IndyMac Federal Bank FSB

John F. Bovenzi
Deputy to the Chairman and
Chief Operating Officer,
Federal Deposit Insurance Corporation
April 3, 2009

FDIC’s Resolution Strategies

- Open Bank Assistance
  - Financial Assistance
  - Bank Merger
  - Conservatorship

- Closed Bank Options
  - Deposit Payoff
  - Purchase and Assumption Transaction (Bank Merger)
  - Bridge Bank/Conservatorship

Priority of Claims In a Receivership*

1. Administrative Expenses
2. Deposit Liabilities
3. General Creditor Claims
4. Subordinated Obligations
5. Shareholders

*Secured creditor claims are paid to the extent there is adequate collateral

Least Cost Test

- A legal requirement
- FDIC must use the resolution alternative that results in the least cost to the Deposit Insurance Fund when compared to other resolution alternatives.

Systemic Risk Determination

- The Least Cost Test must be met except when such a transaction “would have serious adverse effects on economic conditions or financial stability” and an alternative resolution “would avoid or mitigate such adverse effects.”
- A Systemic Risk Exemption requires a two thirds majority vote by the Board of Directors of the FDIC and by the Board of Governors of the Federal Reserve System and the concurrence of the Secretary of the Treasury (in consultation with the President).

Overview of IndyMac Bank FSB

- The 7th largest S&L and the 2nd largest independent mortgage lender in the U.S.
- $30 Billion Total Assets
- $184 billion mortgage servicing portfolio
- 182 Loan Production Offices across the U.S.
- 33 Branch Offices in Southern California

Problems Escalate

- High cost and volatile deposit base
- Increasing delinquencies on mortgage loans, growing loan losses
- Inability to continue with originate-to-sell business model
- Deteriorating capital base
- Liquidity crisis

High Cost Funding Base

- $19 Billion Total Deposits
  - – $15 billion high-cost CDs, average rate of 4.5%
    - $6 billion brokered CDs
  - – $2 billion core deposit base (checking and savings accounts)
- $10 billion Federal Home Loan Bank Advances
  - – Weighted average two year maturity
  - – Average rate of 4.8%
  - – Significant prepayment penalties

Major lender in Alt-A, jumbo, subprime, and reverse mortgages.

	$ Billions
• ALT-A	$6.9
• Jumbo	$3.3
• Subprime	$2.0
• Home Equity	$1.5
• Reverse Mortgages	$1.1
• Agency Conforming	$0.8
• Other	$3.4
Total Mortgage Loans	$19.0
• Mortgage-backed securities	$6.9
• Mortgage servicing rights	$2.6

Bank is Closed and Conservatorship Is Created

- Office of Thrift Supervision closes the bank on July 11, 2008
- FDIC is appointed receiver
- IndyMac Federal Bank is created and placed into conservatorship

Overview of the New IndyMac Federal Bank

IndyMac Federal Bank, FSB consisted of:

- Retail bank – 33 branches with $13 billion in deposits
- $19 billion loan portfolio and $6.9 billion securities
- $184 billion of mortgage servicing
- Financial Freedom & $20.2 billion of reverse mortgage servicing

Why a conservatorship?

- Prior to Housing and Economic Recovery Act of 2008, bridge bank authority not available for thrifts
- Receiver transfers insured deposit liabilities and assets to de novo institution; FDIC operates as conservator
- Allows FDIC to preserve the franchise value of institution (transfer deposits to ultimate purchaser)
- Receiver deals with shareholders and creditors; conservator operates de novo free of these issues

Conservator's Challenges

- Maintain Stability and Public Confidence
  - Customer Concerns
  - Business Counterparty Concerns
  - Employee Concerns
- Maximize Returns to Creditors
  - Cost Reduction
  - Preserving Value
  - Maximizing Sales Price
- Issues Related to Government Ownership
  - Competitive Equity
  - Reputational Risk
  - Returning Bank to Private Sector

Customer Concerns

- Will I get my money back?
- $600 million in uninsured deposits
- 50% advance dividend
- Initially another $1.5 billion with insurance status unclear
- Other banks refuse to accept IndyMac checks
- Insured depositors wanted to chase highest rates

Business Counterparty Concerns

- What is a conservatorship?
  - Am I doing business with the same company? No
  - Do you have any capital? No
  - Are you going to end up in receivership? Yes
- Then why should I do business with you?
  - Because the government stands behind this bank
- Does this give me a good reason to stop doing business with you?

Employee Concerns

- Do I have a job?
- Under what terms?
- For how long?
- How will my job change under government ownership?

Maximizing Returns to Creditors

- Selling/closing loan production offices
- Reducing staffing levels
- Repudiating unnecessary leases and contracts
- Reducing funding costs
- Buying back home equity lines
- Implementing loan modification program
- Competitive bidding process, with time for due diligence
- Incorporating loss-sharing and gain-sharing into parts of the sales process

Returning Bank to Private Sector

- Lehman Brothers hired as financial advisor for marketing process in late July.
- 87 parties are contacted
  79 sign confidentiality agreement
  52 become actively engaged
- Assets are segregated into 8 asset groups for bidding purposes.
- In early October, 23 parties indicate serious interest via indicative bids. Nine best bidders are chosen to begin more extensive due diligence.
- In mid-December, final bids are received from 5 groups.
- Year-end 2008 – winning bidder chosen, term sheet signed.
- March 19th – sale completed to One West Bank, FSB, a newly formed Federal Savings Bank.

Sales Transaction

- One West purchased $20.6 billion in assets at a discount of $4.7 billion
- They assumed the remaining $6.4 billion in deposits and $5.7 billion in FHLB advances
- FDIC retains $2.8 billion in assets

Loan Modification Program

- Program focuses on systematic and sustainable loan modifications:
  - Debt-to-gross income ratio of 38% to 31%,
  - Modifications use a combination of interest rate reductions, term extensions and principal deferment to achieve affordable payments,
  - Modifications are based on verified (as opposed to stated) income.
- Approximately 14,000 loan modifications were completed by the end of March 2009.
- Composition of the modified pool:
  - 68% of the loans required interest rate reductions;
  - 23% required interest rate reductions and term extensions;
  - 9% required interest rate reductions, term extensions and principal forbearance.
- Reduced average monthly payment by $500.
- Re-default rate is 7.93%.

IndyMac's Estimated Cost to Creditors

($ Billions)

Distribution of Claims

Sec. Claims	$10.0
FDIC	$18.4
Uninsured Dep.	$0.6
Gen'l Creditors	$0.3
Senior Notes	$0.0
Sub. Creditors	$0.0
Total Claims	**$29.3**

Distribution of Losses

Sec. Claims	$0
FDIC	$10.7
Uninsur. Dep.	$0.3
Gen'l Creditors	$0.3
Senior Notes	$0.0
Sub. Creditors	$0.0
Total Losses	**$11.3**