

Washington Mutual, Inc.
1301 Second Avenue
Seattle, Washington 98101

September 24, 2008

Dear Vice Chairman Kohn, Chairman Bair
and Director Reich:

Thank you for the opportunity to submit our proposal for an unassisted recapitalization of Washington Mutual. As we discussed last night, we believe our proposal would substantially strengthen WaMu's financial resources by adding up to \$19 billion to its shareholders' equity for GAAP and regulatory capital purposes. This would make WaMu the third best capitalized large bank in the United States (with a Tier 1 RBC ratio of 15.3%, up from its current 8.9%) and give it further capital resources to aggressively dispose of higher-risk assets and improve its liquidity profile. All of this can be accomplished quickly and with a low degree of execution risk. With our asset quality trends stabilizing and our core deposit base remaining loyal, these steps position WaMu to operate through the current financial crisis and take further strengthening steps once markets stabilize.

The stakes here are very high. Washington Mutual is the sixth largest depository institution in the United States, with \$310 billion in assets and 25 million households in every part of the country. WaMu serves the needs of ordinary Americans. Its assets consist almost entirely of mortgages, home equity loans, and credit card advances to U.S. homeowners and consumers. It has no CDOs, complex derivatives or other esoteric financial instruments. WaMu employs more than 43,000 employees in over 2,300 branches spread throughout the country. Over 6,500 of those employees are located in Seattle, where WaMu is one of the largest employers and a major supporter of the community.

As shown in the presentation we sent you, WaMu's deposit levels have fluctuated in response to two "headline" events of the past several months — the IndyMac failure in mid-July, and the Lehman bankruptcy/AIG collapse last week. Deposit outflows later stabilized and then reversed after IndyMac, and we believe the same stabilization trend is occurring again now:

- 20 million retail accounts; little erosion of customer base
- significant portion of outflow was of uninsured balances, of which only \$10 billion remain
- high balance households are bringing their deposits back — between July 25 and September 11, more than 41% of those customers brought back at least \$10,000 in deposits and nearly a quarter brought back over \$100,000
- deposit outflows have moderated substantially, down to approximately \$600 million yesterday, and show clear trends toward stability as the Lehman/AIG collapses recede from the news

The recapitalization we propose is straightforward. It does not depend in any way on the passage of new legislation. The first step, which adds \$4 billion to Washington Mutual Bank's capital and \$6 billion to its liquidity, can be accomplished immediately and with no investor approval. The second step involves an exchange offer to purchase WaMu's outstanding preferred stock and debt – which has an aggregate face amount of \$28 billion but a current market value of approximately \$8 billion – for new preferred shares and common equity with a significantly lower nominal amount. This second step would increase Tier 1 capital by \$13 billion and reduce fixed charges, and is something many of our preferred stock and debt holders have suggested. Our financial advisors believe the exchange offer would have a high likelihood of success and could be fully completed in under six weeks.

We urge you to let us implement this plan. Its completion will produce a recapitalized competitor able to serve the needs of ordinary Americans across the country. WaMu will also be well-positioned to take further steps, including sales of higher risk assets to private investors and branch sales, to provide even greater strength. We have already had discussions with private investors on the former, and at least one international bank on the latter. Finally, WaMu will be well-positioned to raise additional capital or find a merger partner once market conditions stabilize.

In contrast, the seizure of WaMu would represent a further destabilizing event in the financial markets, adversely affecting the deposit bases and share prices of many other financial institutions — as has already happened so often this year. With an institution as large and complex as WaMu – having nearly 3,000 domestic locations, 5,300 ATMs, 5 million online customers and \$600 billion in mortgages serviced – the risk of major disruptions to operations and customer service are extraordinarily high. The impact on depositors and markets everywhere will be especially dramatic because WaMu's capital ratios exceed, by billions of dollars, the requirements for well-capitalized banks. The seizure by the FDIC of a large, well-capitalized U.S. banking organization is without precedent in U.S. history and will send a stark message to bank customers and investors.

We think there is no reason to take such a drastic step when our proposal would, quickly and simply, create \$19 billion more capital for WaMu and reposition it to easily withstand the current market turmoil — all without a penny of government assistance.

Very truly yours,



Alan Fishman
Chief Executive Officer



Stephen Frank
Chairman