



SR003_7: Failed Bank Report

IndyMac Bank, F.S.B.

888 E. Walnut St
Pasadena, CA 91106

(3/23/1936 – 7/11/2008)

Report Objective

This report has **two** objectives, using the bank's **data***:

1. To examine the bank finances in the quarters prior to its failure.
2. To analyze the bank finances using our Key Performance Indicator (KPI) scoring approach to determine if the bank's failure is something we could have predicted.

*Data source: FDIC and company filings.

Bank Background

FDIC Certificate #	29730
Bank Charter Class	Saving Association
Asset Concentration	Mortgage Lending Specialization
Product Specialty	Mortgage Lending Services, Consumer Banking, Deposit Products and Services
Number of Branches	N/A (as of March 31, 2008)
Number of Employees	6,449 (as of March 31, 2008)

Executives	
CEO/Chairman	Michael W. Perry
President	Richard H. Wohl
CFO	Scott Keys

What took place?

IndyMac Bank, F.S.B., Pasadena, CA was closed by the Office of Thrift Supervision (OTS) on July 11th, 2008. The Federal Deposit Insurance Corporation (FDIC) was named Conservator. The estimated cost to the FDIC Deposit Insurance Fund is \$8,900,000,000, compared to the average cost of \$389,206,944. The failed bank is being temporarily run by the FDIC.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2007 Q2	2008 Q2	Percentage Change
Assets	\$ 31,293,352	\$ 30,698,512	↓ 1.9%
Liabilities	\$ 28,573,277	\$ 29,555,168	↑ 3.4%
Net Income	\$109,536	-\$766,630	↓ 800%

- The average net income change for all the FDIC banks was -65.89% in the same period.
- The average net income change for all the mortgage lending specialization banks was -178.02% in the same period.
- Compared with the whole industry and other mortgage lending specialization banks, IndyMac Bank's decline from Net Income is extremely large during 2008.

Key Performance Indicators

KPI Summary for 2008 Q2	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Moderate
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	5.71** (Very Poor)

Possible ratings: *Excellent, Good, Moderate, Poor, Very Poor.*

*This rating is relevant to the current “financial crisis” fueled by mortgage security backed loans.

**This is out of 100.

Normalized Income Analysis

	2007Q1	2007Q2	2007Q3 	2007Q4	2008Q1	2008Q2
Normalized Income	0.20%	0.16%	-0.55%	-1.51%	-0.52%	-1.95%
SD's from Average*	0.0859	0.0392	-1.20	-2.75	-1.41	-5.23
Ranking	Moderate	Moderate	Poor	Very Poor	Poor	Very Poor

- IndyMac Bank had a normalized income of -1.95% in the second quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (mortgage lending specialization) had an average normalized income of 0.09%. The standard deviation of the normalized incomes was 0.39%, which means that IndyMac Bank was 5.23 SD's below the average.
- During the quarter before it failed, IndyMac Bank had the fourth lowest normalized income of banks with the same asset concentration hierarchy.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Delinquent Asset Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Delinquent Asset	1.5264%	1.8677%	1.8517%	2.5343%	2.9961%	2.6950%
SD's from Average*	0.22	0.63	0.25	0.49	0.87	0.64
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

- IndyMac Bank had a delinquent assets out of total assets ratio 2.7% in the second quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (mortgage lending specialization) had an average delinquent asset of 1.4079%. The standard deviation of the delinquent assets was 2.01%, which means that IndyMac Bank was about 0.64 SD's above the average.
- Since the first quarter of 2007, IndyMac Bank's delinquent assets ratio has been around average in relation to banks of the same asset concentration hierarchy. During the quarter right before the bank failed, the percentage of delinquent assets did not have dramatic change.

