

SPECIAL REPORT Mortgage Meltdown

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Regulators seize troubled IndyMac

Feds take over mortgage lender IndyMac. FDIC will seek buyer. May become most expensive bank collapse ever.

By Catherine Clifford and Chris Isidore, CNNMoney.com writers
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NEW YORK (CNNMoney.com) -- In what could turn out to be the most expensive bank failure ever, troubled mortgage lender IndyMac Bank was taken over by federal regulators on Friday.

The operations of the Pasadena, Calif.-based bank - once one of the nation's largest home lenders - were shut down at 3 p.m. by the Office of Thrift Supervision and transferred to the Federal Deposit Insurance Corp.

According to the FDIC, IndyMac's failure will result in up to \$500 million in lost deposits out of \$1 billion in uninsured deposits held by 10,000 customers. The agency says the failure will cost the Deposit Insurance Fund between \$4 billion and \$8 billion, based on preliminary estimates.

"It's possible this will be the most costly bank failure in history, but it's too soon to say," FDIC Chairman Sheila Bair said in a conference call late Friday night. The failure could also affect premiums paid by all banks for deposit insurance, she added.

IndyMac, with assets of \$32.01 billion and deposits of \$19.06 billion, is the fifth bank to fail this year. Between 2005 and 2007, only three banks failed. And in the past 15 years, the FDIC has taken over 127 banks with combined assets of \$22 billion, according to FDIC records.

"There will be increased failures, but it will be within range of what we can handle," Bair said. "People should not worry."

IndyMac marks the largest bank collapse since 1984, when Continental Illinois, which had \$40 billion in assets, failed, according to FDIC records. The two most expensive failures were in 1988: American Savings and Loan Association in California (\$5.4 billion) and involved First Republic Bank in Texas (\$4 billion).

What now for IndyMac customers?

Bair said that the FDIC will try to sell IndyMac as a complete entity within 90 days.

Customers with uninsured deposits will get at least half that money back, and they could get more back, depending on what the FDIC gets when it sells the bank, said Bair.

IndyMac customers will have their funds transferred to a new entity - IndyMac Federal FSB - controlled by the FDIC. They will have uninterrupted customer service and access to their funds by ATM, debit cards and checks.

However, customers will have no access to online and phone banking services this weekend,

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Bank regulators close IndyMac, transfer to FDIC - Jul. 11, 2008

according to the FDIC. Service will resume on Monday. Loan customers were advised to continue making loan payments as usual.

When a bank shuts down, traditional bank accounts are insured to at least \$100,000. Some accounts such as annuities and mutual funds are not insured at all. Individual Retirement Account funds are insured to \$250,000.

For additional information, the FDIC has established a toll-free number for customers of IndyMac Federal Bank, FSB. The toll-free number is 1-866-806-5919 and will operate today from 3:00 p.m. to 9:00 p.m. (PDT), and then daily from 8:00 a.m. to 8:00 p.m. thereafter, except Sunday, July 13, when the hours will be 8:00 a.m. to 6:00 p.m. Customers also may visit the FDIC's Web site at <http://www.fdic.gov/bank/individual/failed/IndyMac.html> for further information.

How it got to this point

IndyMac specialized in loans it had long argued were of minimal risk: low documentation loans to residential mortgage borrowers.

On Tuesday, IndyMac - which had 33 branches - announced that it was firing 53% of its workforce and exiting its retail and wholesale lending units. Last year, the lender was ranked 11th in residential mortgage origination, according to trade publication *Inside Mortgage Finance*.

More importantly, IndyMac also disclosed that regulators no longer considered it "well capitalized." As a result, since Tuesday, the bank wasn't able to accept brokered deposits, or short-term investments in large dollar amounts from brokers seeking the highest return on certificates of deposit.

Over the past two years, IndyMac dropped over 95% in stock price, or about \$3.5 billion in market capitalization. Shares traded down nearly 10% on Friday to close at 28 cents.

IndyMac lost \$184.2 million in the first quarter and announced on Monday that it was expecting a wider loss for the second quarter. It lost \$614 million last year stemming from its focus on the Alt-A mortgage sector, where it originates loans to borrowers who fall between prime (or conforming) and sub-prime on the credit spectrum. The lender's chief executive, Michael Perry, had long argued that it was being unfairly punished given its relatively paltry exposure to sub-prime mortgages.

Rising Alt-A and prime mortgage delinquencies likely were enough indication for investors that the housing crisis had moved beyond the weakest borrowers. Even worse, with the securitization markets in collapse, IndyMac had no way to get new loans off its books. As it turned out, IndyMac was a leader in loans requiring little income and asset documentation, a category that has had disastrous levels of delinquencies at other troubled lenders. What loans the bank had made recently were to borrowers with well-documented assets and income, but those are sharply less profitable with respect to fees and interest income.

IndyMac, in its filing on Monday, said it would focus on its reverse mortgage business, retail branch network and mortgage servicing operations. But the growth restrictions placed on IndyMac by regulators and the banks and brokerages it did business with, as well as the sharply higher borrowing costs, placed the profitability of even its non-mortgage-related banking efforts in doubt.

Even efforts to prop up the bank hurt it. Last month, Sen. Charles Schumer, D-N.Y., wrote a series of letters to regulators in Washington and California asking them to take steps to prevent the bank's "likely collapse." In response, about \$100 million in customer deposits has been withdrawn from the bank, according to one of its filings.

-Fortune writer Roddy Boyd contributed to this report.

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