four to one ratio over U.S. banks buying foreign banks. For WaMu, this capital differential allows foreign banks to price products more aggressively and to be formidable competitors in paying for acquisitions. The likely outcome is that U.S. banks will reduce their tangible common equity ratios over time to have a better

CONFIDENTIAL

Page 4 of 10

chance against the Europeans. B of A is targeting a tangible common equity ratio of only 3.8% (on day one) if they complete the La Salle purchase.

The Long Range-Financial Forecast

Our base case utilizes the forward yield curve and assumes a gradual return to a more normal yield curve. It also assumes slow economic growth and a slowing housing market. Based on these assumptions, we expect earnings-per-share to rise from \$3.71 this year to \$4.69 in 2008 (+26%) and \$5.91 in 2009 (+26%). The earnings leverage in 2009 reflects the return to a more normal yield curve and successful execution of our operating plans. These projections would have us reaching 19% ROCE and a 50% operating efficiency ratio in 2009. Earnings per share growth projections are strong in 2008 and 2009, bringing the average over our five-year planning cycle to 13%. These numbers show that we can reach our five-year plan financial targets if the yield curve returns to normal levels.

We also tested the financial projections against other scenarios. A tough scenario for us would be the continuation of a flat yield curve and a weak housing market. Using these assumptions, our earnings-per-share would be \$4.29 in 2008 (+19%) and \$5.22 in 2009 (+22%). Over the five-year planning cycle, this would result in EPS growth of 10%, which is at the low end of our double-digit target. At the end of the period, ROCE would be 15%, and in 2009 our efficiency ratio would be at 52%. These results would be disappointing, but not too far off our financial targets.

We did run a scenario for a return to the low interest rates and very steep yield curve we enjoyed in 2003. Suffice it to say, the earnings power of the company would be huge. If we ever have this opportunity again, we would work hard to offset the current earnings with investments for the future.

An important element of the plan is limiting expense growth and achieving positive operating leverage. Our long-term goal is to drive revenue growth at twice the rate of expense growth. In 2008, we expect revenues to grow by 10% with expenses growing at 2%. In 2009, with an improving yield curve, we expect revenues to grow at 12%, with expenses growing at only 6%.

You will note in the long-range forecast that we are optimizing capital by reducing the tangible common equity ratio to 4.7%. As noted above, B of A is lowering their tangible common equity ratio to 3.8% with the La Salle transaction. Further leveraging of the tangible common equity ratio would improve our return on tangible common equity and EPS growth from what is shown in this plan.

Shareholder Value Creation

We have created excellent shareholder value over the long term, but there have been many periods when we underperformed the S & P 500. In the past, these periods of underperformance have been when interest rates were rising and the yield curve was inverted. Examples include 1990, 1994 and 1999. While we underperformed the S & P 500 in 2006 and thus far in 2007, the magnitude of our stock's underperformance has been much less than in prior periods.

Period	WaMu	S&P 500	Underperformance
1990	(33%)	(3%)	(30%)
1994	(27%)	1%	(28%)
1999	(30%)	21%	(51%)
2006	9%	16%	(6%)
1Q07	(10%)	1%	(11%)
2006 - 1Q07	(1%)	17%	(18%)

We suspect that our stock price held up better in the most recent period because of our dividend yield, less cyclical earnings, and improving franchise value. For example, our stock is currently (June 11, 2007) priced only 8% below its all-time high, whereas in past cycles it was not unusual for our stock price to decline by

CONFIDENTIAL

Page 5 of 10

more than 50% from peak to trough. We note this because even though we believe our shareholder return will be superior to the S & P 500 over the next three years, we are unlikely to experience the same overperformance achieved in past recovery periods.

Based on the long-range financial forecast base-case scenario, we believe we can create significant shareholder value. Combining 2009 projected earnings-per-share of \$5.91 with a P/E range of 10 to 12 times on these earnings, results in a stock price target in the \$59 to \$71 range over the next three years. When this range is combined with our current dividend policy of increasing the cash dividend by \$.01 per quarter, total shareholder return over the next three years could be 14% to 20% per year. We expect this to be better than the S & P 500 over this period.

In the difficult scenario of a flat-yield curve and a slowing housing market environment, the targeted three-year stock price range is \$52 to \$63 using the same P/E multiple assumptions of 10 to 12 times. When combined with the cash dividend, total shareholder return would be 10% to 16% per year. This return would still be quite attractive (the S & P 500 has averaged a 10% total return over the past five years).

Risks to the Plan

- It should be no surprise that we view the greatest risks to the plan as rising interest rates, an inverted yield curve, a more significant downturn in housing and a recession. These risks can usually be somewhat offsetting. For example, a recession would likely lead to lower interest rates and a positively-sloped yield curve. This isn't guaranteed, of course. In fact, the current environment of slow economic growth, a flat yield curve and declining housing market is highly unusual. The scenarios reviewed in the long-range financial forecast frame the risks and opportunities fairly well.
- Another key risk is intense competition. Each of our businesses operates in highly competitive conditions. In general, this competition is more predictable in retail banking, commercial real estate and card services, where there are a few large players. Each of these competitors needs to earn satisfactory returns and they tend to behave in a rational manner. This has generally resulted in stable, less cyclical conditions for these businesses.
- At the other end of the spectrum is mortgage banking, where barriers to entry are low and competitors appear eager to shoot themselves in the foot by holding on to excess capacity and under-pricing their products at this point in the cycle. We were hopeful that the problems in sub-prime lending would lead to improved market conditions. But many of the sub-prime players were bought by hedge funds, Wall Street players and private equity firms. It appears that most sub-prime originators are not earning satisfactory returns; however they are slow to remove excess capacity.
- Another key risk would be our ability to find suitable risk-adjusted return assets for our balance sheet and to fully deploy our capital. As noted elsewhere in this document, credit spreads are very tight and it is challenging to find acceptable assets. If tight credit spreads were to continue for an indefinite period, we would need to consider leveraging our tangible common equity well beyond the 4.7% level assumed in the long-range forecast.
- I am concerned that an asset price bubble is growing, which could deflate at any time. I don't think anyone fully understands what would happen if there were to be a massive unwinding on a worldwide basis. Implications to consider include inflation, economic growth, credit spreads and asset quality. My hunch is that hedge funds, Wall Street, capital markets-focused banks and private equity firms would be the most impacted. I think WaMu would be relatively well off, but the collateral damage could be significant.
- I continue to be concerned about retail banking growth slowing. Our business model requires strong household growth, which primarily comes from our Free Checking product. Regulatory or Congressional action impacting consumer fees could severely hurt our model. Competition or new product breakthroughs could be challenging. For example, Capital One just announced a new debit card which seeks to sever the traditional link between a debit card and core checking accounts.
- Normally, I comment on the risks associated with achieving necessary productivity improvements. This continues to be a risk; however I am very pleased with our management team's oversight of productivity initiatives, including the key productivity tools of outsourcing

CONFIDENTIAL

Page 6 of 10

and operational excellence standards, which have both become core competencies of the company.

- There is also a risk that a shareholder activist group or some other third-party entity could attempt to disrupt execution of our plan. As a result of a very difficult interest rate environment, we have been unable to deliver strong returns to shareholders over the past three years. This performance has not been unexpected and has also occurred on many occasions in the past when rates were against us. We believe we are heading into a period of improved earnings and, hopefully, stock price performance. However, changes in corporate governance, such as annual director elections, increased shareholder resolutions, and the support of groups such as ISS for dissident proposals has shifted some power from the board room to large institutional owners. Hedge fund activists, who typically buy small amounts of a company's stock, have found that they can force boards to consider a sale or restructuring transaction. This was recently done to ABN AMRO and there is reportedly a current action at SunTrust and TD Ameritrade. Hedge Funds run in packs and go wherever there is some action taking place. Success at SunTrust or another company would embolden them to target other companies where they believe a sale would result in a short-term gain.

Strategic Initiatives Adopted in 2006

We made a number of key changes to our strategic plan last year:

- We decided to sell mortgage servicing rights for government loans and out-of-footprint fixed-rate loans. The target was to sell about 25% of the portfolio and reduce MSR to 25% of stockholders' equity. We did complete the \$2.5 billion sale of MSRs to Wells Fargo. This accomplished the desired objectives and allowed us to reduce MSR hedging costs as well as operating costs because the Milwaukee servicing center was sold as part of the transaction.
- We sold our mutual fund asset management company. This operation was not strategic and had high operating costs in relation to its revenue capabilities. The sale was made to Principal Financial for \$740 million. This was a very full price and the gain-on-sale facilitated the acceleration of our productivity initiatives.
- We accelerated our productivity initiatives by relocating staff from high-cost centers to lower-cost domestic and offshore centers. Because of a declining mortgage market, we also reduced capacity in the Home Loans Group and closed 79 underperforming Retail Banking financial centers. In total, we reduced FTEs by 10,000, or approximately 16% of our work force, in 2006.
- We adopted a new Home Loans strategy aimed at reducing the sale and servicing of low-margin commoditized products and emphasizing higher risk-adjusted return products such as home equity, option ARMs, sub-prime loans and AltA loans. The Home Loans Group has reduced costs, sold non-strategic MSRs (noted above), exited correspondent lending, and built capabilities in the higher risk-adjusted return product categories.
- We decided to optimize capital management by aggressively repurchasing common stock and issuing lower-cost hybrid securities. Since March 2006, we have purchased \$5.5 billion of common stock and issued \$3.3 billion of hybrid securities.
- We decided to protect our multi-family franchise in California and purchased Commercial Capital Bancorp. This acquisition was successful in protecting and growing our market share in California. The transaction has thus far met our financial targets.
- We decided to remix the balance sheet to higher-risk adjusted return assets. Due to uncertainty in the sub-prime market, we deferred growing this residential portfolio. We did continue to grow the home equity, commercial real estate and credit card portfolios. We also helped remix the balance sheet by selling about \$22 billion of low-margin securities and intermediate term mortgages in late 2006 and early 2007.

New Strategic Initiatives for 2008

CONFIDENTIAL

Page 7 of 10

The following are the key areas of strategic focus that we are recommending for 2008. Because crisp execution of the current plan is essential, we are not recommending as many changes as we did last year.

- **Begin prudently growing our balance sheet** once again. Because of a flat yield curve and very tight credit spreads over the past 12 months, we chose to limit balance sheet growth. However, this lack of balance sheet growth is placing pressure on our efficiency ratio and earnings per share. While it is impossible to predict when the yield curve will change and credit spreads will widen to more normal levels, we believe we should start growing the balance sheet in the second half of this year. We will start slowly and accelerate growth if yield spreads widen and the yield curve improves. To accomplish this, we will hold more of our sub-prime originations, hold virtually all of our home equity originations, hold more of our Option ARM and multi-family originations, and look for opportunities to purchase loan packages and securities.
- **Make progress in optimizing our capital structure.** This is a "must-do." We have far too much capital in relation to the credit, interest rate and operating risks inherent in our business. At this time, based on our economic capital models, we currently have approximately \$7 billion of surplus economic capital. This surplus makes us a target for acquisition. It would be easy for an acquirer to strip this surplus to help pay for the acquisition. And we know how easy it would be because we did it very effectively with Provident. For our capital to be optimized, we likely need to do a combination of share repurchases, new issuances of hybrid preferred, growth of higher-risk adjusted return assets and possible acquisitions. We will work with the regulators and rating agencies in explaining why this makes sense and how the institution will still be very well capitalized.
- **Improve Home Loans Group profitability** in 2008. We made significant changes to the Home Loans strategy in 2006 and we are executing well on those initiatives. However, the financial results continue to be very poor and we simply can't devote the amount of capital and expenses without benefiting from an adequate return. There is no way to achieve our EPS growth, ROCE, and operating efficiency targets without a strong return from this business line. Yes, the current operating environment is very difficult, but we cannot let that deter us. Best-in-Class operators will earn low-to-mid-teens return on equity in this challenging environment.
- **Optimize the retail banking network.** We have widely varying performance within the retail banking network. While overall returns are excellent, we have too many underperforming stores. We recognized this as a problem a couple of years ago and ultimately closed 79 underperforming stores in 2006. We need to complete the work and make decisions about building or exiting certain markets. Acquisitions will need to be considered as well.
- **Continue to strive for top-tier customer service.** Our scores are good and near the top of our industry. In banking today, Wachovia and WaMu go back and forth, vying for the top spot. And, other than WaMu, no other bank is rated in the top 25 of *Business Week's* ranking of service providers. We will continue to strive to break out of the pack and rival the top non-bank service companies.
- **Prudently Seek Diversifying and Extending Acquisitions.** As I mentioned above, we will need to keep searching for opportunities to extend our current businesses or add complementary businesses through acquisitions. Our priorities include bank branch expansion, new asset categories that can be delivered through our retail stores and other distribution channels (e.g., auto loans) and companies that help with our balance sheet diversification.

Key Business Initiatives

- **Retail Banking** is our largest and most profitable business line. The key strategies for 2008 include growing our customer base by 1 million, growing net checking accounts by 1.5 million, increasing the cross-sale ratio to 7.0, improving customer service scores, improving the performance of or closing underperforming stores, opening 150 new stores, and limiting expense growth to about half of revenue growth. We expect modest growth in deposits in 2008 as we continue to manage deposit costs very carefully within a challenging interest rate environment. We will expand small business banking with 1,000 trained specialists. We will

CONFIDENTIAL

Page 8 of 10

also expand our WM Financial Services activities with the addition of 200 financial consultants in 2008.

- We have had terrific success with originating new checking accounts via the Internet. Over the past 12 months, we originated about 310,000 net new accounts which represent roughly 23% of total net new checking accounts. We are broadening our online product offerings to include savings, CDs, money market and interest-bearing checking accounts. We expect continued good growth here, but challenges center on increased competition and pricing conflicts with our retail banking stores.
- From a financial standpoint, we expect Retail Banking to earn \$2.26 billion in 2008, up 16% from 2007's record performance. We expect the efficiency ratio to improve to ~54% and the return on tangible equity (ROTE) to reach 25% in 2008. In short, we plan to continue to execute a highly-successful strategy of driving in new households with Free Checking and cross selling products and services to each customer. We will strive to reduce the number of underperforming stores, especially those opened in markets such as Chicago, Atlanta, Denver, and Phoenix during the 2003 to 2005 period. Generally, de novo markets are struggling, while markets entered through acquisitions are doing well. California continues to be extraordinarily profitable and new stores in this market typically produce superior returns.
- **Card Services** is our second most profitable business. The acquisition of Providian was a home run in that it provided business diversification, presented a new product line for our retail banking customers, was integrated very well and its financial results have thus far exceeded all of our targets. Key strategies for 2008 include increasing managed receivables by 12%, opening 3.5 million new card accounts (of which 1.0 million are expected to be for WaMu retail banking customers) and maintaining a risk-adjusted return on managed receivables of 10%.
- From a financial standpoint, we expect Card Services to report net income of \$860 million, up 8% from 2007's very strong performance. In 2008, the efficiency ratio should be approximately 30% and the ROTTE should be about 53%. In short, Card Services will continue to leverage the WaMu retail customer base and grow its direct mail and partnership channels. Our managed receivables growth in 2008 should be one of the best in the industry.
- **The Commercial Group** is our third most profitable business. The key strategies in 2008 are to leverage the highly-efficient origination platform and increase loan originations by 17% by adding loan consultants in key major markets. California and New York continue to be the dominant markets, but we see opportunities to expand in several other metropolitan markets.
- From a financial standpoint, in 2008 we expect the Commercial Group to earn \$403 million, up 11% from 2007. The efficiency ratio should be approximately 33% and the ROTTE should be about 17%. In short, the Commercial Group will leverage a highly-effective platform developed for multi-family lending and extend that platform to other classes of small commercial real estate loans. They will strive to grow their leading national market share for all product categories even as new competitors, such as Countrywide, try to grab market share.
- **Home Loans** is a large and important business, but at this point in the cycle, it is unprofitable. The key strategy for 2008 is to execute on the revised strategy adopted in 2006. This will require continued improvements in efficiency, including completion of the new loan origination platform, SLM, and increasing the use of underwriting automation. We expect our MSR hedging costs to improve with the adoption of OAS valuation. We need to optimize the sub-prime and prime distribution channels with particular emphasis on growing the retail banking, home loan center and consumer direct channels. We also expect to portfolio more of Home Loan's originations in 2008, including the new Mortgage Plus product. We will continue to emphasize higher-risk adjusted return products such as home equity, sub-prime first mortgages, AltA mortgages and proprietary products such as Mortgage Plus.
- From a financial standpoint, we expect Home Loans to earn approximately \$400 million in 2008, up from a loss of \$28 million in 2007. The efficiency ratio is projected to be 67% and the ROTTE to be 12.1% in 2008. In short, Home Loans has a huge number of initiatives under way which need to be completed. We are making progress in improving efficiency, but we

CONFIDENTIAL

Page 9 of 10

need improved gain-on-sale margins and the building of more loans in the portfolio in order to achieve our targeted returns on capital.

People Initiatives

We worked very hard to build a management team capable of leading WaMu to the next level. Over a five-year period, we replaced the majority of our executive and senior leaders. I believe the new team reflects a good balance of longer-tenured Wamulians and those with work experiences at large financial services companies. When we first brought this team together, there were concerns that we were moving away from the "old" WaMu culture and yet there were others who believed we were not moving fast enough. Today, those noises have much settled down and the combined teams are building the new WaMu.

Our leadership development initiatives are paying off with nearly 80% of our senior-level positions being filled from within, up from 50% a few years ago. The formal talent management process has become institutionalized and the Executive Committee routinely works on identifying high-potential talent and offering that talent ever-expanding roles of responsibility.

Over the past 12 months, we reduced staffing by 10,000. We worried that this reduction would take a toll on morale, engagement, and the practicing of the WaMu values. However, we have been very pleased with the results of the latest all-employee survey. An impressive 88% of our employees responded to the survey, up from 73% a year ago. Our employee-engagement index increased to 73%, up from 64% last year. Our overall values index increased to 81%, up from 74% a year ago. And of special note was the large jump in the fair, caring and human values scores.

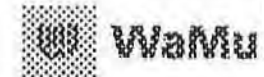
On the challenge front, Seattle continues to be a difficult place to recruit top performers. This is especially the case for people with capital markets and other sophisticated financial skills. Many people just don't want to risk coming to a place where there are limited employment opportunities. Another challenge is attracting and retaining diverse executive-level employees. We have a number of initiatives under way, but we need to make more progress. Finally, our pay programs are not producing targeted awards because our stock has not performed well over the past three years. We expect this to take care of itself as our price performs better, but this is an issue at this time.

CONFIDENTIAL

Page 10 of 10

Home Loans – 2007 Strategy Team Goals

Updated 11/12/07



Permanent Subcommittee on Investigations
EXHIBIT #6b

GOALS	WEIGHT	2007 GOAL	2007 YTD Actuals	KEYS TO SUCCESS
GROWTH – 45% <ul style="list-style-type: none"> • Drive Nonprime Expansion Initiative <ul style="list-style-type: none"> - Support volume targets for Consumer Direct and Retail - Support Market Share Increases for nonprime product • Drive revenue enhancement project utilizing President's Quorum resources • Launch Overage capabilities and ensure capture of targeted revenue • Support production channel initiatives associated with high-margin product focus (Subprime, M+, AIA, , OA, HE) • Develop process to measure Vocals results to monitor quality of nonprime expansion 	25% 10% 5% 5% 5%	\$1.9 B TBD \$8.6 M Retail Channel contribution \$100 B 55%	\$204M (11/12/07 YTD) Note: Subprime production halted in December Not selected to participate in project \$9.9 M YTD \$47B (Oct YTD excluding FCs) NA	<ul style="list-style-type: none"> • Focus by all channels on targeting higher-margin products • Growth of Nonprime volume in Retail and Consumer Direct • Ensure Voice of Customer is integrated into all programs as the center of the strategy • Attack the cost structure to achieve targets • Consistently look for new revenue opportunities
RISK MANAGEMENT – 15% <ul style="list-style-type: none"> • Drive Loan Reset project • Ensure all projects utilize approved project governance methodologies 	10% 5%	2007-2008 100% alignment	2007-2008 100% alignment through DMC process utilization	<ul style="list-style-type: none"> • Inclusion of Risk representatives in program oversight
INNOVATION - 10% <ul style="list-style-type: none"> • Implement New Product Introduction methodology • Introduce Competitive Intelligence website • Introduce and evaluate acquisition opportunity • Develop new business development opportunity 		Q2 2007 Pilot in Q2 Q3 Q4	Complete Completed site (updating content is ongoing) Evaluated 4 transactions, 1 divestiture in process	<ul style="list-style-type: none"> • Rigorous focus on project and scope management • Develop pipeline of product/process ideas and review implementation process
PRODUCTIVITY - 20% <ul style="list-style-type: none"> • Achieve OpEx Champion certification • Drive expense reduction initiative utilizing President's Quorum resources 		Certification Est. \$10M	Completing documentation – submitting by 1/31 Led program and transitioned tactics – estimated saves of \$13.3M annually - \$3.75M realized YTD	<ul style="list-style-type: none"> • Utilize OpEx methodologies • Implement culture of expense reduction • Drive usage of prioritization tools to guide product development
PEOPLE DEVELOPMENT - 10% <ul style="list-style-type: none"> • Establish development plan for each team member • Develop succession plan for each team member • Retention of High Talent staff 	5% 5% 5%	100% 100% 100%	100% 100% 100% (achieved 0% turnover for entire team)	<ul style="list-style-type: none"> • Ongoing one-on-one sessions with team • Career planning meetings • Refresh Development Plans
Total	100%			

Management Presentation



Home Loans

Permanent Subcommittee on Investigations
EXHIBIT #7

JPM_WM02447709

WaMu Marketshare - Product

Option ARM Originations 2006 Full Year

Rank	Lender	Volume	Market Share
1	Countrywide	\$70.0	27.5%
2	Washington Mutual	41.1	16.1%
3	Golden West	31.0	12.2%
4	EMC Mortgage	22.6	8.8%
5	Indy Mac	20.6	8.1%
6	American Home	19.0	7.5%
7	GreenPoint Mortgage	13.1	5.1%
8	GMAC Res Cap	11.0	4.3%
9	Lehman Brothers	6.9	2.3%
10	Bank of America	1.7	0.7%
Total Originations		\$255.0	

Option ARM Originations 2007 Full Year

Rank	Lender	Volume	Market Share
1	Washington Mutual	\$23.7	21.9%
2	Countrywide	19.3	17.3%
3	Wachovia	22.8	20.5%
4	American Home	9.3	8.4%
5	GMAC Res Cap	8.1	7.3%
6	Indy Mac	7.0	6.3%
7	EMC Mortgage	5.4	4.8%
8	GreenPoint Mortgage	4.6	4.1%
9	Lehman Brothers	4.0	3.6%
10	Flagstar Bank	0.8	0.7%
Total Originations		\$111.0	

Conventional Conforming Originations 2006 Full Year

Rank	Lender	Volume	Market Share
1	Countrywide	\$187.0	18.9%
2	Wells Fargo	122.2	12.3%
3	Chase Home Finance	76.0	7.7%
4	Bank of America	58.5	5.9%
5	Washington Mutual	56.3	5.7%
6	CitiMortgage	49.9	5.0%
7	GMAC Residential	43.0	4.3%
8	American Home	28.2	2.8%
9	ABN AMRO	25.4	2.6%
10	SunTrust	24.3	2.5%
Total Originations		\$980.0	

Conventional Conforming Originations 2007 Full Year

Rank	Lender	Volume	Market Share
1	Countrywide	\$288.1	23.1%
2	Wells Fargo	137.8	11.9%
3	Chase Home Finance	105.5	9.1%
4	CitiMortgage	81.5	7.0%
5	Bank of America	72.9	6.3%
6	GMAC Residential	48.6	4.2%
7	SunTrust	40.5	3.5%
8	Washington Mutual	35.8	3.1%
9	IndyMac	33.2	2.9%
10	National City	25.1	2.2%
Total Originations		\$1,161.5	

Source: Inside Mortgage Finance

WaMu Marketshare - Product

ARM Originations
2006 Full Year

Rank	Lender	Volume	Market Share
1	Countrywide	\$210.9	15.7%
2	Wells Fargo	160.0	11.9%
3	Washington Mutual	110.7	8.3%
4	Chase Home Finance	85.5	6.4%
5	Indy Mac	59.0	4.4%
6	EMC Mortgage	56.0	4.2%
7	GMAC Res Cap	52.6	3.9%
8	CitiMortgage	50.5	3.8%
9	Golden West	44.0	3.3%
10	New Century	41.7	3.1%
Total Originations		\$1,340.0	

Prime Jumbo Originations
2006 Full Year

Rank	Lender	Volume	Market Share
1	Countrywide	\$106.0	22.1%
2	Wells Fargo	73.1	15.2%
3	Washington Mutual	53.5	11.1%
4	CitiMortgage	35.3	7.4%
5	Bank of America	27.5	5.7%
6	Chase Home Finance	19.2	4.0%
7	American Home	19.0	4.0%
8	SunTrust	15.5	3.2%
9	GMAC Res Cap	14.0	2.9%
10	GMAC Residential	12.5	2.6%
Total Originations		\$480.0	

Source: Inside Mortgage Finance

ARM Originations
2007 Full Year

Rank	Lender	Volume	Market Share
1	Countrywide	\$109.2	15.1%
2	Chase Home Finance	83.7	11.6%
3	Wells Fargo	71.7	9.9%
4	Washington Mutual	67.9	9.4%
5	CitiMortgage	42.6	5.9%
6	IndyMac	40.0	5.5%
7	Lehman Brothers	33.5	4.6%
8	Wachovia	27.3	3.8%
9	GMAC Res Cap	24.3	3.4%
10	EMC Mortgage	20.6	2.8%
Total Originations		\$724.0	

Prime Jumbo Originations
2007 Full Year

Rank	Lender	Volume	Market Share
1	Wells Fargo	\$61.9	17.8%
2	Washington Mutual	45.2	13.0%
3	CitiMortgage	33.9	9.8%
4	Bank of America	26.0	7.5%
5	Countrywide	24.9	7.2%
6	Chase Home Finance	24.1	6.9%
7	SunTrust	10.7	3.1%
8	Lehman Brothers	10.6	3.0%
9	American Home Mortgage	10.0	2.9%
10	PHH Mortgage	9.7	2.8%
Total Originations		\$347.0	

WaMu Marketshare - Product

Subprime Originations
2006 Full Year

Rank	Lender	Volume	Market Share
1	HSBC	\$52.8	8.3%
2	New Century	51.6	8.1%
3	Countrywide	40.6	6.3%
4	CitiMortgage	38.0	5.9%
5	WMC Mortgage	33.2	5.2%
6	Fremont Investment	32.3	5.0%
7	Ameriquest	29.5	4.6%
8	Option One	28.8	4.5%
9	Wells Fargo	27.9	4.4%
10	First Franklin	27.7	4.3%
11	Washington Mutual	26.6	4.2%
12	GMAC Res Cap	21.2	3.3%
13	Aegis Mortgage	17.0	2.7%
14	American General	15.1	2.4%
15	Accredited Home Lenders	15.8	2.5%
16	BNC Mortgage	14.5	2.3%
17	Chase Home Finance	11.6	1.8%
18	Equifirst	10.8	1.7%
19	NovaStar	10.2	1.6%
20	Ownit Mortgage	9.5	1.5%
Total Originations		\$640.0	

Subprime Originations
2007 Full Year

Rank	Lender	Volume	Market Share
1	CitiMortgage	\$19.7	10.2%
2	HSBC	18.0	9.3%
3	Countrywide	17.0	8.8%
4	Wells Fargo	15.4	8.0%
5	First Franklin	13.5	7.0%
6	Chase Home Finance	11.5	6.0%
7	Option One	11.2	5.8%
8	EMC Mortgage	8.0	4.2%
9	Ameriquest Mortgage	6.4	3.3%
10	BNC Mortgage	6.1	3.2%
11	Washington Mutual	5.5	2.9%
12	WMC Mortgage	5.0	2.6%
13	New Century	4.7	2.4%
14	American General	4.5	2.3%
15	Equifirst	4.4	2.3%
16	Aegis Mortgage	4.3	2.2%
17	GMAC Res Cap	4.1	2.2%
18	Saxon Mortgage	4.1	2.1%
19	Accredited	4.0	2.1%
20	Delta Financial	3.6	1.9%
Total Originations		\$192.5	

Source: Inside Mortgage Finance

WaMu Marketshare - Product

Home Equity Originations
2006 Full Year

Rank	Lender	Volume	Market Share
1	Bank of America	\$80.5	13.9%
2	Chase Home Finance	51.9	8.9%
3	Countrywide	46.5	8.0%
4	CitiMortgage	43.0	7.4%
5	Wells Fargo	36.9	6.4%
6	Washington Mutual	32.2	5.5%
7	Wachovia	23.1	4.0%
8	National City	21.6	3.7%
9	GMAC Residential	14.8	2.5%
10	GMAC Res Cap	10.1	1.7%
Total Originations		\$580.7	

Home Equity Originations
2007 YTD

Rank	Lender	Volume	Market Share
1	Bank of America	\$63.5	17.4%
2	Chase Home Finance	38.5	10.5%
3	Countrywide	29.9	8.2%
4	Washington Mutual	28.0	7.7%
5	CitiMortgage	24.1	6.6%
6	Wells Fargo	21.3	5.8%
7	National City Bank	17.8	4.9%
8	Wachovia	11.4	3.1%
9	GMAC Residential	8.4	2.3%
10	SunTrust Mortgage	2.7	0.8%
Total Originations		\$365.4	

Chart not approved for
publication / need to strip
table version to comply with
copyright

Source: Home Equity Wire

Hickok, Bruce I

From: Ancely, Zalka A
Sent: Thursday, April 14, 2005 10:03 AM
To: Hickok, Bruce I
Subject: FW: Fitch - LBMC Review

Sensitivity: Private

FYI. Some insight on the subprime product at LBMC for ALLL and high risk lending initiative.

-----Original Message-----

From: Henry, David R
Sent: Thursday, April 14, 2005 9:51 AM
To: Kuczek, Richard A; Glaser, Howard M; Reiley, Mark E; Franklin, Benjamin D; Ancely, Zalka A
Subject: FW: Fitch - LBMC Review
Sensitivity: Private

-----Original Message-----

From: Bielik, Steve J
Sent: Thursday, April 14, 2005 9:32 AM
To: Henry, David R
Subject: RE: Fitch
Sensitivity: Private

As expected big difference in performance based on vintage year. Performance improves noticeably in 2003 and 2004 due to higher FICO scores. Data indicates that minimum cutoff FICO scores were raised substantially by a magnitude of 75 to 100bp. Interestingly, performance improves dramatically after 2001 for the first lien FR portfolio. However, performance improvement for the junior FR and ARM portfolios does not occur until after 2002. Average FICO score highest for junior liens. Average FRM FICO score about 25bp higher than average ARM FICO. This suggests that there are different minimum FICO cut off scores for each product line. Performance data for 2003 and 2004 vintages appear to approximate industry average while issues prior to 2003 have horrible performance.

For FRM losses, LBMC finished in the top 12 worst annualized NCLs in 1997 and 1999 thru 2003. LBMC nailed down the number 1 spot as top loser with an NCL of 14.1% in 2000 and placed 3rd in 2001 with 10.5%. Number of issuers ranged from 21 to 50. The Deutsche Bk report did not have any data for 2004 for FRMs or ARMs. For ARM losses, LBMC really outdid themselves with finishes as one of the top 4 worst performers from 1999 thru 2003. For specific ARM deals, LBMC made the top 10 worst deal list from 2000 thru 2002. LBMC had an extraordinary year in 2001 when their securitizations had 4 of the top 6 worst NCLs (range: 11.2% to 13.2%).

Although underwriting changes were made from 2002 thru 2004, the older issues are still dragging down overall performance. Despite having only 8% of UPB in 1st lien FRM pools prior to 2002 and only 14.3% in 2002 jr. lien pools, LBMC still had third worst delinquencies and NCLs for most of period graphed from 11/02 thru 2/05 and was 2nd worst in NCLs in 2005 out of 10 issuers graphed. Despite having only 27.5% of UPB in issues prior to 2003, LBMC managed to stay at the top of the leader board for most of the period in serious delinquencies and NCLs. At 2/05, LBMC was #1 with a 12% delinquency rate. Industry was around 8.25%. At 3/05, LBMC had a historical NCL rate of 2% smoking their closest competitor by 70bp and tripling the industry average.

Have a mystery on seasoning charts. In reviewing cumulative loss rates and annual NCLs. For some unknown reason there is a steep drop in the loss curve around month 55 for both ARMs (140bp) and FRMs (70bp), which I am at a loss to explain.

I am reviewing the Option One data now and will send you another e-mail later today. Say hello to Roy, Dennis and Kirk for me if they are still around.

Steve B.

Permanent Subcommittee on Investigations

EXHIBIT #8a

OTSWME05-012 0000806



Federal Deposit Insurance Corporation
 Division of Supervision and Consumer Protection
 San Francisco Regional Office
 25 Ecker Street Suite 2300
 San Francisco, California 94105
 415.546.0160



State of Washington
 Department of Financial Institutions
 Division of Banks
 PO Box 41200
 Olympia, Washington 98504-1200
 360.902-8704

DATE: January 13, 2004 2:13 PM '04

Board of Directors
 Washington Mutual Bank
 1201 Third Avenue
 Seattle, Washington 98101

MGT-REP
 PCA/CA
 PO: SEA
 W/O-RM
 STATE:
 OTHER:
 OTHER: day

Subject: Joint Visitation Dated October 14, 2003

Members of the Board:

We enclose the October 14, 2003, joint visitation report of Washington Mutual Bank. FDIC Examiner Kenneth J. Kroemer and State Examiner John Ransom prepared the visitation report. The purpose of the visitation was to review management's progress towards addressing examination findings resulting from the March 17, 2003, safety and soundness and information technology Reports of Examination and to prepare for the upcoming examinations that are scheduled to begin on March 15, 2004. In addition, three issues that arose since the examination were explored and discussed with management. These issues included the unanticipated negative gain on loan sale incurred by the company's consolidated mortgage banking operation during the third quarter of 2003, the disclosure of unsatisfactory underwriting practices at affiliate Long Beach Mortgage Company, and the realignment of management and the business units.

The examiners concluded that:

- Management's progress toward addressing safety and soundness and information technology examination findings is satisfactory.
- Financial performance was marred by problems during the third quarter, but the bank's financial condition remains satisfactory.
- Issues in the mortgage banking operation impacted the quality of earnings and the effectiveness of management.
- The culture, practices, and systems at Long Beach Mortgage Company are inconsistent with the lending activity of the bank.
- The abandonment of Optis 0.2 represents a significant management/technology failure.

We understand that a major corporate reorganization is in process and plans are being or have been implemented to address mortgage banking weaknesses, practices at Long Beach Mortgage Company, and information technology strategies.

The Board is encouraged to review the visitation report, although no formal response is requested. If you have any questions, please contact Assistant Regional Director J. George Doerr or Senior Examiner Stephen P. Funaro of the FDIC at (206) 284-1112 or Program Manager Michael Abe of the State of Washington Department of Financial Institutions at (360) 902-8704.

Sincerely,

Nancy E. Hall

Nancy E. Hall
 Regional Director
 Federal Deposit Insurance Corporation

David G. Kroeger

David G. Kroeger
 Director of Banks
 State of Washington
 Department of Financial Institutions

Permanent Subcommittee on Investigations
EXHIBIT #8b

Background

The FDIC and Washington State Department of Financial Institutions (DFI or State) visited Washington Mutual Bank (WMB) from 10/14/2003 to 12/11/2003. The visitation was conducted concurrently with representatives of the Office of Thrift Supervision (OTS). The purpose of the visitation was to perform an interim assessment of WMB's financial condition and performance, follow up on outstanding issues from the 3/17/2003 examinations, and prepare for the 3/15/2004 examination. In addition, three issues that arose since the examination were discussed with management:

- The unanticipated negative gain on loan sale incurred by Washington Mutual Inc.'s (WMI) consolidated mortgage banking operation during the third quarter of 2003;
- The disclosure of unsatisfactory underwriting practices at sub prime lending affiliate Long Beach Mortgage Company, Inc. (LBMC); and
- The resultant realignment of management and the business units.

Summary

Like WMI, WMB's financial performance during the third quarter of 2003 was marred by problems, but the bank's condition remains satisfactory. Issues in WMI's mortgage banking operation and at LBMC impacted the quality of earnings, adequacy of capital, contingent liquidity, and the effectiveness of management throughout the entire organization. A major corporate reorganization is in process that is intended to address outstanding issues.

Management's progress toward addressing Examination Findings from the 3/17/2003 examination was reviewed and found to be satisfactory.

**Redacted
by
Permanent Subcommittee
on Investigations**

Redacted
by
Permanent Subcommittee
on Investigations

Redacted
by
Permanent Subcommittee
on Investigations

LONG BEACH MORTGAGE COMPANY

LBMC is a non-bank affiliate of WMB and WMBFA. It securitizes and sells sub prime residential loans originated through brokers.

An internal residential quality assurance (RQA) report for LBMC's first quarter 2003 sub prime lending product was issued as of 7/31/2003. It concluded that 40% (109 of 271) of loans reviewed were considered unacceptable due to one or more critical errors. This raised concerns over LBMC's ability to meet the representations and warranty's made to facilitate sales of loan securitizations, and management halted securitization activity. A separate credit review report was completed by Corporate Credit Review on 8/29/2003 that reached similar conclusions and disclosed that LBMC's credit management and portfolio oversight practices were unsatisfactory.

The inability to securitize and sell new loan production caused LBMC's warehouse to increase by approximately \$1 billion per month to \$5 billion at the end of November 2003. The increase was funded through borrowing lines from affiliates and other creditors. LBMC President Troy Gotshall stated that he hoped a \$3 billion securitization and sale transaction could occur during January. Unless a sale transpires soon, liquidity will be strained. One element of LBMC's contingent liquidity plan includes the potential sale of warehouse loans to the insured institutions.

A review of loans in the mortgage pipeline and warehouse commenced under the direction of EVP and Senior Legal Counsel Fay Chapman to determine the extent of the problems. Approximately 4,000 of the 13,000 loans in the warehouse had been reviewed by the end of November 2003; of these, approximately 950 were deemed saleable, 800 were deemed unsaleable, and the remainder contained deficiencies requiring remediation prior to sale.

It was reported separately that of 4,500 securitized loans eligible for foreclosure, 10% could not be foreclosed due to documentation issues.

President Gotshall stated that the problems were largely attributable to management's decision to integrate LBMC's sub prime loan origination and servicing operations into WMI's prime home lending program. This integration began in 2000 and continued through 2002. It now appears that some loans originated and securitized during that period may not have meet the representations and warranties made in the pooling and servicing agreements and therefore are contingent liabilities to LBMC since they could be put back by the investors. EVP Fay Chapman acknowledged the potential contingent liability, but stated that management has not quantified the exposure. The outstanding principal balances of loans securitized and sold during this time period totals approximately \$11 billion.

Senior Vice President (SVP) John Robinson was appointed to LBMC's three member board of directors in December 2003. The other members are Chief Financial Officer Tom Casey and EVP Craig Chapman. The board met on 12/05/2003; the prior meeting was back in July. SVP Robinson acknowledged that oversight of LBMC had been inadequate. The culture, practices, and systems at LBMC are inconsistent with the lending activity of WMB, and it remains to be seen if LBMC can be effectively assimilated into WMI.

Status of Findings from Prior Examinations

Management continues to monitor examination findings and responses through a "findings matrix" which is also used as the response to the Report of Examinations. Internal Audit reviews the responses to determine if the responses are sufficient to "close" the issue. We worked jointly with the OTS to review management's progress in addressing the findings.

Management has implemented action plans to address the Examination Findings from the 3/17/2003 examination. Satisfactory progress was noted, although many action plans are still in process. Internal Audit had not yet assessed the status of all of management's responses; this should be completed in the first quarter of 2004 and will be reviewed during the 2004 examination.

2004 Safety and Soundness Examination

The 2004 examination is scheduled to commence on 3/15/2004, and the onsite planning phase will begin on 2/17/2004. Coordinating efforts are underway for the joint examination of WMB and concurrent examinations by the OTS of WMI, WMBFA, and Washington Mutual Bank, fsb. In addition, joint Information Technology and concurrent Compliance examinations will be conducted.

A joint entry request package, or PERK, was presented to the bank in December 2003. The FDIC, State, and OTS continue to work together to present a joint request package to eliminate duplications and ease the burden of data collection.

Information Technology

The visitation included an Information Technology (IT) component. WMI's IT environment includes over 200 application systems, many of which were not integrated after acquisition. Many of these systems are relatively unique to WMI and operate in diverse locations with a variety of operating systems, application systems, and disaster recovery plans.

This visitation disclosed that management has made notable progress in addressing the Examination Findings from the 2003 IT examination. However, the issues encountered in the mortgage banking operation during the third quarter had a clear IT component and demonstrated the potential impacts of the current IT environment. Management announced its decision to abandon Optis 0.2 at the end of the visitation. The abandonment of Optis 0.2 represents a significant management/technology failure. Management has a plan to address mortgage technology needs, but until the plan is implemented, IT exposure will remain high.

Visitation Findings

Visitation findings were discussed with SVP Robinson and Vice President Wedell on 12/9/03, and will be presented to executive management at the 1/22/04 Quarterly Regulators Meeting.

Permanent Subcommittee on Investigations
EXHIBIT #9



Washington Mutual

**LBMC Post Mortem –
Early Findings Read Out**

November 1, 2005

*Prepared By: Sandra Starnes
David Spyra
Ann Tierney*

Confidential for Internal Use Only

JPM_WM03737292

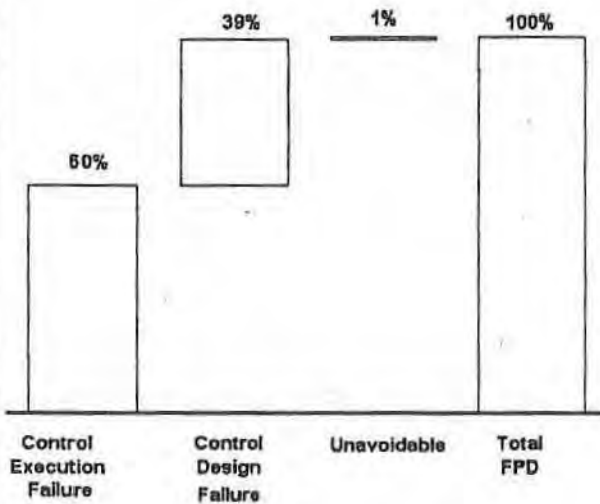


LBMC Post Mortem – Summary of initial findings

- ◆ **First Payment Defaults (FPD's) are preventable and / or detectable in nearly all cases (~99%)**
 - Most FPD cases (60%) are failure of current control effectiveness
 - Some FPD cases (39%) indicate design enhancements required to improve controls
- ◆ **High incident rate of potential fraud among FPD cases**
 - 100 of the 213 FPD cases following second review (47%) have been referred to Risk Mitigation
- ◆ **Common themes surfacing:**
 - Our recent performance against the industry also suggests we can do more to strengthen our credit controls
 - All roles in the origination process need to sharpen watch for misrepresentation and fraud
 - First Time Home Buyer program has some risky segments that are impacting the performance of the overall program
 - Underwriting guidelines are not consistently followed and conditions are not consistently or effectively met
 - Underwriters are not consistently recognizing non-arm's length transactions and/or underwriting associated risk effectively
 - Credit Policy does not adequately address certain key risk elements in layered high risk transactions



Most of the FPD cases reviewed (99%) could have been prevented



- ◆ **Control Execution Failures (60%)** are cases that could have been prevented had current policy, procedures and guidelines been better executed
- ◆ **Control Design Failures (39%)** are cases that can be prevented in the future with a design change to policy, procedures and guidelines
- ◆ **Unavoidable (1%)** are cases that can be not be foreseen and are expected as part of the business at some level

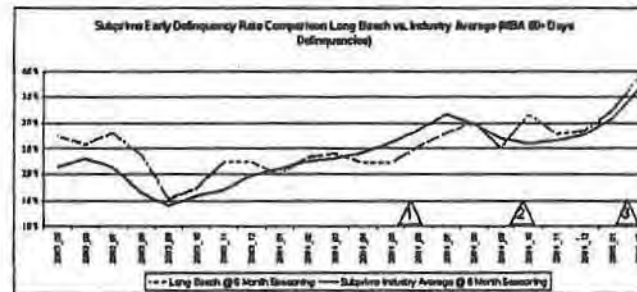
Recommendation → Focus on improving the effectiveness of our current controls as the quickest way to reduce future FPD



Confidential for Internal Use Only

Our recent performance against the industry also suggests we can do more to strengthen our credit controls

- Graphs represent 6 and 9 month seasoned 80+ and 90+ as indicated on each graph. Support earlier vintage analysis indicating there is a macroeconomic trend driving some of performance deterioration – particularly 60+ results
- LBMC 60+PPD all loans, 6 months seasoned is generally comparable to industry, but beginning to trend above industry starting in Sep/Oct-04
- LBMC 90+ PPD all loans, is shown compared to both 6 and 9 months seasoned industry data – significant spike in early 05 originations
 - Sporadic nature of performance is likely due to small number of 90+ early seasoning, so is less reliable than 60+
 - Given nature of deterioration in early vintages and results of Post Mortem, however, we will closely monitor 2004 and particularly 2005 vintages
- Events other than noted in post mortem results that may have influenced performance are noted below and on graphs above Months serviced with following symbol



Note: Industry comparisons were prepared by D. Wu & H. Huang, LBMC data provided by A. Newstead. Subprime industry data (predominantly 1st liens) was obtained from Loan Performance via their new software 'TrueStanding'. The average is calculated based on subprime loans sold into subprime securities. DO is defined by 60+ (MBA standard) or 90+ (OTS not MBA standard), and does not include all BKs.

Event	Month Initiated	Summary
1	Jun-04	80/20 Sales Campaign Special Introduced - Reduced FICO from 800 to 575 on Full Doc Program
2	Oct-04	Introduced A-Prime - 0x30, 500 FICO min, 580 for 100% LTV-Full/Limited Documentation, 620 for 95% LTV-Styled
3	Feb-05	Introduced 40 yr 2/37/3/38, 40 yr fixed
4	Mar-05	80/20 Sales Campaign Special Extended- Reduced FICO from 800 to 575 on Full Doc Program
5	Apr-05	Increased Piggyback loan amounts
6	May-05	Formally modified policy to reduce Full Doc 80/20 FICO from 800 -575
7	Nov-05	Increased 80/20 FICO to 600



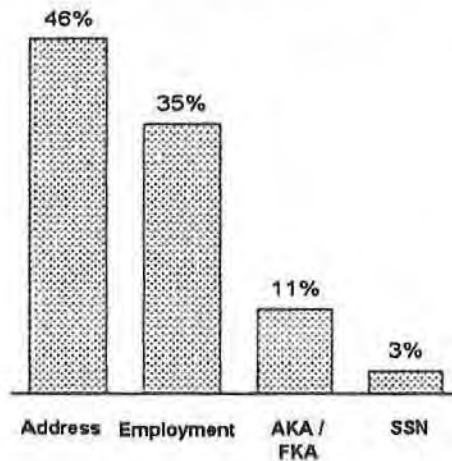
Recommendation → Look opportunistically to the industry for best practice processes and controls; repeat monitoring on quarterly basis



Confidential for Internal Use Only

All roles in the process need to sharpen watch for red flags that indicate potential misrepresentation and fraud

66% of reviewed FPD cases had significant variances in the file



- ◆ Variations can occur in many areas and can directly impair loan salability and performance
 - 46% Address ambiguity or inconsistencies
 - 39% Employment verification shortfalls
 - 11% AKA / FKA
 - 3% SSN issues
- ◆ Stated Income should be reviewed more closely (incidence rate of 35%)
 - Income re-stated on loan application
 - Other issues found:
 - Multiple 1003's
 - Restating income
 - Proposed income not supported
 - Borrower/Profile
 - Current credit report delinquency indicated a financial issue
- ◆ Signatures should be checked
 - 14% Borrowers signature vary
- ◆ Altered documents are usually detectable
 - 5% White-out on documentation (e.g. White-out was used and then documents copied)

Recommendation → Provide detailed guidance to the UW AKA policies, conduct regular fraud training, distribute quality reports and enhance Stated 1003 guidelines



First Time Home Buyer program has some risky segments that are impacting the overall program performance

◆ **First Time Home Buyers (FTH) - New buyers or New buyers (Investors) of multiple properties**

- Did not meet minimum credit requirements
- Alternative credit used not adequately supported or validated
- Income overstated
- Borrower failed reasonableness test
- High payment shock
- Proposed rents
- Seller is the Landlord
- Seller is the employer
- Purchase contracts altered
- Lease agreements altered
- Signatures not matching
- Borrower originally purchased a property within 3-6 months, now purchasing another O/O

◆ **97% of FTH loans reviewed had multiple issues including the common combinations:**

- Variations of employment, AKA, address, proposed rents
- Variations of address and employment
- Restated income and payment shock
- Payment shock, proposed rents and signature not matching
- Variations of AKA, address, employment in addition to payment shock and signature not matching

◆ **Payment Shock is particularly acute in FTH loans (Incidence rate of 17%)**

Recommendation → Tighten criteria on FTH (w/ Stated Income and Proposed Rental Income) and develop guidelines for underwriting payment shock for FTH loans.



Underwriting guidelines are not followed and conditions are not always met

- ◆ **Multiple defects identified in 53% of files**
- ◆ **Guidelines are not followed and/or executed consistently/correctly**
 - 26% VOR (either didn't meet guideline requirement or wasn't validated)
 - 14% Income (either not calculated correctly or supported sufficiently)
 - 6% Risk Grading (rating or pay history did not support credit grade)
 - 4% Debt Ratio (mostly exclusion of debts in ratio or miscalculated)
- ◆ **Conditions not cleared consistently or effectively (Incidence rate of 11%)**
- ◆ **Verbal Verification of Employment and Self-Employment is Inconsistent in regard to the following required control tasks (Incidence rate of 39%)**
 - Conducting a proper audit
 - Validating employment
 - Reviewing file to confirm employment appears consistent

Recommendation → Reinforce current policies and guidelines



Underwriters are not consistently recognizing non-arm's length transactions and/or underwriting associated risk effectively

- ◆ More rigor needed in validation of VOR (incidence rate of 26%)
 - Quality of documentation
 - Verification from a Management Company
 - Verification of the VOR documentation
 - Verifications have no address for Landlord
 - VOR mailed to Borrowers address
- ◆ Inconsistent treatment and documentation of Verification of Rental History (VOR) Private Party or Management Co.
- ◆ Too many non-arms length relationships not being addressed (>5%)
 - Seller Completed VOR
 - Seller & Borrower live together
 - Seller is borrower's employer

Recommendation → Increase education and training on non-arms length relationships, define quality standards for VOR, and extend the private party verification policy to VOR's from Management companies



Concentrations by LFC and Region

- ◆ Results by LFC provide a view of LFC production rank by units (Mar-Apr-05), FPD Incident rate as well as % contribution to total # FPDs reviewed
- ◆ Results by Region also indicate some clear areas of focus, Post Mortem results by Broker and AE will be made available under separate cover. 14% of Brokers contributing to FPDs are no longer active approved brokers.
- ◆ LFC/Region results of Post Mortem will drive the following
 - Weighting of future samples will take into account FPD levels by LFC
 - Prioritization of training by incident level; focused content of training based on specific LFC/Region findings

LFC	Prod Units	Prod Rank	FPD%	# FPDs	% Total FPDs Reviewed
Schaumburg	10165	1	1.10%	112	28%
Dublin	8673	2	0.88%	80	18%
Denver	7235	3	0.88%	50	13%
Dallas	5314	5	0.85%	45	12%
Clark	3927	6	1.12%	44	12%
Atlanta	3120	8	1.03%	32	8%
Anaheim	5397	4	0.41%	22	6%
Lake Oswego	3183	7	0.53%	17	4%

Region Code	Prod Units	Prod Rank	FPDs as % Region Prod
14	1126	21	1.80%
18	2619	7	1.63%
4	1661	14	1.61%
8	1184	19	1.36%
46	1697	16	1.31%
24	1748	12	1.20%
6	2886	6	1.14%
23	2013	9	1.04%
11	3120	4	1.03%
12	2140	8	0.84%
27	1907	11	0.79%
7	2750	6	0.76%
9	3863	1	0.57%
13	3183	3	0.53%
3	1536	16	0.52%
16	1161	20	0.52%
20	1381	17	0.51%
30	897	23	0.50%
19	3188	2	0.41%
26	1927	10	0.38%
1	1125	22	0.36%
5	866	24	0.35%
10	1308	18	0.31%
2	1739	13	0.29%

Recommendation → Establish regular focused feedback mechanisms for fulfillment and sales, tailored training, evaluate best means to employ in quality metrics, determine how to utilize broker results in broker management program



FPD Sample Trends	May 2005 Production	Discussion of Δ between FPD results and 5/2005 Production
92% of the Purchases reviewed are 100% CLTV	69% of general production are 100% CLTV	$\Delta + 23\%$: High CLTV loans are known risk attractors
44% of the purchases reviewed are First Time Homebuyer	45% of general production are 100% FTH	$\Delta -1\%$ Although pockets of FTH have loss concentrations, FPD incidence is equal to or lower across the broader product
15% are 2-4 units	8% of general production are 2-4 units	$\Delta +7\%$ Multiple units appear to carry additional FPD risk
59% are Stated Income	47% of general production are Stated Income	$\Delta +12\%$ Stated Income loans are also known as risk attractors
76% are Purchase loans	71% are Purchase loans	$\Delta 5\%$ Small increase in incidence of FPD from Purchase loans

Recommendation → High % in 100% CLTV FPD in the sample indicates a need to closely evaluate policies related to piggy back and state income production



Recent actions taken

Recent actions taken	Effective Date
Underwriting Training conducted – Underwriter Decision Summary, Bank Statement Calculation Worksheet, Payment Shock, Reasonableness Test and DTI.	September 1, 2005
Underwriting Training on Job Aids for Income Analysis, Debt to Income Analysis, Net Tangible Benefit.	September 19, 2005
The policy for verifications of Private Party VOM's or VOR's were recently updated -- requiring research and additional validation to be conducted.	October 4, 2005
Implementation of the Interthinx DISSCO tool	November 1, 2005
Fico Score for Piggy back's elevated to 600	November 1, 2005
Stated income guideline modifications ♦10.04 Expansion of guidelines introducing Premium A ♦10.04 Expansion of Guidelines reintroduced Stated Wage Earner ♦02.05 Expansion of Guidelines introducing 40 years	
Piggyback guideline modifications ♦10.04 Piggyback Seconds guidelines revised to mirror firsts ♦10.04 Expanded guidelines to allow additional states. ♦04.04 Expanded guidelines to allow additional locations ♦04.05 Expanded guidelines increasing loan amounts ♦05.05 Expanded guidelines lowering credit score to 575	



Additional recommendations to consider

Detailed Policy/Guideline/Procedures Recommendations	Next Steps
Recommendation to extend the private party verification policy to extend search requirements to cover VOR's from Management companies. There was no validation in the files that there truly was a management company, and in most cases they just addressed the VOR to "Management Company".	Develop ongoing communications strategies to inform field of results and trends in
The Underwriting Guidelines need to be enhanced to address Stated Income 1003's. The Loan Origination Manual should be updated to include procedures that the underwriter should follow when multiple 1003's are submitted. LBM should require at time of submission a signed and dated 1003 by the borrower that identifies ALL monthly income and the sources. If multiple 1003's are found in the loan file with variation the underwriter should counter the loan to full doc.	Develop and present policy recommendations to address issues identified
Review guidelines for acceptance and underwriting of Alternative Credit	Enhance training to include relevant examples of issues identified as well as results
Change guidelines to reflect that proposed income (including rents) is not acceptable	Continued close monitoring of problem layered risk combinations and continued policy and controls analysis
Improve guidance for underwriting payment shock	Work closely with Default Management on collection tactics
Review and modify qualifications for First Time Homebuyers	



Methodology / Sampling

- ◆ The first sample set was made up of all FPD cases from March, April and May
- ◆ The following stratification will be used for next sample

	Category	Descriptor	Sample
1.	LFC	Top 2 or 3 centers based on FPD %	50%
2.	Product	2/28	80%
3.	Doc Type	Stated	60%
4.	Loan Purpose	Purchase, NOO	65%
5.	Lien Position	1sts and 2nds (include LBMC Piggy 1 st /2 nd ; LBMC1 st with non-LBMC 2 nd)	50%
6.	Property Type	2-4, SFR	80%
7.	Occupancy	SAME	Even
8.	Loan Amount	Over \$500,000	50%
9.	State	GA, IL, NY	50%
10.	CLTV	95+ CLTV	80%



MEMORANDUM

DATE: April 17, 2006

To: Board of Directors' Audit Committees of Washington Mutual, Inc. and Washington Mutual Bank

FROM: Randy Melby, General Auditor

RE: Long Beach Mortgage Company – Repurchase Reserve Root Cause Analysis

During 2005, Long Beach Mortgage Company (LBMC) experienced a dramatic increase in the volume of loans repurchased under recourse provisions. Total losses incurred in 2005 were approximately \$107 million, resulting in a reserve shortfall of \$39.5 million that was captured in the year end financial statements, and an additional \$35 million that was identified subsequent to year end and was recorded in the first quarter of 2006. In response to these events, Deloitte reported a Significant Deficiency to the Audit Committee in February 2006. Audit Services (AS) executed a post mortem review of control and process breakdowns, the results of which are disclosed in this document.

Background/Scope of Review

LBMC originates sub-prime loans and holds the loans in portfolio or sells them through securitizations or whole loan sales. During 2004, LBMC made various changes to credit approval parameters, which increased the company's overall credit risk exposure. In addition to these changes, in mid 2005, LBMC shifted from a securitization to a whole loan sales program to execute a higher price in the market, thereby increasing the gain on sale of loans. Unlike securitizations, the whole loan sales program included an early payment default (EPD) provision that required LBMC to repurchase loans if the first payment due to the investor was not remitted by the borrower and not cured within 60 days of payment due date. Due to the company's heightened credit exposure LBMC experienced a dramatic increase in EPD's, during the third quarter of 2005. The EPD recourse provisions of whole loan sales agreements led to a large volume of required loan repurchases. The unpaid principal balance repurchased as a result of the EPD provision for the year ended December 31, 2005 was \$837.3 million. The net loss from these repurchases was approximately \$107 million. LBMC failed to recognize the additional credit risk exposure, increased recourse related to EPD's, and as result, did not record an appropriate level of repurchase reserves

Permanent Subcommittee on Investigations

EXHIBIT #10

LBMC Repurchase Reserve Root Cause Analysis
April 17, 2006

for the EPD obligations assumed in those sales. As a result, gains on those sales were overstated and were not corrected until the first quarter of 2006.

At the request of executive management and the Audit Committee, AS performed an independent assessment of the conditions that led to these losses to identify any underlying governance, accounting or internal control related weaknesses. We reviewed existing assessments performed by LBMC, Home Loans, and Enterprise Risk Management (ERM), interviewed management across the enterprise, and performed select validation and data analysis testing, as appropriate.

Summary and Conclusions

Since the discovery of these losses and the formal reporting to executive management and the Audit Committee, management began conducting an immediate and comprehensive self assessment of the overall control weaknesses and related root cause analysis. Our review found that management has self identified the material control weaknesses related to this issue and has established, or is in process of establishing, repeatable and sustainable processes to address these weaknesses.

While Management has the responsibility of timely risk detection and mitigation, the strength of the overall control environment is supplemented by the roles played by ERM and AS. Our assessment identified several control weaknesses and underlying root causes within Management's responsibility as well as weaknesses in the support roles played by ERM and AS.

Management Control Weaknesses

- In 2004, LBMC relaxed underwriting guidelines and executed loan sales with provisions fundamentally different from previous securitizations. These changes coupled, with breakdowns in manual underwriting processes, were the primary drivers for the increase in repurchase volume. The shift to whole loan sales, including the EPD provision, brought to the surface the impact of relaxed credit guidelines, breakdowns in manual underwriting processes, and inexperienced subprime personnel. These factors, coupled with a push to increase loan volume and the lack of an automated fraud monitoring tool, exacerbated the deterioration in loan quality. Additionally, an effective communication process to advise the production team of early indicators of deteriorating loan quality was not in place. As a result, the production team lost opportunities to take timely corrective actions.
- Strategic decisions were made by LBMC executive management without a comprehensive understanding of the impact to LBMC or Washington Mutual Inc. (WMI).

Washington Mutual, Inc. – Confidential/Limited Access

- 2 -

LBMC Repurchase Reserve Root Cause Analysis
April 17, 2006

- LBMC executive management did not always involve corporate ERM, Legal, Finance, Capital Markets, and other key subject matter experts, and frequently did not leverage the expertise of these groups in making key business decisions. As a result, an ineffective escalation process allowed LBMC to take on material additional credit risk without corporate executive management's knowledge.
- LBMC did not have appropriate expertise or an effective business governance process to properly assess the impact and appropriateness of key business model changes. Consequently, repurchase reserves were not appropriately established and opportunities to accelerate collection activities that may have avoided some of the recognized losses were lost.

Management Corrective Actions

- Prior LBMC executive management has been replaced with a new executive management team and LBMC has been realigned under the Home Loans Group. Additionally, organizational changes in Enterprise Risk Management will strengthen overall corporate governance and escalation processes.
- New LBMC management has reacted quickly to the self identified control weaknesses and root causes of diminished loan quality and has currently suspended whole loan sale programs. As whole loan sale programs are reinstated, management has committed to an appropriate governance and review process. Management has proposed new underwriting guideline changes, implemented an automated fraud detection tool (DISSCO), developed tools to assist the underwriter in the risk assessment process have been, conducted training sessions for loan fulfillment center employees and implementing a decision quality monitoring process and a post-funding file review process. Management has also implemented mandatory continuing education programs for underwriters with plans to expand the continued training to senior and closing loan coordinators.
- LBMC is developing improved reporting, analysis and credit quality information flows by focusing on the impact of layered risks, designing a feedback mechanism to business line originators for first payment and the EPD and evaluating risk factors. Additionally, servicing processes are being reviewed for process and system changes to increase customer contact and enhance communication between the business and servicing through review of month end default reports.

Corporate Risk Management Control Weakness

- WMI did not have a robust corporate governance process in place to quickly identify material changes in a line of business' risk profile and ensure appropriate review and approval. While ERM was actively involved with LBMC credit risk issues, lack of clarity around governance structure,

Washington Mutual, Inc. – Confidential/Limited Access

- 3 -

LBMC Repurchase Reserve Root Cause Analysis
April 17, 2006

- authority levels, and roles and responsibilities coupled with LBMC's culture contributed to this lack of effective oversight at the corporate level.
- The lack of a fully effective corporate credit governance process impacted other key corporate groups such as Legal and Finance. For example, the Legal department was not directly engaged by LBMC to provide a legal opinion on the additional credit risk associated with the EPD provision. In addition, Finance within LBMC did not fully understand the related credit risks and expanded recourse and broader Finance support was not engaged until after the losses occurred to determine the proper level of reserves and overall accounting implications.
 - Credit Risk Oversight (CRO), as part of its Continuous Comprehensive Review Process, conducted weekly post-funding loan file reviews of LBMC in accordance to their mission of evaluating overall credit and compliance risk. Their reviews tested adherence to established underwriting guidelines but not appropriateness of the guidelines or any changes made to underwriting policies. In addition, a process did not exist to communicate any trends indicating deterioration in asset quality as CRO viewed credit quality as a responsibility of LBMC management and the appropriate committees within the LBMC structure.

Corporate Risk Management Corrective Actions

- A project team with representation from Legal, Accounting, Capital Markets and Master Servicing was assembled and the following actions were taken:
 - Validated the completeness of the list of loan sales;
 - Completed a contract review of all loan sales programs to evaluate legal liability;
 - Contacted impacted investors to begin resolution of outstanding legal liability and, in many cases settled the obligation; and
 - Used the latest servicing information to analyze delinquencies and to obtain the unpaid principal balance repurchase obligations resulting from the EPD provisions.

Based upon these actions, an additional \$34.6 million in reserve requirements was identified above the original \$39.5 million reserve recorded in December 2005. This additional reserve amount was deemed immaterial to the year-end financial statements and will be included in the summary of unadjusted differences reported in the 2005 10-K. The amount will be captured in the first quarter 2006 financial statements.

- Organizational changes in ERM have been made to more closely align ERM with business partners in each line of business. Senior risk officers have been named for each line of business that have a double reporting line to their respective lines of business and the Chief Enterprise Risk Officer. Additionally, a Chief Credit Officer has been named and will have an expanded role which will include oversight of Credit Risk and Corporate

Washington Mutual, Inc. – Confidential/Limited Access

- 4 -

LBMC Repurchase Reserve Root Cause Analysis
April 17, 2006

Risk Oversight Groups. These realignments will strengthen overall corporate governance and escalation processes.

Audit Services Control Weaknesses

- Audit Services issued an "Opportunities for Improvement" report in September 2005 to LBMC. Issues were identified in the areas of net tangible benefit calculations, pricing, underwriting quality, documentation and underwriting approval, and the clearing of loan conditions. While credit issues were reported, this audit focused on operational risks as IA lacked the expertise to effectively evaluate the underlying credit quality risks. Furthermore, AS did not identify the shift from securitizations to whole loan sales and the additional repurchase exposure and financial statement impacts associated with an EPD provision.
- The risk assessment performed by AS to develop its 2005 audit plan did not flag the LBMC loan sale processes for audit, due primarily to the limited size of its annual loan sales as a percentage of the overall entity loan sale volume.

Audit Services Corrective Actions

- The 2006 audit plan includes audits of Long Beach Mortgage Origination, Processing and Underwriting, Loan Portfolio Management, Subprime Default, Long Beach Capital Markets, and a System Development review of LBMC's new loan origination system. The audits will include an assessment of the credit governance structure, as well as testing of the implementation and effectiveness of the proposed remediation efforts including implementation of the fraud detection tool (DISSCO), training and review programs, and proposed underwriting guideline changes.
- Audit Services is actively recruiting an audit credit manager and will regularly attend the Credit Policy Committee Meetings.

Other Observations and Recommendations

We believe the corrective actions taken by management will address the control weaknesses that contributed to these losses and strengthen the overall control environment going forward. To date, payment defaults declined in December through March and are on track to decline in April. As a by-product of this assessment, we noted the following additional observations and recommendations that may assist in the successful remediation of the identified control weaknesses:

- Establish a consolidated action plan for all open and in process remediation efforts for ongoing tracking, monitoring and reporting to executive management and the Audit Committee.
- Review existing Credit Governance and oversight processes to ensure material credit quality issues are identified in a timely manner.

Washington Mutual, Inc. – Confidential/Limited Access

- 5 -

LBMC Repurchase Reserve Root Cause Analysis
April 17, 2006

- Clearly define roles and responsibilities between Home Loans and ERM governance processes to ensure material risks are identified and escalated timely to executive management and the appropriate committees. This will include alignment with the Capital Markets processes at Long Beach with Home Loans current processes which include signoff from legal and accounting.

From: Killinger, Kerry K.
Sent: Thursday, April 27, 2006 2:54 PM
To: Rotella, Steve <steve.rotella@wamu.net>
Subject: RE: Jax

Thanks for the update. The Long Beach problems will no doubt be fodder for the OTS to caution us from ramping up sub prime loans in portfolio. This may lead us to focus on the conduit and SMF program to increase these assets for awhile. We may want to continue to sell most of the Long Beach originations until every one gets comfortable with credit.

I am glad to hear about the improved management in Jacksonville. I was down there about a little over a year and a half ago and it was not a pretty picture. John Behrens is not only a good manager, but he really lives the right values from what I can see.

-----Original Message-----

From: Rotella, Steve
Sent: Thursday, April 27, 2006 11:26 AM
To: Killinger, Kerry K.
Cc: Schneider, David C.
Subject: Jax

Had a great trip to jax. The mood down there was great. Lots of fantastic work going on in servicing, fulfillment, sales, the Ecc and other areas. John berens and his team and others are doing great things and have really led the troops with lots of interactions and communications. Employee scores are up nicely as are Vocals and productivity. Prime delinquencies are at all time lows. I listened in on service and collections calls and the new leaders there have made significant improvements.

I can fill you in further if you like.

The major weak point was the review of Long Beach. Here are the facts: the portfolio (total serviced) is up 46% YOY through March but delinquencies are up 140% and foreclosures close to 70%. And as berens and his top default guy, steve champney (outstanding addition by the way) said, they saw "no break in the rise in march", the first time they have seen that in 25 years of collections experience. First payment defaults are way up and the 2005 vintage is way up relative to previous years. It is ugly.

The hopeful news is that the servicing shop has been very poorly run, with manual and paper based techniques, and almost laughable penetration of the bad accounts. Early changes by the new team from HL, who have deep subprime experience, indicate a solid opportunity to mitigate some of this. I would expect to see this emerge in 3 to 6 months. That said, much of the paper we originated in the 05 growth spurt was low quality.

This will impact our costs somewhat and could impact losses on owned product, but they need to do more work here.

They also reviewed management changes that will occur very soon. We will take out some key players who are living in the 1970s and replace them with much better people. Ultimately we will relocate the functions to Jax but that is a task for later.

I have the utmost confidence in the team overseeing this now and no doubt this unit will be more productive and better controlled, but I figured you should know this is not a pretty picture right now. We are all over it, but as we saw with repurchases, there was a lot of junk coming in

I also asked the guys to work with Beck's group to see if we could package and sell any of the bad portfolio product flat. I copied David S on this so he can follow up on this

Sent from my BlackBerry Wireless Handheld

Permanent Subcommittee on Investigations
EXHIBIT #11

From: Killinger, Kerry K.
Sent: Thursday, September 14, 2006 1:01 PM
To: Rotella, Steve <steve.rotella@wamu.net>
Subject: RE: nat city mid-quarter update

Thanks Steve. Agree on everything. It's frustrating for all of us, but the proper corrections seem to be taking place. It will be good to see some progress as the year goes on. Hopefully, the sub prime fixes can be done quicker than the prime fixes because they don't require huge new system or technology investments.

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

From: Rotella, Steve
Sent: Thursday, September 14, 2006 9:19 AM
To: Killinger, Kerry K.
Subject: RE: nat city mid-quarter update

Based on yesterday's review, prime GOS *has* improved from July (approx 78 bps for August, up 43 bps) and should be up Q on Q. I would think Nat City, given they are exiting subprime, through the sale of F Franklin are primarily referring to prime in their comments, so our experience would be similar so far.

However, LBMC is terrible, in fact negative right now. In discussing this, first position sub prime with "normal" credit is getting a reasonable GOS (125-150). We are being killed by the lingering movement of EPDs and other credit related issues, particularly in second position loans, through the pipeline and warehouse. This will negatively impact overall GOS for the quarter. David Beck is pretty confident that as this stuff goes away and the newer product brought in with tighter credit flows through (beginning September) we will see improvements. He is beginning to see that emerge.

If there is one thing I kick myself about, it was not moving much faster on Craig C, and my strong view and instincts that LBMC would be better managed in HL. But, David was new and I was giving Craig some room based on everything I heard about him, but we are cleaning up a mess. Repurchases, EPDs, manual underwriting, very weak servicing/collections practices and a weak staff. Other than that, well you get the picture.

The good news is David and his team are pros and are all over it. Beck has a great team and are dealing with capital markets well, Cheryl is drilling into the credit and has made significant change happen, and thank god we have Berens on the collections side. He did a presentation yesterday on where we were and where we are. I had seen this before, but the state of that shop was beyond mediocre. He has an intense focus on it and we are seeing improvements. But, the trends and likely tail on this is linger for awhile.

The MSR has been doing OK. September is progressing well and is ahead of forecast. Right now, it is not a big positive, but frankly, it has receded to a second tier concern relative to LBMC.

From: Killinger, Kerry K.
Sent: Thursday, September 14, 2006 8:32 AM
To: Rotella, Steve
Subject: FW: nat city mid-quarter update

Steve,

We have been pretty public in talking about over capacity in the industry and the terrible margins resulting from over capacity. I hope we don't see other major players experiencing improving margins. Nat City sounds somewhat positive

Permanent Subcommittee on Investigations

EXHIBIT #12

here - both on their margins and their MSR hedge performance. I worry that our relative third quarter performance in Home Loans will not look good.

Kerry

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

From: Baker, Todd
Sent: Thursday, September 14, 2006 7:09 AM
To: Magleby, Alan F.
Cc: Killinger, Kerry K.; Rotella, Steve; Casey, Tom; Schneider, David C.
Subject: nat city mid-quarter update

See below key excerpts--note comments on GOS margins:

Earning Assets, Net Interest Margin, and Net Interest Income

Commercial loan balances continue to trend higher. At the same time, the residential real estate and home equity line of credit portfolios are experiencing net declines due to the ongoing "originate-and-sell" strategy for certain of these assets. As a result, overall loan portfolio balances and average earning assets will likely show a linked-quarter decline. Management expects that third quarter net interest margin will be relatively flat, and that net interest income will be slightly below that of the second quarter.

Loan Sales and Servicing

Gain-on-sale margins at National City Mortgage have been improving, aided by changes in product mix and a greater emphasis on retail origination. On an operating basis, third quarter profits in this business are expected to be higher than those of either the first or second quarter. Gain-on-sale margins at First Franklin have been steady. At National Home Equity, two home equity line sales totaling approximately \$1.3 billion occurred in the third quarter through August, and a third one of approximately \$900 million is scheduled for September. Three home equity loan sales totaling approximately \$570 million have occurred through August, and two more totaling approximately \$500 million are expected in September. Gross gain on sale margins for the third quarter are estimated at around 3 percent for lines of credit, and between 2 percent and 3 percent for loans.

Mortgage servicing right (MSR) net hedging results were modestly positive through the first two months of the quarter.

Other Fee Income and Noninterest Expense

No unusual fee income or noninterest expense trends are evident through July and August. Deposit service charge income trends continue to be positive. Year-to-date noninterest expenses are flat with the prior year. No significant or unusual income or expense items are anticipated for the third quarter.

Credit Quality

Commercial and consumer credit quality trends are stable and in line with recent periods. Net charge-offs are expected to be comparable with those of the second quarter.

Capital

In July and August, a total of 2.3 million shares were repurchased in the open market. An additional 600,000 shares were repurchased through September 12. Share repurchase activity over the remainder of the year will be limited due to restrictions arising from pending acquisition transactions.

Other

On September 5, 2006, the Corporation announced an agreement to sell its First Franklin origination franchise and related servicing platform for a \$1.3 billion purchase price. That transaction will result in an estimated pre-tax gain of approximately \$1 billion, or around \$1.00 per share after tax upon closing in the fourth quarter. Separately, the Corporation also agreed to sell approximately \$5.6 billion of uninsured First Franklin originated mortgage loans from its loan portfolio for a modest premium. That sale should also close in the fourth quarter. These loans will be moved into the held-for-sale category in September. Following that sale, approximately \$10 billion of First Franklin loans would remain in

portfolio, nearly all of which are covered by some form of credit risk protection, either loan level lender paid mortgage insurance or a credit default swap. Management will continue to consider strategic options for the remaining portfolio, including sale, securitization, or ongoing retention and run-off over time.

The Corporation's pending acquisition transactions, Harbor Federal of Fort Pierce, Florida, and Fidelity Bancshares of West Palm Beach, are proceeding according to their original timetables. Subject to shareholder and regulatory approvals, Harbor is expected to close late in the fourth quarter, and Fidelity early in the first quarter of 2007.

From: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Sent: Tuesday, December 26, 2006 4:54 PM
To: Schneider, David C. <david.schneider@wamu.net>; Beck, David <david.beck@wamu.net>; Fortunato, Steve <steve.fortunato@wamu.net>; Hyde, Arlene M. <arlene.hyde@wamu.net>
Cc: Richards, Alison <alison.richards@wamu.net>
Subject: Information for our 2:00 p.m. call today
Attach: SUB_PRIME_ANALYSIS_12_26.xls

David:

As you requested, attached is the updated spreadsheet. Some comments based upon Rich McCoppin's conversation with Richard Fuchs as Rich McCoppin updated the spreadsheet are as follows:

1. Updated all numbers where there have been updates.
2. Updated WA Reprice data for conduit outstanding EPD repurchases as well as all past due accounts to give total WA Repriced exposure. After speaking with Richard Fuchs, there is a sense that we can collect all but about 5MM for the EPD repurchases for various reasons (lenders going out of business the biggest reason). For the 'non-rep and warrant' defect loans, which total 90MM+ in UPB, we are looking at about a 10MM exposure based on reprice and the assumption of a 25% cure rate.
3. Included Sebring, which is out of business, as well as Sunset Direct, which was omitted last time.

Talk to you all in a few minutes. My special thanks to Doug Potolsky (who I tracked down on his beach holiday) and Richard Fuchs (who Rich McCoppin worked with to update the spreadsheet).

Cheryl

From: Schneider, David C.
Sent: Friday, December 22, 2006 5:10 PM
To: Beck, David; Fortunato, Steve; Hyde, Arlene M.; Feltgen, Cheryl A.
Cc: Richards, Alison
Subject: FW:

Take a look at the information below. Short story is this is not good. Let me organize the issues into 2 buckets:

1. There is growing potential issue around Long Beach repurchases from Reps/Warrants. This is referred to in Steve's #2 and in the attached spreadsheet. The short story is that we have a large potential risk from what appears to be a recent increase in repurchase requests. I have a number of questions that need to be resolved:
 - a. What is the process for processing repurchase requests? Who is involved? How do we fight it? What is the feedback loop to originations? Beck
 - b. What has driven the increase? What data analysis has been performed? Feltgen - another form of credit risk.
 - c. What do we expect for December? Beck
 - d. Are there specific trends that would help with how we record the reserve? Beck

This is a classic example of people not moving beyond their specific world. Capital markets should have linked the increase in requests to a potential issue - no flag was raised. Credit should be involved in this process - at least being aware of the potential risk. Accounting should have provided an earlier analysis of the potential risk - we saw some of the numbers come through in Sep/Oct. I should have asked more questions, especially since we just went to the Board with an assessment of our risk. We are all rapidly losing credibility as a management team.

2. There needs to be more clarity around the conduit reserves. When we met on Monday, I was told by Doug that the potential risk was possibly \$3-5mm. There are a lot of moving numbers below, but I want to make sure that Steve has the necessary information to come to the appropriate decision. Specific steps:

Permanent Subcommittee on Investigations
EXHIBIT #13a

- a. We should also take a step back and analyze the overall profitability of the conduit given the current market. Beck
- b. Finalize all entries around reserves. Steve
- c. Update the spreadsheet we reviewed on Monday. Cheryl

Sorry to send this just before xmas, but we don't have much time before the end of the year. We will have a call on Tuesday at 2pm pst. Steve will send out the call in info.

ds

From: Fortunato, Steve
Sent: Fri 12/22/2006 3:56 PM
To: Schneider, David C.
Subject: RE:

- 1) I can be reached at 206 500 4969
- 2) Attachment above for Long Beach rep/warrant
 - a. Same issues as FPD last quarter
 - i. Weak linkage from business to accounting
 - ii. Lack of timely escalation from either accounting or the business
 - b. Current forecast of 35 to 50m risk
 - c. Potolsky/Coultas to review trends
 - d. Risk of pending requests needs to be investigated
 - e. Methodology question on inclusion of subsequent writedowns
- 3) Alt A/Subprime conduit repurchase reserves
 - a. Prior forecast includes 5m hit with risk of 5m based on:
 - i. Encore hit of 3m (8m exposure but 5m payment)
 - ii. Sebring 1.2m
 - iii. 70m buyback * 50% recovery * 10% hit = 3.5m
 - b. Current forecast
 - i. Subprime conduit loans in 3 categories

1. EPDs (with reps from sellers)	-15.6m
2. Delinquent (no reps)	-10.7m
3. Performing	+7m
4. Encore recovery	+1.5m
5. Recovery (14m *2/3)	9m
 - ii. Subprime HFI loans

1. Encore payment	+3.5m
-------------------	-------
 - iii. Alt A buyout

1. LOCOM mark	-12m
2. Recovery at 50%	+5m
 - iv. Impact of consolidated LOCOM TBD
 - v. Other improvements

1. GOS timing difference	+5m
--------------------------	-----
 - vi. Scenarios

1. No recovery booked	-16m
2. Book recovery	-1m
3. No recovery, LOCOM help	- 8m
4. Recovery, LOCOM help	+5m
 - c. Accounting policy question on booking recovery and need followup with Credit

Alt A mark absorbed by prime

- d. Numbers/LOCOM impacts need to be vetted with Stack/Jurgens
- e. Casey questions
 - i. Profitability of subprime conduit if only breakeven
 - ii. Rep/warrant
 - 1. Why the miss?
 - 2. Who is accountable?
 - 3. Policy question

From: Schneider, David C.
Sent: Friday, December 22, 2006 2:30 PM
To: Fortunato, Steve
Subject: RE:

Great. Please email me any supporting info that will be helpful.

ds

From: Fortunato, Steve
Sent: Fri 12/22/2006 12:30 PM
To: Schneider, David C.
Subject: RE:

4pm is fine

-----Original Message-----
From: Schneider, David C.
Sent: Friday, December 22, 2006 10:55 AM
To: Fortunato, Steve
Subject: Re:

Did you meet with Tom. I'd like to review the details this afternoon. Is 4pst good for you?

----- Original Message -----
From: Fortunato, Steve
To: Casey, Tom; Schneider, David C.
Cc: Bartels, Melba; Malone, Marc
Sent: Fri Dec 22 08:02:44 2006
Subject: RE:

9 am?

I have a meeting now to review the first part.

From: Casey, Tom
Sent: Friday, December 22, 2006 8:00 AM
To: Fortunato, Steve; Schneider, David C.
Cc: Bartels, Melba; Malone, Marc
Subject: RE:

Are you around today to go through this? This is very big delta from what we just told the BOD.

TC

Tom Casey
Chief Financial Officer
Washington Mutual
1301 Second Avenue, WMC 3301
Seattle, WA 98101
206/500-4202
206/377-5318 (fax)

Please note my contact information effective 09/05/2006. Please update your records.

From: Fortunato, Steve
Sent: Thursday, December 21, 2006 12:11 PM
To: Casey, Tom; Schneider, David C.
Cc: Bartels, Melba; Malone, Marc
Subject: FW:

Lots of uncertainty here relative to both estimates and accounting methodology but risks of up to 47m vs. current forecast.

- 1) WMMSC Repurchase Reserves (up to 17m risk on top of \$5m in forecast)
 - a. Reviewing accounting methodology with John Woods, may be able to offset with receivables
 - b. Very rough estimate needs to be refined with Cap Mkts
- 2) LB rep/warrant (10 to 30m?)
 - a. Meeting later today to discuss and see data
 - b. We have a standard rep/warrant reserve for LB and prime at 6bps. This is separate from FPD reserves
 - c. Rep/Warrant Repurchase reserve requests coming in significantly higher (I think starting in 4q) but I am checking



June 5, 2007

TO: Steve Funaro
Examiner-in-Charge

FROM: Christopher Hovik
Examination Specialist

SUBJECT: WaMu - Long Beach Mortgage Company (LMBC) Repurchases

Objective: Assess LBMC repurchase activity and related reserves.

Repurchase Activity

Repurchase reasons are broken down into three main categories: 1) first payment default (FPD) - the mortgagor fails to make the first monthly payment, 2) early payment default (EPD) - the mortgagor fails to make the first payment due after the loan has been sold, and 3) representations and warranties (R&W) - the seller guarantees various facts about the sold loans.

During 2006, more than 5,200 LBMC loans were repurchased, totaling \$875.3 million. Approximately 46% percent of the dollar volume was due to EPD, 43% due to FPD, and 10% due to R&W. All of the EPD occurred during the first four months of the year as the bank ceased doing whole loans sales in January 2006. Consequently repurchase volume dropped off dramatically during the second quarter and continued at lower levels throughout the remainder of the year.

During the fourth quarter of 2006, there was a jump in repurchase requests under R&W provisions. Management stated that it was a one time event relating to just a couple of deals. The reasons for and steps the bank is taking to mitigate this adverse trend needs to be discussed further.

Repurchases are not even distributed among various loan sales. The most recent sales contain the FPD and EPD buybacks as they are relatively short lived guarantees. Loans bought back for those reasons will typically be repurchased within 2 or 3 months after sale. In fact, about 30% of all repurchases in 2006 came from two whole loan sales 2006-WL2 LBMLT and 2006-WL3 LBMLT. The far majority of these whole loans sale repurchases were due to early payment provisions.

R&W constitute a longer term guarantee with loans being repurchased in 2006 that were sold as far back as 1999. The reasons for R&W repurchases in 2006 are listed in the following table:

Permanent Subcommittee on Investigations

EXHIBIT #13b

R&W Reason		
Misrepresentation	\$ 15,513,067	17%
Delinquency	\$ 13,846,923	15%
Employment	\$ 11,049,906	12%
Income	\$ 9,423,860	10%
Incorrect investor delivery	\$ 6,305,691	7%
Unacceptable Credit	\$ 6,207,270	7%
Inadequate/unacceptable documents	\$ 6,099,417	7%
Fraud/Identity Theft	\$ 5,495,335	6%
Business Decision	\$ 5,134,858	6%
Program Eligibility	\$ 4,099,384	4%
Title Issues	\$ 3,448,213	4%
Appraisal	\$ 3,070,993	3%
Legal Issues	\$ 617,435	1%
Undisclosed Debts	\$ 457,798	1%
Missing Documents	\$ 289,541	0%
Servicing deficiency	\$ 191,852	0%
Payoff cancelled	\$ 47,867	0%
Funds to close	\$ 33,281	0%
Low Balance	\$ 2,488	0%
TOTAL	\$ 91,335,177	100%

Despite repeat requests, I was not granted a meeting with management to discuss the repurchase process, specifically Reps and Warranties. The “delinquency” reason raises concern. If the bank is truly buying back loans because the loan has gone delinquent past the time allowed for FPD and EPD, then there appears to be some type of recourse. My best guess is that the delinquency reasons relates to historical delinquency at the time the loan was sold, e.g. the loan was 30 days delinquent more than once during the twelve months preceding the sale. This type of language is in the R&W for the most recent securitization (4/07), but it is unknown if similar provisions are in the earlier securitizations or in whole loan sale agreements.

Although actual contract language for Reps & Warranties was requested on all outstanding mortgage deals (securitizations, whole loans sales, Long Beach, and prime) , management only provided us with the most recent Mortgage Loan Purchase Agreement for a Long Beach Mortgage Securitization, dated April 2007. Examiners also requested documentation on what bank employees use to determine if a particular loan is covered under R&W.

Management claims that R&W provisions are industry standard and indeed they may be. However, I still found that the Mortgage Loan Purchase Agreement contains some representations and warranties worth noting. For example, not only must the loans be “underwritten in accordance with the seller’s underwriting guidelines”, but the “origination, underwriting, and collection practices used by the seller with respect to each mortgage loan have been in all material respects legal, proper, prudent, and customary in the subprime mortgage servicing business”. This provisions elevates the potential that investors can put back a problem

loan years after origination as not only must the loan have been underwritten in line with bank guidelines but must also have been underwritten in accordance with what is customary with other subprime lenders.

Another provision states that “no misrepresentation, negligence, fraud, or similar occurrence with the respect to a mortgage loan has taken place on the part of any person...involved in the origination of the mortgage loan”. Given the prevalence of low documentation or stated income loans and the reliance upon brokers for the majority of originations, the potential that investors will look for and find misstatements in borrower’s income or financial conditions is elevated. Although the bank would have recourse against the broker, in practice the bank is seldom successful due to the dubious condition of many brokers.

Repurchase Reserves

The bank maintains a reserve for estimated losses associated with repurchasing LBMC loans. As of March 31, 2007, reserves totaled \$77.6 million of which \$75.3 million related to R&W and \$2.3 million related to FPD. There is not currently a reserve for EPD as the bank discontinued whole loans sales in January 2006. Despite representing a minority of repurchases, R&W require the highest portion of reserves due to their long-lived nature.

The R&W reserve has been fairly stable in 2007, but had a significant leap in December 2006 when the required level went from \$18 million to \$76 million. Usually in the monthly packet titled Home Loans Repurchase Reserves, management identifies specific reasons for changes in level as well as methodology. In the December packet examiners were given there is no such detail; however, it appears that the jump in reserves was due to increased repurchases losses in fourth quarter 2006 and a change in reserve methodology.

In a January 16, 2007 memo to Fergal Stack, Home Loans Segment Controller, Rollan Jurgens, Home Loans Division Controller discusses a change in methodology for R&W reserves. According to the memo, it was discovered in December 2006 that the SAS model which was used to extrapolate expected REO losses had unreconcilable data issues. Additionally, the charge-off activity in October and November showed a significant increase in losses from marking repurchases to market. The reserving process was based upon expected REO frequency and thus it would not anticipate a significant increase in mark-to-market losses on repurchased loans. Consequently, the reserve methodology for R&W was changed as of December 31, 2006. Deloitte & Touche (D&T) reviewed and accepted the new methodology.

The new R&W methodology is based upon historical data from 1999 through 2004 by type of sale, namely securitization, whole loan sale servicing retained, whole loan sale serving released, and NPA. Historical repurchase rates are used to forecast repurchases over the next three years. Securitizations and whole loans servicing retained are modeled whereas whole loan released and NPA use a more simple approach and currently assume repurchase rates of 1.25% and 1.5%, respectively. When more historical data is available, these too will be modeled. Management then forecasts loss severity rates for 1st liens and 2nd liens for each type of sale. Historical data

is used but adjusted based upon management's judgment. D&T benchmarked repurchase and severity assumptions and deemed them reasonable.

FPD reserve rates are based on expected repurchase volume and loss severity by lien type. Actual repurchase volumes and severity due to FPD are calculated for recent sales. The last six months of repurchases are used as a guide to calculate the FPD reserve rate based upon management's discretion. The reserve rate is then applied to recent sales that contain loans still subject to the first payment default provisions.

There is not an official validation performed on the reserve model. Although the Model Validation Standard considers a spreadsheet to be a model, the standard allows spreadsheets that do not contain complex transformation to be exempted. Management is unsure whether the standard applies, but agrees that the models need to be regularly tested. They stated that a validation program will be established within the next few months.

Examiners requested an electronic copy of the actual spreadsheets used to calculate reserves. A meeting to walkthrough the detail of the model was also requested. As of the date of this memo, these requests have not been fulfilled.

FAS5 requires the bank to reserve for loss contingencies including agreements to repurchase receivables that have been sold. FIN45 requires that the bank book a liability for its obligation under a guarantee at fair value. Because these two items would essentially be double counting, GAAP allows the bank to book the higher of the two. Management stated that at sale a FIN45 liability is booked. A FAS5 reserve is also calculated, but not booked. As the FIN45 liability amortizes it comes to a point when the FAS5 reserve is higher. Then bank then starts booking additional provisions to bring the level up to the FAS5 amount. Copies of the FV and reserve spreadsheets have been requested.

Governance/Internal Controls

The repurchase reserve process has governance/internal control deficiencies. An internal audit report dated December 31, 2006 (based upon business processes as of September 30, 2006) delivered a "Requires Improvement" rating. The following issues were rated as high or medium risk and relate to LBMC repurchase reserves:

- 1) Data integrity - checks to validate the completeness and accuracy of information obtained from source systems are not performed.
- 2) Assumptions - repurchase reserve assumptions do not capture recent historical trends or external factors
- 3) Backtesting - testing to assess validity of model results is not performed
- 4) Oversight - the quarterly provision and analysis does not have formal credit oversight
- 5) Manual process - the reserve calculation is extremely manual and highly susceptible to human error
- 6) Model performance - modeling for the repurchase reserve is not performed by personnel with sufficient training, experience, and expertise with credit models.

7) Procedures - procedural documentation is minimal

As of April 30, 2007, the above issues have been resolved with the exception of (3) backtesting, (5) manual process, and (7) procedures. These are expected to be resolved by June 30, 2007.

Management also contracted with PricewaterhouseCoopers (PwC) to review the repurchase reserve modeling and processes for both subprime and prime portfolios. Management claims that it was not an audit, but a consultant review. The PwC report dated December 21, 2006 gives several recommendations for improvement. Some of which management has already implemented and others they have no intention of implementing. One area that they are still working on is simplifying the approach to modeling. As previously mentioned, methodology changes were made in December and management expects to have additional changes implemented within the next three months.

As stated in WaMu's April 2007 Risk Management Forum package and as listed as Exam Finding 6 in the March 2007 OTS workpaper on Mortgage Banking - Secondary Marketing Program, there are disparate repurchase processes across product lines including policy guidance. Management has committed to develop a global recourse administration guide and to implement a Home Loans recourse, repurchase, and recovery governance structure by May 31, 2007. Additionally, they committed to create a centralized recourse, repurchase, and recovery control structure by June 30, 2007.

Pending Items

- Copy of reserve spreadsheets
- Verify compliance with FIN45 and FAS5
- Copies of actual contract language for whole loan sales
- Copies of actual contract language for securitizations (if different than the 5-07 issuance)
- Copy of policy governing LBMC repurchases (is global guidance finished?)
- Meeting to discuss the repurchase process (definitions of R&W reasons, jump in 4Q06 R&W, verification process prior to repurchasing a loan, replacement versus repurchase, catching systemic problems, mitigation strategies, etc)
- Meeting to go through the detailed reserve calculation

Issues

- Reserve calculation is extremely manual.
- Reserve models are not backtested or subject to the Model Validation Standard.
- Comprehensive written policies and procedures are lacking.
- Though not uncommon in the industry, representation and warranties provide many opportunities for investors to put back loans at any time during the life of the loan.
- Deterioration in the subprime mortgage market may prompt increased repurchase activity, especially on whole loan sales.

Home Loans - SubPrime Quarterly Credit Risk Review

December 2006

Executive Summary

Concentration Thresholds

- HFI subprime balances did not exceed any concentration thresholds as of December 2006.

Long Beach First Payment Default

- The Long Beach FPD rate declined dramatically during December 2006, a result of credit policy, operational and system changes implemented over the last 6 months:

Long Beach Delinquency

- Total Long Beach delinquent loans rose dramatically during 2006 and are were at peak levels as of December 2006
- Scratch & Dent loans drive total delinquencies and the Long Beach delinquent rate.
- Non-Scratch & Dent delinquent loans have been relatively flat for several months and the corresponding delinquency rate is stable.

Long Beach Production Trends

- Full Doc share of total volume is up to 62% in January 2007, from 43% one year ago.
- Refinance share of total volume us up to 73% in January 2007, from 40% one year ago.
- 2nd Lien share of total volume is down to 27% in January 2007, from 60% one year ago.

Long Beach Credit Policy Changes

- Tightened 80/20, 80/15 and 80/10 transactions by FICO and Loan Purpose
- Limited Doc transactions are treated like Stated Doc instead of Full Doc
- Broker management driven by FPD and profitability
- Collateral and broker risk information introduced in underwriting process
- Automated underwriting targeted for at least 25% of applications

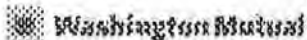
Long Beach Broker Management

- Terminated relationship with top 10 brokers ranked by FPD volume in 2006
- FPD rate of terminated brokers ranged from 11% to 80% of 2006 volume

Concentration Thresholds Subprime

	Portfolio				6-Month Rolling Originations (Long Beach city)			
	November	December	Threshold	Over/Under	November	December	Threshold	Over/Under
FICO <525	5%	3%	10%	7%	3%	3%	10%	7%
FICO <580	21%	19%	30%	11%	14%	14%	30%	16%
CLTV >95%	13%	13%	25%	12%	46%	44%	75%	31%
FICO <580 and CLTV >95%	1%	1%	5%	4%	0%	0%	5%	5%
Non-Owner Occupied	4%	4%	10%	6%	7%	8%	10%	2%
Purchase	23%	23%	25%	2%	49%	46%	50%	4%
Loan Amount >\$1 million	0%	0%	5%	5%	0%	0%	5%	5%
California	24%	24%	50%	26%	40%	40%	50%	10%
Any Other State (Texas)	15%	16%	15%	-1%	10%	9%	15%	6%

The Appraisal Quality Metric threshold is not shown as it has not yet been finalized.



Privileged and Confidential

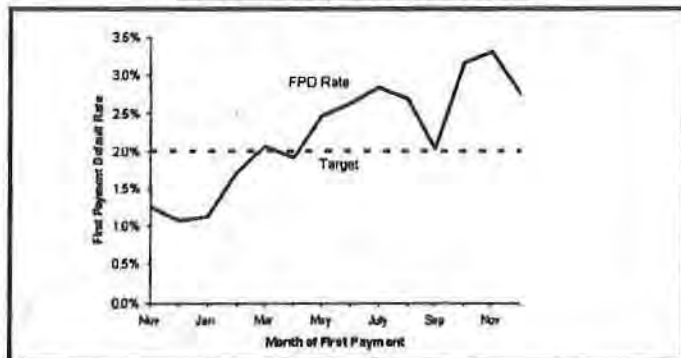
Risk Management

3

JPM_WM04107376

Other Credit Risk Highlights

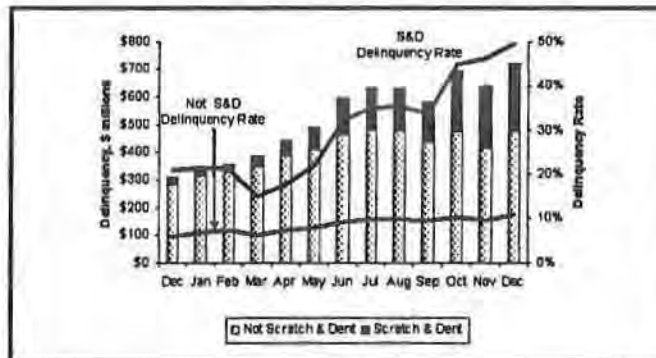
Long Beach FPD Rates



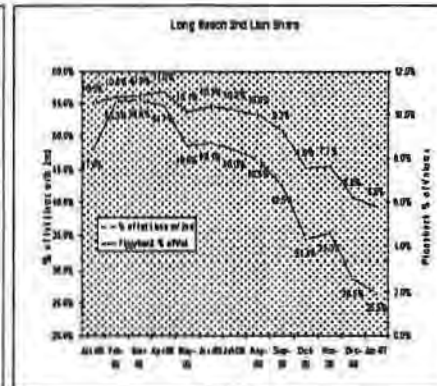
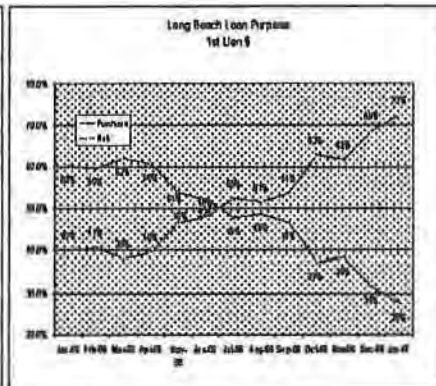
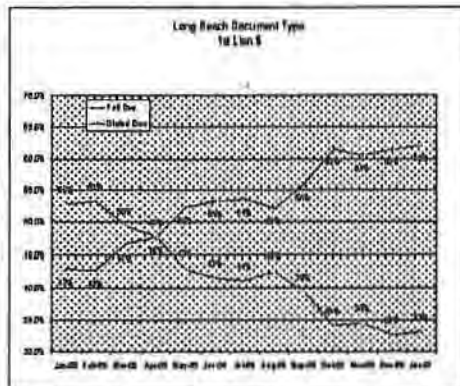
- Long Beach first payment default rate rose during 2006 well above the target of 2%
- The FPD task force has implemented a variety of credit policy, operational and system changes to reverse the FPD trend
- The December 2006 FPD rate moved in a positive direction and may indicate progress toward the target level

Long Beach Delinquency

- Total Long Beach delinquent loans have risen dramatically during 2006 and are currently at peak levels
- Scratch & Dent loans drive total delinquencies and the Long Beach delinquency rate
- Non-Scratch & Dent delinquent loans have been relatively flat for several months and the corresponding delinquency rate is stable



LBM Production Trends



- Heading in right direction:
 - Full Doc share is up to 62%
 - Refi share is up to 73%
 - Share of loans with 2nd lien is down to 26.5% and 2nd lien volume is down to 5.8%
 - NOO was at 9% in Jan 2007 but the pipeline is running around 5% after the policy change
 - FICO score is at 632 in Jan 2007

LBM 2007 FPD ROADMAP – PROGRESS UPDATE

Credit –

- Complete the tightening for the credit criteria.
 - Tightening of the 80/20 to 80/15 or 80/10 by FICO score and Loan Purpose
 - Treating of Limited Doc loans like Stated Doc instead of Full Doc
- Drive the management of brokers by FPD and profitability
- Introduction of better collateral and broker risk information into the underwriting process
 - LoanSafe process is the first step in Triad of Risk project
- Automation (EDE) of underwriting process for at least 25% of applications
 - Fast-track the low risk loans with simplified underwriting process
 - Automate the collateral score and broker score in the underwriting decision process
- Introduction of better credit risk tools
 - Application credit score
 - Generic behavior score for use in collections and refinance decision process
 - Account management software such as TRIAD (Fair Isaac) or other adaptive control system
- Obtain better database for analysis and report

LBM 2007 FPD ROADMAP – PROGRESS UPDATE

Capital Markets –10-20% Reduction

- Ensure risk based pricing – higher FPD cells
- Support per-cell cost/benefit analysis on proposed guideline changes
- Build EPD rate into pricing Gain on Sale forecast; synchronize with Financial Forecast
- Build EPD rates by cell and by parameter into Loan Level Pricing Model

Servicing – Increase overall penetration rate up to 250% including manual dials

Increased promises – Increase by 10%

- Addition of 17 staff to FPD Subprime Collections
- Strategy is enhanced to include additional manual dialing in all FPD 5-29 and 30-59 past due loans
- Implement Titanium scorecard for results tracking
- Titanium criteria expanded to include more loans within both buckets of delinquency
- Loans sent to Titanium in the 30-59 day range have been rush ordered to decrease response time
- Implement weekly servicing meeting with Capital Markets and Production areas for on-going discussion around delinquency
- Nancy Gonseth hired in Default to provide root cause analysis and default strategies
- Weekly loan boarding meetings initiated to develop process improvement around loan boarding issues, timing and communication

Correspondent Buy Back Process

Repurchase Progress

- 204 First Demand Letters sent to 45 LBM Correspondents
- All loans have been priced as Scratch & Dent (S&D)
- 60 Second Demand Letters sent offering S&D make-whole
- 16 Lender responses received
- 6 preliminary agreements to repurchase (\$2,268,077)
- 7 preliminary agreements to pay make-whole (\$274,975)
- 4 paid in full
- 2 expected paid in full
- 6 service release in S&D pool

Repurchase Process

- First Demand Letter sent by R/R Analyst demanding repurchase
- Escalated to Recovery Specialist
- Second Demand Letter sent at 30 days warning of escalation and offering S&D alternative to full repurchase
- Recommend suspension in other channels (17 Lenders suspended in Conduit; 6 recommendations conveyed to MBF)
- Refer to Legal for Final Demand Letter
- Coordinate with Legal for pursuit of additional legal remedies

LBM 2007 FPD ROADMAP - PROGRESS UPDATE

Production –

- The below chart represents the Top 10 brokers by FPD volume in 2006. All these brokers have been terminated

Broker #	Broker Company Legal Name	Amount Funded	Amount FPD	FPD Rate Amount(%)
823284	MIROMAX	\$17,288,608.00	\$3,778,000.00	21.85%
822128	STERLING MORTGAGE AND FINANCIAL SERVICES, INC.	\$29,608,362.00	\$3,328,200.00	11.24%
819698	BAYPOINT MORTGAGE INC	\$13,008,750.00	\$2,387,000.00	18.20%
817858	HOME CAPITAL FUNDING	\$2,819,000.00	\$2,334,000.00	79.98%
822825	REYNALDO ZEPEDA AGUIAO	\$10,744,403.00	\$2,235,000.00	20.80%
811530	COVENANT FUNDING FINANCIAL COMPANY	\$16,191,898.00	\$2,208,335.00	13.64%
808032	JAY LEROY VEUVE	\$15,284,850.00	\$2,174,500.00	14.23%
808852	WHITEPINE MORTGAGE CO., INC.	\$2,896,500.00	\$2,138,000.00	73.81%
808707	MORTGAGE GALLERY INC	\$8,311,150.00	\$2,082,000.00	24.81%
822788	METRO FINANCIAL GROUP, INC	\$5,745,937.00	\$1,815,000.00	33.33%

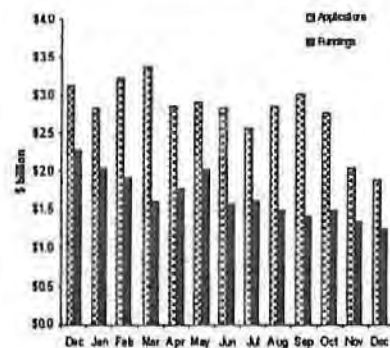
Appendix

<u>Page</u>	<u>Title</u>
5 -6	Long Beach: Loan Production
7	Long Beach: Pipeline Activity
8	Long Beach: Other Metrics
9	Long Beach: HFI Performance
10 - 11	Conduit: HFI Performance
12	Subprime: HFI Concentration Thresholds
13	Subprime: Non-Performing Loan and Credit Loss Rates
14	Long Beach: 2004/2005 Guideline Change Summary

Loan Production: Long Beach

Application/Funding Volume

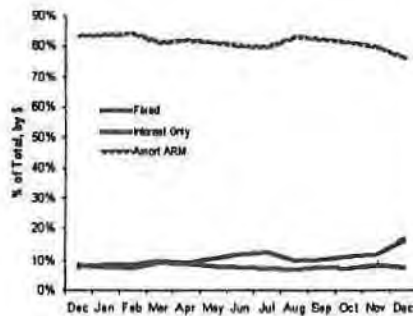
A



In Correspondent, fundings are used as a proxy for applications.

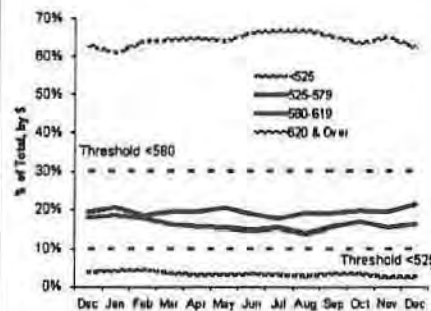
Product

B



FICO Distribution

C

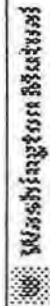
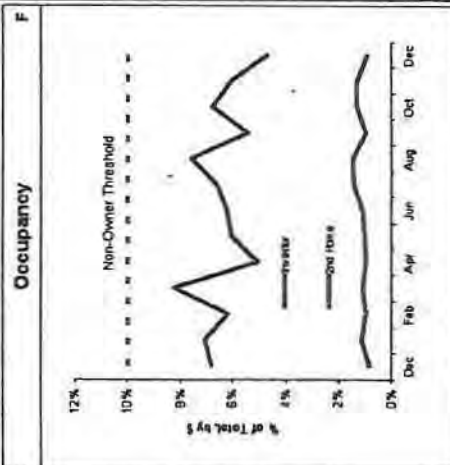
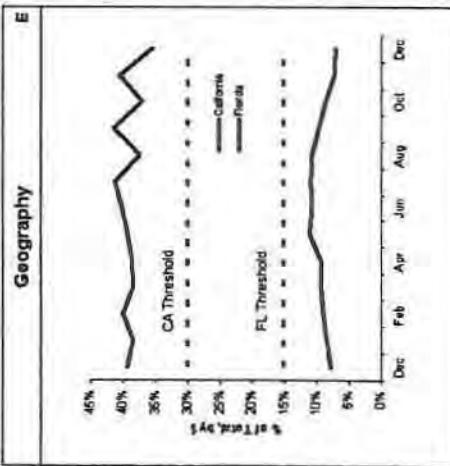
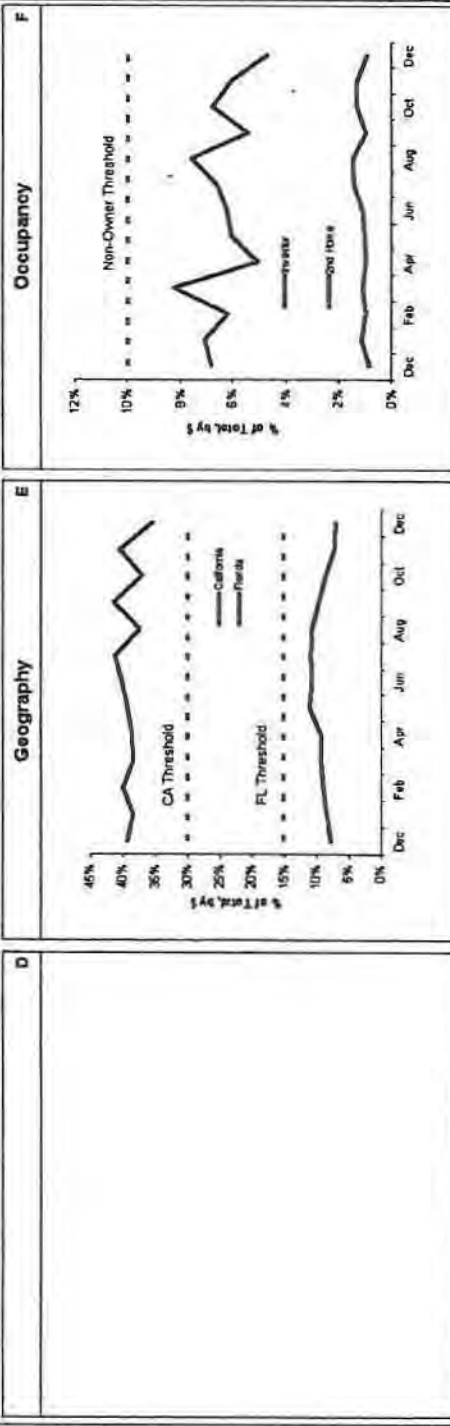
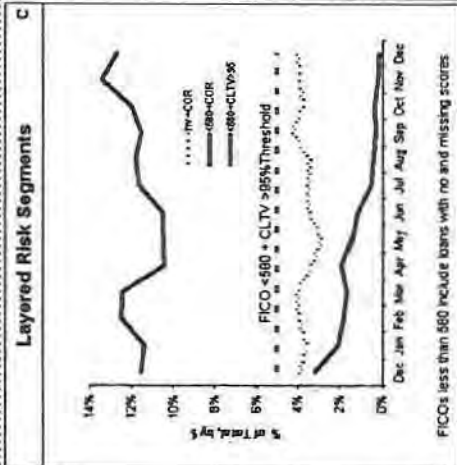
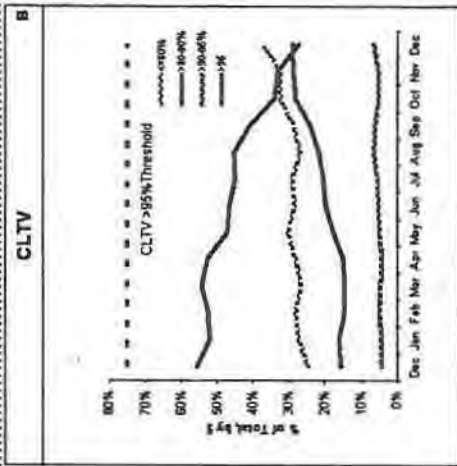
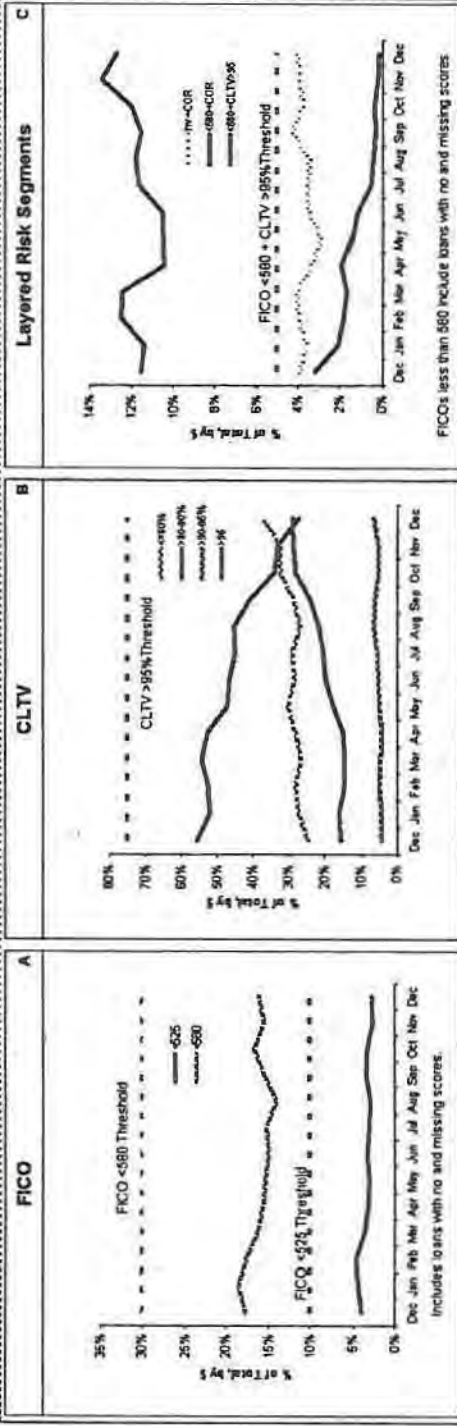


D

E

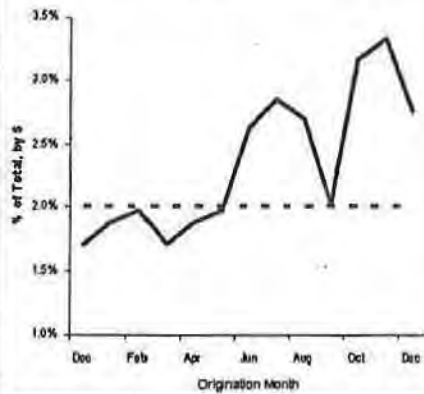
F

Loan Production: Long Beach



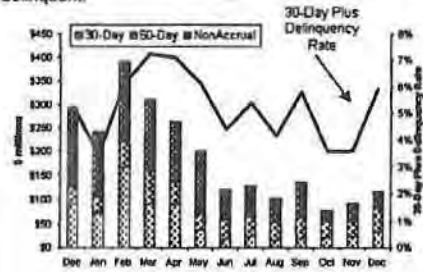
Other Metrics: Long Beach

First Payment Defaults A



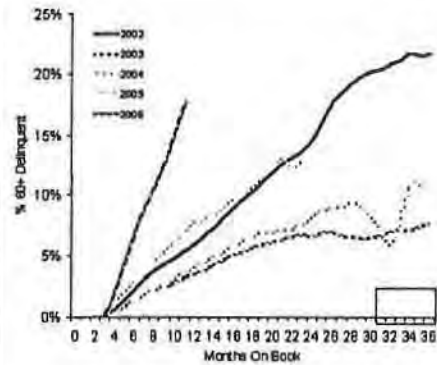
HFS Delinquency B

The decline in delinquency was driven by a \$128 million NPL sale and a \$70 million HFI transfer of loans with misrepresentation, \$64 million of which was delinquent.

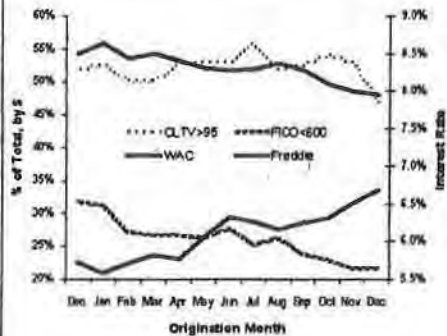


Based on month and \$ balance. HFS = Held for Sale

60 Day Plus DQ HFI, HFS & Sold, by Vintage C



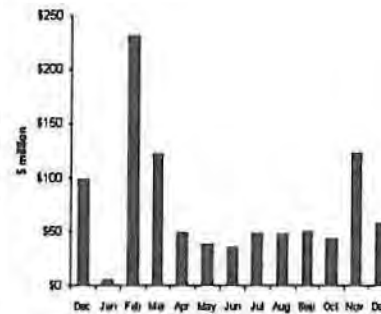
Weighted Average Coupon D



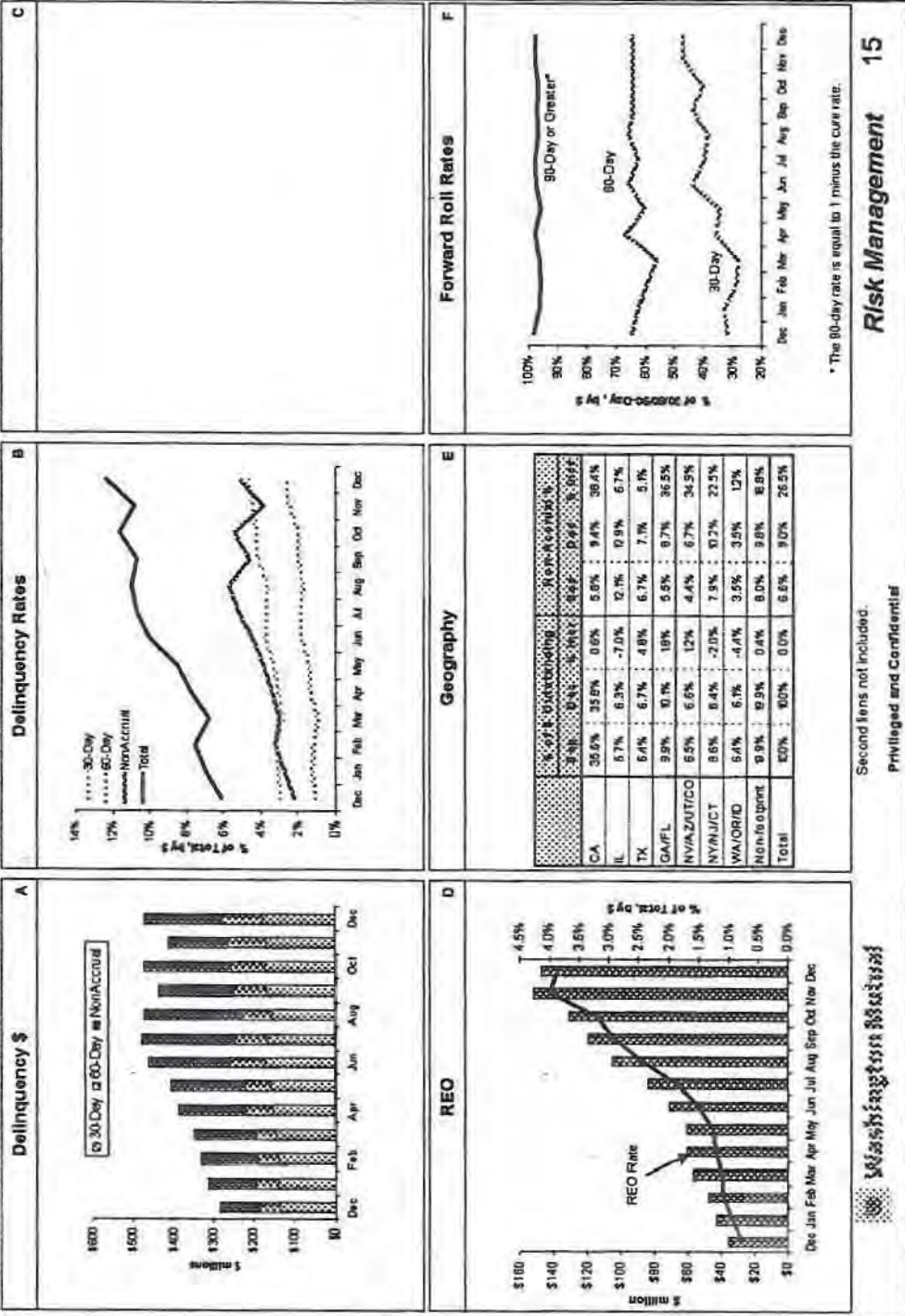
Second lines are not included.

Privileged and Confidential

Repurchases F



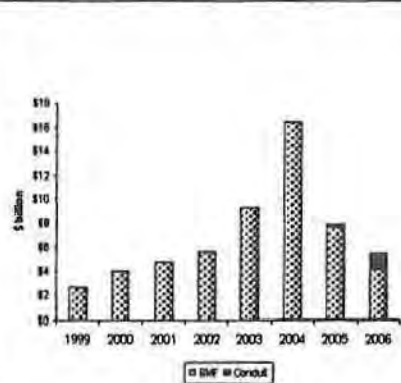
RFI Performance: Long Beach



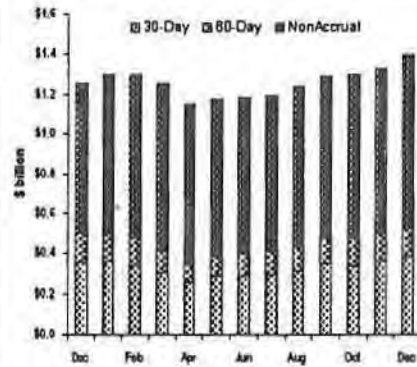
HFI Performance: Conduit

Loans acquired in the 2nd half of 2005 are performing more poorly than earlier vintages.

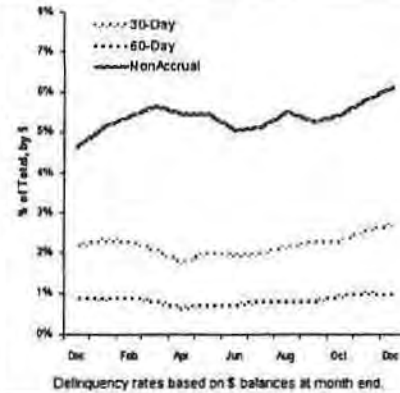
Acquisition Activity, by Settlement Date A



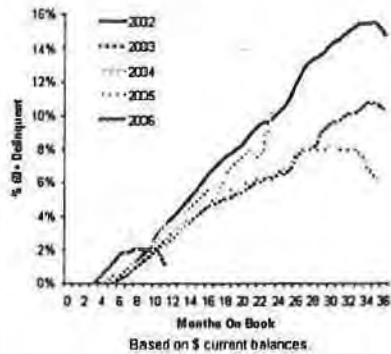
Delinquency \$ B



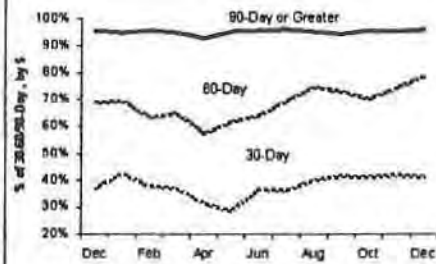
Delinquency Rates C



60-Day Plus Delinquency, by Vintage D

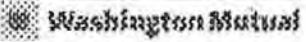
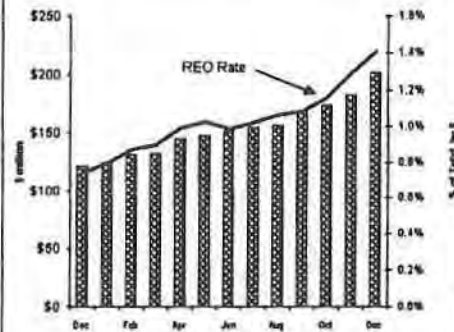


Forward Roll Rates E



* The 90-day rate is equal to 1 minus the cure rate

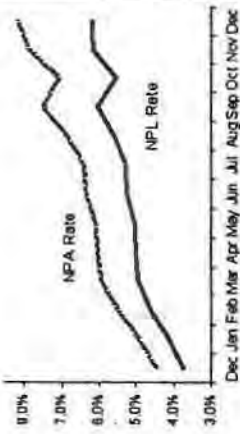
REO F



Privileged and Confidential

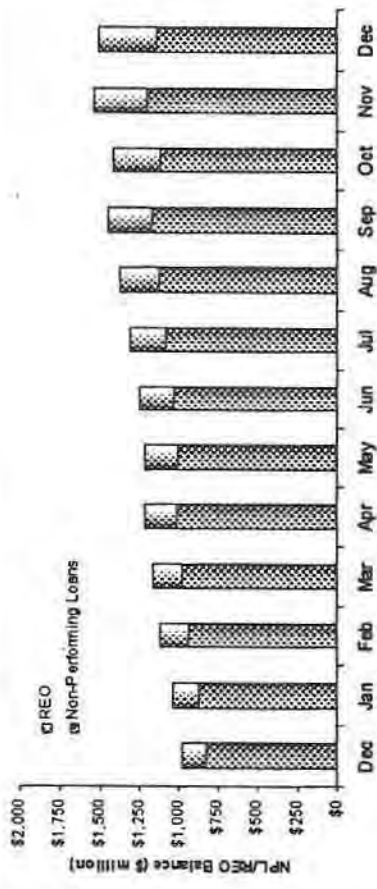
NPL and Loss Rates*

Non-Performing Loans/Assets



NPA = Non-Performing Assets
NPL = Non-Performing Loans

Not Charge-Off



* Includes Long Beach and Conduit
Privileged and Confidential

From: Cathcart, Ron
Sent: Thursday, December 07, 2006 4:38 PM
To: Abercrombie, Cynthia L.; Boyle, Hugh F.
Cc: Boyle, Hugh F.; Feltgen, Cheryl A.
Subject: FW: It's subprime day at the WSJ

Pls advise exactly what Credit Review is doing to assess the quality of assets currently being booked in Long Beach.

From: Mattey, Joseph
Sent: Wednesday, December 06, 2006 5:17 PM
To: Cathcart, Ron
Cc: Feltgen, Cheryl A.; Neale, Alan J.
Subject: RE: It's subprime day at the WSJ

Ron,

As shown in the attached PDF file, our 2006 LongBeach securities have much higher delinquency rates early in their life than the 2003 to 2005 vintages.

As shown in the Excel file, the current loss modeling done in valuation of the subprime residuals we hold is showing about 500 bp of projected lifetime cumulative loss on the first few deals we did in 2006, and the more recent issuance comes out with initial projected lifetime cumulative loss closer to 450 bp.

The Home Loans Capital Markets group has done some stress scenario analysis that shows cumulative losses reaching 10% double-digit territory if a 5 percent per year decline in home prices were to continue for a full four years and reaching above 6% with flat house prices. They also show a variety of other scenarios.

Joe

-----Original Message-----

From: Cathcart, Ron
Sent: Monday, December 04, 2006 9:57 PM
To: Mattey, Joseph
Cc: Feltgen, Cheryl A.
Subject: FW: It's subprime day at the WSJ

What do our numbers show?

Predicting losses on these securities is a challenge because there's little or no historical evidence to show how subprime loans will perform at a time when home prices are falling, says Thomas Lawler, a housing economist in Vienna, Va. An analysis by [Merrill Lynch & Co.](#) found that losses on recent subprime deals could be "in the 6% to 8% range" if home prices are flat next year and could rise to the "double digits" if home prices fall by 5%. Falling home prices could trigger losses not only for investors who bought riskier classes of mortgage-backed securities, but also for some holders of A-rated bonds, according to the report.

From: Baker, Todd
Sent: Monday, December 04, 2006 8:52 PM
To: Killinger, Kerry K.; Rotella, Steve; Schneider, David C.; Cathcart, Ron; Casey, Tom
Cc: Kipkalov, Sasha V.
Subject: It's subprime day at the WSJ

Here are a couple of WSJ stories touching on subprime.

Permanent Subcommittee on Investigations

EXHIBIT #15

More Borrowers With Risky Loans Are Falling Behind

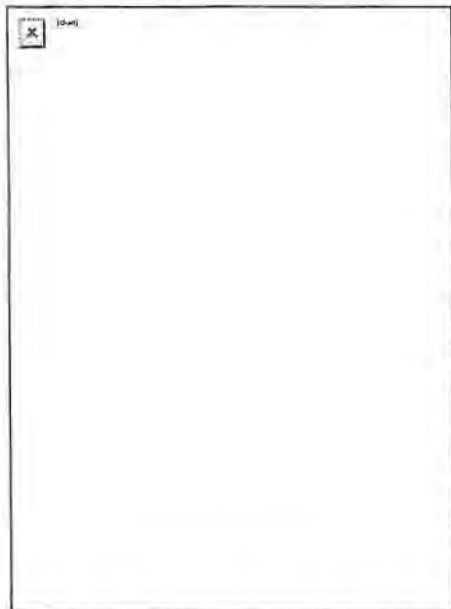
Subprime Mortgages Surged As Housing Market Soared; Now, Delinquencies Mount

By RUTH SIMON and JAMES R. HAGERTY
December 5, 2006

Americans who have stretched themselves financially to buy a home or refinance a mortgage have been falling behind on their loan payments at an unexpectedly rapid pace.

The surge in mortgage delinquencies in the past few months is squeezing lenders and unsettling investors worldwide in the \$10 trillion U.S. mortgage market. The pain is most apparent in subprime mortgages, though there are signs it is spreading to other parts of the mortgage market.

Subprime mortgages are loans made to borrowers who are considered to be higher credit risks because of past payment problems, high debt relative to income or other factors. Lenders typically charge them higher interest rates – as much as four percentage points more than more-credit-worthy borrowers pay – one reason subprime mortgages are among the most profitable segments of the industry.



They also have been among the fastest-growing segments. Subprime mortgage originations climbed to \$625 billion in 2005 from \$120 billion in 2001, according to Inside Mortgage Finance, a trade publication. Like other types of mortgages, subprime home loans are often packaged into securities and sold to investors, helping lenders limit their risks.

Until the past year or so, delinquency rates were low by historical standards, thanks to low interest rates and rising home prices, which made it easy for borrowers to refinance or sell their homes if they ran into trouble. But as the housing market peaked and loan volume leveled off, some lenders responded by relaxing their lending standards. Now, the downside of that strategy is becoming more apparent. ([See related article.](#))

Based on current performance, 2006 is on track to be one of the worst ever for subprime loans, according to UBS AG. "We are a bit surprised by how fast this has unraveled," says Thomas Zimmerman, head of asset-backed securities research at UBS. Roughly 80,000 subprime borrowers who took out mortgages packaged into securities this year are behind on their payments, the bank says.

Though delinquency rates on subprime mortgages originated in the past year have soared to the highest levels in a decade, economists don't expect any significant harm to the nation's economy or financial systems. But if late payments and foreclosures continue to rise at a faster-than-expected pace, the pain could extend beyond homeowners and lenders to the investors who buy mortgage-backed securities.

Several lenders are already feeling the sting. [H&R Block Inc.](#), which operates Option One, a major subprime lender, said last week that its mortgage-services unit posted a pretax loss of \$39 million in the fiscal second quarter ended Oct. 31, compared with a year-earlier pretax profit of \$48.8 million. The Kansas City-based tax-services company said last month it is considering selling Option One, which has been struggling with higher interest rates and defaults, and is closing 12 branch offices.

On Friday, [KeyCorp](#) said it reached a deal to sell its subprime Champion Mortgage business. Analysts at Friedman, Billings, Ramsey & Co. put the price for the company's subprime mortgage operation at \$130 million,

"far below" the \$200 million to \$250 million they expected. A spokeswoman for KeyCorp declined to comment, except to say that KeyCorp feels it "definitely generated a fair price" for both the unit and its loan portfolio, which was sold separately. She added that KeyCorp was leaving the subprime market because "it no longer fits with our long-term strategic priorities."

Soaring delinquencies are making some lenders more cautious, which is likely to put further pressure on the weak housing market. Yesterday, the National Association of Realtors said that its index for pending home sales for October fell a seasonally adjusted rate of 1.7% from September and was down 13.2% from a year earlier.

Delinquency rates have been rising steadily since the middle of 2005. But the trend has accelerated sharply in the past two to three months, according to an analysis by UBS. The figures don't include loans that lenders were forced to repurchase because the borrower went into default in the first few months; such repurchases also have increased sharply this year.

In October, borrowers were 60 days or more behind in payments on 3.9% of the subprime home loans packaged into mortgage securities this year, UBS says. That's nearly twice the delinquency rate on new subprime loans recorded a year earlier.

Carol Alter, a mail carrier in Aurora, Ohio, says she bought her first home for \$99,000 at a sheriff's foreclosure sale in February, but felt pinched right from the start by her nearly \$80,000 subprime mortgage. She says closing costs on the loan totaled \$6,500, rather than the \$2,500 she expected, forcing her to drain her savings and miss payments on her utility bills.

Ms. Alter says she fell behind on her mortgage payments in June after she hurt her leg and missed several weeks of work. She has been able to stave off foreclosure, she says, with the help of a \$2,100 interest-free loan from Neighborhood Development Services in Ravenna, which operates a foreclosure rescue fund.

How much higher delinquencies further climb will depend in part on the depth of the current housing slump. Mortgage delinquencies generally rise when the housing market cools because borrowers who are in financial trouble find it harder to sell their homes. In addition, if prices fall, they may not have enough equity in their homes to refinance their mortgage.

The subprime industry's current troubles can be traced back to 2003 and 2004, when defaults were unusually low. Investors who purchased these loans did well and were eager to buy more. That encouraged lenders to lower their standards, making loans to more people with low credit ratings. Lenders also grew less inclined to demand full documentation of income and assets and more willing to offer "piggyback" loans that allowed borrowers to finance 90% or 100% of the purchase price without being required to buy private mortgage insurance.

Many lenders kept introductory "teaser" rates low even after short-term interest rates began rising in June 2005, while increasing the amount the rate could rise on the first adjustment. That meant borrowers would face sharply higher costs when their monthly payments were reset.

Fraud has also increased. Some borrowers who took out no- or low-documentation loans were coached by loan officers or mortgage brokers to inflate their incomes and couldn't afford even their first mortgage payment, says Theresa Ortiz, a foreclosure manager with Neighborhood Housing Services of New York City, a nonprofit that works with homeowners in financial trouble.

Even after the housing market started to cool in late 2005, lenders continued to offer credit on easy terms. Many didn't begin tightening up until a few months ago. Now, they are pulling back. Accredited Home Lenders Holding Co., for example, is doing fewer piggyback and stated-income loans – or loans that don't require borrowers to fully document their income – especially for people with lower credit scores. In retrospect, "the tightening process should have started a bit earlier," says James Konrath, Accredited's CEO.

Recent analyses by UBS and by RBS Greenwich Capital show that subprime loans made in 2006 are going into foreclosure at a faster pace than loans made in previous years. In many cases these loans are "so bad right off the bat" and so far beyond the borrower's ability to pay that giving the borrower more time to pay or restructuring the loan wouldn't help, says Michael van Zalingen, director of homeownership services at Neighborhood Housing Services of Chicago, a nonprofit organization that works with financially distressed homeowners.

If delinquencies continue to grow, the pain could also be felt by investors who have flooded into the market for subprime securities. Because of the way mortgage-backed securities are structured, investors who buy

investment-grade securities aren't likely to be hurt if losses are close to expectations. But if losses on the underlying mortgages substantially exceed expectations, some investors who buy the riskiest slices of subprime securities are likely to rack up losses. These include hedge funds and investors who buy collateralized debt obligations, pools of debt instruments that are often snapped up by foreign buyers.

Because the underlying loans have gotten riskier, credit-rating agencies are telling issuers of mortgage-backed bonds to set aside more money to cover losses than they did three years ago in order to get an AAA rating for their bonds.

But some recent deals are already coming under review. Standard & Poor's Corp. put one deal backed by loans issued by Fremont General Corp.'s mortgage unit on credit watch for possible downgrade last month and says it could take similar action on deals from several other issuers within the next few months. Fremont declined to comment.

"We are really monitoring very, very closely the portfolios of all the subprime issuers," says Ernestine Warner, head of RMBS Surveillance. "It's an industrywide trend."

Last week, Moody's Investors Service put a third 2006 deal on credit watch for a possible downgrade. Fitch Ratings also has a 2006 deal on credit watch. When mortgage-backed securities are downgraded it is typically during their third or fourth year.

Predicting losses on these securities is a challenge because there's little or no historical evidence to show how subprime loans will perform at a time when home prices are falling, says Thomas Lawler, a housing economist in Vienna, Va. An analysis by Merrill Lynch & Co. found that losses on recent subprime deals could be "in the 6% to 8% range" if home prices are flat next year and could rise to the "double digits" if home prices fall by 5%. Falling home prices could trigger losses not only for investors who bought riskier classes of mortgage-backed securities, but also for some holders of A-rated bonds, according to the report.

Subprime Lenders Are Hard Sell

By LINGLING WEI
December 5, 2006

NEW YORK – As more subprime-mortgage lenders are putting themselves up for sale, buyers are becoming increasingly selective.

One of the latest lenders to put out the for-sale notice is H&R Block Inc., which said last month it will explore a sale of its subprime unit, Option One Mortgage Corp. And ACC Capital Holdings Corp., a closely held company in Orange, Calif., has hired investment bankers to solicit bids for its subprime unit, Ameriquest Mortgage Co., according to a person familiar with the matter.