*Average of banks of the same asset concentration hierarchy

Real Estate Loan Asset Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Real Estate Loan Asset Ratio	66.02%	64.37%	67.30%	61.89%	62.16%	62.26%
SD's from Average*	0.26	0.17	0.3	0.08	0.17	0.17
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

- IndyMac Bank had a 62.26% of R/A ratio in 2008 Q2, the quarter before it failed.
- In 08 Q2, banks of the same asset concentration hierarchy (mortgage lending specialization) had an average R/A ratio of 58.54%. The standard deviation of the R/A ratio was 21.54%, which means that IndyMac Bank was 0.17 SD's above the average.

*Average of banks of the same asset concentration hierarchy

Asset: Liability Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1 	2008Q2
Asset: Liability Ratio	108.73%	109.52%	108.72%	107.17%	106.11%	103.87%
Median A/L Ratio*	111.98%	112.03%	112.21%	112.01%	112.04%	111.72%
Ranking	Poor	Moderate	Poor	Poor	Very Poor	Very Poor

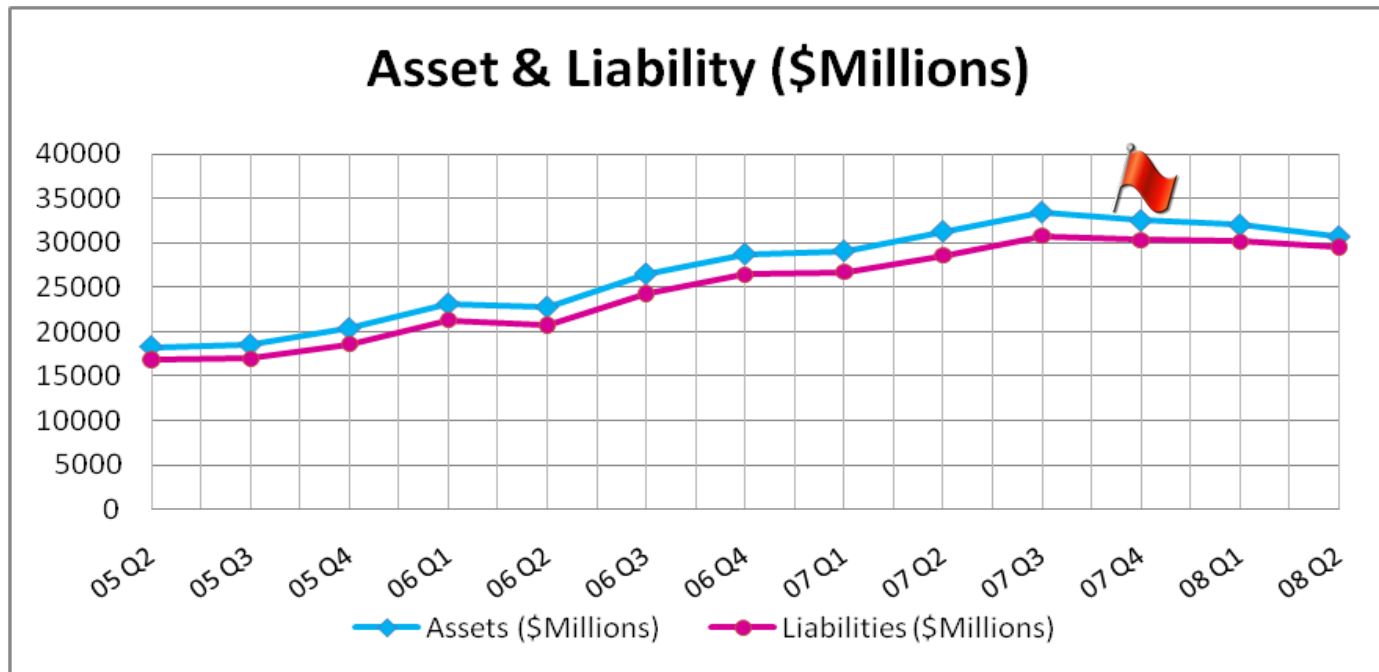
- IndyMac Bank's A/L ratio was declining since 07 Q3.
- The bank fell into the worst ranking in 08 Q1.
- Of the banks failed in Q3 08, 77.78% of them had an A/L ratio under 107%

*Median of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset & Liability History

