INDYMAC: WHAT WENT WRONG?

How an "Alt-A" Leader Fueled its Growth with Unsound and Abusive Mortgage Lending

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In Brief: IndyMac's story offers a body of evidence that discredits the notion that the mortgage crisis was caused by rogue brokers or by borrowers who lied to bankroll the purchase of bigger homes or investment properties. CRL's investigation indicates many of the problems at IndyMac were spawned by top-down pressures that valued short-term growth over protecting borrowers and shareholders' interests over the long haul.

> *"…I would reject a loan and the insanity would begin. It would go to upper management and the next thing you know it's going to closing."*
> —Audrey Streater, former Indymac underwriting team leader in an interview with CRL.

Ben Butler, an 80-year-old retiree in Savannah, Georgia got an IndyMac loan in 2005 to build a modular house. IndyMac okayed the mortgage based on an application that said Mr. Butler made $3,825 a month in Social Security income.

One problem: The maximum Social Security benefit at the time was barely half that. Mr. Butler had no idea his income had been inflated by IndyMac or the mortgage broker who arranged the deal, his attorney maintains. Even if IndyMac wasn't the one that puffed up the dollar figure, the attorney says, it should have easily caught such an obvious lie.[1]

Simeon Ferguson, an 86-year-old retired chef, ran into similar problems with an IndyMac loan in Brooklyn, New York.

His attorneys claim a mortgage broker steered Mr. Ferguson, who was suffering from dementia, into an IndyMac "stated income" loan program for retirees. IndyMac made no effort to verify retirees' income, attempting to duck accountability "by deliberately remaining ignorant of the borrower's ability to pay the mortgage," his lawsuit says. IndyMac's instructions for preparing the mortgage application required that "the file must not contain any documents that reference income or assets."[2]

In the case of **Elouise Manuel**, a 68-year-old Decatur, Georgia retiree, IndyMac instructed the mortgage broker to send copies of her Social Security award letters with the dollar amounts expunged: "Need copy of SSI letter blacked out for the last 2 yrs w/no ref to income."[3]

Each time, the result was the same: borrowers trapped in loans they couldn't afford.

They are not alone. An investigation by the Center for Responsible Lending has uncovered substantial evidence that IndyMac Bank and its parent, IndyMac Bancorp, engaged in unsound and abusive lending during the mortgage boom, routinely making loans without regard to borrowers' ability to repay. These practices left many deep in debt and struggling to avoid foreclosure.

CRL interviews with former employees and lawsuits in 10 states indicate that IndyMac

- pushed through loans based on bogus appraisals and income data that exaggerated borrowers' finances;
- worked hand-in-hand with mortgage brokers who misled borrowers about their rates and other loan terms and stuck them with unwarranted fees; and
- treated many elderly and minority consumers unfairly.

In interviews and court documents, 19 former employees describe an atmosphere where the hunger to close loans ruled. They say IndyMac pushed through loans with fudged or falsified information or simply lowered standards so dramatically that shaky loans were easy to approve.

[1] Letter, Scott Vaughan, attorney at law, to Clarice Paschel, IndyMac, October 8, 2007.
[2] Ferguson v. IndyMac Bank, U.S. District Court for the Eastern District of New York, filed February 14, 2008.
[3] Manuel v. American Residential Financing, Inc., et al, Superior Court of Gwinnett County, State of Georgia, April 3, 2008.

Most of these ex-employees were mortgage underwriters who were responsible for reviewing loan applications to make sure information was accurate and that borrowers could afford the deals. Many say their efforts to do their jobs were hamstrung by higher-ups.

"I would reject a loan and the insanity would begin," Audrey Streater, a former underwriter and underwriting team leader for IndyMac in New Jersey, said in an interview with CRL. "It would go to upper management and the next thing you know it's going to closing. . . . I'm like, 'What the Sam Hill? There's nothing in there to support this loan.' "[4]

Disneyland loans

Like many other lenders during the housing and mortgage boom of 2003-2006, IndyMac moved away from documenting borrowers' incomes and assets – basic information that's crucial to determining whether consumers can afford a loan.

Take, for example, a $354 million pool of mortgages that IndyMac packaged into a mortgage-backed securities deal in June 2006. Less than 10% of the dollar volume involved "full-documentation" loans. The rest involved low or no-documentation loans -- mostly "stated income" loans in which borrowers' income was simply affirmed without supporting evidence such as tax documents or pay stubs.[5]

As recently as the first quarter of 2007, just 21% of IndyMac total loan production involved "full-doc" mortgages.[6]

As IndyMac lowered standards and pushed for more volume during the mortgage boom of 2003-2006, the quality of loans became a running joke among its employees, according to a former IndyMac fraud investigator who is cited as a "confidential witness" in a lawsuit in California.[7] The investigator says shoddily documented loans were known inside the company as "Disneyland loans" – in honor of a mortgage issued to a Disneyland cashier whose loan application claimed an income of $90,000 a year.

Another witness cited in the case, a former IndyMac vice president, claims chief executive Michael Perry and other top managers focused on increasing loan volume "at all costs," putting pressure on subordinates to disregard company policies and simply "push loans through."

[4] Audrey Streater, telephone interview, Center for Responsible Lending.

[5] IndyMac INDX Mortgage Loan Trust 2006-FLX1, Prospectus dated June 14, 2006. A check of two other IndyMac loan pools put together around the same time show a higher percent of "full-doc" loan volume – 16% to 26%.

[6] IndyMac Bancorp Inc., 8K filing with Securities and Exchange Commission, May 12, 2008. IndyMac has now moved decidedly back in the direction of fully documenting borrowers income and other particulars, with 69% of its loan volume in March 2008 involving "full-doc" mortgages.

[7] Tripp et al v. IndyMac et al, U.S. District Court for the Central District of California, filed March 12, 2007. Unless otherwise indicated, all references to Tripp v. IndyMac refer to the "Third Amended Class Action Complaint" that was filed with the court on June 6, 2008.

Another former employee quoted in the suit claims Perry told him "business guys rule" and "[expletive deleted] you to compliance guys." As a result, this ex-employee claims, IndyMac was about "production and nothing else."

The company says the ex-employees' statements in the lawsuit are a mishmash of hearsay and speculation, and says the suit is "long on words but short of substance" and full of "meaningless filler."[8] The company says the simple truth is that it suffered rising borrower defaults and plunging profits not because management pushed through bad loans, but because the company "got caught in the same financial hurricane that affected every other participant in the mortgage and housing industries."[9]

IndyMac also denies wrongdoing in other lawsuits that it's battling around the nation. At this point, these cases are still wending their way through the legal process and haven't been proven in court, so the allegations remain just that – allegations.