Wall Street firms such as Morgan Stanley, Merrill Lynch & Co. and Bear Stearns Cos. have so far led the charge in snapping up subprime lenders, which issue loans to people with troubled credit histories. The investment banks have made a lucrative business out of packaging pools of mortgage loans into bonds and selling them to investors. But as higher interest rates have damped new borrowing and shrunk loan supplies, many firms have turned to buying lenders so they can generate their own mortgages to feed their securitization business.

Some industry experts say potential buyers, which include private-equity firms, are seeking to avoid inheriting the subprime sellers' costly obligation of having to buy back the loans already sold in the secondary market because of borrowers' defaults.

Brenda White, head of Deloitte & Touche USA's financial-services investment-banking practice, says "the buyers are trying to figure out how to structure the deals in a way that they can avoid the liabilities they may encounter in the future."

Bear Stearns agreed in October to pay \$26 million for certain operating assets from ECC Capital Corp.'s wholesale subprime-mortgage unit, including its property and customer lists, but ECC, an Irvine, Calif., real-estate investment trust, will retain loan-repurchase obligations.

Atlanta-based NetBank Inc. recently shut down its subprime-mortgage division without finding a buyer. Another

mortgage lender, Lime Financial Services, of Portland, Ore., agreed to take over most of NetBank's subprime-mortgage sales force and other employees.

From: Cathcart, Ron
Sent: Tuesday, January 2, 2007 12:19 AM
To: Cory S. Gunderson (cory.gunderson@protiviti.com)
Subject: Confidential

Long Beach represents a real problem for WaMu. The Board and regulators are engaged and concerned, so it is high profile.

I am concerned that Credit Review may seem to have been standing on the sidelines while problems continue. For instance, why have Cathcart, Schneider, Rotella and Killinger received NO report on any of this. The email below is in response to my specific request.

From: Abercrombie, Cynthia L.
Sent: Monday, December 11, 2006 9:21 AM
To: Cathcart, Ron
Cc: Boyle, Hugh F.; Feltgen, Cheryl A.
Subject: RE: Corporate Credit Review's Continuing Assessment of the Quality of Assets being booked by Long Beach
Importance: High

Ron,

Corporate Credit Review has been working closely with Cheryl's post-funding review team to identify the key risk issues that are surfacing as a result of this specific testing. On a monthly basis the group is looking at 275 loans within 15 days of funding.

Recent results from Cheryl's post funding review team testing have resulted in the reporting of the following top five priority issues:

- Appraisal deficiencies that could impact value and were not addressed
- Material misrepresentations relating to credit evaluation were confirmed
- Legal documents were missing or contained errors or discrepancies
- Credit evaluation or loan decision errors
- Required credit documentation was insufficient or missing from the file.

Based on these findings Cheryl's team is working with the business on specific remediation actions to address each issue.

Both CCR and the Senior Credit Officer Subprime are focused on two key facts:

- The non accrual rate had increased year over year from 3.53% to 6.13%
- On a vintage basis the deterioration was accelerating in recent vintages with each vintage since 2002 having performed worse than the prior vintage.

It was identified that the performance of the HFI subprime portfolio was further impacted by the transfer of scratch and dent loans, a high percentage of which were all ready in non accrual status at the time they were transferred, into HFI.

One of the causes of loans being categorized as scratch and dent has been first payment or early payment defaults that violate representations and warrants made to investors. Therefore, in collaboration with the Sr. Credit Officer – Subprime, CCR – Consumer designed a targeted review of loans with a first payment due in June that were first payment defaults.

The target review findings, which were delivered to the Chief Risk Officer – Home Loans on November 27, 2006, reflected a lack of proper execution of the credit guidelines. In most cases the credit package contained information that identified potential layering of risk but these issues were either not recognized by the Underwriter or if they were addressed, the risk assessment is not documented in the file. Additional findings included a weakness in controls around clearing conditions.

A response to the target review is expected from the Sr. Credit Officer – Subprime by 12/11/06. He will be providing any additional information that may be relevant to the conclusions drawn as well as actions that are currently underway or planned that may have a positive impact on the origination process.

There has been a number of underwriting guideline changes communicated that became effective November 1, 2006. They include:

- Changes to seasoning requirements when borrowers have a bankruptcy in their credit history
- Increased minimum credit score requirements for Piggyback Second Liens with Stated Income and Stated Wage Earners
- Added minimum credit standard requirements for loans over 90% LTV/CLTV
- HistoryPro, appraisal review requirements to all First Time Homebuyer and For Sale By Owner Transactions in addition to all refinance transactions where the existing loan is less than 12 months old
- Limit use of Alt Credit to only supplementing traditional credit and Alt Credit sources that historically have been easily fabricated and difficult to validate have been excluded
- Room rent income is limited in eligibility for use in only owner occupied transactions
- Clarified the use of personal and business bank statements for income documentation
- Added requirements for Ownership/Vesting when no mortgage history is available
- Revised the Self-Employed Borrowers business income documentation requirements; Attorney/Accountant letters must be independently validated.

These changes are intended to tighten the controls over the credit risk that is reflected in this subprime production. However, in order to achieve the desired effect it is critical that the credit guidelines, both past and with these revisions, be executed crisply through this origination channel.

CCR – Consumer is currently in the process of scoping a follow up FPD targeted review and is also expanding the scope to include a review of additional gaps that CCR has preliminarily identified relating to managing credit risk in subprime lending versus prime. The scope that we are developing includes:

- Sampling another population of FPD loans that originated after guideline changes were put in place to compare to the baseline set from the prior review (as loans originated after the November 1st changes will not be available as FPDs for at least a couple more months we are also planning on pulling a sample of FPD loans that had their first payment due in October to expand the data set from the first review)
- Review the progress being made at migrating to a post funding Underwriting review (CQT) process that is more aligned to the existing process in prime
- Assess the differences in requirements for setting RLA to Long Beach personnel versus the prime staff and steps that are being taken to close gaps
- Further analyze training gaps that were identified in conjunction with our preliminary review and assess the appropriateness of the differences between subprime and prime
- Perform a more comprehensive review of the scratch and dent population to determine other key drivers (other than early default) and potential control weaknesses.

We are moving ahead quickly with this expanded review and anticipate delivery of a findings report by 1/31/07.

Please let me know if you have questions or require additional information.

Cynthia Abercrombie

Senior Vice President
Senior Credit Risk Officer
Corporate Credit Review
206-500-1550

From: Killinger, Kerry K.
Sent: Friday, February 23, 2007 12:07 PM
To: Rotella, Steve <steve.rotella@wamu.net>
Subject: RE: Long Beach 2nd Lien Disposition

Thanks. With spreads widening out so much, it is probably a good time to keep it in portfolio.

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

From: Rotella, Steve
Sent: Friday, February 23, 2007 8:17 AM
To: Killinger, Kerry K.
Subject: RE: Long Beach 2nd Lien Disposition

A bit more background first. This is second lien product originated 7-10 months ago from Long Beach. Prior to the changes made in credit criteria after this went to Home Loans LB was originating 10-15% seconds. That product was also often being put in portfolio in the past, part of the reason the LB stuff is performing worse. In 2006 Beck's team started sprinkling seconds in deals as they could. And, we now have the % down to the low single digits, so that we can sell all into our deals (assuming the market doesn't get even worse).

Last year, included in a broader group of seconds we took LOCOM hits and other adjustments for non-performers, FPDs, and doc issues.

This \$400 million is the performing product with generally perfect or close to perfect payment history. In trying to sell it, the issue is the chaos in the market has driven prices down and made execution tough. I am not sure where you got the \$60mm, but assume you took the high end 15% cum loss. However, that 10-15% range equates, in this market to a roughly 93 price or a pre tax loss of around 30mm, if we sold.

What the guys are discussing is that this looks like one of those times to use the port if we can cover the ALLL. Even assuming a cum loss of 15% with the 93 imputed, the ROA is 1.32%.

In terms of folks losing their jobs, the people largely responsible for bringing us this stuff are gone, the senior management of LB. In terms of comp, HL goals have a huge slug of their comp driven by the P&L and as you go down, the people in David B's area around this have more wrapped around results in this area.

Hope this helps.

From: Killinger, Kerry K.
Sent: Thursday, February 22, 2007 8:41 PM
To: Rotella, Steve
Subject: FW: Long Beach 2nd Lien Disposition

Steve,

Is this basically saying that we are going to lose 15 points on over \$400 million of this product or \$60 million. That is a pretty bad hit that reflects poorly on credit and others responsible for buying this stuff. Is this showing up in hits to compensation or personnel changes.

Kerry

From: Baker, Todd

Permanent Subcommittee on Investigations
EXHIBIT #17

Sent: Thu 02/22/2007 6:31 PM
To: Cathcart, Ron; Schneider, David C.; Casey, Tom
Cc: Rotella, Steve; Killinger, Kerry K.
Subject: Re: Long Beach 2nd Lien Disposition

Ron: They are in advanced stages of sale to someone else. We indicated interest in acquiring the servicing platform but they have declined to pursue it with us.

There are some other nuances to this which I can discuss with you next week.

Todd
Todd Baker, EVP Corporate Strategy & Development, Washington Mutual Inc.

----- Original Message -----

From: Cathcart, Ron
To: Schneider, David C.; Casey, Tom
Cc: Baker, Todd; Rotella, Steve; Killinger, Kerry K.
Sent: Thu Feb 22 18:23:22 2007
Subject: FW: Long Beach 2nd Lien Disposition

Should we not consider buying Ameriquest? We know it well, it fits our strategy, we would protect assets which it manages on our behalf and the price must be compelling.

From: Beck, David
Sent: Thursday, February 22, 2007 5:40 AM
To: Beck, David; Schneider, David C.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Feltgen, Cheryl A.; Boyle, Hugh F.; Matthey, Joseph; Fortunato, Steve; Hyde, Arlene M.; Woods, John F.

Cc: Potolsky, Doug; Drastal, John
Subject: RE: Long Beach 2nd Lien Disposition

2nd Update

Here is some important analysis for you to consider.

We estimate that a cum loss range of between 10% and 15% is realistic for this pool. Using the best economics price of 93, an average life of 2 years and 12% cumulative losses (2x our model), the after tax ROA is 222bp. At 15% cum losses, the after tax ROA's are a respectable 132bp. A good use of portfolio capital.

<<Microsoft Excel Worksheet>>

According to our ALLL model, the expected lifetime loss for the 433mm pool subprime 2nd lien pool is 6%. We all agree 6% is too low and we reflect this in our performance analysis above. We'll need to go off model to value these assets properly whether in whole loan or residual form.

We continue to run analysis and work with partners in credit and accounting to understand the best exit strategy for these loans. A meeting with David Schneider and Cheryl Feltgen is planned for Friday.

From: Beck, David

Sent: Wednesday, February 21, 2007 9:52 AM

To: Schneider, David C.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Feltgen, Cheryl A.; Boyle, Hugh F.; Matthey, Joseph; Fortunato, Steve; Hyde, Arlene M.

Cc: Potolsky, Doug; Drastal, John

Subject: Long Beach 2nd Lien Disposition

Importance: High

Please consider this an update with the express purpose of grounding the team on important information and coordinating our actions as we move toward a decision on how best to dispose of 433MM of performing 2nd lien loans in the Long Beach warehouse. David Schneider and I spoke yesterday and he is arranging a meeting for later this week to move us to a final decision on disposition of the 2nd liens.

UPDATE

The performing second lien investor base is in disarray and for all intent and purposes distributing credit bonds backed by subprime 2nd liens is not a viable exit strategy. This conclusion is based on our work over the last several weeks and numerous discussions with rating agencies, credit investors and investment banks. Here are the important facts:

1. Radian proposed a bond insurance wrap structure that insured 89% of the senior bonds. Radian's first dollar of loss begins at 18.5% (after residual, b piece and overcollateralization), equivalent to a single A level of loss protection. In essence, Radian is providing a liquidity bid not loss protection.
2. Lehman Brothers proposed a standard 2nd lien securitization structure (no insurance wrap) but declined to provide us with a price at which they would position the BBB bonds. On a call last night, Lehman indicated they are very long similar product and suggested we pursue other alternatives. (They expressed concerns about 1st lien liquidity)
3. In either of the above structures, WaMu retains the first loss as well as rated securities up to BBB. Thus, we conclude that these transactions effectively do not achieve risk transfer. They amount to financings of the AAA-A cash flows at an unattractive rate of Libor +20 - 25.
4. Our only certain exit is through the Radian wrapped structure. When we factor in the cost of the guarantee, the equivalent economics implies WaMu selling the BBB- bonds at a spread to libor of +1750!
5. Investors are suffering greater than expected losses from subprime in general as well as subprime 2nd lien transactions. As you know, they are challenging our underwriting representations and warrants. Long Beach was able to securitize 2nds liens once in 2006 in May. We sold the BBB- bonds to investors at Libor +260. To date, that transaction has already experienced 7% foreclosures.
6. Best economics, excluding portfolio, results in 92.9 all in price which includes a 3.5% residual priced to 10% cumulative losses and a 25% discount rate.

Joe Matthey provided us with an ALLL indication earlier in the process when we still believed we could achieve risk transfer at reasonable price. Yesterday, we've asked Joe to sharpen his pencil and rerun the ALLL analysis. Today, we want to compare portfolio execution vs market.

We adjusted the February forecast yesterday down 25mm to reflect market information.

Today, we'll continue to run stress test analysis and work with Joe to understand where the portfolio execution pencils out.



WAMU

HL Risk Management

**Quarterly Credit Risk Review
SubPrime**

**Permanent Subcommittee on Investigations
EXHIBIT #18**

1st Quarter, 2007

First Payment Defaults

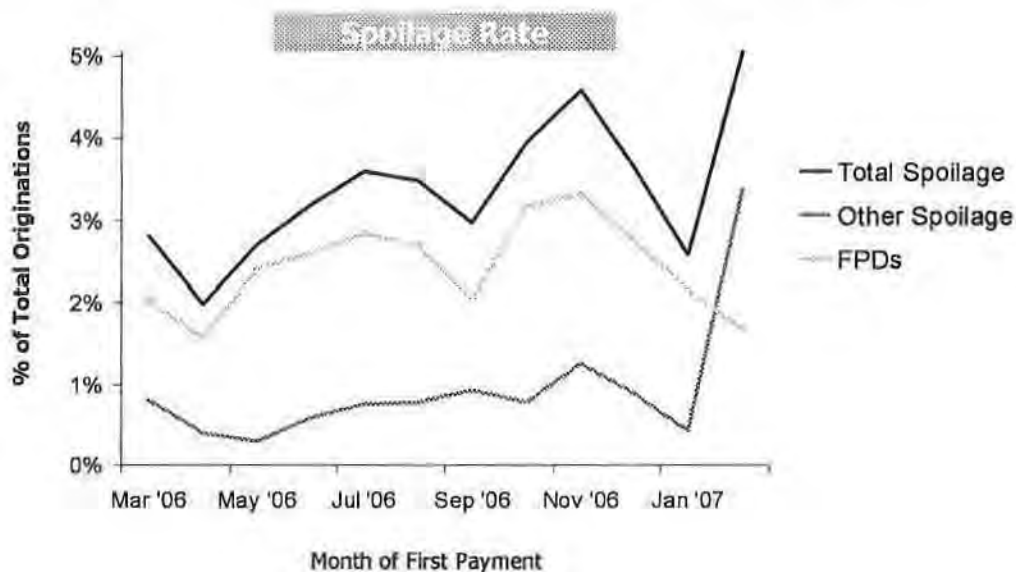
- First payment defaults (FPDs) rose to 1.96% in March but are projected to fall back to 1.87% in April based on payments received through May 5th.



- Findings from a deep dive into February FPDs revealed:
 - Over 70% would not have been made under the guidelines that are in place today.
 - The root cause of over 70% of FPDs involved operational issues such as missed fraud flags, underwriting errors, and condition clearing errors. This finding indicates there may be opportunities to improve performance without further restricting underwriting guidelines.

Spoilage in HFS Portfolio

- Spoilage rates increased in February despite the lower First Payment Default rate. Higher spoilage rates reduce gain on sales and/or drive larger transfers of non-performing loans into HFI.
- Over 89% of the increase in Other Spoilage was caused by early defaults (2x30s and 1x60s).



Key Definitions:

- FPDs are considered spoilage whether or not the loan has been sold due to repurchase obligations. FPDs are measured 60 days after the first payment.
- Other Spoilage is only considered spoilage if it is in the portfolio at time of default or other issue. Other spoilage is measured 90 days after the first payment.

Drivers of Increased Delinquency Rates

Change in Delinquency Rates From March to April

Loan attributes are sorted by the change in their respective total delinquency rates from March to April, with those attributes having the largest month-over-month increase in delinquency appearing first. Raw data used to calculate the numbers below appear on the following page.

	Balance		Balance: April minus March		Delinquency: April minus March				Coupon Rate
	as of 4/30/07	\$	% of Total	Total Dq	30-Day	60-Day	Non-Accrual	Differential	
Total Serviced	\$55.8	\$0.0	n/a	1.55%	0.19%	0.14%	1.22%	n/a	
2006	\$22.8	-\$0.3	-0.6%	3.59%	0.32%	0.23%	3.04%	0.23%	
CLTV>90	\$23.9	-\$0.3	-0.5%	3.22%	0.27%	0.22%	2.73%	-0.01%	
Acquired	\$15.3	\$0.3	0.5%	2.33%	0.13%	0.08%	2.12%	-0.01%	
FL	\$5.0	\$0.0	0.0%	2.23%	0.25%	0.23%	1.76%	0.01%	
CA	\$18.3	\$0.1	0.2%	2.13%	0.34%	0.16%	1.63%	-0.41%	
>\$350k	\$17.1	\$0.3	0.5%	2.09%	0.31%	0.15%	1.63%	-0.46%	
Purchase	\$26.1	-\$0.3	-0.5%	2.08%	0.24%	0.24%	1.59%	0.08%	
2007	\$3.8	\$1.3	2.3%	1.82%	1.25%	0.32%	0.25%	0.11%	
2nd Lien	\$2.6	\$0.0	-0.1%	1.80%	0.08%	0.37%	1.35%	2.69%	
NonOwn	\$4.0	\$0.0	0.0%	1.74%	0.24%	0.01%	1.50%	0.62%	
FICO>=660	\$16.6	-\$0.2	-0.4%	1.72%	0.22%	0.28%	1.21%	-0.57%	
Stated Inc	\$20.6	-\$0.3	-0.5%	1.71%	0.30%	0.18%	1.23%	0.20%	
Condo	\$6.5	-\$0.1	-0.2%	1.70%	0.40%	0.22%	1.08%	-0.12%	
Average				1.55%				8.15%	
Owner	\$51.1	\$0.0	0.0%	1.54%	0.20%	0.14%	1.20%	-0.05%	
1st Lien	\$53.1	\$0.0	0.1%	1.54%	0.20%	0.13%	1.21%	-0.13%	
Full/Alt	\$35.1	\$0.3	0.5%	1.52%	0.13%	0.12%	1.26%	-0.12%	
FICO<660	\$39.2	\$0.2	0.4%	1.44%	0.17%	0.07%	1.20%	0.24%	
2nd Home	\$0.7	\$0.0	0.0%	1.33%	-0.53%	0.73%	1.12%	-0.08%	
Long Beach	\$40.4	-\$0.3	-0.5%	1.29%	0.22%	0.17%	0.90%	0.00%	
<=\$350k	\$38.7	-\$0.3	-0.5%	1.28%	0.13%	0.13%	1.02%	0.20%	
Cashout Refi	\$25.0	\$0.0	0.0%	1.26%	0.19%	0.00%	1.07%	-0.09%	
NY	\$2.8	\$0.0	0.0%	1.25%	-0.10%	0.31%	1.04%	-0.40%	
2005	\$18.6	-\$0.6	-1.0%	1.13%	0.20%	0.19%	0.74%	-0.47%	
All Other States	\$29.7	-\$0.1	-0.2%	1.12%	0.11%	0.10%	0.91%	0.29%	
Rate/Term Refi	\$4.6	\$0.2	0.4%	0.76%	-0.01%	0.40%	0.37%	-0.01%	
CLTV<=90	\$31.9	\$0.3	0.5%	0.36%	0.14%	0.09%	0.14%	0.01%	
Pre-2005	\$10.6	-\$0.4	-0.7%	-0.05%	-0.07%	0.03%	0.00%	0.30%	

Data includes all loans serviced. Balances in \$ billion.

© 2007 JPMorgan Chase & Co.

ALL RIGHTS RESERVED

Delinquency Drivers in April (continued)

Raw Data: February-April 2007

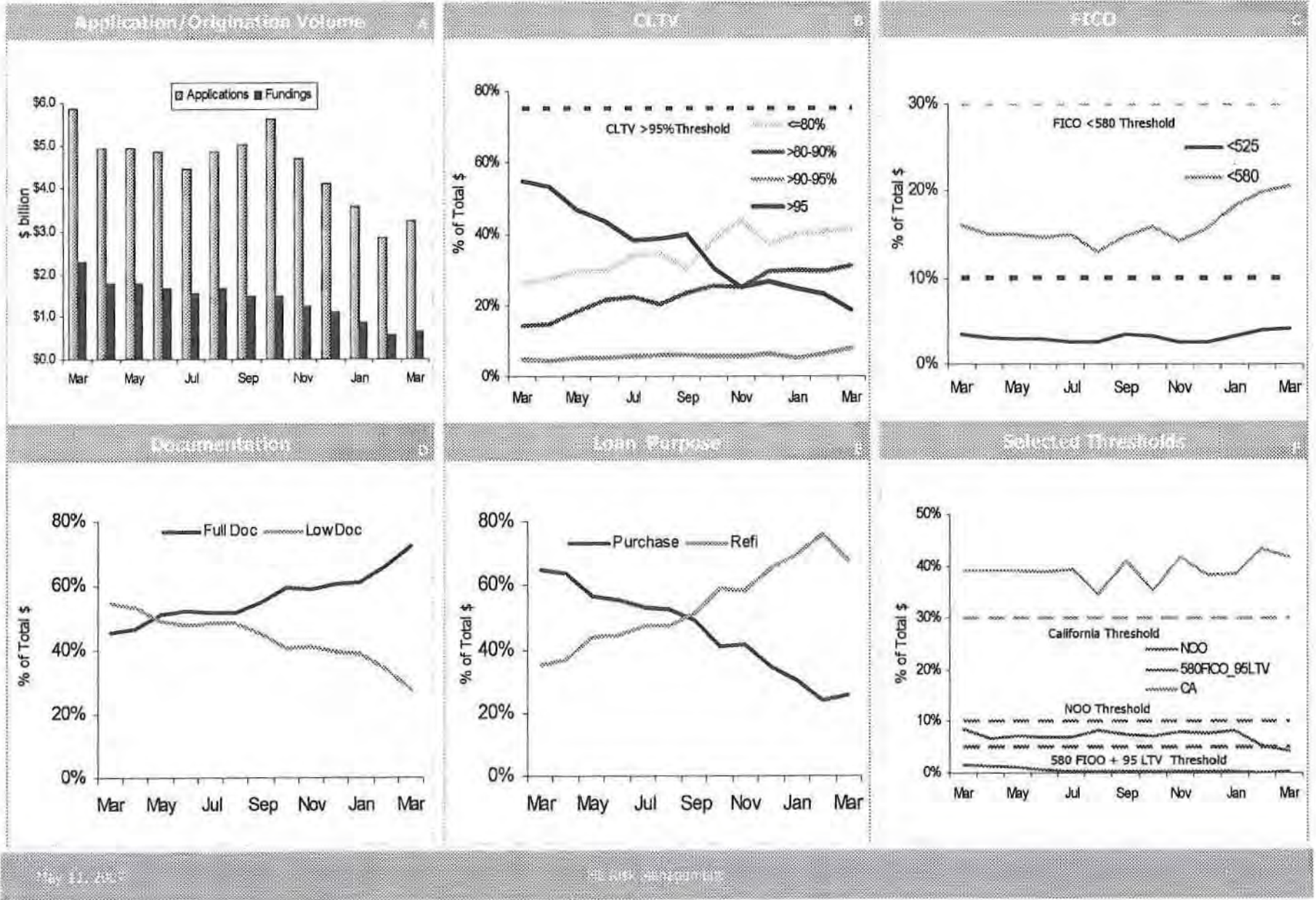
	Balance (\$ billion)			% of Total			Total Delinquency		
	2/28	3/31	4/30	2/28	3/31	4/30	2/28	3/31	4/30
Total Serviced	\$56.7	\$55.8	\$55.8	100%	100%	100%	15.92%	16.33%	17.88%
CA	\$18.4	\$18.2	\$18.3	32.5%	32.7%	32.8%	15.12%	16.10%	18.23%
FL	\$5.0	\$4.9	\$5.0	8.8%	8.8%	8.9%	11.43%	12.23%	14.46%
NY	\$2.9	\$2.8	\$2.8	5.0%	5.0%	5.1%	14.84%	15.06%	16.30%
All Other States	\$30.5	\$29.8	\$29.7	53.7%	53.5%	53.2%	17.25%	17.26%	18.38%
2007	\$1.8	\$2.5	\$3.8	3.2%	4.5%	6.8%	0.12%	0.25%	2.07%
2006	\$23.6	\$23.1	\$22.8	41.5%	41.4%	40.8%	13.14%	14.50%	18.10%
2005	\$19.8	\$19.2	\$18.6	34.9%	34.4%	33.4%	18.53%	19.00%	20.13%
Pre-2005	\$11.5	\$11.0	\$10.6	20.3%	19.8%	19.0%	19.63%	19.15%	19.11%
FICO>=660	\$17.2	\$16.9	\$16.6	30.3%	30.2%	29.8%	10.57%	11.43%	13.15%
FICO<660	\$39.6	\$38.9	\$39.2	69.7%	69.8%	70.2%	18.25%	18.45%	19.88%
CLTV>90	\$24.5	\$24.1	\$23.9	43.2%	43.2%	42.8%	19.42%	20.45%	23.66%
CLTV<=90	\$32.2	\$31.7	\$31.9	56.8%	56.8%	57.2%	13.26%	13.19%	13.55%
>\$350k	\$16.9	\$16.8	\$17.1	29.8%	30.2%	30.6%	17.98%	18.88%	20.97%
<=\$350k	\$39.8	\$39.0	\$38.7	70.2%	69.8%	69.4%	15.05%	15.22%	16.51%
Owner	\$51.9	\$51.1	\$51.1	91.5%	91.6%	91.6%	15.85%	16.20%	17.74%
2nd Home	\$0.7	\$0.7	\$0.7	1.2%	1.2%	1.2%	8.96%	9.59%	10.92%
NonOwn	\$4.1	\$4.0	\$4.0	7.3%	7.3%	7.2%	17.92%	18.99%	20.73%
Stated Inc	\$21.4	\$20.9	\$20.6	37.7%	37.5%	37.0%	20.03%	21.11%	22.82%
Full/Alt	\$35.3	\$34.8	\$35.1	62.3%	62.5%	63.0%	13.44%	13.45%	14.97%
2nd Lien	\$2.8	\$2.7	\$2.6	4.9%	4.8%	4.7%	16.54%	16.83%	18.64%
1st Lien	\$54.0	\$53.1	\$53.1	95.1%	95.2%	95.3%	15.89%	16.30%	17.84%
Acquired	\$15.5	\$15.1	\$15.3	27.4%	27.0%	27.5%	11.75%	11.80%	14.14%
Long Beach	\$41.2	\$40.7	\$40.4	72.6%	73.0%	72.5%	17.50%	18.00%	19.29%
Condo	\$6.8	\$6.6	\$6.5	11.9%	11.9%	11.7%	16.03%	16.46%	18.17%
Purchase	\$26.9	\$26.3	\$26.1	47.4%	47.2%	46.8%	19.47%	20.46%	22.54%
Cashout Refi	\$25.4	\$25.0	\$25.0	44.7%	44.9%	44.8%	12.75%	12.64%	13.89%
Rate/Term Refi	\$4.4	\$4.3	\$4.6	7.7%	7.8%	8.2%	12.20%	12.29%	13.05%

Data includes all loans serviced.

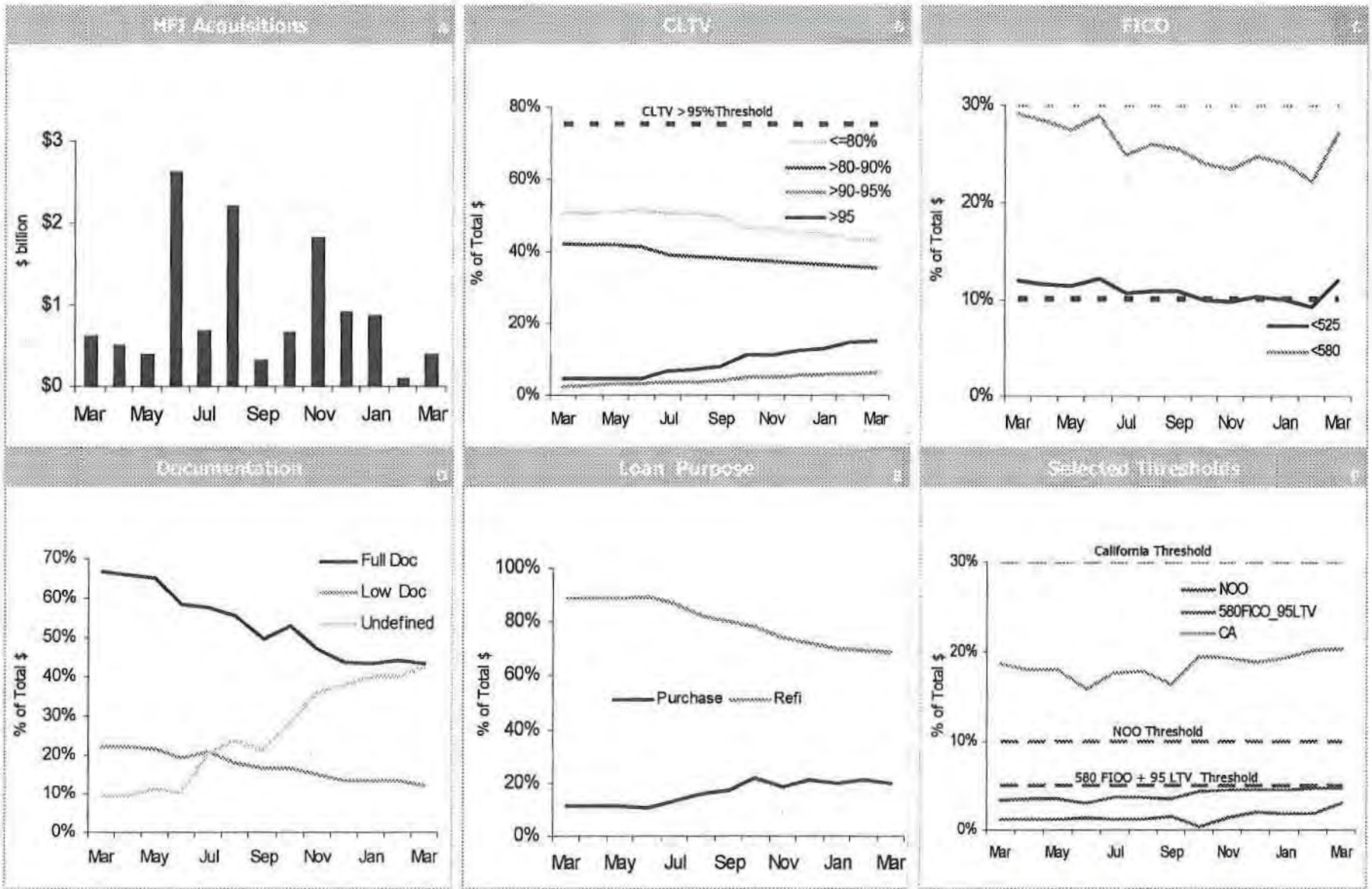
May 11, 2007

© 2007 JPMorgan Chase Bank

Long Beach Origination Profile



Conduit HFI Profile

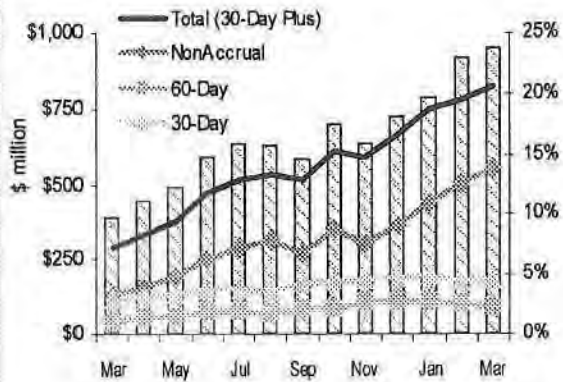


May 11, 2007

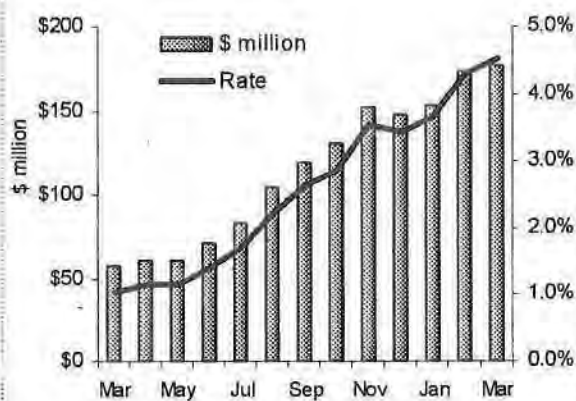
RISK MANAGEMENT

HFI Performance: Long Beach

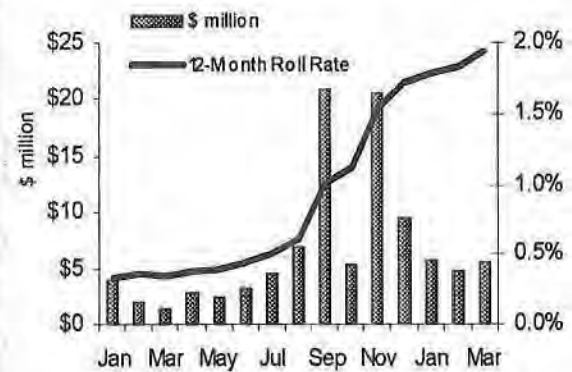
Delinquency



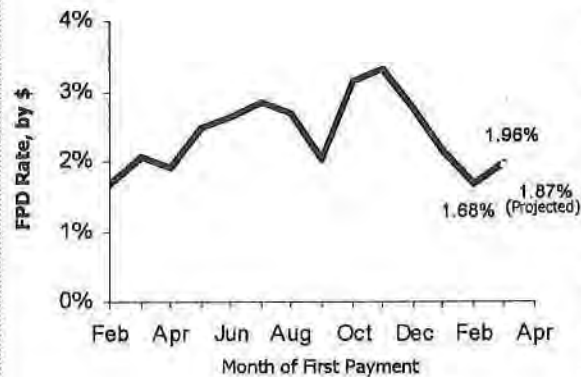
FPD



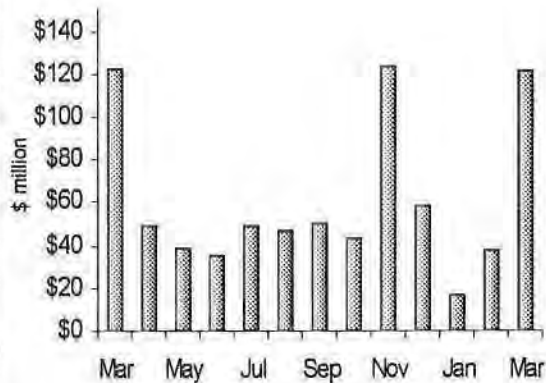
Net Charge Off



First Payment Defaults



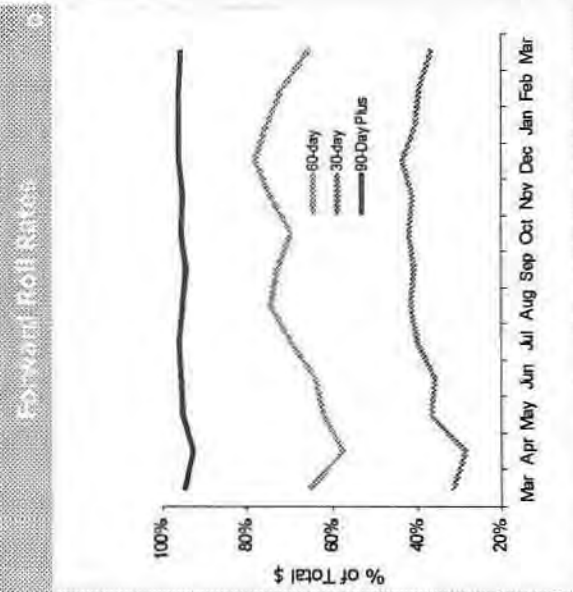
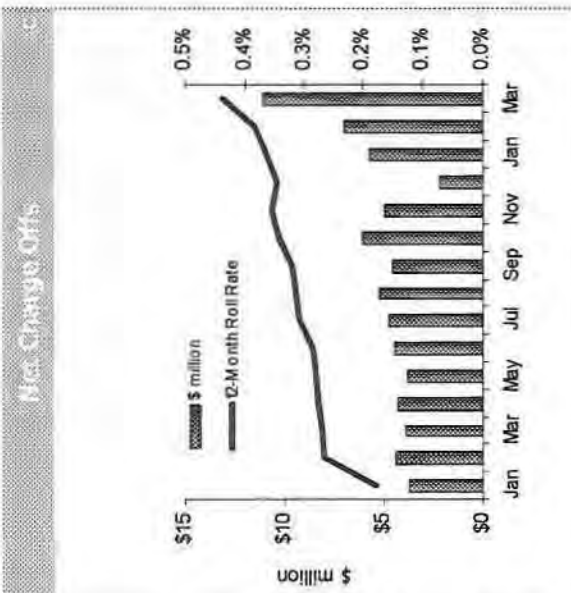
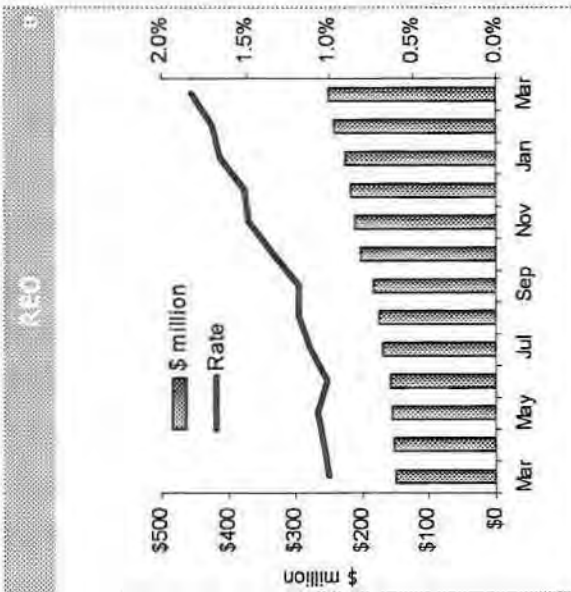
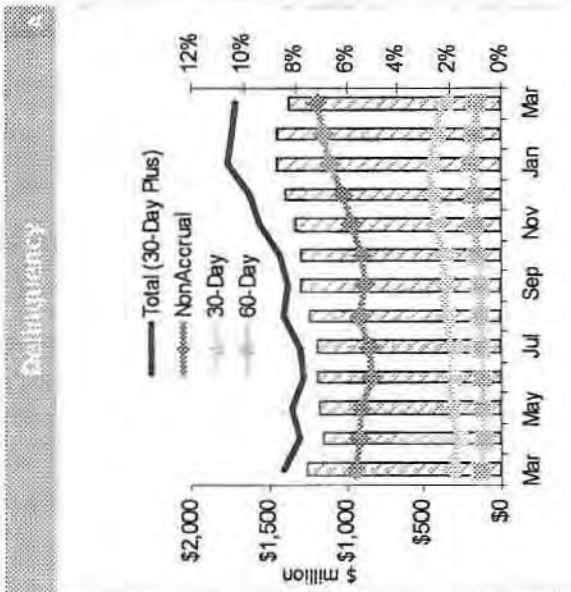
Repayments



Geography

	% of \$ Outstanding			Non-Accrual %		
	Dec	Mar	Delta	Dec	Mar	Delta
CA	35.5%	35.5%	-0.1%	9.4%	14.7%	5.2%
IL	6.2%	6.2%	0.0%	12.9%	17.3%	4.4%
TX	6.7%	6.9%	0.2%	7.7%	10.0%	3.0%
GA/FL	10.0%	10.1%	0.1%	8.7%	12.4%	3.7%
NV/AZ/UT/CO	6.5%	6.5%	0.0%	6.7%	9.3%	2.6%
NY/NJ/CT	8.3%	8.4%	0.0%	10.2%	15.1%	6.0%
WA/OR/ID	6.1%	5.8%	-0.3%	3.5%	6.3%	2.8%
Non-footprint	19.8%	19.9%	0.1%	9.8%	12.7%	2.9%

HFI Performance: Conduit





Long Beach Mortgage Loan Origination & Underwriting

August 20, 2007

Executive Committee Owner:

David Schneider, President-Home Loans

Business Process Owner:

Cheryl Feltgen, Chief Risk Officer-Home Loans
Arlene Hyde, Div Exec-Wholesale Lending
William Steinmetz, Div Exec-Mtg Bnk Operations

From:

Shirley Barta, Senior Audit Manager
Bridget Timberlake, Audit Director

Copy:

Cynthia Abercrombie, Sr Risk Oversight Officer
Melissa Ballenger, Div Exec-Corp Controller
Thomas Casey, Chief Financial Officer
Ronald Cathcart, EVP-Chief Enterprise Risk Offi
Deloitte, LLP
Kerry Killinger, Chairman and CEO
Randy Melby, Div Exec-General Auditor
Clifford Rossi, Chief Credit Officer
Steve Rotella, President & COO
Richard Stephenson, Chief Compliance Officer
Maynard Wagner, Additional Report Distribution

Report Rating:

REQUIRES IMPROVEMENT

Executive Summary

Long Beach Mortgage ("LBM") operates as a subsidiary of Washington Mutual Bank and specializes in the origination, purchase and sale of non-prime residential mortgage loans secured by one-to-four family residences. LBM's borrower base consists of individuals who do not qualify for traditional "A" credit and exhibit characteristics indicating a significantly higher rate of default than traditional bank lending customers. Loans totaling approximately \$5.8 billion have been originated by LBM January through June 2007. The majority of loans originated by LBM are securitized and sold in the secondary market. As of June 30, 2007, LBM has approximately \$4 billion in outstanding loan balances representing 2% of WaMu's outstanding home loans portfolio.

In response to challenges resulting from the softening housing market, rising interest rates, tightening capital markets, poor portfolio performance and underwriting deficiencies, LBM continually refines their processes and guidelines. While management has been responsive to these challenges by identifying and implementing corrective actions, actual underwriting practices have not been consistent to achieve the desired levels of improvement. Continued patterns of loans being underwritten outside of established underwriting and documentation guidelines have been previously identified by several groups including: Audit Services reports dated September 21, 2005 and June 29, 2006; OTS memorandums issued in March 13, 2006 and May 17, 2007 Safety and Soundness Memos; and Home Loan Credit Review ("HLCR") reviews. Results of reviews performed by Audit Services and HLCR based on loans originated during 2007 have shown improvements in the underwriting quality as steady progress toward established underwriting benchmarks is demonstrated.

In addition, multiple issues resulting from the implementation of Palisades including data mapping issues, lack of automated tools to scrub the data, inadequate pricing and credit exception controls and missing fields for loan origination channels were noted in the Capital Markets – WaMu Subprime audit currently in process.

The manual processing environment has not successfully demonstrated the ability to support the complex processes inherently needed to execute efficient and effective subprime origination and underwriting activities. Inadequate exception controls and reporting within the Palisades loan origination system ("LOS") have resulted in the need for additional manual controls and workarounds. Management continues to be responsive to challenging market conditions and loan quality by tightening and refining credit parameters. However, an increased sense of urgency and intensive oversight is required to sustain the processes necessary to effectively execute these actions and ultimately meet and maintain quality levels of underwriting. The Requires Improvement rating represents our opinion that the overall system of risk management and internal controls has deficiencies related to multiple, critical origination and underwriting processes including underwriting quality, data integrity, and the monitoring of loans originated outside of established credit parameters individually and in the aggregate. These deficiencies require immediate effective corrective action to limit continued exposure to losses.

The following issues represent high or medium risk to the business unit:

1. (High) Repeat Issue - Underwriting guidelines established to mitigate the risk of unsound underwriting decisions are not always followed and the decisioning methodology is not always fully documented.
2. (High) - Improvements in controls designed to ensure adherence to Exception Oversight Policy and Procedures is required so that loans originated outside established credit parameters are subjected to the appropriate levels of review. Additionally, accurate reporting and tracking of exceptions to policy does not exist so that the overall impact on portfolio quality can be measured and monitored.
3. (High) - Improved processes and controls are needed to effectively monitor the integrity of the data manually keyed into the Loan Origination System (LOS) and automatically fed to the Fidelity loan servicing system.

Management has provided action plans to address the issues listed in the report to be completed by 12/31/2007. Audit Services will continue to monitor the progress made by LBM in attaining acceptable levels of performance through our ERICs follow up process and through review of HLCR file review results.

Additional background, a list of the issues found and a description of the objectives and scope of the audit are included in the following sections of the report.

Background

The majority of loans originated by LBM are submitted through a broker network and manually underwritten and processed at Loan Fulfillment Centers ("LFCs"). As the housing market has softened and property values have declined, non-prime borrowers with low introductory rates and little or no equity have been unable to refinance in the current rising interest rate environment. As a result, default rates on non-prime loans across the industry have reached their highest level in six years with the largest increase in adjustable rate products. Continued industry increases in early payment defaults, foreclosures and poor loan performance are predicted by market and internal bank analysts. Capital Market activity has slowed and pricing has turned unfavorable as investor risk appetites have decreased due to the losses experienced by mortgage lending in 1Q 2007.

LBM has been challenged with these market conditions experiencing an increase in first payment defaults ("FPDs") from 2.06% of originations totaling \$11 million in December 2005 to 3.38% of originations totaling \$47.7 million in December 2006. Leveling has occurred throughout 2007 with 1.56% of originations totaling \$10.7 million in first payment defaults in June 2007. During 2006, LBM experienced increased trends in all stages of delinquency ending the year with 12.98% of the total portfolio two or more payments delinquent as compared to 6.59% at the end of 2005. As of June 2007, 18.25% of the portfolio is two or more payments delinquent.

During 2006, LBM was organizationally realigned under the Home Loans executive management team headed by David Schneider. Under the direction of new leadership, significant changes were made in response to distressed market conditions and losses resulting from poor performing loans. Enhancements resulting from the realignment include ongoing tightening of credit parameters, key management changes, operational process improvements in underwriting, fraud detection and broker management, monthly reviews of first payment defaults, and the segregation of underwriting from operations. Also in 2006, LBM moved on to the Palisades Loan Origination System from FiTech which had reached user capability limits.

In response to declines in volumes that resulted from credit restrictions and the difficult interest rate environment, LBM closed 4 of their 8 non prime loan fulfillment centers in February 2007.

In June 2007, the decision was made to fully integrate Wholesale Prime and Long Beach Mortgage. A combined prime and non prime sales force and fulfillment operations teams will result along with the development of a comprehensive non prime lending strategy. The closure of two more loan fulfillment centers was also announced.

In July 2007, further restrictions to existing guidelines were announced with the discontinuance of stated-income loans and the elimination of fixed-rate terms less than five years. Additionally, tax and insurance escrows will be required on all loans and disclosures and outreach efforts to the borrower will be enhanced.

Audit Objective and Scope

The objective of this audit was to evaluate the effectiveness of the overall system of risk management and internal controls within the Production and Operations business segment of LBM. The audit included interviews with relevant personnel and testing of transactions for the following primary business activities:

Production:

- Evaluate the effectiveness of controls around broker relationships to ensure that brokers are reputable and licensed and held accountable for poor quality loans.
- Evaluate the effectiveness of processes and reporting in place to ensure the quality of loan submissions.

Origination:

- Evaluate the effectiveness of controls to ensure that underwriting guidelines are adhered to, the underwriter's decision is appropriately supported and documented, duties are appropriately segregated, exceptions to policy are properly approved and reported, the underwriting decision is based on the borrower's ability to repay, and effective fraud detection tools are utilized.
 - Evaluate the effectiveness of the appraisal process to ensure ineligible appraisers are not used in the underwriting process.
 - Evaluate the effectiveness of the internal quality control function to determine that reviews are conducted timely, results are reported accurately, and appropriate corrective action is taken.
 - Evaluate the effectiveness of processes and reporting in place to analyze root causes of early and first payment defaults and take appropriate corrective action.
 - Evaluate the effectiveness of controls around the funding process including proper segregation of duties, and adherence to established authority levels.
 - Evaluate the effectiveness of management information and reporting to determine that management has a robust reporting process with accurate and timely data so that the business can be managed efficiently and corrective actions taken timely.
 - Evaluate the effectiveness of controls in place to ensure integrity of data manually input into the LOS.
 - Evaluate the effectiveness of controls in place to ensure that employees are appropriately trained, held accountable for poor quality loans, and that performance measures are established and communicated to employees timely.
 - Evaluate the effectiveness of the governance structure in place to ensure that the business is managed efficiently, products are suitable, pricing changes are properly approved, and changes to guidelines are appropriately approved and implemented timely.
- Audit Services leveraged the credit expertise of the Home Loan Credit Risk review team (HLCR), organizationally independent of the business, reporting to Cheryl Feltgen, Chief Credit Risk Officer for the Home Loans group. HLCR utilizes an extensive review template to review for underwriting quality for approximately 250 loan files per month. Their sample selection is targeted so that the population subjected to testing includes all LFCs and all underwriters.

The time period subject to review was January 1 through May 31, 2007.

Applicable Laws and Regulations

LBM is subject to various regulatory acts including Equal Credit Opportunity Act (ECOA), Real Estate Settlement Procedures Act (RESPA), Truth In Lending Act (TILA), Federal Institutions Reform, Recovery and Enforcement Act (FIRREA), Home Mortgage Disclosure Act (HMDA), Home Ownership Equity Protection Act (HOEPA), the Community Reinvestment Act (CRA), the Flood Disaster Protection Act (FDPA), the Patriot Act and Reg O, (loans to executive officers, directors and principal shareholders of member banks), Fair Credit Reporting Act (FCRA), Fair Housing Act (FHA), Office of Foreign Assets Control (OFAC), and Gramm-Leach-Bliley Act. Targeted reviews of compliance with key regulations are performed by the Audit Services compliance group and were not included in the scope of this audit. However, testing of processes designed to ensure compliance with key regulations was performed in conjunction with this review.

Federal Financial Regulatory Agencies issued a final "Statement on Subprime Mortgage Lending" on June 29th 2007 effective July 10, 2007. The guidance was developed to clarify how institutions can offer certain adjustable rate mortgage products in a safe and sound manner, and in a way that clearly discloses the risks that borrowers may assume. Audit services reviewed management's action plans to address the guidance but the implementation dates were outside of the period subject to review. As such, we are not able to provide an assessment of the effectiveness of unimplemented activities.

Improvement Considerations

The recently issued *Statement on Subprime Mortgage Lending*, states that "institutions should develop strong control systems to monitor whether actual practices are consistent with their policies and procedures." While LBM management is responsive to audit issues, OTS criticisms, and negative performance trends through timely implementation of policy and guideline changes, the manually intensive processing environment and in some cases, the lack of effective reporting continues to challenge consistency in the application of these changes.

Consideration should be given to enhancing their manual control environment to the fullest extent possible through automation and reporting capabilities that may exist within Palisades. To the extent that controls can not be automated, consideration should be given to enhancing the manual controls to more effectively mitigate the risk of breakdowns in controls. Challenges with underwriting quality have resulted in repeat issues from a number of oversight groups. LBM should consider systematic hard stops for loans that do not meet the underwriting guidelines to require systematically controlled approvals set at the appropriate levels. Reporting should be designed to provide the detailed information necessary to assess adherence to established guidelines as well as the effects of the guidelines. Consideration should also be given to assigning accountability for underwriting quality to the extent necessary to attain the desired levels of improvement. These changes would increase the underwriting quality, create operational efficiencies, and allow the business to make fact-based decisions in assessing overall risk and avoid excessive exposure. Additionally, adherence to changes made in response to the Interagency Guidance for Subprime lending would be enhanced.

Audit Issues

The audit team and management discussed and agreed upon the action plan(s) and completion date(s) listed below. Definitions for issue ratings are included at the end of this report.

No:	Rating:	Issue Summary:	Due:	Owner:
1	High	REPEAT ISSUE - Underwriting guidelines established to mitigate the risk of unsound underwriting decisions are not always followed and the decisioning methodology is not always fully documented.	12/31/2007	C. Feltgen

Audit Issue:

In response to deterioration in loan performance and unfavorable market conditions, LBM tightened credit parameters in January 2007 resulting in 20 changes to existing underwriting guidelines. Audit Services sampled 96 loans with application dates from February 1 through March 31, 2007 and tested for adherence to guideline changes that became effective January 8, 2007. Of those tested, 23% did not comply with the guideline changes as they pertained to minimum FICO scores, minimum loan amounts, or maximum loan to value ratios. Audit Services selected an additional 15 files and reviewed current underwriting guidelines in addition to those tested above. In 20% of the files reviewed, the final credit decision on the Underwriting Decision Summary (UDS) did not accurately reflect the borrower's income. An additional 14% did not comply with LBM underwriting fraud tool guidelines in that the required automated fraud detection report from DISSCO was missing and in one case red flag on the DISSCO report was not cleared in accordance with guidelines. Audit Services also reviewed 15 loan refinances to determine if the net tangible benefit ("NTB") to the borrower was appropriately demonstrated, approved, and supported by information contained in the file. We found that in 33% of the files reviewed, the NTB to the borrower was not determinable, in 40% of the files, the second reviewer did not have the appropriate level of approval authority and in 33% of the files, the NTB form was not fully complete as required by LMB policy. We were unable to test 27% of the files for appropriate approval as the signature of the approver was illegible.

Home Loan Credit Review (HLCR) which is organizationally independent of LBM, reviews approximately 225 funded loans per month for high and medium events. The primary high and medium events noted by HLCR which require focused areas of improvement for LMB are appraisal deficiencies, credit evaluation or loan decision errors, unaddressed fraud alerts, missing legal documents, material misrepresentations relating to credit evaluations, debt capacity or debt ratio error, missing title report, insufficient credit documentation, invalid or insufficient signing authority, misrepresentation in appraisal information, missing Final HUD 1 statements that when obtained had unaddressed issues. HLCR rates the files using the following rating system:

1. Unsatisfactory – a loan with one or more high events
2. Requires Improvement – a loan with two or more medium events that are over the stated materiality thresholds
3. Satisfactory with Qualification – a loan with one medium event over the stated materiality threshold
4. Satisfactory – a loan with no medium or high events over the stated materiality threshold

Audit Services tested a sampling of files reviewed by HLCR and found no exceptions in the reported results. Accordingly, reliance was placed on the most recent results published by HLCR which covered November through March 2007 as follows:

1. Unsatisfactory (benchmark $\leq 2.5\%$) - Nov 3.4%, Dec 6.6%, Jan 5.6%, Feb 4.3%, Mar 2.6%
2. Requires improvement (benchmark $\leq 10\%$) - Nov 29.5%, Dec 18.0%, Jan 6.9%, Feb 4.7%, Mar 3.3%
3. Satisfactory with qualification (benchmark $\leq 20\%$) - Nov 32.5%, Dec 30.7%, Jan 21.2%, Feb 22.0%, Mar 25.8%
4. Satisfactory (benchmark $\geq 80\%$) - Nov 34.6%, Dec 44.7%, Jan 66.2%, Feb 69.0%, March 68.2%

While LBM has showed improvement in the underwriting quality, the overall scores are not consistently meeting established benchmarks. Even though volumes have significantly declined due to tightening of credit parameters and the unfriendly interest rate environment, LBM continues to struggle with errors that occur in the manually intensive

operating environment. LBM originated 12,955 loans totaling \$3.2 billion year to date through May 31st 2007.

Underwriting deficiencies were noted in our previous audit reports dated September 21, 2005 and June 29, 2006. Additionally, the OTS noted underwriting weaknesses (criticisms) in both their March 13, 2006 and May 17, 2007 Safety and Soundness Memos. While management has been responsive to findings by identifying and implementing corrective actions, management has not been successful in ensuring that corrective measures are consistently followed to effect the desired improvement in the underwriting quality.

Impact:

Failure to consistently follow underwriting guidelines puts the company at risk for originating loans to borrowers who do not have the ability to pay their obligations. Continued losses, regulatory criticisms, reputation damage and the inability to securitize and sell loans in the secondary market could occur.

Action Plan:

The Sub Prime Management and Underwriting Oversight teams are committed to improving the quality of our sub prime underwriting decisions and to ensuring adherence to our established guidelines. Effective with loans funded in February 2007, each underwriter has 4 loans reviewed by Home Loans Credit Review (HLCR) every month. The results of these reviews are used as a metric in the underwriter's incentive payout. This process creates a direct tie between the quality of the underwriter's work and their performance bonus. In addition, we have already established action plans as a result of our HLCR review results and an audit recently completed by the Office of Thrift Supervision. The following items are the key actions items that we have already started or are in the process of implementing that we believe will address the issues cited within this memo:

1. We have developed a refresher training curriculum and recertification process for all Long Beach employees with Home Loans Credit Authority (HLCA). This recertification project has already begun and we anticipate all employees will be recertified by the end of the year. Employees in roles requiring HLCA who are unable to pass their assessment within the three attempts we have allotted will be terminated. The target date for completion of the recertification project is 12/31/07.
2. We have implemented a standardized Underwriter Decision Summary template that must be completed for all loans. This template requires that underwriters provide details regarding the following areas of their decision; Credit, Credit Score, Income, Title, and General Underwriting information including Appraisal info. The template was finalized and released in an Ops Alert on June 29th, 2007. A subsequent clarification announcement was sent on July 6th, 2007.
3. We have found that the majority of the income documentation errors are the result of improperly cleared conditions. At the request of the Underwriting Oversight group, HLCR has added an additional event to their review criteria specific to the accurate clearing of conditions. This new event is being utilized for the first time in the June 2007 funded loan reviews. Underwriting Oversight and the Wholesale Operations management team will be closely monitoring the results of the funded loan reviews to ensure that the condition clearing issues have been resolved through the HLCA training and recertification process. We expect the condition clearing error rates to be at or below 5% by 10/1/07.
4. On July 13th, 2007 we released a new Collateral Review checklist for underwriters. The new checklist provides clarification on additional red flags to assist underwriters in reviewing the appraisal.
5. We will be providing additional communication regarding the requirement for adherence to our Net Tangible Benefit policy by 9/30/07
6. To ensure that acceptable progress and improvements are being made, we have created a Long Beach Mortgage Underwriting Quality monthly review meeting. The required attendees for the meeting are the heads of our Sales, Operations, Underwriting Oversight, Credit Policy, and Credit Review groups. The meetings are used to improve the quality of our underwriting decisions by discussing the results of our quality improvement efforts and by addressing any new issues or challenges discovered. The first meeting was held on June 28th, 2007.

No:	Rating:	Issue Summary:	Due:	Owner:
2	High	Improvements in controls designed to ensure adherence to Exception Oversight Policy and Procedures is required so that loans originated outside established credit parameters are subjected to the appropriate levels of review.	09/30/2007	C. Feltgen

	Additionally, accurate reporting and tracking of exceptions to policy does not exist so that the overall impact on portfolio quality can be measured and monitored.		
--	---	--	--

Audit Issue:

Policies and procedures defined to allow and monitor reasonable and appropriate exceptions to underwriting guidelines are not consistently followed. Audit Services sampled 96 loans with application dates from February 1 through March 31, 2007 and found that 23% contained exceptions to underwriting guidelines. Of the loans with underwriting exceptions, 68% had no evidence that the exception to guidelines had been approved.. The remaining 32% had either inaccurate documentation of the exception or no indication of the required approval.

Additionally, while checks are built into the LOS system to identify exceptions to credit parameters, effective reporting does not exist to track and report these exceptions. Controls built into the LOS system to require approval of exceptions can be circumvented during the period when the underwriting change becomes effective and the date LOS is updated to reflect the change.

Management has not established tolerance levels for the number of underwriting exceptions and without effective reporting, does not have a means of quantifying or monitoring the additional risk taken on by allowing exceptions to established credit parameters. Industry studies have shown that credit policy and underwriting overrides and exceptions typically perform at least twice as bad as those loans made within policy. Given the significance of losses that have resulted from poor quality loans, LBM should closely monitor the credit quality of all loans originated and especially scrutinize loans originated as exceptions to policy individually and in the aggregate. LBM should also be able to quantify the aggregate number and dollar amount of loans made outside of established credit parameters.

Impact:

Allowed exceptions to underwriting guidelines that are not properly approved increases the risk of originating loans that will result in early payment default, foreclosures and losses to the business. Additionally, failure to have effective tracking and reporting and measures against established tolerance levels, limits management's ability to assess the overall impact on portfolio quality and increases the risk of excessive exposure.

Action Plan:

Our existing process for standard exception approval is controlled by the Loan Origination System (LOS) and governed by Home Loans Credit Authority (HLCA)- Exception Authority. When a loan does not meet our established guidelines and an exception is required, the LOS recognizes it and requires approval by an individual with the appropriate Exception Authority. Exception Authority for all employees is maintained within the LOS, therefore an underwriter without the appropriate authority can not approve the exception. The LOS also requires completion of the "UNDEX" (Underwriter Exception) form when an exception is present. This is a system controlled form that must be completed when an exception is present however, it is up to the credit approver to print the UNDEX form and place it into the loan file. For non-standard or ad hoc exceptions, those which are not programmed into the LOS, the underwriter must manually complete the same process for exception documentation utilizing the UNDEX form within the LOS. As mentioned above in the issue summary, when guidelines change there may be a gap between the effective date of the change and the updating of the LOS with the guideline changes. The alternative to allowing this gap to occur would be to hold off on implementation of the guideline changes until the system is updated, however, this would delay implementation of the approved changes. When conditions require immediate changes to guidelines, we believe that we are better served by making the guideline change as soon as possible knowing that there is the potential for manual errors until the LOS can be updated.

Management has established the guidelines for the types of exceptions allowed and the knowledge/experience required for approving the exception through policy and the Home Loans Lending Authority Exception Matrix. In addition, the Home Loans Lending Authority Guidelines manual lists what exceptions are prohibited. The Home Loans Credit Authority Exception Matrix was last updated on June 18th, 2007.

In addition to the systematic controls listed above, on a monthly basis, 25 loans are reviewed for each LFC by Home Loans Credit Review (HLCR). HLCR also reviews an additional 4 loans for each underwriter. These reviews include a check to ensure that exceptions were approved by an individual with the appropriate authority. This review process

ensures that both the standard, LOS controlled, and ad hoc, non-LOS controlled, exceptions are approved by an individual with the appropriate authority.

Our existing exception reporting tracks the number and type of exceptions approved at an LFC level, however we do not currently have tracking of loan performance specific to loans with approved exceptions. The exception loan performance tracking is addressed within the action items below.

Action Items to be completed:

Given the recent changes in the mortgage environment, we believe it is in the bank's best interest to significantly limit the number of exceptions allowed and limit the number of individuals allowed to grant exceptions to our underwriting management team. To accomplish this we will be completing the following actions over the next 60 days:

1. Remove the authority for underwriters to approve exceptions Target date 9/30/07
2. We have established a threshold for exceptions approved by the site underwriting manager of 5% Target date 9/30/07

No:	Rating:	Issue Summary:	Due:	Owner:
3	High	(High) Improved processes and controls are needed to effectively monitor the integrity of the data manually keyed into the Loan Origination System (LOS) and automatically fed to the Fidelity loan servicing system.	08/31/2007	A. Hyde

Audit Issue:

Throughout the loan origination process, LFC employees manually key data into approximately 95% of the fields in the LOS. Once the origination process is complete, data from the LOS populates the Fidelity loan servicing system. LBM has quality control checks embedded in the origination process as inputs made by the loan coordinator are confirmed by a peer. In addition, a pre and post funding review is performed which is designed, in part, to check the integrity of the input data. However, because of the manual nature of the controls and the manually intensive operating environment, the controls have not been effective in managing the risk of data integrity errors at an acceptable level. LBM management does not have a process or reporting in place to effectively monitor the results and effectiveness of the quality control checks.

LBM also relies on the work of the Home Loans group's quality review department, National Post Closing Operations, (NPCO) which reviews a 5% sample of all loans closed monthly for the Retail, Emerging Markets, Consumer Direct, Whole and Sub-Prime Lending channels. The NPCO group validates the data populated to Fidelity back to the physical loan documents and publishes the results in a monthly LFC Feedback Report and on the NPCO website. NPCO defines high risk errors by field and at the loan file level. The results of the NPCO data integrity review for LBM for Jan through May 2007 showed an average high risk error rate at the field level of 12.8%. Additionally, 98.3% of all loan files reviewed contained some type of high risk data integrity error. The majority of the errors were around inaccurate or incomplete data for hazard insurance, loan terms, borrower income, and first time homebuyers. Other errors noted included flood coverage amounts, credit scores, note dates, and borrower ethnicity, race, sex and address. LBM management was not aware of the results of the NPCO file reviews until May 2007. In June 2007, NPCO management began submitting the LFC Feedback Report to LMB management. Defining a repeatable and sustainable process to address results of the NPCO file reviews including root cause analysis, appropriate corrective action, and appropriate accountability will reduce the risk of data integrity errors.

Impact:

Reports generated from the LOS system, such as the Pipeline report, could contain errors and omissions resulting in the use of inaccurate information in managing the business. Additionally, loans that are not set up on the servicing system in accordance with the supporting loan documentation could result in customer dissatisfaction and non-compliance with servicing agreements in the event that the loan is subsequently securitized and sold.

Action Plan:

Management Agrees - Process has been put into place of reporting and notifying the LFC Management Team of the data integrity issues. LFC Management and Strategic Support will be attending monthly calls to discuss findings. Expectations are to reduce error rates by implementing appropriate actions beginning with the July 2007 conference call.

No: 4	Rating: Low	Issue Summary: Improvements are needed in Operations Alerts used to communicate changes to underwriting guidelines to address the impact on loans in transit on the date of the change.	Due: 08/01/2007	Owner: C. Feltgen
-----------------	-----------------------	---	---------------------------	-----------------------------

Audit Issue:

Operations Alerts are used to communicate underwriting changes to the employees. However, the alert does not clearly define how to handle loans in process at the time of the change. During Audit Services review of underwriting changes, 31 loans were received by the LFC on the effective date of the underwriting change. Although, LFC employees were instructed through email communications to underwrite these loans under the guidance prior to the change, there was no documentation in file to support this direction. While emails may be an efficient process for distributing information to employees, the Operations Alert is the formal communication and the document retained over time. By clearly communicating instructions for loans in transit through the Operations Alerts, a well-defined process and audit trail that encompasses all aspects of the underwriting change will be in place.

Impact:

Inconsistencies in adherence to underwriting guideline changes for loans in transit could result in the appearance of untimely implementation of the changes and result in regulatory criticisms. Additionally, loans in transit could be underwritten under the prior guidelines for an unacceptable period of time which would delay the effectiveness of tightening credit parameters.

Action Plan:

As of August 1st 2007, Home Loans Policy and Procedure department will alter the Communication Request form (completed by the requestor) to prompt them to indicate the process for pipeline loans on all requests for communication, or to specifically state that their communication has no impact to pipeline loans. This is being asked for all communications (not only Operations Alerts).

In addition to that change we are adjusting the template on the Ops Alert form to have a hard-coded section to clarify actions needed for pipeline loans. This change will also be implemented no later than August 1, 2007.

Operations management will ensure that any follow up communications used to clarify information contained in Ops Alerts will be followed up with a revised Ops Alerts to ensure consistency of the communication throughout all of operations.

Definitions

Issue and report ratings are based on the auditor's judgment. In determining the report rating, the auditor will consider the following guidelines.

Report Ratings

Satisfactory	The overall system of risk management and internal control is effective and well-documented. Few minor control deficiencies exist with minimal resulting exposure. Business risk has been managed at an acceptable level. Repeat findings, if any, are not significant and non-compliance with regulatory requirements results in minimal exposure.
Satisfactory with Qualification	The overall system of risk management and internal control is generally adequate and functions effectively; however, isolated control deficiencies require management attention. While these isolated deficiencies create some exposure, business risk has been managed at an acceptable level. Repeat findings, if any, are not significant and non-compliance with regulatory requirements is isolated.
Requires Improvement	The overall system of risk management and internal control has deficiencies related to multiple business activities. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings are significant or non-compliance with regulatory requirements is substantial.
Unsatisfactory	The overall system of risk management and internal control has major weaknesses resulting in unacceptable level of risk. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings are significant or non-compliance with regulatory requirements is substantial.

Issue Rating

	High	Medium	Low
Impact	Affects the overall control environment and the achievement of relevant key business objectives	Could affect the overall control environment and the achievement of relevant business objectives if left uncorrected	Not severe enough to affect the overall control environment or the achievement of relevant business objectives
Exposure = (Impact X Probability)	Considerable exposure to financial statement errors, losses, reputation damage, fines and penalties, or loss of business	Moderate exposure to financial statement errors, losses, reputation damage, fines and penalties, or loss of business	Minimal exposure to financial statement errors, losses, reputation damage, fines and penalties, or loss of business

From: Melby, Randy <randy.melby@wamu.net>
Sent: Tuesday, August 21, 2007 5:19 PM
To: Snyder, Michele P. <michele.snyder@wamu.net>; Timberlake, Bridget <bridget.timberlake@wamu.net>
Subject: Fw: Long Beach Mortgage Loan Origination & Underwriting (REQUIRES IMPROVEMENT)
Attach: Long Beach Mortgage Loan Origination & Underwriting.pdf

Please draft talking points for me prior to me meeting with Steve. How would the two of you respond to Steve?

Randy Melby
206-500-4131 (w)
206- (c)

----- Original Message -----

From: Rotella, Steve
To: Melby, Randy
Sent: Tue Aug 21 14:12:52 2007
Subject: FW: Long Beach Mortgage Loan Origination & Underwriting (REQUIRES IMPROVEMENT)

Randy,

Maybe when we discuss the ECC offshore audit we can discuss this as well. This seems to me to be the ultimate in bayonetting the wounded, if not the dead. Not only do we already have a MRBA from the OTS on this, but the business is essentially gone. I question what this adds to anyone's knowledge, to the betterment of the company, or to our ability to fix what we need to fix.

From: GM Audit Services
Sent: Monday, August 20, 2007 5:03 PM
To: Schneider, David C.; Steinmetz, William J.; Hyde, Arlene M.; Feltgen, Cheryl A.
Cc: Abercrombie, Cynthia L.; Ballenger, Melissa J.; Cathcart, Ron; Wagner, Maynard; 'davcho@deloitte.com'; Melby, Randy; Rossi, Clifford; Rotella, Steve; Killinger, Kerry K.; Casey, Tom; Stephenson, Richard

Subject: Long Beach Mortgage Loan Origination & Underwriting (REQUIRES IMPROVEMENT)

The attached audit report concludes our review of Long Beach Mortgage Loan Origination & Underwriting. Please contact Bridget Timberlake at (818) if you have any comments or questions. Thank you.

<<Long Beach Mortgage Loan Origination & Underwriting.pdf>>
Report Rating:
Requires Improvement

Executive Summary

Long Beach Mortgage (LBM) operates as a subsidiary of Washington Mutual Bank and specializes in the origination, purchase and sale of non-prime residential mortgage loans secured by one-to-four family residences. LBM's borrower base consists of individuals who do not qualify for traditional credit and exhibit characteristics indicating a significantly higher rate of default than traditional bank lending customers. Loans totaling approximately \$5.8 billion have been originated by LBM January through June 2007. The majority of loans originated by LBM are securitized and sold in the secondary market. As of June 30, 2007, LBM has approximately \$4 billion in outstanding loan balances representing 2% of WaMu's outstanding home loans portfolio.

In response to challenges resulting from the softening housing market, rising interest rates, tightening capital markets, poor portfolio performance and underwriting deficiencies, LBM continually refines their processes and guidelines. While management has been responsive to these challenges by identifying and implementing corrective actions, actual underwriting practices have not been consistent to achieve the desired levels of improvement. Continued patterns of loans being underwritten outside of established underwriting and documentation guidelines have been previously identified by several groups including: Audit Services reports dated September 21, 2005 and June 29, 2006; OTS memorandums issued in March 13, 2006 and May 17, 2007 Safety and Soundness Memos; and Home Loan Credit Review (HLCR) reviews. Results of reviews performed by Audit Services and HLCR based on loans originated during 2007 have shown improvements in the underwriting quality as steady progress toward established underwriting benchmarks is demonstrated.

In addition, multiple issues resulting from the implementation of Palisades including data mapping issues, lack of automated tools to scrub the data, inadequate pricing and credit exception controls and missing fields for loan origination channels were noted in the Capital Markets WaMu Subprime audit currently in process.

The manual processing environment has not successfully demonstrated the ability to support the complex processes inherently needed to execute efficient and effective subprime origination and underwriting activities. Inadequate exception controls and reporting within the Palisades loan origination system (LOS) have resulted in the need for additional manual controls and workarounds. Management continues to be responsive to challenging market conditions and loan quality by tightening and refining credit parameters. However, an increased sense of urgency and intensive oversight is required to sustain the processes necessary to effectively execute these actions and ultimately meet and maintain quality levels of underwriting. The Requires Improvement rating represents our opinion that the overall system of risk management and internal controls has deficiencies related to multiple, critical origination and underwriting processes including underwriting quality, data integrity, and the monitoring of loans originated outside of established credit parameters individually and in the aggregate. These deficiencies require immediate effective corrective action to limit continued exposure to losses.

The following issues represent high or medium risk to the business unit:

1. (High) Repeat Issue - Underwriting guidelines established to mitigate the risk of unsound underwriting decisions are not always followed and the decisioning methodology is not always fully documented.
2. (High) - Improvements in controls designed to ensure adherence to Exception Oversight Policy and Procedures is required so that loans originated outside established credit parameters are subjected to the appropriate levels of review. Additionally, accurate reporting and tracking of exceptions to policy does not exist so that the overall impact on portfolio quality can be measured and monitored.
3. (High) - Improved processes and controls are needed to effectively monitor the integrity of the data manually keyed into the Loan Origination System (LOS) and automatically fed to the Fidelity loan servicing system.

Management has provided action plans to address the issues listed in the report to be completed by 12/31/2007. Audit Services will continue to monitor the progress made by LBM in attaining acceptable levels of performance through our ERICs follow up process and through review of HLCR file review results.

Additional background, a list of the issues found and a description of the objectives and scope of the audit are included in the following sections of the report.

CONFIDENTIALITY NOTICE: This electronic mail transmission may contain legally privileged, confidential information belonging to the sender. The information is intended only for the use of the individual or entity named above. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or taking any action based on the contents of this electronic mail is strictly prohibited. If you have received this electronic mail in error, please contact sender and delete all copies.



Corporate Credit Review

Home Loans Wholesale Specialty Lending-FPD

2007 Targeted Review

Distributed to Business Unit:	08/28/07
Response from Business Unit:	09/28/07
Report Published:	09/28/07
Review Rating:	Unsatisfactory

Distribution

Cynthia Abercrombie – Sr. Credit Review Officer
Mark Brown – Sr Mgr – Mortgage Underwriting
Ron Cathcart – Chief Enterprise Risk Officer
Debbie Dahl-Amundson – Sr. Manager – Audit
Randy Ennis – Mgr II – Credit Review
Cheryl Feltgen – Chief Risk Officer – Home Loans
Sandra Fields – Area Underwriting Mgr – Sub-prime Strategy
Michelle Hutchings – Area Underwriting Mgr – Sub-prime Ops
Gregg Imm – Senior Compliance Officer

Kerry Killinger – Chairman & Chief Executive Officer
Ernie Mortensen – Sr Mgr – Credit Risk
Cliff Rossi – Chief Credit Officer
Steve Rotella – President & Chief Operating Officer
David Schneider – President Home Loans
Melissa Sima – Mgr II – Compliance
Susan Sinn – Div Exec – Mtg Bank Operations
James Tiegen – Sr Mgr – Corporate Credit Review

Corporate Credit Review

Review Rating: Unsatisfactory – The overall system of credit risk management activities and process has major weaknesses resulting in unacceptable level of credit risk. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings, if any, are significant

EXECUTIVE SUMMARY

The purpose of this review was to assess the effectiveness of the action plans developed and implemented by Home Loans to address previous review findings in the Corporate Credit Review of Wholesale Specialty Lending (WSL) First Payment Default (FPD) from 2Q2006. Subsequent to the draft report with initial management responses and actions being delivered to the Chief Risk Officer, CCR was informed of the Sub Prime Redesign Initiative. As a consequence, it was necessary to reassess the extent to which the findings would continue to apply in the new operating structure and what adjustments would be necessary to the actions that were proposed. This report reflects all of those considerations.

The review sample included FPD's from November 06 thru March 07 (see table below), evaluated to determine actual reasons for default and any correlation with underwriting deficiencies. Emphasis was placed on validating the implementation of new guidelines and processes, and isolating the impact of these changes on the credit quality of the loan originations.

November FPD's	50
December FPD's	49
January FPD's	38
February FPD's	25
March FPD's	25
Total Sample	187

Many of the action plans developed in response to the previous FPD review were not implemented until January 2007, making it difficult to assess their effectiveness. Although they were in place by the end of the time covered by this review, the impact of the actions has not yet been fully inculcated into the Home Loans credit culture and risk management processes. Therefore, where applicable we compared the guidelines in effect at the time so that the analysis would still be meaningful. The result was the identification of two High Risk Issues and one Medium Risk Issue:

Corporate Credit Review

- (High) Ineffectiveness of fraud detection tools – 132 of the 187 (71%) files were reviewed by Risk Mitigation for fraud. Risk Mitigation confirmed fraud on 115 files and could not confirm on 17 of the files, but listed them as “highly suspect”. This issue is a repeat finding with CCR.
- (High) Weak credit risk infrastructure impacting credit quality. Credit weakness and underwriting deficiencies is a repeat finding with CCR. It was also identified as a repeat finding and Criticism in the OTS Asset Quality memo 3 issued May 17, 2007. Internal Audit in their August 20, 2007 Loan Origination & Underwriting report identified it as a repeat issue. Findings from the CCR FPD review in relation to credit quality:
 - 132 of the 187 loans sampled were identified with red flags that were not addressed by the business unit
 - 80 of the 112 (71%) stated income loans were identified for lack of reasonableness of income
 - 87 files (47%) exceeded program parameters in place at the time of approval
 - 133 (71%) had credit evaluation or loan decision errors present
 - 25 (13%) had title report issues that were not addressed
 - 28 (14%) had income calculation errors and 35 (19%) had income documentation errors
 - 58 (31%) had appraisal discrepancies or issues that raised concerns that the value was not supported
- (Medium) Insufficient controls around Home Loans Credit Authority (HLCA) – 114 (61%) of the files reviewed were found to contain condition clearing errors. The majority of the time these are cleared by someone other than the underwriter that approved the loan. As part of the review, credit authority was tested for compliance. Of the 53 Senior Loan Coordinators (SLC) in the Anaheim office, 8 (19%) were identified as clearing conditions without loan authority to do so. This is a CCR repeat finding.

Although Wholesale Specialty Lending (WSL) Management has been very responsive in addressing issues, the deficiencies in controls and monitoring of adherence was felt to dilute the positive results from those action plans implemented. A summary of the issues and recommendations can be found below.

 Corporate Credit Review

Issue: Fraud detection tools such as Dissco, Loan Safe, and HistoryPro are in place; however, these tools are not being utilized effectively by the Underwriters and Loan Coordinators.

Rating: High Risk

The deployment of fraud tools was part of the action plan provided to CCR in response to the initial FPD review that was done. The deployment of these tools was verified to have taken place, but the current review identified that the effectiveness was diminished due to lack of controls around the process. 132 loans or 71% of the loan sample contained information or discrepancies that raised the suspicion of fraud or contained information that would have led the underwriter/loan coordinator to request more information that may have prevented the loan from closing. Risk Mitigation confirmed that 115 or 62% of the 132 loans were fraudulent and 17 others were "Highly Suspicious".

Recommendation: This area continues to require management's attention. We recommend the business unit revisit fraud controls to ensure that the training provided is effective and lending personnel are held accountable for non-compliance with processes in place. Strong reinforcement is needed in this area.

Issue: Weak credit risk infrastructure continues to create credit decision and processing errors contributing to loan file deficiencies impacting the credit quality of the portfolio.

Rating: High Risk

The implementation of new processes and guidelines to mitigate risk continues to be an important strategy. This cannot be effective, however, if the credit risk infrastructure is not adhering to the established process and controls. The error rates in credit evaluation and processing continues to be significant enough that the credit quality of the portfolio has been impacted. Only 9 of the 187 (4.81%) files reviewed were found to contain no deficiencies in evaluating and processing the loan.

Recommendation: The Business Unit should enforce controls to evaluate that individuals are qualified and trained appropriately to execute their roles, and ensure management as well as the individual is accountable for their results.

Corporate Credit Review

Issue: Home Loans Credit Authority (HLCA) is not utilized effectively to ensure that loan decisions and conditions are being approved by individuals with the appropriate level of authority, skill set, and consistency needed to ensure credit quality.	
Rating: Medium Risk	<p>Action Item from Previous Review: The implementation of new HLCA policy and processes. HLCA is a critical control that ensures loans are approved by those individuals who have the appropriate training, skill sets, and authority to make credit decision for WaMu. While the policy transition took place, complete execution and further refinement is still in process. HLCR testing results indicated on their July report that 62% of the errors cited under credit evaluation were not the fault of the underwriter, but someone else in the process. Team and LFC managers as well as Loan Coordinators cleared a majority of the conditions, and were responsible for the errors found. The quality control reviews that impact incentives, however, only impact the underwriter currently.</p> <p>Recommendation: CCR recommends that these critical controls be implemented and deployed to ensure adherence to HLCA policies and processes. This should include tracking and data management initiatives in order to effectively make decisions around appropriate HLCA levels.</p>

BACKGROUND

Rising FPD rates were evident in early 2006 and seen as an advance indicator of credit quality deterioration in originations. Based on this, Corporate Credit Review (CCR) had been monitoring the performance deterioration of the Held for Investment (HFI) assets that were originated by the then Long Beach Mortgage. In order to gain insight into the substantial increase in non-accrual assets and delinquency performance in recent vintages, CCR performed a targeted review of the 2Q06 First Payment Defaults (FPD). That review was rated "Requires Improvement" and noted deficiencies in credit risk management infrastructure, activities and processes requiring management attention and immediate corrective action. The current review was performed on 4Q06 and 1Q07 FPD loans to assess the effectiveness of management's action plan implementation.

Wholesale Specialty Lending (WSL) previously operated as a separate legal entity which was realigned under the Wholesale Channel of Home Loans and most of its operations have since been integrated into the Home Loans operating environment. The transition

Corporate Credit Review

brought several changes to the management structure, many of which took place in the later part of 2006 as the transition to Home Loans was effective July 1, 2006.

In response to challenging market conditions WSL has continued to adjust products and guidelines to meet the demands of external environments. These changes have resulted in significant declines in production which have led to the closure of 7 Loan Fulfillment Centers operating in 2006. In addition, the realignment has created a temporary negative impact on processes and consistency. With delinquency and foreclosure rates rising and homes for sale inventories increasing, credit spreads and investor demand has become unfavorable. These elements create further stress on the Home Loans credit infrastructure and only increase the pressure to originate loans with appropriate credit quality and risk-adjusted returns.

The following chart provides historical data across the period covered by both reviews.

Month	May 06	June 06	July 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	April 07
FPD rate	2.46%	2.63%	2.85%	2.73%	2.06%	3.23%	3.38%	2.76%	2.15%	1.68%	1.96%	1.81%
Fraud loss	\$0.19M	\$0.60M	\$0.83M	\$2.39M	\$2.41M	\$1.23M	\$2.20M	\$0.29M	\$2.36M	\$2.42M	\$3.49M	\$4.38M
Repurchase	\$38.7M	\$34.8M	\$48.4M	\$47.0M	\$49.8M	\$43.4M	\$122.7M	\$57.9M	\$16.2M	\$36.7M	\$35.4M*	\$17.8M
Non Accrual	\$1.68B	\$1.80B	\$2.0B	\$2.21B	\$2.48B	\$2.68B	\$3.07B	\$3.38B	\$3.76B	\$4.18B	\$4.41B	\$4.73B
2&3 PPD	\$1.61B	\$1.89B	\$2.01B	\$1.96B	\$2.18B	\$2.34B	\$2.59B	\$2.80B	\$2.89B	\$2.76B	\$2.57B	\$2.74B
Volume	\$1.8B	\$1.7B	\$1.6B	\$1.7B	\$1.5B	\$1.5B	\$1.3B	\$1.1B	\$0.9B	\$0.6B	\$0.7B	\$0.6B

Data obtained from the following sources: 200704 Credit Risk Review, 2007 HL-Front end guidance, Credit Information and Analytics database-May 2007 Portfolio Repurchase pivot, HL-LBM update-OTS meeting 5/10/07, Risk Mgt. Forum analysis and scorecard-7/17/07. Data obtained includes both HFS and HFI. *Reduced \$90M to account for a sale that was rolled back and based on the way coded incorrectly reflects in the totals on the pivot table used as repurchase.

CCR acknowledges that WSL Management continues to adjust to meet current demands. During the course of this review a comprehensive plan to improve credit quality was provided which includes changes and action steps that have already taken place, as well as additional initiatives that are currently under development or in varying stages of implementation. Below is the list of those items implemented within the last 60 days. The additional pending initiatives are incorporated as action plans into the issues that they support, beginning on page 7. All of these initiatives are dependent on the reinforcement of the credit risk management infrastructure within Home Loans and the success of the control environment and quality assurance measures to generate quality lending product.

- Effective August 1st, 2007 reduced the number of loan fulfillment centers processing sub prime wholesale transactions to 2; Anaheim, CA and Denver, CO
- Effective July 20th, 2007 began requiring escrow accounts for taxes and insurance on all sub prime originations
- Effective July 20th, 2007 made the following underwriting guideline changes:
 - Elimination of all stated income transactions and reduced documentation programs for sub prime

Corporate Credit Review

- Elimination of adjustable products with less than a 5 year initial fixed rate term
- Minimum credit score of 540
- Maximum cash out is \$100,000
- Elimination of all piggyback second lien products
- Maximum CLTV for non-owner occupied transactions is 80%
- Maximum LTV/CLTV for all owner occupied transactions is 90%
- Maximum loan amount is \$1,000,000
- Effective July 16th, 2007 implemented a new underwriter collateral review checklist to provide additional guidance to our underwriters as they review appraisals
- Effective July 1st, 2007 implemented a standard template for use in completing the underwriter decision summary within the LOS
- Effective June 28th, 2007 implemented a monthly sub prime senior management quality call. The purpose of the call is to review current progress on underwriting and origination quality and discuss opportunities for continued improvement
- To help identify and track errors related to condition clearing and rental income calculation, added the following new events to the Home Loans Credit Review (HLCR) process on June 29th, 2007:
 - All set conditions were not cleared properly
 - There was an error in the calculation of rental income
- To further advance the culture change they are promoting within the sub prime organization and leverage the WaMu brand, they have eliminated the name Long Beach Mortgage and renamed the sub prime wholesale business to WaMu® Wholesale Specialty Lending effective August 1, 2007.

DETAILED ISSUES AND MANAGEMENT RESPONSE

The following issues contain management's written response and, where appropriate, a Corrective Action Plan with target completion date and name of responsible party.

ISSUE

Fraud detection tools such as Dissco, Loan Safe, and HistoryPro are in place; however, these tools are not being utilized effectively by the Underwriters and Loan Coordinators.

The deployment of fraud tools was previously identified in the action plan provided to Corporate Credit Review (CCR) in response to the initial FPD review that was done. In March, 2006 Long Beach Mortgage implemented DISSCO screening for loan submissions to minimize fraud related to incorrect applicant information and property overvaluation. Beginning January 5, 2007, Core Logic Loan Safe was fully deployed and ran on each new loan submission. Previously it was run only for designated high risk markets. HistoryPro was implemented October 2005 and in November 2006 was updated as to what programs it is required for. It is a tool used in the appraisal review process which includes the use of an AVM as well as property records to identify potential issues with the collateral. CCR has observed that the underwriters and or loan coordinators failed to properly review these tools and utilize their results in the loan decision.

During the course of this review, CCR identified **132 (71%)** loan files that contained information or discrepancies that raised the suspicion of fraud or contained information that would have led the underwriter / loan coordinator to request more information that may have prevented the loan from closing, many based on information in the DISSCO and or Loan Safe reports. The training for these tools clearly indicates the appropriate process to be followed. It appears the user was solely focused on reviewing the final score to ensure policy was met rather than review the entire report for red flags that could reveal fraudulent activity when resolved. In addition, alerts were cleared to increase the score to acceptable levels with no explanation of how this was done. Of the files reviewed by Risk Mitigation they confirmed fraud on **115 (62%)** of them, with the other **17** noted as highly suspect even though unable to confirm. It is CCR's opinion that had the field properly utilized the tools provided, (Loan Safe, DISSCO, and HistoryPro) fraud and a subsequent first payment default could have been avoided on many of these files.

FPD loan reviews were completed by Risk Mitigation and Corporate Credit Review (CCR) that had been previously completed by Home Loans Credit Review (HLCR) in their post funding or underwriter credit quality reviews. Of the 187 loans in the FPD review, CCR identified that **9 (4.8%)** had previously been reviewed by HLCR. Data provided by Risk Mitigation for their April FPD reviews shows that **11** out of 37 (**29.7%**) files reviewed by them had previously been reviewed by HLCR. The observations on those 20 loans are found below:

- Of the 20 files reviewed 10 were confirmed with fraud and 2 were identified as suspect by Risk Mitigation.

Corporate Credit Review

- Of the 12 files felt to contain fraud, there were 2 referred to Risk Mitigation by HLCR and the additional files were not. The 10 files not referred were felt to contain red flags that would have warranted being sent to Risk Mitigation.
- 12 of the 20 files in common did not have any events cited by HLCR.

The data shows there is inconsistency between how the files are tested in HLCR and Risk Mitigation results and if the groups can collaborate in order to eliminate the gap between findings there would be a large benefit to the business unit.

Recommendation:

Controls to ensure that training in the use of fraud tools and/or accountability for non-compliance of processes need to be implemented.

- If reviews reveal that processes are not followed, employees need to be assessed to determine the cause and appropriate course of action. This could result in the following actions being taken for habitual offenders:
 - The training provided appears sufficient, but validation that the training was performed and understood may be needed. Additional types of training, such as seminars or web casts may be required to further explain processes
 - Review of errors and counseling
 - Verbal or written notice of concern
 - Home Loans Credit Authority (HLCA) suspended or revoked
 - Termination
- Team managers need to share in the accountability for the actions of their employees. It is their responsibility to assess and recommend appropriate courses of action to resolve issues.
- Enhance collaboration between Risk Mitigation and HLCR by communicating fraud findings on all loans that were included in the HLCR test population
 - When HLCR becomes aware of errors or discrepancies on their reviews, that data should be captured in their database in order to identify the flaws in the original review if warranted
 - Feedback to HLCR is critical in order for them to performance manage and correct deficiencies present
 - The feedback from Risk Mitigation provides the opportunity to adjust the HLCR test criteria to make sure the correct information is being assessed. It would allow level setting to make sure that the results meet the expectations of those utilizing the data and provide consistency
 - With the amount of reviews in common there is the opportunity to use the HLCR data as an early warning for delinquency and fraud detection as well as provide the necessary feedback to the underwriters at a more timely point to impact changes. Based on the large percentage of the population confirmed to be misrepresented, this should have the benefit of helping to reduce the FPD's by catching the issues prior to funding

Corporate Credit Review

Response – Wholesale Specialty Lending concurs with the finding.	
Action Plan – Removal of HLCA from all non-underwriting employees. – Effective September 1 st , 2007 sub prime employees that are not in an underwriting role will no longer have the authority to make underwriting decisions, clear and/or waive underwriting credit conditions.	
Target Date: 9/1/07	Responsible Party: Mark Brown/Ernie Mortensen
Action Plan – Mandatory Fraud and Red Flag Training/Certification – During the 4 th quarter of 2007 all operations employees involved in the credit decision process will be required to complete training on red flags and fraud.	
Target Date: 12/31/07	Responsible Parties: Mark Brown
Action Plan – Improved fraud detection and management tools – We have decided to implement a new fraud detection tool, Data Verify. Our internal testing of several fraud detection tools showed that the most accurate and comprehensive tool available was the Data Verify tool. The new tool has a planned release date of October 31 st , 2007. Employees who fail to utilize the tool as instructed will be placed on performance improvement plans.	
Target Date: 10/31/07	Responsible Parties: Rich McCoppin/Chris Johnson

ISSUE**Credit decision and processing errors contribute to loan file deficiencies impacting the credit quality of the portfolio.**

The implementation of new guidelines to address specific loan default issues was previously identified in the action plan provided to Corporate Credit Review (CCR) in response to the initial FPD review. In the course of this follow up review, credit decision and processing errors by Underwriters and Loan Coordinators was identified as a key contributor to the First Payment Defaults that were reviewed. The conclusion drawn is guideline changes will not be an effective tool to address default rates if there is not corresponding adherence and execution to allow these changes to be implemented as intended.

Training was identified as an action plan on the previous FPD review as well as for many of the issues cited by Home Loans Credit Review (HLCR). CCR feels training has not proven to be the solution by itself, as can be seen by some of the issues that have had training as their action plan for 6-12 months without reducing the issue below threshold. The root cause is seen to be more systemic and appears to be driven by either lack of controls or insufficient skill sets.

Corporate Credit Review

Post closing reviews performed by Home Loans Credit Review (HLCR) indicate that WSL credit decision error rates have reduced to 18.4% in April 2007 from a high of 34.2% in 4Q06. Although this represents positive trending, it is still over the materiality thresholds established at 8%. CCR observed during this review of FPD files that these errors occurred at a higher rate in this adverse sample. The LBM Deep Dive Summary and Analysis done on 2/1/07 FPD files by LBM underwriting supports this. The root cause analysis in this report shows that only 10.6% of the time would they do the loan again; and 73.7% of the time there were red flags missed, underwriting errors, or condition clearing errors found in the files. The CCR file review found similar errors impacting the overall quality of the transaction and potentially whether the loan should have been made. The results of these items tested are:

- 87 of the 187 files tested (47%) had errors that caused the loan to exceed program parameters or guidelines.
- Reasonableness of stated income – 112 of the files tested were stated income and 80 (71%) of those had issues that were not addressed which raised the question of the reasonableness of that stated income.
- Condition clearing – 61% of the files reflected conditions that were cleared inappropriately or without documentation that met the condition.
- Credit evaluation and loan decision - 72% of the files had credit decision errors and 52% did not have all the appropriate conditions set. There were 132 files found to have risk factors that were not addressed.
- Red flag detection - Loan Safe results were not evaluated correctly in 32% of the files. Dissco report issues were not appropriately addressed in 41% of the files. Red flags were found in the file and not addressed in 130 files reviewed.
- Net tangible benefit - It was observed during the FPD review that the Net Tangible Benefit (NTB) was not properly evaluated. From a credit perspective the concern was more than just completing the form correctly, but actually analyzing why the loan would make sense to the borrower. In many of these transactions we saw borrowers willing to pay large fees, pre-pay penalties, increased rates and many times with no payment reductions. Aside from the legal and reputation risks that come from this, understanding the motivation behind some of the transactions or requesting additional information would have helped to make a better loan decision. WaMu feels strongly enough to incorporate into their responsible mortgage lending principles the statement that "we do not refinance any loan secured by the borrower's home unless the new loan offers a net tangible benefit to the borrower."

A segment of the sample population was selected to specifically look at the benefit of the transaction to the borrower. The 187 loan FPD population included 52 owner occupied refinances. Within that population there were 12 loans identified where WaMu held the underlying loan that was being refinanced. These were selected based on the assumption that data would be readily available in order to properly analyze. The results of that review provided the following data:

- 12 WaMu to WaMu refinances were identified representing 23% of the 52 Owner Occupied (O/O) refinances within the sample
- 7 of the 12 transactions were refinancing within 12 months of the previous WaMu transaction
- 6 had prepays to WaMu ranging from \$3166 to \$18,000, and of those with prepays 3 were loans opened <12 months
- 8 were adjustable rate mortgages (arm) refinanced to an arm, 2 fixed to arm, and 1 arm to fixed

Corporate Credit Review

- o 4 of the 12 (33.3%) transactions reviewed were identified as not having a benefit to the borrower. These were validated by the responsible lending group in compliance as failing the net tangible benefit test, which by policy should have resulted in a decline
- o 10 had net payment increases while only 2 had net payment decreases
- o 7 had cash out of <5% while 5 had cash out of >5%

Although the test for NTB is done by the compliance review group, key to the credit decision is the consideration of the borrower's motivation on the transaction and willingness to repay. Separate from whether a form or test was completed correctly, the underwriter needs to identify whether the transaction makes sense. The guidelines specify that "a Credit Approver reviewing this type of transaction must understand the WaMu Wholesale Specialty Lending guidelines and also make their own subjective evaluation whether a loan presents a benefit to the applicant and an appropriate level of risk to the company."

As a result of the findings above, CCR elevated the concerns regarding high cost and NTB calculations of these WaMu to WaMu loans to Corporate Compliance to validate that policy sufficiently addresses how these transactions should be handled.

Recommendation:

Controls need to be put in place to evaluate that individuals are qualified and trained appropriately to execute their roles, and ensure management as well as the individual is accountable for their results.

- Proper accountability and processes in place to appropriately performance manage is needed. This should include suspension or removal of HLCA until appropriate training and verification of adherence to guidelines and processes is found. This would not only require feedback on a timely basis, but accountability for the manager and/or person signing behind their work.
- An underwriter quality review and scorecard was identified in the action plan on the previous FPD review, and was rolled out at the end of 2006. This specifically is designed to performance manage through compensation impacts and coaching/training. It should be noted that this would not have had time to impact the results of many of the files CCR reviewed, but this process has not eliminated the same types of underwriting and processing errors found in other channels that already had it in place. Continuous monitoring of the quality review process to ensure results match the portfolio credit quality needs to be implemented, so that timely adjustments can be made as needed.
- Messaging from management to reinforce the appropriate credit culture and support the controls in place will be crucial to effectively bringing focus and impact results.
- CCR feels that much of the focus around benefit to the borrower is from the regulatory perspective of trying to complete the NTB form to pass the test, while analyzing motivation of the borrower in addition to confirming benefit should be a key component of every credit decision. Education regarding the risk impacts and understanding why it is an important part of the credit decision needs to be

Corporate Credit Review

developed. Since policy already exists that the approver is responsible to assess the benefit and risk of the transaction, Home Loans Credit Review (HLCR) testing of the credit approval should include effectiveness of this assessment by the approver within their testing criteria to monitor and provide feedback. Collaboration with compliance to eliminate any concerns over duplicative testing will be needed.

Response – Wholesale Specialty Lending concurs with the finding.	
Action Plan – Sub Prime Redesign Initiative – We have announced the closures of all of our Wholesale sub prime loan fulfillment centers. We will complete a full integration of our sub prime process into our Wholesale prime loan fulfillment centers.	
Target Date: 10/09/07	Responsible Party: Mark Brown/Bill Steinmetz
Action Plan – Home Loans Credit Authority (HLCA) Recertification – All employees within sub prime operations will be required to retest and pass a recertification test. Any employee that fails to pass the recertification after 2 attempts will have their HLCA revoked. Employees in positions which require HLCA who fail to pass the recertification by December 15 th , 2007 may be terminated. The recertification process will begin on August 1 st , 2007. Completion of the project has been completed.	
Target Date: Complete	Responsible Parties: Mark Brown/Ernie Mortensen
Action Plan – Removal of HLCA from all non-underwriting employees – Effective September 1 st , 2007 sub prime employees that are not in an underwriting role will no longer have the authority to make underwriting decisions, clear and/or waive underwriting credit conditions.	
Target Date: Complete	Responsible Parties: Mark Brown/Ernie Mortensen
Action Plan – Clarification and consolidation of underwriting guidelines and policy – We are in the process of consolidating our multiple manuals, announcements, and job aids into one underwriting guidelines manual. In addition, we will review our sub prime underwriting guidelines and wherever possible, we will adopt prime policy in sub prime. This process is scheduled to be completed by October 1 st , 2007.	
Target Date: 10/01/07	Responsible Parties: Denise Smith-McCrainey

Corporate Credit Review

ISSUE

Home Loans Credit Authority (HLCA) is not utilized effectively to ensure that loan decisions and conditions are being approved by individuals with the appropriate skill set and consistency needed to ensure credit quality.

The implementation of new HLCA, policy and processes was previously identified in the action plan provided to Corporate Credit Review (CCR) in response to the initial FPD review that was done. The action plan indicated HLCA would be granted based on experience and results of specific non-prime test cases. To date those test cases have not yet been implemented and training required as part of the new process was grandfathered on current employees and only applies to new hires or if assigned.

During the file review done by CCR there were 8 files of the 187 reviewed (4.3%) that did not have the appropriate HLCA on the approval or exception. In addition, two LFC's (Anaheim and Denver) were tested to see if conditions were cleared or waived by appropriate HLCA. In Denver there were no Senior Loan Coordinators (SLC) found to be clearing conditions without appropriate HLCA. In Anaheim, there were eight SLC's that cleared conditions and either had no HLCA or an inappropriate level. This indicates either a lack of understanding, or a lack of controls around the HLCA process. HLCA is felt to be a critical control to validate only people with the appropriate skill set and training are making decisions and clearing conditions. Without this control in place credit quality is impacted as well as increased exposure to rep and warrant violations with investors.

Recommendation:

CCR recommends that controls be implemented to ensure adherence to HLCA policy and processes. In addition provide support to administrators to allow for effective use as a tool to support credit quality initiatives.

- System enhancements that block exceptions, approvals and condition clearing by individuals without the appropriate HLCA.
- Provide a centralized resource to monitor quality by adding data from the quality reviews that are performed into the HLCA database. It should also include documentation and trending from additional sources such as delinquency, Risk Mitigation, Internal Audit, and CCR.
- Utilization of all data and resources available should be incorporated into the HLCA decision process along with appropriate management support for enforcement.
- Finalization of the test cases used to evaluate HLCA as well as training requirements evaluated and updated for approvers not meeting quality targets.
- A control around the quality review testing criteria needs to include a process to match results against actual performance to ensure effectiveness. As gaps are found then criteria should be altered.

Corporate Credit Review

Response – Wholesale Specialty Lending concurs with the finding.	
Action Plan – Home Loans Credit Authority (HLCA) Recertification – All employees within sub prime operations will be required to retest and pass a recertification test. Any employee that fails to pass the recertification after 2 attempts will have their HLCA revoked. Employees in positions which require HLCA who fail to pass the recertification by December 15th, 2007 may be terminated. The recertification process will begin on August 1 st , 2007. Completion of the project has been completed.	
Target Date: Completed	Responsible Party: Mark Brown/Ernie Mortensen
Action Plan – Removal of HLCA from all non-underwriting employees – Effective September 1 st , 2007 sub prime employees that are not in an underwriting role will no longer have the authority to make underwriting decisions, clear and/or waive underwriting credit conditions	
Target Date: Completed	Responsible Parties: Mark Brown/Ernie Mortensen
Action Plan – Elimination of exceptions to underwriting guidelines for all wholesale transactions– Effective September 1 st , 2007 no exceptions to underwriting guidelines will be allowed in wholesale by anyone other than a site underwriting manager. In addition, we have developed a comprehensive list of exceptions that will not be allowed under any circumstances and established a 5% tolerance for exceptions.	
Target Date: 09/01/07	Responsible Parties: Mark Brown
Action Plan – Sub Prime Redesign Initiative – We have announced the closures of all of our Wholesale sub prime loan fulfillment centers. We will complete a full integration of our sub prime process into our Wholesale prime loan fulfillment centers.	
Target Date: 10/09/07	Responsible Parties: Mark Brown/Bill Steinmetz

REVIEW RATING DEFINITIONS

Satisfactory -- The overall system of credit risk management activities and process is effective and well-documented. Few minor deficiencies exist with minimal resulting exposure. Credit risk has been managed at an acceptable level. Repeat findings, if any, are not significant.

Satisfactory with Qualification -- The overall system of credit risk management activities and process is generally adequate and functions effectively; however, isolated deficiencies require management attention. While these isolated deficiencies create some exposure, credit risk has been managed at an acceptable level. Repeat findings, if any, are not significant.

Requires Improvement -- The overall system of credit risk management activities and process has deficiencies related to multiple business activities. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings, if any, are significant.

Unsatisfactory -- The overall system of credit risk management activities and process has major weaknesses resulting in unacceptable level of credit risk. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings, if any, are significant.

APPENDIX

Details of WaMu to WaMu transactions with no benefit to the borrower

Tuavao, Salesi and Wailupe (0729494211)

- Funded 9/26/06. Paid off existing WAMU loan opened 1/06 (0697403335)
- 3 incomplete/inaccurate NTB forms found in file. The 9/11 was the final one
- Collected pre-pay penalty of \$18,000
- Paid Ford judgment on title with no payments (Nelson and Kennard are atty)
- Paid MaryAnn Salt \$31,303 at close per HUD 1. She is listed as processor on credit and per Risk Mitigation owns the submitting Broker
- Payment increase of \$100 on new payment vs old payment
- Borrower brought cash to close of \$5241.81, and besides broker paid current years taxes and insurance and FORD judgment
- ARM to ARM, 40 yr to 40 yr term

Hernandez, Edmundo (0729529024)

- Funded 10/26/06. Paid off existing WAMU loan opened 1/06 (0697331874 and 0697331858)
- 3 incomplete/inaccurate NTB forms found in file
- Collected pre-pay penalty of \$12,030 between 1st and 2nd WAMU loans paid off
- Paid 2 accounts with payments totaling \$526, current year taxes, and collection accounts with no payments.
- Payments from \$3121 to \$3739, but with debt payoff the net increase was \$92.
- Going from a 30 yr to 40 yr term, arm to arm, 8% rate on 1st and 11.69% on 2nd to 9.975%
- Borrower cash out of \$1546 besides debt payoff and current year taxes paid.

Smolly, Shana (0729851246)

- Funded 1/8/07. Paid off existing WAMU loan opened 3/06 (0697808145 and 0697808152)
- 3 NTB forms in file appear accurately completed, but then show as pass
- Collected pre-pay of \$16,028 between 1st and 2nd WAMU loans paid off
- Cash out was \$16,968 (2.74%) and paid existing years taxes
- Payments from \$3874 to \$5350
- Going from 30 yr to 40 yr term, 2/28 with 3 yr pre-pay, rate from 7% arm and 10.8 fixed to 10.175% arm.

Belkhouribchia, Khadija (0729805986)

- Funded 11/29/06. Paid off existing WAMU loan opened 11/05 (0696888833)
- 1 NTB form found in file

Corporate Credit Review

- No pre-pay on WAMU existing loan and new loan has 2 yr pre-pay
- Converted from 1st to 1st/2nd Piggy and paid \$10,088 fees between 1st and 2nd. YSP \$10,560.
- Payments from \$3114 to \$3761
- Rate from 8.0% to 9.25% on 1st and 11.0% on 2nd, with arm to arm on 1st and fixed to arm for 2nd.

Sample Profile-Doc Type

Sample Month	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Total	% of sample
Stated	26	34	23	15	14	112	59.89%
Standard	24	13	13	6	9	65	34.76%
Limited	0	2	2	4	2	10	5.35%
Total*	50	49	38	25	25	187	

*The monthly sample was reduced down to 25 at the point it was determined the smaller sample would not impact results and action plans could not be evaluated for trending based on execution timelines.

Sample Profile-Occupancy

Sample Month	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Total	% of sample
Owner occupied	39	39	29	16	21	144	77.01%
Investment	10	9	9	9	4	41	21.93%
2 nd Home	1	1	0	0	0	2	1.07%
Total	50	49	38	25	25	187	

Sample Profile-Purpose

Sample Month	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Total	% of sample
Purchase	28	34	27	19	11	119	63.64%
Refinance	22	15	11	6	14	68	36.36%
Total	50	49	38	25	25	187	

Review Result data

- 132 of the 187 (71%) files were reviewed by risk mitigation for fraud. Risk mitigation confirmed fraud on 115 files and could not confirm on 17 of the files, but listed them as highly suspect

Corporate Credit Review

- 80 of the 112 (71%) stated income loans were identified for reasonableness of income
- 132 of the 187 loans were identified with red flags that were not addressed
- Bank statement analysis was identified as a key contributor in the risk factors not addressed. This was based on not addressing numerous NSF and overdrafts as well as transfers and large deposits that would indicate a discrepancy in the income being used to qualify.
- 87 (47%) files exceeded program parameters in place at the time of approval due to errors
- 133 (71%) had credit evaluation or loan decision errors present
- Only 9 of the 187 files (5%) were found to have no errors
- 114 (61%) had condition clearing errors and 96 (51%) had condition setting errors
- 19 (10%) were approved at an incorrect credit grade. Usually due to intervening payments not obtained that would have changed the grade if it had been, or demands showing delinquency that was not available at initial underwrite
- 25 (13%) had title report issues that were not addressed
- 28 (15%) had income calculation error and 35 (19%) had income documentation errors
- Appraisal discrepancies or issues that raised concerns that the value was not supported was found in 58 (31%) files

To: Jim Vanasek, Cheryl Feltgen, Hugh Boyle, Tim Bates

From: Nancy Gonseth

Date: November 17, 2005

Subject: So. CA Emerging Markets Targeted Loan Review Results

Due to a sustained history of confirmed fraud findings over the past three years from the Emerging Markets and Retail Broker Program areas, the Home Loans Risk Mitigation Team recently conducted a targeted review of loans originated in two Southern California Community Fulfillment Centers (CFCs). During August and September 2005, all loan production from the Montebello and Downey CFCs was scored with DISSCO (Data Integrity and Search Score), a mortgage industry standard fraud prevention tool that the Home Loans Risk Mit team employs in proactive fraud identification activities. Loans that were flagged as recommending investigation were reviewed, along with a random sample of the remaining 10% of originations from these CFCs during this time frame.

The purpose of the review was to establish a factual basis for determination as to whether or not a broad, systemic pattern of mortgage fraud was present in the Emerging Markets and Retail Broker loan programs, identify its persistent forms, and determine the effectiveness of process and policy execution in these particular areas.

Based on this targeted review program, an extensive level of loan fraud exists in the Emerging Markets CFCs, virtually all of it stemming from employees in these areas circumventing bank policy surrounding loan verification and review. Of the 129 detailed loan reviewed that have been conducted to date, *42% of the loans reviewed contained suspect activity or fraud, virtually all of it attributable to some sort of employee malfeasance or failure to execute company policy. In terms of employee activity enabling this perpetration of fraud, the following categories of activity appeared most frequently: inconsistent application of credit policy, errors or negligence, process design flaws, intentional circumvention of established processes, and overriding automated decisioning recommendations.*

This memorandum outlines a few of the most egregious activities identified based on the targeted reviews, with particular documentation of the specific areas of failure to follow policy by employee. Based on the consistent and pervasive pattern of activity among these employees, we are recommending firm action be taken to address these particular willful behaviors on the part of the employees named.

[REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #22a

Retail Fraud Risk Overview

Prepared by Risk Mitigation
November 16, 2005

Project Scope:

Examination of fraud and loan performance in:

- Retail Broker Program
- Two Southern CA Emerging Markets
Community Fulfillment Centers (CFC's)
 - Commerce
 - Downey

Loan review period covers loans produced from 9/2003 - 8/2005.

Executive Summary

- Fraud findings within the So. CA Retail Emerging Market CFC's are preventable with improved processes and controls.
- Fraud findings do not differ between the retail broker and retail lending programs and principally relate to misrepresentation of loan qualifying data.
- The Bank's top two retail loan originators based out of two So. CA Emerging Market CFC's, produced 67% of all retail broker production YTD by unit volume.
- Forty two percent (42%) of targeted reviews completed on loans produced in August and September 2005 contained excessive levels of fraud related to loan qualifying data.

Retail Broker Channel - Overview

- In the early fall of 2004, the National Retail Broker program was shutdown by WaMu management.
- Program was reopened effective December 1, 2004 to the Campbell, Pleasanton, Downey and Montebello loan centers.
- During period under review, 10,839 loans were produced by 1,335 identified brokers and comprise 2.3% of the total retail channel production.
- For the two year period under review, 48% of the retail broker program production was originated by two loan consultants in the Downey and Montebello CFC's.
- YTD, retail broker production totals 1,893 loans, 1.5% of total YTD production.
- YTD, 67% of the total retail broker loan production was originated under the two principal loan consultants in Downey and Montebello.
- The Downey loan consultant has originated 52% of the total YTD broker production.
- All YTD production is currently performing.

Risk Mitigation Retail Broker Fraud Statistics

Findings Summary – All Retail Broker Loans

Origination Year		2003		2004		2005	
Channel	Funding Status	#	Volume (\$00's)	#	Volume (\$00's)	#	Volume (\$00's)
Loans Reviewed	Funded	91	16,336	30	10,295	13	5,149
	Non-Funded	49	10,013	18	7,112	44	11,285
	Total	139	26,349	48	17,407	57	16,435
Confirmed Fraud Findings	Funded	70	12,778	27	9,508	9	3,993
	Non-Funded	34	7,079	6	1,740	16	3,095
	Total	104	19,857	33	11,248	25	7,089
% Confirmed Fraud	Funded	76.9%	78.2%	90.0%	92.4%	69.2%	100.0%
	Non-Funded	70.0%	70.7%	33.3%	24.6%	36.4%	34.4%
	Total	74.8%	75.4%	68.8%	64.7%	43.9%	47.9%

- On average, 78% of the funded retail broker loans reviewed were found to contain fraud. The confirmed incidence rate in the Downey CFC exceeds the channel results at 85%.
- Retail Broker fraud findings are principally centered in misrepresentation of loan qualifying data (77%) and appraisal issues (17%).
- Qualifying data issues are primarily centered in Income and Employment and are closely followed by Credit Issues which include false alternative credit letters.
- Emerging Markets CFC fraud findings data is similar but has a higher fraud confirmation rate.
- Referrals prior to funding on retail broker loans originated in the Emerging Markets CFC comprise majority of the loans reviewed for the entire channel as they make up majority of the loan volume.

Downey Loan Consultant – Retail Broker Findings

Origination Year		2003		2004		2005	
Reviews	Funding Status	#	Volume (\$00's)	#	Volume (\$00's)	#	Volume (\$00's)
Loans Reviewed	Funded	7	1,496	4	1,063	10	4,107
	Non-Funded	6	1,171	3	597	16	1,473
	Total	13	2,667	7	1,660	26	5,530
Confirmed Fraud Findings	Funded	6	1,306	4	1,063	7	3,337
	Non-Funded	6	1,171	1	178	3	690
	Total	12	2,477	5	1,241	10	4,227
% Confirmed Fraud	Funded	85.7%	87.3%	100.0%	100.0%	70.0%	81.3%
	Non-Funded	0.0%	0.0%	33.3%	29.8%	18.8%	32.6%
	Total	92.3%	92.9%	71.4%	74.8%	38.5%	76.4%

Montebello Loan Consultant – Retail Broker Findings

Origination Year		2003		2004		2005	
Channel	Funding Status	#	Volume (\$00's)	#	Volume (\$00's)	#	Volume (\$00's)
Loans Reviewed	Funded	7	1,559	16	4,400	2	636
	Non-Funded	0	0	1	510	4	1,167
	Total	7	1,559	17	4,930	6	1,702
Confirmed Fraud Findings	Funded	5	1,031	13	3,633	1	147
	Non-Funded	0	0	1	510	0	0
	Total	5	1,031	14	4,143	1	147
% Confirmed Fraud	Funded	71.4%	66.1%	81.3%	82.2%	50.0%	27.5%
	Non-Funded	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
	Total	71.4%	66.1%	82.4%	84.0%	16.7%	8.6%

Retail Channel Fraud Review Statistics

Retail Loan Findings

Origination Year		2003		2004		2005	
Reviews	Funding Status	#	Volume (000's)	#	Volume (000's)	#	Volume (000's)
Loans Reviewed	Funded	269	68,527	164	44,096	103	39,142
	Non-Funded	101	20,684	849	611,218	173	62,006
	Total	370	89,211	1113	655,314	276	101,148
Confirmed Fraud Findings	Funded	164	43,276	111	26,732	74	26,022
	Non-Funded	66	16,571	146	39,190	71	29,659
	Total	230	59,847	257	65,922	145	55,681
% Confirmed Fraud	Funded	61.0%	62.8%	67.7%	60.6%	71.8%	66.6%
	Non-Funded	65.1%	79.3%	15.4%	6.4%	41.0%	47.8%
	Total	67.6%	66.6%	23.1%	10.1%	62.6%	65.0%

- On average, 67% of the retail funded loans reviewed contain fraud, however, YTD findings indicate a rising trend.
- So. CA funded emerging market loans comprise 6% of the total loans reviewed in the retail lending channel YTD and all loans reviewed have confirmed fraud findings.
- Fraud findings are similar to those in the retail broker channel and consists principally of misrepresentation of qualifying data.

Downey Loan Consultant – Retail Findings

Origination Year		2003		2004		2005	
Reviews	Funding Status	#	Volume (000's)	#	Volume (000's)	#	Volume (000's)
Loans Reviewed	Funded	3	609	6	1,721	1	620
	Non-Funded	1	157	4	799	2	686
	Total	4	846	10	2,480	3	1,306
Confirmed Fraud Findings	Funded	3	609	2	683	1	620
	Non-Funded	1	157	4	799	1	347
	Total	4	846	6	1,342	2	1,167
% Confirmed Fraud	Funded	100.0%	100.0%	33.3%	39.9%	100.0%	100.0%
	Non-Funded	0.0%	0.0%	0.0%	100.0%	0.0%	50.6%
	Total	100.0%	100.0%	60.0%	54.1%	66.7%	77.5%

Montebello Loan Consultant – Retail Findings

Origination Year		2003		2004		2005	
Reviews	Funding Status	#	Volume (000's)	#	Volume (000's)	#	Volume (000's)
Loans Reviewed	Funded	6	1,690	5	917	5	1,135
	Non-Funded	0	0	0	0	1	559
	Total	6	1,690	5	917	6	1,694
Confirmed Fraud Findings	Funded	5	972	5	917	5	1,135
	Non-Funded	0	0	0	0	0	0
	Total	5	972	5	917	5	1,135
% Confirmed Fraud	Funded	83.3%	51.6%	100.0%	100.0%	100.0%	100.0%
	Non-Funded	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Total	83.3%	51.6%	100.0%	100.0%	63.3%	67.0%

Targeted Review Results

DOWNEY		Total Channel		Retail Channel		Retail Broker Channel	
Origination Year		2005		2005		2005	
Reviews	Funding Status	#	Volume (000's)	#	Volume (000's)	#	Volume (000's)
Loans Reviewed	Funded	81	27,048	44	17,522	37	9,523
Confirmed Fraud Findings	Funded	37	14,313	20	9,346	17	4,967
% Confirmed Fraud	Funded	45.7%	62.9%	45.5%	53.3%	45.9%	52.2%

MONTEBELLO		Total Channel		Retail Channel		Retail Broker Channel	
Origination Year		2005		2005		2005	
	Funding Status	#	Volume (000's)	#	Volume (000's)	#	Volume (000's)
Loans Reviewed	Funded	48	19,521	35	13,598	13	5,358
Confirmed Fraud Findings	Funded	17	7,333	14	8,260	3	810
% Confirmed Fraud	Funded	35.4%	37.5%	40.0%	46.1%	23.1%	15.1%

- Two months funded production, 731 loans, was scored for the So. CA emerging markets lenders using Apptelligence's DISSCO (Data Integrity Search and Score) tool.
- The score distribution was 12.3% investigate, 10.5% high and 77.2% pass. This is comparable to the results experienced in the correspondent lending channel phase I of the fraud tool implementation.
- A total of 180 loans were selected for review based on the results (all of the investigates and 10% of the balance).
- To date, reviews have been completed on 129 loans, 72% of the files selected for review.
- Retail Broker production comprised 39% of the loans reviewed to date and 28% of the total loans scored.
- Fraud finding levels were excessively high at 46% in Downey and 35% in Montebello for the two months production reviewed.

Fraud Loan Samples

Loan #0694256827

- Misrepresentation the borrower's identification and qualifying information were confirmed in every aspect of this file, including:
 - Income
 - SSN
 - Assets
 - Alternative credit reference letters
 - Possible Strawbuyer or Fictitious borrower
- The credit package was found to be completely fabricated. Throughout the process, red flags were over-looked, process requirements were waived, and exceptions to policy were granted.
 - **Underwriting Deficiency:** The escrow company provided a copy of the \$26,500 deposit check issued by the WAMU branch in Encinitas, CA. Risk Mitigation contacted the person who had issued the check and she was able to track the source of funds as coming from the other person showing as a Remitter on the check. The other person is [REDACTED] who appears in Lexis as being associated with the borrower, [REDACTED]. [REDACTED] has a 1st and 2nd mortgage on [REDACTED] Oceanside, CA with WAMU in addition to the bank account.
 - **Appraisal Process Weakness:** The Collateral Valuation Report in the file stated a condition for Approval of Collateral stating the current use is illegal as there is a third un-permitted unit on the property. Reported sales price is not a true reflection of the transaction as the sales agent reports the buyer is including a house in Mexico as part of the transaction. (This might explain why the sales price, \$240,000 is so much lower than the appraised value of \$400,000.) The contract found in the file did not reflect any of this information. It does not appear the appraisal was referred to an underwriter, as the office manager waived the requirement for an underwriter to review the appraisal.
 - **Closing Process Failure:** The file contained two Application Identification Verifications. One AIV was signed by the closing agent with the borrower's name and DOB but did not document the source of ID. The other AIV was a faxed copy showing a state ID had been used to verify [REDACTED]'s existences and it was signed by [REDACTED] who appears to be the real estate agent involved in the transaction.

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Fraud Samples

Loan #703013763

- Appraisal/collateral misrepresentation
 - Appraisal report appears to contain false data regarding the subject property's site and building sizes. This information significantly influenced the final statement of appraised value, and the resulting maximum loan amount on this cash out refinance.
 - The appraisal was subject to the automated review process (Optis) and was not referred to underwriting.
 - The borrowers were refinancing a first mortgage they obtained from WAMU approximately one year prior to the subject transaction. During this period of time, the subject's value increase nearly 90% from \$322,000 to \$610,000. A comparison of the two appraisals resulted in noting the discrepancies in the site and building sizes.
 - **Optis Review Functionality Limitations**
 - The individual layers of risk, as described below, do not appear to have been considered for their cumulative effect on the acceptability of the appraisal or the overall quality of this of this loan. These red flags typically are evaluated during an underwriting review of a file:
 - Property appreciated 80% in 1 year
 - Transaction type was a cash out refinance
 - Occupancy type was investment property
 - Property is a 3-unit home
 - AVM models reflect a more probable value of \$400,000
 - Two of the three sales comparables were 2 unit properties, with large adjustments made for design and functionality differences.
 - Two of the comparables were located 3 - 4 miles from the subject property
 - The comparables' sales prices did not bracket the subject's final value
 - Two of the three comparables adjusted to less than the subject's value
 - Excessive adjustments were made to each comp for differences in square footage and lot size
 - A second transaction was being processed for this borrower, and the funds from this refinance were needed to close the other loan.

Fraud Samples

Loan # 0703013201

- **Misrepresentation of Income**
 - Borrower's qualifying income was inflated \$1200 per month, with notes that this decision is consistent with WAMU's credit policy.
 - **Credit Policy Exception**
 - The initial and final applications state the borrower receives an auto allowance of \$1200 per month.
 - The borrower's income documentation reflects he receives a base pay, but no auto allowance.
 - The LAS contains notes from the underwriter that the \$1200 income is actually from "trailing co-borrower income," and an exception was being made to consider this as qualifying income.
 - There is no co-borrower on the loan;
 - There is no evidence that another individual lives with the borrower;
 - The distance between the borrower's current residence and the subject property is approximately 35 miles, which is generally not considered to be significant enough to rely on income from a co-borrower who is seeking new employment as the result of this relocation.

Loan #694258161

- **Misrepresentation of Income**
 - The loan application represents that the co-borrower has been employed for 12 years with [REDACTED] presently as a Supervisor earning \$10,500 per month. The file contains pay stubs and W-2's that support this income. However, these income documents appear to be fabricated
 - **Underwriting Error or Deficiency**
 - The pay stubs that cover two pay periods in the month of July 2005 show the check dates as 7/15/04 and 7/31/04. The 2003 W-2 reflects social security wages of \$126,742 and social security withholding of \$7,858. Risk Mitigation looked up the maximum FICA wages for 2003 and found them to be \$87,000 with the maximum allowable withholding of \$5,394. Similarly, the 2004 W-2 reflects social security wages of \$129,356 and social security withholding of \$8,033. The maximum FICA wages for 2004 were \$87,900 with the maximum social security withholding of \$5,449.
 - There is no signed 4508 form in the file with which to verify income.
 - **Operational Process Failure**
 - The loan originator was able to direct that this loan be underwritten by the CFC manager, as evidenced by markings on the front of the file folder.
 - The LAS contains a note from the Sr. Loan Coordinator that the co-borrower's pay stubs and w-2 forms had been received, and the Office Manager was to sign off on the loan.

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Identified Process and Control Weaknesses

- Inconsistent application of credit policy
 - Loan 0703013201
 - Loan 0694256827
- Errors or negligence
 - Loan 0694256827
- Process design flaws
 - Loan 694258161
- Intentional circumvention of established processes
 - Loan 0694256827
 - Loan 694258161
- Overriding automated decisioning recommendations
 - Loan 0694256827
- Technology (Optis) limitations
 - Loan 703013763

Performance Data: Retail Channel - Delinquency

Delinquency Status as of 8/31/2005 (\$ 000's) - Loans Originated 9/2003 - 8/2005

	Retail		Retail Broker		Total Channel	
Current	\$ 104,963,510	99.721%	\$ 2,345,650	99.308%	\$ 107,329,160	99.712%
30 Days	\$ 143,279	0.136%	\$ 8,913	0.377%	\$ 152,192	0.141%
60 Days	\$ 49,968	0.047%	\$ 1,539	0.065%	\$ 51,507	0.048%
90 Days	\$ 92,996	0.088%	\$ 5,736	0.243%	\$ 98,732	0.092%
Total DQ	\$ 286,243	0.272%	\$ 16,188	0.685%	\$ 302,431	0.281%
REO	\$ 7,246	0.007%	\$ 147	0.006%	\$ 7,393	0.007%
Total Portfolio	\$ 105,276,999	100.000%	\$ 2,361,985	100.000%	\$ 107,638,984	100.000%

Delinquency Status as of 8/31/2005 (Unit Volume) - Loans Originated 9/2003 - 8/2005

	Retail		Retail Broker		Total Channel	
Current	401,709	99.680%	8,225	99.288%	409,934	99.672%
30 Days	588	0.146%	30	0.362%	618	0.150%
60 Days	221	0.055%	7	0.085%	228	0.055%
90 Days	435	0.108%	20	0.241%	455	0.111%
Total DQ	1,244	0.309%	57	0.688%	1,301	0.316%
REO	46	0.011%	2	0.024%	48	0.012%
Total Portfolio	402,999	100.000%	8,264	100.000%	411,263	100.000%

- Delinquency is based on OTS methodology
- Delinquency within the retail broker channel is 252% worse than the retail channel.

Performance Data: Originator Comparison

**Delinquency Status as of 8/31/2005 (Unit Volume)
Loans Originated 9/2003 - 8/2005**

Originator Location	Montebello		Downey	
Current	2,712	99.087%	5,390	99.502%
30 Days	10	0.365%	16	0.295%
60 Days	5	0.183%	4	0.074%
90 Days	10	0.365%	7	0.129%
Total DQ	25	0.913%	27	0.498%
REO	0	0.000%	0	0.000%
Total Portfolio	2,737	100.000%	5,417	100.000%

**Delinquency Status as of 8/31/2005 (Volume (000's))
Loans Originated 9/2003 - 8/2005**

Originator Location	Montebello		Downey	
Current	711,111	99.148%	1,351,321	99.520%
30 Days	2,471	0.345%	4,086	0.301%
60 Days	1,112	0.155%	868	0.064%
90 Days	2,526	0.352%	1,570	0.116%
Total DQ	6,109	0.852%	6,524	0.480%
REO	0	0.000%	0	0.000%
Total Portfolio	717,220	100.000%	1,357,845	100.000%

Montebello Loan Originator:

- Volume comprises 99.8% of total open/active reported in the Montebello LFC.
- 3.7% of the open/active volume is not coded to a particular LFC.
- Delinquency performance on this lenders total open book of business is 289% worse than the delinquency performance for the entire open/active retail channel book of business.

Downey Loan Originator:

- A single originator, 977061, is responsible for 99.9% of production volume reported for the Downey LFC.
- 4.5% of Originator 977061 production volume for the period reviewed is not coded to a particular LFC.
- Delinquency performance on this originator's total open book of business is 157% worse than the delinquency performance for the entire open /active retail channel book of business.

Strategies To Mitigate and Manage Fraud Risk Issues

- Implement the usage of a fraud solution tool within the front end to better detect SSN, occupancy and property value issues and increase investment quality confidence.
- Establish accountability within the sales force by realizing fraud losses as operational losses rather than credit losses.
- Establish front line procedures, processes and training to better verify qualifying data. (employment, income & credit)
- Modify processes and procedures to ensure loan originator of record is documented consistently on MSP and 1003 in order to provide accurate data reporting and measurement capabilities.
- Provide valuable, robust fraud trend data identifying areas and issues of concern to Credit Risk Management and Emerging Markets in order to effectively assess fraud risk.

From: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Sent: Saturday, November 19, 2005 12:10 PM
To: Gonseth, Nancy C. <nancy.gonseth@wamu.net>; Bates, Timothy <timothy.bates@wamu.net>
Subject: Re: Retail Fraud Risk Overview

Thanks, Nancy. That would be great.

Cheryl

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Gonseth, Nancy C. <nancy.gonseth@wamu.net>
To: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>; Bates, Timothy <timothy.bates@wamu.net>
Sent: Sat Nov 19 06:51:58 2005
Subject: RE: Retail Fraud Risk Overview

Cheryl -

I got your message and I will put together a spreadsheet for you prior to your Monday meeting. I am glad that everyone is taking this seriously.

Also, the fraud tool is NOT currently used on a pre-funding basis within wholesale or retail. We are working on building out the strategy to accomplish this and eventually it will be hooked up with EDE.

The information that is reviewed is whatever is contained within the credit file. This could include the initial application and various versions up to the final application which is tagged specifically in the file.

Thanks,
Nancy

Nancy Gonseth
Default Oversight and Risk Mitigation
Credit Risk Management
PH: 904-281-3932
FAX 904-281-7550

This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. □ DO NOT disseminate this information to parties who do not have the authorization to view this material. □ If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

-----Original Message-----

From: Feltgen, Cheryl A.
Sent: Friday, November 18, 2005 10:37 PM
To: Bates, Timothy; Gonseth, Nancy C.
Subject: RE: Retail Fraud Risk Overview

Good point. Just the 42% with fraud. I think I am getting tired and need to go home for the weekend.

Permanent Subcommittee on Investigations

EXHIBIT #23a

Cheryl

-----Original Message-----

From: Bates, Timothy
Sent: Friday, November 18, 2005 7:24 PM
To: Feltgen, Cheryl A.; Gonseth, Nancy C.
Subject: Re: Retail Fraud Risk Overview

Cheryl,

All 129 or just the 42% with fraud?

Thanks for moving on this quickly - I'm glad to see this is getting attention.

Tim

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
To: Gonseth, Nancy C. <nancy.gonseth@wamu.net>
CC: Bates, Timothy <timothy.bates@wamu.net>
Sent: Fri Nov 18 18:30:47 2005
Subject: Retail Fraud Risk Overview

Nancy:

I had a very quick meeting with David Schneider, Tony Meola and Steve Stein today to review the deck and the memo regarding the retail fraud risk review. The good news is that people are taking this very seriously. They requested some additional information that will aid in making some decisions on the right course of action.

This is all information that you already have. . . just needs to be displayed in a different way. Create a spreadsheet with all of the 129 loans that were reviewed. For each loan show borrower, loan amount, FICO score, auto-approved? and LTV. Also show all the people involved in the transaction: originator, underwriter, CFC manager, etc. Then create buckets for what the fraud category is. You are best able to determine what the right buckets would be. Needs to be detailed enough that we can understand the key issues. Please feel free to add any other columns that you think are relevant.

I was asked the question about whether these are all final applications that we are looking at. I was told by Tony and Steve that the originators commonly use 11111 bank account, etc, when a property has not been identified. I was also asked the question about when in the process the fraud tool is used and in what portion of our business is it used. . . all?

As I mentioned, David Schneider and I have our □weekly□ (we have only had 2 since I have been here) update meetings with Jim Vanasek on Monday, November 21 at 8:00 a.m. Nancy, it would be good to have an estimate from you as to how long it might take to complete the information request before the meeting with Vanasek. Would also be good to have answers to the questions I posed in the paragraph above before the meeting. Thanks.

Cheryl

Ms. Cheryl A. Feltgen
Senior Vice President
Chief Credit Officer, Home Loans Division
Washington Mutual
1201 Third Avenue
WMT2026

= Redacted by the Permanent
Subcommi

From: Parker, Brian D.
Sent: Friday, December 14, 2007 4:43 PM
To: Bates, Timothy <timothy.bates@wamu.net>
Subject: FW: [REDACTED] & [REDACTED] Risk Mit Loan review data "Confidential"

Regards,
Brian D Parker
(w)206-500-1263
(c)206-[REDACTED]

-----Original Message-----
From: Tierney, Ann
Sent: Tuesday, August 30, 2005 6:30 PM
To: Parker, Brian D.; Bates, Timothy; Vanasek, James G.
Cc: Hillis, Mark R.; Ludlow, Diane L.; Gonseth, Nancy C.; Simons, Jill
Subject: RE: [REDACTED] & [REDACTED] Risk Mit Loan review data "Confidential"
Sensitivity: Confidential

His comment was related to fraud - in excluding [REDACTED] associates from origination of a new program, his comment was that he "did not want to give axes to the murderers." Bryan in regard to a potential decision does that refer to [REDACTED] associates or both?

Ann Tierney
Credit Risk Management
Off: 206-461-4064
Cell: 206-[REDACTED]

Please note the following: This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. DO NOT disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

-----Original Message-----
From: Parker, Brian D.
Sent: Tuesday, August 30, 2005 6:20 PM
To: Tierney, Ann; Bates, Timothy; Vanasek, James G.
Cc: Hillis, Mark R.; Ludlow, Diane L.; Gonseth, Nancy C.; Simons, Jill
Subject: Re: [REDACTED] & [REDACTED] Risk Mit Loan review data "Confidential"
Sensitivity: Confidential

You're last line is not clear, did Tony state that an investigation is underway? A lot of what I see may not fall under the definition of fraud but is most certainly against policy which can/should lead to the same employment decision.

Sent from Blackberry, Brian D. Parker

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #23b

From: Tierney, Ann <ann.tierney@wamu.net>
To: Bates, Timothy <timothy.bates@wamu.net>; Vanasek, James G. <james.vanasek@wamu.net>
CC: Hillis, Mark R. <mark.hillis@wamu.net>; Ludlow, Diane L. <diane.ludlow@wamu.net>; Parker, Brian D.
<brian.d.parker@wamu.net>; Gonseth, Nancy C. <nancy.gonseth@wamu.net>; Simons, Jill <jill.simons@wamu.net>

Sent: Tue Aug 30 18:10:43 2005
Subject: RE: [REDACTED] & [REDACTED] Risk Mit Loan review data "Confidential"

So that we will be speaking in terms that production will understand, Tony defined Emerging Markets as Downey, Montebello and the JDC offices in a recent production meeting. Also be aware that Tony publicly investigation underway re fraud concerns related to [REDACTED] associates, but not [REDACTED] himself in his last production meeting.

Ann Tierney
Credit Risk Management
Off: 206-461-4064
Cell: 206-[REDACTED]

Please note the following: This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. DO NOT disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

-----Original Message-----

From: Bates, Timothy
Sent: Tuesday, August 30, 2005 5:27 PM
To: Vanasek, James G.
Cc: Hillis, Mark R.; Ludlow, Diane L.; Tierney, Ann; Parker, Brian D.; Gonseth, Nancy C.; Simons, Jill
Subject: FW: [REDACTED] Risk Mit Loan review data "Confidential"
Sensitivity: Confidential

Jim,

As you requested in our Enterprise Fraud Committee meeting last Friday, the attached email contains a high-level summary of the investigations the Home Loans Risk Mit team has conducted on [REDACTED] and [REDACTED] over the past year and a half, based on loans that were referred to them. The attached documents also contain detailed information on each of the individual cases referred.