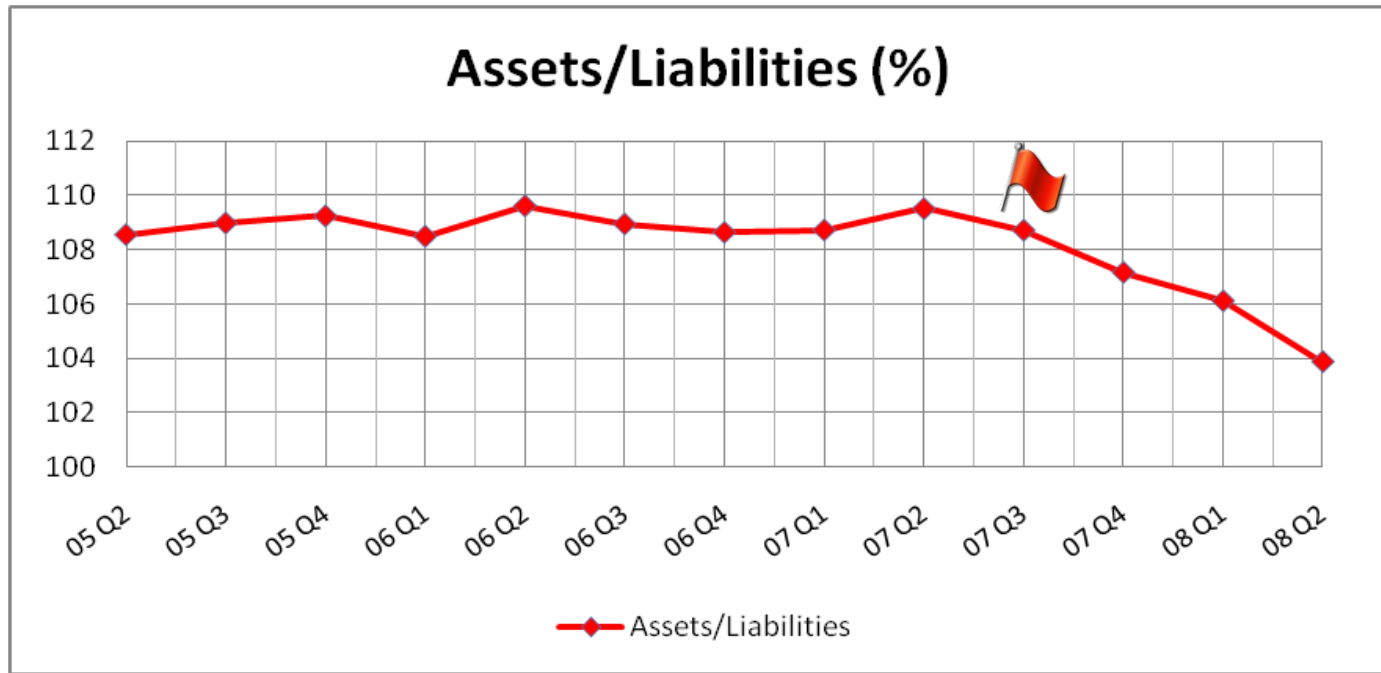


- The difference between asset and liability was getting closer since 07 Q4.