"A much more responsible way"

The company says it supports "responsible lending that is free of unfair or deceptive acts or practices." It says it was a leader in providing clear disclosures to borrowers about the potential for "payment shock" as adjustable rate loans reset. And it says its pricing disclosures are designed to make sure borrowers understand what they're getting.[10]

And while it acknowledges it "loosened its lending standards along with everyone else" in an effort to "compete and grow," it says it did so "in a much more responsible way" than other lenders.[11]

"IndyMac and most home lenders were not 'greedy and stupid,' " IndyMac CEO Perry told shareholders in February. "Most of us believe that innovative home lending served a legitimate economic and social purpose, allowing many US consumers to be able to achieve the American dream of homeownership . . . and we still do."[12]

Perry said a good part of the blame for the company's problems lies with forces outside its control, including the fall in prices of mortgage-backed investments packaged by Wall Street and the huge decline in home prices and home sales.[13]

He's also lashed out at "house flippers" who took advantage of lenders' easy-credit policies. When IndyMac announced more than $200 million in losses for the third quarter of 2007, Perry

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[8] Tripp v. IndyMac.
[9] Tripp v. IndyMac.
[10] Letter from Richard Wohl, president, IndyMac Bank, to U.S. Office of Thrift Supervision, November 5, 2007. http://www.ots.treas.gov/docs/9/962970.pdf.
[11] Matt Padilla, "Lenders and their creative accounting; Part I, IndyMac answers questions about loan losses," Orange County Register, May 12, 2007. http://mortgage.freedomblogging.com/2007/05/12/lenders-and-their-creative-accounting-part-i-indymac-answers-questions-about-loan-losses/
[12] Business Wire, "IndyMac Issues 2007 Annual Shareholder Letter," February 12, 2008.
[13] "2007 Annual Shareholder Letter."

blamed these fast-buck artists for his company's financial stumbles. "A lot of speculators crept into the market – people who lied about their intent to live in the homes," he told the *Los Angeles Times*. Many used second mortgages – known as "piggyback" loans – to snap up houses without having to put any money down, Perry said. As home values swooned, he added, these speculators had little incentive to keep paying their mortgages.[14]

Some insiders paint a different picture. They describe IndyMac as less a victim than a facilitator of bad practices. The former vice president quoted in California court documents claims Perry and other top executives were aware that fraud and lying were rampant in the company's loan-approval process.[15] Another ex-employee – the former fraud investigator – claims that the vice president in charge of the company's fraud investigation department was pressured by upper management not to report fraud, and in one case was pressured to "sanitize" a report on the company's loan pipeline.[16]

THE COMPANY: Why IndyMac is important

IndyMac is a case study in the rise and fall of America's mortgage market. Its story offers a body of evidence that discredits the notion that the mortgage crisis was caused by rogue brokers or by borrowers who lied to bankroll the purchase of bigger homes or investment properties. CRL's investigation indicates many of IndyMac's problems were spawned by top-down pressures that placed short-term growth ahead of borrowers' and shareholders' interests over the long haul.

In this sense, the Pasadena, California-based company has much in common with its rival and one-time parent, Countrywide Financial Corp.,[17] and other lenders that grew wildly before falling on hard times.

IndyMac by the numbers

	Total loan production by year in billions	Mortgage industry market share	Return on average equity
2003	$29	0.8%	17%
2004	$38	1.4%	17.4%
2005	$61	2.0%	21.2%
2006	$90	3.3%	19.1%
2007	$77	3.3%	-31.1%

SOURCES: IndyMac filings with Securities and Exchange Commission

[14] E. Scott Reckard, "IndyMac's loss much wider than expected," *Los Angeles Times*, November 7, 2007.
[15] Tripp v. IndyMac.
[16] Tripp v. IndyMac.
[17] Center for Responsible Lending, "Unfair and Unsafe: How Countrywide's irresponsible practices have harmed borrowers and shareholders," February 7, 2008. http://www.responsiblelending.org/pdfs/unfair-and-unsafe-countrywide-white-paper.pdf.

IndyMac's lending volume and profits soared during the mortgage boom. Loan volume tripled in three years, approaching $90 billion in 2006. It grew far faster than most of its competitors; its share of the national mortgage market increased from 0.77% to 3.30% over that span. Profits more than doubled over those three years, hitting $343 million in 2006.

In 2007 and 2008, however, it suffered a dramatic reversal of fortune. IndyMac's "non-performing assets"– bankspeak for loans that have gone bad – have been growing at a steep rate. The firm's dollar volume of non-performing assets exploded 11-fold in 15 months – going from $184 million (0.63% of assets) at the close of 2006 to $2.1 billion (6.51% of assets) at the end of the first quarter of 2008.[18] IndyMac generally defines "non-performing assets" as loans that are at least 90 days overdue or in foreclosure.

As a result of the growing numbers of bad loans and a drop in mortgage originations, IndyMac posted a $615 million loss in 2007, and a $184 million loss in the first three months of 2008. That combined loss of nearly $800 million over 15 months means that it has more than given back all of the $636 million in profits it posted in 2005-2006, at the height of the mortgage boom.

Meanwhile, IndyMac's stock price, which hit its highest level ever at the end of 2006, topping $45, has plummeted, falling below one dollar as of June 26, 2008. Long-time shareholders have lost some 95% of their value in just over two years.

The company has eliminated riskier products such as low documentation Alt-A loans and "piggy back" loans[19], and Michael Perry continues to express optimism that the company will turn things around once the housing market improves.

Alt-A empire

IndyMac's record is also worth scrutinizing because of the ways it differs from many lenders involved in the mortgage mess.

For one thing, IndyMac's specialty was not subprime loans, but so-called Alt-A loans. While subprime loans were supposed to go to borrowers with the weakest credit profiles, Alt-A loans were generally supposed to be aimed at borrowers who had better credit but couldn't document all their income or assets. These borrowers paid higher rates than traditional prime borrowers, but lower rates than subprime borrowers.

