June 3, 2008 CONFIDENTIAL

[redacted]
Regional Director
Office of Thrift Supervision
101 Stewart Street, Suite 1010
Seattle, WA 98101-2419

Dear [redacted]:

I apologize in advance for the length of this letter. As you know, Indymac Bank is operating in a time of extraordinary complexity and difficulty, and I wanted you to fully appreciate what we have done and what we are attempting to accomplish, with our regulators' help, to keep Indymac safe and sound and avoid a loss to the deposit insurance fund.

Executive Summary
To summarize the points discussed more fully below:

1. Our goal is to operate Indymac Bank in a safe, sound and profitable manner. We know that you share and support this goal.

2. We are in the midst of an unprecedented crisis in the housing, mortgage and financial markets, and we have taken extraordinary steps to weather this crisis. We have transformed our business model from largely an Alt-A production model, originating and selling $75 to $100 billion per year (we were not a subprime lender of any significance), to a safer GSE/FHA/VA model today, originating and selling $30 to $40 billion per year, and have improved the credit quality of our new loan production by roughly 90% from one year ago. We have substantially reduced our work force to be in alignment with our new production volumes. We were one of the first financial institutions to institute realistic credit reserves, credit marks and write-downs (roughly $2.7 billion as of March 31, 2008, up more than four-fold from December 31, 2006).

3. We have sufficient capital to allow us to weather this storm. We raised over $670 million in 2007 and have raised another $97 million thus far in 2008. As of March 31, 2008, our Tier 1 core (leverage), Tier 1 risk-based and total risk-based capital ratios all remain above the well-capitalized thresholds of 5%, 6% and 10%, respectively. However, given the risks in the current environment, in addition to stanching the decline in our capital ratios by reducing our losses and bolstering these ratios through balance sheet shrinkage, we are aggressively pursuing a substantial additional capital raise and/or sale of Financial Freedom (a 100% owned subsidiary of Indymac Bank and the largest reverse mortgage lender in the nation) without regard to dilution

to our existing shareholders, but, for reasons explained below, the success of such a transaction is far from certain at this time. We present three scenarios below reflecting possible outcomes of our efforts: (1) raising roughly $1 billion of new capital, (2) selling Financial Freedom and (3) raising no new capital for the remainder of 2008. Our current forecasts show that we will remain well-capitalized with respect to our Tier 1 core and Tier 1 risk-based capital ratios but will likely fall to adequately capitalized on total risk-based capital if we are unable to raise new capital.

4. We are not one of those "greedy" home lenders (please see our annual shareholders' letter, which is attached, and our proxy statement for an in-depth discussion) that deserves to be eradicated from the marketplace. While we made mistakes, we made far fewer than most major home lenders/securitizers relative to our loan volumes, and we have already implemented effective and permanent solutions. These include additional voluntary consumer disclosures and a soon-to-be-released consumer home loan system that helps consumers easily determine whether or not a mortgage is appropriate for them. In addition, we are acting rapidly and responsibly to address the needs of borrowers affected by this crisis. We were an early major participant in the Hope Now and NeighborWorks programs and have been among the most proactive lenders in restructuring loans, allowing borrowers to remain in their homes and mitigating losses throughout the system. We hope that you share our view that our management, while acknowledging its share of responsibility, did not create most of our present problems, with the primary cause attributed to our business model being at the epicenter of this unparalleled housing and credit crisis. We are now the last national, independent home lender remaining, and it would be a shame for American consumers to lose the benefits of this focus and dedication.

5. Traditional and automatic regulatory actions, including a potential public enforcement order and/or restrictions on our ability to raise deposits, are not necessary, as the board and management are doing everything possible to keep Indymac Bank safe and sound, and such regulatory actions would likely trigger the very consequences we all hope to avoid. We believe that in this unprecedented environment our situation calls for prudent regulatory judgment. In this respect, we present in this letter a set of goals Indymac is committed to pursuing to keep the bank safe and sound and return it to profitability and the specific help we need from our regulators to meet these goals.

