


Q4 and Year-End 2006

# Home Loans



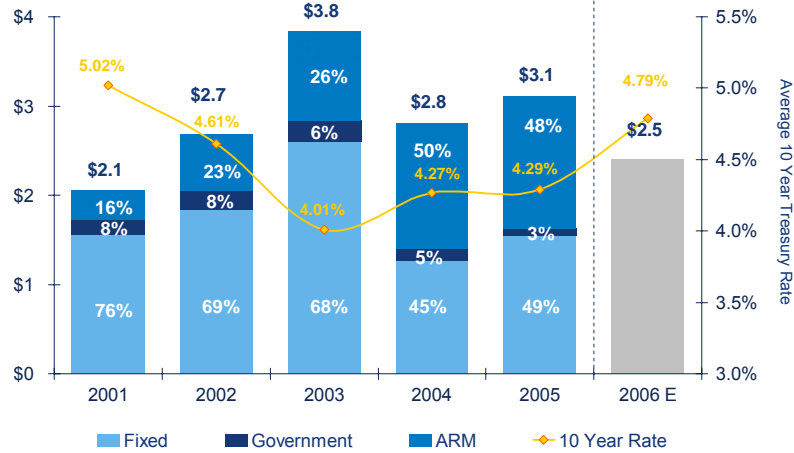
## Reshaping the Business Model

- **Managing Through a Challenging Market Environment**
- Focusing on Strategic Objectives
- Positioning for Growth

## Market Challenges

### Industry Originations

(\$ trillions)

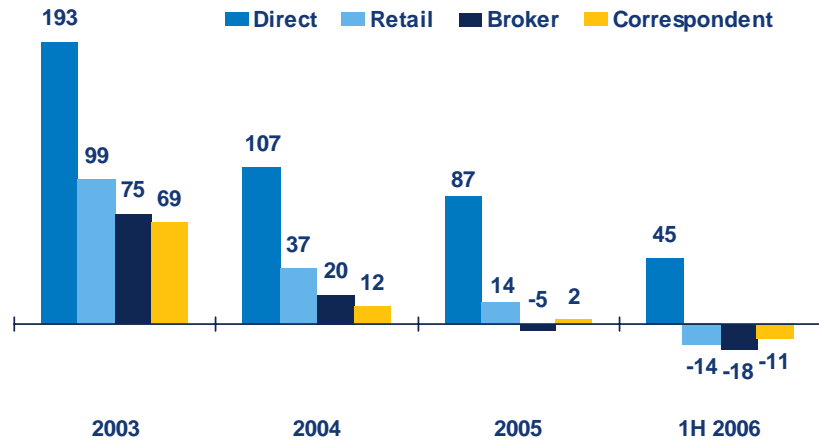


Source: 2001 – 2005 Inside Mortgage Finance, 2006 Average of Fannie Mae, Freddie Mac and MBA



## Industry Margin Pressure

(in basis points)



Source: Stratmor Fall 2006 Results, excludes Subprime



## Reshaping the Business Model

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- Managing Through a Challenging Market Environment
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5

## Strategic Objectives

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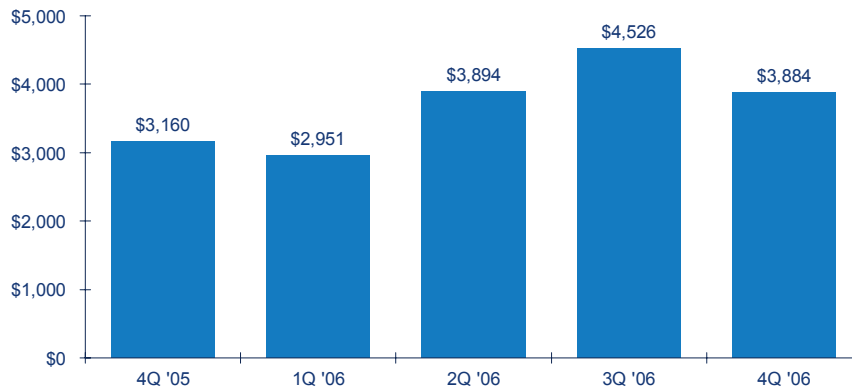
- **Market leader in higher margin products**  
Objective: Growth in higher margin products (Home Equity, Subprime, Alt A, Option ARM)
- **Stable and consistent earnings**  
Objective: Reduce MSR exposure
- **Efficient operating structure**  
Objective: Continue to attack the cost structure



6

## Home Equity

Home Loans Group  
Home Equity Volume  
(\$ millions)



