Permanent Subcommittee on Investigations
EXHIBIT #3

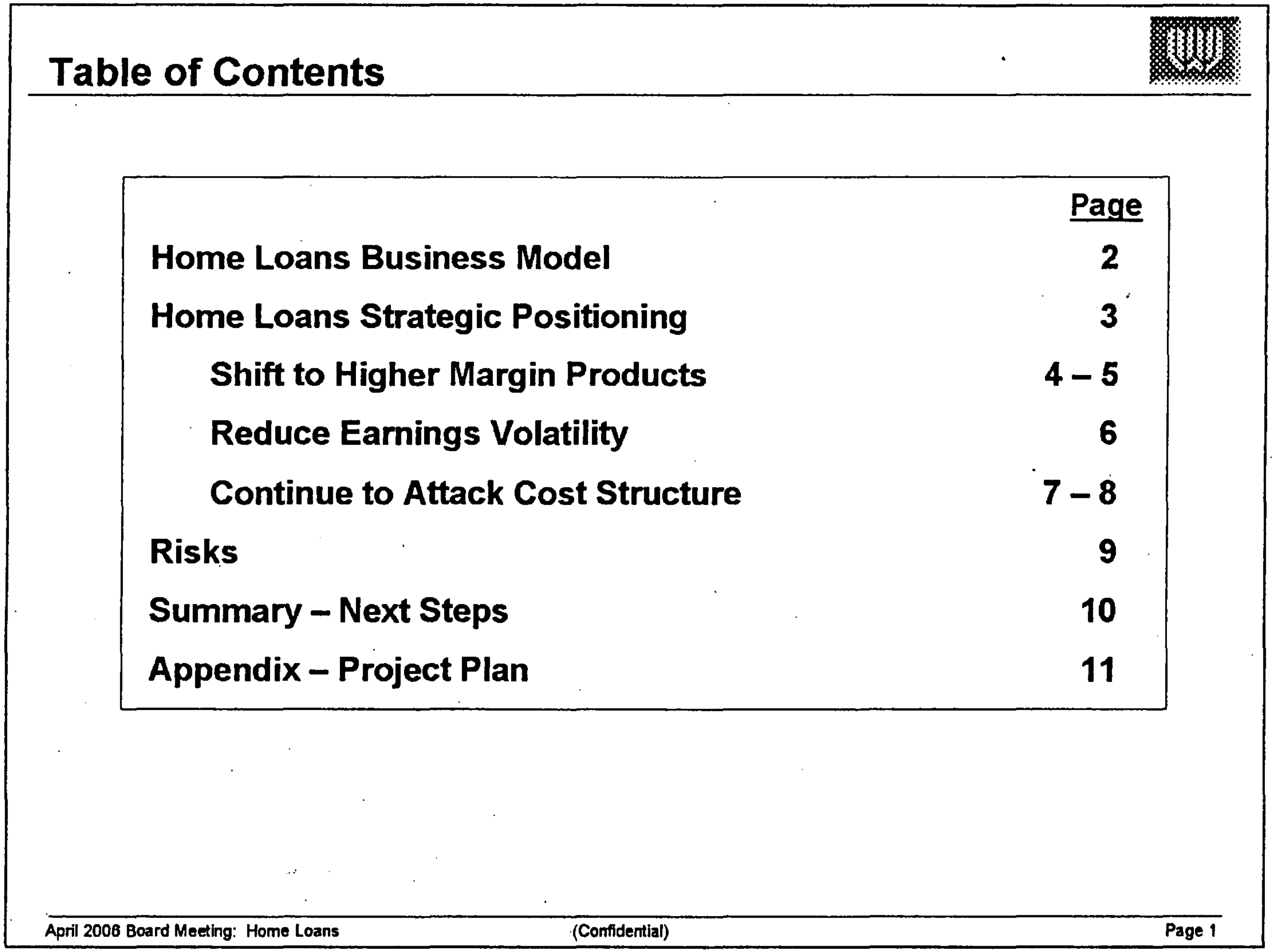
Home Loans Discussion

Board of Directors Meeting

April 18, 2006

Confidential

David Schneider
President, Home Loans



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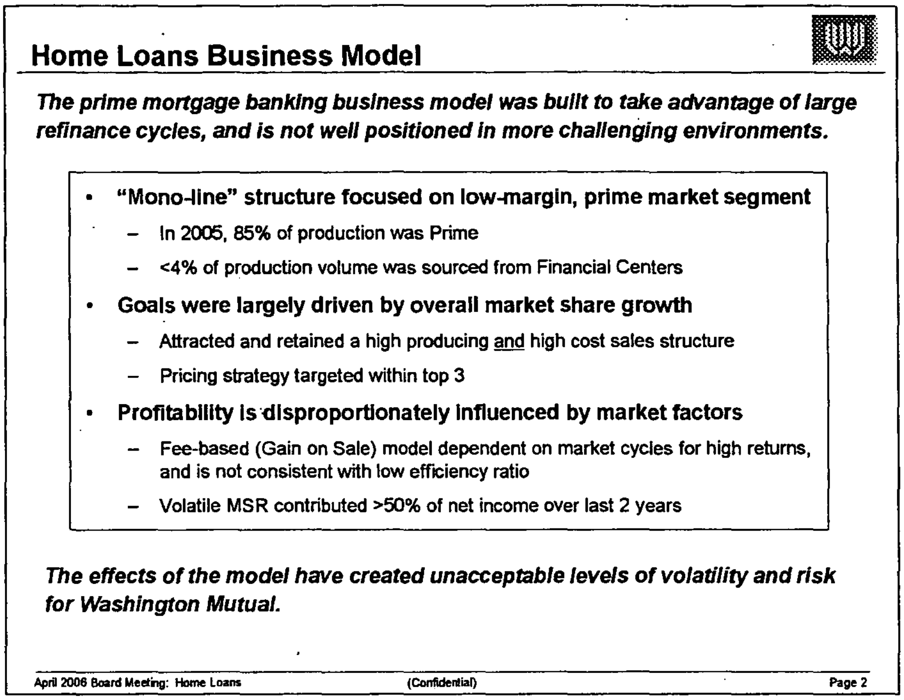