There is a significant amount of information in this letter and, of course, much more that could never be captured in a letter, regardless of its length. It reflects a great deal of work that has been done to preserve an important financial institution. We stand prepared to provide you and your staff with such additional information as might be helpful to you in evaluating our situation. We have nothing to hide and view our regulatory relationships as one of our most valuable assets. Given the importance of this matter, we would like to meet with you, FDIC Regional Director [redacted] and the appropriate senior officials of the OTS and FDIC in Washington, potentially including Director [redacted] and Chairman Bair, as soon as possible to mutually agree on a realistic plan to keep Indymac Bank safe and sound and

avoid a loss to the insurance fund. We would appreciate your guidance and support in arranging such a meeting.[1]

Background

Indymac has been a public company since 1985 and a regulated financial institution since 2000, and our management team and board have been running Indymac safely, and profitably up until 2007, for nearly 15 years. Yet, as an equity analyst correctly stated recently, "Indymac has been at 'ground zero' of the credit crunch", and given our mortgage banking/thrift focus, we have had to grapple with all of the following difficult and challenging issues over the past year:

1. An abrupt and unprecedented repricing/widening of credit spreads for all types of mortgage related securities and assets, even those backed by Fannie Mae, Freddie Mac and Ginnie Mae. This has resulted in our recording significant GAAP accounting fair value marks to our investment grade MBS portfolio that have materially and adversely artificially impacted GAAP equity and, to a lesser extent, regulatory capital. In addition, recent bond downgrades are negatively impacting our risk-based capital.
2. A total collapse of the private secondary market for MBS securities and whole loans, in particular for Alt-A, jumbo and jumbo reverse mortgage loans and securities, our core business from 1993 to mid-2007.
3. An unprecedented and significant decline in national home prices and sales, particularly for newly constructed homes and also in our home state of California.
4. The near total collapse of secured funding in the repo and commercial paper markets for any mortgage-related assets, material and unprecedented increases in margin requirements on collateral pledged to the Federal Home Loan Bank (FHLB) for advances and the resulting intense competition for deposits by many financial institutions.
5. A significant constriction in lending guidelines and increase in guarantee fees by both Fannie Mae and Freddie Mac, further inhibiting our ability to retool our production model and return it to profitability.
6. Rapidly increasing non-performing assets (NPAs) and loan repurchase demands from secondary market investors and the need to establish significant credit reserves for these and forecasted future NPAs and charge-offs.
7. Significant additional regulatory capital requirements due to our mortgage banking business model. We are required to hold capital on a dollar-for-dollar basis against the portion of our mortgage servicing rights (MSR) that exceeds our Tier 1 core capital, even though we have a long track record of successfully hedging this asset and earning strong and consistent hedged returns, and this asset does not have any credit risk. This materially lowers all of our capital ratios at the present time and, we believe, artificially exacerbates safety and soundness concerns about Indymac Bank.
8. A corresponding collapse in our stock price in the second half of 2007, which continues to this day, hindering our ability to raise significant amounts of capital relative to our GAAP equity.

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[1] As a formality, we would ask that this letter be kept confidential and non-public, pursuant to Exemptions 4 and 8 of the Freedom of Information Act.

While clearly, with the benefit of hindsight, we would have conducted some of our lending and mortgage banking activities differently, we were certainly not alone in this regard, and our losses relative to our loan volumes are one of the lowest in the industry. We strongly believe that, since this crisis period began over a year ago, we have made a great many correct decisions and, as a result, Indymac has survived when nearly every large independent mortgage banker has not, including larger and more diversified financial institutions such as Countrywide and Bear Stearns.

Recent Actions and Results

When the private mortgage securities market collapsed in 2007, we rapidly converted our business model from one producing and selling roughly $75 to $100 billion a year of predominantly Alt-A loans (we were not a subprime lender of any significance) into one that is producing and selling roughly $30 to $40 billion a year of high credit quality GSE and FHA/VA loans (including reverse mortgage loans to seniors through Financial Freedom). Of greatest significance is that the credit quality of our new production is the best we have ever generated. As calculated using Standard & Poor's (S&P) LEVELS model, the lifetime loss estimate for Q1-08's evaluated production of $8.2 billion is 0.23% (and is 0.17% and 0.18% for March and April, respectively), compared with 1.86% in Q1-07, an 88% year-over-year reduction. To achieve profitability with our new production model, we have had to reduce our workforce by over 25% and close several loan production centers. Our loan servicing group, which services roughly $200 billion in predominantly Alt-A loans, has aggressively staffed up and trained a large group to work in partnership with groups such as Hope Now and NeighborWorks, of which we are members, and other non-profit groups to do everything possible to keep borrowers in their homes, which clearly both mitigates losses for us and our investors as well as helps to address the housing crisis our country is currently facing. We have also reorganized our team, with Indymac's President leading a group of strong managers solely focused on loss-mitigating (i) the loans on which Indymac has direct credit risk (we have direct credit risk on roughly 8% of the $200 billion of single family loans we service, plus direct credit risk as of March 31 on roughly $320 million of non-investment grade and residual mortgage backed securities and on our $2.3 billion consumer and builder construction portfolios) and (ii) any recourse risk we are exposed to from secondary market investors.