No lender was more steeped in the Alt-A market than IndyMac. In 2006, IndyMac ranked number one in the nation among Alt-A lenders, producing $70 billion in volume, or 17.5% of the Alt-A market.[20] Nearly four-fifths of IndyMac's mortgage volume during that span involved Alt-A loans.[21]

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[18] IndyMac Bancorp, Form 8K report to Securities and Exchange Commission, May 12, 2008.
[19] IndyMac Bancorp, Inc., 10K Report to Securities and Exchange Commission 2007, Feb. 29, 2008.
[20] 2007 Mortgage Market Statistical Annual – Volume I," Inside Mortgage Finance.
[21] According to Inside Mortgage Finance, Countrywide was close behind in Alt-A volume, at $68 billion, but that figure represented a much smaller slice -- 15% -- of Countrywide's mortgage production.

Over the past year, much attention has been focused on subprime loans, with references to catch phrases such as "subprime meltdown." Alt-A lenders struggled to distance themselves from subprime. In early 2007, Perry argued that Alt-A lenders were being unfairly lumped in with subprime.[22]

But many of the practices prevalent in the subprime market – including bait-and-switch salesmanship and slapdash underwriting – also appear to have been common in the Alt-A sector. Rising defaults have shown that the Alt-A business wasn't as immune from problems as its proponents argued. As of February 2008, roughly one in seven Alt-A loans nationwide on owner-occupied homes were at least 30 days late, in foreclosure, or already in repossession, according to the Federal Reserve Bank of New York.[23]

Taxpayers at risk?

IndyMac is also worthy of note because it didn't rely as heavily on Wall Street financing as many of the lenders that got into trouble. IndyMac did sell the vast majority of its loans to Wall Street so they could be packaged into mortgage-backed securities investment deals. However, it depended less than many lenders on up-front lines of credit from Wall Street to bankroll its loans before they were sold to investors.

Instead, IndyMac has increasingly relied on federally-insured customer deposits and borrowings from the Federal Home Loan Bank (FHLB) system:

- Its deposits jumped from $4.4 billion at the end of 2003 to $18.9 billion as of March 31, 2008.
- Its FHLB borrowings grew from $4.9 billion at the end of 2003 to $10.4 billion as of March 31, 2008.
- Together, those two sources of funding represented roughly 94% of its total liabilities on March 31, 2008, up from 79% in March 2007.[24]

Initially, IndyMac's use of federally-guaranteed sources of funds made the company less vulnerable to the credit crunch than many other lenders, which went under when Wall Street firms cut-off their lines of credit. However, IndyMac's reliance on capital from the Federal Home Loan Bank system, and on deposits that are backed by the FDIC, puts the federal government in the position of bankrolling loans that may be abusive. It also puts the system at risk of significant losses as loans go bad.

U.S. Senator Charles Schumer has told federal regulators that he's "concerned that IndyMac's financial deterioration poses significant risks to both taxpayers and borrowers and that the

[22] Herb Greenberg, "IndyMac's Optimism Will Be Put to Test," Wall Street Journal, August 18, 2007.
[23] Federal Reserve Bank of New York, "Nonprime Mortgage Conditions in the United States," January 2008.
[24] IndyMac Bancorp, Inc., Form 10Q Report to Securities and Exchange Commission, May 12, 2008.

regulatory community may not be prepared to take measures that would help prevent the collapse of IndyMac or minimize the damage should such a failure occur."[25]

EMPLOYEES: Working for IndyMac

Audrey Streater worked in the mortgage business for three decades. She can remember a time – perhaps a decade ago – when mortgage underwriters "reigned in fear." When an underwriter gave thumbs up or thumbs down to a loan, it meant something.[26]

"Underwriter was spelled G-O-D, and our expertise and our knowledge was taken seriously," Streater recalls wistfully.

Things changed. In recent years, she says, underwriting became window dressing -- a procedural annoyance that was tolerated because loans needed an underwriter's stamp of approval if they were going to be sold to investors.

That was prevailing attitude at IndyMac during the mortgage boom, but also at other lenders too, she and several other former IndyMac underwriters say. A big problem, they say, were "stated income" loans that required no documentation of the borrowers' wages. They say these loans allowed outside mortgage brokers and in-house sales staffers to inflate applicants' incomes and make them look like better credit risks.

Even loans that IndyMac billed as "full-documentation" deals may not have been all that IndyMac presented them to be, according to one lawsuit.[27] The suit says some of IndyMac's "full doc" loans were supported not by W-2s or pay stubs but by a verification of employment form -- paperwork that confirms a borrower has a job but doesn't authenticate his or her income. The suit quotes a February 2006 IndyMac document that says, in bold letters, "**IndyMac NonPrime will accept a Verification of Employment for a full documentation loan with no pay stubs or W2s needed!**"

When underwriters tried to block questionable loans, several ex-employees say, brokers and salespeople went over their heads to management to overturn loan denials. Upper management at the company's Pasadena headquarters "probably got more involved than they should be," Streater says.

"It was the nature of the beast that Pasadena created," she adds. "The broker was always right. If the broker decided to fight it, chances were more than not that he would win."

"A wonderful company"

In all, CRL interviewed 14 former IndyMac employees.

Three said they didn't notice undue pressure to close loans during their time at the company. "It was a wonderful company to work for. There was never any pressure to push loans through," says

[25] James R. Hagerty, "Schumer Asks Regulators For Greater IndyMac Scrutiny," Wall Street Journal, June 26, 2008.
[26] Audrey Streater, telephone interview with Center for Responsible Lending.
[27] Tripp v. IndyMac.

Maisha Smith, a loan conditions specialist for IndyMac in California in 2004 and 2005. She says the company had strong fraud controls designed to catch bad loans.

Eleven others told CRL that the company funded loans without enough regard for borrowers' ability to repay. In addition, eight more ex-employees are quoted in the California lawsuit describing internal pressures to approve dicey loans.[28] All of them are identified as unnamed "confidential informants." Included among them are two former vice presidents and a former senior auditor, the suit says.

In court papers, IndyMac dismisses the eight former workers as mostly lower-level, short-term employees who had no knowledge of top managers' thinking.[29] Rather than identifying fraud, the company says, these former employees simply "disagree with the policies they believe IndyMac undertook" to pursue a share of the rising mortgage market.

Almost all of the ex-employees interviewed by CRL were underwriters who worked at the company amid the nationwide mortgage surge. Streater came to IndyMac's Marlton, N.J., location as an underwriter in 2005, then worked as a team lead underwriter from 2006 until she left in mid-2007, supervising eight other underwriters.