Home Loans Business Model

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 <u>and</u> 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.

In 2005, 85% of production was Prime

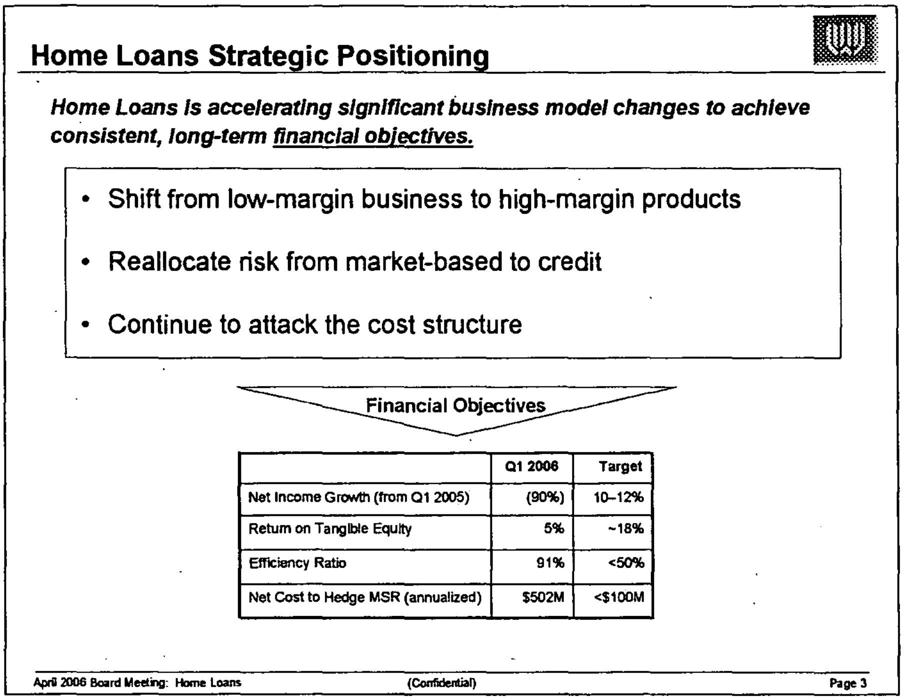
- 2005 volume by product (data behind slide)

