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Bank Execs Questioned About Hawaii Trips

Failed Bank's Employees Rewarded With Island Retreats

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HONOLULU -- In the years before mortgage lender Washington Mutual became the largest bank failure in American history, it routinely sent its top-performing mortgage lenders to Hawaii for retreats.

The bank's former executives came under fire on Capitol Hill Tuesday for that practice.

Members of Congress want to know why mortgage lenders who were churning out billions of dollars in high-risk mortgages were rewarded by Washington Mutual with special trips to Hawaii.

Some lawmakers claim Washington Mutual was rife with fraud and say what happened there was an example of problems at other banks leading up to the financial crisis.

"As CEO, I accept responsibility for our performance and am deeply saddened by what happened," former Washington Mutual President and CEO Kerry Killinger told the Senate Permanent Subcommittee on Investigations Tuesday.

The committee held a day-long hearing after an 18-month congressional investigation into the company at the height of the sub-prime mortgage meltdown.

"Washington Mutual engaged in lending practices that created a mortgage time bomb," said Sen. Carl Levin, (D) Michigan.

According to a committee memo, investigators found that Washington Mutual often steered borrowers into high-risk loans -- rewarding staff with extra compensation and perks like trips to Hawaii.

"Paid trips to Hawaii and the Bahamas? Should anyone be troubled by that except us," asked Levin.

"Mister Chairman, anytime there's fraud we took it very seriously," said David Schneider, Washington Mutual's former president of home loans.

"No, No. It was fraud," Levin replied. "But what you do is reward the folks that are being investigated with trips. That's the action."

Politico.com reports a Washington Mutual retreat on Kauai in 2006 produced one of the most cringe-worthy moments of the mortgage meltdown.

At that Kauai retreat, some of the company's bankers staged a mock funeral for their competition -- Countrywide Financial -- a mortgage lender that also collapsed in the mortgage crisis.

Pallbearers carried a coffin on stage as an announcer read a statement that



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turned out to be chillingly true for both Washington Mutual and Countrywide.

"So many of us warned the dearly departed about the risky -- some say reckless -- behavior they engaged in," Politico.com reported the announcer told the gathering.

The congressional investigative report also claims that in some cases, WaMu sales associates fabricated loan documents, cut and pasted false names on borrowers' bank statements and misstated or didn't verify customers' income.

"Do you think people were actually lying about their income," asked Sen. Edward Kaufman, (D) Delaware.

"It's speculation because I just don't know. I'm certainly very disappointed to think about my customers lying to me because that's fraud," Killinger, WaMu's former CEO replied.

Financial analyst Mark Calabria of the CATO Institute said Washington Mutual may not be the only entity at fault. "Simply to say this is one bad person did one bad thing misses the point of what are the structural flaws here," Calabria said.

He said federal regulators may also be to blame. They'll be in the hot seat for another hearing on Friday.

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