We also took major steps to bolster our capital position in 2007, raising over $670 million in capital for the bank and also suspending our common stock dividend in January 2008. In addition, we provided significant protection against future credit losses during 2007 by increasing our allowance for loan and lease losses to $398 million; recording $474 million in marks for credit losses on loans transferred from held for sale to held for investment due to the market disruption; increasing our secondary market reserve (for future loan repurchases) to $180 million; and taking significant write-downs on non-investment grade and residual securities such that the credit loss estimate embedded in these securities increased to $1.3 billion (to reflect the estimated future loss embedded in these assets). All told, these and some other smaller actions provided us with $2.4 billion in protection against credit losses as of December 31, 2007, a fourfold increase from December 31, 2006. As a result of these actions and the collapse of the private MBS market, we reported a $615 million loss for 2007, the first annual loss in our 23 year history. Nevertheless, we remained well-capitalized at December 31, 2007, with a Tier 1 core (leverage) ratio of 6.24%, Tier 1 risk-based ratio of 9.56% and a total risk-based capital ratio of 10.81%.

Your examiners are completing their annual CAMELS exam as I write this letter, and, with their views of our credit reserves at that time embedded in our results, we reported a loss of $184 million in Q108, down 64% from the Q407 loss (when we took major steps to bolster our credit reserves) and down 9% from Q307. It is important to note that 24% of the Q108 loss is from our staff reduction severance and office closing costs and another 22% is from business activities that we have permanently closed and where the losses will diminish over time, such as homebuilder construction lending, home equity lending and our conduit channel.

We continued our capital raising efforts this year, raising $97 million since recommencing our Direct Stock Purchase Plan (DSPP) on February 26th. As a result, even with our Q108 loss and the credit reserves we continue to build, after contributing an additional $88 million of capital from the holding company at quarter-end, Indymac Bank remained well-capitalized on Tier 1 core (leverage), Tier 1 risk-based and total risk-based capital at March 31, 2008.[2]

Plans for the Remainder of 2008

Our current plan, a copy of which is attached, forecasts our loss declining to roughly $100 million in Q208 and continuing to decline each quarter thereafter, with a $20 million loss projected for the fourth quarter, which would be a 96 percent reduction from Q4-07 and an 89 percent reduction from Q1-08. With respect to our key business segments, we are forecasting that our mortgage banking business (including mortgage production and servicing) will be profitable in the second quarter and thereafter. We are forecasting that our thrift segment (including our MBS, SFR whole loan and consumer construction portfolios) will become profitable in the third quarter and that our overall business, excluding discontinued activities, will be close to breakeven by the third quarter and have a small profit for the second half of 2008.

We are also moving aggressively to build our capital ratios through the remainder of 2008. Our capital plan includes shrinking our balance sheet roughly $3.0 billion, or about 10% (which will also reduce our brokered deposits by roughly 67%). We have exercised our contractual rights and suspended the bank perpetual preferred dividend and deferred our holding company trust preferred interest payments, which will preserve capital of $10.6 million and $7.4 million per quarter, respectively. Finally, we are seeking to raise capital from external sources.

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[2] Our capital ratios at March 31, 2008 are 5.74% Tier 1 core, 9.00% Tier 1 risk-based and 10.26% total risk-based. These capital ratios reflect two regulatory requirements that we believe do not fully reflect Indymac's financial condition. First, as noted above, we are required to hold capital on a dollar-for-dollar basis against the portion of our mortgage servicing rights (MSR) that exceeds our Tier 1 core capital. Excluding the penalty we receive on the MSR that exceed our Tier 1 core capital, our capital ratios as of March 31, 2008 would be 6.06% Tier 1 core, 9.52% Tier 1 risk-based and 10.78% total risk-based. Given this impact and how strongly we feel about our ability to prudently manage this asset and our track record of doing just that, we would respectfully request that OTS grant Indymac a temporary waiver from this requirement, and we will be submitting a formal request for this waiver shortly.

Second, the regulations require us to exclude from our Tier 2 capital the portion of our allowance for loan losses (ALL) that exceeds the 1.25% of risk-weighted assets limitation. But for the impact of this exclusion (in addition to the MSR waiver requested above), our capital ratios as of March 31, 2008 would be 6.06% Tier 1 core, 9.46% Tier 1 risk-based and 11.36% total risk-based.