<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 <u>financial objectives.</u>

- 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

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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

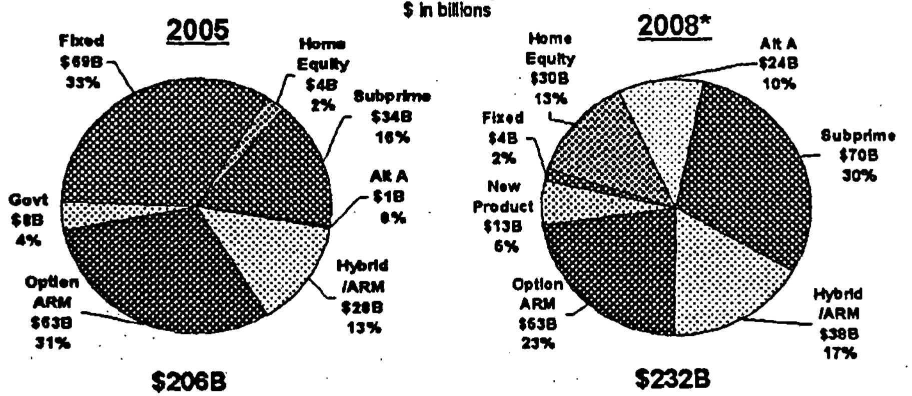
- 2005 Actual: $621M (pre-tax)
- 2006 March Forecast (annualized): ($502M)

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



	2005	2008*
% of High Margin Product	**49%**	**82%**

** 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

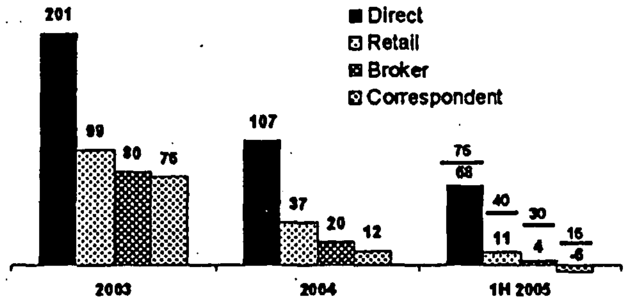
De-emphasize Fixed Rate and cease Govt	☑
Deploy Alt A to Retail and Wholesale	☑
Deploy Home Equity in Retail and Wholesale	☑
Create a Home Equity Conduit	☐ Q2 06
Develop a new product	☐ Q4 06 – Q1 07

