A study of Washington Mutual a formidable competitor in the Southern California market

Margaret Mary Boni

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A STUDY OF WASHINGTON MUTUAL A
FORMIDIBLE COMPETITOR IN THE
SOUTHERN CALIFORNIA MARKET

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Business Administration

by

Margaret Mary Boni

June 2003
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ABSTRACT

On March 17, 1988, Washington Mutual, an out-of-state, little-known upstart, announced its intent to purchase the company's major West Coast rival, H. F. Ahmanson (Home Savings,) of Irwindale, California, for $9.9 billion, creating the nation's seventh-largest banking company. This announcement came soon after Washington Mutual's mergers with Great Western Financial and American Savings, and propelled the company into the Southern California market.

Washington Mutual successfully combined over twenty financial institutions within a nine-year period of time. The company now serves over 6 million households, operates in 36 states, and is the largest mortgage lender in the country.

This project examines the Southern California and Inland Empire banking environment during the period from 1992 to 1997. It includes an analysis of Washington Mutual's market strategy, and financial strategy for entering this fiercely competitive environment. Washington Mutual's competitive advantages and weaknesses will be analyzed to understand its approach to capturing strong market presence.
The Inland Empire's economic conditions are evaluated and analyzed, and the results indicate a potential for economic growth, and prosperity, boding well for future business success. The company now has much wider geographic diversity than in any other period in its history, and as a result, Washington Mutual should be better positioned to manage through any downturns in regional economies in the years ahead.

Washington Mutual's post-merger performance and ongoing strategy are analyzed to determine that Washington Mutual will continue to be a major contender for the Southern California and Inland Empire markets. Washington Mutual has performed well in relation to the banking industry and its major competitors. Currently ranking as the eighth largest financial institution in the country, Washington Mutual has delivered impressive results.

This project is based upon research and a depth of personal knowledge of Washington Mutual. As a native of Washington State, and a long-time customer of Washington Mutual, my early recollections of this financial institution go back to the early 1950's, when I stood in line with my father and my grandfather at the Seattle Main Branch to make a deposit to my college fund, established by
my grandfather. A visit to this institution, and making that deposit was a tradition in my family. As an eight year-old, the vast marble lobby and formal business atmosphere filled me with awe. Today, banking has become more casual, but the accomplishments of this financial giant are nonetheless, remarkable.
ACKNOWLEDGMENTS

I would like to express my deepest gratitude to Larry Sharp, President and CEO of Arrowhead Credit Union, and the administration and faculty of California State University, San Bernardino, for the opportunity to participate in Arrowhead Credit Union's MBA Program. This program was an opportunity for the management of the credit union to build a unique new culture through higher education. The benefits expand far beyond the classroom in terms of value to Arrowhead Credit Union, and to me personally. The experiences of our cohort group of twelve employees drew upon the strengths of each member of our group, for the benefit of each member of the group, enhancing our knowledge and our ability to lead the credit union into the future.

Special thanks also to Dr. Mo Vaziri, for his dedication in making this program a reality, to Dr. Sue Greenfeld, for her patience and commitment to the program, and to Dr. Nabil Razzouk for his encouragement and guidance. A special thanks is also extended to Professor Linvol Henry for his support of the program, and to all of the truly wonderful faculty who participated in our learning experience.
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CHAPTER ONE
INTRODUCTION

On March 17, 1998, Washington Mutual announced its intent to purchase the company’s major West Coast rival, H.F. Ahmanson, parent of Home Savings, for $9.9 billion, creating the nation’s seventh largest banking company (Lane, 1998). This announcement came only a year after Washington Mutual’s $6.6 billion merger with Great Western Financial, and two years after its $20 billion acquisition of American Savings (Eps, 1997). This strategic merger dramatically propelled the company into the Southern California Market, and provided the institution with the breadth to challenge banking giants BofA and Wells Fargo Bank.

We at Arrowhead Credit Union recognized that Washington Mutual, almost overnight, became a major competitor, about which we knew very little. This paper will assist Arrowhead Credit Union in planning strategically to face new competition in a rapidly changing banking environment. The information contained herein will enable the Credit Union to capitalize on unique
opportunities that are created by Washington Mutual’s mergers and entry into our market area.

This project specifically covers the banking industry during the years 1992 to 1998, Washington Mutual’s market strategy for entering the competitive Southern California market, an analysis of Washington Mutual’s customers, products, and an analysis of their financial performance both pre and post merger. This paper concludes with an assessment of the regional differences between Southern California and Northwest banking culture and outlines the challenges Washington Mutual faces in its new and larger market environment.

Some of the research for this paper, particularly the analysis of Washington Mutual’s corporate culture, is based upon personal interviews with Washington Mutual employees. I spoke with friends who are employed by Washington Mutual, as well as strangers working at various retail locations in California and Washington to help me understand the culture of this organization.
CHAPTER TWO

WASHINGTON MUTUAL’S ENTRY TO

THE CALIFORNIA MARKET

On June 6, 1889, a glue pot in a downtown Seattle cabinet shop bubbled over and ignited wood shavings lying on the floor. Within minutes the business was engulfed in flames, and by the following morning twenty-nine city blocks were completely destroyed (Lang, 1999).

The Washington National Building and Loan Investment Association, was incorporated on September 25, 1889, to help people rebuild their homes and businesses after the fire. The first monthly-installment home loan was made to a Norwegian-born seaman, who used the $700 he borrowed to build a house in the Ballard neighborhood of Seattle. Over two thousand loans were granted during the rebuilding process (wamu.com, 1999).


The company’s association with investment banking began in 1911, when Eugene Favre, co-founder of Murphey
Favre, Inc., of Spokane, became a member of the board of directors.

In 1930, officials of Continental Mutual Savings Bank asked Washington Savings and Loan Association to purchase their bank, which was facing financial ruin during the early years of the Great Depression. The purchase was completed and Continental became Washington Mutual's first acquisition.

The establishment of a relationship between a bank and an investment firm was innovative in 1911, but in 1983, when Washington Mutual acquired Murphey Favre, it was the first bank to acquire a full-service securities brokerage firm in the nation.

Originally Washington Mutual was a true mutual savings bank, owned by its depositors. For many years the company followed the traditional role of mutual institutions. Profit maximization was not a high priority, and high expenses were the norm. The company changed from a mutual to a stock form of organization in 1983 due to the limitations it faced in raising capital under the mutual form of ownership.
The initial public offering of the bank's stock took place on March 11, 1983, and the stock quickly sold out. $72 million in capital was raised, 26 percent more than expected (wamu.com, 1999).

With the Murphey Favre acquisition came Kerry Killinger, Washington Mutual's CEO. Then just 33, Killinger set about to mastermind most of the company's growth by acquisition. During the period between 1982 and 1999, Washington Mutual acquired 23 banks, 19 of which were acquired after Killinger was named chief executive officer.

Washington Mutual is a financial services company serving consumers and small to mid-sized businesses. Its subsidiaries provide consumer and commercial banking services, securities brokerage, mutual fund management, property/casualty and insurance sales, and underwriting for insurance annuities.

The company operates principally in California, Washington, Oregon, Florida, Idaho, Texas and Utah, but has operations in a total of 36 states. The company has plans to diversify and expand its national business over the next five years, starting with 15 new financial centers in the Las Vegas area in mid 2000. Washington Mutual serves six
million households and is currently the eighth largest thrift institution in the nation, with $150 billion in assets. The company is the largest mortgage lender on the West Coast (Lane, 1998).

With the recent acquisitions and mergers, Washington Mutual has strengthened its competitive position in California, the nation's most populous state. The combination of Home Savings, Great Western, American Savings, and Coast Savings makes California integral to Washington Mutual's future. They fully intend to be as involved in the California communities as they are in their other markets, while continuing to offer consumer banking and home mortgage expertise to low and moderate-income families and individuals.

Most of Washington Mutual's growth since 1988 has occurred as a result of banking business combinations. The table shown in Appendix A, titled Washington Mutual Merger History, summarizes Washington Mutual's mergers and acquisitions since April 1988.

Washington Mutual, after the merger with H. F. Ahmanson & Company, had $86.3 billion in deposits, and more than 2,000 retail banking branches, loan offices, consumer
finance locations, and commercial bank branches. The combined company became the nation's leading adjustable-rate mortgage lender. The merger also expanded Washington Mutual's reach into Texas with more than 40 branches in that state (Annual Report, 1999).

Following the completion of the merger with H. F. Ahmanson, Washington Mutual became California's second-largest depository institution, with a 17% market share. Only Bank of America holds a larger deposit base and market share. In addition, the company is among the top three institutions, based on deposit market share, in every major metropolitan market in California. The combined company is managed from locations in Chatsworth, Irvine, and Stockton, and from Washington Mutual's headquarters in Seattle (King, 1998).

The A. H. Ahmanson merger had the most profound affect upon the company. See the table shown in Appendix A, Page 49, titled Washington Mutual/Ahmanson Merger Effects.

