

## **Managing Risk in Today's Environment**

Cheryl Feltgen, Chief Risk Officer, WaMu Home Loans



**WaMu**

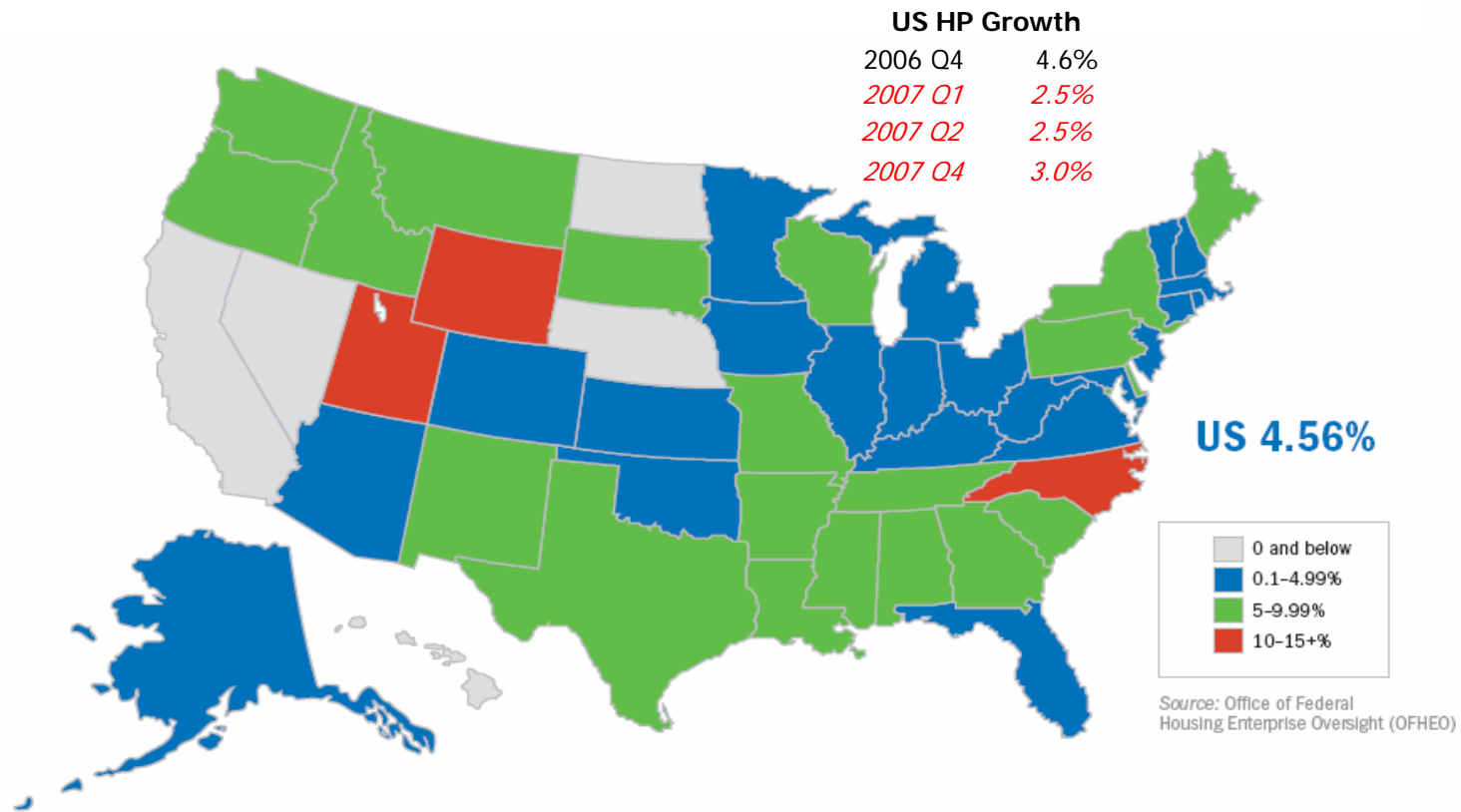
# Current Credit Environment

- **Stable economic growth and low unemployment rate**
- **Continued weakening of the housing sector**
- **Inverted yield curve**
- **Widening market credit spreads**
- **Weakening subprime mortgage credit performance**
- **Negative consumer savings rate**
- **Personal bankruptcies increasing**
- **Delinquencies increasing**