As you can see, among the referred cases there is an extremely high incidence of confirmed fraud (58% for [REDACTED], 83% for [REDACTED]); however, as Ann pointed out earlier, to most effectively portray the extent of the fraud concerns we have about Emerging Markets Production we need to benchmark their referrals as a percentage of overall production, and compare that across other producers. This will allow us to to substantially validate what we suspect, which is that the incidence of fraud in this area is greater than with other producers. We are in the process of generating this analysis now.

Since I think we need to significantly raise the level of awareness around fraud concerns coming out of emerging markets, I am implementing the following steps immediately to increase visibility and tracking around this problem:

- * To establish a benchmark for potential fraud risk in Emerging Markets production on a fraud prediction tool, we are running the last 30 days of their production on AppIntell;
- * Beginning this week, we will begin running all their current production against AppIntell (via our existing batch process running for Correspondent Lending) to proactively monitor for fraud issues out of this area;

* To increase visibility around fraud concerns in this area and provide more timely feedback, the Risk Mit team will begin producing a monthly Deep Dive report on Emerging Markets fraud- this will include both results from the Appintell process, as well as referral cases coming from the LFC and other sources. The report will be distributed to all copied on this email.

Let's use this information as background for our meeting next Tuesday to discuss fraud concerns in this area, particularly in the Retail Broker program. In the meantime, please do not hesitate to call me with any questions.

Tim Bates
Washington Mutual
Enterprise Modeling and Decisioning Systems
206 377 4919 voice
206 490 4427 facsimile
timothy.bates@wamu.net

[Redacted] = Redacted by the Permanent
Subcommittee on Investigations

Please note the following:

This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. DO NOT disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

-----Original Message-----

From: Simons, Jill
Sent: Monday, August 29, 2005 3:28 PM
To: Bates, Timothy
Cc: Gonseth, Nancy C.
Subject: [Redacted] & [Redacted] Risk Mit Loan review data "Confidential"

Tim:

Attached you will find two spreadsheets containing data relevant to the Risk Mitigation referrals completed involving [Redacted] and the [Redacted] as the AE's. The data results below should provide a better grasp of the ongoing and current situation at hand.

Also attached, you will find an Investigative Summary Report pertaining to [Redacted] of [Redacted] Realty. She was one of [Redacted]'s brokers that was terminated for fraud back in 2004. Somehow, she was able to originate a loan through the retail channel in March of this year. We were only able to confirm [Redacted] involvement through conversations with the borrowers.

Let me know if there is any other data or info you would like to see at this point.

Thanks,

Jill

Loans reviewed by Risk Mitigation indicating [Redacted] as the Account Executive

- * Reviewed 83 loans consisting of 28 retail loans and 54 retail broker loans.
- * 58% (48) of total loans reviewed contained confirmed fraud findings. (6 – credit, 14 – employment, 19 – income, 2 – occupancy, and 7 – SSN/ID)

- * 40% of all loans reviewed involve employment and/or income misrepresentation
- * 8% of all loans reviewed contained SSN misrepresentation

- * 54% (15) of retail loans reviewed contain confirmed fraud findings.
- * 18% (5) of retail loans reviewed contain more than one fraud finding
- * 61% (33) of retail broker loans reviewed contained confirmed fraud findings
- * 20% (11) of retail broker loans reviewed contained more than one fraud finding
- * 43% of loans reviewed during 2005 contained confirmed fraud findings (17/40)
- * 88% of loans reviewed during 2004 contained confirmed fraud findings (30/35)
- * During time period of 2001 to 2003, 72 loans reviewed contained confirmed fraud findings.

* \$15 million represents the total loan amount for loans funded, denied, withdrawn & pending with fraud findings. (# excludes Chatsworth loans)

Loans reviewed by Risk Mitigation indicating [REDACTED] as the Account Executive

* Reviewed 48 loans consisting of 19 retail loans and 29 retail broker loans. (1 retail broker loan pending not included)

* 83% of total loans reviewed contained confirmed fraud findings. (8 - SSN, 8 - employment, 9- income, 6 occupancy, 4 - credit, 3 - assets, 1 - terms, 1 - other, & 8 - no fraud findings)

- * 17% of all loans reviewed contained SSN misrepresentation
- * 35% of all loans reviewed involve employment and/or income misrepresentation
- * 100% of the retail loans reviewed contain confirmed fraud findings
- * 42% (8) of the retail loans reviewed contain more than one fraud finding.
- * 70% of the retail broker loans reviewed contain confirmed fraud findings (21 with confirmed fraud, 7 - no fraud findings, 1- pending review 1 - unable to confirm)

- * 40% (12) of the retail broker loans contain more than one fraud finding.
- * 67% of loans reviewed during 2005 contained confirmed fraud findings (20/30)
- * 88% of loans reviewed during 2004 contained confirmed fraud findings (15/17)
- * During 2001 to 2003, 60 loans reviewed contained confirmed fraud findings.
- * \$8.7 million represents the total loan amount of loans funded, pending, denied and withdrawn that contained fraud findings. (# excludes Chatsworth findings)

Loans reviewed by Risk Mitigation indicating [REDACTED] as the Account Executive

* Reviewed 7 loans during 1/05 through 6/05 consisting of 4 retail loans and 3 retail broker loans.

* 5 loans reviewed contained no fraud findings, 1 with income misrep, and 1 with asset misrep.

<< File: Copy of [REDACTED] and [REDACTED].xls >> << File: [REDACTED] 2003.xls >> << File: 2005041076 Damian-JS.doc >>

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations



WaMu

— = Redacted by the Permanent Subcommittee on Investigations

PRIVILEGED & CONFIDENTIAL MEMORANDUM
PRIVILEGED AND CONFIDENTIAL ATTORNEY-CLIENT COMMUNICATION
ATTORNEY WORK PRODUCT
DO NOT COPY OR DISTRIBUTE

To: Stewart Landefeld, Chief Legal Officer (Acting), Legal Department
Charley Sledd, General Counsel, Legal Department
Lynn Du Bey, Associate General Counsel, Legal Department

From: June Thoreson-Rogers, Division Manager, Corporate Fraud Investigations
Michele Snyer, Deputy General Auditor

Cc: Randy Melby, General Auditor

Date: April 4, 2008

Memorandum of Results: AIG/UG and OTS Allegation of Loan Frauds Originated by [REDACTED]

Corporate Fraud Investigations (CFI) conducted an investigation at the request of WaMu Legal into allegations made by AIG/UG to WaMu in June 2007, and to the California Department of Insurance in September 2007, which alleged WaMu employee [REDACTED] originated numerous loans containing misrepresentations or fraudulent documents. AIG/UG notified WaMu of their decision to refuse mortgage insurance (MI) coverage for any loans originated by [REDACTED] due to their findings. This memorandum summarizes the results of our investigation.

Investigative Background and Conclusions

In June 2007, AIG notified WaMu's Home Loans (HL) Mortgage Insurance group of their findings on 7 insured loans originated by [REDACTED] between 2004 and 2007 that contained material misrepresentations. In September 2007, AIG filed a Suspected Fraud Claim with the California Department of Insurance due to WaMu's failure to respond to the June 2007 notification. AIG cited a total of 25 loans originated by [REDACTED] (which included the original 7 reported to WaMu in June 2007) containing fraud. Consequently, the California Department of Insurance notified the OTS in September 2007. WaMu Legal requested CFI investigate the complaint in November 2007. (See Appendix A for details on AIG and CFI findings.)

CFI determined that none of the 25 loans identified by AIG were directly originated by [REDACTED]. Twenty of the 25 loans had been originated by [REDACTED], Montebello Community Fulfillment Center's (CFC) originator and brother to [REDACTED]. The Montebello CFC, like some other WaMu CFC's, operates as a collective originations team under one originator's name. In the Montebello CFC, the originator name is [REDACTED].

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

CFI could not substantiate collusion between [REDACTED], [REDACTED], and the borrowers or by any WaMu employees resulting in the intentional falsification of loan application related documents. However, CFI verified that the AIG reported loan fraud elements did occur within the Montebello CFC loan origination process. No Suspicious Activity Report (SAR) was filed listing [REDACTED] or [REDACTED] as suspects since evidence of their direct involvement in the frauds was not found. However, the HL Risk Mitigation group did file SAR's on each of the identified loan borrowers.

Through numerous interviews of past and current employees within Risk Mitigation, Home Loans, Consumer Credit, Credit Risk, Servicing, Insurance Portfolio Management, Employee Relations, Loan Servicing, Legal, along with CFI investigators, Loan Consultants and others, control gaps were identified within the HL origination and risk management processes that did not sufficiently mitigate loan fraud exposure. In many cases, the gaps identified led to additional open-ended questions which may require additional investigation. Specifically:

▪ **Untimely Action/Response:**

A formalized process did not exist to identify, monitor, resolve and escalate third party complaints. As demonstrated by this case, AIG, as a third party mortgage insurer, notified WaMu of fraud concerns in June 2007. Resolution of this complaint was not completed by the HL Mortgage Insurance or Risk Mitigation groups. WaMu Legal and HL senior management had no method of knowing the existence of this complaint or its resolution status. As a consequence, AIG escalated the complaint to the California Department of Insurance and the OTS in September 2007. The OTS inquiry was not acted upon by WaMu Legal until November 2007, two months after receipt. If AIG would have received a timely response to their June 2007 notification, it is possible that further escalation to the CA Department of Insurance and the OTS may not have occurred.

▪ **Inadequate Issue Escalation and Management Corrective Action:**

HL Risk Mitigation generated alerts that identified patterns of fraudulent loan practices and provided remediation recommendations that were not acted upon by HL Senior Management. Employee interviews conducted during this investigation consistently described an environment where production volume rather than quality and corporate stewardship were the incented focus. In 2005, HL Risk Mitigation provided Senior HL Management with an assessment of fraud and loan performance in the Retail Broker Program and two Southern California Emerging Markets CFC's for the period of September 2003 through August 2005. This assessment identified excessive levels of fraud related to loan qualifying data within the retail broker and retail lending programs. It also highlighted the Downey and Montebello CFC's as the primary contributors of these fraudulent loan documents based upon volume and articulated strategies to mitigate fraud. The report also stated that delinquency performance on these CFC's and lenders were significantly worse than the delinquency performance for the entire open/active retail channel book of business. In 2007, HL Risk Mitigation mirrored their 2005 review with a smaller sample of loans and found that, for the September and October 2007 sampled time period, the volume of misrepresentation and suspected loan fraud continued to be high for this CFC (62% of the sampled loans). Based upon the AIG notification, and at the request of CFI, HL Risk Mitigation in December 2007 performed a review of all in-process pre-funding loans produced by [REDACTED] for suspected documentation

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

quality. They found 8 loans in process, which were reviewed for fraud and misrepresentations. Of these 8 pipeline loans, there were no fraud findings in 6, and 2 contained misrepresentations (SSN and income). Both loans with misrepresentations were cancelled by WaMu.

▪ **Sales Focused/Incented Originations with Limited Focus on Individual Accountability**

HL origination and fulfillment processes and incentives did not fully support production "ownership" or promote front-end loan quality consciousness. Loan Producers were compensated for volume of loans closed and Loan Processors were compensated for speed of loan closing rather than a more balanced scorecard of timeliness and loan quality. Systems and processes used to originate loan production were designed primarily to support incentive compensation programs (e.g., collective origination team with sales recorded under one originator's name) rather than measuring individual performance. We were told that the pooling of sales activity resulted in receipt of more support staff and eligibility for higher incentive compensation payment brackets. Prior to December 2007, pre-funding fraud identification processes were manual and distributed among various individuals throughout the loan origination process (e.g., loan processors and underwriters). Independent validation processes of key customer information appeared fragmented and vulnerable due to lack of traceable accountability.

▪ **Loan Origination Processes Did Not Mitigate Misrepresentation/Fraud**

The loan origination process did not identify potential applicant misrepresentations and fraudulent loan documents. CFI verified that the AIG reported elements of loan fraud did occur within the Montebello CFC loan origination process. The majority of these AIG loans were fully documented loans rather than stated income. As a result, some level of CFC documentation verification should have occurred. Furthermore, as note above, HL Risk Mitigation's 2005 and 2007 reviews found high levels of misrepresentation and suspected loan fraud for this CFC (62% of the 2007 sampled loans). Utilization of the new Data Verify fraud detection tool and manual review of loan files by HL Risk Mitigation to analyze the 2007 sample identified several fraud elements within these sampled loans. (See Appendix B for details)

Examples of HL Risk Mitigation identified triggered fraud elements include:

- Income/Employment issues (includes income documents as confirmed falsified, income suspect, confirmed overstated and income unreasonable for the profession);
- Occupancy issues (appears the borrower is not or has never resided here);
- Judgment call issues (poor judgment in decision making process);
- Appraisal (inflated value is suspected) ;
- Loan did not meet guidelines, exceptions made;
- SSN suspect
- Assets, confirmed bank statements misrepresented; and
- Credit (to qualify was not appropriate or falsified).

Given the high number of triggered indicators, legal advice is requested to determine if further analysis of either the total originated portfolio of this CFC and/or the broader loan population (bank owned and securitized) is required. In addition, further analysis may be needed to determine the impact to investor representations and warrants associated with serviced loans.

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

Recommendations:

The following primary recommendations are included in this report. Other recommendations are included at the end of this report. (See Appendix C for details)

- Establish a comprehensive, third party complaint process that ensures timely resolution and communication. Determine the appropriate communication plan for AIG, the California Department of Insurance, and the OTS.
- Establish an appropriate, credit risk management governance process that proactively identifies and addresses unfavorable patterns of operational and employee practices such as those identified by HL Risk Mitigation.
- Determine appropriate disciplinary actions for employees associated with this investigation.
- Enhance Code of Conduct training to stress each employee's role as a corporate steward and the consequences for passively facilitating the placement of loans into the origination process that could be suspect.
- Enhance HL origination and fulfillment incentive programs to support loan quality as well as provide transparency of actual individuals accountable for the loan.
- Ensure fraud tools and processes, such as Data Verify, have been fully implemented within the HL origination processes to identify applicant misrepresentations and fraudulent loan documents prior to loan closure.
- Determine if further analysis of either the total portfolio originated by the Montebello CFC and/or the broader loan population (bank owned and securitized) is required and the impact to investors, servicing process, adequate reserving, etc for those additional loans identified with potential misrepresentations and documentation fraud.

Remaining Open Issues-

- CFI to provide Steve Rotella and Stewart Landefeld an update on the investigative findings;
- Cary Brennan to determine if actions are needed to address put backs or sales to investors of loans that contain misrepresentation or other fraud findings; and
- Legal and Employee Relations to schedule discussions to address conversations with employees regarding corrective action or discipline.

Appendix A Detailed Investigative Results

Notification of AIG Concern

AIG notified WaMu in June 2007 of their findings on 7 insured loans, which were originated by [REDACTED] and claimed to contain material misrepresentations. When WaMu did not respond to the AIG concerns to discuss WaMu investigative actions, AIG filed a Suspected Fraud Claim with the CA Department of Insurance citing a total of 25 loans (including the original 7 reported to WaMu in June 2007) containing fraud and originated by [REDACTED]. This led to a complaint filed by the OTS in September 2007, which came to CFI for investigation in November 2007. This was not the first time [REDACTED] was the subject of an alleged loan fraud investigations. Between 2004 and 2006, Risk Mitigation referred to CFI numerous investigations on mortgage fraud that identified [REDACTED] as a suspect in the frauds. None of these investigations substantiated collusion with [REDACTED] and the borrower. During some of the investigations it was found that the brother of [REDACTED], [REDACTED], worked with [REDACTED] and originated some of the loans in question.

In June 2007 David Rimmer, Portfolio Manager for Mortgage Insurance (MI) providers, notified Chris Johnson, Richard McCoppin and Kelly Kane-Routier in Risk Mitigation of an audit conducted by AIG that identified 7 WaMu loans originated by one employee which contained material misrepresentations. Detailed information on the suspect employee was shared by Rimmer with Risk Mitigation, identifying [REDACTED] as the person AIG had concerns about. Rimmer asked for a review to be done of the files identified as suspect by AIG, because the insurer wanted to have a call to discuss implications on the insurance of the loans in question. Rimmer sent numerous follow up emails to Risk Mitigation asking for updates, and never received information to resolve the request.

In September 2007 the OTS sent a letter to Cindy Modica in Regulatory Relations at WaMu, notifying her of a Suspected Fraudulent Claim filed with the California Department of Insurance dated August 22, 2007 naming WaMu employee [REDACTED] loan officer, as a suspect. Attached to the letter and CA Department of Insurance referral form was a spread sheet with investigative results on 25 loans showing [REDACTED] as loan officer. Investor/Effective dates on the loans ranged from 2002 to 2006 and all were originated in CA.

On September 20, 2007 David Rimmer notified David Hiers, Richard McCoppin, Kelly Routier-Kane, Peter Struck, and Young Lee that AIG escalated this issue due to lack of response, and were moving to refuse to insure loans originated by [REDACTED]. In a letter dated September 27, 2007 from AIG, they stated they would deny future loans by [REDACTED]. By November 19, 2007, David Rimmer learned that Stephanie Shaw in Legal who was aware of the OTS complaint and Risk Mitigation had not replied to the OTS complaint, and had not had a dialog with AIG to discuss this concern.

On November 8, 2007 a new investigation was forwarded to CFI from Risk Mitigation and assigned to Sandy Fujikawa. Sandy received from Risk Mitigation an email with attachments of investigative summary reports for 30 loans. Of the 30, 20 were later matched to the AIG spreadsheet and the other 10 Sandy did not know the reason behind them being sent. AIG included a spreadsheet listing 25 suspected loans in the CA Department of Insurance complaint. There was no mention of the earlier AIG inquiry, the

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

OTS letter, or comment that Legal was involved when Sandy received this case from Risk Mitigation. Sandy was contacted by Lynn DuBey and Charlie Sledd weeks later and learned of the earlier allegations.

On December 10, 2007 June Thoreson-Rogers, Division Manager of CFI, was briefed by Charley Sledd and Lynn Du Bey on this matter, and provided a copy of the documentation received and compiled by Legal. In a meeting on December 13, 2007 with June, Charley, Lynn, Randy Melby, Ron Cathcart and Steve Rotella, the case was discussed and a decision made that CFI would conduct an investigation.

CFI Investigative Summary of Findings:

Investigator Sandy Fujikawa and June Thoreson-Rogers interviewed over 20 employees and the AIG investigators who originated the notification to WaMu and the CA Department of Insurance. Interviews included CFI investigators who had prior cases involving ██████████ past and current managers and employees in Risk Mitigation, the Montebello CFC, Human Resources, Employee Relations, MI Claims and Servicing and Credit Risk.

Prior referrals to CFI led to 8 separate investigations from 2004-2007 (2 cases each year) with ██████████ or ██████████ listed as persons related to the case. Three separate investigators were assigned to these matters, and none interviewed the ██████████s until January 2008. Investigators stated the evidence they received prior to November 2007 did not provide enough to substantiate collusion by the loan officers and lead to interviews.

It is important to note that Sandy determined that none of the loans AIG reported as containing fraud were originated by ██████████. CFI obtained 20 of the 25 loan documents by Risk Mitigation, and all 20 were originated by ██████████ ██████████ brother even though the documents reflected the originator as ██████████. Five of the loans could not be located based on the limited information provided by AIG. Ten additional loans sent to her from Risk Mitigation (but not listed on the AIG spreadsheet) had a variety of originators, many of whom are no longer employed with WaMu. The use of one top performers' name as the originator of all or most loans produced at one CFC was a practice at the Montebello site, and found to occur at other CFCs within the company. The method of crediting loans utilizing the name of the top producer in the Montebello CFC created the impression ██████████ originated loans that he had no involvement with. This practice occurs at other CFCs, making it difficult to identify the true originators of loans that contain fraud, and difficult to identify fraud related trends with originators. The elements of fraud found by AIG were verified by the CFI review, determining that misrepresentations and fraudulent documentation had been presented during the loan origination process. No SAR was filed listing either ██████████ or ██████████ as a suspect since evidence of their involvement in the frauds was not found. Risk Mitigation had indicated on the Investigative Summary Report provided to CFI on all 30 loans that SARs were filed on each loan.

In many interviews and through documentation received from Risk Mitigation and Legal, there was considerable focus and discussion on a presentation titled "Retail Fraud Risk Overview" dated November 16, 2005 that was prepared by Risk Mitigation. This presentation was the outcome of a project examining the retail broker program and 2 Southern CA Community Fulfillment Centers (CFC's) in Commerce and Downey. Risk Mitigation conducted loan reviews on loans produced from September 9, 2003 to August

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

8, 2005 and found excessive levels of fraud related to loan qualifying data particularly in the retail broker loans (78%). Fraud findings were excessively high in Downey (46%) and Montebello (35%) for the 2 year review period. The Executive Summary in 2005 stated:

- Fraud findings within the So. CA Retail Emerging Market CFC's are preventable with improved processes and controls.
- Fraud findings do not differ between the retail broker and retail lending programs and principally relate to misrepresentation of loan qualifying data.
- The Bank's top two retail loan originators based out of two So. CA Emerging Market CFC's, produced 67% of all retail broker production YTD by unit volume.
- Forty two percent (42%) of targeted reviews completed on loans produced in August and September 2005 contained excessive levels of fraud related to loan qualifying data.

This overview was utilized to provide training to Loan Fulfillment Centers (LFCs) and the findings within the document were presented to Tony Meola, Tim Bates, Cheryl Felgen and others. Nancy Gonseth who managed Risk Mitigation at the time stated that [REDACTED] and [REDACTED] were known to Risk Mitigation as generating high volumes of loans with misrepresentation or fraud within their portfolios. Nancy had reported to both Tim Bates and Cheryl Felgen, and felt both were very aware of high volumes of fraud in the [REDACTED] loans.

Tim Bates recalled conversations he had with Jim Vanasek (his manager and former Chief Enterprise Risk Officer) in 2005 where they agreed that a comprehensive review of the [REDACTED] and [REDACTED] loans was needed due to fraud allegations. Tim believed that David Schneider was made aware of these findings by Jim, and that David wanted Risk Mitigation to "monitor the situation". No one interviewed throughout this investigation could describe what this monitoring was to entail, nor did anyone know of additional monitoring that was done, or efforts to bring additional attention to the [REDACTED] or [REDACTED] loans.

Carol Walker (ER) and Jeff Kusulas (HR) had no record of action taken for performance issues with the [REDACTED] or [REDACTED].

Three Loan Processors who boarded loans for the [REDACTED] stated that they were very busy during some of the peak production years where AIG had found loans with fraud present. They stated that if the misrepresentations would be caught, it should have been by underwriting.

[REDACTED] and [REDACTED] were interviewed by CFI on January 7, 2008, and explained how they received many loans from brokers and real estate agents throughout the years. The [REDACTED] explained that brokers did not provide all documentation up front, so other loan processors would be responsible for finalizing document needs while underwriting also conducted their reviews. Neither [REDACTED] nor [REDACTED] recalled any of the loans AIG found containing fraud.

Jim Vanasek and Mark Hillis were interviewed and, while both recalled the research done by Risk Mitigation to confirm high levels of fraud findings in the loans originated by CA emerging markets, neither could recall if the final report was shared with David Schneider. Both believed that Tony Meola was charged with addressing the findings.

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

David Schneider was interviewed and recalled little about the 2005 fraud findings or actions taken to address them. He was not sure if he saw the 2005 Retail Fraud Risk Overview document. He recalled a discussion with Tony Meola about the 2005 findings, but thought the matter was handled or resolved.

One of the comments in the AIG spreadsheet of fraud loans states that [REDACTED] has been identified by Investigators to be a real estate agent working for this company" and identifies [REDACTED] as the company. Determining the status of this licensing was important to establish if [REDACTED] violated the WaMu Code of Conduct. Interviews of the AIG investigators found that these comments were made due to research conducted months ago into [REDACTED], utilizing Mortgage Asset Research Institute (MARI) and internet search data. A search of the State of CA Department of Real Estate website in January 2008 found that [REDACTED] is a licensed sales person, and has been since 1976. [REDACTED] was not found to be licensed. [REDACTED] also was a licensed agent in 1980, but his license expired in 1988. [REDACTED] admitted during an interview that he remains legally licensed in real estate, but he has never bought or sold property, and his license has remained suspended for years. This is a violation of WaMu's Code of Conduct policy.

In an effort to determine if either [REDACTED] had a high rate of insurance rescissions due to fraud detected by other insurers, an examination of MI rescissions was conducted. Rescissions recorded on the [REDACTED] and [REDACTED] loans found only 3 loans out of a multi-year list of loans originated by these parties had rescissions. WaMu had a total of 375 loan rescissions in 2007 on all prime and sub prime loans, making it appear the rescission rate for the [REDACTED] was low.

Interviews of [REDACTED] and [REDACTED] were inconclusive related to fraudulent behavior. The investigation determined that various employees collect and evaluate loan documentation prior to funding and that a clear audit trail and accountability for fraudulent activity is not established. The implementation of a fraud detection tool began in December 2007, but prior to this, detection capabilities were manual.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

Appendix B
HL Risk Mitigation Analysis

The Risk Mitigation Fraud "Retail Fraud Risk Overview" presentation dated November 2005 highlighted significant fraud findings from loans reviewed from September 2003 to August 2005, including the Downey and Montebello Home Loan Centers (CFC). The Executive Summary recommended the need for improved processes and controls, better training, the need for a fraud solution tool, establishing accountability within the sales force, and the need for better fraud trend data and measurement capabilities. Outside of training sessions that Risk Mitigation conducted in late 2005, there was little evidence any of the recommended strategies were followed or that recommendations were operationalized. There were no targeted reviews conducted by Risk Mitigation on the Downey or Montebello loan portfolios between 2005 and the actions taken in December 2007.

At the start of this investigation, Risk Mitigation was asked to review all loans in the pipeline for the [REDACTED] and [REDACTED] to address loan issues that could place WaMu at risk. Initial indications were that some of the pipeline loans had fraud findings prompting a manual review of any loans in question. The pipeline volume was small (8 loans) of which 2 had fraud findings (SSN and income)

Risk Mitigation examined delinquency rates for loans within the past year for the [REDACTED] and [REDACTED]. The Early Payment Default (EPD) rates were low, with only 1 EPD for [REDACTED] out of 855 loans. The 3 employees were 96%-97% current on all loans in the review. A comparison was also conducted with loans originated by others within the same zip codes, and [REDACTED] had 8 loans of 883 (.91) 30 days past due, compared to the sample of 21,891 loans with 179 (.86%) that were 30 days past due.

Risk Mitigation also mirrored the research that was conducted in 2005 with a smaller sample of loans. Due to time constraints (the 2005 research on 150 loans took 4 months to complete), the new review was conducted on loans that were funded over a two month period (September and October 2007) with either [REDACTED] or [REDACTED] listed as loan officer. The "Data Verify" detection tool that was not in use as a pre-funded fraud detection tool until November 2007 was run against 91 loans, followed by a manual review of 47 loan files. Data Verify screens and validates data on the loan application to identify falsified information, property value and/or occupancy issues or data input errors that need additional review. Data Verify will not detect asset related or income discrepancies. Of the 47 loans manually reviewed from the pool of 91, they found many contained more than one fraud indicator:

- 18 No fraud/no operational issues
- 21 Income/Employment issues (includes income documents as confirmed Falsified, income suspect, confirmed overstated and income unreasonable or the profession)
- 10 Occupancy issues (appears the borrower is not or has never resided here)
- 7 Judgment call issues (poor judgment in decision making process)
- 6 Appraisal (inflated value is suspected)
- 5 Loan did not meet guidelines, exceptions made
- 4 SSN suspect
- 3 Assets, confirmed bank statements misrepresented
- 1 Credit (to qualify was not appropriate or falsified)

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

Due to the high number of occupancy issues, it appears that many loans may be investor loans, with occupants renting from the purchaser. It was surmised by Risk Mitigation that a large portion of the Emerging Markets portfolio may be investor related, which means loans are submitted as owner occupied but the purpose of the loan was to give real estate investors property to rent or resell.

Servicing flags were placed on all loans in the above review found to contain elements of fraud, and all of these loans are performing. The service flag curtails WaMu from selling these loans to investors.

Risk Mitigation ran MARI, to mirror the actions taken by AIG and determine if additional negative data was available on the 3 employees. MARI is a fraud information tool used by Mortgage professionals. Queries were run on [REDACTED] and [REDACTED] and [REDACTED]. There were no findings on [REDACTED]. [REDACTED] had two reports in 2005 showing he was the loan officer on loans involving Xtreme Mortgage, a broker in Montebello, CA. Both loans were reported to contain false documentation, and to reflect [REDACTED] took the loans in a face-to-face interview when it was reported in MARI that these loans were handled by the broker.

MARI queries on [REDACTED] resulted in five incidents reported in 2005 and 2006 showing [REDACTED] as the loan originator on loans containing false information, including false income, false bank statements and false employment information.

Risk Mitigation concluded that little has changed in loan quality since 2005 for [REDACTED] and [REDACTED] noting that issues found in loans originating from Montebello are worse than those in other CFCs. Consistent comments were made around loans being investor type, though shown to be owner occupied, stated incomes that do not make sense, exceptions made by management more than peer sites, and appearing that borrowers are coached on how to find ways to work around credit policy.

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

Appendix C
Control Findings and Recommendations:

- 1 Establish a comprehensive third party complaint process that ensures timely resolution and communication. In addition, determine the appropriate communication plan for AIG, the California Department of Insurance and the OTS.
- 2 Establish an appropriate credit risk management governance process that proactively identifies and addresses unfavorable patterns of operational and employee practices such as those identified by HL Risk Mitigation. Specifically determine the appropriateness of disciplinary actions the various employees associated with this investigation.
- 3 Enhance Code of Conduct training to stress each employees role as a corporate steward and the consequences for passively facilitating the placement of loans into the origination process without sufficient due diligence.
- 4 Enhance HL origination and fulfillment incentive programs to support loan quality as well as provide transparency of actual individuals accountable for the loan.

Currently control environment, by design, has minimal barriers to segregate the sales staff and the fulfillment staff. Any control design that allows loan consultants to participate in any aspect of the income, employment or asset verification process has an inherent risk that the sales employee will take actions that benefit their own income while at the same time increasing risk for WaMu. A design weakness here is that the loan consultants are allowed to communicate minimal loan requirements and obtain various verification documents from the borrower that is needed to prove income, employment and assets. Since the loan consultant is also more intimately familiar with our documentation requirements and approval criteria, the temptation to advise the borrower on means and methods to game the system may occur. Our compensation and reward structure is heavily tilted for these employees toward production of closed loans.

A design recommendation in this area would entail changes to the process that exclude the loan consultant from participation in the income, employment and asset validation process. An additional recommendation is to capture for each loan processed, who originates, processes and underwrites the loan. This would provide more consistent monitoring and identification of issues (including presence of fraud) that may require additional training or investigative attention.

Enhanced fraud recognition training should also be recommended for those loan consultants that are engaged in income, employment and asset validation. They should understand that these steps involve critical evaluation of the documentation received, and that they are not simple check-points to be cleared upon the submission of the documentation without critical examination of the documentation.

- 5 Ensure fraud tools and processes, such as Data Verify, have been fully implemented within the HL origination processes to identify applicant misrepresentations and fraudulent loan documents prior to loan closure.

This document is provided solely to the OTS pursuant to 12 U.S.C. 1828(x) and does not constitute a waiver of any privilege held by Washington Mutual Bank, Inc., its subsidiaries, affiliates or related companies, and shall not be communicated or disclosed to any other agency, individual or third party

Prior to data verify implementation, the primary fraud control over the majority of the fraud detection was designed in our current process to occur in the Fulfillment process. The loan coordinator and the fulfillment group in general are charged with the responsibility to collect and evaluate the various employment, income and asset documentation, and they should be picking up on fraudulent documentation to the extent that those frauds are readily discoverable. This failure is a control implementation breakdown, as the control that was in place did not function as intended.



WMB WMBfsb WMI

January 7, 2008

X Asset Quality Safety and Soundness Consumer Compliance Information Technology

AQ Memo #: 22

DATE: June 19, 2008
TO: David Schneider, President Home Loans
FROM: Ann Hedger, OTS Examiner; Ben Franklin, OTS EIC
SUBJECT: Loan Fraud Investigation

CC: Cathy Doperalski, FVP, Regulatory Relations
John McMurray, Chief Enterprise Risk Officer

BACKGROUND INFORMATION

We reviewed an internal memorandum dated April 4, 2008, documenting a review that resulted from an allegation by PMI company AIG/UG that suspected loan fraud had occurred in one of the Bank's lending offices. AIG/UG also referred the matter to OTS.

The internal review disclosed that fraud/misrepresentation did occur at the specific office raised in AIG/UG's allegation. Further, the review noted that "control gaps were identified within the HL origination and risk management processes that did not sufficiently mitigate loan fraud exposure." While this review focused on one office in particular, it raised questions as to whether similar conditions are systemic throughout the organization, particularly since many of the issues raised have either previously been raised internally or have been noted at the current or at prior OTS examinations, such as:

- The Internal Risk Mitigation process identified this specific office (along with the Retail Broker Program and one other specific office) as having heightened fraud exposure in 2005 and 2007 reviews. These concerns were not acted upon in a timely manner
- The internal review noted that a formalized process did not exist to identify, monitor, resolve, and escalate third party complaints similar to the one raised by AIG. Similar issues have been raised in the 2007 OTS compliance exam and in the Banks 2008 internal investigation into the appraisal process
- The review raised concerns regarding "sales focused/incented originations with limited focus on individual accountability." Essentially, the review defines an origination culture focused more heavily on production volume rather than quality. An example of this was a finding that production personnel were allowed to participate in aspects of the income, employment, or asset verification process; a clear conflict of interest. The review also notes that systems and processes support incentive compensation programs rather than measuring individual performance (e.g., loans recorded under one originator rather than the person who actually originated the loan. This practice was found to occur at other offices). Prior OTS examinations have raised similar issues including the need to implement incentive compensation programs to place greater emphasis on loan quality.
- The review noted that loan origination processes did not mitigate misrepresentation/fraud. Many of the issues noted in the internal review such as those related to income reasonableness, overlooking "red flags", etc. have been raised at this and prior OTS examinations.

While we recognize that management has recently taken a number of actions to improve the quality of originations, this investigation, by raising concerns that are reoccurring in nature or that have not been adequately addressed, highlight the need for ongoing vigilance and commitment by management and the board to maintain a production environment in the Home Loans Group that is committed to quality production.

OTS FINAL as of 06/20/08

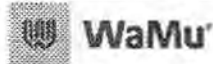
Permanent Subcommittee on Investigations

EXHIBIT #25

Saved: 07/08/2008 10:03 AM

EXAM FINDINGS DEFINITIONS	
Observation:	A weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. Observations are made in a consultative role. They may be presented to management either verbally or in writing, but will generally not be included in the Report of Examination. Examiners will rarely request a written response during the examination. Observations may or may not be reviewed during subsequent examinations.
Recommendation:	A secondary concern requiring corrective action. A Recommendation can become a Criticism in future examinations should risk exposure increase significantly or other circumstances warrant. They may be included in the Report of Examination and mentioned in Exit and Board Meetings. Examiners will request a written response from Management during the examination. Management's actions to address Recommendations are reviewed at subsequent or follow-up examinations.
Criticism:	A primary concern requiring corrective action. Criticisms are often summarized in the "Matters Requiring Board Attention" or "Examination Conclusion and Comments" section of the Report of Examination; warrant increased attention by Senior Management and the Board of Directors; and require a written response. They are subject to formal follow-up by examiners and, if left uncorrected, may result in stronger action.

EXAM FINDING #	1	<input type="checkbox"/> Observation	<input type="checkbox"/> Recommendation	<input checked="" type="checkbox"/> Criticism
Topic: Origination controls in Home Loans				
Finding: The internal investigation discussed in the background section above, noted a number of origination control issues that impacted the Office under review and may be systemic in the origination process. Management should address the issues raised in the investigation including:				
<ol style="list-style-type: none"> 1. The lack of a formalized process to identify, monitor, resolve, and escalate third party complaints. 2. Inadequate issue escalation and untimely management response to "unfavorable patterns of operational and employee practices" such as those identified in the investigation 3. Incentives based on volume of originations with limited focus on individual accountability, and in particular, any processes that allow production personnel to participate in verifying borrower financial information. 4. Loan origination processes that do not adequately mitigate misrepresentation/fraud. 				
Action: Evaluate and correct any control issues whether isolated or systemic and report the extent of these issues to OTS.				
Management Response Requested <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No				



MANAGEMENT RESPONSE: Agree Partially Agree Disagree Enter Target Date: [12/31/2008]

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.
Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.
Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

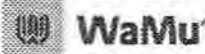
RESPONSE (succinct response to finding / action)

There are many controls that have been put into place in Home Loans since this investigation was done, as well as a significant change in Home Loans' business strategy that mitigate many of the issues identified in this memo. These changes include, but are not limited to: the implementation of a comprehensive pre-funding fraud tool and pre-funding evaluation process, the elimination of all third-party lending channels including retail broker, and post-funding file quality reviews held on a weekly basis with senior management and channel leaders to address loan quality issues.

WaMu Home Loans is currently beginning to design compensation plans for 2009. Included in the planning discussions are incentives tied to loan quality.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Formalize the third-party complaint process to ensure that significant issues are escalated to Home Loans Operational Risk and where appropriate, tracked in a centralized issues tracking system. The process will include the definition of a significant issues and clear ownership responsibility. (McCoppin, Wagner, Struck) – September 30, 2008
2. Formalize issue escalation process and follow-up procedures and actions that result from findings from Risk Mitigation reviews. (McCoppin) - August 31, 2008
3. Require fraud training and certification of all fulfillment personnel. (McCoppin, Brown) – December 31, 2008

EXAM FINDING #	2	<input type="checkbox"/> Observation	<input checked="" type="checkbox"/> Recommendation	<input type="checkbox"/> Criticism
<p>Topic: Impact on third parties</p> <p>Finding: The above investigation raises the question of whether the fraud/misrepresentation noted during this investigation is material enough that it creates a potential recourse issue to third party investors.</p> <p>Action: Investigate and determine whether a recourse situation has been created and report the findings to OTS.</p> <p style="text-align: right;">Management Response Requested <input type="checkbox"/> Yes <input type="checkbox"/> No</p>				
				
MANAGEMENT RESPONSE: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree Enter Target Date: [12/31/2008]				
<small> Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation. Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to. Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued. </small>				
RESPONSE (succinct response to finding / action)				
<p>Carey Brennan, Legal, and Joyce Mizerak, Repurchase & Recovery, are continuing to review and investigate the information provided by CFI. To date, their findings are as follows:</p> <ol style="list-style-type: none"> 1. Repurchase & Recovery determined that a total of 21 [REDACTED] loans had been referred to Repurchase & Recovery for a determination of potential repurchase liability. Two of the loans were referred directly by Freddie Mac and have been repurchased. Of the remaining 19 loans, all were referred by Risk Mitigation and Repurchase & Recovery determined that (a) 4 loans had been sold to Freddie Mac and the alleged misrepresentation has had no adverse impact on the loans and, therefore, the loans are not subject to being repurchased, and (b) the remaining 15 loans are held in the company's loan portfolio and were not sold and, therefore, there are no recourse implications associated with these loans. 2. Of 91 loans reviewed by Risk Mitigation in November 2007, the Data Verify tool identified 47 loans as having flags of fraud or misrepresentation. These loans were manually reviewed by Risk Mitigation who determined that 29 loans contain more than one fraud indicator. Per CFI's report, all of these loans are held in portfolio, are current and have been flagged on the servicing system to prevent them from being sold. Therefore, there are no recourse implications associated with these loans. 				
CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)				
<ol style="list-style-type: none"> 1. WaMu will finalize its analysis to determine if any additional action needs to be taken. (Mizerak) – December 31, 2008 				
Washington Mutual, Inc. – Confidential				

— = Redacted by the Permanent Subcommittee on Investigations



OTS Exam Summary

As of July 22, 2008

Examination Finding Memo Recap

Exam	2007 Exam	2006 Exam	2005 Exam	2004 Exam	2003 Exam
Criticism	10	2	2	5	1
Recommendations	41	33	31	18	47
Observations	6	25	3	3	9
Total	57	60	36	26	57

Asset Quality

- **OTS AQ #1 Home Equity File Review – (3 Criticisms; 1 Recommendation) Owner: Mike Zarro/Arlene Hyde**
 - **Finding 1 (Criticism) – Overall Target Date 8/30/08**
 - **Issue:** (1) Lack of Income Reasonableness Guidance and Controls; (2) Lack of Income Analysis Procedures for Stated Income Loans; and (3) Lack of Documentation for Income.
 - **Remediation Plan:** Management Partially Agrees with parts one and two, and Agrees with part three. Income Document Relief programs have been discontinued. Borrower application and attestation has been implemented, and an enhanced Home Equity application (2993) which mirrors the FNMA 1003 is scheduled for the next technology release in 8/08.
 - **Finding 2 (Criticism) – Overall Target Date 3/30/09**
 - **Issue:** (1) Measures to address reasonableness of stated income were not implemented in home equity originations. (2) Risk in the HEP was not addressed in an expeditious manner to enable measures to be taken more promptly. (3) Policies and procedures in the HEP were not aligned with the prime portfolio higher requirements, despite the HEP’s higher risk.
 - **Remediation Plan:** Management Agrees with part one, Disagrees with part two, and Partially Agrees with part three. Additional measures to ensure policies are consistent throughout the business include aligning HE with HL Prime in various elements of the calculation in the debt to income ratio. These changes will result in more consistent qualification of borrowers, regardless of the Home Loans product selected.
 - **Finding 3 (Criticism) – Overall Target Date - Completed**
 - **Issue:** WaMu (non appraisal) employees were able to inappropriately influence values of appraisals.
 - **Remediation Plan:** Corrective actions for this finding have been remediated by Management - A policy change to discontinue “request for transfer” appraisals was put in place in April 2008, and a subsequent HE policy change whereby the lender controls the appraisal escalation was implemented in June 2008.
 - **Finding 4 (Recommendation) – Overall Target Date - Completed**
 - **Issue:** Update policy for calculating seller concessions - Procedures for determining LTV and CLTV ratios state, “For property ownership of less than six months, value is established using the lesser of original purchase price or current appraised value”. Seller concessions offered to the property purchaser were not appropriately addressed in determining LTV ratios. For loans to purchase an existing property, the Interagency Guidelines for Real Estate Lending (12 CFR Appendix to 560.101) states, “The term ‘value’



- **OTS AQ #21 HE Line Management - Credit Line Decrease Program** – (1 Observation) **Owner: Mike Zarro**
 - **Finding 1 (Observation)**
 - **Issue:** The OTS uses the memo to commend our efforts to reduce credit risk and contingent liabilities during the current lending environment. They note that many of the processes and procedures associated with the program are new and, in some cases, unfamiliar concepts to them. The memo lists the following three areas of concern. The OTS is working with their policy people to determine if they create regulatory compliance or appraisal issues: 1) Whether the valuation (AVM) process for determining equity reduction is compliant with applicable appraisal and compliance guidance, 2) Whether the use of FICO scores is adequate to determine deterioration in financial capacity sufficient to suspend, block, or cancel the line, and 3) Whether the appeal process is fair or does it put the borrower at some disadvantage. The OTS will continue to review this program with the 2009 Exam.
 - **Remediation Plan:** Management response is in process, or is drafted and awaiting OTS acceptance.

- **OTS AQ #22 Loan Fraud Investigation** – (1 Criticism; 1 Recommendation) **Owner: Don White**
 - **Finding 1 (Criticism) – Overall Target Date 12/31/08**
 - **Issue:** The internal investigation identified certain control issues that Finding 1 recommends Management evaluate and correct. The items identified include: (1) Lack of formalized process to identify, monitor, resolve, and escalate third party complaints; (2) Inadequate issue escalation and untimely management response to “unfavorable patterns of operational and employee practices”; (3) Incentives based on volume of originations with limited focus on individual accountability; and (4) Loan origination processes that do not adequately mitigate misrepresentation/fraud.
 - **Remediation Plan:** Management Partially Agrees - Formalize the third-party complaint process to ensure that significant issues are escalated to HL Operational Risk and where appropriate, tracked in a centralized issues tracking system. The process will include the definition of a significant issue and clear ownership responsibility. Formalize issue escalation process and follow-up procedures and actions that result from findings from Risk Mitigation reviews. Require fraud training and certification of all fulfillment personnel.
 - **Finding 2 (Recommendation) – Overall Target Date 12/31/08**
 - **Issue:** Finding 2 recommends Management investigate to determine whether the misrepresentation/fraud noted during the OTS’s exam is material enough that it creates a potential recourse issue to third party investors.
 - **Remediation Plan:** Carey Brennan, Legal, and Joyce Mizerak, Repurchase & Recovery, are continuing to review and investigate the information provided by CFI. WaMu will finalize its analysis to determine if any additional action needs to be taken.

Safety and Soundness

- **OTS SS Memo #5 Loss Mitigation Models, Spreadsheets, and Documentation** – (4 Recommendations) **Owners: John Berens/David Beck/Don White**
 - **Finding 1 (Recommendation)**
 - **Issue:** Income and Asset Documentation For Loss Mitigation Programs - The Bank’s forbearance plans, repayment plans, and loan modifications for sub prime, prime, and home equity owned loans, are based on stated income and stated assets for borrower in first time workouts. Documentation standards for forbearance plans, repayment plans, and loan modifications for owned loans should include verification of income and verification of assets since this is considered prudent underwriting practices and will

From: McNerney, Bob <robert.mcnerney@wamu.net>
Sent: Thursday, August 31, 2006 8:25 AM
To: Steinmetz, William J. <bill.steinmetz@wamu.net>
Cc: Jacobs, Kathleen <kathleen.jacobs@wamu.net>; Hyde, Arlene M. <arlene.hyde@wamu.net>
Subject: Re: Hudson 3010598427 Purchase

I think your statement that the LFs have hit their funding goals is exactly my point. Sales has NOT hit our funding goals.

How can we if the LFC already is at capacity.

I am not trying to be antagonistic.

But this is where the disconnect is.

We are revamping our forecast for the remainder of the year.

We will have it to you mid week next week.

It will call for significant increase in apps and fundings.

Our goal in ARea 2 was about 600m for August.

We cannot get there if the LFC has goals and are staffed for less.

I am simply attempting to grow.

And need your help.
We can bring in more volume.

B

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Steinmetz, William J.
To: McNerney, Bob
CC: Jacobs, Kathleen; Hyde, Arlene M.
Sent: Wed Aug 30 08:33:06 2006
Subject: RE: Hudson 3010598427 Purchase

Let's take a broader (and slightly more factual) look at this.

This month Downers Grove and San Antonio will both have their best funding months of the year. Both will hit (and likely exceed) their funding goals for the month.

These two centers have the BEST turn times in the country. Which is saying something, because turn times have improved by

Permanent Subcommittee on Investigations

EXHIBIT #27

approximately 20% this year.

Downers Grove will have their best productivity ever, but not quite up to our 4th quarter goal.

This looks like overall good LFC performance to me. That is not to say we are not experiencing issues.

We have appraisal issues everywhere (due to the vendor change). We have some closing capacity issues in DG due to Stand Alone training last week and the normal end of month push (which is very difficult to staff for). We have some lack of experience issues in San Antonio which impact our HE and difficult file processing...

We cannot afford to maintain excess capacity. We have all agreed that we must drive productivity to ensure we remain profitable. It doesn't help us to fund more loans and lose money. This puts a premium on making sure we get the LFC volume forecast correct. We will staff to the forecast, but will not be able to stretch (in the short run) much more than that.

-----Original Message-----

From: McNerney, Bob

Sent: Wednesday, August 30, 2006 11:02 AM

To: Steinmetz, William J.

Cc: Jacobs, Kathleen; Hyde, Arlene M.

Subject: Re: Hudson 3010598427 Purchase

Everyone is getting hit right now. Its month end!
Happens every month.

I am being asked to commit to covering price hits if we close loans with no cvr
That's unreasonable

I am not going to allow great loans to walk out on us or even worseour name to get smeared on the streets , because we can't get our act together.

But how is anyone culpable for this other than appraisal. They eat the price hits.
The last few days have been ridiculous.

Plus ...

Once again.....capacity is in play in DG and SA

We need to build in more capacity.

We can't grow like this.

I sound like a broken record.

UW is backlogged

Closing issues everywhere.

And now appraisal.

Took me 20 minutes of waiting on hold to speak to an UW yesterday.

Wonder how long our customers wait?

If we want the volume....

We must perform when we get it.

We can flat out do more loans. If you will please add the capacity for us to do so.

We are capped.

Capped is an ugly word when we are at 75 percent of plan.
And we have lots of new AMs who are going to add more volume to the mix.

I think area 2 can do MUCH more volume.

But certainly not without the service levels.

B

Ps. I will never stop pushing. The day I do.....
Please bury me with a 1003 in my hand.

I believe so much in us.....

We can dominate out here!

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Steinmetz, William J.
To: McNerney, Bob
CC: Hyde, Arlene M.; Jacobs, Kathleen; Lorenz, Holly; Stewart, Lorraine; Parres, John; Bull, Sushuma R.; Bader, John T.
Sent: Wed Aug 30 07:39:08 2006
Subject: Re: Hudson 3010598427 Purchase

I know. Everyone is getting hit now.
We need to keep sending examples to John Bader and John Parres. They are working through the issues with the vendors.

I'm continuing to escalate and have invited Sushuma Bull (the new head of appraisal) to our next AOM/ASM call.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: McNerney, Bob
To: Steinmetz, William J.
Sent: Wed Aug 30 07:24:35 2006
Subject: Fw: Hudson 3010598427 Purchase

Bill
We are getting slammed with this kind of stuff.

B

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Johnstone, Chris
To: McNerney, Bob
CC: Miller, Kristen E.
Sent: Wed Aug 30 07:22:57 2006
Subject: FW: Hudson 3010598427 Purchase

Keeping you in the loop on this issue with one of Chris Hartman's files the appraisal order got cancelled for no apparent reason in OV, this is not an LFC issue, but an OV issue and I have seen several occurrences of this you should ask your OV partner at your level why this happens thanks.

Chris Johnstone
Vice President - Wholesale Sales Manager
Washington Mutual
225 Pictoria Drive Suite 300
Cincinnati, Ohio 45246
513-551-5318 (w)513-551-5364 (fax)

From: Hartman, Christopher L.
Sent: Tuesday, August 29, 2006 6:50 PM
To: Miller, Kristen E.; Bashem, Bradley E.; Johnstone, Chris
Subject: FW: Hudson 3010598427 Purchase

Hey guys this appraisal for this file was delivered with the file through online submission. The appraisal was sent to optis value, but had a cancel date in optis value.

This is the first that Amanda and I have heard of the cancellation. I re e-mailed the appraisal to Amanda, but I know it is going to go into review because it is a 4 unit NOO. The broker is ready to get this purchase closed.

I

Is there anyway I can get the appraisal dept to rush this?

From: Grabowski, Amanda B.
Sent: Tue 08/29/2006 3:26 PM
To: Hartman, Christopher L.
Subject: RE: Hudson 3010598427

Patricia isn't here her mom passes away she wont be here for a week or so

Do you have the appraisal? If so I will reorder it

Amanda Grabowski
Senior Loan Coordinator
(630) 437-8748 Phone
(630) 437-7752 Fax

-----Original Message-----

From: Hartman, Christopher L.
Sent: Tuesday, August 29, 2006 5:22 PM
To: Grabowski, Amanda B.
Subject: Re: Hudson 3010598427

It shows in Optis Value as cancelled.
Do you have the arc phone number?

Can Patricia Eastmen take a look.

Regards,
Chris Hartman Washington Mutual Account Manager
3050 Highland Parkway 3rd Floor Downers Grove IL 60515
513-551-5321 office 513-505-9282 cell
Customer Care 866-288 8760
Loan Coordinator Amanda Grabowski 630-437-8748
Conditions 630-437-7752
Lock Desk 630-437-8393
Appraisals must be uploaded through wamubroker.com

-----Original Message-----

From: Grabowski, Amanda B.
To: Hartman, Christopher L.
Sent: Tue Aug 29 15:18:06 2006
Subject: RE: Hudson 3010598427

I don't know - I don't even have the appraisal or a file

Amanda Grabowski
Senior Loan Coordinator
(630) 437-8748 Phone
(630) 437-7752 Fax

Market Risk Committee (MRC)
Minutes of the December 12, 2006 Meeting

The MRC of Washington Mutual, Inc. ("WMI" or the "Company"), Washington Mutual Bank (fka Washington Mutual Bank, FA) ("WMB") and Washington Mutual Bank fsb ("WMBfsb") and the Asset Liability Committee ("ALCO") of WMBfsb met concurrently on Tuesday December 12, 2006.

Members present for the MRC: Ms. McCarthy, Chair, Mr. Brandeberry, Mr. Beck (phone), Mr. Casey, Mr. Goldberg, Mr. Griffith, Ms. Krahling (phone), Mr. Maw (phone), Mr. Williams, Ms. Novak (phone) and Mr. Hunt.

Staff: Ms. Berger, Secretary, Mr. Batt, Mr. Stack, Ms. Logan, Ms. Kitsis, Mr. Ellson, Mr. Callahan (phone), Mr. Drastal (phone), Mr. Lehmann, Mr. McMullen, Mr. Friedlander and Mr. Pihl (phone).

Summary of items approved at this meeting:

Approved ALM Standard revisions as follows:

- Replaced references to the Asset Securitization/Sales Oversight Committee ("ASOC") with the Market Risk Committee throughout.
- Revised the Authorized Individuals for Intercompany Transactions Standard to permit sale of subsidiary stock or preferred stock back to the subsidiary's parent.

Approved Authorized Individuals for WaMu Investments Corp subject to:

- Individuals become Officers of the Company.

Approved extension of all active 2006 MRC programs due to expire on December 31, 2006 to January 31, 2006.

E0178: Open pipeline for 5/1 and 7/1 Hybrid loans: Direct all 5/1, 7/1 and 10/1 hybrid ARM with loan size less than or equal to \$3.0 million to Held For Sale (HFS), effective immediately and subject to potential delay in system programming time.

Close program E0141: WMMSC Conduit: Approval to close program and begin operating under delegated authority. This program repeal will remove current dollar size and loan type restrictions on the Conduit. WMMSC Conduit activities will be subject to an ongoing risk management review with the MRC on a quarterly basis.

Approved Hybrid/Synthetic CDO/CLO investment securities.

Summary of action items from this meeting:

None.

Ms. McCarthy called a special meeting of the MRC to order at 11:00 a.m.

Approval Items

Agenda item 1: Meeting Minutes

Approved at the 2/XX/07 MRC Meeting

Permanent Subcommittee on Investigations

EXHIBIT #28

Market Risk Committee (MRC)
Minutes of the December 12, 2006 Meeting

The minutes from the November 14, 2006 and November 28, 2006 meetings were reviewed. Ms. Logan noted that name for Company 467 had changed to "WaMu" Investments Corp. There were no further edits noted. Mr. Brandeberry motioned to approve the minutes. Mr. Griffith seconded the motion. The motion was unanimously approved.

Agenda item 2: Policy Changes

Ms. McCarthy reported that a technical review of the ALM Standards has been conducted and all remaining references to the Asset Securitization/Sales Oversight Committee (ASOC) have been replaced with MRC. The ASOC was disbanded at the November 2006 MRC meeting and its responsibilities were pulled back into MRC.

Mr. Brandeberry requested approval to amend the language in the Authorized Individuals for Inter Company Transactions Standard to permit the sale of a subsidiaries stock or preferred stock back to its parent company.

Mr. Brandeberry moved to approve both ALM changes as presented. Mr. Goldberg seconded the motion. The motion was unanimously approved.

Agenda item 3: Authorized Individuals for WaMu Investments

Ms. Logan requested approval of a number of individuals to effect transactions as part of MRC approved Program E0176: WaMu Investments Corp (Company 467). Approval of these individuals is also being sought by the Subsidiary's Board of Directors. These individuals will also be nominated as Officers of Company 467. In response to a question from Mr. Goldberg, Ms. Logan confirmed that all of the individuals listed for approval are employed in the Treasury group. Mr. Goldberg moved to approve the list of authorized individuals for Company 467. Mr. Brandeberry seconded the motion. The motion was unanimously approved.

Agenda item 4: Approved Programs Extension to January MRC Date

Ms. McCarthy requested an extension of the 2006 approved programs that are due to expire on December 31, 2006 out to January 2007. She explained that her team is working to simplify the program renewal process and reduce the number of approved programs for 2007. Mr. Goldberg moved to approve the date extension to January 31, 2007. Mr. Beck seconded the motion. The motion was unanimously approved.

Ms. McCarthy requested approval to open the pipeline for 5/1 and 7/1 hybrid ARMS by redirecting all 5/1, 7/1 and 10/1 hybrid ARM with loan size less than or equal to \$3.0 million to Held For Sale (HFS). Mr. Beck confirmed that the \$3.0 million loan size was correct. Mr. Beck moved to approve directing all 5/1, 7/1 and 10/1 hybrid ARM with loan size less than or equal to \$3.0 million to Held For Sale (HFS), effective immediately and subject to potential delay in system programming time. Mr. Goldberg seconded the motion. The motion was unanimously approved.

Agenda item 5: Removal of Program Restrictions for Conduit Activities

Mr. Griffith reviewed a proposal to move Conduit activities current governed under MRC program E0141 to a delegated authority. This change would effectively remove dollar limitations and prohibitions including the purchase/sale of second lien loans. Conduit activities

Market Risk Committee (MRC)
Minutes of the December 12, 2006 Meeting

continue to be subject to credit limitations and adherence with the Plan. Under delegated authority, Capital Markets will report on activities to the MRC on a quarterly basis. Mr. Griffith moved to approve delegated authority for Conduit activities as proposed. Mr. Williams seconded the motion. The motion was unanimously approved.

Agenda item 6: Program Approval – Hybrid CDOs

Mr. McMullen reviewed a proposal to begin investing in collateralized debt obligations (CDO) to include synthetic bonds within the deal structure (such as ABS CDS). This request is an extension of the authorization obtained in October 2006 to begin investing in “cash” CDOs. Mr. McMullen noted that almost all of the CDO securities coming to market have some synthetic element such as credit default or ABS. Treasury does not anticipate the purchase of any hybrid CDOs below investment grade. In response to a question from Mr. Beck, Mr. McMullen explained that the hybrid CDO security will be investment grade rated however portions of the underlying security collateral may be unrated or rated less than investment grade. Mr. McMullen also noted that the purchase of hybrid CDOs would be restricted to only those securities that are a ‘trust’ structure versus a ‘pass-through’ structure because of accounting treatment issues. In response to a question from Mr. Goldberg, Mr. McMullen explained that the hybrid CDO securities will be modeled on Derivative Solutions. Only hybrid CDO securities that can be modeled on Derivative Solutions will be purchased. Mr. Brandeberry noted that specific ALM language would need to be drafted to incorporate this instrument into the ALM Approved Instrument Standard. Ms. McCarthy concurred and recommended that MRC approve subject to circulating the specific ALM Standard language/edits. In response to a question from Mr. Beck, Ms. McCarthy requested that Mr. Griffith ensure that the pre purchase and accounting checklists, modeling and ALM language edits are completed. Ms. Novak requested that Mr. Griffith include Mr. Callahan in any discussions with the business line. Mr. Griffith moved to approve hybrid CDOs as an approved instrument. Mr. Beck seconded the motion. The motion was unanimously approved.

Exceptions

None.

Discussion Items

Agenda item 7: Change to Accrual Book Limits

Ms. McCarthy previewed a proposed limit structure for the ALM Policy and Balance Sheet Standard accrual book interest rate risk limits. She noted that there has been a compelling need over the last six months to replace the existing limits with limits that are more sophisticated, actionable and aligned with the strategic decision making process. The new limit structure will be proposed for approval at the January 8, 2007 Enterprise Risk Management Committee meeting and the Finance Committee approval at their January 2007 meeting. Ms. McCarthy noted that the proposed limit structure is stochastic based model that is expected to evolve over time. The proposed limit structure has been reviewed with the OTS and meets regulatory requirements of a 200 basis point a non parallel shift shock analysis. A robust discussion ensued on the governance and escalation processes and how the proposed limit structure measures the Company’s solvency and NIM-at-risk.

Market Risk Committee (MRC)
Minutes of the December 12, 2006 Meeting

Agenda item 8: Policy Changes to Appendix A and Balance Sheet Standard

Provided for member review.

Agenda item 9: Review of Aged Inventory – Home Loans

Mr. Pihl provided an update on that status of the Home Loans aged inventory. The overall size of the Home Loans warehouse is just over \$18 billion. Of that, 2.07% (\$375 million) of the loans in the warehouse are aged greater than 180 days, when the limit is 1.00%, and 0.21% (\$39 million) of the loans are aged greater than 270 days (360 days in the case of Commercial), when the limit is zero. The Capital Markets Group expects these exceptions to be cleared through “scratch and dent” sales activities that are taking place this quarter and in the first quarter of 2007. These sales are expected to clear the aged inventory to include \$40.0 million of subprime second lien and \$18.0 million of Commercial loans that will exceed the respective 270 day and 360 day limit as of 12/31 reporting. The respective population of aged loans will be in compliance as a result of the Scratch and Dent sale and Commercial Securitization in the first quarter of 2007.

Required Reports

Agenda item 10: Securitization Activity Reports

Ms. McCarthy noted that future securitization activity reports may be directed to the business segment risk committees for review. Mr. Potolsky provided an update on Subprime securitization activities. He explained that there is an overall weakness in the subprime business and the exit of investors from this market sector is driving some of the spread widening especially in the lower grades. Early WaMu 2006 vintages are on downgrade watch by the ratings agencies. Mr. Lehmann provided an update on Prime securitization activities. He noted that performance is generally good however there have been some performance concerns with more recent conduit deals. In November the rating agencies reviewed three securities, upgrading 5 classes and left 11 classes unchanged. Additional performance reports will be sent to members via email following the meeting.

Mr. Lehmann reviewed an error caused by a combination of a manual process and staff transition that resulted in the unintentional over-collateralization to the Class B-14 Certificates of the WaMu 2006-AR 13 deal. The approximately \$327.0 thousand over-collateralization has been taken out of the deal’s gain-on-sale. This error is to the benefit of the certificate holders particularly the B holder.

Mr. Lehmann then alerted the Committee to an analysis in-process whose preliminary results show an abnormally high number of delinquencies in a number of the 2006 Conduit Program securitizations. Mr. Lehmann noted that delinquency behavior was flagged in October for further review and analysis when recent securitization deals appeared to have more severe delinquency behavior than experienced in past deals. The primary factors contributing to increased delinquency appear to be caused by process issues including the sale and securitization of delinquent loans, loans not underwritten to standards, lower credit quality loans and seller servicers reporting false delinquent payment status. A discussion ensued on next steps. Mr. Lehmann will provide another status update at the next MRC meeting.

Approved at the 2/XX/07 MRC Meeting

Market Risk Committee (MRC)
Minutes of the December 12, 2006 Meeting

The Credit Card Securitization activity report was provided for member review.

Mr. O'Callahan reported that there were no issues with Commercial group securitization activities and provided an activity report for member review.

Agenda item 11: ALM Report

The ALM report was provided for member review.

Other:

None.

There being no further matters, the MRC meeting was adjourned at 12:40 p.m.

Approved at the 2/XX/07 MRC Meeting



MEMORANDUM

Date: September 21, 2007
To: Kerry Killinger, Steve Rotella, David Schneider, and Cheryl Feltgen
From: Randy Melby, June Thoreson-Rogers, and Debbie Amundson
Re: Westlake HLC Investigation Update

Assessment Results:

1. Fraud Accusation

Westlake HLC team operates as a collective with Chris O'Brian listed as originating officer on all credits.

All applications were processed through normal underwriting channels which included application platform, credit bureaus, independent appraisal ordering, and centralized underwriting approvals. Stated Income approach and Option ARM products were utilized in most cases.

No evidence of fraud on the part of WaMu employees was found.

2. WaMu Exposure

— — \$13, 725,885

4 Properties (3 in — Development).

— Purchased 3/5/2007 for \$3.8mm (\$2,752m loan). 3/21/07 equity extraction refinance (\$2,956m loan) with same \$3.8mm appraisal. 6/19/07 equity extraction refinance (\$4.8mm loan) with a new \$6mm appraisal. Application for owner occupied – property is vacant and for sale.

— - \$2,203,577

In foreclosure and in bankruptcy. 7/23/07 appraised value \$3,200,000. Original appraised value \$2,650,000 as of 3/18/2005.

— — no relationship with WaMu

Internal Audit is working together with Home Loans Chief Risk Officer, Cheryl Feltgen to address the following Red Flags:

1. HLC's

- Brokers and Sales Manager should have been alerted to unusual/frequent financing request activity by similar parties with appraisal valuation increases during a short duration.

- Loans to enable Bergerano flipping properties.
 - [REDACTED] – Exception Approval Granted to purchase a [REDACTED] property. "Sales Force Arbitrated Exception Approval"
- Conflict of Interest – originating loans for family member

2. Underwriting

- Appraised valuations – dramatic changes in values in short periods of time. Appraiser adjustments of comps, use of comps owned by borrower, and subject to status.
- Low Doc/Stated Income Loans – appropriateness and accuracy of application information (potential fraud), especially for self employed borrowers and unseasoned sources of significant income to quality.
- Due Dilligence on applications for investment vs owner occupied borrowers
- Aggregate Liability for Borrowers – lending authorities by entity – Credit Approval form doesn't give senior credit approver line of sight into makeup of aggregate exposure and should be enhanced.

DATE INCIDENT REPORTED 04/01/2008		INVESTIGATOR Marilyn Harris	CFI REGIONAL MANAGER Gary Zavadil
SUSPECT [REDACTED]		LOSS TYPE Mortgage Loan	F/C OR DEPARTMENT Westlake Village Home Loan Center
EXPOSURE \$14,295,200.00	LOSS [REDACTED]	CASE NUMBER 2008003334	LOCATION (City and State) Westlake Village, CA
DATE SIN COMPLETED 05/12/2008		REGIONAL MANAGER Don Hagan	DIVISION EXECUTIVE John Stewart
CASE INFORMATION			
PRODUCT / BUSINESS LINE MORTGAGE		WERE HOLDS PLACED? N/A	INTERNAL INVOLVEMENT SUSPECTED? YES

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Summary:

Risk Mitigation referred to Corporate Fraud Investigations twelve early payment default (EPD) home loans and one first payment default (FPD) home loan with a total exposure of \$14.3MM that all originated in the Westlake Village Home Loan Center with either Loan Consultant [REDACTED] or Loan Consultant [REDACTED]. The dates of the loan originations are from February to December 2007.

- Many of the loans had several fraud findings such as fabricated asset statements, altered statements, income misrepresentation and one altered statement that is believed to have been used in two separate loans.
- At month-end the team manager at the Loan Fulfillment Center (LFC) in Irwindale assigned exclusively to the Westlake loans would instruct his closers to fund loans prior to conditions being met with the understanding the Sales Associates would get them the docs within 48 hours so the file could be sent keeping in compliance.
- One Sales Associate admitted that during that crunch time some of the Associates would “manufacture” asset statements from previous loan docs and submit them to the LFC. She said the pressure was tremendous from the LFC to get them the docs since the loan had already funded and pressure from the Loan Consultants to get the loans funded.
- All the Sales Associates stated that [REDACTED] and [REDACTED] did not instruct them to falsify documentation and just told them to get the loans funded with whatever it took. It is not clear that [REDACTED] and [REDACTED] were aware of the cut and paste jobs on the bank statements.
- The LFC Team Manager’s employment was terminated as was that of the Sales Associate that confessed to altering bank statements. It was decided to allow the remaining HLC and LFC employees to leave with the closing of their functions.
- An additional \$10MM loan was added to the 12 loans originally referred as Early Payment Defaults where the property is in Florida and the bank statements were altered. This brought the total exposure to \$24.3 MM.

Describe Identified Control Breakdowns (Policy, Procedures, Etc):

SIN report should be completed within five (5) business days after Investigator becomes involved in the incident. An update will be provided upon the completion of the investigation or earlier if significant findings need to be communicated.

- The Home Loan Center (HLC) process allows the Loan Consultants to assign the tasks of originating the loans and acquiring documents to several Sales Associates that are paid a percentage of all the loans funded for each month.
- Underwriting does not verify asset statements. The Processors verify the bank statements by just making sure the name on the statement matches that of the borrower and the balance reflects what was stated on the loan application.
- The Processors are incented based on the number of loans they fund each month where the Underwriters are incented on the number of loans they see each day and not the number funded.
- All loans out of the Westlake HLC are under the name of [REDACTED] when he may not be the originator. Need to assign responsibility for the loans and place under the name of the originating Loan Consultant. A Sales Associate does not follow a loan through from start to finish. At month-end they work on any loan in the pipeline and no one Associate is responsible.

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations



WaMu[®]

— = Redacted by the Permanent
Subcommittee on Investigations

Do not duplicate or disseminate unless the recipient has a need to know.

INTERNAL INVESTIGATIVE REPORT

CONFIDENTIAL

Date: May 27, 2008

To: File

From: Marilyn Harris
Corporate Fraud Investigations

Reference: Westlake Home Loan Center, No. 2120
Irvine Loan Fulfillment Center – Westlake Team
[REDACTED], Loan Consultant
[REDACTED], Loan Consultant
E [REDACTED] T [REDACTED], LFC Team Manager
T [REDACTED] A [REDACTED] Sales Associate
Case #2008003334

Summary of Investigation

Our investigation began on April 1, 2008 following notification by Risk Mitigation regarding 12 Early Payment Default loans that were originated out of the Westlake Home Loan Center by the team of [REDACTED] and [REDACTED], Loan Consultants. The loans had an exposure of \$24.3MM. The dates of the originations were between February and December 2007. Risk Mitigation’s review of the 12 loans discovered falsified asset statements, income misrepresentation and altered bank statements. The same asset statement would be used in loans for two separate borrowers with the name and address cut and pasted from the true account holder’s documents.

Results of Investigation

- During the time frame in question [REDACTED] and [REDACTED] had a team of 14 Sales Associates that handled the loan throughout the process. The Associates were in contact with the customers, with the underwriters and processors at the Loan Fulfillment Center. They were the ones getting the conditioned documents to complete the loan package for funding. They also received a monetary incentive for the total dollar amount of loans funded each month that was equivalent to approximately 30% of their salary.

Permanent Subcommittee on Investigations
EXHIBIT #31

- The Irwindale Loan Fulfillment Center closed at the end of 2007 and the remaining employees were transferred to Irvine. There was a special team of Processors, Underwriters and Closers that handled the [REDACTED] loans. That team was headed by Manager E [REDACTED] T [REDACTED]
- In an interview on April 21, 2008 T [REDACTED] admitted he told his closers to fund loans at the end of the month without the conditions stating the Sales Associates promised to get the conditioned documents to the LFC prior to the 48-hour deadline for shipping off the file. He, too, received compensation for the total number of loans funded.
- One Sales Associate, T [REDACTED] A [REDACTED] in an interview on April 24, 2008 stated there was tremendous pressure from the Loan Consultants and from the LFC Team Manager to get the asset documents to the LFC because the loan was already funded. She said it was too late to call the borrower, so the Sales Associates would take statements from other files and cut and paste the current borrower's name and address.
- A [REDACTED] stated that [REDACTED] and [REDACTED] were not aware of the shortcut procedures by the Associates and just told them to get the loans funded, no matter what that took. She said the borrower was unaware of this practice.

Conclusion and Recommendations

E [REDACTED] T [REDACTED]'s employment was terminated for the violation of the Code of Conduct. T [REDACTED] A [REDACTED]'s employment was terminated for the falsification of bank records. The remaining Sales Associates, because no confessions were obtained, were just let go due to the elimination of their positions. [REDACTED] [REDACTED] and [REDACTED]'s last day was on April 30, 2008 as their positions were also eliminated in the Bank's reorganization.

CC: Steve Stein
Glenn Dekow
Don Hagan
Donna Krall
Mike Provencio
Carol Walker

From: Cathcart, Ron
Sent: Tuesday, December 18, 2007 10:09 AM
To: Melby, Randy <randy.melby@wamu.net>
Subject: Re: Employee HELOC Fraud

Yes pls.

----- Original Message -----

From: Melby, Randy
To: Cathcart, Ron
Cc: Thoreson- Rogers, June C.; Snyder, Michele P.
Sent: Tue Dec 18 06:59:47 2007
Subject: RE: Employee HELOC Fraud

Ron,

You had originally asked to be informed of frauds over \$5mm. Do you now want to see everything over \$1mm? We are revamping our overall reporting process and will ensure that you are copied on all large fraud cases.

Randy

-----Original Message-----

From: Cathcart, Ron
Sent: Tuesday, December 18, 2007 6:51 AM
To: Melby, Randy
Subject: Re: Employee HELOC Fraud

I had asked that I be advised of frauds over \$1m. This is not happening.

----- Original Message -----

From: Melby, Randy
To: Cathcart, Ron
Cc: Thoreson- Rogers, June C.; Snyder, Michele P.
Sent: Tue Dec 18 06:00:16 2007
Subject: FW: Employee HELOC Fraud

Ron,

We are seeing an increase in HELOC frauds and some large cases in HL. Since we only investigate what is reported to us, we will need to work with Cheryl and her team to help with this trending. We will try and have a report prepared by early to mid January given the upcoming Holidays and the amount of manual trending that needs to be done.

Randy

-----Original Message-----

From: Cathcart, Ron
Sent: Wednesday, November 21, 2007 11:40 AM
To: Melby, Randy
Cc: Feltgen, Cheryl A.
Subject: FW: Employee HELOC Fraud

Are we seeing an escalation of fraud in Home Loans. Pls provide a report showing trends.

-----Original Message-----

From: Melby, Randy
Sent: Wednesday, November 21, 2007 11:33 AM
To: Cathcart, Ron
Subject: Re: Employee HELOC Fraud

This was an fyi only to let you know that we are working a potential HELOC fraud where the

Permanent Subcommittee on Investigations

EXHIBIT #32a

loss could exceed \$3mm.

Randy Melby
206-500-4131 (w)
206- [REDACTED] (c)

----- Original Message -----

From: Cathcart, Ron
To: Melby, Randy
Sent: Wed Nov 21 11:29:46 2007
Subject: RE: Employee HELOC Fraud
I cannot read between the lines.

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

From: Melby, Randy
Sent: Wednesday, November 21, 2007 7:39 AM
To: Thoreson- Rogers, June C.
Cc: Snyer, Michele P.; Dahl-Amundson, Debbie D.; Cathcart, Ron
Subject: RE: Employee HELOC Fraud

June,
I realize that this is an ongoing investigation; however, please set up some time with Debbie and me next week to discuss the scope of the investigation and what we are finding to date. Based on the information below, on what grounds was J [REDACTED] M [REDACTED] terminated? Was HR and ER involved in the termination process?

Randy Melby
Audit Services
206-500-4131 (direct)
206- [REDACTED] (cell)

CONFIDENTIALITY NOTICE: This electronic mail transmission may contain legally privileged, confidential information belonging to the sender. The information is intended only for the use of the individual or entity named above. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or taking any action based on the contents of this electronic mail is strictly prohibited. If you have received this electronic mail in error, please contact sender and delete all copies.

From: Thoreson- Rogers, June C.
Sent: Tuesday, November 13, 2007 6:54 AM
To: Melby, Randy
Cc: Snyer, Michele P.; Dahl-Amundson, Debbie D.
Subject: FW: Employee HELOC Fraud
Importance: High

FYI on a substantial HELOC fraud we began working on last week. This could get some attention since the losses will be in the millions. Gary and his team are working with employees in the HELOC area to track down all loans originated by the suspects involved, and determine if any are legitimate. I will keep you updated on the findings as they develop.
June Thoreson-Rogers
Division Manager
Corporate Fraud Investigations
206-377-4556

From: Zavadil, Gary J.

Sent: Sunday, November 11, 2007 3:29 PM

To: Lansdon, Marcia L.

Cc: Campbell, Christine A.; Garcia, Maria L.; Thoreson- Rogers, June C.

Subject: Employee HELOC Fraud

Background

Recently Wamu received a forgery claim from a customer stating that a fraudulent HELOC for \$250,000 was opened in their name and unauthorized advances were conducted.

* The HELOC loan was originated at the Encino branch #1579.

* The HELOC loan file could not be located.

* The HELOC advances were conducted at the Encino branch #1579 and the funds placed in a newly opened checking account.

Investigation

Los Felix:#1599

* Our investigation determined that all of the withdrawals from the checking account were conducted by Sr. PFR "E [REDACTED] R [REDACTED]" at the Los Felix branch #1599.

* Mr. R [REDACTED] would go to different tellers stations and process the withdrawals himself, no customer was present.

* Three additional HELOC suspicious HELOC loans fitting the same pattern were identified.

* All of the loans were originated at the Encino branch by LPFR "A [REDACTED] O [REDACTED]" and approved/closed by the FCM "J [REDACTED] M [REDACTED]"

* Mr. R [REDACTED] was interviewed on 11/07/07 and stated that he was doing the withdrawals per the request of a person named "rosie" who would send him a text message with the loan number, the Wamu account number and instructions on how is distribute the money to various parties.

* Mr. R [REDACTED] claimed that he also opened some HELOC's and checking accounts at "rosie's" request over the last 6 months.

* Mr. R [REDACTED] indicate that he did not know the employees at the Encino branch that originated / closed the loans.

* Mr. R [REDACTED] claimed that he never actually met "rosie" however he did receive \$500 for the activity, his employment was terminated.

Encino: #1579

* LPFR, A [REDACTED] O [REDACTED] was interviewed on 11/08/07 and stated that his Manager "J [REDACTED] M [REDACTED]" introduced him to a "T [REDACTED] A [REDACTED]" who supposedly works for Wells Fargo and the loans were for people that did not qualify at Wells Fargo.

* Borrowers would call him on the phone and provide him with their information for a HELOC loan and he would process the loan.

* Mr. O [REDACTED] stated that he would meet the borrowers only at the time of loan closing in the branch. The borrowers would come to the branch with their own notary.

* Most of the HELOC's were for property outside of the branch area.

* Mr. O [REDACTED] claimed that he received no outside compensation for processing the HELOC's.

* Approx. 30 HELOC's originated at the Encino branch were identified by Mr. O [REDACTED] as having been referrals from T [REDACTED] A [REDACTED].

* Mr. O [REDACTED] stated that after the loans closed /funded he would give the file to FCM, "J [REDACTED] M [REDACTED]"

* Mr. O [REDACTED]'s employment was suspended, pending termination.

* FCM, J [REDACTED] M [REDACTED] was interviewed on, 11/08/07 and stated that he was not aware of any of the fraudulent activity, his employment was terminated.

A total of 75 suspect HELOC loans have been identified (approved & in pipeline) and are being reviewed with a current outstanding balance of \$3,318,101.

Gary Zavadil

Sr. Manager
Corporate Fraud Investigations
Washington Mutual Bank
626.291.5829 direct - 818- [REDACTED] cell
gary.zavadil@wamu.net

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

This communication may contain privileged or other confidential information. If you have received it in error, please advise the sender by reply email and immediately delete the message and any attachments without copying or disclosing the contents. Thank you.

DATE INCIDENT REPORTED 05/01/2008		INVESTIGATOR Wakefield	CFI REGIONAL MANAGER Bill Donnellan
SUSPECT Q [REDACTED] L [REDACTED]		LOSS TYPE HELOC Fraud	F/C OR DEPARTMENT Sunnyvale HLC #769
EXPOSURE \$8,538,600.00	LOSS	CASE NUMBER 2007004428	LOCATION (City and State) Sunnyvale, CA
DATE SIN COMPLETED 05/15/08		REGIONAL MANAGER John M. Fisher	DIVISION EXECUTIVE John W. Stewart
CASE INFORMATION			
PRODUCT / BUSINESS LINE HOME EQUITY		WERE HOLDS PLACED? N/A	INTERNAL INVOLVEMENT SUSPECTED? YES

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Summary:

On 05/1/2008 CFI was referred information from Risk Mitigation related to suspect HELOC loans originated at the Sunnyvale HLC by Loan Originator (LO) Q [REDACTED] L [REDACTED]. Risk Mitigation was contacted by Sr. Loan Coordinator Sean Gaskin when he noted similarities in loan applications from this originator. Loans in Lam's pipeline and two recently funded loans were reviewed. Risk Mitigation's review indicated that on each application the borrower stated they owned the property free and clear. The loans also contained a comment from the originator that only he could contact the borrower. Q [REDACTED] L [REDACTED] was part of the recent reduction in force. His last day employed was 04/30/2008.

- Risk Mitigation reviewed 25 HELOC loans originated between 2/6/08 and 4/19/08 by Lam with a total exposure of \$8,538,600.00. The review found that the borrowers indicated they owned the property free and clear when in fact existing liens were noted on the properties. The properties are located in California, Arizona and Washington.
- As of 5/15/2008 22 of the 25 loan applications have been terminated or declined. Two (2) of the applications were terminated by Lam when he was informed the files were sent to Risk Mitigation for review. One (1) application is pending further underwriting review and two (2) loans funded.
- Two loans were funded resulting in an loss potential of \$500,000.00

Borrower [REDACTED] Ln# 792730699 obtained a \$250,000 HELOC on property in CA valued at \$440,000.00. Two existing liens were located totaling \$555,116.00 placing WaMu in 3rd position.

Borrower [REDACTED] Ln# 792777625 obtained a \$250,000 HELOC on property in AZ valued at \$644,000.00. Existing liens were located totaling \$599,760.00 placing WaMu in 3rd position with liens exceeding 100% of value.

- Both [REDACTED] and [REDACTED] issued checks to R [REDACTED] T [REDACTED] V [REDACTED] from the proceeds of their loans. R [REDACTED] V [REDACTED] has four (4) 1st Mortgage loans and two (2) HELOC's with WaMu with a total outstanding debt \$1,350,190.00. Three (3) of these loans were originated by L [REDACTED]. Risk Mitigation is beginning a review of the 7 loans held by V [REDACTED]. All loans are currently performing.

Describe Identified Control Breakdowns (Policy, Procedures, Etc):

WaMu used vendor Servicelink to obtain Abbreviated Title reports. These documents do not provide existing lien information on the subject property. On both funded loans when the originator was asked to verify debt on the borrowers credit report the originator indicated the debt was not linked to the subject properties. The loans were ultimately approved and funded.

Update:

SIN report should be completed within five (5) business days after Investigator becomes involved in the incident. An update will be provided upon the completion of the investigation or earlier if significant findings need to be communicated.

RADIAN

Washington Mutual Bank
 Group # 00918
 12th Delegated Lender Underwriting Review
 Review Period: April 1, 2006 through June 30, 2007
 Review Conducted: August 13, 2007 – September 28, 2007
 Exit Meeting Conducted: February 7, 2008
 Updated Exit Meeting Conducted: TBD

Reason for Selection	Loans Requested	Loans Deleted	Loans Deferred	Good Risk	High Risk	Compliance Ineligible	Misrep Ineligible	Total Reviewed
Random	138	4	1	119	0	11	3	133
Delinquent -EPD	13	2	1	4	0	1	5	10
	151	6	2	123	0	12	8	143

DLUR Objective:

- The objective of the review is to determine lender compliance with Radian’s underwriting guidelines and eligible loan criteria, to assess the quality of the lender’s underwriting decisions, to rate the risk of the individual loans insured, and to identify errors in the loan data transmitted to Radian. The review will help to ensure that risks that effect the quality of Radian’s portfolio of insured loans are identified and communicated so that informed decisions about mitigation, corrective action, and/or pricing can be made.

DLUR Possible Ratings and Scores:

- Possible file ratings are “Good”, “High Risk”, “Compliance Ineligible”, and “Misrepresentation Ineligible”. Only the randomly selected loans file ratings are included when scoring a review. The randomly selected loans are the best indicator of the average risk profile of loans accepted in our delegated relationship with the lender. A score of 85 or higher is rated “Good”, 70 – 84 is rated “Fair”, and a score of 69 or below is rated “Unacceptable”.

Permanent Subcommittee on Investigations
EXHIBIT #33

RADIAN

DLUR Scope:

- A total of 151 loan files were requested for review – 138 in the Random selection and 13 in the Delinquent (EPD) selection. Six (6) of the loans were deleted from the review due to the fact the MI Certificates were canceled. Two (2) of the loans files were unavailable for review and have been deferred at this time but Radian reserves the right to review a complete copy of a deferred loan file if the loan should go to claim.
- All Random loans were from business generated from 04/01/06 through 06/30/07.
- An EPD for this review is defined as a loan that becomes 90+ days delinquent within the first 12 months of origination. It should be noted that 20 (15%) of the loans reviewed in the Random Selection were also reported as an EPD.
- The review was completed in two parts – some of the original loan files were available for review and were reviewed on-site at the Jacksonville, FL office of Washington Mutual and the remaining imaged loan files were reviewed from Washington Mutual's internet portal.

Random Results:

- A total of 133 loans were reviewed in the Random selection – 119 of the loans were rated “Good”, 11 loans were rated “Compliance/Ineligible” and three (3) were rated “Misrep/Ineligible”. This results in an overall “Unacceptable” rating with a score of 68.
- The primary reasons for the “Compliance/Ineligible” ratings are insufficient documents to support the income used to qualify the borrower and exceptions to approved guidelines. A complete write-up for each “Compliance/Ineligible” rated loan is attached as Exhibit “A”.
- The primary reasons for the “Misrep/Ineligible” ratings are property value concerns and questionable income documented used to qualify the borrower. A complete write-up for each “Misrep/Ineligible” rated loan is attached as Exhibit “B”.

RADIAN

Early Payment Defaults (EPD) Results:

- Ten (10) Delinquent (EPD) loan files were reviewed - four (4) of the loans were determined to be an acceptable risk at the time of origination and were rated “Good”, one (1) of the loans was rated “Compliance/Ineligible” and five (5) of the loans were rated “Misrep/Ineligible”.
- The primary reason for the “Compliance/Ineligible” rating was excessive seller contributions. A complete write-up for the loan is attached as Exhibit “C”.
- The primary reasons for the “Misrep/ineligible” ratings were questionable property values, occupancy and possible strawbuyers. A complete write-up for each loan is attached as Exhibit “D”.

It should be noted that 17 of the 20 loans rated less than “Good” were originated by mortgage brokers – only three (3) of the loans rated less than “Good” were retail originations.

Data Issues:

- After the review was complete the data from the loan files was checked against Radian system data for any discrepancies that would affect pricing on the loan. All data discrepancies are addressed on Exhibit E-1 through E-4. The breakdown is as follows:
 - E-1 – Possible Pricing Issues – 43 loans reported – 38 loans require additional premium differential and five (5) loans are due a refund to the current servicer – in addition to the pricing issues shown on Exhibit E-1 general data issues are also addressed on the 45 loans reported.
 - ✓ 15 A Minus loans were priced as Prime
 - ✓ 18 Alt-A loans were priced as Prime
 - ✓ Four (4) loans were not reported as Neg Am
 - ✓ One (1) loan was reporting an incorrect LTV due to incorrect sales price
 - ✓ One (1) loan was reported as a purchase when it was a Cash-Out Refinance
 - ✓ One (1) loan was reported as a Neg Am when it was not
 - ✓ One (1) Prime loans was priced as an A Minus
 - ✓ One (1) A Minus loan was priced as an Alt-A

RADIAN

- ✓ Two (2) Prime loans were priced as Alt-A

- E-2 – General Data Issues – 32 loans reported with one or more data issues
 - ✓ Nine (9) loans reported an incorrect or incomplete property address
 - ✓ Eight (8) loans did not report I/O or I/O term
 - ✓ Seven (7) loans reported an incorrect appraised value
 - ✓ Six (6) loans reported the borrower's name incorrectly
 - ✓ Two (2) loans reported and incorrect sales price
 - ✓ Two (2) loans reported an incorrect loan type
 - ✓ Two (2) loans reported the incorrect number of property units
 - ✓ Two (2) loans reported the incorrect total income
 - ✓ One (1) loan reported an incorrect loan term

- E-3 – Originator Name – 17 loans report
 - ✓ The loan originator was not reported correctly on 17 loans submitted through MI OnLine

- E-4 – PITI variance of 20% or > - 36 loans reported
 - ✓ The actual PITI for 28 of the loans was 20% or > than the PITI submitted
 - ✓ On eight (8) of the loans the actual PITI was 20% or > less than the PITI submitted

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3017774500
Cert ID: 99672508
Borrower: [REDACTED]
Property Address: [REDACTED]
Houston, TX 77076
Originated By: Parklane Mortgage Group
Loan Officer: [REDACTED]
Submitted By: Washington Mutual Bank FA (49461-482)
Insured: Washington Mutual Bank FA (49461-482)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible - 100% LTV, Purchase, Primary, 30-Year Fixed Rate, Flex 100, DU EA-I, Full Doc, Detached Single Family, Loan Amount \$98,000, Closed 6/1/07, FICO Score 609, Borrower Paid MI

Compliance/Ineligible rated due to borrower's employment, income and source of gift funds are not sufficiently documented. Based on the gift letter and Verification of Employment the borrower is employed by her mother ([REDACTED]). The verbal verification of employment was from a [REDACTED] – same last name as borrower's mother. Complete copies of the borrower's 2005 and 2006 tax returns, W2s and year-to-date pay history are needed to support the income used to qualify.

The gift letter for \$9,000 states the funds were paid in the form of cash – satisfactory evidence that the mother had the funds to give and satisfactory evidence that borrower received the funds is needed to support the gift funds. (A bank statement, which is shown as a business account was in the file but the statement does not identify the owner of the account – the statement shows several large deposits from Medicare.)

Note – WaMu agrees with write-up.

— = Redacted by the Permanent Subcommittee on Investigations

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3063151850
Cert ID: 99620129
Borrower: [REDACTED]
Property Address: [REDACTED]
Downington, PA 19335
Originated By: WaMu – Bethel Park, PA
Loan Officer: [REDACTED]
Submitted By: Washington Mutual Bank FA (49461-388)
Insured: Washington Mutual Bank FA (49461-388)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible - 100% LTV, Purchase, Primary, Flex 100, DU Approve/Eligible, Full Doc, Detached Single Family, 30-Year Fixed Rate, Loan Amount \$330,000, Closed 3/2/07, FICO Scores 652/701, Borrower Paid MI

Compliance/Ineligible rated due to borrower's income used to qualify is not supported. Based on the verbal verification of employment it appears the borrower is employed by a family member, which was not addressed in the file. Based on the 1003 the borrower has been employed at Keystone Printing for 10 years – verbal VOE was provided by [REDACTED] President of Keystone Printing. The borrower's pay-stub for the period ending 1/17/07 shows salary of \$975, which would be a monthly income of \$2,112.50. The 2006 W2 shows a monthly income of \$4,231. There is a letter in the file from the employer stating the borrower receives a car allowance of \$1,095 per month. Borrower is in sales – complete copies of 2005 and 2006 tax returns are needed to support the borrower's actual income less any non-reimbursed business expenses.

Note – WaMu agrees with write-up.

[REDACTED]
= Redacted by the Permanent Subcommittee on Investigations

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3013666304
Cert ID: 99670022
Borrower: [REDACTED]
Property Address: [REDACTED]
Phoenix, AZ 85209
Originated By: State Financial Services
Loan Officer: [REDACTED]
Submitted By: Washington Mutual Bank FA (49461-482)
Insured: Washington Mutual Bank FA (49461-482)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible - 85% LTV, Investment, Cash-Out Refinance, 12-Month Option ARM with Potential Neg AM, SIVA Loan Program, Detached Single Family, Loan Amount \$187,000, Closed 5/16/07, FICO Score 723, Borrower Paid MI

Compliance/Ineligible rated due to Investor SIVA Cash-Out Refinance not allowed on an Option ARM. Loan was priced as Prime not Alt-A with Neg Am ARM – loan is not eligible for Radian MI.

Note - Rating of "Compliance/Ineligible" will remain - Radian's commitment letter dated 12/20/06 excludes Alt-A investor loans.

[REDACTED]
= Redacted by the Permanent
Subcommittee on Investigations

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3013170000
Cert ID: 99597218
Borrower: [REDACTED]
Property Address: [REDACTED]
Hesperia, CA 92345
Originated By: Net Financial
Loan Officer: [REDACTED]
Submitted By: Washington Mutual Bank FA (49461-221)
Insured: Washington Mutual Bank FA (49461-221)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible - 85% LTV, Investment, Cash-Out Refinance, 7/1 ARM, SIVA Loan Program, Detached Single Family, Loan Amount \$484500, Closed 1/16/07, FICO Score 689, Borrower Paid MI

Compliance/Ineligible rated due to Cash-Out Refinance to investors has not been approved by Radian for a SIVA Loan Program.

Additional concerns are the appraised value of \$575,000 – audit manager obtained an InterThinX ValVerify report, which gave a most probable value of \$321,000 with a confidence score of 72. Borrower’s stated monthly income of \$34,000 does not appear reasonable for a “Sign Designer” – the underwriting approval states “income does not pass reasonable test”.

It should be noted that the appraiser stated the subject had recently been listed for sale. Borrower stated that he built the subject to sell but due to declining market he has decided to keep it. The file did not contain a final HUD-1; however, the estimated HUD-1 shows the borrower received \$203,500 at closing.

Note - Rating of "Compliance/Ineligible" will remain – Radian’s General Terms and Conditions Lender Specific Agreements dated 1/1/06 does not allow an Investor Cash-Out Refinance under a SIVA loan program.

Redacted by the Permanent Subcommittee on Investigations

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3017725551
Cert ID: 99687169
Borrower: [REDACTED]
Property Address: [REDACTED]
Los Angeles, CA 90044
Originated By: WaMu – Downey, CA
Loan Officer: Fragoso, Luis
Submitted By: Washington Mutual Bank FA (49461-080)
Insured: Washington Mutual Bank FA (49461-080)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible – **First Payment Default** – closed 6/12/07 with first payment due 8/1/07 – no payments have been made - 97% LTV, Purchase, Primary, First Time Homebuyer, Affordable 97 Community Loan Program, 30-Year Fixed Rate, Detached Single Family, Loan Amount \$417,000, FICO Score 000, Borrower Paid MI

Compliance/Ineligible rated due to file does not contain satisfactory evidence of an acceptable non-traditional credit history. The only non-traditional credit was from a home furniture store, JS Insurance and a prior auto loan - no rental history or credit reference from a utility company were provided. The 1003 does show the borrower pays \$1,750 in rent.

Note – WaMu cleared the prior income issue but did not clear the insufficient non-traditional credit issue.

[REDACTED]
= Redacted by the Permanent
Subcommittee on Investigations

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3011493412
Cert ID: 99569574
Borrower: [REDACTED]
Property Address: [REDACTED]
Norwalk, CT 06854
Originated By: WaMu – Bethel Park, PA
Loan Officer: [REDACTED]
Submitted By: Washington Mutual Bank FA (49461-388)
Insured: Washington Mutual Bank FA (49461-388)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible - 86% LTV, Purchase, Primary, DU EA-II, Full Doc, 30-Year Fixed Rate, First Time Homebuyer, Condo, Loan Amount \$199,700, Closed 11/15/06, FICO Score 650, Borrower Paid MI

Compliance/Ineligible rated due to verification of assets needed to close this transaction was not verified in the loan file. The borrower needed \$38,970 to close the transaction and less than \$9,000 was verified in the loan file.

Note – WaMu agrees with write-up – is attempting to obtain asset docs

[REDACTED]
= Redacted by the Permanent
Subcommittee on Investigations

Exhibit A – Random – Compliance/Ineligible

Loan Number: 3013282201
Cert ID: 99612732
Borrower: [REDACTED]
Property Address: [REDACTED]
Battletown, KY 40104
Originated By: Century Mortgage Co.
Loan Officer: [REDACTED]
Submitted By: Washington Mutual Bank FA (49461-192)
Insured: Washington Mutual Bank FA (49461-192)
Servicer: Washington Mutual Bank FA (49461-359)

Overall rated Compliance/Ineligible – **EPD** – closed 2/7/07 with first payment due 4/01/07 now due for 12/1/07 but loan has been in default since the 8/1/07 payment – reason for default is shown as excessive obligations and curtailment of income - 100% LTV, Purchase, Primary, DU EA-II, Full Doc, First Time Homebuyer, Detached Single Family, Loan Amount \$47,000, FICO Score 549, Borrower Paid MI

Compliance/Ineligible rated due to the income of \$1,022 per month used to qualify is not supported. Based on the 2006 W2 and the year-to-date pay-stub the income is not supported. In addition, the borrower needed \$1,114 to close, per the attachment to the Verification of Deposit the borrower's average funds available were \$10.22 with \$1,360 currently available - source of the increased funds was not addressed.

Note – WaMu agrees with write-up.

[REDACTED]
= Redacted by the Permanent
Subcommittee on Investigations



Corporate Credit Review

2008 Home Loans Risk Mitigation and Mortgage Fraud

2008 Targeted Review

September 8, 2008

Reviewer In Charge: Rose Marie Popovich
Submitted By: James Tiegen

Distribution

Tom Casey – Chief Financial Officer
Debbie Dahl-Amundson – Division Manager, Audit/CCR
Alan Fishman – Chief Executive Officer
Chris Johnson – Senior Manager Risk Mitigation
John McMurray – Chief Enterprise Risk Officer/Acting Chief Credit Officer

Randy Melby – General Auditor
Steven Rotella – President
David Schneider – President Home Loans
Maynard Wagner – Sr. Mgr, Operational Risk
Don White – Chief Risk Officer, Home Loans
Mike Zarro – Senior Vice President, Home Loans Operations Strategy

Permanent Subcommittee on Investigations

EXHIBIT #34

EXECUTIVE SUMMARY

Credit Risk Management: Rating – Requires Improvement - The overall system of credit risk management activities and processes exhibits weakness and/or has deficiencies related to multiple business activities. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings, if any, are significant.

Corporate Credit Review (CCR) has performed a review of Risk Mitigation and mortgage fraud. The objective of the review was to evaluate specific components of credit risk management and to identify emerging risk issues. Mortgage fraud, as defined by The Office of Federal Housing Enterprise Oversight (OFHEO), means a material misstatement, misrepresentation, or omission relied upon by an Enterprise to fund or purchase or not to fund or purchase a mortgage, including a mortgage associated with a mortgage backed security or similar financial instrument issued or guaranteed by an Enterprise.

Risk Mitigation is responsible for investigating suspicious activity that may occur during the loan origination and fulfillment process by conducting pre-funding and post-funding reviews. The pre-funding reviews have assisted in averting over \$358MM in potential fraud losses through July 2008 (includes first and second liens)¹. In addition to performing investigative work, filing Suspicious Activity Reports and reporting the results, Risk Mitigation is also the subject matter expert and support function for DataVerify. DataVerify is a fraud detection tool utilized within the loan fulfillment process beginning in the fourth quarter of 2007.

The primary review purposes included the assessment and validation of the processes being performed to protect the bank from mortgage fraud through:

- Detection during underwriting
- Investigation of suspected fraud
- Initiatives to raise awareness of mortgage fraud
- Activities to address fraud that has been identified including pursuing consequences for perpetrators and the completion of internal and external reporting
- The dissemination of the investigation results to the appropriate parties to ensure the appropriate action is taken

CCR interviewed Risk Mitigation management, Home Loans management personnel within Operations, Underwriting, Home Equity Strategic Support and Collateral and Salability Management.

¹ HL Risk Management Forum – Risk Analysis and Scorecard – August 2008 Report – p. 3

Five issues, more fully explained on subsequent pages of this report, were identified during this review:

- The controls that are intended to prevent the sale of loans that have been confirmed by Risk Mitigation to contain misrepresentations or fraud are not currently effective. There is not a systematic process to prevent a loan in the Risk Mitigation Inventory and/or confirmed to contain suspicious activity from being sold to an investor. The coding of the user defined "Risk Mit" field in Fidelity does not directly affect the salability of the loans. A review was completed of a sample of 25 loans closed in 2008 with the appropriate coding in the "Risk Mit" field in Fidelity. Of the 25 loans tested, 11 reflected a sale date after the completion of the investigation which confirmed fraud. There is evidence that this control weakness has existed for some time. As of the report issuance date, Risk Mitigation has advised CCR the action steps have taken place to resolve this issue.
- There are inconsistencies in the coding of loans in Fidelity by Risk Mitigation. A weakness was identified in the manual control process that is intended to ensure the "Risk Mit" field in Fidelity is coded correctly. This includes both at the initial referral and at the conclusion of the investigation. Incorrect coding does not allow for the internal communication of the investigation status and results. Without this control point the bank is not able to properly identify, investigate and complete internal and external reporting. It also limits the bank's ability to raise awareness of mortgage fraud and pursue consequences for perpetrators. As of the report issuance date, Risk Mitigation has advised CCR the action steps have taken place to resolve this issue.
- Risk Mitigation's process to communicate to Home Equity Strategic Support their findings of confirmed fraud and/or misrepresentations found in HELOCs is not comprehensive as it is very manual and excludes some types of relevant findings. Risk Mitigation is interpreting their own findings at the loan level and rendering a judgment regarding whether or not the HELOC should be suspended from further draws. The criteria that they are using is based on direction that they received from the Legal Department to only refer for line suspension or blockage those accounts that have a confirmed misrepresentation of collateral. However, this selective communication does not give Home Equity Strategic Support the data in order to monitor the type of misrepresentation that is occurring and to assess what strategies should be deployed to manage the risks associated with lines that were approved based on fraudulent information. As of the report issuance date, Risk Mitigation has advised CCR the action steps have taken place to resolve this issue.
- Based on the current process flow, the resources allocated to HL Risk Mitigation are not sufficient to provide coverage for the workload to be completed timely. Risk Mitigation Management prioritizes the work by load balancing between their teams daily. Even with this attention to pipeline management, they are not able to provide the coverage needed to address the growing number of demands for investigative work. At the time of the review the "Regular Path" team had a pipeline of 716 loans dating back as far as January. Resources used to file SAR's from referral sources in Home Loans are not independently investigating the loans. The capacity issue has also limited the number of Early Payment Default reviews and targeted reviews that can be completed.

- There is a lack of training in Home Loans focused on fraud awareness and prevention. This issue was identified based on the review of current training material and feedback from business partners within Home Loans Operations and Underwriting. The recently updated training requirements for the Bank Loan Consultants, Call Center, and Personal Financial Representative who originate Home Equity products in the Financial Center does not include Suspicious Activity or fraud awareness training. The current training is focused on product knowledge and sales. In addition there is no in-depth training available on DataVerify.

CCR would like to acknowledge the Risk Mitigation management team for their level of cooperation and responsiveness to the issues. Risk Mitigation recognized the significance of the review issues and took immediate action. As of the report issuance date, Risk Mitigation has advised CCR that the action plans for the first three issues have been implemented.

Background:

Fraud losses for Home Loans Prime and Subprime as of July 2008 are \$121.2MM². While an established 2008 loss plan for Prime and Subprime fraud in Home Loans does not exist³, this does represent a year over year increase of \$80.5MM⁴. Residential Prime year to date losses are \$68.2MM and Residential Subprime are \$53.0MM⁵. Misrepresentation and Appraisal / Collateral fraud are the main contributors to the fraud losses for both Prime and Subprime. Loans originated in 2007 account for 45% of the 2008 Prime fraud losses while the 2006 vintage represents 63% of the 2008 fraud losses for Subprime⁶. This coincides with the strong reliance on low documentation and stated income transactions in 2006 and 2007 as well as inefficient tools to aid in the identification of red flags in the origination process.

Home Equity fraud experienced the largest increase from \$8.2MM in June 2007 to \$52.2MM in June 2008⁷. It should be noted that 54% of Home Equity fraud losses are attributed to line re-advancement fraud and account takeover fraud⁸. This type of fraud is the result of operational deficiencies within the servicing of HELOCs that have been exploited. Since the focus of Risk Mitigation is on the detection and prevention of mortgage origination fraud the focus and scope of this review focused on mortgage origination fraud.

Risk Mitigation, located in Jacksonville, Florida, provides mortgage origination fraud support for the Home Loans Division by performing the following functions:

- Pre-funding and post-funding mortgage fraud investigations

² HL Risk Management Forum – Risk Analysis and Scorecard – August 2008 Report- pp. 5-6

³ Enterprise Fraud Review-June 2008 Report-.p. 3

⁴ HL Risk Management Forum – Risk Analysis and Scorecard – August 2008 Report- pp. 5-6

⁵ ibid

⁶ ibid

⁷ Enterprise Fraud Review-June 2008 Report-.p. 9

⁸ ibid

- Communicate investigation results to the referral source
- Notifying both internal and external business partners who have an interest in the transaction
- Filing a Suspicious Activity Report (SAR) on all suspects
- Training on the utilization of DataVerify
- Make recommendations with the origination branch that will help prevent recurrences of fraud
- Fraud prevention training and support

To provide the necessary support for the Home Loans Division, Risk Mitigation segments their department into the following teams:

- **Fast Path** – performs reviews on active loan files prior to funding. These loan files are identified as suspicious by the fulfillment center. The identification of suspicious activity is primarily detected by DataVerify. DataVerify is a fraud detection tool that was implemented into production for Home Loans beginning in 4Q 2007. DataVerify has enhanced the fulfillment operation's ability to detect mortgage fraud. In addition to DataVerify the fulfillment operations staff may detect fraud⁹ through their validation of clearing of conditions such as identifying altered income documents. Once identified, the staff refers the loan to Risk Mitigation via email. Risk Mitigation responds within 48 hours and informs the fulfillment staff if they can proceed. Year-to-date this process has helped to prevent over \$358MM in potential fraud losses⁹.
- **One Touch** – performs reviews on all First Payment Defaults (FPD) and a sample of Early Payment Defaults (EPD). The reviews are completed on a monthly cycle and the results are shared with Home Loans Operations and Underwriting management. . In addition, weekly meetings are held with David Schneider and key members of the Home Loan Executive Team which include Credit Policy, Operations, Channel Management, Underwriting and Appraisal. This control point allows operational and policy decisions to be made and acted upon summarily.
- **Regular Path** - performs post-funding reviews on referrals from sources such as Home Loans Credit Review, Default, Home Loans Operations and Corporate Fraud Investigations. These reviews are prioritized based on service level agreements established with the business units and the urgency of the request.
- **Special Loan Review** is a team that investigates fraud schemes that may involve multiple loans.

In addition to the teams mentioned above Risk Mitigation also has a team dedicated to conduct quality reviews for the analysts within Risk Mitigation. They are also responsible for the filing of SARs for the Home Loans Division.

DataVerify was implemented in a phased approach beginning 4Q 2007 and was fully implemented within all origination channels during 1Q 2008. Risk Mitigation was responsible for the initial training and is also tasked with providing all support, new release communication and additional training for this fraud tool.

⁹ HL Risk Management Forum – Risk Analysis and Scorecard – August 2008 Report p. 3



Washington Mutual

**OPTION ARM FOCUS GROUPS - PHASE II
WAMU OPTION ARM CUSTOMERS**

September 17, 2003

Research report prepared by:
DAVID TEAL
CYNTHIA BAKER

CONFIDENTIAL
For Internal Use Only

strategicmarketresearch
CORPORATE RESEARCH & DEVELOPMENT DIVISION

Permanent Subcommittee on Investigations

EXHIBIT #35

OPTION ARM FOCUS GROUPS - PHASE II
WAMU OPTION ARM CUSTOMERS
September 17, 2003

SECTION 1 INTRODUCTION AND OBJECTIVES 3

SECTION 2 CONCLUSIONS & RECOMMENDATIONS..... 4

SECTION 3 EXECUTIVE SUMMARY OF FINDINGS..... 5

SECTION 3 GENERAL ANALYSIS 7

 REASONS FOR SELECTING AN OPTION ARM..... 7

 "NEED TO KNOW" INFORMATION FOR CHOOSING AN OPTION ARM 7

 SECONDARY LOAN DETAILS – NOT PART OF THE PURCHASE DECISION..... 9

 DRAWBACKS TO THE LOAN..... 11

 SUGGESTIONS FOR IMPROVING THE OPTION ARM 11

 SUGGESTED NAMES FOR THE OPTION ARM 11

**OPTION ARM FOCUS GROUPS - PHASE II
WAMU OPTION ARM CUSTOMERS**

Section 1 Introduction and Objectives

Home Loans & Insurance Services wanted to explore ways to increase sales of Option ARMs, Washington Mutual's most profitable mortgage loan products. To date, Strategic Market Research has completed two phases of this study, with more to follow:

- Phase I of the research involved four focus groups held among Washington Mutual Loan Consultants and external Mortgage Brokers to understand their perceptions of Option ARM sales. The results of Phase I of the research are summarized in a separate report (a video summary of the groups is also available).
- For Phase II of the Option ARM study – which is the focus of this report, Strategic Market Research conducted four focus groups among current Washington Mutual Option ARM customers to better understand how they felt about their loans. The specific purposes of Phase II were to:
 - Determine what makes Option ARMs appealing/unappealing for consumers
 - Understand how Washington Mutual could better position, market, or enhance this product line to increase demand
 - Discover customers' hot buttons for this product line
 - Identify any other issues relevant to the sales and marketing of Option ARM products

The key learnings from Phases I and II will be used to develop concepts and positioning statements to be used in Phase III of this project, which will consist of 8 focus groups to be held among general mortgage borrowers, who may or may not be WaMu customers. The report for Phase III will be available by 9/10.

Methodology

Four focus groups were held August 12th and 13th, 2003. Two groups were held in Schaumburg, IL and two were held in Orange County, CA. There was a total of 31 participants (17 males/14 females), and all groups were moderated by Kevin Jenné from WaMu's Strategic Market Research group. The schedule of groups is shown below.

<u>Date</u>	<u>Participants (# participants)</u>	<u>Place</u>
August 12, 2003	Option ARM customers (8)	Schaumburg, IL
August 12, 2003	Option ARM customers (8)	Schaumburg, IL
August 13, 2003	Option ARM customers (8)	Orange County, CA
August 13, 2003	Option ARM customers (7)	Orange County, CA

Data from qualitative methods such as focus groups are based on small samples, and are descriptive in nature, without attempting to provide a statistical or quantitative assessment of the prevalence of opinions expressed. These data are best used to give a detailed snapshot of *why* people feel the way they do, rather than the *number* of people who feel that way.

- In general, people do not seem to have a good understanding of their mortgage and its terms. What understanding they do have is framed by the context of a 30-year fixed mortgage. Option ARMs are very complicated and need to be explained in simple, easy to understand terms. Prospective borrowers need to be educated about the loan – this is not a product that sells itself.

Providing salespeople with more training and simple sales tools that help illustrate the important points of the Option ARM will make it easier for them to educate prospective borrowers and sell the loan.

- Customers tend to view their Option ARM as a loan of last resort. Whether explicit or implicit, loan consultants and brokers need to move away from positioning these loans as “the only one you can qualify for.”
- Borrowers want peace of mind with respect to their mortgage. Helping prospective borrowers understand payment and interest rate caps may mitigate fears of wild monthly payment swings
 - Similarly, fears about negative amortization, a concept also not very well understood by participants, could be reduced or eliminated by showing how much residential properties in the local market have appreciated over time.
- Many borrowers do not understand that Option ARMs are 30-year mortgages – and names like Flex 3 or Flex 5 do nothing to help foster that understanding. The mindset of Option ARMs as short-term fixed-rate mortgages needs to shift to one of Option ARMs as a long-term financial tool, whose rate will automatically shift downward in falling rate environment and save thousands in refinancing costs over time. Borrowers also do not seem to understand the costs of continually refinancing their existing mortgage to a new 30-year term.
- Self-employed individuals and individuals undergoing a significant life change, such as divorce or retirement, may represent an underserved mortgage niche.
 - For these individuals, low doc and payment flexibility are key selling points
- Having the ability to make payments online may help solidify relationship between the borrower and Washington Mutual

The following summary lists the main findings from the research.

- Few participants fully understood the Option ARM and its key benefits. A number of them were not familiar with the payment options or how they could be used.

Additionally, most did not understand how their interest rate was derived, how often their payments would change, and what, if any, were the interest and/or payment caps.

- Participants generally chose an Option ARM because it was recommended to them by their Loan Consultant or Mortgage Broker, rather than actively having actively sought it out. This finding confirms some of the learning from focus groups and underscores the importance of the loan consultant/broker in the process.
- Perhaps the best selling point for the Option ARM loan was being shown how much lower their monthly payment would be by choosing an Option ARM versus a fixed-rate loan.

The second-most important selling point was payment options. For loan consultants and brokers, discussing payment options is particularly important when speaking with people whose monthly income fluctuates, those who may be less stable financially, or retired people who want to keep their house and need to increase their monthly disposable income. Many participants considered having payment choices a very appealing and important benefit.

Interestingly, those familiar with the payment options liked having the payment flexibility, even though some always made the full principal and interest payment. Individuals whose incomes fluctuated from time to time seemed to be the ones most likely to take advantage of the various payment options.

- Many participants did not know what happened to their loan at the end of the fixed interest rate period. Most of them assumed they would have to sell or refinance because of a potential balloon payment or a steep jump in their payments. Because of these misperceptions, most participants expect to refinance their loans within the next three to five years.
- Despite their lack of understanding about these loans, participants were almost universally happy with their loan choice as the Option ARM gave them lower payments, more cash in their pockets, and helped some of them keep their homes during periods of financial difficulties.
- The lower interest rate, ability to qualify, and length of time they expected to keep the loan were the primary drivers of the participants' Option ARM purchase decision.
- For some, the Option ARM was a loan of last resort – they were unable to qualify for a fixed-rate purchase or refinance mortgage.

- For almost all of the participants, the fixed-rate mortgage is still the mortgage of choice – the “gold standard” so to speak – for people who are going to stay in their homes.
- Low doc was an attractive aspect of the Option ARM product for a few of the participants, especially those who were self-employed.
- Suggested names for the Option ARM: Several suggestions were made, and most contained the word “flexibility.” They felt this word described the loan and its payment options.
- Suggested improvements for the Option ARM: Bi-weekly payments, allowing online payments, and having a skip payment option were all briefly discussed and had moderate appeal.

Reasons for Selecting an Option ARM

Option ARMs can be an appealing mortgage alternative for many different types of people with different life situations. During the groups, participants discussed factors that contributed to their decision to obtain an Option ARM. Listed below are some of the life situations that contributed to participants' choice of an Option ARM:

- First-time homebuyers who planned to be in their home for a short time
- Individuals who were not concerned about paying down their principal
- People with significant life changes such as divorce or unemployment
- Commission-based employees whose income fluctuated from month to month
- Older homeowners who wanted to access some of the equity in their home
- Individuals who couldn't qualify for a fixed-rate loan
- People who were aggressively seeking the best rate and payment, and were willing to refinance often to get them
- Multiple property owners who consolidated two mortgages into one with a lower payment
- People who experienced temporary difficulty in meeting their monthly obligations.

"I could either get this loan or sell the house."

- WAMU Option ARM Customer

When participants initially went to talk to a loan consultant or mortgage broker, most knew little, if anything, about Option ARMs. Most of the participants chose an Option ARM based on a recommendation by a loan consultant or broker, after he/she had reviewed their personal financial situation. One of the keys to selling more Option ARMs seems to be having the loan consultant or broker develop a good understanding of the financial needs and objectives of prospective borrowers to determine the best mortgage fit. The bottom line is that most customers choose an Option ARM because someone has taken the time to understand their personal situation and has determined that the Option ARM is the best choice.

"Need to Know" Information for Choosing an Option ARM

The Option ARM is a complex financial product with many facets. Focusing on the right "need to know" information is critical to developing more Option ARM sales. Participants seemed easily overwhelmed by the product details.

"My broker told me it was the best rate out there and to take it since I wasn't planning to be there that long"

- WAMU Option ARM Customer

The three critical pieces of information borrowers understood about their loan seemed to be:

- (1) It is an adjustable rate mortgage with a fixed interest rate for some period of time and a pre-payment penalty – however, borrowers did not necessarily understand that it is a 30 year loan
- (2) The interest rate and payments are less than those for a fixed-rate mortgage
- (3) These loans don't require lot of paperwork if they choose the low doc option

Many participants mentioned that, if they planned to be in a home for a long time, they would prefer a fixed-rate loan. Perhaps then, the most important question to ask a prospective borrower is "How long do you plan to be in your home?" In many cases, if the answer to this question is less than five years, the Option ARM may be easier to sell than if the answer is more than five years.

"Fixed is the only way to go if you are not planning on refinancing or moving at any time. You want to lock it in and have a great rate."

- WAMU Option ARM Customer

Because of its appeal among self-employed individuals and others whose income is subject to fluctuation, a key follow-up question might be *"Are your income and expenses fairly stable or does they fluctuate from month-to-month?"*

Participants lacked clarity on what happens to their loan after the fixed period ends. After this period, nearly everyone had the perception they would either have to refinance their loan, make a balloon payment, or sell their house. Some participants thought that their interest rate would increase significantly at the end of the fixed period. Others thought the whole loan had to be paid off in five years. In particular, participants who had a Flex 5 considered their loan to be a 5-year fixed-rate loan. Many had no idea they would simply have an ARM after 5 years. Regardless of their perceptions, however, nearly all participants planned to pay off this loan by sometime within the next two to five years – either by selling or refinancing.

"It's really scary to me what's going to happen in 5 years."

- WAMU Option ARM Customer

"Something terrible happens in 3 years."

- WAMU Option ARM Customer

Beyond understanding the loan was good for short-term needs, understanding the rate and payment was very important to these individuals. In particular, understanding how the initial low interest rate afforded by the Option ARM saved them money vis-à-vis those for a fixed-rate loan, was a critical selling point for these loans.

Many participants also seemed to appreciate the flexibility and safety the payment options afforded them. Interestingly, even though they had different payment choices each month, many chose to consistently make the same payment. Some chose to always make the 30 year payment; others added a few hundred dollars to the interest

only payment. Most mentioned that they felt good being able to pay a portion of the principal each month because it seemed to be the right thing to do. The following paragraphs describe how the Option ARM and payment options were explained and sold to some of the participants.

- Among those who planned to be in their home for only a year or two, choosing a Flex 3 or Flex 5 was almost a “no brainer” once it was explained to them, although none of them knew these product names. Most considered these to be short-term fixed-rate loans, and currently the interest rates for these loans are significantly less than 30 year fixed-rate loans.
- People who weren’t planning to pay off their loan liked the interest-only payment option as this was considerably less than the full principal and interest payment for a 30-year fixed-rate loan. This option gave them more cash in their pockets each month and allowed them to pay off bills or use the extra cash for other things. They also liked having the ability to choose to pay some of the principal if they wanted, but it was not required.
- Participants whose monthly income fluctuated or who were not in a stable financial situation liked the payment flexibility. If something catastrophic happened (lost their job, etc.), they could make the minimum or interest only payment and not have to worry about losing their home. They understood that reducing payments when times were tough was not an option with 30-year fixed-rate loans and the penalties for doing so are high.

Participants also stressed the importance of explaining things in easy-to-understand terms. This point was also made by the Mortgage Brokers and Loan Consultants during Phase I of the research.

“Try and make it understandable in layman’s terms”

- WAMU Option ARM Customer

Secondary Loan Details – Not Part of the Purchase Decision

While all participants felt that they understood the rate and payment terms, they were less diligent about understanding some of the other aspects of their Option ARM loan. Some of the specific terms and conditions that these customers had little or no awareness of included rate/payment caps, the index from which their interest rates are derived, and negative amortization.

How much information the mortgage brokers and loan consultants provided to these customers cannot be objectively determined but enough was given so that the borrowers were able to reach an acceptable comfort level for the Option ARM loan. After discussing these topics, many participants seemed to realize how little they really knew about these loans and wanted more education about less the familiar aspects and terms.

“I’m a little nervous about it. I have this feeling of impending doom...it’s almost too good to be true.”

- WAMU Option ARM Customer

Rate/Payment Caps: Many participants knew there was a lifetime interest rate cap on their loan but most could only guess as to how much. Some thought it was around 8% and others thought it was about 12%. Several people mentioned an annual rate cap, but once again, most really didn't know how much this was. Most guessed that it was one or two percent.

Nobody in the groups mentioned annual payment caps. When they were asked directly about this, a few said the payment increase was limited by the amount the rate can go up. No one seemed to understand that the payment cap and the interest rate cap are different. For some consumers, understanding the payment cap may be an important way to mitigate some of the concerns and misperceptions about the periodic adjusts in payments.

In general, the participants seemed relieved to know they were somehow protected from potentially skyrocketing interest rates, even if they weren't sure exactly how high the rates could go, or how their protection worked.

Additionally, most participants did not seem to be aware that their payments were only adjusted annually – not when the interest changed. This lack of awareness about payment changes also indicated that they probably did not know that an increase in interest rates could also result in some negative amortization.

Index: Only a couple of people had any idea how the interest rate on their loan was determined. Most either had no idea, or simply speculated as to how they thought it was calculated – one woman was convinced her mortgage interest rate was tied to the Nikkei index. But for the most part, there were a lot of blank looks from participants when this topic was introduced. When the moderator described how the rate was calculated, they were able to understand that it was based on a moving average, which made the rate less volatile.

Showing prospective borrowers how the index has historically performed, and its stability, may be an important key to raising the acceptance of this type of ARM and reassuring them that the interest rate is not historically volatile and does not change quickly.

Pre-Payment Penalties: Many of the participants had one-year pre-payment penalties on their loans and seemed to have little concern about it. Those borrowers who had three-year penalties were a little nervous about the penalty should they need to sell or refinance sooner than expected.

Negative Amortization: Several participants mentioned negative amortization during the groups, but most were not very clear on what it was. One or two called it "reverse amortization." Some thought that if they made interest-only payments, the balance of their loan would go up. They often referred to this as "tacking it on at the end." They generally thought that negative amortization was a moderately or very bad concept. The idea of making minimum or interest only payments made many people a bit nervous and they didn't like the feeling of "falling behind." Most felt that "falling behind" was something to avoid. No one mentioned that price appreciation would likely overcome any negative amortization – particularly in Southern California where real estate prices have increased substantially over the past several years.

Drawbacks To The Loan

Participants were almost universally happy with their loan choice as the Option ARM gave them lower payments, more cash in their pockets, and in two cases let divorced women save their homes. When asked about drawbacks to the Option ARM, few were mentioned. Most concerns centered around the possibility of interest rate increases and subsequent increases in their monthly payment. A few mentioned that the interest rate could go higher than fixed-rates; some didn't like that payments could increase after five years. And for others, a misperception that the payment could change every month was unnerving. Some participants stated outright that the loan was not good for the long-term.

Suggestions for Improving the Option ARM

Biweekly Payments: Some borrowers thought we currently offer this option and they weren't necessarily clear on whether a fee is charged for this payment structure. They understood the benefits once they were explained by other participants, but someone pointed out in each group that if fees are charged, they would be better off just paying that additional amount directly themselves.

Online Payments: At least one person in each group indicated they'd like to be able to make their payments online each month. Because Option ARM customers can choose their payment amount each month, having an automatic recurring withdrawal doesn't necessarily work well for them. They contrasted Washington Mutual with their utilities and other companies, with whom they can pay bills directly. This proposal had moderate appeal. To some, it sounded like something Washington Mutual should simply offer, as everyone else already does. They viewed this not a competitive advantage, but just keeping up with the times.

Skip Payment Option: Initially, participants were very skeptical about this feature. After a good deal of discussion and drawing on life illustrations such as their experience with credit cards, they began to understand where they might benefit from such a skip option, but they would be very cautious about using it. Again, they talked about money being "tacked on at the end," and thought this option would really cost them in the long run. Having an option like this could potentially be "nice to have" but no one was really clamoring for it, and many had considerable misgivings about this option. It could be a tie-breaker between two identical loans, but isn't likely to serve as a major selling point.

Other Suggestions: A few other suggestions were voiced but not discussed much due to time constraints. One suggestion was to have the option to convert the loan to a fixed-rate loan after three years. Another idea was to have a referral program for customers where they get money for referring friends who get loans. Finally, the last suggestion was to offer a discount on loans for being a return customer.

Suggested Names for the Option ARM

At the conclusion of each group, participants were asked to brainstorm for new names for the Option ARM loan. For the most part, relatively few ideas emerged, but the one word that consistently surfaced during the discussion was "flexible." Many people liked the idea of this word being part of the name because they felt it accurately described the loan and its payment options. Several of the suggestions incorporated this word or a

variation of this word into the name. The suggestions mentioned (listed in alphabetical order) were:

- Chinese Menu Loan (because you can choose what you want)
- Easy Flexible Adjustable
- Flex ARM
- Flex-ability
- Flexipay
- Flex Plan
- Less Stress Loan (based on being able to choose to make a lower payment if a difficult financial situation came up)
- Variable Option Loan

One clever participant came up with a potential slogan for the loan:

"We at Washington Mutual flex our ARMs for you."

- Washington Mutual Option ARM Customer



Washington Mutual

**OPTION ARM FOCUS GROUPS - PHASE I
WAMU LOAN CONSULTANTS AND MORTGAGE BROKERS**

August 14, 2003

Research prepared by:
DAVID TEAL

CONFIDENTIAL
For Internal Use Only

strategicmarketresearch
CORPORATE RESEARCH & DEVELOPMENT DIVISION

Permanent Subcommittee on Investigations

EXHIBIT #36

OPTION ARM FOCUS GROUPS - PHASE I
WAMU LOAN CONSULTANTS AND MORTGAGE BROKERS
David Teal
August 14, 2003

SECTION 1 INTRODUCTION AND OBJECTIVES 1

SECTION 2 EXECUTIVE SUMMARY 2

SECTION 3 GENERAL ANALYSIS 3

HOW TO SUCCESSFULLY SELL OPTION ARMS 3

TRAINING ISSUES 3

IDENTIFYING POTENTIAL OPTION ARM CUSTOMERS 4

SALESPEOPLE MUST HAVE THE DESIRE TO SELL OPTION ARMS 5

MORTGAGE BROKER COMPENSATION 6

LOAN CONSULTANT COMPENSATION 6

SELL LOANS, DON'T JUST TAKE ORDERS 6

IMPROVING TURN-AROUND TIME FOR LOAN PROCESSING 6

IMAGE CONCERNS 7

EFFECTIVE COMMUNICATION WITH POTENTIAL CUSTOMERS 7

OVERCOMING OBJECTIONS TO OPTION ARMS 7

HELPING CUSTOMERS UNDERSTAND THE PRODUCT WILL MAKE THEM MORE LIKELY TO CONSIDER IT 8

APPENDIX A EXCEL SPREADSHEET EXAMPLE 9

OPTION ARM FOCUS GROUPS - PHASE I
WAMU LOAN CONSULTANTS AND MORTGAGE BROKERS

David Teal
August 14, 2003

Section 1 **Introduction and Objectives**

Strategic Market Research conducted four focus groups to explore what Washington Mutual could do to increase sales of Option ARMs, our most profitable mortgage loan. All participants had sold Washington Mutual Option ARMs, and were either Washington Mutual Loan Consultants, or external Mortgage Brokers. These groups will be followed by customer focus groups (Phase II), and supplemented with more research as needed. The specific purposes of Phase I of the research were to:

- Determine ways Washington Mutual could increase sales of Option ARMs
- Understand what types of people are most likely to get these types of loans
- Discover how successful salespeople position these loans
- Identify obstacles to selling these types of loans

Methodology

Four focus groups were held July 22nd and 23rd, 2003 in the Los Angeles area. Two groups were among Washington Mutual loan consultants and two were among external Mortgage Brokers. There were a total of 19 participants (15 males/4 females), and all groups were moderated by Kevin Jenné. The schedule of groups is shown below.

<u>Date</u>	<u>Participants (# participants)</u>	<u>Place</u>
July 22, 2003	WAMU Loan Consultants (6)	Los Angeles
July 22, 2003	Mortgage Brokers (4)	Los Angeles
July 23, 2003	WAMU Loan Consultants (6)	Los Angeles
July 23, 2003	Mortgage Brokers (3)	Los Angeles

Data from qualitative methods such as focus groups are based on small samples, and are descriptive in nature, without attempting to provide a statistical or quantitative assessment of the prevalence of opinions expressed. These data are best used to give a detailed snapshot of *why* people feel the way they do, rather than the *number* of people who feel that way.

The following summary lists the main findings from the research.

- Option ARMs are sold to customers and few walk through the door and ask for them. People selling these types of loans must be able to:
 - (1) Understand the features and benefits of Option ARM loans
 - (2) Identify people who can benefit from the flexibility offered by the product features
 - (3) Have the desire to sell the product
 - (4) Be able to effectively communicate how the Option ARM can benefit customers, given each customer's unique financial situation
- If salespeople don't understand Option ARMs, they won't sell them. Many felt that more training would be needed to better educate salespeople about this type of loan, and to change the mindset of current Loan Consultants. Some felt there were many within Washington Mutual who simply felt these loans were "bad" for customers, probably from a lack of understanding the product and how it could benefit customers
- It is critical that salespeople fully understand a customer's financial situation and motivation for the loan. By taking into account these factors, they can recommend the loan that will best fit their customers' needs. Given today's low interest rate environment, it can be challenging to get salespeople do take the time to do this. Currently, it is easier for them to give customers what they ask for (a 30 year fixed loan) than to sell them an Option ARM. They can take 20 minutes and sell a 30 year fixed-rate loan, or spend an hour trying to sell an Option ARM.
- Commission caps make it unappealing for Mortgage Brokers to sell Washington Mutual Option ARMs. Most would not sell loans to customers with prepayment penalties, and given the low commission rate for selling them without the prepayment penalty, many simply go to another company or product where they can make more money.
- Slow ARM processing times (up to 90 days) can cause Mortgage Brokers to take business elsewhere. They would rather not expose their customers to the risk of missing a closing date, especially since a lot of their customers provide them with repeat business.
- Improving collateral would help salespeople better explain Option ARMs to customers and take away some of the mystery. This could be in the form of Excel worksheets which show how ARMs and fixed-rate loans compare. They also would like improved brochures which talk to the customer in simple, easy to understand terms about features and benefits. They liked the current sample statements they are provided.

How to Successfully Sell Option ARMs

Most participants felt that Option ARMs are sold to customers and that very few people simply walk through the door and ask for them. Customers typically choose an Option ARM because the mortgage broker or loan consultant takes the time to understand their financial situation, understands the products they sell, then communicates to the customer how an Option ARM might be a good choice for them. This being said, it is important for people selling these types of loans to be able do the following things:

- (1) Understand the features and benefits of Option ARM loans
- (2) Identify people who can benefit from the flexibility offered by the product features
- (3) Have the desire to sell the product
- (4) Be able to effectively communicate how the Option ARM can benefit customers, given each customer's unique financial situation

Training Issues

All of the focus group participants demonstrated success selling Option ARM loans. It was apparent as the groups progressed that these people understood the complex facets of the loans, and understood how to identify customers who could best make use of them, particularly Loan Consultants who came from Home Savings. Universally, everyone felt that if salespeople didn't understand Option ARMs, they wouldn't sell them.

Many participants said they knew co-workers who didn't believe in Option ARM loans, and who wouldn't sell this type of product because they deemed it to be "bad" for customers. Their co-workers just couldn't understand why someone would ever want to purchase a loan which could yield negative amortization. Simply put, these people don't understand the benefits of this type of loan, and don't understand how this could be a good thing for a customer. Improving training for Washington Mutual Loan Consultants is a must to increase sales of the product through this channel. Training for external brokers could also be improved, however, compensation seemed to be a larger issue with this group (compensation for brokers is discussed later in this report).

"A lot of (Loan) Consultants don't believe in it (Option ARMs) and don't think its good for the customer. You're going to have to change the mindset for a lot of the consultants that are on board."

- WAMU Loan Consultant

When asked how they would like to receive training regarding Option ARMs, Loan Consultants mentioned they would like to have a trainer come visit their Home Loan Center from time-to-time to give, half-day seminars. They also mentioned that this type of training might work well for all types of things. They felt that ongoing training in the HLC would be more convenient than if they had to travel to a central location for training. They also liked this idea because it would allow them to spend the other half of their day in the office tending to their business. Besides the improved convenience for them, they felt this could be more cost-effective for the company.

Specifically regarding Option ARMs, many felt that during training, not only should the features and benefits of the products be talked about, but they want the trainer to provide real-world examples of reasons people would want to get an Option ARM. They indicated that too many times, trainers simply

tell them about product features, without giving them additional real-world examples that can help them “sell” the product. One Loan Consultant suggested that to identify employees who could use more training on Option ARMs, they could be given a test which asked questions such as the following:

“An elderly lady with a low, fixed income needs to choose a mortgage loan that will best meet her needs. She could get a fixed-rate loan with a monthly payment of \$1,400, or an adjustable rate loan with a payment of \$1,100. Which loan should you sell her?”

While this is a simplistic example, a similar approach could be used to identify employees that could use training on a particular topic.

Another separate but related issue mentioned was that some of the loan consultants don’t know when or where training is taking place. Several wanted to know how to find out what training Washington Mutual offered, and where it was located. This topic was not discussed in depth. A few also mentioned that while they were aware of computer-based training that was available, only a couple had used it and they thought it was too long.

Identifying Potential Option ARM Customers

Loan Consultants stated that Option ARMs are not for everyone. Specifically, they mentioned that ARMs are not necessarily the best choice for people who are planning to be in their home for a long time. For these people, being subjected to interest rate fluctuations for a long time can prove to be risky. That being said, identifying potential customers who could benefit from Option ARMs is critical to sales success.

From a customer’s point of view, the two primary benefits they can realize by choosing an Option ARM are: (1) the multiple monthly payment options allow for minimum and interest-only payments, and (2) they are able to qualify for a larger loan than if they used a fixed-rate mortgage. Participants indicated that slightly more of their customers tend to choose an Option ARM because of the payment options, rather than to qualify for the loan.

In order to successfully sell Option ARMs, it is critical that a Loan Consultant understands a customer’s financial situation and motivation for the loan. They said that understanding the following types of things will help them make good product recommendations:

- Does their monthly income fluctuate?
- Age
- Monthly bills
- Outstanding debt
- Is the loan for rental or investment property?
- Do they have a business?
- Will they qualify for a fixed-rate loan for the amount they need?
- Are they concerned with paying off their loan?
- How long are they going to be in their home?

“If the Loan Consultant doesn’t ask the right questions, you’ll never know what that person (the customer) is willing to do.”

- WAMU Loan Consultant

During the groups, many examples of reasons customers choose an Option ARM were mentioned. While not all inclusive, the following is a list of the most commonly given examples:

- People who have monthly income fluctuations such as seasonal workers or those who are paid on commission can make minimum or interest-only payments in the months where they have less

income. Then they can make larger payments in months where they have higher income. This payment flexibility can be a real benefit, whereas with fixed-rate loans they would have to make the same monthly payment regardless of their income, causing serious cash flow problems.

- If someone is buying investment property and knows they will resell it within a few years, being able to make minimum or interest-only payments can be a real advantage. Using the Option ARM for this purpose means they will not have to pay down the principal which would be required using a fixed rate loan. To the buyer this gives two benefits: (1) they can keep more money in their pocket each month while the property appreciates, and (2) since the loan is only for a few years, they will have a lower interest rate compared to a fixed-rate loan which will save them money.
- If someone is buying rental property, having the option to make minimum or interest-only payments can be beneficial as vacancy rates fluctuate. In months where vacancies may be higher, they can choose to make minimum or interest-only payments. Then when vacancy rates decline, they have the option to additionally make principal payments.
- Option ARMs can be good choices for elderly people who want to have more money to live on each month. Many people past retirement age have a fixed income. By refinancing with an Option ARM and making minimum or interest-only payments, they can have more money available to live on, because they are not having to make principal payments as they would have to do with a fixed-rate loan. The net result is that while they are not paying down the principal on their residence, they have more money to live on. Since these homes have generally appreciated over the years and have partially paid-down loan balances, older homeowners can still leave substantial value to their heirs.
- People who have a large amount of debt (such as credit card debt) can benefit from Option ARM loans as they can choose to make minimum or interest-only payments, which also can allow them to pay down their other debt at the same time. If they were using a fixed-rate loan, they would not be as able to do this because they would be required to make principal payments each month. Washington Mutual also has more flexibility on underwriting standards for these portfolio loans than they would on fixed-rate loans, which are sold on the secondary market.
- By using an Option ARM, borrowers can qualify for a larger amount than they could using a fixed-rate mortgage. This allows people to “buy more house” than they could using a fixed-rate loan, and also can benefit people with credit challenges. Also of note, it was mentioned that credit requirements are less stringent on Option ARMs compared to fixed-rate loans, because they are retained in portfolio.
- For people who are not concerned with paying off their loan, Option ARMs can be a good choice. Many participants mentioned that making minimum or interest-only payments is appealing for those who know they will refinance, or who will only be in a house for a few years. Even if they are making full principal & interest payments, their interest rate will be considerably better than a comparable fixed-rate mortgage.

