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# Back in business: IndyMac reopens Monday

## STORY HIGHLIGHTS

- FDIC will reopen IndyMac on Monday under new name -- IndyMac Federal Bank
- IndyMac was seized by federal regulators over concerns of mortgage lender's viability
- FDIC chairman: IndyMac could be most expensive U.S. bank failure ever

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(CNN) -- IndyMac Bank, closed Friday by federal regulators, will reopen Monday with a new charter and a new name -- IndyMac Federal Bank.



AP PHOTO

Analysts fear thousands of IndyMac customers could lose as much as \$500 million.

Customers who found locked doors and armed guards Friday afternoon could use ATM cards over the weekend to get to their money, but an estimated 5 percent of the \$19 billion deposited in the bank was not insured by the Federal Deposit Insurance Corporation (FDIC).

Indymac's failure, which the FDIC chairman said could add up to be the most expensive U.S. bank failure ever, came as the FDIC's list of "problem" institutions is on the rise.

The FDIC disclosed last month that it was closely watching 90 financial institutions on its "problem list," up from 76 in the first quarter of 2008. The total assets of "problem" institutions rose from \$22.2 billion to \$26.3 billion, the FDIC said.

The number of troubled institutions monitored by the FDIC has grown in each of the last six quarters, starting in the fall of 2006 when there were just 47 on the list, the agency said. The last time it approached this level was in the fall of 2004 when the number was 95.

The FDIC does not publish a list of trouble banks out of concern it could spur a bank run, which is what the Office of Thrift Supervision (OTS) said happened to [Indymac](#) in recent weeks.

The OTS, which oversaw IndyMac, criticized Sen. Charles Schumer, a Democrat from New York. The OTS claimed that a June 26 letter Schumer wrote to regulators questioning IndyMac's viability prompted a run on the bank in which customers withdrew more than \$1.3 billion prompting a liquidity crisis.

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"Although this institution was already in distress, I am troubled by any interference in the regulatory process," said OTS Director John Reich in a statement Friday.

Schumer shot back. He said that lax enforcement by OTS was a primary cause of the problems at IndyMac, as well as those of the nation's housing market and economy.

"IndyMac's troubles ... were caused by practices that began and persisted over the last several years, not by anything that happened in the last few days," Schumer said. "If OTS had done its job as regulator and not let IndyMac's poor and loose lending practices continue, we wouldn't be where we are today. Instead of pointing false fingers of blame, OTS should start doing its job to prevent future IndyMacs."

The operations of the Pasadena, California-based thrift, once one of the nation's largest home lenders, were shut down at 3 p.m. PDT Friday by the OTS and transferred to the [FDIC](#).

About 95 percent of the \$19 billion in deposits in the bank are insured, but that leaves \$1 billion that was not covered by FDIC guarantees. [Watch financial analyst Suze Orman discuss IndyMac's collapse »](#)

According to the agency, 10,000 IndyMac customers could lose as much as half of that amount, or \$500 million. The agency says the failure will cost the Deposit Insurance Fund between \$4 billion and \$8 billion, based on preliminary estimates.

"This will certainly be a costly failure. Whether it's the costliest, we just don't know at this point," FDIC Chairman Sheila Bair said on a conference call late Friday night. The failure could also affect premiums paid by all banks for deposit insurance, she added.

IndyMac grew rapidly during the real estate and home building boom. Its specialty was so-called Alt-A loans, those for which home buyers were asked to produce little or no evidence of income or assets other than the house they were buying.

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While home prices climbed, Alt-A loans posed few problems for IndyMac. If a buyer wasn't able to afford his payments, the bank got title to a home worth more than the amount owed. The bank was also able to find investors eager to buy pools of those mortgages that had been pulled together into securities backed by the future payments.

But when the housing bubble burst and prices began to fall, losses at IndyMac began to rise. Investors ran away from the mortgage-backed securities, leaving the bank to suffer the loan losses itself and without the funding it needed to make new, safer loans. [Watch how mortgage companies are affected by IndyMac »](#)

Most of IndyMac's employees and executives will be asked to stay on, although the problems at IndyMac had caused it to cut 3,800 jobs, or more than half of its work force, earlier in the week in an attempt to stay in business.

One executive who will not stay is CEO Michael Perry, who was replaced on an interim basis by a top official of the FDIC.

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

IndyMac, with assets of \$32 billion and deposits of \$19 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 collapse of an FDIC-insured institution since 1984, when Continental Illinois, which had \$40 billion in assets, failed, according to FDIC records. The two most expensive banking failures were in 1988, during the nation's savings and loan crisis: American Savings and Loan Association in California (\$5.4 billion) and First Republic Bank in Texas (\$4 billion).

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.

IndyMac 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.

[Watch IndyMac customers look for answers »](#)

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

IndyMac's problems came into sharp focus earlier in the week.

The bank, which lost \$184.2 million in the first quarter, 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.

Then on Tuesday, IndyMac disclosed that regulators no longer considered it "well capitalized." As a result, the bank was unable 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. By Friday, shares were down to 28 cents.

Ousted CEO Perry had long argued that it was being unfairly punished given its relatively paltry exposure to sub-prime mortgages.

But 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. 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 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. [E-mail to a friend](#) | [Mixx it](#) | [Share](#)

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