

# Southern California depositors could lose \$500 million in IndyMac bank failure

John Burton, Kim Saito  
16 July 2008

Last Friday afternoon, Federal Deposit Insurance Corporation (FDIC) regulators abruptly shut the doors of Pasadena, California-based IndyMac Bank several hours before its normal closing time and seized \$38 billion in assets, making IndyMac Bank the third-largest bank failure in American history, and the sixth this year.

When the 33 branches reopened Monday morning as IndyMac Federal Bank, they were greeted by thousands of retirees, workers and professional people, many having already stood in line for hours. The crowds waited in sweltering heat to withdraw whatever funds they could in scenes recalling the financial panic that gripped the country during the Great Depression.

Police were called to the Encino branch in the San Fernando Valley Tuesday to control a line of people, many of whom had been waiting since Monday to withdraw funds.

A spin-off of Countrywide Finance Corporation founded by Countrywide's recently retired CEO Angelo Mozilo, IndyMac in the first years of the decade played a key role in the Southern California housing bubble by providing high-interest "Alt-A" home mortgages to purchasers with good credit ratings who were not asked to provide documentation of their income and assets. These so-called "liar loans" exemplified the speculative frenzy that created a vastly inflated housing boom which enabled mortgage lenders, banks and big investors to amass huge profits by buying and selling securities backed by such dubious assets.

While home prices were rising, sometimes at rates of more than 10 percent a year, purchasers refinanced their equity or "flipped" properties to make up deficits. With the collapse in home values, some 15 percent of IndyMac mortgages have gone into default or

foreclosure, with many more losses on the way.

IndyMac holds directly about \$15 billion in such highly toxic mortgages, and bundled another \$185 billion into securities, which were sold to investors. Deposits in savings and checking accounts total \$19 billion. Most of the depositors are ordinary people, who were encouraged to increase their deposits by means of IndyMac certificates of deposit paying 4.3 percent, higher than average for Southern California.

The FDIC insures individual deposits up to \$100,000, a limit set in 1980, and \$250,000 on certain retirement accounts. A 2001 effort to raise the limits was defeated largely due to opposition from former Federal Reserve Board Chairman Alan Greenspan.

FDIC officials are allowing IndyMac depositors to withdraw the federally insured portions of their accounts and fifty percent of any balance. Remaining funds will be repaid, if at all, out of any funds left after the liquidation of IndyMac's assets.

About \$1 billion of IndyMac's deposits are beyond the FDIC insurance limits and therefore are not covered, meaning that depositors may lose as much as \$500 million in savings.

Paying off the insured deposits is anticipated to cost the FDIC between \$4 billion and \$8 billion of its \$52 billion insurance fund.

Senator Charles E. Schumer, the New York Democrat, has been accused of fueling the panic by sending a June 26 letter to the FDIC and other federal agencies warning of "IndyMac's financial deterioration." During the next two weeks, depositors withdrew \$1.3 billion, leading to layoffs of 3,800 employees. Finally, the run on bank deposits forced the government takeover to slow down the financial hemorrhage.

The collapse came as no surprise to Wall Street

insiders. IndyMac Bancorp share prices plummeted from a high of \$31.50 per share in 2007 to less than a dollar by the date of Schumer's letter. The stock is essentially worthless today.

The IndyBank collapse was followed Monday by the steepest single-day decline in banking shares in almost twenty years, with the Standard & Poor's banking index falling almost 10 percent.

Other Southern California banks were particularly hard hit. Shares of Downey Financial Corp. (Downey Savings) and FirstFed Financial Corp. (First Federal Bank of California), large providers of subprime adjustable rate mortgages, lost 22 and 19 percent of their value, respectively. Stock in Washington Mutual Inc., the nation's biggest savings and loan bank, lost one-third of its value Monday, sending depositors scurrying to withdraw uninsured funds.

Current estimates are that of the 7,500 FDIC insured banks, 100 to 200 will fail in the next 12 to 24 months, potentially unleashing a social catastrophe affecting millions.

*The following is an on-the-spot report from the IndyMac branch in Tustin, California.*

On Tuesday afternoon, sitting on folding chairs outside the IndyMac branch in Tustin, California, were some 20 people waiting in the hot sun for their "transactions" with bank officials. A few found shade under a tree. Yellow police tape was set up near the entrance. About half were retirees; some were middle-aged workers, a few were younger workers. They were Asian, white, and Hispanic.

Every so often, security guards offered free bottles of water. Some bank officials were stationed outside.

At about 5 PM, one elderly woman stood up and said in exasperation that she was going to have to come back the next day after waiting all day. "I just want my money," she said.

After signing up on clipboards, people were asked to sit down and wait for their transaction. The conversations between people were often about which page they were on. Some said they were on the seventh page, others said they were on the ninth page.

One Hispanic woman, who came with her young daughter, asked a bank official if she could make her mortgage payment. As another Spanish-speaking couple helped translate, he told her, "You cannot go inside. Those kinds of transactions aren't allowed

today." The woman explained that she needed to pay her mortgage in cash. He replied, "Oh, no. Cash is bad. Can you write a check?"

The *World Socialist Web Site* spoke to Maria Mitrovic, who had retired after working nine years as a custodian at Cal State University Long Beach. She originally came from Italy.

"I am worried," she said. "My husband works as a technician for ATT. Both of our savings are here. I retired because of an injury to my wrist. And I worked hard for my money. I used to start work at 4 in the morning every day. I'd work by myself cleaning the rooms in a big building.

"Every day I don't eat some food to keep saving some money for my old age. I have to wait three more years until I'm 62 before I get Social Security.

"Actually, I was here this morning, when there were about 200 people. I took out just one of my four CDs, but when I went home, both my husband and my brother said, 'No, no, no! Go back and pull all of it out. Put it in Bank of America because it's safer.' So, that's why I'm here.

"Some people are here after waiting yesterday. If I don't make it in today, I'll have to come back tomorrow.

"On the news the bank officials all say that our money is safe, and we can get our money. Of course, they have to say that. Otherwise, everybody would panic. What's going to happen to America if this is happening at IndyMac?

"So many people are losing their jobs. It's terrible. There aren't going to be any good jobs anymore. But I try to think at least we have jobs, a home, a roof over our heads, and something to eat. There are many people who have far less."

A retired electronics specialist from Vietnam said, "Everybody works and saves. And then one day something like this happens. If you have under \$100,000, you don't have to worry. But if you have more, that's a problem."



To contact the WSWWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**