Salespeople Must Have the Desire to Sell Option ARMs

The third requirement for selling Option ARMs is that salespeople must have the desire to sell the product. This is a multi-faceted issue that includes compensation, getting salespeople to “sell” loans rather than just take orders, turnaround time on loan processing is slow, and salesperson training (which has already been discussed).

Mortgage Broker Compensation

Mortgage brokers indicated they would sell products that met their customers' needs, and that would maximize their personal income. Most would not sell products to customers with prepayment penalties because they were concerned about their own image, and because they get so much repeat business that they will not see the customer again during the prepayment penalty timeframe. A few mentioned they get repeat business as often as once or twice each year from the same customer. Of note, prepayment penalties seemed to be of lesser concern among Loan Consultants.

Considering that the mortgage brokers said they were reluctant to sell loans with prepayment penalties, they also complained that when they sell WAMU Option ARMs without a prepayment penalty, there is a commission cap of 50 basis points. If they sell the loan with a prepayment penalty, their commission rate would be higher, but nearly everyone indicated they were not willing to do this. The net result of this is that (1) given the low commission rate for selling without the prepayment penalty, and (2) their unwillingness to sell the product with a prepayment penalty, many brokers simply go to another company to get a loan where they can make more money.

Loan Consultant Compensation

Loan Consultants indicated they were paid the same amount whether they sold a fixed-rate loan or an ARM. When asked if we should compensate them more for selling Option ARMs than 30 year fixed-rate loans, there was some concern that this could cause salespeople to "steer" customers into whichever product they were best compensated for. The current compensation model, coupled with the low interest rate environment and the relative ease of selling a customer a 30 year fixed-rate loan (discussed below) adds to the challenges of selling Option ARMs.

Sell Loans, Don't Just Take Orders

"You're not selling like you used to. You are an order-taker."

- WAMU Loan Consultant

It is easier to give customers what they ask for (a 30 year fixed loan) than to sell them an Option ARM. Many participants noted that given today's low rates on fixed-rate loans, when customers walk in the door and want a 30 year fixed-rate loan, they can spend 20 minutes with them and give them what they want, or spend an hour with them trying to sell them an Option ARM. Since Loan Consultant compensation is the same for both loans, and they have more business than they can handle, it is easier for them to simply sell the customer what they ask for.

"Our position is to educate the borrowers... so many people just give the customer what they ask for."

- WAMU Loan Consultant

Improving Turn-Around Time for Loan Processing

Mortgage brokers in particular were unhappy with Washington Mutual's turn-around time for processing ARMs. While this was secondary in importance to the compensation issue, they indicated that turn-around did contribute to their decision to send business elsewhere. While not just limited to Washington Mutual, they said that because of the lock-in period for rates on fixed-rate loans, these were processed before adjustable-rate mortgages. This caused processing for ARMs to lag and take up to 90 days at WAMU.

The result of slow processing was that they were less likely to take a chance using Washington Mutual for ARMs because they felt we may not be able to meet some closing dates. They also mentioned that this was typically more of a problem for new purchases than for refinances. They would rather take the

business elsewhere and not expose their customer to the risk of missing the closing date. Their amount of repeat business also contributed to their concerns regarding this issue.

Image Concerns

Mortgage brokers voiced slight concerns that when selling ARMs, if they recommend one to customers and interest rates increase significantly, this could reflect poorly on them and they would probably lose future business from that customer. While this topic was not discussed much, it could be something to think about when producing training programs or collateral materials. Providing training regarding this may help them address this issue, ensuring that customers understand the choices they are making, so they don't lose face with the customer who feels they were guided into something they didn't understand.

Effective Communication With Potential Customers

An important facet to selling Option ARMs is to effectively communicate to the customer why an Option ARM would be a good loan choice for them, and to overcome objections they may have to this type of loan. This can be done through training and the use of collateral materials.

"The mind set of individuals that come in to see you is...My parents had a fixed rate loan, I have to have a fixed rate loan, and that's it, no further discussion."

- WAMU Loan Consultant

Overcoming Objections to Option ARMs

Participants mentioned many objections customers have to getting adjustable-rate mortgages. However, based upon their success selling the product, they obviously have found ways to overcome many of these. The first objection they typically encounter is that most people walk through the door and say they want a 30 year fixed-rate mortgage because that's what their parents had, and that's what they want. Many mentioned that some customers are simply not willing to discuss an adjustable-rate mortgage in today's rate environment. Others just have the perception that ARMs in general are "bad." This is most likely a result of not understanding the product, how the loan works, and when it can benefit them.

"Everybody comes in and says, What if interest rates go to 12% tomorrow and I lose my house? Everybody has these extreme unrealistic scenarios that they think can happen... There is a lot of paranoia out there."

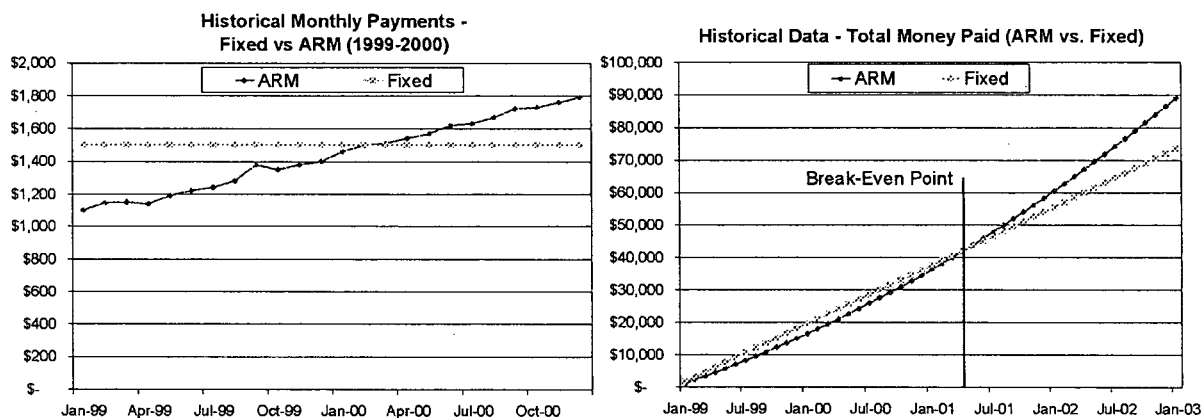
- WAMU Loan Consultant

Some Loan Consultants mentioned that helping salespeople overcome customers' objections and fears can be addressed through training. They can learn how to work with customers to make them feel more comfortable with this type of product, and effectively communicate the product benefits. They also mentioned that advertising could help consumers understand the benefits of adjustable-rate mortgages, as well as providing salespeople with tools (Excel worksheets and brochures) that customers can easily understand (sales tools are discussed in the following section).

Helping Customers Understand the Product Will Make Them More Likely to Consider It

The complexity of the Option ARM is a big obstacle to overcome. It is hard to get people to purchase a mortgage, the biggest loan they will ever have, if they don't understand it. Increasing customers' understanding of the product through employee training and providing collateral which explains things will help alleviate some of these objections.

Regarding collateral, there were a few things mentioned they would like to have which could help them better explain Option ARMs. First, some liked the idea of Excel spreadsheets where they could show how fixed-rate loans would compare to Option ARMs over time. They felt that showing customers how adjustable-rate versus fixed-rate payments compared over time would help alleviate some of their objections, and might give customers a better understanding of what they could expect with ARMs. The graphs below are basic examples of what some of these tools could look like. Another example, created by Washington Mutual Loan Consultant Charles Miller is included in Appendix A.



Participants also mentioned that some of the current collateral material is too complicated for customers and that simplifying some of it would be helpful. Other things salespeople felt were difficult to explain included the life cap and the index. They felt that having brochures with bulleted lists and high-level information would be good, as opposed to providing too much detail where customers can get bogged down and confused. Perhaps the most helpful piece of collateral they currently have are sample statements. This helped them show customers how the various payment options worked and compared with each other, and led to conversations about how they could use the payment flexibility to their advantage.

"It would be nice if Marketing put something together in plain English."

- WAMU Loan Consultant

Option ARM Credit Risk

August 2006

Washington Mutual Bank Confidential Information
subject to confidentiality agreement with recipient.

JPM_WM00212640

Executive Summary

Option ARM Background:

- ▶ Option ARM loans present borrowers with flexible payment options on a monthly basis and tangible economic benefits (lower cash flow obligations and reduced initial interest costs) in return for greater interest rate risk.
- ▶ Option ARMs are structured to mitigate the potential effect of negative amortization. Stable minimum payments for 12-month periods, annual payment adjustment caps, slow moving indexes, and a lifetime interest rate cap can moderate or offset the risks of Option ARM loans over time.
- ▶ Almost all Option ARM borrowers select the minimum payment every month with very high persistency, regardless of changes in the interest rates or payment adjustments. However, the selecting the minimum payment option does not always lead to the deferral of accrued interest or increased negative amortization.

WaMu Option ARM Performance and Risk Management :

- ▶ WaMu has many years of experience originating Option ARMs primarily through the Retail and Wholesale channels.
- ▶ Since 1999, more than 60% of all aggregate Option ARM payments led to interest-only or positive amortization. As a result, the Option ARM portfolio currently has positive net amortization.
- ▶ Less than 1% of all loans originated since 1999 exceeded 105% negative amortization. Very few loans reached the 5th year payment recast period and usually had better credit performance after recast.
- ▶ Option ARM origination quality has been consistent or improving since 2005, regardless of channel, documentation, or category risk.
- ▶ Recently implemented policy changes has mitigated the credit risk of recent Option ARM originations.
- ▶ Risk-Based Pricing, implemented in June 2005, has the effect of limiting Teaser Rate "depth" for higher risk borrowers and transactions.
- ▶ The credit risk of Option ARM originations in 2006 and beyond is further mitigated by WaMu's Enterprise Decision Engine and other practices.
- ▶ Expected credit losses and capital charges for unexpected credit losses have been quantified and are incorporated in risk-based pricing adjustments at the loan level. This approach enables competitive risk-adjusted pricing across the credit spectrum within the prime market segment.

Confidential

 Washington Mutual

2

JPM_WM00212641

Payment Features of the Option ARM

Option ARMs are Unique

Option ARMs are different from any other mortgage product:

- Borrowers have ability to select one of up to 4 payment options each month over the life of the loan.
- Interest is accrued monthly according to the:
 - Initial Start Rate for a short-term period, or
 - Fully-indexed Rate for the remainder of the loan, or
 - Lifetime Interest Cap.
- Option ARM minimum monthly payments adjust annually while the interest rate adjusts monthly according to changes in the index.
- Option ARMs are available with a 40-year term.
- In contrast, Hybrid ARM payment amounts and interest rates periodically adjust at the same time.

Borrower Payment Options

The Borrower has up to 4 payment options each month, although not all options are available every month:

- 15-yr Pmt – amortizes the loan within a 15-year term
- 30-yr Pmt – amortizes the loan within a 30-year term
- Interest Only – principal balance remains unchanged
- Minimum Payment – lowest payment necessary to remain current on loan obligation
- A Payment Option is not available in any month when the minimum payment amount is a greater than the amount of another payment option.

Amortization

Option ARMs can incur negative or accelerated amortization depending on changes in the index value and the Borrower's payment selection:

- The minimum payment for the first year is set according to the initial start rate.
- That initial payment typically does not cover accrued interest when the fully-indexed rate becomes effective.
- Negative amortization can occur for a few years if the minimum payment option is consistently selected.
- Negative amortization is less likely to occur after the first 5th year recast because the minimum payment becomes an amortizing payment unless the fully-indexed rate rises enough to cause negative amortization.

Minimum Payment Adjustment

The Minimum Payment undergoes annual adjustments and is recast every 5th year or when the neg am cap is reached:

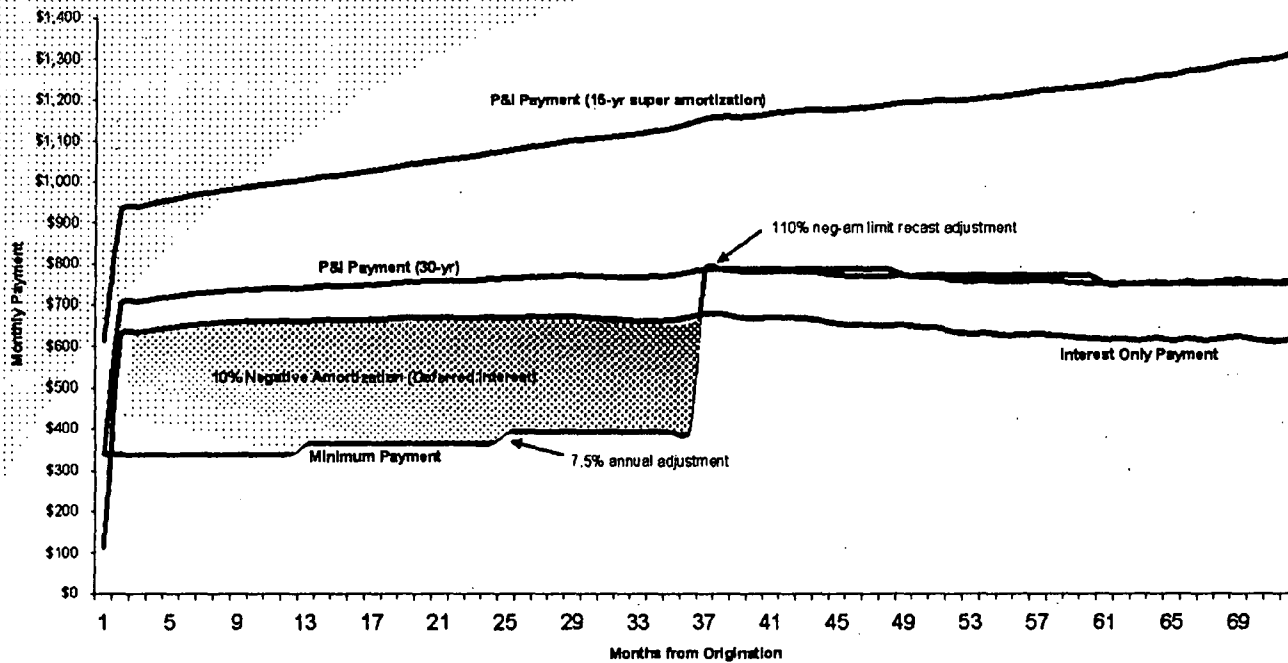
- The minimum payment can increase or decrease by a maximum of 7-1/2% each year until it reaches the P&I amount based on current terms.
- The minimum payment becomes the P&I payment amount every 5th year or if the negative amortization cap is reached.
- Payment shock at the time of the first recast can be substantial if the borrower has consistently selected the minimum payment.
- The minimum payment becomes the P&I payment amount if the borrower becomes seriously delinquent.

Confidential



Washington Mutual

Illustration of Payment Options



Newly originated Option ARMs with base pricing are projected to reach the negative amortization cap in the 37th month after origination if the borrower always selects the minimum payment option.

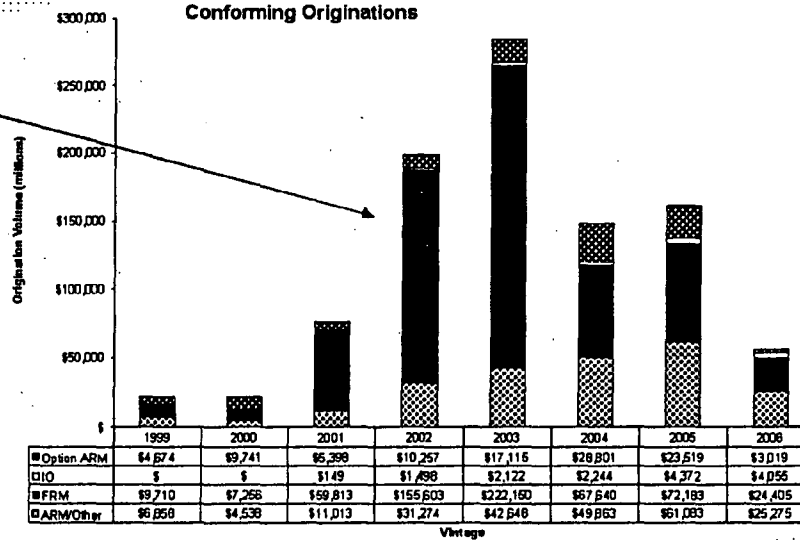
Confidential

 Washington Mutual

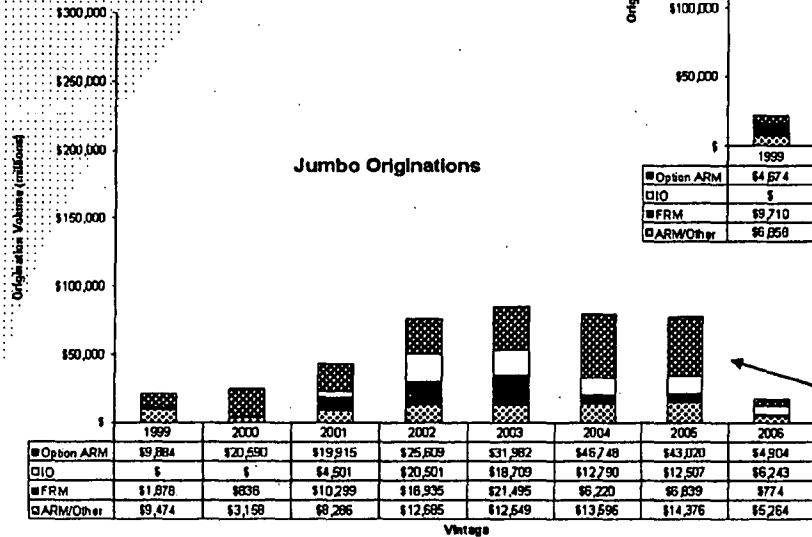
WaMu Originations Product Mix

Option ARMs have been less popular among conforming loans than FRMs or amortizing Hybrid ARMs.

Conforming Originations



Jumbo Originations

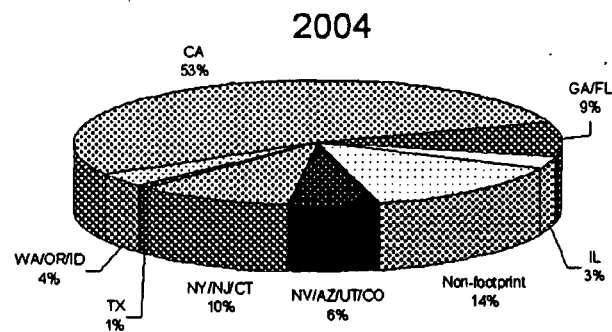
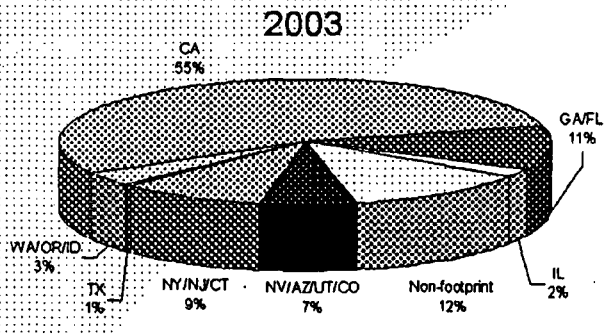


Option ARMs and Interest Only ARMs are more popular among Jumbo loans.

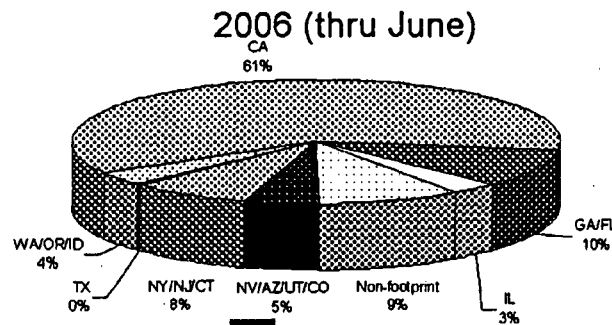
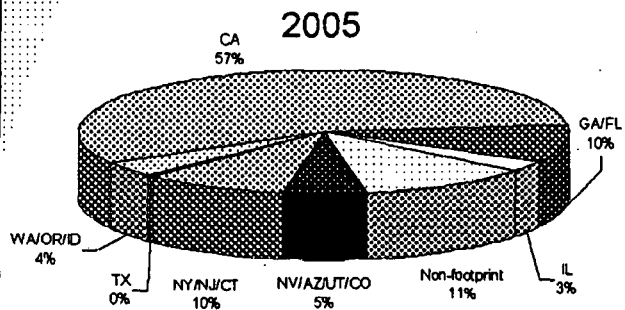
Confidential

 Washington Mutual

Option ARM Originations By Region



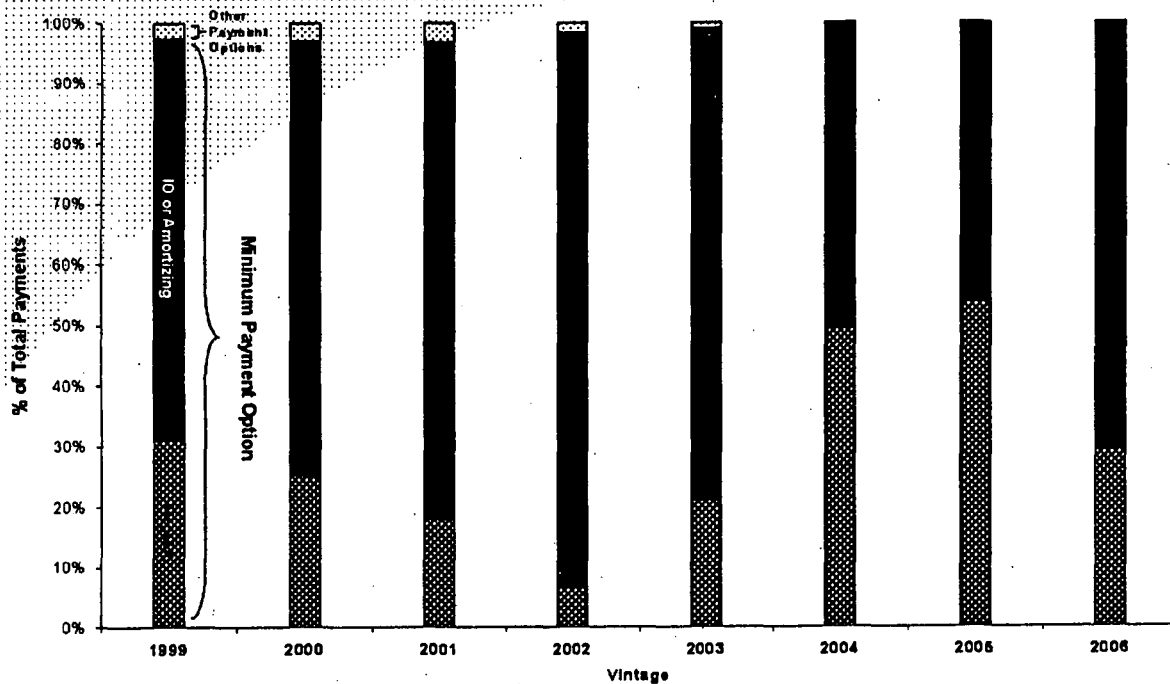
More than half of the loans were originated in California.



Confidential



Borrower-Selected Payment Behavior



Each bar represents the aggregate of all monthly payments made since origination for each vintage. More than 95% of those payments were minimum payments and less than 40% of those minimum payments led to negative amortization.

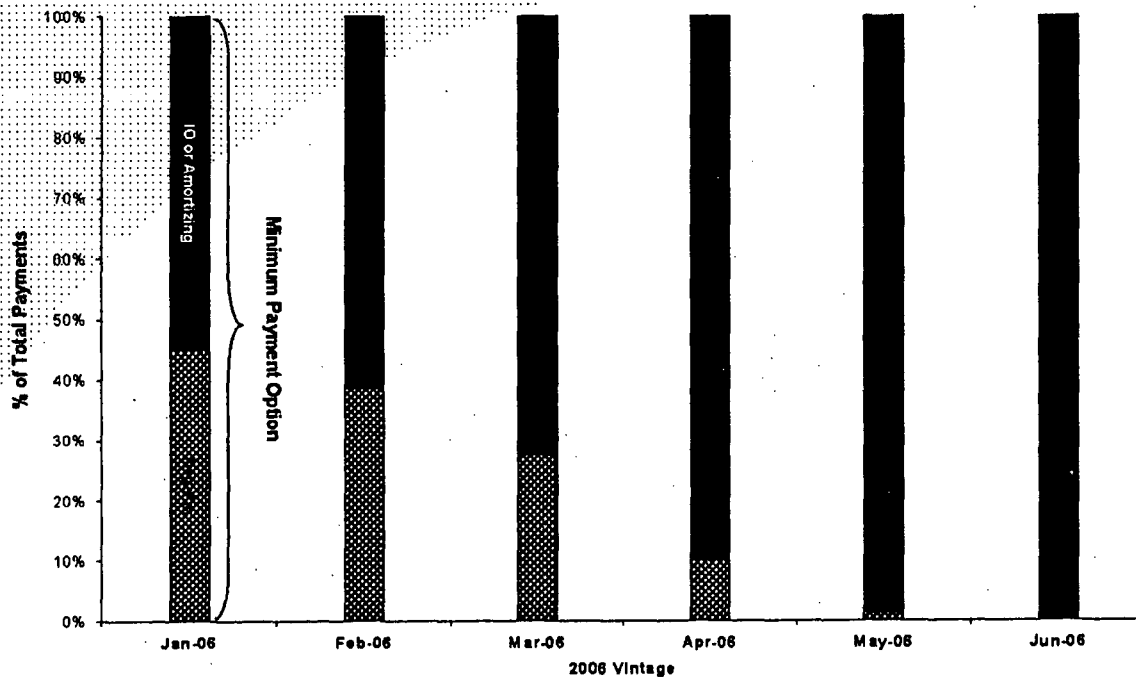
Confidential

 Washington Mutual

7

JPM_WM00212646

Borrower-Selected Payment Behavior

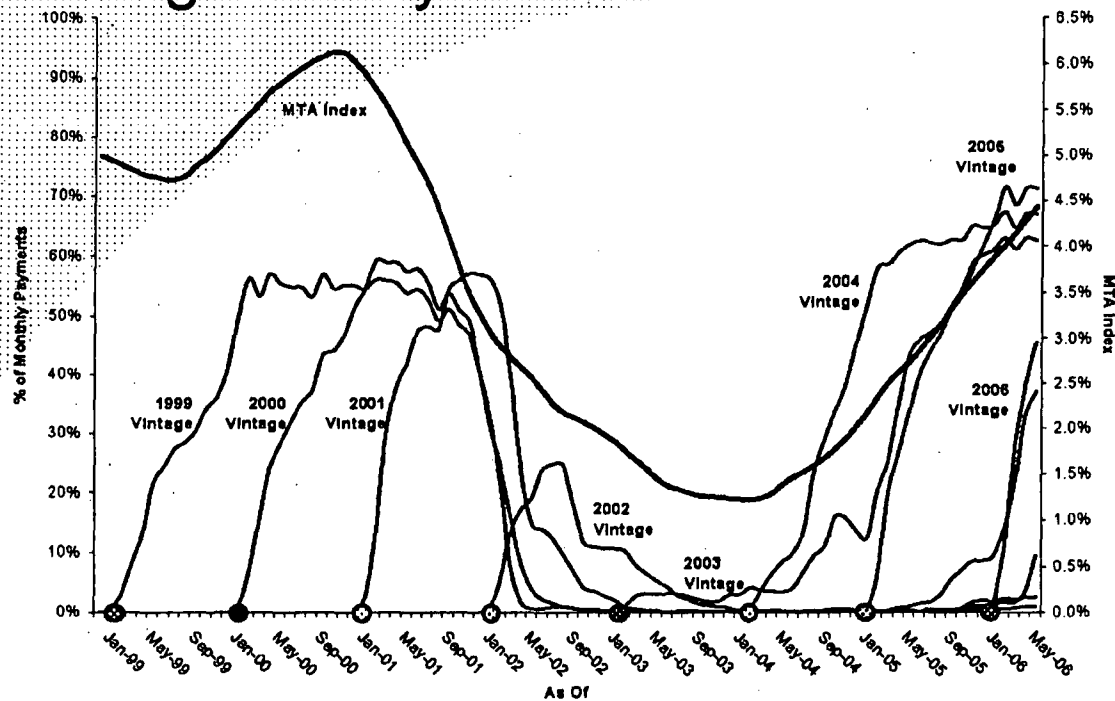


Each bar represents the aggregate of payments for each monthly vintage in 2006. Minimum payments are amortizing amounts during the start rate period, thus significant levels of negative amortization do not occur until 3 months after origination.

Confidential

 Washington Mutual

Neg-Am Payment Selection Trend



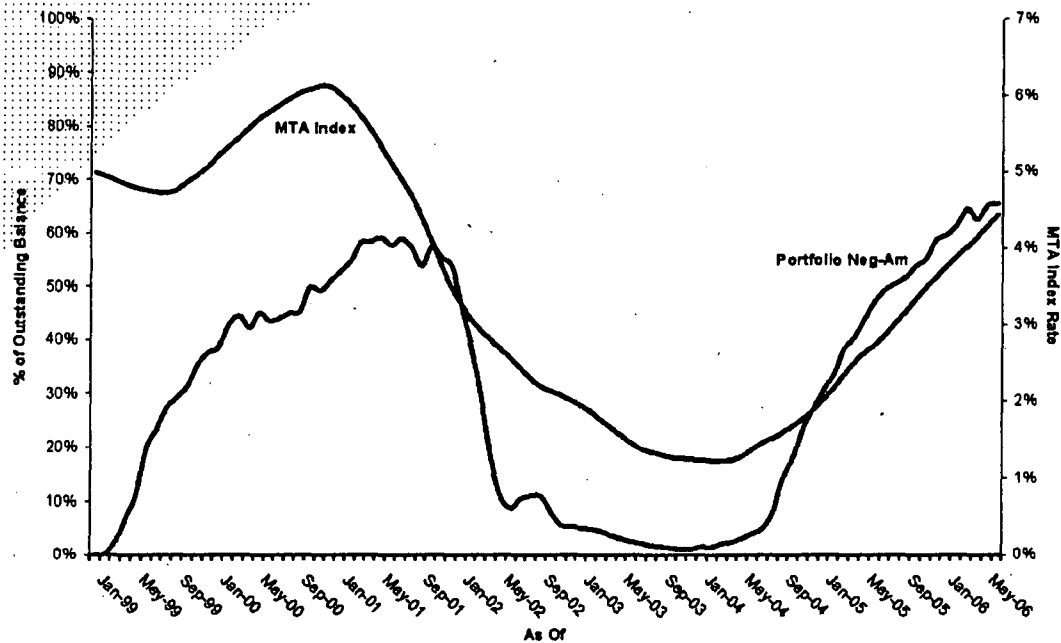
The incidence of payments with negative amortization rises when the MTA Index increases and drops when the MTA Index decreases.

Confidential



Option ARM Portfolio Neg-Am Trend

Negatively Amortizing Loans as % of Total Outstanding Balance

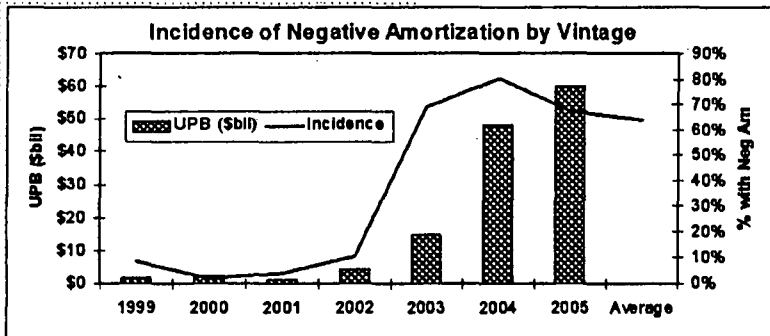


The recent rise in the incidence of negative amortization at the portfolio level is similar to the 2001-2002 experience.

Confidential

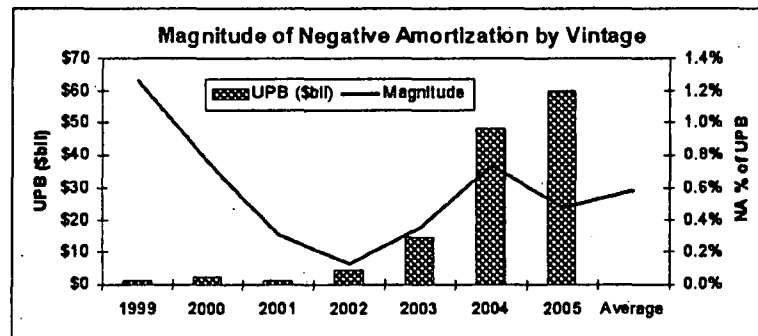


Serviced Option ARM Portfolio Negative Amortization



The serviced Option ARM portfolio as of 12/31/05 had a high incidence of balances with negative amortization, heavily influenced by recent vintages.

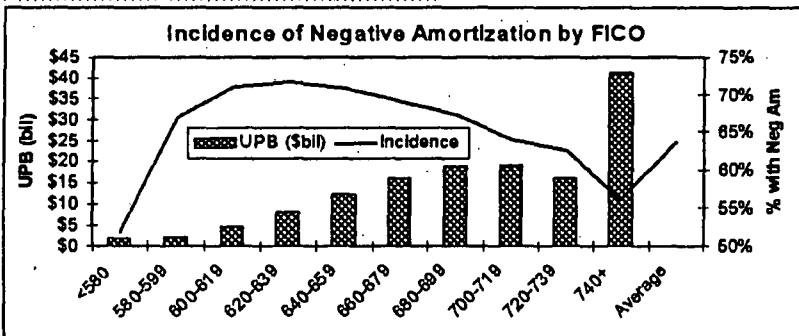
However, the amount of cumulative negative amortization as a % of outstanding balances was very small, less than 0.60%.



Confidential

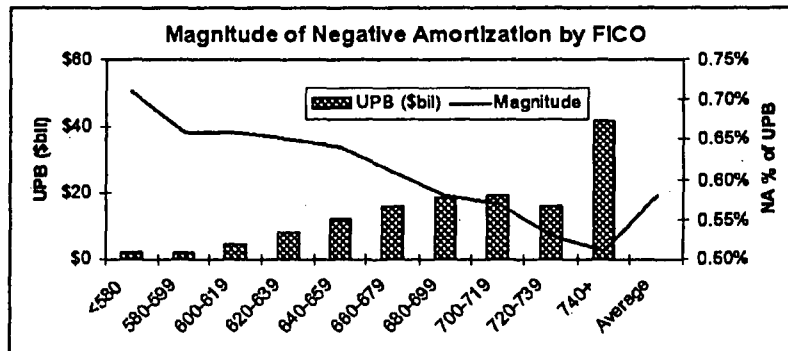


Serviced Option ARM Portfolio Negative Amortization



The serviced Option ARM portfolio as of 12/31/05 had a high incidence of balances with negative amortization, dominated by the 740+ FICO score category.

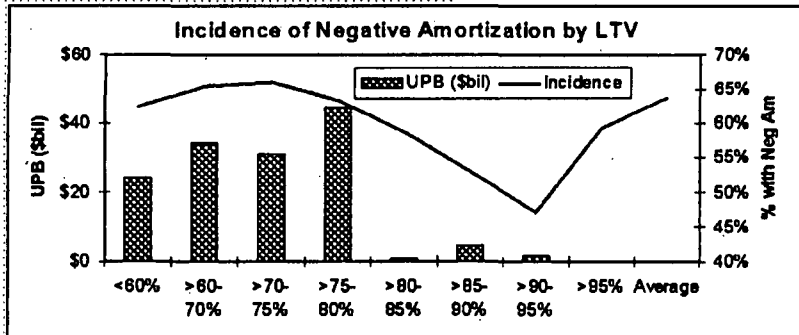
However, the amount of cumulative negative amortization as a % of outstanding balances was very small and lowest in the 740+ FICO score category.



Confidential

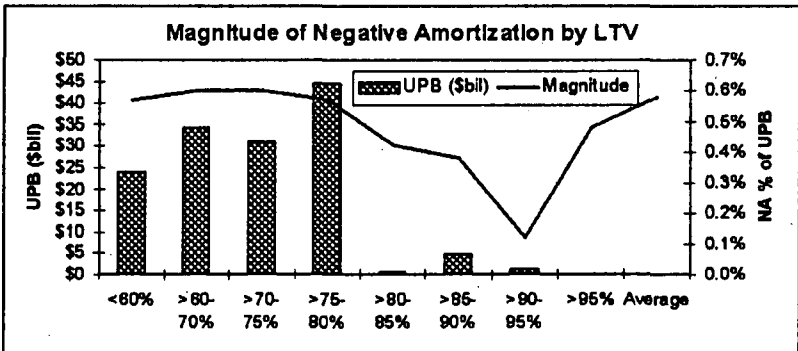


Serviced Option ARM Portfolio Negative Amortization



The serviced Option ARM portfolio as of 12/31/05 had a high incidence of balances with negative amortization, dominated by the low LTV categories.

However, the amount of cumulative negative amortization as a % of outstanding balances is small and declines in higher LTV categories, a result of smaller start rate discounts from risk-based pricing.



Confidential



Maximum Neg-Am & 5th Year Recast

Vintage	Max Neg-Am Bucket	All-Option ARM Originations				Loans At 61st month Recast			
		Loan Count	Origination Volume %	WA FICO	WA Max Payment	Loan Count	Origination Volume %	90+ DQ Rate Pre-Recast	90+ DQ Rate Post-Recast
1999	100%	16,992	34%	700	8%	3,272	5%	1%	1%
	> 100% -- 105%	27,099	53%	671	12%	4,706	7%	4%	3%
	> 105% -- 110%	7,114	13%	664	24%	2,134	3%	7%	5%
	> 110%	42	0%	611	36%	24	0%	81%	19%
2000	100%	21,728	28%	696	6%	3,654	3%	1%	1%
	> 100% -- 105%	52,658	72%	672	10%	8,143	9%	4%	2%
	> 105% -- 110%	219	0%	636	21%	71	0%	46%	12%
	> 110%	34	0%	612	23%	14	0%	100%	44%
2001	100%	6,380	32%	685	6%	238	1%	3%	1%
	> 100% -- 105%	15,105	68%	674	9%	841	3%	8%	2%
	> 105% -- 110%	11	0%	588	21%	1	0%	100%	0%
	> 110%	2	0%	659	44%				
2002	100%	43,279	91%	684	11%				
	> 100% -- 105%	5,126	9%	679	15%				
	> 105% -- 110%	11	0%	623	23%				
	> 110%	2	0%	675	41%				
2003	100%	70,887	84%	692	11%				
	> 100% -- 105%	16,139	16%	680	15%				
	> 105% -- 110%	8	0%	700	33%				
	> 110%	7	0%	665	16%				
2004	100%	81,561	41%	700	7%				
	> 100% -- 105%	112,381	59%	688	9%				
	> 105% -- 110%	11	0%	667	13%				
	> 110%	3	0%	668	16%				
2005	100%	40,632	24%	713	4%				
	> 100% -- 105%	119,578	76%	696	3%				
	> 105% -- 110%	1	0%	644	0%				
2006 (thru June)	100%	18,222	69%	716	0%				
	> 100% -- 105%	13,732	41%	702	0%				

Less than 1% of all loans originated since 1999 exceeded 105% neg-am. The maximum payment adjustment from the original payment was small and very few loans reached the 5th year payment recast period.

Confidential



Option ARM Originations by Channel

Vintage	Origination Volume (millions)	% UPB	WA FICO	WA LTV	WA DTI	FICO < 620	LTV >= 90%	Serious DQ %	REO %
ALL CHANNELS									
Overall	\$371,700	33.3%	694	72%	36%	9.70%	3.06%	0.68%	0.07%
Thru 1999	\$151,739	0.8%	682	74%	39%	14.64%	6.07%	0.30%	0.04%
2000	\$21,268	7.9%	689	73%	28%	8.52%	3.07%	2.55%	0.32%
2001	\$7,559	10.3%	693	71%	34%	9.14%	1.31%	3.07%	0.32%
2002	\$17,272	19.8%	695	71%	34%	9.37%	2.08%	1.84%	0.23%
2003	\$29,889	38.4%	701	70%	33%	7.45%	1.71%	1.24%	0.08%
2004	\$68,868	57.0%	700	71%	36%	7.08%	1.89%	0.67%	0.04%
2005	\$62,205	85.2%	709	71%	36%	4.14%	1.10%	0.26%	0.02%
2006	\$14,805	95.2%	716	71%	37%	1.41%	0.88%	0.01%	0.00%
WHOLESALE CHANNEL									
Overall	\$181,645	33.4%	692	71%	35%	9.09%	2.47%	0.80%	0.09%
Thru 1999	\$74,029	0.8%	680	74%	37%	13.85%	3.88%	0.29%	0.05%
2000	\$12,657	6.8%	689	73%	27%	7.31%	2.24%	2.67%	0.37%
2001	\$4,318	8.9%	683	71%	34%	8.05%	1.35%	3.23%	0.35%
2002	\$8,463	19.8%	694	71%	34%	8.16%	1.91%	2.31%	0.24%
2003	\$14,232	40.8%	697	71%	33%	7.20%	1.70%	1.61%	0.18%
2004	\$30,693	60.6%	698	72%	35%	6.62%	1.67%	0.81%	0.07%
2005	\$29,830	88.1%	706	71%	35%	3.93%	0.77%	0.28%	0.02%
2006	\$7,422	96.2%	718	71%	36%	0.98%	0.74%	0.02%	0.00%
RETAIL CHANNEL									
Overall	\$177,693	33.2%	696	71%	37%	10.59%	3.66%	0.58%	0.05%
Thru 1999	\$72,715	1.1%	684	75%	41%	15.75%	6.16%	0.33%	0.04%
2000	\$8,430	8.5%	689	74%	32%	10.28%	4.28%	2.40%	0.25%
2001	\$3,032	10.8%	691	71%	35%	11.00%	1.20%	2.84%	0.27%
2002	\$8,068	18.3%	695	71%	34%	11.12%	2.29%	1.42%	0.17%
2003	\$14,833	35.9%	703	70%	34%	7.98%	1.72%	0.91%	0.04%
2004	\$33,781	53.6%	702	71%	36%	7.69%	2.10%	0.54%	0.02%
2005	\$30,388	84.8%	710	71%	37%	4.48%	1.38%	0.24%	0.01%
2006	\$6,646	94.9%	712	71%	39%	2.04%	0.97%	0.00%	0.00%

The quality of originations has been improving since 2000.

Confidential

 Washington Mutual

NOO and Low Doc Option ARM Originations

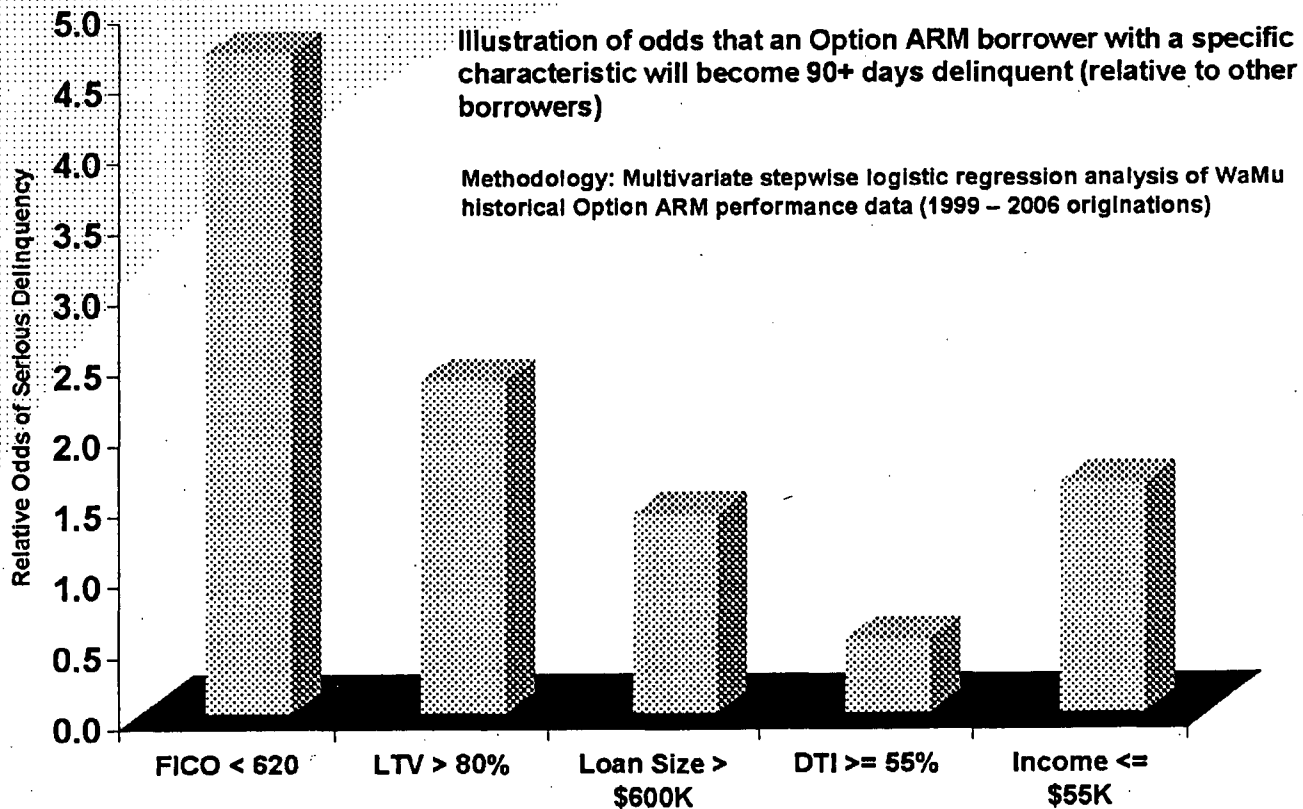
Vintage	Origination Volume (millions)	% UPB	WA FICO	WA LTV	WA DTI	FICO < 620	LTV >= 90%
LOW DOC							
Overall	\$37,364	93.4%	714	69%	35%	3%	0%
Jun-05	\$4,588	88.4%	712	69%	33%	4%	0%
Jul-05	\$3,804	91.6%	712	69%	33%	3%	0%
Aug-05	\$4,233	92.2%	713	69%	34%	3%	0%
Sep-05	\$3,656	92.9%	712	69%	34%	3%	0%
Oct-05	\$3,276	94.2%	710	69%	34%	3%	0%
Nov-05	\$2,969	94.8%	708	69%	35%	3%	0%
Dec-05	\$2,652	94.3%	705	69%	36%	3%	0%
Jan-06	\$2,045	94.4%	708	69%	36%	3%	0%
Feb-06	\$1,813	95.5%	715	69%	36%	1%	0%
Mar-06	\$2,057	98.0%	719	71%	36%	1%	0%
Apr-06	\$1,732	98.4%	722	70%	36%	1%	0%
May-06	\$2,283	99.5%	724	70%	36%	0%	0%
Jun-06	\$2,456	89.1%	728	70%	36%	0%	0%
NON-OWNER OCCUPIED							
Overall	\$6,171	92.6%	719	70%	34%	0.95%	0.36%
Jun-05	\$872	88.6%	720	70%	33%	1%	0%
Jul-05	\$723	91.7%	720	70%	36%	1%	0%
Aug-05	\$773	92.0%	719	70%	33%	1%	0%
Sep-05	\$876	92.7%	720	70%	34%	1%	0%
Oct-05	\$673	94.2%	716	70%	33%	1%	0%
Nov-05	\$463	93.2%	712	69%	33%	1%	0%
Dec-05	\$383	93.1%	711	69%	34%	1%	0%
Jan-06	\$293	93.5%	713	70%	34%	2%	0%
Feb-06	\$224	95.4%	718	69%	34%	0%	0%
Mar-06	\$276	96.8%	718	71%	36%	0%	2%
Apr-06	\$234	99.2%	723	70%	32%	0%	1%
May-06	\$317	99.9%	728	70%	33%	0%	1%
Jun-06	\$363	85.6%	728	69%	33%	0%	0%

The volume of layered-risk originations has been consistently low while the credit risk of these originations has been consistently high.

Confidential



Relative Importance of Risk Factors at Origination

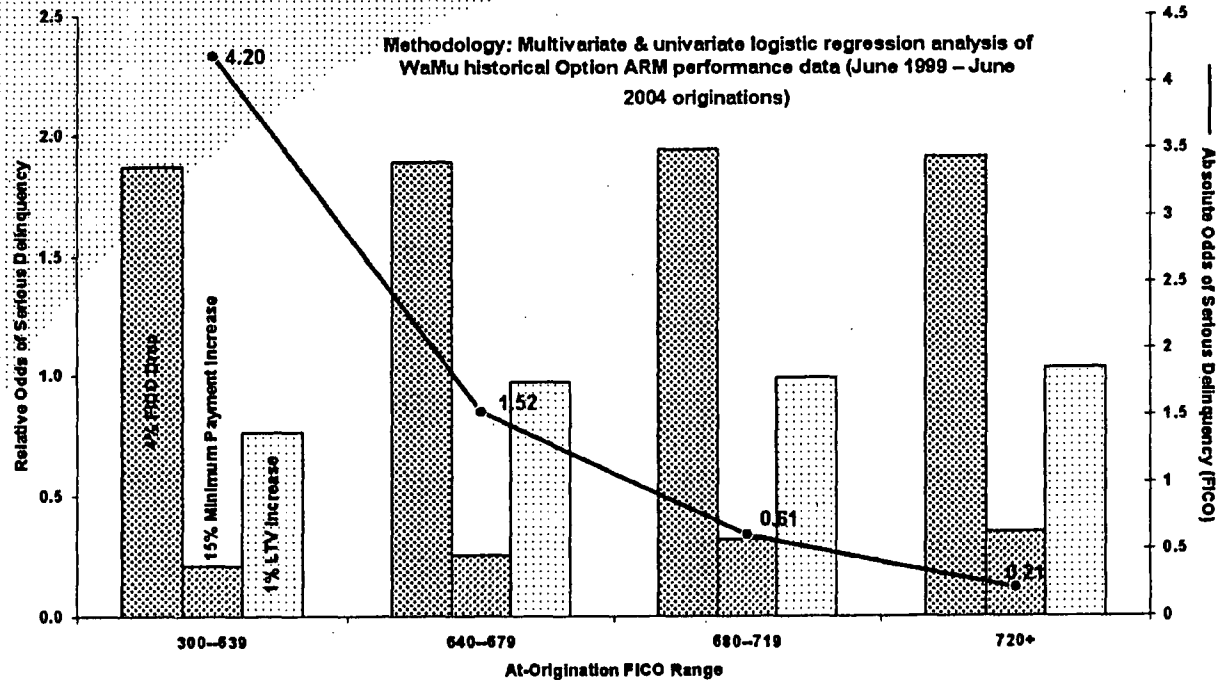


Confidential

 Washington Mutual

Relative Importance of Risk Factors After Origination

Distribution of Relative Odds Ratios of Serious Delinquency by At-Originaton FICO



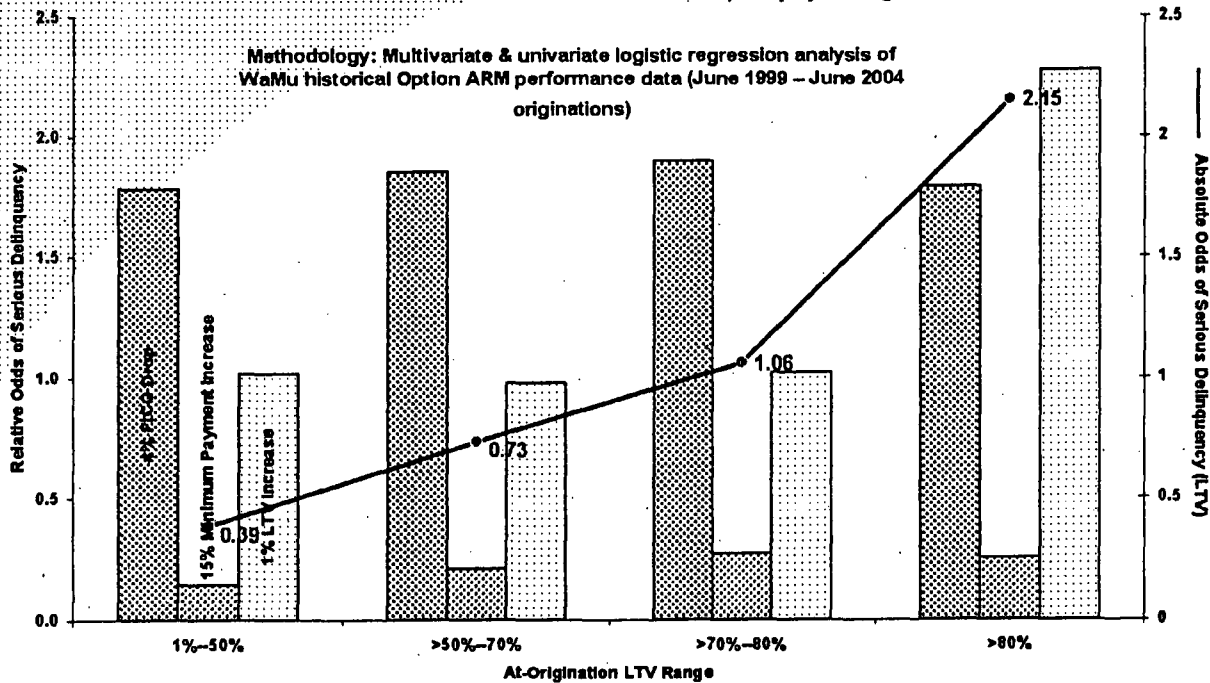
A borrower's At-Originaton FICO Score is the most powerful indicator of future performance. A change in FICO score after origination also influence the probability of default.

Confidential



Relative Importance of Risk Factors After Origination

Distribution of Relative Odds Ratios of Serious Delinquency by At-Originaton LTV

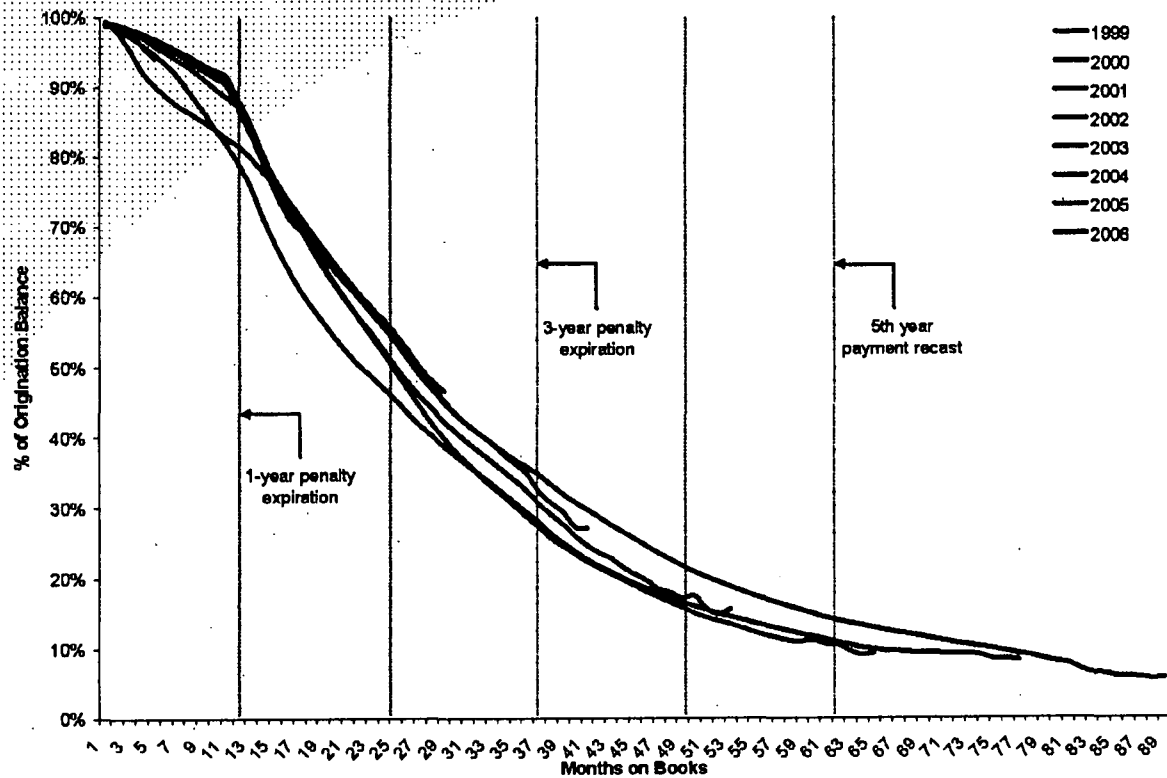


The at-origination loan-to-value ratio is the 2nd most powerful indicator of future loan performance. Changes in borrower home equity after origination influence the probability of default more than changes in minimum payments.

Confidential



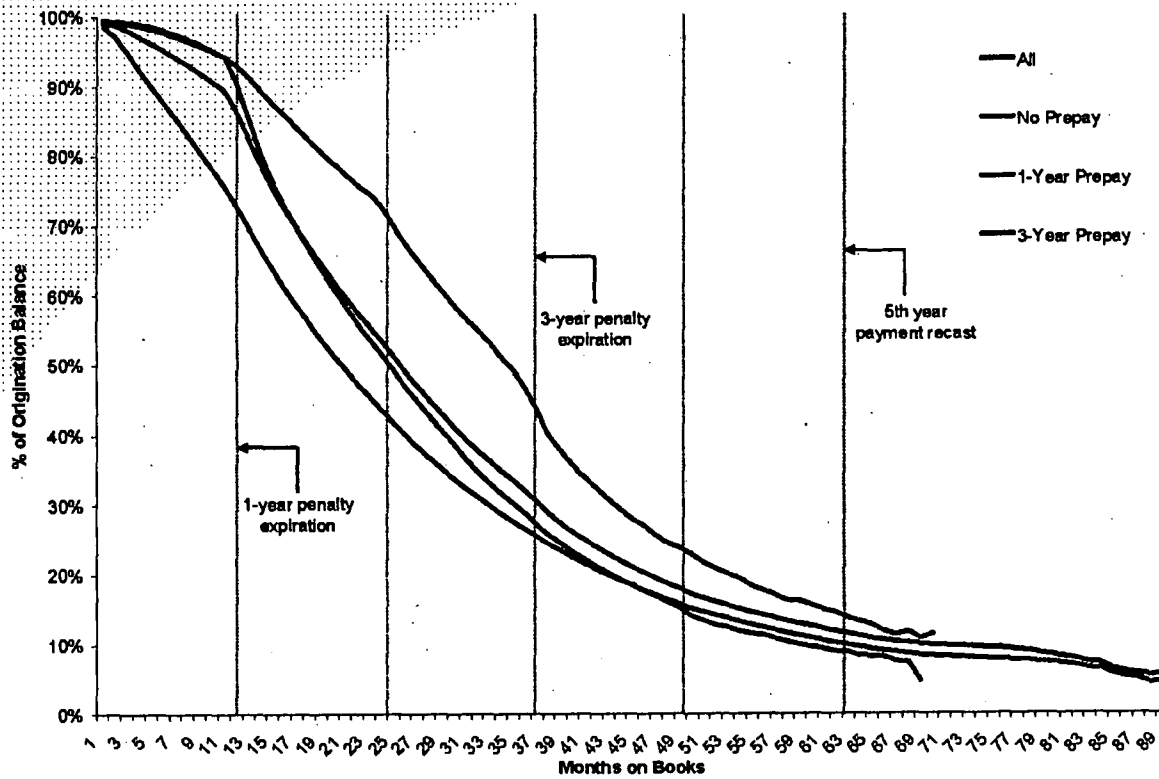
Option ARM Prepayment Curves



Confidential

 Washington Mutual

Option ARM Prepayment Curves



Confidential

 Washington Mutual

Implemented Policy Changes

Risk-Based Pricing

Risk-Based Pricing was implemented in June 2005 with additional enhancements in November:

- Start Rate, Margins and Lifetime Interest Caps are adjusted according to FICO, LTV, Loan Amount, and Loan Feature (Units, Co-ops, documentation, secondary financing, occupancy, LTV and FICO)
- Incremental Start Rate adjustments further reduce the potential for negative amortization for higher risk borrowers.
- Parameter Exception Pricing adjustments properly compensate for risk according to FICO, LTV, loan amount, and layered risk

Qualifying Rates

Option ARM qualifying rates are determined according to a risk-based formula imbedded in an automated mechanism that incorporates market dynamics:

- QRs are equal to the fully-indexed rate
- QRs include risk-based margin adjustments and parameter exception pricing adjustments
- QRs will automatically adjust with monthly index value changes

Negative Amortization Limit

The Negative Amortization Limit for Option ARMs was reduced to 110% from 125% :

- The neg am limit protects against payment shock regardless of future interest rate environments and start rate pricing.

NOO Limits per Borrower

Borrowers with portfolios of Non-owner Occupied properties are constrained :

- The maximum number of Investor properties available for financing, regardless of the lender, will be constrained to 10 NOO loans per borrower, up to a maximum of \$5 million.

Confidential

 Washington Mutual

22

JPM_WM00212661

Impact of Risk-Based Pricing – Teaser Depth

Risk-Based Pricing

Risk-Based Pricing for Option ARMs was implemented in mid-June: start rates and margins were adjusted from "base pricing" according to LTV/FICO combinations, loan amount and loan feature (NOO, COR, Low Doc, etc.).

The effect was a narrowing of the margin-start rate "depth", as indicated by the change in start rates and margins between May 2005 and June 2006 originations.

Margin-Start Rate Depth (May 2005)

Teaser Rate "depth" by FICO and LTV combinations (May 2005 Originations) was wider before risk-based pricing became effective in June 2005:

Owner-Occupied	Margin-Rate Depth (May 2005)			
	1 - 70	>70 - 80	>80 - 90	>90
300 - <620	1.69	1.75	0.24	0.00
620 - <680	1.66	1.76	0.12	-0.97
680 - <720	1.57	1.60	0.17	-0.25
720+	1.36	1.22	0.02	-0.66

Margin-Start Rate Depth (June 2006)

One year later, teaser Rate "depth" by FICO and LTV combinations narrowed considerably, as seen in the June 2006 originations.

Owner-Occupied	Margin-Rate Depth (June 2006)			
	1 - 70	>70 - 80	>80 - 90	>90
300 - <620	0.45	0.87	-0.84	-1.43
620 - <680	1.26	1.41	0.56	-0.49
680 - <720	1.78	1.89	0.65	0.47
720+	1.46	1.82	1.00	0.21

Change in Depth (May-05 – Jun-06)

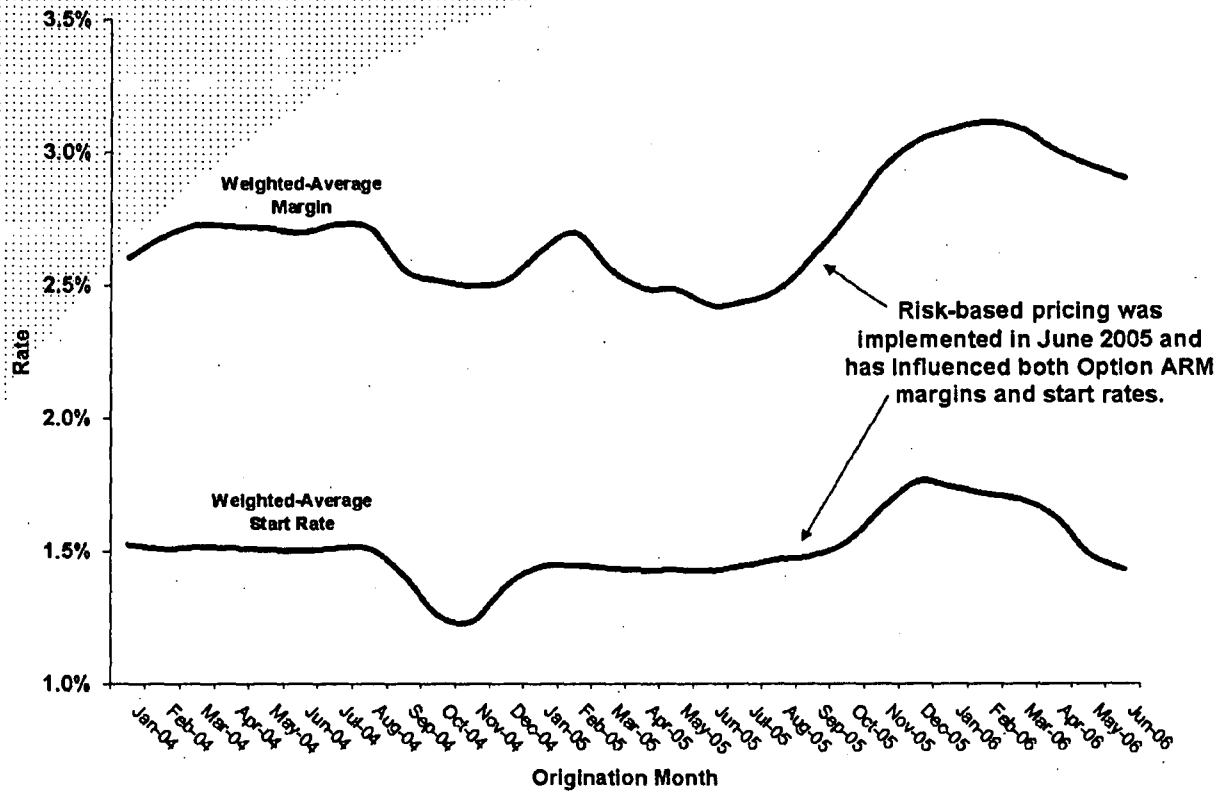
Teaser "depth" narrowed for higher risk categories and widened in lower risk categories or when start rate discounts did not exist:

Owner-Occupied	BPS change in Margin-Rate Depth (May-Jun)			
	1 - 70	>70 - 80	>80 - 90	>90
300 - <620	(125)	(108)	(108)	(143)
620 - <680	(41)	(35)	45	48
680 - <720	21	29	47	72
720+	10	60	98	87

Confidential

 Washington Mutual

Weighted-Average Start Rate & Margin



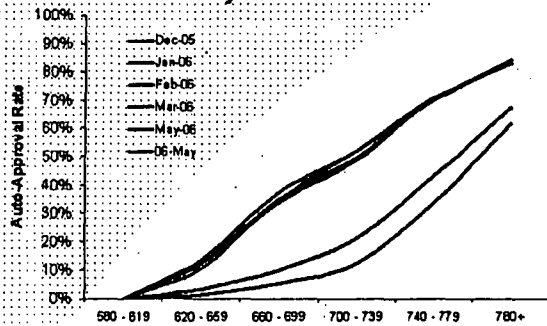
Confidential



Additional Policies and Systems that Mitigate Credit Risk

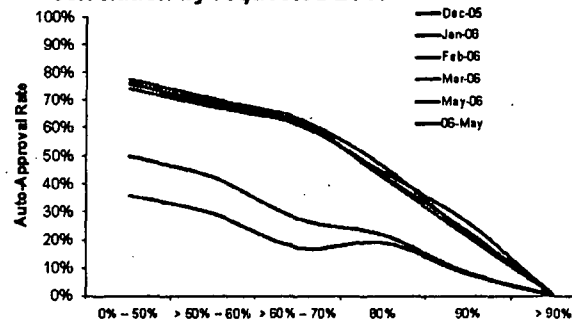
EDE Decisioning

Option ARM auto-approvals shows a strong correlation by FICO Score:



EDE Decisioning

Option ARM auto-approvals shows a strong correlation by requested LTV:



Third Party Due Diligence

Third Party Relationships are constantly evaluated for compliance to policy:

- YTD 2006 broker terminations were primarily due to delinquency, fraud and churning.

	Approved	Terminated	Suspended	Other	Watch List
Wholesale	2,569	421	1,477	933	-
Retail	192	13	35	1	-
LEM	4,092	521	1,149	11	-
Total	6,853	955	2,661	945	

Anti-Fraud Tool

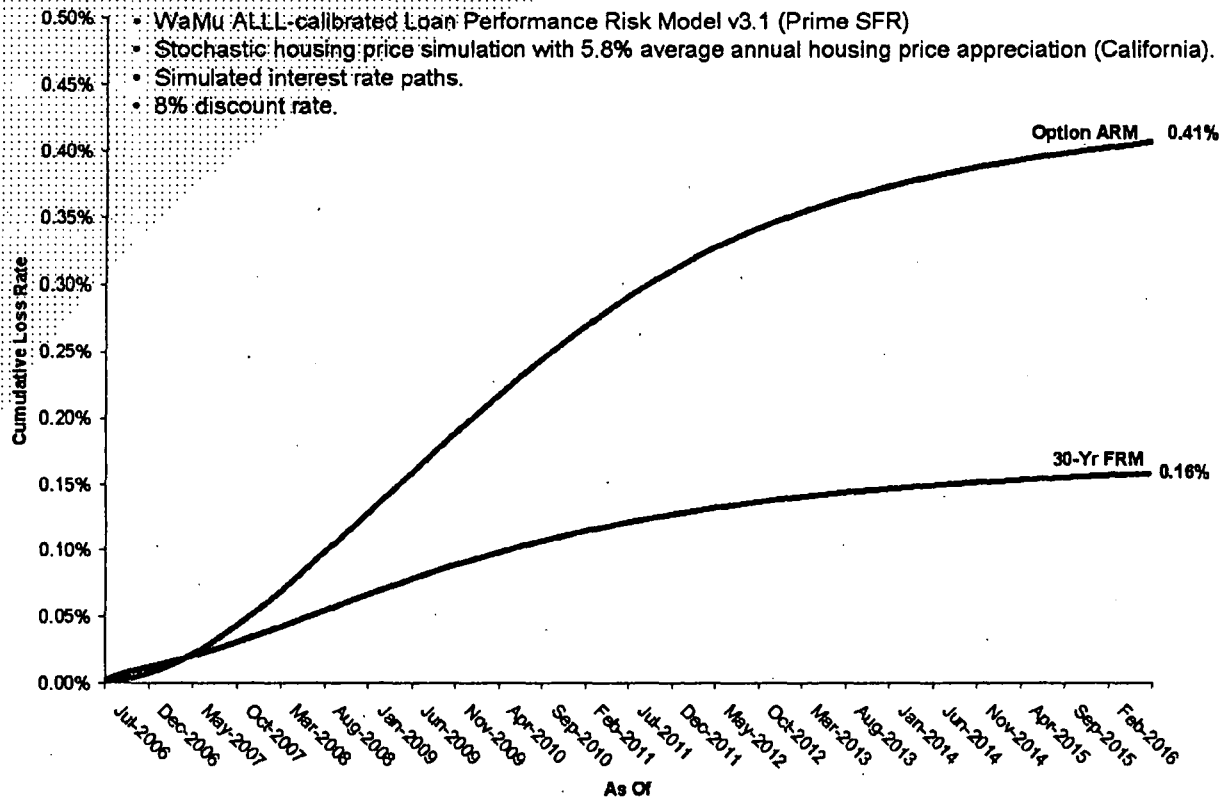
WaMu is evaluating its strategy for employing a fraud tool that will be applied in the Enterprise Decision Engine (EDE) and in manual underwriting processes:

- The fraud tool will evaluate 1003 data integrity and reveal risk-related inconsistencies through separate borrower- and property-related scores.
- "Red Flags" will explain transaction level scores and rules-based criteria will determine subsequent actions or decisions.
- Third party performance or compliance can also be evaluated within the fraud tool.
- The fraud tool is likely to be applied to risk-based products (ex: Option ARMs, Interest Only ARMs, Alt-A and Sub-Prime).

Confidential

 Washington Mutual

Option ARM Credit Loss Forecast



- WaMu ALLL-calibrated Loan Performance Risk Model v3.1 (Prime SFR)
- Stochastic housing price simulation with 5.8% average annual housing price appreciation (California).
- Simulated interest rate paths.
- 8% discount rate.

Confidential



Annualized Risk Premia

Option ARM	
Loan Pool Balance	\$65,066,743,334
Loan Count	195,861
Weighted-average* FICO	698
Weighted-average* LTV	76.5%
Lifetime Loss Rate	0.41%
Probability of Default	2.16%
Loss Given Default	18.80%
Annualized Loss Rate	0.13%
Basel II Economic Capital	0.70%
Capital Charge	15.0%
Annualized Premium	0.23%

* weighted by at-origination balance

30-Yr FRM	
Loan Pool Balance**	\$20,426,355,708
Loan Count**	126,314
Weighted-average* FICO	682
Weighted-average* LTV	71.1%
Lifetime Loss Rate	0.16%
Probability of Default	1.76%
Loss Given Default	8.99%
Annualized Loss Rate	0.05%
Basel II Economic Capital	0.34%
Capital Charge	15.0%
Annualized Premium	0.10%

* weighted by at-origination balance

** 10% random sample of all FRM 30 production since 2003

METHODOLOGY

- WaMu ALLL-calibrated Loan Performance Risk Model v3.1 (Prime SFR)
- Stochastic housing price simulation with 5.8% average annual housing price appreciation (California).
- Simulated interest rate paths.
- 8% discount rate.
- 3.24 years average loan life (Option ARM).
- Premium = Annualized Loss Rate + (Economic Capital x 15% capital charge).

Confidential



27

JPM_WM00212666

Annualized Risk Premia by NOO, Low Doc

Option ARM Owner Occupied	
Loan Pool Balance	\$48,154,549,953
Loan Count	124,895
Weighted-average* FICO	690
Weighted-average* LTV	72.1%
Cumulative Lifetime Loss	\$181,098,975
Lifetime Default	\$1,117,584,388
Lifetime Loss Rate	0.38%
Probability of Default	2.32%
Loss Given Default	18.20%
Annualized Loss Rate	0.13%
Basel II Economic Capital	0.63%
Capital Charge	15.0%
Annualized Premium	0.22%

* weighted by at-origination balance

Option ARM Full Doc	
Loan Pool Balance	\$19,897,108,578
Loan Count	70,603
Weighted-average* FICO	700
Weighted-average* LTV	76.4%
Cumulative Lifetime Loss	\$84,429,524
Lifetime Default	\$389,808,625
Lifetime Loss Rate	0.42%
Probability of Default	1.96%
Loss Given Default	21.66%
Annualized Loss Rate	0.12%
Basel II Economic Capital	0.76%
Capital Charge	15.0%
Annualized Premium	0.24%

* weighted by at-origination balance

Option ARM Non-Owner Occupied	
Loan Pool Balance	\$13,010,494,176
Loan Count	59,641
Weighted-average* FICO	712
Weighted-average* LTV	70.4%
Lifetime Loss Rate	0.50%
Probability of Default	1.49%
Loss Given Default	33.96%
Annualized Loss Rate	0.13%
Basel II Economic Capital	0.97%
Capital Charge	15.0%
Annualized Premium	0.28%

* weighted by at-origination balance

Option ARM Low Doc	
Loan Pool Balance	\$43,515,545,998
Loan Count	106,146
Weighted-average* FICO	697
Weighted-average* LTV	68.1%
Lifetime Loss Rate	0.41%
Probability of Default	2.31%
Loss Given Default	17.81%
Annualized Loss Rate	0.12%
Basel II Economic Capital	0.70%
Capital Charge	15.0%
Annualized Premium	0.23%

* weighted by at-origination balance

Confidential

 Washington Mutual

28

JPM_WM00212667

Annualized Risk Premia by FICO - LTV

FICO	LTV					Overall
	0% - 60%	> 60% - 70%	> 70% - 80%	> 80% - 90%	> 90%	
< 620	0.22%	0.51%	0.68%	0.73%	0.31%	0.55%
620-639	0.14%	0.38%	0.55%	0.67%	0.24%	0.44%
640-659	0.06%	0.14%	0.20%	0.25%	0.10%	0.17%
660-679	0.09%	0.23%	0.35%	0.42%	0.24%	0.28%
680-699	0.07%	0.18%	0.27%	0.29%	0.12%	0.22%
700-719	0.04%	0.12%	0.19%	0.22%	0.16%	0.15%
720+	0.02%	0.07%	0.12%	0.14%	0.12%	0.10%
Overall	0.08%	0.20%	0.28%	0.38%	0.20%	0.23%

Confidential

 Washington Mutual

29

JPM_WM00212668



DRAFT

Option ARM

Board of Directors Meeting

October 17, 2006

David Schneider
President, Home Loans

Permanent Subcommittee on Investigations
EXHIBIT #38

JPM_WM02549025

WaMu Option ARM Positioning



David Schneider's comment on the Guidance for Non Traditional Mortgages

“WaMu is committed to offering a range of products to our customers to meet their individual needs. The Option ARM is an attractive product for many of our customers. We have a great deal of experience in underwriting and originating Option ARM loans through many market cycles. We've offered this product for more than 20 years. We know the best mortgage customer is a well-informed borrower. That's why we focus on providing clear, understandable disclosures for our customers and ongoing training for our sales force.

We're still analyzing the Guidance so we don't want to speculate on what, if any, impact the new guidelines may have on our business practices. **However, we believe that all mortgage originators should be held to the same standards. As a result, we encourage the state regulatory authorities to follow suit and issue the same guidelines so that consumers receive consistent disclosures and lenders have an even playing field.”**

Business Wire – Friday, September 29, 2006

Option ARM Overview



Product Characteristics

- **Characteristics - Four Monthly Payment Options**
 - Minimum payment
 - Interest only
 - Full principal and interest
 - Full principal and interest (15-year amortization)
- **Product Types**
 - 1 or 3 month introductory start rate periods (12-MTA or COFI index), 30-year or 40-year terms
- **Features**
 - The accrual interest rate resets 1st day of each month following the introductory period

Product Mechanics

- **Introductory Rate and Equity Access**
 - Introductory rate lasts for 1-3 months
 - Introductory rate used to calculate first 12 "minimum payments"
 - Minimum payment is "recast" each 5th year (or when negative amortization reaches cap)
 - Negative amortization is deferred interest and is added to unpaid principal balance
- **Change Caps and Recast**
 - The current negative amortization cap is 110% of original loan balance
 - Negative amortization cap scheduled to change to 115% by end of 2006 (new originations only)
 - If negative amortization cap is reached prior to 5th year anniversary, loan is recast to fully amortizing payment over remaining term
 - Minimum payments can adjust by a maximum of 7.5% each year until reaching a fully-amortizing payment; annual payment cap does not apply when recast occurs

WaMu Option ARM Quick Facts

	Serviced Originations as of 6/30/06				YTD 2006 Originations
	Hold For Investment	Hold For Sale	Sold	Total Serviced	
Outstanding (\$ billion)	\$65	\$2	\$115	\$181	\$33
Incidence of Neg Am (1)	80%	4%	63%	61%	64%
Magnitude of Neg Am (2)	0.9%	0.0%	0.8%	0.8%	0.3%
Avg LTV: At Origination	71%	69%	71%	71%	72%
Avg LTV: Current (3)	56%				
Avg FICO: At Origination	699	735	712	707	716
Avg FICO: Current (4)	708				
% with FICO <680 & LTV >80	4%	3%	1%	3%	1%

(1) Incidence is the percent of balances actively deferring interest as of 6/31/06
 (2) Magnitude is capitalized deferred interest as a percent of outstanding balances
 (3) Estimated current LTV based on OFHEO repeat sales index as of 1st Qtr 2006
 (4) FICO score refreshed as of 6/30/06

Market Share	2005	Q1 2006	Q2 2006
WaMu	20.4%	12.1%	14.8%

Industry Product Misconceptions – Option ARM



Concerns

- Introductory rate (negatively referred to as a "Teaser" rate)

- Negative amortization results in growing principal balance

- Accrual accounting requires recognizing income prior to cash receipt on a minimum payment (*"Banks can claim future revenue, inflating earnings per share." Business Week*)

- Higher loss rates than traditional prime fixed rate mortgage loans

- Customer disclosures are inadequate

WaMu Mitigating Procedures

- Qualified at a fully indexed rate and P&I payment
- FICO score limitations (no subprime borrowers)
- Loan to value limitations
- Risk-based pricing reduces start rate discount for higher risk transactions

- Annual caps on payment increases (except recast)
- Lifetime caps on negative amortization
- Recast every 5 years or when negative amortization cap reached

- Non-accrual policy
- Allowance for loan losses
- GAAP

- Better risk-adjusted returns than prime FRMs
- Risk-based pricing compensates for losses in higher risk transactions
- Loss rates comparable to prime amortizing ARMs
- Periodic non performing asset sales to manage credit risk

- Best-in-class disclosures
- Fed "charm book" utilized WaMu disclosures as baseline for example for other lenders

Executive Summary - Guidance on Non Traditional Mortgages



Alternative Products – (Include Option ARMs)

- The recently promulgated Interagency Guidance on Non-Traditional Mortgages recommends that borrowers are qualified for Option ARMs assuming that minimum payments are commonly selected and negative amortization is accumulated.
- Initial impact analysis has been performed on WaMu Option ARMs originated in 2006 to estimate the percent of volume that might not have been approved if the new guidance had been in effect. As the guidance recognizes that companies may develop reasonable tolerance ranges and underwriting is based upon multiple factors, this initial analysis was targeted at borrowers of Option ARM loans with a FICO of less than 680 and an original LTV greater than 80% (thereby excluding implicitly lower risk borrowers).
- Results from this preliminary analysis indicates a very small (< 5%) impact on Option ARM volume based on qualification changes recommended in the new guidelines.
- It is important to note that as much of the guidance is open to interpretation, impact may vary dependent on how the OTS chooses to apply the standards to WaMu. Currently in active discussions with the OTS to obtain further clarity on expectations.

Summary of Guidance - Operational & Strategic Impact



Loan Terms and Underwriting Standards

Should reflect the effect of a substantial payment increase on borrower's capacity to repay when amortization begins. Institutions are strongly cautioned against ceding underwriting standards to third parties that have different risk tolerances. Includes guidance on qualifying borrowers, risk layering, and documentation.

Portfolio and Risk Management Practices

Should keep pace with the growth and changing risk profile of their NTM loan portfolios and changes in the market. Includes guidance on policies and procedures and third party originations.

Consumer Protection Issues

Agencies are concerned that consumers may enter into these transactions without fully understanding the product terms. WaMu should not only apprise consumers of the benefits of NTMs, but also take appropriate steps to alert consumers to the risks of these products, including the likelihood of increased future payment obligations. Includes guidance on customer disclosures and communication.

Strategic Summary

- Based on preliminary analysis of the guidance to date, while there are some operational changes forthcoming, the impact to Home Loans with regards to the origination of the Option ARM product appears limited.
- WaMu Home Loans is well positioned to continue offering the Option ARM product to our customers.
- We do not see any fundamental reason to change our approach on how the Option ARM product is offered to our customers other than the operational changes necessary per the guidance.
- We believe there will be continued healthy demand for this product if positioned appropriately with our customers

Option ARM Accounting

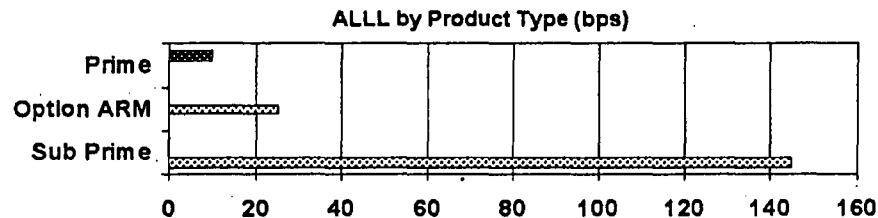


Income Recognition Policy

- The press suggested recognizing income on cash receipt might be a preferable accounting policy. It is not GAAP.
 - Accrual accounting recognizes interest income at contractual rate when it is earned, not when collected.
 - If borrower pays minimum payment, unpaid interest must be booked when collectability is reasonably assured.
- If interest deemed uncollectible, accrual of interest must stop when the loan becomes 90 days past due.
 - Loan losses recognized when probable & reasonably estimable.
 - Only losses that have been deemed to be incurred as of the balance sheet date may be reserved.

Allowance for Lease Losses on Option ARMS

- Loan balances reviewed under the ALLL process include capitalized negative amortization.
- Separate calibration dial for Option ARMs in ALLL calculation.



Option ARM Accounting



Observations and Conclusions

- Observations
 - Annual and lifetime interest rate and negative amortization caps protect borrower.
 - Current underwriting at fully-indexed rate, high FICO, and LTV limitations protect WaMu and borrower.
 - As a result of an SEC release in 2005, WaMu enhanced its financial statement disclosures.
- Conclusions
 - WaMu accounting policy and disclosures comply with *GAAP* and SEC requirements.

From: Killinger, Kerry K. <kerry.killinger@wamu.net>
Sent: Tuesday, April 3, 2007 12:42 PM
To: Rotella, Steve <steve.rotella@wamu.net>; Casey, Tom <tom.casey@wamu.net>;
Magleby, Alan F. <alan.magleby@wamu.net>
Subject: FW: Option ARM's

Guys,

Craig was President of our money management company for a few years. His concerns expressed here might mirror what our investors will focus on at the first quarter conference call. I think we better be well prepared to defend the option ARM portfolio.

Kerry

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

From: Craig Hobbs [mailto:chobbsbi@msn.com]
Sent: Monday, April 02, 2007 3:44 PM
To: Killinger, Kerry K.
Subject: Option ARM's

Kerry,

I'd like to call your attention to the risks in Option ARM's in this nasty credit cycle, just in you're not hearing a contrary viewpoint internally. For reasons described below, I believe it remains timely to have a thorough review of potential credit/recasting risks within WAMU's Option ARM portfolio — particularly (a) loans generated in 2004/2005 and (b) loans made in areas of speculative/problem markets over the past few years.

The collapse of the sub-prime market is, of course, all over the news. The next phase of this market sector will likely be played out in the banks and S&L's reporting increasing problem loans and reserves for loan losses. BUT, in this dicey environment, investors will likely soon focus their attention on Option ARM's (including WAMU's portfolio) for the following reasons:

- (1) the product is untested in a residential real estate downturn;
- (2) the major recasting of WAMU's Option ARM portfolio doesn't really kick in until 2008, when 12.1% of WAMU's Option ARM's will be recast. By its very nature, loan problems within the Option ARM portfolio will be postponed until recasting occurs;
- (3) the 2004 and 2005 production of Option ARM's is particularly problematic, since many of these loans were qualified based on an "administratively set rate", which was below the fully-indexed rate;
- (4) the Option ARM's create significant Capitalized Interest over time, and this line item is likely to get increasing focus by investors over the next 12-18 months; and,
- (5) 68% of WAMU's Option ARM portfolio is in Negative Amortization, and this feature of Option ARM loans is also likely to receive increasing investor focus over the next 12-18 months.

As you know, Capitalized Interest in 2006 amounted to 23.1% of reported net income, and by its very nature, this percentage will likely increase in 2007 and 2008. Also, on a long term policy basis, what

Permanent Subcommittee on Investigations

EXHIBIT #39

maximum percentage of net income should WAMU's Capitalized Interest be allowed to rise to?

For all the above reasons, a thorough scrubbing of WAMU's Option ARM portfolio is warranted at this time – particularly the 2004/2005 production and loans made in areas of speculative/problem markets over the past few years. As investors focus increased scrutiny on the the structure of the Option ARM's and WAMU's Option ARM portfolio over the next 12-18 months, a strong Option ARM portfolio will likely pay large dividends in investor confidence in the future.

Craig Hobbs

From: Fortunato, Steve
Sent: Thursday, September 14, 2006 7:41 PM
To: Schneider, David C. <david.schneider@wamu.net>
Subject: Fw: Tom Casey visit

We need to look at any accounting of a sale from HFI.

-----Original Message-----

From: Chen, Youyi
To: Fortunato, Steve
Sent: Thu Sep 14 15:37:16 2006
Subject: FW: Tom Casey visit

From: Potolsky, Doug
Sent: Thursday, September 14, 2006 4:34 PM
To: Drastal, John; Beck, David
Cc: Chen, Youyi
Subject: RE: Tom Casey visit

We will be showing out the residual off LBMLT 2006-08 tonight (pre NIM) getting bids back next Tuesday. Will do the same with the conduit HE3 deal this month. A seasoned post NIM LB deal...most likely 2006-01 will be shown out as well. Other strategy discussions need to be continued.

Doug Potolsky
Capital Markets
Washington Mutual
623 Fifth Ave. 17 Fl.
NY, NY 10022
212-702-6961
201-240-7417(cell)
douglas.potolsky@wamu.net

From: Drastal, John
Sent: Thursday, September 14, 2006 3:54 PM
To: Beck, David
Cc: Chen, Youyi; Potolsky, Doug
Subject: Tom Casey visit
Importance: High

David,

Tom just stopped by after the Lehman investor conference. He says equity investors are totally freaking about housing now. He asked how we could prepare for this. A few items:

1. He asked about the ability to offload some Long Beach production forward. I mentioned that volume was down and the collateral

Permanent Subcommittee on Investigations
EXHIBIT #40a

JPM_WM03160233

profile was improving but said that we would discuss forward whole loan sales for the remainder of the year if the execution looked good.

2. On the portfolio side, he asked about exposure on option ARMs. We talked about looking to potentially sell '06 production Option ARMs in portfolio. He even said looking at this quarter. I don't think that this is possible but we should look at what the credit composition of this product is and see if we can sell quickly if it's the right thing to do (see Nagle's message). He doesn't foresee a tainting issue if we are doing it for credit issues. Youyi, can you get me a collateral strat from the portfolio?

3. On the MSR side, he asked about mortgage spreads being tight. I agreed that they are and explained the current decrease in P&L vol. He was willing to take some short term vol because he thinks mortgage spreads will widen in a future credit event. There is also buzz about BofA being close to their LOCOM mark and that may impact spreads.

I am out Friday but available via email if you need me.

John
John E. Drastal
Senior Managing Director
WaMu Capital Corp
212-702-6945
206-200-3959 (cell)

WaMu Capital Corp. is a registered broker dealer, member NASD and SIPC, and a wholly owned subsidiary of Washington Mutual Bank.

This message (including any attachments) is CONFIDENTIAL. If you are not the intended recipient of this information, or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute, or copy this information. If you have received this message in error, please contact the sender immediately. WaMu Capital Corp. reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

In the UK, this communication is directed at persons having professional experience in matters relating to investments. Any investment or investment activity to which this communication relates is only available to or will be engaged in only with persons having professional experience in matters relating to investments. Persons who do not have such experience should not rely on this communication or any aspect of it.

From: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Sent: Tuesday, February 20, 2007 12:49 PM
To: Shaw, Robert H. <u164181@wamu.com>; Haines, Troy L. <u239117@wamu.com>; Parker, Michael <u601400@wamu.com>
Cc: Tryon, Diane M. <u229593@wamu.com>
Subject: URGENT NEED TO GET SOME WORK DONE IN NEXT COUPLE OF DAYS:
Option ARM MTA and Option ARM MTA Delinquency

Bob, Troy and Mike:

See the attached string of emails. We are contemplating selling a larger portion of our Option ARMs than we have in the recent past. Gain on sale is attractive and this could be a way to address California concentration, rising delinquencies, falling house prices in California with a favorable arbitrage given that the market seems not to be yet discounting a lot for those factors. David Schneider has set a meeting for Friday morning with David Beck and me to hear our conclusions and recommendations. See the comments below about the information that we need to provide for this analysis. We will get the pools by tomorrow at the latest. We will need to coordinate with Joe Matthey and get input from him in order to make a judgment regarding the ALLL impact.

Troy, I don't think your team is yet equipped to undertake this exercise, so I will ask Bob to lead the effort. There are a number of other items that Bob's team is working on right now. Scott Gordon is also out this week so any assistance, Troy, that your team could provide would be much appreciated.

In addition to the specific information that David Beck asks for, I would like your input on portions of the Option ARM portfolio that we should be considering selling. We may have a different view than David Beck's team as to the most desirable to sell and we should provide that input. Our suggestion, for instance, might include loans in California markets where housing prices are declining. There may be other factors.

I will need to get from you by Thursday, February 22 end of day a summary of our conclusions and recommendations. We should plan to meet at the end of the day on Thursday to discuss the findings. I will have Diane set something up.

Please let me know your thoughts on this approach. Thanks.

Cheryl

From: Beck, David
Sent: Tuesday, February 20, 2007 7:17 AM
To: Schneider, David C.; Feltgen, Cheryl A.
Cc: Richards, Alison
Subject: RE: Option ARM MTA and Option ARM MTA Delinquency

Here's how I see this going.

From the MBR, my notes indicate two portfolios we discussed for sale; The 2007 high margin production (Jan and Feb so far) and the seasoned COFI book.

I will supply to Cheryl the loan level detail on both pools and the pricing assumption for losses. Cheryl, you need to run scenario analysis and on losses versus pricing AND reserving assumption. I can supply pricing assumptions but would like you to pull the ALLL against these pools.

Meanwhile, I'll coordinate buy sell analysis with finance. Cheryl, we'll send you the pools

Permanent Subcommittee on Investigations
EXHIBIT #40b

tomorrow latest.

From: Schneider, David C.
Sent: Sunday, February 18, 2007 10:52 PM
To: Feltgen, Cheryl A.; Beck, David
Cc: Richards, Alison
Subject: RE: Option ARM MTA and Option ARM MTA Delinquency

Lets do the following:

1. db - please select the potential sample portfolios - along the lines we discussed at the mbr
2. cf - please run credit scenarios
- 3 db - coordinate with finance on buy/sell analysis
- 4 db/cf - recommendation

From: Feltgen, Cheryl A.
Sent: Sun 02/18/2007 5:48 PM
To: Schneider, David C.; Beck, David
Cc: Richards, Alison
Subject: RE: Option ARM MTA and Option ARM MTA Delinquency

The results described below are similar to what my team has been observing. California, Option ARMs, large loan size (\$1 to \$2.5 million) have been the fastest increasing delinquency rates in the SFR portfolio. Although the low FICO loans have a higher absolute delinquency rates, the higher FICOs have been increasing at a faster pace than the low FICOs. Our California concentration is getting close to 50% and many submarkets within California actually have declining house prices according to the most recent OFHEO data from third quarter of 2006. There is a meltdown in the subprime market which is creating a "flight to quality". I was talking to Robert Williams just after his return from the Asia trip where he and Alan Magleby talked to potential investors for upcoming covered bond deals backed by our mortgages. There is still strong interest around the world in USA residential mortgages. Gain on sale margins for Option ARMs are attractive. This seems to me to be a great time to sell as many Option ARMs as we possibly can. Kerry Killinger was certainly encouraging us to think seriously about it at the MBR last week. What can I do to help? David, would your team like any help on determining the impact of selling certain groupings of Option ARMs on overall delinquencies? Let me know where we can help. Thanks.

Cheryl

From: Schneider, David C.
Sent: Sunday, February 18, 2007 3:16 PM
To: Beck, David; Feltgen, Cheryl A.
Cc: Richards, Alison
Subject: RE: Option ARM MTA and Option ARM MTA Delinquency

Cheryl, your thoughts?

AMR - please print and send and set up 30 minutes with this group to discuss (this week).
ds

From: Beck, David
Sent: Wed 02/14/2007 2:08 PM
To: Schneider, David C.; Feltgen, Cheryl A.

Subject: FW: Option ARM MTA and Option ARM MTA Delinquency

Please review. The performance of newly minted option arm loans is causing us problems. Cheryl can validate but my view is our alt a (high margin) option arms is not performing well.

We should address selling 1Q as soon as we can before we loose the oppty.
We should have a figure out how to get this feedback to underwriting and fulfillment.

The other document is the GOS analysis and NIM impact.

Lets discuss.

From: Chen, Youyi
Sent: Wednesday, February 14, 2007 2:59 PM
To: Beck, David
Cc: Elson, Richard W.; Lash, Michael
Subject: FW: Option ARM MTA and Option ARM MTA Delinquency

David,

This answers partially Schneider's questions on break down of the option arm delinquencies.

The details (1PPD tab) shows Low fico, low doc, and newer vintages are where most of the delinquency comes from, not a surprise.

Yes, we (Rick, Lash) are reevaluating our risk based pricing add on's. As a related project, Risk is currently circulating and discussing a super jumbo pricing revision w/ Michael Parker et. al.

Youyi

From: Ellson, Richard W.
Sent: Wednesday, February 14, 2007 12:56 PM
To: Chen, Youyi
Cc: Liu, Michael; Chan, Susan
Subject: FW: Option ARM MTA and Option ARM MTA Delinquency

Youyi--attached is a description of the Option ARMs that were delinquent in the 2006q4. You can see that it is very much a function of FICOs and Low Doc loans. We are in the process of updating the optimum pricing matrix. Mike did the work. Your comments are appreciated.

Rick

Richard Ellson, Ph.D; Senior Vice President
SFR Portfolio Management
Washington Mutual
623 5th Avenue
18th Floor--5092WMNY
New York, NY 10022
212-702-6972

From: Liu, Michael
Sent: Wednesday, February 14, 2007 12:51 PM
To: Ellson, Richard W.
Cc: Chan, Susan
Subject: Option ARM MTA and Option ARM MTA Delinquency

Hi Rick,

Attached is the spreadsheet with the total Option ARM MTA (yesterday's spreadsheet included a few loans that weren't MTA) and Option ARM MTA ≥ 1 PPD summary. Some points for the Option ARM MTA ≥ 1 PPD:

- \$ 105mm in Nonaccrual is between FICO 501-540.
- \$ 222mm in Nonaccrual between LTV 61-80.
- CA represents the greatest amount of Delinquency (1PPD, 2PPD,3PPD, nonaccrual)
- Loans originated in 2004 and 2005 represent the highest amount of 3 PPD and nonaccrual

Please let me know if you have any questions. Thanks.

Michael Liu
Washington Mutual
Portfolio Analyst/Trader
(206) 554-8580

This communication may contain privileged or other confidential information. If you have received it in error, please advise the sender by reply email and immediately delete the message and any attachments without copying or disclosing the contents. Thank you.

From: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Sent: Tuesday, February 20, 2007 3:50 PM
To: Beck, David <u172571@wamu.com>; Chen, Youyi <u206428@wamu.com>; Ellson, Richard W. <u212931@wamu.com>
Cc: Shaw, Robert H. <u164181@wamu.com>; Haines, Troy L. <u239117@wamu.com>; Parker, Michael <u601400@wamu.com>
Subject: Some thoughts on targeted population for potential Option ARM MTA loan sale

David, Youyi and Rick:

My team and I look forward to receiving the loan level detail on the pools of Option ARMs we are considering for sale. I thought it might be helpful insight to see the information Bob Shaw provides below about the components of the portfolio that have been the largest contributors to delinquency in recent times. I know this is mostly an exercise about gain on sale, but we might also be able to accomplish the other purpose of reducing risk and delinquency at the same time. Talk to you soon.

Cheryl

From: Shaw, Robert H.
Sent: Tuesday, February 20, 2007 11:52 AM
To: Feltgen, Cheryl A.; Haines, Troy L.; Parker, Michael
Cc: Tryon, Diane M.
Subject: RE: URGENT NEED TO GET SOME WORK DONE IN NEXT COUPLE OF DAYS: Option ARM MTA and Option ARM MTA Delinquency

Cheryl,

I reviewed the HFI prime loan characteristics that contributed to rising 60+ delinquency rates between 1/06 -1/07. The results of this analysis show that seven combined factors contain \$8.3 billion HFI Option ARM balances which experienced above-average increases in the 60+ delinquency rate during the last 12 months (a 821% increase, or 10 times faster than the average increase of 79%). I recommend that we select loans with some or all of these characteristics to develop a HFS pool.

Below, I have listed the factors (layered), their percent change in 60+ delinquency rate over the last 12 months, and HFI balances as of January 2007.

- 1) HFI Option ARMs – 79% increase (.56% to 1.0%), \$60.6 billion
- 2) Above + Vintages 2004-2007 – 179% increase (.33% to .92%), \$47.8 billion
- 3) Above + CA – 312% increase (.16% to .66%), \$23.7 billion
- 4) Above + NY/NJ/CT – 254% increase (.21 to .76%), \$29.3 billion
- 5) Above + \$351k-1mil – 460% increase (.12 to .70%), \$17.2 billion
- 6) Above + FICO 700-739 – 1197% increase (.03% to .40%), \$4.2 billion
- 7) Above + FICO 780+ - 1484% increase (.02% to .38%), \$5.2 billion
- 8) Above + FICO 620-659 – 821% increase (.07 to .67%), \$8.3 billion

Robert H. Shaw
Home Loans Risk Management
WaMu
206-500-1407 (office)
509- (mobile)
robert.shaw@wamu.net

From: Chen, Youyi
Sent: Tuesday, February 27, 2007 2:21:33 PM
To: McCarthy, Michelle
CC: Beck, David; Feltgen, Cheryl A.; Fortunato, Steve; Griffith, David; Murray, William; Stack, Fergal; Williams, Robert J.; Shaw, Robert H.; Matthey, Joseph; Drastal, John
Subject: HFI selection criteria changes

Attachments: HFICriteria.xls

Michelle,

After careful review with David and the teams, David suggested me to make following recommendations to MRC on the existing prime HFI/HFS selection criteria

1. Effective March 7th 2007, modify the portfolio option ARM and COFI ARM retention criteria (see attached "existing HFI descriptions", "section 1.01 to 1.11 and section 2.01 to 2.08") to include only following loans for the portfolio (HFI)
 - a. Super jumbo of size greater or equal to \$ 3 MM (Risk based pricing applied, but difficult to sale)
 - b. Advantage 90 (high LTV loans without MI, very little production as 80/10/10 gets popularity)
 - c. Foreign Nationals (Risk based pricing applied, but difficult to sale due to FICO problems)
 - d. FICO less than 620, except employee loans in which case FICO can be re-stated after closing.
 - e. 3-4 units (excessive S & P level hit calls for portfolio execution)
2. Further more, we would like to request, transferring from HFI to HFS, all the MTA option ARMs and COFI ARMS, funded or locked between January 1st, 2007 to Mach 7th, 2007, and DO NOT fit the criteria listed above, and DO NOT fit the criteria section 3.02 to 4.07 in the attached "existing HFI descriptions")

As a result of this change, we expected to securitize and settle about \$ 2 billion more option/COFI ARMs in Q1-07 (mostly margin greater than 295), and going forward \$ 1 billion per month potential incremental volume into HFS. For your information, the impact to gain on sale for the year is estimated to be about \$180 MM pretax based on current market, and the impacts to 2007 portfolio Nil is estimated to be about - \$ 80 MM pretax.

Also included in the attachment, is a pool of \$1.3 billion option/COFI ARMs funded to portfolio between January 1st and February 22nd that will be re-classified as HFS based on the above recommendations. We understand that this population of loans will be growing from now to March 7th until the portfolio selection criteria are officially modified.

We expected to start marketing the deal on March 12th, your prompt response will be greatly appreciated as the TSG and QRM teams also need time to implement the coding changes.

Regards,

Youyi



HFICriteria.xls
(179 kB)

Permanent Subcommittee on Investigations

EXHIBIT #42a

JPM_WM03480489

From: Ballenger, Melissa J. <melissa.ballenger@wamu.net>
Sent: Tuesday, February 27, 2007 4:41 PM
To: Eller, Greg <gregory.eller@wamu.net>; Stack, Fergal <fergal.stack@wamu.net>;
Woods, John F. <john.woods@wamu.net>
Subject: Re: HFI Option Arms redirected to HFS

Thanks Greg. I would support the idea of a governance approval for HFS to HFI transfers. Please let me know if I can help.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Eller, Greg

To: Ballenger, Melissa J.; Stack, Fergal; Woods, John F.

Sent: Tue Feb 27 10:31:31 2007

Subject: RE: HFI Option Arms redirected to HFS

Cory can you send Melissa a copy of the draft memo and the situation-specific memo on the \$17 billion transfer?

Melissa:

For the reclass policy, we've provisionally drafted ALCO for the job, but are trying to verify whether MRC makes the decision under delegated authority or whether it makes a recommendation to ALCO.

Cory & I were talking yesterday about adding to our draft policy guidance on re-designating HFS to HFI, since the latter is not the default under the literature. We were kicking around the same idea of identifying whose intent within the company matters from an accounting perspective. Moving HFS to HFI seems to involve a different management group than ALCO (as a general rule). We were planning to follow up with Fergal on that point soon as we bring the drafting to a close.

GEE

206/ [REDACTED]

-----Original Message-----

From: Ballenger, Melissa J.

Sent: Tuesday, February 27, 2007 9:18 AM

To: Stack, Fergal; Woods, John F.; Eller, Greg

Subject: Re: HFI Option Arms redirected to HFS

Greg, may I please have a copy of the 17B policy paper to get up to speed? Thank you.

Fergal - is it ALCO or MRC?

All - question for you: would we ALSO want to seek governance approval for transfers the other way (that is, from HFS to HFI)? A good example might be the email chain this week talking about "disposition" of subprime 2nd lien mortgages by moving from warehouse to portfolio. For significant transfers, would it not make sense to also have the formality of a corporate approval of the "intent to hold for foreseeable future"?

Finally, on the option ARMs transfer from HFI to HFS - pls confirm that the committee approval will discuss what business/market circumstances have changed (since last balance sheet date) justifying the chg in intent?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Stack, Fergal

Permanent Subcommittee on Investigations

EXHIBIT #42b

To: Woods, John F.; Eller, Greg; Ballenger, Melissa J.

Sent: Mon Feb 26 10:32:22 2007

Subject: RE: HFI Option Arms redirected to HFS

Hi John

I am working on the premise that the Policy paper from Greg relating to the 17B is still applicable for this and future transfers. I read Greg's memo again this morning and wanted to summarize a few key points to ensure we are all on the same page.

1) intent is a state of mind that will be changed on ALCO approval (we need to reconcile this to when David Schneider approves the transfer)

2) no tainting of hfi portfolio...the issue would be if not designated to hfs timely

3) the population to be sold need to be sufficiently defined and marketing plan created (including expected method of sale)

So with the above if the loans are identified, marketing plan created, ALCO approval obtained then the transfer can take place with no tainting consequences on the remaining portfolio.

One question I do have is if a loan characteristic is defined as a requirement to sell, say FICO, and there are 100 loans over a FICO score, and we only want to transfer 40 to hfs...the loan characteristic could be identified and approved prior to actual 40 loans being identified...want to make sure our policy doesn't require HL to transfer the 100 loans. And there is probably timing variances in these events occurring (but final ALCO approval may take care of this as the population would be defined)

Greg, please confirm.

Thanks

-----Original Message-----

From: Woods, John F.

Sent: Sunday, February 25, 2007 11:45 PM

To: Stack, Fergal; Eller, Greg; Ballenger, Melissa J.

Subject: Fw: HFI Option Arms redirected to HFS

Fergal,

I assume you are up to speed on this but if not here's David's email describing a sale transaction that is being contemplated. I can't tell from the message whether these loans are already in hfi or were just destined for hfi but have not yet been acquired. Please get back to me on this after you guys have had a chance to discuss any issues.

Thanks.

----- Original Message -----

From: Beck, David

To: Beck, David; Schneider, David C.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Feltgen, Cheryl A.; Boyle, Hugh F.; Matthey, Joseph; Fortunato, Steve; Hyde, Arlene M.; Woods, John F.; Williams, Robert J.; McCarthy, Michelle

Cc: Potolsky, Doug; Drastal, John

Sent: Sun Feb 25 17:50:00 2007

Subject: HFI Option Arms redirected to HFS

David and I spoke today. He's instructed me to take actions to sell all marketable Option Arms that we intend to transfer to portfolio in 1Q, 2007. That amounts to roughly 3B option arms available for sale. I would like to get these loans into HFS immediately so that I can sell as many as possible in Q1.

John, we are only targeting to sell Option Arms destined for portfolio since year end at this point. I'll need direction from you on any special accounting concerns or documentation you will need to get these loans in the warehouse without tainting the HFI book.

Michelle, I believe this action requires MRC approval. Please advise.

This week I'll work to get the necessary governance sign offs in place. Cheryl, please direct me on what form the approval request should take and what committees should review and authorize the request. I can pull all the data.

We continue to work with Cheryl and the credit risk team to analyze emerging credit risks in our prime portfolio and recommend actions to mitigate them.

Thanks for your help,

DJB

Thanks in advance for your help.

**Market Risk Committee (MRC)
Minutes of the March 9, 2007 Meeting**

The MRC of Washington Mutual, Inc. ("WMI" or the "Company"), Washington Mutual Bank (fka Washington Mutual Bank, FA) ("WMB") and Washington Mutual Bank fsb ("WMBfsb") and the Asset Liability Committee ("ALCO") of WMBfsb met concurrently on Friday, March 9, 2007.

Members present for the MRC: Ms. McCarthy, Chair, Mr. Brandeberry, Mr. Griffith, Mr. Woods, Mr. Hunt, Ms. Krahling and Ms. Novak.

Members present for WMBfsb ALCO: Ms. McCarthy, Chair, Mr. Brandeberry, Mr. Hunt, Mr. Griffith, Mr. Woods and Ms. Novak.

Staff: Ms. Berger, Secretary, Mr. Potolsky (phone), Mr. Callahan (phone), Mr. Stewart (phone), Mr. Dlugosz, Mr. Lehmann (phone), Mr. Riley (phone), Mr. Fisher (phone), and Mr. Cathcart.

Summary of items approved at this meeting:

Approved changes to the ALM Authorized Individual Standard and related approval of Authorized Individuals for BOLI as follows:

- Added a Transaction Type 22 for BOLI investment activities. Authorization would include approval to execute purchases or sales/cancellation of Bank-Owned and Company-Owned life insurance policies.
- Established a related Documentation authority for BOLI.
- Established Mr. Casey and Mr. Williams with Authority Level B.

2007-01 Securitization and Whole Loan Master Program: Modify the program as proposed subject to ALCO review and approval:

- Change the Held for Investment (HFI) ARM and COFI ARM retention criteria to include only the following loans for HFI effective March 12, 2007; Super jumbo \geq \$3.0 million, Advantage 90, Foreign Nationals, FICO < 620 except employee loans in which case FICO can be re-stated after closing, and 3 to 4 units.
- Increase Prime Option ARM's (including Second Liens) from \$26.0 billion to \$37.0 billion.
- Transfer up to \$3.0 billion of saleable Option ARM and COFI ARM loans originated between January 1, 2007 and March 12, 2007 from HFI to HFS (excluding HFI loans described above).

Summary of action items from this meeting:

None.

Ms. McCarthy called the MRC meeting to order at 10:00 a.m.

Approval Items

Agenda item 1: Meeting Minutes

The minutes from the February 9, 2007 meetings were reviewed. Mr. Brandeberry moved to approve the minutes. Ms. Krahling seconded the motion. The motion was unanimously approved.

Approved at the 4/XX/07 MRC Meeting

Permanent Subcommittee on Investigations

EXHIBIT #43

**Market Risk Committee (MRC)
Minutes of the March 9, 2007 Meeting**

Agenda item 2: Authorized Individuals Standard Changes (BOLI)

Ms. McCarthy reviewed a proposal to establish a separate Transaction Type for Bank Owned Life Insurance (BOLI). Currently BOLI activities are conducted under the Investments Transaction Type. Separation will provide crisper distinction of authority for BOLI activities. In addition, Mr. Casey and Mr. Williams would be established as having Level B authority. Ms. McCarthy explained that Level B authority is sufficient given the current program size. Mr. Brandeberry moved to approve establishing the BOLI Transaction Type and the Authorized Individuals as proposed. Ms. Novak seconded the motion. The motion was unanimously approved.

Agenda item 3: HFI/HFS Designations Changes and Amendments to Program 2007-01

Ms. McCarthy reviewed a proposal to modify the Held For Investment (HFI) portfolio criteria for ARM and COFI ARM production. This change represents a modification of program 2007-01 by increasing the program's size by an additional \$11.0 billion in loans to a total program size of \$37.0 billion. This proposal will also require ALCO strategy approval and Credit Policy Committee approval in addition to MRC approval. A second part of the proposal requests approval to transfer up to \$3.0 billion of saleable Option ARM and COFI ARM loans originated since January 1, 2007 from HFI to Held For Sale (HFS). In response to a question from Mr. Woods, Ms. McCarthy explained that there are other Option ARM loans not included in the criteria that we are retaining in portfolio. Ms. McCarthy noted that Ms. Feltgen has reviewed and approved this proposal. Mr. Woods noted that Deloitte has reviewed the proposal as well. A discussion then ensued on the impact of this proposal to Net Interest Margin (NIM). Mr. Griffith moved to approve modification of program 2007-01 and the one-time transfer of identified loans originated since January 1, 2007 as proposed subject to ALCO review and approval. Ms. Krahling seconded the motion. The motion was unanimously approved.

Exceptions

Agenda item 4: WMI Credit Default Swap Spread Trigger

Ms. McCarthy reviewed a Liquidity Management early warning trigger that was breached. She explained that market conditions have caused WaMu's one-year credit default swap (CDS) spread to increase from 6.6 to 19.7 basis points. The increase in spread exceeded the two standard deviation trigger threshold. The Liquidity Management Working Group has reviewed the factors surrounding the spread widening and determined that a negative liquidity event for WaMu is unlikely at this time.

Discussion Items

None.

Required Reports

Agenda item 5: Securitization Reports

Approved at the 4/XX/07 MRC Meeting

Market Risk Committee (MRC)
Minutes of the March 9, 2007 Meeting

Subprime (LBM and Conduit)

Mr. Potolsky provided an update on subprime securitization activities. The market continues to have concerns around subprime mortgage delinquencies. Investors are making general concern inquiries rather than loan specific inquiries. First payment default repurchases declined in February. 2006 delinquencies have been higher than expected however credit changes implemented on January 8th should result in improved loan performance going forward. Credit spreads continue to widen in the bottom tranches with the result being that it is unlikely that lower rated/unrated tranches will be saleable and WCC will continue to hold positions longer than in the past as they continue to market these bonds. Ms. McCarthy noted that analysis is underway to determine whether there are additional shifts of originated product needed from the HFS portfolio to the HFI portfolio. Operational risks have increased however Mr. Potolsky reported that approximately half of the loan fulfillment centers have been closed in a right-sizing exercise and the transition of Master Servicing continues to be on target for completion by the end of March. Delinquency triggers continue to be closely monitored from a servicing and valuation standpoint. During February there were no rating agency actions nor were there any securities or whole loan sales in the subprime channel.

Prime Alt A (Bank and Conduit)

Mr. Lehmann reported that 4 mortgage-backed securitizations totaling \$6.4 billion and 15 whole loan sales totaling \$2.5 billion and 17 agency deliveries totaling \$4.2 billion were executed during February 2007. Approximately 80% of the whole loan sales were to Bank of America. During the February reporting period there were no rating agency actions. The total portfolio delinquency rate went up from 2.31 to 2.58 and remains below the industry average rate of 2.88%. Out of 203 groups tested (177 deals), 12 failed the Loss Severity Trigger ("LST") test. One of the 13 groups is failing for the first time. In response to a question from Mr. Woods, Mr. Lehmann described the LST test in detail. Repurchases declined during February to 308 outstanding investor demands. Mr. Lehmann then provided updates on the conduit program improvement initiative and the conduit repurchase program noting steady progress on both initiatives. Mr. Lehmann then informed the Committee of incidents of non-compliance with Regulation AB requirements related to delayed reconciliations, erroneous repurchase of seventeen loans and miscellaneous investor distribution errors. A discussion ensued on remediation efforts.

Commercial

Mr. Fisher reported that there were no commercial securitization or loan sales activities in February. As previously reported there are a number of commercial loans in the aged pipeline. Approximately \$1.4 billion of loans are scheduled to be sold in two deals in March. Mr. Fisher confirmed that these loan sales remain on target for completion by the end of first quarter. There have been no mortgage bond rating changes since December. Mr. Fisher then provided an update on the Standard & Poor's primary servicer rating process.

Credit Card

Mr. Riley reported that January excess spread increased to 10.32%. A healthy excess spread ranges from 8% to 10%. Charge-off rates that rose in December to 10.05% have since declined to 9.69%. In response to a question from Ms. McCarthy, Mr. Riley explained that the December charge-off of 10.05% increase is attributed to the new minimum payment rules implemented last

**Market Risk Committee (MRC)
Minutes of the March 9, 2007 Meeting**

year. Management expects charge-off rates to decline and stabilize at the 8% to 10% range in 2007. There have been no rating agency actions and there were no securitization activities however a transaction is planned and will be reported on at the next meeting.

Agenda item 6: MRC Action Items Update

Ms. Novak reported that the WCC, WMMSC and Capital Markets Conflict of Interest Policy are moving forward. She has reviewed a draft of the Policy with Mr. Cathcart. In addition internal Legal Counsel and others have been identified to help with scenario development and determination of where we need to develop information walls within the Company. In response to a question from Mr. Cathcart, Ms. Novak explained that there is not a due date for implementation of the Policy. Mr. Griffith summarized efforts accomplished to-date at the operational process levels. Mr. Cathcart noted that without a clearly defined policy on information sharing the Company is vulnerable to potential mishandling of information. He requested that Ms. Novak return to MRC with a set deliverable date for completion of the Information Sharing Policy.

The HFI/HFS pipeline status report was provided for member review.

Agenda item 7: HFI/HFS Diagram for Pipeline

Diagram provided for member review.

Agenda item 8: ALM Reports Package

Summary provided for member review.

Other:

None.

There being no further matters, the MRC meeting was adjourned at 11:05 p.m.

July 11, 2008

Market Risk Committee

A meeting of the Market Risk Committee ("MRC") of Washington Mutual, Inc. ("WMI" or the "Company"), Washington Mutual Bank ("WMB") and Washington Mutual Bank fsb ("WMBfsb") and the Asset Liability Committee ("ALCO") of WMB fsb was held on July 11, 2008 in SoDo Conference room of WMC 15 from 10:00 a.m. to Noon

Attendees

MRC Voting Members

- | | | |
|----------------------------|---------------------------|---------------------------------|
| X Michelle McCarthy, Chair | Tom Casey | Suzanne Krahling |
| Carey Brennan | X Cathy Doperalski | Scott Maw |
| X David Beck (phone) | X Robert Williams (phone) | X Michelle Grau-Iversen (phone) |
| X Diane Novak (phone) | X John Woods | |
| X Don White | X Jim Hunt (phone) | |
| Sandy Boa* | X David Gilhooley | |
| John McMurray | Melissa Ballenger | |

* Commercial matters only.

WMB fsb Voting Members

- | | | |
|----------------------------|--------------------|-------------------|
| X Michelle McCarthy, Chair | Tom Casey | John McMurray |
| Carey Brennan | X Cathy Doperalski | Melissa Ballenger |
| X Jim Hunt (phone) | X David Gilhooley | |
| X Diane Novak (phone) | X John Woods | |
| X Robert Williams | Suzanne Krahling | |

Non Voting Members

Attendees

- | | | |
|--------------------------|-----------------------|--------------|
| Monica Berger, secretary | Dick Fisher | Jim Callahan |
| Steve Stearns | Bill Rice (phone) | Sam Crocker |
| Dave Coultas | Lisa Shepherd (phone) | |
| Bob Batt | Rolly Jurgens | |

Preliminary Business

Topic	Presenter	Sponsor	Decision
A1. None – See D4 below for MRC Open Action Items			
A2. Market Risk Review	Gilhooley, Crocker, Coultas	Gilhooley	N/A

Mr. Crocker reviewed current market conditions and their impact on the Company's market risk profile. Ms. McCarthy then led a discussion on GSE Agency exposure. Mr. Woods described the likely outcome of nationalization of the GSE's. Mr. Coultas

Approved <date approved>

Permanent Subcommittee on Investigations

EXHIBIT #44

July 11, 2008

Market Risk Committee

Topic	Presenter	Sponsor	Decision
-------	-----------	---------	----------

- Removed narrow definition of retail deposits, defined wholesale funding and other asset based funding;
- Changed approval oversight of changes to the base case and stress scenarios from the Chair of MRC to the LMWG.

WMI Liquidity Management Standard:

- Added a section outlining LMWG responsibilities.
- Appendix S-B Banking Affiliates & WMI Liquidity Contingency Plans:
- Added section describing the process to decrease levels as the Liquidity Event Threat subsides;
 - Added ability of Task Force representatives to appoint delegates;
 - Added section outlining LMWG responsibilities.

Liquidity Management Working Group Charter:

- Updated section outlining LMWG responsibilities;
- Added clarification that the Chair of LMWG while a senior Treasury manager, may or may not hold an SVP officer title;
- Placeholders on LMWG membership for Credit Card and AFS Portfolio manager positions.

Liquidity Management Working Group Operating Practices:

- Added clarification that the Chair of LMWG while a senior Treasury manager, may or may not hold an SVP officer title.

Mr. Gilhooley moved to approve the revisions as presented. Mr. Woods seconded the motion. The motion was unanimously approved.

Follow Up Items: None

Assigned: N/A

Due: N/A

- 1.
- 2.

Topic	Presenter	Sponsor	Decision
-------	-----------	---------	----------

B4. NPA HFI HELOC Loan Sales **Shepherd** **Woods** **Declined**

Ms. Shepherd reviewed a program to delegate authority to Ms. Krahling, Commercial CFO and Sandy Boa, Commercial Chief Risk Officer, to declare a change in intent and the subsequent sale of up to \$100.0 million of currently classified HFI non performing HELOC loans during 2008. Ms. Shepherd explained that the loans would be sold with no risk retention or recourse beyond normal representations and warranties. In response to a question from Mr. White, Ms. Shepherd confirmed that these loans are second liens and loans sales are contemplated within the next 30 days. In response to a question from Mr. Gilhooley, Ms. Shepherd explained that the Company has only sold charged-off or REO loans up to now and does not have any historic data on pricing for HELOC NPA loans. Mr. Beck summarized the equity analysis that had been performed supporting this sales program, noting that it is in our best interest to let some one else assume the risk of these loans. Ms. Shepherd summarized counterparty due diligence to protect the Bank against aggressive collection tactics and related reputation risks. A discussion on management intent ensued. In response to accounting process questions from Mr. Woods, approval was tabled pending resolution of a defined transaction and accounting process.

Follow Up Items:

Assigned:

Due: N/A

1. Ms. Shepherd and Mr. Jurgens to determine the accounting process for this transaction.

Ms. Shepherd/ Mr. Jurgens

TBD

- 2.

Topic	Presenter	Sponsor	Decision
-------	-----------	---------	----------

B5. Execution Authority **Callahan** **Novak** **Approved**

Mr. Callahan reviewed proposed changes in execution authorities for Treasury staff as follows:

- Dave Coultas: TT2 Investments Level A at WMB, WMI, WMBfsb;
- Ed O'Brien: TT2 Investments Level B at WMB, WMI, WMBfsb;
- Dave Coultas: TT11 Derivatives Level A at WMB, WMI, WMBfsb;
- Ed O'Brien: TT11 Derivatives Level B at WMB, WMI, WMBfsb;
- Dave Coultas: TT 20 HFI SFR Loans Level B at WMB, WMI, WMBfsb;
- Steve Stearns: TT 21 Credit Card Level B at WMB;
- Kenley Ngai: TT 21 Credit Card Level C at WMB.

Mr. Woods moved to approve the execution authorities as proposed. Mr. White seconded the motion. The motion was unanimously approved.

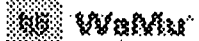
Follow Up Items: None

Assigned: N/A

Due: N/A

- 1.
- 2.

