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WaMu Shareholders Support \$7B Settlement Plan

By Steven Church - Dec 13, 2011

Washington Mutual Inc. (WAMUQ), the former owner of the biggest bank to fail, settled a battle between shareholders and noteholders that was blocking a bankruptcy-exit plan valued at more \$7 billion, lawyers said.

The agreement, brokered by a court-appointed mediator, calls for noteholders to contribute \$75 million to the only unit of WaMu that will exit bankruptcy as well as loan the entity \$125 million, Brian Rosen, the company's lead bankruptcy attorney, said yesterday in an interview.

Prices rose this morning on 10 out of 11 WaMu bonds that traded between 9 a.m. and 10:16 a.m., according to data on the Bloomberg terminal.

The settlement follows more than a year of battles among shareholders, four hedge funds that hold billions of dollars in WaMu notes, and the company. Twice WaMu failed to win approval from a bankruptcy judge for previous versions of its reorganization plan, partly because of opposition from shareholders.

Rosen, with the law firm of Weil, Gotshal & Manges LLP, said the parties agreed to a settlement because they saw WaMu's assets as a "melting ice cube" that was losing value as the case dragged on.

"They wanted to receive their distributions from the new plan as quickly as possible," Rosen said. The reorganized company would be owned by preferred and common shareholders, Rosen said.

WaMu said in a statement yesterday that the settlement represented a "fair and reasonable recovery" for equity holders.

Court Approval

U.S. Bankruptcy Judge Mary Walrath in Wilmington, Delaware, must approve the settlement. Details of the agreement were filed as part of a new version of the company's reorganization plan, which Walrath must also approve before creditors can be paid.

"There are still a couple of details to be worked out," creditor attorney Edgar Sargent, with the law firm of Susman Godfrey LLP, said in an interview yesterday. "We think it's real. It's a fair

arrangement.”

In return for not suing four hedge funds accused of insider trading, common and preferred shareholders will split control of the new company, Sargent said.

The new company is a reinsurance unit, which was a small percentage of WaMu’s business. WaMu will recommend that Walrath award existing preferred shareholders 70 percent of the new equity and common shareholders the rest, Rosen said.

Both sides praised the efforts of the mediator, U.S. Bankruptcy Judge Raymond T. Lyons.

‘Effective Mediator’

“We had a very effective mediator,” Sargent said. “He helped both sides see the benefit of some creative ideas.”

WaMu, based in Seattle, filed for bankruptcy on Sept. 26, 2008, the day after its banking unit was taken over by regulators and sold to JPMorgan (JPM) for \$1.9 billion. Washington Mutual Bank had more than 2,200 branches and \$188 billion in deposits.

The parties in the mediation included four hedge funds that helped negotiate the two plans that had been rejected and shareholders who opposed them. The shareholders had accused the hedge funds of using nonpublic information that they gained while helping to negotiate the plan to trade WaMu securities.

Allegations Denied

The hedge funds deny the insider-trading allegations. Walrath had given shareholders permission to sue the funds, while delaying their right to file lawsuits until all the parties had first tried to resolve their differences through mediation. That authority to sue would be withdrawn should the plan be approved, according to court records.

The amount of trading in the company’s notes was the highest on some of the notes since the days surrounding the company’s 2008 bankruptcy. WaMu’s zero coupon notes due in February had a trading volume today that was four times higher than the average since September, 2008.

The company’s 4 5/8ths percent notes that are due in April, 2014 rose 10.5 percent to 112.75 cents on the dollar, this morning, according to Trace, the bond-price reporting system of the Financial Industry Regulatory Authority.

The case is In re Washington Mutual Inc., 08-12229, U.S. Bankruptcy Court, District of Delaware

(Wilmington).

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