IndyMac's underwriters were loyal and proud, Streater says, but many got worn down by the pressure to book loans. Many were stymied, afraid to make decisions because "somebody is going to yell at you," she says. Some "were making decisions based on: 'I might as well do this because it's going to get approved anyway.' "

Tamara Archuletta, who was an underwriter for IndyMac in Arizona in 2006 and 2007, recalls one inexperienced underwriter who declared: "It's not my money. I don't care."[30]

"Slap in the face"

Wesley E. Miller, who worked as an underwriter for IndyMac in California from 2005 to 2007, says that when he rejected a loan, sales managers screamed at him and then went up the line to a senior vice president and got it okayed.[31] "There's a lot of pressure when you're doing a deal and you know it's wrong from the get-go – that the guy can't afford it," Miller told CRL. "And then they pressure you to approve it."

The refrain from managers, Miller recalls, was simple: "Find a way to make this work."

Scott Montilla, who worked as an underwriter for IndyMac in Arizona around the same time as Achuletta, says that when salespeople went over his head to complain about loan denials, higher-ups overruled his decisions roughly half the time.[32]

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[28] Tripp v. IndyMac.
[29] Tripp v. IndyMac.
[30] Tamara Archuletta, telephone interview with Center for Responsible Lending.
[31] Wesley E. Miller, telephone interview with the Center for Responsible Lending.
[32] Scott Montilla, telephone interview with Center for Responsible Lending.

"I would tell them: 'If you want to approve this, let another underwriter do it, I won't touch it – I'm not putting my name on it,' " Montilla says. "There were some loans that were just blatantly overstated. . . . Some of these loans are very questionable. They're not going to perform."

In some instances, he adds, he was forced to approve loans that later went into default – and as a result he had points subtracted from his performance score for bad deals he'd tried to block.

"There were very good underwriters in that company," Streater, the New Jersey underwriter, says. "They just ran roughshod over them. . . . To turn around and hold them responsible for those delinquencies is the ultimate slap in the face."

BORROWERS: In IndyMac's debt

Willie Lee Howard grew up as one of 14 children in a sharecropping family near the rural crossroads of Snow Hill, N.C. He attended school sporadically until the end of seventh grade, when his father pulled him out so he could work in the fields. As a young man in the 1960s, he migrated north to Washington, D.C., where he picked up work as a construction laborer. He's put off retirement and, at age 65, continues to work construction, making $15.89 an hour. He tries to put in as much overtime as he can.

In the spring of 2000, he used a government-subsidized loan to buy a small two-bedroom, one-bath house in Northeast Washington. Eight years later, he's battling to save his home in court. He was the victim of a series of predatory mortgage refinances made by four name-brand lenders that "took advantage of his illiteracy and lack of sophistication in financial matters," according to a lawsuit filed for him by the AARP Foundation, CRL, and private attorneys.[33]

IndyMac is one of the lenders.

Howard agreed to the IndyMac loan after getting a telephone solicitation from a mortgage broker working on IndyMac's behalf. Mr. Howard made it clear to the mortgage broker that he could not read or write, but his loan application erroneously claimed he had had 16 years of education.

As part of the deal, IndyMac paid the mortgage broker a $3,895 "yield spread premium" – industry jargon for an incentive payment that rewards the broker for putting borrowers into loans with a higher rates or fees than they qualify for. The December 2005 loan had an initial teaser rate of 1.25% that evaporated after less than two months and rose to 6.58%, and could climb as high as 9.95% over the life of the loan.

Because it was a so-called Payment Option ARM, he was given a choice of four different payments. The lowest was the $621.03 he was quoted at closing. That was barely half of the amount need to cover the monthly interest on the loan, meaning that the rest of the interest was tacked onto the loan and the amount he owed would keep going up rather than going down. The loan included a prepayment penalty, which forced Mr. Howard to pay thousands of dollars to get out of his IndyMac loan when he refinanced with another lender a few months later.

[33] Personal details and allegations are from Howard v. Countrywide Home Loans Inc. et al, U.S. District Court for the District of Columbia, March 25, 2008. Along with IndyMac and Countrywide, other lenders named as defendants include Washington Mutual Bank and WMC Mortgage Corporation.

The lawsuit alleges IndyMac violated federal and D.C. law by failing to properly disclose the loan's terms and putting him into a loan he was unable to repay. In court papers, IndyMac denies Mr. Howard's claims and suggests he has "unclean hands" in the matter.

Bait and switch

Mr. Howard's allegations echo those in other legal claims against IndyMac. Lawsuits accuse IndyMac of working with independent mortgage brokers to land borrowers into predatory loans. Several of the lawsuits claim that borrowers were bamboozled by brokers who promised low, low rates that would last a year or even five years. Instead, the lawsuits say, the teaser rate evaporated within one or two months.

A lawsuit in federal court in New York says the complexity of IndyMac's Payment Option ARM – along with its low teaser rates and low initial payments -- make it "an ideal product to mislead borrowers" with promises of "low interest rates" and "low payments."[34]

Another lawsuit claims Perry and other IndyMac executives "knew or should have known" that numerous mortgage brokers were duping borrowers and pushing them into IndyMac Option ARMs that weren't suitable for them.[35] In its "zeal to close loans at all costs," the lawsuit says, management created procedures that "placed speed, efficiency and profitability above making reasonably sure that their borrowers were not being defrauded into taking out these Option ARM loans."

In federal court in Pennsylvania, William and Emma Hartman claim a mortgage broker manipulated them into taking out an IndyMac loan by falsely promising their interest rate and monthly payments would *decrease* in a year or less.[36] Other complaints alleging bait-and-switch tactics by IndyMac and its brokers have been filed in Virginia[37], Colorado[38], Maine[39], Missouri[40] and California.[41]

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[34] Ferguson v. IndyMac Bank, U.S. District Court for the Eastern District of New York, filed February 14, 2008.

[35] Zurawski v. Mortgage Funding Corp. et al, U.S. District Court for the District of New Jersey February 13, 2008.

[36] Hartman v. Deutsche Bank National Trust Co. et al, U.S. District Court for the Eastern District of Pennsylvania, December 24, 2007.

[37] Mitchell v. IndyMac Bank, U.S. District Court for the Eastern District of Virginia, February 19, 2008. Andre and Christine Mitchell claim they were misled about the costs of the loan and weren't given the legally required disclosures laying out the loan terms.

