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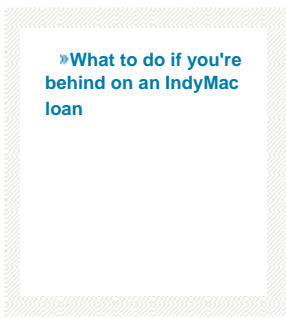
FDIC to modify IndyMac loans

The agency plans to cut interest rates and extend payments for some in hopes of limiting foreclosures.

By E. Scott Reckard, Los Angeles Times Staff Writer
August 21, 2008

The regulators operating failed IndyMac Bank said Wednesday that they would try to modify about 25,000 troubled mortgages by slashing interest rates to as low as 3% for five years, extending payments over 40 years and in some cases charging interest on only part of the loan balance.

The plan, aimed at about 37% of IndyMac's seriously delinquent borrowers, is the start of a modification program that eventually could involve thousands of other borrowers at the savings and loan. Sheila Bair, chairwoman of the Federal Deposit Insurance Corp., said she hoped it would become a model for the reeling mortgage industry.



In a call with reporters, Bair said she wanted to reduce foreclosures because of the damage they caused to individuals and neighborhoods and because failed loans were harder to sell than loans on which payments were being made. When the FDIC took over the thrift July 11, it said it hoped to find a buyer for IndyMac within 90 days. That remains the goal.

While offering hope to a large class of troubled borrowers, the plan also leaves out large numbers and underscores the difficulties that have so far plagued efforts to modify loans en masse.

Many troubled borrowers aren't responding to phone calls and letters from lenders trying to discuss their loans, and Bair said she hoped publicity about the modification plan would lead some elusive customers to call the bank.

"We really need the borrowers to respond," she said, to help the program "become a catalyst" for modifications industrywide.

Soon after it took over IndyMac, the FDIC said it was freezing foreclosures on the almost 40,000 loans still owned by the thrift. Those loans amount to 6% of the 637,000 existing IndyMac-serviced mortgages at the end of July. The FDIC also has broad powers to change the terms of 225,000 loans that were pooled to back debt securities under the IndyMac name.

But the remaining 372,000 mortgages serviced by IndyMac, nearly 60%, can't be modified easily because of complications in the terms under which they were sold to investors or bought or guaranteed by mortgage finance giants Fannie Mae and Freddie Mac.

FDIC officials said their first duty was to protect the deposit insurance fund and that foreclosure might be the best financial option even for some of the IndyMac-owned loans. That would include cases in which homes are vacant or were purchased by speculators, or because owners can't afford even a modified loan.

The borrowers, most of whom initially stated their incomes without proof, must fully document their earnings to obtain modified loans and sign a statement pledging to live in the home. They must have enough income to devote no more than 38% of their gross earnings toward principal and interest on a modified first mortgage, along with home insurance and taxes.

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The fact that many borrowers took on hefty second mortgages and have credit card, automobile and other debts will also complicate the picture, FDIC officials said.

But the most difficult pill for borrowers to swallow may be the large majority who won't qualify for the program because IndyMac doesn't own all the loans it services. The FDIC will try to help those borrowers when they get in trouble on their loans despite not being able to use its standard model to modify them, Bair said.

Initial letters are going out this week to about 4,000 borrowers whose loans are owned by IndyMac and are at least 60 days delinquent in payment. The next phase, which the FDIC said could take a few more weeks, will involve 21,000 borrowers, also at least 60 days delinquent, whose loans back IndyMac "private label" mortgage bonds. Additional borrowers in these categories are expected to be helped later as their loans go bad.

IndyMac officials and the FDIC said the program differed from modification plans employed by many private loan servicers because regulators were more motivated to quickly modify loans and the offering was more detailed.

To achieve the 38% debt-to-income ratio, the FDIC may extend the loan term to 40 years and reduce the interest rate -- now typically 7.51% on IndyMac-owned loans -- to as low as 3%. After five years, the rate would rise by 1 percentage point a year until it reached the current Freddie Mac survey rate for conforming mortgages, now about 6.5%, where it would be permanently capped.

The FDIC also may suspend interest on a portion of the loan amount, although the principal not earning interest will still have to be paid off if the home is sold or the loan is refinanced. Michael Krimminger, a policy advisor to Bair, said that option had limited use because it tended to substantially reduce the value of loans.

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