WaMu Wholesale Specialty Lending
2. Secondary Performance Summary
June 2008 Distribution

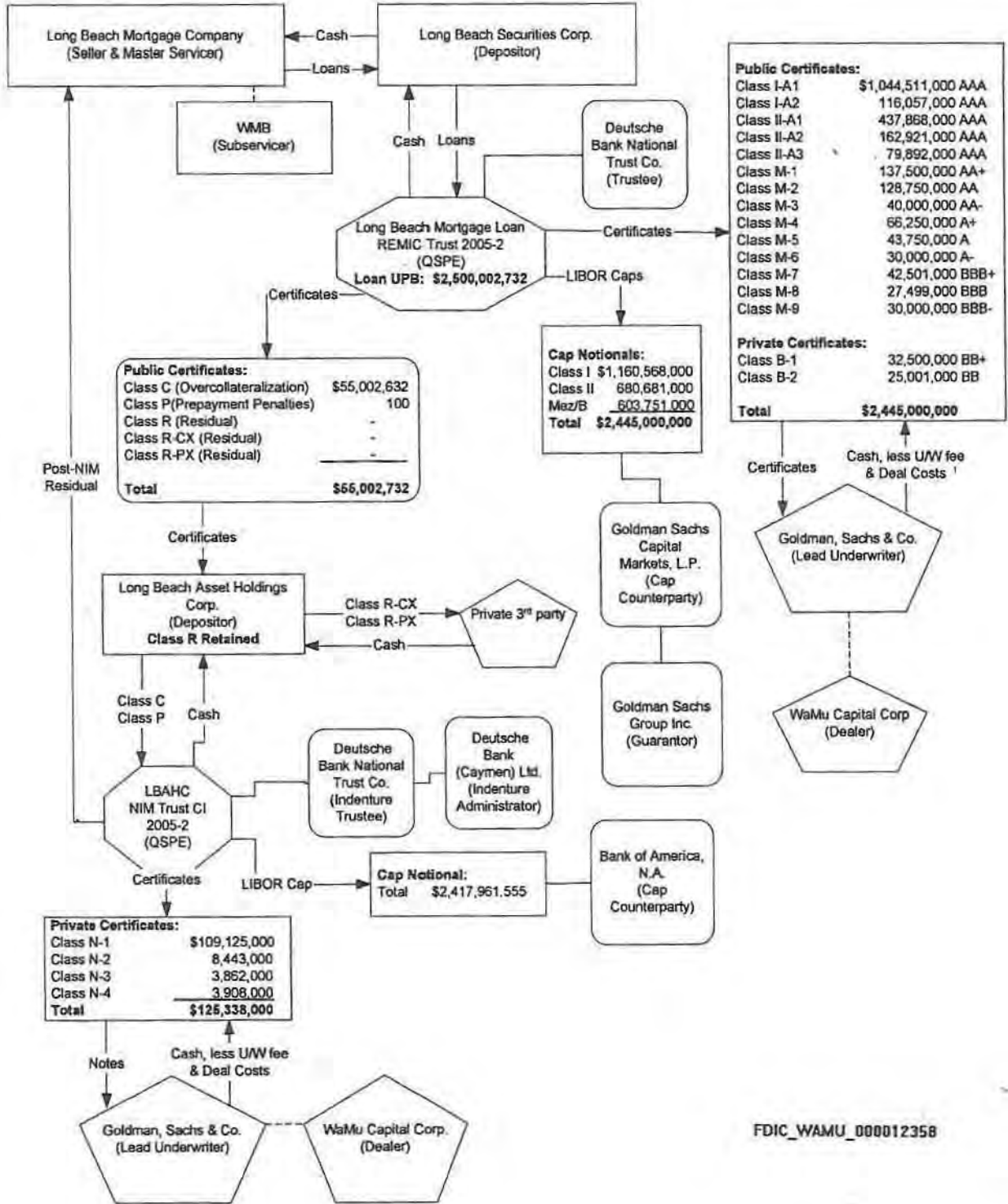


Line	Description	Orig Date	Original Balance		FPA	Project	Project	Status	Delinquency Performance			Default Performance			Notes		Project's DPT				Comments/Status				
			Original (\$)	Current (\$)					30-59	60-89	90-119	90	91	92	93	94	95	96	97	98	99	100	101	102	103
1	CSF 2000-LB1	09/21/2000	1,479,977,917	41,994,583	4.13%	Collabio	149,999,792	100.00%	8.97%	2.33%	2.72%	9.87%	5.23%	4.27%	34.21%	33.01%	66.99%	2.79%	3.83%	9.88%	23.59%	8.37%	123,590,111	63.20%	
2	LBMLT 2000-1	01/23/2001	1,000,000,595	36,991,817	3.70%	Collabio	100,000,000	100.00%	8.97%	4.97%	3.30%	8.46%	5.64%	4.72%	37.88%	37.88%	62.02%	1.81%	7.96%	9.88%	20.21%	6.62%	66,199,104	47.00%	
3	LBMLT 2001-1	04/21/2001	725,444,489	37,094,662	5.11%	Collabio	72,544,449	100.00%	11.01%	3.68%	3.27%	11.41%	5.92%	3.31%	39.80%	40.66%	59.34%	13.28%	16.11%	10.48%	25.09%	4.72%	48,776,766	48.87%	
4	LBMLT 2001-2	08/25/2001	1,394,333,661	74,934,641	4.70%	Collabio	139,433,661	100.00%	7.14%	4.96%	3.10%	12.37%	8.40%	4.00%	42.81%	47.38%	57.42%	7.09%	5.64%	10.64%	27.30%	7.89%	123,794,833	59.61%	
5	LBMLT 2001-3	10/25/2001	1,601,004,146	31,003,000	3.10%	Collabio	100,100,416	100.00%	8.97%	3.40%	4.18%	4.03%	7.06%	3.90%	36.16%	38.69%	61.35%	9.06%	4.45%	12.99%	27.87%	4.02%	68,233,081	39.34%	
6	LBMLT 2001-4	01/25/2002	1,999,995,141	109,073,660	5.45%	Collabio	199,999,514	100.00%	8.46%	3.24%	4.10%	10.03%	7.23%	4.48%	37.91%	39.34%	60.46%	4.54%	8.71%	12.99%	26.69%	6.44%	128,746,430	36.49%	
7	LBMLT 2001-5	03/25/2002	1,600,002,997	80,987,715	5.06%	Collabio	160,000,000	100.00%	7.11%	3.77%	3.79%	8.43%	4.84%	6.12%	31.71%	34.22%	45.78%	10.63%	10.54%	12.73%	32.22%	4.17%	64,712,284	35.59%	
8	LBMLT 2002-1	07/25/2002	1,000,001,439	36,143,323	3.61%	Collabio	100,000,144	100.00%	8.74%	5.72%	1.75%	8.68%	3.76%	4.31%	32.32%	32.96%	67.04%	9.87%	7.80%	10.70%	31.29%	4.98%	49,772,942	35.89%	
9	LBMLT 2002-2	12/25/2002	1,000,000,848	77,261,184	7.73%	Collabio	100,000,848	100.00%	4.45%	3.11%	4.20%	7.56%	4.03%	3.32%	26.80%	27.54%	72.46%	11.58%	10.36%	10.57%	31.99%	3.42%	34,173,124	38.89%	
10	LBMLT 2003-1	02/26/2003	2,600,000,169	133,310,787	6.68%	Collabio	200,000,169	100.00%	5.66%	2.24%	2.44%	4.21%	4.50%	2.53%	21.31%	21.59%	78.41%	10.17%	8.96%	11.12%	35.79%	2.28%	43,477,836	35.20%	
11	LBMLT 2003-2	03/24/2003	924,376,530	65,132,764	7.03%	Collabio	92,637,893	100.00%	5.04%	1.77%	3.24%	6.44%	4.25%	5.82%	30.70%	26.55%	73.45%	4.46%	8.94%	11.27%	35.40%	3.17%	28,377,765	38.11%	
12	LBMLT 2003-3	07/23/2003	900,006,209	78,763,159	8.74%	Collabio	90,000,021	100.00%	6.60%	3.07%	3.00%	6.40%	8.39%	5.75%	31.92%	32.39%	67.61%	0.48%	5.80%	6.76%	34.02%	2.88%	25,932,864	38.17%	
13	LBMLT 2003-4	08/23/2003	2,200,000,305	232,403,671	10.57%	NA	NA	NA	4.19%	2.06%	2.39%	3.99%	4.41%	3.16%	19.72%	19.77%	80.23%	7.50%	8.35%	11.13%	33.29%	1.96%	43,189,464	49.26%	
14	LBMLT 2004-1	03/23/2004	4,500,000,019	352,459,087	12.28%	NA	450,000,002	100.00%	3.08%	1.72%	3.36%	2.64%	3.49%	2.40%	17.06%	16.71%	83.29%	12.02%	11.63%	13.44%	35.38%	1.79%	58,180,590	41.73%	
15	LBMLT 2004-2	06/23/2004	1,519,139,232	212,904,262	14.01%	NA	151,913,725	100.00%	4.08%	3.00%	3.38%	3.46%	4.80%	2.97%	23.31%	22.70%	77.24%	12.18%	11.12%	16.35%	35.03%	1.54%	23,300,165	42.88%	
16	LBMLT 2004-3	07/26/2004	1,999,383,411	309,029,496	15.46%	NA	199,533,341	100.00%	3.53%	1.47%	3.73%	4.08%	3.37%	4.01%	21.29%	24.20%	75.80%	14.45%	16.03%	28.33%	36.88%	1.49%	29,805,911	40.74%	
17	LBMLT 2004-4	09/21/2004	1,015,407,093	139,394,325	13.70%	NA	101,540,709	100.00%	5.15%	3.19%	3.29%	2.75%	3.74%	4.35%	21.30%	24.46%	73.54%	10.47%	10.67%	26.58%	37.69%	1.07%	10,891,546	37.55%	
18	LBMLT 2004-5	10/23/2004	2,719,328,087	409,792,209	15.07%	NA	271,932,809	100.00%	5.79%	3.14%	4.34%	3.46%	6.68%	7.10%	28.31%	30.70%	69.30%	11.58%	10.36%	10.57%	27.41%	39.05%	1.49%	40,311,413	38.00%
19	LBMLT 2004-6	11/26/2004	1,104,429,533	174,342,153	15.79%	NA	110,429,533	100.00%	4.45%	3.39%	4.42%	3.72%	8.95%	8.13%	31.59%	35.06%	64.94%	21.39%	20.52%	28.26%	39.02%	1.61%	17,734,813	37.66%	
20	LBMLT 2005-1	02/23/2005	3,500,003,001	621,284,175	17.75%	NA	350,000,300	100.00%	7.46%	4.44%	4.88%	3.13%	11.36%	9.23%	38.39%	40.70%	59.30%	23.53%	23.05%	28.41%	39.17%	2.36%	82,408,382	45.05%	
21	LBMLT 2005-2	05/23/2005	2,503,002,732	594,283,008	20.97%	NA	250,000,733	100.00%	5.28%	3.99%	6.09%	3.42%	14.39%	10.78%	44.09%	44.53%	53.45%	28.81%	28.16%	30.55%	38.44%	3.84%	96,002,793	31.68%	
22	OSAMP 2005-57	06/23/2005	432,934,843	34,311,168	7.92%	NA	43,293,484	100.00%	3.60%	3.22%	7.41%	3.11%	8.75%	0.16%	30.64%	26.20%	73.74%	37.07%	44.32%	37.25%	53.16%	3.98%	17,211,011	33.88%	
23	LBMLT 2005-WL1	08/23/2005	2,968,738,991	727,120,705	24.49%	NA	296,875,899	100.00%	5.66%	4.56%	3.52%	16.35%	13.44%	49.87%	51.72%	48.28%	34.32%	39.57%	27.77%	39.52%	4.31%	127,858,197	52.78%		
24	LBMLT 2005-3	09/23/2005	1,577,819,573	167,610,011	10.62%	NA	157,781,937	100.00%	6.17%	5.45%	6.40%	2.49%	17.21%	20.97%	47.03%	47.03%	38.62%	29.87%	25.20%	34.49%	29.52%	3.10%	47,289,510	35.16%	
25	LBMLT 2005-WL2	09/23/2005	2,735,716,688	809,978,902	29.57%	NA	273,571,687	100.00%	5.95%	4.68%	6.62%	3.08%	14.00%	14.87%	50.80%	50.80%	26.39%	27.20%	31.03%	32.92%	3.07%	84,452,074	60.24%		
26	LBMLT 2005-WL3	12/27/2005	2,191,257,007	917,347,230	41.86%	NA	219,123,701	100.00%	5.98%	4.40%	7.48%	2.15%	17.21%	15.68%	50.39%	53.19%	46.83%	24.24%	23.38%	29.34%	28.19%	4.14%	90,728,549	66.01%	
27	OSAMP 2006-51	01/27/2006	516,812,845	146,904,505	28.81%	NA	51,681,286	100.00%	7.52%	5.54%	7.54%	1.07%	9.43%	0.10%	33.69%	34.36%	68.84%	58.02%	64.04%	31.51%	39.88%	31.83%	164,589,407	99.68%	
28	LBMLT 2006-WL1	02/27/2006	1,903,459,401	903,453,265	47.57%	NA	190,343,940	100.00%	4.93%	4.44%	7.38%	2.30%	17.65%	17.89%	32.32%	34.61%	43.37%	28.97%	26.54%	28.08%	24.12%	4.56%	86,949,259	49.43%	
29	LBMLT 2006-WL2	02/27/2006	1,908,956,763	824,959,535	43.22%	NA	190,895,076	100.00%	5.17%	5.33%	7.22%	1.80%	16.94%	14.92%	48.87%	51.37%	48.63%	37.07%	28.25%	28.22%	28.89%	3.28%	100,814,714	61.31%	
30	LBMLT 2006-WL3	02/27/2006	1,917,874,253	820,373,270	42.77%	NA	191,787,493	100.00%	6.16%	5.20%	6.37%	2.13%	16.32%	13.76%	47.32%	50.34%	49.60%	28.88%	29.91%	29.45%	29.59%	3.99%	114,973,787	64.32%	
31	LBMLT 2006-1	03/27/2006	2,499,987,909	1,279,376,254	51.18%	NA	249,998,799	100.00%	6.54%	4.82%	8.10%	2.46%	17.71%	16.74%	52.39%	56.36%	49.64%	30.74%	28.10%	25.08%	24.53%	5.25%	131,343,278	45.32%	
32	LBMLT 2006-2	04/27/2006	3,003,799,170	1,332,704,732	51.04%	NA	300,379,917	100.00%	6.82%	5.30%	8.03%	2.90%	16.31%	17.03%	52.21%	57.02%	42.98%	29.43%	29.87%	23.66%	23.43%	7.00%	210,186,130	34.76%	
33	LBMLT 2006-3	05/27/2006	1,743,794,134	987,434,769	56.65%	NA	174,379,613	100.00%	7.70%	5.27%	8.31%	2.87%	14.11%	16.83%	49.39%	54.36%	45.48%	32.19%	32.49%	23.39%	22.86%	6.85%	119,525,720	36.03%	
34	LBMLT 2006-4	06/25/2006	1,922,878,765	1,158,834,949	60.27%	NA	192,287,877	100.00%	6.00%	4.30%	6.75%	1.89%	13.82%	16.53%	47.03%	51.40%	48.52%	26.49%	28.03%	21.72%	21.19%	6.48%	124,611,806	60.24%	
35	LBMLT 2006-A	08/25/2006	372,419,586	183,903,424	34.53%	NA	33,261,959	100.00%	9.00%	7.93%	8.70%	0.68%	7.17%	0.00%	32.21%	31.49%	45.69%	45.20%	40.59%	47.31%	39.88%	42.91%	728,338,976	103.38%	
36	LBMLT 2006-5	07/23/2006	1,920,001,177	1,170,903,808	60.83%	NA	192,000,118	100.00%	6.19%	3.99%	6.26%	1.91%	13.50%	13.40%	50.33%	43.21%	54.79%	28.01%	27.11%	21.10%	21.60%	5.84%	112,496,500	57.14%	
37	LBMLT 2006-6	08/23/2006	1,686,107,433	1,129,844,461	66.93%	NA	168,610,743	100.00%	5.92%	4.84%	6.62%	2.35%	13.89%	13.38%	43.67%	47.20%	52.80%	29.52%	24.83%	19.40%	18.48%	5.46%	99,068,155	58.88%	
38	LBMLT 2006-7	09/23/2006	1,596,411,010	1,151,786,311	72.14%	NA	159,661,101	100.00%	5.77%	3.65%	6.72%	1.84%	13.15%	11.94%	42.40%	43.03%	56.93%	24.11%	25.97%	17.34%	19.88%	5.46%	86,833,143	60.26%	
39	LBMLT 2006-8	10/23/2006	1,380,727,062	1,036,223,374	74.99%	NA	138,072,706	100.00%	6.00%	4.22%	7.13%	1.84%	14.61%	13.99%	42.81%	45.80%	54.20%	24.65%	22.91%	16.35%	14.59%	5.01%	69,190,629	62.09%	
40	LBMLT 2006-9	11/23/2006																							

Washington Mutual Mortgage Securities Corp.
 2 - Securitization Performance Summary
 June 2008 Distribution

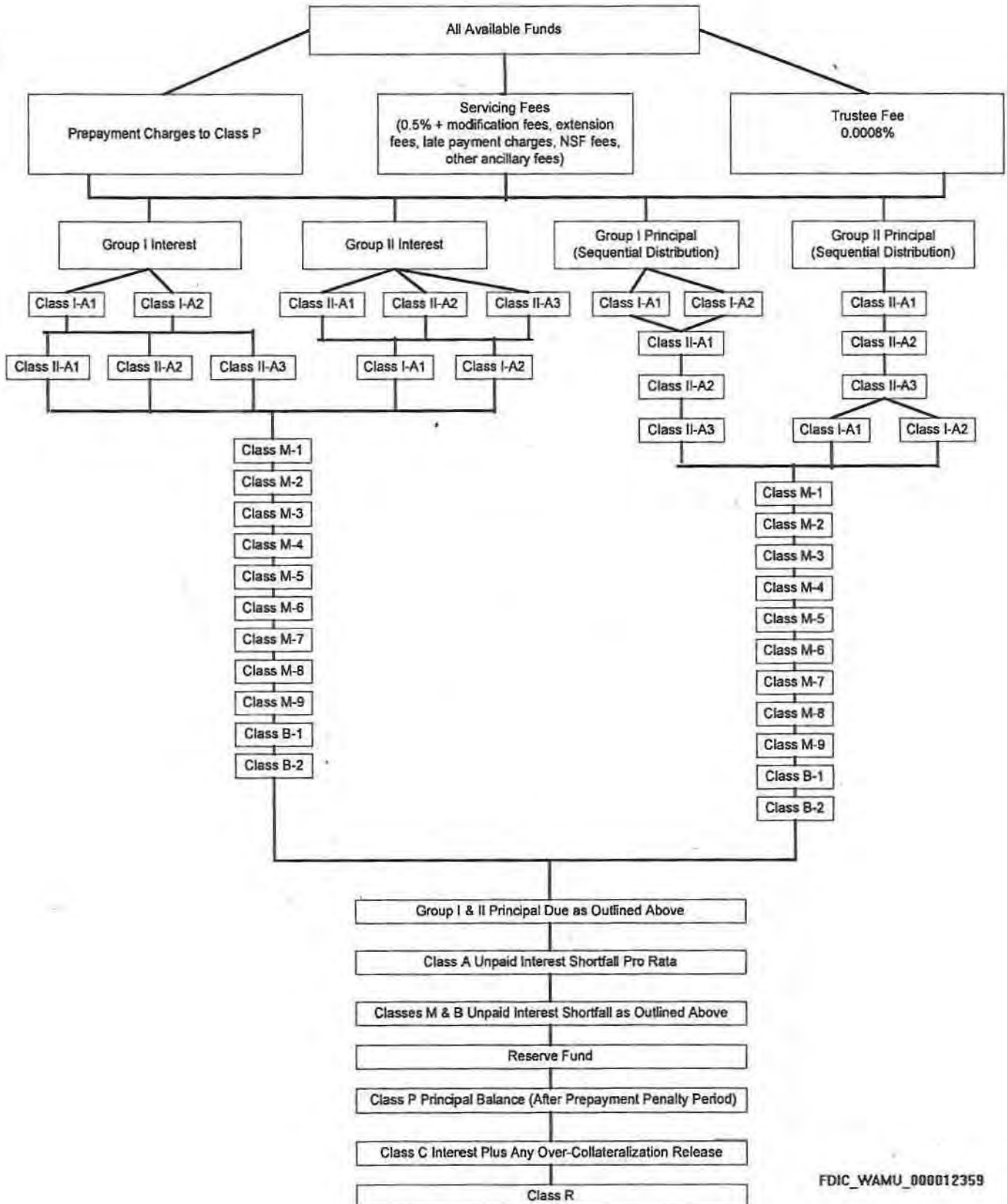
Tranche	First Distribution Date	Cash Flow Balance		Prepaid	Reported Status	Pool Size	Cash Flow	Delinquency										Losses						
		Original	Reported					30 Days	60 Days	90 Days	120 Days	150 Days	180 Days	210 Days	240 Days	270 Days	300 Days	360 Days	3 Months	6 Months	9 Months	12 Months		
WAMU 2007.OA3	04/25/2007	1,067,198,558	808,511,650	84.88%	N/A	106,719,858	100.0%	2.72%	1.32%	0.81%	0.28%	0.14%	3.40%	1.10%	12.24%	12.03%	87.37%	2.01%	13.39%	12.79%	13.23%	0.07%	782,444	33.34%
WAMU 2007.OA1	03/25/2007	1,626,433,029	1,328,633,739	82.39%	N/A	162,643,303	100.0%	4.31%	2.10%	1.86%	0.36%	0.18%	4.62%	1.37%	12.63%	14.42%	85.58%	10.32%	12.24%	8.44%	8.47%	0.81%	81,634	29.89%
WAMU 2007.OA5	06/25/2007	1,470,224,917	1,334,873,957	91.50%	N/A	147,022,492	100.0%	3.40%	2.13%	1.42%	0.60%	0.43%	5.29%	1.29%	14.28%	14.33%	85.67%	13.53%	9.49%	9.71%	10.38%	0.02%	332,129	30.06%
WAMU 2007.OA6	07/25/2007	1,448,108,398	1,340,911,237	92.60%	N/A	144,810,400	100.0%	4.30%	2.46%	2.04%	0.34%	0.17%	3.33%	1.28%	15.07%	16.13%	83.87%	8.88%	7.39%	10.46%	10.46%	0.00%	21,973	6.83%
WMALT 2005.1	03/25/2005	490,893,031	271,957,812	55.29%	N/A	49,089,305	100.0%	2.33%	0.58%	0.52%	0.20%	0.87%	1.34%	0.42%	5.13%	3.48%	94.52%	12.34%	11.48%	10.69%	14.06%	0.13%	439,552	28.82%
WMALT 2005.10	04/25/2005	450,135,714	266,334,399	59.17%	N/A	45,215,571	100.0%	2.30%	0.87%	0.57%	0.33%	0.27%	1.08%	0.75%	4.87%	5.80%	94.14%	8.16%	8.00%	8.39%	11.01%	0.27%	1,206,281	33.62%
WMALT 2005.11	03/25/2005	340,282,555	241,246,401	70.90%	N/A	34,028,255	100.0%	2.89%	0.49%	0.20%	0.29%	0.25%	1.25%	0.46%	4.44%	4.44%	95.56%	6.99%	10.10%	7.88%	12.21%	0.29%	1,400,148	37.95%
WMALT 2005.2	04/27/2005	1,077,839,139	1,077,839,139	100.0%	N/A	107,783,914	100.0%	2.89%	1.66%	0.30%	0.24%	0.24%	0.82%	0.32%	4.23%	4.53%	95.47%	4.88%	8.88%	9.13%	11.51%	0.12%	1,377,123	42.40%
WMALT 2005.3	07/25/2005	530,404,083	347,064,221	65.43%	N/A	53,040,609	100.0%	1.87%	0.42%	0.23%	0.49%	0.40%	0.80%	0.39%	3.41%	4.42%	95.58%	4.15%	8.02%	8.80%	12.40%	0.82%	437,203	21.13%
WMALT 2005.4	08/25/2005	478,049,833	326,434,347	68.29%	N/A	47,804,925	100.0%	1.53%	0.29%	0.39%	0.41%	0.19%	2.10%	0.49%	5.81%	5.41%	94.59%	11.47%	8.13%	7.42%	11.72%	0.17%	802,332	25.78%
WMALT 2005.5	09/28/2005	528,128,316	370,033,343	69.99%	N/A	52,812,032	100.0%	2.73%	0.75%	0.71%	0.24%	0.42%	1.20%	0.70%	4.81%	4.47%	95.53%	4.87%	8.82%	7.09%	10.87%	0.19%	831,017	38.89%
WMALT 2005.6	10/25/2005	738,807,669	554,899,619	75.09%	N/A	73,880,747	100.0%	1.45%	0.34%	0.30%	0.32%	0.48%	1.87%	0.40%	5.51%	4.82%	95.18%	7.40%	9.33%	8.85%	10.15%	0.16%	1,109,204	21.41%
WMALT 2005.7	11/25/2005	533,793,684	385,925,013	72.39%	N/A	53,783,684	100.0%	2.41%	0.50%	0.59%	0.12%	0.22%	3.46%	0.40%	7.41%	7.42%	92.58%	3.49%	3.23%	3.48%	10.43%	0.80%	319,741	32.99%
WMALT 2005.8	12/27/2005	682,736,004	482,934,138	70.76%	N/A	68,273,800	100.0%	3.37%	1.31%	0.73%	0.33%	0.93%	2.54%	1.25%	9.40%	8.33%	90.67%	7.10%	6.69%	8.49%	11.48%	0.19%	1,355,332	31.85%
WMALT 2005.9	01/25/2006	330,726,893	267,783,795	80.99%	N/A	33,072,689	100.0%	2.73%	3.39%	0.97%	1.18%	1.07%	3.61%	0.86%	9.49%	10.37%	89.63%	2.40%	4.67%	5.97%	7.87%	0.22%	784,185	31.89%
WMALT 2006.AR1	12/27/2005	447,013,934	328,338,874	73.45%	N/A	44,701,395	100.0%	3.20%	3.91%	3.00%	0.88%	0.20%	7.38%	3.81%	22.43%	24.40%	75.60%	7.12%	8.43%	12.34%	19.13%	0.31%	2,293,732	33.08%
WMALT 2006.1	02/27/2006	778,887,200	564,999,845	72.56%	N/A	77,884,720	100.0%	3.41%	2.16%	1.38%	0.47%	0.71%	3.30%	1.52%	11.70%	12.52%	87.48%	11.16%	12.21%	9.22%	11.71%	0.22%	1,778,763	21.36%
WMALT 2006.2	03/27/2006	367,337,751	247,434,517	67.39%	N/A	36,733,751	100.0%	3.53%	1.30%	0.70%	0.46%	0.89%	2.93%	1.46%	9.50%	10.36%	89.64%	4.44%	8.02%	8.37%	11.20%	0.14%	667,337	50.36%
WMALT 2006.3	04/25/2006	341,914,037	290,453,471	84.95%	N/A	34,191,404	100.0%	3.20%	1.23%	0.84%	0.88%	0.71%	1.63%	1.25%	11.16%	11.68%	88.32%	13.88%	12.92%	10.44%	12.69%	0.49%	2,448,253	40.40%
WMALT 2006.4	05/25/2006	1,328,282,612	944,041,613	71.16%	N/A	132,820,241	100.0%	4.73%	2.07%	1.45%	1.33%	1.88%	7.33%	2.70%	18.37%	19.58%	80.42%	10.94%	10.87%	10.92%	13.34%	1.09%	3,426,400	41.34%
WMALT 2006.5	07/25/2006	1,436,277,033	1,039,352,600	72.39%	N/A	143,627,703	100.0%	4.32%	2.21%	1.42%	1.07%	1.00%	4.91%	3.42%	19.02%	19.53%	80.47%	12.87%	12.33%	11.20%	14.33%	0.61%	8,614,847	55.48%
WMALT 2006.6	08/25/2006	443,841,192	307,454,389	69.32%	N/A	44,384,119	100.0%	4.08%	2.29%	1.40%	1.10%	1.00%	7.30%	2.82%	19.28%	19.19%	80.81%	14.19%	13.43%	13.20%	16.71%	0.49%	1,927,887	32.63%
WMALT 2006.7	02/27/2006	735,107,028	425,027,480	57.82%	N/A	73,510,703	100.0%	3.12%	3.23%	3.48%	1.63%	0.96%	11.91%	4.90%	27.02%	29.77%	70.23%	7.49%	11.02%	14.30%	23.13%	0.19%	2,903,317	37.05%
WMALT 2006.8	04/25/2006	923,496,348	438,934,873	47.64%	N/A	92,349,183	100.0%	4.31%	3.09%	3.37%	1.23%	1.40%	10.46%	3.93%	29.87%	32.33%	67.67%	10.21%	8.01%	13.83%	18.43%	0.32%	4,627,836	40.88%
WMALT 2006.9	05/25/2006	800,858,828	540,087,830	67.43%	N/A	80,085,083	100.0%	5.33%	1.93%	1.94%	0.80%	0.60%	9.20%	4.43%	27.50%	27.43%	72.57%	18.43%	11.97%	13.88%	18.40%	0.25%	5,146,818	38.89%
WMALT 2006.AR1	04/28/2006	983,333,810	701,341,134	71.33%	N/A	98,333,810	100.0%	7.43%	3.33%	2.46%	2.06%	1.05%	10.34%	5.37%	28.80%	31.43%	68.57%	11.01%	8.87%	10.53%	18.23%	0.20%	3,817,894	38.79%
WMALT 2006.AR10	07/25/2006	1,223,048,990	832,798,056	68.16%	N/A	122,304,999	100.0%	6.89%	4.69%	2.33%	1.46%	1.50%	12.03%	5.49%	31.33%	33.63%	66.37%	10.33%	9.19%	14.99%	19.37%	0.41%	4,643,132	40.99%
WMALT 2006.AR2	08/25/2006	873,099,334	610,344,623	69.79%	N/A	87,309,335	100.0%	7.47%	4.71%	3.44%	1.36%	0.93%	8.82%	3.55%	27.32%	31.31%	68.69%	10.34%	8.44%	13.97%	20.31%	0.33%	3,634,843	37.23%
WMALT 2006.AR3	09/25/2006	683,123,812	524,235,200	76.74%	N/A	68,312,813	100.0%	4.17%	2.05%	1.47%	0.98%	0.99%	9.71%	4.10%	21.76%	22.49%	77.50%	11.52%	8.33%	9.83%	12.97%	0.46%	3,172,224	41.60%
WMALT 2006.AR4	09/25/2006	945,493,599	674,113,357	71.39%	N/A	94,549,400	100.0%	7.13%	4.15%	2.89%	2.76%	1.48%	8.38%	4.00%	28.21%	31.29%	68.71%	6.99%	8.82%	10.97%	20.17%	0.51%	6,778,107	32.89%
WMALT 2006.AR5	10/25/2006	325,928,080	200,178,328	61.43%	N/A	32,592,694	100.0%	2.99%	2.48%	2.20%	0.30%	0.47%	2.29%	2.29%	18.00%	17.62%	82.38%	8.77%	10.07%	10.26%	13.72%	0.42%	2,116,312	40.41%
WMALT 2006.AR6	10/25/2006	1,075,130,393	874,088,054	81.39%	N/A	107,513,039	100.0%	4.88%	1.48%	1.32%	1.69%	1.13%	10.71%	4.12%	29.52%	32.85%	67.15%	9.02%	9.29%	12.49%	14.88%	0.49%	5,240,134	44.09%
WMALT 2006.AR7	11/25/2006	1,112,318,951	949,345,097	85.31%	N/A	111,231,951	100.0%	4.95%	4.34%	3.08%	1.81%	1.09%	8.79%	3.83%	28.89%	30.10%	69.90%	7.07%	7.07%	14.32%	17.27%	0.20%	3,288,318	30.20%
WMALT 2006.AR8	11/25/2006	241,332,209	174,138,115	72.19%	N/A	24,133,221	100.0%	3.50%	3.09%	1.80%	0.84%	0.29%	5.46%	4.29%	18.28%	18.37%	81.63%	18.33%	21.90%	15.75%	17.29%	0.40%	874,399	23.67%
WMALT 2006.AR9	01/25/2007	301,848,804	174,001,436	57.65%	N/A	30,184,800	100.0%	3.87%	1.81%	1.83%	0.99%	0.28%	5.10%	3.20%	15.45%	16.46%	83.54%	16.99%	14.30%	10.73%	11.81%	0.39%	2,442,189	42.43%
WMALT 2007.OA3	02/26/2007	243,444,994	207,896,692	85.29%	N/A	24,344,299	100.0%	1.93%	1.91%	0.69%	0.34%	0.34%	3.41%	0.50%	8.26%	8.60%	90.40%	2.70%	4.34%	6.47%	9.46%	0.80%	189,887	16.09%
WMALT 2007.1	04/25/2007	958,291,939	806,051,138	84.19%	N/A	95,829,498	100.0%	4.90%	0.92%	0.33%	0.34%	0.34%	3.49%	1.49%	10.32%	10.63%	89.37%	4.49%	8.07%	8.49%	7.50%	0.81%	491,198	25.07%
WMALT 2007.2	05/25/2007	468,433,606	410,721,749	87.70%	N/A	46,843,367	100.0%	3.39%	1.45%	1.23%	0.92%	0.60%	4.45%	1.99%	14.49%	14.82%	85.18%	8.82%	6.71%	8.37%	10.16%	0.13%	688,826	45.61%
WMALT 2007.3	06/25/2007	394,224,118	367,428,043	93.20%	N/A	39,422,412	100.0%	1.38%	0.84%	0.49%	0.30%	0.27%	3.38%	1.83%	7.76%	8.49%	91.51%	3.83%	6.97%	3.29%	3.50%	0.91%	34,387	11.89%
WMALT 2007.4	07/25/2007	391,438,039	360,627,323	92.13%	N/A	39,143,804	100.0%	3.86%	1.10%	0.92%	0.40%	0.23%	3.09%	1.07%	9.59%	10.42%	89.58%	8.39%	10.87%	7.40%	7.40%	0.23%	885,024	32.91%
WMALT 2007.5	02/26/2007	300,241,670	280,144,389	93.31%																				

LBMC 2005-2 Structure



FDIC_WAMU_00012358

LBMC 2005-2 Cash Flow Waterfall



List of WaMu - Goldman Loans Sales and Securitizations

(Document title added by Permanent Subcommittee on Investigations)

	A	B	C	D	E
1					
2					
3					
4				Transactions	
5	FHAVA				
6	Deal	Closing	Entity	Capacity	Collateral Balance
7	GSMPS 2006-RP1	1/27/2006	Washington Mutual Bank	Loan Seller, Primary Servicer, Underwriter (WaMu Capital Corp)	\$ 236,039,336
8	GSMPS 2006-RP2	8/24/2006	Washington Mutual Bank	Loan Seller, Primary Servicer	\$ 102,645,280
9					
10	Scratch & Dent				
11	Deal	Closing	Entity	Capacity	Collateral Balance
12	GSAMP 2006-SD2	6/16/2006	Long Beach Mortgage Company	Loan Seller	\$ 180,252,850
13	GSAMP 2006-SEA1	6/16/2006	Long Beach Mortgage Company	Loan Seller	\$ 36,772,757
14	GSRPM 2006-2	10/18/2006	Washington Mutual Bank	Loan Seller, Servicer	\$ 35,921,247
15	GSAMP 2007-SEA1	1/19/2007	Washington Mutual Bank	Loan Seller, Servicer	\$ 8,036,853
16	GSRPM 2007-1	4/19/2007	Washington Mutual Bank	Servicer	\$ 6,583,611
17					
18	Second Liens				
19	Deal	Closing	Entity	Capacity	Collateral Balance
20	LBMLT 2006-A	5/10/2006	Long Beach Mortgage Company	Long Beach shelf transaction (GS/WaMu as co-leads)	\$ 532,638,781
21	GSAMP 2006-S1	1/27/2006	Long Beach Mortgage Company / Washington Mutual Bank	Loan Seller / Master Servicer / Sub-Servicer	\$ 527,992,917
22	GSAMP 2006-S3	4/27/2006	Long Beach Mortgage Company	Loan Seller	\$ 175,286,259
23					
24	Subprime				
25	Deal	Closing	Entity	Capacity	Collateral Balance
26	LBMLT 2006-3	4/6/2006	Long Beach Mortgage Company	Long Beach shelf transaction (GS/WaMu as co-leads)	\$ 1,743,796,651
27	LBMLT 2006-7	8/30/2006	Long Beach Mortgage Company	Long Beach shelf transaction (GS/WaMu as co-leads)	\$ 1,596,614,194
28	LBMLT 2006-11	12/14/2006	Long Beach Mortgage Company	Long Beach shelf transaction (GS/WaMu as co-leads)	\$ 1,500,000,071
29	LBMLT 2006-WL1	2/8/2006	Long Beach Mortgage Company	Long Beach shelf transaction (GS/WaMu as co-leads); GS purchased pool from Long Beach	\$ 1,910,613,327
30					
31	Alt A				
32	Deal	Closing	Entity	Capacity	Collateral Balance
33	WMALT 2006-5	6/29/2006	Washington Mutual	WaMu shelf transaction (WaMu Capital Corp - Lead, GS - Co-lead)	\$ 655,790,498
34					
35	Preferred REIT				
36	Deal	Closing	Entity	Capacity	Collateral Balance
37	WaMu Preferred Funding Trust I / Cayman	2/24/2006	Washington Mutual Bank	Sole Structuring Coordinator and Joint Bookrunner	\$ 2,000,000,000
38	WaMu Preferred Funding Trust II	12/6/2006	Washington Mutual Bank	Sole Structuring Coordinator and Joint Bookrunner	\$ 500,000,000
39	WaMu Preferred Funding Trust III	5/21/2007	Washington Mutual Bank	Sole Structuring Coordinator and Joint Bookrunner	\$ 500,000,000
40					
41	Covered Bond				
42	Deal	Closing	Entity	Capacity	Collateral Balance
43	WaMu Covered Bond Funding Trust	9/20/2006	Washington Mutual Bank	Co-manager	\$ 4,000,000,000

Whole Loan Purchases

FHAVA

Position	Count	Balance
WAM_FHA FEB282006 FIXARM	1,255	\$110,043,525.55

Second Liens

Position	Count	Balance
LB2NDS Jan252006 COLLAT	3,504	\$200,695,896.18

Scratch & Dent

Position	Count	Balance
LB SD Mar302006	1,718	\$203,309,451.25
WAMU_MH_JAN312007	592	\$22,251,856.17
WAMU SD JUL212006	260	\$50,159,232.16

Prime Fixed

Position	Count	Balance
WAMU APR212006 35A	67	\$27,426,391.57
WAMU MAY242006 15A	75	\$47,119,490.65
WAMU JULY262006 30A	256	\$152,387,868.09
WAMU JULY262006 30A TRAIL	32	\$19,167,323.10
WAMU NOV272006 30A	180	\$104,975,328.12
WAMU MAR272007 30A	191	\$121,623,290.30
WAMU MAR272007 30A TRAIL	49	\$29,440,206.29
WAMU MAY242007 30A	517	\$313,291,297.84

Note: the whole loan sizes do not match up to securitization balances as loans purchased in 2005 were securitized in 2006

Claims

R&W Repurchase Claim Outstanding

	Count	Balance
Grand Total	261	\$19,769,939.00

EPD

	Count	Balance
Grand Total	--	--



June 11, 2007
3:00 – 5:00

FDIC Seidman Center, Arlington, VA

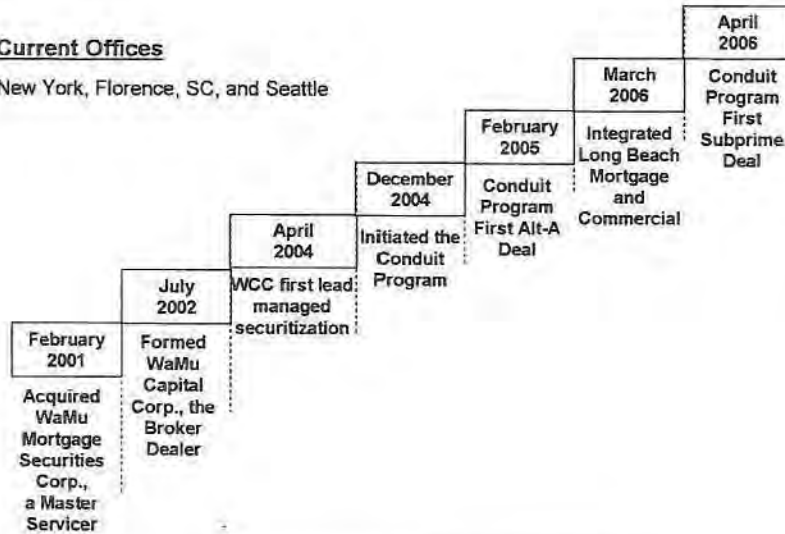
David Beck, Executive Vice President
WaMu Capital Markets

Permanent Subcommittee on Investigations
EXHIBIT #47c

Capital Markets Division Growth

Current Offices

New York, Florence, SC, and Seattle

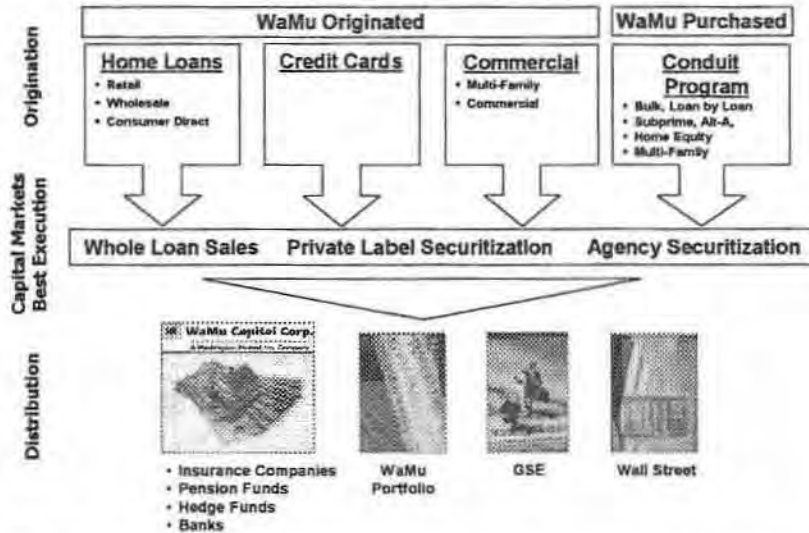


Speaker name or text of your choice/FIEC Capital Markets Specialist Conference - June 11, 2007

25

- In 2001, we began acquiring the building blocks to become a world class capital markets organization.
- First, we acquired Washington Mutual Mortgage Securities Corp. (formerly known as PNC Mortgage Securities Corp.) from PNC Bank, adding: 1) bulk purchase loan processing capabilities, 2) resources offering mortgage-backed securities and 3) a seasoned master servicing group.
- In 2002, we began operating WaMu Capital Corp., allowing WaMu to distribute MBS backed by its own loan originations directly to investors and retain distribution fees formerly paid to the Street.
- In 2004, WaMu Capital Corp. first acted as a lead manager on a securitization. In the same year we also initiated our Conduit Program.
- The Conduit Program led to our first Alt-A deal in 2005 and our first subprime deal in 2006.
- Also in 2006, we reorganized WaMu's capital markets structure, bringing all capital markets activity into a single, unified division under the banner of the Home Loans Group.

Origination Through Distribution



Speaker name or text of your choice/FEC Capital Markets Specialist Conference - June 11, 2007

- Wamu has built a vertically integrated Capital Markets business model. We now participate in the entire mortgage process--from origination, pooling, structuring to distribution.
- We can opportunistically acquire products and strategically distribute them through the most profitable channels.
- By managing the distribution process we have access to information that allows us to refine our origination efforts and improve execution.

Rate of Growth Exceeds the Industry

Top Non Agency MBS Issuers

2004		2005		2006	
	<u>Volume</u>		<u>Volume</u>		<u>Volume</u>
1. Countrywide	\$118.3	1. Countrywide	\$167.5	1. Countrywide	\$153.8
2. Lehman Brothers	\$56.7	2. Lehman Brothers	\$87.1	2. WaMu	\$72.8
3. Ameriquest	\$55.1	3. WaMu	\$73.8	3. Lehman Brothers	\$69.4
4. Bear Stearns	\$45.4	4. Bear Stearns	\$64.6	4. GMAC-RFC	\$66.2
5. GMAC-RFC	\$42.4	5. GMAC-RFC	\$56.9	5. Bear Stearns	\$64.2
6. WaMu	\$37.2	6. Ameriquest	\$54.4	6. Wells Fargo	\$60.4
7. CS First Boston	\$36.4	7. Wells Fargo	\$48.8	7. Goldman Sachs	\$46.1
8. Wells Fargo	\$33.6	8. CS First Boston	\$43.1	8. IndyMac	\$40.1
9. Bank of America	\$27.5	9. Goldman Sachs	\$38.8	9. New Century	\$35.3
10. UBS Warburg	\$22.9	10. RBS Greenwich	\$36.5	10. JPMorgan Chase	\$33.1

Source: Inside Mortgage Finance

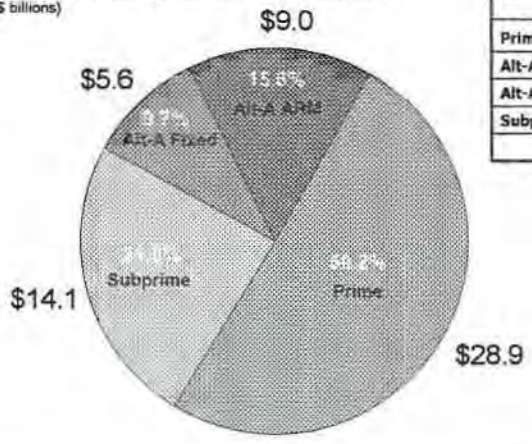
Speaker name or text of your choice/FIEC Capital Markets Specialist Conference - June 11, 2007

27

- In just 3 years, we've become the #2 ranked Non-Agency MBS issuer in 2006.
- Our rapid rise in the rankings is fueled by our Conduit Program (2004), which focuses on high margin products.

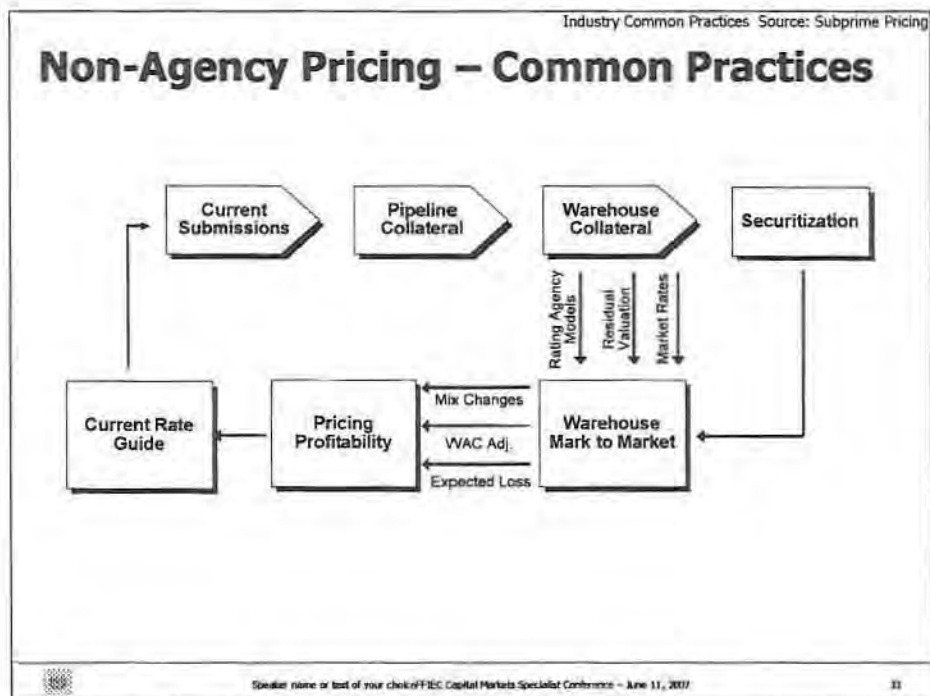
WaMu Capital Corp Sole/Lead Underwriter

January 1, 2006 – December 31, 2006
 OPB of Publicly Offered Certificates
 (\$ billions)



	# of Deals
Prime	24
Alt-A Fixed	9
Alt-A ARM	10
Subprime	13
Total	56

- WaMu's capability as a Sole/Lead Underwriter has developed significantly, with 56 deals totaling \$58B n 2006.



- Non-agency pricing is a dynamic process
- Rates are set to Gain on Sale targets, balanced with competitive positions and production targets

- **Market Rates:**

- The 2 year swap rate approximates the cost of funds, and is monitored daily.
- Weighted Average Coupon (WAC) must move parallel to this rate to earn steady GOS.
- One month Libor is also monitored daily because it impacts the valuation of the Securitization Residual.

- **Execution Forecast/GOS:**

- Warehouse GOS forecast based on the composition of the warehouse, underlying interest rates, and execution into a securitization.
- 5-day average of our new Submissions GOS forecast is derived from the Warehouse mark and the underlying interest rates.
- Credit Spreads – S&P and Loan Performance are used regularly to determine the execution impact of changes to the product mix.
- Investor Feedback – Investors in Sub Prime ABS are regularly communicated with, to shape pricing and to tailor products to secondary market appetite.

WaMu Wholesale Specialty Lending
3.2 - Bond Rating Changes
As of June 2008 Distribution
Fitch/Moody's/S&P/DBRS



WaMu®

Deal	Bonds	Fitch	Original Ratings			Current Ratings				Most Recent Action	Detail/Explanation
			Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS		
2007-HE1	I-A	NR	Aaa	AAA	NR	NR	A2	BBB	NR	05/01/2008	S&P Downgraded AAA/Watch Neg to BBB
	II-A1	NR	Aaa	AAA	NR	NR	A1	AAA	NR	05/01/2008	S&P Affirmed AAA; Removed CreditWatch Negative
	II-A2	NR	Aaa	AAA	NR	NR	A3	AAA	NR	05/01/2008	S&P Affirmed AAA; Removed CreditWatch Negative
	II-A3	NR	Aaa	AAA	NR	NR	Baa1	A	NR	05/01/2008	S&P Downgraded AAA/Watch Neg to A
	II-A4	NR	Aaa	AAA	NR	NR	Baa1	BBB	NR	05/01/2008	S&P Downgraded AAA/Watch Neg to BBB
	M-1	NR	Aa1	AA+	NR	NR	B1	BB	NR	05/01/2008	S&P Downgraded AA+/Watch Neg to BB
	M-2	NR	Aa2	AA	NR	NR	B2	B	NR	05/01/2008	S&P Downgraded AA/Watch Neg to B
	M-3	NR	Aa3	AA-	NR	NR	B2	CCC	NR	04/07/2008	Moody's Downgraded Aa3 to B3; Placed Under Review for further Possible Downgrade
	M-4	NR	A1	A+	NR	NR	B3	CCC	NR	04/07/2008	Moody's Downgraded Aa3 to B3; Placed Under Review for further Possible Downgrade
	M-5	NR	A2	A	NR	NR	Caa2	CCC	NR	04/07/2008	Moody's Downgraded B2 to Caa2
	M-6	NR	A3	A-	NR	NR	Caa3	CCC	NR	04/07/2008	Moody's Downgraded B3 to Caa3
	M-7	NR	Baa1	BBB+	NR	NR	Ca	CCC	NR	04/07/2008	Moody's Downgraded Caa2 to Ca
	M-9	NR	Baa3	BBB-	NR	NR	C	CC	NR	05/01/2008	S&P Downgraded CCC to CC
B-1	NR	NR	NR	BB+	NR	NR	C	CC	NR	05/01/2008	S&P Downgraded CCC to CC
B-2	NR	NR	NR	BB	NR	NR	C	CC	NR	05/01/2008	S&P Downgraded CCC to CC
2007-HE2	I-A	AAA	Aaa	AAA	NR	A	A3	A	NR	05/12/2008	S&P Downgraded AAA/Watch Negative to A
	II-A1	AAA	Aaa	AAA	NR	AAA	A2	AAA	NR	05/12/2008	S&P Affirmed AAA; Removed CreditWatch Negative
	II-A2	AAA	Aaa	AAA	NR	AAA	Baa1	AAA	NR	05/12/2008	S&P Affirmed AAA; Removed CreditWatch Negative
	II-A3	AAA	Aaa	AAA	NR	AAA	Baa2	AA	NR	05/12/2008	S&P Downgraded AAA/Watch Negative to AA
	II-A4	AAA	Aaa	AAA	NR	A	Baa2	A	NR	05/12/2008	S&P Downgraded AAA/Watch Negative to A
	M-1	AA+	Aa1	AA+	NR	BBB+	B1	BB	NR	05/12/2008	S&P Downgraded AA+/Watch Neg to BB
	M-2	AA	Aa2	AA	NR	BBB	B1	B	NR	05/12/2008	S&P Downgraded AA/Watch Neg to B
	M-3	AA-	Aa3	AA-	NR	BBB-	B2	CCC	NR	04/07/2008	Moody's Downgraded Aa3 to B3; Placed Under Review for further Possible Downgrade
	M-4	A+	A1	A+	NR	BB	B3	CCC	NR	04/07/2008	Moody's Downgraded Aa3 to B3; Placed Under Review for further Possible Downgrade
	M-5	A	A2	A	NR	B	Caa1	CCC	NR	04/07/2008	Moody's Downgraded Baa3 to Caa1
M-6	A-	A3	A-	NR	B	Caa3	CCC	NR	04/07/2008	Moody's Downgraded Ba2 to Caa3	
M-7	BBB+	Baa1	BBB+	NR	CCC	Ca	CCC	NR	04/07/2008	Moody's Downgraded B2 to Ca	
M-8	BBB	Baa2	BBB	NR	CCC	C	CCC	NR	04/07/2008	Moody's Downgraded Ca to C	

Permanent Subcommittee on Investigations
EXHIBIT #48

WaMu Wholesale Specialty Lending
 3.2 - Bond Rating Changes
 As of June 2008 Distribution
 Fitch/Moody's/S&P/DBRS



Deal	Bonds	Original Ratings				Current Ratings				Most Recent Action	Detail/Explanation
		Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS		
2006-WL3	M-2	AA	Aa2	AA	NR	BB	Baa3	AA-	NR	04/07/2008	Moody's Downgraded Aa2 to Baa3
	M-3	AA-	Aa3	AA-	NR	B	B3	BB	NR	04/07/2008	Moody's Downgraded Aa3 to B3
	M-4	A+	A1	A+	NR	CCC	B3	B	NR	04/07/2008	Moody's Downgraded A3 to B3; Placed Under Review for further Possible Downgrade
	M-5	A	A2	A	NR	CCC	Caa2	CCC	NR	04/07/2008	Moody's Downgraded A3 to Caa2
	M-6	A-	A3	A-	NR	CC	Caa3	CCC	NR	04/07/2008	Moody's Downgraded Baa2 to Caa3
	M-7	BBB+	Baa1	BBB+	NR	CC	Ca	CCC	NR	04/07/2008	Moody's Downgraded Baa2 to Ca
	M-8	BBB	Baa2	BBB	NR	CC	C	CCC	NR	04/07/2008	Moody's Downgraded B2 to C
	M-9	BBB-	Baa3	BBB-	NR	C	C	D	NR	05/28/2008	S&P Downgraded CC to D
	2006-1	M-1	NR	Aa1	AA+	NR	NR	Aa2	AAA	NR	04/07/2008
M-2		NR	Aa2	AA+	NR	NR	Ba1	BBB	NR	04/07/2008	Moody's Downgraded Aa2 to Ba1
M-3		NR	Aa3	AA	NR	NR	B3	B+	NR	04/07/2008	Moody's Downgraded Aa3 to B3
M-4		NR	Aa1	AA	NR	NR	B3	B	NR	04/07/2008	Moody's Downgraded A3 to B3; Placed Under Review for further Possible Downgrade
M-5		NR	A2	AA-	NR	NR	Caa1	CCC	NR	04/07/2008	Moody's Downgraded Baa2 to Caa1
M-6		NR	A3	A+	NR	NR	Caa2	CCC	NR	04/07/2008	Moody's Downgraded Ba1 to Caa2
M-7		NR	Baa1	A	NR	NR	Caa3	CCC	NR	04/07/2008	Moody's Downgraded B2 to Caa3
M-8		NR	Baa2	A-	NR	NR	Ca	CC	NR	04/07/2008	Moody's Downgraded B3 to Ca
M-9		NR	Baa3	BBB+	NR	NR	C	CC	NR	04/07/2008	Moody's Downgraded Ca to C
M-10		NR	Ba1	BBB	NR	NR	C	CC	NR	04/07/2008	Moody's Downgraded Ca to C
2006-2	M-1	AA+	Aa1	AA+	NR	CCC	Baa1	BBB	NR	04/07/2008	Moody's Downgraded Aa1 to Baa1
	M-2	AA+	Aa2	AA	NR	CCC	B3	B	NR	04/07/2008	Moody's Downgraded Aa2 to B3; Placed Under Review for further Possible Downgrade
	M-3	AA	Aa3	AA	NR	CC	Caa1	CCC	NR	04/07/2008	Moody's Downgraded Aa3 to Caa1
	M-4	AA-	A1	AA-	NR	CC	Caa2	CCC	NR	04/07/2008	Moody's Downgraded Baa1 to Caa2
	M-5	A+	A2	A+	NR	CC	Caa3	CCC	NR	04/07/2008	Moody's Downgraded Ba1 to Caa3
	M-6	A-	A3	A	NR	C	Ca	CC	NR	04/07/2008	Moody's Downgraded B1 to Ca
	M-7	BBB+	Baa1	A-	NR	C	C	CC	NR	04/07/2008	Moody's Downgraded B3 to C
	M-8	BBB	Baa2	BBB+	NR	C	C	CC	NR	04/07/2008	Moody's Downgraded Ca to C
	M-9	BBB-	Baa3	BBB	NR	C	C	CC	NR	04/07/2008	Moody's Downgraded Ca to C
	M-10	BB+	Ba1	BBB-	NR	C	C		NR	04/24/2008	S&P Downgraded CC to D

WaMu Wholesale Specialty Lending
 3.2 - Bond Rating Changes
 As of June 2008 Distribution
 Fitch/Moody's/S&P/DBRS



Deal	Bonds	Original Ratings				Current Ratings				Most Recent Action	Detail/Explanation
		Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS		
2006-7	I-A	AAA	Aaa	AAA	NR	BB/Watch D	Baa3	BB	NR	04/07/2008	S&P Downgraded AAA (WN) to BB
	II-A1	AAA	Aaa	AAA	NR	AA/Watch D	Aaa	AAA	NR	04/07/2008	Moody's Downgraded Aaa to Baa3
	II-A2	AAA	Aaa	AAA	NR	A/Watch N	AAA	AAA	NR	04/07/2008	S&P Affirmed AAA; removed (WN)
	II-A3	AAA	Aaa	AAA	NR	A/Watch N	A3	AAA	NR	04/07/2008	S&P Affirmed AAA; removed (WN)
	II-A4	AAA	Aaa	AAA	NR	BB/Watch D	A3	BBB	NR	04/07/2008	Moody's Downgraded Aaa to A3
	M-1	AA+	Aa1	AA+	NR	BB/Watch D	Ba3	BBB	NR	04/07/2008	S&P Downgraded AAA (WN) to BBB
	M-2	AA+	Aa2	AA+	NR	BB/Watch D	Ba3	BB	NR	04/07/2008	Moody's Downgraded Aaa to Ba3
	M-3	AA	Aa3	AA+	NR	BB/Watch D	Ba3	BB	NR	04/07/2008	S&P Downgraded AAA (WN) to BB
	M-4	AA-	A1	AA	NR			B	NR	04/07/2008	Moody's Downgraded Aaa to Ba3
	M-5	A+	A2	AA-	NR	CCC	B2		NR	04/07/2008	S&P Downgraded AA+ (WN) to B
	M-6	A	A3	A+	NR	CCC	B3		NR	04/07/2008	Moody's Downgraded Aa1 to B2; Placed Under Review for further Possible Downgrade
	M-7	A-	Baa1	A	NR	CCC	B3		NR	04/07/2008	S&P Downgraded AA+ (WN) to CCC
	M-8	BBB+	Baa2	A-	NR	CC	Caa1	CCC	NR	04/07/2008	Moody's Downgraded Aa2 to B3; Placed Under Review for further Possible Downgrade
	M-9	BBB	Baa3	BBB+	NR	CC	Caa1	CCC	NR	04/07/2008	S&P Downgraded AA (WN) to CCC
M-11	BB+	Ba2	BBB-	NR	CC	Caa2	CCC	NR	04/07/2008	Moody's Downgraded Baa3 to Caa2	
					CC	Caa3	CCC	NR	04/07/2008	S&P Downgraded AA- (WN) to CCC	
					CC	Caa3	CC	NR	04/07/2008	Moody's Downgraded Ba2 to Caa3	
					CC	Caa3	CC	NR	04/07/2008	Moody's Downgraded B3 to Caa3	
					CC	Ca	CC	NR	04/07/2008	Moody's Downgraded B3 to Ca	
					C	C	CC	NR	04/07/2008	Moody's Downgraded Caa2 to C	
					C	C	CC	NR	04/07/2008	Moody's Downgraded Ca to C	
					C	C	D	NR	05/28/2008	S&P Downgraded CC to D	

From: Johnson, Keith <k.johnson@wamu.net>
Sent: Wednesday, August 11, 2004 4:05 PM
To: Lehrmann, Kurt E. <kurt.lehrmann@wamu.net>; Fisher, Richard <richard.fisher@wamu.net>; Rothenberg, Glenn <glenn.rothenberg@wamu.net>
Subject: RE: Interesting Friedman Billings piece re: Mortgage Brokers

1. Where do we line up with the competition on pricing today?
2. Are we still 5 or 6?
3. How far out in basis points?
4. I am not complaining, if we are within 25 bpts from 1st or 2nd then GAME ON. LETS SEE SOME SALES IF we are 70 bpts on from 3rd we have an issue.
5. **WHICH PRODUCT SHOULD CAPTIAL MARKETS BEING PUSHING?**

D. Keith Johnson

Executive Vice President and Chief Operating Officer
Washington Mutual Commercial Group
Tel: 206.377.3965 | Fax: 206.490.5656

This message (including attachments) is **CONFIDENTIAL**. If you are not the intended recipient of this information, or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute, or copy this information. If you have received this message in error, please contact the sender immediately.

-----Original Message-----

From: Lehrmann, Kurt E.
Sent: Wednesday, August 11, 2004 12:47 PM
To: Fisher, Richard; Johnson, Keith; Rothenberg, Glenn
Subject: RE: Interesting Friedman Billings piece re: Mortgage Brokers

Dick/Keith,

Just to clarify...

Goning this coming Monday we have:

* **Removal of the 50bps rate add-on for Arm products in States with No Prepay** -
Depending on volumes expected *GOS impact 8.9 to 12.5Bps* -

* **Improved rates below 80% ltv and FICO < 600**
- Depending on volumes expected *GOS impact 4.6 to 5.1Bps* -

Also I have attached a copy of the report showing performance of the following specials we are currently running:

Page 1 "DC Re-entry Special - 50bps in Rate Off"
Page 2 "New Century - 25Bps YSP"
Page 3 "Resmae Special - 50Bps"

These should definitely help boost production. Please clarify that you are looking for an impact in addition to these, going this coming Monday.

Kurt

Permanent Subcommittee on Investigations

EXHIBIT #49

-----Original Message-----

From: Fisher, Richard
Sent: Wednesday, August 11, 2004 11:11 AM
To: Johnson, Keith; Rothenberg, Glenn; Lehrmann, Kurt E.
Subject: RE: Interesting Friedman Billings piece re: Mortgage Brokers

Great circulation - generally, 10bp gos price = 6-7bp coupon, all else same.

Kurt, Glen - come up with couple of suggestions, run through levels and Moody's capital structure tools and come back this afternoon or tomorrow AM with couple of ideas. 80/20 rule and moving towards more true sub-prime instead of Alt A are the directions we want to go. Thanks.

Dick

-----Original Message-----

From: Johnson, Keith
Sent: Wednesday, August 11, 2004 10:44 AM
To: Fisher, Richard; Rothenberg, Glenn; Lehrmann, Kurt E.
Subject: Fw: Interesting Friedman Billings piece re: Mortgage Brokers

Guys read the string.

Are there any pricing specials we can go after to increase volume? Say we drop gain on sale 10 bpts but crank volume to offset.

D. Keith Johnson
Executive Vice President &
Chief Operating Officer
Commercial Group

phone 206.377.3965
fax 206.490.5656
k.johnson@wamu.net

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Chapman, Craig J. <craig.chapman@wamu.net>
To: Johnson, Keith <k.johnson@wamu.net>; Mango, Tony <tony.mango@wamu.net>;
Gotschall, Troy A. <troy.gotschall@wamu.net>; Giampaolo, Michael J.
<michael.giampaolo@wamu.net>; Weisbrod, Jay A. <jay.weisbrod@wamu.net>; Condensa,
Delphie M. <delphie.condensa@wamu.net>; Stringham-Madrid, Darcy L.
<darcy.stringham-madrid@wamu.net>; Marcussen, Amy <amy.marcussen@wamu.net>; Owens,
Dave <dave.owens@wamu.net>
CC: Williams, Collette <collette.williams@wamu.net>
Sent: Wed Aug 11 10:33:35 2004
Subject: RE: Interesting Friedman Billings piece re: Mortgage Brokers

EXCELLENT!!!! Bring it on!!!!

Craig Chapman

-----Original Message-----

From: Johnson, Keith
Sent: Wednesday, August 11, 2004 10:15 AM
To: Chapman, Craig J.; Mango, Tony; Gotschall, Troy A.; Giampaolo, Michael J.;
Weisbrod, Jay A.; Condensa, Delphie M.; Stringham-Madrid, Darcy L.; Marcussen, Amy;

Owens, Dave
Cc: Williams, Collette
Subject: Re: Interesting Friedman Billings piece re: Mortgage Brokers

Its time!

Next week when we are all together ITS GAME ON.

D. Keith Johnson
Executive Vice President &
Chief Operating Officer
Commercial Group

phone 206.377.3965
fax 206.490.5656
k.johnson@wamu.net

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Chapman, Craig J. <craig.chapman@wamu.net>
To: Mango, Tony <tony.mango@wamu.net>; Johnson, Keith <k.johnson@wamu.net>;
Gotschall, Troy A. <troy.gotschall@wamu.net>; Giampaolo, Michael J.
<michael.giampaolo@wamu.net>; Weisbrod, Jay A. <jay.weisbrod@wamu.net>; Condensa,
Delphie M. <delphie.condensa@wamu.net>; Stringham-Madrid, Darcy L.
<darcy.stringham-madrid@wamu.net>; Marcussen, Amy <amy.marcussen@wamu.net>
Sent: Wed Aug 11 09:48:13 2004
Subject: RE: Interesting Friedman Billings piece re: Mortgage Brokers

So when will we see a recommendation on what "GOING ON THE OFFENSIVE" looks like.
We will have invested \$30 million into building the franchise, we are poised and
ready to make the investments in "GOING ON THE OFFENSIVE".

Craig

-----Original Message-----

From: Mango, Tony
Sent: Wednesday, August 11, 2004 9:45 AM
To: Johnson, Keith; Gotschall, Troy A.; Giampaolo, Michael J.; Weisbrod, Jay A.;
Condensa, Delphie M.; Stringham-Madrid, Darcy L.; Marcussen, Amy
Cc: Chapman, Craig J.
Subject: RE: Interesting Friedman Billings piece re: Mortgage Brokers

We have already vastly improved in this area, and these surveys reflect some
"dated" sentiment, however it is time that we should come up with a focused sales
strategy on what we should tell and commit to our customers. All of our focus to
this point has been on process improvement and customer service improvement and we
can prove now that we can do it.

We need to to come up with a precise commitment that we want to sell, and make sure
we are operationally excellent to support that.

As Troy always says, it is time to take offense, instead of defense.

Brokers usually only remember the last deal they did with someone. We can change this reputation very fast, very time we deliver on this commitment.

-----Original Message-----

From: Johnson, Keith

Sent: Wed 08/11/2004 8:01 AM

To: Gotschall, Troy A.; Giampaolo, Michael J.; Weisbrod, Jay A.; Mango, Tony; Condensa, Delphie M.; Stringham-Madrid, Darcy L.; Marcussen, Amy

Cc: Chapman, Craig J.

Subject: FW: Interesting Friedman Billings piece re: Mortgage Brokers

Another survey on Mortgage Brokers and what they value and why they leave a lender. WaMu and Long Beach score low and are highlighted as troubled institutions.

This is just another data point that says we have to focus on customer service.

I think we have come a long way on increasing speed to decision and close. Have we pushed our sales managers and LFC support to make sure they are communicating with their brokers? Note that Long Beach is singled out in this survey for failing to follow-up on broker calls and email.

What are you all doing to make this better? Share your ideas with the group.

-----Original Message-----

From: Terpstra, Brian J.

Sent: Wed 8/11/2004 7:41 AM

To: Fisher, Richard; Gotschall, Troy A.; Johnson, Keith

Cc:

Subject: Interesting Friedman Billings piece re: Mortgage Brokers

Commentary on the Campbell Communications & Inside Mtg Finance survey on Mortgage Banker relationships with lenders.

Interesting comments on service quality & propensity of mortgage bankers/correspondents to switch to other lenders.

Both Long Beach and WM are noted.

BT

Brian Terpstra, CFA
Sr. Vice President
Washington Mutual Commercial Capital Markets
1301 Fifth Ave.
RBB1310
Seattle, WA 98101

Office: 206.377.5469
Cell: 206. [REDACTED]
brian.terpstra@wamu.net

From: Beck, David <david.beck@wamu.net>
Sent: Tuesday, November 7, 2006 2:18 PM
To: Schneider, David C. <david.schneider@wamu.net>; Hyde, Arlene M. <arlene.hyde@wamu.net>
Subject: Fw: Goldman Sachs New Issue Home Eq Commentary (External)

Please read the write up below to get a good view of the subprime secondary market.

I am at ABS east and have personally met with 8 investors. Overall will will have one on one meeting with 50-60 investors.

Doug Potolsky, Alex Park Dave Coultas and Henry Engelken have been telling the LB story. There remains good interest in our paper down thru BBB. Non investment grade buyers are quite concerned. LBMC paper is among the worst performing paper in the mkt in 2006. Subordinate buyers want answers.

The team did a nice job of preparing our story and communicating how we intend to improve performance. I cannot stress how crucial it is for us to follow thru on these commitments or face significantly worse prices.

AH and DH, I'll have a pitch book sent to you for your review. AH at the end of jan, assuming performance continues to improve, I'd love to get you to a big investor conf in Vegas. Over 4000 attendees. Finally, I'll set up the meeting on spoilage plan.

See u next week. If you want more color on investor meeting let me know.

----- Original Message -----

From: Potolsky, Doug
To: Davie, George J.; Richmond, Kevin M.; Park, Roy K.; Park, Alex; Beck, David; Nagle, David; Drastal, John; Hyde, Arlene M.; Sinn, Susan M.; Dooley, James

Sent: Fri Nov 03 05:58:12 2006
Subject: FW: Goldman Sachs New Issue Home Eq Commentary (External)

Good write up □.

Doug Potolsky
Capital Markets
Washington Mutual
623 Fifth Ave. 17 Fl.
NY, NY 10022
212-702-6961
201-240-7417(cell)
douglas.potolsky@wamu.net

From: Nichols, Matthew [<mailto:matthew.nichols@gs.com>]
Sent: Friday, November 03, 2006 8:23 AM
To: Nichols, Matthew
Subject: Goldman Sachs New Issue Home Eq Commentary (External)

Permanent Subcommittee on Investigations

EXHIBIT #50

Thoughts ahead of ABS East:

The much anticipated collapse in loan premiums has failed to materialize □ loans are still trading in the 102□s:

- * Better pricing discipline - loan prices had a relatively rational first half of the year avoiding the need for a major reprice
- * A forgiving rate market - originators have received a much-needed reprieve in the form of a 70 bp rally in 2y swap rates since the end of June (consider the same period last year □ an 80bp sell-off)
- * Volume □ supply remains tight despite the rally

Despite the reprieve (including a lot of high 102□s sales in September) the originator community still faces a challenging environment:

- * EPD□s □ the topic of the year continues to hit hard. Compared to last year average frequencies are up four-fold from 1% to 4% and the reprice discount has moved from 5-10 points to 15-20 points given the worse housing environment. At the end of the day, EPD□s have cost originators as much as 50 □ 100 bps in gain on sale and driven some of the lesser-capitalized companies out of business completely.

- * Volume □ down across the board for the third quarter and the outlook□s not better as we move into the dry season. We continue to see an interesting duration component to volume moves in the subprime market due to the longer lag in passing rate moves through to the rate sheet. As Alt-A rate sheets adjust down in rate faster some of the higher FICO subprime borrowers drift back up to the Alt-A pipeline. We saw the opposite through much of last year and temporarily in June of this year where many of the liminal borrowers took out subprime loans at more competitive rates than were available in Alt-A space and kept subprime volumes robust.

- * Competitive Pressures □ with excess capacity still impacting cost to produce, it feels like the lean right now is still towards dropping rates further to stem declining volumes. That move without further rally in the rate market, or inaction in the event of an uptick in rates could push loan prices back below 102. That might tilt the balance back towards securitization and away from loan sales for some larger originators.

On the loan credit front we continue to see guideline improvements driven by the drive to eradicate EPD□s:

- * No smoking gun □ there have been some obvious trends among lower FICO, higher CLTV borrowers (especially first time home buyers), but other correlations have been frustratingly weak on the EPD front. The hard matrix tightening (FICO/CLTV) from earlier in the year has been reinforced with additional soft guideline improvements including further restrictions on credit depth, payment shock, verification of rental history, and disposable income. Heightened focus on appraisal, income, and occupancy fraud will help as well. Overall the EPD scalpel has had to be much blunter than anticipated, but the economics continue to force the cuts despite the hit to volume.

- * Due diligence credit drops remain steady □ while our pull through rates have fallen to the 90% area, the uptick in drops continues to be driven by property value fails. We remain focused on appraisals with aged comps, condos, and properties listed for sale. On the credit side we see more of our drops concentrated in overstated incomes.

- * Rating agencies continue to demand more credit support □ enhancement levels continue to rise in step with more conservative views on housing prices.

Trends across securitizations:

* Program tiering □ performance disparities between programs have lead to more name tiering at the lower end of the capital structure. More attention is focused on hard credit enhancement levels as derivative sizing has varied across shelves. Servicer focus has increased as well as investors look to potentially tougher reset environments.

* Spreads □ demand technicals remain strong across the capital structure. AAA spreads have held firm as demand remains strong for both passthrough and sequential executions. AA sequentials have picked up steam driven by money managers on the front end and CDOs on the back. BBB cash spreads have widened and become more sensitive to synthetics as CDOs have become more indifferent to cash vs. synthetics and investors have become more sensitive to deal triggers.

* Equity interest □ a number of new equity participants have entered the market as the street has looked to share some of their accumulated risk. Liquidity has been encouraging as recent bid lists have been well supported.

Disclaimer:

(C) Copyright 2006 The Goldman Sachs Group, Inc. All rights reserved.

See <http://www.gs.com/disclaimer/email-salesandtrading.html> for important risk disclosure, conflicts of interest and other terms and conditions relating to this e-mail and your reliance on information contained in it. This message may contain confidential or privileged information. If you are not the intended recipient, please advise us immediately and delete this message. See <http://www.gs.com/disclaimer/email/> for further information on confidentiality and the risks of non-secure electronic communication. If you cannot access these links, please notify us by reply message and we will send the contents to you.

From: Schneider, David C.
Sent: Tuesday, February 26, 2008 3:18 PM
To: Beck, David <david.beck@wamu.net>; Berens, John <john.berens@wamu.net>
Cc: Gulick, Alan K. <alan.gulick@wamu.net>; Potolsky, Doug <doug.potolsky@wamu.net>
Subject: RE: Screen shot

Ok – thanks

ds

Are we sure there isn't a reporting issue?

From: Beck, David
Sent: Tuesday, February 26, 2008 12:17 PM
To: Schneider, David C.; Berens, John
Cc: Gulick, Alan K.; Potolsky, Doug
Subject: RE: Screen shot

Yes (ughh!) we are doing some peer group performance and looking at the servicing data with Tim Lynch's help and putting together an analysis. The author "Mish" Mishkin is a part time photographer and self proclaimed investment guru. He's got a blog and therefore a public podium and therefore credibility?

The collateral is full of limited doc layered risk alt a paper and at least half is TPO. The performance is not great but my opinion is not a WaMu specific issue.

From: Schneider, David C.
Sent: Tuesday, February 26, 2008 3:01 PM
To: Beck, David; Berens, John
Cc: Gulick, Alan K.
Subject: FW: Screen shot

Thoughts?

From: Corcoran, James
Sent: Tuesday, February 26, 2008 11:53 AM
To: Schneider, David C.; Cathcart, Ron
Subject: FW: Screen shot

FYI> This is something you will want to track down if legitimate. James

From: Alexander, David L.
Sent: Tuesday, February 26, 2008 11:08 AM
To: Corcoran, James; Eccles, Colin; Brandeberry, Mike E.
Subject: Screen shot

I don't know how authentic this is or if it is truly WaMu internal screen shot.

David L. Alexander

Permanent Subcommittee on Investigations
EXHIBIT #51

SVP, Human Resources & Brand Zealot
Retail Bank | WaMu
David.L.Alexander@wamu.net
206 500-2001 | 206 377-3017 Fax
206 500-2001 | 206 377-3017 Fax

Evidence of "Walking Away" In WaMu Mortgage Pool

HoweStreet.com - Vancouver, British Columbia, Canada

A friend of mine who goes by name "CS" sent me this screen shot of a particular **Washington Mutual (WM)** Alt-A mortgage pool known as WMALT 2007-0C1. ...

[See all stories on this topic](#)

(HELP) for explanation. Mtge **CLP**
 Enter 2<go> - 3<go> for loan level details

Group	1) Expand All							
	WMALT 2007-OC1							Collateral Performance
USD Bal Wgtd	01/2008	12/2007	11/2007	10/2007	09/2007	08/2007	07/2007	Earliest
Balance (M)	493,239	495,145	498,926	499,618	500,471	502,366	508,320	519,160
Pool Factor	0.950	0.954	0.961	0.962	0.964	0.968	0.979	1.000
# of Loans	1,680	1,688	1,700	1,702	1,705	1,712	1,731	1,765
WAC	6.961	6.962	6.963	6.964	6.964	6.965	6.971	6.976
WAM/Age	349/ 12	350/ 11	351/ 10	352/ 9	353/ 8	354/ 7	356/ 6	359/ 3
WALTV (Amort)	77.79%	77.83%	77.82%	77.85%	77.89%	77.91%	77.91%	78.01%
2) Delinq 30 days	6.08%	5.83%	6.01%	6.61%	6.00%	5.37%	7.73%	0.00%
3) Delinq 60 days	3.24%	4.15%	3.88%	3.26%	2.59%	2.72%	3.57%	0.00%
4) Delinq 90 days	1.06%	3.79%	2.88%	3.47%	2.30%	2.49%	0.16%	0.00%
5) Foreclosure	13.17%	8.25%	6.50%	4.80%	3.17%	0.66%	0.00%	0.00%
6) REO	1.83%	0.64%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%
7) Delinq. 60+	19.32%	16.83%	13.30%	11.53%	8.06%	5.87%	3.73%	0.00%
8) Delinq. 90+	16.03%	12.68%	9.42%	8.27%	5.47%	3.15%	0.16%	0.00%
Full Document.	11.19%	11.18%	11.19%	11.18%	11.26%	11.23%	11.19%	11.27%
Arm Collat. %	96.05	-	-	-	-	-	-	96.04
Credit Score	704	705	705	705	705	705	705	705
Balance < 417	66.89	-	-	-	-	-	-	66.89
1 Mo. CPR	4.20	8.50	1.40	1.80	4.20	13.10	6.50	-
Geo 1st	CA 48.4%	CA 48.3%	CA 48.1%	CA 48.1%	CA 48.0%	CA 48.0%	CA 47.9%	CA 47.8%
Geo 2nd	FL 14.6%	FL 14.6%	FL 14.5%	FL 14.5%	FL 14.4%	FL 14.4%	FL 14.3%	FL 14.4%

Saturday, February 23, 2008

Evidence of "Walking Away" In WaMu Mortgage Pool

A friend of mine who goes by name "CS" sent me this screen shot of a particular Washington Mutual (WM) Alt-A mortgage pool known as WMALT 2007-0C1. Let's take a look to see what we can see.

for explanation, Rate CLP

Enter 2<go> - 8<go> for loan level details

Group	07/2007	08/2007	09/2007	10/2007	11/2007	12/2007	01/2008	02/2008	03/2008	04/2008	05/2008	06/2008	07/2008	08/2008	09/2008	10/2008	11/2008	12/2008	01/2009	02/2009	03/2009	04/2009	05/2009	06/2009	07/2009	08/2009	09/2009	10/2009	11/2009	12/2009	01/2010	02/2010	03/2010	04/2010	05/2010	06/2010	07/2010	08/2010	09/2010	10/2010	11/2010	12/2010	01/2011	02/2011	03/2011	04/2011	05/2011	06/2011	07/2011	08/2011	09/2011	10/2011	11/2011	12/2011	01/2012	02/2012	03/2012	04/2012	05/2012	06/2012	07/2012	08/2012	09/2012	10/2012	11/2012	12/2012	01/2013	02/2013	03/2013	04/2013	05/2013	06/2013	07/2013	08/2013	09/2013	10/2013	11/2013	12/2013	01/2014	02/2014	03/2014	04/2014	05/2014	06/2014	07/2014	08/2014	09/2014	10/2014	11/2014	12/2014	01/2015	02/2015	03/2015	04/2015	05/2015	06/2015	07/2015	08/2015	09/2015	10/2015	11/2015	12/2015	01/2016	02/2016	03/2016	04/2016	05/2016	06/2016	07/2016	08/2016	09/2016	10/2016	11/2016	12/2016	01/2017	02/2017	03/2017	04/2017	05/2017	06/2017	07/2017	08/2017	09/2017	10/2017	11/2017	12/2017	01/2018	02/2018	03/2018	04/2018	05/2018	06/2018	07/2018	08/2018	09/2018	10/2018	11/2018	12/2018	01/2019	02/2019	03/2019	04/2019	05/2019	06/2019	07/2019	08/2019	09/2019	10/2019	11/2019	12/2019	01/2020	02/2020	03/2020	04/2020	05/2020	06/2020	07/2020	08/2020	09/2020	10/2020	11/2020	12/2020	01/2021	02/2021	03/2021	04/2021	05/2021	06/2021	07/2021	08/2021	09/2021	10/2021	11/2021	12/2021	01/2022	02/2022	03/2022	04/2022	05/2022	06/2022	07/2022	08/2022	09/2022	10/2022	11/2022	12/2022	01/2023	02/2023	03/2023	04/2023	05/2023	06/2023	07/2023	08/2023	09/2023	10/2023	11/2023	12/2023	01/2024	02/2024	03/2024	04/2024	05/2024	06/2024	07/2024	08/2024	09/2024	10/2024	11/2024	12/2024	01/2025	02/2025	03/2025	04/2025	05/2025	06/2025	07/2025	08/2025	09/2025	10/2025	11/2025	12/2025	01/2026	02/2026	03/2026	04/2026	05/2026	06/2026	07/2026	08/2026	09/2026	10/2026	11/2026	12/2026	01/2027	02/2027	03/2027	04/2027	05/2027	06/2027	07/2027	08/2027	09/2027	10/2027	11/2027	12/2027	01/2028	02/2028	03/2028	04/2028	05/2028	06/2028	07/2028	08/2028	09/2028	10/2028	11/2028	12/2028	01/2029	02/2029	03/2029	04/2029	05/2029	06/2029	07/2029	08/2029	09/2029	10/2029	11/2029	12/2029	01/2030	02/2030	03/2030	04/2030	05/2030	06/2030	07/2030	08/2030	09/2030	10/2030	11/2030	12/2030	01/2031	02/2031	03/2031	04/2031	05/2031	06/2031	07/2031	08/2031	09/2031	10/2031	11/2031	12/2031	01/2032	02/2032	03/2032	04/2032	05/2032	06/2032	07/2032	08/2032	09/2032	10/2032	11/2032	12/2032	01/2033	02/2033	03/2033	04/2033	05/2033	06/2033	07/2033	08/2033	09/2033	10/2033	11/2033	12/2033	01/2034	02/2034	03/2034	04/2034	05/2034	06/2034	07/2034	08/2034	09/2034	10/2034	11/2034	12/2034	01/2035	02/2035	03/2035	04/2035	05/2035	06/2035	07/2035	08/2035	09/2035	10/2035	11/2035	12/2035	01/2036	02/2036	03/2036	04/2036	05/2036	06/2036	07/2036	08/2036	09/2036	10/2036	11/2036	12/2036	01/2037	02/2037	03/2037	04/2037	05/2037	06/2037	07/2037	08/2037	09/2037	10/2037	11/2037	12/2037	01/2038	02/2038	03/2038	04/2038	05/2038	06/2038	07/2038	08/2038	09/2038	10/2038	11/2038	12/2038	01/2039	02/2039	03/2039	04/2039	05/2039	06/2039	07/2039	08/2039	09/2039	10/2039	11/2039	12/2039	01/2040	02/2040	03/2040	04/2040	05/2040	06/2040	07/2040	08/2040	09/2040	10/2040	11/2040	12/2040	01/2041	02/2041	03/2041	04/2041	05/2041	06/2041	07/2041	08/2041	09/2041	10/2041	11/2041	12/2041	01/2042	02/2042	03/2042	04/2042	05/2042	06/2042	07/2042	08/2042	09/2042	10/2042	11/2042	12/2042	01/2043	02/2043	03/2043	04/2043	05/2043	06/2043	07/2043	08/2043	09/2043	10/2043	11/2043	12/2043	01/2044	02/2044	03/2044	04/2044	05/2044	06/2044	07/2044	08/2044	09/2044	10/2044	11/2044	12/2044	01/2045	02/2045	03/2045	04/2045	05/2045	06/2045	07/2045	08/2045	09/2045	10/2045	11/2045	12/2045	01/2046	02/2046	03/2046	04/2046	05/2046	06/2046	07/2046	08/2046	09/2046	10/2046	11/2046	12/2046	01/2047	02/2047	03/2047	04/2047	05/2047	06/2047	07/2047	08/2047	09/2047	10/2047	11/2047	12/2047	01/2048	02/2048	03/2048	04/2048	05/2048	06/2048	07/2048	08/2048	09/2048	10/2048	11/2048	12/2048	01/2049	02/2049	03/2049	04/2049	05/2049	06/2049	07/2049	08/2049	09/2049	10/2049	11/2049	12/2049	01/2050	02/2050	03/2050	04/2050	05/2050	06/2050	07/2050	08/2050	09/2050	10/2050	11/2050	12/2050	01/2051	02/2051	03/2051	04/2051	05/2051	06/2051	07/2051	08/2051	09/2051	10/2051	11/2051	12/2051	01/2052	02/2052	03/2052	04/2052	05/2052	06/2052	07/2052	08/2052	09/2052	10/2052	11/2052	12/2052	01/2053	02/2053	03/2053	04/2053	05/2053	06/2053	07/2053	08/2053	09/2053	10/2053	11/2053	12/2053	01/2054	02/2054	03/2054	04/2054	05/2054	06/2054	07/2054	08/2054	09/2054	10/2054	11/2054	12/2054	01/2055	02/2055	03/2055	04/2055	05/2055	06/2055	07/2055	08/2055	09/2055	10/2055	11/2055	12/2055	01/2056	02/2056	03/2056	04/2056	05/2056	06/2056	07/2056	08/2056	09/2056	10/2056	11/2056	12/2056	01/2057	02/2057	03/2057	04/2057	05/2057	06/2057	07/2057	08/2057	09/2057	10/2057	11/2057	12/2057	01/2058	02/2058	03/2058	04/2058	05/2058	06/2058	07/2058	08/2058	09/2058	10/2058	11/2058	12/2058	01/2059	02/2059	03/2059	04/2059	05/2059	06/2059	07/2059	08/2059	09/2059	10/2059	11/2059	12/2059	01/2060	02/2060	03/2060	04/2060	05/2060	06/2060	07/2060	08/2060	09/2060	10/2060	11/2060	12/2060	01/2061	02/2061	03/2061	04/2061	05/2061	06/2061	07/2061	08/2061	09/2061	10/2061	11/2061	12/2061	01/2062	02/2062	03/2062	04/2062	05/2062	06/2062	07/2062	08/2062	09/2062	10/2062	11/2062	12/2062	01/2063	02/2063	03/2063	04/2063	05/2063	06/2063	07/2063	08/2063	09/2063	10/2063	11/2063	12/2063	01/2064	02/2064	03/2064	04/2064	05/2064	06/2064	07/2064	08/2064	09/2064	10/2064	11/2064	12/2064	01/2065	02/2065	03/2065	04/2065	05/2065	06/2065	07/2065	08/2065	09/2065	10/2065	11/2065	12/2065	01/2066	02/2066	03/2066	04/2066	05/2066	06/2066	07/2066	08/2066	09/2066	10/2066	11/2066	12/2066	01/2067	02/2067	03/2067	04/2067	05/2067	06/2067	07/2067	08/2067	09/2067	10/2067	11/2067	12/2067	01/2068	02/2068	03/2068	04/2068	05/2068	06/2068	07/2068	08/2068	09/2068	10/2068	11/2068	12/2068	01/2069	02/2069	03/2069	04/2069	05/2069	06/2069	07/2069	08/2069	09/2069	10/2069	11/2069	12/2069	01/2070	02/2070	03/2070	04/2070	05/2070	06/2070	07/2070	08/2070	09/2070	10/2070	11/2070	12/2070	01/2071	02/2071	03/2071	04/2071	05/2071	06/2071	07/2071	08/2071	09/2071	10/2071	11/2071	12/2071	01/2072	02/2072	03/2072	04/2072	05/2072	06/2072	07/2072	08/2072	09/2072	10/2072	11/2072	12/2072	01/2073	02/2073	03/2073	04/2073	05/2073	06/2073	07/2073	08/2073	09/2073	10/2073	11/2073	12/2073	01/2074	02/2074	03/2074	04/2074	05/2074	06/2074	07/2074	08/2074	09/2074	10/2074	11/2074	12/2074	01/2075	02/2075	03/2075	04/2075	05/2075	06/2075	07/2075	08/2075	09/2075	10/2075	11/2075	12/2075	01/2076	02/2076	03/2076	04/2076	05/2076	06/2076	07/2076	08/2076	09/2076	10/2076	11/2076	12/2076	01/2077	02/2077	03/2077	04/2077	05/2077	06/2077	07/2077	08/2077	09/2077	10/2077	11/2077	12/2077	01/2078	02/2078	03/2078	04/2078	05/2078	06/2078	07/2078	08/2078	09/2078	10/2078	11/2078	12/2078	01/2079	02/2079	03/2079	04/2079	05/2079	06/2079	07/2079	08/2079	09/2079	10/2079	11/2079	12/2079	01/2080	02/2080	03/2080	04/2080	05/2080	06/2080	07/2080	08/2080	09/2080	10/2080	11/2080	12/2080	01/2081	02/2081	03/2081	04/2081	05/2081	06/2081	07/2081	08/2081	09/2081	10/2081	11/2081	12/2081	01/2082	02/2082	03/2082	04/2082	05/2082	06/2082	07/2082	08/2082	09/2082	10/2082	11/2082	12/2082	01/2083	02/2083	03/2083	04/2083	05/2083	06/2083	07/2083	08/2083	09/2083	10/2083	11/2083	12/2083	01/2084	02/2084	03/2084	04/2084	05/2084	06
-------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	----

This is a relatively new pool. The issue date was a May, 2007. Common wisdom suggests that it is mortgage vintages from 2004-2006 from those buying near the real estate peak that are most in trouble. This pool is blowir sky high in 8 months flat.

Inquiring minds may be asking about lines 7 and 8 as well as the GEO lines at the bottom of the screen shot.

- Line 7 is the sum of lines 3 through 6 (anything 60 days late or greater plus all previous foreclosures and REOs)
- Line 8 is the sum of lines 4 through 6 (anything 90 days late or greater plus all previous foreclosures and REOs).
- The GEO lines (geographic distribution) show this pool is 48% California and 14% Florida.

WMALT 2007-OC1 A1 is a securitized mortgage-backed security issued in May, 2007. Following are the breakdowns and ratings from the prospectus.

Initial Principle Balances By Class

Class	Approximate Initial Class Principal Balance	Annual Certificate Interest Rate	Type
A-1	\$250,000,000	Variable(1)	Senior/LIBOR
A-2	89,064,000	Variable(2)	Senior/LIBOR
A-3	42,693,000	Variable(3)	Senior/LIBOR
A-4	33,571,000	Variable(4)	Senior/LIBOR
A-5	60,741,000	Variable(5)	Sr./Mezz./LIBOR
M-1	8,307,000	Variable(6)	Subordinate/LIBOR
M-2	7,268,000	Variable(7)	Subordinate/LIBOR
M-3	4,413,000	Variable(8)	Subordinate/LIBOR
M-4	3,894,000	Variable(9)	Subordinate/LIBOR
M-5	3,634,000	Variable(10)	Subordinate/LIBOR
M-6	2,596,000	Variable(11)	Subordinate/LIBOR
B-1	2,596,000	Variable(12)	Subordinate/LIBOR
B-2	2,596,000	Variable(13)	Subordinate/LIBOR
B-3	2,596,000	Variable(14)	Subordinate/LIBOR
R	100	(15)	Senior/Residual

click on chart for sharper image

Class Ratings

Class	Rating Agency	
	S&P	Moody's
A-1	AAA	Aaa
A-2	AAA	Aaa
A-3	AAA	Aaa
A-4	AAA	Aaa
A-5	AAA	Aaa
M-1	AA+	Aa1
M-2	AA	Aa2
M-3	AA	Aa3
M-4	AA-	A1
M-5	A+	A2
M-6	A	A3
B-1	A-	Baa1
B-2	BBB	Baa2
B-3	BBB-	Baa3
R	AAA	Aaa

click on chart for sharper image

Let' do the math.

- The total pool size is \$513,969,100.
- \$476,069,000 was rated AAA.
- 92.6% of this cesspool was rated AAA.
- Yet 15% of the whole pool is in foreclosure or REO after a mere 8 months!

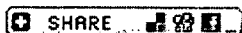
In addition, the data suggests that people are not even bothering to wait for delinquencies to hit 90 days. Instead they are handing over the keys right now.

Washington Mutual was the underwriter. If you bought a slice of this cesspool from WaMu, are you going to buy their next offering? One final question: Does anyone have any reason to trust any rating from Moody's, Fitch, and the S&P?

Mike "Mish" Shedlock

<http://globaleconomicanalysis.blogspot.com>

Click Here To Scroll Thru My Recent Post List



Evidence of "Walking Away" In WaMu Mortgage Pool

Posted by Michael Shedlock at 4:18 PM [Print](#) [Email](#)

[Newer Post](#)

[Home](#)

[Older Pos](#)

Subscribe to:

From: Baker, Todd
Sent: Tuesday, March 27, 2007 3:51:22 PM
To: Killinger, Kerry K.; Rotella, Steve; Casey, Tom; Magleby, Alan F.; Rodriguez, Adrian; Schneider, David C.
Subject: re our discussion yesterday and what the street perception will be

WaMu subprime ABS delinquencies top ABX components

NEW YORK, March 27 (Reuters) - Washington Mutual Inc.'s subprime bonds are suffering from some of the worst rates of delinquency among securities in benchmark indexes, according to JPMorgan Chase & Co. research.

Delinquencies of 60 days or more on loans supporting WaMu's Long Beach Mortgage LBMLT 2006-1 issue jumped 1.78 percentage points according to monthly reports published this week, to 19.44 percent, JPMorgan data shows. The delinquency rate was the highest among the 20 bonds in the widely watched ABX-HE 06-2 index of bonds backed by residential loans to risky borrowers.

The average rise in delinquencies that have sparked a crisis in subprime lending since last year slowed in the March "remittance" reports, JPMorgan said. The average rate for the ABX-HE 06-2 index rose 1.07 percentage points to 11.91 percent, the smallest increase since September, it said.

Values of some bonds in the \$575 billion market have dropped sharply since November as delinquencies exceeded expectations and prompted investors to sell bad loans back to lenders. The repurchases have overwhelmed lenders, leading Wall Street banks to sever credit lines and forcing more than two dozen companies to shutter or sell businesses.

Washington Mutual in January said it was voluntarily cutting back on its subprime business after its mortgage unit posted a \$122 million fourth-quarter loss. Like other lenders, it has since last year been tightening underwriting standards to bolster the quality of the loans, Chief Executive Kerry Killinger said in a January conference call.

WaMu originated \$26.6 billion in subprime mortgage loans last year, making it the 11th largest lender in the sector topped by HSBC Finance, New Century Financial Corp. and Countrywide Financial Corp., according to UBS AG research.

A spokesman for Seattle-based Washington Mutual declined to comment.

Long Beach's LBMLT 2006-6 bond also had the most delinquencies in the newer, ABX-HE 07-1 index, at 11.11 percent. In the ABX 06-1 index, delinquencies on Long Beach's LBMLT 2005-WL2 bond reached 15.19 percent, second to the 15.82 percent on Bear Stearns Cos.' BSABS 2005-HE11.

In the ABX-06-2 index, JPMorgan's JPMAC 2006-FRE1 subprime bond had the second-highest delinquency rate of 17.34 percent. It was followed by the 16.49 percent rate on Bear Stearns's BSABS 2006-HE3.

((Reporting by Al Yoon; editing by Andrea Ricci; Reuters Messaging: albert.yoon.reuters.com@reuters.net; Email: albert.yoon@reuters.com; +1 646-223-6347))

Todd Baker
Executive Vice President -- Corporate Strategy & Development
Washington Mutual Inc.
1301 Second Avenue, WMC 3301
Seattle, WA 98101
(206) 500-4191 (phone)
(206) 377-2496 (fax)
todd.baker@wamu.net

****Note my contact information is updated as of September 5, 2006. Please update your contact information so we don't lose touch.**

Permanent Subcommittee on Investigations

EXHIBIT #52

THE WALL STREET JOURNAL

Corporate Focus

WaMu Leads in Risky Type of Lending --- Analysis Shows Thrift Makes Frequent Loans For Investment Homes

By James R. Hagerty and Ann Carrns

618 words

17 April 2007

The Wall Street Journal

J

A8

English

(Copyright (c) 2007, Dow Jones & Company, Inc.)

Among the top five U.S. home-mortgage lenders, Washington Mutual Inc. last year made the highest percentage of loans to investors or second-home buyers, according to a Wall Street Journal analysis of data filed with banking regulators. Such loans are generally considered riskier than those to owner occupants.

The analysis also showed Citigroup Inc. and **WaMu** had the highest concentrations of loans with high interest rates, which are generally subprime mortgages, or home loans made to those with weak credit records or high debt in relation to income.

The data show 15% of the loans **WaMu** originated last year were backed by homes that weren't the borrower's principal residence. That compares with 13% at Countrywide Financial Corp., 11% at Wells Fargo & Co., 9% at J.P. Morgan Chase & Co. and 5% at Citigroup.

Loans for investment properties carry more risk because borrowers are more likely to abandon an unsuccessful investment than stop meeting payments on their primary homes. Many loans to investors are option adjustable-rate mortgages, which give borrowers the choice of payment levels each month, including one that covers only part of the interest and no principal.

Such minimal payments can be "perfect for speculators," who hope to sell the home quickly and so aren't concerned about paying down the loan balance, said Robert Lacoursiere, an analyst at Banc of America Securities in New York. A **WaMu** spokesman said the company's lending standards "are tighter for investor properties and second homes."

It is unclear how many of these loans the lenders kept on their books or instead sold to other financial investors. In any case, a lender can be hurt by a bad loan even if it has been sold. For one thing, the investor can sometimes force the lender to repurchase it. Also, if a lender develops a reputation for making lots of bad loans, the lender gets lower bids for future loans it wants to sell.

More clues on Washington Mutual's mortgage business will come today when the Seattle thrift reports first-quarter results after the market closes. Some analysts have lowered their expectations. Credit Suisse analyst Moshe Orenbuch, who slashed his 2007 projections for **WaMu** to \$3 a share from \$3.70, noted in an April 5 report that rising defaults on subprime loans will have "serious ramifications" for some lenders. He rates **WaMu** shares "neutral."

Nineteen analysts surveyed by Thomson Financial project **WaMu** to report first-quarter profit of 84 cents a share, down from 98 cents a year earlier. **WaMu** shares are down 10% since the beginning of the year, compared with a 3% decline in the Dow Jones Wilshire U.S. Banks Index.

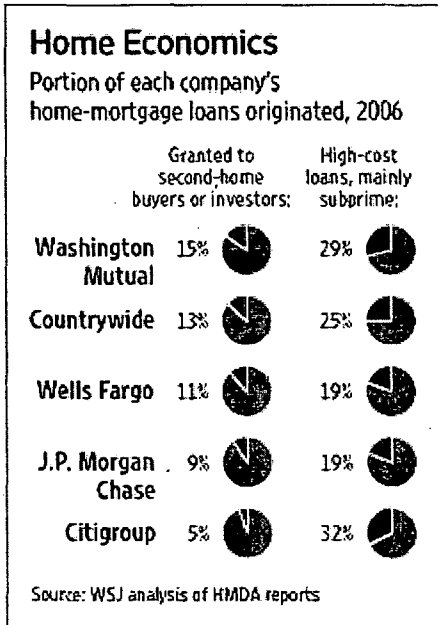
The loan data are filed by lenders annually under the Home Mortgage Disclosure Act, known as HMDA. Lenders are required to report which of their loans carried interest rates exceeding certain thresholds. For first-lien loans, the lenders must note which loans carry interest rates that exceed the yield on comparable Treasury securities by at least three percentage points. For subordinate-lien loans, the threshold is five percentage points over Treasuries.

Permanent Subcommittee on Investigations

EXHIBIT #53

As of mid-December, a 30-year, first-lien mortgage with an annual percentage rate of 7.72% or higher would fall into this high-cost category. At Citigroup, 32% of loans made in 2006 exceeded the interest-rate thresholds. That compares with 29% at **WaMu**, 25% at Countrywide, and 19% at both Chase and Wells Fargo.

Alison Van Camp contributed to this article.



License this article from Dow Jones Reprint Service [<http://www.djreprints.com/link/DJRFactiva.html?FACTIVA=wjco20070417000126>]

Document J000000020070417e34h0003b

From: Morris, Loren <Loren.Morris@gs.com>
Sent: Saturday, March 31, 2007 9:48 AM
To: Potolsky, Doug <doug.potolsky@wamu.net>
Subject: Re: Long Beach branch break down

— = Redacted by the Permanent
Subcommittee on Investigations

Thank you Doug, we will send out the first responses next week and copy you.

----- Original Message -----

From: Potolsky, Doug <doug.potolsky@wamu.net>
To: Morris, Loren
Cc: Potolsky@gs.com <Potolsky@gs.com>
Sent: Fri Mar 30 15:27:50 2007
Subject: RE: Long Beach branch break down

Loren, I look forward to receiving the results of your "deeper dive". Upon receipt we will review and respond. Thanks... Doug.

Doug Potolsky
Capital Markets
Washington Mutual
623 Fifth Ave. 17 Fl.
NY, NY 10022
212-702-6961
201- (cell)
douglas.potolsky@wamu.net

From: Morris, Loren [mailto: @gs.com]
Sent: Thursday, March 15, 2007 4:23 PM
To: Morris, Loren; Potolsky, Doug
Subject: RE: Long Beach branch break down

Doug, any update on your review of this branch office information?

Also, we are reviewing your responses and documentation sent pursuant to Goldman's repurchase claim of 10/30/07. In an effort to adequately respond to Long Beach's denial of all claims, we are compelled to do a deeper review. We are seeing cases of serious and material misrepresentations, sometimes called mortgage fraud. As we have a number to get through, we will be reasserting the repurchase demands with the additional information on a flow basis as completed. Thank you, Loren

From: Morris, Loren
Sent: Tuesday, February 27, 2007 4:49 PM
To: 'Potolsky, Doug'
Subject: FW: Long Beach branch break down

Doug, per my previous conversations and email, attached is a branch break down of loans. In the Gsamp06S3 deal, we have 1,534 delinquent Long Beach loans, of which we have the branch code on 645 loans. Of the 645 delinquent loans, 57 loans are from branch #7891 (9% of the total). 327 or 50% of the delinquent loans came from 11 offices. These 11 offices represent 18% of the 60 offices listed. This is something you may wish to review. I look forward to your thoughts. Thanks

From: Carter, Lauren
Sent: Tuesday, February 27, 2007 3:30 PM
To: Morris, Loren
Subject: Long Beach branch break down

Permanent Subcommittee on Investigations

EXHIBIT #54a

Attached is the branch level break down, 645 loans

Let me know if you need more information

Lauren

<< File: Long beach branch breakdown.xls >>

From: Morris, Loren <[REDACTED]@gs.com>
Sent: Tuesday, May 29, 2007 5:00 PM
To: Potolsky, Doug <doug.potolsky@wamu.net>
Subject: FW: Repurchase Requests - initially denied WaMu

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Sorry, I misspelled your name. Here is the email. Thanks

From: Morris, Loren
Sent: Friday, May 25, 2007 12:55 PM
To: 'GM Recourse & Recovery'; Hernandez, Sarah; 'dawn.lehrmann@wamu.net'
Cc: Liepold, Christina; Murray, Kelli; Herrera, Lina M.; Parkinson, David; 'doug.potowsky@wamu.com'
Subject: RE: Repurchase Requests - initially denied WaMu

Dawn, we appreciate your groups' involvement in the repurchase process on behalf of WaMu and Long Beach. We look forward to working closely with you and your group to satisfactorily resolve all repurchase claims.

As discussed with Doug Potowsky, we wish to lay the foundation for collaboration between Goldman and WaMu to facilitate the repurchase process.

With that goal, let me respond to your email with the scope of activity we are addressing:

1. We have received and reviewed the documents forwarded by WaMu in response to our October 30, 2006 repurchase demand (consisting of 77 loans). We have found 28 of the original population to contain material misrepresentations and remain subject to repurchase. We will be sending the rebuttal letter with additional documentation on 24 of those loans shortly. You should have our rebuttal letter on 4 of those loans by letter dated April 19, 2007.
2. We have another population of 25 second lien loans that have been charged off and that contain material misrepresentations. They too will be the subject of a repurchase letter.
3. We will be reviewing approximately 600 loans that have been charged off. Further, we will be reviewing the approximately 100 second lien loans per month that continue to roll to charge off.
4. We are in the process of reviewing approximately 2000 second lien loans (pre-charge off). We anticipate that approximately 40% of this population will have material issues subject to repurchase.

Generally, the issues we see that are deemed material misrepresentations consist of straw buyers and undisclosed real estate liens and other debts. To a lesser degree, we see material guideline variances, such as less than the required trade lines.

We believe it will benefit both organizations to work together to create a "flow" frame work to direct the review and vetting process. For example, we would like to discuss the type of issues that are material, the type of documentation required to evidence the issue and the vetting process. We suggest that our team works directly with your group in your offices in Jacksonville, FL to facilitate the vetting process.

I will be your primary contact and can be reached at: 727-[REDACTED] I look forward to working with Doug and your group.

Thank you, Loren Morris

From: GM Recourse & Recovery [mailto:recourse.recovery@wamu.net]
Sent: Friday, May 25, 2007 9:33 AM
To: Hernandez, Sarah
Cc: Liepold, Christina; Morris, Loren; Murray, Kelli; Herrera, Lina M.
Subject: RE: Repurchase Requests - initially denied

Permanent Subcommittee on Investigations

EXHIBIT #54b

Sarah,

Thank you for the letter that was provided to GS. Many of the requests were due, in part, to missing documents. We were advised that the Anaheim group had forwarded all of the missing documents to Goldman Sachs. Did GS receive the missing docs? If so, are the missing doc portions of the demands cleared?

Dawn Lehrmann
Repurchase & Recourse Administration

Mailstop JAXA1090

904.886.1504 direct, 904.886.1502 fax
dawn.lehrmann@wamu.net

From: Hernandez, Sarah [mailto: [REDACTED]@gs.com]
Sent: Thursday, May 24, 2007 5:24 PM
To: GM Recourse & Recovery
Cc: Liepold, Christina; Morris, Loren; Murray, Kelli; Herrera, Lina M.
Subject: FW: Repurchase Requests - initially denied

Hi Dawn,

Christina has forwarded your e-mail to me for response as she is currently out of the office.

Please find attached the letter that WaMu provided in response to the repurchase request letter dated October 30, 2006. Let me know if you are looking for something in addition to what is attached.

Best regards,
Sarah

<<66359_02282007_165218_GSFXCDP29AS_8.tif>>
Sarah Hernandez
[REDACTED]@gs.com
(727) [REDACTED]

© Copyright 2007 The Goldman Sachs Group, Inc. All rights reserved. See <http://www.gs.com/disclaimer/email-salesandtrading.html> for important risk disclosure, conflicts of interest and other terms and conditions relating to this e-mail and your reliance on information contained in it. This message may contain confidential or privileged information. If you are not the intended recipient, please advise us immediately and delete this message. See <http://www.gs.com/disclaimer/email/> for further information on confidentiality and the risks of non-secure electronic communication. If you cannot access these links, please notify us by reply message and we will send the contents to you.

— Original Message —

From: GM Recourse & Recovery <>
To: Liepold, Christina
Sent: Thu May 24 16:12:52 2007
Subject: RE: Repurchase Requests - initially denied

Christina,

I am sending this e-mail as a follow-up to the voicemail I left for you today. Per the e-mail below dated 05/14/07, please advise as to what the WaMu Anaheim group had provided to Goldman Sachs as a denial. Where the demand reflected a missing doc, WaMu provided it. Did Goldman receive the documents? Also, for the non-documents demands, we have detailed descriptions for the denials, and would like to ensure that Goldman Sachs reviews the loan level denials. Please let me know what Goldman Sachs has received thus far.

If you are not the correct person for this communication please let me know, as we would like to get these issues resolved as soon as possible.

Thank you,

Dawn Lehrmann

Repurchase & Recourse Administration

Mailstop JAXA1090

904.886.1504 direct, 904.886.1502 fax

dawn.lehrmann@wamu.net

From: Lehrmann, Dawn M.
Sent: Monday, May 14, 2007 11:49 AM
To: christina.liepold@[REDACTED]
Subject: Repurchase Requests - initially denied

Christina,

Washington Mutual received your letter dated 04/19/07 reflecting a list of loans that Goldman Sachs states is outstanding with Washington Mutual. These demands transitioned from the Anaheim, CA office to the Jacksonville, FL office. We are trying to determine where both companies deem these requests. In your letter you state: "After further reviewing our purchased Mortgage Loans from Seller pursuant to said Agreement, and in light of your response declining our repurchase demand..." Did Washington Mutual provide Goldman Sachs with a "collective" denial with no specific loan-level reason for the denial? If so, WaMu will provide the specific loan-level reasons as to why we denied the demand. Please let me know either way.

Thank you,

Dawn Lehrmann, Officer

Spec III-Credit Services

Repurchase & Recourse Administration

Washington Mutual

7255 Baymeadows Way, Mailstop JAXA1090

Jacksonville, FL 32256

904.886.1504 direct, 904.886.1502 fax

dawn.lehrmann@wamu.net

This communication may contain privileged or other confidential information. If you have received it in error, please advise the sender by reply email and immediately delete the message and any attachments without copying or disclosing the contents. Thank you.

From: Morris, Loren <[REDACTED]@gs.com>
Sent: Tuesday, July 10, 2007 3:40 PM
To: Kelley, Sandy L. <sandy.kelley@wamu.net>
Cc: Lehrmann, Dawn M. <dawn.lehrmann@wamu.net>; Potolsky, Doug <doug.potolsky@wamu.net>
Subject: RE:Goldman Repurchase demands- Samuel,Fardales,Williams, Oilter

Does 10:30 or 11:00 tomorrow work for you? We will send you comments back.

However, more importantly, we need to have a broader conversation regarding the allegations in the claims and WaMu's responses.

Generally, these 4 loans represent documented and material misrepresentations. The supporting information includes such things as bankruptcy petitions that cover the time frame of the origination of the loan, borrower affidavits and other supporting documents evidence that, among other things, indicate undisclosed properties and fabricated jobs and income.

Further, the DTI is materially affected as well as the entire underwriting process. It is impossible to underwrite untrue statements.

All of these things have an adverse and material affect on the loan. Had these issues been been truthfully disclosed, they may have affected the purchase and at the very least, the price of the loan. Whether payments were made on a loan is irrelevant. The timing of the claims is always within a reasonable time after discovery. No other duty is owed.

Moreover, to the extent that you believe that the supporting documentation is not sufficient to prove the misrepresentation, we welcome your new supporting information to indicate that we are incorrect.

We need to discuss the approach. As we discussed early on, we need to communicate effectively and in good faith. If loans such as these four are rejected, I don't see the need to wait for 100 more rejections before we talk.

Thank you.

From: Kelley, Sandy L. [mailto:sandy.kelley@wamu.net]
Sent: Tuesday, July 10, 2007 2:59 PM
To: Morris, Loren
Subject: RE: New demand from Goldman - Torres
Importance: High

Loren, I haven't had the opportunity to call you back yet today but it would be helpful to me if we could set up the call for tomorrow. Let me know what time is convenient for you. In the interim, it would be appreciated if you could provide me with your written comments/concerns (via email) regarding the rebuttals recently sent so that I can review prior to the call. Thank you.

Sandy Kelley, Claim Specialist III
Repurchase & Recourse Administration

Washington Mutual
7255 Baymeadows Way, Mail Stop JAXA 1090
Jacksonville, FL 32256
(904) 886-1503 direct, (904) 886-1502 fax
sandy.kelley@wamu.net

From: Morris, Loren [mailto:[REDACTED]@gs.com]
Sent: Monday, July 09, 2007 4:37 PM
To: Lehrmann, Dawn M.; Kelley, Sandy L.
Cc: Goitia, Jason
Subject: RE: New demand from Goldman - Torres

Left message for Sandy. I look forward to discussing the specifics as well as WaMu's approach to common allegations and prove generally. Your approach on these material allegations is concerning. Thanks

From: Lehrmann, Dawn M. [mailto:dawn.lehrmann@wamu.net]
Sent: Monday, July 09, 2007 3:16 PM
To: Morris, Loren; Kelley, Sandy L.
Cc: Goitia, Jason
Subject: RE: New demand from Goldman - Torres

Thanks, Loren. I will wait for Jason's response on the Torres loan.

As far as the 4 rebuttals that you received from Sandy, please contact her directly to discuss.

Dawn Lehrmann
Repurchase & Recourse Administration

Mailstop JAXA1090

904.886.1504 direct, 904.886.1502 fax
dawn.lehrmann@wamu.net

From: Morris, Loren [mailto:[REDACTED]@gs.com]
Sent: Monday, July 09, 2007 2:41 PM
To: Lehrmann, Dawn M.
Cc: Goitia, Jason
Subject: RE: New demand from Goldman - Torres

Dawn, Jason will assist on this. Also, I would like to have a call with you to discuss the 4 rebuttals we recently received. What is a good time? They are all from Sandy Kelly, but wish to discuss the approach of certain issues and the support provided.

Thanks

From: Lehrmann, Dawn M. [mailto:dawn.lehrmann@wamu.net]
Sent: Monday, July 09, 2007 12:54 PM
To: Morris, Loren
Subject: New demand from Goldman - Torres

Hi Loren,

We received a demand from Goldman Sachs for the Torres loan. The cover sheet reflects different information ([REDACTED] Corona, CA; PB: [REDACTED] than the backup and Schedule A [REDACTED] Royal Palm Beach, FL; PB: 66,000). Please advise which loan WaMu is to be reviewing.

<<Scan001.pdf>>

Dawn Lehrmann, Officer

Spec III-Credit Services

Repurchase & Recourse Administration

Washington Mutual

7255 Baymeadows Way, Mailstop JAXA1090

Jacksonville, FL 32256

904.886.1504 direct, 904.886.1502 fax

dawn.lehrmann@wamu.net

This communication may contain privileged or other confidential information. If you have received it in error, please advise the sender by reply email and immediately delete the message and any attachments without copying or disclosing the contents. Thank you.

From: Chen, Youyi
Sent: Friday, August 03, 2007 5:37:52 PM
To: Rossi, Clifford; Haines, Troy L.; Boyle, Hugh F.; Matthey, Joseph; Bates, Timothy; Fratantoni, Michael C.; Dlugosz, Maciek; Feltgen, Cheryl A.; Williams, Robert J.; Beck, David; Potolsky, Doug; Shaw, Robert H.; Jaske, Andrew
Subject: Scenarios

Attachments: 09-2006 portfolio_review_HPScenarios_a.ppt

As we are brainstorming the scenarios, this may be useful information as a starting point.

We did this last year, right at the dawn of credit storm. A few highlights

1. Page 8 shows the most Sevier HPI in modern history. A 20% down in HPA. From today's meeting, I understand that we don't have the courage to evaluate this scenario.
2. Page 10 show the background on our ***local recession scenario*** presented on ALCO. About 13% cumulative down.
3. Page 21 shows potential impacts and offset of prepayment and credit. We are evaluating the speeds used in MSR valuation this quarter. It was a scenario back then. It's a real thing now.
4. Page 28 shows the impact to a large portion of WMI balance sheet. History will tell us how much we were off in that report. But, I am going down to Jacksonville Monday with an army – trying to change the history!

Regards,

Youyi



09-2006
portfolio_review_HPScenarios_a.ppt
(589 kB)

Permanent Subcommittee on Investigations

EXHIBIT #55

From: Beck, David
Sent: Thursday, May 29, 2008 9:10 AM
To: Schneider, David C. <david.schneider@wamu.net>; Baker, Todd <todd.baker@wamu.net>; Magleby, Alan F. <alan.magleby@wamu.net>; Woods, John F. <john.woods@wamu.net>; White, Don <don.white@wamu.net>
Cc: McMurray, John <john.mcmurray@wamu.net>; Brennan, Carey <carey.brennan@wamu.net>; Casey, Tom <tom.casey@wamu.net>; Rotella, Steve <steve.rotella@wamu.net>; Killinger, Kerry K. <kerry.killinger@wamu.net>; Rodriguez, Adrian <adrian.rodriguez@wamu.net>; Kipkalov, Sasha V. <alexander.kipkalov@wamu.net>
Subject: RE: WSJ on repurchases--likely will lead to some IR questions although we are not mentioned

Below please find an executive summary of WaMu's repurchase history and process. Repurchase requests are cyclical and we expect they will remain elevated for another year.

Doug Potolsky oversees the Repurchase and Recovery team as part of his Capital Markets responsibilities. He was the lead developer of the 7-step process outlined below and is the main business contact for Rolly Jurgens when establishing and updating quarterly the Repurchase Reserve. Joyce Mizerak works for Doug and is responsible for the day to day management of the repurchase and recovery team described below. To the extent you cannot reach me with questions and need immediate help, please contact Doug or Joyce.

FINANCIAL OVERVIEW

Repurchases result from both internal and external requests. Externally, repurchase requests come from private investors, trustees and the GSEs. Internally, repurchase requests come from risk mitigation findings and proactive Quality Control (7 Step process). Requests are from Subprime, Prime and Conduit securitization and whole loan sale transactions. In 2007 WAMU repurchased \$344MM in loans (37% repurchase rate), and YTD 2008 WAMU repurchased \$193MM (42% repurchase rate). The chart below provides further detail on channel composition and P&L impact:

	Long Beach*	Prime**	Conduit	TOTAL:
Year 2007:	183.7	152	8.4	344.1
2007 P&L Impact:	53.7	68.3	8.3	130.4
YTD April 2008:	89.6	94	9.3	192.9
2008 P&L Impact:	75.2	5.30	-	80.5
*Year 2007 contains EPD				
**Mostly GSE related				

PROCESS OVERVIEW

Repurchases are processed through the 7 step process and standard procedures as follows:

- **7 Step process** - developed (Q1 2007) in response to increasing levels of investor inquiries and repurchase requests with respect to the subprime (LB) securitizations. The process was developed to be proactive, consistent and scalable and to provide for QC on an adverse population of defaulted loans. Loans are reviewed for repurchase pursuant to the covenants of the Purchase and Sale Agreement (PSA) including materiality of breach and adverse impact to the loan. WAMU has reviewed the process and the results with our Investors and our Trustee and feedback has been positive. The

majority of subprime repurchases are the result of this process.

- **Standard Procedure** - individual repurchase requests come from external sources and internal referrals (fraud findings by the Risk Mitigation group). Loans are reviewed for repurchase pursuant to the covenants of the relevant Purchase and Sale Agreements (PSA) according to the standards of materiality and adverse impact. The GSE seller contracts do not contain a materiality standard to require repurchase and rebuttals are limited.
- **Recoveries** - recoveries against third parties (conduit sellers and correspondents) are pursued as a result of indemnifications or rep and warranties. 2008 YTD recoveries are slightly over \$7 million.

REPURCHASE RESERVE OVERVIEW

Reserve Process - Reserves are held on sold loans; reviewed monthly and trued up on a quarterly basis.

- **Subprime Loans:** Reserves are based on historical repurchase rate and age of loans. Reserve calculations are specific to transaction type, i.e., securities, whole loans or non-performing assets. Current reserve for subprime as of April, 2008 stands at \$ 94.2 million.
- **Prime Loans:** Reserves on prime loans are calculated as 1.4% of outstandings. Current reserve for Prime as of April, 2008 stands at \$79.6 million. Process is underway to align the Prime loss model calculations to be consistent to subprime model.

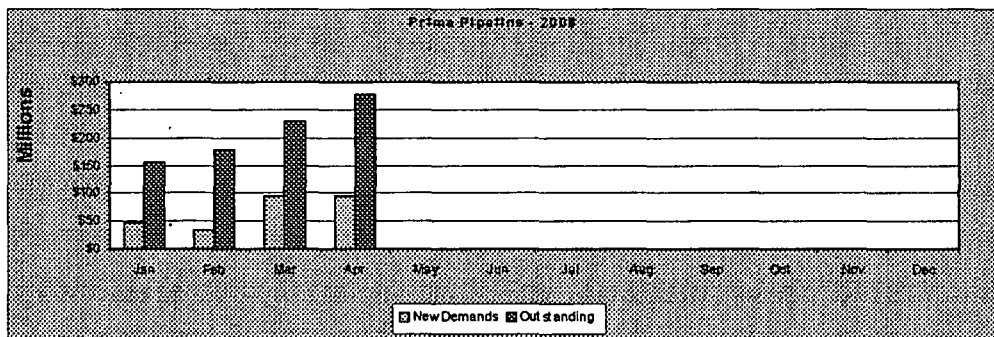
RESOURCES AND CURRENT PIPELINE DATA

Resources

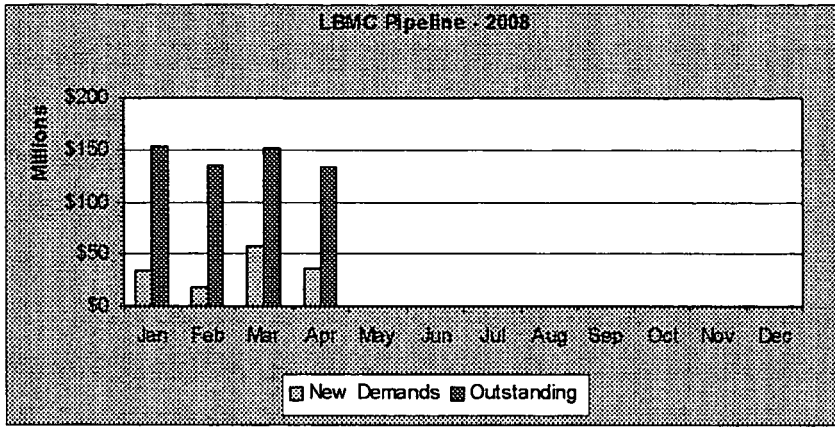
- Repurchase and Recovery Group is located in Jacksonville, FL
- There are 25 FTE in the group
- Direct Expenses for 2008 Plan are \$2.6 million

Trends and Pipeline

- **PRIME:**

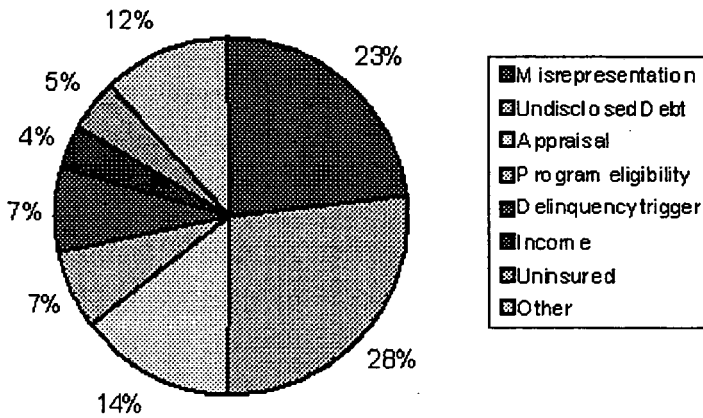


- **SUBPRIME:**



Repurchase Reasons YTD 2008

Repurchase & Makewhole by Reason - 2008 YTD



-----Original Message-----

From: Schneider, David C.

Sent: Tuesday, May 27, 2008 9:27 PM

To: Baker, Todd; Beck, David; Magleby, Alan F.; Woods, John F.

Cc: McMurray, John; Brennan, Carey; Casey, Tom; Rotella, Steve; Killinger, Kerry K.; Rodriguez, Adrian; Kipkalov, Sasha V.
Subject: Re: WSJ on repurchases--likely will lead to some IR questions although we are not mentioned

Beck is best able to provide an overview. We look at the reserve each quarter feel like we have a solid process. ds

----- Original Message -----

From: Baker, Todd

To: Beck, David; Magleby, Alan F.

Cc: Schneider, David C.; McMurray, John; Brennan, Carey; Casey, Tom; Rotella, Steve; Killinger, Kerry K.; Rodriguez, Adrian; Kipkalov, Sasha V.

Sent: Tue May 27 17:22:40 2008

Subject: WSJ on repurchases--likely will lead to some IR questions although we are not mentioned

Investors Press Lenders on Bad Loans
Buyers Seek to Force Repurchase by Banks;
Potential Liability Could Reach Billions
By RUTH SIMON
May 28, 2008

Already burned by bad mortgages on their books, lenders now are feeling rising heat from loans they sold to investors.

Unhappy buyers of subprime mortgages, home-equity loans and other real-estate loans are trying to force banks and mortgage companies to repurchase a growing pile of troubled loans. The pressure is the result of provisions in many loan sales that require lenders to take back loans that default unusually fast or contained mistakes or fraud.

The potential liability from the growing number of disputed loans could reach billions of dollars, says Paul J. Miller Jr., an analyst with Friedman, Billings, Ramsey & Co. Some major lenders are setting aside large reserves to cover potential repurchases.

Countrywide Financial Corp., the largest mortgage lender in the U.S., said in a securities filing this month that its estimated liability for such claims climbed to \$935 million as of March 31 from \$365 million a year earlier.

Countrywide also took a first-quarter charge of \$133 million for claims that already have been paid.

The fight over mortgages that lenders thought they had largely offloaded is another reminder of the deterioration of lending standards that helped contribute to the worst housing bust in decades.

Such disputes began to emerge publicly in 2006 as large numbers of subprime mortgages began going bad shortly after origination. In recent months, these skirmishes have expanded to include home-equity loans and mortgages made to borrowers with relatively good credit, as well as subprime loans that went bad after borrowers made several payments.

Many recent loan disputes involve allegations of bogus appraisals, inflated borrower incomes and other misrepresentations made at the time the loans were originated. Some of the disputes are spilling into the courtroom, and the potential liability is likely to hang over lenders for years.

Repurchase demands are coming from a wide variety of loan buyers. In a recent conference call with analysts, Fannie Mae <<http://online.wsj.com/quotes/main.html?type=djn&symbol=FNM>> said it is reviewing every loan that defaults -- and seeking to force lenders to buy back loans that failed to meet promised quality standards. Freddie Mac <<http://online.wsj.com/quotes/main.html?type=djn&symbol=FRE>> also has seen an increase in such claims, a spokeswoman says, adding that most are resolved easily.

Many of the repurchase requests involve errors in judgment or underwriting rather than outright fraud, says Morgan Snyder, a consultant in Fairfax, Va., who works with lenders.

Additional pressure is coming from bond insurers such as Ambac Financial Group <<http://online.wsj.com/quotes/main.html?type=djn&symbol=ABK>> Inc. and MBIA

<<http://online.wsj.com/quotes/main.html?type=djn&symbol=MBI>> Inc., which guaranteed investment-grade securities backed by pools of home-equity loans and lines of credit. In January, Armonk, N.Y.-based MBIA began working with forensic experts to scrutinize pools it insured that contained home-equity loans and credit lines to borrowers with good credit. "There are a significant number of loans that should not have been in these pools to begin with," says Mitch Sonkin, MBIA's head of insured portfolio management.

Ambac is analyzing 17 home-equity-loan deals to see whether it has grounds to demand that banks

repurchase loans in those pools, according to an Ambac spokeswoman.

Redwood Trust Inc., a mortgage real-estate investment trust in Mill Valley, Calif., said in a recent securities filing that it plans to pursue mortgage originators and others "to the extent it is appropriate to do so" in an effort to reduce credit losses.

Repurchase claims often are resolved by negotiation or through arbitration, but a growing number of disputes are ending up in court. Since the start of 2007, roughly 20 such lawsuits involving repurchase requests of \$4 million or more have been filed in federal courts, according to Navigant Consulting, a management and litigation consulting firm. The figures don't include claims filed in state courts and smaller disputes involving a single loan or a handful of mortgages.

In a lawsuit filed in December in Superior Court in Los Angeles, units of PMI Group <http://online.wsj.com/quotes/main.html?type=djn&symbol=PMI> Inc. alleged that WMC Mortgage Corp. breached the "representations and warranties" it made for a pool of subprime loans that were insured by PMI in 2007. Within eight months, the delinquency rate for the pool of loans had climbed to 30%, according to the suit. The suit also alleges that detailed scrutiny of 120 loans that PMI asked WMC to repurchase found evidence of "fraud, errors [and] misrepresentations."

PMI wants WMC, which was General Electric <http://online.wsj.com/quotes/main.html?type=djn&symbol=GE> Co.'s subprime-mortgage unit, to buy back the loans or pay damages. Both companies declined to comment on the pending suit.

Lenders may feel pressure to boost reserves for such claims because of the fear they could be sued for not properly accounting for potential repurchases, says Laurence Platt, an attorney in Washington. At least three lawsuits have been filed by investors who allege that New Century Financial

<http://online.wsj.com/quotes/main.html?type=djn&symbol=NEW> Corp. and other mortgage lenders understated their repurchase reserves, according to Navigant.

Todd H. Baker
Executive Vice President -- Corporate Strategy & Development
Washington Mutual Inc.
1301 Second Avenue, WMC 3301
Seattle, WA 98101
(206) 500-4191 (phone)
(206) 377-2496 (fax)
todd.baker@wamu.net

From: Beck, David
Sent: Wednesday, June 25, 2008 6:36 PM
To: Schneider, David C. <david.schneider@wamu.net>; White, Don <don.white@wamu.net>; Woods, John F. <john.woods@wamu.net>
Cc: Brennan, Carey <carey.brennan@wamu.net>
Subject: Re: Repurchase Recommendations W/E 6/20/08

Lucy and team in jax.

----- Original Message -----

From: Schneider, David C.
To: Beck, David; White, Don; Woods, John F.
Cc: Brennan, Carey
Sent: Wed Jun 25 15:34:28 2008
Subject: RE: Repurchase Recommendations W/E 6/20/08
Hard for me to tell these are "stinkers" based on the attached. I'd like to review the process with this group during the visit in August. Are they in Flo or Jax?
ds

-----Original Message-----

From: Beck, David
Sent: Wednesday, June 25, 2008 3:30 PM
To: White, Don; Schneider, David C.; Woods, John F.
Cc: Brennan, Carey
Subject: Fw: Repurchase Recommendations W/E 6/20/08
Here's the batch I got for approval from Lucy this week. Just take 5 minutes to review to get a flavor for the type of loans that are making through to actual repurchase. As I said, prime delinq and foreclosure are increasing rapidly driving the increased reserve. We deny about 1/2 the requests we get from GSE. The actual loans we do buy back are real stinkers. I will definitely be on the Casey call.
Don and I will find a forum for review of repurchased loans.

----- Original Message -----

From: Snyder, Lucy
To: Beck, David; Brennan, Carey; Hyde, Arlene M.
Cc: Potolsky, Doug; Mizerak, Joyce; Conolly, Marc; Young, Tammy L.; Willard, Donna M.
Sent: Tue Jun 24 13:49:52 2008
Subject: Repurchase Recommendations W/E 6/20/08
The loans on the attached spreadsheets have been approved for repurchase by Joyce Mizerak and me. Please review the findings and authorize the R&R group to process these transactions. If you do not have any additional questions or comments, we will initiate repurchase next Tuesday, July 1, 2008.
We are presenting 33 Prime loans and 1 WMMSC loan for your consideration. Thank you.
Lucy Snyder, Vice President
Manager, Repurchase & Recourse Administration
Washington Mutual
7255 Baymeadows Way, Mail Stop JAXA 2090
Jacksonville, Fl 32256
904-462-1798 direct, 904-462-1803 fax
lucy.snyder@wamu.net
<<Prime Repurchase 06202008.xls>> <<WMMSC Repurchase 06202008.xls>>

Permanent Subcommittee on Investigations

EXHIBIT #57

Worst Ten in the Worst Ten

- The table below sets forth the ten metropolitan areas experiencing the highest rates of foreclosure as reported by RealtyTrac (the "Worst Ten" MSAs). Foreclosure rates for sub-prime and Alt-A mortgages originated from 2005 through 2007 in these MSAs were computed using data from Loan Performance.

Rank	MSA	Non-prime Mortgage Foreclosure Rate
1	Detroit	22.9%
2	Cleveland	21.6%
3	Stockton	21.5%
4	Sacramento	18.0%
5	Riverside/San Bernardino	16.1%
6	Memphis	15.6%
7	Miami/Fort Lauderdale	14.3%
8	Bakersfield	14.3%
9	Denver	14.0%
10	Las Vegas	13.9%

- For each of these metro areas, the "Worst Ten" originators were identified: the ten originators in each MSA with the largest number of non-prime mortgage foreclosures in the Loan Performance database for 2005-2007 originations.
- Only 21 companies in various combinations (see attached tables for MSA-level details) occupy the Worst Ten slots in the Worst Ten metro areas:

AEGIS FUNDING CORPORATION AMERICAN HOME MORTGAGE CORP. AMERIQUEST MORTGAGE COMPANY ARGENT MORTGAGE COMPANY BNC MORTGAGE COUNTRYWIDE DECISION ONE MORTGAGE DELTA FUNDING CORPORATION FIELDSTONE MORTGAGE COMPANY FIRST FRANKLIN CORPORATION FREMONT INVESTMENT & LOAN	GREENPOINT MORTGAGE FUNDING INDYMAC BANK, F.S.B. LONG BEACH MORTGAGE CO. NEW CENTURY MORTGAGE OPTION ONE MORTGAGE CORP OWNIT MORTGAGE SOLUTIONS INC. PEOPLE'S CHOICE FINANCIAL CORP RESMAE MORTGAGE CORPORATION WELLS FARGO WMC MORTGAGE CORP.
--	---

- Of these 21 firms, 12 were exclusively supervised by the states; overall, such originators accounted for nearly 60 percent of non-prime mortgage loans and foreclosures in the Worst Ten metro areas in 2005-2007.
- Only three firms on the list were subject to OCC supervision during 2005-2007, and those three accounted for fewer than 12 percent of foreclosures in the Worst Ten metro areas.
- Results for the U.S. as a whole are similar to those for the Worst Ten metropolitan areas. OCC-supervised institutions accounted for approximately 12 to 14 percent of the non-prime originations; moreover, foreclosure rates for OCC-supervised institutions were markedly lower on average than for other types of originators.

Worst Ten in the Worst Ten: Results for individual metropolitan areas

Bakersfield

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	WMC MORTGAGE CORP.	731	3998	18.3%
2	LONG BEACH MORTGAGE CO.	680	2817	24.1%
3	NEW CENTURY MORTGAGE	647	3864	16.7%
4	OPTION ONE MORTGAGE CORP	302	1673	18.1%
5	ARGENT MORTGAGE COMPANY	276	1527	18.1%
6	OWNIT MORTGAGE SOLUTIONS INC.	232	1069	21.7%
7	FREMONT INVESTMENT & LOAN	207	1286	16.1%
8	FIRST FRANKLIN CORPORATION	206	1186	17.4%
9	AMERIQUEST MORTGAGE COMPANY	124	1002	12.4%
10	COUNTRYWIDE	106	1232	8.6%

Memphis

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	669	1853	36.1%
2	WMC MORTGAGE CORP.	376	2141	17.6%
3	FIRST FRANKLIN CORPORATION	355	3290	10.8%
4	OPTION ONE MORTGAGE CORP	300	1224	24.5%
5	NEW CENTURY MORTGAGE	295	1705	17.3%
6	WELLS FARGO	202	1249	16.2%
7	AMERIQUEST MORTGAGE COMPANY	184	900	20.4%
8	ARGENT MORTGAGE COMPANY	159	536	29.7%
9	DECISION ONE MORTGAGE	119	518	23.0%
10	FREMONT INVESTMENT & LOAN	92	393	23.4%

Cleveland

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	ARGENT MORTGAGE COMPANY	1327	3251	40.8%
2	NEW CENTURY MORTGAGE	912	2437	37.4%
3	LONG BEACH MORTGAGE CO.	525	968	54.2%
4	FIRST FRANKLIN CORPORATION	425	2332	18.2%
5	AEGIS FUNDING CORPORATION	412	1276	32.3%
6	OPTION ONE MORTGAGE CORP	370	1538	24.1%
7	AMERIQUEST MORTGAGE COMPANY	245	1166	21.0%
8	WELLS FARGO	239	1275	18.7%
9	PEOPLE'S CHOICE FINANCIAL CORP	217	550	39.5%
10	DELTA FUNDING CORPORATION	155	570	27.2%

Miami

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	FREMONT INVESTMENT & LOAN	1655	8961	18.5%
2	ARGENT MORTGAGE COMPANY	1383	8967	15.4%
3	LONG BEACH MORTGAGE CO.	1176	5255	22.4%
4	WMC MORTGAGE CORP.	1168	5861	19.9%
5	NEW CENTURY MORTGAGE	1018	7456	13.7%
6	OPTION ONE MORTGAGE CORP	883	4637	19.0%
7	FIRST FRANKLIN CORPORATION	777	3946	19.7%
8	AMERIQUEST MORTGAGE COMPANY	538	4002	13.4%
9	AMERICAN HOME MORTGAGE CORP.	508	4114	12.3%
10	COUNTRYWIDE	504	5568	9.1%

Denver

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	758	2570	29.5%
2	NEW CENTURY MORTGAGE	703	3585	19.6%
3	ARGENT MORTGAGE COMPANY	670	1737	38.6%
4	FREMONT INVESTMENT & LOAN	670	3129	21.4%
5	OPTION ONE MORTGAGE CORP	613	2770	22.1%
6	FIRST FRANKLIN CORPORATION	533	3325	16.0%
7	OWNIT MORTGAGE SOLUTIONS INC.	404	2292	17.6%
8	AMERIQUEST MORTGAGE COMPANY	293	1173	25.0%
9	FIELDSTONE MORTGAGE COMPANY	275	961	28.6%
10	WMC MORTGAGE CORP.	260	1099	23.7%

Riverside

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	4600	22736	20.2%
2	WMC MORTGAGE CORP.	4577	21191	21.6%
3	FREMONT INVESTMENT & LOAN	2380	11584	20.5%
4	LONG BEACH MORTGAGE CO.	2374	7608	31.2%
5	FIRST FRANKLIN CORPORATION	2301	10701	21.5%
6	ARGENT MORTGAGE COMPANY	2175	9138	23.8%
7	OPTION ONE MORTGAGE CORP	2175	10752	20.2%
8	RESMAE MORTGAGE CORPORATION	1717	5763	29.8%
9	COUNTRYWIDE	1304	13280	9.8%
10	BNC MORTGAGE	876	3591	24.4%

Detroit

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	ARGENT MORTGAGE COMPANY	2532	5582	45.4%
2	LONG BEACH MORTGAGE CO.	1956	3816	51.3%
3	NEW CENTURY MORTGAGE	1894	6376	29.7%
4	OPTION ONE MORTGAGE CORP	1757	5780	30.4%
5	FIRST FRANKLIN CORPORATION	1578	7733	20.4%
6	FREMONT INVESTMENT & LOAN	1308	3583	36.5%
7	AMERIQUEST MORTGAGE COMPANY	910	3347	27.2%
8	WELLS FARGO	671	2621	25.6%
9	AMERICAN HOME MORTGAGE CORP.	518	3365	15.4%
10	PEOPLE'S CHOICE FINANCIAL CORP	479	1284	37.3%

Sacramento

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	1997	4836	41.3%
2	NEW CENTURY MORTGAGE	1510	5878	25.7%
3	WMC MORTGAGE CORP.	1155	4082	28.3%
4	FREMONT INVESTMENT & LOAN	889	3444	25.8%
5	OPTION ONE MORTGAGE CORP	886	3518	25.2%
6	ARGENT MORTGAGE COMPANY	637	2067	30.8%
7	FIRST FRANKLIN CORPORATION	626	2686	23.3%
8	COUNTRYWIDE	565	4697	12.0%
9	GREENPOINT MORTGAGE FUNDING	535	4101	13.0%
10	RESMAE MORTGAGE CORPORATION	460	1472	31.3%

Las Vegas

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	1671	8623	19.4%
2	ARGENT MORTGAGE COMPANY	1093	4598	23.8%
3	WMC MORTGAGE CORP.	999	4886	20.4%
4	COUNTRYWIDE	957	9638	9.9%
5	FIRST FRANKLIN CORPORATION	945	4743	19.9%
6	FREMONT INVESTMENT & LOAN	879	4174	21.1%
7	OPTION ONE MORTGAGE CORP	696	3710	18.8%
8	AMERICAN HOME MORTGAGE CORP.	489	4904	10.0%
9	GREENPOINT MORTGAGE FUNDING	468	4963	9.4%
10	INDYMAC BANK, F.S.B.	423	4288	9.9%

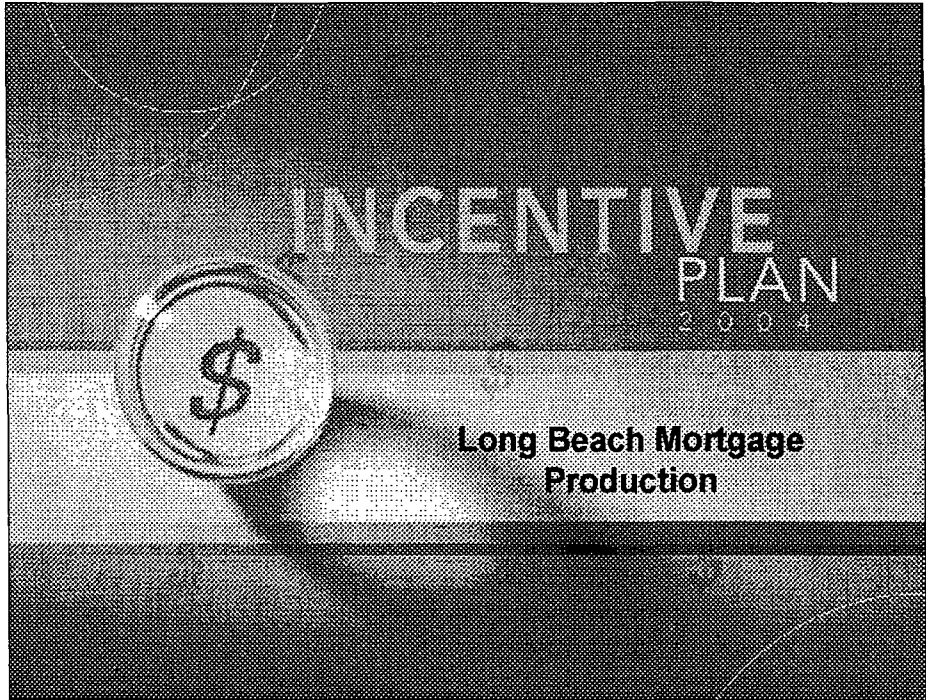
Stockton

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	1213	3056	39.7%
2	NEW CENTURY MORTGAGE	870	3263	26.7%
3	WMC MORTGAGE CORP.	677	2259	30.0%
4	ARGENT MORTGAGE COMPANY	476	1402	34.0%
5	FREMONT INVESTMENT & LOAN	466	1762	26.4%
6	OPTION ONE MORTGAGE CORP	362	1448	25.0%
7	GREENPOINT MORTGAGE FUNDING	343	1978	17.3%
8	FIRST FRANKLIN CORPORATION	291	1046	27.8%
9	COUNTRYWIDE	263	1931	13.6%
10	AMERIQUEST MORTGAGE COMPANY	217	920	23.6%

Index to the Worst Subprime Originators

Originator	Supervisor	Foreclosures in Worst 10 Metro Areas, based on 2005-07 Originations
New Century Mortgage Corp.	State supervised. Subsidiary of publicly-traded REIT, filed for bankruptcy in early 2007.	14,120
Long Beach Mortgage Co.	State and OTS supervised. Affiliate of WAMU, became a subsidiary of thrift in early 2006; closed in late 2007 / early 2008.	11,736
Argent Mortgage Co.	State supervised until Citigroup acquired certain assets of Argent in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	10,728
WMC Mortgage Corp.	State supervised. Subsidiary of General Electric, closed in late 2007.	10,283
Fremont Investment & Loan	FDIC supervised. California state chartered industrial bank. Liquidated, terminated deposit insurance, and surrendered charter in 2008.	8,635
Option One Mortgage Corp.	State supervised. Subsidiary of H&R Block, closed in late 2007.	8,344
First Franklin Corp.	OCC supervised. Subsidiary of National City Bank until 12/06. Sold to Merrill Lynch, closed in 2008.	8,037
Countrywide	Data includes loans originated by (1) Countrywide Home Loans, an FRB supervised entity until 03/07, and an OTS supervised entity after 03/07; and (2) Countrywide Bank, an OCC supervised entity until 03/07, and an OTS supervised entity after 03/07.	4,736
Ameriquest Mortgage Co.	State supervised. Citigroup acquired certain assets of Ameriquest in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	4,126
ResMae Mortgage Corp.	State supervised. Filed for bankruptcy in late 2007.	3,558
American Home Mortgage Corp.	State supervised. Filed for bankruptcy in 2007.	2,954
IndyMac Bank, FSB	OTS supervised thrift. Closed in July 2008.	2,882
Greenpoint Mortgage Funding	FDIC supervised. Acquired by Capital One, NA, in mid 2007 as part of conversion and merger with North Fork, a state bank. Closed immediately thereafter in 08/07.	2,815
Wells Fargo	Data includes loans originated by (1) Wells Fargo Financial, Inc., an FRB supervised entity, and (2) Wells Fargo Bank, an OCC supervised entity.	2,697
Ownit Mortgage Solutions, Inc.	State supervised. Closed in late 2006.	2,533
Aegis Funding Corp.	State supervised. Filed for bankruptcy in late 2007.	2,058
People's Choice Financial Corp.	State supervised. Filed for bankruptcy in early 2008.	1,783
BNC Mortgage	State and OTS supervised. Subsidiary of Lehman Brothers (S&L holding company), closed in August 2007.	1,769
Fieldstone Mortgage Co.	State supervised. Filed for bankruptcy in late 2007.	1,561
Decision One Mortgage	State and FRB supervised. Subsidiary of HSBC Finance Corp. Closed in late 2007.	1,267
Delta Funding Corp.	State supervised. Filed for bankruptcy in late 2007.	598

Thursday, November 13, 2008




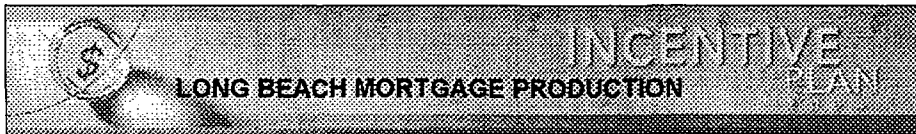
Permanent Subcommittee on Investigations
EXHIBIT #59a


INCENTIVE PLAN
LONG BEACH MORTGAGE PRODUCTION

2004 PAYOUT MATRIX

COMMISSION TIERS				
Tier Number	Tier Description	Per Unit Commission Broker Sourced Loans	Basis Point Commission Broker Sourced Loans	Basis Point Commission Correspondent Sourced Loans
1	1 - 6 units or \$1 - \$899,999	\$0	40	0
2	7 - 12 units or \$900,000 - \$2,499,999	\$30	50	0
3	13 - 26 units or \$2,500,000 - \$4,999,999	\$30	55	35
4	27+ units or \$5,000,000 +	\$30	60	35


Washington Mutual
Member FDIC Insurance Services Group



2004 Account Executive Incentive Plan Changes

BUSINESS EXPENSE ALLOWANCE

- New for 2004, paid semi-monthly, in arrears (same as commissions)
- All employees receive an allowance - higher producers receive a higher business expense allowance
- The allowance, based on the previous quarter's average tier achievement, is as follows (per semi-monthly payout):
 - Tier 1 \$100
 - Tier 2 \$150
 - Tier 3 \$200
 - Tier 4 \$250
- Tier achievement equals last quarter's average. In determining the average, 0.49 is rounded down, 0.50 or greater is rounded up. Example follows:
 - QUARTER 1
 - Month 1=tier 4
 - Month 2=tier 4
 - Month 3=tier 3
 - 11 divided by 3=3.67, rounds up to tier 4 average achievement for Q1.
- Quarter 2 semi-monthly business expense allowance = \$250 per semi-monthly payout





CONTINGENT COMPENSATION

Key Changes

- New program for 2004 - "Long Term Cash Incentive Program" - replaces restricted stock program.
- Award recipients receive units that convert to cash over a three year period
- Value of the units tied to the value of WAMU stock
- Award pays out 1/3 each year for 3 years similar to the previous restricted stock vesting schedule
- Taxes are similar to the restricted stock program – employee is responsible for taxes at the time of the payouts (with restricted stock it was at the time of vesting)
- The Contingent Compensation Replacement Option (CCRO) program will be discontinued

2004 Contingent Compensation Qualification levels:

- **Gold Tier:** AE's who are ranked in either the top 5% in volume or units will receive 10 basis points (0.0010) on 2004 Total Volume
- **Silver Tier:** AE's who are ranked in either the top 15% in volume or units (excluding those who qualified in the Gold Tier) will receive 7.5 basis pts (0.00075) on 2004 Total Volume
- **Bronze Tier:** AE's who are ranked in either the top 25% in volume or units (excluding those who qualified in the Gold or Silver Tiers) will receive 5 basis pts (0.0005) on 2004 Total Volume

• AE's who qualify in both volume and units only receive one award. The AE will be eligible for the highest tier they qualify for.



