



A closure notice hangs in the window of a Washington Mutual branch Tuesday, April 8, 2008, in Salt Lake City. The outlet is closing up on Wednesday. Washington Mutual Inc., hit hard by rising delinquencies and defaults on mortgages, said Tuesday it will receive \$7 billion in new capital from an investment group led by private equity firm TPG but will post a wider-than-expected loss for the first quarter. (AP Photo/Douglas C. Pizac)



## Washington Mutual Raising \$7 Billion

By JESSICA MINTZ – Apr 8, 2008

SEATTLE (AP) — Washington Mutual Inc. secured \$7 billion in new capital Tuesday, an injection that is aimed at reviving the company despite ballooning loan losses but which may also push it to rethink its strategy, slim down and revamp the management.

The country's largest savings and loan has been badly hurt by rising delinquencies and defaults on mortgages, and efforts last year to rehabilitate its finances fell short despite assurances from management that slashing its dividend, raising nearly \$3 billion in a stock sale and leaving the subprime mortgage business would be sufficient.

Washington Mutual said it would get the new capital from an investment group led by private equity group TPG, but will cut its dividend again and post both a wider loss and set aside more in loan loss provisions for the first quarter than had been expected. TPG founding partner David Bonderman, a former WaMu director, will also rejoin the board.

Separately, the thrift said it will get out of the wholesale lending business, close all remaining standalone home loan centers and lay off about 3,000 workers.

"I think it's enough capital to get them all the way through," said D.A. Davidson & Co. analyst Jim Bradshaw, who said he expects the company to increase the amount it sets aside for delinquencies and mortgage defaults this year to as much as \$12 billion, from an earlier forecast for \$8 billion.

One wild card remaining is whether "alt-a mortgages," or loans made to people with minor credit problems or who lack documentation for traditional loans, will crumble as spectacularly as the subprime sector did. The alt-a loans fall between subprime and prime loans in terms of default risk.

In any case, WaMu is unlikely to emerge from the turmoil in the housing and credit markets unchanged, Bradshaw said.

"I suspect the company is going to be smaller a year from now, maybe dramatically smaller," he said. Other retail banks, such as Bank of America or Wells Fargo, might also raise cash, but for a different reason — to snap up assets that Washington Mutual can no longer afford to buy, Bradshaw added.

WaMu said Tuesday it will set aside \$3.5 billion to cover loan losses in the first quarter — \$1.5 billion more than previously expected — and expects to lose \$1.1 billion for the period. Wall Street had forecast a loss of \$344.3 million, according to a Thomson Financial survey.

Shares of Washington Mutual, which had soared more than 29 percent Monday on news that a capital deal was near, fell \$1.31, or 10 percent, to \$11.84 on Tuesday.

WaMu's stock tumbled nearly 70 percent last year amid the mortgage and credit crises that have forced leaders of other financial institutions to step down. So far, Washington Mutual Chief Executive Kerry Killinger's job seems secure.

Bradshaw said the investment group seems comfortable with Killinger in charge as the company seeks stability. Killinger, who has been at the helm since 1990, received \$14.4 million in compensation last year, despite the thrift's struggles.

In the long term, however, Bradshaw said he wouldn't be surprised if the company revamped its entire strategy — along with its management.

The announcement that WaMu would exit the wholesale lending business and shut down the standalone home loan centers shows some change in direction, said Sebastian Hindman, an analyst at SNL Financial.

While the company can't get away from the home loans market and still be in the savings and loan business, he said that "within their realm they'll definitely reconfigure, re-analyze what their overall strategy is going to be."

The \$7 billion infusion is more than what many analysts have deemed adequate to cover losses this year, Hindman said — even in the most pessimistic scenarios.

But some analysts think a rise in alt-A defaults may still be coming, since they became popular relatively late in the mortgage boom. Last month, Fitch Ratings put \$160 billion of alt-a mortgage-backed securities on review.

"That's really sort of an enigma," Hindman said. While companies are disclosing more about what types of mortgages they hold, he said it's hard to predict when that boot might drop for WaMu — if at all.

Victoria Wagner, a credit analyst at S&P, said the TPG-led investment should be enough to keep WaMu going into next year. But she noted that the company holds a high concentration of mortgages in California, one of the hardest-hit housing markets.

WaMu joins a long list of companies that have raised capital in the wake of problems in the mortgage market, including Countrywide Financial Corp., Thornburg Mortgage Inc., Merrill Lynch & Co., Morgan Stanley and Citigroup Inc.

Under the plan unveiled Tuesday, Washington Mutual will sell equity securities to an investment fund managed by TPG Capital and to other investors in order to raise the \$7 billion. It did not name the other investors.

In return, investors will receive 176 million shares of common stock for \$8.75 per share, a 33 percent discount to Monday's closing price of \$13.15. Washington Mutual also issued about 55,000 shares of preferred stock at \$100,000 per share that may later be converted to common shares.

To further shore up its capital position, WaMu will also cut its quarterly dividend to 1 cent from 15 cents, saving about \$490 million a year.

*AP Business Writer Stephen Bernard in New York contributed to this report.*