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REAL ESTATE

IndyMac Sees Steep Losses, Job Cuts

By ANDREW EDWARDS
July 7, 2008 5:03 p.m.

Indymac Bancorp Inc. said it has stopped taking loan applications and will cut more than half of its work force amid liquidity and capital ration worries - and larger projected second-quarter losses.

The news sent shares of the California bank, one of the largest originators of the Alt-A loans that rate between prime and subprime, down 5.5% to 67 cents in after hours trading.

"Given the continued downward trend in home prices and a resulting increase in our forecasted credit losses and the related downward trend in the pricing of all mortgage related assets in the capital markets ... we expect our loss for the second quarter to be larger than Q108," Chief Executive Michael Perry said in a letter to shareholders Monday. "But it is difficult at this time to be more precise given the significant uncertainty surrounding accounting estimates, fair value accounting and other accounting matters."

Indymac won't take new loan submissions and is closing its mortgage forward business. It said it must shed assets to improve its capital ratios. The company has been unable to raise capital and sees cutting back as the only option, saying it has been told it is no longer "well capitalized." Indymac will also stop accepting new brokered deposits.

As a result the bank is slashing its work force to some 3,400 from its current head count of 7,200, in a bid to cut 60% of its operating expenses. The cuts will also fall harder than they would have in the past, as Mr. Perry said the company can no longer afford its severance package. The company said it will instead give employees at least 30 days notice, with a minimum of \$20,000 in severance going to employees with more than five years of service.

"If we had another alternative, we clearly would have chosen it," Mr. Perry said.

Mr. Perry said given the company's current financial situation he has asked the board to cut his base salary by 50%. "All we can do is continue to work hard and do our very best to keep Indymac safe and sound, so that we can rebuild our workforce and shareholder value when the housing and mortgage markets stabilize."

In February, IndyMac posted the first annual loss in its 23-year history, which led the company to suspend its dividend on common shares as it attempts to ride out the mortgage crunch. But despite all the lender's troubles, Mr. Perry has insisted that mortgage brokers and home lenders are not the only ones responsible for the nation's credit and housing woes. In February, he listed "systemic problems" and the government's "over-stimulation of the housing market" as role-players, adding that "IndyMac and most home lenders were not 'greedy and stupid.'"

The company posted further losses in May and had its servicer-quality ratings cut by Moody's Investors Service last month over capital concerns.

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