



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 <sup>1</sup>	\$11.3 <sup>2</sup>	\$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
<b>Product/Indices</b>	<ul style="list-style-type: none"> <li>• 1-3 Mo MTA, COFI</li> <li>• 60 Mo MTA, "Flex 5"</li> </ul>	<ul style="list-style-type: none"> <li>• Pick-A-Payment ARM, COFI and proprietary CODI and COSI indices.</li> <li>• 30-year Fixed Pick-A-Payment</li> </ul>
<b>Pricing Package</b>	<ul style="list-style-type: none"> <li>• 1-Mo MTA - 1 Mo start rate is 1.00%</li> <li>• WaMu Margin at 1.125pts, 3-year ppp is 2.600, 7.661% fully indexed</li> <li>• 9.95% lifecap</li> <li>• 7.5% annual payment cap</li> </ul>	<ul style="list-style-type: none"> <li>• Min. payment rate is 1.95% Fixed, 1.5% for Pick-A-Payment ARM</li> <li>• World's Fixed Pick-A-Payment 6.95% for 30 years, Pick-A-Payment ARM 7.2% Fully indexed</li> <li>• Same annual payment caps</li> </ul>
<b>Payment Options</b>	<ul style="list-style-type: none"> <li>• Up to 4 payment options for the first 5 years</li> </ul>	<ul style="list-style-type: none"> <li>• Guaranteed up to 4 payment options for the first 10 years</li> </ul>
<b>Recast</b>	<ul style="list-style-type: none"> <li>• Recast at year 5 or when balance exceeds initial principal balance by 115%</li> </ul>	<ul style="list-style-type: none"> <li>• Recast at year 10 or when balance exceeds initial principal balance by 125%</li> <li>• World metrics indicate a "worst case" neg-am scenario of 117% at year 10 so "loans have never recast due to NegAm."</li> </ul>
<b>Loan Terms</b>	<ul style="list-style-type: none"> <li>• 30 and 40 year</li> </ul>	<ul style="list-style-type: none"> <li>• 30 year</li> </ul>

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"> <li>• Option ARM (Net New)</li> <li>• Non-Prime referrals</li> <li>• Home Equity Loans (HELs)</li> </ul>	<ul style="list-style-type: none"> <li>• Option ARM (Refi's)</li> <li>• Hybrids (Net New)</li> <li>• Alt-A (Net New)</li> <li>• Fixed (Net New)</li> </ul>	<ul style="list-style-type: none"> <li>• Hybrids (Refi)</li> <li>• Alt-A (Refi)</li> <li>• Fixed (Refi)</li> </ul>	<ul style="list-style-type: none"> <li>• HELOCs</li> <li>• HELOC Line increases</li> <li>• Wal-Mart Mortgage Plus</li> </ul>

## 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 2<sup>nd</sup> liens are not part of this program.