Grow market share in targeted product segments

Shift to Higher Margin Channels

Industry Margin Compression

in bps



Source: Stratmor Fall 2005 Results

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

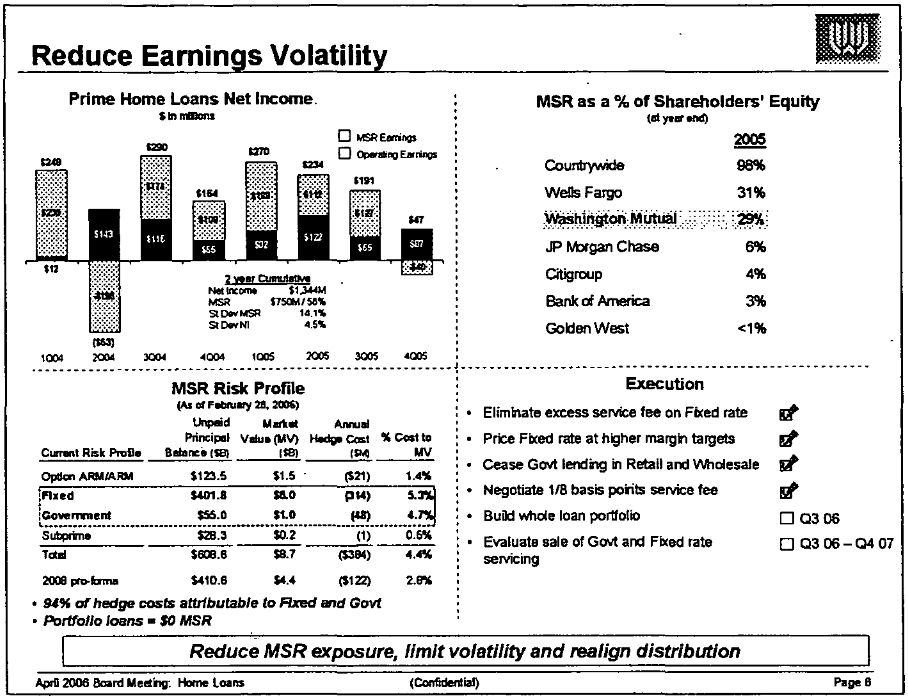
Conduit

- 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

$ in millions

2 year Cumulative

Net Income	$1,344M
MSR	$750M / 56%
St Dev MSR	14.1%
St Dev NI	4.5%

MSR as a % of Shareholders' Equity

(at year end)

	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 ($B)	Market Value (MV) ($B)	Annual Hedge Cost ($M)	% Cost to MV
Option ARM/ARM	$123.5	$1.5	($21)	1.4%
Fixed	$401.8	$6.0	(314)	5.3%
Government	$55.0	$1.0	(48)	4.7%
Subprime	$28.3	$0.2	(1)	0.6%
Total	$608.6	$8.7	($384)	4.4%
2008 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

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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)

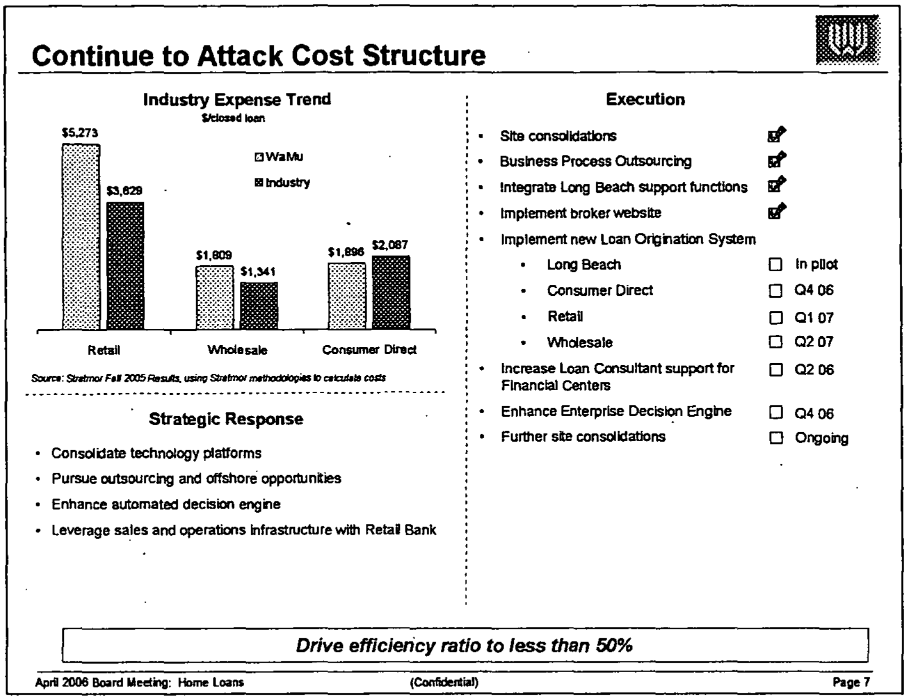
Cease Govt Lending in Retail and Wholesale

- 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)



Continue to Attack Cost Structure

Industry Expense Trend

$/closed loan

Source: Stratmor Fall 2005 Results, using Stratmor methodologies to calculate costs

Strategic Response

- Consolidate technology platforms
- Pursue outsourcing and offshore opportunities
- Enhance automated decision engine
- Leverage sales and operations infrastructure with Retail Bank