With respect to raising capital externally, while we have raised $97 million year to date through the DSPP, we have recently curtailed this activity, hopefully temporarily, due to the current low level of our stock price. However, our board has, via a formal board resolution, authorized management to utilize all its efforts to attempt to raise as much additional capital as we can ($1 billion, or so) as soon as possible, with the understanding that this may be severely dilutive to our existing shareholders. We have met with several potential investors, we and our bankers are actively seeking additional investors, and several have expressed interest. Last week we received a preliminary, non-binding indication of interest for an investment of $1 billion in capital from a consortium of four investors led by Oaktree Capital Management, L.P., a copy of which is attached. This investment is by no means certain, and it may not be possible at this time to complete a significant capital raising transaction, given the amount of additional capital we are seeking to raise in relation to our current market valuation, the market environment for housing and mortgages and our mortgage banking focus. As a result, in addition to pursuing a capital raise, we are also working with our bankers at JP Morgan on the potential sale of our reverse mortgage subsidiary, Financial Freedom. We have received a preliminary offer of approximately $250 million for the purchase of Financial Freedom from Manulife Financial, a large Canadian insurance company with a market capitalization in excess of $55 billion that operates a broad array of financial services businesses in the U.S. under the "John Hancock" brand, a copy of which is also attached. At this time, completion of this transaction is also uncertain. Depending on the terms and price, the sale of Financial Freedom should bolster our capital ratios by reducing assets, reducing our servicing asset and the servicing cap penalty on regulatory capital and eliminating most of our existing relatively small amount of goodwill.

We have prepared pro-forma financial statements and calculated our capital ratios under scenarios of raising $1 billion in new capital, selling Financial Freedom and not being able to accomplish either:

Raise a $1 Billion of New Capital

Applying the raising of $1 billion of new capital to our March 31, 2008 balance sheet would result in our capital ratios being 9.18% Tier 1 core, 14.95% Tier 1 risk-based and 16.21% total risk-based. Applying this capital raise to our forecasted balance sheet as of June 30 would result in our capital ratios being 9.57% Tier 1 core, 14.49% Tier 1 risk-based and 15.75% total risk-based.

Sell Financial Freedom (at book value)

Applying the sale of Financial Freedom at book value to our March 31, 2008 balance sheet would result in our capital ratios being 6.47% Tier 1 core, 10.20% Tier 1 risk-based and 11.46% total risk-based. Applying this sale to our forecasted balance sheet as of June 30 would result in our capital ratios being 6.66% Tier 1 core, 9.29% Tier 1 risk-based and 10.56% total risk-based.

Unable to Raise New Capital at This Time

We have projected out our balance sheet and income statement for the remainder of 2008 assuming we raise no new capital externally. This forecast shows that as of June 30, while we remain well-capitalized with respect to Tier 1 core and Tier 1 risk-based (at 5.88% and 8.02%, respectively), we fall to adequately capitalized on our total risk-based ratio at 9.28%. Again, these capital ratios are "artificially" low in our view as a result of the servicing rights cap and limits on including general loan loss reserves in

regulatory capital, discussed in footnote 2. Without these two "penalties", our ratios would be 6.26% Tier 1 core, 8.58% Tier 1 risk-based and 10.77% total risk-based as of June 30. While we forecast reducing our losses each quarter (to roughly $20 million in Q4) and shrinking our assets by $3.0 billion to $29.3 billion, we project that we will remain adequately capitalized on total risk-based capital for the balance of 2008 and above the well capitalized threshold otherwise, with ratios of 5.91% Tier 1 core, 7.86% Tier 1 risk-based and 9.12% total risk-based at December 31, 2008. Again, without the two "penalties" referenced above, our ratios would be 6.36% Tier 1 core, 8.54% Tier 1 risk-based and 10.45% total risk-based as of December 31.

While we have currently curtailed raising capital through the DSPP, we may be able to resume this activity later in the year. One reason our stock has been under pressure recently is that the market appears to be expecting, as stated by several analysts, that we will have to raise a "big slug" of new capital at an extreme discount to our current market price, which would severely dilute our book value per share and, therefore, our stock price. Ironically, if it becomes clear that we will not be raising a "big (and dilutive) slug", then our stock price could rise from its current low level and enable us to again raise capital through the DSPP. This would likely also be the case if we were to sell Financial Freedom, thus bolstering capital and eliminating the immediate need to raise a "big slug" of new capital.

