

***Director Accountability for Risk Management
Failure at Washington Mutual***

CtW Investment Group
April 2008

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The Failure at Washington Mutual

- \$6.5 billion in write downs and credit losses
- Net fell from \$3.5 billion in 2006 to loss of \$67 million in 2007.
- Share price down nearly 75% since start of 2007
- Dividend cut 73% (\$0.56 to \$0.15)
- \$3.9 billion in new preferred equity issued in Q4.

The Failure at Washington Mutual

Summary of CtW Position

- WaMu misread risks in 2003-2006. Saw rising interest rates as threat to margins and dramatically shifted lending and portfolio toward higher-margin including subprime and adjustable rate loans.
- WaMu was a key client (until end of 2006) of investment management firm founded and principally owned by Finance Committee Chair.
- HR Committee has sought to shield executive bonuses from fallout of housing bubble by excluding credit losses and foreclosure costs from calculation of performance.

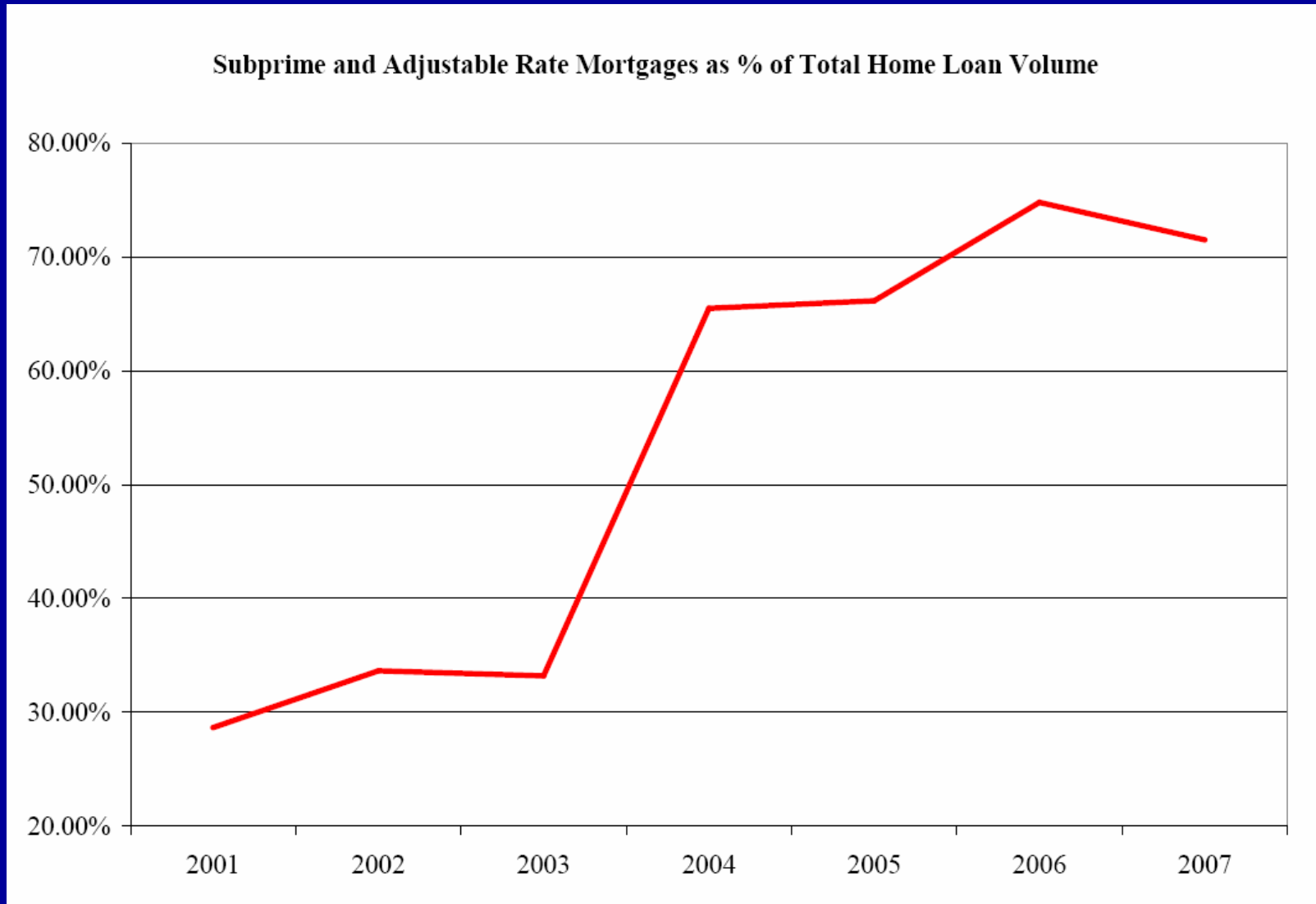
Washington Mutual's View

- Finance Committee heard regular updates on market conditions, including outside expert presentations.
- Most risky loans originated during 2004-2006 sold off to broader market.
- Underwriting standards raised.
- Acquisitions (Providian) and expansion into new lines of business (multi-family) provided diversification.
- Less reliant on FHLB.
- Zero home price appreciation assumed for 2006-2007.
- Need to provide bonuses to retain talent.
- Credit losses and foreclosure costs uncertain, will be subjectively evaluated.