# Economic Environment

## Home Price Index

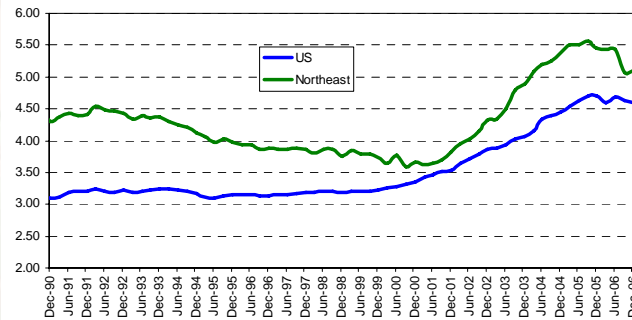
Home prices decelerating nationally, declining in some states



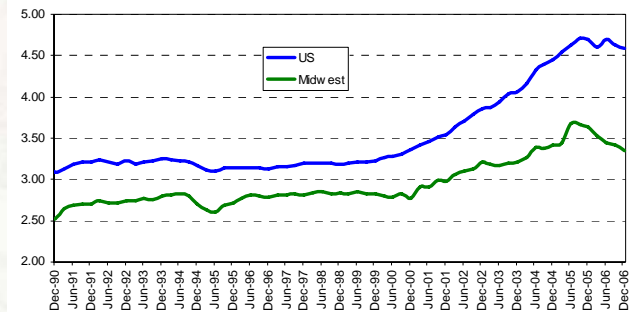
Annualized quarterly growth rates of the OFHEO home price index