Washington Mutual and Ahmanson integrated operations after completion of the Great Western merger. The integration was completed in mid 1999.
CHAPTER THREE

THE BANKING INDUSTRY IN

THE INLAND EMPIRE

Banks in the Inland Empire

**The Big Banks**

Washington Mutual was not the only financial institution to undergo huge mergers in an attempt to gain market share. Giants Security Pacific and Bank of America combined in 1991, and First Interstate and Wells Fargo merged in 1995. In 1998, Bank of America and eastern giant NationsBank merged to form a $567 billion institution with over 5,000 branches across the country. Meanwhile, the Inland Empire has been affected by the national trend toward creation of mega-banks with mega market shares with the merger of California Federal, Glendale Federal, Cenfed Bank, and Redlands Federal Bank. These combined institutions operate under the name GoldenState Bancorp. The table in Appendix A, page 50, titled Washington Mutual/GoldenState Bancorp Merger Effects, shows these two mergers and their resulting market share.

The top four financial institutions in the Inland Empire hold 56.1% of all area bank deposits. These are:

Though the top four institutions hold significant market share, the deposits in these institutions have fallen since 1992. Combined, they held $12.5 billion in deposits in 1992, but this figure was down to $11.2 billion in 1997, which represents a reduction of 10.1%. The top four fell from a 60.4% market share to a 56.1% market share, or a loss of 4.3%. This change is shown in Appendix A, titled Change in Bank Deposits.


The Mid-Sized Banks

The group of mid-sized banks appears to be gaining market share as shown in Appendix A, Mid-size Bank Deposits
by Year. This group saw its Inland Empire deposits grow $1.14 billion or 34.5% from 1992 to 1997, despite a downward trend in the region's total deposits.

Union Bank has increased its share the most since 1992, but appears to have peaked in 1993. Its early success did not sustain itself after it captured much of the customer fallout from the Bank of America, Security Pacific merger. Since 1992, Downey Savings has grown consistently in deposits due to rapid expansion of its supermarket branches. Citizens Business Bank, PFF Bank and Trust, and World Savings have seen consistent increases in deposits, and Hemet Federal and Provident have grown slowly, but steadily (Husing, 1998).

The Regional Banks and Small Community Banks

There are seven Southern California regional banks or financial institutions with Inland Empire branches: City National Bank, First Security Bank (recently announced a merger bid from Wells Fargo,) Western Financial Savings Bank, Fireside Thrift, Jackson National (which recently acquired Fidelity Federal,) Sanwa Bank, and Fremont Investment. There are approximately forty small community banks operating in specific market niches in the Inland
Empire. Among these are Inland Community Bank, Redlands Centennial Bank, Upland Bank, Desert Community Bank, and Foothill Bank. In 1997, these institutions held $3.16 billion in deposits. In 1992, there were 62 regional and community banks with $3.23 billion. The 1997 figure represents a decrease of $72 million, and 14 fewer banks. Market share during this period rose from 15.6% to 15.8% during this time of overall market decline. In 1995-1997, deposits in this group rose $429 million or 15.7% and market share increased from 13.9% in 1995, to 15.8% in 1997.

The fastest growth was reported by Desert Community Bank, with an increase of $105 million from 1992-1997 (134.8%), with Foothill Independent Bank up $72.1 (83.8%). Of this group, City National Bank reported the highest deposits at $231 million, followed by Bank of Hemet with $212 million. Bank of Hemet is now part of an acquisition by Guaranty Federal.

The Credit Unions

The smallest share of deposits is held by the 37 credit unions in the Inland Empire. In 1997, credit unions had $1.18 billion in deposits, or 5.9% of the Inland Empire
market. In 1992, credit unions held $942 million and had a 4.5% share of the market. Credit union deposits grew by $241 million (25.6%) in the period, and their share of the market grew by 1.4%. Arrowhead Credit Union added the most deposits with an increase $253 million. Other Inland Empire credit unions showing deposit increases were March Federal Credit Union, with $141 million, Riverside Schools Credit Union, with $137 million, Norton Credit Union, with $111 million, and Riverside County Credit Union, with $76 million. Riverside Schools Credit Union and Riverside County Credit Union have since merged and are known as Riverside County's Credit Union.

From 1992 to 1997, Inland Empire financial institutions have seen deposit volume fall from $20.69 billion to $20.03 billion, a $659 million drop. Since 1997, the volume of deposits has grown slowly but consistently, rising $646 million from the low of $19.39 billion. The chart in Appendix A, Bank Deposits by Size, shows that the Big-4 mega-banks saw their inland region deposits decline by $1.26 billion from $12.51 billion in 1992, to $11.24 billion in 1997.
Market shares have changed as a result of mergers, failures, successes and difficulties of the various categories of Inland Empire financial institutions. The megabanks have seen market share fall from 60.4% to 56.1%, a 3.4% decline in share. The intermediate sized banks have seen their market share increase a dramatic 6.2%, rising from 16.0% to 22.2%. The region's small, low penetration banks saw only a 0.2% increase since 1992. Credit Unions, target of attacks by banks on issues of fields of membership and taxation, increased market share by only 1.4% over the period. Appendix A, Bank Market Share, illustrates changes in market share for the period.

In summary, as the big banks lose market share, Washington Mutual will have to maintain an aggressive attitude in attracting new depositors to stem the tide of customers leaving it because of the merger. The deposit and market share data show that there is no loyalty to interlopers and branch convenience loses its appeal if products, service, or people change.

The phenomenon of customers leaving financial institutions due to a merger will be analyzed in more detail later in this project after examining Washington Mutual's Culture.
CHAPTER FOUR

OVERVIEW OF THE INLAND EMPIRE ECONOMY

During Washington Mutual's high-growth years, both the U.S. and the Inland Empire economy experienced historic growth. The national economy has grown over 4% for three consecutive years, and worker productivity is rising. Unemployment is just 4.1%. Prices are rising at just 2.9% annually (Husing, 1998). The federal government is running surpluses and paying down its debt. The stock market is fluctuating at or near record highs, and, though interest rates are rising, they remain well below their long-term averages.

Local unemployment is at 4.5%, its lowest level since 1965. The surge in Inland Empire population and employment is fueling local prosperity, but average incomes and standard of living are growing at moderate rates.

The economic changes highlighted below are depicted graphically in Appendix B.

The Inland Empire Business Journal, November 1999, reports the following:
• The population of the Inland Empire has grown 2.1% per annum since 1990, adding 538,521 people to reach a total population of 3,127,314. If the Inland Empire were a state, it would rank 30th in population.

• San Bernardino County is the nation's largest in terms of landmass, with 20,131 square miles. Riverside County measures 7,200 square miles, making it the fourth largest in California.

• About one in every five Inland Empire residents is under the age of 18. Eight percent of the region's population is over the age of 65.

• The Inland Empire added 168,080 jobs between 1990 and 1998, an increase of 23.1%.

• Personal incomes have grown 12.5% faster than inflation, and as population and incomes have grown, The region's total personal income of $57.4 billion in 1996, exceeded that of 18 states.

• The Inland Empire ranked seventh among regions in the nation for new and expanded corporate facilities in 1998. The region ranked third in the nation for new manufacturing facilities that year, behind Detroit and Chicago.
In Riverside County, the number of unemployed workers declined from 68,400 in 1992, to 38,300 in 1999. In San Bernardino County the number of unemployed workers declined from 64,300 in 1992, to 36,800 in 1999.

From 1997 to 1999, jobs in the construction sector grew most rapidly, up 34%, followed by transportation, up 16%, manufacturing, up 13%, services, up 12%, finance and real estate, up 7%, government, up 7% and retail, up 5%.

The inflation rate in the Inland Empire outpaced the United States in 1999, for the first time since 1992.

The Purchasing Managers Index remained over 50 each month of the year 1999, indicating manufacturing expansion.

Despite bank mergers, the number of financial institution employees has risen each year since 1995.

Deposits at Inland Empire financial institutions rose nearly $500 million from 1998 to 1999.

In 1999, there were 204 financial institution branches in San Bernardino, the lowest since a peak of 251 in 1992. In Riverside County, the 1999 low was 223, with a peak of 273 in 1992.

Throughout Southern California history, the prime area of rapid population and job expansion has been the area
with vacant land. The San Fernando Valley in the 50's, the San Gabriel Valley in the 60's, and Orange County in the 70's, populated Southern California. Today, the Inland Empire is the area of rapid growth. Land and home prices are affordable, industrial rents are inexpensive, and blue-collar job sectors are growing. White-collar jobs will follow, as graduates of the area's numerous colleges and universities take advantage of growth opportunities of new business sectors migrating to the Inland Empire.

The growth and economic promise of the Inland Empire make it an inviting place to do business. In the next chapters, this project deals with the specifics of Washington Mutual's corporate culture, an analysis of their target customer, and an overview of their products to determine whether or not the business climate in the Inland Empire is a good match for their style of banking.
CHAPTER FIVE
WASHINGTON MUTUAL'S
CORPORATE CULTURE

Kerry Killinger joined Washington Mutual in 1983, and has shaped and changed the culture of the organization dramatically over the last ten years. At 48, he has been Chairman of the Board since 1991, Chief Executive Officer since 1990, and Senior Executive Vice President since 1986. Known as a dealmaker, Killinger is now focusing the organization on absorbing his latest California acquisition, but he never lets his eye roam far from opportunities that may come his way. Jim Bradshaw of Pacific Crest Securities in Portland says "Killinger appears to enjoy the spotlight but does not feed off it. He is a solid, sensible kid from Iowa. He is very focused, plays one card at a time and wants to win the game."