CONTINGENT COMPENSATION, continued

Example

- If the Account Executive's 2004 volume is \$72 million, ranking him/her in the top 25% in volume, he/she would be eligible for a contingent compensation award of \$36,000 (\$72M times 5 bps).
- An average stock price for a period prior to award date is used to convert the award amount into units. For example, if the average is \$40, the number of units would be 900.
- The 900 units would be paid out in thirds over three years.
- The units are converted back to cash at the time of the payout based on the average stock price at time of payout. For example if the average stock price at the time of the first payout is \$41, the first award payout = $300 \times \$41 = \$12,300$.



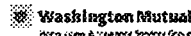


2004 Account Executive Incentive Plan Changes

PRESIDENT'S CLUB

Key Changes:

- Top 40 Account Executives based on points will attend
- Earn points, as follows:
 - 3 points will be awarded for each unit funded (for first mortgages only)
 - 2 points will be awarded for each purchase unit funded (for first mortgages only)
 - 2 points will be awarded for each \$100,000 funded (for all funded volume)
- Additional 3 AE spots based on manager discretion





2004 Account Executive Incentive Plan Changes

SALES ASSISTANTS / ASSOCIATES

Key Changes:

- The title of Sales Associate or Sr. Sales Associate will be used for full-production qualified
- The title of Sales Assistant will be used for non-production qualified
- The company pays for the base salary, overtime and benefits for Sales Associates
 - AEs can elect to share their basis point commission with their Sales Associate(s)-can be 0
- The company pays for the base salary, overtime, benefits and incentive for Sales Assistants
 - Sales Assistants earn 0.5 basis points on their AE's production
 - AEs that elect to have a Sales Assistant on a non-production qualified basis will have a modified commission that is 6.0 basis points lower than standard
- AEs can have a maximum of one Sales Assistant, but as many Sales Associates as they qualify for

What Has Not Changed:

- All Sales Assistants/Associates must be full time employees
- The qualification requirements remain the same
- The mid-year qualification requirements remain the same



June 6, 2007

TO: Home Loans Account Executive Plan Participants

FROM: Home Loans Compensation

RE: Amended and Restated 2007 Long Beach Mortgage Account Executive Plan, Amended and Restated Sales Associate Program, and Amended and Restated Partnership Program.

The 2007 Long Beach Mortgage Account Executive Plan, Sales Associate Program and Partnership Program have been amended effective June 1, 2007 in the following respects:

- The Tier Descriptions in the Incentive Tier Table have changed.
- Prime Broker Sourced loans funded will be paid the same bps rate as Sub-Prime Broker Sourced loans.
- Incentive statements will not reflect all changes until October 1st, 2007.
- Alt-A products have been added to the incentive plan
- Sales Associates are not eligible for incentives for Alt-A products

Long Beach Mortgage Account Executive Plan Update:

Incentive Tier Table

The Volume Incentives earned each Funding Period are based on the total Tier-Qualified volume and Tier-Qualified Units Funded during the period. To determine which incentive tier applies; add the total number of Tier-Qualified Units Funded and total Tier-Qualified dollar volume of loans Funded. Locate the tier range within which each total falls. If the total Units and the total dollar volume of loans Funded fall into different tiers, the higher tier applies.

Monthly Incentive Tier Table						
Tier	Tier Description (Qualified Units or Volume)	First Mortgages Basis Points				HEL Equity
		Broker Sourced Sub-Prime & Prime through Best Price Offer Program	Correspondent Sourced (Funded by Conduit Group)	Counter Offer Program (Retail Referrals)	Alt A	Per-Unit Incentive
1	1-9 Qualified Units or \$1-\$1,499,999	25	0	25	10	\$10
2	10-13 Qualified Units or \$1,500,000 – 2,399,999	30	25	25	10	\$10
3	14-35 Qualified Units or \$2,400,000 – 5,999,999	40	25	25	10	\$10
4	36+ Qualified Units or \$6,000,000+	50	25	25	10	\$10
Category Volume is Tier-Qualified Volume		Yes	Yes	Yes	Yes	Yes
Category Units are Tier-Qualified Units		Yes	Yes	Yes	Yes	No

Incentive Statements:

The incentive statements for June have not been updated to reflect the category changes yet. The update is planned for October 1st. Until updated, the above categories will have the following labels.

Current Category

Broker Sourced - Sub-Prime & Prime
Correspondent Sourced
Counter Offer Program
Alt A
HEL Equity

Current Statement Label

First Mortgages - Broker Sourced
First Mortgages - Correspondent Sourced
First Mortgages - Counter Offer Program
Prime Loans
Equity

Permanent Subcommittee on Investigations
EXHIBIT #59b

Partnership Program Update:

LONG BEACH MORTGAGE ACCOUNT EXECUTIVE 2007 MONTHLY INCENTIVE TIER TABLE (Partnership)						
Tier	Tier Description (Qualified Units or Volume)	First Mortgages Basis Points				HEL Equity
		Broker Sourced Sub-Prime & Prime through Best Price Offer Program	Correspondent Sourced (Funded by Conduit Group)	Counter Offer Program (Retail Referrals)	Alt A	Per-Unit Incentive
1	1-13 Qualified Units or \$1-\$2,249,999	25	0	25	10	\$10
2	14-19 Qualified Units or \$2,250,000 - \$3,599,999	30	25	25	10	\$10
3	20-52 Qualified Units or \$3,600,000 - \$8,999,999	40	25	25	10	\$10
4	53+ Qualified Units or \$9,000,000+	50	25	25	10	\$10

Sales Associate Program Update:

Sales Associate Incentives for Alt-A production:

Sales Associates are not eligible to share Basis Point incentives with the Account Executive on Alt A production.

Loan Originators Electing a Structure II Sales Associate

A Loan Originator who elects the support of a Structure II Sales Associate will earn incentives in accordance with the tier tables below instead of the tier tables in their respective Incentive Plan. For each position there is one table specifically for Loan Originators not in a Partnership and one table for those in a Partnership.

To encourage Loan Originators to effectively utilize their Structure II Sales Associates, a Monthly Bonus Opportunity is provided on Funded loan volume in excess of a Monthly Volume Threshold. The details of the amount of the Bonus Opportunity are detailed below.

A Loan Originator electing a Structure II Sales Associate will continue to participate on the alternative tier table if the Structure II Sales Associate is out of the office on vacation or other form of paid time off (illness, holidays, funeral leave, jury duty, etc.) accrued, with the exception of a formally approved, paid leave of absence as described above.

Alternative Tier Tables for Long Beach Mortgage Account Executives not in a Partnership

Monthly Incentive Tier Table						
Tier	Tier Description (Qualified Units or Volume)	First Mortgages Basis Points				HEL Equity
		Broker Sourced Sub-Prime & Prime through Best Price Offer Program	Correspondent Sourced (Funded by Conduit Group)	Counter Offer Program (Retail Referrals)	Alt A	Per-Unit Incentive
1	1-9 Qualified Units or \$1-\$1,499,999	20	0	20	5	\$10
2	10-13 Qualified Units or \$1,500,000 - 2,399,999	25	20	20	5	\$10
3	14-35 Qualified Units or \$2,400,000 - 5,999,999	35	20	20	5	\$10
4	36+ Qualified Units or \$6,000,000+	45	20	20	5	\$10

Alternative Tier Tables for Long Beach Mortgage Account Executives in a Partnership

Monthly Incentive Tier Table						
Tier	Tier Description (Qualified Units or Volume)	First Mortgages Basis Points				HEL Equity
		Broker Sourced Sub-Prime & Prime through Best Price Offer Program	Correspondent Sourced (Funded by Conduit Group)	Counter Offer Program (Retail Referrals)	Alt A	Per-Unit Incentive
1	1-13 Qualified Units or \$1 - \$2,249,999	20	0	20	5	\$10
2	14-19 Qualified Units or \$2,250,000 - \$3,599,999	25	20	20	5	\$10
3	20-52 Qualified Units or \$3,600,000 - \$8,999,999	35	20	20	5	\$10
4	53+ Qualified Units or \$9,000,000+	45	20	20	5	\$10

This is only a general summary description of changes – please review the amended and restated plan and programs which will be available on your dashboard June 6th for full details. If there is a conflict between this summary and the plan or program, the plan or program will control.

If you have any questions, please contact your manager.



Home Loans

Product Strategy

Strategy and Business Initiatives Update

Permanent Subcommittee on Investigations

EXHIBIT #60a

2007 Product Strategy

Product strategy designed to drive profitability and growth

- Driving growth in higher margin products (Option ARM, Alt A, Home Equity, Subprime)
- Recognize and address competitive threats
- Modify and develop new products to increase profitability and competitiveness
- Recruit and leverage seasoned Option ARM sales force, refresh existing training including top performer peer guidance
- Maintain a compensation structure that supports the high margin product strategy

Market Share

Option ARM market share 16% in 2006; ranked #2; Q4 WaMu gained market share, Countrywide lost share

Option ARM

(\$ in billions)	1Q06	2Q06	3Q06	4Q06	FY05	FY06
WaMu	\$8.8 ¹	\$11.3 ²	\$11.6	\$9.5	\$63.3	\$41.2
qtr-qtr change	-25%	28%	3%	-19%		
change from peak				-52%		
market share	14.4%	14.6%	16.6%	20.1%	20.4%	16.2%
Countrywide	\$19.6	\$19.6	\$14.8	\$9.9	\$93.3	\$63.9
qtr-qtr change	-20%	0%	-24%	-33%		
change from peak				-66%		
market share	33.2%	25.7%	29.5%	20.8%	30.1%	25.1%
Wachovia	\$10.9	\$11.0	\$9.1	\$8.8	\$47.0	\$39.8
qtr-qtr change	-16%	1%	-17%	-3%		
change from peak				-35%		
market share	18.6%	14.3%	13.0%	18.6%	15.2%	15.6%

CFC - #1
 WaMu - #2
 GDW - #3
 EMC - #4
 NDE - #5

Alt A

(\$ in billions)	1Q06	2Q06	3Q06	4Q06	FY05	FY06
WaMu	\$5.1	\$6.7	\$7.3	\$6.2	\$12.9	\$25.2
qtr-qtr change	-7%	30%	9%	-15%		
change from peak				-15%		
market share*	5.4%	5.3%	8.0%	6.2%	3.3%	6.3%
Countrywide	\$14.0	\$19.0	\$15.0	\$20.0	\$63.0	\$68.0
qtr-qtr change	-18%	36%	-21%	33%		
change from peak				-19%		
market share	14.7%	15.2%	16.5%	20.0%	16.2%	17.0%
IndyMac	\$15.5	\$15.1	\$19.1	\$20.5	\$43.7	\$70.1
qtr-qtr change	21%	-2%	27%	7%		
change from peak				0%		
market share	16.3%	12.1%	21.0%	20.5%	11.2%	17.5%

Home Equity

(\$ in billions)	1Q06	2Q06	3Q06	FY06
WaMu	\$7.4	\$8.6	\$8.8	\$39.9
qtr-qtr change	-19%	16%	2%	
change from peak				-21%
market share	6.7%	7.5%	7.0%	9.2%
Countrywide	\$12.3	\$12.3	\$11.7	\$42.7
qtr-qtr change	9%	-1%	-4%	
change from peak				-4%
market share	10.2%	11.3%	9.7%	9.8%
Bank of America	\$18.5	\$21.1	\$20.5	\$68.7
qtr-qtr change	-6%	14%	-3%	
change from peak				-3%
market share	18.6%	14.3%	16.9%	15.8%

Subprime

(\$ in billions)	1Q06	2Q06	3Q06	4Q06	FY05	FY06
WaMu	\$6.4	\$7.3	\$7.8	\$5.1	\$36.2	\$26.6
qtr-qtr change	-35%	13%	7%	-30%		
change from peak				-48%		
market share	4.1%	4.1%	4.5%	3.5%	5.8%	4.2%
Countrywide	\$9.2	\$11.2	\$10.1	\$10.1	\$44.6	\$40.6
qtr-qtr change	-24%	22%	-10%	-1%		
change from peak				-18%		
market share	5.9%	6.3%	5.8%	6.9%	7.1%	6.3%
New Century	\$11.5	\$14.1	\$13.8	\$12.2	\$52.7	\$51.6
qtr-qtr change	-13%	23%	-2%	-12%		
change from peak				-23%		
market share	7.4%	8.1%	7.8%	8.4%	8.4%	8.1%

Wachovia Overview

With the acquisition of Golden West, Wachovia experiencing growing pains in becoming a large financial institution

- Wachovia acquired Golden West in 2006
- Originations totaled \$110 million during the fourth quarter of 2006
- Wachovia seeks to exceed more than \$44 billion in Option ARMs originated by Golden West in 2006
 - Wachovia provides special training to their “Option Army”, training 1,000 branch employees and adding another 800 mortgage consultants to the 200 already working in branches
 - Wachovia has initiated radio advertising in the Southern California market
- **In geographies where Wachovia is considered a threat (such as California), it is primarily tied to the Fixed Rate Pick-A-Payment loan they are aggressively promoting**

Wachovia's Key Products

Wachovia's product set includes a Hybrid Option ARM and Fixed Option ARM; potential threats to WaMu

Parameter	WaMu Option ARM	Wachovia/World
Product/Indices	<ul style="list-style-type: none"> • 1-3 Mo MTA, COFI • 60 Mo MTA, "Flex 5" 	<ul style="list-style-type: none"> • Pick-A-Payment ARM, COFI and proprietary CODI and COSI indices. • 30-year Fixed Pick-A-Payment
Pricing Package	<ul style="list-style-type: none"> • 1-Mo MTA - 1 Mo start rate is 1.00% • WaMu Margin at 1.125pts, 3-year ppp is 2.600, 7.661% fully indexed • 9.95% lifecap • 7.5% annual payment cap 	<ul style="list-style-type: none"> • Min. payment rate is 1.95% Fixed, 1.5% for Pick-A-Payment ARM • World's Fixed Pick-A-Payment 6.95% for 30 years, Pick-A-Payment ARM 7.2% Fully indexed • Same annual payment caps
Payment Options	<ul style="list-style-type: none"> • Up to 4 payment options for the first 5 years 	<ul style="list-style-type: none"> • Guaranteed up to 4 payment options for the first 10 years
Recast	<ul style="list-style-type: none"> • Recast at year 5 or when balance exceeds initial principal balance by 115% 	<ul style="list-style-type: none"> • Recast at year 10 or when balance exceeds initial principal balance by 125% • World metrics indicate a "worst case" neg-am scenario of 117% at year 10 so "loans have never recast due to NegAm."
Loan Terms	<ul style="list-style-type: none"> • 30 and 40 year 	<ul style="list-style-type: none"> • 30 year

CA Rates as of 3/9/2007

Wachovia/World Analysis

What does a top performer at World look like?

- Highly skilled in selling the Option ARMs
 - Option ARMs have a higher commission rate than other products (between 65 and 80bps depending upon fundings per month - interviews with former LCs revealed compensation variances across regions)
 - World has successfully sold the Option ARM in all market cycles
 - 92% of GDW's business in 2005 was Option ARM
- Likely a "Combo rep" -- sources broker business as well as retail sales
 - Attractive to LC because it adds volume with minimal time and effort
 - Wholesale volume is almost a necessity in order to qualify for an SA (Reports varied on how many loans needed to qualify –between 12 and 25 per quarter–and different standards may exist in different states)
 - Compensation is much lower on brokered loans (~10 bps)
 - Brokered loans through LCs are reported under the Retail channel so it is impossible to tell precisely the volume or number of participants – ranking info, therefore, clouded by inclusion of wholesale production
- Strongly aligned with culture and mission of Golden West
 - Due to the stability of their business over time, Golden West appears to maintain employees with long tenures and strong loyalty to the business

Wachovia/World Analysis

Golden West underwriting approach and Wachovia fit

- More "relaxed" underwriting documentation standards
 - World has traditionally required less verification of assets and income from its customers; reportedly this has started to change in the last several years but is still more lenient than WaMu
 - World has much more lenient documentation requirements than WaMu, however, LTVs are typically <70%
 - Several of the LCs WaMu has hired from World have had difficulty meeting WaMu's documentation standards, further emphasizing differences
- Integration to alter standards?
 - Wachovia is known for being more score-driven in its approval process and maintaining stringent credit standards
 - Although, management has announced they will operate Golden West as a stand-alone, there is likely much fear that Wachovia will adjust credit policy when the two do fully integrate

World/Wachovia Analysis

How does Golden West compensate? How does this compare to WaMu?

- Compensation varies by product and type
 - In addition to increasing compensation on Option ARMs, World has lowered commission on Fixed-rate products as a deterrent to LCs (~\$300 / loan for conforming fixed, \$350 for jumbo fixed)
 - Several of the LCs lamented how often the compensation structure seemed to change, particularly for brokered loans
 - Intercompany or “World-to-World” refis have a lower commission rate as well (this was the key factor in our hiring one of their top LCs a few years ago)
- WaMu commission structure favorable to World’s
 - LCs supported the assertion that WaMu pays more commission than World (WaMu averages around 80bps in the retail channel, well above even what World pays for Option ARMs-67bps)
- Equity not a key factor
 - All 3 LCs agreed that equity is not a key part of the compensation package at World and thus, World LCs would not need to wait until the Wachovia deal closes in order to cash in options

Retail Loan Consultant 2007 Incentive Plan Focus on High Margin Products

Four main product categories place primary emphasis on high margin "W Products"

PRODUCT CATEGORIES

The incentives specified in the incentive tier table vary by product category. There are four main product categories: "W" Products, "A" Products, "M" Products and "U" Products. Most Wal-Mart Home Loans products fall into one of these four categories:

"W" Products	"A" Products	"M" Products	"U" Products
<ul style="list-style-type: none"> • Option ARM (Net New) • Non-Prime referrals • Home Equity Loans (HELs) 	<ul style="list-style-type: none"> • Option ARM (Refi's) • Hybrids (Net New) • Alt-A (Net New) • Fixed (Net New) 	<ul style="list-style-type: none"> • Hybrids (Refi) • Alt-A (Refi) • Fixed (Refi) 	<ul style="list-style-type: none"> • HELOCs • HELOC Line increases • Wal-Mart Mortgage Plus

Retail Loan Consultant 2007 Incentive Plan Focus on High Margin Products

- Incentive Tiers reward high margin products, "W Products", such as the Option ARM, Non-Prime referrals and Home Equity Loans (HELs)
- WaMu Mortgage Plus currently includes a 35 bps "kicker", which is assessed quarterly, bringing compensation up to the "W Products" level for Mortgage Plus.
- WaMu also provides a 15 bps "kicker" for selling 3 year prepayment penalties; something that Wachovia/World does not.

The 2007 Incentive Tier Table is as follows:

2007 INCENTIVE TIERS - RETAIL LOAN CONSULTANTS							
Tier	Tier Description	BASIS POINT INCENTIVE					
		W Products	A Products	M Products	D Products	Affordable/CRA/NAL Kicker	Special Product Promotion #1: 3-Year PrePays
Bronze	1-5 loans or \$1 - \$749,999	40	32	25	35	12	15
Silver	6-11 loans or \$750,000 - \$1,699,999	55	52	38	35	12	15
Gold	12-16 loans or \$1,700,000 - \$2,124,999	63	58	48	35	12	15
Platinum	17+ loans or \$2,125,000+	70	64	52	35	12	15

Retail Loan Consultant 2007 Incentive Plan

Special Referral Program – Retail to Non-Prime Referral

- Retail Loan Consultants can refer a Non-Prime borrower to a Long Beach Mortgage Account Executive and earn a referral incentive if the referred loan funds
- To earn compensation for the referral, the following must occur:
 - The Retail Loan Consultant must
 - Make initial contact with the customer, and
 - Communicate the referral to a Long Beach Mortgage Account Executive by completion of the required documentation.
 - The loan funds; and
 - Incentive Administration is notified that the Funded, as recorded in the system of record.
- Partnerships are eligible to refer Non-Prime borrowers to Long Beach and earn referral compensation. Any referral compensation earned will be calculated as follows:
 - The earned compensation on a given referral is calculated.
 - The compensation is then split according to the basis points incentive split specific to the particular Partnership.
 - Note: Non-prime 2nd liens are not part of this program.

Internal Forces... Overages

■ **Opportunity**

- **Channel**
 - Incremental Revenue Growth
 - Enhanced Retention and Recruitment of Loan Consultants
 - Savings; provides opportunity to lower incentive grid compensation

- **Loan Consultant**
 - Ability to increase compensation

- **Enhance compensation/incentive for Sales Management**
 - Leverage tool for HLC profitability

- **Pricing**
 - Pricing flexibility and control pushed to the market level

8

Internal Forces... *Overage Proposal*

■ Financials

Excludes Home Equity
Retail channel only (excluding LMIT/LMIB Loans)
Profitability sensitive to volume estimate

KPI	Year 1
Projected 2007 Volume with Overage [25%]	\$ 8.6 B
Revenue @ 20bps (with 50/50)	\$ 8.6 M
Comp Plan Reduction	\$ 4.3 M
Total Benefit Opportunity	\$ 12.9 M

NPV: TBD
Payback: .2 Years
Investment Required: \$ 1.5 million (including all FTE costs)

9

9

Internal Forces... *Overage Proposal*

- Major national competitors have a similar plan in place in the market

	Overage	Split	Revenue*	2005 Retail Loan Vol**
Wells Fargo	.50% max	50/50	\$ 35.5 M	\$ 208.9 B
Bank of America	50%max	50/50	\$ 22.3 M	\$ 131.4 B
Countrywide	2% max	50/50	\$ 26.2 M	\$ 154.4 B
Chase	2% max	50/50	\$ 14.4 M	\$ 84.5 B

*Excludes LMIT/LMB loans 15% of total loan population, 20 bps overage on 20% of the loans

** Source: Inside Mortgage Finance 2005 loan data

*** Includes Retail, CD, Financial Centers, Home Equity

WaMu left \$11.3 M on the table based on \$53 B of volume in 2005

10

From: McDiarmid, Jim
Sent: Monday, September 27, 2004 8:57 PM
To: *LFC DUBLIN <PLEASANTON@lbfc.com>
Subject: Daily Productivity - Dublin
Attach: Tracking Log.09.27.04.xls

Less than 1 week and we have a long way to go to hit our 440M! Including today, we have 4 days of fundings to end the Quarter with a **bang!** With all the new UW changes, we will be swamped next month, **so don't hold any back!**

4 days.....it's time for the mad dash to the finish line! **Who is in the running.....**

Loan Set Up – **Phuong** is pulling away with another 18 files set up yesterday for 275 MTD! 2nd place is held by **Jean** with 243...can you catch **Phuong**? Get ready Set Up – come October, it's going to get a **little crazy!**

Underwriting – **Michelle** did it! She broke the **200 mark** with 4 days left to go! **Nice job Michelle!** 2nd place is held by **Andre** with 176 for the month! Way to go **Andre!** Four other UW's had solid performances for the day as well including **Mikhail** with **15!** **Jason** and **Chioke** with 11 and **June** with 10 – The double digit club!

SLC – This one is still tight with **Sandy** holding onto the 1st place slot! **Sandy** funded 4 more on Friday for a MTD total of 46! 2nd place is **John Ngo** with 4 fundings on Friday and 44 MTD – only 2 back! 3rd place is tied between **Jason** and **Raj**, both with 44 for the month.....and the rest of the filed is right behind!

CLC – **Scott** is out front with 8 fundings Friday and 79 MTD – Looks like he'll make the **100 Club!** **Cyndi** is currently in 2nd with 6 on Friday and 65 MTD, followed by **Maureen** who funded 7 on Friday and has 60 MTD. This one might get a little crazy before 2pm on Thursday! A few other big days included **Julie** with 8, **Elena** with 7 and **Oscar** and **Yolanda** both with 6! **Let's see who can fund daily double digits this week!**

Post Closing – **Casey** held the lead with 12 more files shipped on Friday for a MTD total of 197! 2nd place is **Angel** with 177.....With a **huge** month end, you still have time to get up there with your numbers! We need to make sure the CLC's get the files to Post Closing **the same day it records!**

Remember the words of Jerry Brown,

“Inaction may be the biggest form of action.”

Let's act!

Permanent Subcommittee on Investigations

EXHIBIT #61



President's Club – Take the Lead!

I attended WaMu's President's Club last year for the first time and had an awesome time getting to know the stars of our sales force. You work hard, but you know how to have a good time too—as seen in this Austin Powers Party photo!



John (Consumer Direct sales manager) and Melody Janda

At the first-class awards dinner, I looked around the room and felt honored to be with so many talented people. Congratulations to those of you who were repeat President's Club honorees. To those of you who have not yet reached President's Club, I want each and every one of

you to believe you have the potential to achieve this great reward.

Now is the time to really kick it into high gear and drive for attending this awesome event! Rankings are updated and posted monthly on the DashBoards (under Reports) and on WaMu.net: [President's Club Rankings](#). Where do you rank? What can you do to take your business to the next level? Your management team is here to help.

As you know, growth is a key area of focus for WaMu and Home Loans. I am extremely proud of the achievements in Production so far this

year—and I know it's been tough. I'm especially pleased with your ability to change with the market and responsibly sell more higher-margin products—Option ARM, Home Equity, Non-prime, and Alt A. I also know that you—truly the best sales team in the industry—are up to the challenge of doing even more by year-end.

I, along with everyone else in Home Loans, realize that what you do, day in and day out, forms the backbone of Home Loans. Thank you for your dedication.

I hope to see you in Kauai!

What Does President's Club Mean to These Repeat Honorees?

Four top-producing loan consultants share their impressions of President's Club.

8-Yr Pres Club Honoree; Medford, Ore.

Here's a tip for getting to President's Club: Make it once and bring your wife. She will make sure you never miss it again! But seriously, it allows me to hear from the top people in our company in a personal way and to really feel the culture of Washington Mutual.

5-Yr Pres Club Honoree; North Wales, Pa.

For me, President's Club is time with my husband without my children. Time to see friends, creative people I only see once a year. We share ideas, which is easier to do when you're in different markets. I extend my stay and really enjoy myself—the fun index is very high!

9-Yr Pres Club Honoree; Westlake Village, Calif.

Each year, President's Club is as special to me as the first time I went. It's an amazing feeling to look around the room and realize that this handful of people made it. You feel like Michael Jordan at the top of your game. I enjoy seeing old friends.

17-Yr Pres Club Legacy Group; Westlake Village, Calif.

President's Club is a time to be recognized by being at the top of your game, and to interact with others who are at the top. It's such a great feeling of pride and mutual respect.

Yes You Can!

Permanent Subcommittee on Investigations

EXHIBIT #62

**Washington Mutual
Home Loans Group
President's Club 2005 – Maui
Awards Night Show Script**

6:15 PM – DOORS OPEN
(30 MINUTES)

GRAPHICS
PRESIDENT'S CLUB LOGO

VOICE-OVER ANNOUNCER

Good evening ladies and gentlemen and welcome to your President's Club 2005 Awards Night program!

Please welcome the host of President's Club, the President of the Washington Mutual Home Loans Group, Mr. David Schneider!

GRAPHICS
DAVID SCHNEIDER TITLE

WALK-UP MUSIC
FOR DAVID SCHNEIDER

6:45 PM – DAVID SCHNEIDER
WELCOME AND OPENING
REMARKS (5 MINUTES)

DAVID SCHNEIDER

Thank you ladies and gentlemen, and welcome to this very special Awards Evening.

Wow, could you feel the energy and excitement tonight out on the Red Carpet?! Talk about star power!

And it was great fun to learn so much more about some of you during the interviews... and at the bar.

But don't worry. I'm told that the age-old tradition here at Washington Mutual is, "What happens at President's Club

stays at President's Club." And who am I to mess with tradition?

GRAPHICS
PRESIDENT'S CLUB LOGO

Tonight we are gathered together to pay the highest respects and honors to those who deserve them the most, the President's Club Class of 2005.

And it is our great pleasure this evening to recognize and salute the special guests sitting at your sides who helped make this tribute to you possible. A victory shared is a victory magnified, and we are so glad you could be here together. Let's have a warm round of applause for our special guests.

GRAPHICS
ELITE GROUP LOGO

Tonight I'm very excited to welcome the members of the Elite Group, who we met this morning, here attending their inaugural President's Club awards gala.

Along with the thrill of the new, is the legendary energy of our Legacy Group members who have been attending for as many as 25 years!

GRAPHICS
LEGACY GROUP PHOTO

We held a special pre-reception gathering of these greats among us, and here's their class picture for this year's President's Club. Let's ask them to stand for a big round of applause.

This morning we also initiated the first timers at President's Club, and I am right there with them tonight in feeling at once both overwhelmed and overjoyed at being here. Welcome to all of you fellow President's Club

rookies. Congratulations on your remarkable achievement.

And of course I want to pay special homage to all of you astonishing returning champions of President's Club. You multiple award-winning superstars clearly lead our entire industry as the standard others can only attempt to match. You folks really do make this feel like the Academy Awards tonight because everywhere I turn I see another star of another box office sensation.

GRAPHICS
PRESIDENT'S CLUB LOGO

And so to you, the greatest collection of talent I've ever had the good fortune to address, I promise an evening of fast-moving fun, celebration and tribute in ways old and new.

And above all I promise you dinner at a record early time tonight – by popular request!

Now, also by popular request, let's take a look at your 2005 President's Club award. It was created exclusively for Washington Mutual, and for you, just for this occasion.

It is a simply gorgeous work of art by highly gifted artists, Dehanna Jones and Jacqueline Mendelson. The unique glass pieces they create together have been displayed in prestigious galleries all across the U.S., and it's no wonder why.

Your 2005 award, titled "Blue Vessel," clearly shows the Art Nouveau influences of Ms. Jones' best work and the use of glass to control and transmit light that is the hallmark of Ms. Mendelson's art.

Each of you President's Club winners will receive your personally inscribed award after your return to the mainland – when it will be shipped directly to you in perfect condition.

I hope this award reminds you not only of your superb 2005 accomplishments but also of the time we all spent together here on Maui. Speaking of which, the best is still yet to come...

So, it is now my pleasure to introduce a top performer's top performer. The man whose own standards of excellence are reflected in every aspect of President's Club, Washington Mutual's Chairman and CEO, Mr. Kerry Killinger!

GRAPHICS

KERRY KILLINGER TITLE

6:50 PM – KERRY KILLINGER
CHAIRMAN/CEO COMMENTS
(15 MINUTES)

WALK-UP MUSIC

FOR KERRY KILLINGER

KERRY KILLINGER

[SEE SEPARATE DOCUMENT FOR COMMENTS.]

(AT THE END OF HIS COMMENTS, KERRY REINTRODUCES DAVID:)

And now, here's our host for the evening... once again, David Schneider.

GRAPHICS

PRESIDENT'S CLUB LOGO

WALK-UP MUSIC

FOR DAVID SCHNEIDER

DAVID SCHNEIDER

Thank you Kerry. We're very glad you could be with us tonight.

And what could make a night like this more special than having one of the most recognizable, accomplished and beloved celebrities on the planet emcee it?

I can't think of anyone more perfectly suited than Earvin "Magic" Johnson. He embodies this year's President's Club theme, "Dare to Dream."

Ladies and gentlemen, here he is – the one, the only...
Magic!

GRAPHICS
EARVIN "MAGIC" JOHNSON

7:05 PM – EARVIN "MAGIC" JOHNSON
SETS UP THE AWARDS
PRESENTATION (4 MINUTES)

GRAPHICS
PRESIDENT'S CLUB LOGO

GRAPHICS
OUTSTANDING ACHIEVEMENT
AWARDS

WALK-UP MUSIC
FOR EARVIN "MAGIC" JOHNSON

EARVIN "MAGIC" JOHNSON

Thank you, David and thank you, Kerry.
Good evening everyone, it's great to see you all again looking so fine and impressive everywhere I turn.

President's Club... it's kind of like the NBA All-Star game. Everyone there is an all-star, so you all start out as the top people at what you do.

But somebody's going to win the MVP award, somebody else wins the slam dunk contest, another person wins the three-point competition. Even the rookies have their own awards.

Tonight, for the first time ever, I'm proud to introduce the President's Club Outstanding Achievement Awards to be given in seven distinct new categories.

GRAPHICS

FIRST TIME ACHIEVEMENT
EMERGING MARKETS
TOP UNIT PRODUCER
MARKET SHARE IMPROVEMENT
CONSUMER DIRECT SALES
MANAGER OF THE YEAR
WHOLESALE SALES MANAGER
OF THE YEAR
AND RETAIL SALES MANAGER OF
THE YEAR

It's very exciting to be recognizing outstanding achievements in the following categories:

- First Time Achievement
- Emerging Markets
- Top Unit Producer
- Market Share Improvement
- Consumer Direct Sales Manager of the Year
- Wholesale Sales Manager of the Year
- And Retail Sales Manager of the Year

STAGING

KERRY, STEVE, DAVID AND TONY
ENTER FROM BACKSTAGE TO
FORM THE EXECUTIVE
RECEIVING LINE

To make it even more exciting, I'd like to now invite Kerry, David, Steve Rotella and Tony Meola to join me here up on stage.

These new Outstanding Achievement Awards are not open to this year's Sales Excellence Award winners, who we will be recognizing later in the show. So you'll be seeing many people receiving special awards for the first time.

And because you will, let me explain exactly how it's going to work.

Just like they do at the Oscars, a pair of presenters will come on stage, announce the category for the award they are giving out, and then reveal the names of each nominee for that award.

If you hear your name announced as a nominee, just stand right up. Please stay standing until that star

spotlight finds you and we see your beautiful face on the big screens.

Make sure to soak up your special moment and enjoy the applause before sitting back down again.

If you're the Outstanding Achievement Award winner – wow! When you hear your name announced come on up here on stage to receive your award.

That's all there is to it. You're all the best in the business, so I know you'll handle it with style. And the folks who are going to be presenting the awards tonight are superstars themselves.

Let me introduce you to our first pair of presenters...

7:09 PM – OUTSTANDING ACHIEVEMENT AWARDS
(28 MINUTES)

GRAPHICS
FIRST TIME ACHIEVEMENT

[REDACTED]

STAGING
MAGIC GREETINGS
[REDACTED] THEN EXITS
BACKSTAGE

AWARD #1
FIRST TIMER AWARD

EARVIN "MAGIC" JOHNSON

He's been with the company for almost three decades now and is here tonight as a 20-time President's Club member. Retail's fearsome force in the San Jose, California market, please welcome [REDACTED]

And from Wholesale, a 10-time President's Club member, from Pleasanton, California where he must be the king – since he is, [REDACTED]

WALK-UP MUSIC
FOR PRESENTER PAIR #1

[REDACTED]

I was telling Magic that in France I'm known as Royale' Gooden.

but his HLC was able to fund \$1.7 billion in 2005 which generated \$15.6 million.

[REDACTED]

And the Outstanding Achievement Award for Retail Sales Manager of the Year goes to...

[REDACTED]

[REDACTED] from Burbank, California!

GRAPHICS
NAME OF WINNER

WALK-UP MUSIC (REPEAT)

VOICE-OVER ANNOUNCER

[REDACTED] powerhouse HLC delivers both volume and profitability year in and year out. In 2005, [REDACTED] had 25 tier five Loan Consultants!

VOICE-OVER ANNOUNCER

Ladies and gentlemen, please welcome back, Earvin "Magic" Johnson!

STAGING
MAGIC MOVES FROM BACKSTAGE TO THE PODIUM

WALK-UP MUSIC
FOR MAGIC JOHNSON

STAGING
EXECUTIVES MOVE TO HOLDING AREA (TBD) UNTIL SALES EXCELLENCE AWARDS

GRAPHICS
PRESIDENT'S CLUB LOGO

7:37 PM – EARVIN "MAGIC" JOHNSON
CONCLUSION OF OUTSTANDING ACHIEVEMENT AWARDS (2 MINUTES)

EARVIN "MAGIC" JOHNSON

That was fantastic, wasn't it?! You've got a whole lot of talent here tonight, that's for sure. Congratulations to all of

you first-ever winners of the Outstanding Achievement Awards.

Speaking of achievement... there's a gentleman here tonight who you may have noticed on stage earlier. His name is Steve Rotella and he knows all about achieving big things. I know... I've talked to him.

Now he's here tonight to honor all of you. Ladies and gentlemen, the President and Chief Operating Officer of Washington Mutual, Mr. Steve Rotella.

STAGING

STEVE MOVES FROM HOLDING AREA TO THE PODIUM

GRAPHICS

STEVE ROTELLA TITLE

7:39 PM – STEVE ROTELLA

CONGRATULATIONS REMARKS
(5 MINUTES)

WALK-UP MUSIC
FOR STEVE ROTELLA

STEVE ROTELLA

Thank you, Magic Johnson.

Wow! Never in my wildest fantasies did I think I'd get to say, "Thank you, Magic Johnson" as part of my job. I guess that's just another way Washington Mutual is helping to deliver the American dream.

But when it comes to delivering the American Dream, I am in absolute awe of you people.

Even under the most difficult of environments – *especially* under the most difficult of environments – the cream truly does rise to the top and that's what President's Club means to me.

In a year where others found excuses, you found determination and excellence. In the toughest of times you were the toughest of competitors.

I want to congratulate both the winners and the nominees for the Outstanding Achievement Awards. Great job by you guest presenters too, that was a lot of fun.

I want to personally congratulate each and every President's Club member here tonight and thank you for everything you did throughout 2005 to get here.

Once again you proved just how much you deserve to be honored here in Hawaii.

(WAMU TO PROVIDE ADDITIONAL INPUT)

In closing, I simply want to tell you what a privilege it is for me to be here with you tonight. I have really been looking forward to spending time with you and your special guests this week and letting you know just how much I appreciate you and what you do.

And now, here he is, once again – our master of ceremonies, Earvin "Magic" Johnson!

GRAPHICS
PRESIDENT'S CLUB LOGO

7:44 PM –
EARVIN "MAGIC" JOHNSON
INTRODUCTION OF SALES
EXCELLENCE AWARDS
(2 MINUTES)

WALK-UP MUSIC
FOR EARVIN "MAGIC" JOHNSON

EARVIN "MAGIC" JOHNSON

Thank you Steve!

And now for the Sales Excellence Awards, without a doubt the highest honor you can earn as a President's Club member.

And when I say "earn" I mean it, because these Sales Excellence Awards truly measure the day-in and day-out results the best of the best deliver.

Just like all of the awards here tonight, the numbers determine these winners, and as a businessman I have a very deep respect for the numbers and the people who deliver them. And man, some of these winning numbers are just incredible!

And there's one guy here who can tell you the story of the award winners behind those numbers better than anyone I know. Ladies and gentlemen, please give a high-energy welcome to a high-energy man, your head of Production, Mr. Tony Meola!

GRAPHICS
TONY MEOLA TITLE

STAGING
MAGIC EXITS BACKSTAGE

7:46 PM – TONY MEOLA
SALES EXCELLENCE AWARDS
(3 MINUTES)

GRAPHICS
SALES EXCELLENCE AWARDS
GRAPHIC

WALK-UP MUSIC
FOR TONY MEOLA

TONY MEOLA

Thanks, Magic – and by the way, I always knew I'd be saying that – actually, I thought HE'D be thanking ME. But hey, I'm in sales, I've always dared to dream big! So too, did the winners of tonight's Sales Excellence Awards.

Good evening ladies and gentlemen, I'm very proud to be here tonight in this sea of stars and have the enviable role of introducing you to the very top producers in each channel for 2005.

A simple look at the Wholesale scorecard will make a very strong case that [REDACTED], our next Sales Excellence Award winner is indeed "The GOAT" in his chosen profession.

[REDACTED] has been with WaMu for over 15 years. During that decade and a half he has, year in and year out, finished at the top of the mountain, earning the number one ranking in his channel.

[WAMU TO PROVIDE INFO]

This legend kicked it all up a notch in the last several years funding over \$1 billion annually since [REDACTED].

If we had a Walk of Fame, his star would be on it. He has earned not just a place, but rightfully an entire wing on WaMu's Hall of Fame. Ladies and gentlemen, please join me in congratulating Sales Excellence Award winner,

[REDACTED]

GRAPHICS
WINNER'S NAME, TITLE AND NUMBERS

7:59 PM – TONY MEOLA
SEA – RETAIL

WALK-UP MUSIC
FOR WHOLESALE SEA WINNER

TONY MEOLA

Our first Retail Sales Excellence Award winner literally does the work of two people... because it IS two people, the dynamic duo of Chris O'Brien and Brian Minkow.

The Westlake, California, Home Loan Center is the home base for this high-powered team of superheroes where they battle evil competitors – and sometimes underwriters, to get the best loans for their customers.

Chris and Brian use their unstoppable energy, unbeatable passion and sheer hard work to dominate their market regardless of the environment, and in 2005 the O'Brien / Minkow team funded \$1.2 billion in loan volume and 2,146 units.

[WAMU TO PROVIDE INFO]

Here tonight at their X President's Club, please join me in saluting them for their Sales Excellence as they receive their award!

GRAPHICS
WINNER'S NAME, TITLE AND
NUMBERS

WALK-UP MUSIC
FOR RETAIL SEA WINNER

8:02 PM - TONY MEOLA
SEA- RETAIL

TONY MEOLA

Our penultimate award winner is one of those people who defy description using ordinary mortgage terms.

In *our* world of superstars he is bigger than a Brad Pitt, George Clooney or Tom Cruise. He's at the Henry Fonda, Burt Lancaster, John Wayne legendary status.

Because not only was Tom Ramirez, out of the Downey, California office, the number one WaMu Retail Loan Consultant in 2005 with 2,334 units funded and \$697 million in volume...

But he has *been* the number one Loan Consultant in units funded for the past 17 straight years!

If you've been around a while you know that Tom is more than a sales legend, he is a true visionary. He pioneered

WaMu's "Community Lending Program" in terms of allowing use of "cash income," he started the first-ever "Partnership Program" for Loan Consultants, and created our highly successful "Sales Assistant Program."

"Community," "partnership," "assistant"... they're all words that help define Tom's philosophy since he started lending 19 years ago. No one in history has put more people into their first home.

Please put your hands together for an extraordinary man, Tom Ramirez!

GRAPHICS
WINNER'S NAME, TITLE, AND
NUMBERS

8:04 PM - TONY MEOLA
SEA – RETAIL

WALK-UP MUSIC
FOR RETAIL SEA WINNER

TONY MEOLA

Ladies and gentlemen, if Tom Ramirez is rightfully a Henry Fonda or Burt Lancaster, then our final winner too deserves such celebrated comparisons because his accomplishments make him the Lawrence Olivier of our sales force.

_____ has turned what we do into a fine art. Witness his latest masterpiece, the 874 loans for \$779 million in volume he funded in 2005.

_____ operates in a different world than the rest of us, yet you'd never know it from the comfort level he creates for customers and colleagues alike.

He began his career with B of A in 1989 promptly earning their "Rookie of the Year" award.

GRAPHICS
PRESIDENT'S CLUB LOGO

I know it's been just as big of a thrill for our master of ceremonies, too. Here he is to tell you about it – Earvin "Magic" Johnson!

STAGING
RECEIVING LINE EXITS STAGE
AS MAGIC MOVES TO PODIUM

WALK-UP MUSIC
FOR EARVIN "MAGIC" JOHNSON

8:07 PM –
EARVIN "MAGIC" JOHNSON
CONCLUSION OF AWARDS
PROGRAM
(2 MINUTES)

EARVIN "MAGIC" JOHNSON

Tony's right, tonight has been a thrill for me, because I've always been passionate about people who operate at a higher level. That's what these awards mean to me.

I want to add my own congratulations to all you winners tonight. And I want to encourage you to be very proud of what you've done.

Take the time to enjoy the fruits of your victory, because you worked all year long to get here. This is what it's all about. Look around, drink it all in. These are the memories you'll cherish.

And that brings an official close to the awards portion of our evening. To take us on into the next part of this very special night, it's my pleasure to bring back your host for this President's Club, the President himself, David Schneider! Thanks everyone!

WALK-UP MUSIC
FOR DAVID SCHNEIDER

8:09 PM – DAVID SCHNEIDER
INTRODUCTION OF PRESIDENT'S
CLUB 2006 (3 MINUTES)

DAVID SCHNEIDER

Thank you Magic. Great job. Wow! Is there anything
Magic Johnson *can't* do?

I realize how important it is to be in the moment at times
like this, and I appreciate Magic reminding us. But just for
a moment I'd like to take you into the future, one year into
the future to be specific.

President's Club 2006... just based on history alone, I
know that most of you here will be there, but where will
you be?

Let's find out...

8:12 PM – VIDEO ROLL
PRESIDENT'S CLUB 2006
DESTINATION REVEAL
(3 MINUTES)

8:15 PM – AWARDS PROGRAM
CONCLUDES/DINNER BEGINS
(1 HOUR, 15 MINUTES)

DAVID SCHNEIDER

There you have it, Kauai! We had to pick a location that
even when you were here in Maui you'd say, "Wow. I
have got to be THERE." And I think you can see we have
that location.

Nobody in the entire organization knows what it will take to
get to Kauai more than you here tonight.

Having seen what you could do in the 2005 environment
and what you've already done this year, I wouldn't be
surprised to see these very same faces when we
somehow find a way to top this evening's untoppable
heights at President's Club 2006.

Now, I promised you we'd start dinner at a record early time tonight, and I believe that's exactly what we're about to do, ladies and gentlemen.

Congratulations again to all our winners and many thanks to our fabulous award presenters and executive hosts.

I now invite you to enjoy a wonderful dinner, and when we're done we'll hit the dance floor and party as only President's Club can. Thanks everyone!

9:30 PM – DINNER
CONCLUDES/BAND BEGINS
(2 HOURS, 30 MINUTES)

DAVID SCHNEIDER

Aloha once again, ladies and gentlemen. I hope you had a wonderful dining experience, and having now replenished body and soul, you're ready to cut loose for the rest of the evening.

We've got a terrific band for you tonight, an endless supply of after-dinner libations, and the best company in the world to share it with – yours.

Thanks for making this Awards Night the best ever. Have a great night everyone!

Washington Mutual
Home Loans Group
President's Club 2006 - Kauai
Business Meeting
David [REDACTED] Funeral Skit

ON STAGE

THE SPEAKER IS INTERRUPTED AT THE END OF THEIR PRESENTATION BY DAVID [REDACTED] WHO BRINGS A NOTE OUT TO THE PODIUM. THE SPEAKER READS THE NOTE SILENTLY AND APPEARS SERIOUS BEFORE ANNOUNCING.

JOHN [REDACTED]

We have just received very sad news about one of our competitors back on the mainland. Ladies and gentlemen, I'm sorry for this departure from our agenda, but here is David [REDACTED] to share the details.

ON STAGE

DAVID [REDACTED] TO PODIUM

MUSIC

UPBEAT INTRO MUSIC

ON STAGE

DAVID WAVES THE MARCHING BAND OFF FROM PLAYING INTRO MUSIC

DAVID [REDACTED]

Please, not now. That's the wrong feel for this moment.

ON SCREEN

"REST IN PEACE" GRAPHIC ILLUSTRATION

MUSIC

MUCH MORE SOMBER, DIRGE-LIKE FUNERAL MARCH

ON STAGE

DAVID IS SOMBER AND SERIOUS

DAVID [REDACTED]

That's better, thank you. Brothers and sisters of the Home Loans fraternity... it is my sad responsibility today on this otherwise joyous occasion to be the bearer of tragic news. For this day, we have lost one of the true legends in our industry.

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

1 949 [REDACTED]
1 949 [REDACTED]

31551 table rock drive • suite 420 laguna beach california 92651 shurford@hurfordandcompany.com

Permanent Subcommittee on Investigations

EXHIBIT #63b

OTSWMEN-000000080

ON STAGE

A COFFIN IMPRINTED WITH
LARGE COUNTRYWIDE LOGOS IS
SLOWLY CARRIED OUT ONTO
THE STAGE BY FOUR
PALLBEARERS

PALLBEARERS ARE DRESSED IN
BLACK AND WEARING BLACK
SUNGLASSES

PALLBEARERS SET THE COFFIN
DOWN ON SAWHORSES OR A
PEDESTAL

So many of us warned the dearly departed about the risky – some may say reckless – behavior they engaged in. Throwing money around like Paris Hilton and selling products they don't really know or understand. But still the shock of their demise takes us by surprise. I guess we should have suspected something when we heard they had their Option ARM amputated. They just couldn't stop the bleeding.

And while it IS true that when you dance with the devil you have to expect to get burned, we are indeed sorry that it will be flames for eternity for them. A nice tan is one thing, but too much heat isn't good for anyone's complexion.

Even while they danced the funky chicken on the very edge of the cliff, we always cared about them because – well, we hired so many of their best people to work for us, we felt a certain connection.

And yet, if we look hard enough, we can see the good that also comes from their departure.

ON STAGE

DAVID STARTS TO SMILE AND
SOUND HAPPIER

MUSIC BED

PLAYING UNDERNEATH DAVID:

*"NA, NA, NA, NA, NA, NA, NA, NA, HEY, HEY, HEY,
GOODBYE"*

ON STAGE

DAVID'S HAPPINESS BUILDS AS
HE SPEAKS

PALLBEARERS START REACTING
AFFIRMATIVELY

First off, their pain has finally ended and that's a good thing. And now borrowers across the nation will all be better served with Simpler Banking and More Smiles! And some **really** scary and dangerous

— = Redacted by the Permanent
Subcommittee on Investigations

people won't be on the street anymore. To tell you the truth, I never really liked them anyway.

All of a sudden the dark cloud over the mortgage world has been replaced by blue skies and sunshine!

And all of us will make more money and have more fun. So I guess the news really *wasn't* as bad as I thought it was, because it makes us want to say...

ON STAGE

THE FOUR PALLBEARERS JOIN DAVID IN SINGING AND PERFORMING A SIMPLE "VICTORY DANCE" BEFORE EXITING THE STAGE WITH THE COFFIN

DAVID AND THE PALLBEARERS

(SINGING)

"Na, na, na, na, na, na, na, hey hey hey, goodbye!"

(DAVID AND THE PALLBEARERS KEEP SINGING UNTIL THEY ARE OFF STAGE)

— = Redacted by the Permanent
Subcommittee on Investigations

**WaMu
Home Loans Group
President's Club 2006 – Kauai
Business Meeting**

"I Like Big Bucks" Skit
Performed to Sir Mix A Lot's, "Baby Got Back"

VOG ANNOUCEMENT OF KAUAI KICK IT KREW

Welcome back, ladies and gentlemen. And now for something completely different... It's a bold and very special tribute to all of YOU, performed by the one and only P. Club Posse! Please give it up for Kathy [REDACTED] and the Kauai Kick It Krewe with "I Like Big Bucks!"

INSTRUMENTAL INTRO

(Starts at 0:16 and runs to 0:30 in original recording. Delete spoken voices.)

KATHY [REDACTED] AND HER "BIG BUCKS" RAPPERS MOVE INTO PLACE ON STAGE DURING THE INSTRUMENTAL INTRO. ONCE IN PLACE, THEY TURN THEIR BACKS TO THE AUDIENCE.

AS THE LYRICS BEGIN, KATHY AND HER "BIG BUCKS" RAPPERS TURN AROUND TO FACE THE AUDIENCE WHILE THEIR LYRICS ACOMPANY THEM ON THE PROJECTION SCREENS. KATHY AND HER RAPPERS PERFORM SIMPLE CHOREOGRAPHY WITH THEIR LYRICS AS THE CHEERLEADERS MOVE IN TIME TO THE MUSIC.

KATHY [REDACTED] AND "BIG BUCKS" RAPPERS

(Rap starts at 0:30 mark in original recording)

I like big bucks and I cannot lie
You mortgage brothers can't deny
That when the dough roles in like you're printin' your own cash
And you gotta make a splash
You just spends
Like it never ends
Cuz you gotta have that big new Benz

All of that bling you're wearin'
Shining so bright peoples starin'
It's crazy, I gotta ski Aspen
That's all I'm askin'

F 849 [REDACTED]
F 849 [REDACTED]

KATHY [REDACTED] AND "BIG BUCKS" RAPPERS

KATHY AND HER RAPPERS MOVE INTO THE AUDIENCE TOSSING PAPER PLAY MONEY INTO THE CROWD AS THEY CONTINUE RAPPING.

My homegirls tried to warn me
That rappin' big bucks
Make me look corny
Ooh, root of evil
Without big bucks I'm feeling feeble
Scuze me, scuze me, cuz my big bucks do amuse me

On my vacations
I tour all nations
In style, while, luxuriating every mile

I'm loving my estate
Sorry can't unlock the gate
Now a little botox and nips and tucks
All it takes is big bucks

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

So Players (Yeah!) Players (Yeah!)
Do you love to make big bucks (Hell yeah!)
Well Be Bold! (Be Bold!) Be Bold! (Be Bold!)
Be bold and make big bucks
Make me big bucks.

INSTRUMENTAL SCRATCH BREAK

(Starts at 1:23 and runs to 1:38 in original recording)

DURING SCRATCH BREAK:

KATHY [REDACTED] AND "BIG BUCKS" RAPPERS

Pay me now AND pay me later
(replaces "L.A. face with an Oakland booty" from original recording)

Make me big bucks!
KATHY AND "BIG BUCKS" RAPPERS STRIKE A "RAPPERS POSE" UPON DELIVERING THEIR FINAL LINE.

Performance Review Form: Leadership (typically for levels 2-8; exception for levels 9-10 leaders with direct reports)



Employee Name	Cheryl Feltgen	Reviewer	David Schneider/Ron Cathcart
uID	U219369	Review Date	
Title	SVP, Chief Risk Officer – Home Loans	Dept. Name	Home Loans

GOALS: Refer to the 4-Step Goal Setting Process for assistance on creating a goal.

Behavioral Rating Scale

Employee Goals	Results/Comments	Target Date	Actual Date	Rating [1-5, TNTR]	Weight (%)	= Total Rating
GROWTH 35% 1. Achieve Net Income - \$340 MM for 2007 2. HL Product Sales (incl. Conduit) <ol style="list-style-type: none"> 1. Home Equity - \$18B 2. Subprime - \$32B 3. Option ARM - \$33B 4. Alt A - \$10B 3. Customer Satisfaction (Total HL) – 55%	<ul style="list-style-type: none"> • \$113MM loss in Q1 • HE Q1 - \$7.559MM • Subprime Q1 - \$2.028MM • Opt Arm Q1 – \$6.273MM • Alt-A Q1 - \$2.883mm • Cust Sat 54% (thru March), up from 53% 2006 baseline. 	12/31/07		2	35%	0.7
RISK MANAGEMENT 25% 1. Fully operationalize risk governance model 2. Build best in class Modeling & Analytics 3. Achieve Basel II Compliance 4. No repeat OTS criticisms 5. Improve Origination Quality	<ul style="list-style-type: none"> • HLRMC participation is 100% • Several key M&A hires to date; several positions yet to fill, but in jeopardy due to budget constraints • Basel II on track • Repeat OTS criticism related to LBM underwriting (reasonableness of stated income) • Unsatisfactory loan file review scores still above target; good engagement with channels to drive improvement; launched Project MESA (management end-to-end self-assessment) 	12/31/07		4	25%	1.0
INNOVATION 10% 1. Develop & introduce "breakthrough" ideas <ol style="list-style-type: none"> 1. Mortgage Plus 2. CDO 3. Rate Reset Strategy 4. Subprime product innovation 5. My Community products 2. Optimize pricing strategy across HL channels and products	<ul style="list-style-type: none"> • Supported deployment of MortgagePlus • Participating in Rate Reset Task Force • 50 yr product and Step Fixed Rate for Subprime in development • Significant progress made on improving channel profit reporting, loan level credit analysis process improved, new rate sheet formats for all prime channels • Good success in simplifying pricing add-on structure 	12/31/07		4	10%	0.4

Permanent Subcommittee on Investigations
EXHIBIT #64

From: Rotella, Steve <steve.rotella@wamu.net>
Sent: Friday, January 4, 2008 3:37 PM
To: Killinger, Kerry K. <u85059132441079@wamu.com>
Subject: RE: comp

I agree 100%. I will be seeing you late Friday, as Marc may have told you. After our last talk, which I appreciated, some time off, and some discussions with Marc, I have a few key items I want to discuss.

I am committed to whatever it takes and like you want to take our best shot and make a recovery occur that we will all be proud of and will prove all the skeptics wrong (not to mention keep Jamie and others away).

As I said, there are some specific items I want to discuss with you that are important to me. I think they are more than reasonable, but need and want your input and thoughts, not to mention other suggestions that would be additive. These items revolve around broadening and strengthening our relationship, which I think has been very good, but can and should move to an even higher level at this crucial time. At the same time I would like to get more insights about the future for me. I think these two things go hand in hand very nicely. I look forward to the talk a quick meeting of the minds. I want nothing more than to lock arms and drive the company with you and win, and to move forward personally at the same time.

I also have a top 10 (or 12) list of our key tasks this year for discussion I would like to get to. What is less clear right now is what that path out of the distressed asset whole we are in will be (bad grammar!), but as you will see, I think the #1 priority is to figure that out and then show the folks what that is. I also agree that once we do that, everyone either gets on or off the boat and move on.

I am more than hopeful and confident that you and I can expand what we have done together thus far and look forward to our talk and then, hopefully, putting it in full throttle.

PS Just got out from under anesthesia an hour ago, so I may not remember this, and hope I didn't make too many errors.

-----Original Message-----

From: Killinger, Kerry K.
Sent: Thu 01/03/2008 10:57 PM
To: Rotella, Steve
Subject: Re: comp
Steve,

I think the keys are as follows:

You and I need to be the champions of the near certainty of a turn around and upside for the stock. We then need to convince Tom, Todd and the other EC members. We ultimately need to tell folks to get on the train or get off. The key dynamic is for you and me to be in sync and to be united in telling the players to join us or leave.

As an aside, our people have gone through a period of shock and are scared. They need leadership and they will follow us if we tell them it will all work out. What they don't need is a lot of analysis of what might go wrong.

The 2008 bonus targets need to be achievable and controllable by our team. The four items mentioned today to you and Tom were the best I could come up with. We should find four measures that we feel good about and will motivate the correct behavior.

In short, success of the comp program is up to you and me. I think we are putting the right economics and opportunities on the table. But we have to convince our folks that they will all make a lot of money by being with WaMu.

Permanent Subcommittee on Investigations

EXHIBIT #65

On this front, it was refreshing to hear the CLO candidate today give his assessment of why he was interested in joining WaMu at this point in the cycle and how much upside he thought we had in our stock. I got the same pitch from the President of Occidental Petroleum who wants to join our board.

Let's keep talking.

Kerry

----- Original Message -----

From: Rotella, Steve

To: Killinger, Kerry K.

Sent: Thu Jan 03 22:17:19 2008

Subject: Re: comp

The feeling people will have about this is tied to the level of pain on the cash bonus side. I think these levels look pretty good on the surface but each person will view them differently based on their sense of their ability to influence the stock price and personal time horizon. Unfortunately more than a few feel our stock price will not easily recover, that it is highly dependent on housing and credit and they can't influence that at all. This will come on the heels of what will be a terrible fourth qtr, and likely very poor results in the first half along with continued bad news in the environment. So we will have some people thinking, "this is nice but I don't see the upside in a time frame that works". Also, as you know folks feel very burned by the way their paper was tied to performance targets that they now see as unrealistic and tied to housing and have a jaundiced view of paper.

That all argues for a path to show folks how we can get the bad stuff off, which will not be easy at all for awhile and I feel, a much bigger opportunity to earn cash next year. People want more certainty right now with some leverage, not a high dose of leverage with low cash. That said, I would love to see everyone get more paper if cash is to be hit hard, but understand there are lots of complications.

Using the numbers below, I do not think [REDACTED] needs to be that high on restricted and would lower her to 500K. Otherwise the rest looks ok on a relative basis.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Killinger, Kerry K.

To: Rotella, Steve

Sent: Thu Jan 03 18:45:17 2008

Subject: comp

Steve,

I could use your input on exec comp. We need to visit with the HR committee next Monday on some preliminary recommendations.

Our current thinking is to recommend that equity grants be in options this year. Probably staying with 10 year options. I wanted to do five year options so we could goose up the number of shares, but the accounting cost for a 5 or 10 year option is too close to make it worthwhile to do five year options. (This might change if accounting comes back with a different answer). We can issue more options than last year because of the lower stock price and the strike price should be attractive. But the value of options is higher than I would like because our stock price volatility has increased. So far, accounting is telling me it will cost us \$5.50 per share in option costs. So \$1.5 million of options would be about 272,000 shares. I will keep working on accounting to get the cost down as much as possible.

In addition to the targeted equity grant which would be done in options, I am considering an additional restricted stock grant which would help a bit on retention and to help offset the low

<p>----- = Redacted by the Permanent Subcommittee on Investigations</p>

bonus for 2007.

Here are some examples which I could use your input on. I took a rough cut based on the TMPs we discussed.

[REDACTED]: \$1.8 million equity target. Issue \$1.8 million of options and \$750,000 of restricted.

[REDACTED]: \$1.5 million target. Issue \$1.5 million of options and \$750,000 of restricted.

[REDACTED]: \$1.5 million target. Issue \$1.5 million of options and \$500,000 of restricted.

[REDACTED]: \$1.5 million target. Issue \$1.5 million of options and \$500,000 of restricted.

[REDACTED]: \$1.5 million target. Issue \$1.5 million of options and \$500,000 of restricted.

Let me know your thoughts on these.

Kerry

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

Steve Frank

From: Killinger, Kerry K. [kerry.killinger@wamu.net]
Sent: Wednesday, July 16, 2008 11:53 AM
To: steve [REDACTED]@ [REDACTED]
Subject: RE: Comp

We would disclose the exclusion of EC members from the bonus plan. There would be no disclosure of the retention cash payments. Option grants would be held off until whenever other comp. actions were done.

This would be good news for EC members other than Steve and Tom who would get nothing at this point.

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

-----Original Message-----

From: steve [REDACTED]@ [REDACTED] com [mailto:steve [REDACTED]@ [REDACTED] com]
Sent: Wednesday, July 16, 2008 11:48 AM
To: Killinger, Kerry K.
Cc: James H Stever
Subject: Re: Comp

Sounds OK to me. What formal disclosures are required? Does this mean you're holding off on option portion of retention?

-----Original Message-----

From: Kerry K Killinger
To: Steve Frank
Sent: Jul 16, 2008 11:44 AM
Subject: Comp

Steve,

Daryl and I are recommending some comp actions and Jim Stever said he is fine if you are okay.

We would like to have the HR committee approve excluding the exec com from the 2008 bonus and to approve the cash retention grants to the non NEOs. This would allow me to respond to questions next week regarding the bonus plan on the analyst call. And it would help calm down some of the EC members.

Let me know your thoughts.

Kerry

Sent via BlackBerry by AT&T

Permanent Subcommittee on Investigations

EXHIBIT #66

From: Melby, Randy <randy.melby@wamu.net>
Sent: Wednesday, March 5, 2008 7:44 PM
To: Chippendale, Bill <william.chippendale@wamu.net>; Timberlake, Bridget <bridget.timberlake@wamu.net>; Dahl-Amundson, Debbie D. <debbie.amundson@wamu.net>; Dunlap, Erin <erin.dunlap@wamu.net>; Thoreson-Rogers, June C. <june.thoreson-rogers@wamu.net>; Snyder, Michele P. <michele.snyer@wamu.net>; Johnson, Robert <robert.johnson.u236246@wamu.net>
Subject: WaMu Board Shields Executives' Bonuses - WSJ Article

FYI

WaMu Board Shields Executives' Bonuses

By VALERIE BAUERLEIN and RUTH SIMON

March 5, 2008; Page A3

The board of Washington Mutual Inc. has set compensation targets for top executives that will exclude some costs tied to mortgage losses and foreclosures when cash bonuses are calculated this year.

The move, approved last week and disclosed in a securities filing late Monday, essentially shields the pay of chairman and chief executive of the thrift, Kerry Killinger, and more than 100 other executives from the continuing mortgage fallout.

Washington Mutual has been hit hard by the housing crisis. The nation's largest thrift by market cap is exposed to some of the worst housing markets in the U.S., where home values are sinking and foreclosures are soaring.

In the fourth quarter, the thrift reported a \$1.87 billion loss fueled by a sharp increase in its reserve for loan-related losses. Loan-loss provisions on mortgages, as well as foreclosure costs, will be left out of the new formulas.

In the filing, the human-resources committee of WaMu's board, which approved the compensation targets, cited the "challenging business environment and the need to evaluate performance across a wide range of factors." The committee said it will "exercise its discretion" to determine the exact amount of the cash bonuses for executives covered by the plan and "subjectively evaluate company performance in credit risk management and other strategic actions."

In a statement late yesterday, WaMu said, "The success with which credit costs are managed will unequivocally continue to be a major part of the Board's final deliberations." The company added that it will include further information on the company's compensation philosophy in its proxy statement later this month.

The new formula angered some WaMu investors, who have seen the value of their holdings shrivel as the thrift's mortgage troubles worsened. In the past year, WaMu's share price has tumbled about 70% -- to where it was about 12 years ago. The shares fell 26 cents, or 1.9%, to \$13.39 in New York Stock Exchange composite trading. "They've cost their shareholders a lot of money," said David Dreman, chairman of Dreman Value Management LLC, which holds 27.9 million WaMu shares. "Bonuses should be given to the executives who enhance shareholder value, not destroy it."

In a research report, Frederick Cannon, an analyst with Keefe, Bruyette & Woods, expressed concern that the cash-bonus formula "could result in executive focus away from issues, particularly credit management, that we feel are critical to the success" of WaMu. Mr. Cannon, who is forecasting a steep loss by WaMu this year largely because of housing woes, called on the company's directors to "revisit the 2008 compensation plan and make managing credit a top priority of senior management with objective rather than subjective measurements."

Permanent Subcommittee on Investigations

EXHIBIT #67

Compensation experts described the structure of the bonus program as unusual. According to the filing, 30% of cash bonuses for WaMu executives will be based on net operating profit, excluding "loan loss provisions other than related to our credit card business" and "expenses related to foreclosed real estate assets," the filing said. Another 25% of cash bonuses will be based on non-interest expense, excluding restructuring costs and "foreclosed real estate assets."

Top WaMu executives had their bonuses slashed last year by more than half. WaMu directors wanted to develop a plan that would not penalize executives for market conditions beyond their control but would also allow discretion to judge individual performance, according to a person familiar with the board's thinking.

Last year, WaMu directors gave more weight to whether the company hit per-share earnings targets. The financial impact of loan-loss reserves and foreclosures wasn't excluded from calculations of cash bonuses. As a result, Mr. Killinger, 58 years old, was eligible for about one-third of his target bonus last year. In January, Mr. Killinger told analysts that he wouldn't accept any 2007 cash bonus because of WaMu's poor results.

Mr. Killinger's total compensation for 2006 was \$14.3 million, including a \$1 million salary. He got a 2006 bonus of about \$4.1 million. His total compensation for last year hasn't been disclosed yet.

Mark M. Reilly, a partner at 3C-Compensation Consulting Consortium in Chicago, said it is more common when making changes for companies to keep an old compensation system in place for the top five or six officers, but to revamp the bonus structure for midlevel executives. John Buckingham, CEO of Al Frank Asset Management Inc. in Laguna Beach, Calif., which holds about 119,000 shares of WaMu according to FactSet Research Systems Inc., said the board was being realistic by trying to show that it still is possible for executives to earn a bonus. "You have to do things to keep them," he said. "It might not be politically correct, because the captain's supposed to go down with the ship. But in the real world, that's not how it works."

Permission to reprint or copy this article or photo, other than personal use, must be obtained from The Seattle Times. Call 206-464-3113 or e-mail resale@seattletimes.com with your request.

WaMu creditors could challenge payments to Killinger, others

By **Melissa Allison**
Seattle Times business reporter

Creditors in Washington Mutual Inc.'s bankruptcy could go after a \$16.5 million cash severance payment promised to ousted CEO Kerry Killinger, experts said.

While federal regulators seized WaMu's banking operations last week and sold most of them to JPMorgan Chase, the WaMu holding company that previously owned the bank filed for bankruptcy protection and now will be scrutinized by creditors with more than \$5 billion in claims.

In trying to get back some of their money, they can challenge payments made to corporate insiders during the year before bankruptcy, several experts said.

That includes Killinger's severance payment and a \$7.5 million signing bonus for his successor, Alan Fishman, who ran the bank for 18 days before it failed.

Fishman's signing bonus would be difficult to reclaim, said J. Scott Bovitz, who practices bankruptcy law in Los Angeles.

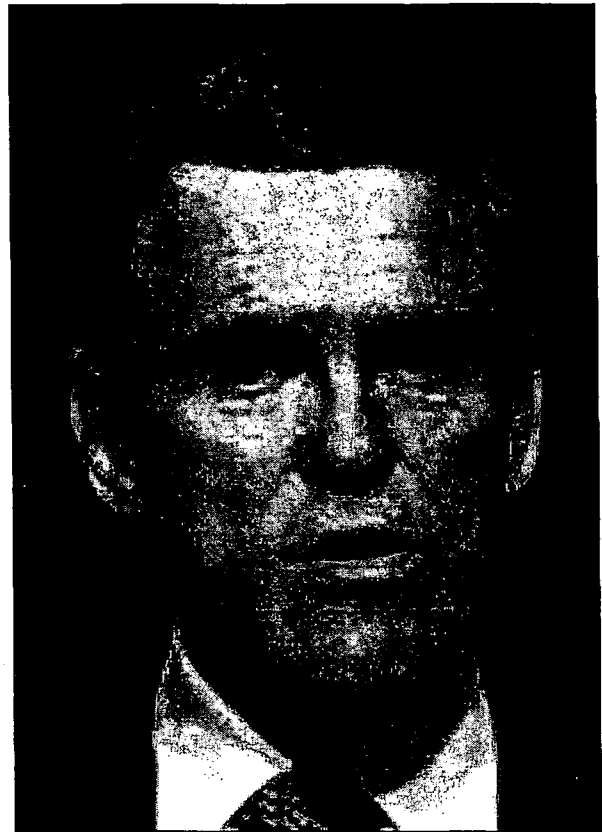
"It's not for 18 days of work; it's for starting out," Bovitz said of the signing bonus, which would have to be considered too rich compared with signing bonuses for other executives with similar backgrounds before a court would reclaim it.

Killinger's severance, however, could be recovered for a number of reasons, including whether he used his best business judgment in running the company.

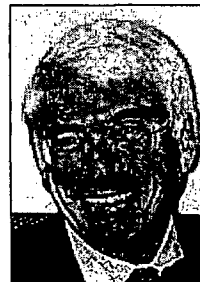
"There's a certainty that a creditors' committee will look into this very carefully, because it's a lot of money going out the door," Bovitz said.

WaMu has not said whether Killinger's severance was paid.

"Most executives get a lump sum, and it's paid immediately, however you want to define that," said David Schmidt



ERIKA SCHULTZ / THE SEATTLE TIMES
Former WaMu CEO Kerry Killinger



Alan Fishman ran WAMU in its last days.

Fast money

Kerry Killinger
Ousted CEO was promised \$16.5 million in severance

Alan Fishman

\$7.5 million bonus was part of his hiring to succeed Killinger

at James F. Reda & Associates, an executive-compensation consulting firm in New York.

It is unclear whether Fishman and other top executives are now employed by JPMorgan or WaMu's holding company. Efforts to reach WaMu executive vice president Stewart Landefeld, who went on leave from the Seattle law firm Perkins Coie to do legal work for WaMu, were unsuccessful.

Depending on where they work, Fishman and other executives who leave could see their employment contracts "including severance" honored by JPMorgan, or put behind secured creditors in bankruptcy court, where their chances are slim.

"If executives have millions of dollars due to them, they're not going to get it," said Harlan Platt, a professor of finance at Northeastern University in Boston.

It is also unknown whether Killinger sold the \$5.1 million in WaMu stock he owned when he was ousted. That stock, like the shares of other stockholders, would now be virtually worthless.

Schmidt cited the example of Dick Fuld, CEO of Lehman Brothers, who was thought to have sold his shares as the investment bank collapsed toward bankruptcy. It turned out that he held onto several million shares until they were worth mere pennies.

"He may have expected it to turn around, and Killinger may have been in that same boat," Schmidt said. "Ultimately what happened, we don't know."

Indeed, questions abound for the bank's new owners in New York and the old company in bankruptcy.

JPMorgan is deciding what to do with WaMu's pension and deferred-compensation plans. It also must decide which WaMu employees, including top executives, it will hire and who will receive severance.

For its part, the holding company does not even know how much it has in assets. In a securities filing on Tuesday, the company said it is trying to figure out the status of its assets, which include \$5 billion in cash that was on deposit at WaMu.

JPMorgan spokesman Tom Kelly had no comment.

Melissa Allison: 206-464-3312 or mallison@seattletimes.com

Copyright © 2008 The Seattle Times Company

(206) 377-2496 (fax)

todd.baker@wamu.net

**Note my contact information is updated as of September 5, 2006. Please update your contact information so we don't lose touch.

-----Original Message-----

From: Killinger, Kerry K.

Sent: Friday, October 12, 2007 3:51 PM

To: Baker, Todd

Subject: Re: Can you take a look at this before Monday and give your blessing?

I don't trust Goldy on this. They are smart, but this is swimming with the sharks. They were shorting mortgages big time while they were giving CfC advice.

I trust Lehman more for something this sensitive. But we would need to assess if they have the smarts we need.

----- Original Message -----

From: Baker, Todd

To: Killinger, Kerry K.

Cc: Casey, Tom; Williams, Robert J.; Rotella, Steve

Sent: Fri Oct 12 15:36:00 2007

Subject: Can you take a look at this before Monday and give your blessing?

Kerry: The Finance team, under Tom, is starting next week to look at structural ideas around large scale credit risk transfer (everything from good bank/bad bank to securitization ideas).

We would like to bring in a top investment banker to help us brainstorm and think these issues through. The idea at this point is to understand what the range of options is and begin to prepare preliminary plans. We want to be in a position to move forward quickly in the event that market conditions shift or something becomes executable.

A key to our success will be absolute confidentiality, so we want to discuss these issues with only one banker only and not let the other firms know anything about our thoughts or process. This will involve disclosing confidential WM information, which will probably require an engagement letter and a fee discussion.

Our strong first choice for this effort would be Goldman Sachs, as John Mahoney is the smartest banker overall, the best at thinking about financial structures, has been through this before, and his firm is the deepest. He also has the advantage of understanding the CFC situation.

If Bill Longbrake is right we could be in for a rough road ahead and hiring the best brains is always wise when the stakes are high. Goldman also has the strong balance sheet, market heft and risk appetite to do many things themselves for us that others couldn't as part of the solution. On the other hand, they are very expensive and we may have trouble getting John's full attention. John himself is very discreet but we always need to worry a little about Goldman because we need them more than they need us and the firm is run by traders. Nevertheless, we recommend going with John on this.

One alternative choice would be Doug Simons at Credit Suisse, as he is incredibly bright and creative, although with less practical experience with credit risk transfer vehicles. He would be very loyal and give us 150% effort. The firm backup would be somewhat weaker but they would view it as a plum assignment. This would be a risk that Doug couldn't deliver but there is also a chance that we could end up with something unique and out of the box that would work.

Lehman would be another alternative choice. The internal dynamics there are better than they were but it is still a problem getting coordination between Phil (who would insist on running things) and the rest of their team. There are some strong people there, Phil has a good

Permanent Subcommittee on Investigations

EXHIBIT #69a

intuitive sense of structuring and he has been through this before. If we could get the right people involved and stay out of their internal squabbles they would do a good job for us. On the downside, the emotional cost of dealing with Phil's needs (which often seem more important than ours) is steep. His loyalty is a plus.

We would not recommend Morgan Stanley, despite the strong relationship, because we believe Kirk/John are less strong around complex deal structures, tax, accounting etc. Oliver at UBS is smart and creative enough, but the team is an unknown.

Unless I hear otherwise from you we'd like to contact John Mahoney at Goldman after our first internal meetings next week to see if they have the capacity for something like this. Can you let me know before Monday if you object?

Todd

Todd H. Baker

Executive Vice President -- Corporate Strategy & Development

Washington Mutual Inc.

1301 Second Avenue, WMC 3301

Seattle, WA 98101

(206) 500-4191 (phone)

(206) 377-2496 (fax)

todd.baker@wamu.net

**Note my contact information is updated as of September 5, 2006. Please update your contact information so we don't lose touch.

From: Morris, Loren
Sent: Wednesday, February 21, 2007 7:34 AM
To: Gasvoda, Kevin
Subject: RE: Request to Talk

x-gs-classification: Internal-GS

Great. I spoke to Doug yesterday and he related we have WAMU's attention. He is looking into the status of the \$6MM requested for repurchase back in October. Then we will discuss a game plan go forward. I expect to hear back by Friday. Is there a senior contact at New Century you would like me to contact? I don't have any contacts. Spoke to Mike Koch of Fremont yesterday. I expect to talk to him again today. I can see I'll have to ride him. Thanks, Loren

-----Original Message-----

From: Gasvoda, Kevin
Sent: Tuesday, February 20, 2007 9:15 PM
To: Morris, Loren
Subject: RE: Request to Talk

Yes, Dave Becker. Sparks can be helpful here. thnx

-----Original Message-----

From: Morris, Loren
Sent: Tuesday, February 20, 2007 8:45 AM
To: Gasvoda, Kevin
Subject: Re: Request to Talk

Also, David mentioned that he would discuss with Doug's boss. I believe his name was David Beckman. I sense, Doug is not empowered, but is now duly directed. I intend to bring home some cash.

----- Original Message -----

From: Gasvoda, Kevin
To: Morris, Loren
Sent: Fri Feb 16 20:06:31 2007
Subject: RE: Request to Talk

Thanks Loren, let's go get 'em.

-----Original Message-----

From: Morris, Loren
Sent: Friday, February 16, 2007 8:04 PM
To: Gasvoda, Kevin
Subject: Re: Request to Talk

My sense from discussion with David is that he is not surprised there are problems and we can start with Doug. He would intercede as required.

----- Original Message -----

From: Gasvoda, Kevin
To: Morris, Loren
Sent: Fri Feb 16 19:19:21 2007
Subject: RE: Request to Talk

PS - the good news on this front is that Doug is reasonable and likes us. Flip side is I didn't think he had the power to "fast track" us really though.

-----Original Message-----

From: Morris, Loren

Permanent Subcommittee on Investigations

EXHIBIT #69b

Sent: Friday, February 16, 2007 2:05 PM
To: 'david.schneider@wamu.net'
Cc: 'doug.potolsky@wamu.net'; Gasvoda, Kevin
Subject: Re: Request to Talk

Thanks David. I hope the powder is good. Enjoy your vacation. Doug, I look forward to working with you. I can best be reached via email and cell phone: 708 218-1978. Thanks, Loren

----- Original Message -----
From: Schneider, David C. <david.schneider@wamu.net>
To: Morris, Loren
Cc: Potolsky, Doug <doug.potolsky@wamu.net>
Sent: Fri Feb 16 13:19:30 2007
Subject: Re: Request to Talk

As we discussed today I think it is best for you to start the conversations with Doug Potolsky. I have copied Doug on this email.

ds

----- Original Message -----
From: Morris, Loren <[REDACTED]@gs.com>
To: Longbrake, Bill A.; Schneider, David C.
Cc: Gasvoda, Kevin <[REDACTED]@gs.com>
Sent: Thu Feb 15 09:18:08 2007
Subject: RE: Request to Talk

Thanks Bill. David, I'm sorry we keep missing each other. Since you're going on vacation tomorrow, your secretary suggested sending an email. Perhaps you can call when you free up. David, as you may know, Goldman and Long Beach/WaMu have had a long standing and successful relationship for years. Among other things, several billion in first liens have been purchased over the past two years as well as approximately \$1.5 billion in second liens. Further, Goldman recently was the lead on one your own securitization shelf, which I understand went well. We value the relationship.

However, we have several 2006 second lien deals in which Long Beach was a major participant. Moreover, Long Beach continues to service a sizeable amount of these loans. These deals are performing dramatically worse than other second lien deals in the market during 2006. As you can imagine, this creates extreme pressure, both economic and reputational, on both organizations. The investors are demanding answers, decisive action and resolution. I've been asked to assist with the resolution of these repurchase issues.

My goal is to work through the issues by engaging the originator at a senior level early in the process. Although we have a small amount of the total potential repurchase claims in your offices, I'd like to avoid a lengthy and laborious debate and engage a senior person in your organization to work with us side by side to short circuit the process. I believe this will serve us both well and lead us to an equitable and early resolution. I will be the primary contact at Goldman and look forward to speaking with you soon. I can best be reached via email or by cell phone at: (708) [REDACTED]. Thanks, Loren

-----Original Message-----
From: Longbrake, Bill A. [mailto:bill.longbrake@wamu.net]
Sent: Wednesday, February 14, 2007 12:52 PM
To: Schneider, David C.
Cc: Morris, Loren
Subject: Request to Talk

David - you may recall Loren Morris from the Housing Policy Council when you were attending on behalf of Citigroup Mortgage. At that time Loren was with HSBC and was HSBC's representative. Both of you have moved on. Loren is now with Goldman Sachs. Goldman Sachs is contemplating becoming a member of the Housing Policy Council.

Loren would like to talk to you directly about Goldman's business with WaMu, specifically

the securitization business Goldman does with Long Beach mortgages. I gave Loren your Seattle office telephone number. He will be calling you. Loren's telephone number is: 212-██████████ cell phone 708-██████████. He is traveling today.

██████████ = Redacted by the Permanent
Subcommittee on Investigations

Subject: (HOLD)Managing Risk Inherent in HFI & HFS Portfolios (Jim Vanasek)

Start: 6/1/2005 12:00 PM
End: 6/1/2005 2:00 PM
Show Time As: Busy

Recurrence: (none)

Tell me tomorrow what this conflicts with and we will resolve ATM

-----Original Message-----

From: Vanasek, James G. <james.vanasek@wamu.net>
To: Meola, Tony T. <tony.meola@wamu.net>; Hillis, Mark R. <mark.hillis@wamu.net>; Mattey, Joseph <joseph.mattey@wamu.net>; Tierney, Ann <ann.tierney@wamu.net>
CC: Rotella, Steve <steve.rotella@wamu.net>; Killinger, Kerry K. <kerry.killinger@wamu.net>; Casey, Tom <tom.casey@wamu.net>
Sent: Tue May 24 09:22:20 2005
Subject: Strategic Planning Meeting

In preparation for the Board Meeting in June, I have scheduled the following 2 hour meetings starting today at 1:30 with Joe and Ann. The next meeting is set for June 1 at 9:00 AM and the following is June 3 at 11:00. The following week we are scheduled for June 6 at 9:00 and June 8 at 1:00 and June 10 at 9:00.

The purpose of all these sessions is to get ourselves prepared for a presentation at the June Strategic Planning Meeting of the Board scheduled for June 20 but, more importantly, to take the work that has been done on Asset Allocation and Portfolio Management as a starting point and begin to apply it to managing the risk inherent in our HFI and HFS portfolios.

We have four key objectives:

1. Systematically remove some of the higher risk/under priced elements of the portfolio either through disposition of the loans or finding a way to wrap the loans with a Fannie or Freddie guarantee. This applies equally to prime and sub-prime assets.
2. Create a game plan for backing away from some of the current industry practices that have now become the focal point of the regulatory agencies and mainstream press. The avalanche of publicity on interest only, home equity, neg am and sub-prime expansion that has occurred in just the last three or four weeks is amazing. The current issue of Fortune with its cover story is a perfect example, not to mention the daily drumbeat in the WSJ and weekly references in Business Week. For example Business Week had a prominent statistic about interest only loans as a percentage of volume having increased from 1.5% to 31% of all mortgage loan volume -if true this is a staggering number, especially combined with the huge increase in non-owner occupied. We must expect a through grilling by the Board with all of these red alerts in the press. Mary Pugh has already registered her concerns as Chair of the Finance Committee.
3. Out of all this discussion we must come up with a better mechanism for making business line and credit decisions. We absolutely must improve upon the process and then, once a decision is made, all get firmly behind whatever conclusions are reached.
4. We must resolve the open credit positions in Home Loans and come to terms with the issues surrounding compensating factors, EDE, BEDE, emerging market loan standards and the overall process by which we communicate with the field. This includes resolving the historical problem around endless appeals to higher authority on out of the box loans.

There is a critical balancing act that must take place here, and it must be done quickly.

When we are further along in the process we will need to bring Keith Johnson and Craig

Permanent Subcommittee on Investigations

EXHIBIT #70

into the discussion to the extent that we need to resolve any sub-prime product issues. Decisions need to be reached with respect to both the HFI and HFS. I am particularly concerned about some of the HFS loans that could easily become very illiquid if the market begins to react to the current spate of Fed warnings, press coverage and regulatory commentary. I am concerned about the regulatory agencies.

While Mark is out this week we will attempt to get the required information together so that we can begin making decisions next week.

I will keep you advised as to our progress. JGV This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. DO NOT disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

Thank you, Jim

From: Schneider, David C. <david.schneider@wamu.net>
Sent: Monday, March 20, 2006 10:16 PM
To: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Subject: Re: Organizational Changes in Enterprise Risk Management

= Redacted by the Permanent
Subcommittee on Investigations

Good plan. Snow is awesome! ds

-----Original Message-----

From: Feltgen, Cheryl A.
To: Schneider, David C.
Sent: Mon Mar 20 19:13:12 2006
Subject: RE: Organizational Changes in Enterprise Risk Management

I think Ron (and Hugh for that matter) is not focused at all on what is going on in appraisal. I am in a very awkward position since I need to make some key decisions and I feel responsible for the people (and by the way, they are in my budget), but they don't report to me. Both Diane Ludlow and Michelle White asked me today to try to do what I could to get appraisal to report to me. Hugh is disengaged on the subject. My plan is to go to Hugh first, see if he cares and then go to Cathcart. It seems very logical to me. I raised it as Ron was finalizing his org announcement. He just didn't want to deal with it. I think his mind has been on other parts of the organization. By the way, [REDACTED] was totally shocked when she heard the news that she was being terminated. Didn't see it coming at all. I think she may have been the only one at WaMu who didn't see it coming.

Hope the skiing is fabulous with all that new snow. . . and hope with all these phone calls, emails and Fed Ex packages, you still find a little time to shut it all out and enjoy yourself.

Cheryl

-----Original Message-----

From: Schneider, David C.
Sent: Monday, March 20, 2006 7:03 PM
To: Feltgen, Cheryl A.
Subject: Re: Organizational Changes in Enterprise Risk Management

I hope the appraisal answer is only short term.

-----Original Message-----

From: Feltgen, Cheryl A.
To: Beck, David; Berens, John; Castro, Rob R.; Feltgen, Cheryl A.; Fortunato, Steve; Giampaolo, Michael J.; Hattemer, Francis S.; Jones, Jeffrey R.; Meola, Tony T.; Pollack, Wayne A.; Roberts, Patricia M.; Robertson, Edward; Schneider, David C.; Stephenson, Richard; Veksler, Angela D.; Zarro, Michael R.
Sent: Sun Mar 19 18:25:19 2006

Subject: FW: Organizational Changes in Enterprise Risk Management

You may have already received a very general announcement regarding the organizational changes that were announced for Enterprise Risk Management last Friday. In case you didn't receive it and to provide some greater clarification about the change, I am forwarding the announcement that Ron Cathcart made to the risk team. An organization chart is attached below.

I think the changes are very positive. Ron Cathcart's vision for the role of the Chief Risk Officer is to be "the voice of Enterprise Risk in the business and the voice of the risks in the business to Enterprise Risk". The organization change should facilitate much better communication than has existed in the past. Ron is dedicated to developing "a more efficient organization with closer alignment to the business". The new structure will be helpful in

Permanent Subcommittee on Investigations

EXHIBIT #71

implementing the changes that will soon be recommended by the Op Ex project that is focused on the various loan review functions including CRO and CQT. Appraisal services will continue to report to Hugh Boyle pending the outcome of our confidential exploration of strategic alternatives for the providing of appraisal services. Thanks for the continued support my team and I have received from all of you during the evolution of the risk organization. Please do not hesitate to contact me with any questions you may have.

Thanks.

Cheryl

From: **Ron Cathcart

Sent: Friday, March 17, 2006 2:02 PM

Subject: Organizational Changes in Enterprise Risk Management

During the ERM all-hands teleconference call a few weeks ago, I introduced my vision for Enterprise Risk Management as a more efficient organization with closer alignment to the business. Effective immediately, I am announcing several organizational changes which will help support this vision.

Alignment to the Business

It is critical that ERM has heightened exposure to all of the risks in each line of business. As a result, the senior risk officers, Mark Hillis, Cheryl Feltgen and Marc Wright will report to me as Chief Risk Officers for their respective business lines. Chaomei Chen, Chief Risk Officer for Card Services, will also report to me. Each will have a double reporting line into their respective lines of business.

Managing WaMu's credit risk and maintaining solid risk oversight is crucial to the ongoing success of Washington Mutual. Hugh Boyle, after serving several months in an acting role, has been named Chief Credit Officer for the enterprise. His role will expand to include the Credit Risk and Corporate Risk Oversight groups and he will report to me. Lorri Evans and Blake Nesmith will now report to Hugh. I want to thank Hugh for admirably stepping up in an acting role over the last couple of months during this transition.

Integrated Compliance Organization

We have opportunities to fully integrate and combine best practices of our Compliance organizations. Richard Lewis, formerly head of Enterprise Risk Management at Card Services, will relocate to Seattle and will manage a combined Compliance organization as Chief Compliance Officer. In this role, Richard will report to me. Susan Allison, Greg Imm, Diane Novak, Carl Rood, Meg Sczyrba, and David Skanderson will report to Richard. As a result of the realignment of the Compliance and Corporate Risk Oversight groups, Melissa Martinez has left WaMu to pursue other opportunities. I want to thank Melissa for her contributions to the company while leading Compliance and Corporate Risk Oversight over the last four years.

Leveraging Market Risk Success in Operational Risk

The disciplined quantitative approach developed in Market Risk can be applied to Operational Risk. Michelle McCarthy has demonstrated exceptional leadership with the Market Risk team. Her responsibilities will expand to include these two groups and she will report to me. Both John Stewart and Vi Johnson will report to Michelle.

With the merger of Market and Operational Risk, Reid Adamson will be leaving WaMu to pursue other opportunities. I want to thank Reid for the solid leadership he brought to both the Internal Audit and Operational Risk teams during his tenure.

Aligning Risk Management Services

In an effort to streamline processes and services across the company, the following groups will be realigned.

* Brian Parker's Fraud team will lead an initiative to develop Enterprise-wide fraud management capabilities for the organization. He will report directly to Mark Hillis and the Retail Bank where our risk exposure is highest. In this role, he will coordinate with segment-level fraud specialists to enhance a firm-wide view of risk.

* Corporate Security will join the corporate property team in CAO under Benson Porter. Barry Himel will report directly to Dave Murphy, where the team will be able to develop a strategic approach to security assets of employees and securities.

* Cyber Investigations and Intelligence will join the TSG organization under Deb Horvath. Wen Tseng will report directly to Dave Cullinane.

* Annie Searle's Enterprise Risk Services will now have a dotted line into Michelle McCarthy and will continue reporting to Deb Horvath.

Creating an Enterprise Risk Group

We will be developing an Enterprise Risk Group to organize and deliver ERM commitments to budgets, projects, board presentations, and other enterprise-wide programs. We will post for the leadership position of this group immediately. In the meantime, Dan Crisp, Thomas Henning, and Robertá Martoza will report directly to me.

Looking Forward

While the changes affect how we support the business structurally, the majority of employees will continue to have the same manager and the same day-to-day responsibilities. Since we are a dynamic organization, each manager has been asked to evaluate their teams to make sure the needs of the business are met.

I ask you to join me in thanking Melissa and Reid for their many contributions to our success over the years. We wish them all the best in their next career endeavors.

Thanks for a great job and your patience while I evaluated the organization. Our business partners and I are confident that these changes will allow us to take Enterprise Risk Management to the next level at WaMu. I look forward to our ongoing success in 2006.

An updated organizational chart is attached for your reference. If you have any questions, please speak with your manager.

--Ron

<<ERM March 2006 Org Chart.pdf>>



MEMORANDUM

DATE: October 3, 2006

TO: Board of Directors Audit Committee of Washington Mutual, Inc.
and Board of Directors Audit Committee of Washington Mutual Bank

FROM: Ron Cathcart, Chief Enterprise Risk Officer

RE: State of ERM: Effectiveness and Resource Adequacy Overview

Action Requested: Review materials to gain perspective on Enterprise Risk Management's effectiveness and resource adequacy in carrying out its mission and responsibilities.

Summary: At the request of the Audit Committee ERM will provide a quarterly update on ERM effectiveness and resource adequacy. An overview of this material will be provided to the Audit Committee on the *State of ERM*.

Key components of this overview include:

- 2006 Hits & Misses
- Functional Risks & Opportunities
- Key Initiatives / Projects
- Summary of 2007 Key Goals & Initiatives
- ERM organizational updates
- ERM financial plan (NIE) overview
- Resource / FTE trends

Permanent Subcommittee on Investigations

EXHIBIT #72



October 17, 2006

Enterprise Risk Management
State of ERM Division Update

Report to Board of Directors Audit Committees of Washington
Mutual, Inc. and Washington Mutual Bank

Ron Cathcart
Chief Enterprise Risk Officer

Confidential/Limited Access

JPM_WM04033648

Enterprise Risk Management Performance Overview

2006 Hits & Misses

Hits

- ERM re-organized to better align with business; establishment of Chief Risk Officers
- Enhanced Risk Governance Structure; formed Enterprise Risk Management Committee (ERMC) and Business Risk Committees
- Significant progress toward Basel II compliance
- Successful cross-functional collaboration on deposit loss initiatives
- Reduction in OTS criticisms
- ERM Accomplishments at Board of Director level:
 - Delivered Credit Risk Strategy & Business Model Improvement
 - Approved Enterprise, Market, and Credit Risk Governance Structure
 - Established ERMC policy and re-aligned Asset Liability Management and Market Risk Committee policies
 - Approved Value at Risk Methodology for Market Valued Businesses
 - Approved Credit and Market Risk Appetite
 - Enhanced Semi-Annual Board Enterprise Risk Reports (metric driven, fwd looking)
 - Streamlined Audit Committee reporting

Misses

- Model Governance and Validation behind schedule
- Commercial Risk Rating Re-design project

Key Initiatives / Projects

- Basel II program
- Electronic Decision Engine (EDE)
- Model Validation Governance
- Risk Governance program – Phase 2 (proposed)
- Credit Technology Roadmap (proposed)

Functional Risks & Opportunities

Risks

- Challenging expense environment
- Remixing capabilities (people, analytical, process, technology) to support new operating model and manage Balance Sheet remix implications

Opportunities

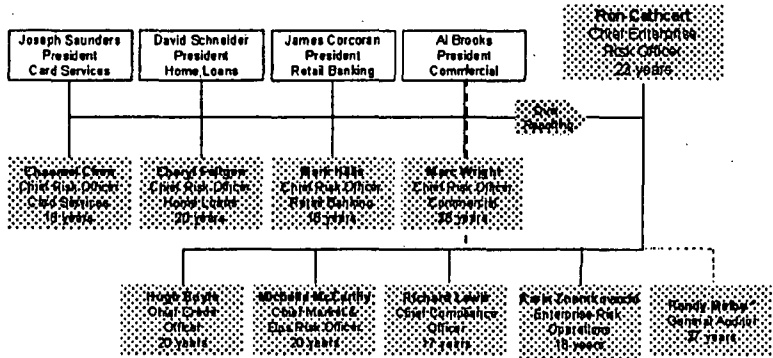
- Leverage Business Process Outsourcing, Workforce Optimization and Operational Excellence to drive further productivity
- Improve Operational Risk Management as Chief Risk Officers build capabilities within the businesses
- Improve risk data and information sharing through governance structure and reporting mechanisms
- Promote increased cross-sell through Electronic Decision Engine utilization
- Strengthen Risk Management integration with strategic and financial planning processes
- Leverage technology enhancement and data governance strategy across Risk

Summary of 2007 Key Goals & Initiatives

- Support business in achieving financial goals
- Further develop WaMu risk appetite and supporting risk limits
- Operationalize risk governance model
- Enhance Basel II risk infrastructure and monitoring
- Ensure effective control and compliance
- Build modeling and metrics-based ERM capabilities
- Elevate and fully integrate role of Chief Risk Officers in lines of business
- Build enterprise fraud mitigation capabilities
- Drive productivity and achieve ERM financial plan
- Increase organizational effectiveness with emphasis on retention and satisfaction

ERM Organization

ERM Organization (2-down View)



Additions Commentary:

- Chief Risk Officers established (Q206)
- Chief Compliance Officer, Richard Lewis (Q106)
- Enterprise Risk Operations, Karin Znamirovski (Q306)

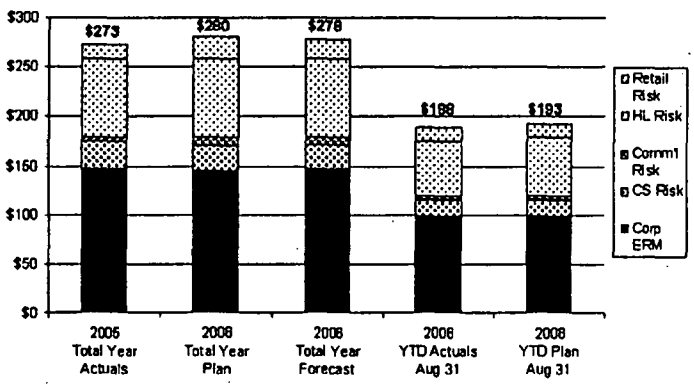
HR Data as of Aug '06**

- Turnover: Voluntary 13.9%
- Turnover: Layoffs 16.1%
- Spans of Control 5.37

**data annualized & includes appraisal

*Reports to Audit Committee directly, to Chief Enterprise Risk Officer administratively

ERM Budget/NIE Walk



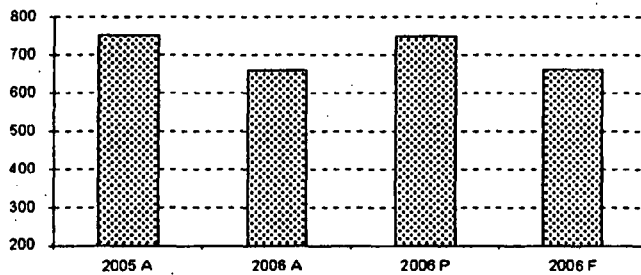
Commentary:

- Continued to establish ERM foundation while realizing 5% productivity gains in 2006 (e.g. Operational Excellence review of file review and quality assurance functions, rationalization of compliance functions and realignment of credit risk functions)
- Outsourced Home Loans appraisal function (~400-FTE)
- Renegotiated Corporate insurance policies (↓\$4M)
- Continue evaluation of centralized vs. decentralized functions
- Implement automated tools to enhance risk mgmt capabilities and drive further efficiencies in 2007

Corporate ERM - FTE Trend

Corporate ERM

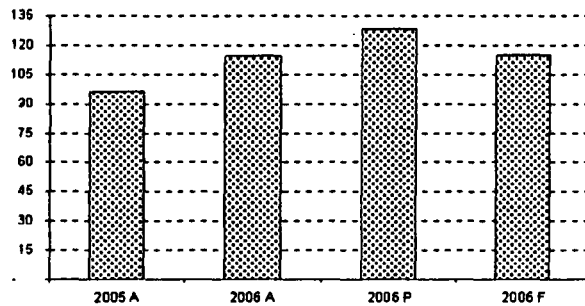
FTE - Corporate ERM



- 2006 reductions primarily driven by migration of Credit Risk oversight and certain analytic functions to business units (~70 FTE)
- Consolidated and rationalized Compliance Risk functions (~20 FTE)
- Plan is for Operational and Market Risk groups to maintain relatively flat staffing levels
- Reevaluate all other open positions and continue to assess centralized vs. decentralized staffing levels

Audit Services

FTE - Audit Services

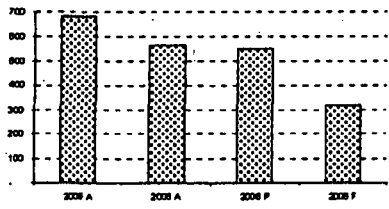


- 2006 increase due to addition of Card Services Audit group
- Future staffing dependent on 2007 Audit Plan and underlying risk assessments

Business Segment Risk – FTE Trend

Home Loans Risk

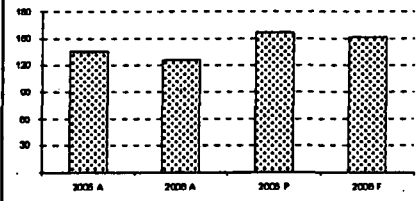
Risk Mgmt FTE - Home Loans



- Decrease in '06 driven by substantially outsourcing Appraisal function
- Additional efficiencies gained by company-wide operational excellence review of quality assurance and file review functions

Retail Risk

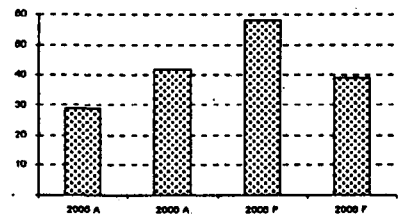
Risk Mgmt FTE - Retail Bank



- Recruiting difficulties experienced in 2006 for required skill sets

Commercial Risk

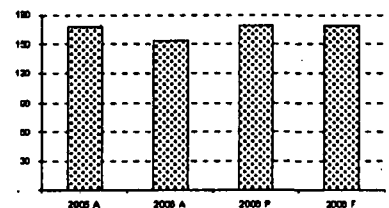
Risk Mgmt FTE - Commercial Group



- Recruiting difficulties experienced in 2006 for required skill sets
- Expansion in key analytics functions required to support business growth

Card Services Risk

Risk Mgmt FTE - Card Services



- Plans are to maintain consistent staffing and resource levels

From: Cathcart, Ron
Sent: Wednesday, January 03, 2007 7:47:08 PM
To: Feltgen, Cheryl A.
Subject: RE: Year-End 2006 Message for the Home Loans Risk Management Team

Great letter.

From: Feltgen, Cheryl A.
Sent: Tuesday, December 26, 2006 3:33 PM
To: Addison, Bruce; Agharokh, Ben; Aguilera, Cindy D.; Aina, Victor; Alfano, Deana C.; Allison, David D.; Atanasov, Atanas D.; Augustyn, Jeff; Avera, Joseph P.; Avera, Tisha V.; Baker, Kelly A.; Baloun, Angela K.; Barker, Christopher; Baughman, Brian D.; Baum, Buddy T.; Baysore, Chris; Beckner, Kathy; Beggs, Amy; Bentivegna, Bethany; Berk-Axelsson, Nancy E.; Bevan, Debbie I.; Beyer, Dean; Biglin, Brian J.; Bilgera, Vanessa L.; Bortz, Cindy; Boutin, Kendra L.; Brand-Foshag, Jennifer S.; Breeding, Diana G.; Brennen, Mollie J.; Brown, Lakasia M.; Bruton, Kerry; Bubb, Barry C.; Buchberger, Steven C.; Bucher, Frank; Buffington, Jared M.; Bull, Sushuma R.; Burkhardt, Greg; Burris, Tyson W.; Cabrera, Patricia A.; Cahill, Michelle M.; Camara, Anna Liza; Campion, Tamela D.; Carlson, CherylLynn; Carmody, Candice; Carmona, Joanne; Cascone, Jeanne J.; Case, Lori K.; Castaneda, Carolina; Chamberlin, Scott A.; Chambers, Joanne; Chaparro, Noemi; Chen, Frederick C.; Chen, Henry C.; Christopher Jr, Bill; Cochran, Judith; Coggins, Janis A.; Collins, Carol; Collins, Sandy J.; Columbus, Steven D.; Coons, Jodi; Copeland, Theresa; Cordi, Maryanne; Crain, Mary L.; Crisher, Deborah A.; Cruz, Pablo; Cumbee, Donna F.; Cummisford, Mark R.; Cursio, Toni K.; Czervionke, Matthew R.; Dagenais, Doris M.; Dahlgren, Ann L.; Daverio, Mariame B.; Davis, Kristie L.; Davis, Terry D.; Dayley, Cindy; Deaver, Deborah J.; Dehart, Cyndi M.; Delara, Kathy J.; DeMartin, Debra L.; Dickmann, Jennifer L.; Dillon, Jim; Dommel, Kelly; Down, Michael C.; Downing, Scott; Duemmel, Shermie F.; Eaton, Bradley; Eggerud, Pearl; Elliott-Jones, Jodi; Ellis, Adam L.; Engelhart, Faith A.; Ennis, Randy; Eriksen, Bjorn; Faulk, Jeanne E.; Feltgen, Cheryl A.; Ferenchik, Robert J.; Fiedler-Hemstead, Casey M.; Finamore, Debbie; Fink, Aaron; Fischer, Dale D.; Fleenor, Wendy; Fong, Susan K.; Foster, Deborah; Friedrich, Scott V.; Gates, Jeff L.; Gentry, Vicki; George, Carole; Gilbert, Glenn R.; Gonseth, Nancy C.; Gordon, Scott A.; Grimsley, Patricia J.; Grout, James W.; Guardalabene, Paul S.; Guevara, Lolita; Gwaltney, Shawn M.; Hacaga, Barrie; Haines, Troy L.; Hamilton, Roxanne; Hanagami, Tina L.; Hanson, Scott P.; Hashimoto, Courtney; Havel, Dan; Hawkins, Gloria; Heck, Judy A.; Hicks, Joy; Hiers, David L.; Hiltner, Debra J.; Hinds, Doug S.; Hobart, MaryJane; Hohrath, Lisa; Holland, Robert J.; Hollman, Christopher W.; Holloway, Sandra H.; Holm, Jo; Horak, Karyn; Horn, Rhonda; Housley, Jodie L.; Huang, Holley; Hufford, Scott; Hunt, Sherry A.; Imperato, Arnold; Ingram, Gary R.; Ivers, Marie T.; Jackson, Julaine M.; Jackson, Teri L.; Jamerson, Sue; Jarnigan, Pam L.; Jimenez, Lisa; Joans, Michelle L.; Johnson, Jacqueline; Johnstone, Brian D.; Jones, Barbara A.; Jones, Inga P.; Jordan, Jack G.; Kalli, Elaine C.; Karp, Alex; Kaspic, Diana J.; Kelley, Sandy L.; Kerosky, Philip A.; Kim, Aeri; Kim, Roger; Kimber-Grant, Carla L.; King, Kellie; Klansky, Rhonda K.; Klinger, Alice M.; Kohler, Jennifer; Kovach, Debra L.; Kover, Wanda J.; Kwong, SuiMei; Laako, Sally L.; Laird, Heather; Lanman, Steven B.; Larkin, Dorothea E.; Lednicki, Greg J.; Lee, Duk; Lee, Mabel; Lee, Richard K.; Lee, Young; Lehmann, Dawn M.; Li, Yajuan; Liman, Yeliana; Lin, Yang; Linden, James P.; Liu, Jing; Liu, Yamei; Luckett, Rhonda S.; Lynch, Sandy; MacLeod, Jennifer; Madsen, Heather J.; Magee, David D.; Main, Robert M.; Major, Tom; Maloy, Thomas S.; Marenkovich, Carla; Marks, Robin; May, Candice; McCoppin, Richard P.; McLeod, Bonnie J.; McWilliams, Carol; Mearite, Laurie T.; Meisner, Mark K.; Meltzer, Shannon E.; Metting, Michele L.; Meyer, Randall S.; Millman, Leslie G.; Mitchell, Robyn M.; Mitchell, Stacy; Montgomery, Susan E.; Mooney, Matthew; Moore, Jan; Mortensen, Ernie; Navarre, Cody; Neeld, Georgett L.; Nelson, Allen C.; Nelson, Kerry K.; Nester, Suzanne; Ng, Michael; Nieting, Gregory J.; Noblin, Dena; Noguera, Eileen G.; Norton, Tait O.; O'Connor, Lumen; O'Dwyer, Rory F.; O'Keefe, Janet M.; Oliver, Robert E.; Olson, Dennis C.; Ong, John S.; Oscarson, Anthony R.; Ota, Mary E.; Oung, Kourandy; Pad, Robert L.; Page, Greg; Panek, Laura M.; Park, Alex; Park, Kwan S.; Parker, Michael; Parris, Shay; Parrish, Nelida C.; Patterson, Linda L.; Perry, James E.; Petersen, Jill C.; Pierce, Amanda; Pirkey, James P.; Pirkey, Lisa F.; Prevost, Donna J.; Prostedny, Jennifer; Pustorino, Peter L.; Quinlan, Laura L.; Ralleta, Jeffrey R.; Remiszewski, Julie; Rijal, Asim; Riley, Linda; Rivera, Laura M.; Roberts, Quinn R.; Roberts, Terrence J.; Rogers, Cory; Rookmaaker, Peggy A.; Ross, Karen A.; Routier-Kane, Kelly S.; Rupcic, Yadranka; Sailors, Tony; Sang, Xiaoyu; Schmuhl, Elizabeth A.; Sellers, Carianne; Shaw, Robert H.; Shepherd, John M.; Sherrod, Carol C.; Shilley, Patricia A.; Smith-McCrainey, Denise; Smith, Carl G.; Smith, Claudia J.; Smith, Robert O.; Snead, Patricia S.; Snyder, Lucy; Solero, Ed; Somers, Kimberly E.; Somoza, Glorivette; Song, Jane; Starnes, Sandra L.; Stewart, Jessica; Stewart, Angela; Stone, Deborah; Strickland, Deb; Stucki, Terry A.; Taylor, Chris; Taylor, Suzanne; Thomas, Carla R.; Thompson, Laquitha D.; Tran, Andrew Q.; Trotter, Douglas; Troutwine, Chad C.; Tscheekar, Rosa-Maria; Tuma, Dave; Turner, Amy S.; Vaa, Jeffrey; Valenzuela, Christina; Visperas, Clemence; Wade, Denny; Waelde, Sean D.; Walter, Sharon S.; Wamsley, Donna L.; Washbond, Christine J.; Wilkins, Joan; Will, Kimberley; Willard, Donna M.; Williams, Joan; Woods, Donna L.; Xue, Ken; Young, Deborah A.; Young, Tammy L.; Yount, Jeff J.; Zelman, Mary V.; Zimmerman, Karen A.

Cc: Schneider, David C.; Cathcart, Ron; Domer, Jake; Soter, Ellen M.; Ganem, Beth; Taylor, James C.; Barrett, Tanya L.; Riveron, Lois L.

Subject: Year-End 2006 Message for the Home Loans Risk Management Team

As we approach the close of the year 2006, it is fitting to reflect on the challenges and accomplishments of this past year and to look forward to 2007 and beyond. Earlier this year, David Schneider and the leadership team of Home Loans articulated a new business strategy that included: (1) a shift to higher margin products (Alt-A, subprime and home equity); (2) reducing market risk particularly the volatility associated with hedging the mortgage servicing rights asset and taking on more credit risk and (3) aggressively attacking the cost structure. We have made great strides as a business on all of those fronts and you have all been a part of those accomplishments. You have partnered successfully with the business units of Home Loans in pursuit of our collective goal to drive profitable growth with the right balance of risk and return. Here are just a few examples of the accomplishments of the Home Loans Risk Management Team in support of the business goals:

Permanent Subcommittee on Investigations

EXHIBIT #73

- An entirely new decision engine (EDE 2.0) was deployed in October with a 15% net increase in auto-approvals (52% to 67% overall auto approval rate). The year 2007 will include the expansion of EDE to home equity and subprime and the integration of pricing into the underwriting decision logic.
- The redesign and rebuilding of the Recourse & Recovery Team in Jacksonville reducing FTE from 42 to 21 while accomplishing outstanding economic results with \$49 million recovered and \$109 million cured defects in 2006.
- Dorado PriceMaster was successfully deployed to support Wholesale pricing. Adjustments to pricing and product rules that used to take weeks or months to be implemented can now be updated daily, real time. Responsibility for pricing in the prime channels moved from Capital markets to production business managers. . . pricing managers were appointed for each channel as the single point of contact for channel-specific pricing strategy and tactics.
- The former corporate Credit Risk Oversight Team and the Home Loans Credit Quality Team were combined eliminating redundancy, saving \$3.4 million annually and creating simplified, more actionable reporting for the business.
- The Home Loans Risk Management Committee was created as part of the new risk governance structure of WaMu placing critical decision-making for many of the risks in the Home Loans business in the hands of the Home Loans leadership team.
- Residential appraisal services were outsourced with a significant annual savings. The outsourcing converts a formerly fixed expense into a variable expense for cost management given market volume fluctuations.
- Our appetite for credit risk was invigorated with the expansion of credit guidelines for various product segments including the 620 to 680 FICO, low doc loans and also for home equity. The approval of the home equity cross sell program resulting in \$766 million in fundings as of November.
- Partnering with the Capital Markets Team to obtain approval for the subprime and home equity conduit investment programs and new ventures including building a collateralized debt obligation ("CDO") business.
- Implementation of several credit policy changes in subprime and creation of a SWAT team to reduce first payment defaults.
- Supporting the leadership of the Mortgage Banker Finance ("MBF") Team on completing key initiatives including the CP conduit providing an opportunity to meet 2006 growth and income goals. In 2006, MBF added approximately 60 new customers and exceeded their 2005 net income despite the challenging external environment.

You should all be very proud of these accomplishments. I would also like to thank our Elite Group winners for their outstanding contributions, working with all of you, toward achieving the goals of Home Loans. Our Elite Group winners are: Dan Havel, Lori Case, Noemi Chaparro, Joanne Carmona, Jeanne Faulk, Courtney Hashimoto, Casey Hemstead, David Hiers, Marie Ivers, Debra Kovach, Jim Linden, Nellie Parrish, Jim Perry and Doug Trotter. Please take a moment to read the attachment for more details on their good work.

The year 2007 will be another challenging year for the mortgage industry with mortgage origination volumes down, the inverted yield curve putting pressure on profitability and gain on sale margins at lower levels than prior years. The focus on the three key elements of our 2006 strategy remain important: shift to higher margin products, reduce market risk and increase credit risk and attack the cost structure. We must continue to find new ways to enhance productivity. . . finding new ways to be more efficient with better results, but. . . more is needed. The world's most successful companies not only efficiently contain their cost structure, but also grow their revenue in profitable ways by completely satisfying their customers' needs. In 2007, we must find new ways to grow our revenue. Home Loans Risk Management has an important role to play in that effort.

David Schneider has encouraged us to "BE BOLD". Embrace the WaMu core values as we work to deliver on our brand promise of "simpler banking and more smiles". Recognize that "we are all in sales" passionately focused on delivering great products and service to our customers. Take responsibility, recapture the innovative WaMu spirit and reach for the stars.

Ron Cathcart has encouraged us to continue to build a much more sophisticated modeling & analytics capability. This will be critical to guide good decisions as we knowingly take on more credit risk to improve our returns. We are off to a good start, but there is much work yet to be done.

I am very proud of what you, the Home Loans Risk Management team, have accomplished. I am full of hope and optimism for what will be achieved in 2007 and beyond. We have built a strong foundation and now we must deliver good financial results. Thank you for your continued commitment. Enjoy the time with your families and friends over the holidays. In 2007, we will continue to build our analytics capabilities, BE BOLD and innovative and . . . reach for the stars!

Cheryl

<< File: Elite Group Winners 2006.doc >>

Ms. Cheryl A. Feltgen
Senior Vice President
Chief Risk Officer, Home Loans Division
WaMu
1301 Second Avenue
WMC4001
Seattle, WA 98101
Phone: 206.500.4952
Fax: 206.377.2391
Email: cheryl.feltgen@wamu.net

From: Cathcart, Ron
Sent: Wednesday, February 20, 2008 12:49:46 AM
To: McMurray, John
CC: Rotella, Steve; Killinger, Kerry K.
Subject: RE: Credit Cost Forecast (Un)reliability

To this list I would add poor underwriting quality which in some cases causes our origination data to be suspect particularly with respect to DTI. Long Beach quality was a chronic problem. Home Equity also had quality issues which Home Loans only began to correct after it took over the product in mid '06. Changes in process also played a part. The use of one rather than two scores in join applications is an example of this. All of these factors cause our data to have less predictive power.

From: McMurray, John
Sent: Tuesday, February 19, 2008 2:10 PM
To: Rotella, Steve
Cc: Cathcart, Ron
Subject: Credit Cost Forecast (Un)reliability

As a follow up to our brief conversation earlier today, here is a brief initial outline to your question as to why credit cost forecasts have been so unreliable.

GENERAL OBSERVATIONS

1. **Concentrations.** We're heavily concentrated in two dimensions that have traditionally been safe. Now, these two dimensions are unusually stressed.

A. Mortgage Loans. Our concentration to residential real estate, especially if we consider (our lack of) credit enhancements, is far greater than any other major institution. Within residential, we tend to be concentrated in the higher risk product types (e.g., Option ARMs, 2nds, Subprime, Low Doc). While residential real estate has historically been less risky than other asset classes, this cycle is markedly and disastrously different.

B. Geography. Our concentration to California and Florida, which approximately half of the HFI portfolio, is greater than other major institutions. While these states have historically been less risky than other geographies, this cycle is markedly and disastrously different.

2. **Environmental Uncertainties.** People are tired of hearing "unprecedented," but the environment is truly and astoundingly unprecedented.

A. Guideline Expansion. Prior to the downturn in home prices, the industry had expanded guidelines and products beyond what had existed in previous cycles. There are no historical data for some of these combinations, particularly in a stressed environment.

B. Home Prices. Home price patterns over the past several years departed substantially from historical norms. Our portfolio tends to be concentrated in those geographies where this departure was most pronounced.

C. Liquidity. The lack of liquidity in the primary and secondary markets is without precedent.

3. **Predisposition to Optimism.** As an institution, we have an understandable predisposition to optimism. This predisposition tends to (at least unconsciously) bound extreme forecasts.

A. Messenger. No one likes to deliver bad news, and the news on the provision has been unrelentingly bad.

B. Consequences. At some point, the tide will turn and the bad news will abate. In the meantime, there are adverse consequences to over predicting.

PROVISION & NCO FORECASTS

4. **Provision Forecasts.** Key reasons that provision forecasts have been unreliable include:

Permanent Subcommittee on Investigations

EXHIBIT #74

A. NCO Effects. Much of our recent provisioning has been simply replacing ALLL that was consumed by high levels of charge-offs. Any spikes and/or volatility in NCOs will immediately be felt in the provision.

B. NCO Forecasts. A crucial element in a provision forecast is an NCO forecast. Business line NCO forecasts, particularly those for residential mortgages, have been inaccurate as the environment turned. See NCO Forecasts below.

C. Structural Changes. The underlying ALLL models are based on empirical data. As a result of structural changes in the environment, these models have been (and will need to be) updated. These updates introduce additional volatility.

5. **NCO Forecasts**. Key reasons that NCO forecasts have been unreliable include:

A. Environment. The environment has been unprecedented in several key dimensions:

Guideline Expansion. Prior to the downturn in home prices, the industry had expanded guidelines and products beyond what had existed in previous cycles. There are no historical data for some of these combinations, particularly in a stressed environment.

Home Prices. Home price patterns over the past several years departed substantially from historical norms. Our portfolio tends to be concentrated in those geographies where this departure was most pronounced.

Liquidity. The lack of liquidity in the primary and secondary markets is without precedent.

B. Infrastructure. As the infrastructure for processing NCOs accelerated from a standstill to warp speed, imperfections have been revealed.

C. Lags. Numerous lags are inherent in the NCO infrastructure and forecast. While these are not a problem in less tumultuous environments, they are problematic in the current environment. More than half of the January mortgage loan NCOs appear to be driven by lag related dynamics.

From: Schneider, David C.
Sent: Friday, February 22, 2008 3:54 PM
To: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Subject: Re: 4pm 10K Audit Committee Meeting

Agree. I wonder if we should explain the rationale for why we accepted low doc. ie - compensating factors and higher returns.
ds

----- Original Message -----

From: Feltgen, Cheryl A.
To: Schneider, David C.
Sent: Fri Feb 22 11:33:14 2008
Subject: Fw: 4pm 10K Audit Committee Meeting

Do want to make the call here? I would suggest using the word "majority" and deleting the word "significantly" to avoid the multiple interpretations of the word and for the point you raised about the performance difference not all being attributable to doc type. I think the point is still adequately conveyed without "significantly". Wanted to get your view before "replying to all". Thanks.

Cheryl

----- Original Message -----

From: McMurray, John
To: Schneider, David C.; Feltgen, Cheryl A.; Haines, Troy L.
Cc: Cathcart, Ron; Landefeld, Stewart M.
Sent: Fri Feb 22 11:13:29 2008
Subject: FW: 4pm 10K Audit Committee Meeting

Here's the exact sentence (see below). Words in CAPITALS are potential additions or deletions. Based on the most recent conversations, I recommend replacing "significant" with "majority" in the beginning of the sentence and potentially moving "significant" to later in the sentence as shown below.

"A MAJORITY of the loans in the Company's residential portfolio were originated using limited documentation of income, net worth or credit history. These limited documentation loans have a [SIGNIFICANTLY] higher risk of default than fully documented loans."

-----Original Message-----

From: McMurray, John
Sent: Friday, February 22, 2008 11:01 AM
To: Schneider, David C.; Haines, Troy L.; Feltgen, Cheryl A.
Subject: RE: 4pm 10K Audit Committee Meeting

Those differences in delinquency seem significant to me, especially considering the requirements for low doc are generally more stringent than full doc. Nonetheless, you are absolutely right that it's hard to isolate underlying causes from rolled up numbers like these. Given what I've observed, we don't really have the data here to a rigorous statistical analysis. That's why I defaulted to what I've observed everywhere else.

IMO, you guys should be making the final call as to whether we keep or delete "significant."

-----Original Message-----

From: Schneider, David C.
Sent: Friday, February 22, 2008 10:39 AM
To: Haines, Troy L.
Cc: Feltgen, Cheryl A.; McMurray, John

Permanent Subcommittee on Investigations

EXHIBIT #75

Subject: RE: 4pm 10K Audit Committee Meeting

Thanks for these #'s. The #'s do show a difference although it is hard to tell if it is all due to doc type. John, how would you suggest we disclose in the 10k? Also, we should be clear about our doc relief and where it was allowed.

ds

-----Original Message-----

From: Haines, Troy L.

Sent: Fri 02/22/2008 10:15 AM

To: Schneider, David C.; Feltgen, Cheryl A.

Cc: Woods, John F.; Shaw, Robert H.; Havel, Dan

Subject: RE: 4pm 10K Audit Committee Meeting

Dan is pulling the numbers from EDE right now and can respond.

I would suggest that the wording in the 10K (higher default risk for low doc) is a reference to the through-the-door population. What we should be looking at is the performance of loans booked with borrower requested doc relief vs those booked with lender granted doc relief.

The performance comparison and balances (as of 1/31/08) are provided below:

Balances (in \$ millions):

Full doc Low Doc

Option Arm 12,836 40,734

Hybrid IO 14,116 29,074

Fixed 2,905 1,907

Total 29,857 71,715

60+ days delq:

Full doc Low Doc

Option Arm 3.63% 4.96%

Hybrid IO 1.01% 1.73%

Fixed 3.26% 4.30%

Total 2.36% 3.63%

Troy

-----Original Message-----

From: Schneider, David C.

Sent: Friday, February 22, 2008 9:28 AM

To: Feltgen, Cheryl A.; Haines, Troy L.

Cc: Woods, John F.; Shaw, Robert H.

Subject: Re: 4pm 10K Audit Committee Meeting

Yes. Can we estimate the #? ds

----- Original Message -----

From: Feltgen, Cheryl A.

To: Schneider, David C.; Haines, Troy L.

Cc: Woods, John F.; Shaw, Robert H.

Sent: Fri Feb 22 07:40:22 2008

Subject: Re: 4pm 10K Audit Committee Meeting

We are now able to track what percentage are doc relief versus borrower requested, but that has not been the case historically so I am not sure we have reliable percentages for everything in HFI. Is that correct, Troy?

David, would you like me to send a note to Tom Casey and the others involved in finalizing the 10-K that we would like to delete the word "significant"? Let me know.

Thanks.

Cheryl

----- Original Message -----

From: Schneider, David C.

To: Feltgen, Cheryl A.; Haines, Troy L.

Cc: Woods, John F.; Shaw, Robert H.

Sent: Fri Feb 22 07:00:47 2008

Subject: Re: 4pm 10K Audit Committee Meeting

I agree "significant" is too strong. Also, what are the actual %'s? How much is doc relief vs borrower requested?

ds

----- Original Message -----

From: Feltgen, Cheryl A.

To: Haines, Troy L.

Cc: Schneider, David C.; Woods, John F.; Shaw, Robert H.

Sent: Fri Feb 22 06:23:02 2008

Subject: Re: 4pm 10K Audit Committee Meeting

Thanks, Troy. I think we should delete the word "significant". While it is true that a majority of the loans on the books are low doc, that is a mixture of borrower requested and lender granted low doc so I think it is misleading to say that all low doc loans have a higher risk of default. David and John, what are your thoughts? Looks like this needs to get resolved as soon as possible today.

Cheryl

----- Original Message -----

From: Haines, Troy L.

To: Feltgen, Cheryl A.

Cc: Schneider, David C.; Woods, John F.

Sent: Thu Feb 21 22:29:19 2008

Subject: 4pm 10K Audit Committee Meeting

Cheryl - I was unable to make the 4 pm meeting due to a small family emergency. However, Bob dialed-in and has provided a brief summary below. It is my understanding that the supporting material we provided was sufficient in showing recent deterioration in low doc performance (relative to full doc) and that the latest language found under the "Loan Products have features that may result in increased credit risk" category was tentatively approved. The specific language includes the following statement:

"A significant percentage of Option Arm loans in the Company's portfolio were originated using limited documentation and have a higher risk of default than fully documented loans."

As you have noted, it is important that language found in the 10K be balanced, accurate, and not provoke emotional reactions from the reader. While the reference to low doc loans having higher default risk is accurate, I do have some reservations using the word "significant".

"Significant" can mean different things to different people and will no doubt trigger a reaction from investors. The last thing we want to do is imply that our entire Option Arm portfolio is low (or no) doc and that it resembles (characteristics and performance of) an Alt-A book...this can't be further from the truth.

I understand that there may still be opportunity to influence and change the wording in this section. Bob has a note out to James to get confirmation on the decisions made today.

Please let me know if you have any questions.

Troy

-----Original Message-----

From: Shaw, Robert H.

Sent: Thursday, February 21, 2008 6:30 PM

To: Feltgen, Cheryl A.; Haines, Troy L.
Subject: RE: WMI 10-K Audit Committee distribution
Cheryl and Troy,

Although the CDC meeting covered several issues unrelated to Home Loans, two issues were discussed:

- 1) The Option ARM low doc language was approved as written. Everyone agreed that Alan could expect questions about our definition of "low doc" (aus-granted relief for income, assets, employment versus borrower-requested low doc), how much low doc Option ARM balances are in portfolio, how much worse is the expected low doc performance relative to full doc.
- 2) Quite a bit of discussion about the NCO process occurred in the context of whether it is a "control deficiency". The agreement was "yes" and that work during Q1 would address that deficiency.

In general, it was difficult to hear all the conversations and understand the final wording of approved changes. I will reach out to James MacKenzie for notes.

Robert H. Shaw

Home Loans Risk Management

WaMu

206-500-1407 (office)

509-[REDACTED] (mobile)

robert.shaw@wamu.net

From: Cathcart, Ron
Sent: Sunday, March 18, 2007 7:17 PM
To: Rossi, Clifford <clifford.rossi@wamu.net>
Subject: FW: Draft Subprime Mortgage Guidance -- Draft WaMu Position

-----Original Message-----

From: Schneider, David C.
Sent: Thursday, March 15, 2007 4:41 PM
To: Cathcart, Ron; Feltgen, Cheryl A.
Cc: Robinson, John
Subject: Re: Draft Subprime Mortgage Guidance -- Draft WaMu Position
Based on Today's conversation, I don't see a need to do anything now. If there is a pr benefit from stopping purchase business we can re-address. We have a mtg tomorrow with pr staff.
ds

----- Original Message -----

From: Cathcart, Ron
To: Feltgen, Cheryl A.
Cc: Robinson, John; Schneider, David C.
Sent: Thu Mar 15 08:35:21 2007
Subject: RE: Draft Subprime Mortgage Guidance -- Draft WaMu Position
Recall we discussed ceasing purchases immediately which did not qualify. We were going to wait re Long Beach.

From: Feltgen, Cheryl A.
Sent: Thursday, March 15, 2007 4:13 AM
To: Cathcart, Ron
Cc: Robinson, John; Schneider, David C.
Subject: RE: Draft Subprime Mortgage Guidance -- Draft WaMu Position
I haven't taken any action to implement. I am waiting for us to reach a consensus internally on exactly what we want to do.
Cheryl

From: Cathcart, Ron
Sent: Wednesday, March 14, 2007 6:28 PM
To: Feltgen, Cheryl A.
Cc: Robinson, John; Schneider, David C.
Subject: RE: Draft Subprime Mortgage Guidance -- Draft WaMu Position
We are saying:

"We are currently revising our qualifying standards for sub prime home purchase mortgage loans to include an analysis of the borrower's ability to repay the debt at a fully indexed rate, assuming a fully amortizing repayment schedule."
Have we taken action to implement?

From: Robinson, John
Sent: Tuesday, March 13, 2007 2:32 PM
To: Schneider, David C.; Cathcart, Ron; Chapman, Fay; Feltgen, Cheryl A.; Longbrake, Bill A.; Gaspard, Scott
Subject: Draft Subprime Mortgage Guidance -- Draft WaMu Position

Permanent Subcommittee on Investigations

EXHIBIT #76

Importance: High

Here's my first cut at a position that I believe reflects the discussion last night. My apologies for adding a couple philosophical quips. I'll paste it below for those reading on Blackberry.

John

(206)500-4149

CONFIDENTIALITY NOTICE: This message (including any attachments) is confidential and may contain sensitive information. Do not disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

PROPOSED STATEMENT ON SUBPRIME MORTGAGE LENDING

WAMU POSITION

March 13, 2006

We commend the agencies for issuing this guidance. It's clear that the subprime mortgage market and some of the players in that market have at least tested the bounds of fair disclosure and prudent underwriting, if not operated outside those bounds. While we welcome the guidance to the banking industry, it's important to note that a large portion of the subprime mortgage market today occurs outside the heavily regulated banking industry. For both the benefit of consumers and for competitive equity purposes, good public policy demands the application of the final standards to the non-bank universe, preferably through the federal regulatory process.

* WaMu fully supports the goal of the agencies in ensuring that consumers are given the right information at the appropriate time in a form that is understandable and that will enable them to understand the risks as well as the benefits and costs of the mortgage products they are considering. We believe this is unarguable.

* We also fully support the goal of the agencies in ensuring that mortgage loans to consumers are made in a prudent fashion that includes an analysis of the borrower's ability to repay the loan according to its terms – at the fully indexed rate and assuming a fully amortizing repayment schedule. The agencies are right to focus the guidance on product structures in the subprime market that have the potential for substantial near-term payment shock, where it is less likely that the consumer's ability to pay will increase during the initial payment term.

* Nevertheless, because borrowers' financial circumstances, needs and preferences vary widely, even in the subprime markets, prudent underwriting needs to account for a variety of factors, not just a point in time estimate of the borrower's debt and income. As a result, it is very important for examiners, in evaluating banks' underwriting, to recognize that a single-minded focus on rule of thumb ratios in analyzing ability to pay is inappropriate and that a bank with significant experience in mortgage lending and good risk management should be granted substantial latitude in its underwriting decisions.

* It is also important to note the risk that this guidance could, if not carefully implemented by examiners in the field, result in an unfortunate, abrupt reversal in the expansion of home ownership to many more Americans that has occurred in the last 15 years. While it's likely that some of those loans should not have been made, many more are sound and have enabled those home owners to begin to build an ownership stake in their neighborhoods and improve their financial health. Since loan underwriting is a matter of probabilities, not certainties, it is important to understand that any change in underwriting standards will affect potential borrowers who will eventually turn out to be good loans as well as those who would turn out to be bad loans. It is crucial to find the right balance.

* Even though we generally support the guidance, we are concerned that it could lead to a denial of credit in the near term for borrowers who are currently in loans that will experience payment shock in the next two or three years, leading to an large and unnecessary increase in foreclosures in this market. We ask the bank regulatory agencies to make clear in the final guidance that banks are encouraged to work with borrowers who may experience difficulty in meeting their payments to restructure or refinance loans to those borrowers to minimize costs to both the borrowers and the lenders.

* WaMu's mortgage loans are already consistent with most of the standards and principles outlined in the proposed guidance and we have tightened our underwriting standards in a variety of ways over the last year.[1] We are currently revising our qualifying standards for subprime home purchase mortgage loans to include an analysis of the borrower's ability to repay the debt at a fully indexed rate, assuming a fully amortizing repayment schedule.

* We will continue to work with existing borrowers to avoid unnecessary foreclosures and provide loans they can repay.

[1] It might be useful for reference purposes to identify examples: including taxes, insurance in qualifying payment; prepayment penalty limits; loans not made solely on collateral value; balloon payments

[1] It might be useful for reference purposes to identify examples: including taxes, insurance in qualifying payment; prepayment penalty limits; loans not made solely on collateral value; balloon payments

From: Cathcart, Ron
Sent: Monday, March 19, 2007 8:46 PM
To: Schneider, David C. <david.schneider@wamu.net>
Cc: Chapman, Fay <fay.chapman@wamu.net>; Rotella, Steve <steve.rotella@wamu.net>; Casey, Tom <tom.casey@wamu.net>; Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Subject: FW: Follow-up information to last evening's call regarding subprime interagency guidance, etc. . . .
Attach: NTM Impact New 20070315 Revised.xls

Clearly a different set of facts, which argues in favor of holding off on implementation until required to act for public relations (CFC announces unexpectedly) or regulatory reasons.

From: Park, Alex
Sent: Monday, March 19, 2007 5:17 PM
To: Feltgen, Cheryl A.; Cathcart, Ron
Cc: Hyde, Arlene M.; Potolsky, Doug; Weisbrod, Jay A.; Sinn, Susan M.; Smith-McCrainey, Denise; Wilson, John; Coultas, Dave; Champney, Steven D.; Wagner, Maynard; Biglin, Brian J.; Sang, Xiaoyu
Subject: FW: Follow-up information to last evening's call regarding subprime interagency guidance, etc. . . .

First of all, my apologies.

The original information I had sent out had error in the analysis. I did not include the volume of loans with $\leq 90\%$ CLTV in the impact calculation. The information Cheryl had sent previously is correct.

The following is the correct info:

- ❖ Based on the info from Xiaoyu Sang, if we implement the Purchase only change for NTM' we'll have around 10% Purchase volume.
 - Most of the drop comes from 95% CLTV change we had already made as this change alone drops Purchase from 24% in Feb 2007 to 12%.
 - The total volume reduction from 95% CLTV change is estimated as 20%.
- ❖ Implementing the NTM change for Purchase only drops additional 2.5% of volume.
 - If we implement the NTM changes to all loans, then we'll see additional drop of 33% of volume.
- ❖ The 95% CLTV change dropped the most loans from Purchase population, but NTM change will drop most loans from Refinance (better performing) population if we apply it to all loans.

Thank you.

Alex

-----Original Message-----

From: Park, Alex
Sent: Thursday, March 15, 2007 9:45 AM
To: Feltgen, Cheryl A.; Cathcart, Ron
Cc: Hyde, Arlene M.; Potolsky, Doug; Weisbrod, Jay A.; Sinn, Susan M.;

Permanent Subcommittee on Investigations

EXHIBIT #77

Smith-McCrainey, Denise; Wilson, John; Coultas, Dave; Champney, Steven D.;
Wagner, Maynard
Subject: Re: Follow-up information to last evening's call regarding
subprime interagency guidance, etc. . . .

