

Summary Transcript KIRO News 7 interview Joe Dear regarding Washington Mutual 09-26-08

KIRO: *How much did the WaMu failure hurt your overall portfolio?*

JD: We're talking less than two tenths of one percent of the overall portfolio. I don't want to minimize losses, but I assure people, particularly our beneficiaries, that their pension is secure. And I want to tell the taxpayers of the state of Washington they are in no danger of having to bail out Washington state's pension system. Again, we have \$78 billion of assets under management. We did take some losses of a highly diversified portfolio and we're very confident that even as things remain difficult, we will weather this storm.

KIRO: *The last time you and I spoke, you told us that "Washington Mutual is teetering on the brink". Well, it's apparently not anymore, what do you think about what's taken place?*

JD: Washington Mutual was the next shoe to drop in this financial crisis. I'm unhappy to report that, as with Lehman Brothers, the WSIB did have an investment in WaMu, so we've booked another loss. In this case it's \$47 million which includes equity investment in the stock market and a private equity investment. But as before, this is a large portfolio, so the loss, while painful, is small in relation to the \$78 billion of assets we have under management.

KIRO: *Obviously, this is a hometown company and people not only have investments in Washington Mutual, but pacific pride, and local jobs, and a lot of things tied in with WaMu. Do you think ultimately what we saw take place with the seizure and the sale, is it going to be a good thing in the long run? Was it necessary?*

KIRO: It's a consequence of a fundamental challenge to our entire financial system. As we spoke last week; this is not over, we're not done with this. I can't speculate what the impact of WaMu's loss in the community, except it's not good, and we feel bad for all the people that worked there. The depositors' are protected. The financial losers in this are the equity investors and the investors in WaMu's securities, and that's where our loss came. But, you know, our loss was an investment made last spring, which I was really proud of at the time because we thought we were stepping in to help bolster the institution and to keep it local. This is what I hoped would be a good turnaround story. Alas, \$41 million later, it's a much different and sadder outcome.

KIRO: *What about the economic impact to the community from where you stand?*

JD: It doesn't help, but I think it's important to recognize the national and international implications of this. It's not just about WaMu, it's not just about Washington state, or Washington pensions. The financial system itself is under great stress and there is a huge loss of confidence. The government, Congress, the President, and the Federal Reserve, are trying to come up with a rescue package to arrest the decline in values and that's what has to be solved or our local story won't matter because we'll be a part of a much larger, much more dramatic, and much worse general outcome.

KIRO: *What do you think about the efforts to craft a bailout?*

JD: I think it's important to understand that the concern expressed by the President and Congress is not made up, this is for real. I understand the feeling that "I don't want to bailout Wall Street, why should we help those people, they got us into this mess?" But I also understand that our entire economy depends on the smooth flow of finance and the credit markets are on the verge of seizing up and we do not want to experience what will happen if that comes to pass. So, this is very real; and, steps have to be taken on arresting the decline in asset values. Then we should think about how we reform the regulatory system to prevent this from happening again. It's like you don't want to redecorate your house in the middle of a hurricane. We need to take care of the emergency and then have a considered approach to the reforms which we absolutely require.

KIRO: *Based on what you have heard out of Washington D.C. so far, do you think that there is a tendency to overreach? You know, let's fix everything in one fell swoop?*

JD: Our Democratic process is wonderful. It's messy. So we're watching the mess unfold right now. There's lots of opportunity for mischief and for people looking to get their little piece of this. I hope leadership will prevail, calm heads will establish a compromise that works, that's effective, and that through the regular delivery process we will tackle these larger issues and apply the lessons learned.

KIRO: *When you heard a couple of members of Congress had come up with a plan out of left or right field as the case may be, where they said "let Wall Street bail itself out" and "let's make them pay for this bailout", how realistic is it?*

JD: Our financial system is on the brink, there are huge losses which have to be stopped. Somebody is going to have to pay and since it's the credit of the United States, which is the only thing powerful enough and big enough at this point to intervene, then taxpayers are going to have to pick up some of this tab. That's just where we are. Look, this is like the economic equivalent of war. Our economy has been attacked, and it has to be defended. We can figure out who did what later, but we can't sit around trying to analyze every problem we have or try to minimize the risk that we face. Action needs to take place now.

KIRO: *What about the financial situation for the state of Washington right now? As things keep unfolding, and people continue to see bad news, what can you tell them about their investments and future?*

JD: From last week to next year, our approach is the same. We have a high quality portfolio of globally diversified assets. We hire investment managers with impeccable integrity. And, we remain focused on the long term. We will weather the ups and downs. This is what comes from investing in capital markets. When there is this much disruption and this much fear, there's also opportunity. So we are looking for what we can do to take advantage of asset prices which may be lower than they should be.

KIRO: *What are your other reflections on what is taking place and the impact it will have on the state as a whole?*

JD: A problem of this magnitude is not the product of one thing or another. It's a combination of events that started with too much debt and too much leverage in terms of home loaners, home lenders, and Wall Street firms. In addition, incentives were misaligned with executives that got paid for the short term and regulators who didn't exercise the power they have to step in. Risk models were built by really smart people that made some very fundamental errors in not checking their assumptions, and this giddiness of "everything is great, prices are going up, we're all making money, and the trees are going to grow to the sky" all worked to bring us to this point today. The thing to remember is we are on the opposite stage of that now, where there is gloom, despair, and pessimism. This system will right itself and for investors, both institutional ones like us and creative individuals it's important to have a plan and stick to it. Don't make emotional decisions now. This is a wonderful country. We are resilient, we have a tremendous economy, we will get through this, and we will be stronger and better for it.

KIRO: *What comes next?*

JD: You have to think of credit as the life blood of our system and if it doesn't circulate the system stops. All businesses, every employee, government, and community has something at risk, not just in the United States, but around the world. This is about the confidence of the United States, its economy, its government, its ability to assure that the wheels of commerce and trade between nations will continue. To have that come to a halt is unthinkable.