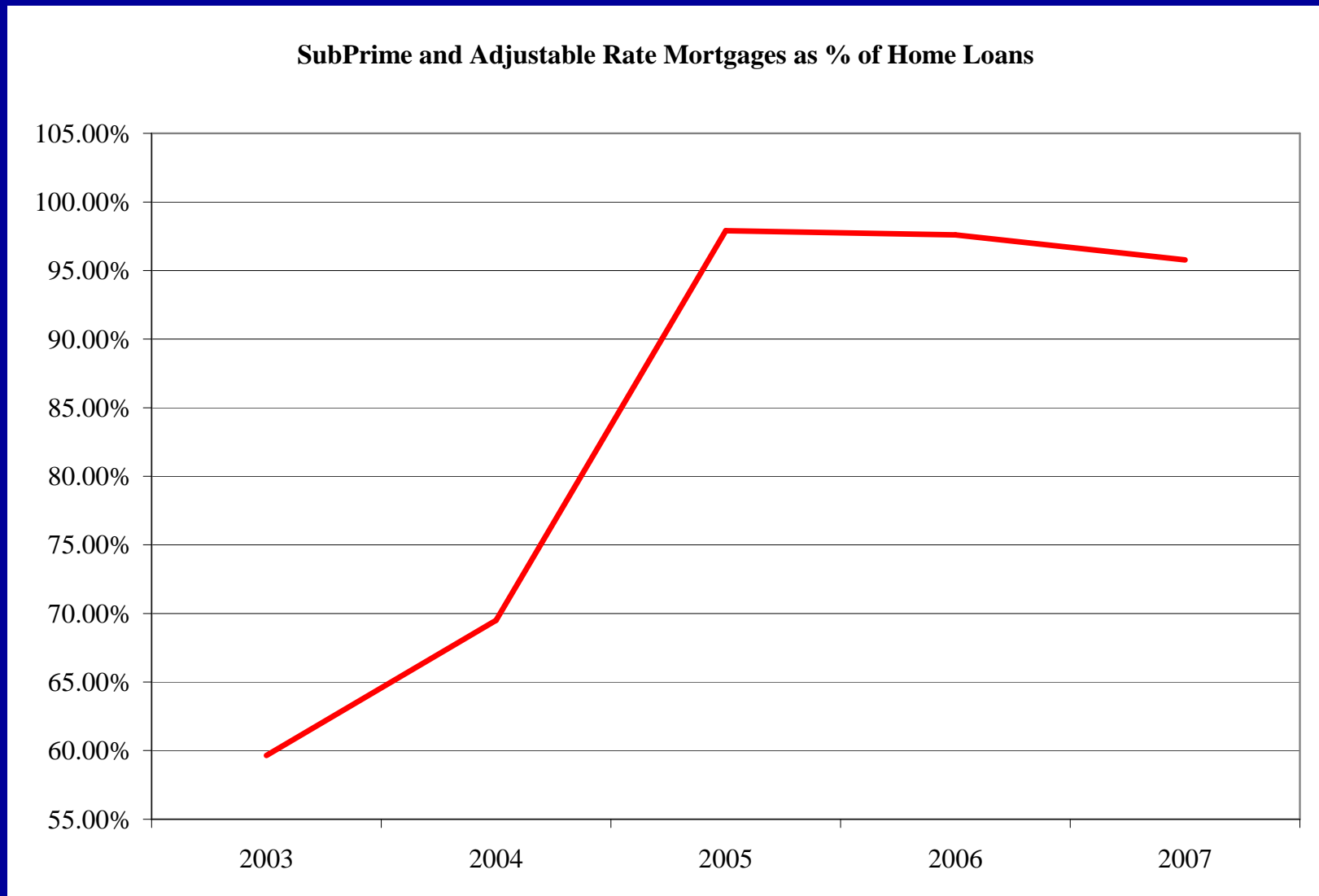
Opting for Greater Risk

- Subprime and adjustable rate mortgages rise as share of loan volume and portfolio.
- Mortgage backed securities portfolio grows 48% in 1st half of 2006, & 21% March to December 2007.
- Loan to Value Ratios for portfolio steadily growing 2004-2007.
- Share of interest income from option ARM negative amortization increase sharply 2003-2007.
- Sold \$140B fixed, conforming servicing portfolio to Wells Fargo mid-2006.
- Forced to add \$17B in mortgage loans to portfolio in late 2007.
- Growth in Non Performing Assets outstrips growth in Allowance.