Execution

- Site consolidations ☑
- Business Process Outsourcing ☑
- Integrate Long Beach support functions ☑
- Implement broker website ☑
- Implement new Loan Origination System
  - Long Beach ☐ In pilot
  - Consumer Direct ☐ Q4 06
  - Retail ☐ Q1 07
  - Wholesale ☐ Q2 07
- Increase Loan Consultant support for Financial Centers ☐ Q2 06
- Enhance Enterprise Decision Engine ☐ Q4 06
- Further site consolidations ☐ Ongoing

Drive efficiency ratio to less than 50%

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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

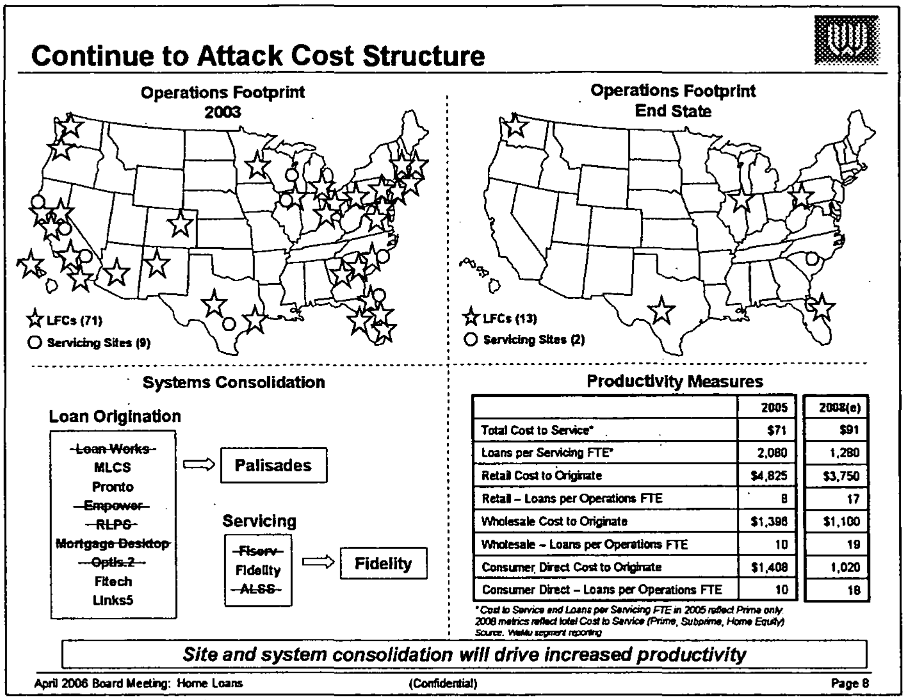
First loan funded and confirmed GL file received: 4/11/2006

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

Operations Footprint 2003

☆ LFCs (71)
○ Servicing Sites (9)

Operations Footprint End State

☆ LFCs (13)
○ Servicing Sites (2)

Systems Consolidation

Loan Origination

~~Loan Works~~
MLCS
Pronto
~~Empower~~
~~RLPS~~
~~Mortgage Desktop~~
~~Optis.2~~
Fitech
Links5

⇨ Palisades

Servicing

~~Fiserv~~
Fidelity
~~ALSS~~

⇨ Fidelity

Productivity Measures

	2005	2008(e)
Total Cost to Service*	$71	$91
Loans per Servicing FTE*	2,080	1,280
Retail Cost to Originate	$4,825	$3,750
Retail – Loans per Operations FTE	8	17
Wholesale Cost to Originate	$1,398	$1,100
Wholesale – Loans per Operations FTE	10	19
Consumer Direct Cost to Originate	$1,408	1,020
Consumer Direct – Loans per Operations FTE	10	18

** Cost to Service and Loans per Servicing FTE in 2005 reflect Prime only. 2008 metrics reflect total Cost to Service (Prime, Subprime, Home Equity)*
Source: WaMu segment reporting

Site and system consolidation will drive increased productivity

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Date of Palisades full implementation