[38] Brannan v. IndyMac Bank, U.S. District Court for the District of Colorado, June 15, 2006. Donna and Donald Brannan claim they specified they didn't want a loan with "negative amortization," in which the loan balance keeps growing because the payments don't fully cover the interest. Instead, the suit says, the broker stuck them in "the exact loan they were trying to avoid." In court papers, IndyMac said any losses the Brannans may have suffered "were the result of the conduct of third parties over whom IndyMac had no control." The case was settled on undisclosed terms in 2007.

[39] Darling v. IndyMac Bancorp, U.S. District Court for the District of Maine, October 3, 2006. Joseph and Roxanne Darling allege a mortgage broker dangled the lure of a 1% IndyMac loan and, in the face of their doubts, "continued to assure them that the loan was truly a one-percent loan and was not 'too good to be true.' " The Darlings claim they were given confusing and contradictory loan disclosures and that their monthly payment wasn't what they'd been promised. IndyMac said in court papers that any mistakes in the

IndyMac denies the allegations in these lawsuits. It maintains that it goes to great lengths to make sure borrowers know what they're getting. IndyMac Bancorp president Richard Wohl told financial analysts in 2006: "We have really good disclosures for our consumers, very plain English disclosures."[42]

One of the biggest legal attacks on the company has come in federal court in New Jersey, where more than 20 lawsuits are targeting IndyMac and the independent brokers that sniffed out loans for the company. According to one lawsuit, this group of brokers included one, Morgan Funding Corp., that employed a salesman who had been convicted in 2002 in a $500,000 insurance fraud involving staged auto accidents.[43] Another Morgan salesman had been barred from trading securities by the National Association of Securities Dealers, the suit says.

The suit claims IndyMac knew brokers were using slippery sales pitches to sell IndyMac loans, because the company had received repeated complaints about the brokers' tactics.[44] In the case of Morgan Funding, IndyMac not only had received complaints that the broker had lied to borrowers; it also had two employees working inside the broker's offices from 2004 to 2007, the suit says.[45] These IndyMac employees provided training to the mortgage brokers that "aided and abetted" Morgan Funding in deceiving borrowers, the suit claims.

Teaneck, N.J. residents Collin and Dorothy Thomas say their broker, DCI Mortgage Bankers LLC, promised them an IndyMac loan with a 1% rate for the first five years. What they got was "vastly different" – the 1% rate expired a month and a day later.[46] The paperwork, which said their rate "may" change at that time, was disingenuous – because IndyMac and the broker *knew* the rate was going to increase after a month, the Thomases claim.

Another New Jersey borrower, Arnette Garnes, says a broker promised her a 2.85% rate on an IndyMac loan for five years, but the real rate turned out to be 7.71%. When she complained she hadn't gotten what she'd been promised, she says, a salesman at the broker told her: "Well, Arnette, you should have read the fine print."[47]

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disclosures were good-faith errors that didn't violate the law. IndyMac paid $20,000 in late 2007 to settle its dispute with the Darlings.

[40] Harris v. Vinson Mortgage Services, U.S. District Court for the Eastern District of Missouri – Eastern Division, March 6, 2008. Pat Harris, a disabled Navy veteran, alleges a broker misled him about the size of his monthly payments. IndyMac denies the allegations and says Mr. Harris or "third parties" are to blame for any problems with the loan. SEE Appendix 2.

[41] George v. IndyMac Bank, U.S. District Court for the Central District of California, filed April 25, 2008. Attorneys for Methalee George, an 82-year-old widow, claim she was a victim of elder abuse and fraud at the hands of IndyMac. The suit alleges that the Option ARM sold to Ms. George was a "deceptively devised product."

[42] Voxant FD (Fair Disclosure) Wire, "Q3 2006 IndyMac Bancorp, Inc. Conference Call," November 2, 2006.

[43] Zurawski v. Morgan Funding.

[44] Zurawski v. Morgan Funding.

[45] Zurawski v. Morgan Funding.

[46] Thomas v. DCI Mortgage Bankers, U.S. District Court for the District of New Jersey, September 28, 2007.

[47] Glover v. Equity Source.

In court papers, IndyMac and the brokers deny wrongdoing. In response to one of the lawsuits, for example, IndyMac asserts the loan terms were properly disclosed and that borrowers may have "failed to read the documents provided to them."[48]

Racial discrimination

Some borrowers claim IndyMac has made a habit of targeting minority customers for overpriced loans. A lawsuit seeking class action status in federal court in Illinois[49] alleges IndyMac targets black and Latino borrowers for higher rates than whites. It notes that IndyMac's own data shows that in 2004 to 2006, minorities borrowing from the company were more than 50% more likely to receive a high interest rate loan than whites.

The lawsuit claims IndyMac has channeled minority borrowers "into mortgage loans with less favorable conditions than those given to similarly situated non-minority borrowers." According to the suit, Earlene Calvin, an Apple Valley, California homeowner, was stuck with a long list of excessive fees on a $416,000 IndyMac loan arranged by a mortgage broker. The fees included: a $8,320 loan origination fee to the broker, a $630 "broker processing fee," a $495 "administration fee" to the broker and a $725 "funding fee" to IndyMac.

Inflated appraisals

A lawsuit in federal court in New York[50] claims IndyMac used inflated appraisals to grease the loan process. It alleges IndyMac told outside appraisers the "target value" that they needed to hit to make a loan go through. The company rewarded appraisers who played ball and hit the values with more assignments, but punished those who didn't by cutting their assignments, the lawsuit claims.

One confidential witness in this lawsuit says IndyMac's chief appraiser and other executives were aware of these practices and allowed them to go on. In fact, the witness says, in-house employees who were supposed to make sure property values were accurate were intimidated by higher-ups and told they would be fired if they tried to block fraudulent appraisals.

Falsified paperwork

Another thread that runs through borrowers' legal complaints against IndyMac is the allegation that their loans were pushed through with falsified paperwork.

In California, Methalee George, an 82-year-old widow, claims an IndyMac employee falsified her loan application by listing her income as $3,900 a month. Her real income was $2,103 a month.[51] In Chicago, Thelma and Carter Ware claim they gave a broker accurate documentation of their

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48 Glover v. Equity Source.

49 Mables v. IndyMac Bank, U.S. District Court for the Northern District of Illinois – Eastern Division, filed April 17, 2008.

50 Cedeno v. IndyMac, U.S. District Court for the Southern District of New York, August 25. 2006. IndyMac is seeking to have the lawsuit dismissed, arguing that its federal regulator, the Office of Thrift Supervision, has sole authority to address violations by the lender.