Risky Mortgages Rise as Share of Loan Volume

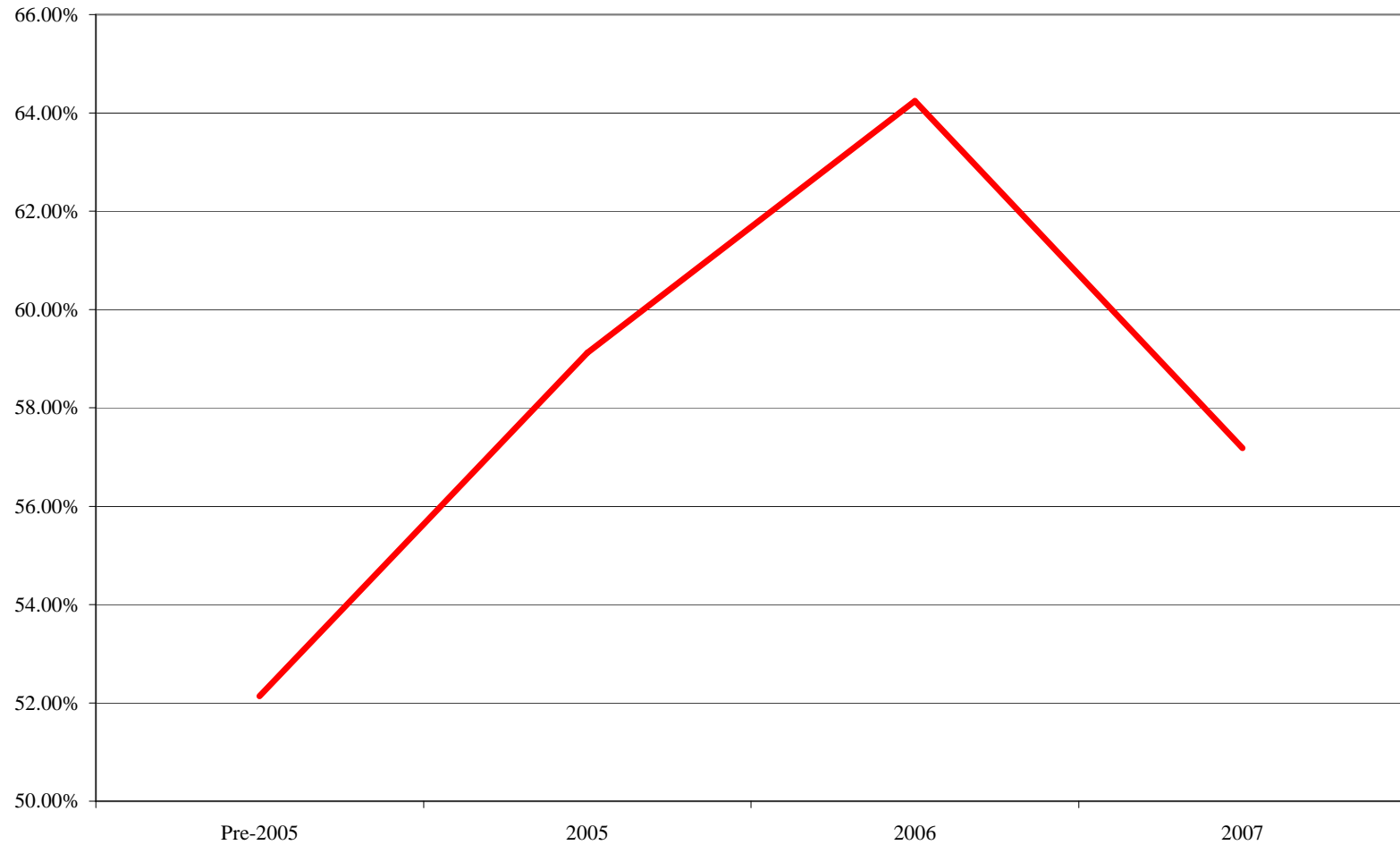