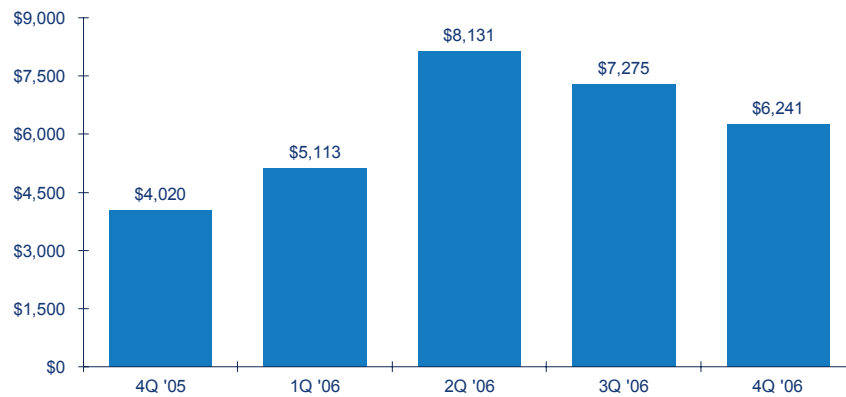
Home Loans Home Equity volumes include Purchased and Subprime volumes



7

## Alt A

Home Loans Group  
Alt A Volume  
(\$ millions)



Alt A volume includes all channels and all loan types

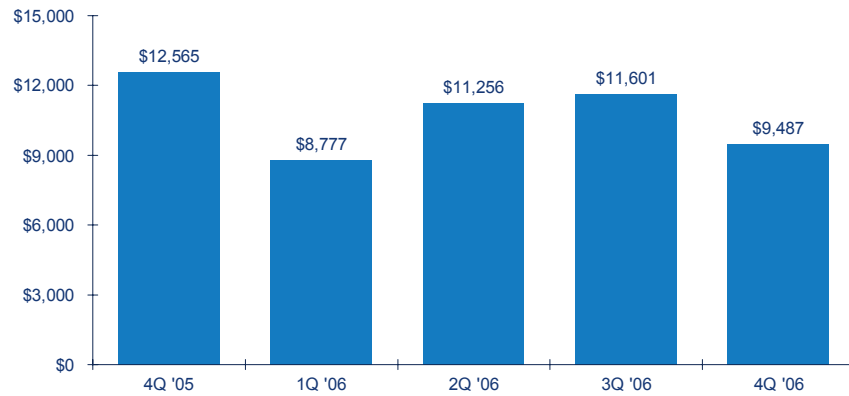


8

## Option ARM

### Home Loans Group Option ARM Volume

(\$ millions)

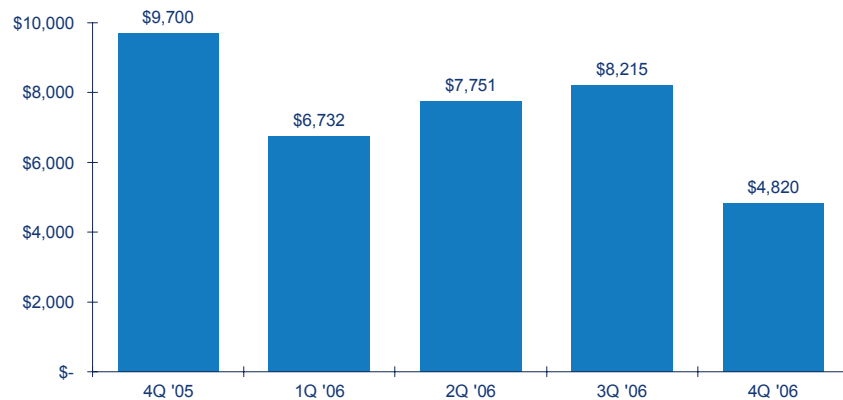


9

## Subprime Mortgage Channel

### Home Loans Group Subprime Volume

(\$ millions)

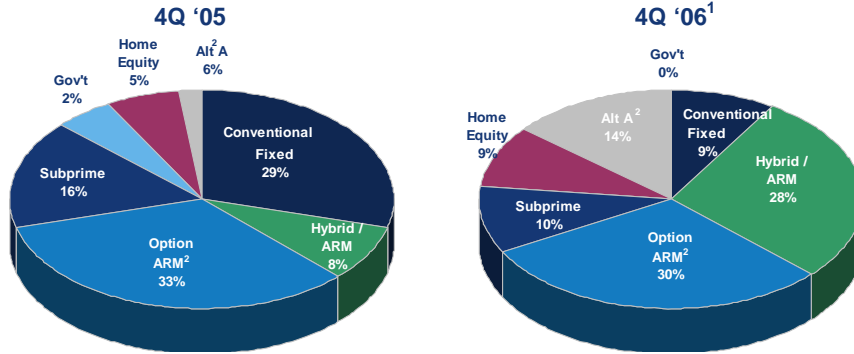


\*Subprime loans are comprised of home loans and home equity loans that have been purchased or originated through WaMu's subprime lending programs



10

## De-emphasizing “Commoditized” Products



**60%** Higher Margin Products **63%**  
Higher Margin Target is 80%

<sup>1</sup> Correspondent originations excluded in 4Q '06 to reflect realignment to Conduit  
<sup>2</sup> Alt A Option ARM volume reflected in Option ARM category