Washington Mutual, under Killinger's direction, has grown from a little known, regional savings bank to a huge consumer bank without missing a step. Though a growth-by-acquisition strategy was in place when Killinger joined Washington Mutual, he is still the architect of their phenomenal growth, drawing on his instincts, personality,
and skills to build one of the nation's most successful companies. He is known as a dealmaker, aggressive, analytical and ambitious. He is also known as a very nice, likable person, and that has been helpful to him in his business dealings and with staff morale, which is critical when merging institutions. Before he joined Murphey Favre, which Washington Mutual acquired in the early 80's, Killinger worked as an investment analyst at Banker's Life Insurance in Nebraska. This is where he learned how seriously the investment community relies upon the word of a chief executive. He understands well what Wall Street is all about (Morris, 1997).

Though Killinger is known as a dealmaker, he has also been extremely successful at putting together a management team who can make the deals work. They evaluate acquisitions, they are fast and efficient with the merger process, and they turn their marketing crews loose so they can quickly generate revenues. His senior people are well trained and very loyal. Most of the management team at Washington Mutual has been there since the early to mid 1980's, about the time Killinger came on board. Only four members of the twelve person executive team joined the
organization in the 1990's. One of those four rejoined the company after a stint with the FDIC (Washington Mutual Annual Report, 1999).

Washington Mutual's Board of Directors appears to allow Killinger, its Chairman, to run the company. The Board, a sixteen-member team, has diverse experience and long-term tenure. The most recent additions to the Board have been CEOs and Chairmen of recently merged institutions. Washington Mutual's Board Members receive $41,800 in fees and annual retainers, excluding stock options, payment for committee work and other perks. The Washington Mutual Board of Directors' pay ranked fourth among top Northwest companies, preceded by Weyerhaeuser, Paccar, and Boeing (Seattle Times, 1999).

As a consumer lending institution, Washington Mutual gets high marks for its emphasis on personal service. For example, unlike most commercial banks, Washington Mutual staffs its grocery-store branches with tellers; customer service desks are positioned near the front door of the traditional branches so customers can be greeted shortly after they enter. To check up on its employees, the
The company's corporate culture appears to be warm and friendly despite their rapid expansion. They have shed their stodgy banker image and at corporate headquarters; employees have a business casual dress code Monday through Thursday and dress casually on Friday.

The institution is well known for its commitment to the Pacific Northwest and its communities, their employees, and their customers. They have high visibility in the Northwest and are major corporate sponsors for many community events.

The bank demonstrates corporate responsibility in many ways beyond mandated Community Redevelopment Act rules. They have a commitment to enhance the social and economic well being of the communities in which they operate. In 1998, the corporation announced a ten-year $120 billion community reinvestment commitment. The majority of the funds will go towards affordable housing, with approximately $25 billion earmarked for small business lending.
Washington Mutual cares about people in need and helps them through challenging times. In emergency situations the company responds with relief initiatives easing victims' distress. For example, due to the strong 1996 year-end storm season, Washington Mutual customers who suffered damage to their property received no-fee equity loans at reduced rates. The company also aids communities by allowing its employees four hours of paid volunteerism time each month.

The Washington Mutual Committed Active Neighbors Program (CAN!) donates both funds and volunteers to the local schools. Each time a checking account is opened at a local branch office, the bank donates one dollar for local schools in that community. In addition to this monetary support, employees participate in the One-to-One Tutor Program, which recruits and refers volunteers to schools and non-profit tutoring organizations. Washington Mutual also supports a School Savings program that teaches students about developing basic financial skills.

The term "A friend of the family®" has been their motto in the Northwest for many years. That motto has not been used in conjunction with their advertising in the
Southern California area, perhaps because they realize that they can’t be "a friend of the family" until they are at least better acquainted with their new market areas. They have also used other folksy ad campaigns that are well known to Northwesterners. These ads reflect their "hometown/homegrown" culture, and will not be used in the near future in the California market because the bank is still considered an out-of-state institution. Locally, their advertising has been folksy, but geared toward teller friendliness and specific products. Recently they have used "join the club" in their television commercials. This phrase communicates a feeling of belonging or specialness in being a bank customer, a competitive advantage that credit unions have long realized.

Washington Mutual has a reputation for treating its customers and employees well. They have a healthy relationship with new employees from merged institutions. In a telephone interview with Cathy Llamas, the Assistant Branch Manager of the former American Savings branch located on Highland Avenue in San Bernardino, it was disclosed that the transition from American to Washington Mutual was relatively easy for her branch. She was an
employee of American Savings for twenty years and was apprehensive about the merger, worried about customers and other employees. She felt that the new bank treated employees well and worked hard to preserve many of the benefits that the employees had earned during their tenure with American Savings, even though some of those benefits differed from what Washington Mutual offers new employees. She also acknowledged that other American Savings employees did not feel this way as there had been some branch closures and layoffs at other locations.

The organization appears to have a strong sales and retailing culture. Their sales culture is more clearly designed and visible than at most banks. Their image is consistent across channels. Their internet web page, brochures, signage, ATM's and branches all portray a clean uncluttered and colorful image. They follow-up phone calls with letters and deliver information promised. This was evidenced by my requests for information in gathering data for this project. They call their non-teller branch employees sales reps, not customer service reps, as most institutions do. They do this because they believe that sales and service go hand-in-hand, but without sales they
would have no customers to service. Branch managers hold sales meetings every morning before the branch opens, and their regional manager meets with them on a monthly basis to discuss sales and progress toward branch goals. The sales staff is paid commission for cross sales and referrals.

During 1997, Washington Mutual designed a program called "WAMU Shares," a one-time stock option grant designed to compensate full and part time employees and to reinforce a "think-like-the-shareholder" attitude in their day to day decision making. This opportunity goes a long way to make employees of newly acquired institutions, as well as long-time employees, take ownership and embrace the culture of the organization.

Also during 1997, a decision was made to retain the name Washington Mutual for all consumer banking and mortgage lending operations. They believe that a common name in all markets should raise brand awareness and increase sales, and lead to progress toward a common corporate culture.

According to common knowledge in the banking industry, Washington Mutual's management team is known for its
ability to quickly integrate their culture into organizations that merged with them. These strategic decisions have been the catalyst to achieve quick integration and a positive image despite some branch closures and layoffs.

The organization appears to have a robust and positive corporate culture. They follow their leader and are proud of the service they provide their customers, the growth and expansion of the company, and the value that growth has brought to the shareholders of the company.

Having analyzed Washington Mutual's corporate culture, the next chapter deals specifically with their customers and their target market.
CHAPTER SIX
THE CUSTOMERS

Washington Mutual's customer base can be segmented into three broad categories of consumers. These are:

- The fee conscious individuals, in the 18-34 age range, with annual incomes under $25,000.
- The middle-market consumer, in the 35-55 age range, with annual incomes between $25,000 and $50,000.
- The upscale individual, in the over age 55 range, with annual income of over $50,000.

Washington Mutual's consumer base consists of all three groups. However, their aggressive marketing and mass appeal goes primarily to low-to middle-income families who are likely to need basic banking services and mortgage loans. The bank relies heavily upon their free checking account to capture this market. Free checking accounts are only free if bounced checks and overdrafts do not occur. Washington Mutual has a liberal Non-Sufficient-Funds policy, allowing customers to bounce checks. The net result is a product consumers want, and enormous fee income for the bank. In addition, this strategy provides an
excellent customer base to which mortgages and other retail products can be marketed.

As one of the nation's largest home loan originators, Washington Mutual also has a large portion of their customer base in the middle income group. These customers typically have more disposable income and, depending upon where they have their checking account, may or may not consider Washington Mutual to be their primary financial institution. This group of customers typically uses the bank's branch offices less frequently but they are certainly a target group for deposit and some investment products. The role of the branch sales rep, mentioned in the prior chapter, certainly is to get more of this customer's banking business.

Washington Mutual's early acquisition of the investment brokerage firm Murphey Favre, gave them a reputation as a good place for upscale consumers to do business. Washington Mutual was one of the first banks to use personal bankers for their upscale and wealthy senior business. This segment is attractive to the bank for both its fee producing possibility and investment and insurance services.
Aside from consumer and investment business, Washington Mutual also focuses on the financial and banking needs of the business community. They target small to medium size businesses and have added a full array of business products to appeal to this market segment. The bank has focused heavily on this segment over the past few years and designed new products to assist start-up companies in hopes of attracting not only the business, but their employees to the bank as well.

In summary, Washington Mutual's customers can be easily segmented so that their marketing efforts can be specifically targeted. They have identified who their customers are, and their array of products, as described in the next chapter, have been designed to clearly appeal to those defined segments.
Washington Mutual's core product offering is their Free Checking account. With no monthly service fees, no minimum balances, no fees for ATM and point of sale (POS), teller access, or telephone access, their product is well positioned against similar products offered by their major competitors. The chart on page 59 illustrates how their product compares to products offered by Bank of America, Wells Fargo and California Federal. Their Free Checking product attracts new customers who are looking for low-cost banking services. This product is clearly the most competitive product on the market and Washington Mutual has maintained their focus on attracting new customers to the bank with this product.