# Real Estate Trends

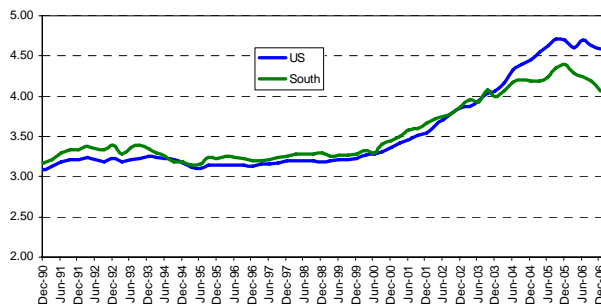
Northeast Home Price to Income Ratio



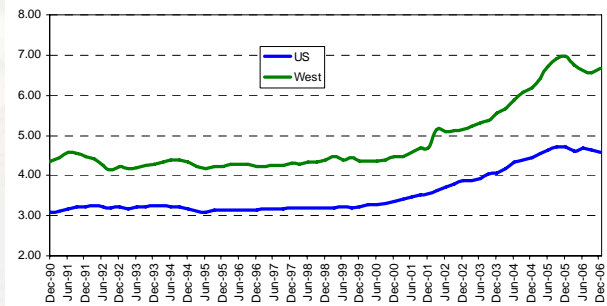
Midwest Home Price to Income Ratio



South Home Price to Income Ratio

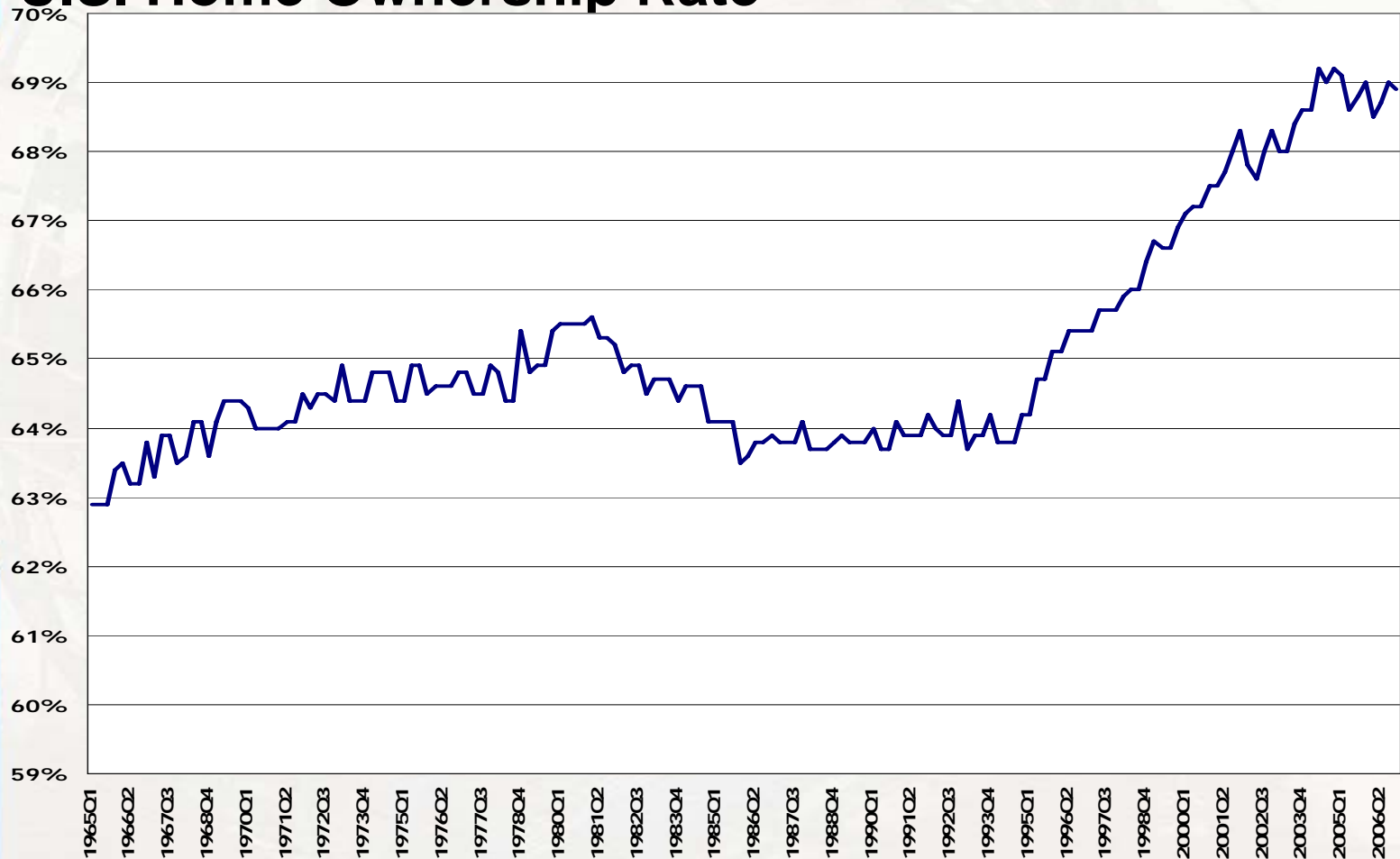


West Home Price to Income Ratio