While we will seek every available option to keep Indymac Bank well capitalized, we believe it is important to understand that we are a home mortgage lender/mortgage banker. As a result, we are at the center of this credit crisis, and we do not have the diversified business model, established deposit branch franchise and/or size and scale of the financial institutions which have recently successfully raised additional capital or have been sold.

It is also important to note that at the end of 2006 we had one of the most liquid balance sheets of any financial institution in the nation, but today, like most financial institutions, nearly every asset on our balance sheet, if forced to be sold in this illiquid market, would likely command a price that would substantially reduce both our overall capital and our capital ratios. For example, in normal times, our nearly $6 billion (fair value) of Jumbo and Alt-A AAA MBS securities (none of which have been downgraded after multiple reviews by all of the rating agencies) could readily be sold at par or better, which would have allowed us to pay off roughly 80% of our $7.5 billion in brokered deposits and raised over $350 million in equity capital. In today's market environment, being forced to fire-sell this portfolio (as opposed to holding it for the long-term, as we presently plan and have the capability to do) would likely deplete a material portion of our roughly $1.8 billion in bank core capital.

This is important to note for two reasons. First, many equity investors are looking at distressed liquidation values, along with credit-stressed cash flow modeling, as part of their investment decision. Many, if not most, financial institutions today, if they had to undergo a liquidation valuation in this market, would have a negative net worth. Second, if we were forced, as a result of regulatory action, to shrink our balance sheet more than our present plans (i.e., regulatory-forced asset sales into today's distressed marketplace, either directly ordered or indirectly created by liquidity issues caused by regulatory limits on brokered deposits or the rates we could pay), this action would have the effect of quickly taking Indymac to an undercapitalized status. In fact, even if we did not sell certain assets, if we believed we no longer had the ability to hold them for the long run as a result of a regulatory

order that restricted our ability to solicit and attract deposits, GAAP accounting would likely require an immediate mark-to-market adjustment to liquidation value, impairing capital.

Appropriate Regulatory Responses

We understand from our discussions with the OTS staff that, absent a significant capital raise being completed before the CAMELS examination is concluded and the report issued, we will likely be classified as a CAMELS 4 and might receive a formal enforcement order that will, unless we receive a waiver from the FDIC, lead to restrictions on our ability to accept, renew or rollover brokered deposits (which also include higher-cost deposits obtained directly by the bank) or, even with a waiver, will lead to significant restrictions on the rates we can pay on our deposits. We understand that your staff must "call them as they see them", and we are not writing to contest or debate whether a 4 is the correct rating for Indymac Bank at this time. However, clearly the goal (which is our mutual goal) of any rating downgrade and action should be to return Indymac Bank to a satisfactory condition, and we believe that a restriction that prohibits or hinders our ability to raise new deposits to replace those that are maturing and a formal enforcement order would not be constructive and could substantially hinder our ability to achieve our shared goal.

If it is your judgment that a 4 rating is correct, we will accept that verdict and move on. We would note, however, that the difference between a 3 and a 4 will have no impact on our commitment to rectify the institution, our openness and candor with you or the degree of supervisory oversight you wish to exercise. The only difference will be the resulting impact on the institution.

If you proceed with the 4 rating, we believe that the most significant judgment you will have to make concerns the type of enforcement action that would accompany the rating. We strongly believe that the appropriate course of action at this time would be to have an informal agreement between Indymac and its regulators, given that we have proactively and promptly taken every step within our control to keep Indymac Bank safe and sound. We have a positive, constructive and transparent relationship with our primary regulator, and we are doing everything we can to raise additional capital. While there would be some negative consequences to us of a 4 rating, if we were able to avoid being placed under a formal enforcement order, we believe that the impact of the 4 rating alone would be manageable, as long as the FDIC does not restrict our ability to raise deposits. The 4 rating would increase our funding and examination costs significantly, which we believe is counterproductive to helping Indymac Bank return to profitability, and would likely reduce our presently solid operating liquidity[3] (about $4 billion) by constricting our ability to borrow from both the FHLB of San Francisco and the Federal Reserve, but both of these issues are manageable and built into our 2008 forecast. The FHLB would likely reduce our available credit to 30% of Indymac Bank's assets from the current 50% as a result of a 4 rating, but we are already only borrowing roughly at the 30% level today. We have recently begun to access borrowings from the Fed discount window, but a 4 rating could constrict this opportunity and make it considerably more expensive.

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[3] Our solid present liquidity position is derived from the fact that we are 100% funded with deposits, FHLB advances, long-term debt and equity, and we have no market funding sources, i.e., no commercial paper or reverse repurchase borrowings, which have been the source of liquidity problems for companies such as Countrywide, Bear Stearns and Thornburg Mortgage.