51 George v. IndyMac Bank, U.S. District Court for the Central District of California, filed April 25, 2008.

income and assets, but the broker inflated the appraised value of their home and falsified their income on an application for two loans from IndyMac.[52] The Wares claim they were rushed through the loan closing and weren't told they were being given two loans – including one that carried a prepayment penalty and another that carried a "balloon payment" that would require them to come up with a large lump sum after 15 years. The broker took "exorbitant" fees totaling $12,760 in exchange for sticking the Wares into two "unnecessarily expensive" IndyMac loans totaling $329,000, their suit says.

Lenders frequently point the finger at borrowers and brokers when information on loan applications turns out to be fictitious. But borrowers aren't the ones who are in control of the process and handling the paperwork. Lenders have a responsibility – to their borrowers and to their shareholders – to thoroughly review loan applications and make sure the information is accurate. Otherwise, borrowers are likely to get in over their heads, stuck with loans they can't afford.

Montilla, the former IndyMac underwriter in Arizona, believes many borrowers had no idea their stated incomes were being inflated as part of the application process: "A lot of times you talked to the customer and the customer said: 'I never told them I made that much.' "

Archuletta, another former Indymac underwriter, agrees that most borrowers were unaware their incomes had been inflated. "Some of the borrowers were savvy and knew they were committing fraud," she says. "But a lot of them really didn't understand the programs. You sit down and there's 100 pages of stuff – nobody reads through all of that. It's our responsibility to let them know what they're getting into."

Scott Vaughan, the attorney for Ben Butler, the Savannah, Ga., retiree who claims his Social Security income was inflated, wrote IndyMac that the income listed in Mr. Butler's application paperwork "was not provided by Mr. Butler and was a complete fabrication by someone 'in the loop' so to speak. The mortgage broker and IndyMac are two of the persons/entities in that loop. . . . There is no amount of income filled in on the original application. Mr. Butler was never asked to state his income. Any prudent underwriter should have questioned the income considering the amount/source and required proof. It can only be surmised that this was the income needed to qualify for the loan."

Vaughan says his client was targeted for fraud and false promises because of his age, race, and limited education.[53] Mr. Butler was told the loan would eventually turn into a reverse mortgage, and was quoted a monthly payment that was less than a third of what it turned out to be, Vaughan says.[54]

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[52] Ware v. IndyMac Bank, U.S. District Court for the Northern District of Illinois – Eastern Division, April 10, 2007.
[53] Vaughan letter, and Butler v. John Flucas, Superior Court of Chatham County, State of Georgia, October 24, 2007.
[54] Scott Vaughan, telephone interview with Center for Responsible Lending.

Blacked out

Another Georgia case provides an example of a loan application full of obvious red flags that were missed or ignored by IndyMac's loan-underwriting system, according to an analysis by Atlanta Legal Aid Society's Home Defense Program, a non-profit legal clinic.[55]

Elouise Manuel, 68, has lived in her home in Decatur, Ga., for half her life.[56] She retired from a career in food service, making salads and working as a line server. She "is not sophisticated in the complex financial matters." In 2004, her only income was $527 a month in Social Security.

She owned her home free and clear when she began looking for a loan to pay off home repairs and other bills. She went to a mortgage broker where a cousin's daughter worked. Ms. Manuel told the broker she could afford a mortgage payment of no more than $120 a month. The broker told her she wouldn't have to pay any more than that, and that it 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% that lasted one month. The rate quickly jumped to 6% and eventually rose to 10.25%.

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.

How did she get in over her head?

Her lawsuit claims IndyMac purposely structured the deal so it was ignorant of her financial means and ignored clear evidence that something was amiss with the information submitted for her application. IndyMac specifically instructed the broker to send copies of her Social Security award letters with the dollar amounts blacked out. In other words, the lender wanted proof that she was receiving Social Security but didn't want to know how much.

Her IndyMac loan file is full of inaccurate and contradictory information. One document indicated she was getting $1,100 a month in retirement income. Another said she was employed and earning $2,100 a month. Another pegged her income at $3,200 a month. Similarly, IndyMac paperwork and computer files show her assets growing from zero to $2,100 to more than $20,000 – all in the matter of 10 days.

Ms. Manuel's lawsuit says she never misstated her income and that given the inconsistencies in the loan file, IndyMac should have known it needed real verification of her income and assets. It also knew from the paperwork, the suit says, that she wanted a fixed rate loan, not an adjustable rate one.

IndyMac told *BusinessWeek* last year that it followed standard procedure on Ms. Manuel's loan and that it relies on the broker and the borrower to provide accurate information.[57] It said the loan

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[55] Letter, from Karen E. Brown, staff attorney, Atlanta Legal Aid Society, to Susan E. McGovney, senior vice president and corporate compliance officer, IndyMac Bank, August 8, 2007.
[56] Personal details and legal claims from Brown letter, and Manuel v. American Residential Financing, Inc., et al, Superior Court of Gwinnett County, State of Georgia, April 3, 2008.

left Ms. Manuel better off, not worse off -- because the monthly payments were less than what she'd been paying on the bills it paid off.

A company spokesman said giving instructions to black out Ms. Manuel's income on her Social Security documents was "an error of judgment." It was the action of an individual employee, the spokesman said, and not company policy.

In its discussions with the Atlanta Legal Aid Society, company officials questioned Ms. Manuel's credibility, in part because a relative worked at the mortgage broker. In reply, the legal clinic said Ms. Manuel never asked anyone to falsify her information, and that records indicate her relative wasn't involved in preparing the file for submission to IndyMac.[58] It said IndyMac's "statements implying Ms. Manuel has engaged in criminal activities" were "preposterous."

MANAGERS: Ignoring red flags

In February, IndyMac CEO Michael Perry put out his annual letter to shareholders.[59] "2007 was a terrible year for our industry, for IndyMac and for you, our owners," he began.

Assessing blame for the nation's mortgage mess, Perry said all home lenders, including IndyMac, "were part of the problem, and, as IndyMac's CEO, I take full responsibility for the mistakes that we made."

Like other innovations – "e.g., the Internet, railroads, etc." – creative home lending "went too far," Perry said, partly because lenders were "too close to it, but mostly because objective evidence of this credit risk did not show up in our delinquencies and financial performance until it was too late."

Even if IndyMac had been "blessed with perfect foresight" and pulled back in 2005 and 2006, Perry said, the company would have still lost money in 2007 because its mortgage operations would still have cratered thanks to "the broader and unforeseeable collapse" of the Wall Street apparatus that pooled mortgages into investment deals.