Indicates sign of bank in financial distress

Asset/Liability History

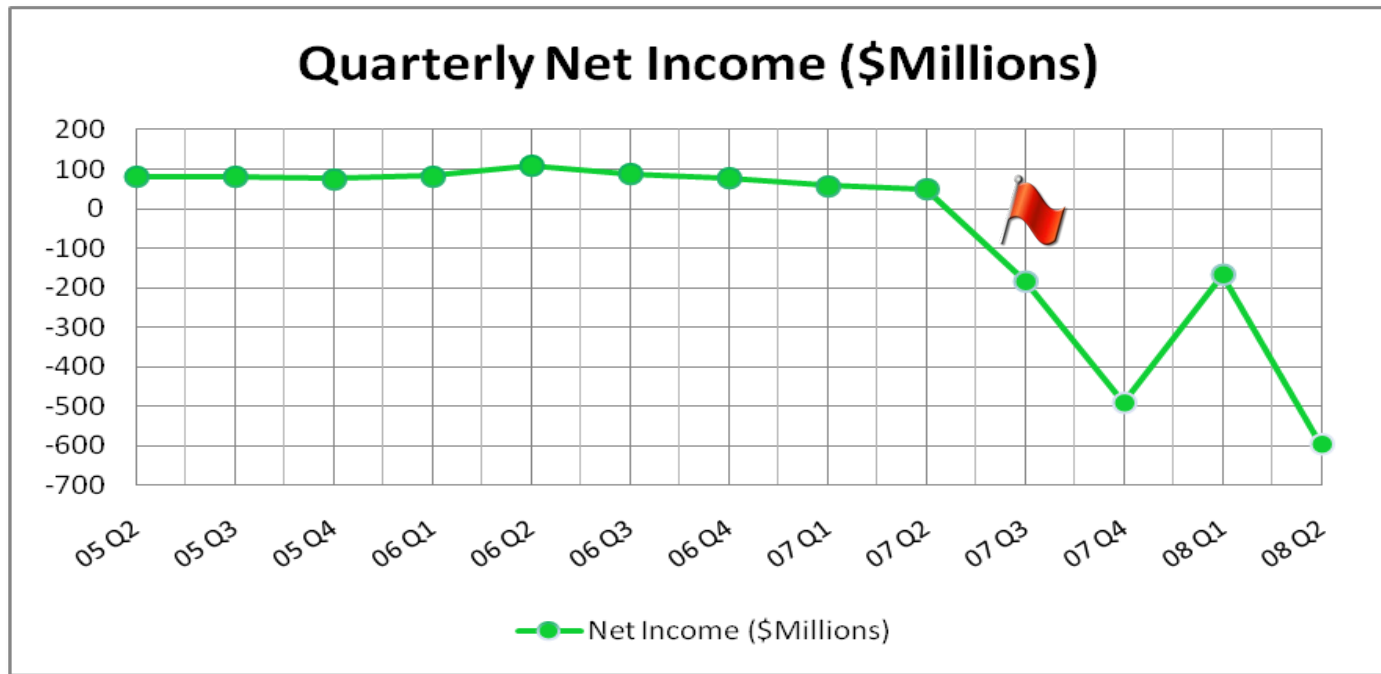


- The A/L ratio was decreasing since 07 Q2.



