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Government Seizes WaMu and Sells Some Assets

By ERIC DASH and ANDREW ROSS SORKIN
Published: September 25, 2008

[Washington Mutual](#), the giant lender that came to symbolize the excesses of the mortgage boom, was seized by federal regulators on Thursday night, in what is by far the largest bank failure in American history.

Regulators simultaneously brokered an emergency sale of virtually all of Washington Mutual, the nation's largest [savings and loan](#), to [JPMorgan Chase](#) for \$1.9 billion, averting another potentially huge taxpayer bill for the rescue of a failing institution.

The move came as lawmakers reached a stalemate over the passage of a \$700 billion bailout fund designed to help ailing banks, and removed one of America's most troubled banks from the financial landscape.

Customers of WaMu, based in Seattle, are unlikely to be affected, although shareholders and some bondholders will be wiped out. WaMu account holders are guaranteed by the [Federal Deposit Insurance Corporation](#) up to \$100,000, and additional deposits will be backed by JPMorgan Chase.

By taking on all of WaMu's troubled mortgages and credit card loans, JPMorgan Chase will absorb at least \$31 billion in losses that would normally have fallen to the F.D.I.C.

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JPMorgan Chase, which acquired [Bear Stearns](#) only six months ago in another shotgun deal brokered by the government, is to take control Friday of all of WaMu's deposits and bank branches, creating a nationwide retail franchise that rivals only [Bank of America](#). But JPMorgan will also take on Washington Mutual's big portfolio of troubled assets, and plans to shut down at least 10 percent of the combined company's 5,400 branches in markets like New York and Chicago, where they compete. The bank also plans to raise an additional \$8 billion by issuing common stock on Friday to pay for the deal.

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Washington Mutual, with \$307 billion in assets, is by far the biggest bank failure in history, eclipsing the 1984 failure of Continental Illinois National Bank and Trust in Chicago, an event that presaged the savings and loan crisis. IndyMac, which was seized by regulators in July, was one-tenth the size of WaMu.

But fears of the fallout from the government takeover of a big bank were balanced with the removal of one of the largest remaining clouds looming over the banking industry.

"This institution was a big question mark about the health of the deposit fund," Sheila C. Bair, the chairwoman of the F.D.I.C., said on a conference call Thursday. "It was unique in its size and exposure to higher risk mortgages and the distressed housing market. This is the big one that everybody was worried about." She said that the bank's rapidly deteriorating condition prompted regulators to seize it Thursday, and not on a Friday as is typical for bank closures.

For weeks, the Federal Reserve and the Treasury Department were nervous about the fate of WaMu, among the worst-hit by the housing crisis, and pressed hard for the bank to sell itself. Washington Mutual publicly insisted that it could remain independent, but the giant thrift had quietly hired [Goldman Sachs](#) about two weeks ago to identify potential bidders. But nobody could make the numbers work and several deadlines passed without anyone submitting bid.

But as panic gripped financial markets last week after the collapse of [Lehman Brothers](#), WaMu customers started withdrawing their deposits. The government then stepped up its efforts, at points going behind WaMu's back to work privately with four potential bidders on a deal. On Wednesday afternoon, the government solicited formal written bids. On Thursday morning, regulators notified [James Dimon](#), chairman and chief executive of JPMorgan Chase, that he was the likely winner.

"We are building a company," Mr. Dimon said in a brief interview. "We are kind of lucky to have this opportunity to do this. We always had our eye on it."

But the seizure and the deal with JPMorgan came as a shock to Washington Mutual's board, which was kept completely in the dark: the company's new chief executive, [Alan H. Fishman](#), was in midair, flying from New York to Seattle at the time the deal was finally brokered, according to people briefed on the situation. Mr. Fishman, who has been on the job for less than three weeks, is eligible for \$11.6 million in cash severance and will get to keep his \$7.5 million signing bonus, according to an analysis by James F. Reda and Associates. WaMu was not immediately available for comment.

The government has dealt with troubled financial institutions differently. Lehman Brothers and Washington Mutual, which were less entangled with the rest of the financial system, were allowed to collapse. But the government took emergency measures to stabilize Goldman Sachs, [Morgan Stanley](#) and the [American International Group](#), the insurance giant.

Federal regulators had been trying to broker a deal for Washington Mutual because a takeover by the F.D.I.C. would have dealt a crushing blow to the federal government's deposit insurance fund. The fund, which stood at \$45.2 billion at the end of June, has been severely depleted after suffering a loss from the sudden collapse of IndyMac Bank. Analysts say that a failure of Washington Mutual would have cost the fund as much as \$30 billion or more.

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The deal will end WaMu's 119-year run as an independent company and give JPMorgan Chase branches in California and other markets where it does not have a big presence.

Until recently, Washington Mutual was one of Wall Street's strongest performers. It reaped big profits quarter after quarter as its then chief executive, Kerry K. Killinger, enlarged its presence by buying banks on both coasts and ramping up mortgage lending.

His goal was to transform what was once a sleepy Seattle thrift into the "[Wal-Mart](#) of Banking," which would cater to lower- and middle-class consumers that other banks deemed too risky. It offered complex mortgages and credit cards whose terms made it easy for the least creditworthy borrowers to get financing, a strategy the bank extended in big cities, including Chicago, New York and Los Angeles. With this grand plan, Mr. Killinger built Washington Mutual into the sixth-largest bank in the United States.

But underneath the hood, the bank's machinery was failing.

Then the housing market began to crumble. Like so many other financial institutions, the bank tried to hedge its mortgage bets — but did so poorly. It retrenched on its branch-building ambitions. But none of that was enough to deflate ballooning losses on mortgage loans, nor defuse ticking time bombs like interest-only and pay-option amortization products that had reeled in bottom-grade borrowers.

With rising mortgage payments and higher gas and food bills, WaMu's losses in its big credit card loan portfolio also surged.

By then, however, WaMu's troubles had set off alarm bells on Wall Street, which ground its share price down daily.

With options narrowing, WaMu frantically reached out to several banks and big private equity firms, including the [Carlyle Group](#) and the [Blackstone Group](#).

In March, JPMorgan Chase saw an opportunity and urged WaMu in a letter to consider a quick deal. On the same weekend that Mr. Dimon negotiated his daring takeover of Bear Stearns, he secretly dispatched members of his team to Seattle to meet with WaMu executives. When JPMorgan Chase offered WaMu \$8 a share, largely in stock. But Mr. Killinger balked at the deal.

In April, [David Bonderman](#), a founder of the TPG private equity firm, and a group of institutional investors agreed to infuse \$7 billion of capital into the bank. Mr. Killinger kept his job, and Mr. Bonderman, who had served as a WaMu director from 1997 to 2002, returned with a board seat and 176 million WaMu shares priced at about \$8.75 each — steep discount of more than 25 percent to that day's share price.

While the deal was sweet for Mr. Bonderman, it eroded the value for existing shareholders, enraging them. They moved on June 2 to strip Mr. Killinger of his chairmanship. Mr. Bonderman, meanwhile, watched his golden bet turn to dross. In a statement Thursday, TPG said: "Obviously, we are dissatisfied with the loss to our partners from our investment in Washington Mutual."

A version of this article appeared in print on September 26, 2008, on page A1 of the New York edition.

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