Washington Mutual also offers a variety of other checking products to meet the needs of individuals who don't mind maintaining higher balances provided they receive interest or other benefits such as free checks or upgraded check card access. For a low $4.00 monthly fee they offer all of the benefits of their Free Checking product, plus other conveniences such as free checks, free
travelers checks, bank checks or money orders, liability protection on credit, debit, or ATM cards, and free accidental death insurance coverage. All of the checking products offered by Washington Mutual are low-cost, high-value products with broad appeal.

Washington Mutual also offers a variety of savings products to target the middle income segment of their market. The chart on page 60 shows an overview of these products. There appears to be nothing unique about most of these products that would draw new customers to the bank. They all have features that are common to features offered by other financial institutions, and generally they all pay interest comparable to rates paid elsewhere.

From time to time Washington Mutual does offer higher-than-market rates on their Money Market and Certificate accounts to attract new depositors. When they do this, they utilize full-page newspaper ads to mass-market. These rates attract middle income and upscale depositors who want the benefits of a high-rate product and the security of FDIC insurance on their deposits.

Washington Mutual's consumer lending products are typical of those offered by their major competitors. They
offer a full array of personal loans, personal credit lines, credit cards, student loans, vehicle, boat and recreational vehicle loans. There are no unique features to these products that would attract new customers to the bank.

Where Washington Mutual truly stands out is with their consumer real estate products. They offer Manufactured Housing loans up to $250,000, which many lenders do not offer. And, they offer these loans at fixed interest rates, which is not typical of other lenders who make these kinds of loans. There other excellent real estate product is their home equity loan called On the House™. This product features a low introductory interest rate and customers can access their credit line with a Platinum Visa® card. This adds up to real convenience for their customers and attracts new middle income and upscale customers to the bank.

First mortgage loan products include permanent home financing as well as loans for the construction of single-family residences. Permanent loans made available to consumers include conventional fixed-rate and adjustable-mortgages, FHA-insured, and VA-guaranteed fixed-rate
mortgage loans. All loans are offered with a variety of maturities and amortization schedules. The bank generally securitizes a majority of their fixed rate loans and sells the securities to third-party investors. They generally retain their adjustable-rate mortgage loans in their loan portfolio. These are common practices in the mortgage banking industry.

The Mortgage Banking Group serves over 1.2 million households in meeting their needs throughout the United States and is the nation's fifth largest loan originator of mortgage loans. The Mortgage Banking Group offers a broad array of single family residential mortgage products in 29 states and the District of Columbia through multiple distribution channels, including the internet (Washington Mutual Annual Report, 1999).

During 1999, the bank entered into a strategic alliance with Fannie Mae, under which most of the sales and securitizations of their fixed-rate conforming mortgage loans would be to Fannie Mae. The bank uses their own underwriting system to originate the loans and works with Fannie Mae to share the credit risk management and to

Their home loan penetration can be attributed to the fact that they are not afraid to take risks and they have adapted to the market place. In the Northwest, Washington Mutual has penetrated the home loan market with loans for manufactured homes and flexible land programs.

Washington Mutual showed foresight by merging with Spokane-based brokerage Murphey Favre in the early 1980's, with the vision that consumers would gravitate toward the mutual fund and investment markets. The Financial Services Group of Washington Mutual (WMFS) offers a wide range of investment products including mutual funds, variable and fixed annuities, and general securities. These products appeal to the upscale market segment and attract new investors to the bank.

WMFS has licensed representatives in Washington Mutual branch offices who deal with customers who want these non-insured investment products. The representatives have a variety educational material available to clients and offer financial planning to assist clients in making important investment decisions. The WMFS website offers both on-line
trading and stock research tools to appeal to customers who are simply looking for information about a stock, or wish to trade electronically.

WM Fund Advisors, Inc. is a registered investment advisor and distributor for the WM Group of Funds, the Strategic Asset Management (SAM) Portfolio, and the Strategic Asset Management Variable Annuity. The WM Group of Funds is a family of mutual funds managed by WM Fund Advisors, Inc. These funds have been under management since 1939, and offer equity funds, fixed income funds, tax exempt, and money market funds. Analysis of the performance of these funds is accessible on their website, and purchases may be made through the website with a $5000 minimum investment.

The Strategic Asset Management Portfolios include a Strategic Growth Portfolio, Conservative Growth Portfolio, Conservative Balanced Portfolio and Flexible Income Portfolio. These funds require a $5,000 minimum investment and can be purchased through the WMFS representative in Washington Mutual Branch offices, or they can be purchased on line through the WM Group of Funds, Inc. website.
Insurance products are sold through Washington Mutual Insurance Services, Inc. (WAMUINS). The insurance agency supports the mortgage lending process by offering everything from fire, homeowners, flood, and earthquake insurance to pet insurance and home warranty insurance. The insurance products are extremely competitive and attract the middle market and upscale segments of Washington Mutual's customers.

Washington Mutual does not have a huge presence in the commercial banking arena, but this area has been identified by top management as a key strategic initiative for the next several years. (Washington Mutual Annual Report, 1999). The commercial banking group consists of two primary business lines: commercial banking, operating under the brand names of WM Business Bank and Western Bank; and commercial real estate lending, operating under the Washington Mutual brand.

Information about Washington Mutual's deposit, lending, investment, retirement and insurance products is conveniently available on their website. Except as noted, I used the website exclusively in my research of their product offerings and information.
In conclusion, Washington Mutual's standard consumer products are simple and straightforward. Their Free Checking is the core product that attracts customers to the bank, and with appropriate sales efforts, additional products are offered. Their high rate deposit products and flexible and creative mortgage products set them apart from their competition. Their investment and insurance products are competitive and convenient. They have an excellent product mix and a high quality marketing approach.

The next chapter will take a look at Washington Mutual's financial performance to see whether or not their products are priced appropriately to be profitable for the bank.
CHAPTER EIGHT

FINANCIAL ANALYSIS

Earnings for Washington Mutual for the year 1999, were a record $1.8 billion, for a net income growth of 22.2% over the prior year. Diluted earnings per share were $3.16 in 1999, $2.56 in 1998, and $1.52 in 1997. Assets increased 15.3% to $186.5 billion from $165.4 the prior year. Net interest income for 1999 increased only slightly over the prior year. This was due to a 13% rise in average interest-earning assets. The net interest spread, however, declined to 2.48% in 1999, from 2.70% in 1998. (Washington Mutual Annual Report, 1999).

Interest-sensitive assets have adjustable rates that change with movements in short to mid-term market interest rates. This is also true of the majority of the liabilities contributing to the bank's cost of funds. Market interest rates declined slightly during 1997, declined further during 1998, and then remained low within a narrow range during the first half of 1999. In the last two quarters of 1999, market interest rates significantly increased concurrently with increases in short-term rates by Federal Reserve.
My analysis indicates that company's yield on loans declined 33 basis points to 7.40% for 1999, from 7.73% for 1998. During 1998, market interest rates declined, which reduced the yield on new loan originations as well as on the adjustable rate mortgage portfolio, and encouraged the prepayment of loans with higher rates. The impact of the rise in interest rates in 1999 on the existing portfolio was not immediately reflected in the yield on the loan portfolio due to a lag before rates begin to adjust upward. In 1999, 87% of total real estate loans were adjustable rate loans. (Washington Mutual Annual Report, 1999).

Five year financial data for the company is shown in Appendix B of this project and reflects that Washington Mutual shows consistent gains over the past five years in income, with the expense ratio increasing during 1999 as a result of the expenses related to integrating acquisitions in California. Net income more than doubled during the five-year period.

The company's return on equity, the rate of return realized by the stockholders on their investment, has increased from a low of 4.70% in 1996, to 19.66% for 1999.
as a result of the mergers and acquisitions during this period.

Sales, earnings per share, and dividend growth rates for Washington Mutual are shown in Table 1 below.

<table>
<thead>
<tr>
<th>Table 1. Washington Mutual Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Sales %</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>Sales %</td>
</tr>
<tr>
<td>EPS %</td>
</tr>
<tr>
<td>Dividend</td>
</tr>
</tbody>
</table>

The following table (Table 2) shows competitor and industry key ratios.

<table>
<thead>
<tr>
<th>Table 2. Industry Comparison - 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medians</td>
</tr>
<tr>
<td>Profit Margin</td>
</tr>
<tr>
<td>Washington Mutual</td>
</tr>
<tr>
<td>Bank of America</td>
</tr>
<tr>
<td>Wells Fargo Bank</td>
</tr>
<tr>
<td>Financial Services Industry</td>
</tr>
</tbody>
</table>

Table 3, below, shows Washington Mutual's performance over the past five years as compared to the banking industry, the financial sector, and the S&P 500.