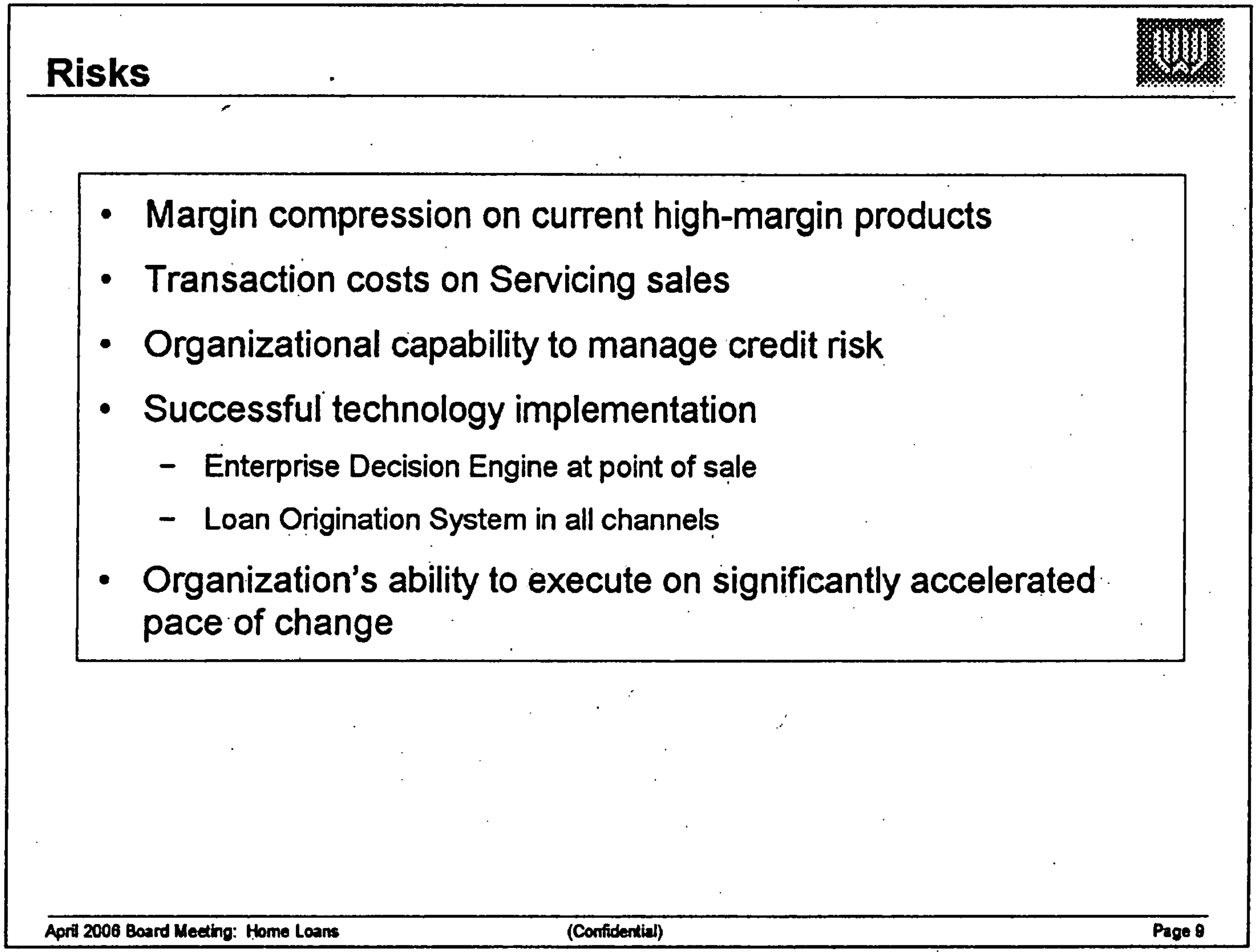
- The first phase of what is called the STeP program has been defined – it's the Palisades implementation for Consumer Direct slatted for Q4 2006
- Retail – 1Q07
- Wholesale – 2Q07