With respect to the regulatory prohibitions and restrictions on deposits, our understanding is that the purpose of such would-be to restrict asset growth, reduce the insured deposit risk to the fund, potentially raise capital via balance sheet shrinkage and ensure that we are not causing other, healthier financial institutions in our market undue hardship with the rates we are paying. Our present 2008 plan accomplishes as much toward these objectives as is realistic in this marketplace. As a result of eliminating nearly all new loan production that is not saleable in the secondary market today, we project our balance sheet to decline roughly $3.0 billion, or 10%, by year end. Based on this decline, we project total deposits to decline from roughly $18.9 billion today to roughly $16.5 billion by year end and brokered deposits (which were not used to fund asset growth but were used to pay off $3 billion of commercial paper and repo funding and fund $4 billion of additional FHLB margin requirements) to decline roughly 67% from $7.6 billion as of March 31 to roughly $2.5 billion by year end. In this illiquid market for our assets, we realistically cannot accomplish more without fire-selling assets and impairing our capital levels, as discussed in more detail above. Lastly, with respect to competing for deposits, while we are competitive in the marketplace, we generally pay rates that are lower than the average for our competitors, and, as detailed above, our plans call for a reduction in deposits over the course of the year.

A 4 rating with a formal enforcement order would have significant negative consequences for us, given that we are a public company and have significant counterparties, especially in these panicked times. A formal enforcement order would substantially increase our counterparty risk, not only with the FHLB but also with critical business partners, such as money center and investment banks with which we execute pipeline and servicing hedge trades on a daily basis and Fannie Mae and Freddie Mac, as the Seller-Servicer Agreements and the Selling and Servicing Guides of both GSEs include broad provisions that enable them to terminate lenders that become subject to formal enforcement orders. If the GSEs were to terminate our business relationships, they might seek to "pull" their servicing rights (impairing capital), and we would be forced to abruptly close our production units, close numerous office locations and layoff an additional roughly 4,000, or so, of our 7,500 present personnel and incur significant one-time costs of roughly $190 million pre-tax.

Creating additional liquidity burdens and/or counterparty risks through traditional regulatory actions and adding them to our present set of burdens would be daunting for any management team. With that said, we strongly believe we are the best-equipped team to manage Indymac's balance sheet, servicing portfolio and other activities through this crisis period. We also strongly believe that our management team, if allowed to execute on our current business plan without the extra burdens of an enforcement order and deposit restrictions, will realize no loss for the insurance fund. We are concerned, however, that, if, on their face, these regulatory actions are not realistic and achievable, employee morale, which has held up pretty well to-date despite our challenges, would erode significantly, and you should be prepared in advance of a formal enforcement order or restrictions on deposits to help us in taking control of a situation that could quickly unravel and exacerbate any potential loss for the insurance fund. In this regard, we would hope that the regulators share our view that Indymac's management, while acknowledging its share of responsibility, did not create most of our present problems, with the primary cause attributable to our business model being at the epicenter of this unparalleled housing and credit crisis.

Finally, if we can't raise additional capital right now and, as a result, we fall to adequately capitalized throughout this crisis period, isn't that better than the alternative of an unraveling

of our business under an enforcement order that we cannot meet? Indeed, wasn't our well-capitalized status to date designed to help us survive periods of stress and turmoil? We realize that our capital ratios are too low and our NPAs are too high, and we will do everything we can to improve both over the next year or so.[4] However, we think these ratios (keep in mind our business was the first through this credit cycle) should be looked at in the historical context of the last credit crisis in the late 1980s/early 1990s, which was less severe, and our ratios today, and as forecasted, compare favorably to that period of time.

We understand that an argument can be made that we should be classified as a "troubled institution": we have fallen below the 7% Tier 1 core (leverage) and 11% total risk-based capital ratios we had agreed with the OTS to maintain[5], and we fell close to the "adequately capitalized" threshold of 10.00% in Q108 with respect to our total risk-based capital ratio and project falling to adequately capitalized by this measure as of June 30, while at the same time we have a high level of NPAs and are not currently profitable. On the other hand, we have adequate credit reserves in relation to our NPAs, we have been able to maintain our well-capitalized status to date while absorbing a huge blow to our business model and enormous credit costs and GAAP accounting fair value adjustments to MBS securities during a period of unprecedented stress for housing and mortgage lending, we are substantially narrowing our losses each quarter, and we have a viable plan going forward for remaining sufficiently capitalized [6], operating in a safe and sound manner and returning to profitability. In hindsight, perhaps we should have maintained even more capital than the 7% and 11% ratios we agreed to with the OTS. We also understand that there might be a regulatory view today that, given the uncertainties in housing and the mortgage markets and our undiversified business model, even well-capitalized levels may not be enough to survive if the housing downturn is either too deep or too prolonged. Our view is that this risk is already embedded in our balance sheet, we are doing nothing to worsen it, and, in fact, we are working hard to lessen it substantially over time. Under these circumstances one must ask the question: why would we want to accelerate and exacerbate what would be a certain realized loss for the insurance fund in today's illiquid market?