Indicates sign of bank in financial distress

Net Income History

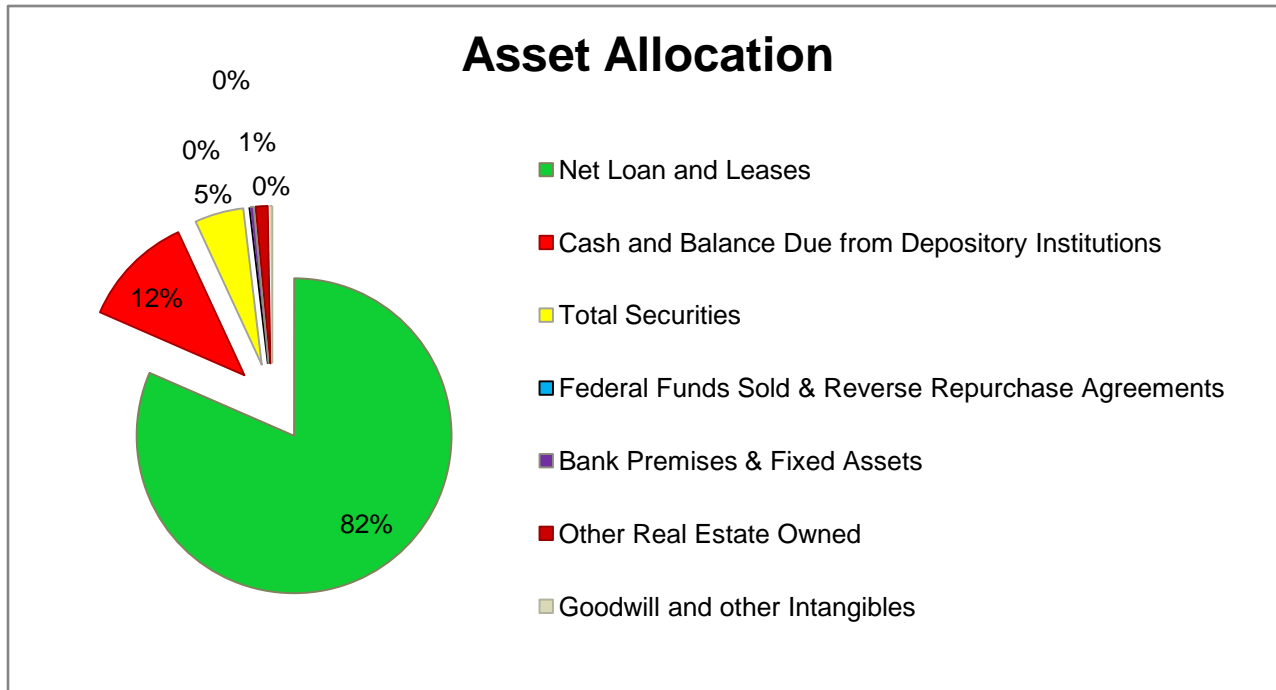


- The bank recorded big losses in the last four quarters prior to failure.



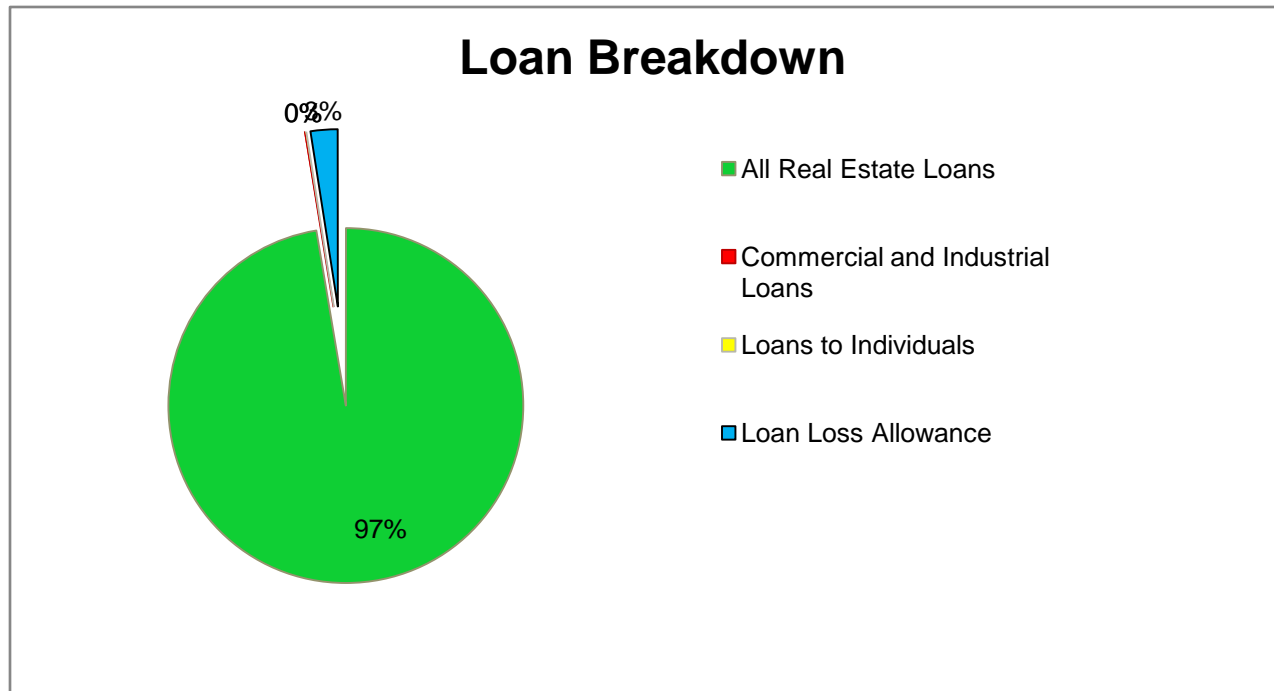
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2008 was 63.20%.
- The average Net Loan percentage of all banks in the second quarter of 2008 was 66.00%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2008 was 90.53%.
- The average percentage for all banks in the second quarter of 2008 was 70.68%.