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

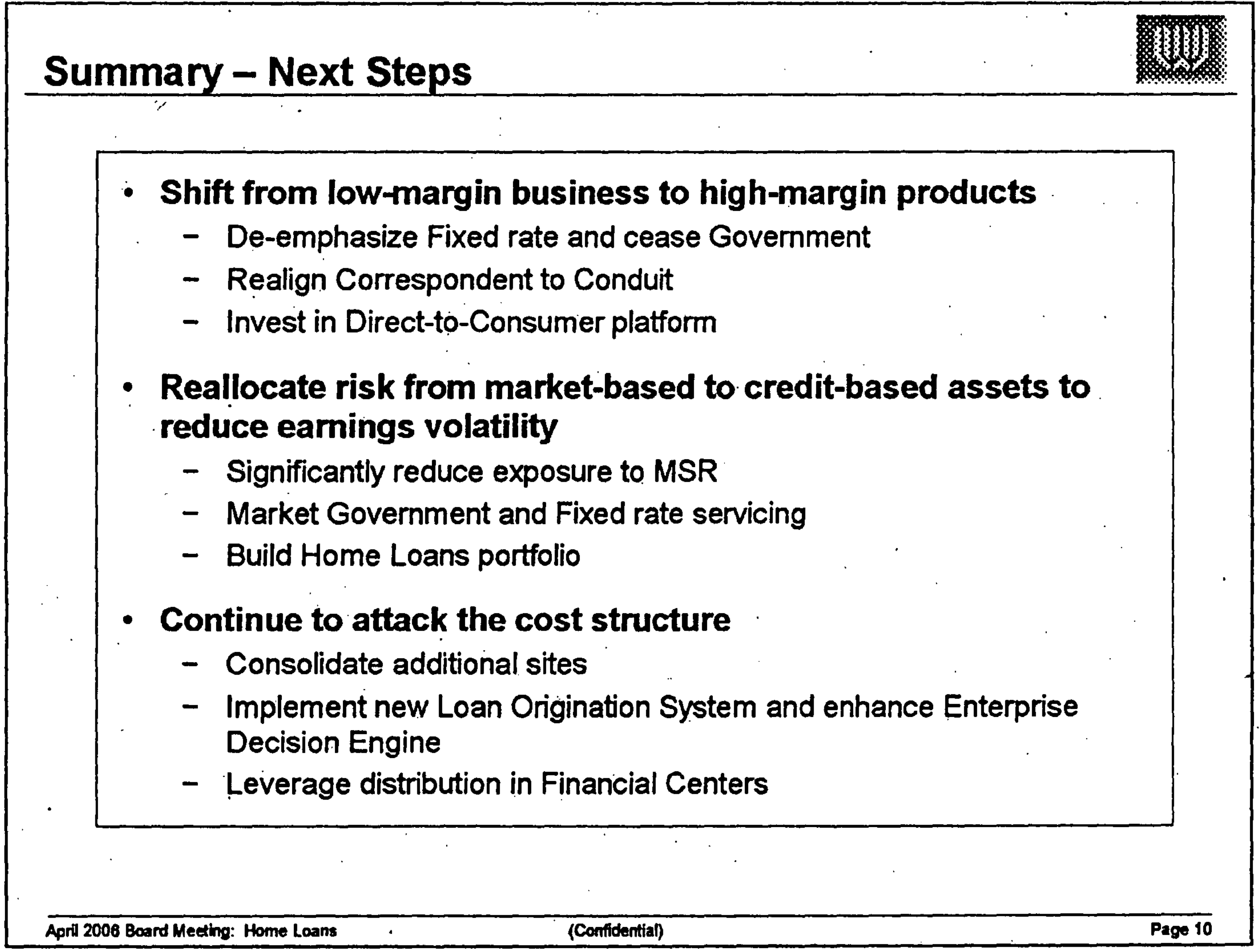
Productivity Measures – 2005 and March 2006 Forecast for Prime only (behind slide)