Risky Mortgages Rise as Share of Portfolio



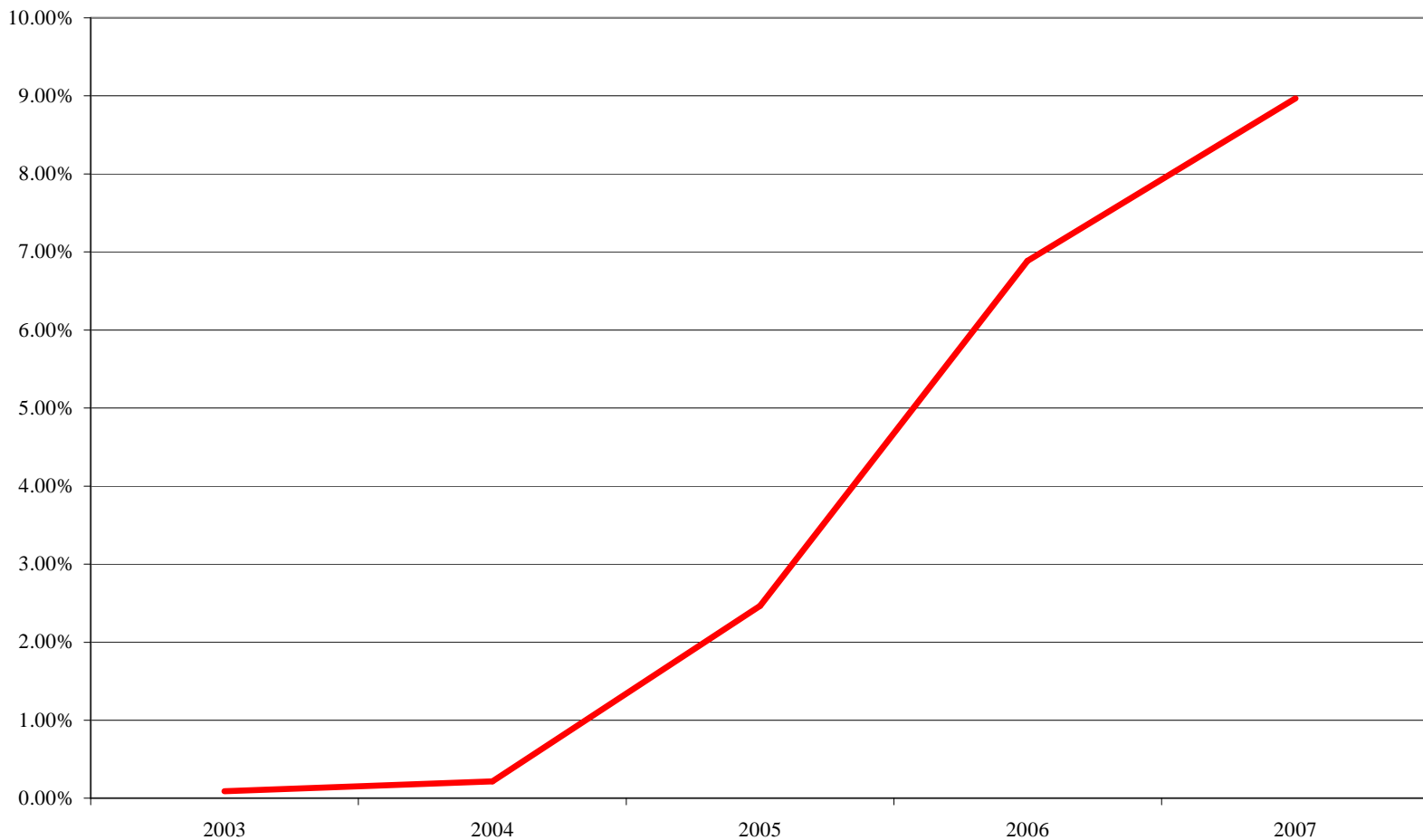
Tighter Underwriting?