<table>
<thead>
<tr>
<th></th>
<th>Washington Mutual</th>
<th>Industry</th>
<th>Sector</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>39.35</td>
<td>23.29</td>
<td>17.25</td>
<td>19.64</td>
</tr>
<tr>
<td>EPS</td>
<td>19.03</td>
<td>18.01</td>
<td>18.50</td>
<td>20.60</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>35.11</td>
<td>39.77</td>
<td>27.59</td>
<td>16.96</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>10.03</td>
<td>14.37</td>
<td>15.13</td>
<td>10.17</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>1.05</td>
<td>0.99</td>
<td>2.45</td>
<td>8.90</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>17.27</td>
<td>14.58</td>
<td>18.28</td>
<td>21.95</td>
</tr>
</tbody>
</table>

The figures are shown as five-year averages. Washington Mutual's financial performance has been good over the past five years, particularly in delivering value to the shareholders. But they have lost over four billion dollars in deposits from 1998 to 1999, and lost over seven billion dollars in deposits since 1995. Some of this dollar loss is attributable to funds flowing from traditional banks to the stock market, and some of it flowed to other institutions as a result of the mergers.
Washington Mutual, despite the loss of deposits, has been financially very successful, primarily because they have offset that loss of deposits with gains in other areas. They have increased dramatically in assets and net income as a result of their mergers.

Whether or not they can retain deposits in the future is a big question for Washington Mutual. The next chapter of this project will analyze why customers move their accounts when mergers occur; and will look specifically at some of the issues Washington Mutual's customers identified as being reasons they fled.
CHAPTER NINE

WHY CUSTOMERS FLEE WHEN MERGERS OCCUR

This chapter looks at why some customer choose to bank elsewhere when their bank is taken over by another bank. Even with the best-orchestrated bank mergers, all customers of the merged bank must deal with some level of merger-related inconvenience.

The deeper the relationship the customer has with the bank, the greater the inconvenience. For example, a customer who has just a simple checking account with a bank will only suffer the inconvenience of receiving new checks with a new account number and different rules and fees for the account. The new checks are always free, so the major inconvenience is the fee structure of the account.

If that same customer visits the branch once or twice a week, has a credit card, overdraft account, and a certificate of deposit, things are quite different. When this customer goes to the bank there may be not be any parking available due to a closure of a nearby branch. At some locations, full-time parking lot attendants are necessary because of the congestion. The lines inside the
bank could be longer because the new bank may be trying to keep costs down and has fewer tellers available. There could be new employees working in the branch and the tellers he has known for many years are no longer there. In addition to receiving new checks, he must also receive new credit cards and new ATM cards as well. The terms and conditions of his account are different too. The certificate of deposit will pay the old bank's rate of interest until maturity, but the customer is up to the mercy of the new bank when the certificate matures. The new bank may not be as aggressive about gathering deposits and may price their certificate rates lower than the old bank did. There might also be differences in rules about early withdrawal penalties and grace periods. If this customer used an automated telephone service provided by the old bank, that will be different too. And, if he prefers to deal with a person over the telephone, he probably won't be able to talk to anyone at his local branch. He'll reach the new bank's call center, where he may have to hold for the next available employee.

Changing banks is a hassle, particularly when direct deposits and other pre-determined electronic transactions...
affect a customer's account. But if a customer perceives that it is more of a hassle to continue to bank there than to make the change, he'll change.

Washington Mutual did lose a number of customers when mergers occurred for many of the reasons outlined above.

Great Western and Home Savings were considered to be "hometown" banks to many of their customers and Washington Mutual was from out of state. The sense of loyalty and trust is no longer there.

Very often people just don't like change. They get used to what their statements look like, appreciate dealing with familiar people, and like to make their own choices. When banks merge, they are in unfamiliar territory all the way around, and they perceive that their choices have been taken away from them.

In addition to losing customers for service reasons, Washington Mutual also lost customers because of FDIC Insurance on their deposits. If a customer had $100,000 Deposited at Great Western, and another $100,000 deposited at Home Savings before the merger, those accounts were each insured up to $100,000. After the merger, they were only
covered up to the $100,000 because they were held at the same institution.

Despite some service glitches resulting in lost customers, Washington Mutual has done a lot of things right. The next chapter covers the factors that make them so successful.
CHAPTER TEN
WHAT MAKES WASHINGTON MUTUAL SUCCESSFUL?

Factors that make Washington Mutual Successful

Distinctive Competencies

Washington Mutual's most striking distinctive competencies are its leadership, its ability to merge huge companies into its culture, and its success at gaining market share very quickly.

The company has strongly identified its markets and gone after the checking account business as their lead product. Their effort is in promoting their brand and using the checking account to build the primary relationship with the customer. Once they have the customer with the free checking account, they offer competitive mortgage products, some competitive investments, and a competitive brokerage in WM Financial Services, to capture the homeowner and senior markets. They cater to the consumer market very well with their customer-oriented philosophy.
Washington Mutual believes that their niche is to concentrate on the consumer market while its competitors split their attention between serving both consumers and big business.

Their marketing approach is clean and consistent. They use bold primary colors and an easily identifiable logo. Their recent "Let Us Make a Fan Out of You" advertising campaign seeded the Washington Mutual name into their newest markets. The campaign's quirky approach to explaining how customers feel about Washington Mutual struck a chord with people.

They have built a strong trust factor with their customers. They utilize their marketing dollars to promote that image of trust, friendliness, and a sense of belonging.

Their ability to streamline mortgage loan processing and fund a high percentage of applications is going to serve them well in their new markets. Their mortgage banking division is among the best in the country in running an efficient and profitable division. They have formed strategic partnerships to maximize profit and reduce risk. On the other hand, they are willing to take risk with some of their non-conventional real estate products.
that are shunned by other lenders. For example, fixed rate loans on manufactured housing units are uncommon elsewhere.

Recent mergers have catapulted the company from coast to coast, and this helps build brand awareness. The recent Bank of America and Wells Fargo mergers have helped Washington Mutual's image as a friendly, customer-oriented institution. They are seen as providers of low cost, high touch financial products, rather than as cold, unfriendly banking giants that have alienated many people. They are ready and able to compete on the national scene.

**Key Success Factors**

Washington Mutual has been willing to take risk to establish a market presence in the Southern California Market. Their free checking account and liberal NSF policy have enabled them to bring customers to their door, and their array of products has enabled them to capture the profitable middle market and the upscale segments. They have the ability to build relationships and trust with their customers over time.

They are willing to be a niche lender with their off-mainstream mortgage financing packages. They have a clearly identified marketing strategy and have not deviated
from it. Strong brand identity has been built and a consistent strategy permeates the organization.

Their branch network offers a strong sales and service approach to banking and has enhanced their ability to build their deposits base on a per-branch basis that is double that of standard commercial banks.

The leadership of Washington Mutual has provided the vision necessary to see that buying a brokerage firm in the early 1980's would be advantageous and would help with the disintermediation problem faced by many banks. The leadership also realized that growth would come quickly by merger and acquisition, and, in order to do it successfully, the company needed to be positioned to handle the growth and quickly meld the merged institution with their own culture.

They have proven their ability to analyze the market and modify as necessary to meet the needs of the market. They have dramatically changed their image from one of a traditional institution to a customer-oriented culture, well recognized in the Northwest for providing quality service and low cost products. They recognize what they do best and try not to be everything to everybody. Their
success has come with popular, low-cost products and customer loyalty.

Now that the strengths of this institution have been identified, we will see in the next chapter what unique challenges Washington Mutual faces in today's competitive banking environment.
CHAPTER ELEVEN

WHAT FUTURE CHALLENGES EXIST FOR WASHINGTON MUTUAL?

The momentum that Washington Mutual has built with the many recent mergers and acquisitions has created enormous opportunity for them. The stock market has provided capital to continue expansion. Done properly, with continued focus on the needs of the customer, their expansion from a regional institution to a coast-to-coast institution can help them compete successfully with other banking giants.

Numerous threats are inherent in such rapid expansion. They are dealing with different markets than just the Pacific Northwest, where they are a household name and where their slightly more folksy approach has appeal. Their "Friends of the Family®" and "Rodeo Grandma" ad campaigns won't work in the competitive, fast paced Southern California market. The "Rodeo Grandma" ad campaign was wildly successful in the Northwest, partly for its humor, and partly for its local flavor, featuring four women from Ellensburg dressed in chaps and cowboy hats who patrolled the Northwest making communities safe for hassle-
free banking. While the Northwest market is sophisticated, the California market is much more cosmopolitan and aloof. In the Southern California market there is less brand loyalty and more orientation toward convenience and cost factors.

There was apprehension prior to the merger that there would be a culture clash with mixing Washington Mutual, Great Western, American Savings, and H. F. Ahmanson. The employee base needed to be carefully managed because a lot of turnover leads to customer disenfranchisement. Great Western and American Savings were already losing market share, and Californians had no loyalty to the name Washington Mutual. This is a name that had no meaning to Californians. Most had never heard of the institution prior to the mergers.

The company has faced negative publicity as branches were closed and consolidated during the mergers. The bank closed 161 branches in California to combine outlets too close to one another. The closures and other consolidations cost nearly 3,500 bank employees their jobs and displaced thousands of customers, although many are being moved to branches only a few blocks away. Preceded
by the Bank of America merger, public sentiment about bank consolidations has not been enthusiastic.

It is common knowledge that convenience is still the primary reason for choosing a bank. If the most convenient bank closes its branch, customers have many other choices and Bank of America and Wells Fargo certainly offer convenience.

Washington Mutual faced public scrutiny as they removed the signature mosaics and stained glass from the Home Savings branches. These murals and sculptures depicted scenes from Southern California life, such as farmers toiling in the fields and Spanish missionaries encountering Indians. Some branches, abandoned because of lack of amenities such as safe-deposit facilities or limited teller windows, were beautiful marble edifices with gilt edges reminiscent of another banking era. Customer amenities, such as visibility and parking, determined which branches would stay, and which would go.

