Washington Mutual assets acquired by JPMorgan Chase

Biggest US bank failure ever

By Barry Grey
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Another US banking giant fell Thursday, with the government seizure of Washington Mutual and the purchase of its operations and assets by JPMorgan Chase.

The collapse of the Seattle-based firm, the sixth largest US bank and the largest savings and loan company in the country, was the biggest bank failure in American history.

With $307 billion in assets, $188 billion in deposits and more than 2,200 branches, Washington Mutual's failure by far eclipsed the previous record bank collapse, that of Continental Illinois in 1984. The latter had $40 billion in assets at the time of its demise.

Washington Mutual, founded in 1889, was the latest domino to fall in a series of bank failures that has eliminated such icons of American capitalism as Bear Stearns, Lehman Brothers and Merrill Lynch. In the space of less than three weeks, Lehman, Merrill and WaMu have disappeared and the government has taken control of the mortgage giants Fannie Mae and Freddie Mac and the huge insurance conglomerate American International Group.

Two months ago another large savings and loan bank, California-based IndyMac, was closed by federal regulators. That failure drained $8.9 billion from the $45.2 billion deposit insurance fund of the Federal Deposit Insurance Corporation, the federal agency that insures deposits up to $100,000 in regulated banks. Had the FDIC not been able to immediately sell off WaMu's business operations and deposits to another institution, the Seattle bank's failure would have consumed another $20 billion to $30 billion, nearly wiping out the FDIC's insurance reserves.

WaMu was one of the biggest moneymakers during the speculative housing boom, reaping huge returns from the sale of high-risk, high interest home loans to buyers with shaky credit. The bank specialized in such inherently unstable and predatory loans as interest-only and adjustable rate mortgages.

It has taken increasingly large losses since the collapse of the housing and credit bubbles in the summer of 2007, writing off billions in defaulted mortgages and toxic securities backed by home loans. It reported its largest quarterly loss ever, $3.3 billion, in the second quarter of this year, and had announced it expected to lose $19 billion on its mortgage portfolio over the next two-and-a-half years.

The *Wall Street Journal* on Friday called the demise of WaMu "a new low point in the country's financial crisis"—a systemic breakdown with no precedent since the Great Depression of the 1930s. There is every likelihood that more big bank failures are in the offing.

Share prices of two major banks that have suffered large losses plunged further on Friday. Wachovia stock declined 30 percent and National City stock fell 26 percent, its shares hitting an all-time low of $2. Wachovia, the fourth largest US bank based on assets, indicated that it was putting itself up for sale and holding talks with potential buyers.

The seize-up of credit markets that brought the US and world financial system to the brink of collapse last week has not lifted. On Friday, the cost of loans between banks continued to rise, reflecting a general erosion of confidence in the solvency of banks and other financial institutions.

"Things have frozen over again," said Steve Van Order, chief fixed income strategist with Calvert Funds. "Banks are nervous about lending to each other, and the commercial paper market has come to a standstill."

New data released by the government this week showed a further decline in home sales and prices and a sharp rise in new filings for unemployment insurance.

On September 7, the WaMu board fired CEO Kerry Killinger and hired Brooklyn banker Alan Fishman. After Lehman Brothers filed for bankruptcy protection on September 15, nervous WaMu customers began withdrawing their deposits in droves. Over the next ten days, they withdrew $16.7 billion in deposits, about 9 percent of the bank's deposits as of June 30.

WaMu put itself up for sale and launched a desperate search for a buyer, but its stock continued to plummet and no bank or private equity firm made a bid. Late Thursday, the federal Office of Thrift Supervision declared the bank unsound, seized it and contracted the FDIC to sell off the bank's operations and assets to JPMorgan Chase.

JPMorgan, which bought Bear Stearns last March at a fire-sale price after the Federal Reserve Board agreed to guarantee $29 billion in Bear Stearns debt, took over WaMu's deposits, branches and assets at a nominal price of $1.9 billion. The sale makes JPMorgan, itself burdened with billions of dollars in toxic mortgage-backed securities and other bad debts, the largest US depository institution, with over $900 billion in customer deposits.

Washington Mutual shareholders and some bondholders will be wiped out by the transaction.

WaMu laid off 4,200 employees earlier in the year, and its failure and takeover by JPMorgan will likely result in more job cuts. As of June 30, the bank employed 43,000 people.

Already this year close to 150,000 employees at US banks have lost their jobs as a result of the collapse of the speculative housing and credit bubbles.

Ousted WaMu CEO Killinger received $14.4 million in compensation in 2007. His successor, Fishman, stands to receive a severance package of $18 million for three weeks on the job.