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OTS letter to FDIC re Examination of WaMu

Darrel W. Dochow

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Office of Thrift Supervision

Department of the Treasury

West Region

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July 22, 2008

Mr. Stan Ivie
Regional Director
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, CA 94105

Dear Mr. ~~Ivie~~: ^{Stan}

I received the PDF copy of your letter dated July 21, 2008 regarding the completion of your 2008 special insurance examination of Washington Mutual Bank (WMB) which was conducted concurrently with the OTS's comprehensive examination of WMB and its parent holding company, Washington Mutual Inc. (WMI). In your letter you state that the FDIC respectfully requests that any corrective programs imposed by OTS include a number of specific provisions and further that OTS should direct WMI to raise a minimum of \$5 billion in equity capital and prohibit any future repurchase of holding company debt.

As the FDIC knows, the OTS has and continues to take appropriate supervisory and enforcement action in its role as the Primary Federal Regulator for WMB and WMI. We have consistently worked closely with your dedicated examiner and regularly held discussions to keep the FDIC informed of the condition of WMB and corrective actions. We downgraded the composite rating of WMB on February 27, 2008 to a "3" based on increasing concerns in earnings, asset quality and liquidity. This downgrade was made prior to completion of the then ongoing examination which concluded June 30, 2008. On an interim basis we required a Board Resolution (adopted March 19, 2008) resolving to improve asset quality, earnings, liquidity and weaknesses and concerns in my February 27, 2008 letter. We understand from direct discussions and comments at the July 15, 2008 meeting we held with the Board of Directors that OTS and FDIC are in agreement with the composite "3" rating for WMB. I further understand that it wasn't until I told management on June 20, 2008 that OTS would pursue a Memorandum of Understanding that the FDIC even incorporated that in their consideration. OTS is preparing enforcement action that I hope to present to the Board soon.

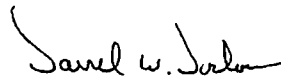
I find it curious that your letter largely reiterates OTS examiner findings and current corrective actions that OTS has already initiated plus a request for OTS to direct WMI to raise a

minimum of \$5 billion in additional equity capital. WMI raised approximately \$7 billion in equity capital in April 2008 and infused \$3 billion into WMB. At my request, an additional \$2 billion was infused into WMB this week. This is the first time that anyone from the FDIC has suggested to me that WMI (the holding company) should raise an additional \$5 billion in equity capital. In checking with the examination team, I am told that back in May 2008, FDIC examiner Bob Charuat did a very rough capital analysis that did not follow GAAP and was based on inappropriate assumptions. That analysis estimated potential life of loan losses at less than WAMU's own recession forecast but suggested that \$5 billion additional holding company capital might be needed at December 31, 2008 to exceed the WMI "elevated capital targets" assuming all losses were taken in 12 months, no core earnings or tax recapture after year one, permanent impairment of the OTTI at March 31, 2008 and a large loss factor for unused HELOC and credit card lines. The examiners reportedly discussed at the time that these assumptions were not GAAP, included artificial constructs and that moving estimated potential life of loan losses into 2008 was not realistic.

I value the constructive working relationship that we have had, and I have and will continue to consider the FDIC's views relating to our examination and supervision of institutions of mutual interest. I would hope that we can continue to have ongoing discussions and not unexpected letter exchanges. The OTS takes its Primary Federal Regulator role seriously and we will continue to do everything we can to effectively supervise entities under our jurisdiction.

I look forward to seeing you on August 1, 2008 at the Interagency meeting that the FDIC is hosting and to our morning meeting at the FRB.

Sincerely,



Darrel W. Dochow
Regional Director