Many of the buildings and mosaics were designed by Millard Sheets, an architect, muralist and teacher who is considered the father of the California Watercolor School. H.F. Ahmanson commissioned Sheets and his Scripps College
colleagues in the 1960's to create buildings and artwork, which, in some critics' eyes, became anachronistic as soon as they were built. While other banks at the time aimed for a sleek, modernistic look, Sheets designed monuments to grandeur and stability. (Pulliam and Apodaca 1998)

Some post-merger customers of Washington Mutuál do not necessarily believe that bigger is better. Branch consolidations resulted in more customers in the branch lobby, with insufficient bank employees to take care of them. The new Washington Mutual branches are handling much more business than their predecessors because of the consolidations. Deposits have increased to an average of $115 million per branch, compared with $30 million per branch at other financial institutions. The company did not fully appreciate the logistical challenges of operating large branches. After all, this was the first time in Washington Mutual's history of mergers that existing locations were closed or consolidated. They underestimated their staffing needs.

Some Washington Mutual customers have been so angry about the changes in service that they have launched websites to air their gripes.
The bank maintains that now that the branch conversions have been completed, they can focus on improving efficiency and service to customers.

Financially Washington Mutual has performed well, but by virtue of being in the money business, they are vulnerable to systematic business risks. The economic and competitive environments are important since they profoundly affect expected risk and returns on various financial and real assets.

The regulatory and legislative environments do not appear to be a threat to the banking industry, but the potential risk must continue to be assessed.

Changes in technology are occurring rapidly and Washington Mutual has not kept up with the latest innovations. They were late to introduce ATMs, and they only recently introduced on-line banking. Customers want branch convenience as well as access to their money via electronic channels.

Certainly the fact that Washington Mutual has actually lost deposits during its post-merger period is a concern. They must continue to improve service delivery to win the loyalty of California customers. As described previously,
Californians have many choices. Though it is not easy for a customer to move their account, they will move if there is a perception of inconvenience or poor service.

Bank mergers have occurred on a large scale over the past few years. There is every reason to believe that they will continue and the complexion of Washington Mutual's competitors could change. Southern California has not yet seen the emergence of some of the large East Coast banks onto its soil. First Union, a banking powerhouse in the South, invaded the Northeast by devouring Core States Bank. Minneapolis-based First Bank System bought U.S. Bancorp of Portland Oregon. National City Bank of Cleveland, Ohio, merged with First of America in Illinois and Michigan. Will these banks look to the California market for further expansion?

Despite the fact that Washington Mutual's mergers were not without some problems, the future for the company looks excellent. The mergers were completed keeping their financial soundness intact, and their stock price remained high, providing value to their shareholders.

Based upon their strategy for expansion, it is likely that they will continue to merge with other banking firms to penetrate new markets.
Despite the challenges of orchestrating huge mergers over the span of a decade, Washington Mutual has earned a reputation as being a formidable competitor.

In January of 1991, Washington Mutual's executive management introduced the company's current business strategy. The total return to the stockholders surpassed the total return of every savings institution in the nation and many of the commercial banks with which it competes on a daily basis.

Although operations have grown dramatically in recent years, the company remains committed to the four basic operating principles that have contributed to its success. These principles are to: 1.) profitably expand all business lines, 2.) maintain a high-quality balance sheet, 3.) constantly seek new ways to operate more efficiently, and 4.) limit sensitivity to movements in interest rates.

The company intends to deploy capital through the retention of adjustable-rate and higher-margin loan originations, and the purchase of additional adjustable-rate assets. They will continue to explore future
acquisitions that meet their strategy criteria, namely, to
grow to positive earnings within one year, to pose limited
risk from integration, to maintain balance sheet quality,
and to complement the existing franchise. Given the size
and scope of Washington Mutual's operations, it is
important that they keep a mindful eye on costs.

Washington Mutual has taken the approach that they
will use the free checking product to get customers in the
doors, then will earn fee income from the overdraft charges.
The income from fees is high, but it is imperative that
they cross-sell higher yielding products to these
customers. They must concentrate on improving the quality
of service that suffered after the two large mergers, and
the test will be if they can deliver the quality of
service touted in their television commercials.

While it is impossible to predict the future events
and market conditions that will influence the company's
performance from year to year, they remain committed to the
execution of a clearly defined business strategy that has
made them one of the most successful institutions.

Washington Mutual is in an excellent position to build
upon the tremendous accomplishments achieved over the past
few years.
In summary, this project focused on Washington Mutual as a major competitor to Arrowhead Credit Union. The paper covered the history of this banking giant, the banking industry in the Inland Empire, an analysis of Washington Mutual's customers and products, a financial analysis of the company, and the factors that lead to their success as a banking organization. It concludes with the identification of some of the challenges that this organization faces in today's competitive environment.

The benefit of this project to Arrowhead Credit Union is that it has brought an understanding of not only this new competitor, but of the Inland Empire financial market, and the effect that Washington Mutual had on that market. The in-depth analysis of the strengths of Washington Mutual and its products enabled us to compete with this company.

We designed a new free checking product and now use it as our core product in attracting new business to the credit union. We refocused our service strategy to ensure that we retain our competitive edge as face new entrants to our market. We also designed new marketing campaigns to target customers of Washington Mutual who may have been
frustrated by the merger and ready to move their accounts to a local financial institution.

We will continue to use the information gathered in this project to guide our strategy as we identify new markets and new ways to meet the needs of our customers. The benefit to the organization has been enormous and has changed the way we view our competition. The benefit to the reader of this project is in the insight that it provides about how this little-known company could gain such a strong foothold in an extremely competitive market.

Finally, the value of this project to the author has been that it has enabled me to have valuable input to the molding of our Credit Union strategy. As the branch administrator for the Credit Union, I have been able to share my knowledge of this formidable competitor with our branch managers to enable them to have more knowledge of their competition.

I was in awe of Washington Mutual when I was eight years old making a deposit to my college fund with my grandfather, and I am even more in awe of them today, now that I have an understanding of what makes this company so successful.
APPENDIX A

MERGER DATA
## WASHINGTON MUTUAL MERGER HISTORY

<table>
<thead>
<tr>
<th>Acquisition Name</th>
<th>Date Acquired</th>
<th>Loans (dollars in millions)</th>
<th>Deposits</th>
<th>Assets (dollars in millions)</th>
<th>Number of Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbia Federal Savings Bank and Shoreline Savings Bank</td>
<td>April 29, 1988</td>
<td>$551.0</td>
<td>$555.0</td>
<td>$752.6</td>
<td>26</td>
</tr>
<tr>
<td>Old Stone Bank (1)</td>
<td>June 1, 1990</td>
<td>229.5</td>
<td>229.6</td>
<td>294.0</td>
<td>7</td>
</tr>
<tr>
<td>Frontier Federal Savings Association (1)</td>
<td>June 30, 1990</td>
<td>-</td>
<td>95.6</td>
<td>-</td>
<td>6</td>
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<tr>
<td>Williamsburg Federal Savings Bank (3)</td>
<td>Sep. 14, 1990</td>
<td>-</td>
<td>4.3</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Vancouver Federal Savings Bank</td>
<td>July 1, 1991</td>
<td>200.1</td>
<td>253.4</td>
<td>260.7</td>
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<tr>
<td>Crossland Savings, FSB (1)</td>
<td>Nov. 8, 1991</td>
<td>-</td>
<td>165.4</td>
<td>-</td>
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<td>Sound Savings and Loan Association.</td>
<td>Jan 1, 1992</td>
<td>6.8</td>
<td>20.5</td>
<td>23.51</td>
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<tr>
<td>World Savings and Loan Association (2)</td>
<td>March 6, 1992</td>
<td>-</td>
<td>37.8</td>
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<tr>
<td>Great Northwest Bank</td>
<td>April 1, 1992</td>
<td>603.2</td>
<td>586.4</td>
<td>710.4</td>
<td>17</td>
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<tr>
<td>Pioneer Savings Bank</td>
<td>March 1, 1993</td>
<td>624.5</td>
<td>659.5</td>
<td>926.5</td>
<td>17</td>
</tr>
<tr>
<td>Pacific First Bank, A Federal Savings Bank</td>
<td>April 9, 1993</td>
<td>3,770.7</td>
<td>3,813.7</td>
<td>5,861.3</td>
<td>129</td>
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<tr>
<td>Far West Federal Savings Bank (1)</td>
<td>Apr. 15, 1994</td>
<td>-</td>
<td>42.2</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Summit Savings Bank</td>
<td>Nov. 14, 1994</td>
<td>127.5</td>
<td>169.3</td>
<td>188.1</td>
<td>4</td>
</tr>
<tr>
<td>Olympus Bank, a Federal Savings Bank</td>
<td>Apr. 28, 1995</td>
<td>237.8</td>
<td>278.6</td>
<td>391.4</td>
<td>11</td>
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<tr>
<td>Enterprise Bank</td>
<td>Aug. 31, 1996</td>
<td>92.8</td>
<td>138.5</td>
<td>153.8</td>
<td>1</td>
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<tr>
<td>Western Bank</td>
<td>Jan 31, 1996</td>
<td>500.8</td>
<td>696.4</td>
<td>776.3</td>
<td>42</td>
</tr>
<tr>
<td>Utah Federal Savings Bank</td>
<td>Nov. 30, 1996</td>
<td>88.9</td>
<td>106.7</td>
<td>122.1</td>
<td>5</td>
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<tr>
<td>American Savings Bank, F.A.</td>
<td>Dec. 20, 1996</td>
<td>14,562.9</td>
<td>12,815.4</td>
<td>21,893.9</td>
<td>224</td>
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<tr>
<td>United Western Financial Group</td>
<td>Jan 15, 1997</td>
<td>272.7</td>
<td>299.9</td>
<td>404.1</td>
<td>16</td>
</tr>
<tr>
<td>Great Western Financial Corp</td>
<td>July 1, 1997</td>
<td>32,448.3</td>
<td>27,785.1</td>
<td>43,769.3</td>
<td>1,138</td>
</tr>
<tr>
<td>N.F. Ahmanson &amp; Company (3)</td>
<td>Oct. 1, 1998</td>
<td>33,939.1</td>
<td>33,974.6</td>
<td>50,354.3</td>
<td>436</td>
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<tr>
<td>Industrial Bank</td>
<td>Dec. 31, 1998</td>
<td>11.1</td>
<td>26.1</td>
<td>27.2</td>
<td>1</td>
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<tr>
<td>Long Beach Financial Corp</td>
<td>Oct. 1, 1999</td>
<td>417.7</td>
<td>-</td>
<td>821.4</td>
<td>66</td>
</tr>
<tr>
<td>Alta Residential Management Trust.</td>
<td>Feb. 1, 2000</td>
<td>156.0</td>
<td>-</td>
<td>158.1</td>
<td>1</td>
</tr>
</tbody>
</table>