# Real Estate Trends

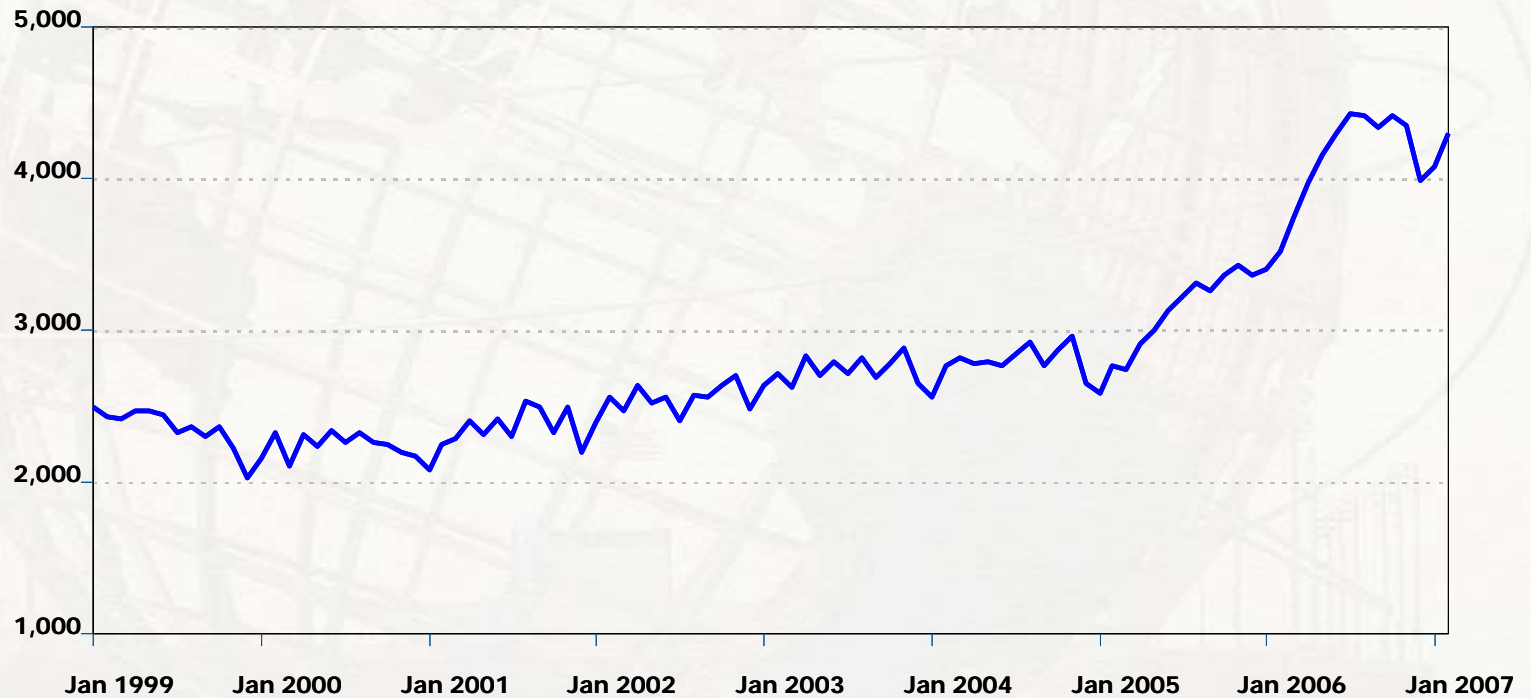
## U.S. Home Ownership Rate



# Real Estate Trends

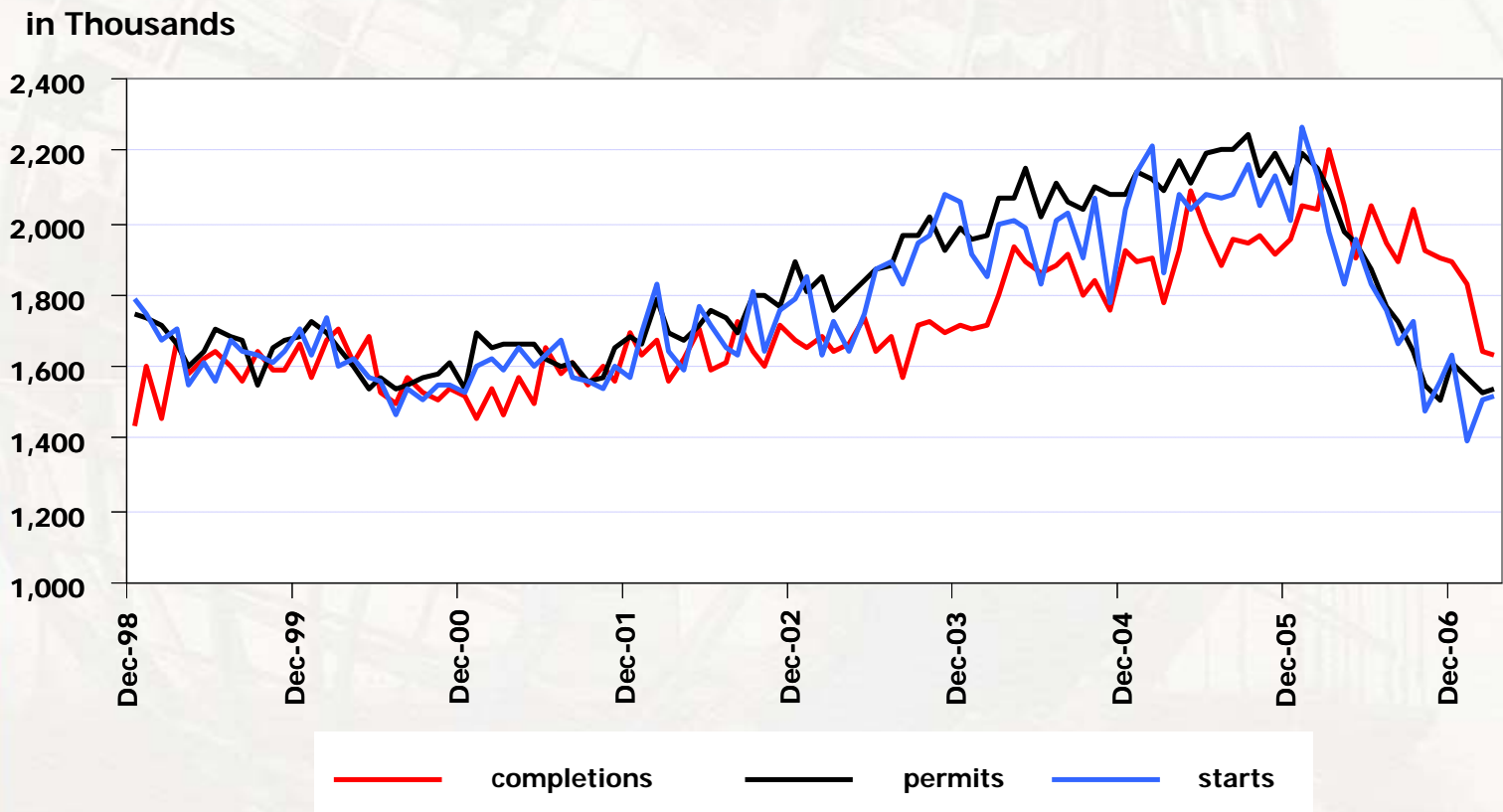
## Inventory of Total Properties

in Thousands



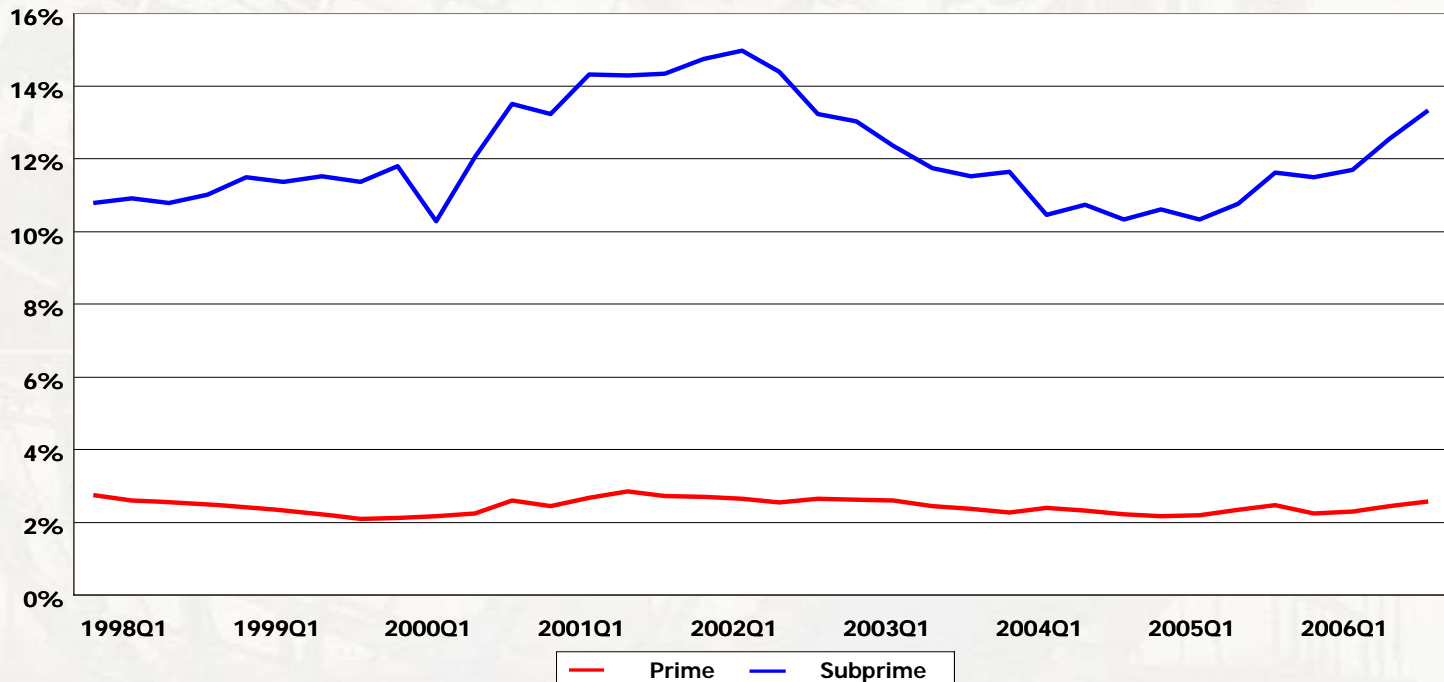
# Real Estate Trends

## Single Family Construction