

Organization Nominated: Washington Mutual

The Issue: Financial Services for Those Who Serve

1. Why is the Issue important to the organization?

As one of the nation's leading lenders, it is critical that the public believes we are not only successful, but also helpful and compassionate with those who've fallen on difficult times. We view a foreclosure as a failure, and work diligently to avoid it. In fact, we've been recognized as the nation's top "work out" group that turns around potential foreclosures. Nevertheless, in this instance, we were in the unpleasant situation of foreclosing on a notable customer.

Given the customer's background as a highly decorated military veteran, it was very important to us to not be perceived as discriminating against anyone with a military background – especially one as distinguished as our customer's. We have a number of employees who currently serve in the Guard and Reserve, in addition to many U.S. veterans among our employee base. Of course, thousands of our customers have either served, or are actively serving, in the U.S. armed forces.

2. At what levels do members of the organization participate in addressing the Issue?

This issue was addressed by all levels of the organization, from our senior managers in the business units to bank branch tellers, to our Call Centers, and the company's Executive Committee. At one point we even provided a briefing to a subcommittee of our Board of Directors.

In this instance, it was important that all of our regional leadership was involved in decision making and providing local perspective in determining our mitigation plan. Later, all employees in the state were informed of the issue, and had talking points and Q/A in their hands in order to address the questions sure to come from customers, friends, family members and others in the community.

Generally speaking, our process also includes escalation to the company's Enterprise Risk Management Committee, and a twice-monthly briefing to our issues steering committee.

3. Which constituent groups are affected?

The constituent groups most potentially affected were: state and federal legislators, the investment community; our customer-facing employees; our reservist employees and their families; the media; our NGO partners; the company's Community and External Affairs officers, who work directly with community groups and interests; as well as the company's external and internal communications teams. Although we didn't do so in this case, we often involve our corporate Research team to conduct primary or secondary research on emerging or active issues.

4. How are constituent concerns considered and acted upon?

A company-wide Issues steering committee (which includes representatives of Investor Relations, Public Relations, Government Relations, Legal, and Internal Communications) seeks out and reflects input from internal and, when appropriate, external constituencies. We also seek out consumer and customer feedback from various formal research methods, as well

as at a variety of customer-facing locations, such as our branches, Call Centers and online banking. When appropriate, we seek out Non-Governmental Organizations (NGOs) for guidance and feedback.

In this instance, we relied heavily on our existing relationships with the Department of Defense and its Employer Support for the Guard and Reserve unit. They were well aware of our ongoing and generous support of our “citizen soldiers” on active duty away from their Washington Mutual jobs.

In addition, a small group of active reserve employees served as a special sounding board to make sure we understood key issues.

It's important to point out that the work we did in managing through this controversial foreclosure followed an important campaign we initiated when the Iraq conflict began in 2003. Our earlier campaign laid the foundation for understanding the political sensibilities involved; respecting the many opinions about the Iraq War and military service, in general; shoring up the hearts and minds of our employees who expect us to do the right thing; and demonstrating a strong track record in responding to the financial hardships of military families.

As the potential for war loomed, the Issues team brought key concerns to the company's Executive Committee, WaMu's key policy making team. It was clear we'd need to address the significant differential between our reserve employees' pay and benefits, versus what they'd receive on active duty. The Committee quickly agreed to make up the difference in the pay and benefits, with an added commitment to protect their jobs while on duty. They originally agreed to a one year period, but later extended it to two years of differential compensation. At the same time, the executives agreed to a package of financial relief for military customers, including loan modifications, fee waivers and other concessions designed to ease the financial burden.

Meanwhile we sought out two NGOs with whom we've worked: Mercy Corps and the American Red Cross. Through those organizations we facilitated the collection of funds for both organizations at our branches. We wanted to be a conduit for providing humanitarian aid to the Iraqi people (Mercy Corps) while providing important financial support to those military families with fathers and mothers actively involved in the conflict (American Red Cross). Those two organizations were able to validate our long-time commitment to respecting, supporting and celebrating the work of our reserve employees, and our military.

5. What is the key objective of the issue management program?

The key objective of Washington Mutual's issue management program is the identification, assessment and mitigation of issues that pose a potential reputation risk to the company, and thereby producing a financial impact to the company and its shareholders. Key to the program is the assessment process that determines and quantifies reputation risk in a manner akin to how the corporation assesses other risk in the organization, i.e. credit risk, interest rate risk, environmental risk, etc. That assessment process – and its reliance on solid facts, and not hunches – has been the key to management buy-in and credibility building for the team.

6. Does issue management make a direct contribution to the organization's profitability? If so, how?

It is difficult to quantify the extent to which the Issues team makes a direct contribution to WaMu's profitability but, based on a variety of feedback measures, it is clear that customers

cite our practices as ones that make them pleased and willing to continue doing business with us.

Likewise, our appearance on several Social Responsibility investment funds enhances our reputation and increases our reach with potential shareholders. In order to qualify for inclusion in those funds, our practices and policies are closely scrutinized and judged.

Our close working relationship with our Legal team provides us the opportunity to comment on and influence the direction and actions taken by Legal. To the extent we are allowed to modify or mitigate Legal actions, we prevent bank account closures by upset customers and have even facilitated the resolution of conflicts, avoiding costly litigation – both in terms of the financial cost, as well as the cost to our brand and reputation.

We view our relationships with elected officials to be vital. As a member of a highly regulated industry, the actions by legislators on a state and federal level can have dramatic financial and operational impacts on us. To the extent we actively engage and inform our delegations, we enhance our ability to positively affect legislation.