Early warnings

Not everyone is convinced, though, that IndyMac's bad loans were simply the result of misjudgments made by company leaders as larger market forces swept them toward hidden shoals. In fact, IndyMac dealt with a number of episodes in recent years that should have prompted it to be more careful about the loans it was funding and the brokers it was doing business with.

For example:

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[57] Mara Der Hovanesian and Brian Grow, "Mortgage Mayhem," *BusinessWeek*, August 20, 2007.
[58] Brown letter.
[59] Business Wire, "IndyMac Issues 2007 Annual Shareholder Letter," February 12, 2008.

-- In early 2004, Washington Mutual Mortgage Securities Corp. sued IndyMac for more than $50 million, claiming IndyMac had peddled hundreds of problem loans from 1997 to 2000 to a Washington Mutual subsidiary. The pool of mortgages, the suit said, included loans with underwriting issues and inflated appraisals, and others on which borrowers had quickly defaulted, an indication fraud was involved or borrowers couldn't afford the loan from the start.[60]

IndyMac said it was not at fault. The two companies settled the dispute on undisclosed terms.

-- IndyMac became ensnarled in litigation over its relationship with a real-estate development firm whose owners were convicted of forging documents as part of a scheme to sell overpriced properties in Pennsylvania's Pocono Mountains in the late 1990s and early 2000s.

A lawsuit[61] in federal court alleges IndyMac funded loans arranged by the development firm even though it had been warned the Poconos were a hotbed of mortgage fraud. The suit claims IndyMac failed to do due diligence and "became pivotal to the conspiracy" by bankrolling the deals.

--IndyMac recorded a $9.7 million loss in first half of 2006 due to a fraud scheme that was the result of what Perry described as "massive collusion" between a mortgage broker and a developer in Michigan and Florida. [62]

CEO Perry admitted his company had "gotten a little bit laxed." "We didn't have the focus on fraud that we should have in this area," he said.

--IndyMac waited years in some cases before clamping down on mortgage brokers that had fed the company bad loans.

In 2007, for instance, IndyMac sued a Nevada-based broker, Silver State Mortgage, after 35 out of 36 borrowers in one pool of loans failed to make their first payment.[63] Many of the loans were made as early as 2005 and IndyMac waited at least a year to demand the broker repurchase the earliest ones – and continued taking on loans from Silver State even after dicey nature of Silver State-sponsored mortgages became apparent, attorneys in a California lawsuit have alleged.[64]

In another example, IndyMac asserts that 16 out 18 borrowers in a pool of loans brokered by Geneva Mortgage Corp. failed to make early payments.[65] Two of the bad loans dated back to 2003 and most of the rest were made in 2005.[66] However, IndyMac continued funding loans brought in by Geneva in 2006 and didn't file suit over the issue until 2007.[67]

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[60] Washington Mutual Mortgage Securities Corp. v. IndyMac Bancorp, Los Angeles Superior Court, February 3, 2004.
[61] Gaines v. Parisi, U.S. District Court for the Middle District of Pennsylvania, January 11, 2006.
[62] Voxant FD (Fair Disclosure) Wire, "Q2 2006 IndyMac Bancopr. Inc. Earnings Conference Call," July 27, 2006.
[63] IndyMac Bank v. Silver State Mortgage, U.S. District Court for the District of Nevada, March 29, 2007. IndyMac's suit against Silver State was dismissed April 1, 2008, at IndyMac's request.
[64] Tripp v. IndyMac.
[65] IndyMac Bank v. Geneva Mortgage Corp., U.S. District Court for the Central District of California, March 22, 2007.
[66] Tripp v. IndyMac.
[67] Tripp v. IndyMac.

Full speed ahead

Even as IndyMac was taking a less-than-aggressive approach to policing its brokers, the company was coming under growing pressure from Wall Street investors who were pushing back bad loans that IndyMac had sold into investment deals. These "kickbacks" swelled from $108 million in 2005 to $194 million in 2006 and $613 million in 2007 alone.[68] IndyMac tried to hide these loans by launching a special project on weekends in 2006, directing underwriters to aggressively "rework" loan files on kicked-back mortgages so they could be resold again to other investors, according to two witnesses in the California lawsuit.[68]

Amid these problems – and rising concerns industry-wide about the cooling housing market – IndyMac forged ahead. Instead of pulling back, IndyMac made it clear that its plan was to take advantage of other lenders' problems to take a bigger slice of mortgage market.

In June 2006, IndyMac predicted the housing slump was halfway over and was touting plans to open regional centers in Philadelphia, Chicago and other cities and reach for growth in Pay Option and interest-only adjustable rate mortgages.[69] "If you want to grow in a shrinking market, by definition you have to take market share," IndyMac president Richard Wohl said.

Three months later, Perry said that "certainly there are negative signs in our industry," but IndyMac's model made it "more optimistic than the industry overall."[70]

IndyMac's determination to keep growing as others fell to the wayside or pulled back showed in its 2006 mortgage production. The lender boosted its lending volume by some 50% in 2006, during a year when overall industry volume was slightly down.

In March 2007, as the severity of the U.S. mortgage crisis was becoming more clear, Perry issued a statement designed to calm fears about his company's vulnerability: "Based on an objective analysis of the facts, talk of the 'subprime contagion' spreading to the Alt-A sector of the mortgage market is, in our view, overblown."[71]

He said "IndyMac's credit quality shines in relation to the industry, validating our lending standards and practices."

In August 2007, with world financial markets flailing, IndyMac announced it was planning to hire as many as 850 former employees from its bankrupt rival, American Home Mortgage Investment Corp.[72]

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[68] IndyMac Bancorp, Inc., 10K Report to Securities and Exchange Commission 2007, Feb. 29, 2008.
[68] Tripp v. IndyMac.
[69] Reuters, "Housing slowdown halfway through, IndyMac says," June 19, 2006.
[70] Voxant FD (Fair Disclosure) Wire, "IndyMac Bancorp., Inc. at Lehman Brothers 4th Annual Conference,' September 13, 2006.
[71] Business Wire, "IndyMac Provides Additional Credit Loss Analysis on Alt-A and Subprime Lending," March 29, 2007.
[72] Jonathan Stempel, "IndyMac to hire up to 850 ex-American Home workers," Reuters, August 28, 2007.

By 2008, though, it had become apparent IndyMac had overreached, making large numbers of bad loans and failing to pull back quickly enough as the mortgage industry crashed.

In January, the company announced plans to slash its workforce by 24%, laying off 2,400 employees.