Cheryl and Ron:

Based on the info from Xiaoyu Sang, if we implement the Purchase only
change for NTM' we'll have around 11% Purchase volume.

Most of the drop comes from 95% CLTV change we had already made as this
change alone drops Purchase from 24% in Feb 2007 to 12%.

The total volume reduction from 95%
CLTV change is estimated as 20%.

Implementing the NTM change for Purchase only drops additional 0.6% of
volume. If we implement the NTM changes to all loans instead of just
Purchase, we'll have additional 2.3% drop in volume from the total volume
based on Feb 2007. The total NTM changes only add up to 3% due to all the
other credit policies we had changed instead of 32%.

Given this info, I recommend that we consider taking the high road of
fully accepting the NTM guideline. This should certainly place us in a
better position with OTS.

Thank you.

Alex

----- Original Message -----

From: Feltgen, Cheryl A.
To: Park, Alex
Sent: Thu Mar 15 02:53:40 2007
Subject: FW: Follow-up information to last evening's call regarding
subprime interagency guidance, etc. . . .

Can you reply with the response to Ron's question? I don't have the
backup handy. Thanks.

Cheryl

From: Cathcart, Ron
Sent: Wednesday, March 14, 2007 9:51 AM
To: Feltgen, Cheryl A.
Subject: RE: Follow-up information to last evening's call regarding
subprime interagency guidance, etc. . . .

What are the relative projected volumes of purchase/non?

From: Feltgen, Cheryl A.
Sent: Tuesday, March 13, 2007 8:47 PM
To: Schneider, David C.; Cathcart, Ron; Longbrake, Bill A.; Chapman, Fay;
Robinson, John
Subject: Follow-up information to last evening's call regarding subprime
interagency guidance, etc. . . .

Wanted to send to all of you one of the pieces of information that was requested during last evening's call on the "subprime interagency guidance" and related subjects. The question was what portion of our current production of purchase transactions would not qualify if we underwrote at the fully indexed, fully amortizing rate? We looked at the February production and deducted from it the over 95% CLTV transactions to have a representative look at future production (as you all know, we stopped doing greater than 95% CLTV loans last week). If we qualified only the purchase transactions at the fully indexed, fully amortizing rate, 2.5% of volume would be eliminated. If we qualified all transactions at the fully indexed, fully amortizing rate, 33% of volume would be eliminated.

We are working on the gap analysis comparing our current practice to the items cited in the Fremont Cease and Desist Order. We should have that in the next day or so. The analysis to develop a strategy regarding the rate resets will take a few more days beyond that.

Cheryl

Ms. Cheryl A. Feltgen
Senior Vice President
Chief Risk Officer, Home Loans Division
WaMu
1301 Second Avenue
WMC4001
Seattle, WA 98101
Phone: 206.500.4952
Fax: 206.377.2391
Email: cheryl.feltgen@wamu.net

From: Vanasek, James G. <james.vanasek@wamu.net>
Sent: Thursday, March 10, 2005 1:44 PM
To: Killinger, Kerry K. <kerry.killinger@wamu.net>
Subject: RE: Updates

I could not agree more. All the classic signs are there and the likely outcome is probably not great. We would all like to think the air can come out of the balloon slowly but history would not lean you in that direction. Over the next month or so I am going to work hard on what I hope can be a lasting mechanism (legacy) for determining how much risk we can afford to take - just a further extension of the Asset Allocation Project. We have had to divert resources to the ALLL fire drill but that will start to cool down fairly soon. JGV

-----Original Message-----

From: Killinger, Kerry K.
Sent: Thursday, March 10, 2005 10:03 AM
To: Vanasek, James G.
Subject: RE: Updates

Thanks Jim. Overall, it appears we are making some good progress. Hopefully, the Regulators will agree that we are making some progress.

I suspect the toughest thing for us will be to navigate through a period of high home prices, increased competitive conditions for reduced underwriting standards, and our need to grow the balance sheet. I have never seen such a high risk housing market as market after market thinks they are unique and for whatever reason are not likely to experience price declines.

This typically signifies a bubble.

-----Original Message-----

From: Vanasek, James G.
Sent: Thu 03/10/2005 8:29 AM
To: Killinger, Kerry K.; Rotella, Steve
Cc: Casey, Tom
Subject: Updates

There are a number of things that I wanted to bring to your attention:

1. I have decided to delay the ERM report from the April Board meeting until June if we can work it into the schedule which will be focused on the Strategic Plan. There are several reasons for this decision. The first is that we will not have the KPMG input in sufficient time to incorporate their material in the report. Secondly, I am having to work harder with the group to move from a simple inventory of the issues to more quantitative measures. This is not an easy transition for some areas and is just taking longer than expected. I would rather delay and produce a better report that cram something together that is not our best effort.
2. Regulators delivered their Operational Risk Benchmark study and there were no surprises - we are behind. That said, we have made up considerable ground in terms of gaining access to third party data (necessary requirement) and acquiring a system (software) to deal with the myriad tracking issues. We have a full court press on this issue and are adding resources as we can find them. The next step is to get the business units focused on data collection.
3. In terms of the Allowance issues raised last quarter we are making excellent progress. At this point we believe that Sally is comfortable with all the work that is being done. Our plan as of today is to make no significant changes in the approach this quarter. What we will be doing is running parallel using the latest version of the LPRM model (3.1) along with curtailing our loss estimates at 3 years for mortgages. We will also be using an improved method for estimating potential housing price declines and expanding considerably our support

documentation for the unallocated. In the second quarter we would make all of the above changes. The early runs suggest that this will reduce our unallocated to a level more in keeping with the latest accounting guidance. The new LPRM model is checking out very well and Joe Matthey believes is far superior to the older model. We felt it wise to run parallel for several months and bullet proof all of our documentation around the entire process. In the end I do not think it will cause us to change the existing reserve. For this quarter our plan is to provide zero at the FA, however we must provision at Long Beach for whatever amount of product we elect to retain. That number is still bouncing around as is the composition of what is to be retained. Mark Hillis is chasing that down today and tomorrow. In short this entire reserve discussion has been a tempest in a teapot.

4. There has been some noise about the EDE project which once again might be best described as a tempest in a teapot. There were some issues with the small business piece of the project but nothing of consequence. Suffice it to say any project of this type is complex and not everything will take place exactly on the day the project plan contemplated. There is no reason for any alarm about the project or concern about the vendor so if you hear noise about it, I will be happy to address the concerns. The mortgage piece, which is the essential element beyond home equity, is working nicely. When this project is complete later this year, we may be unique in the industry in terms of the efficiency of our scoring system. We will also be doing things with scoring that others have not done.

5. In terms of Compliance, I believe that Melissa's team is doing extremely well. This area will come under heavy scrutiny in the course of the exam, but she has developed very good relationships with the key regulators and the team is executing well.

6. The weekly follow-up process on the Regulatory Findings has made a significant difference and should be made a permanent effort. We have cleaned up a major areas of concern and will have all of the Matters Requiring Attention by the Board completed or near completed for this exam.

My group is working as hard as I can reasonably ask any group to work and in several cases they are stretched to the absolute limit. Any words of support and appreciation would be very helpful to the morale of the group. These folks have stepped up to fixing any number of issues this year, many not at all of their own making. Let me know if you want any more detail on the above. JGV

This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. DO NOT disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

Thank you, Jim

From: Rotella, Steve <steve.rotella@wamu.net>
Sent: Thursday, August 23, 2007 5:57 PM
To: Killinger, Kerry K. <kerry.killinger@wamu.net>
Subject: Re: Looking back

My thumbs have been replaced by prosthetic devices at a local hospital. Now I can go even faster. Think of that sprinter with the artificial limbs!!
On the ots at cfc, dead on. In fact I called Darrell to congratulate him, and butter him up, and he went out of his way to ask me about cfc. After some comments intended to illicit a response, he said and I quote "remember Steve that their assets and business uner the bank means they will be regulated in a far different way than ever before". That breaks my heart.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----

From: Killinger, Kerry K.
To: Rotella, Steve
Sent: Thu Aug 23 13:25:37 2007
Subject: RE: Looking back

Your fingers must be smoking. This message on blackberry must have given blisters to your thumbs.

I was just going over the credit book Cheryl passed out a couple of days ago. There is a lot of great information there. The key page is A-17 where it graphically shows the huge reversal in home price appreciation. Unparallel and under estimated, even by those of us who were negative on housing. If we had known what was going to happen, we would have cut back much more. But we did protect ourselves from a much more severe outcome by shrinking assets and deferring much of the asset growth we had planned.

I agree we are making good progress in building the management team. I would also note that this is the time to cement credit into the culture. WaMu has not faced any serious credit issues since the late 80s. It is very hard to maintain a credit culture without having people experience first hand the pain of losses. This has been easier for commercial banks the past 20 years because they have run into periodic credit problems in their various portfolios. So it is good for us to quickly move on to addressing issues in our portfolios and to have everyone learn from this experience.

I suspect most of us are already more knowledgeable about the credit risks of our business than we were a year ago.

By the way, that great orange skinned prophet from Calabasas was in fine form today on CNBC. He went after the analyst at Merrill, predicted housing would lead us into a recession, said the chance of CFC bankruptcy was no greater than when the stock was at 40 and said "what doesn't kill us will make us stronger". He continues to give the class action lawyers good fodder for their stock drop lawsuits. And by the way, think about how their lives will change with having Darrell Dochow and the OTS crew telling them what to do. With most of the assets at the bank, the OTS will know they have all of the power. Think of those sessions where Darrell lectures to their board and Angelo. The OTS will probably expect them to behave the way we do when they make their pronouncements. If they act differently and in a confrontational manner, I wouldn't be surprised to see the OTS force removal of management. I believe the OTS would do this in a heart beat if they aren't shown respect. Have a good time in Atlanta. Get some ice for your thumbs.

Kerry

Permanent Subcommittee on Investigations

EXHIBIT #79

Confidential Notice: This communication may contain confidential and/or privileged information of Washington Mutual, Inc. and/or its subsidiaries. If you have received this communication in error, please advise the sender by reply email and immediately delete this message and any attachments without copying or disclosing the contents. Thank you.

-----Original Message-----

From: Rotella, Steve

Sent: Thursday, August 23, 2007 12:35 PM

To: Killinger, Kerry K.

Subject: Looking back

I've been thinking about our discussion about credit costs and lessons learned, not as an exercise in blame but to review what may be important to us in avoiding additional issues or a replay in the future. Without being defensive for David or HLs, I also want to address the comments about mortgage banking "thinking" creating some of these issues. I think our HLs folks have made some credit missteps but overall have offset that by multiples by mitigating much larger costs we would be incurring.

-on subprime. I began to express concerns about Long Beach and Mr Chapman mid 2005. The business approach was solely market share driven. You may remember Craig's comments at mbrs around cutting prices and dominating and our frustration at the lack of transparency. As I have said, in hindsight I would have pushed him out sooner. But David was new and we didn't have the capacity to move faster. Plus a few months would have changed little.

With Craig out, we moved LB to HL in first quarter of 2006 and began examining and changing that business while trying to maintain reasonable share. What we found was a business with no financial management (we canned the staff and rebuilt it), manual underwriting, no P&Ls, a wholly inadequate servicing shop, no credit staff and a culture that was totally sales driven. Mid year we canned Keith J and most of his directs.

If you look at current npas, the bulk are from 2005 LB and 2005 SMF followed by 2006 from both. The vast majority of these problem loans were created under the old regime as HL inherited a pipe in 1Q 2006 and started serious tightening around spring of 2006.

In hindsight, we should have gone harder and faster at crushing LB, but that would have been a huge and highly questioned move at a time we were discussing buying other subprime companies and assets (lucky we didn't). And no doubt, the conduit purchases by HL in 2006 were ill advised. Those represent a fairly small part of the portfolio although a poor performer. Again, we were seeking growth at this time and turned back way more deals than we bought. Driving the default shop out of the dark ages of paper collections and other poor practices has been a god send.

I don't think we will stand out in the subprime carnage, which is little comfort. Overall we did move faster and earlier than most to cut and tighten. Without the changes we made and restraint in avoiding companies and assets at seeming good prices, we would be in far worse shape.

The lesson learned here is that when it smells bad, it's likely rotten, so go even faster and deeper to cut it out.

-prime. I said the other day that HLs (the original prime only) was the worst managed business I had seen in my career. (That is, until we got below the hood of Long beach.) Before David arrived, I dove into this business after I took it away from Craig despite his threats to quit (if only). Putting credit aside for a moment, what we have accomplished in building a team, reducing market risk, and getting production into a competitive position while reducing bloated expenses and improving controls is very strong work. Prime, until the markets dried up gas, has been and is probably still profitable.

While the sfr portfolio is showing credit deterioration and will get worse, chargeoffs should be tamped down by age and ltv. Our decisions to dramatically reduce msr and the owned portfolio by a lot, and sell the bulk of recent production has mitigated market and credit risk a great deal. The data shows no particular vintage or channel contributing to NPAs, but rather our concentration in weak housing markets.

I would also note that the credit staff and infrastructure of HL was poor and has had to be rebuilt almost from the ground up. EDE was not working well. Mark Hillis was a part time and ineffective chief credit officer, and most credit authority was held at the center including underwriting and appraisal. Cheryl arrived on the scene around early 2006 and huge strides have been made. But we are still not close to where we need to be and accountability is not clear between center and line.

The big lesson here, which we are all painfully aware of now, is that without a strong credit organization and superb analytics in a bad credit cycle, decisions are too heavily based on what has happened versus what may. I'll come back to this.

I think our sfr performance as measured by chargeoffs, will be better than cfc and if mixed for our California concentration and Option ARM mix, will fare decently relative to the industry. -that takes us to home eq. This business was managed in retail until the fall of 2006 when we moved it to HL. I haven't seen the data yet, but I suspect that the bulk of npas and losses are from retail loans. That is not to say that HL originated loans won't follow a similar pattern. They will, but represent a smaller part of the portfolio.

In moving this to home loans, we found a credit regimen that was fico/score driven with little to no accounting for collateral which is amazing, and because of the limited defaults in a boom market, a default servicing shop that was, sorry to say, laughable. The changes in servicing to build a solid default shop rapidly have been crucial and mitigated risk.

While losses are still largely from retail loans, a key question is did we err in opening home equity up to HLs for cross selling? I would not change that. But we should have been less aggressive in policies and parameters. We carried over retail policies and probably should have given up some volume and share over the last year or so.

I don't know how we will look versus others, but our heavy California lending will skew us versus others.

The lesson here, as above, is that the lack of strong credit staff and analytics contributed to spotty underwriting discipline and a lack of insights into possible policy changes as we moved into HL production.

Without beating a dead horse, Tom and I worried about our stated desire to take on more credit risk and the weak staff and infrastructure in ERM (center and business) if a credit downturn occurred. The time we spent giving Hugh a shot as CCO was a waste of time. I told this to Ron, but understand what he was trying to do. I also continue to feel that Ron has not jumped into the vacuum consistently, rolling up his sleeves as needed. What has been missing for us is that check and balance around credit and proactive credit leadership. Without it we have made many good "instinctual" decisions (sell option arms, sell resids, sell npas, reduce the portfolio) but there was little to no healthy pushback from the "control" function.

More broadly, given our model, as you well know, our ability to grow assets has been and continues to be almost exclusively dependent on real estate assets in markets that are historically more volatile. Despite that, we held subprime flat overall, reduced sfr. by a good chunk maintaining low ltv's, and grew home equity at a pace at or below key competitors. Stating the obvious, we need more tools (read other asset classes and business lines) and more strength outside California to add to our current capabilities.

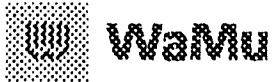
Tactically we sure made some mistakes, but HLs has more often than not shored up and

shaved off risk as we tossed them some hot potatoes in a nasty market. Strategically we could have grown more slowly, shrunk even more and bought back more stock. That might have been the right call over the last 12 months or so, but as you have said, that is not sustainable.

Last comment. There is more to do in HLs but we are positioned to take advantage of this brutal collapse on our terms if we can agree on how and where we want to play. We have a strong team, our expenses are much lower and our infrastructure is improving nicely. MSR's are now a positive (who would have thunk it?). Risk adjusted returns on new assets seem to be very good and competition continues to fall away. On the other hand, what will be evident shortly is the power in mortgages will shift even further to the big banks and to some extent the GSEs. It will put a higher premium on capital and balance sheet. We will be disadvantaged somewhat and need to double down on what we will be willing to hold.

Sorry for the long airplane note. I look forward to discussing this, but more importantly to sharpen our focus on our future success in HLs.

Sent from my BlackBerry Wireless Handheld



July 2008

Home Loans Story

External & Internal Views

David Schneider
President, Home Loans

JPM_WM02443172

Permanent Subcommittee on Investigations
EXHIBIT #80

Three fundamental business shifts occurred in Home Loans this millennium which shaped its performance and position in a volatile, competitive landscape

2001 to 2005

- “Mono-line” business model focused on generating high volumes of low-margin, prime products
- Business goals were largely driven by non-organic market share growth achieved via multiple mortgage acquisitions
- Positioned attempt to take advantage of large refinance cycles
- Specialized (Subprime and Home Equity) SFR lending activities operated independently from Home Loans organization
- Model generated significant levels of earnings volatility with a high cost structure
- Disproportionate earnings driving from MSR versus core business

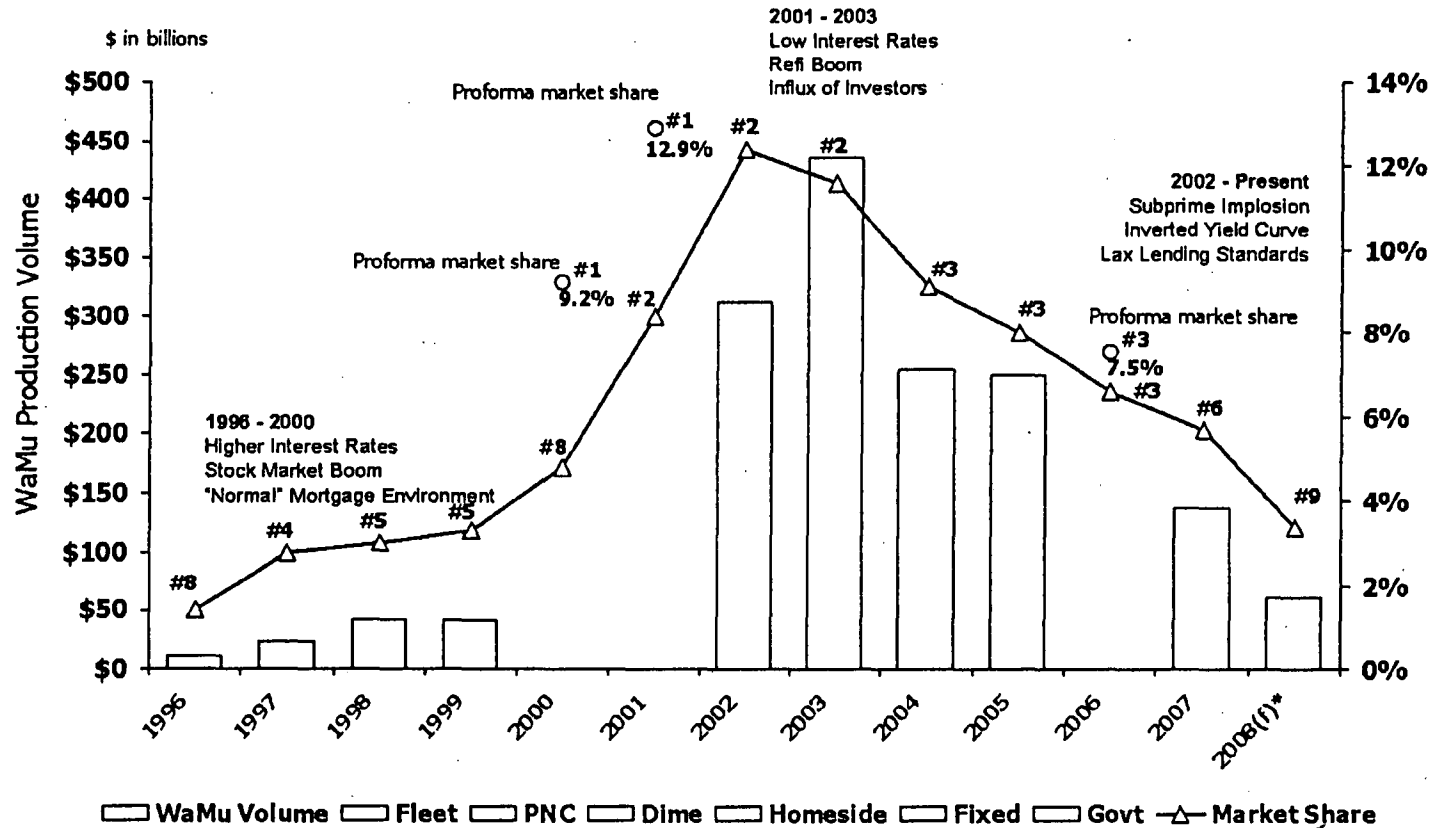
2006

- Targeted production franchise toward higher margin products to become a market leader in specific product segments
- Lowered earnings volatility by reducing exposure to MSR in both absolute and relative levels
- Significant rationalization of the cost structure and integration of previous acquisitions

2007 & Beyond

- Subprime mortgage implosion fuels credit and liquidity crisis and the non-agency secondary market disappears
- Home lenders with access to diversified funding sources and a balance sheet will survive – over 200 fail
- Leadership role taken in industry reaction/reform – credit tightening, broker reform, sub-prime assistance
- Focus shifts away from “exotic” products to agency-centric production which places a premium on efficiency
- Opportunity exists for WaMu to fill a credibility gap (Trusted & Admired)

**Volume and share grew in line with industry in 2002-03 based on acquisitions.
Goal of becoming #1 was not achieved as operational inefficiencies arose
exposing an unsustainable and ultimately uncompetitive business model.**



*2008 figures based on annualized 1H 2008 IMF data



JD Note: This slide intended to display the suboptimal performance of acquisition strategy. Proforma market share line is to show what the combined standalone production of acquired entities was... actual "integrated" post acquisition production tracked lower.

Home Loans strategies varied based on leadership and environment - Growth through acquisition, One-consumer group, Business model rationalization, and Prep for Change were hallmarks of the different eras

	2002-2003	2004	2005	2006	2007	2008E*
President	Craig Davis	Deanna Oppenheimer/ Craig Chapman	Craig Chapman/ Steve Rotella	David Schneider	David Schneider	David Schneider
Acquisitions	DIME/NAMC, HomeSide					
Fulfillment Systems	12	11	11	3	3	1
Sites (HLC, LFC, Serv)	395, 57, 14	425, 58, 9	352, 31, 5	325, 26, 4	333, 23, 2	0, 3, 5
Vocal Scores (% Loyal)	Na	na	788	803	852%	54.5%
Themes & Significant Events	- Acquisitions - Refi Book - Optis Write-off (\$150M) - Pipeline Issue (\$300M)	Gridlock	- Integration Kick-off - Internally Focused	- System Consolidation - Business model shift - Servicing Sale to WFC - Losses on Residuals	- Subprime Meltdown - Secondary market dislocation - Prepare for change	- Continued secondary market dislocation - Decrease in home values and other economic factors driving up delinquencies
Strategy	- Become America's Lending Leader - Chase market share - Power of Yes - MSR risk mgmt	- Consumer Group - Operational Consolidation - Technology optimization	- Shifting strategy due to multiple leadership changes (Chapman - Meola/Bindra) - Request to focus on internal problems	- Shift from low margin to high margin products - Reallocate risk from market to credit - Continue to attack the cost structure	- Innovative, non-commoditized products - Stable earnings growth - Maintain highly efficient low-cost organization	- Shift to conforming product set - Re-size the business to reflect lower industry origination volumes
Strategy Proof Points	- Be everywhere; geographically diverse - Growth at all costs; high fixed cost structure - Balanced channel mix	- Growth stalled due to internal issues arising - High fixed cost structure - Cross-sell focus	- Internally focused; operational execution - Begin to address cost structure - Scalable, repeatable processes; market exit	- RB alignment; LB, HE and MBF integration - Attacked cost structure; variable - Focus on high margin products; Exit Corr; Stop Gov't lending/servicing	- RB alignment - Continue to attack cost structure; Right-sizing - Focus on BLC and Conforming product; Exit subprime lending, MBF; priority to customer retention	- Reduced product set and tighter credit parameters - Exit Wholesale and Traditional Retail stores - Focus on BLC and Consumer-Direct channels
<input type="checkbox"/> Other <input type="checkbox"/> MBR <input type="checkbox"/> Servicing <input type="checkbox"/> MBF / Portfolio <input type="checkbox"/> Capital Markets <input type="checkbox"/> Long Beach <input type="checkbox"/> Production	<p>(2007 Only)</p>					
*2008 figures based on year end estimates						

In an environment of internal and external large-scale change, Home Loans took bold actions to redefine its business into a sustainable model...

Late 2005 to 2006

	<u>2005</u>	<u>Q1 '06</u>	<u>Q2 '06</u>	<u>Q3 '06</u>	<u>Q4 '06</u>
Organization	<ul style="list-style-type: none"> • New Hires: Home Loans President - David Schneider Retail Manager - S. Steln Credit Risk Officer - C. Feltsen • Created accountable sales and operations model • Corporate support centralization model 	<ul style="list-style-type: none"> • New Hires: Wholesale Manager - A. Hyde • Departures: CFO/Capital Markets head - T. Bindra • Organization flattened Servicing and Capital Markets direct reports CFO dotted line report • Long Beach transfer to Home Loans 	<ul style="list-style-type: none"> • Departures: Head of Production - T. Meola Head of Long Beach - K. Johnson • Organization further flattened: Channel heads report directly to Home Loans President 	<ul style="list-style-type: none"> • Home Equity realigned to Home Loans • Enabler structure formed, end of double reporting 	<ul style="list-style-type: none"> • Replacement: CIO - T. Morgan • Prime and Subprime Wholesale combined under one leader • QC /Risk to Home Loans • New Hire: Credit Analytics - T. Haines
Strategy	<ul style="list-style-type: none"> • Prime-based product set • High-performing retail model • Four distribution channels • Consolidation of Consumer Direct and Correspondent 	<ul style="list-style-type: none"> • Planning underway 	<ul style="list-style-type: none"> • New business model High margin products Low volatility Lower cost structure 	<ul style="list-style-type: none"> • Implement new business model 	<ul style="list-style-type: none"> • Decision to sell Option ARM (validating)
Environment	<ul style="list-style-type: none"> • OTS scrutiny on loan file quality 	<ul style="list-style-type: none"> • Reduced mortgage market resulted in excess capacity 	<ul style="list-style-type: none"> • Challenging rate environment and excess capacity 	<ul style="list-style-type: none"> • Continued challenging rate environment 	<ul style="list-style-type: none"> • Subprime market meltdown begins
Actions	<ul style="list-style-type: none"> • Initiated Conduit 	<ul style="list-style-type: none"> • Evaluated SLM for Home Loans • Home Loans Leadership Meetings to develop new business model • Loan modifications implemented 	<ul style="list-style-type: none"> • Exited Correspondent • Ceased Gov't lending • Sold \$140B MSR • Launched BLC Program • Initiated SLM Implementation • Home Equity in Retail 	<ul style="list-style-type: none"> • Appraisal outsourced • FPD and EPD spike uncovered at Long Beach Taskforce established • Begin credit tightening in subprime (See appendix) 	<ul style="list-style-type: none"> • Subprime in Retail and CD initiative
Non Interest Expense	\$678	\$621	\$617	\$528	\$534
Net Income	\$45M (Q4 '05)	\$52M	\$50M	(\$23M)*	(\$124M)**
				*Initial residual writedown from Long Beach	**Additional provision for Long Beach reserve and residual writedowns
# of FTE	17,726	17,653	15,560	13,936	13,025

....internal changes addressing a rapidly changing environment continued - risk management, core operations, and efficiency.

Late 2007 to Present

	Q1 '07	Q2 '07	Q3 '07	Q4 '07	2008
Organization	<ul style="list-style-type: none"> Replacement: Chief Financial Officer – J. Woods 	<ul style="list-style-type: none"> One Wholesale model (Prime and Subprime) New subprime strategy lead announced – J. Domer. 	<ul style="list-style-type: none"> New Hire: Communications Lead – A. Gulick 	<ul style="list-style-type: none"> Right-sized organization to match industry volume (\$1.5T) 	<ul style="list-style-type: none"> Controller: Rolly Jurgens replaces Fergal Stack Production: Arlene Hyde is named single head of all Production. Steve Stain and Jake Domer leave WaMu as orgs are absorbed Chief Risk Officer: Don White replaces Cheryl Feltgen Head HL Legal: Carey Brennan replaces Michaela Albon Communications: Alan Elias replaces Alan Gulick Servicing: Steve Champney leaves WaMu
Strategy	<ul style="list-style-type: none"> Broker segmentation 	<ul style="list-style-type: none"> Subprime Council Implemented (Phoenix) 	<ul style="list-style-type: none"> Aggressive response to subprime market crisis 	<ul style="list-style-type: none"> Expense challenge 	<ul style="list-style-type: none"> Agency-centric product focus Ultra lean operating model Call/Click/Come In model: Retail focused production aligned exclusively with Retail Bank footprint
Environment	<ul style="list-style-type: none"> Number of companies declaring bankruptcy Subprime delinquencies rise credit conditions worsen 	<ul style="list-style-type: none"> Subprime Implosion 	<ul style="list-style-type: none"> Fed begins series of rate cuts Market liquidity gone 	<ul style="list-style-type: none"> Default and foreclosure rates at record high Continued lack of liquidity 	<ul style="list-style-type: none"> Stimulus Package Aggressive Fed actions Market turmoil, large bank failures and fed bailouts Lack of liquidity Housing price declines continue
Actions	<ul style="list-style-type: none"> Launched: Mortgage Plus Enterprise Decision Engine (EDE) 	<ul style="list-style-type: none"> Portfolio transferred to HL \$ZB assistance program SLM in Consumer Direct Option Adjusted Spread model implemented New Multi-pay product launched Began credit tightening in Home Equity and Alt A (See Appendix) 	<ul style="list-style-type: none"> Rate reset campaign (Loan Mod program) Exited: MBF Conduit Subprime Home Equity in Wholesale Implement Bold Broker 	<ul style="list-style-type: none"> Closed broker/dealer Reduced sales locations Grew BLCs Aggressive Home Equity Mgmt program (Credit line decrease) 	<ul style="list-style-type: none"> Single fulfillment platform (SLM) Move to 1 Production channel from 3 Wholesale Channel is exited Standalone Retail channel is exited, leaving only in Retail Bank, telephone sales and online production
NIE	\$521	\$547	\$553	\$2,319	\$1,259
Net Income	(\$114M)*	(\$40M)**	(\$342M)**	(\$1,964M)**	(\$3,429M)*
	<i>*Spike in foreclosures, continued residual writedowns and provisioning. Prime business improves</i>	<i>**Continued residual writedowns and provisioning. Prime business continuing to improve</i>	<i>**\$323m provision for loan losses, Move to portfolio model, take MTM</i>	<i>***Goodwill write-off and provisioning</i>	<i>*increased provisioning</i>
# of FTE	12,947	12,661	12,162	11,323	8,697

Hits and Misses

HITS

- Critical technical and leadership talent acquisitions
- Decisive business model redesigns (Gov't Lending, Correspondent, Wholesale, Subprime and Standalone Retail Exits, MSR sales)
- Single technology platform for Production
- Expense rationalization
- Integration with Retail Bank with formation of the Bank Loan Consultant
- Operating platform & geographic consolidation and integration
- Industry leadership on reform (Subprime, Credit changes, Servicing capabilities, Bold Broker)

MISSES

- Multiple & duplicative large-scale mortgage acquisitions executed concurrently
- Market share and growth focus at the expense of building solid infrastructure and controls
- Cost of ill-conceived POS/LOS technology (Optis) is larger than financial write-off
- Impact of timing on adoption of Option Adjusted Spread model for MSR
- Pace of Subprime production and business exit
- Timing of decision to transition away from Traditional Retail model and incentive structure



WaMu

Appendix

Credit Policy Timeline

ALT-A and Specialty Lending Credit Policy Changes

ALT - A

MARCH

- Restrict 80/20
 - Full Doc only
 - min FICO 680
 - Owner Occupied only
 - No 1st Time Home Buyers

AUGUST

- Eliminate 80/20
- Limited availability to brokers
- Tightened Low Documentation:
 - Minimum FICO 660
 - Max LTV/CLTV 80%
 - Below 680 must have CLTV <= 65%
 - No Investor NINA
 - Min 3 mo reserves for NIV
 - Min 6 mo reserves for NINR

OCTOBER

- Eliminate ALT A in Wholesale Channel
- *Modified Pricing and Parameters reduce production to less than 2% of total as of 10/31*

NOVEMBER - DECEMBER

- **Eliminated Alt A loan programs - all channels**

Specialty Lending

JULY

- Eliminate stated-income and Limited Doc loans
- Eliminate 2/28 and 3/27 products
- Require tax and insurance escrow accounts on all loans
- Minimum credit score of 540
- Max cash out of \$100,000
- Elimination of all "piggyback" 2nd liens
- Max CLTV of 80% for all non owner-occupied transactions
- Max LTV/CLTV of 90% Max Loan Amount of \$1 mil
- Deactivate brokers with FPD rate 10% or more YTD 2007
- WaMu to contact applicant before releasing closing docs

OCTOBER

- Specialty Lending Re-design
 - Channels: Wholesale, Retail, Consumer Direct
 - Products: 15, 30 and 40-year FRMs, 30-year 5/1 LIBOR ARMs
 - All new borrowers and cash out limited to Owner Occupied SFR
 - Max 90% LTV/CLTV. No WaMu provided 2nd's.

DECEMBER

- **Eliminated Sub-Prime originations - All Channels**

Source: Home Loan Risk Management

Home Equity/Mortgage Plus Credit Policy Changes

2007

2008

JAN-APRIL

- Eliminated Custom Score requirement from Stated Income eligibility. Stated Income eligibility determined by FICO, CLTV, Loan Amount (Jan)
- Reduced FICO for UGI Insured Equity program from 700 to 680 (Jan)
- Modified Mortgage Plus parameters to align with 1st mortgage I/O product (March)

MAY

- Max loan/line amount reduced for Home Equity from \$1M to \$750K
- Reduced max CLTV from 90% to 80% for \$500k-\$750K tier (Home Equity)
- Increase minimum FICO from 620 to 700 for lines > \$500k (Home Equity)
- NOO max line amount decreased from \$1M to \$750K (Home Equity)
- Suspended "High Risk" line at 5 days past due

JULY-AUGUST

- Minimum FICO 640
- CLTV > 95% behind eligible GSA/WaMu simultaneous only
- Income verification waived only if LTV/CLTV <= 80%
- 2nd Hm/NOO max CLTV 80%
- NOO limited to \$250k
- Reduce Home Equity product eligibility for Wholesale originations:
 - Restrict loan/line amounts to \$250k
 - Require minimum FICO of 680
 - Limit to 80% CLTV
 - Restrict to full doc
- Mortgage Plus (8/27)
 - Min 3 mo reserves for Low Doc
 - Verbal VOE required
- LTV/CLTV > 65% requires 680
- No FICO score exceptions below 620
- Implemented Soft-Market in FL, CA, AZ, NV

OCTOBER

- Eliminate 2nd Home and Non-Owner Occupied properties for 2nd lien products
 - Eliminate > 90% CLTV for Home Equity products
 - Increase minimum FICO score to 660 for M+ and Home Equity
 - Require 700 FICO for CLTV > 80% on Equity Plus and Home Equity Loan
 - No WaMu Simultaneous 2nd's behind 1st mortgages with Neg Am potential
 - No Stand-Alone 2nd's behind 1st mortgages currently in Neg Am
 - Replace state level Soft Market policy with MSA level and increase C/LTV reduction to 10% for highest risk MSA's.
 - Eliminate Simultaneous 2nd's behind non-WaMu 1st's.

NOVEMBER – DECEMBER

- Eliminate NOO and 2nd Home for M+ and 1st lien E+/HEL
- Require 720+ and 50% LTV for Stated Income on M+
- Max 2nd Lien Equity (E+/HEL) reduced to \$250K
- Max 1st Lien E+/HEL reduced to \$500k and requires 680 min FICO and max 80% LTV
- Introduce combined lien limits to manage aggregate exposure and reduce default severity
- CLTV > 80% requires minimum 740 FICO
- Doc Relief for E+/HEL requires 680 FICO and max CLTV of 80%. SISA capped at \$150k.
- Eliminate Bridge Loan product
- Reduce max Simultaneous Equity (E+/HEL) loan amount to \$100k if behind Jumbo 1st lien.
- Property listed for sale within the last 90 days not eligible for financing
- Executed aggressive involuntary line management program

- Adoption of PreVal model to replace PMI model for determining Soft Markets. Max LTV/CLTV established based on PreVal tier.
- Existing appraisals cannot be used if older than 120 days at application.
- Wholesale Equity program eliminated
- Increase minimum FICO score from 660 to 680
- FULL DOC Required on all HEL and Equity Plus requests (eliminated Doc Relief program)
- Max loan/line amount for 1st lien E+/HEL reduced to \$250K
- Max CLTV reduced from 90% to 80%
- Max CLTV for condo's reduced from 90% to 70%
- Max DTI reduced from 60% to 45%
- No 2nd lien's behind "Reverse" Mortgages
- Underwriter driven appraisal escalation
- Elimination of Card access
- 6 mo seasoning for vesting changes
- Mortgage Plus discontinued

Source: Home Loan Risk Management



WaMu

9

JPM_WM02443181

Home Equity/Mortgage Plus Credit Policy Changes

2007			2008	
<p>JAN-APRIL</p> <ul style="list-style-type: none"> • Eliminated Custom Score requirement from Stated Income eligibility. Stated Income eligibility determined by FICO, CLTV, Loan Amount (Jan) • Reduced FICO for LCI Insured Equity program from 700 to 680 (Jan) • Modified Mortgage Plus parameters to align with 1st mortgage I/O product (March) <p>MAY</p> <ul style="list-style-type: none"> • Max loan/line amount reduced for Home Equity from \$1M to \$750K • Reduced max CLTV from 90% to 80% for \$500K-\$750K tier (Home Equity) • Increase minimum FICO from 620 to 700 for lines > \$500K (Home Equity) • NOO max line amount decreased from \$1M to \$750K (Home Equity) • Suspended "High Risk" line at 5 days past due 	<p>JULY-AUGUST</p> <ul style="list-style-type: none"> • Minimum FICO 640 • CLTV > 95% behind eligible GSA/WaMu simultaneous only • Income verification waived only if LTV/CLTV <= 80% • 2nd Hm/NOO max CLTV 80% • NOO limited to \$250K • Reduce Home Equity product eligibility for Wholesale originations: <ul style="list-style-type: none"> • Restrict loan/line amounts to \$250K • Require minimum FICO of 680 • Limit to 80% CLTV • Mortgage Plus (8/27) <ul style="list-style-type: none"> • Min 3 mo reserves for Low Doc • Verbal VOE required • LTV/CLTV > 65% requires 680 • No FICO score exceptions below 620 • Implemented Soft-Market in FL, CA, AZ, NY 	<p>OCTOBER</p> <ul style="list-style-type: none"> • Eliminate 2nd Home and Non-Owner Occupied properties for 2nd lien products • Eliminate > 90% CLTV for Home Equity products • Increase minimum FICO score to 660 for M+ and Home Equity • Require 700 FICO for CLTV > 80% on Equity Plus and Home Equity Loan • No WaMu Simultaneous 2nd's behind 1st mortgages with Neg Am potential • No Stand-Alone 2nd's behind 1st mortgages currently in Neg Am • Replace state level Soft Market policy with MSA level and increase CLTV reduction to 10% for highest risk MSA's. • Eliminate Simultaneous 2nd's behind non-WaMu 1st's. 	<p>NOVEMBER – DECEMBER</p> <ul style="list-style-type: none"> • Eliminate NOO and 2nd Home for M+ and 1st Lien E+/HEL • Require 720+ and 50% LTV for Stated Income on M+ • Max 2nd Lien Equity (E+/HEL) reduced to \$250K • Max 1st Lien E+/HEL reduced to \$500K and requires 680 min FICO and max 80% LTV • Introduce combined lien limits to manage aggregate exposure and reduce default severity • CLTV > 80% requires minimum 740 FICO • Doc Relief for E+/HEL requires 680 FICO and max CLTV of 80%. SISA capped at \$150K. • Eliminate Bridge Loan product • Reduce max Simultaneous Equity (E+/HEL) loan amount to \$100K if behind Jumbo 1st lien. • Property listed for sale within the last 90 days not eligible for financing • Executed aggressive involuntary line management program 	<ul style="list-style-type: none"> • Adoption of PreVal model to replace PMI model for determining Soft Markets. Max LTV/CLTV established based on PreVal tier. • Existing appraisals cannot be used if older than 120 days at application. • Wholesale Equity program eliminated • Increase minimum FICO score from 660 to 680 • FULL DOC Required on all HEL and Equity Plus requests (eliminated Doc Relief program) • Max loan/line amount for 1st Lien E+/HEL reduced to \$250K • Max CLTV reduced from 90% to 80% • Max CLTV for condo's reduced from 90% to 70% • Max DTI reduced from 60% to 45% • No 2nd lien's behind "Reverse" Mortgages • Underwriter driven appraisal escalation • Elimination of Card access • 6 mo seasoning for vesting changes • Mortgage Plus discontinued

Source: Home Loan Risk Management

Equity started early on due to rising delinquencies in the portfolio.

Started by reducing severities before July by substantially reducing loan/line sizes and

July began looking at credit quality – raising FICO's, recognizing increased role that CLTV plays on performance... reduced CLTV's on higher risk lending

October – address continued deterioration in property values – expand Soft Markets with MSA tool

Dependencies on systems due to high degree of automation in this product.

Nov-Dec : Continued focus on reducing line exposure and begin to make moves to respond to portfolio constraints – redefine product sweet spot.

Prime Credit Policy and Product Changes

2007		2008	
<p>AUGUST-SEPTEMBER</p> <ul style="list-style-type: none"> • No exceptions for borrowers with FICOs below 620 • Reduce non-full doc eligibility: <ul style="list-style-type: none"> • FICOs below 680 require a 65% C/LTV or lower • Eliminate FICOs below 660 • Increased minimum reserves • Max LTV/CLTV 80% • Assets must be verified • 100% CLTV limited to Agency Eligible Affordable Lending and Conf Full Doc FRM or Hybrid Amortizing ARM • Cap maximum C/LTVs: <ul style="list-style-type: none"> • 90% max • Eliminate non-agency 80/20 financing • Reduced Option ARM max loan to \$5 mi • Restrict/cull inactive or poorly performing brokers 	<p>OCTOBER</p> <ul style="list-style-type: none"> • Low Doc requires AUS approval for 1st mortgages • Raise minimum FICO for Option ARM & Multi-Pay to 660 • Reduce Maximum loan amount of Option ARM and Multi-Pay to \$3M • All Loan amounts > \$2M require Full Doc • Require 680 FICO for Non-Owner Occupied property, including Mortgage Plus • Expand Soft Market Policy to include Neg Am feature products and MSA level restrictions • Limit Jumbo Option ARM and Multi-Pay to Purchase only, minimum 680 FICO <ul style="list-style-type: none"> – Wholesale requires Full Doc • Eliminate Lot Loans 	<p>NOVEMBER – DECEMBER</p> <ul style="list-style-type: none"> • Eliminate Foreign Nationals • Eliminate Non-warrantable condos • Eliminate FLEX 5 program • Restrict Advantage 90 to conforming FRM only • No low doc on 2nd homes (non-agency) • No NOO or 2nd Home on Option Arm and Multi-pay • No secondary financing on OA/Multi-Pay • Reduce max OA/Multi-pay to \$1.5M • Restrict max cash out for C/LTV > 65% to \$250K • Low Doc applications require a minimum 720 FICO score and maximum 50% LTV 	<p>JANUARY</p> <ul style="list-style-type: none"> • Existing Soft Market Policy expanded to all products • Adoption of PreVal model to replace PMI model for determining Soft Markets. Max LTV/CLTV established based on PreVal tier • Restrict Wholesale lending in Michigan to owner occupied only • Align conforming I/O parameters to GSE contract parameters • Reduce max LTV for 3-4 unit non-owner occupied Hybrid ARM to 75% • Eliminate Advantage 90 Program* • Cash out lending not permitted on property listed for sale in the last 90 days • Seller contribution limits to be based on CLTV rather than LTV • Manually underwritten agency products limited to 45% DTI. DTI > 45% is an exception • Require Interior Appraisal unless AUS approves lower level of service • Raise minimum FICO for Fixed Rate Jumbo to 680 and lower max loan amount to \$2M • Option ARM discontinued

Source: Home Loan Risk Management

Prime Credit Policy and Product Changes			
2007		2008	
AUGUST-SEPTEMBER <ul style="list-style-type: none"> No exceptions for borrowers with FICOs below 620 Reduce non-full doc eligibility: <ul style="list-style-type: none"> FICOs below 680 require a 65% C/LTV or lower Eliminate FICOs below 660 Increased minimum reserves Max LTV/CLTV 80% Assets must be verified 100% CLTV limited to Agency Eligible Affordable Lending and Conf Full Doc FRM or Hybrid Amortizing ARM Cap maximum C/LTVs: <ul style="list-style-type: none"> 90% max Eliminate non-agency 80/20 financing Reduced Option ARM max loan to \$5 mi Restrict/cull inactive or poorly performing brokers 	OCTOBER <ul style="list-style-type: none"> Low Doc requires AUS approval for 1st mortgages Raise minimum FICO for Option ARM & Multi-Pay to 660 Reduce Maximum loan amount of Option ARM and Multi-Pay to \$3M All Loan amounts > \$2M require Full Doc Require 680 FICO for Non-Owner Occupied property, including Mortgage Plus Expand Soft Market Policy to include Neg Am feature products and MSA level restrictions Limit Jumbo Option ARM and Multi-Pay to Purchase only, minimum 680 FICO <ul style="list-style-type: none"> Wholesale requires Full Doc Eliminate Lot Loans 	NOVEMBER – DECEMBER <ul style="list-style-type: none"> Eliminate Foreign Nationals Eliminate Non-warrantable condos Eliminate FLEX 5 program Restrict Advantage 90 to conforming FRM only No low doc on 2nd homes (non-agency) No NDO or 2nd Home on Option Arm and Multi-pay No secondary financing on OA/Multi-Pay Reduce max OA/Multi-pay to \$1.5M Restrict max cash out for C/LTV > 65% to \$250K Low Doc applications require a minimum 720 FICO score and maximum 50% LTV 	JANUARY <ul style="list-style-type: none"> Existing Soft Market Policy expanded to all products Adoption of PreVal model to replace PMI model for determining Soft Markets. Max LTV/CLTV established based on PreVal tier Restrict Wholesale lending in Michigan to owner occupied only Align conforming I/O parameters to GSE contract parameters Reduce max LTV for 3-4 unit non-owner occupied Hybrid ARM to 75% Eliminate Advantage 90 Program* Cash out lending not permitted on property listed for sale in the last 90 days Seller contribution limits to be based on CLTV rather than LTV Manually underwritten agency products limited to 45% DTI. DTI > 45% is an exception Require Interior Appraisal unless AUS approves lower level of service Raise minimum FICO for Fixed Rate Jumbo to 680 and lower max loan amount to \$2M Option ARM discontinued

Source: Home Loan Risk Management

WaMu

10

Timeline of what changed when.

Early on focus on improving credit quality and beginnings of migration away from stated income lending.

October – heavier reliance on AUS for non-full doc lending, introduction of WM Soft Market policy - evidence became stronger that property values were deteriorating at faster than expected pace.

Nov- Dec – clamp down on Low Doc with 720 FICO and 50% max LTV
Cash out restrictions and focus on minimizing neg am product production.

From: Beck, David <david.beck@wamu.net>
Sent: Monday, February 26, 2007 11:14 AM
To: Murray, William <william.murray@wamu.net>; Chen, Youyi <youyi.chen@wamu.net>; Potolsky, Doug <doug.potolsky@wamu.net>
Subject: FW: Long Beach 2nd Lien Disposition

Thanks for helping me with the communications on this. Inquiring minds want to know.

From: Beck, David
Sent: Monday, February 26, 2007 11:14 AM
To: Rotella, Steve
Cc: Schneider, David C.
Subject: RE: Long Beach 2nd Lien Disposition

I have to work through the accounting on Option Arms and the 2nds this week. We do have a rough verbal from Joe Mattey on the 2nds. The preliminary ALLL reserve is 7%. The Feb forecast has an update for the impact. I originally had a 4% loss on sale in the forecast.

I owe you both a summary of the GAAP impacts now that we have direction on the economics.

There is a flurry of activity this morning regarding accounting and governance needed to affect these actions. I'll keep you posted.

PS David, I just updated Steve by phone on all this plus the NPA and SND deals we have in the market.

From: Rotella, Steve
Sent: Monday, February 26, 2007 10:55 AM
To: Beck, David
Cc: Schneider, David C.
Subject: RE: Long Beach 2nd Lien Disposition

Sounds right to me. Do we have the accounting impacts nailed yet (ALLL etc).

From: Beck, David
Sent: Sunday, February 25, 2007 5:35 PM
To: Beck, David; Schneider, David C.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Feltgen, Cheryl A.; Boyle, Hugh F.; Mattey, Joseph; Fortunato, Steve; Hyde, Arlene M.; Woods, John F.
Cc: Potolsky, Doug; Drastal, John
Subject: RE: Long Beach 2nd Lien Disposition

3rd Update

David and I spoke today. He's instructed me to take actions to move the 2nd lien whole loans to portfolio.

Ron, you will need to sign off on this transfer. A portfolio of 100% second liens requires

Permanent Subcommittee on Investigations
EXHIBIT #81

your approval

This week I'll work to get the necessary governance sign offs in place. Cheryl, please direct me on what form the approval request should take and what committees should review and authorize the request. I can pull all the data.

Thanks in advance for your help.

2nd Update

Here is some important analysis for you to consider.

We estimate that a cum loss range of between 10% and 15% is realistic for this pool. Using the best economics price of 93, an average life of 2 years and 12% cumulative losses (2x our model), the after tax ROA is 222bp. At 15% cum losses, the after tax ROA's are a respectable 132bp. A good use of portfolio capital.

WALA		9mos	9mos	9mos
Avg Life		1.81	2.06	2.38
Bid Price	Cum Loss	Std LB 2nd	10% Slower	20% Slower
		Liens CPR Vectors		
91	10%	342	342	342
91	12%	273	282	289
91	15%	169	191	211
92	10%	309	313	317
92	12%	239	253	265
92	15%	135	162	186
93	10%	274	283	291
93	12%	205	222	238
93	15%	101	132	160

} ROA post tax

According to our ALLL model, the expected lifetime loss for the 433mm pool subprime 2nd

lien pool is 6%. We all agree 6% is too low and we reflect this in our performance analysis above. We'll need to go off model to value these assets properly whether in whole loan or residual form.

We continue to run analysis and work with partners in credit and accounting to understand the best exit strategy for these loans. A meeting with David Schneider and Cheryl Feltgen is planned for Friday.

From: Beck, David

Sent: Wednesday, February 21, 2007 9:52 AM

To: Schneider, David C.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Feltgen, Cheryl A.; Boyle, Hugh F.; Matthey, Joseph; Fortunato, Steve; Hyde, Arlene M.

Cc: Potolsky, Doug; Drastal, John

Subject: Long Beach 2nd Lien Disposition

Importance: High

Please consider this an update with the express purpose of grounding the team on important information and coordinating our actions as we move toward a decision on how best to dispose of 433MM of performing 2nd lien loans in the Long Beach warehouse. David Schneider and I spoke yesterday and he is arranging a meeting for later this week to move us to a final decision on disposition of the 2nd liens.

UPDATE

The performing second lien investor base is in disarray and for all intent and purposes distributing credit bonds backed by subprime 2nd liens is not a viable exit strategy. This conclusion is based on our work over the last several weeks and numerous discussions with rating agencies, credit investors and investment banks. Here are the important facts:

1. Radian proposed a bond insurance wrap structure that insured 89% of the senior bonds. Radian's first dollar of loss begins at 18.5% (after residual, b piece and overcollateralization), equivalent to a single A level of loss protection. In essence, Radian is providing a liquidity bid not loss protection.
2. Lehman Brothers proposed a standard 2nd lien securitization structure (no insurance wrap) but declined to provide us with a price at which they would position the BBB bonds. On a call last night, Lehman indicated they are very long similar product and suggested we pursue other alternatives. (They expressed concerns about 1st lien liquidity)
3. In either of the above structures, WaMu retains the first loss as well as rated securities up to BBB. Thus, we conclude that these transactions effectively do not achieve risk transfer. They amount to financings of the AAA-A cash flows at an unattractive rate of Libor +20 - 25.
4. Our only certain exit is through the Radian wrapped structure. When we factor in the cost of the guarantee, the equivalent economics implies WaMu selling the BBB- bonds at a spread to libor of +1750!
5. Investors are suffering greater than expected losses from subprime in general as well

as subprime 2nd lien transactions. As you know, they are challenging our underwriting representations and warrants. Long Beach was able to securitize 2nds liens once in 2006 in May. We sold the BBB- bonds to investors at Libor +260. To date, that transaction has already experienced 7% foreclosures.

6. Best economics, excluding portfolio, results in 92.9 all in price which includes a 3.5% residual priced to 10% cumulative losses and a 25% discount rate.

Joe Matthey provided us with an ALLL indication earlier in the process when we still believed we could achieve risk transfer at reasonable price. Yesterday, we've asked Joe to sharpen his pencil and rerun the ALLL analysis. Today, we want to compare portfolio execution vs market.

We adjusted the February forecast yesterday down 25mm to reflect market information.

Today, we'll continue to run stress test analysis and work with Joe to understand where the portfolio execution pencils out.



McGregor W. Scott
United States Attorney
Eastern District of California

Sacramento
501 I. Street, Ste 10-100
Sacramento CA 95814
Tel (916) 554-2700
TTY (916) 554-2855

NEWS RELEASE

Fresno
2500 Tulare St., Suite 4401
Fresno, CA 93721
Tel (559) 497-4000
TTY (559) 497-4500

FOR IMMEDIATE RELEASE
December 17, 2007

Contact: Rosemary Shaul (916) 554-2802
<http://www.usdoj.gov/usao/cae>

**LONG BEACH MORTGAGE LOAN COORDINATOR CONVICTED OF LYING
TO GRAND JURY IN CONNECTION WITH MORTGAGE FRAUD
INVESTIGATION**

SACRAMENTO - United States Attorney McGregor W. Scott announced today that JOHN NGO, 27, of Dublin, California, pleaded guilty today before United States District Judge William B. Shubb to lying under oath before a federal Grand Jury in connection with an on-going mortgage fraud investigation.

The case is the product of an extensive investigation by the Federal Bureau of Investigation and Internal Revenue Service-Criminal Investigation. Several other individuals have been indicted in connection with this investigation and those charges remain pending. See *United States v. Iftikhar Ahmad, et al.*, 2:07-CR-0386 WBS.

According to Assistant United States Attorneys Benjamin B. Wagner and Courtney J. Linn, who are prosecuting the case, from approximately September 2001 through May 2006, NGO worked as a Senior Loan Coordinator at Long Beach Mortgage, a subprime lender of residential real property that is now an operational subsidiary of Washington Mutual, F.A. In his capacity as Senior Loan Coordinator, NGO was responsible for, among other things, validating and verifying loan application information (including employment information) submitted by or on behalf of home loan applicants.

Permanent Subcommittee on Investigations

EXHIBIT #82

In September 2007, NGO testified under oath before a Grand Jury investigating a wide-ranging mortgage fraud scheme in the San Joaquin County area. He was asked whether a particular mortgage broker who referred loan applications to Long Beach Mortgage during the time that NGO worked there had given NGO any money. NGO falsely testified that the broker had not given him any money. In fact, records subsequently obtained from Bank of America show that between July 2003 and March 2007, defendant NGO received approximately \$100,000 in checks and bank transfers from accounts controlled by the mortgage broker. NGO admitted that most of the payments he received from the broker were payments made for ensuring that fraudulent loan applications referred to Long Beach Mortgage by the mortgage broker's firm were processed and funded.

As part of his plea, NGO also admitted that he also received payments from certain Long Beach Mortgage sales representatives in order to push loan applications through the funding process. He further admitted that he knew that many of these loan applications were fraudulent, and that he and others took steps to "fix" the loan applications by creating false documents or adding false information to the applications or the loan file. As part of his plea agreement, defendant NGO has agreed to cooperate with the government's ongoing investigation and prosecution of mortgage fraud involving residential home loans in the area of San Joaquin County.

Sentencing is set for April 7, 2008 at 8:30 a.m. before Judge Shubb. The maximum sentence for the offense of conviction is five years imprisonment and a fine of \$250,000. However, the actual sentence will be determined at the discretion of the court after consideration of the Federal Sentencing Guidelines, which take into account a number of variables, and any applicable statutory sentencing factors.

Subprime Lending: A Net Drain on Homeownership



CRL ISSUE PAPER NO. 14

March 27, 2007

About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

Visit our website at www.responsiblelending.org.



North Carolina
302 West Main Street
Durham, NC 27701
Ph (919) 313-8500
Fax (919) 313-8595

District of Columbia
910 17th Street NW
Suite 500
Washington, DC 20006
Ph (202) 349-1850
Fax (202) 289-9009

California
1330 Broadway
Suite 604
Oakland, CA 94612
Ph (510) 379-5500
Fax (510) 893-9300

Permanent Subcommittee on Investigations

EXHIBIT #83

Subprime Lending: A Net Drain on Homeownership

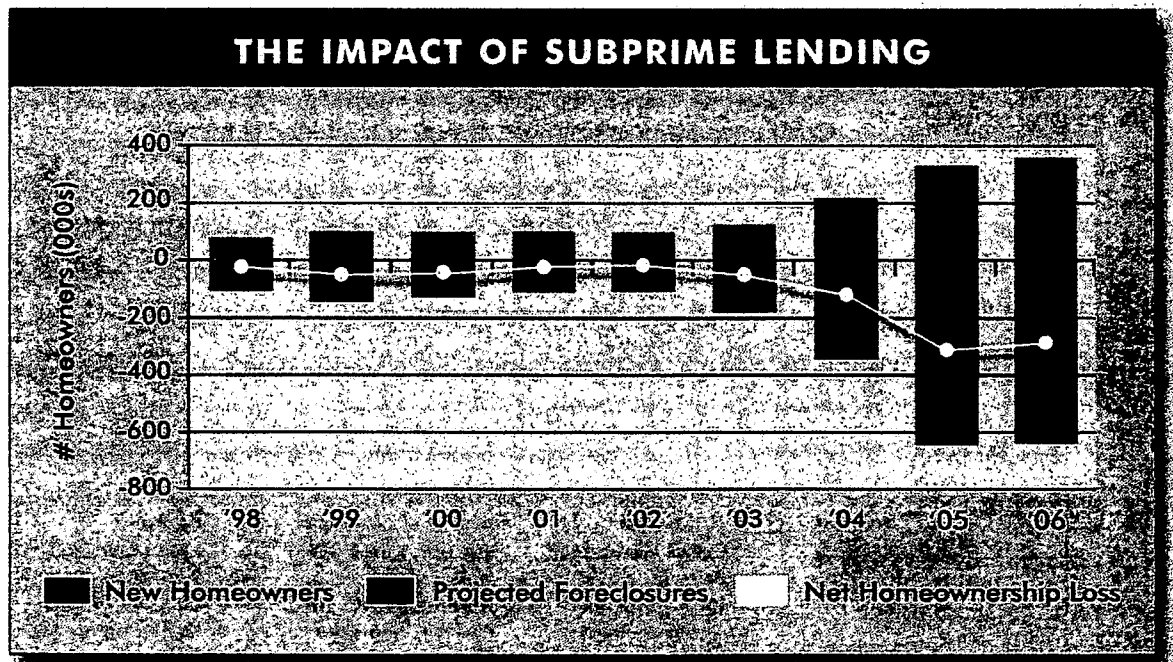
Over the past nine years, the subprime market has produced more than \$2 trillion in home loans, but contrary to industry assertions, these loans have *not* resulted in a net gain in homeownership. Between 1998 and 2006, only about 1.4 million first-time home buyers purchased their homes using subprime loans. In CRL's "Losing Ground" report, we estimated that over 2.2 million borrowers who obtained subprime loans will lose or have already lost their home to foreclosure. Updating the analysis to include subprime originations for fourth quarter 2006

increases the total number of projected subprime foreclosures to 2.4 million.¹

Subprime loans made during 1998-2006 have led or will lead to a net loss of homeownership for almost one million families. In fact, a net homeownership loss occurs in subprime loans made in every one of the past nine years.

The result: Subprime loans made during 1998-2006 have led or will lead to a net loss of homeownership for almost one million families. In fact, a net homeownership loss occurs in subprime loans made in every one of the past nine years.²

History has shown that borrowers with lower incomes or blemished credit can be successful homeowners when given suitable mortgages with reasonable terms and fees. But lax underwriting practices, dangerous loan products, and a disregard for affordability have set up vulnerable homeowners to fail. As a result, millions of families with the most to gain from ownership have lost their homes and billions of dollars in equity.



See Table 2 for data points

The implications of this analysis are even more disturbing given the difficulties of recovering from foreclosure. Research indicates that homeowners who give up homeownership for any reason can take more than a decade to get back in—longer for minorities.¹ Thus, these subprime foreclosures represent a loss of opportunity for wealth-building that can carry forward for many years.

Why a Net Loss?

Basic characteristics of the subprime market explain the net loss in homeownership. First, most subprime loans are not used for buying homes, but for refinancing existing mortgages. Until the recent boom in housing prices, the overwhelming majority of subprime loans were refinances.⁴ Even in 2006, subprime refinance loans accounted for a majority (56%) of all subprime loans originated. These loans, obviously, do not contribute to new homeownership. Additionally, a significant proportion of subprime purchase mortgages are obtained by existing homeowners buying another home, not first-time homebuyers.³ Again, this does not increase homeownership levels. We estimate that overall since 1998, only 9% of subprime loans have gone to first-time homebuyers and hence led to increased homeownership (Table 1).

Second, a sizeable percentage of subprime loans end in foreclosure—a much higher proportion than prime loans. We estimate that 15.6% of all subprime loans originated since 1998 either have ended or will end in foreclosure and the loss of homeownership (Table 2). These statistics include homeowners who bought their homes with prime loans, but have lost or will lose their homes through abusive subprime refinance loans. (Projections aside, we note that a net loss of homeownership has *already* played out for portfolios of

We estimate that overall since 1998, only 9% of subprime loans have gone to first-time homebuyers and hence led to increased homeownership.

TABLE 1: Estimated New Homeownership from Subprime Lending

Year	Total Subprime Loans Originated ⁴	Subprime Loans Used for Home Purchases		Estimated Subprime Loans to First-Time Homebuyers ³ (Homeownership Gain)	
		Number	% of all SP Loans	Number	% of all SP Loans
1998	962,273	293,012	30%	73,253	8%
1999	1,132,280	357,234	31%	89,309	8%
2000	911,369	350,604	38%	87,651	10%
2001	918,557	323,424	35%	80,856	9%
2002	1,046,072	343,530	33%	85,883	8%
2003	1,505,854	483,229	32%	120,807	8%
2004	2,219,547	876,721	40%	219,180	10%
2005	3,259,908	1,297,443	40%	324,361	10%
2006	3,219,749	1,416,690	44%	354,172	11%
TOTAL '98-'06	15,175,609	5,741,887	38%	1,435,472	9%

We estimate that 15.6% of all subprime loans originated since 1998 either have ended or will end in foreclosure and the loss of homeownership.

seasoned subprime loans, which have previously experienced their peak foreclosure activity.)

Comparing the homeownership gain from subprime lending to first-time homebuyers (Table 1) to the loss of homes caused by subprime foreclosures (Table 2), we see a net loss of homeownership from subprime loans made each year since 1998, totaling almost one million families.

TABLE 2: Net Impact on Homeownership from Subprime Lending

Year	Total Subprime Loans Originated ^a	Homeownership Gain: Subprime Loans to First-Time Homebuyers (A)	Homeownership Loss: Projected Subprime Foreclosures ^d		Net Homeownership Gain or (Loss) (A) - (B)
			No. of Foreclosures (B)	Cumulative Foreclosure Rate	
1998	962,273	73,253	94,750	9.8%	(21,497)
1999	1,132,280	89,309	144,567	12.8%	(55,258)
2000	911,369	87,651	133,126	14.6%	(45,475)
2001	918,557	80,856	105,464	11.5%	(24,608)
2002	1,046,072	85,883	102,252	9.8%	(16,369)
2003	1,505,854	120,807	181,464	12.1%	(60,657)
2004	2,219,547	219,180	348,345	15.7%	(129,165)
2005	3,259,908	324,361	632,302	19.4%	(307,941)
2006	3,219,749	354,172	624,631	19.4%	(270,459)
TOTAL '98-'06	15,175,609	1,435,472	2,366,901^e	15.6%	(931,429)

Lost Homeownership for African-Americans and Latinos

Subprime lenders frequently assert that subprime loans have been a boon for African-American and Latino families in particular, but that's not the case: Both populations also experienced a net loss of homeownership due to these loans.

TABLE 3: Impact of 2005 Subprime Lending on Homeownership by Race/Ethnicity

	African-Americans	Latinos	Other Borrowers
2005 Subprime Originations ¹¹	505,286	570,484	2,244,617
Number of Subprime Loans to First-Time Homebuyers (Homeownership Gain)	50,925	72,981	200,455
Projected Foreclosures on 2005 Subprime Loans (Homeownership Loss) ¹²	98,025	110,674	423,723
Net Homeownership Gain or (Loss)	(47,101)	(37,693)	(308,061)

An Urgent Need to Act

Regulators and Congress have hesitated to curb abusive and reckless lending practices, citing a concern that stronger consumer protections might reverse the gains in homeownership. The poor record of subprime loans shows that this fear is misplaced. In fact, states that have passed stronger laws in recent years have reduced targeted practices without reducing access to home loans.¹³ By acting now, policymakers will help ensure that mortgage loans pave the way to sustainable homeownership that truly benefits families and their communities.

Notes

- ¹ All figures in this analysis cover only loans to owner-occupants in the 50 states and the District of Columbia secured by a first-lien on a single-family home, condominium, townhouse, or a unit in a planned development. 1998-2004 figures are derived from a proprietary database of subprime loans sold in the secondary mortgage market between 1998 and 2004. We modified 2005-2006 estimates from *Inside Mortgage Finance* and SMR Research Corporation to account for these criteria.
- ² Our numbers are conservative for two reasons. First, the proprietary database used consists of loans sold on the secondary market, and contains a higher proportion of subprime loans used for home purchase than the overall subprime market. Second, the foreclosure projections were developed by CRL for its recent study *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners* (see full cite in note 8 below), and are based on conservative assumptions. Since that report was published in December 2006, other analyses suggest that foreclosures in the subprime market could actually be higher than CRL's projections. See, e.g., Lehman Brothers projects 30% losses over time for subprime loans originated in 2006 (*Mortgage Finance Industry Overview*, p. 4. Lehman Brothers Equity Research, December 22, 2006). If Lehman Brothers' foreclosure projections for 2006 are incorporated with CRL's projections for prior years, the total number of subprime foreclosures originated 1998-2006 climbs to 2.7 million households.
- ³ Donald R. Haurin and Stuart S. Rosenthal, *The Sustainability of Homeownership: Factors Affecting the Duration of Homeownership and Rental Spells*, p. 43 HUD Office of Policy Development (December, 2004), at <http://www.huduser.org/Publications/pdf/homeown sustainability.pdf>
- ⁴ Data on subprime loans used for home purchase versus refinance were derived from the proprietary database for 1998-2004, and from SMR Research Corp and *Inside Mortgage Finance* for 2005-2006. The specific percentages by year are shown above. Totals may not add to 100% because a small percentage of loans in the database are listed as "other purpose."
- | | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------------|------|------|------|------|------|------|------|------|------|
| % Subprime Refinance | 67.2 | 66.9 | 60.4 | 64.8 | 67.1 | 67.9 | 60.5 | 60.0 | 56.0 |
| % Subprime Purchase | 30.5 | 31.6 | 38.5 | 35.2 | 32.8 | 32.1 | 39.5 | 40.0 | 44.0 |
- ⁵ Douglas Duncan of the Mortgage Bankers Association testified on February 27, 2007 before the U.S. Senate Committee on Banking, Housing, & Urban Affairs that "based on first half 2006 data, nearly half of non-prime borrowers, or 45 percent, utilize nonprime loans to buy homes. One in four of these purchases was by a first-time homebuyer." (See p. 5 at http://banking.senate.gov/_files/duncan.pdf)
- ⁶ See note 1 for information on the source of these numbers.
- ⁷ Our analysis applied the percentage of loans to first-time homebuyers cited by the MBA (25%, see note 5) consistently to subprime purchase loans for all years 1998-2006. We believe this is a conservative approach, as the percentage of first-time homebuyers served in earlier years was probably below this figure.
- ⁸ Ellen Schloemer, Wei Li, Keith Ernst, and Kathleen Keest, *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners*, Center for Responsible Lending at 16 (December 2006), available at www.responsiblelending.org. The statistics for 2006 have been adjusted upward to reflect inclusion of fourth quarter 2006 numbers, which were not included in original report published December 2006.
- ⁹ See *Losing Ground* (note 8), p. 22.
- ¹⁰ CRL's original foreclosure projection of 2.2 million for subprime loans originated from 1998 through 2006 did not include Q4 2006 data. See *Losing Ground* (note 8), p. 22.
- ¹¹ HMDA statistics for the total market are slightly lower than statistics shown in Tables 1 and 2, because not all subprime lenders are required to report under HMDA regulations.
- ¹² Assumes a 19.4% foreclosure rate as calculated for all 2005 subprime originations—see Table 2. This is a conservative estimate, as communities of color receive a disproportionate share of subprime loans, and the clustering of foreclosures in these markets is likely to cause a "feedback loop" that further depresses home values in the market and spurs additional foreclosures.
- ¹³ Wei Li and Keith Ernst, *The Best Value in the Subprime Market: State Predatory Lending Reforms*, Center for Responsible Lending (February 23, 2006), available at www.responsiblelending.org.

EX-4.2 4 exh42.htm

MORTGAGE LOAN PURCHASE AGREEMENT

This is a Mortgage Loan Purchase Agreement (the "Agreement"), dated January 24, 2006, between Long Beach Securities Corp., a Delaware corporation (the "Purchaser") and Long Beach Mortgage Company, a Delaware corporation (the "Seller").

Preliminary Statement

The Seller intends to sell certain mortgage loans and the swap agreement to the Purchaser on the terms and subject to the conditions set forth in this Agreement. The Purchaser intends to deposit the mortgage loans and the swap agreement into a mortgage pool constituting the trust fund. The trust fund will issue fixed rate and adjustable rate asset backed certificates designated as Long Beach Mortgage Loan Trust 2006-1 Asset-Backed Certificates, Series 2006-1 (the "Certificates"). The Certificates will consist of twenty-one classes of certificates. The Certificates will be issued pursuant to a Pooling and Servicing Agreement, dated as of February 1, 2006 (the "Pooling and Servicing Agreement"), among the Purchaser, as depositor, Deutsche Bank National Trust Company, as trustee (the "Trustee") and the Seller, as master servicer (in such capacity, the "Master Servicer"). Capitalized terms used but not defined herein shall have the meanings set forth in the Pooling and Servicing Agreement.

The parties hereto agree as follows:

SECTION 1. Agreement to Purchase.

The Seller agrees to sell, and the Purchaser agrees to purchase, on or before February 7, 2006 (the "Closing Date"), certain fixed-rate and adjustable-rate residential mortgage loans (the "Mortgage Loans") and a swap agreement, dated February 7, 2006 between Washington Mutual Bank and Credit Suisse International (the "Counterparty") as set forth on Schedule A attached hereto (the "Trust Swap Agreement"). The Trust Swap Agreement will be novated to the Seller pursuant to a novation dated as of February 7, 2006, among the Counterparty, WMB and the Seller. The Trust Swap Agreement will be novated to the Purchaser pursuant to a novation dated as of February 7, 2006, among the Counterparty, the Seller and the Purchaser.

SECTION 2. Mortgage Loan Schedule.

The Purchaser and the Seller have agreed upon which of the mortgage loans owned by the Seller are to be purchased by the Purchaser pursuant to this Agreement on the Closing Date and the Seller shall prepare or cause to be prepared on or prior to the Closing Date a final schedule (the "Closing Schedule") that shall describe such Mortgage Loans and set forth all of the Mortgage Loans to be purchased under this Agreement. The Closing Schedule shall conform to the requirements set forth in this Agreement and to the definition of "Mortgage Loan Schedule" under the Pooling and Servicing Agreement. The Closing Schedule shall be the Mortgage Loan Schedule under the Pooling and Servicing Agreement.

Permanent Subcommittee on Investigations

EXHIBIT #84

SECTION 3. Consideration.

In consideration for the Mortgage Loans and the Trust Swap Agreement to be purchased hereunder, the Purchaser shall on the Closing Date, as described in Section 8 hereof, (i) pay to or upon the order of the Seller in immediately available funds an amount (the "Purchase Price") equal to the proceeds of the Class A Certificates and the Mezzanine Certificates, net of the aggregate amount of the underwriting commissions and discounts applicable to such certificates; and (ii) deliver to the Seller or Long Beach Asset Holdings Corp., upon the order of the Seller, the Class C Certificates, the Class P Certificates, the Class R Certificates, the Class R-CX Certificates and the Class R-PX Certificates (the "Long Beach Certificates").

The Purchaser or any assignee, transferee or designee of the Purchaser shall be entitled to (i) all scheduled payments of principal due after February 1, 2006 (the "Cut-off Date"), (ii) all unscheduled collections in respect of the Mortgage Loans received after the Cut-off Date (other than the portion of such collections due on or prior to the Cut-off Date), (iii) all other payments of principal due and collected after the Cut-off Date, and (iv) all payments of interest on the Mortgage Loans due after the Cut-off Date. All scheduled payments of principal and interest due on or before the Cut-off Date and collected after the Cut-off Date shall belong to the Seller.

Pursuant to the Pooling and Servicing Agreement, the Purchaser will transfer, assign, set over and otherwise convey to the Trustee without recourse for the benefit of the Certificateholders, all the right, title and interest of the Purchaser in and to the Mortgage Loans and the Trust Swap Agreement, together with its rights under this Agreement (other than Section 17 hereof).

SECTION 4. Transfer of the Mortgage Loans and the Trust Swap Agreement.

(a) Possession of Mortgage Files. The Seller does hereby sell, transfer, assign, set over and convey to the Purchaser, without recourse, but subject to the terms of this Agreement, all of its right, title and interest in, to and under the Mortgage Loans and the Trust Swap Agreement. The contents of each Mortgage File related to a Mortgage Loan not delivered to the Purchaser or to any assignee, transferee or designee of the Purchaser on or prior to the Closing Date are and shall be held in trust by the Seller for the benefit of the Purchaser or any assignee, transferee or designee of the Purchaser and promptly transferred to the Trustee. Upon the sale of the Mortgage Loans, the ownership of each related Mortgage Note, the related Mortgage and the other contents of the related Mortgage File shall be vested in the Purchaser and the ownership of all records and documents with respect to the related Mortgage Loan prepared by or that come into the possession of the Seller on or after the Closing Date shall immediately vest in the Purchaser and shall be delivered promptly to the Purchaser or as otherwise directed by the Purchaser.

(b) Delivery of Mortgage Loan Documents. The Seller will, on or prior to the Closing Date deliver or cause to be delivered to the Purchaser, the Trustee or their designee each of the following documents for each Mortgage Loan:

(i) the original Mortgage Note, endorsed in blank or in the following form: "Pay to the order of Deutsche Bank National Trust Company, as Trustee, under the applicable agreement, without recourse," with all prior and intervening endorsements, showing a complete chain of endorsement from the originator to the Person so endorsing to the Trustee or (in the case of not more than 1.00% of the Mortgage Loans, by aggregate principal balance as of the Cut-off Date) a copy of such original Mortgage Note with an accompanying Lost Note Affidavit executed by the Seller;

(ii) the original Mortgage with evidence of recording thereon, and a copy, certified by the appropriate recording office, of the recorded power of attorney, if the Mortgage was executed pursuant to a power of attorney, with evidence of recording thereon;

(iii) an original Assignment in blank;

(iv) the original recorded Assignment or Assignments showing a complete chain of assignment from the originator to the Person assigning the Mortgage to the Trustee or in blank;

(v) the original or copies of each assumption, modification, written assurance or substitution agreement, if any; and

(vi) the original lender's title insurance policy, together with all endorsements or riders issued with or subsequent to the issuance of such policy, insuring the priority of the Mortgage as a first lien on the Mortgaged Property represented therein as a fee interest vested in the Mortgagor, or in the event such title policy is unavailable, a written commitment or uniform binder or preliminary report of the title issued by the title insurance or escrow company.

The Seller shall promptly (and in no event later than thirty (30) Business Days, subject to extension upon a mutual agreement between the Seller and the Purchaser) following the later of the Closing Date and the date of receipt by the Seller of the recording information for a Mortgage submit or cause to be submitted for recording, at no expense to the Purchaser, in the appropriate public office for real property records, each Assignment referred to in (iii) and (iv) above and shall execute each original Assignment referred to in clause (iii) above in the following form: "Deutsche Bank National Trust Company, as Trustee under the applicable agreement, without recourse." In the event that any such Assignment is lost or returned unrecorded because of a defect therein, the Seller shall promptly prepare or cause to be prepared a substitute Assignment or cure or cause to be cured such defect, as the case may be, and thereafter cause each such Assignment to be duly recorded. Notwithstanding the foregoing, the Assignments referred to in (iii) and (iv) above shall not be required to be completed and submitted for recording with respect to any Mortgage Loan if each Rating Agency does not require recordation for such Rating Agency to assign the initial ratings to the Class A Certificates, the Mezzanine Certificates and the Other NIM Notes and initial shadow rating to the Insured NIM Notes, without giving effect to any insurance policy issued by the NIMS Insurer; provided, however, each Assignment referred to in (iii) and (iv) above shall be submitted for recording by the Seller, in the manner described above, at no expense to the Purchaser, Trust Fund or the Trustee, upon the earliest to occur of: (i) reasonable direction by Holders of Certificates entitled to at least 25% of the Voting Rights, (ii) the occurrence of a Master Servicer Event of Default, (iii) the occurrence of a bankruptcy, insolvency or foreclosure relating to the Seller, (iv) the occurrence of a servicing transfer as described in Section 7.02 of the Pooling and Servicing Agreement and (v) if the Seller is not the Master Servicer and with respect to any one Assignment, the occurrence of a bankruptcy, insolvency or foreclosure relating to the Mortgagor under the related Mortgage.

If any document referred to in Section 4(b)(ii), Section 4(b)(iii), Section 4(b)(iv), or Section 4(b)(v) above (collectively, the "Recording Documents") has as of the Closing Date been submitted for recording but either (x) has not been returned from the applicable public recording office or (y) has been lost or such public recording office has retained the original of such document, the obligations of the Seller to deliver such Recording Documents shall be deemed to be satisfied upon (1) delivery to the Purchaser, the Trustee or their designee of a copy of each such Recording Document certified by the Seller in the case of (x) above or the applicable public recording office in the case of (y) above to be a true and complete copy of the original that was submitted for recording and (2) if such copy is certified by the Seller, delivery to the Purchaser, the Trustee or their designee upon receipt thereof, and in any event no later than one year after the Closing Date (except as provided below), of either the original or a copy of such Recording Document certified by the applicable public recording office to be a true and complete copy of the original. In instances where, due to a delay on the part of the applicable recording office where any such Recording Documents have been delivered for recordation, the Recording Documents cannot be delivered to the Purchaser, the Trustee or their designee within one year after the Closing Date, the Seller shall deliver to the Purchaser, the Trustee or their designee within such time period an Officer's Certificate stating the date by which the Seller expects to receive such Recording Documents from the applicable recording office. If the Recording Documents have still not been received by the Seller and delivered to the Purchaser, the Trustee or their designee by such date, the Seller shall deliver to the Purchaser, the Trustee or their designee by such date an additional Officer's Certificate stating a revised date by which Seller expects to receive the applicable Recording Documents. This procedure shall be repeated until the Recording Documents have been received by the Seller and delivered to the Purchaser, the Trustee or their designee. If the original or copy of the lender's title insurance policy was not delivered pursuant to Section 4(b)(vi) above, the Seller shall deliver or cause to be delivered to the Purchaser, the Trustee or their designee promptly after receipt thereof, and in any event within 120 days after the Closing Date such title insurance policy. The Seller shall deliver or cause to be delivered to the Purchaser, the Trustee or their designee promptly upon receipt thereof any other original documents constituting a part of a Mortgage File received with respect to any Mortgage Loan, including, but not limited to, any original documents evidencing an assumption or modification of any Mortgage Loan.

Each original document relating to a Mortgage Loan which is not delivered to the Purchaser, the Trustee or their designee, if held by the Seller, shall be so held for the benefit of the Purchaser, the Trustee or their designees. In the event that any such original document is required pursuant to the terms of this Section to be a part of a Mortgage File, such document shall be delivered promptly to the Purchaser, the Trustee or their designee. Any such original document that is not required pursuant to the terms of this Section to be a part of a Mortgage File shall be held by the Seller in its capacity as Master Servicer.

(c) Acceptance of Mortgage Loans. The documents delivered pursuant to Section 4(b) hereof shall be reviewed by the Purchaser or any assignee, transferee or designee of the Purchaser at any time before, on and after the Closing Date (and with respect to each document permitted to be delivered after the Closing Date within seven days of its delivery) to ascertain that all required documents have been executed and received and that such documents relate to the Mortgage Loans identified on the Mortgage Loan Schedule.

(d) Transfer of Interest in Agreements. The Purchaser has the right to assign its interest under this Agreement (other than Section 17 hereof), in whole or in part, to the Trustee, as may be required to effect the purposes of the Pooling and Servicing Agreement, without the consent of the Seller, and the Trustee shall succeed to the rights and obligations hereunder of the Purchaser. Any expense reasonably incurred by or on behalf of the Purchaser, the Trustee, or the NIMS Insurer, if any, in connection with enforcing any obligations of the Seller under this Agreement will be promptly reimbursed by the Seller.

(e) Examination of Mortgage Files. Prior to the Closing Date the Seller shall either (i) deliver in escrow to the Purchaser or to any assignee, transferee or designee of the Purchaser, for examination, the Mortgage File pertaining to each Mortgage Loan, or (ii) make such Mortgage Files available to the Purchaser or to any assignee, transferee or designee of the Purchaser for examination. Such examination may be made by the Purchaser or the Trustee, and their respective designees, upon reasonable notice to the Seller during normal business hours at any time before or after the Closing Date. If any such person makes such examination prior to the Closing Date and identifies any Mortgage Loans with respect to which the Seller's representations and warranties contained in this Agreement are not correct, such Mortgage Loans shall be deleted from the Mortgage Loan Schedule. The Purchaser may, at its option and without notice to the Seller, purchase all or part of the Mortgage Loans without conducting any partial or complete examination. The fact that the Purchaser or any person has conducted or has failed to conduct any partial or complete examination of the related Mortgage Files shall not affect the rights of the Purchaser or any assignee, transferee or designee of the Purchaser to demand repurchase or other relief as provided herein or under the Pooling and Servicing Agreement.

SECTION 5. Representations, Warranties and Covenants of the Seller.

The Seller hereby represents and warrants and covenants to the Purchaser, as of the date hereof and as of the Closing Date:

(i) The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly authorized and qualified to transact any and all business contemplated by this Agreement to be conducted by the Seller in any state in which a Mortgaged Property is located or is otherwise not required under applicable law to effect such qualification and, in any event, is in compliance with the doing business laws of any such state, to the extent necessary to ensure its ability to enforce each Mortgage Loan and to service the Mortgage Loans in accordance with the terms of the Pooling and Servicing Agreement;

(ii) The Seller had the full corporate power and authority to originate, hold and sell each Mortgage Loan and has the full corporate power and authority to service each Mortgage Loan, and to execute, deliver and perform, and to enter into and consummate the transactions contemplated by this Agreement and has duly authorized by all necessary corporate action on the part of the Seller the execution, delivery and performance of this Agreement; and this Agreement, assuming the due authorization, execution and delivery thereof by the Purchaser, constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, except to the extent that the enforceability thereof may be limited by (a) bankruptcy, insolvency, moratorium, receivership, conservatorship, arrangement, moratorium and other similar laws relating to creditors' rights generally and (b) the general principles of equity, whether such enforcement is sought in equity or at law;

(iii) The execution and delivery of this Agreement by the Seller, the servicing of the Mortgage Loans by the Seller under the Pooling and Servicing Agreement, the consummation of any other of the transactions herein contemplated, and the fulfillment of or compliance with the terms hereof are in the ordinary course of business of the Seller and does not (A) result in a breach of any term or provision of the charter or by-laws of the Seller, (B) conflict with, result in a breach, violation or acceleration of, or result in a default under, the terms of any other material agreement, instrument or indenture to which the Seller is a party or by which it may be bound, or any statute, order or regulation applicable to the Seller of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Seller or any of its property or (C) result in the creation or imposition of any lien, charge or encumbrance which would have a material adverse effect upon the Mortgage Loans or any documents or instruments evidencing or securing the Mortgage Loans; and the Seller is not a party to, bound by, or in breach or violation of any indenture or other agreement or instrument, or subject to or in violation of any statute, order or regulation of any court, regulatory body, administrative agency or governmental body having jurisdiction over it, which materially and adversely affects or, to the Seller's knowledge, would in the future result in the creation or imposition of any lien, charge or encumbrance which would have a material adverse effect upon the Mortgage Loans or any documents or instruments evidencing or securing the Mortgage Loans or materially and adversely affect (x) the ability of the Seller to perform its obligations under this Agreement or the Pooling and Servicing Agreement or (y) the business, operations, financial condition, properties or assets of the Seller taken as a whole;

(iv) No consent, approval, authorization, or order of, any court or governmental agency or body is required for the execution, delivery and performance by the Seller of, or compliance by the Seller with, this Agreement or the consummation of the transactions contemplated hereby, or if any such consent, approval, authorization or order is required, the Seller has obtained the same;

(v) The Seller is an approved seller/servicer for Fannie Mae or Freddie Mac in good standing and is a HUD approved mortgagee pursuant to Section 203 and Section 211 of the National Housing Act;

(vi) No litigation or proceeding is pending or, to the best knowledge of the Seller, threatened, against the Seller that would materially and adversely affect the execution, delivery or enforceability of this Agreement or the Pooling and Servicing Agreement or the issuance of the Certificates or the ability of the Seller to service the Mortgage Loans or to perform any of its other obligations hereunder in accordance with the terms hereof and the terms of the Pooling and Servicing Agreement or, that would result in a material adverse change in the financial or operating conditions of the Seller;

(vii) No certificate of an officer, statement or other information furnished in writing or report delivered by the Seller to the Purchaser, any Affiliate of the Purchaser or the Trustee for use in connection with the purchase of the Mortgage Loans and the transactions contemplated hereunder and under the Pooling and Servicing Agreement contains any untrue statement of a material fact, or omits a material fact necessary to make the information, certificate, statement or report not misleading in any material respect;

(viii) The Seller has not dealt with any broker, investment banker, agent or other person, except for the Purchaser or any of its affiliates, that may be entitled to any commission or compensation in connection with the sale of the Mortgage Loans;

(ix) Each Mortgage Note, each Mortgage, each Assignment and any other document required to be delivered by or on behalf of the Seller under this Agreement or the Pooling and Servicing Agreement to the Purchaser or any assignee, transferee or designee of the Purchaser for each Mortgage Loan has been or will be, in accordance with Section 4(b) hereof, delivered to the Purchaser or any such assignee, transferee or designee. With respect to each Mortgage Loan, the Seller is in possession of a complete Mortgage File in compliance with the Pooling and Servicing Agreement, except for such documents that have been delivered (1) to the Purchaser or any assignee, transferee or designee of the Purchaser or (2) for recording to the appropriate public recording office and have not yet been returned;

(x) The Seller (A) is a solvent entity and is paying its debts as they become due, (B) immediately after giving effect to the transfer of the Mortgage Loans, will be a solvent entity and will have sufficient resources to pay its debts as they become due and (C) did not sell the Mortgage Loans to the Purchaser with the intent to hinder, delay or defraud any of its creditors; and

(xi) The transfer of the Mortgage Loans to the Purchaser at the Closing Date will be treated by the Seller for financial accounting and reporting purposes as a sale of assets.

SECTION 6. Representations and Warranties of the Seller Relating to the Individual Mortgage Loans.

The Seller hereby represents and warrants to the Purchaser, that as of the Closing Date with respect to each Mortgage Loan:

(i) The information set forth on the Mortgage Loan Schedule with respect to each Mortgage Loan is true and correct in all material respects as of the Cut-off Date, unless another date is set forth on the Mortgage Loan Schedule;

(II) [reserved];

(iii) Each Mortgage is a valid and enforceable first or second lien on the Mortgaged Property, including all improvements thereon, subject only to (a) the lien of non-delinquent current real property taxes and assessments, (b) covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of recording of such Mortgage, such exceptions appearing of record being acceptable to mortgage lending institutions generally or specifically reflected in the appraisal made in connection with the origination of the related Mortgage Loan and which do not materially interfere with the benefits of the security intended to be provided by such Mortgage, (c) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by such Mortgage and (d) in the case of a second lien, only to a first lien on such Mortgaged Property;

(iv) Immediately prior to the assignment of the Mortgage Loans to the Purchaser, the Seller had good title to, and was the sole legal and beneficial owner of, each Mortgage Loan, free and clear of any pledge, lien, encumbrance or security interest and has full right and authority, subject to no interest or participation of, or agreement with, any other party to sell and assign the same. The form of endorsement of each Mortgage Note satisfied the requirement, if any, of endorsement in order to transfer all right, title and interest of the party so endorsing, as noteholder or assignee thereof, in and to that Mortgage Note; and each Assignment to be delivered hereunder is in recordable form and is sufficient to effect the assignment of and to transfer to the assignee thereunder the benefits of the assignor, as mortgagee or assignee thereof, under each Mortgage to which that Assignment relates;

(v) To the best of the Seller's knowledge, there is no delinquent tax or assessment lien against any Mortgaged Property;

(vi) There is no valid offset, defense or counterclaim to any Mortgage Note (including any obligation of the Mortgagor to pay the unpaid principal of or interest on such Mortgage Note) or the Mortgage, nor will the operation of any of the terms of the Mortgage Note and the Mortgage, or the exercise of any right thereunder, render the Mortgage Note or the Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto;

(vii) To the best of the Seller's knowledge, there are no mechanics' liens or claims for work, labor or material affecting any Mortgaged Property which are or may be a lien prior to, or equal with, the lien of the related Mortgage, except those which are insured against by the title insurance policy referred to in (xi) below;

(viii) To the best of the Seller's knowledge, each Mortgaged Property is free of material damage and is at least in average repair;

(ix) Each Mortgage Loan at origination complied in all material respects with applicable local, state and federal laws, including, without limitation, predatory and abusive lending, usury, equal credit opportunity, real estate settlement procedures, truth-in-lending and disclosure laws, and consummation of the transactions contemplated hereby, including without limitation the receipt of interest does not involve the violation of any such laws;

(x) Neither the Seller nor any prior holder of any Mortgage has modified the Mortgage in any material respect, satisfied, canceled or subordinated such Mortgage in whole or in part; released the related Mortgaged Property in whole or in part from the lien of such Mortgage; or executed any instrument of release, cancellation, modification or satisfaction with respect thereto (except that a Mortgage Loan may have been modified by a written instrument signed by the Seller or a prior holder of the Mortgage Loan which has been recorded, if necessary, to protect the interests of the Seller and the Purchaser and which has been delivered to the Purchaser or any assignee, transferee or designee of the Purchaser as part of the Mortgage File, and the terms of which are reflected in the Mortgage Loan Schedule);

(xi) A lender's policy of title insurance together with a condominium endorsement and extended coverage endorsement, if applicable, and, with respect to each Adjustable Rate Mortgage Loan, an adjustable rate mortgage endorsement in an amount at least equal to the balance of the Mortgage Loan as of the Cut-off Date or a commitment (binder) to issue the same was effective on the date of the origination of each Mortgage Loan, each such policy is valid and remains in full force and effect, the transfer of the related Mortgage Loan to the Purchaser and the Trustee does not affect the validity or enforceability of such policy and each such policy was issued by a title insurer qualified to do business in the jurisdiction where the Mortgaged Property is located and acceptable to Fannie Mae or Freddie Mac and in a form acceptable to Fannie Mae or Freddie Mac on the date of origination of such Mortgage Loan, which policy insures the Seller and successor owners of indebtedness secured by the insured Mortgage, as to the first or second, as the case may be, priority lien of the Mortgage; to the best of the Seller's knowledge, no claims have been made under such mortgage title insurance policy and no prior holder of the related Mortgage, including the Seller, has done, by act or omission, anything which would impair the coverage of such mortgage title insurance policy;

(xii) Each Mortgage Loan was originated by, or generated on behalf of, the Seller, or originated by a savings and loan association, savings bank, commercial bank, credit union, insurance company or similar institution which is supervised and examined by a federal or state authority, or by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to Sections 203 and 211 of the National Housing Act;

(xiii) With respect to each Adjustable Rate Mortgage Loan, on each Adjustment Date, the Mortgage Rate will be adjusted to equal the Index plus the Gross Margin, rounded to the nearest 0.125%, subject to the Periodic Rate Cap, the Maximum Mortgage Rate and the Minimum Mortgage Rate. The related Mortgage Note is payable on the first day of each month in self-amortizing monthly installments of principal and interest (unless such Mortgage Loan is a mortgage loan that requires the payment of interest only with respect to some or all of the related monthly payments as indicated on the Mortgage Loan Schedule), with interest payable in arrears, and requires a Monthly Payment which is sufficient to fully amortize the outstanding principal balance of the Mortgage Loan over its remaining term and to pay interest at the applicable Mortgage Rate. No Mortgage Loan is subject to negative amortization. All rate adjustments have been performed in accordance with the terms of the related Mortgage Note or subsequent modifications, if any;

(xiv) To the best of the Seller's knowledge, all of the improvements which were included for the purpose of determining the Value of the Mortgaged Property lie wholly within the boundaries and building restriction lines of such property, and no improvements on adjoining properties encroach upon the Mortgaged Property;

(xv) All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property and, with respect to the use and occupancy of the same, including but not limited to certificates of occupancy, have been made or obtained from the appropriate authorities and to the best of the Seller's knowledge, the Mortgaged Property is lawfully occupied under applicable law;

(xvi) All parties which have had any interest in the Mortgage, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) in compliance with any and all applicable licensing requirements of the laws of the state wherein the Mortgaged Property is located;

(xvii) The Mortgage Note and the related Mortgage are genuine, and each is the legal, valid and binding obligation of the Mortgagor enforceable against the Mortgagor by the mortgagee or its representative in accordance with its terms, except only as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by law. To the best of the Seller's knowledge, all parties to the Mortgage Note and the Mortgage had full legal capacity to execute all Mortgage Loan documents and to convey the estate purported to be conveyed by the Mortgage and each Mortgage Note and Mortgage have been duly and validly executed by such parties;

(xviii) The proceeds of each Mortgage Loan have been fully disbursed, there is no requirement for future advances thereunder and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been complied with. All costs, fees and expenses incurred in making, closing or recording the Mortgage Loans were paid;

(xix) The related Mortgage contains customary and enforceable provisions which render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial foreclosure. There is no homestead or other exemption available to the Mortgagor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage;

(xx) With respect to each Mortgage constituting a deed of trust, a trustee, duly qualified under applicable law to serve as such, has been properly designated and currently so serves and is named in such Mortgage, and no fees or expenses are or will become payable by the Purchaser to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Mortgagor;

(xxi) There exist no deficiencies with respect to escrow deposits and payments, if such are required, for which customary arrangements for repayment thereof have not been made, and no escrow deposits or payments of other charges or payments due the Seller have been capitalized under the Mortgage or the related Mortgage Note;

(xxii) The origination, underwriting and collection practices used by the Seller with respect to each Mortgage Loan have been in all material respects legal, proper, prudent and customary in the subprime mortgage servicing business. Each Mortgage Loan is currently being serviced by Washington Mutual Bank;

(xxiii) There is no pledged account or other security other than real estate securing the Mortgagor's obligations;

(xxiv) No Mortgage Loan has a shared appreciation feature, or other contingent interest feature;

(xxv) [reserved];

(xxvi) The improvements upon each Mortgaged Property are covered by a valid and existing hazard insurance policy with a generally acceptable carrier that provides for fire extended coverage and coverage of such other hazards as are customarily covered by hazard insurance policies with extended coverage in the area where the Mortgaged Property is located representing coverage not less than the lesser of the outstanding principal balance of the related Mortgage Loan or the minimum amount required to compensate for damage or loss on a replacement cost basis. All individual insurance policies and flood policies referred to in this clause (xxvi) and in clause (xxvii) below contain a standard mortgagee clause naming the Seller or the original mortgagee, and its successors in interest, as mortgagee, and the Seller has received no notice that any premiums due and payable thereon have not been paid; the Mortgage obligates the Mortgagor thereunder to maintain all such insurance, including flood insurance, at the Mortgagor's cost and expense, and upon the Mortgagor's failure to do so, authorizes the holder of the Mortgage to obtain and maintain such insurance at the Mortgagor's cost and expense and to seek reimbursement therefor from the Mortgagor;

(xxvii) If the Mortgaged Property is in an area identified in the Federal Register by the Federal Emergency Management Agency as subject to special flood hazards, a flood insurance policy in a form meeting the requirements of the current guidelines of the Flood Insurance Administration is in effect with respect to such Mortgaged Property with a generally acceptable carrier in an amount representing coverage not less than the least of (A) the original outstanding principal balance of the Mortgage Loan, (B) the minimum amount required to compensate for damage or loss on a replacement cost basis or (C) the maximum amount of insurance that is available under the Flood Disaster Protection Act of 1973;

(xxviii) There is no default, breach, violation or event of acceleration existing under the Mortgage or the related Mortgage Note; and neither the Seller nor any other entity involved in originating or servicing the Mortgage Loan has waived any default, breach, violation or event of acceleration;

(xxix) Each Mortgaged Property is improved by a one- to four-family residential dwelling, including condominium units and dwelling units in planned unit developments, which, to the best of the Seller's knowledge, does not include cooperatives and does not constitute property other than real property under state law;

(xxx) There is no obligation on the part of the Seller or any other party under the terms of the Mortgage or related Mortgage Note to make payments in addition to those made by the Mortgagor;

(xxxi) Any future advances made prior to the Cut-off Date have been consolidated with the outstanding principal amount secured by the Mortgage, and the secured principal amount, as consolidated, bears a single interest rate and single repayment term reflected on the related Mortgage Loan Schedule. The consolidated principal amount does not exceed the original principal amount of the Mortgage Loan;

(xxxii) Each Mortgage Loan was underwritten in accordance with the Seller's underwriting guidelines as described in the Prospectus Supplement as applicable to its credit grade in all material respects (the "Underwriting Guidelines");

(xxxiii) Each appraisal of a Mortgage Loan that was used to determine the appraised value of the related Mortgaged Property was conducted generally in accordance with the Seller's Underwriting Guidelines, and included an assessment by the appraiser of the fair market value of the related Mortgaged Property at the time of the appraisal. The Mortgage File contains an appraisal of the applicable Mortgaged Property;

(xxxiv) None of the Mortgage Loans is a graduated payment Mortgage Loan, nor is any Mortgage Loan subject to a temporary buydown or similar arrangement;

(xxxv) There are no Mortgage Loans with respect to which the monthly payment due thereon in December, 2005 had not been made, none of the Mortgage Loans has been contractually delinquent for more than 30 days more than once during the preceding twelve months and, no Mortgage Loan has ever experienced a delinquency of 60 or more days since the origination thereof;

(xxxvi) Each Mortgage contains a provision that is, to the extent not prohibited by federal or state law, enforceable for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event that the Mortgaged Property is sold or transferred without the prior written consent of the mortgagee thereunder;

(xxxvii) To the best of the Seller's knowledge no misrepresentation, negligence, fraud or similar occurrence with respect to a Mortgage Loan has taken place on the part of any person, including, without limitation, the Mortgagor, any appraiser, any builder or developer, or any other party involved in the origination of the Mortgage Loan or in the application of any insurance in relation to such Mortgage Loan;

(xxxviii) Each Mortgage Loan constitutes a "qualified mortgage" within the meaning of Section 860G(a)(3) of the Code;

(xxxix) The information set forth in the Prepayment Charge Schedule is complete, true and correct in all material respects at the date or dates respecting which such information is furnished and each Prepayment Charge is permissible and enforceable in accordance with its terms under applicable law upon the Mortgagor's voluntary Principal Prepayment (except to the extent that: (1) the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, receivership and other similar laws relating to creditors' rights generally; or (2) the collectability thereof may be limited due to acceleration in connection with a foreclosure or other involuntary prepayment). No Mortgage Loan originated before October 1, 2002 has a Prepayment Charge for a term in excess of five years from the date of its origination and no Mortgage Loan originated on or after October 1, 2002 has a prepayment charge for a term in excess of three years from the date of its origination;

(xl) The Loan-to-Value Ratio for each Mortgage Loan was no greater than 100% at the time of origination;

(xli) The first date on which each Mortgagor must make a payment on the related Mortgage Note is no later than 60 days from the date of this Agreement;

(xlii) With respect to each Mortgage Loan, the related Mortgagor shall not fail or has not failed to make the first monthly payment due under the terms of the Mortgage Loan by the second succeeding Due Date after the Due Date on which such monthly payment was due;

(xliii) The transfer, assignment and conveyance of the Mortgage Notes and the Mortgages by the Seller pursuant to this Agreement are not subject to the bulk transfer or any similar statutory provisions in effect in any relevant jurisdiction, except any as may have been complied with;

(xliv) There are no defaults in complying with the terms of the Mortgage, and either (1) any taxes, governmental assessments, insurance premiums, water, sewer and municipal charges or ground rents which previously became due and owing have been paid, or (2) an escrow of funds has been established in an amount sufficient to pay for every such item which remains unpaid and which has been assessed but is not yet due and payable. Except for payments in the nature of escrow payments, including without limitation, taxes and insurance payments, the Seller has not advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount required by the Mortgage Note, except for interest accruing from the date of the Mortgage Note or date of disbursement of the Mortgage proceeds, whichever is greater, to the day which precedes by one month the Due Date of the first installment of principal and interest;

(xlv) There is no proceeding pending, or to best of the Seller's knowledge threatened, for the total or partial condemnation of the Mortgaged Property or the taking by eminent domain of any Mortgaged Property;

(xlvi) No Mortgage Loan is subject to the requirements of the Home Ownership and Equity Protection Act of 1994, as amended, or is a "high cost" or "predatory" loan under any state or local law or regulation applicable to the originator of such Mortgage Loan or which would result in liability to the purchaser or assignee of such Mortgage Loan under any predatory or abusive lending law. In the event that Financial Security Assurance, Inc. becomes a NIMS Insurer, no Mortgage Loan is a "covered" loan under the laws of the states of California, Colorado or Ohio;

(xlvii) No proceeds from any Mortgage Loans were used to finance single-premium credit insurance policies. No borrower was required to purchase any credit life, disability, accident or health insurance product as a condition of obtaining the extension of credit. No borrower obtained a prepaid single-premium credit life, disability, accident or health insurance policy in connection with the origination of the Mortgage Loan;

(xlviii) The Seller did not select the Mortgage Loans with the intent to adversely affect the interests of the Purchaser;

(xlix) The Seller has not received any notice that any Mortgagor has filed for any bankruptcy or similar legal protection since the date of the origination of such Mortgage Loan. Prior to the date of the origination of any Mortgage Loan, the Seller did not receive any notice that any Mortgagor has filed for bankruptcy or similar legal protection except as permitted under the Underwriting Guidelines;

(l) No Group I Mortgage Loan is a "High-Cost Home Loan" as defined in the Georgia Fair Lending Act, as amended (the "Georgia Act"), and no Mortgage Loan that was originated on or after October 1, 2002 and before March 7, 2003, is secured by a Mortgaged Property located in the State of Georgia;

(li) No Group I Mortgage Loan is a "High Cost Home Loan" as defined in the Kentucky high-cost loan statute effective June 24, 2003 (Ky. Rev. Stat. Section 360.100);

(lii) No Group I Mortgage Loan is a "High Cost Home Loan" as defined in the New Jersey Home Ownership Act effective November 27, 2003 (N.J.S.A. 46:10B-22 et seq.);

(liii) No Group I Mortgage Loan is a subsection 10 mortgage under the Oklahoma Home Ownership and Equity Protection Act;

(liv) No Group I Mortgage Loan is a "High-Cost Home Loan" as defined in New York Banking Law 6-1;

(lv) No Group I Mortgage Loan is a "High Cost Home Loan" as defined in the Arkansas Home Loan Protection Act effective July 16, 2003 (Act 1340 of 2003);

(lvi) No Group I Mortgage Loan is a "High-Cost Home Loan" as defined in the New Mexico Home Loan Protection Act effective January 1, 2004 (N.M. Stat. Am. §§ 58-21A-1 et seq.);

(lvii) [reserved];

(lviii) Each Group I Mortgage Loan was originated in compliance with the following anti-predatory lending guidelines:

a. Each Group I Mortgage Loan satisfies the eligibility for purchase requirements and was originated in compliance with Lender Letter # LL03-00 dated April 11, 2000 for Fannie Mae Sellers (the "Lender Letter");

b. No borrower was encouraged or required by the Seller to select a Group I Mortgage Loan product offered by the Group I Mortgage Loan's originator which is a higher cost product designed for less creditworthy borrowers, unless at the time of the Group I Mortgage Loan's origination, such borrower did not qualify taking into account credit history and debt-to-income ratios for a lower-cost credit product then offered by the Group I Mortgage Loan's originator or any affiliate of the Group I Mortgage Loan's originator;

c. The methodology used in underwriting the extension of credit for each Group I Mortgage Loan employs objective mathematical principles which relate the borrower's income, assets and liabilities to the proposed payment and such underwriting methodology does not rely on the extent of the borrower's equity in the collateral as the principal determining factor in approving such credit extension. Such underwriting methodology provided reasonable assurance that at the time of origination (application/approval) the borrower had a reasonable ability to make timely payments on the Group I Mortgage Loan;

d. With respect to any Group I Mortgage Loan that contains a provision permitting imposition of a premium upon a prepayment prior to maturity, (i) the Seller's pricing methods include mortgage loans with and without prepayment premiums; borrowers selecting Group I Mortgage Loans which include such prepayment premiums receive a monetary benefit, including but not limited to a rate or fee reduction, in exchange for selecting a Group I Mortgage Loan with a prepayment premium, (ii) prior to the Group I Mortgage Loan's origination, the borrower had the opportunity to choose between an array of mortgage loan products which included mortgage loan products with prepayment premiums and mortgage loan products that did not require payment of such a premium, (iii) the prepayment premium is disclosed to the borrower in the loan documents pursuant to applicable state and federal law, and (iv) notwithstanding any state or federal law to the contrary, the Master Servicer shall not impose such prepayment premium in any instance when the mortgage debt is accelerated as the result of the borrower's default in making the loan payments;

e. All points and fees related to each Group I Mortgage Loan were disclosed in writing to the borrower in accordance with applicable state and federal law. Except in the case of a Group I Mortgage Loan in an original principal amount of less than \$60,000 which would have resulted in an unprofitable origination, no borrower was charged "points and fees" (whether or not financed) in an amount greater than 5% of the principal amount of such loan, such 5% limitation calculated in accordance with the Lender Letter;

f. All fees and charges (including finance charges) and whether or not financed, assessed, collected or to be collected in connection with the origination and servicing of each Group I Mortgage Loan have been disclosed in writing to the borrower in accordance with applicable state and federal law and regulation;

(lix) No Group I Mortgage Loan had a principal balance at origination in excess of Fannie Mae's conforming loan balance limitations for single family loans set forth in the Fannie Mae Charter Act and the Fannie Mae Selling Guide in effect at the time of such Group I Mortgage Loan's origination;

(Ix) With respect to each Group I Mortgage Loan, information regarding the borrower credit file related to such Mortgage Loan has been furnished to credit reporting agencies in compliance with the provisions of the Fair Credit Reporting Act and the applicable implementing regulations;

(lxi) No Mortgage Loan is a "High Cost Loan" or "Covered Loan" (as such terms are defined in the Standard & Poor's LEVELS® Glossary in effect on the Closing Date which is now Version 5.6c Revised, Exhibit E, applicable portions of which are attached hereto as Exhibit A) and no Mortgage Loan originated on or after October 1, 2002 through March 6, 2003 is governed by the Georgia Act;

(lxii) No Group I Mortgage Loan is a "High Cost Home Mortgage Loan" as defined in the Massachusetts Predatory Home Loan Practices Act effective November 7, 2004 (Mass. Ann. Laws ch. 183C);

(lxiii) No Group I Mortgage Loan is a "High Cost Home Loan" as defined in the Indiana Home Loan Practices Act effective January 1, 2005 (Ind. Code Ann. §§ 24-9-1 through 24-9-9); and

(lxiv) With respect to any Group I Mortgage Loan originated on or after August 1, 2004, neither the related Mortgage nor the related Mortgage Note requires the Mortgagor to submit to arbitration to resolve any dispute arising out of or relating in any way to the Mortgage Loan transaction.

SECTION 7. Repurchase Obligation for Defective Documentation and for Breach of Representation and Warranty.

(a) The representations and warranties contained in Section 5(ix) and Section 6 shall not be impaired by any review and examination of loan files or other documents evidencing or relating to the Mortgage Loans or any failure on the part of the Seller or the Purchaser to review or examine such documents and shall inure to the benefit of any assignee, transferee or designee of the Purchaser, including the Trustee for the benefit of holders of asset-backed certificates evidencing an interest in all or a portion of the Mortgage Loans. With respect to the representations and warranties contained herein which are made to the knowledge or the best of knowledge of the Seller, or as to which the Seller has no knowledge, if it is discovered that the substance of any such representation and warranty was inaccurate as of the date such representation and warranty was made or deemed to be made, and such inaccuracy materially and adversely affects the value of the related Mortgage Loan or the interest therein of the Purchaser or the Purchaser's assignee, transferee or designee, then notwithstanding the lack of knowledge by the Seller with respect to the substance of such representation and warranty being inaccurate at the time the representation and warranty was made, the Seller shall take such action described in the following paragraph in respect of such Mortgage Loan.

Upon discovery by the Seller, the Purchaser or any assignee, transferee or designee of the Purchaser of any materially defective document in, or that any material document was not transferred by the Seller (as listed on the Trustee's initial certification), as part of any Mortgage File or of a breach of any of the representations and warranties contained in Section 5 or Section 6 that materially and adversely affects the value of any Mortgage Loan or the interest of the Purchaser or the Purchaser's assignee, transferee or designee (it being understood that with respect to the representations and warranties set forth in the last sentence of (xxxix), (xlvi), the first sentence of (xlvii), (lxi) and (lxiv) of Section 6 herein, a breach of any such representation or warranty shall in and of itself be deemed to materially and adversely affect the interest therein of the Purchaser and the Purchaser's assignee, transferee or designee) in any Mortgage Loan, the party discovering the breach shall give prompt written notice to the others. Within ninety (90) days of the earlier of the discovery or the Seller's receipt of notice of any such missing documentation which was not transferred to the Purchaser as described above or materially defective documentation or any such breach of a representation and warranty, the Seller promptly shall deliver such missing document or cure such defect or breach in all material respects, or in the event the Seller cannot deliver such missing document or such defect or breach cannot be cured, the Seller shall, within 90 days of its discovery or receipt of notice, either (i) repurchase the affected Mortgage Loan at a price equal to the Purchase Price (as defined in the Pooling and Servicing Agreement) or (ii) pursuant to the provisions of the Pooling and Servicing Agreement, cause the removal of such Mortgage Loan from the Trust Fund and substitute one or more Qualified Substitute Mortgage Loans; provided, however, that in the case of a breach of the representation and warranty concerning the Mortgage Loan Schedule contained in Section 6(i), if such breach relates to any field on the Mortgage Loan Schedule which identifies any Prepayment Charge and such Prepayment Charge has been triggered pursuant to the terms of the related Mortgage Note, then in lieu of purchasing such Mortgage Loan from the Trust Fund at the Purchase Price (as defined in the Pooling and Servicing Agreement), the Seller shall pay the amount of the incorrectly identified Prepayment Charge (net of any amount previously collected by or paid to the Trust Fund in respect of such Prepayment Charge), and the Seller shall have no obligation to repurchase or substitute for such Mortgage Loan. In the event of a substitution permitted hereunder, the Seller shall amend the Closing Schedule to reflect the withdrawal of each removed Mortgage Loan from the terms of this Agreement and the Pooling and Servicing Agreement and the addition of the Qualified Substitute Mortgage Loan(s). The Seller shall deliver to the Purchaser such amended Closing Schedule and shall deliver such other documents as are required by this Agreement or the Pooling and Servicing Agreement within five (5) days of any such amendment. Any repurchase pursuant to this Section 7(a) shall be accomplished by deposit in the Collection Account of the amount of the Purchase Price (as defined in the Pooling and Servicing Agreement) in accordance with Section 2.03 of the Pooling and Servicing Agreement. Any repurchase or substitution required by this Section shall be made in a manner consistent with Section 2.03 of the Pooling and Servicing Agreement and any remedy by the Seller for a breach of a representation or warranty that materially and adversely affects the value of any Prepayment Charge shall be made in a manner consistent with Section 2.03(c) of the Pooling and Servicing Agreement.

(b) It is understood and agreed that the obligations of the Seller set forth in this Section 7 to cure, repurchase or substitute for a defective Mortgage Loan constitute the sole remedies of the Purchaser against the Seller respecting a missing or defective document or a breach of the representations and warranties contained in Section 5 or Section 6.

SECTION 8. Closing; Payment for the Mortgage Loans.

The closing of the purchase and sale of the Mortgage Loans and the Trust Swap Agreement shall be held at the Seattle office of Heller Ehrman LLP at 9:30 am New York time on the Closing Date (or such other location or time as is mutually agreeable to the parties).

The Purchaser's obligation to close the transactions contemplated by this Agreement shall be subject to each of the following conditions:

(a) All of the representations and warranties of the Seller under this Agreement shall be true and correct in all material respects as of the date as of which they are made and no event shall have occurred which, with notice or the passage of time, would constitute a default under this Agreement;

(b) The Purchaser shall have received, or the attorneys of the Purchaser shall have received in escrow (to be released from escrow at the time of closing), all Closing Documents as specified in Section 9 of this Agreement, in such forms as are agreed upon and acceptable to the Purchaser, duly executed by all signatories other than the Purchaser as required pursuant to the respective terms thereof;

(c) The Seller shall have delivered or caused to be delivered and released to the Purchaser or to its designee, all documents (including without limitation, the Mortgage Loans) required to be so delivered by the Purchaser pursuant to Section 2.01 of the Pooling and Servicing Agreement; and

(d) All other terms and conditions of this Agreement to be complied with by Seller, shall have been complied with.

Subject to the foregoing conditions, the Purchaser shall deliver or cause to be delivered to the Seller on the Closing Date, against delivery and release by the Seller to the Trustee of all documents required pursuant to the Pooling and Servicing Agreement, the consideration for the Mortgage Loans and the Trust Swap Agreement as specified in Section 3 of this Agreement, by delivery to the Seller of the Purchase Price in immediately available funds and delivery of the Long Beach Certificates to the Seller or, upon the direction of the Seller, to Long Beach Asset Holdings Corp.

SECTION 9. Closing Documents.

Without limiting the generality of Section 8 hereof, the closing shall be subject to delivery of each of the following documents:

(a) An Officers' Certificate of the Seller, dated the Closing Date, upon which the Purchaser, Credit Suisse Securities (USA) LLC ("CSS") and WaMu Capital Corp. ("WCC", and together with CSS, the "Underwriters") and the NIMS Insurer, if any, may rely and attached thereto copies of the certificate of incorporation, bylaws and certificate of good standing of the Seller under the laws of the State of Delaware;

(b) An Officers' Certificate of the Seller, dated the Closing Date, upon which the Purchaser, the Underwriters and the NIMS Insurer, if any, may rely, with respect to certain facts regarding the sale of the Mortgage Loans, by the Seller to the Purchaser;

(c) An Opinion of Counsel of the Seller (which may be in-house counsel of the Seller), dated the Closing Date and addressed to the Purchaser, the Underwriters and the NIMS Insurer, if any;

(d) Such opinions of counsel as the Rating Agencies, the Underwriters, the Trustee or the NIMS Insurer, if any, may reasonably request in connection with the sale of the Mortgage Loans and the Trust Swap Agreement by the Seller to the Purchaser or the Seller's execution and delivery of, or performance under, this Agreement;

(e) A letter from Deloitte & Touche L.L.P., certified public accountants, dated the date hereof and to the effect that they have performed certain specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature set forth in the Prospectus Supplement under the captions "Summary of Terms—Mortgage Loans," "Risk Factors," "The Sponsor," "Static Pool Information," "The Mortgage Pool" and "Yield, Prepayment and Maturity Considerations" and in "Appendix A" agrees with the records of the Seller;

(f) The Seller shall deliver or make available to the Purchaser for inclusion in the Prospectus Supplement under the captions "The Sponsor," "The Servicers" and "Static Pool Information" or for inclusion in other offering materials, such publicly available information regarding the Seller and Washington Mutual Bank, their financial condition, Seller's underwriting standards, lending activities and loan sales, production, static pool information and master servicing practices, and Washington Mutual Bank's servicing and collection practices, and any similar nonpublic, unaudited financial information and a computer tape with respect to the pool information, as the Underwriters may reasonably request;

(g) Letters from at least two nationally recognized statistical rating agencies rating the Offered Certificates (as defined in the Prospectus Supplement); and

(h) Such further information, certificates, opinions and documents as the Purchaser or the Underwriters may reasonably request.

SECTION 10. Costs.

The Seller shall pay (or shall reimburse the Purchaser or any other Person to the extent that the Purchaser or such other Person shall pay) all costs and expenses incurred in connection with the transfer and delivery of the Mortgage Loans and the Trust Swap Agreement, including without limitation, recording fees, fees for title policy endorsements and continuations and the fees for recording Assignments, the fees and expenses of the Seller's in-house accountants and in-house attorneys; the costs and expenses incurred in connection with determining the Seller's loan loss, foreclosure and delinquency experience, the costs and expenses incurred in connection with obtaining the documents referred to in Sections 9(d) and 9(e), the cost of an opinion of counsel regarding the true sale of the Mortgage Loans and the Trust Swap Agreement and non-consolidation of the Seller, the costs and expenses of printing (or otherwise reproducing) and delivering this Agreement, the Pooling and Servicing Agreement, the Certificates, the prospectus, the Prospectus Supplement, any blue sky filings relating to the Certificates and other related documents, costs and expenses of the Trustee, the fees and expenses of the Purchaser's counsel in connection with the preparation of all documents relating to the securitization of the Mortgage Loans, the filing fee charged by the Securities and Exchange Commission for registration of the Certificates, the cost of any opinions of outside special counsel that may be required for the Seller and the fees charged by any Rating Agency to rate the Certificates. All other costs and expenses in connection with the transactions contemplated hereunder shall be borne by the party incurring such expense.

SECTION 11. Servicing.

The Seller has represented to the Purchaser that the Mortgage Loans are being serviced in accordance with the terms of the Pooling and Servicing Agreement, and it is understood and agreed by and between the Seller and the Purchaser that any interim servicing arrangements with the Seller will be superseded by the servicing arrangements set forth in the Pooling and Servicing Agreement.

SECTION 12. Mandatory Delivery; Grant of Security Interest.

The sale and delivery on the Closing Date of the Mortgage Loans and the Trust Swap Agreement in accordance with the terms and conditions of this Agreement is mandatory. It is specifically understood and agreed that each Mortgage Loan is unique and identifiable on the Closing Date and that an award of money damages would be insufficient to compensate the Purchaser for the losses and damages incurred by the Purchaser in the event of the Seller's failure to deliver the Mortgage Loans on or before the Closing Date.

The Seller hereby grants to the Purchaser a lien on and a continuing security interest in the Seller's interest in each Mortgage Loan and the Trust Swap Agreement, and each document and instrument evidencing each such Mortgage Loan and the Trust Swap Agreement to secure the performance by the Seller of its obligation hereunder, and the Seller agrees that it holds such Mortgage Loans and such Trust Swap Agreement in custody for the Purchaser, subject to (i) the Purchaser's right, prior to the Closing Date, to reject any Mortgage Loan to the extent permitted by this Agreement and (ii) the Purchaser's obligation to deliver or cause to be delivered the consideration for the Mortgage Loans and the Trust Swap Agreement pursuant to Section 8 hereof. Any Mortgage Loan rejected by the Purchaser shall concurrently therewith be automatically released from the security interest created hereby. The Seller agrees that, upon acceptance of the Mortgage Loans and the Trust Swap Agreement by the Purchaser or its designee and delivery of payment to the Seller, that any security interest held by the Seller in such Mortgage Loans and such Trust Swap Agreement shall be released.

All rights and remedies of the Purchaser under this Agreement are distinct from, and cumulative with, any other rights or remedies under this Agreement or afforded by law or equity and all such rights and remedies may be exercised concurrently, independently or successively. Notwithstanding the foregoing, if on the Closing Date, each of the conditions set forth in Section 8 hereof shall have been satisfied and the Purchaser shall not have paid or caused to be paid the Purchase Price, or shall not have delivered or caused to be delivered the Long Beach Certificates to the Seller or, upon the direction of the Seller, to Long Beach Asset Holding Corp., or any such condition shall not have been waived or satisfied and the Purchaser determines not to pay or cause to be paid the Purchase Price or not to deliver or cause to be delivered the Long Beach Certificates to the Seller or Long Beach Asset Holding Corp., the Purchaser shall immediately effect the re-delivery of the Mortgage Loans and the Trust Swap Agreement, if delivery to the Purchaser has occurred and any security interest created by this Section 12 shall be deemed to have been released.

SECTION 13. Notices.

All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered to or mailed by registered mail, postage prepaid, or transmitted by telex or telegraph and confirmed by a similar mailed writing, if to the Purchaser, addressed to the Purchaser at 1201 Third Ave., WMT1706, Seattle, Washington 98101, Attn: LBSC Legal Counsel, or such other address as may hereafter be furnished to the Seller in writing by the Purchaser; if to the Seller, addressed to the Seller at 1201 Third Ave., WMT1706, Seattle, Washington 98101, Attn: LBMC Legal Counsel, or to such other address as the Seller may designate in writing to the Purchaser.

SECTION 14. Severability of Provisions.

Any part, provision, representation or warranty of this Agreement which is prohibited or unenforceable or is held to be void or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. To the extent permitted by applicable law, the parties hereto waive any provision of law which prohibits or renders void or unenforceable any provision hereof.

SECTION 15. Agreement of Parties.

The Seller and the Purchaser each agree to execute and deliver such instruments (including UCC financing statements and continuation statements) and take such actions as either of the others may, from time to time, reasonably request in order to effectuate the purpose and to carry out the terms of this Agreement and the Pooling and Servicing Agreement.

SECTION 16. Survival.

The Seller agrees that the representations, warranties and agreements made by it herein and in any certificate or other instrument delivered pursuant hereto shall be deemed to be relied upon by the Purchaser and its successors and assigns, notwithstanding any investigation heretofore or hereafter made by the Purchaser or on its behalf, and that the representations, warranties and agreements made by the Seller herein or in any such certificate or other instrument shall survive the delivery of and payment for the Mortgage Loans and the Trust Swap Agreement and shall continue in full force and effect, notwithstanding any restrictive or qualified endorsement on the Mortgage Notes and notwithstanding subsequent termination of this Agreement, the Pooling and Servicing Agreement or the Trust Fund.

SECTION 17. Indemnification, Representative.

(a) The Seller indemnifies and holds harmless the Purchaser, the Purchaser's officers and directors and each person, if any, who controls the Purchaser within the meaning of Section 15 of the Securities Act of 1933, as amended (the "1933 Act") or Section 20 of the Exchange Act of 1934, as amended, (the "Exchange Act"), as follows:

(i) against any and all losses, claims, expenses, damages or liabilities, joint or several, to which the Purchaser or such controlling person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof), including, but not limited to, any loss, claim, expense, damage or liability related to purchases and sales of the Class A Certificates and the Mezzanine Certificates arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Preliminary Prospectus Supplement or the Prospectus Supplement, in the case of purchases and sales of the Class A Certificates and the Mezzanine Certificates, or any amendment or supplement thereto, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading; and will reimburse, as incurred, the Purchaser and each such controlling person for any legal or other expenses reasonably incurred by the Purchaser or such controlling person in connection with investigating, defending against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Seller will be liable in any such case only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or omission, or alleged untrue statement or omission, made therein in reliance upon and in conformity with written information furnished to the Purchaser by the Seller specifically for use in the preparation thereof (the "Seller's Information");

(ii) against any and all loss, liability, claim, damage and expense whatsoever, to the extent of the aggregate amount paid in settlement of any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, if such settlement is effected with the written consent of the Seller; and

(iii) against any and all expense whatsoever (including the fees and disbursements of counsel chosen by the Purchaser, subject to Section 17(c) below), reasonably incurred in investigating, preparing or defending against any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under clause (i) or clause (ii) above.

This indemnity agreement will be in addition to any liability which the Seller may otherwise have.

(b) The Purchaser agrees to indemnify and hold harmless the Seller, each of its directors, each of its officers and each person, if any, who controls the Seller within the meaning of Section 15 of the 1933 Act or Section 20 of the Exchange Act, against any and all losses, claims, expenses, damages or liabilities to which the Seller or any such director, officer or controlling person may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Preliminary Prospectus Supplement or the Prospectus Supplement, in the case of purchases and sales of the Class A Certificates and the Mezzanine Certificates, other than in the Seller's Information, or arise out of, or are based upon, the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse any legal or other expenses reasonably incurred by the Seller or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability which the Purchaser may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 17 of notice of the commencement of any action described therein, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 17, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve the indemnifying party from any liability that it may have to any indemnified party under this Section 17 unless the indemnifying party is materially prejudiced by such omission to notify and in any event the failure to notify the indemnifying party shall not relieve it from any liability which it may have to the indemnified party otherwise than under this Agreement. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and, to the extent that it may wish to do so, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party (such consent not to be unreasonably withheld, conditioned or delayed), be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party under this Section 17, such indemnifying party shall not be liable for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and preparation for a defense.

Any indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless: (i) the employment thereof has been specifically authorized by the indemnifying party in writing (ii) such indemnified party shall have been advised by such counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party and in the reasonable judgment of such counsel it is advisable for such indemnified party to employ separate counsel; (iii) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (iv) the indemnifying party has failed to assume the defense of such action and employ counsel reasonably satisfactory to the indemnified party, in which case, if such indemnified party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party, it being understood, however, the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to local counsel) at any time for all such indemnified parties, which firm shall be designated in writing (i) by the Seller if the indemnified parties under this Section 17 consist of the Seller or any of its officers, directors or controlling persons, or (ii) the Purchaser, if the indemnified party under this Section 17 consist of the Purchaser or any of the Purchaser's directors, officers or controlling persons.

Each indemnified party, as a condition of the indemnity agreements contained in Section 17(a) and Section 17(b), shall use its reasonable efforts to cooperate with the indemnifying party in the defense of any such action or claim. No indemnifying party shall be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld, conditioned or delayed), but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability (to the extent set forth in Section 17(a) or Section 17(b) as applicable) by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or failure to act by or on behalf of an indemnified party.

Notwithstanding the foregoing paragraph, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement.

(d) If the indemnification provided for in Section 17(a) or 17(b) is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Purchaser on the one hand and the Seller on the other from the offering of the Class A Certificates and the Mezzanine Certificates or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Purchaser on the one hand and the Seller on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. If the indemnification provided for in Section 17(b) is unavailable or insufficient to hold harmless the indemnified party under Section 17(b), then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in Section 17(b) in such proportion as appropriate to reflect the relative fault of the Purchaser on one hand and the Seller on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Purchaser on the one hand and the Seller on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Purchaser bear to the total underwriting discounts and commissions received by the Underwriters (as defined in the Prospectus Supplement). The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Purchaser or by the Seller and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to above in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

SECTION 18. Representations and Warranties of the Seller Relating to the Trust Swap Agreement.

The Seller hereby represents and warrants to the Purchaser, that as of the Closing Date with respect to the Trust Swap Agreement:

(a) Immediately prior to the novation of the Trust Swap Agreement to the Purchaser, the Seller had good title to, and was the sole legal and beneficial owner of, the Trust Swap Agreement, free and clear of any pledge, lien, security interest, charge, claim, equity or encumbrance of any kind created by the Seller, and has full right and authority, subject to no interest or participation of, or agreement with, any other party to sell, assign and novate the same. Upon the delivery, transfer or novation of the Trust Swap Agreement to the Purchaser as contemplated herein, the Purchaser will receive the Trust Swap Agreement, free and clear of any pledge, lien, security interest, charge, claim, equity or encumbrance of any kind created by the Seller;

(b) The Trust Swap Agreement constitutes "general intangibles" within the meaning of the applicable UCC;

(c) The Seller has received all consents and approvals required by the terms of the Trust Swap Agreement for the sale of such Trust Swap Agreement hereunder to the Purchaser;

(d) The Seller has caused or will have caused, within ten days after the Closing Date, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law as necessary to perfect the security interest in the Trust Swap Agreement granted to the Purchaser hereunder; and

(e) The Seller has not authorized the filing of and is not aware of any financing statements against Seller that include a description of collateral covering either of the Trust Swap Agreement other than any financing statement (a) relating to the security interest granted to the Purchaser hereunder or (b) that has been terminated.

SECTION 19. Governing Law.

THIS AGREEMENT AND THE RIGHTS, DUTIES, OBLIGATIONS AND RESPONSIBILITIES OF THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS AND DECISIONS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES. THE PARTIES HERETO INTEND THAT THE PROVISIONS OF SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW SHALL APPLY TO THIS AGREEMENT.

SECTION 20. Miscellaneous.

This Agreement may be executed in two or more counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one and the same instrument. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

It is the express intent of the parties hereto that the conveyance of the Mortgage Loans and the Trust Swap Agreement by the Seller to the Purchaser as provided in Section 4 hereof be, and be construed as, a sale of the Mortgage Loans and the Trust Swap Agreement by the Seller to the Purchaser and not as a pledge of the Mortgage Loans and the Trust Swap Agreement by the Seller to the Purchaser to secure a debt or other obligation of the Seller. However, in the event that, notwithstanding the aforementioned intent of the parties, the Mortgage Loans and the Trust Swap Agreement are held to be property of the Seller, then, (a) it is the express intent of the parties that such conveyance be deemed a pledge of the Mortgage Loans and the Trust Swap Agreement by the Seller to the Purchaser to secure a debt or other obligation of the Seller and (b) (1) this Agreement shall also be deemed to be a security agreement within the meaning of Articles 8 and 9 of the New York Uniform Commercial Code; (2) the conveyance provided for in Section 4 hereof shall be deemed to be a grant by the Seller to the Purchaser of a security interest in all of the Seller's right, title and interest in and to the Mortgage Loans, the Trust Swap Agreement and all amounts payable to the holders of the Mortgage Loans and the Trust Swap Agreement in accordance with the terms thereof and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, instruments, securities or other property, including without limitation all amounts, other than investment earnings, from time to time held or invested in the Collection Account whether in the form of cash, instruments, securities or other property; (3) the possession by the Purchaser or its agent of the Mortgage Notes, the Trust Swap Agreement, the related Mortgages and such other items of property that constitute instruments, money, negotiable documents or chattel paper shall be deemed to be "possession by the secured party" for purposes of perfecting the security interest pursuant to Section 9-305 of the New York Uniform Commercial Code; and (4) notifications to persons holding such property, and acknowledgments, receipts or confirmations from persons holding such property, shall be deemed notifications to, or acknowledgments, receipts or confirmations from, financial intermediaries, bailees or agents (as applicable) of the Purchaser for the purpose of perfecting such security interest under applicable law. Any assignment of the interest of the Purchaser pursuant to Section 4(d) hereof shall also be deemed to be an assignment of any security interest created hereby. The Seller and the Purchaser shall, to the extent consistent with this Agreement, take such actions as may be necessary to ensure that, if this Agreement were deemed to create a security interest in the Mortgage Loans and the Trust Swap Agreement, such security interest would be deemed to be a perfected security interest of first priority under applicable law and will be maintained as such throughout the term of this Agreement and the Pooling and Servicing Agreement.

SECTION 21. Third Party Beneficiary.

Each of the Trustee and the NIMS Insurer, if any, shall be a third-party beneficiary hereof (except with respect to Section 17) and shall be entitled to enforce the provisions hereof as if a party hereto, except the provisions of Section 17 hereof. The Underwriters, shall be third-party beneficiaries hereof solely with respect to Section 17 and shall be entitled to enforce the provisions of Section 17 as if it were a party hereto.

IN WITNESS WHEREOF, the Purchaser and the Seller have caused their names to be signed by their respective officers thereunto duly authorized as of the date first above written.

LONG BEACH SECURITIES CORP.

By: _____
Name: Dave Coultas
Title: Authorized Officer

LONG BEACH MORTGAGE COMPANY

By: _____
Name: Dave Coultas
Title: First Vice President

EXHIBIT A TO MORTGAGE LOAN PURCHASE AGREEMENT

STANDARD & POOR'S LEVELS® GLOSSARY in effect on the CLOSING DATE

As of February 7, 2006 (Update as of the Closing Date)

APPENDIX E TO GLOSSARY FOR FILE FORMAT FOR LEVELS® VERSION 5.6c: Standard & Poor's Anti-Predatory Lending Categorization

REVISED January 17, 2006

Standard & Poor's has categorized loans governed by anti-predatory lending laws in the Jurisdictions listed below into three categories based upon a combination of factors that include (a) the risk exposure associated with the assignee liability and (b) the tests and thresholds set forth in those laws. Note that certain loans classified by the relevant statute as Covered are included in Standard & Poor's High Cost Loan Category because they included thresholds and tests that are typical of what is generally considered High Cost by the industry.