Lastly, the Issues management team has been tapped to provide issues analyses of potential new products, services and practices in advance of executive decisions to move forward. I'm pleased to let you know that a number of key proposals have been significantly altered, or in some cases, even scrapped, due to potential reputation concerns. In that regard, the issues team has served the corporation and its reputation quite well and is becoming more valued over time.

7. What are the results?

We knew that the foreclosure of a beloved military hero would place us in a very negative light by those who didn't understand the facts and circumstances of the situation. We proactively briefed all the broadcast and print media in the area, arming them with information, facts and our point of view. We had obtained permission from Legal in advance to go "off the record" with certain information to make sure all of the relevant facts would be known. We found among the media with whom we met some strong support once the facts were known, and gratitude for making the effort to discuss the issue in-person.

We also proactively reached out to local legislative officials. Given the politics involved, not all of them supported the company or our actions but we were fortunate that the issue did not resonate with key, influential legislators.

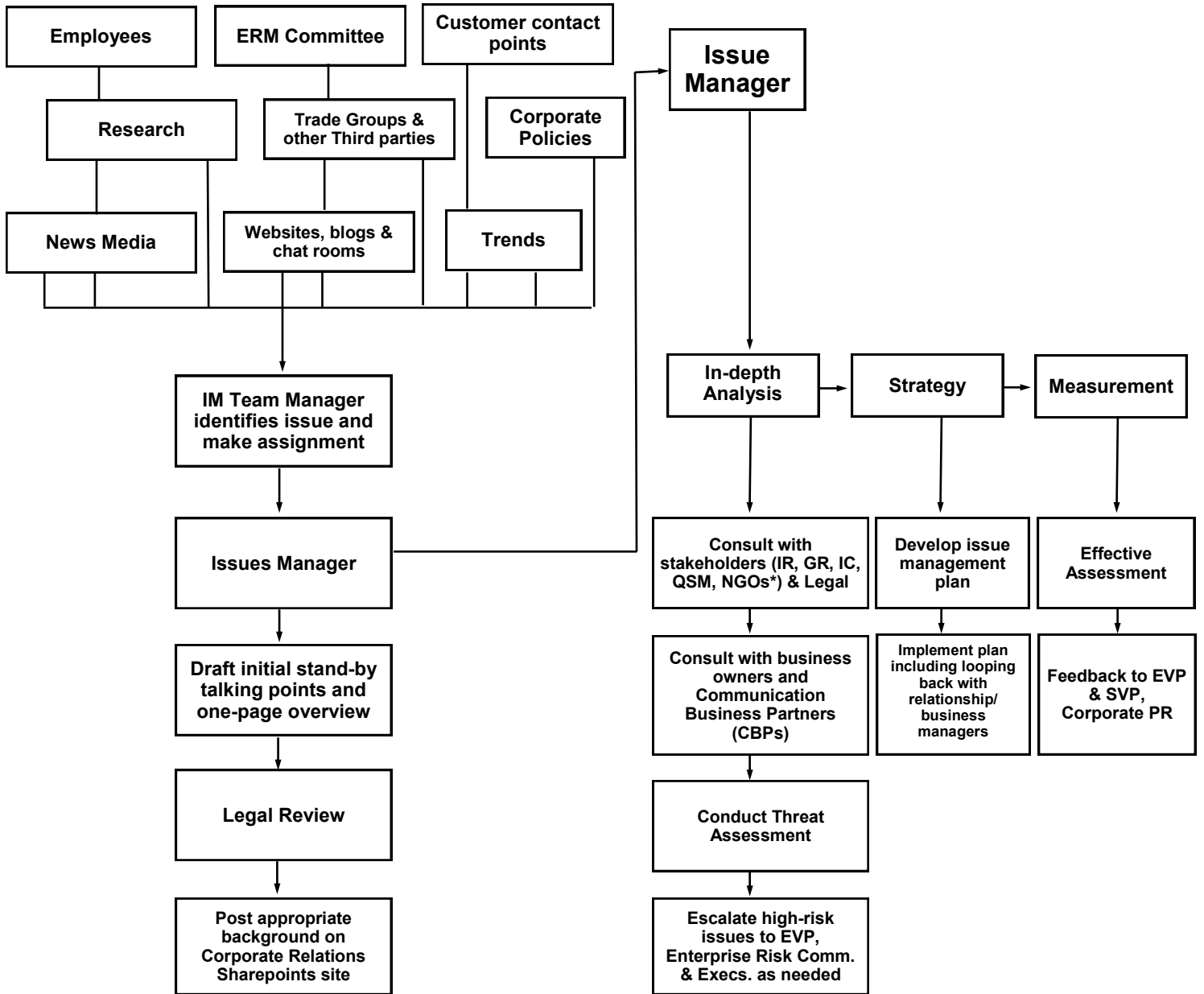
The results in this particular instance were: very limited and balanced news stories; virtually no account closures; no reaction from shareholders; very positive comments in an active web blog; no protests at our Annual Meeting of Shareholders; and one national print story that actually was fairly supportive of our actions. Perhaps most important of all, our internal clients were very pleased with effectiveness of the issues mitigation plan and were impressed by our counsel and responsiveness.

Lastly, although they stood ready to support us, the situation did not escalate to the point where we needed to invoke the Department of Defense, so we successfully contained the issue.

8. Please illustrate your organization's issue management process.

Nomination submitted by Libby Hutchinson, APR, Washington Mutual

Issues Management Process Inputs and Outputs



*Non-Government Organizations (advocacy groups)