Events Timeline

- Mar. 15, 07** - Delinquency rate on both subprime and Alt-A loans have doubled in the past year.
- Mar. 15., 07** - IndyMac stock is down 33% in the past three months.
- Mar. 28, 07** - CEO and director of IndyMac each bought more than \$1 million of the lender's shares in the past week.
- Mar. 4, 08** - SEC voted to disclose information for the secondary market ETF investors in Form N-1A.
- Mar. 7, 08** - The Fed will initiate a series of term repurchase transactions that are expected to cumulate to \$100 billion.
- Mar. 19, 08** - Fannie Mae and Freddie Mac is expected to provide support to the U.S. mortgage market, up to \$200 billion immediate liquidity.
- Mar. 31, 08** - IndyMac's loan loss reserves covered 52% of nonperforming loans.
- May 12, 08** - IndayMac reported a \$184.2 million loss in the 1Q of the year.
- May 12, 08** - IndyMac shares tumbled 10.8% to \$3.06 on the New York Stock Exchange.
- May 12, 08** - Chief executive said 75% of its \$16 billion in loans outstanding are Alt-A, 4% are subprime, and 21% are prime.
- May 12, 08** - IndyMac reported \$249 million in write-downs related to mortgage-backed securities and upped its credit reserves nearly threefold to \$2.7 billion from a year earlier.
- May 13, 08** - IndyMac will lay off 3,800 out of its total 7,200 employees, expecting to reduce operating expenses roughly 60%.
- May 27, 08** - Cuts on earnings estimates and price target caused IndyMac's shares to fall 22 cents of 11% to \$1.78.

Events Timeline

- May 29, 08** - U.S.-Canada mutual recognition arrangement: U.S. Securities markets and certain U.S. financial service firms could gain greater freedom to operate in Canada under SEC.
- June 7, 08** – IndyMac is trying to sell \$540 million in loans made to finance land purchases and housing construction projects.
- June 10, 08** - FDIC releases a supervisory letter to all banks on interest reserves that examines the risks that this underwriting practice presents.
- June 11, 08** – SEC voted on a comprehensive series of credit rating agency reforms to bring increased transparency to credit rating process.
- June 13, 08** - IndyMac shares are down 14% to \$1.34 a share.
- June 17, 08** – New HOPE NOW guidelines to deal with issues surrounding second mortgages and short sales.
- June. 26, 08** – FDIC adopts Basel II-Based Standardized Approach as an alternative risk-based capital framework available to all banks except the largest and most complex banks
- June. 26, 08** – FRS, FDIC, and OCC issued the host state loan-to-deposit ratios, which help indicate branches outside of the home state that were established or acquired for the purpose of deposit production.
- Jul. 07, 08** – IndyMac reported a loss of \$184.2 billion in the first quarter and it expected to have a wider loss for the second quarter.
- Jul. 11, 08** – IndyMac was closed by FDIC and its deposit was transferred to IndyMac federal Bank. The cost of this takeover is \$8.9 billion.