Activity

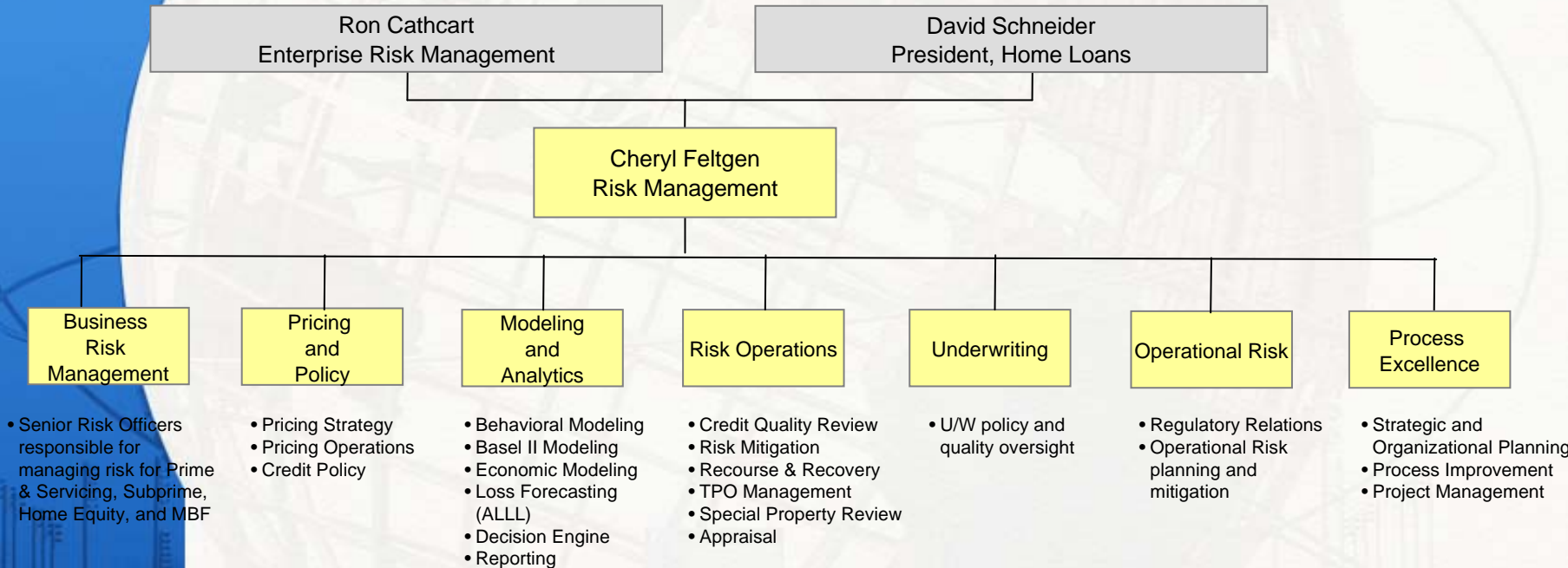


# Consumer Trends

## Mortgage Delinquency Rates



# Risk Management Organization



# Response to Current Credit Environment

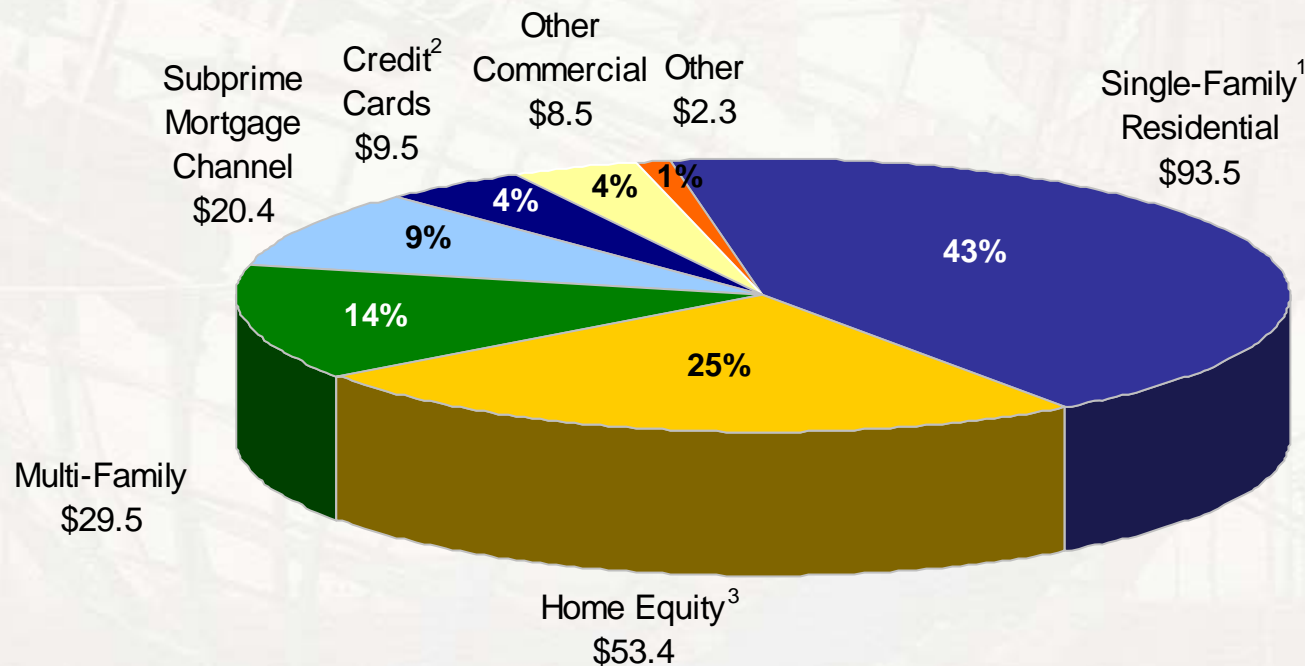
## WaMu Home Loans

- Strong product and geographic diversification
- Subprime Mortgage Channel
  - Proactively tightened selective credit standards
  - Improved pricing
  - Development of conduit capability
  - Improved broker management process
  - Intensified loss mitigation efforts
- Prime Home Loans
  - Sold 49% of 2006 and 1Q 2007 Option ARM production to diversify risk