Based upon our suggestion above that the appropriate course of action at this time would be to have an informal agreement between Indymac and the OTS for how we operate going forward, we outline below a set of goals Indymac Bank is committed to pursuing and the specific help we hope our regulators will be willing to provide so that we can accomplish these goals. In this kind of environment, the actions taken by banking regulators in

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[4] We are selling $359 million (roughly 60%) of our builder construction NPAs this quarter, which will result in a relatively small $24 million after tax loss that is factored into our Q208 forecasted loss of roughly $100 million.

[5] Given Indymac Bank's mortgage banking business model, the OTS has always required the bank to maintain a Tier 1 core (leverage) ratio of 7.00% and a total risk-based capital ratio of 11.00%, 40% and 10% above the minimum regulatory requirements to be considered "well-capitalized", respectively. We did not dip below these levels until December 31, 2007, when we dipped to 6.24% Tier 1 core, 9.56% Tier 1 risk-based and 10.81% total risk-based. As noted above, our ratios at March 31, 2008 are 5.74% Tier 1 core, 9.00% Tier 1 risk-based and 10.26% total risk-based.

[6] While we forecast slipping below "well-capitalized" as of June 30 and for the remainder of 2008 on total risk-based capital if we are unable to raise capital externally, based on our current forecast, we project remaining well-capitalized on Tier 1 core (leverage) and Tier 1 risk-based capital, and we do not foresee that we will slip below adequately capitalized on total risk-based capital. As a result, the failure of Indymac Bank is <u>not</u> a distinct possibility unless precipitated by an enforcement order.

supervising institutions like Indymac Bank will have a determining impact on outcomes, not only for individual institutions but for the housing and credit markets overall. Accordingly, we would hope that our regulators would be looking for ways to help banks like Indymac survive rather than imposing additional burdens on top of the market challenges we are already facing.

Indymac Bank's Goals

Indymac Bank is committed to pursuing the following goals with respect to capital, liquidity, asset quality, earnings and loan production in order to keep the bank safe and sound and return it to profitability:

Capital

Although, as noted above, we are forecasting that our total risk-based capital ratio will dip below well-capitalized this quarter, our goal is to keep Indymac Bank well capitalized and to increase our Tier 1 core and total risk-based capital ratios to a least 7.00% and 11.00%, respectively, as soon as is practicable. To accomplish this, Indymac's Board has directed management to attempt to raise a significant additional amount of capital (roughly $1 billion) and/or sell Financial Freedom. While we are doing everything we can to raise this capital, as discussed above, it is uncertain that we will be successful in our efforts given the current economic environment. Also, investors may have concerns regarding the regulatory response to our current situation and may want assurances from you in that respect before committing to inject a significant amount of capital into the bank. Adding to the uncertainty about how quickly we can achieve our capital goals is (1) continued uncertainty about the length and depth of the housing market downturn and, therefore, the ultimate severity of our credit losses and bond downgrades and their impact on our regulatory capital and (2) uncertainty about how much of a capital penalty we will incur from our mortgage servicing asset. While we are not growing the servicing portfolio at present, the value of this asset can increase materially if interest rates rise, and our Tier 1 core capital could decline materially as a result, increasing the dollar-for-dollar capital requirement to the extent that the servicing asset exceeds core capital. To help us achieve our capital goals, the bank will not pay dividends or make any other capital distributions and will not increase its total assets during any quarter until its Tier 1 and total risk-based capital ratios have returned to 7% and 11%, respectively.

Liquidity

Our goal is to maintain the strong liquidity levels we have been able to maintain throughout this crisis period. We are confident that we can meet this liquidity goal unless we are burdened with restrictions on our access to brokered deposits and on the rates we can pay to attract deposits. With respect to brokered deposits, our goal is to reduce this funding source by 2/3rd by the end of 2008, such that brokered deposits decline from 37.2% of deposits at March 31, 2008 to no more than 20% of deposits at December 31, 2008. We will continue to monitor the rates paid on brokered deposits to ensure they do not significantly exceed prevailing market rates offered by insured depository institution competitors on branch and on-line deposits.