On May 12, the company announced a $184 million loss for the first quarter of the year. It called the results hopeful, because they were an improvement over the heavy losses it suffered in 2007.

"I am confident IndyMac will be a survivor," Perry said. ". . . IndyMac is the last remaining major independent home lender, and we will be a better company and stronger competitor for having survived the current crisis period, which should position us well to take advantage of the opportunities that will surely return."[73]

CONCLUSION

Federal regulators have pointed out that many of the lenders accused of bad practices, such as Ameriquest, were under state rather than federal supervision. However, IndyMac's record, as well as Countrywide's, raises questions about whether federal regulators turned a blind eye to improper practices among the lenders they licensed.

Amid the overheated atmosphere of the mortgage boom, IndyMac and lenders of many different stripes appear to have abandoned sound decision-making and sustainable growth strategies. Instead, they chose to take unreasonable risks and reach for spectacular levels of growth that produced short-term profits but ended in pain for borrowers, shareholders, and communities.

It didn't have to happen this way. Federal authorities – including the Office of Thrift Supervision – should have kept a closer eye on IndyMac's business model and practices. They had leverage over IndyMac, given that the company operated as a federally-chartered thrift supported by deposit insurance and borrowings from the FHLB system.

IndyMac's story suggests that, in the absence of rigorous oversight, there's little to stop lenders from getting swept up by market frenzies and embracing reckless practices. This should be uppermost in policymakers' and citizens' minds as federal and state governments work to clean up the mortgage mess – and to design rules that will prevent such disasters from happening again.

[73] Business Wire, "IndyMac Bancorp Reports First Quarter Loss of $184.2 million," May 12, 2008.

APPENDIX 1

“Patently unsuitable”

Simeon Ferguson was born in Jamaica in 1921. He moved to the United States in the mid-1960s. A few years ago, his behavior began to change. He began asking the same question over and over. He visited a dying daughter in Jamaica, but then forgot he’d visited her. He was suffering from dementia.[74]

By 2006, Mr. Ferguson had been living in his house in Brooklyn for more than three decades. He was 85 years old, living on a fixed income of $1,126 a month, and had a $360,000 mortgage with a fixed interest rate of 5.95%.

According to a lawsuit filed in federal court in New York, a telemarketer solicited Mr. Ferguson to refinance his mortgage. He told a neighbor that he was getting a 1% interest rate.

The loan had an initial teaser rate of 1.25%, but jumped to 7.138% after six weeks. His initial minimum payment was $1,482 a month, already more than his monthly retirement income. In early 2007, the gap grew even larger, with his minimum monthly payment jumping to $1,903.

It was a loan that was “patently unsuitable” for Mr. Ferguson and “virtually certain to result in foreclosure,” the suit alleges.

According to the lawsuit, the loan was made under an IndyMac “stated income” loan program for retirees, which makes no effort to document borrowers income or determine whether they can afford the deal. A hallmark of the program, the suit says, was that IndyMac refused to take loan applications that made any mention of the borrowers’ income, “thereby encouraging mortgage brokers to extend unaffordable loans while attempting to duck accountability by deliberately remaining ignorant of the borrower’s ability to pay the mortgage.” In fact, the lawsuit notes, IndyMac specifies that “the file must not contain any documents that reference income or assets.”

In the end, the suit claims, the loan was a scheme targeted at retirees on fixed income, designed to make loans that strip equity from the borrowers homes and fatten IndyMac’s bottom line.

It wasn’t until Mr. Ferguson went into the hospital with a bone infection in May 2006 that one of his daughters took over his financial affairs and discovered the loan. When she asked him why he’d taken out an adjustable rate loan, he insisted he’d gotten a low-interest fixed rate one.

“It’s not that my father went out to buy a home he couldn’t afford, that’s not what happened here,” the daughter, Karlene Grant, said. “Somebody solicited him and made him think he was getting a better deal. Then they made some money and ran.”[75]

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[74] Personal details and allegations are from Ferguson v. IndyMac Bank, U.S. District Court for the Eastern District of New York, filed Feb. 14, 2008.
[75] “Joseph Huff-Hannon, “Facing Foreclosure: Brooklyn Retiree On Verge Of Losing Home As Subprime Lenders Target Cash-Poor Seniors,” The Indypendent, April 25-May 15, 2008.

The broker that arranged the deal initially maintained that Mr. Ferguson had had a lawyer with him at closing. In response to a complaint to New York banking authorities, the broker said Mr. Ferguson had been "involved, consulted, and took part through the whole loan process in an intelligent fashion."[76] Mr. Ferguson's lawsuit says no lawyer was present and "given that Mr. Ferguson was suffering from acute dementia at the time of the transaction, it's unlikely he was engaged and involved in the process."

IndyMac directed more than $21,000 in fees to the broker for arranging the transaction – apparently including, the lawsuit says, a large sum that rewarded the broker for "inducing Mr. Ferguson to take out a loan on terms much less favorable than were otherwise available to him."

[76] Ferguson v. IndyMac.

Appendix 2

A veteran's story

In late 2006 Pat Harris, a disabled Navy veteran in St. Louis, wanted to catch up on back taxes and other debts.

A mortgage broker promised Mr. Harris he could refinance his mortgage and pay off his credit card and tax bills with a loan that would carry a $526-a-month payment.[77]

Mr. Harris claims the mortgage professionals involved in the deal exaggerated his income, falsely listing it as $2,500 a month, or nearly three times his VA pension of $910 a month.

Instead of $526 a month, Mr. Harris' payment turned out to be $631 a month, nearly 70% of his income.

In addition to rolling over his original mortgage, the new loan provided $3,261 in new money to cover his credit card and tax debts. The settlement charges on the loan, meanwhile, totaled $5,962 – nearly twice the amount of new money provided by the loan.

Now Mr. Harris is suing, claiming IndyMac and the broker took advantage, overcharging him and flipping from his old mortgage, which had an interest rate of 5.99%, into a new one with an adjustable rate, which started at 10.5% and could go as high as 16.5%.

"The loan from IndyMac has not benefited the plaintiff," the suit says. "Instead, it has left him deeper in debt and with a mortgage payment that he cannot afford."

In court papers, IndyMac denies the allegations and suggests that any problems with the loan were caused by Mr. Harris or by "third parties."

[77] All details and allegations from Harris v. Vinson Mortgage Services, U.S. District Court for the Eastern District of Missouri – Eastern Division, March 6, 2008.