March 27, 2008

Vote Against Washington Mutual Directors Mary E. Pugh and James H. Stever

Dear Fellow Washington Mutual Shareholder:

We urge you to vote "Against" director nominees Mary E. Pugh, Chair of the Finance Committee, and James H. Stever, Chair of the Human Resources Committee at the Company's April 15 annual meeting. As chairs of the committees charged with risk management oversight and compensation plan design, respectively, Ms. Pugh and Mr. Stever bear responsibility for Washington Mutual's failure to recognize and act in a timely manner on the risks to shareholder value presented by the housing bubble, and for attempting to insulate executive bonuses from the consequences of this risk management failure.

As outlined in our February 8 letter to the Company (available on our website), we believe Washington Mutual's misreading of the risks inherent in the housing bubble led the company to shift its origination, holding, and servicing operations away from fixed-rate, conforming mortgages and toward riskier subprime, adjustable rate, and Alt-A products that presented much greater risk of default in the event of home price declines. Consequently, Washington Mutual has suffered over $6 billion in write downs and credit losses since the beginning of 2007, has seen is share price drop by over 70%, and has had to seek $3.9 billion in new capital.

As we detail below, the Finance Committee should have been aware of the significant downside risk the inevitable collapse of the housing bubble would pose for the company given this increase in Washington Mutual's risk profile. Indeed, it appears that at least one highly regarded former executive who maintains a close relationship with Washington Mutual and has access to the Board had warned directors of the incipient housing downturn, and Ms. Pugh's own fixed-income investment management firm appears to have been warning clients from early 2006 that a serious housing downturn was coming.

Our recommendation that shareholders vote "Against" Ms. Pugh also reflects our belief that it is inappropriate for the board committee charged with risk management oversight to be chaired by a non-independent director. Performance-related pay creates an incentive for executives to take on risk in order to boost returns; prudent long-term management of such risks therefore requires independent board oversight. In Ms. Pugh's case, the scale of her outside business relationship with Washington Mutual, which we estimate represented 9% of her firm's assets under management between 1999 and 2006, raises concerns about her independence over and above the fact that this relationship violates the NYSE standard for independence.

Additionally, given the severity of the losses Washington Mutual shareholders have already incurred, and the likelihood that credit losses and foreclosure costs will continue to mount, we view the Human Resources Committee's decision to exclude such costs from the calculation of performance targets as grossly inappropriate. While we recognize that the Committee intends to

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subjectively evaluate credit loss and foreclosure cost mitigation efforts at the end of the year, and incorporate that evaluation into its final bonus awards, such an approach runs counter to the spirit of performance-related pay plans: in well-designed plans, Boards bind themselves to objective criteria precisely because shareholders value rigorous and independent assessment of executive accomplishments. By potentially insulating executives from the costs of failed risk management, Mr. Stever and his fellow Committee members may have severed the link between executive incentives and shareholders' interests.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 6 million members. These funds hold an estimated 4.6 million shares of Washington Mutual common stock.

Management View: Significant Mitigation Steps Taken Despite Underestimating Scale of Risk

In our meeting with members of Washington Mutual's Board and senior management, Company representatives argued that they had been taking significant steps to mitigate potential risks of a housing downturn. Company representatives pointed out that Finance Committee meetings had been restructured in 2005 to increase focus on matters of significant concern and reduce time devoted to routine matters; that the Committee had been receiving reports on the housing market regularly since 2005; that management had incorporated an assumption of zero house price appreciation for 2006 and 2007; and that the Committee had heard from outside experts, such as BlackRock, Standard & Poors, and Goldman Sachs, on various matters, including mortgage servicing rights and credit losses.

Washington Mutual representatives further argued that the Company had expanded its lines of business to include commercial lending (multi-family), as well as consumer lending via the acquisition of credit card issuer Providian; that while Washington Mutual continued to originate subprime and option ARM loans well into 2007, their market share in those products was declining, and the bulk of such originations were being sold-off to the secondary market; and that Washington Mutual altered its financing structure so as to be less dependent on borrowings from Federal Home Loan Banks, in part through the creation of a covered bond program. Overall, directors and executives stressed that Washington Mutual's status as a thrift obliged it to keep the bulk of its assets in mortgage investments, and that no one could have anticipated the severity of the housing market downturn, the subsequent disruption of credit markets, and the consequential losses suffered by the Company and its shareholders.

Company representatives also presented a spirited defense of the Human Resources Committee's decision to link 2008's Long Term Incentive Plan bonuses to Net Operating Income excluding credit losses and foreclosure costs. As this year's proxy statement describes, the Human Resources Committee intends to subjectively evaluate management's effectiveness in minimizing those costs. Representatives claimed that the Committee did not feel able to set an objective target by which to measure that effectiveness. Finally, the directors stressed the need to retain their most talented managers at this difficult moment in the Company's history.

Excessive Risk and Lack of Independence on the Finance Committee

We believe that, far from having been unpredictable, the likely severity of the housing market downturn had been indicated to the Finance Committee by at least one trusted source, and that the Committee failed to heed this warning. Moreover, it appears that Ms. Pugh's investment management firm had been warning its clients since early 2006 of a significant housing market downturn. Finally, while the relationship between Washington Mutual and Ms. Pugh's firm has been disclosed since 1999, we believe that the significance of Washington Mutual as a client during the run-up and peak of the housing bubble has not been appreciated and may have affected Ms. Pugh's willingness to challenge management's desire to increase risk in the hope of expanding margins.