Asset Quality

We will continue our efforts to reduce our NPAs over time, but we will balance our goals for NPA reduction with our goals for returning Indymac to profitability and preserving our capital (particularly with respect to our builder construction portfolio). One of our specific goals is to

sell our single family home REO assets within six months of taking possession of the assets. While we are working hard to reduce our NPAs and we have an effective team and processes in place and are making considerable progress, given the current economic environment, it is clear that a significant reduction in our NPA percentages will not happen over night. Much of our success in achieving our NPA reduction goals will clearly depend on the ultimate length and depth of the housing market crisis and the timing of when the market starts to recover.

Earnings

Our goal for earnings is to continue to pare our quarterly losses, reducing our loss to roughly $20 million by Q408. As noted above, our goal is for our mortgage banking business (including mortgage production and servicing) to be profitable in the second quarter and thereafter, for our thrift segment to become profitable in the third quarter and for our overall business, excluding discontinued activities, to be close to breakeven by the third quarter and have a small profit for the second half of 2008. Again, much of our success in achieving our goal of returning to profitability will depend on the housing market as well as on the outcome of our efforts to raise new capital.

Loan Production

We will continue the current trend of greatly improved credit quality of new loan production under our current GSE/FHA/VA production model, also ensuring that virtually all new loan production is saleable in the secondary market.

Help We Need from the Regulators If Indymac Bank Is to Achieve Its Safety and Soundness Goals and Avoid a Loss for the Insurance Fund

In light of Indymac's actions and goals outlined above, we strongly believe that formal enforcement action from our regulators is not necessary at this time, even if we are not able to raise capital externally or through the sale of Financial Freedom. In that respect, we also do not believe that restricting our ability to raise deposits is in our or your best interests, and, therefore, we would formally request that the FDIC grant us a waiver on the restrictions that might be imposed on us by regulation on our ability to raise brokered deposits and on the rates we are able to pay on deposits. We will be submitting our formal request for this waiver to the FDIC shortly. In addition, regardless of whether or not we are able to raise capital at this time, we are formally requesting a temporary waiver of the dollar-for-dollar capital we are required to hold against the portion of our MSR that exceeds our Tier 1 core capital. This is the alternative to the request we have already submitted for a waiver of this requirement with respect to our reverse mortgage MSR.

With respect to raising significant new capital from external sources, our efforts would be greatly assisted if there were more certainty as to the regulatory response to our current situation. Investors willing to put up to $1 billion of new capital into Indymac need to be confident that Indymac Bank will not be placed under a formal enforcement order, that our CAMELS rating will not be lower than a 3 if our Tier 1 core and total risk-based capital ratios exceed 7.00% and 11.00%, respectively, after the injection of new capital, and that we will not have restrictions on our ability to generate deposits. These investors will also want to know that their investment can be prudently and productively put to work over time. A $1 billion equity investment would actually generate $1.3 billion in additional regulatory capital, because our servicing asset would no longer exceed our Tier 1 core capital. We would plan to prudently deploy this capital by growing our assets over an 18-month period until our

capital ratios approached 7.00% Tier 1 core and 11.00% total risk-based, allowing us to take advantage of the many solid mortgage lending and AAA MBS investment opportunities that exist today. This, combined with the financial benefits of being rated a CAMELS 3 versus a 4, would accelerate our return to profitability and generate additional capital as well as reduce our NPA/asset ratio.

As we have always operated, and continue to operate, with complete transparency with the OTS and FDIC, and as we have a solid plan in place for keeping Indymac Bank safe and sound during this unprecedented crisis, we hope that our regulators will be able to support us in our efforts. We strongly believe that in an economic environment such as what we our facing today, working together in the manner that we are proposing above is in the best interests of the deposit insurance fund.

Thank you for taking the time to read this letter and consider our views. To reiterate, I and certain members of our management team and board of directors would like to meet with you, Mr. [redacted] and the appropriate senior officials of the OTS and FDIC in Washington, potentially including Director [redacted] and Chairman Bair, as soon as possible to discuss these matters further and hopefully agree on a way to continue to keep Indymac Bank safe and sound.

Sincerely and respectfully,

Michael W. Perry
Chairman and Chief Executive Officer

CC:
[redacted]
Regional Director
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