Events Timeline

- Jul. 13, 08** - Paulson Announces a three-part plan for GSEs: a temporary increase in the line of credit, a temporary authority for Treasury to purchase equity, and an advisory role is given to the Fed.
- Aug. 20, 08** - FDIC's implementation in Loan Modification Program will help to modify troubled IndyMac mortgages loans.
- Sept. 17, 08** - SEC clarified that bank support of money market mutual funds generally are not required to present the fund on-balance sheet, but disclosure of the nature of the support provided is expected.
- Sept. 18, 08** - SEC requires that certain institutional money managers report their new short sales of certain publicly traded securities.
- Sept. 19, 08** - SEC prohibited short selling in 779 financial institutions.
- Sept. 20, 08** - Treasury Secretary Hank Paulson releases \$700 billion proposal to purchase troubled mortgage-related assets.
- Oct. 7, 08** - Emergency Economic Stabilization Act of 2008 Temporarily Increases Basic FDIC Insurance Coverage from \$100,000 to \$250,000 per Depositor.
- Oct. 14, 08** - FDIC creates new program to guarantee bank debts and fully insure non-interest bearing deposit transaction accounts.
- Oct. 14, 08** - The Treasury Department will invest up to \$250 billion in the nation's banks via the Capital Purchase Program.
- Nov. 20, 08** - FDIC announces the availability of IndyMac Loan Modification Model.

Events Timeline

- Nov. 25, 08** - Created the Term Asset-Backed Securities Loan Facility to support the issuance of asset-backed securities collateralized by loans.
- Dec. 3, 08** - SEC approved measures to strengthen oversight of credit rating agencies.
- Dec. 16, 08** - Troubled banks have to provide certain position level and counterparty level data and QFC counterparty and portfolio identifiers to FDIC in a timely manner.
- Dec. 23, 08** - Treasury provides TARP funds to focal Banks by purchasing \$2.8 billion investment from 49 banks.
- Dec. 30, 08** - The Fed announced that it will purchase mortgage-backed securities.
- Jan. 15, 09** - The Senate voted to allow access to the remaining bailout funds of \$350 billion.
- Jan. 27, 09** - As part of the Capital Purchase Program, Treasury announced investments of \$386 million in 23 healthy banks.
- Feb. 10, 09** – Geithner rolls out the Financial Stability Plan, promises to perform “stress tests” on big banks, and commit \$100 billion to boost the TALF.
- Feb. 10, 09** - A Capital Assistance Program to help ensure banks hold sufficient capital, produce a more consistent and forward-looking assessment of risks on banks' balance and their potential capital needs.
- Feb. 10, 09** - A Public-Private Investment Fund will combine public and private capital with government financing to help free up capital to support new lending.
- Feb. 10, 09** - Treasury and Fed expended the Term Asset-Backed Securities Lending facility up to \$1 trillion.

Events Timeline

- Feb. 18, 09** - President Obama signs the American Recovery and Reinvestment Act of 2009, which limits bonuses of the highest earning executives.
- Mar. 4, 09** - Treasury announced loan modification guidelines under the Administration's Homeowner Affordability and Stability Plan.
- Mar. 23, 09** - Using TARP capital and capital from private investors, the Public-Private Investment Program will generate \$500 billion in purchasing power to buy legacy assets.
- May 29, 09** - FDIC tightens the deposit interest rates paid by banks that are less than well capitalized. Generally, such banks will be permitted to offer to "national rate" plus 75 basis points.
- June 9, 09** - 10 Of the largest U.S financial institutions are expected to make CPP repayments to Treasury.
- Jul. 2, 09** - FDIC proposed guidelines require private equity firms to hold bank purchases for 3yrs and maintain capital levels.

Report Summary – *Surprise?*

Based on the methods with which we analyzed, IndyMac Bank, its failure was **not a surprise**.

Here are the indications that IndyMac Bank should fail:

- 1) **IndyMac Bank was ranked very poor in normalized income analysis. It lost \$1.5 billion in the last 4 quarters, which is 4.5% of its total asset.**
- 2) **IndyMac Bank's asset liabilities ratio was ranked very poor in the last two quarters prior to failure. Especially the last quarter, in which the A/L ratio was 103.87%.**
- 3) **The bank's BCS score was 5.71 in the last quarter, which was ranked very poor.**

The combination of all these three measures being poor obviously shows that the bank could fail anytime.

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