# Loan Portfolio Mix

**\$217 billion**

As of 3/31/07  
(\$B)



<sup>1</sup> Excludes Custom and Builder Construction and Subprime Mortgage Channel

<sup>2</sup> Excludes Managed Credit Cards totaling \$14.1 billion

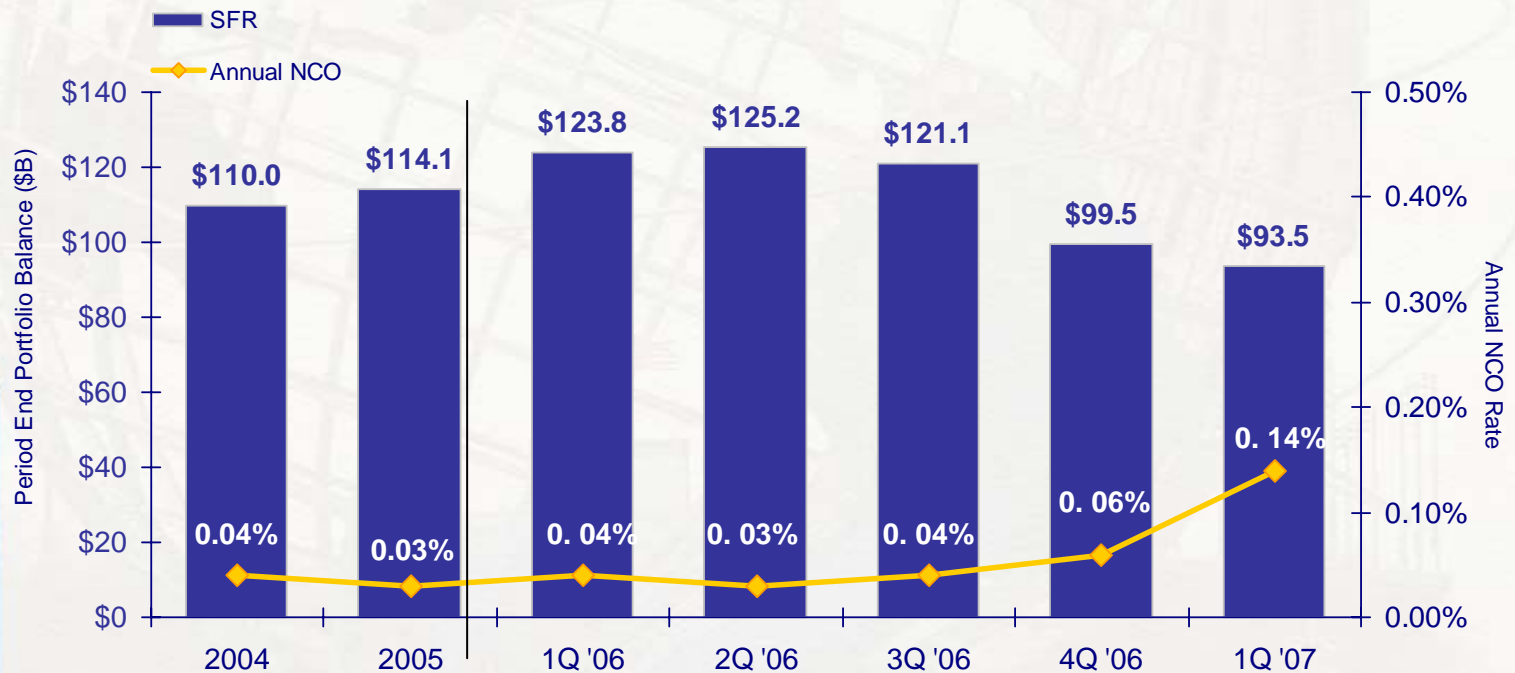
<sup>3</sup> Excludes Home Equity loans included in the Subprime Mortgage Channel

