

Failed IndyMac Bank under investigation for lending fraud

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IndyMac, a banking chain based in Pasadena, California with branch offices throughout the Los Angeles metropolitan area, is among 21 lending institutions being investigated for lending and accounting fraud by the Federal Bureau of Investigation (FBI).

On July 11, IndyMac, with assets of \$32 billion, was shut down by the Office of Thrift Supervision and its assets were seized by the Federal Deposit Insurance Corporation. The FDIC move only partially protects depositors at the institution's 33 branches. According to one estimate, \$500 million in depositors' money stands to be lost as a result of the bank failure—the third largest in US history.

Left in the cold are thousands of past and current employees, many of whom were laid off in the weeks before the bank failure. The wages and commissions of many of the remaining employees are uncertain.

The federal takeover occurred three days after IndyMac slashed its workforce in half, leaving 3,800 employees on the street, and sold its mortgage division to Providence, an Alaska-based mortgage company.

Despite government assurances to depositors with \$100,000 or less in the bank that their money is guaranteed, some banks are refusing to honor IndyMac checks. An employee of the San Marino, California Washington Mutual Bank branch is quoted by MSNBC as saying the bank's policy is not to accept IndyMac checks. If people insist, they are told that there is an eight week delay until the money becomes available to them.

The FBI investigation predates the bank's collapse, which is widely believed to have been bound up with fraudulent and unethical practices. According to a report by the Center for Responsible Lending entitled "IndyMac: What Went Wrong," the bank would

routinely trap borrowers in mortgages they couldn't afford, often overruling the recommendations of its own mortgage risk adjusters.

The report refers to the cases of three retirees: Ben Butler, Simeon Ferguson and Eloise Manuel. The application turned in on Butler's behalf indicated a social security benefit of \$3,825 a month. "The maximum Social Security benefit at the time was barely half that. Mr. Butler had no idea his income had been inflated," says the report.

"Ferguson, an 86-year-old retired chef, ran into similar problems with an IndyMac loan in Brooklyn, New York," the report states. "His attorneys claim a mortgage broker steered Mr. Ferguson, who was suffering from dementia, into an IndyMac 'stated income' loan program for retirees."

Eloise Manuel had retired from a career in food service, making salads and working as a line server. According to the report, her sole 2004 income was \$527 a month from Social Security. Though her house was fully paid off, she borrowed from IndyMac to pay for home improvements.

"Ms. Manuel told the broker she could afford a mortgage payment of no more than \$120 a month," the report states. "The broker told her she wouldn't have to pay any more than that, and that he would get her the lowest fixed rate possible. The loan turned out to be something much different—an adjustable rate mortgage with an initial teaser rate of 3.875 percent that lasted one month. The rate quickly jumped to 6 percent and eventually rose to 10.25 percent. As her monthly payment climbed to around \$200 a month, Manuel called IndyMac and learned she had an adjustable rate loan. She had to get help from her family and apply for food stamps to keep up with her growing expenses."

The report indicates that these were not isolated cases

and that IndyMac “pushed through loans based on bogus appraisals and income data that exaggerated borrowers’ finances.”

As a result of these practices, IndyMac was able to generate high volumes of loans during the housing boom. Its profits on equity reached a high point of 19 percent in 2006. This was reflected in the value of its shares of stock, which reached \$45 at the end of 2006, triple its year 2000 value.

By the time of its collapse, however, it had racked up more than \$900 million in losses and IndyMac’s shares had dropped to 39 cents. Stockholders, many of whom had invested for the long term in 401Ks and other retirement accounts, lost over 95 percent of their IndyMac investment.

2006 was a banner year for IndyMac’s CEO, Michael Perry. That year, *Forbes* magazine listed him as the fourth highest-paid banking CEO, with an income in 2006 of \$15.9 million and an average yearly compensation of \$7.86 million over six years. Discounting stock options, his yearly compensation was \$2.5 million. Company President Richar Wohl, whose yearly base salary was a “modest” \$774,000, exercised over \$5 million in stock options in 2007.

The social cost of these obscene payouts is seen in the ruined lives of thousands of victims of foreclosures, 38,000 sacked workers, and thousands of bank depositors whose retirement savings have been substantially reduced.

Perry has made thousands of dollars of political contributions, both to political action committees and individual candidates, mostly Democrats. Among his most recent contributions to national campaigns are \$500 to Hillary Clinton, \$500 to Barack Obama and \$2,300 to Christopher Dodd, the Democratic chairman of the Senate Banking Committee, responsible for overseeing and regulating the activities of lending institutions such as IndyMac.

Other lending institutions under investigation by the FBI are Wachovia Securities and Countrywide Financial.

California lost over \$9 billion from the 2000-2001 crisis, when electricity monopolies such as Enron manipulated the market. The losses this time could be far worse from financial manipulations by IndyMac and others.

On Thursday morning, a *World Socialist Web Site*

reporting team interviewed angry depositors lined up at IndyMac’s Encino, California branch. Some 75 people were already waiting at 7 AM, two hours before opening time, to retrieve their savings.

Angelica, a young worker, said, “I haven’t really slept since Monday. I have \$10,000 in deposit, but it is my money and I want it. I guess it is going to have to go under my mattress. It is my money. Would you honor IndyMac’s checks? If I were another bank, I would not have it.

“That the government came to our rescue does not make me feel any better. The government isn’t in too good a shape either. It is in financial ruins itself. How can it help anybody? They are in debt in the billions.”

Donald Ames, a fashion designer, told the WSWS, “I am going to pull my money out just to be on the safe side. You never know what is going to happen. I have less than \$50,000 in here. We know that the FDIC insures up to \$100,000. But an article in the *LA Times* said that funds were insured for single names, and our account is a joint one. I want to get some understanding as to what that means exactly. This is money saved for my daughter’s college education.”

A retired woman said, “We came here yesterday, stood in line, went in and were given some papers to fill out and told to come back today. They said that the FDIC is insuring deposits of up to \$100,000, but what they are doing at IndyMac is combining CDs per household. They are doing that to everybody. They are devils!”



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