To review, Washington Mutual significantly reoriented its operations between 2004 and 2006 in order to decrease exposure to fixed-rate, conforming mortgages and increase exposure to riskier but higher margin mortgage products. This reorientation was indeed dramatic: where fixed-rate mortgage loans comprised between 61% and 67% of home loan lending from 2001-2003, this share dropped to 35% in 2004 and 25% in 2006. Washington Mutual's held for investment portfolio also shifted toward riskier products, as adjustable rate and subprime loans grew from 59% of the portfolio in 2003 to over 95% from 2005 to 2007.

While the Company may have taken some steps to mitigate risk – such as selling a $140 billion fixed-rate servicing portfolio to Wells Fargo – we continue to believe that the balance of their actions tilted much too heavily toward increasing risk given the state of the housing market.

We learned at our meeting that during this time former Washington Mutual CFO and Vice Chairman of Enterprise Risk Management William A. Longbrake, now a senior policy advisor to the Financial Services Roundtable, had warned the Board at least once that in his view a severe housing downturn would occur. We also know from press reports that at least as early as December 2006 Mr. Longbreak publicly identified himself as "among a minority of experts 'who believe the worst is still ahead in the housing market' [and] for home prices to continue to fall."

Moreover, in a "Market Overview" for the fourth quarter of 2006 available on the Pugh Capital Management website, Ms. Pugh's firm notes that "Pugh Capital has been calling for a slowdown in the housing sector since early this year," that "existing home prices have now declined for two consecutive months after years of extraordinary gains," and that "The question still to be answered is whether there will be a soft or hard landing for housing." We believe that these statements indicate that Ms. Pugh was likely aware of the significant risk Washington Mutual had taken on by orienting its operations toward the riskiest mortgage products. Yet she appears not to have taken action as Finance Committee Chair either to reject plans that would exacerbate downside exposure to house price deflation, or to encourage more aggressive efforts to reduce such exposure.

In reaching this conclusion, we also considered the relationship between Pugh Capital Management and Washington Mutual. While Washington Mutual has disclosed its payments to Ms. Pugh's firm from 1999 to 2006, and recognizes that this relationship requires that she be

considered a non-independent director, the size and significance of Washington Mutual as a Pugh client may not be readily appreciable based on these disclosures.

We learned at our meeting that Washington Mutual was Pugh's first client, giving Pugh a $5 million mandate and paying $25,000 in fees. Based on proxy disclosures, we calculate that Washington Mutual paid Pugh Capital Management over $1.1 million from 1999 to 2006. Moreover, based on information from the Pugh Capital Management website, and assuming that Pugh's fees average 25 basis points, we estimate that Washington Mutual's account comprised roughly 9% of assets under management during these years.

We consider a business relationship this material to be too likely to compromise Ms. Pugh's independence and hence her appropriateness as a director and as Finance Committee Chair. The effective link between risk, reward, and executive compensation incentivizes executives to take on risk, which in turn makes genuinely independent board oversight of risk management critical for preserving shareholder value over the long term. Given the significant challenges still facing the company, Washington Mutual shareholders need a genuinely independent Finance Committee Chair.

The Human Resources Committee's Failure of Judgment

In setting the performance related targets for 2008 under the Long Term Incentive Plan, the Human Resources Committee made several changes from the previous year: increasing the weight of the customer loyalty target, switching the most heavily weighted target from Earnings Per Share to Net Operating Income (NOI), and excluding credit losses and foreclosure costs from the calculation of NOI for the purposes of determining if performance targets were met. Washington Mutual's proxy statement for this year further states that the Human Resources Committee will subjectively evaluate management's success in mitigating credit losses and foreclosure costs at the end of this year. In our meeting, Mr. Stever and other directors stressed the difficulty of determining an objective target for credit loss and foreclosure cost mitigation, and the importance of retaining talented executives.

We find these arguments unconvincing. While boards adopt performance-related pay plans for many reasons, we believe that one important reason is that shareholders rightly insist that executive performance be measured by rigorous, objective criteria, and not simply left to the judgment of directors who may be only too willing to excuse disappointing performance by senior executives they have known for years. Objective performance criteria give shareholders confidence that such a rigorous evaluation will take place precisely because those criteria must be set at a time when the company's performance is unknowable.

Indeed, Mr. Stever could not explain in our meeting why credit loss and foreclosure cost mitigation could not have been included as a performance measure for 2008 bonuses. While he cited the uncertainty of each cost item, such uncertainty is precisely what gives shareholders confidence that a board will actually bind itself to reward executives only when their performance warrants it. Especially considering that governance advocates such as the Corporate Library had already identified compensation as an issue of "High Concern" since CEO Kerry

Killinger's pay exceeds the median for similar sized companies by more than 20%, we think that it is time for Mr. Stever, a 17 year Board veteran, to be succeeded by a director more in tune with shareholder concerns.

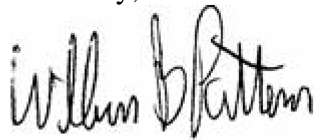
Summary: Vote "Against" Directors Pugh and Stever.

Removing Ms. Pugh and Mr. Stever will meaningfully enhance the Washington Mutual board's risk oversight and independence, as well as ensuring that executive compensation decisions reflect an appreciation for risk management and the alignment of executive and shareholder interest, without destabilizing the company as it faces an especially risky and challenging market.

Washington Mutual's Bylaws require the Governance Committee to consider the resignation of a director who fails to receive a majority of votes cast and recommend to the Board whether to accept or reject the resignation. We would expect the board to accept the resignations of directors Pugh and Stever in the event that one or both fails to receive majority shareholder support.

We welcome the opportunity to review our concerns in greater detail with fellow shareholders. Please contact Richard Clayton at 202-721-6038 to discuss these issues further and visit www.ctwinvestmentgroup.com for more information.

Sincerely,



William Patterson
Executive Director

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