(1) This was an acquisition of selected assets and liabilities.

(2) The acquisition was of branches and deposits only. The only assets acquired were branch facilities or loans collateralized by acquired savings deposits.

(3) Includes loans, deposits and assets acquired by Ahmanson from Coast.
## Washington Mutual/Ahmanson Merger Effects

<table>
<thead>
<tr>
<th></th>
<th>Washington Mutual</th>
<th>Ahmanson</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$93,981.1</td>
<td>$52,511.2</td>
<td>$149,176.3</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>$50,986.0</td>
<td>$35,386.6</td>
<td>$86,372.6</td>
</tr>
<tr>
<td>Total Loans</td>
<td>$67,140.2</td>
<td>$36,405.8</td>
<td>$103,546.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>$481.8</td>
<td>$413.8</td>
<td>$895.6</td>
</tr>
<tr>
<td>Stockholders Equity/Assets</td>
<td>5.47%</td>
<td>5.95%</td>
<td>5.47%</td>
</tr>
<tr>
<td>Book Value Per Share</td>
<td>$20.80</td>
<td>$25.87</td>
<td>$20.91</td>
</tr>
<tr>
<td>Stock Price Per Share 3/16/98</td>
<td>$71.75</td>
<td>$65.50</td>
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<tr>
<td>Retail Branches</td>
<td>892</td>
<td>409</td>
<td>1,252</td>
</tr>
<tr>
<td>Loan Offices</td>
<td>187</td>
<td>120</td>
<td>307</td>
</tr>
<tr>
<td>Commercial Bank Offices</td>
<td>54</td>
<td>0</td>
<td>54</td>
</tr>
<tr>
<td>Consumer Finance Offices</td>
<td>502</td>
<td>0</td>
<td>502</td>
</tr>
<tr>
<td>Total ATM Locations</td>
<td>+1,000</td>
<td>541</td>
<td>+1,541</td>
</tr>
<tr>
<td>Total Banking Locations</td>
<td>2,635</td>
<td>1,070</td>
<td>3,705</td>
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<tr>
<td>Households Served (mm)</td>
<td>3.9</td>
<td>2.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Employees</td>
<td>22,000</td>
<td>9,380</td>
<td>31,380</td>
</tr>
<tr>
<td>Los Angeles Rank</td>
<td>Inland Empire Rank</td>
<td>Institution</td>
<td>Branches</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------</td>
<td>------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Home Savings of America</td>
<td>25</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>Great Western Bank</td>
<td>15</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>American Savings Bank</td>
<td>11</td>
</tr>
<tr>
<td>24</td>
<td>24</td>
<td>Coast Federal Bank</td>
<td>3</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>Washington Mutual</td>
<td>54</td>
</tr>
<tr>
<td>6</td>
<td>12</td>
<td>California Federal Bank</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>18</td>
<td>Glendale Federal Bank</td>
<td>6</td>
</tr>
<tr>
<td>19</td>
<td>15</td>
<td>Cenfed Bank</td>
<td>6</td>
</tr>
<tr>
<td>25</td>
<td>6</td>
<td>Redlands Federal Bank</td>
<td>14</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>Golden State Bancorp</td>
<td>34</td>
</tr>
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</table>
### CHANGE IN BANK DEPOSITS

**Inland Empire Bank Deposits 1992-1997 (000)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington Mutual</td>
<td>3,765,9</td>
<td>3,689,3</td>
<td>3,768,7</td>
<td><strong>4,184</strong>,</td>
<td>3,958,</td>
<td>3,819,6</td>
<td>53,785</td>
</tr>
<tr>
<td>Bank of America GoldenState</td>
<td><strong>5,174</strong>,4</td>
<td>4,240,4</td>
<td>4,099,2</td>
<td>83,852,</td>
<td>3,767,</td>
<td>3,816,6</td>
<td>(1,357,7)</td>
</tr>
<tr>
<td>Bancorp</td>
<td>1,821,0</td>
<td>1,781,1</td>
<td>1,709,1</td>
<td>11,1,853,</td>
<td>2,013,</td>
<td>1,792,0</td>
<td>150,953</td>
</tr>
<tr>
<td>Wells Fargo Bank</td>
<td>1,744,2</td>
<td>1,824,1</td>
<td>1,852,6</td>
<td>2,1,906,</td>
<td>1,797,</td>
<td>1,634,3</td>
<td>(109,861)</td>
</tr>
<tr>
<td>Large Bank</td>
<td><strong>12,505</strong>,</td>
<td>11,535,1</td>
<td>11,426,7</td>
<td>11,796,</td>
<td>11,537,</td>
<td>11,242,</td>
<td>(1,262,9)</td>
</tr>
<tr>
<td>Total</td>
<td><strong>596</strong>,</td>
<td>586,</td>
<td>55,</td>
<td>994,</td>
<td>611,</td>
<td>674,</td>
<td>22)</td>
</tr>
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</table>
MID-SIZED BANK DEPOSITS BY YEAR

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PFF Bank &amp; Trust</td>
<td>712,644</td>
<td>781,004</td>
<td>802,614</td>
<td>868,543</td>
<td>874,601</td>
<td>894,6</td>
</tr>
<tr>
<td>Hemet Federal</td>
<td>570,966</td>
<td>554,881</td>
<td>569,609</td>
<td>566,112</td>
<td>581,502</td>
<td>673,8</td>
</tr>
<tr>
<td>Downey Savings</td>
<td>393,020</td>
<td>389,078</td>
<td>406,087</td>
<td>486,932</td>
<td>524,691</td>
<td>619,9</td>
</tr>
<tr>
<td>Citizens Business</td>
<td>386,312</td>
<td>411,440</td>
<td>456,698</td>
<td>482,547</td>
<td>550,175</td>
<td>589,3</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union Bank</td>
<td>305,355</td>
<td>667,116</td>
<td>606,764</td>
<td>584,765</td>
<td>592,641</td>
<td>550,3</td>
</tr>
<tr>
<td>World Savings</td>
<td>472,481</td>
<td>485,066</td>
<td>497,931</td>
<td>567,677</td>
<td>585,578</td>
<td>603,4</td>
</tr>
<tr>
<td>Provident Savings</td>
<td>466,219</td>
<td>468,773</td>
<td>480,362</td>
<td>492,509</td>
<td>487,395</td>
<td>517,3</td>
</tr>
<tr>
<td>Total</td>
<td>3,306,997</td>
<td>3,757,358</td>
<td>3,820,065</td>
<td>4,049,085</td>
<td>4,196,583</td>
<td>4,449,4</td>
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</table>
## BANK DEPOSITS BY SIZE

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks (Over $1.5 bi.)</td>
<td>12,505,596</td>
<td>11,535,586</td>
<td>11,426,755</td>
<td>11,796,994</td>
<td>11,537,611</td>
<td>11,242,674</td>
<td>(1,262,922)</td>
</tr>
<tr>
<td>Banks (400 - $900 mi.)</td>
<td>3,306,997</td>
<td>3,757,358</td>
<td>3,820,065</td>
<td>4,049,085</td>
<td>4,196,583</td>
<td>4,449,410</td>
<td>1,142,413</td>
</tr>
<tr>
<td>Banks (Under $250 mi.)</td>
<td>3,230,888</td>
<td>2,914,389</td>
<td>2,755,578</td>
<td>2,729,928</td>
<td>2,886,161</td>
<td>3,158,888</td>
<td>(72,000)</td>
</tr>
<tr>
<td>LA Banks (now gone)</td>
<td>708,305</td>
<td>580,576</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(708,305)</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>940,060</td>
<td>984,042</td>
<td>1,042,439</td>
<td>1,080,443</td>
<td>1,126,087</td>
<td>1,180,962</td>
<td>240,902</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,691,846</td>
<td>19,771,951</td>
<td>19,385,467</td>
<td>19,656,450</td>
<td>19,746,442</td>
<td>20,031,534</td>
<td>(659,912)</td>
</tr>
</tbody>
</table>
## BANK MARKET SHARE