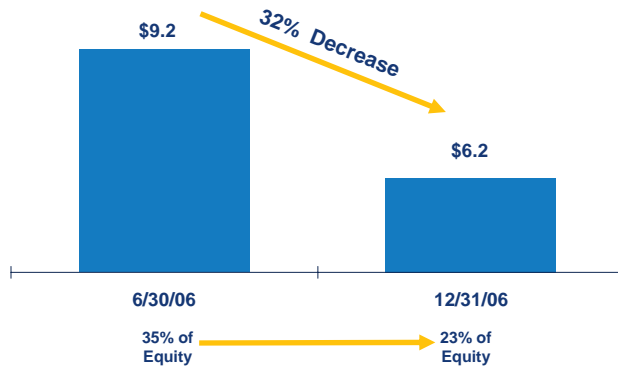


11

## Reduce MSR Exposure

### Mortgage Servicing Rights (\$ billions)

- Sale of \$2.5B MSR
- Transfer of Milwaukee servicing operations

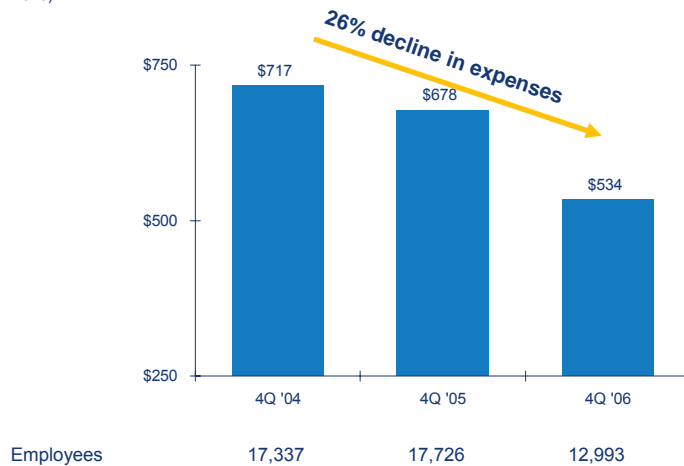


12

## Cost Structure Improved

### Noninterest Expense

(\$ millions)



13

## Reshaping the Business Model

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14

## New Channels Fueling Growth

- Dedicated sales team solely focused on originating Retail Bank mortgage volume
  - Over 500 Bank Loan Consultants hired to date
- Integrating products originated through the subprime mortgage channel into prime channels
  - Targeting Consumer Direct and Retail
- Increasing Conduit capabilities
  - Traditionally prime via Correspondent channel
  - Re-emphasizing higher margin products

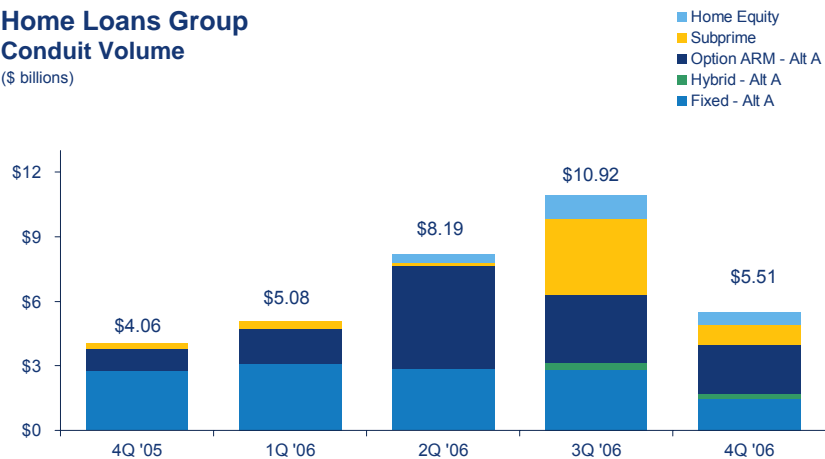


15

## Conduit Growth

### Home Loans Group Conduit Volume

(\$ billions)



\*Includes all Conduit, SMF, and Portfolio Home Equity purchases



16



## 2006 Strategic Actions Summary

Strategic Objectives	Execution
Growth in Higher Margin Products	<ul style="list-style-type: none"> <li>▪ Increased Home Equity and Alt A volume</li> <li>▪ Realigned traditional Correspondent to Conduit</li> <li>▪ Exited government lending and servicing</li> <li>▪ Introduced Subprime in Retail &amp; Consumer Direct</li> </ul>
Reduce MSR Exposure	<ul style="list-style-type: none"> <li>▪ Sold \$2.5 billion of mortgage servicing rights</li> <li>▪ Structured fixed rate at 1/8<sup>th</sup> service fee</li> </ul>
Attack Cost Structure	<ul style="list-style-type: none"> <li>▪ Integrated Long Beach, Mortgage Banker Finance and Home Equity</li> <li>▪ Consolidated sites and systems                             <ul style="list-style-type: none"> <li>- Core servicing sites to 5</li> <li>- Loan origination systems down to 3</li> <li>- Loan fulfillment centers down 13</li> </ul> </li> <li>▪ Outsourcing and offshoring</li> </ul>



17

## 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.



18