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

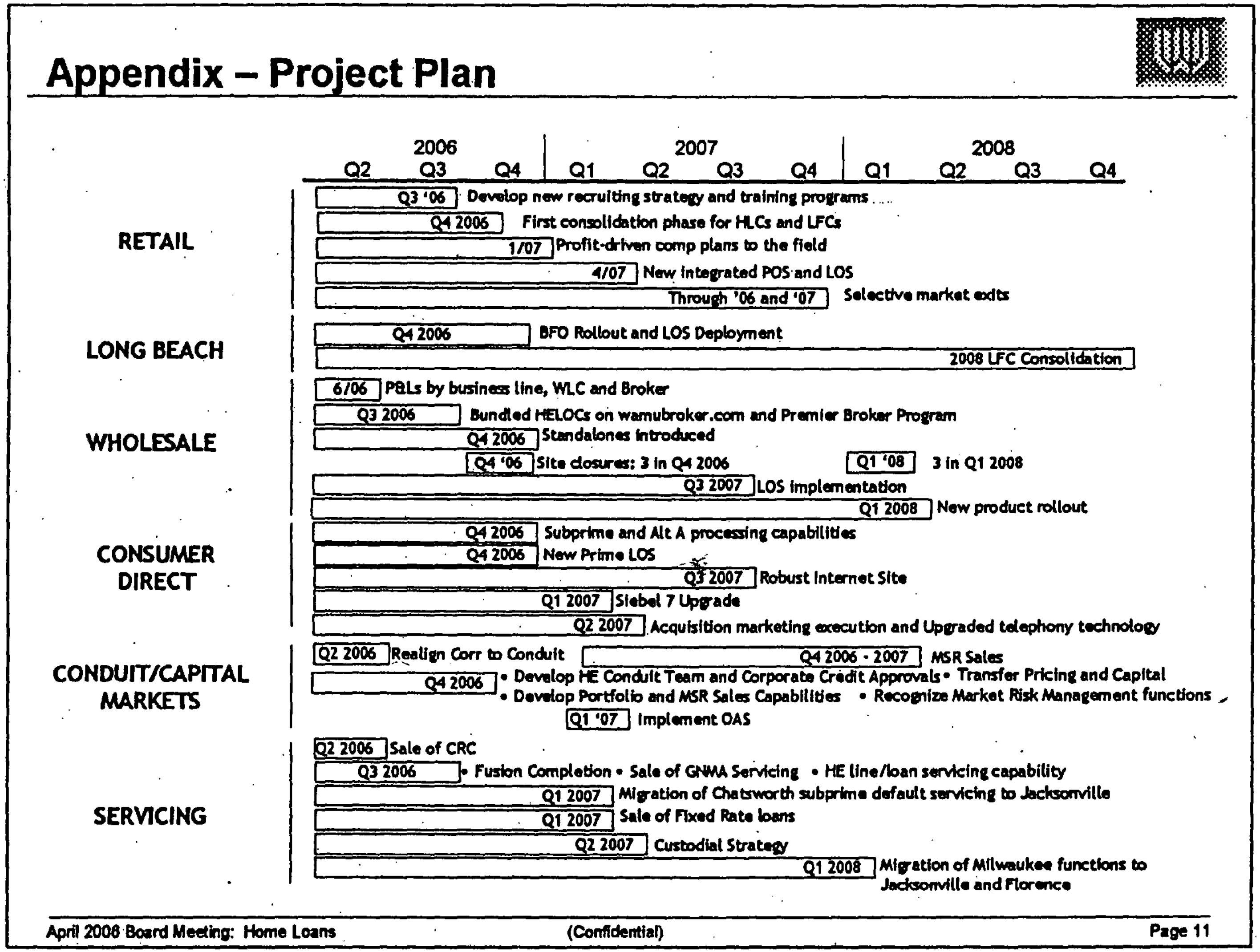
General Discussion



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

General Discussion



Appendix – Project Plan

2006: Q2 Q3 Q4 | 2007: Q1 Q2 Q3 Q4 | 2008: 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
- Through '06 and '07 Selective market exits

LONG BEACH

- Q4 2006 BFO Rollout and LOS Deployment
- 2008 LFC Consolidation

WHOLESALE

- 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
- Q4 '06 Site closures: 3 in Q4 2006 Q1 '08 3 in Q1 2008
- Q3 2007 LOS implementation
- Q1 2008 New product rollout

CONSUMER DIRECT

- Q4 2006 Subprime and Alt A processing capabilities
- Q4 2006 New Prime LOS
- Q3 2007 Robust Internet Site
- Q1 2007 Siebel 7 Upgrade
- Q2 2007 Acquisition marketing execution and Upgraded telephony technology

CONDUIT/CAPITAL MARKETS

- 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

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