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Over $1.5 bi.)</td>
<td>4</td>
<td>60.4%</td>
<td>58.3%</td>
<td>58.9%</td>
<td>60.0%</td>
<td>58.4%</td>
<td>56.1%</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($400-$900 mi.)</td>
<td>7</td>
<td>16.0%</td>
<td>19.0%</td>
<td>19.7%</td>
<td>20.6%</td>
<td>21.3%</td>
<td>22.2%</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Under $250 mi.)</td>
<td>47</td>
<td>15.6%</td>
<td>14.7%</td>
<td>14.2%</td>
<td>13.9%</td>
<td>14.6%</td>
<td>15.8%</td>
</tr>
<tr>
<td>L.A. Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Now gone)</td>
<td>3</td>
<td>3.4%</td>
<td>2.9%</td>
<td>1.8%</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>37</td>
<td>4.5%</td>
<td>5.0%</td>
<td>5.4%</td>
<td>5.7%</td>
<td>5.7%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
APPENDIX B

PRODUCT COMPARISON
<table>
<thead>
<tr>
<th>Account Name</th>
<th>Washington Mutual</th>
<th>Bank of America</th>
<th>Wells Fargo</th>
<th>California Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum balance to waive fee</td>
<td>$0</td>
<td>$0</td>
<td>$1,000</td>
<td>$750</td>
</tr>
<tr>
<td>Monthly fee</td>
<td>$0</td>
<td>$5.50 without direct deposit</td>
<td>$8.00, waived with direct deposit</td>
<td>$8.00, waived with direct deposit</td>
</tr>
<tr>
<td>Fee for ATM or check card</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$.25 for purchases</td>
</tr>
<tr>
<td>Check safekeeping required</td>
<td>Not required</td>
<td>Not required</td>
<td>Not required</td>
<td>Cancelled checks returned for $2 fee</td>
</tr>
<tr>
<td>Fee to access teller in branch</td>
<td>$0</td>
<td>$2 per deposit or withdrawal in branch</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Fee to access telephone banking</td>
<td>$0</td>
<td>6 free calls per month, then $.50 for automated and $1.50 for assisted calls</td>
<td>$2 for each assisted call. Unlimited for automated calls</td>
<td>6 free calls per month, then $.50 for automated and $1.50 for assisted calls</td>
</tr>
<tr>
<td>Direct deposit required</td>
<td>Not required</td>
<td>Required to waive monthly fee</td>
<td>Required to waive monthly fee</td>
<td>Required to waive monthly fee</td>
</tr>
</tbody>
</table>

Source: Washington Mutual Website, 1999
## WASHINGTON MUTUAL SAVINGS ACCOUNT PRODUCTS

<table>
<thead>
<tr>
<th></th>
<th>Statement Savings</th>
<th>Money Market Account</th>
<th>Guaranteed Rate Money Market Account</th>
<th>Traditional CD</th>
<th>Liquid CD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum balance to open</td>
<td>$5</td>
<td>$1000</td>
<td>$5000</td>
<td>$1000</td>
<td>$5000</td>
</tr>
<tr>
<td>Monthly Fee</td>
<td>$3 per month if under $300 balance</td>
<td>$10 per month if under $2500 balance</td>
<td>$12 per month if under $5000 balance</td>
<td>no fee penalty for early withdrawal</td>
<td>no fee penalty for early withdrawal</td>
</tr>
<tr>
<td>Deposit Withdrawals Allowed</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>Deposits allowed</td>
<td>Deposits allowed</td>
</tr>
<tr>
<td>Automatic Deposits Required</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
</tbody>
</table>

Source: Washington Mutual Website, 1999
APPENDIX C

ECONOMIC DATA
Population Growth
(source: U.S. Census Bureau)
Per-Capita Income
(source: U.S. Department of Commerce)

- Riverside County
- San Bernardino County
Age Distribution
(source: U.S. Census Bureau)

- 25 to 44: 31%
- 45 to 64: 18%
- 5 to 17: 22%
- 18 to 24: 9%
- 4 and under: 9%
- 65 and older: 11%
Job Growth by Sector
(source: U.S. Census Bureau)

- Retail
- Government
- Finance & Real Estate
- Services
- Manufacturing
- Transportation
- Construction

Graph showing the percentage growth for each sector.
Unemployment
Annual Averages
(source: California Employment Development Department)
Consumer Price Index
Change in Annual Rate of Inflation
Purchasing Managers Index

1999 Inland Empire Report

(source: Institute of Applied Research and Policy)
Financial Sector Employment

Number of Inland Empire Jobs
(source: California Employment Development)
Financial Institution Branches

(source: Federal Deposit Insurance Corp.)
Financial Institution Deposits
(source: Federal Deposit Insurance Corp.)
APPENDIX D

WASHINGTON MUTUAL FINANCIAL DATA
WASHINGTON MUTUAL
INCOME STATEMENT
YEAR ENDED DECEMBER 31,

(Dollars in Thousands, Except Per Share Amounts)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$12,062,198</td>
<td>$11,221,468</td>
<td>$10,202,531</td>
<td>$9,892,290</td>
<td>$9,860,408</td>
</tr>
<tr>
<td>Interest expense</td>
<td>7,610,408</td>
<td>6,929,743</td>
<td>6,287,038</td>
<td>6,027,177</td>
<td>6,306,724</td>
</tr>
<tr>
<td>Net interest income</td>
<td>4,451,790</td>
<td>4,291,725</td>
<td>3,915,493</td>
<td>3,865,113</td>
<td>3,553,684</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>167,076</td>
<td>161,968</td>
<td>268,642</td>
<td>498,568</td>
<td>344,624</td>
</tr>
<tr>
<td>Noninterest income</td>
<td>1,508,997</td>
<td>1,507,200</td>
<td>980,535</td>
<td>819,361</td>
<td>1,224,370</td>
</tr>
<tr>
<td>Noninterest expense</td>
<td>2,909,551</td>
<td>3,267,500</td>
<td>3,111,117</td>
<td>3,595,271</td>
<td>2,761,174</td>
</tr>
<tr>
<td>Income before income taxes, cumulative effect of accounting changes, and minority interest</td>
<td>2,884,160</td>
<td>2,369,457</td>
<td>1,538,269</td>
<td>590,635</td>
<td>1,672,256</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1,067,096</td>
<td>882,525</td>
<td>653,151</td>
<td>201,707</td>
<td>654,593</td>
</tr>
<tr>
<td>Cumulative effect of change in tax accounting method</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>234,742</td>
</tr>
<tr>
<td>Minority interest in earnings of consolidated subsidiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15,793</td>
</tr>
<tr>
<td>Net income</td>
<td>1,817,064</td>
<td>1,486,932</td>
<td>885,118</td>
<td>375,358</td>
<td>767,128</td>
</tr>
<tr>
<td>Net income per common share:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>3.17</td>
<td>2.61</td>
<td>1.56</td>
<td>0.55</td>
<td>1.23</td>
</tr>
<tr>
<td>Diluted</td>
<td>3.16</td>
<td>2.56</td>
<td>1.52</td>
<td>0.54</td>
<td>1.21</td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------</td>
<td>-------------------</td>
<td>------------------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>$186,513,630</td>
<td>$165,493,281</td>
<td>$143,522,398</td>
<td>$137,328,541</td>
<td>$137,142,972</td>
</tr>
<tr>
<td><strong>Available-for-sale securities</strong></td>
<td>41,384,318</td>
<td>32,917,053</td>
<td>19,817,226</td>
<td>25,431,464</td>
<td>31,181,617</td>
</tr>
<tr>
<td><strong>Held-to-maturity securities</strong></td>
<td>19,401,465</td>
<td>14,129,482</td>
<td>17,207,854</td>
<td>9,605,367</td>
<td>10,967,204</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>113,497,225</td>
<td>108,370,906</td>
<td>97,624,348</td>
<td>92,943,126</td>
<td>85,335,568</td>
</tr>
<tr>
<td><strong>Deposits</strong></td>
<td>81,129,768</td>
<td>85,492,141</td>
<td>83,429,433</td>
<td>87,509,358</td>
<td>88,019,469</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td>94,326,616</td>
<td>65,200,489</td>
<td>49,976,377</td>
<td>40,014,735</td>
<td>38,261,697</td>
</tr>
<tr>
<td><strong>Stockholders' equity</strong></td>
<td>9,052,679</td>
<td>9,344,400</td>
<td>7,601,085</td>
<td>7,426,137</td>
<td>8,421,102</td>
</tr>
<tr>
<td><strong>Number of common shares outstanding at end of period</strong></td>
<td>559,589,273</td>
<td>501,400,525</td>
<td>550,689,721</td>
<td>554,811,012</td>
<td>583,622,187</td>
</tr>
</tbody>
</table>
REFERENCES