Share of Portfolio Loans with LTV over 70 by Vintage Year



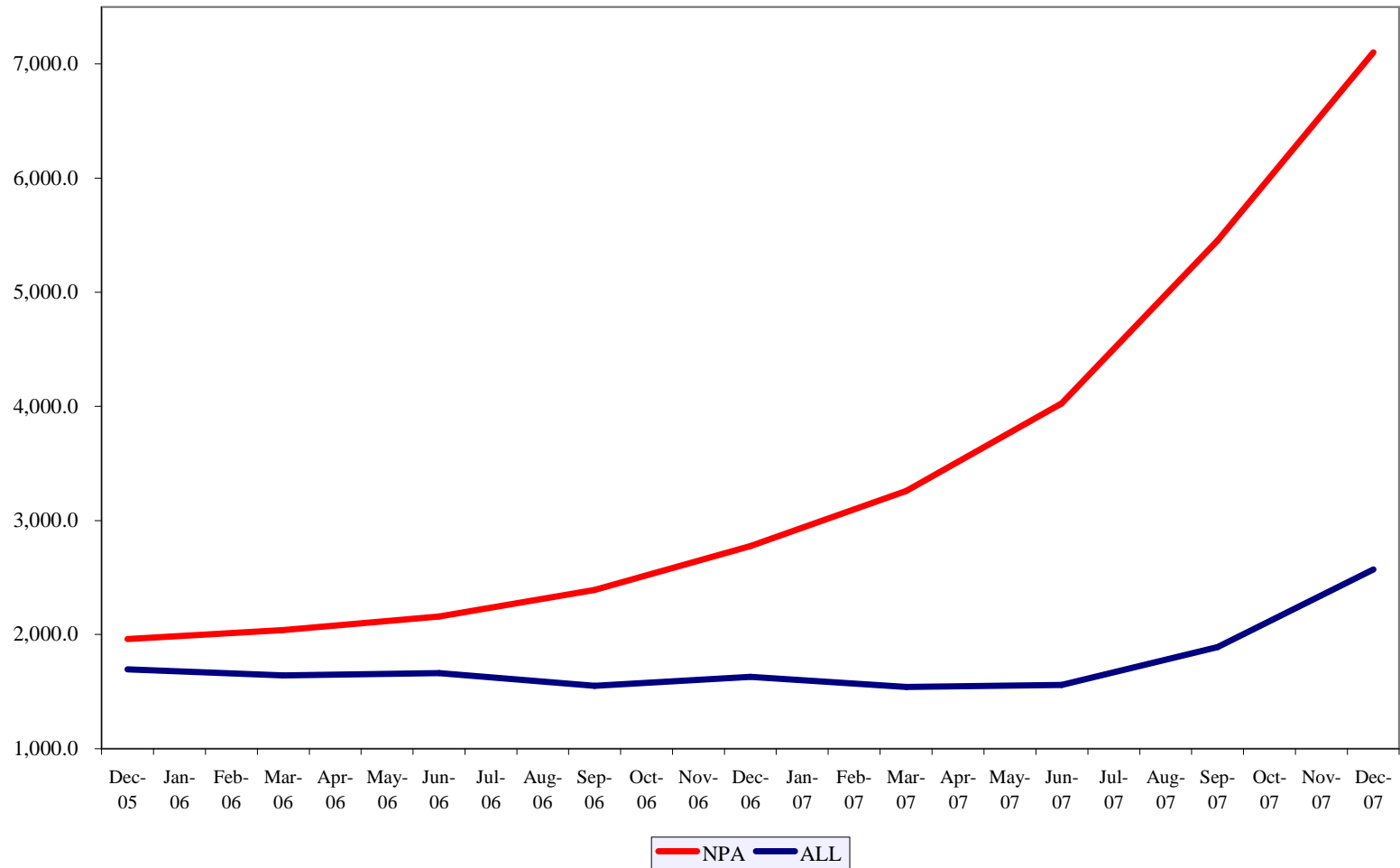
Signs of Trouble from Option ARMs

Interest from Neg Amor Option ARM as % of Portfolio Interest Income



More Pain On the Way?

Washington Mutual Non-Performing Assets vs. Allowance for Loan Losses 2005-2007



Where was the Finance Committee?

“The worst is still ahead in the housing market ... home prices will continue to fall.”

-William Longbrake, former WM CFO and Vice Chair for Enterprise Risk Management, December 2006 as quoted by AP Financial Wire December 11 2006

“Pugh Capital has been calling for a slowdown in the housing sector since early this year ... existing home prices have now declined for two consecutive months.”

- Pugh Capital Management Market Overview Fourth Quarter 2006, from web site.

Pugh CM's Relationship to WM

- 10 year employee, overlapped with current CEO for 9 years.
- Started Pugh Capital Management in 1991, WaMu was first client, paying \$25,000 in fees on \$5 million account.
- Pugh CM received over \$1.1 million in fees from WaMu 1999-2006.
- We estimate that Wamu assets averaged 9% of Pugh's AUM from 1999-2006.

Shielding Executives From Mortgage Fallout

- In February HR committee disclosed performance metrics for 2008 Long Term Incentive Plan.
- Heaviest weight to NOI, but exclude credit losses and foreclosure costs from calculation.
- HR Committee will subjectively evaluate mitigation of credit losses and foreclosure costs at year end.
- Company maintains this was necessary to retain valued management employees.

Shielding Executives From Mortgage Fallout

- We view changes as creating misalignment between managerial incentives and shareholders interests.
- Management should not be insulated from consequences of past risk management failures (moral hazard).
- Subjective evaluation of readily measured achievements not consistent with commitment to paying for performance.
- Retention argument dubious in light of shareholder losses, current market environment.

Vote No on Directors Pugh and Stever

- We urge you to vote "Against" directors Mary E. Pugh and James H. Stever.
- Mary Pugh, as Finance Committee Chair, bears primary responsibility for the failure to properly oversee risk management during the run-up in the housing bubble. Status as a non-independent director makes her position on this key committee inappropriate.
- James Stever, as HR Committee Chair, bears primary responsibility for undermining the link between executive pay and performance by shielding bonuses from the consequences of the housing bubble.