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Moody's Downgrades WaMu Ratings, Outlook Negative (Moody's Global Credit Research)

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Rating Action: Moody's downgrades WaMu Ratings; outlook negative

Global Credit Research - 11 Sep 2008

New York, September 11, 2008 -- Moody's Investors Service downgraded the long-term deposit and issuer ratings of Washington Mutual Bank to Baa3 from Baa2. The bank's financial strength rating was downgraded to D+ from C-, base line credit assessment (BCA) to Ba1 from Baa2, and short term rating to Prime-3 from Prime-2. Washington Mutual Inc.'s senior unsecured rating was downgraded to Ba2 from Baa3. The rating action concludes the review that was initiated on July 22, 2008. The outlook is negative.

Moody's said the downgrade resulted from WaMu's reduced financial flexibility, deteriorating asset quality, and expected franchise erosion as the bank continues to face adverse performance across its asset base. Its ability to deal with this issue is constrained by prospective earnings that are inadequate to restore or attract capital. This has complicated WaMu's ability to access external capital. Further, as a result, its funding sources have become more concentrated.

Positively, Moody's does note that WaMu currently has limited exposure to short-term wholesale funding, and the Federal Home Loan Bank (FHLB) has been a stable source of funding for the bank throughout the credit crisis. However, the company is suffering from a lack of confidence in the debt markets, concentrating its liquidity resources in the FHLB.

"The company's limited financial flexibility makes it more difficult for it to replenish capital and preserve diversified and stable funding sources. Both issues are critical to restoring the strength of the institution," said Moody's Vice President and Senior Credit Officer Craig Emrick.

Moody's also expects WaMu to report future quarters of large losses. This could exacerbate negative market sentiment and lead to franchise impairment.

The factors noted above resulted in the downgrade of WaMu's bank financial strength rating to D+ from C- and BCA to Ba1 from Baa2. However, the company's deposit rating was downgraded to Baa3 from Baa2, one notch above the BCA, due to Moody's assumption of systematic support for WaMu.

Washington Mutual Inc.'s preferred stock was downgraded to B2 from Ba2, reflecting Moody's view that the risk of a suspension of dividends on these instruments has risen materially.

The negative outlook reflects the potential for continued deterioration of WaMu's asset quality and the related provisioning needs which are likely to result in multiple quarterly losses.

Moody's will host a teleconference to discuss these rating actions on Friday, September 12th, at 11:00AM EDT. Please visit www.moody.com/events for further information.

Downgrades:

..Issuer: Bank United

....Subordinate Regular Bond/Debenture, Downgraded to Ba1 from Baa3

..Issuer: Providian Capital I

....Preferred Stock Preferred Stock, Downgraded to Ba3 from Ba1

..Issuer: Providian Financial Corporation

....Senior Unsecured Conv./Exch. Bond/Debenture, Downgraded to Ba2 from Baa3

..Issuer: Washington Mutual Bank

....Bank Financial Strength Rating, Downgraded to D+ from C-

....Issuer Rating, Downgraded to Baa3 from Baa2

....OSO Rating, Downgraded to P-3 from P-2

....Deposit Rating, Downgraded to P-3 from P-2

....OSO Senior Unsecured OSO Rating, Downgraded to Baa3 from Baa2

....Multiple Seniority Bank Note Program, Downgraded to a range of Ba1 to P-3 from a range of Baa3 to P-2

....Subordinate Regular Bond/Debenture, Downgraded to Ba1 from Baa3

....Senior Unsecured Deposit Note/Takedown, Downgraded to Baa3 from Baa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2

....Senior Unsecured Deposit Rating, Downgraded to Baa3 from Baa2

..Issuer: Washington Mutual Bank FSB

...Bank Financial Strength Rating, Downgraded to D+ from C-

...Issuer Rating, Downgraded to Baa3 from Baa2

...OSO Rating, Downgraded to P-3 from P-2

...Deposit Rating, Downgraded to P-3 from P-2

...OSO Senior Unsecured OSO Rating, Downgraded to Baa3 from Baa2

...Senior Unsecured Deposit Rating, Downgraded to Baa3 from Baa2

..Issuer: Washington Mutual Capital I

...Preferred Stock Preferred Stock, Downgraded to Ba3 from Ba1

..Issuer: Washington Mutual Capital Trust 2001

...Preferred Stock Preferred Stock, Downgraded to Ba3 from Ba1

..Issuer: Washington Mutual Pfd Funding (Cayman) I Ltd

...Preferred Stock Preferred Stock, Downgraded to B2 from Ba2

..Issuer: Washington Mutual Preferred Funding Trust I

...Preferred Stock Preferred Stock, Downgraded to B2 from Ba2

..Issuer: Washington Mutual Preferred Funding Trust II

...Preferred Stock Preferred Stock, Downgraded to B2 from Ba2

..Issuer: Washington Mutual Preferred Funding Trust III

...Preferred Stock Preferred Stock, Downgraded to B2 from Ba2

..Issuer: Washington Mutual Preferred Funding Trust IV

...Preferred Stock Preferred Stock, Downgraded to B2 from Ba2

..Issuer: Washington Mutual, Inc.

...Multiple Seniority Shelf, Downgraded to a range of (P)B2 to (P)Ba2 from a range of (P)Ba2 to (P)Baa3

...Preferred Stock Preferred Stock, Downgraded to B2 from Ba2

...Subordinate Regular Bond/Debenture, Downgraded to Ba3 from Ba1

...Senior Subordinated Regular Bond/Debenture, Downgraded to Ba3 from Ba1

...Senior Unsecured Regular Bond/Debenture, Downgraded to Ba2 from Baa3

Outlook Actions:

..Issuer: Bank United

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Providian Capital I

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Providian Financial Corporation

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Washington Mutual Bank

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Washington Mutual Bank FSB

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Washington Mutual Capital I

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Washington Mutual Capital Trust 2001

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Washington Mutual Pfd Funding (Cayman) I Ltd
....Outlook, Changed To Negative From Rating Under Review
..Issuer: Washington Mutual Preferred Funding Trust I
....Outlook, Changed To Negative From Rating Under Review
..Issuer: Washington Mutual Preferred Funding Trust II
....Outlook, Changed To Negative From Rating Under Review
..Issuer: Washington Mutual Preferred Funding Trust III
....Outlook, Changed To Negative From Rating Under Review
..Issuer: Washington Mutual Preferred Funding Trust IV
....Outlook, Changed To Negative From Rating Under Review
..Issuer: Washington Mutual, Inc.
....Outlook, Changed To Negative From Rating Under Review

WaMu is based in Seattle and reported total assets of \$310 billion at June 30, 2008.

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