Standard & Poor's High Cost Loan Categorization

State/Jurisdiction	Name of Anti-Predatory Lending Law/Effective Date	Category under Applicable Anti-Predatory Lending Law
Arkansas	Arkansas Home Loan Protection Act, Ark. Code Ann. §§ 23-53-101 et seq. Effective July 16, 2003	High Cost Home Loan
Cleveland Heights, OH	Ordinance No. 72-2003 (PSH), Mun. Code §§ 757.01 et seq. Effective June 2, 2003	Covered Loan
Colorado	Consumer Equity Protection, Colo. Stat. Ann. §§ 5-3.5-101 et seq. Effective for covered loans offered or entered into on or after January 1, 2003. Other provisions of the Act took effect on June 7, 2002	Covered Loan
Connecticut	Connecticut Abusive Home Loan Lending Practices Act, Conn. Gen. Stat. §§ 36a-746 et seq. Effective October 1, 2001	High Cost Home Loan
District of Columbia	Home Loan Protection Act, D.C. Code §§ 26-1151.01 et seq. Effective for loans closed on or after January 28, 2003	Covered Loan
Florida	Fair Lending Act, Fla. Stat. Ann. §§ 494.0078 et seq. Effective October 2, 2002	High Cost Home Loan

Standard & Poor's High Cost Loan Categorization

State/Jurisdiction	Name of Anti-Predatory Lending Law/Effective Date	Category under Applicable Anti-Predatory Lending Law
Georgia (Oct. 1, 2002 - Mar. 6, 2003)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 et seq. Effective October 1, 2002 - March 6, 2003	High Cost Home Loan
Georgia as amended (Mar. 7, 2003 - current)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 et seq. Effective for loans closed on or after March 7, 2003	High Cost Home Loan
HOEPA Section 32	Home Ownership and Equity Protection Act of 1994, 15 U.S.C. § 1639, 12 C.F.R. §§ 226.32 and 226.34 Effective October 1, 1995, amendments October 1, 2002	High Cost Loan
Illinois	High Risk Home Loan Act, Ill. Comp. Stat. tit. 815, §§ 137/5 et seq. Effective January 1, 2004 (prior to this date, regulations under Residential Mortgage License Act effective from May 14, 2001)	High Risk Home Loan
Kansas	Consumer Credit Code, Kan. Stat. Ann. §§ 16a-1-101 et seq.\	High Loan to Value Consumer Loan (id.§ 16a-3-207) and;
	Sections 16a-1-301 and 16a-3-207 became effective April 14, 1999; Section 16a-3-308a became effective July 1, 1999	High APR Consumer Loan (id.§ 16a-3-308a)
Kentucky	2003 KY H.B. 287 - High Cost Home Loan Act, Ky. Rev. Stat. §§ 360.100 et seq. Effective June 24, 2003	High Cost Home Loan
Maine	Truth in Lending, Me. Rev. Stat. tit. 9-A, §§ 8-101 et seq. Effective September 29, 1995 and as amended from time to time	High Rate High Fee Mortgage
Massachusetts	Part 40 and Part 32, 209 C.M.R. §§ 32.00 et seq. and 209 C.M.R. §§ 40.01 et seq. Effective March 22, 2001 and amended from time to time	High Cost Home Loan

Standard & Poor's High Cost Loan Categorization

State/Jurisdiction	Name of Anti-Predatory Lending Law/Effective Date	Category under Applicable Anti-Predatory Lending Law
Nevada	Assembly Bill No. 284, Nev. Rev. Stat. §§ 598D.010 et seq. Effective October 1, 2003	Home Loan
New Jersey	New Jersey Home Ownership Security Act of 2002, N.J. Rev. Stat. §§ 46:10B-22 et seq. Effective for loans closed on or after November 27, 2003	High Cost Home Loan
New Mexico	Home Loan Protection Act, N.M. Rev. Stat. §§ 58-21A-1 et seq. Effective as of January 1, 2004; Revised as of February 26, 2004	High Cost Home Loan
New York	N.Y. Banking Law Article 6-1 Effective for applications made on or after April 1, 2003	High Cost Home Loan
North Carolina	Restrictions and Limitations on High Cost Home Loans, N.C. Gen. Stat. §§ 24-1.1E et seq. Effective July 1, 2000; amended October 1, 2003 (adding open-end lines of credit)	High Cost Home Loan
Ohio	H.B. 386 (codified in various sections of the Ohio Code), Ohio Rev. Code Ann. §§ 1349.25 et seq. Effective May 24, 2002	Covered Loan
Oklahoma	Consumer Credit Code (codified in various sections of Title 14A) Effective July 1, 2000; amended effective January 1, 2004	Subsection 10 Mortgage
South Carolina	South Carolina High Cost and Consumer Home Loans Act, S.C. Code Ann. §§ 37-23-10 et seq. Effective for loans taken on or after January 1, 2004	High Cost Home Loan
West Virginia	West Virginia Residential Mortgage Lender, Broker and Servicer Act, W. Va. Code Ann. §§ 31-17-1 et seq. Effective June 5, 2002	West Virginia Mortgage Loan Act Loan

Standard & Poor's High Cost Loan Categorization

State/Jurisdiction	Name of Anti-Predatory Lending Law/Effective Date	Category under Applicable Anti-Predatory Lending Law
Georgia (Oct. 1, 2002 - Mar. 6, 2003)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 et seq. Effective October 1, 2002 - March 6, 2003	Covered Loan
New Jersey	New Jersey Home Ownership Security Act of 2002, N.J. Rev. Stat. §§ 46:10B-22 et seq. Effective November 27, 2003 - July 5, 2004	Covered Home Loan

Standard & Poor's Home Loan Categorization

State/Jurisdiction	Name of Anti-Predatory Lending Law/Effective Date	Category under Applicable Anti-Predatory Lending Law
Georgia (Oct. 1, 2002 - Mar. 6, 2003)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 et seq. Effective October 1, 2002 - March 6, 2003	Home Loan
New Jersey	New Jersey Home Ownership Security Act of 2002, N.J. Rev. Stat. §§ 46:10B-22 et seq. Effective for loans closed on or after November 27, 2003	Home Loan
New Mexico	Home Loan Protection Act, N.M. Rev. Stat. §§ 58-21A-1 et seq. Effective as of January 1, 2004; Revised as of February 26, 2004	Home Loan

Standard & Poor's Home Loan Categorization

State/Jurisdiction	Name of Anti-Predatory Lending Law/Effective Date	Category under Applicable Anti-Predatory Lending Law
North Carolina	Restrictions and Limitations on High Cost Home Loans, N.C. Gen. Stat. §§ 24-1.1E et seq. Effective July 1, 2000; amended October 1, 2003 (adding open-end lines of credit)	Consumer Home Loan
South Carolina	South Carolina High Cost and Consumer Home Loans Act, S.C. Code Ann. §§ 37-23-10 et seq. Effective for loans taken on or after January 1, 2004	Consumer Home Loan

SCHEDULE A

<u>Provider</u>	<u>Trust Swap Agreement</u> <u>Transaction Reference</u>
Credit Suisse International	External ID: 53101624N3 / Risk ID: 447390557

EX-4.6 2 exh46to8k.htm

[Click here for printer-friendly pdf version of this document with page breaks as indicated in the Table of Contents](#)

If above link does not activate, you will find the duplicate printer-friendly pdf version of this document attached to this filing submission with the SEC.

EXHIBIT 4.6

MORTGAGE LOAN PURCHASE AND SALE AGREEMENT

Among

**Washington Mutual Bank
Washington Mutual Bank fsb
(Sellers)**

and

**WaMu Asset Acceptance Corp.
(Purchaser)**

Dated as of October 25, 2005

**Residential First Lien Mortgage Loans
Flow Delivery Program**

TABLE OF CONTENTS

	Page
ARTICLE 1. DEFINITIONS	2
ARTICLE 2. SALE AND CONVEYANCE OF MORTGAGE LOANS; PAYMENT OF PURCHASE PRICE; DELIVERY OF MORTGAGE FILES;	18
Section 2.1 Sale and Conveyance of Mortgage Loans; Payment of Purchase Price	18
Section 2.2 Delivery of Mortgage Files	20
Section 2.3 Recordation of Mortgages and Assignments of Mortgages	20
Section 2.4 Repurchases of and Substitutions for Defective Mortgage Loans	21
ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF THE SELLER CONCERNING THE MORTGAGE LOANS; REPURCHASE OR SUBSTITUTION OF MORTGAGE LOANS	27
Section 3.1 Seller Representations and Warranties Concerning the Mortgage Loans	27
Section 3.2 Additional Seller Representations and Warranties	36
Section 3.3 Repurchases and Substitutions in the Event of Breach of Seller Representations and Warranties	40
ARTICLE 4. COVENANTS	43

Permanent Subcommittee on Investigations

EXHIBIT #85

Section 4.1 Cooperation	43
Section 4.2 Representations, Warranties, Covenants and Indemnities	43
Section 4.3 Delivery of Documents	43
Section 4.4 Consents and Approvals	44
Section 4.5 Confidentiality	44
ARTICLE 5. CONDITIONS TO PURCHASE	45
Section 5.1 Required Documents	45
Section 5.2 Correctness of Representations and Warranties	45
Section 5.3 Compliance With Conditions	46
Section 5.4 Costs	46
ARTICLE 6. SALE PURSUANT TO POOLING AND SERVICING AGREEMENT	47
Section 6.1 Servicing Agreement: Sellers' Consent to Assignment	47
Section 6.2 Indemnification	48
ARTICLE 7. MISCELLANEOUS PROVISIONS	50
Section 7.1 Amendment	50
Section 7.2 Recordation of Agreement	50
Section 7.3 Governing Law	51
Section 7.4 General Interpretive Principles	51
Section 7.5 Notices	52
Section 7.6 Severability of Provisions	54
Section 7.7 Exhibits	54
Section 7.8 Counterparts; Successors and Assigns	55
Section 7.9 Effect of Headings	55
Section 7.10 Other Agreements Superseded	55
Section 7.11 Intention of the Parties	56
Section 7.12 Nonsolicitation	56
Section 7.13 Obligations of the Sellers	58
Section 7.14 Attorneys' Fees	58
Section 7.15 Security Interest	58
Section 7.16 Covenant Not to Place Purchaser or Trust Into Bankruptcy	60

EXHIBITS

Exhibit A	CONTENTS OF MORTGAGE FILE
Exhibit B	TERM SHEET
Exhibit C	CONFIDENTIAL PRICING SUPPLEMENT

MORTGAGE LOAN PURCHASE AND SALE AGREEMENT

THIS MORTGAGE LOAN PURCHASE AND SALE AGREEMENT dated as of October 25, 2005 is among WaMu Asset Acceptance Corp., a Delaware corporation, as purchaser, Washington Mutual Bank, a federal savings association, as seller, and Washington Mutual Bank fsb, a federal savings bank, as seller.

PRELIMINARY STATEMENT

WHEREAS, in reliance upon the representations, warranties and covenants of each Seller contained here, the Purchaser desires to purchase from each Seller, from time to time, and each Seller desires to sell to the Purchaser, from time to time, certain residential first lien mortgage loans, subject to the terms and conditions of this Agreement, without recourse;

WHEREAS, the Purchaser and the Sellers desire to prescribe in this Agreement the manner of sale by each Seller and purchase by the Purchaser of such mortgage loans;

WHEREAS, following each purchase of mortgage loans from the Sellers, the Purchaser intends to effect a Sale (as defined below) with respect to those mortgage loans; and

WHEREAS, the Purchaser and the Sellers desire that Washington Mutual Bank shall service the mortgage loans pursuant to a Pooling and Servicing Agreement (as defined below).

NOW, THEREFORE, the Purchaser and the Sellers agree as follows:

ARTICLE 1.

DEFINITIONS

Whenever used herein, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

Agreement: This Mortgage Loan Purchase and Sale Agreement, including all exhibits, attachments and schedules hereto, and all amendments hereof and supplements hereto.

Appraised Value: With respect to any (i) Mortgage Loan that is not a Streamlined Mortgage Loan or ROV Mortgage Loan, the lesser of (a) the value set forth on the appraisal made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property and (b) the purchase price paid for the Mortgaged Property; *provided, however*, that if such Mortgage Loan was originated in connection with the refinance of a mortgage loan, the Appraised Value shall be the value set forth on the appraisal made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property; (ii) ROV Mortgage Loan, the lesser of (a) the value set forth on the residential appraisal review made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property and (b) the purchase price paid for the Mortgaged Property; *provided, however*, that if such ROV Mortgage Loan was originated in connection with the refinance of a mortgage loan, the Appraised Value shall be the value set forth on the residential appraisal review made in connection with the origination of such ROV Mortgage Loan as the value of the related Mortgaged Property; and (iii) Streamlined Mortgage Loan, the value set forth in the appraisal made in connection with the origination of the mortgage loan being refinanced.

ARM Loan: A Mortgage Loan as to which the related Mortgage Note provides that the Mortgage Interest Rate may be adjusted periodically.

Assignment of Proprietary Lease: With respect to a Cooperative Loan, the assignment or mortgage of the related Cooperative Lease by the Mortgagor to the originator of the Cooperative Loan.

Breaching Seller: As defined in Section 3.3(b).

Buydown Agreement: An agreement between a Person and a Mortgagor pursuant to which such Person has provided a Buydown Fund.

Buydown Fund: A fund provided by the originator of a Mortgage Loan or another Person with respect to a Buydown Loan which provides an amount sufficient to subsidize regularly scheduled principal and interest payments due on such Buydown Loan for a period.

Buydown Loan: A Mortgage Loan for which the Mortgage Interest Rate has been subsidized through a Buydown Fund provided at the time of origination of such Mortgage Loan.

Certificates: As defined in the applicable Term Sheet.

Closing Date: With respect to any Mortgage Loan, the meaning set forth in the applicable Term Sheet.

Closing Date Loan-to-Value Ratio: With respect to any Mortgage Loan, the Cut-Off Date Principal Balance of such Mortgage Loan divided by the value of the related Mortgaged Property as of the related Closing Date.

Code: The Internal Revenue Code of 1986, as amended from time to time, or any successor statute thereto.

Confidential Pricing Supplement: A Confidential Pricing Supplement with respect to the Mortgage Loans purchased by the Purchaser from a Seller on a Closing Date, in substantially the form attached as Exhibit C hereto.

Cooperative: A private cooperative housing corporation which owns or leases land and all or part of a building or buildings, including apartments, spaces used for commercial purposes and common areas therein, and whose board of directors authorizes, among other things, the sale of Cooperative Stock.

Cooperative Apartment: A dwelling unit in a multi-dwelling building owned or leased by a Cooperative, which unit the Mortgagor has an exclusive right to occupy pursuant to the terms of a proprietary lease or occupancy agreement in accordance with the laws of the state in which the building is located.

Cooperative Lease: With respect to a Cooperative Loan, the proprietary lease or occupancy agreement with respect to the Cooperative Apartment occupied by the Mortgagor and relating to the related Cooperative Stock, which lease or agreement confers an exclusive right to the holder of such Cooperative Stock to occupy such apartment.

Cooperative Loan: A Mortgage Loan made in respect of a Cooperative Apartment, evidenced by a Mortgage Note and secured by the related Cooperative Stock and the related Cooperative Lease, together with (i) the related Security Agreement, (ii) the related Cooperative Stock Certificate, (iii) the related assignment or mortgage of the Cooperative Lease, (iv) the related financing statements, (v) the related stock power or other similar instrument and (vi) the related Recognition Agreement.

Cooperative Stock: With respect to a Cooperative Loan, the stock, partnership interest or other ownership instrument in the related Cooperative.

Cooperative Stock Certificate: With respect to a Cooperative Loan, the stock certificate or other instrument evidencing the related Cooperative Stock.

Current Loan-to-Value Ratio: As used in Section 2.4(b), the Principal Balance of a Mortgage Loan as of the applicable date of substitution divided by the Appraised Value; and as used in Section 3.1, the Cut-Off Date Principal Balance of a Mortgage Loan divided by the Appraised Value.

Curtailment: Any payment of principal on a Mortgage Loan, made by or on behalf of the related Mortgagor, other than a Monthly Payment (including a Monthly Payment received prior to its scheduled Due Date, which is intended to be applied on its scheduled Due Date) or a Payoff, which is applied to reduce the outstanding principal balance of the Mortgage Loan.

Custodian: As defined in the related Term Sheet.

Cut-Off Date: As to each Mortgage Loan, the first day of the month in which the applicable Closing Date occurs.

Cut-Off Date Principal Balance: As to each Mortgage Loan, the principal balance of such Mortgage Loan remaining to be paid as of the close of business on the applicable Cut-Off Date, after deduction and application of all payments of principal due on or before such Cut-Off Date, whether or not received.

Destroyed Mortgage Note: A Mortgage Note the original of which (or a portion of the original of which) was permanently lost or destroyed and has not been replaced.

Disclosure Documents: As defined in Section 6.2(a).

Due Date: With respect to any Mortgage Loan, the day of the month on which Monthly Payments on such Mortgage Loan are due, exclusive of any days of grace, which day shall be the first day of the month unless otherwise specified on the related Mortgage Loan Schedule.

Fannie Mae: The Federal National Mortgage Association and any successor thereto.

FHA: The Federal Housing Administration, or any successor thereto.

Freddie Mac: The Federal Home Loan Mortgage Corporation and any successor thereto.

High Cost/Covered Loan: As defined in the related Term Sheet.

Index: With respect to any ARM Loan, the index set forth in the related Mortgage Note, which index is added to the Margin to determine the Mortgage Interest Rate on each date on which the Mortgage Interest Rate is subject to adjustment.

Initial Interest Rate Adjustment Date: With respect to any ARM Loan, the initial Due Date on which an adjustment to the Mortgage Interest Rate of such ARM Loan becomes effective.

Margin: With respect to any ARM Loan, the applicable fixed per annum percentage rate specified in the applicable Mortgage Note and designated as such in the related Mortgage Loan Schedule.

MERS: Mortgage Electronic Registration Systems, Inc., a Delaware corporation, or any successor thereto.

MERS Loan: Any Mortgage Loan registered on the MERS® System for which MERS appears as the mortgagee of record on the related Mortgage or on an assignment thereof.

MERS® System: The system of electronically recording transfers of Mortgages maintained by MERS.

MIN: The Mortgage Identification Number for a MERS Loan.

MOM Loan: A MERS Loan that was registered on the MERS® System at the time of origination thereof and for which MERS appears as the mortgagee of record on the related Mortgage.

Monthly Payment: With respect to any Mortgage Loan, the scheduled monthly payment of principal and/or interest on such Mortgage Loan which is due on the related Due Date for such Mortgage Loan.

Mortgage: The mortgage, deed of trust, or other instrument securing a Mortgage Note.

Mortgage File: With respect to any Mortgage Loan, the documents or instruments with respect to such Mortgage Loan described in Exhibit A hereto.

Mortgage Interest Rate: With respect to any Mortgage Loan, the per annum rate at which interest accrues on such Mortgage Loan pursuant to the terms of the related Mortgage Note.

Mortgage Loan: Each mortgage loan and cooperative loan (if any), including each Substitute Mortgage Loan, listed on the Mortgage Loan Schedule to a Term Sheet. With respect to each Mortgage Loan that is a Cooperative Loan, "Mortgage Loan" shall include, but not be limited to, the Mortgage Note and the related Security Agreement, Assignment of Proprietary Lease, Recognition Agreement, Cooperative Stock Certificate and Cooperative Lease and, with respect to each Mortgage Loan other than a Cooperative Loan, "Mortgage Loan" shall include, but not be limited to, the Mortgage Note and the related Mortgage.

Mortgage Loan Schedule: The Schedule of Mortgage Loans (which may consist of one or more separate schedules) attached as Schedule I to a Term Sheet. The Mortgage Loan Schedule shall set forth at least the following information with respect to each Mortgage Loan listed therein to the extent applicable: (i) its loan number, (ii) the city, state and zip code of the Mortgaged Property, (iii) the Appraised Value of the property subject to the Mortgage, (iv) the Cut-Off Date Principal Balance, (v) (a) in the case of each Mortgage Loan that is not an ARM Loan, the Mortgage Interest Rate of the Mortgage Note and (b) in the case of each ARM Loan, the Mortgage Interest Rate, as of the Cut-Off Date, of the Mortgage Note and the Rate Ceiling, Rate Floor, Periodic Cap, Index and Margin, as applicable, of the Mortgage Note, (vi) whether a Primary Insurance Policy is in effect as of the Cut-Off Date, (vii) the maturity of the Mortgage Note and (viii) the Servicing Fee Rate.

Mortgage Note: The note or other evidence of the indebtedness of a Mortgagor under a Mortgage Loan.

Mortgaged Property: With respect to any Mortgage Loan, other than a Cooperative Loan, the real property, together with improvements thereto, and, with respect to any Cooperative Loan, the related Cooperative Stock and Cooperative Lease, securing the indebtedness of the Mortgagor under the related Mortgage Note.

Mortgagor: The obligor(s) on a Mortgage Note.

Net Rate: With respect to each Mortgage Loan, the Mortgage Interest Rate less the Servicing Fee Rate.

Original Loan-to-Value Ratio: The original principal amount of a Mortgage Loan divided by the Appraised Value.

Payoff: Any payment of principal on a Mortgage Loan made by or on behalf of the related Mortgagor equal to the entire outstanding principal balance of such Mortgage Loan, if received in advance of the last scheduled Due Date for such Mortgage Loan and accompanied by an amount of interest equal to accrued unpaid interest on the Mortgage Loan to the date of such payment in full.

Periodic Cap: With respect to any ARM Loan, any applicable limit on adjustment of the Mortgage Interest Rate for each date of adjustment specified in the applicable Mortgage Note and designated as such in the related Mortgage Loan Schedule.

Person: Any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other entity or organization, whether or not a legal entity.

Pooling and Servicing Agreement: As defined in the applicable Term Sheet, as such Pooling and Servicing Agreement is in effect on its date of execution.

Primary Insurance Policy: With respect to any Mortgage Loan, a primary policy of mortgage guaranty insurance, if any, on such Mortgage Loan.

Principal Balance: With respect to any Mortgage Loan (including any Substitute Mortgage Loan), as of any date of determination, the scheduled principal balance of such Mortgage Loan under the terms of the related Mortgage Note as of such date, reduced by any Curtailments received with respect to such Mortgage Loan prior to the calendar month of determination and by any Payoff received on or before the 14th day of the calendar month of determination, and without adjustment solely by reason of any bankruptcy or similar proceeding or any moratorium or similar waiver or grace period.

Purchase Price: For each Mortgage Loan, an amount equal to the sum of (i) the product of the Cut-Off Date Principal Balance of such Mortgage Loan, multiplied by the related Purchase Price Percentage, and (ii) the amount of interest (computed at the Net Rate) that has accrued on the Cut-Off Date Principal Balance of such Mortgage Loan from the related Cut-Off Date to but not including the related Closing Date.

Purchase Price Percentage: For each Mortgage Loan, as defined in the related Confidential Pricing Supplement.

Purchaser: WaMu Asset Acceptance Corp., a Delaware corporation, and all successors in interest pursuant to Sections 6.1 and 7.8 hereof.

Rate Ceiling: With respect to any ARM Loan, the maximum per annum Mortgage Interest Rate permitted under the related Mortgage Note.

Rate Floor: With respect to any ARM Loan, the minimum per annum Mortgage Interest Rate, if any, permitted under the related Mortgage Note.

Rating Agencies: Each nationally recognized statistical rating organization that has rated the related Certificates at the request of the Purchaser.

Reacquired Mortgage Loan: A Mortgage Loan for which another Mortgage Loan is substituted pursuant to and in accordance with the provisions of Section 2.4 or 3.3.

Recognition Agreement: With respect to a Cooperative Loan, the recognition agreement between the Cooperative and the originator of such Cooperative Loan.

Recording Documents: With respect to each Mortgage Loan, the original recorded Mortgage relating to such Mortgage Loan and any intervening assignment thereof required to be included in the Mortgage File with evidence of recording thereon (or a copy of such original Mortgage or intervening assignment certified by the applicable recording office) (which may be in electronic form).

Repurchase Price: With respect to any Mortgage Loan to be repurchased by a Seller pursuant to Section 2.4 or 3.3, an amount equal to the sum of (i) the Principal Balance thereof as of the date of repurchase, (ii) one month's interest at the applicable Net Rate on an amount equal to the sum of (A) such Principal Balance and (B) the aggregate amount of all principal due but unpaid under the terms of the related Mortgage Note to the extent not covered by an advance by the Servicer pursuant to the related Pooling and Servicing Agreement, (iii) the aggregate amount of all principal and interest due but unpaid under the terms of the related Mortgage Note (whether or not covered by an advance by the Servicer pursuant to the related Pooling and Servicing Agreement), (iv) the aggregate amount of all unreimbursed advances of reimbursable expenses made by the Servicer with respect to such Mortgage Loan pursuant to the related Pooling and Servicing Agreement and (v) all costs and damages incurred by the Purchaser or its transferee in connection with any violation by such Mortgage Loan of any predatory and abusive lending laws, to the extent such costs and damages result from

a breach of the representation and warranty made by such Seller pursuant to Section 3.1(vii); *provided, however*, that to the extent that such costs and damages constitute a set-off against the principal balance of the Mortgage Loan, such costs and damages will not be paid pursuant to this clause (v), and the amount paid pursuant to clause (i) above will be calculated without regard to such set-off.

ROV Mortgage Loan: A Mortgage Loan with respect to which the value set forth on the appraisal has been appealed and, as a result, an internal valuation has been conducted and included in a residential appraisal review contained in the related credit file.

Sale: The sale of Mortgage Loans by the Purchaser to a Trust pursuant to a Pooling and Servicing Agreement.

Security Agreement: With respect to a Cooperative Loan, the agreement or mortgage creating a security interest in favor of the originator of the Cooperative Loan in the related Cooperative Stock.

Seller: Each of Washington Mutual Bank and Washington Mutual Bank fsb, and its respective assigns and successors in interest.

Seller Officer's Certificate: A certificate signed by the Chairman of the Board, the President, any Vice President or the Treasurer of the applicable Seller.

Seller's Information: As defined in Section 6.2(a).

Servicer: As defined in the related Pooling and Servicing Agreement.

Servicing Fee Rate: With respect to each Mortgage Loan, the percentage set forth as such for such Mortgage Loan in the Mortgage Loan Schedule.

Streamlined Mortgage Loan: A Mortgage Loan originated in connection with the refinance of a mortgage loan pursuant to the streamlined loan documentation program then in effect of the related Seller.

Substitute Mortgage Loan: A Mortgage Loan that is substituted for another Mortgage Loan pursuant to and in accordance with the provisions of Section 2.4 or 3.3.

Substitution Price: With respect to all Reacquired Mortgage Loans for which Substitute Mortgage Loans are substituted by a Seller on a specific date pursuant to Section 2.4 or 3.3, an amount equal to the sum of (i) the excess, if any, of the aggregate Principal Balance of the Reacquired Mortgage Loans over the aggregate Principal Balance of the Substitute Mortgage Loans, in each case, as of the date of substitution, (ii) one month's interest at the weighted average Net Rate for the Reacquired Mortgage Loans on an amount equal to the sum of (A) the excess amount described in clause (i) above and (B) the aggregate amount of all principal due but unpaid on the Reacquired Mortgage Loans under the terms of the related Mortgage Notes to the extent not covered by an advance by the Servicer pursuant to the related Pooling and Servicing Agreement, (iii) the aggregate amount of all principal and interest due but unpaid on the Reacquired Mortgage Loans under the terms of the related Mortgage Notes (whether or not covered by an advance by the Servicer pursuant to the related Pooling and Servicing Agreement), (iv) the aggregate amount of all unreimbursed advances of reimbursable expenses made by the Servicer with respect to such Reacquired Mortgage Loans pursuant to the related Pooling and Servicing Agreement and (v) the aggregate amount of all costs and damages incurred by the Purchaser or its transferee in connection with any violations by such Reacquired Mortgage Loans of any predatory and abusive lending laws, to the extent such costs and damages result from a breach of the representation and warranty made by such Seller pursuant to Section 3.1(vii); *provided, however*, that to the extent that such costs and damages constitute a set-off against the principal balance of the related Reacquired Mortgage Loan, such costs and damages will not be paid pursuant to this clause (v), and the amount paid pursuant to clause (i) above will be calculated without regard to such set-off.

Term Sheet: A term sheet with respect to the Mortgage Loans purchased by the Purchaser from a Seller on a Closing Date, in substantially the form attached hereto as **Exhibit B**.

Trust: The trust created in connection with the related Pooling and Servicing Agreement.

Trustee: As defined in the related Pooling and Servicing Agreement.

Underwriting Standards: For each Mortgage Loan, the underwriting standards applicable to the origination of such Mortgage Loan.

VA: The Department of Veterans Affairs (formerly known as the Veterans Administration) and any successor thereto.

ARTICLE 2.

SALE AND CONVEYANCE OF MORTGAGE LOANS

**PAYMENT OF PURCHASE PRICE;
DELIVERY OF MORTGAGE FILES;**

Section 2.1. Sale and Conveyance of Mortgage Loans; Payment of Purchase Price

(a) On each Closing Date, upon the receipt of the applicable Purchase Price, each Seller that is selling Mortgage Loans to the Purchaser on such Closing Date shall deliver to the Purchaser a Term Sheet and a Confidential Pricing Supplement with respect to the Mortgage Loans sold by such Seller. As set forth in such Term Sheet, each Seller sells, transfers, assigns, sets over, and conveys to the Purchaser, without recourse, but subject to the representations, warranties, terms and provisions of this Agreement and such Term Sheet, all the right, title, and interest of such Seller in and to the Mortgage Loans described in the Mortgage Loan Schedule attached to such Term Sheet.

(b) In payment of the purchase price for each of the Mortgage Loans pursuant to Section 2.1(a) and the applicable Term Sheet, and upon the terms and conditions of this Agreement, on the related Closing Date the Purchaser shall pay to the applicable Seller or Sellers by wire transfer of immediately available funds the applicable Purchase Price for each Mortgage Loan purchased on such Closing Date.

(c) As of each Closing Date, the Purchaser shall own and be entitled to receive with respect to each Mortgage Loan purchased on such Closing Date all Monthly Payments due after the applicable Cut-Off Date, and all other payments and recoveries of principal and interest received on or after such Cut-Off Date, other than payments that were due on or prior to such Cut-Off Date.

(d) On or before each Closing Date, the applicable Seller or Sellers shall deliver to the Purchaser with the related Term Sheet the related Mortgage Loan Schedule, which shall be in hard copy or "read-only" electronic format (as reasonably acceptable to such Seller and the Purchaser).

Section 2.2. Delivery of Mortgage Files

Each Seller shall deliver or cause to be delivered to the Purchaser or its designee (which may be a Custodian), with respect to each Mortgage Loan sold by such Seller hereunder, on or before the related Closing Date, at such Seller's expense, each of the items or documents with respect to such Mortgage Loan required to be included in the Mortgage File pursuant to the definition thereof.

Section 2.3. Recordation of Mortgages and Assignments of Mortgages

With respect to each Mortgage Loan (other than any Mortgage Loan for which a Payoff has been made after the related Cut-Off Date and prior to the related Closing Date), in instances where, due to a delay on the part of the recording office, any Recording Documents are not included in the Mortgage File delivered to the Purchaser or its designee on or before the related Closing Date, the applicable Seller shall transmit the Recording Documents to the Purchaser or its designee within 270 days after the related Closing Date. In instances where, due to a delay on the part of the recording office where any such Recording Documents have been delivered for recordation, the Recording Documents cannot be delivered to the Purchaser or its designee within 270 days after such Closing Date, such Seller shall deliver to the Purchaser or its designee within such time period a Seller Officer's Certificate stating the date by which such Seller expects to receive such Recording Documents from the applicable recording office. In the event that Recording Documents have still not been received by such Seller and delivered to the Purchaser or its designee by the date specified in its previous Seller Officer's Certificate delivered to the Purchaser or its designee, such Seller shall deliver to the Purchaser or its designee by such date an additional Seller Officer's Certificate stating a revised date by which such Seller expects to receive the applicable Recording Documents. This procedure shall be repeated until the Recording Documents have been received by such Seller and delivered to the Purchaser or its designee.

Section 2.4. Repurchases of and Substitutions for Defective Mortgage Loans

(a) Upon receipt of notice from the Purchaser that any document, required to be included (pursuant to the definition of "Mortgage File") in the Mortgage File delivered to the Purchaser or its designee with respect to a Mortgage Loan sold by a Seller hereunder, was not included therein or has not been executed, such Seller shall correct or cure such defect within 60 days from the date such Seller receives notice thereof or, if such defect cannot be corrected or cured within such 60-day period, such Seller shall, not later than the expiration of such 60-day period, either (a) repurchase such Mortgage Loan from the Purchaser or its transferee at the Repurchase Price or (b) within the three-month period commencing on the related Closing Date (or within the two-year period commencing on such Closing Date if the related Mortgage Loan is a "defective obligation" within the meaning of Section 860G(a)(4)(B)(ii) of the Code and Treasury Regulation Section 1.860G-2(f)), substitute for such Mortgage Loan one or more Substitute Mortgage Loans each of which is a "qualified replacement mortgage" (as defined in the Code); provided, however, that in the event that such defect consists solely of the failure of such Seller to deliver any Recording Document with respect to such Mortgage Loan, due to a delay on the part of the recording office, then such Seller shall not be required to repurchase or substitute for such Mortgage Loan. If such defect would cause the Mortgage Loan to be other than a "qualified mortgage" (as defined in the Code), then notwithstanding the previous sentence, the repurchase or substitution must occur within the sooner of (i) 90 days from the date the

defect was discovered by such Seller, the Purchaser or any other party to the related Pooling and Servicing Agreement or (ii) in the case of substitution, two years from the related Closing Date.

(b) Any number of Substitute Mortgage Loans may be substituted for any number of Reacquired Mortgage Loans, subject to the limitations described in the next sentence. With respect to the Mortgage Loans substituted on any date, (i) the aggregate Principal Balance of the Substitute Mortgage Loans shall not exceed the aggregate Principal Balance of the Reacquired Mortgage Loans, (ii) each Substitute Mortgage Loan shall mature no later than, and not more than two years earlier than, the weighted average date of maturity of the Reacquired Mortgage Loans, (iii) each Substitute Mortgage Loan shall have a Current Loan-to-Value Ratio equal to or less than the weighted average Current Loan-to-Value Ratio of the Reacquired Mortgage Loans, (iv) each Substitute Mortgage Loan shall have a Mortgage Interest Rate on the date of substitution equal to or no more than 1 percentage point greater than the weighted average Mortgage Interest Rate of the Reacquired Mortgage Loans, (v) if the Reacquired Mortgage Loans do not provide for any payments of principal during an initial period, each Substitute Mortgage Loan also shall not provide for payments of principal during such initial period and (vi) if the Reacquired Mortgage Loans are ARM Loans, then each Substitute Mortgage Loan shall (1) if applicable, have an Initial Interest Rate Adjustment Date occurring on approximately the same date as, but not earlier than, the weighted average Initial Interest Rate Adjustment Date of the Reacquired Mortgage Loans and interest rate adjustments thereafter at the same frequency as the Reacquired Mortgage Loans, (2) if applicable, have a Margin, Rate Ceiling and Rate Floor equal to or greater than the weighted average Margin, Rate Ceiling and Rate Floor of the Reacquired Mortgage Loans, (3) have the same terms (other than the terms referenced in clauses (1) and (2) above) for adjusting the Mortgage Interest Rate as the Reacquired Mortgage Loans and (4) if applicable, have the same terms for adjusting the amount of the minimum monthly payment as the Reacquired Mortgage Loans. Furthermore, the applicable Seller shall be deemed to have made as of the date of substitution the representations and warranties set forth in Section 3.1 as to such Substitute Mortgage Loan (except that references to "Closing Date" and "Cut-Off Date" in such Section 3.1 shall be deemed to be references to the date of substitution). In addition, a Substitute Mortgage Loan shall not be a High Cost Loan or Covered Loan (as such terms are defined in the Standard & Poor's LEVELS® Glossary in effect on the date of substitution, with such exceptions thereto as the Purchaser and Standard & Poor's Ratings Services may reasonably agree). A Substitute Mortgage Loan may be substituted for a defective Mortgage Loan that is itself a Substitute Mortgage Loan.

(c) In connection with the substitution of one or more Substitute Mortgage Loans for one or more Reacquired Mortgage Loans on any date, the applicable Seller shall pay to the Purchaser the Substitution Price for such Reacquired Mortgage Loans.

(d) Concurrently with each such substitution, the applicable Seller shall deliver to and deposit with, or cause to be delivered to and deposited with, the Purchaser or its designee the Mortgage File for each Substitute Mortgage Loan. Upon such substitution, the Substitute Mortgage Loan shall be subject to the terms of this Agreement, to the extent applicable (including, without limitation, the Seller's obligations with respect to the Substitute Mortgage Loan pursuant to this Section 2.4 and Sections 2.3 and 3.3). The Seller and the Purchaser shall amend the Mortgage Loan Schedule in a timely fashion to delete all repurchased Mortgage Loans and Reacquired Mortgage Loans and add all Substitute Mortgage Loans.

(e) The applicable Seller shall pay any Repurchase Price or Substitution Price by such method as is specified by the Purchaser in writing.

(f) With respect to each repurchased Mortgage Loan or Reacquired Mortgage Loan, the applicable Seller shall own and be entitled to receive all scheduled payments due after the date of repurchase or substitution, as applicable, any Curtailments received in or after the calendar month of repurchase or substitution, as applicable, and any Payoff received after the 14th day of the calendar month of repurchase or substitution, as applicable; and with respect to each Substitute Mortgage Loan, the applicable Seller shall own and be entitled to receive all payments due under the related Mortgage Note on or before the date of substitution. Any such payments received by the Purchaser or its transferee shall promptly be remitted by the Purchaser to such Seller. With respect to each Substitute Mortgage Loan, the Purchaser shall own and be entitled to receive all scheduled payments due after the date of repurchase or substitution, as applicable, any Curtailments received in or after the calendar month of repurchase or substitution, as applicable, and any Payoff received after the 14th day of the calendar month of repurchase or substitution, as applicable. Any such payments received by the applicable Seller shall promptly be remitted by the Seller to the Purchaser or its transferee.

(g) Upon receipt by the Purchaser of the Repurchase Price or the Substitution Price, as applicable, and (in the case of a substitution for a Mortgage Loan pursuant to this Section 2.4 or Section 3.3) upon receipt by the Purchaser of such instruments of transfer or assignment, in each case without recourse, as shall be necessary to vest in the Purchaser title to any Substitute Mortgage Loan, the Purchaser shall release to the applicable Seller the Mortgage File for the repurchased Mortgage Loan or the Reacquired Mortgage Loan, as applicable, and shall execute and deliver such instruments of transfer or assignment, in each case without recourse, as shall be necessary to vest in such Seller title to such Mortgage Loan.

(h) Each Seller shall pay all costs and expenses incurred in connection with any repurchase or substitution by such Seller made pursuant to this Section 2.4 or Section 3.3.

(i) It is understood and agreed that the obligations of a Seller set forth in this Section 2.4 constitute the sole remedies available to the Purchaser or its transferee respecting such Seller's failure to include in the Mortgage File for a Mortgage Loan sold by such Seller

the documents required to be included therein.

ARTICLE 3.

REPRESENTATIONS AND WARRANTIES OF THE SELLERS CONCERNING THE MORTGAGE LOANS; REPURCHASE OR SUBSTITUTION OF MORTGAGE LOANS

Section 3.1. Seller Representations and Warranties Concerning the Mortgage Loans

Each of the Sellers hereby, severally and not jointly, represents and warrants to and covenants to and agrees with the Purchaser that, as to each Mortgage Loan sold by such Seller hereunder, as of the related Cut-Off Date unless otherwise indicated, subject in all cases (including, without limitation, clauses (iv), (xi) and (xviii)) to such exceptions, if any, as are set forth on Schedule III to the related Term Sheet:

- (i) The information set forth in the Mortgage Loan Schedule delivered on the Closing Date was true and correct in all material respects at the date or dates respecting which such information is furnished;
- (ii) As of the Closing Date, each Mortgage relating to a Mortgage Loan that is not a Cooperative Loan is a valid and enforceable (except as such enforceability may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity) first lien on an unencumbered estate in fee simple or (if the related Mortgage Loan is secured by the interest of the Mortgagor as a lessee under a ground lease) leasehold estate in the related Mortgaged Property subject only to (a) liens for current real property taxes and special assessments; (b) covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of recording such Mortgage, such exceptions appearing of record being acceptable to mortgage lending institutions generally or specifically reflected in the appraisal obtained in connection with the origination of the Mortgage Loan; (c) exceptions set forth in the title insurance policy relating to such Mortgage, such exceptions being acceptable to mortgage lending institutions generally; and (d) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Mortgage;
- (iii) Immediately upon the transfer and assignment contemplated herein, the Purchaser shall have good title to, and will be the sole legal owner of, each Mortgage Loan, free and clear of any encumbrance or lien (other than any lien under this Agreement);
- (iv) - Except as set forth on Schedule III to the Term Sheet, if applicable, as of the day prior to the Cut-Off Date, all payments due on each Mortgage Loan had been made and no Mortgage Loan had been delinquent (i.e., was more than 30 days past due) more than once in the preceding 12 months and any such delinquency lasted for no more than 30 days;
- (v) As of the Closing Date, there is no offset, defense or counterclaim to any Mortgage Note, including the obligation of the Mortgagor to pay the unpaid principal or interest on such Mortgage Note, except to the extent that the Buydown Agreement for a Buydown Loan forgives certain indebtedness of a Mortgagor;
- (vi) As of the Closing Date, each Mortgaged Property is free of damage and in good repair, ordinary wear and tear excepted;
- (vii) Each Mortgage Loan at the time it was made complied with all applicable local, state and federal laws, including, without limitation, usury, equal credit opportunity, disclosure and recording laws, and predatory and abusive lending laws applicable to the originating lender;
- (viii) Each Mortgage Loan was originated by (a) the Seller, (b) a savings association, savings bank, bank, credit union, insurance company or similar institution which is supervised and examined by a federal or state authority or (c) a mortgagee approved by the FHA;
- (ix) As of the Closing Date, each Mortgage Loan that is not a Cooperative Loan is covered by an ALTA form or CLTA form of mortgagee title insurance policy, or other form of policy of insurance acceptable to Fannie Mae or Freddie Mac as of the origination date of such Mortgage Loan, which has been issued by, and is the valid and binding obligation of, a title insurer which, as of the origination date of such Mortgage Loan, was qualified to do business in the state in which the related Mortgaged Property is located. Such policy insures the originator of the Mortgage Loan and its successors and assigns as to the first priority lien of the Mortgage in the original principal amount of the Mortgage Loan subject to the exceptions set forth in such policy. Such policy is in full force and effect and inures to the benefit of the Purchaser upon the consummation of the transactions contemplated by this Agreement and no claims have been made under such policy, and no prior holder of the related Mortgage, including the Seller, has done, by act or omission, anything which would impair the coverage of such policy;

- (x) Except as set forth on Schedule III to the Term Sheet, if applicable, each Mortgage Loan with both (a) an Original Loan-to-Value Ratio and (b) a Current Loan-to-Value Ratio in excess of 80% was covered, as of the Cut-Off Date, by a Primary Insurance Policy or an FHA insurance policy or a VA guaranty, and such policy or guaranty is valid and remains in full force and effect;
- (xi) The Mortgage Note related to (a) each Mortgage Loan (other than a Cooperative Loan) requires the related Mortgagor to maintain a policy of hazard insurance, with extended coverage in an amount which is not less than the original principal balance of such Mortgage Loan, except in cases in which such original principal balance exceeds the value of the improvements to the Mortgaged Property, and (b) each Mortgage Loan (other than a Cooperative Loan) with respect to which any part of any improvement to the related Mortgaged Property is located in a federally designated special flood hazard area and in a community which participates in the National Flood Insurance Program at the time of origination of such Mortgage Loan, requires the related Mortgagor to maintain a policy of flood insurance;
- (xii) As of the Closing Date, all taxes, governmental assessments, insurance premiums, leasehold payments or ground rents that have become due and payable with respect to each Mortgaged Property have been paid or an escrow of funds sufficient to pay them has been established;
- (xiii) As of the Closing Date, each insurer issuing a Primary Insurance Policy holds a rating acceptable to the Rating Agencies;
- (xiv) Each Mortgage (exclusive of any riders thereto) was documented by appropriate Fannie Mae/Freddie Mac mortgage instruments in effect at the time of origination, or other instruments approved by the Seller;
- (xv) As of the Closing Date, the Mortgaged Property securing each Mortgage relating to a Mortgage Loan that is not a Cooperative Loan is improved with a one- to four-family dwelling unit, including units in a duplex, triplex, fourplex, condominium project, townhouse, a planned unit development or a de minimis planned unit development;
- (xvi) As of the Closing Date, each Mortgage and Mortgage Note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforceability may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity;
- (xvii) As of the date of origination, as to Mortgaged Properties which are units in condominiums or planned unit developments, all of such units met the applicable Underwriting Standards, are located in a condominium or planned unit development projects which have received Fannie Mae or Freddie Mac approval, or are approvable by Fannie Mae or Freddie Mac or have otherwise been approved by the Seller;
- (xviii) Except as set forth on Schedule III to the Term Sheet, if applicable, no Mortgage Loan is a Buydown Loan;
- (xix) Prior to origination or refinancing, an appraisal of each Mortgaged Property was made by an appraiser on a form satisfactory to Fannie Mae or Freddie Mac;
- (xx) The Mortgage Loans have been underwritten substantially in accordance with the applicable Underwriting Standards;
- (xxi) All of the Mortgage Loans have due-on-sale clauses; however, the due on sale provisions may not be exercised at the time of a transfer if prohibited by law or the terms of the related Mortgage Note;
- (xxii) The Seller used no adverse selection procedures in selecting the Mortgage Loans from among the outstanding mortgage loans of the same type originated or purchased by it which were available for sale to the Purchaser and as to which the representations and warranties in this Section 3.1 could be made;
- (xxiii) If such Mortgage Loan is a Cooperative Loan, the Cooperative Stock that is pledged as security for the Cooperative Loan is held by a person as a tenant-stockholder (as defined in Section 216 of the Code) in a cooperative housing corporation (as defined in Section 216 of the Code);
- (xxiv) If such Mortgage Loan is a Cooperative Loan, it is secured by a valid, subsisting and enforceable (except as such enforceability may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity) perfected first lien and security interest in the related Cooperative Stock, subject only to (a) liens of the Cooperative for unpaid assessments representing the Mortgagor's pro rata share of the Cooperative's payments for its blanket mortgage, current and future real property taxes, insurance premiums, maintenance fees and other assessments to which like collateral is commonly subject, and (b) other matters to which like collateral is commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Security Agreement;

(xxv) With respect to any Mortgage Loan as to which an affidavit has been delivered by the Seller to the Purchaser or its assignee certifying that the original Mortgage Note is a Destroyed Mortgage Note, if such Mortgage Loan is subsequently in default, the enforcement of such Mortgage Loan or of the related Mortgage will not be materially adversely affected by the absence of the original Mortgage Note (or portion thereof, as applicable);

(xxvi) Each Mortgage Loan constitutes a "qualified mortgage" under Section 860G(a)(3)(A) of the Code and Treasury Regulation Section 1.860G-2(a)(1), (2), (4), (5), (6), (7) and (9), without reliance on the provisions of Treasury Regulation Section 1.860G-2(a)(3) or 1.860G-2(f)(2) or any other provision that would allow a Mortgage Loan to be treated as a "qualified mortgage" notwithstanding its failure to meet the requirements of Section 860G(a)(3)(A) of the Code and Treasury Regulation Section 1.860G-2(a)(1), (2), (4), (5), (6), (7) and (9);

(xxvii) No Mortgage Loan is a High Cost/Covered Loan, and no Mortgage Loan originated during the period of October 1, 2002 through March 6, 2003 is governed by the Georgia Fair Lending Act;

(xxviii) No Mortgage Loan is subject to the Home Ownership and Equity Protection Act of 1994 or Section 226.32 of Regulation Z, is a "high-cost" loan or a "predatory" loan as defined under any state or local law or regulation applicable to the originator of such Mortgage Loan or which would result in liability to the purchaser or assignee of such Mortgage Loan under any predatory or abusive lending law, or, without limiting the generality of the foregoing, is a "covered" loan under the laws of the states of California, Colorado or Ohio; and

(xxix) No Mortgage Loan has a Closing Date Loan-to-Value Ratio greater than 100%.

Section 3.2. Additional Seller Representations and Warranties

Each of the Sellers hereby, severally and not jointly, represents and warrants to the Purchaser as to such Seller as of each Closing Date on which such Seller sells Mortgage Loans hereunder, and with respect to such Mortgage Loans, as of such Closing Date:

(i) If the Seller is Washington Mutual Bank, the Seller is a federal savings association, duly organized, validly existing and in good standing under the laws of the United States. If the Seller is Washington Mutual Bank fsb, the Seller is a federal savings bank, duly organized, validly existing and in good standing under the laws of the United States.

(ii) The Seller has all licenses necessary to carry on its business as now being conducted and is licensed, qualified and in good standing in the states where the Mortgaged Properties are located if the laws of such states require licensing or qualification in order to conduct business of the type conducted by the Seller and to the extent necessary to ensure the enforceability of each Mortgage Loan. The Seller has the corporate power and authority to hold each Mortgage Loan, to sell each Mortgage Loan, to enter into, execute and deliver this Agreement, the Term Sheet, the Confidential Pricing Supplement and all documents and instruments executed and delivered pursuant hereto and to perform its obligations in accordance therewith. The execution, delivery and performance of this Agreement by the Seller and the consummation of the transactions contemplated hereby, including, without limitation, the repurchase obligations herein contained, have been duly and validly authorized. This Agreement, the Term Sheet, the Confidential Pricing Supplement and all other documents and instruments contemplated hereby to which the Seller is a party, in each case assuming due authorization, execution and delivery by the Purchaser, evidence the valid, binding and enforceable obligations of the Seller, subject as to enforceability, (i) to bankruptcy, insolvency, receivership, conservatorship, reorganization, arrangement, moratorium, and other laws of general applicability relating to or affecting creditor's rights, and (ii) to general principles of equity, whether such enforcement is sought in a proceeding in equity or at law. All requisite corporate action has been taken by the Seller to make this Agreement valid and binding upon the Seller in accordance with its terms.

(iii) No consent, approval, authorization, or order of any court or governmental agency or body relating to the transactions contemplated by this Agreement and the transfer of legal title to the Mortgage Loans to the Purchaser, is required as to the Seller or, if required, such consent, approval, authorization, or order has been or will, prior to the applicable Closing Date, be obtained, except for any recordation of Mortgages or assignments of Mortgages or filing of UCC financing statements or amendments thereto to or for the benefit of the Purchaser pursuant to this Agreement.

(iv) The consummation of the transactions contemplated by this Agreement, including without limitation the transfer and assignment of the Mortgage Loans to the Purchaser pursuant to this Agreement and the fulfillment of or compliance with the terms and conditions of this Agreement, are in the ordinary course of business of the Seller and will not (i) result in the breach of any term or provision of the charter or by-laws of the Seller, (ii) result in the breach of any term or provision of, or conflict with or constitute a default under, or result in the acceleration of any obligation under, any material agreement, indenture, loan or credit agreement or other instrument to which the Seller or its property is subject or (iii) result in the violation of any law, rule, regulation, order, judgment, or decree to which the Seller or its property is subject.

(v) There is no action, suit, proceeding or investigation pending or, to the best of the Seller's knowledge, threatened, against the Seller which, either in any one instance or in the aggregate, is likely, in the Seller's judgment, to result, in any material impairment

of the right or ability of the Seller to carry on its business substantially as now conducted, or which would draw into question the validity of this Agreement or the Mortgage Loans, or of any action taken or to be taken in connection with the obligations of the Seller contemplated herein or therein, or which would be likely to impair materially the ability of the Seller to perform its obligations hereunder or thereunder.

(vi) The Seller is a U.S. Department of Housing and Urban Development ("HUD") approved mortgagee pursuant to Section 203 of the National Housing Act of 1934, as amended. No event has occurred, including but not limited to a change in insurance coverage, which would make the Seller unable to comply with HUD eligibility requirements or which would require notification to HUD.

(vii) The Seller is not in violation of, and the execution and delivery of this Agreement by the Seller and its performance and compliance with the terms of this Agreement will not constitute a violation with respect to, any order or decree of any court or any order or regulation of any federal, state, municipal or governmental agency having jurisdiction over the Seller or its assets, which violation might have consequences that would materially and adversely affect the condition, financial or otherwise, or the operations, of the Seller or its assets or might have consequences that would materially and adversely affect the performance of its obligations and duties hereunder.

(viii) Upon payment of the Purchase Price by the Purchaser, in the event that the Seller retains record title to a Mortgage, the Seller shall retain such record title to such Mortgage solely in trust for the Purchaser as owner thereof.

Section 3.3. Repurchases and Substitutions in the Event of Breach of Seller Representations and Warranties

(a) It is understood and agreed that the representations and warranties set forth in Sections 3.1 and 3.2 shall survive the sale of Mortgage Loans by each Seller to the Purchaser and shall inure to the benefit of the Purchaser, notwithstanding any restrictive or qualified endorsement on any Mortgage Note or assignment of Mortgage.

(b) Upon discovery by a Seller (the "Breaching Seller") or the Purchaser of a breach of any of the representations and warranties set forth in Section 3.1 made by the Breaching Seller (in the case of a breach of the representation set forth in clause (xxix) of Section 3.1, as based on a determination of the applicable Closing Date Loan-to-Value Ratio using such evidence as is reasonably designed to approximate the value of the applicable Mortgaged Property as of the related Closing Date) that materially and adversely affects the value of any Mortgage Loan sold by such Breaching Seller hereunder or the interests of the Purchaser in such Mortgage Loan, the party discovering such breach shall give prompt written notice to the other. Any breach of the representation set forth in clause (xxvii) or clause (xxviii) of Section 3.1 shall be deemed to materially and adversely affect the value of the related Mortgage Loan or the interests of the Purchaser in the related Mortgage Loan. Within 90 days of its discovery of breach or its receipt of notice of breach from the Purchaser, the Breaching Seller shall repurchase from the Purchaser or its transferee the affected Mortgage Loan or Mortgage Loans or any property acquired in respect thereof, or substitute one or more Substitute Mortgage Loans therefor, unless it has cured such breach in all material respects. Any such repurchase or substitution shall be made in the manner and within the time limits set forth in Section 2.4. If such breach would cause the Mortgage Loan to be other than a "qualified mortgage" (as defined in the Code), then notwithstanding the previous sentence, the repurchase or substitution must occur within the sooner of (i) 90 days from the date the defect was discovered by such Seller, the Purchaser or any other party to the related Pooling and Servicing Agreement or (ii) in the case of substitution, two years from the related Closing Date.

(c) It is understood and agreed that the obligations of a Breaching Seller set forth in this Section 3.3 constitute the sole remedies available to the Purchaser or its transferee respecting a breach of the representations and warranties by such Breaching Seller set forth in Section 3.1.

(d) In addition to such cure, repurchase or substitution obligation, each Seller shall indemnify the Purchaser and hold it harmless against any losses, damages, penalties, fines, forfeitures, reasonable and necessary legal fees and related costs, judgments, and other costs and expenses resulting from the defense of any claim against the Purchaser by a third party resulting from a breach of the representations and warranties made by such Seller in this Article 3.

ARTICLE 4.

COVENANTS

Section 4.1. Cooperation

Each of the Sellers and the Purchaser shall cooperate fully with each other and their respective counsel and other representatives and advisors in connection with the steps required to be taken as part of their respective obligations under this Agreement.

Section 4.2. Representations, Warranties, Covenants and Indemnities

Each representation, warranty, covenant and indemnity made by a Seller in this Agreement as of each Closing Date shall survive the termination of this Agreement.

Section 4.3. Delivery of Documents

On the dates specified herein, each party shall deliver to the appropriate persons specified herein all documents and instruments provided for hereunder.

Section 4.4. Consents and Approvals

Each Seller shall obtain, at its sole cost and expense, prior to each Closing Date, all consents and approvals required by law or pursuant to contract to consummate the transactions contemplated hereby. All such consents will be obtained without any cost or expense to the Purchaser and will be obtained without any modification in the terms of any of the agreements relating to the Mortgage Loans or the imposition of any provisions or conditions on the Purchaser.

Section 4.5. Confidentiality

Each party understands that certain information which has been furnished and will be furnished in connection with this transaction is confidential and proprietary, and each party agrees that, with respect to such information that is marked or identified as confidential or proprietary, such party will maintain the confidentiality of such information and will not without the consent of the party furnishing such information disclose it to others or use it except in connection with the transactions contemplated by this Agreement. The parties agree that the completed Confidential Pricing Supplement is confidential, and that the Term Sheet, this Agreement and their other exhibits, including the Mortgage Loan Schedule, and the underwriting guidelines of the Seller are not confidential. Information also shall not be deemed confidential or proprietary for these purposes if the information is generally known in the industry concerning a party, if it has been disclosed to the other party by a third party, or if it is required to be disclosed by law or by regulatory or judicial process.

ARTICLE 5.

CONDITIONS TO PURCHASE

The obligations of the Purchaser to purchase any Mortgage Loans on any Closing Date are subject to the satisfaction, as applicable, prior to or on such Closing Date (or on such other date as expressly provided for herein) of the following conditions, any of which may be waived in writing by Purchaser:

Section 5.1. Required Documents

On or before the Closing Date for the initial purchase of Mortgage Loans hereunder, each party hereto shall have received fully executed counterpart originals of this Agreement. On each Closing Date, the Purchaser and each applicable Seller shall furnish to the other party fully executed counterpart originals of the relevant Term Sheet and Confidential Pricing Supplement.

Section 5.2. Correctness of Representations and Warranties

All of the representations and warranties of the applicable Seller or Sellers under this Agreement shall be true and correct as of such Closing Date (except as otherwise expressly provided for herein), and no event shall have occurred which, with notice or the passage of time, would constitute a default under this Agreement.

Section 5.3. Compliance With Conditions

All other terms and conditions of this Agreement to be performed by the applicable Seller or Sellers on or prior to such Closing Date (or such other date as expressly provided for herein) shall have been duly complied with and performed in all respects.

Section 5.4. Costs

Each Seller shall pay all costs, fees and expenses incurred in connection with the transfer and delivery of the Mortgage Loans sold by such Seller under this Agreement for such Seller's accountants, attorneys and other service providers. In addition, with respect to each Pooling and Servicing Agreement, each Seller shall, in proportion to the aggregate principal balance of the Mortgage Loans subject to such Pooling and Servicing Agreement and sold by such Seller under this Agreement, (a) reimburse the Purchaser for all reasonable expenses incurred by the Purchaser in connection with the issuance of the related Certificates and (b) pay to the Purchaser

a securitization fee, to be agreed upon separately.

ARTICLE 6.

SERVICING; SALE PURSUANT TO POOLING AND SERVICING AGREEMENT

Section 6.1. Servicing Agreement; Sellers' Consent to Assignment

(a) On each Closing Date, the Purchaser and Washington Mutual Bank shall execute an agreement (which may be a Pooling and Servicing Agreement) pursuant to which (i) Washington Mutual Bank shall service the Mortgage Loans purchased by the Purchaser on such Closing Date as provided therein and (ii) the Servicer thereunder shall have the right to purchase such Mortgage Loans if the aggregate principal balance thereof is less than a percentage specified therein of such aggregate principal balance as of the related Cut-Off Date.

(b) Each Seller hereby consents to the assignment by the Purchaser to a Trust, pursuant to a Pooling and Servicing Agreement, of all of the Purchaser's rights under (i) this Agreement, to the extent that this Agreement relates to Mortgage Loans transferred by the Purchaser to such Trust, and (ii) the Term Sheet with respect to such Mortgage Loans. Each Seller agrees that its obligations hereunder and under the related Term Sheet may be enforced by the Trustee or the Servicer for such Trust.

Section 6.2. Indemnification

(a) Each of the Sellers, severally and not jointly, (i) agrees to indemnify and hold harmless the Purchaser and the related Trust (each, an "Indemnified Party"), against any losses, claims, damages or liabilities to which such Indemnified Party may become subject, under the Securities Act of 1933, as amended, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement of any material fact contained in the information provided by such Seller to the Purchaser with respect to such Seller's origination and underwriting criteria, the regulatory status of such Seller and its affiliates (other than the Purchaser and the Trust), and the characteristics of the Mortgage Loans sold by such Seller on the related Closing Date (such information, the "Seller's Information") and included in the prospectus or the prospectus supplement or other disclosure document prepared in connection with the related Sale (collectively, the "Disclosure Documents") and (ii) will reimburse each Indemnified Party for any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such loss, claim, damage, liability or action.

(b) The Purchaser (i) will indemnify and hold harmless each of the Sellers against any losses, claims, damages or liabilities to which such Seller may become subject, under the Securities Act of 1933, as amended, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) (x) arise out of or are based upon any untrue statement of any material fact contained in any Disclosure Document (other than an untrue statement of material fact contained in the applicable Seller's Information) or (y) arise out of or are based upon the omission to state in any Disclosure Document a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (unless such omission also constitutes an omission to state in the applicable Seller's Information a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading) and (ii) will reimburse each Seller for any legal or other expenses reasonably incurred by such Seller in connection with investigating or defending any such loss, claim, damage, liability or action.

(c) In connection with each Sale, (i) each of the Sellers agrees to execute an agreement pursuant to which such Seller will agree to indemnify each underwriter engaged in connection with such Sale against any losses, claims, damages or liabilities to which such underwriter may become subject, under the Securities Act of 1933, as amended, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement of any material fact contained in the applicable Seller's Information and included in any Disclosure Document, and (ii) the Purchaser agrees to make reasonable efforts to obtain indemnification satisfactory to the Sellers with respect to any information provided by parties other than the Purchaser or an affiliate of the Purchaser and included in any Disclosure Document.

ARTICLE 7.

MISCELLANEOUS PROVISIONS

Section 7.1. Amendment

This Agreement may be amended from time to time by the Sellers and the Purchaser solely by written agreement signed by the Sellers and the Purchaser. If any provision of this Agreement or of a Confidential Pricing Supplement conflicts with any provision of a Term Sheet, the provision of such Term Sheet shall control. If any provision of this Agreement conflicts with any provision of a Confidential Pricing Supplement, the provision of this Agreement shall control.

Section 7.2. Recordation of Agreement

(a) To the extent necessary under applicable law to protect the interests of the Purchaser, this Agreement or a memorandum thereof is subject to recordation in all appropriate public offices for real property records in all the counties and other comparable jurisdictions in which any or all of the Mortgaged Properties are situated, and in any other appropriate public recording office or elsewhere, such recordation to be effected by the Sellers at the Purchaser's expense upon direction of the Purchaser.

(b) Each Seller agrees to execute or cause to be executed such documents and take or cause to be taken such actions as may be necessary to effect the intent of this Agreement, including without limitation the execution and delivery of instruments of further assurance and the execution and delivery of such other documents, and the taking of such other actions, as may be reasonably requested by the Purchaser.

Section 7.3. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to the choice of law doctrine of such state (other than Section 5-1401 of the General Obligations Law).

Section 7.4. General Interpretive Principles

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(i) the terms defined in this Agreement include the plural as well as the singular, and the use of any gender herein shall be deemed to include the other gender;

(ii) accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;

(iii) references herein to "Articles," "Sections," "Subsections," "Paragraphs," and other subdivisions without reference to a document are to designated Articles, Sections, Subsections, Paragraphs, and other subdivisions of this Agreement;

(iv) a reference to a subsection without further reference to a Section is a reference to such subsection as contained in the same Section in which the reference appears, and this rule shall also apply to Paragraphs and other subdivisions;

(v) the words "herein," "hereof," "hereunder," and other words of similar import refer to this Agreement as a whole and not to any particular provision; and

(vi) the term "include" or "including" shall mean without limitation by reason of enumeration.

Section 7.5. Notices

All demands, notices, consents, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, sent by telecopy, mailed by certified mail, return receipt requested and postage prepaid, or delivered by a nationally recognized overnight courier, to

(i) in the case of the Sellers:

Washington Mutual Bank
Washington Mutual Bank fsb
1201 Third Avenue, WMT0511
Seattle, Washington 98101
Attention: General Counsel
Telephone: (206) [REDACTED]
Telecopy: (206) [REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

or such other address as may hereafter be furnished to the Purchaser in writing by a Seller, and

(ii) in the case of the Purchaser:

WaMu Asset Acceptance Corp.
1201 Third Avenue, WMT1706A

Seattle, Washington 98101
Attention: General Counsel
Telephone: (206) [REDACTED]

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

or such other address as may hereafter be furnished to each of the Sellers in writing by the Purchaser.

Notwithstanding the foregoing, any demand, notice, consent, waiver or communication may be given by any other means agreed to by the parties.

Section 7.6. Severability of Provisions

If any one or more of the covenants, agreements, provisions, or terms of this Agreement shall be held invalid for any reason whatsoever, then such covenants, agreements, provisions, or terms shall be deemed severable from the remaining covenants, agreements, provisions, or terms of this Agreement and shall in no way affect the validity or enforceability of the other covenants, agreements, provisions, or terms of this Agreement or the rights of the parties hereunder. If the invalidity of any part, provision, representation or warranty of this Agreement shall deprive any party of the economic benefit intended to be conferred by this Agreement, the parties shall negotiate in good faith to develop a structure the economic effect of which is as nearly as possible the same as the economic effect of this Agreement without regard to such invalidity.

Section 7.7. Exhibits

The exhibits to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement.

Section 7.8. Counterparts; Successors and Assigns

This Agreement may be executed in one or more counterparts, and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed to be an original; such counterparts, together, shall constitute one and the same agreement. This Agreement shall inure to the benefit of and be binding upon the Sellers and the Purchaser. Notwithstanding the foregoing, (a) none of the Sellers shall assign its rights and obligations under this Agreement without the prior written consent of the Purchaser, which consent shall not be unreasonably withheld or delayed, and (b) the Purchaser may not assign its rights and obligations under this Agreement except (i) as provided in Section 6.1 or (ii) with the prior written consent of the applicable Seller or Sellers, which consent shall not be unreasonably withheld or delayed (in which case all references to the Purchaser herein shall be deemed to include such assignee).

Section 7.9. Effect of Headings

The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 7.10. Other Agreements Superseded

This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof.

Section 7.11. Intention of the Parties

It is the intention of the parties that the Purchaser is purchasing, and each Seller is selling, Mortgage Loans and not a debt instrument of such Seller or other security. Accordingly, the parties hereto each intend to treat each of the transactions hereunder for federal income tax purposes as a sale by each Seller, as applicable, and a purchase by the Purchaser, of Mortgage Loans. The Purchaser shall have the right to review the Mortgage Loans to determine the characteristics of the Mortgage Loans which shall affect the federal income tax consequences of owning the Mortgage Loans, and the applicable Seller or Sellers shall cooperate with all reasonable requests made by the Purchaser in the course of such review.

Section 7.12. Nonsolicitation

Each Seller covenants and agrees that it will not take any action personally, by telephone, by mail or otherwise, to solicit the prepayment of any Mortgage Loans by the related Mortgagors, in whole or in part following the Closing Date with respect to such Mortgage Loans. Notwithstanding the foregoing, no Seller shall be prohibited from:

- (i) advertising its availability for handling refinancing of mortgage loans if the Mortgage Loans are not specifically targeted;
- (ii) promoting terms available for refinancing by sending letters or promotional material to the mortgagors of all the

mortgage loans that such Seller or its affiliates owns or services;

(iii) promoting terms available for refinancing by sending letters or promotional material to the mortgagors of all the mortgage loans of a specific type (e.g., conventional fixed-rate or conventional adjustable-rate) that such Seller or its affiliates owns or services;

(iv) promoting terms available for refinancing by sending letters or promotional material to the mortgagors of all the mortgage loans that fall within specific interest rate ranges that such Seller or its affiliates owns or services;

(v) providing payoff information or otherwise cooperating with individual Mortgagors who contact such Seller about prepaying any Mortgage Loan; or

(vi) advising individual Mortgagors who contact such Seller about prepaying any Mortgage Loan of refinancing terms or streamlined origination arrangements that are available.

In no event shall any Seller treat mortgage loans that it holds in its own portfolio and the Mortgage Loans as separate classes of mortgages for purposes of advertising the availability of refinancing terms.

Section 7.13. Obligations of the Sellers

The obligations and liabilities of each of the Sellers under this Agreement are several, and no Seller shall be responsible for the obligations of the other Seller under this Agreement. Each representation, warranty, indemnity and covenant made by one Seller under the Agreement is made by, or on behalf of, and with respect to, that Seller only and not the other Seller.

Section 7.14. Attorneys' Fees

If either party retains an attorney to enforce any of the provisions of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees from the other party, including, without limitation, fees incurred in arbitration and in trial and appellate courts, fees incurred without suit, and all arbitration, court and accounting costs.

Section 7.15. Security Interest

(a) The parties hereto intend that each transfer of a Mortgage Loan pursuant to this Agreement and the applicable Term Sheet constitute a sale by the applicable Seller to the Purchaser of such Mortgage Loan, including for accounting purposes, and not a secured borrowing. It is, further, not the intention of the parties that any such transfer be deemed the grant of a security interest in any Mortgage Loan by the applicable Seller to the Purchaser to secure a debt or other obligation of such Seller. However, in the event that, notwithstanding the intent of the parties, any Mortgage Loan is held to be the property of any Seller, or if for any other reason this Agreement is held or deemed to create a security interest in any Mortgage Loan, then (a) this Agreement shall constitute a security agreement; and (b) the transfer provided for in this Agreement and the applicable Term Sheet shall be deemed to be a grant by each Seller to the Purchaser of, and each Seller hereby grants to the Purchaser, to secure all of such Seller's obligations hereunder, a security interest in all of such Seller's right, title, and interest, whether now owned or hereafter acquired, in, to and under: (i) the Mortgage Loans listed on the Mortgage Loan Schedule to each Term Sheet; (ii) all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, and other minerals, consisting of, arising from, or relating to, any of the foregoing; and (iii) all proceeds of the foregoing. The Purchaser shall have all of the rights of a secured party under the applicable Uniform Commercial Code.

(b) Each Seller shall take or cause to be taken such actions and execute such documents, including without limitation the filing of any financing statements, continuation statements, and amendments to financing statements, as are necessary to perfect the Purchaser's interests in each Mortgage Loan. Each Seller shall file such financing statements, continuation statements, and amendments on a timely basis.

(c) No later than ten (10) days following each Closing Date, each Seller shall file in the applicable jurisdictions such UCC financing statements covering the Mortgage Loans sold by such Seller on such Closing Date as are necessary to perfect the Purchaser's interests in such Mortgage Loans.

Section 7.16. Covenant Not to Place Purchaser or Trust Into Bankruptcy

Each Seller covenants that it shall not, until at least one year and one day after all securities issued by any Trust to which the Purchaser has transferred Mortgage Loans have been paid in full, take any action to file an involuntary bankruptcy petition against the Purchaser or any Trust.

[Signature pages follow]

TO WITNESS THIS, the Sellers and the Purchaser have caused their names to be signed to this Mortgage Loan Purchase and Sale Agreement by their duly authorized respective officers as of the date first above written.

WASHINGTON MUTUAL BANK
a federal savings association

Name: /s/ Michael Parker
Title: Senior Vice President

WASHINGTON MUTUAL BANK fsb
a federal savings bank

Name: /s/ Peter Freilinger
Title: Senior Vice President

WaMu ASSET ACCEPTANCE CORP.
a Delaware corporation

Name: /s/ Thomas G. Lehmann
Title: First Vice President

STATE OF WASHINGTON)
) ss.
COUNTY OF)

This instrument was acknowledged before me on October 25, 2005, by Michael Parker as Senior Vice President of Washington Mutual Bank.

/s/ Chriselda Landon
[Print Name] Chriselda Landon
Washington, residing at Seattle
My commission expires 2-26-2007

STATE OF WASHINGTON)
) ss.
COUNTY OF)

This instrument was acknowledged before me on October 25, 2005, by Peter Freilinger as Senior Vice President of Washington Mutual Bank Fsb.

/s/ Chriselda Landon

[Print Name] Chriselda Landon
Washington, residing at Seattle
My commission expires 2-26-2007

STATE OF WASHINGTON)
) ss.
COUNTY OF)

This instrument was acknowledged before me on October 25, 2005, by Thomas G. Lehmann as First Vice President of WaMu Asset Acceptance Corp.

/s/ Chriselda Landon
[Print Name] Chriselda Landon
Washington, residing at Seattle
My commission expires 2-26-2007

EXHIBIT A

CONTENTS OF MORTGAGE FILE

With respect to each Mortgage Loan, the Mortgage File shall consist of the following documents or instruments:

(X) with respect to each Mortgage Loan that is not a Cooperative Loan:

(i) The original Mortgage Note (1) endorsed (A) in blank, without recourse, (B) to the applicable Trustee, as Trustee, without recourse, (C) to the applicable Trust, without recourse, or (D) to the Seller thereof, and all intervening endorsements evidencing a complete chain of endorsements from the originator to the endorser last endorsing the Mortgage Note, or (2) naming the Seller as payee, or, in the event of any Destroyed Mortgage Note, a copy or a duplicate original of the Mortgage Note, together with an original lost note affidavit from the originator of the Mortgage Loan or the Seller stating that the original Mortgage Note was lost, misplaced or destroyed, together with a copy of the Mortgage Note;

(ii) The Buydown Agreement, if applicable;

(iii) (1) (x) the original recorded Mortgage with evidence of recording thereon for the jurisdiction in which the Mortgaged Property is located (which original recorded Mortgage, in the case of a MOM Loan, shall set forth the MIN and shall indicate that the Mortgage Loan is a MOM Loan), (y) unless the Mortgage Loan is a MERS Loan or the mortgagee named in such Mortgage is the Seller, an original assignment of the Mortgage duly executed and acknowledged in recordable form (A) in blank, (B) to the applicable Trustee, as Trustee, (C) to the applicable Trust or (D) to the Seller, and (z) unless the Mortgage Loan is a MOM Loan or the mortgagee named in such Mortgage is the Seller, recorded originals of all intervening assignments evidencing a complete chain of assignment from the originator to MERS or the party executing the assignment described in clause (y), as applicable; or

(2) (x) a copy (which may be in electronic form) of the Mortgage (which Mortgage, in the case of a MOM Loan, shall set forth the MIN and shall indicate that the Mortgage Loan is a MOM Loan) which represents a true and correct reproduction of the original Mortgage and which has either been certified (i) on the face thereof by the public recording office in the appropriate jurisdiction in which the Mortgaged Property is located, or (ii) by the originator, the Seller or the escrow or title company which provided closing services in connection with such Mortgage Loan as a true and correct copy of the original of which has been sent for recordation, (y) unless the Mortgage Loan is a MERS Loan or the mortgagee named in such Mortgage is the Seller, an original assignment of

the Mortgage duly executed and acknowledged in recordable form (A) in blank, (B) to the applicable Trustee, as Trustee, (C) to the applicable Trust or (D) to the Seller, and (z) unless the Mortgage Loan is a MOM Loan or the mortgagee named in such Mortgage is the Seller, true and correct copies, certified by the applicable county recorder or by the originator or the Seller as described above, of all intervening assignments evidencing a complete chain of assignment from the originator to MERS or the party executing the assignment described in clause (y), as applicable;

(iv) For any Mortgage Loan that has been modified or amended, the original instrument or instruments effecting such modification or amendment;

and (Y) with respect to each Cooperative Loan:

(i) the original Mortgage Note (1) endorsed (A) in blank, without recourse, (B) to the applicable Trustee, as Trustee, without recourse, (C) to the applicable Trust, without recourse, or (D) to the Seller thereof, and all intervening endorsements evidencing a complete chain of endorsements from the originator to the endorser last endorsing the Mortgage Note, or (2) naming the Seller as payee, or, in the event of any Destroyed Mortgage Note, a copy or a duplicate original of the Mortgage Note, together with an original lost note affidavit from the originator of the Cooperative Loan or the Seller, as applicable, stating that the original Mortgage Note was lost, misplaced or destroyed, together with a copy of the Mortgage Note;

(ii) A counterpart of the Cooperative Lease and the Assignment of Proprietary Lease;

(iii) The Cooperative Stock Certificate, together with an undated stock power or other similar instrument executed in blank;

(iv) The Recognition Agreement;

(v) The Security Agreement;

(vi) Copies of the original UCC financing statement, and any continuation statements or amendments thereof, each with evidence of recording thereof, perfecting the security interest granted under the Security Agreement and the Assignment of Proprietary Lease;

(vii) Unless the Seller was the originator of the Cooperative Loan, copies of the filed UCC assignments or amendments of the UCC financing statements described in clause (vi) above showing an unbroken chain of assignments from the originator to the applicable Trust, the applicable Trustee or the Seller, each with evidence of recording thereof;

(viii) Unless the Seller was the originator of the Cooperative Loan, executed assignments of the interest of the originator in the Security Agreement, the Assignment of Proprietary Lease and the Recognition Agreement, showing an unbroken chain of assignments from the originator to the applicable Trust, the applicable Trustee or the Seller; and

(ix) For any Cooperative Loan that has been modified or amended, the original instrument or instruments effecting such modification or amendment.

EXHIBIT B

TERM SHEET

This Term Sheet (this "Term Sheet") is dated _____, by Washington Mutual Bank [fsb], [a federal savings association] [a federal savings bank], as seller (the "Seller"), and WaMu Asset Acceptance Corp., a Delaware corporation, as purchaser (the "Purchaser").

This Term Sheet is entered into pursuant to the terms and conditions of the Mortgage Loan Purchase and Sale Agreement (the "MLPA"), dated as of [____], 2005, among Washington Mutual Bank, Washington Mutual Bank fsb and the Purchaser. All capitalized terms shall have the meanings ascribed to them in the MLPA, unless otherwise defined herein or in the Confidential Pricing Supplement. In the event of any inconsistency between this Term Sheet and either the MLPA or the Confidential Pricing Supplement, the terms of this Term Sheet shall govern; and in the event of any inconsistency between the MLPA and the Confidential Pricing Supplement, the terms of the MLPA shall govern.

The Purchaser hereby purchases from the Seller, and the Seller hereby sells to the Purchaser, all of the Seller's right, title and interest in and to the Mortgage Loans described on the Mortgage Loan Schedule attached hereto as Schedule I (the "Seller Mortgage Loans") in accordance with the terms of the MLPA, as supplemented and amended by this Term Sheet and the Confidential Pricing Supplement.

1. Definitions

For purposes of this Term Sheet, the following terms shall have the following meanings:

<u>Aggregate Cut-Off Date</u>	
<u>Principal Balance of the Mortgage Loans:</u>	
<u>Certificates:</u>	Washington Mutual Mortgage Pass-Through Certificates, [INSERT Series name]
<u>Closing Date:</u>	
<u>Custodian:</u>	
<u>Cut-Off Date:</u>	
<u>High Cost/Covered Loan:</u>	A High Cost Loan or a Covered Loan, as such terms are defined in the Standard & Poor's LEVELS® Glossary in effect on the Closing Date, which is Version [], applicable portions of which are attached hereto as Schedule II
<u>Mortgage Loan Type:</u>	
<u>Pooling and Servicing Agreement:</u>	The Pooling and Servicing Agreement, dated as of _____, among the Purchaser, Washington Mutual Bank, as Servicer, _____, as Trustee, and _____, as Delaware Trustee
<u>Servicing Fee Rate:</u>	[] % for each Mortgage Loan [A range between _____ % and _____ %, as set forth for each Mortgage Loan in the Mortgage Loan Schedule, with a weighted average of _____ %]

2. Amendments to MLPA

a. Notwithstanding anything to the contrary set forth in the MLPA, with respect to the Seller Mortgage Loans, the representations and warranties set forth in Section 3.1 and Section 3.2 of the MLPA shall be subject to the exceptions, if any, set forth on Schedule III to this Term Sheet.

b. Each of the following representations and warranties with respect to the Seller Mortgage Loans set forth in the indicated clauses of Section 3.1 or Section 3.2 of the MLPA is hereby deleted in its entirety:

[] [No deletions.]

c. The MLPA is hereby amended to add the following additional representations and warranties with respect to the Seller Mortgage Loans:

[] [No additional representations and warranties.]

d. The following additional amendments are hereby made to the MLPA with respect to the Seller Mortgage Loans:

[] [No additional amendments.]

e. Except as modified here, the MLPA remains in full force and effect.

[signatures follow]

TO WITNESS THIS, the parties have caused their names to be signed by their respective duly authorized officers as of the date first written above.

WASHINGTON MUTUAL BANK [fsb]
[a federal savings association]
[a federal savings bank]

By: _____
Name: _____
Title: _____

WaMu ASSET ACCEPTANCE CORP.
a Delaware corporation

By: _____
Name: _____
Title: _____

Acknowledgement of Trader:
This Term Sheet accurately reflects the
terms and conditions of the sale of the
mortgage loans from:

_____ [WMB] [WMBfsb]

to the Purchaser.

[Signature page to Term Sheet for Washington Mutual Bank [fsb] for [INSERT Series Name]]

SCHEDULE I

MORTGAGE LOAN SCHEDULE OF WASHINGTON MUTUAL BANK [fsb] *

* To be attached as hard copy or as diskette in "read-only" format.

SCHEDULE II

ANTI-PREDATORY LENDING CATEGORIZATION

[INSERT applicable portions of the Standard & Poor's Levels® Glossary in effect on the Closing Date, similar to the following:]

I. High-Cost Loan Categorization

<u>State/Jurisdiction</u>	<u>Name of Anti-Predatory Lending Law/Effective Date</u>	<u>Category under Applicable Anti-Predatory Lending Law</u>
Arkansas	Arkansas Home Loan Protection Act, Ark. Code Ann. §§ 23-53-101 <u>et seq.</u> Effective July 16, 2003	High Cost Home Loan
Cleveland Heights, OH	Ordinance No. 72-2003 (PSH), Mun. Code §§ 757.01 <u>et seq.</u> Effective June 2, 2003	Covered Loan
Colorado	Consumer Equity Protection, Colo. Stat. Ann. §§ 5-3.5-101 <u>et seq.</u> Effective for covered loans offered or entered into on or after January 1, 2003. Other provisions of the Act took effect on June 7, 2002	Covered Loan
Connecticut	Connecticut Abusive Home Loan Lending Practices Act, Conn. Gen. Stat. §§ 36a-746 <u>et seq.</u> Effective October 1, 2001	High Cost Home Loan
District of Columbia	Home Loan Protection Act, D.C. Code §§ 26-1151.01 <u>et seq.</u> Effective for loans closed on or after January 28, 2003	Covered Loan
Florida	Fair Lending Act, Fla. Stat. Ann. §§ 494.0078 <u>et seq.</u> Effective October 2, 2002	High Cost Home Loan
Georgia (Oct 1, 2002 – Mar 6, 2003)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 <u>et seq.</u> Effective October 1, 2002 – March 6, 2003	High Cost Home Loan

Georgia as amended (Mar 7, 2003 – current)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 <u>et seq.</u> Effective for loans closed on or after March 7, 2003	High Cost Home Loan
HOEPA Section 32	Home Ownership and Equity Protection Act of 1994, 15 U.S.C. § 1639, 12 C.F.R. §§ 226.32 and 226.34 Effective October 1, 1995, amendments October 1, 2002	High Cost Loan
Indiana	Indiana Home Loan Practices Act, Ind. Code Ann. §§ 24-9-1-1 <u>et seq.</u> Effective for loans originated on or after January 1, 2005.	High Cost Home Loan
Illinois	High Risk Home Loan Act, Ill. Comp. Stat. tit. 815, §§ 137/5 <u>et seq.</u> Effective January 1, 2004 (prior to this date, regulations under Residential Mortgage License Act effective from May 14, 2001)	High Risk Home Loan
Kansas	Consumer Credit Code, Kan. Stat. Ann. §§ 16a-1-101 <u>et seq.</u> Sections 16a-1-301 and 16a-3-207 became effective April 14, 1999; Section 16a-3-308a became effective July 1, 1999	High Loan to Value Consumer Loan (id. § 16a-3-207) and; High APR Consumer Loan (id. § 16a-3-308a)
Kentucky	2003 KY H.B. 287 – High Cost Home Loan Act, Ky. Rev. Stat. §§ 360.100 <u>et seq.</u> Effective June 24, 2003	High Cost Home Loan
Maine	Truth in Lending, Me. Rev. Stat. tit. 9-A, §§ 8-101 <u>et seq.</u> Effective September 29, 1995 and as amended from time to time	High Rate High Fee Mortgage
Massachusetts	Part 40 and Part 32, 209 C.M.R. §§ 32.00 <u>et seq.</u> and 209 C.M.R. §§ 40.01 <u>et seq.</u> Effective March 22, 2001 and amended from time to time	High Cost Home Loan
Nevada	Assembly Bill No. 284, Nev. Rev. Stat. §§ 598D.010 <u>et seq.</u> Effective October 1, 2003	Home Loan
	New Jersey Home Ownership Security Act of 2002, N.J. Rev. Stat. §§ 46:10B-22 <u>et seq.</u>	High Cost Home Loan

New Jersey	Effective for loans closed on or after November 27, 2003	
New Mexico	Home Loan Protection Act, N.M. Rev. Stat. §§ 58-21A-1 <u>et seq.</u> Effective as of January 1, 2004; Revised as of February 26, 2004	High Cost Home Loan
New York	N.Y. Banking Law Article 6-I Effective for applications made on or after April 1, 2003	High Cost Home Loan
North Carolina	Restrictions and Limitations on High Cost Home Loans, N.C. Gen. Stat. §§ 24-1.1E <u>et seq.</u> Effective July 1, 2000; amended October 1, 2003 (adding open-end lines of credit)	High Cost Home Loan
Ohio	H.B. 386 (codified in various sections of the Ohio Code), Ohio Rev. Code Ann. §§ 1349.25 <u>et seq.</u> Effective May 24, 2002	Covered Loan
Oklahoma	Consumer Credit Code (codified in various sections of Title 14A) Effective July 1, 2000; amended effective January 1, 2004	Subsection 10 Mortgage
South Carolina	South Carolina High Cost and Consumer Home Loans Act, S.C. Code Ann. §§ 37-23-10 <u>et seq.</u> Effective for loans taken on or after January 1, 2004	High Cost Home Loan
West Virginia	West Virginia Residential Mortgage Lender, Broker and Servicer Act, W. Va. Code Ann. §§ 31-17-1 <u>et seq.</u> Effective June 5, 2002	West Virginia Mortgage Loan Act Loan

II. Covered Loan Categorization

<u>State/Jurisdiction</u>	<u>Name of Anti-Predatory Lending Law/Effective Date</u>	<u>Category under Applicable Anti-Predatory Lending Law</u>
Georgia (Oct 1, 2002 – Mar 6, 2003)	Georgia Fair Lending Act, Ga. Code Ann. §§ 7-6A-1 <u>et seq.</u> Effective October 1, 2002 – March 6, 2003	Covered Loan
New Jersey	New Jersey Home Ownership Security Act of 2002, N.J. Rev. Stat. §§ 46:10B-22 <u>et seq.</u> Effective November 27, 2003 – July 5, 2004	Covered Home Loan

SCHEDULE III

**EXCEPTIONS TO REPRESENTATIONS AND WARRANTIES OF
THE SELLER CONCERNING THE MORTGAGE LOANS**

The representations and warranties made, pursuant to Section 3.1 of the MLPA, by Washington Mutual Bank [fsb] with respect to the Mortgage Loans to be sold by it on the Closing Date are subject to the following exceptions:

[None.]

[INSERT applicable exceptions]

1. **Section 3.1(iv)** – As of the Cut-Off Date, ___ Mortgage Loans with the following loan numbers were delinquent between ___ and ___ days:

Loan Numbers: _____.

2. **Section 3.1(iv)** – As of the Cut-Off Date, ___ Mortgage Loans with the following loan number were delinquent more than once in the preceding 12 months between:

Loan Numbers: _____.

3. **Section 3.1(x)** – ___ Mortgage Loans with the following loan numbers had both (i) an Original Loan-to-Value Ratio and (ii) a Current Loan-to-Value Ratio in excess of 80% and were not covered by a Primary Insurance Policy or an FHA insurance policy or a VA guaranty:

Loan Numbers: _____.

4. **Section 3.1(xviii)** – ___ Mortgage Loans with the following loan numbers are Buydown Loans:

Loan Numbers: _____.

5. **Section 3.1(____)** – [other exceptions]:

Loan Numbers: _____.

EXHIBIT C

CONFIDENTIAL PRICING SUPPLEMENT

This Confidential Pricing Supplement (this "Confidential Pricing Supplement") is dated _____, by Washington Mutual Bank [fsb], [a federal savings association] [a federal savings bank], as seller (the "Seller"), and WaMu Asset Acceptance Corp., a Delaware corporation, as purchaser (the "Purchaser").

This Confidential Pricing Supplement is entered into pursuant to the terms and conditions of the Mortgage Loan Purchase and Sale Agreement (the "MLPA"), dated as of [____], 2005, among Washington Mutual Bank, Washington Mutual Bank fsb and the Purchaser, as supplemented and amended by the Term Sheet (the "Term Sheet"), dated the date hereof, between the Seller and the Purchaser and relating to [INSERT Series Name]. All capitalized terms shall have the meanings ascribed to them in the MLPA, unless otherwise defined herein or in the Term Sheet. In the event of any inconsistency between the MLPA and this Confidential Pricing Supplement, the terms of the MLPA shall govern; and in the event of any inconsistency between the Term Sheet and either this Confidential Pricing Supplement or the MLPA, the terms of the Term Sheet shall govern.

For purposes of this Confidential Pricing Supplement and the sale by the Seller to the Purchaser of the Mortgage Loans described on the Mortgage Loan Schedule attached as Schedule I to the Term Sheet, the Purchase Price Percentage shall be: _____.

[signatures follow]

TO WITNESS THIS, the parties have caused their names to be signed by their respective duly authorized officers as of the date first written above.

WASHINGTON MUTUAL BANK [fsb]
[a federal savings association]
[a federal savings bank]

By: _____
Name: _____
Title: _____

WaMu ASSET ACCEPTANCE CORP.
a Delaware corporation

By: _____
Name: _____
Title: _____

Acknowledgement of Trader:
This Confidential Pricing Supplement
accurately reflects the terms and
conditions of the sale of the mortgage
loans from:

_____ [WMB] [WMBfsb]

to the Purchaser.

[Signature page to Confidential Pricing Supplement for Washington Mutual Bank [fsb] for [INSERT Series Name]]

EX-99.1 4 exh991to8kpsawamu07_oa3.htm

EXHIBIT 99.1

The following Section 2 is an excerpt from the term sheet for WaMu Mortgage Pass-Through Certificates Series 2007-OA3

2. Amendments to MLPA

a. Notwithstanding anything to the contrary set forth in the MLPA, with respect to the Seller Mortgage Loans, the representations and warranties set forth in Section 3.1 and Section 3.2 of the MLPA shall be subject to the exceptions, if any, set forth on Schedule III to this Term Sheet.

b. Each of the following representations and warranties with respect to the Seller Mortgage Loans set forth in the indicated clauses of Section 3.1 or Section 3.2 of the MLPA is hereby deleted in its entirety:

No deletions.

c. Section 3.1 of the MLPA is hereby amended to add the following additional representations and warranties with respect to the Seller Mortgage Loans:

(xxx) At the time of origination of the Mortgage Loan, no improvements located on or being part of the Mortgaged Property were in violation of any applicable zoning and subdivision laws or ordinances.

(xxxi) The terms of the Mortgage Note and the Mortgage have not been impaired, altered or modified in any material respect, except by a written instrument (and with respect to any impairment, alteration or modification in any material respect of a Mortgage, such instrument has been recorded or is in the process of being recorded).

(xxxii) As of the Closing Date, there is no mechanics' lien or claim for work, labor or material affecting the Mortgaged Property.

d. The following additional amendments are hereby made to the MLPA with respect to the Seller Mortgage Loans:

i. Section 3.1(iv) Representation. The representation and warranty in clause (iv) of Section 3.1 of the MLPA is hereby deleted in its entirety and replaced with the following representation and warranty:

“(iv) Except as set forth on Schedule III to the Term Sheet, if applicable, as of the Cut-Off Date, no Mortgage Loan is delinquent (i.e., more than 30 days past due), and no Mortgage Loan had been delinquent (i.e., was more than 30 days past due) more than once in the preceding 12 months (or such shorter period as had elapsed from the date of origination of the Mortgage Loan by the Seller or the other Seller or, if originated by someone other than the Seller or the other Seller, from the date of acquisition of the Mortgage Loan by the Seller or the other Seller) and any such delinquency lasted for no more than 30 days;”

ii. Definitions of “Current Loan-to-Value Ratio” and “Original Loan-to-Value Ratio”. The definitions of “Current Loan-to-Value Ratio” and “Original Loan-to-Value Ratio” in Article 1 of the MLPA are hereby deleted in their entirety and replaced with the following two definitions:

“Current Loan-to-Value Ratio: As used in Section 2.4(b), the Principal Balance of a Mortgage Loan as of the applicable date of substitution divided by the Appraised Value; and as used in Section 3.1, the Cut-Off Date Principal Balance of a Mortgage Loan divided by the Appraised Value; *provided, however*, that if the related Mortgaged Property is located in the State of New York, then, as used in Section 3.1, the Current Loan-to-Value Ratio shall be the Cut-Off Date Principal Balance of the Mortgage Loan divided by the value set forth on the appraisal made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property (or, if such Mortgage Loan is an ROV Mortgage Loan, the value set forth on the residential appraisal review made in connection with the origination of such Mortgage Loan as the value of the

related Mortgaged Property).

Original Loan-to-Value Ratio: The original principal amount of a Mortgage Loan divided by the Appraised Value; *provided, however*, that if the related Mortgaged Property is located in the State of New York, then the Original Loan-to-Value Ratio shall be the original principal amount of the Mortgage Loan divided by the value set forth on the appraisal made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property (or, if such Mortgage Loan is an ROV Mortgage Loan, the value set forth on the residential appraisal review made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property)."

iii. **Prepayment Premiums.** The MLPA is hereby amended to add the following Section 3.4:

"Section 3.4 Seller Representations and Warranties Regarding Prepayment Premiums; Remedies for Breach

(a) Whenever used in this Section 3.4, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

Prepayment Premium: With respect to any Mortgage Loan listed in the applicable Supplemental Mortgage Loan Schedule, any fee or premium required to be paid by the Mortgagor if the Mortgagor voluntarily prepays such Mortgage Loan in full as provided in the related Mortgage Note or Mortgage, except for any such fee or premium required to be paid more than three years after origination thereof.

Supplemental Mortgage Loan Schedule: The Supplemental Schedule of Mortgage Loans attached as Schedule I-A to a Term Sheet. The Supplemental Mortgage Loan Schedule shall set forth the following information with respect to each Mortgage Loan that requires the payment of a Prepayment Premium: (i) its loan number and (ii) the applicable term during which a Prepayment Premium is payable pursuant to the provisions of such Mortgage Loan.

(b) The Seller hereby represents and warrants to the Purchaser that, as to each Mortgage Loan sold by the Seller hereunder and listed in the applicable Supplemental Mortgage Loan Schedule, as of the Closing Date:

(i) The information set forth in the applicable Supplemental Mortgage Loan Schedule delivered on the Closing Date is true and correct in all material respects; and

(ii) With respect to each Mortgage Loan listed in the applicable Supplemental Mortgage Loan Schedule, the Prepayment Premium for such Mortgage Loan is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, and such Prepayment Premium is permitted pursuant to applicable federal, state and local law, subject to federal preemption where applicable, except (1) as such enforcement may be limited by bankruptcy, insolvency, moratorium, receivership, or other similar law relating to creditors' rights generally, (2) if such Mortgage Loan is accelerated in connection with a foreclosure or other involuntary payment, (3) if enforcement would be considered "predatory" pursuant to written guidelines issued by any applicable federal, state or local authority having jurisdiction over such matters and (4) if enforcement would be otherwise limited or prohibited by applicable law.

(c) Upon discovery by a Seller (the "Breaching Seller") or the Purchaser of a breach of either of the representations and warranties set forth in Section 3.4(b) made by the Breaching Seller, which materially and adversely affects the value of any Mortgage Loan (including the value of Prepayment Premiums payable thereunder) sold by such Breaching Seller hereunder or the interests of the Purchaser in such Mortgage Loan, the party discovering such breach shall give prompt written notice to the other. Within 60 days of the later of (A) the earlier of the date of its discovery of the breach or the date of its receipt of written notice of breach from the Purchaser, and (B) the date on which a Prepayment Premium would have become payable had such representation and warranty been true, the Breaching Seller shall pay to the Purchaser the amount of such Prepayment Premium less any amount collected from the related Mortgagor with respect to such Prepayment Premium.

(d) It is understood and agreed that the obligations of a Breaching Seller set forth in this Section 3.4 constitute the sole remedies available to the Purchaser or its transferee respecting a breach of the representations and warranties by such Breaching Seller set forth in Section 3.4(b)."

iv. **Section 2.4(b):** Clauses ii and iii of the second sentence of Section 2.4(b) of the MLPA are hereby deleted in their

entirety and replaced with the following:

“(ii) each Substitute Mortgage Loan shall mature not more than one year later than, and not more than two years before, the weighted average date of maturity of the Reacquired Mortgage Loans; provided, that the cumulative effect of all substitutions shall not cause the weighted average life (at the pricing speed) of any class of Certificates to increase by more than the lesser of (x) five years or (y) 50% of its original weighted average life (at the pricing speed); (iii) the weighted average Current Loan-to-Value Ratio of the Substitute Mortgage Loans shall be equal to or less than the weighted average Current Loan-to-Value Ratio of the Reacquired Mortgage Loans; provided, that no Substitute Mortgage Loan shall have a Current Loan-to-Value Ratio greater than 100%.”

e. Except as modified here, the MLPA remains in full force and effect.

EX-99.1 4 exh991to8kpsawamu07_oa3.htm

EXHIBIT 99.1

The following Section 2 is an excerpt from the term sheet for WaMu Mortgage Pass-Through Certificates Series 2007-OA3

2. Amendments to MLPA

a. Notwithstanding anything to the contrary set forth in the MLPA, with respect to the Seller Mortgage Loans, the representations and warranties set forth in Section 3.1 and Section 3.2 of the MLPA shall be subject to the exceptions, if any, set forth on Schedule III to this Term Sheet.

b. Each of the following representations and warranties with respect to the Seller Mortgage Loans set forth in the indicated clauses of Section 3.1 or Section 3.2 of the MLPA is hereby deleted in its entirety:

No deletions.

c. Section 3.1 of the MLPA is hereby amended to add the following additional representations and warranties with respect to the Seller Mortgage Loans:

(xxx) At the time of origination of the Mortgage Loan, no improvements located on or being part of the Mortgaged Property were in violation of any applicable zoning and subdivision laws or ordinances.

(xxxi) The terms of the Mortgage Note and the Mortgage have not been impaired, altered or modified in any material respect, except by a written instrument (and with respect to any impairment, alteration or modification in any material respect of a Mortgage, such instrument has been recorded or is in the process of being recorded).

(xxxii) As of the Closing Date, there is no mechanics' lien or claim for work, labor or material affecting the Mortgaged Property.

d. The following additional amendments are hereby made to the MLPA with respect to the Seller Mortgage Loans:

i. Section 3.1(iv) Representation. The representation and warranty in clause (iv) of Section 3.1 of the MLPA is hereby deleted in its entirety and replaced with the following representation and warranty:

"(iv) Except as set forth on Schedule III to the Term Sheet, if applicable, as of the Cut-Off Date, no Mortgage Loan is delinquent (i.e., more than 30 days past due), and no Mortgage Loan had been delinquent (i.e., was more than 30 days past due) more than once in the preceding 12 months (or such shorter period as had elapsed from the date of origination of the Mortgage Loan by the Seller or the other Seller or, if originated by someone other than the Seller or the other Seller, from the date of acquisition of the Mortgage Loan by the Seller or the other Seller) and any such delinquency lasted for no more than 30 days;"

ii. Definitions of "Current Loan-to-Value Ratio" and "Original Loan-to-Value Ratio". The definitions of "Current Loan-to-Value Ratio" and "Original Loan-to-Value Ratio" in Article 1 of the MLPA are hereby deleted in their entirety and replaced with the following two definitions:

"Current Loan-to-Value Ratio: As used in Section 2.4(b), the Principal Balance of a Mortgage Loan as of the applicable date of substitution divided by the Appraised Value; and as used in Section 3.1, the Cut-Off Date Principal Balance of a Mortgage Loan divided by the Appraised Value; *provided, however*, that if the related Mortgaged Property is located in the State of New York, then, as used in Section 3.1, the Current Loan-to-Value Ratio shall be the Cut-Off Date Principal Balance of the Mortgage Loan divided by the value set forth on the appraisal made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property (or, if such Mortgage Loan is an ROV Mortgage Loan, the value set forth on the residential appraisal review made in connection with the origination of such Mortgage Loan as the value of the

related Mortgaged Property).

Original Loan-to-Value Ratio: The original principal amount of a Mortgage Loan divided by the Appraised Value; *provided, however*, that if the related Mortgaged Property is located in the State of New York, then the Original Loan-to-Value Ratio shall be the original principal amount of the Mortgage Loan divided by the value set forth on the appraisal made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property (or, if such Mortgage Loan is an ROV Mortgage Loan, the value set forth on the residential appraisal review made in connection with the origination of such Mortgage Loan as the value of the related Mortgaged Property)."

iii. **Prepayment Premiums.** The MLPA is hereby amended to add the following Section 3.4:

"Section 3.4 Seller Representations and Warranties Regarding Prepayment Premiums; Remedies for Breach

(a) Whenever used in this Section 3.4, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

Prepayment Premium: With respect to any Mortgage Loan listed in the applicable Supplemental Mortgage Loan Schedule, any fee or premium required to be paid by the Mortgagor if the Mortgagor voluntarily prepays such Mortgage Loan in full as provided in the related Mortgage Note or Mortgage, except for any such fee or premium required to be paid more than three years after origination thereof.

Supplemental Mortgage Loan Schedule: The Supplemental Schedule of Mortgage Loans attached as Schedule I-A to a Term Sheet. The Supplemental Mortgage Loan Schedule shall set forth the following information with respect to each Mortgage Loan that requires the payment of a Prepayment Premium: (i) its loan number and (ii) the applicable term during which a Prepayment Premium is payable pursuant to the provisions of such Mortgage Loan.

(b) The Seller hereby represents and warrants to the Purchaser that, as to each Mortgage Loan sold by the Seller hereunder and listed in the applicable Supplemental Mortgage Loan Schedule, as of the Closing Date:

(i) The information set forth in the applicable Supplemental Mortgage Loan Schedule delivered on the Closing Date is true and correct in all material respects; and

(ii) With respect to each Mortgage Loan listed in the applicable Supplemental Mortgage Loan Schedule, the Prepayment Premium for such Mortgage Loan is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, and such Prepayment Premium is permitted pursuant to applicable federal, state and local law, subject to federal preemption where applicable, except (1) as such enforcement may be limited by bankruptcy, insolvency, moratorium, receivership, or other similar law relating to creditors' rights generally, (2) if such Mortgage Loan is accelerated in connection with a foreclosure or other involuntary payment, (3) if enforcement would be considered "predatory" pursuant to written guidelines issued by any applicable federal, state or local authority having jurisdiction over such matters and (4) if enforcement would be otherwise limited or prohibited by applicable law.

(c) Upon discovery by a Seller (the "**Breaching Seller**") or the Purchaser of a breach of either of the representations and warranties set forth in Section 3.4(b) made by the Breaching Seller, which materially and adversely affects the value of any Mortgage Loan (including the value of Prepayment Premiums payable thereunder) sold by such Breaching Seller hereunder or the interests of the Purchaser in such Mortgage Loan, the party discovering such breach shall give prompt written notice to the other. Within 60 days of the later of (A) the earlier of the date of its discovery of the breach or the date of its receipt of written notice of breach from the Purchaser, and (B) the date on which a Prepayment Premium would have become payable had such representation and warranty been true, the Breaching Seller shall pay to the Purchaser the amount of such Prepayment Premium less any amount collected from the related Mortgagor with respect to such Prepayment Premium.

(d) It is understood and agreed that the obligations of a Breaching Seller set forth in this Section 3.4 constitute the sole remedies available to the Purchaser or its transferee respecting a breach of the representations and warranties by such Breaching Seller set forth in Section 3.4(b)."

iv. **Section 2.4(b):** Clauses ii and iii of the second sentence of Section 2.4(b) of the MLPA are hereby deleted in their

entirety and replaced with the following:

“(ii) each Substitute Mortgage Loan shall mature not more than one year later than, and not more than two years before, the weighted average date of maturity of the Reacquired Mortgage Loans; provided, that the cumulative effect of all substitutions shall not cause the weighted average life (at the pricing speed) of any class of Certificates to increase by more than the lesser of (x) five years or (y) 50% of its original weighted average life (at the pricing speed); (iii) the weighted average Current Loan-to-Value Ratio of the Substitute Mortgage Loans shall be equal to or less than the weighted average Current Loan-to-Value Ratio of the Reacquired Mortgage Loans; provided, that no Substitute Mortgage Loan shall have a Current Loan-to-Value Ratio greater than 100%.”

e. Except as modified here, the MLPA remains in full force and effect.

424B5 1 c47503_424b5.htm

Prospectus Supplement to Prospectus Dated March 22, 2007

WaMu Mortgage Pass-Through Certificates, Series 2007-OA3

WaMu Asset Acceptance Corp.
Depositor

Washington Mutual Bank
Sponsor and Servicer

\$1,053,580,100
(Approximate)

Consider carefully the risk factors beginning on page S-21 in this prospectus supplement and page 5 in the accompanying prospectus.

The certificates will represent interests only in the issuing entity which is WaMu Mortgage Pass-Through Certificates Series 2007-OA3 Trust and will not represent interests in or obligations of Washington Mutual Bank, WaMu Asset Acceptance Corp., Washington Mutual, Inc. or any of their affiliates.

Neither these certificates nor the underlying mortgage loans are guaranteed by any agency or instrumentality of the United States.

This prospectus supplement may be used to offer and sell the offered certificates only if accompanied by the prospectus.

The WaMu Mortgage Pass-Through Certificates Series 2007-OA3 Trust will issue sixteen classes of offered certificates and three classes of privately placed certificates. Each class of offered certificates will be entitled to receive monthly distributions of interest, principal or both, beginning on April 25, 2007. The certificate interest rate for some classes of offered certificates will be variable, and will be based in part on the one-year MTA index or the one-month LIBOR index, as described in this prospectus supplement. The table on page S-6 of this prospectus supplement contains a list of the classes of offered certificates, including the initial class principal balance, certificate interest rate, and special characteristics of each class.

The primary asset of the Trust will be a pool of first lien single-family residential mortgage loans whose interest rates (after an initial fixed-rate period) adjust monthly and which include a negative amortization feature. The Trust will also contain other assets, which are described on page S-40 of this prospectus supplement.

Offered Certificates

Total principal amount (approximate)	\$1,053,580,100
First payment date	April 25, 2007
Interest and/or principal paid	Monthly
Last payment date	April 25, 2047

Credit enhancement for the offered certificates is being provided by three classes of privately offered certificates, which have an aggregate principal balance of approximately \$14,418,458. Additional credit enhancement for the offered senior certificates is being provided by eleven classes of offered subordinate certificates. Losses otherwise allocable to some senior certificates will instead be allocated to other senior certificates.

The underwriter listed below will offer the offered certificates at varying prices to be determined at the time of sale. The proceeds to WaMu Asset Acceptance Corp. from the sale of the offered certificates will be approximately 100.92% of the principal balance of the offered certificates plus accrued interest, before deducting expenses. The underwriter's commission will be the difference between the price it pays to WaMu Asset Acceptance Corp. for the offered certificates and the amount it receives from the sale of the offered certificates to the public.

Neither the SEC nor any state securities commission has approved or disapproved of the offered certificates or determined that this prospectus supplement or the prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Underwriter
WaMu Capital Corp.

March 23, 2007

Permanent Subcommittee on Investigations
EXHIBIT #86a

- the loan-to-value ratios of the mortgage loans as of the Cut-Off Date;
- the types of mortgaged properties;
- the geographic distribution by state of the mortgaged properties;
- the scheduled maturity years of the mortgage loans;
- the original terms to maturity of the mortgage loans;
- the number of mortgage loans originated under full documentation or reduced documentation programs;
- the stated owner occupancy status of the mortgaged properties when the mortgage loans were originated;
- the mortgagor's purpose of financing;
- the credit score ranges;
- current and past delinquencies of the mortgage loans, if applicable;
- the monthly debt to income ratio of all debt;
- the combined loan-to-value ratios of the first and second liens at origination; and
- the number of mortgage loans, and the percentage of such loan group, that contain prepayment penalties, broken out for each of the various prepayment penalty terms.

The credit score tables appearing in Appendix B show the credit scores, if any, that the originators or underwriters of the mortgage loans collected for the mortgagors. The credit scores shown were collected from a variety of sources over a period of weeks, months or longer, and the credit scores do not necessarily reflect the credit scores that would be reported as of the date of this prospectus supplement. Credit scores should not be considered as an accurate predictor of the likelihood of repayment of the related mortgage loans. See "Underwriting of the Mortgage Loans—Evaluation of the Borrower's Credit Standing" in this prospectus supplement.

The material terms of the pooling agreement are described in this prospectus supplement, and the pooling agreement will be available to purchasers of the certificates through a Current Report on Form 8-K that will be filed with the Securities and Exchange Commission within fifteen days after the initial issuance of the certificates. If mortgage loans are removed from or added to the mortgage pool as described in the footnote on page S-53, that removal or addition will be noted in a Distribution Report on Form 10-D or a Current Report on Form 8-K.

Representations and Warranties Regarding the Mortgage Loans

Under the mortgage loan sale agreement pursuant to which the sponsor will sell the mortgage loans to the depositor, the sponsor will make representations and warranties in respect of the mortgage loans, which representations and warranties the depositor will assign to the Trust pursuant to the pooling agreement. Among those representations and warranties are the following:

- Each mortgage is a valid and enforceable first lien on an unencumbered estate in fee simple or leasehold estate in the related mortgaged property, except as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity, and except as provided in the mortgage loan sale agreement;
- The depositor will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than any lien under the mortgage loan sale agreement);
- No mortgage loan is delinquent (that is, more than 30 days past due), and no mortgage loan was delinquent more than once in the preceding 12 months (or during such shorter period as has elapsed from the date of origination of such mortgage loan by the sponsor or its affiliates or, if originated by an unaffiliated party, from the date of acquisition of such mortgage loan by the sponsor or its affiliates) and any such delinquency lasted for no more than 30 days;
- There are no delinquent assessments or taxes outstanding against any mortgaged property;

S-58

- There is no offset, defense or counterclaim to any mortgage note, except as stated in the mortgage loan sale agreement;
- Each mortgaged property is free of damage and in good repair, ordinary wear and tear excepted;
- Each mortgage loan at the time it was made complied with all applicable local, state and federal laws, including, without limitation, usury, equal credit opportunity, disclosure and recording laws, and predatory and abusive lending laws applicable to the originating lender;
- Each mortgage loan (except mortgage loans secured by cooperative properties) is covered by a title insurance policy insuring the lien status of the mortgage, subject to the exceptions set forth in the policy;
- Each mortgage loan with a loan-to-value ratio both (i) as of the Cut-Off Date and (ii) as of its respective origination date in excess of 80% was covered, as of the Cut-Off Date, by a primary insurance policy, and such policy or guaranty is valid and remains in full force and effect;
- All hazard insurance or other insurance required under the mortgage loan sale agreement has been validly issued and remains in full force and effect;
- Each mortgage and mortgage note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity;
- The sponsor used no adverse selection procedures in selecting the mortgage loans from among the outstanding adjustable rate conventional mortgage loans owned by it which were available for sale and as to which the representations and warranties in the mortgage loan sale agreement could be made; and
- Each mortgage loan constitutes a qualified mortgage under the Internal Revenue Code.

Pursuant to the pooling agreement, the depositor will represent and warrant to the Trust that, as of the Closing Date, the Trust will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than (i) any lien arising before the depositor's purchase of the mortgage loan from the sponsor and (ii) any lien under the pooling agreement).

In the event of a material breach of the representations and warranties made by the sponsor or the depositor, the breaching party will be required to either cure the breach in all material respects, repurchase the affected mortgage loan or substitute for the affected mortgage loan. In the event that a required loan document is not included in the mortgage files for the mortgage loans, the sponsor generally will also be required to either cure the defect or repurchase or substitute for the affected mortgage loan. See "Description of the Securities—Representations and Warranties Regarding the Mortgage Loans; Remedies for Breach" in the prospectus for a description of the purchase price for each repurchased mortgage loan and the requirements with respect to substitutions of mortgage loans.

Criteria for Selection of Mortgage Loans

The sponsor selected the mortgage loans from among its portfolio of mortgage loans held for sale based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principal balance, credit scores and other characteristics described in Appendix B to this prospectus supplement, and taking into account investor preferences and the depositor's objective of obtaining the most favorable combination of ratings on the certificates.

Prospectus Supplement to Prospectus Dated March 22, 2007

Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OA3

WaMu Asset Acceptance Corp.
Depositor

Washington Mutual Bank
Countrywide Home Loans, Inc.
Servicers

Washington Mutual Mortgage Securities Corp.
Washington Mutual Bank
Co-Sponsors

\$2,326,046,100
(Approximate)

Consider carefully the risk factors beginning on page S-34 in this prospectus supplement and page 5 in the accompanying prospectus.

The certificates will represent interests only in the issuing entity which is Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA3 Trust and will not represent interests in or obligations of Washington Mutual Bank, Washington Mutual Mortgage Securities Corp., WaMu Asset Acceptance Corp., Washington Mutual, Inc. or any of their affiliates.

Neither these certificates nor the underlying mortgage loans are guaranteed by any agency or instrumentality of the United States.

This prospectus supplement may be used to offer and sell the offered certificates only if accompanied by the prospectus.

The Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA3 Trust will issue thirty-five classes of offered certificates and six classes of privately placed certificates. Each class of certificates will be entitled to receive monthly distributions of interest, principal or both, beginning on April 25, 2007. The certificate interest rate for some classes of offered certificates will be variable, and will be based in part on the one-year MTA index, the COFI index or the one-month LIBOR index, as described in this prospectus supplement. The table on pages S-7 and S-8 of this prospectus supplement contains a list of the classes of offered certificates, including the initial class principal balance, certificate interest rate, and special characteristics of each class.

The primary asset of the Trust will be a pool of first lien single-family residential mortgage loans whose interest rates (after an initial fixed-rate period) adjust monthly and which include a negative amortization feature. The Trust will also contain other assets, which are described on page S-68 of this prospectus supplement.

Offered Certificates

Total principal amount (approximate)	\$2,326,046,100
First payment date	April 25, 2007
Interest and/or principal paid	Monthly
Last payment date	April 25, 2047

Credit enhancement for the Class 1A, Class 2A, Class CA-1B, Class CA-1C, Class CX-1, Class CX-2-PPP, Class L-B-1, Class L-B-2, Class L-B-3, Class L-B-4, Class L-B-5, Class L-B-6, Class L-B-7, Class L-B-8, Class L-B-9, Class L-B-10 and Class L-B-11 Certificates is being provided by three classes of privately offered certificates, which have an aggregate principal balance of approximately \$17,054,929. Credit enhancement for the Class 3A, Class 4A-1, Class 4A-2, Class 4A-B, Class 5A, Class DA-1B, Class DA-1C, Class EX-PPP, Class FX, Class 5X-PPP, Class M-B-1, Class M-B-2, Class M-B-3, Class M-B-4, Class M-B-5, Class M-B-6 and Class M-B-7 Certificates is being provided by three classes of privately offered certificates, which have an aggregate principal balance of approximately \$28,858,231. Additional credit enhancement for the offered senior certificates is being provided by the related classes of offered subordinate certificates. Losses otherwise allocable to some senior certificates will instead be allocated to other senior certificates.

The underwriter listed below will offer the offered certificates at varying prices to be determined at the time of sale. The proceeds to WaMu Asset Acceptance Corp. from the sale of the offered certificates will be approximately 100.08% of the principal balance of the offered certificates plus accrued interest, before deducting expenses. The underwriter's commission will be the difference between the price it pays to WaMu Asset Acceptance Corp. for the offered certificates and the amount it receives from the sale of the offered certificates to the public.

Neither the SEC nor any state securities commission has approved or disapproved of the offered certificates or determined that this prospectus supplement or the prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Underwriter

Permanent Subcommittee on Investigations
EXHIBIT #86b

The credit score tables appearing in Appendix B show the credit scores, if any, that the originators or underwriters of the mortgage loans collected for the mortgagors. The credit scores shown were collected from a variety of sources over a period of weeks, months or longer, and the credit scores do not necessarily reflect the credit scores that would be reported as of the date of this prospectus supplement. Credit scores should not be considered as an accurate predictor of the likelihood of repayment of the related mortgage

S-100

loans. See "Underwriting of the Mortgage Loans—Evaluation of the Borrower's Credit Standing" in this prospectus supplement.

The material terms of the pooling agreement are described in this prospectus supplement, and the pooling agreement will be available to purchasers of the certificates through a Current Report on Form 8-K that will be filed with the Securities and Exchange Commission within fifteen days after the initial issuance of the certificates. If mortgage loans are removed from or added to the mortgage pool as described in the footnote on page S-85, that removal or addition will be noted in a Distribution Report on Form 10-D or a Current Report on Form 8-K.

Representations and Warranties Regarding the Mortgage Loans

Under the related mortgage loan sale agreement pursuant to which Washington Mutual Mortgage Securities Corp. or Washington Mutual Bank, as applicable, will sell the mortgage loans to the depositor, Washington Mutual Mortgage Securities Corp. or Washington Mutual Bank, as applicable, will make representations and warranties in respect of the related mortgage loans, which representations and warranties the depositor will assign to the Trust pursuant to the pooling agreement. Among those representations and warranties made by each of Washington Mutual Mortgage Securities Corp. and Washington Mutual Bank, with respect to the mortgage loans sold by such entity to the depositor under the related mortgage loan sale agreement, are the following:

- * Each mortgage is a valid and enforceable first lien on an unencumbered estate in fee simple or leasehold estate in the related mortgaged property, except as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity, and except as provided in the mortgage loan sale agreement;
- * The depositor will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than any lien under the mortgage loan sale agreement);
- * For each mortgage loan sold by Washington Mutual Mortgage Securities Corp. to the depositor, no mortgage loan is delinquent (that is, more than 30 days past due), and no mortgage loan was delinquent more than once in the preceding 12 months (or during such shorter period as has elapsed from the date of acquisition of such mortgage loan by Washington Mutual Mortgage Securities Corp. or, if earlier, from the date of origination or acquisition of such mortgage loan by an affiliate of Washington Mutual Mortgage Securities Corp.) and any such delinquency lasted for no more than 30 days;
- * For each mortgage loan sold by Washington Mutual Bank to the depositor, no mortgage loan is delinquent (that is, more than 30 days past due), and no mortgage loan was delinquent more than once in the preceding 12 months (or during such shorter period as has elapsed from the date of origination of such mortgage loan by Washington Mutual Bank or its affiliates or, if originated by an unaffiliated party, from the date of acquisition of such mortgage loan by Washington Mutual Bank or its affiliates) and any such delinquency lasted for no more than 30 days;
- * There are no delinquent assessments or taxes outstanding against any mortgaged property;
- * There is no offset, defense or counterclaim to any mortgage note, except as stated in the mortgage loan sale agreement;
- * Each mortgaged property is free of damage and in good repair, ordinary wear and tear excepted;
- * Each mortgage loan at the time it was made complied with all applicable local, state and federal laws, including, without limitation, usury, equal credit opportunity, disclosure and recording laws, and predatory and abusive lending laws applicable to the originating lender;
- * Each mortgage loan (except mortgage loans secured by cooperative properties) is covered by a title insurance policy insuring the lien status of the mortgage, subject to the exceptions set forth in the policy;
- * For each mortgage loan sold by Washington Mutual Mortgage Securities Corp. to the depositor, except as provided in the mortgage loan sale agreement, each mortgage loan with a loan-to-

S-101

value ratio both (i) as of the Cut-Off Date and (ii) as of its respective origination date in excess of 80% was covered, as of the Cut-Off Date, by a primary insurance policy, and such policy or guaranty is valid and remains in full force and effect;

- * For each mortgage loan sold by Washington Mutual Bank to the depositor, each mortgage loan with a loan-to-value ratio both (i) as of the Cut-Off Date and (ii) as of its respective origination date in excess of 80% was covered, as of the Cut-Off Date, by a primary insurance policy, and such policy or guaranty is valid and remains in full force and effect;
- * All hazard insurance or other insurance required under the mortgage loan sale agreement has been validly issued and remains in full force and effect;
- * Each mortgage and mortgage note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity;
- * Washington Mutual Mortgage Securities Corp. and Washington Mutual Bank, as applicable, used no adverse selection procedures in selecting the mortgage loans from among the outstanding adjustable rate conventional mortgage loans owned by it which were available for sale and as to which the representations and warranties in the mortgage loan sale agreement could be made; and

- Each mortgage loan constitutes a qualified mortgage under the Internal Revenue Code.

Pursuant to the pooling agreement, the depositor will represent and warrant to the Trust that, as of the Closing Date, the Trust will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than (i) any lien arising before the depositor's purchase of the mortgage loan from Washington Mutual Mortgage Securities Corp. or Washington Mutual Bank, as applicable, and (ii) any lien under the pooling agreement).

In the event of a material breach of the representations and warranties made by a co-sponsor or the depositor, the breaching party will be required to either cure the breach in all material respects, repurchase the affected mortgage loan or substitute for the affected mortgage loan. In the event that a required loan document is not included in the mortgage files for the mortgage loans, the related co-sponsor generally will also be required to either cure the defect or repurchase or substitute for the affected mortgage loan. See "Description of the Securities—Representations and Warranties Regarding the Mortgage Loans; Remedies for Breach" in the prospectus for a description of the purchase price for each repurchased mortgage loan and the requirements with respect to substitutions of mortgage loans.

S-102

Criteria for Selection of Mortgage Loans

Each co-sponsor selected the mortgage loans it sold to the depositor from among its portfolio of mortgage loans held for sale based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principal balance, credit scores and other characteristics described in Appendix B to this prospectus supplement, and taking into account investor preferences and the depositor's objective of obtaining the most favorable combination of ratings on the certificates.

S-103

DESCRIPTION OF THE CERTIFICATES

General

The certificates will be issued pursuant to the pooling agreement to be dated as of the Cut-Off Date among WaMu Asset Acceptance Corp., as depositor, Washington Mutual Bank, as servicer, LaSalle Bank National Association, as trustee, and Christiana Bank & Trust Company, as Delaware trustee. A form of the pooling agreement is filed as an exhibit to the registration statement relating to the certificates. The accompanying prospectus contains important additional information regarding the terms and conditions of the pooling agreement and the certificates. The offered certificates will not be issued unless they receive the ratings from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), and Moody's Investors Service, Inc. ("Moody's") indicated under "Certificate Ratings" in this prospectus supplement. As of the Closing Date, the offered certificates, other than the Class L-B-7, Class L-B-8, Class L-B-9, Class L-B-10, Class L-B-11, Class M-B-5, Class M-B-6 and Class M-B-7 Certificates, will qualify as "mortgage related securities" within the meaning of the Secondary Mortgage Market Enhancement Act of 1984.

The Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OA3 will consist of the following classes:

- Class 1A
- Class 2A
- Class 3A
- Class 4A-1
- Class 4A-2
- Class 4A-B
- Class 5A
- Class CA-1B
- Class CA-1C
- Class DA-1B
- Class DA-1C
- Class CX-1
- Class CX-2-PPP
- Class EX-PPP
- Class FX
- Class 5X-PPP
- Class L-B-1
- Class L-B-2
- Class L-B-3
- Class L-B-4
- Class L-B-5
- Class L-B-6

424B5 1 c48062_424b5.htm

Prospectus Supplement to Prospectus Dated April 17, 2007

WaMu Mortgage Pass-Through Certificates, Series 2007-OA4

WaMu Asset Acceptance Corp.
Depositor

Washington Mutual Bank
Sponsor and Servicer

\$1,600,429,100
(Approximate)

Consider carefully the risk factors beginning on page S-20 in this prospectus supplement and page 5 in the accompanying prospectus.

The certificates will represent interests only in the issuing entity which is WaMu Mortgage Pass-Through Certificates Series 2007-OA4 Trust and will not represent interests in or obligations of Washington Mutual Bank, WaMu Asset Acceptance Corp., Washington Mutual, Inc. or any of their affiliates.

Neither these certificates nor the underlying mortgage loans are guaranteed by any agency or instrumentality of the United States.

This prospectus supplement may be used to offer and sell the offered certificates only if accompanied by the prospectus.

The WaMu Mortgage Pass-Through Certificates Series 2007-OA4 Trust will issue fifteen classes of offered certificates and three classes of privately placed certificates. Each class of offered certificates will be entitled to receive monthly distributions of interest, principal or both, beginning on May 25, 2007. The certificate interest rate for some classes of offered certificates will be variable, and will be based in part on the one-year MTA index, the COFI index or the one-month LIBOR index, as described in this prospectus supplement. The table on page S-6 of this prospectus supplement contains a list of the classes of offered certificates, including the initial class principal balance, certificate interest rate, and special characteristics of each class.

The primary asset of the Trust will be a pool of first lien single-family residential mortgage loans whose interest rates (after an initial fixed-rate period) adjust monthly and which include a negative amortization feature. The Trust will also contain other assets, which are described on page S-41 of this prospectus supplement.

Offered Certificates

Total principal amount (approximate)	\$1,600,429,100
First payment date	May 25, 2007
Interest and/or principal paid	Monthly
Last payment date	May 25, 2047

Credit enhancement for the offered certificates is being provided by three classes of privately offered certificates, which have an aggregate principal balance of approximately \$26,023,929. Additional credit enhancement for the offered senior certificates is being provided by seven classes of offered subordinate certificates. Some senior certificates will have the benefit of payments, if any, from The Bank of New York pursuant to a yield maintenance agreement. Losses otherwise allocable to some senior certificates will instead be allocated to other senior certificates.

The underwriter listed below will offer the offered certificates at varying prices to be determined at the time of sale. The proceeds to WaMu Asset Acceptance Corp. from the sale of the offered certificates will be approximately 100.78% of the principal balance of the offered certificates plus accrued interest, before deducting expenses. The underwriter's commission will be the difference between the price it pays to WaMu Asset Acceptance Corp. for the offered certificates and the amount it receives from the sale of the offered certificates to the public.

Neither the SEC nor any state securities commission has approved or disapproved of the offered certificates or determined that this prospectus supplement or the prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Underwriter

WaMu Capital Corp.

April 24, 2007

Permanent Subcommittee on Investigations
EXHIBIT #86c

The material terms of the pooling agreement are described in this prospectus supplement, and the pooling agreement will be available to purchasers of the certificates through a Current Report on Form 8-K that will be filed with the Securities and Exchange Commission within fifteen days after the initial issuance of the certificates. If mortgage loans are removed from or added to the mortgage pool as described in the footnote on page S-54, that removal or addition will be noted in a Distribution Report on Form 10-D or a Current Report on Form 8-K.

Representations and Warranties Regarding the Mortgage Loans

Under the mortgage loan sale agreement pursuant to which the sponsor will sell the mortgage loans to the depositor, the sponsor will make representations and warranties in respect of the mortgage loans, which representations and warranties the depositor will assign to the Trust pursuant to the pooling agreement. Among those representations and warranties are the following:

- Each mortgage is a valid and enforceable first lien on an unencumbered estate in fee simple or leasehold estate in the related mortgaged property, except as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity, and except as provided in the mortgage loan sale agreement;
- The depositor will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than any lien under the mortgage loan sale agreement);
- No mortgage loan is delinquent (that is, more than 30 days past due), and no mortgage loan was delinquent more than once in the preceding 12 months (or during such shorter period as has elapsed from the date of origination of such mortgage loan by the sponsor or its affiliates or, if originated by an unaffiliated party, from the date of acquisition of such mortgage loan by the sponsor or its affiliates) and any such delinquency lasted for no more than 30 days;
- There are no delinquent assessments or taxes outstanding against any mortgaged property;
- There is no offset, defense or counterclaim to any mortgage note, except as stated in the mortgage loan sale agreement;
- Each mortgaged property is free of damage and in good repair, ordinary wear and tear excepted;
- Each mortgage loan at the time it was made complied with all applicable local, state and federal laws, including, without limitation, usury, equal credit opportunity, disclosure and recording laws, and predatory and abusive lending laws applicable to the originating lender;
- Each mortgage loan (except mortgage loans secured by cooperative properties) is covered by a title insurance policy insuring the lien status of the mortgage, subject to the exceptions set forth in the policy;
- Each mortgage loan with a loan-to-value ratio both (i) as of the Cut-Off Date and (ii) as of its respective origination date in excess of 80% was covered, as of the Cut-Off Date, by a primary insurance policy, and such policy or guaranty is valid and remains in full force and effect;
- All hazard insurance or other insurance required under the mortgage loan sale agreement has been validly issued and remains in full force and effect;
- Each mortgage and mortgage note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity;
- The sponsor used no adverse selection procedures in selecting the mortgage loans from among the outstanding adjustable rate conventional mortgage loans owned by it which were available for sale and as to which the representations and warranties in the mortgage loan sale agreement could be made; and
- Each mortgage loan constitutes a qualified mortgage under the Internal Revenue Code.

Pursuant to the pooling agreement, the depositor will represent and warrant to the Trust that, as of the Closing Date, the Trust will be the legal owner of each mortgage loan, free and clear of any encumbrance.

S-60

or lien (other than (i) any lien arising before the depositor's purchase of the mortgage loan from the sponsor and (ii) any lien under the pooling agreement).

In the event of a material breach of the representations and warranties made by the sponsor or the depositor, the breaching party will be required to either cure the breach in all material respects, repurchase the affected mortgage loan or substitute for the affected mortgage loan. In the event that a required loan document is not included in the mortgage files for the mortgage loans, the sponsor generally will also be required to either cure the defect or repurchase or substitute for the affected mortgage loan. See "Description of the Securities—Representations and Warranties Regarding the Mortgage Loans: Remedies for Breach" in the prospectus for a description of the purchase price for each repurchased mortgage loan and the requirements with respect to substitutions of mortgage loans.

Criteria for Selection of Mortgage Loans

The sponsor selected the mortgage loans from among its portfolio of mortgage loans held for sale based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principal balance, credit scores and other characteristics described in Appendix B to this prospectus supplement, and taking into account investor preferences and the depositor's objective of obtaining the most favorable combination of ratings on the certificates.

S-61

424B5 1 c48651_424b5.htm

Prospectus Supplement to Prospectus Dated April 17, 2007

Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OA4

WaMu Asset Acceptance Corp.
Depositor

Washington Mutual Bank
Countrywide Home Loans, Inc.
Servicers

Washington Mutual Mortgage Securities Corp.
Sponsor

\$467,571,100
(Approximate)

Consider carefully the risk factors beginning on page S-18 in this prospectus supplement and page 5 in the accompanying prospectus.

The certificates will represent interests only in the issuing entity which is Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA4 Trust and will not represent interests in or obligations of Washington Mutual Bank, Washington Mutual Mortgage Securities Corp., WaMu Asset Acceptance Corp., Washington Mutual, Inc. or any of their affiliates.

Neither these certificates nor the underlying mortgage loans are guaranteed by any agency or instrumentality of the United States.

This prospectus supplement may be used to offer and sell the offered certificates only if accompanied by the prospectus.

The Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA4 Trust will issue fourteen classes of offered certificates and three classes of privately placed certificates. Each class of certificates will be entitled to receive monthly distributions of interest, principal or both, beginning on June 25, 2007. The certificate interest rate for some classes of offered certificates will be variable, and will be based in part on the one-year MTA index or the one-month LIBOR index, as described in this prospectus supplement. The table on page S-6 of this prospectus supplement contains a list of the classes of offered certificates, including the initial class principal balance, certificate interest rate, and special characteristics of each class.

The primary asset of the Trust will be a pool of first lien single-family residential mortgage loans whose interest rates (after an initial fixed-rate period) adjust monthly and which include a negative amortization feature. The Trust will also contain other assets, which are described on page S-37 of this prospectus supplement.

Offered Certificates

Total principal amount (approximate)	\$467,571,100
First payment date	June 25, 2007
Interest and/or principal paid	Monthly
Last payment date	April 25, 2047

Credit enhancement for the offered certificates is being provided by three classes of privately offered certificates, which have an aggregate principal balance of approximately \$10,518,896. Additional credit enhancement for the offered senior certificates is being provided by eight classes of offered subordinate certificates. Some senior certificates will have the benefit of payments, if any, from Bear Stearns Financial Products Inc. pursuant to a yield maintenance agreement. Losses otherwise allocable to some senior certificates will instead be allocated to other senior certificates.

The underwriter listed below will offer the offered certificates at varying prices to be determined at the time of sale. The proceeds to WaMu Asset Acceptance Corp. from the sale of the offered certificates will be approximately 101.04% of the principal

balance of the offered certificates plus accrued interest, before deducting expenses. The underwriter's commission will be the difference between the price it pays to WaMu Asset Acceptance Corp. for the offered certificates and the amount it receives from the sale of the offered certificates to the public.

Neither the SEC nor any state securities commission has approved or disapproved of the offered certificates or determined that this prospectus supplement or the prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Permanent Subcommittee on Investigations

EXHIBIT #86d

Additional Information

Appendix B contains important information about the mortgage loans including:

- the mortgage interest rates, the Pass-Through Rates and the original principal balances of the mortgage loans;
- the Margins, the interest rate floors and the Rate Ceilings;
- the years in which initial monthly payments on the mortgage loans are due;
- the first interest rate adjustment dates on the mortgage loans;
- the loan-to-value ratios of the mortgage loans as of the Cut-Off Date;
- the types of mortgaged properties;
- the geographic distribution by state of the mortgaged properties;
- the scheduled maturity years of the mortgage loans;
- the original terms to maturity of the mortgage loans;
- the number of mortgage loans originated under full documentation or reduced documentation programs;
- the stated owner occupancy status of the mortgaged properties when the mortgage loans were originated;
- the mortgagor's purpose of financing;
- the credit score ranges;
- current and past delinquencies of the mortgage loans, if applicable;
- the monthly debt-to-income ratio of all debt;
- the combined loan-to-value ratios of the first and second liens at origination;
- current and past delinquencies of the mortgage loans, if any; and
- the number of mortgage loans that contain prepayment penalties, broken out by the prepayment penalty amount and by the prepayment penalty terms.

The credit score tables appearing in Appendix B show the credit scores, if any, that the originators or underwriters of the mortgage loans collected for the mortgagors. The credit scores shown were collected from a variety of sources over a period of weeks, months or longer, and the credit scores do not necessarily reflect the credit scores that would be reported as of the date of this prospectus supplement. Credit scores should not be considered as an accurate predictor of the likelihood of repayment of the related mortgage loans. See "Underwriting of the Mortgage Loans—Evaluation of the Borrower's Credit Standing" in this prospectus supplement.

The material terms of the pooling agreement are described in this prospectus supplement, and the pooling agreement will be available to purchasers of the certificates through a Current Report on Form 8-K that will be filed with the Securities and Exchange Commission within fifteen days after the initial issuance of the certificates. If mortgage loans are removed from or added to the mortgage pool as described in the footnote on page S-54, that removal or addition will be noted in a Distribution Report on Form 10-D or a Current Report on Form 8-K.

Representations and Warranties Regarding the Mortgage Loans

Under the mortgage loan sale agreement pursuant to which the sponsor will sell the mortgage loans to the depositor, the sponsor will make representations and warranties in respect of the mortgage loans, which representations and warranties the depositor will assign to the Trust pursuant to the pooling agreement. Among those representations and warranties are the following:

- Each mortgage is a valid and enforceable first lien on an unencumbered estate in fee simple or leasehold estate in the related mortgaged property, except as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity, and except as provided in the mortgage loan sale agreement;

S-59

- The depositor will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than any lien under the mortgage loan sale agreement);
- Except as provided in the mortgage loan sale agreement, no mortgage loan is delinquent (that is, more than 30 days past due), and no mortgage loan was delinquent more than once in the preceding 12 months (or during such shorter period as has elapsed from the date of acquisition of such mortgage loan by the

sponsor or, if earlier, from the date of origination or acquisition of such mortgage loan by an affiliate of the sponsor) and any such delinquency lasted for no more than 30 days:

- There are no delinquent assessments or taxes outstanding against any mortgaged property;
- There is no offset, defense or counterclaim to any mortgage note, except as stated in the mortgage loan sale agreement;
- Each mortgaged property is free of damage and in good repair, ordinary wear and tear excepted;
- Each mortgage loan at the time it was made complied with all applicable local, state and federal laws, including, without limitation, usury, equal credit opportunity, disclosure and recording laws, and predatory and abusive lending laws applicable to the originating lender;
- Each mortgage loan (except mortgage loans secured by cooperative properties) is covered by a title insurance policy insuring the lien status of the mortgage, subject to the exceptions set forth in the policy;
- Each mortgage loan with a loan-to-value ratio both (i) as of the Cut-Off Date and (ii) as of its respective origination date in excess of 80% was covered, as of the Cut-Off Date, by a primary insurance policy, and such policy or guaranty is valid and remains in full force and effect;
- All hazard insurance or other insurance required under the mortgage loan sale agreement has been validly issued and remains in full force and effect;
- Each mortgage and mortgage note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally and principles of equity;
- The sponsor used no adverse selection procedures in selecting the mortgage loans from among the outstanding adjustable rate conventional mortgage loans owned by it which were available for sale and as to which the representations and warranties in the mortgage loan sale agreement could be made; and
- Each mortgage loan constitutes a qualified mortgage under the Internal Revenue Code.

S-60

Pursuant to the pooling agreement, the depositor will represent and warrant to the Trust that, as of the Closing Date, the Trust will be the legal owner of each mortgage loan, free and clear of any encumbrance or lien (other than (i) any lien arising before the depositor's purchase of the mortgage loan from the sponsor and (ii) any lien under the pooling agreement).

In the event of a material breach of the representations and warranties made by the sponsor or the depositor, the breaching party will be required to either cure the breach in all material respects, repurchase the affected mortgage loan or substitute for the affected mortgage loan. In the event that a required loan document is not included in the mortgage files for the mortgage loans, the sponsor generally will also be required to either cure the defect or repurchase or substitute for the affected mortgage loan. See "Description of the Securities—Representations and Warranties Regarding the Mortgage Loans; Remedies for Breach" in the prospectus for a description of the purchase price for each repurchased mortgage loan and the requirements with respect to substitutions of mortgage loans.

Criteria for Selection of Mortgage Loans

The sponsor selected the mortgage loans from among its portfolio of mortgage loans held for sale based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principal balance, credit scores and other characteristics described in Appendix B to this prospectus supplement, and taking into account investor preferences and the depositor's objective of obtaining the most favorable combination of ratings on the certificates.

S-61