# Single-Family Residential Portfolio<sup>1</sup>

Current FICO = 708

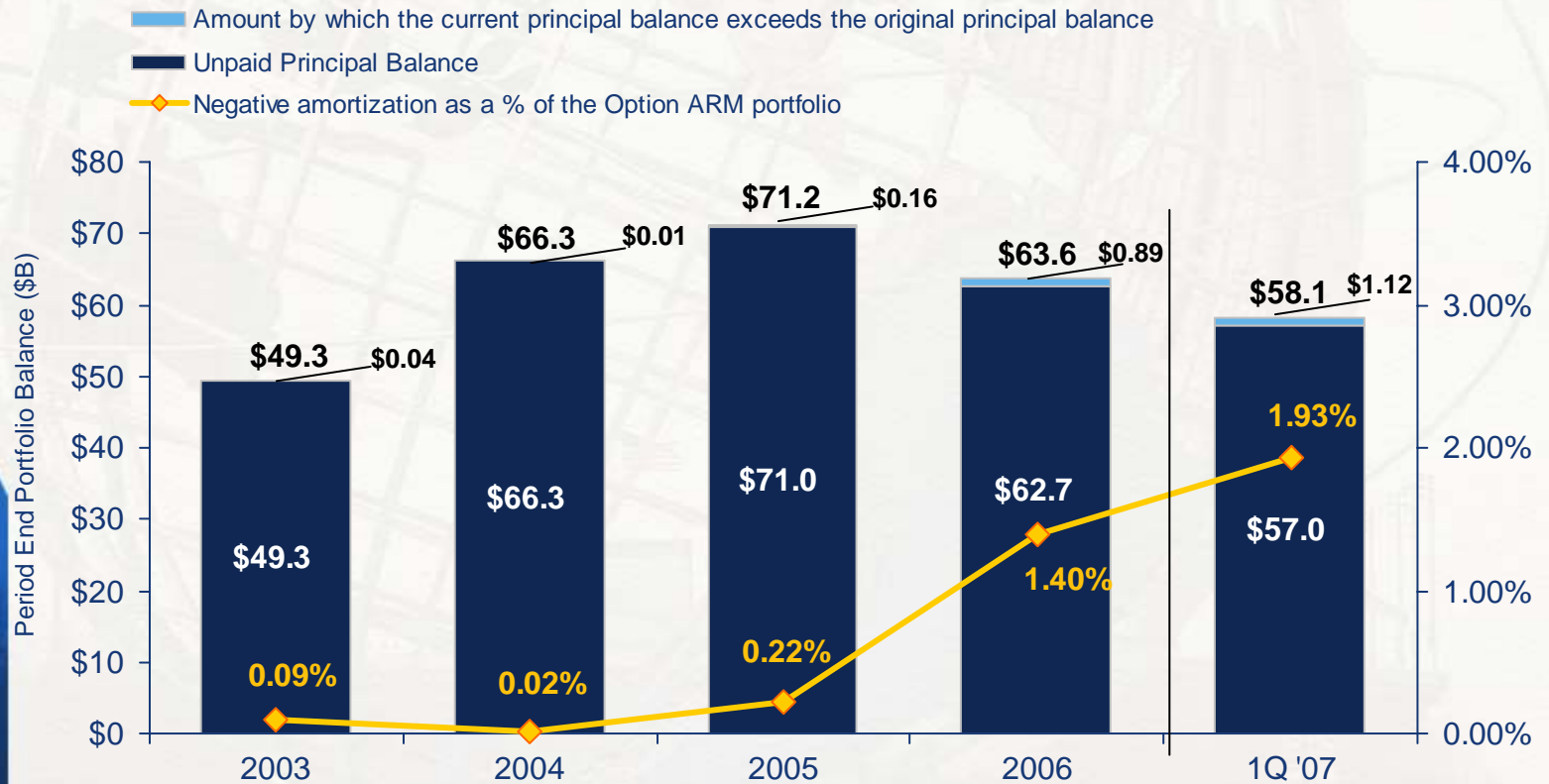
Original LTV = 70%  
Est. Current LTV = 56%

Est. Current LTV >90% = 1%  
Est. Current LTV >80% = 5%



# Option ARM Portfolio

Current FICO = 699  
Original LTV = 71%  
Est. Current LTV = 59%  
Est. Current LTV >90% = 1%  
Est. Current LTV >80% = 6%



# Home Equity Loan / Home Equity LOC Portfolio<sup>1</sup>

Current FICO = 729  
Original Combined LTV = 71%  
Original Combined LTV >90% = 2%  
Original Combined LTV >80% = 32%



# Subprime Mortgage Channel Portfolio<sup>1</sup>

**Home Loans**  
 Current FICO = 620  
 Original LTV = 78%  
 Est. Current LTV = 66%  
 Est. Current LTV >90% = 2%  
 Est. Current LTV >80% = 15%

**Home Equity**  
 Current FICO = 682  
 Original Combined LTV = 93%  
 Original Combined LTV >90% = 65%  
 Original Combined LTV >80% = 90%



<sup>1</sup> Includes mortgage loans purchased from recognized subprime lenders and mortgage loans originated under the Long Beach Mortgage name and held for investment.

# WaMu's Risk Management Well Positioned

- **Disciplined credit culture**
- **Effective capital management and risk diversification**
- **Analytical rigor and disciplined monitoring infrastructure**
- **Strong governance and active Board participation**
- **Proactive credit risk management**