EXHIBIT 2

REPORT OF EXAMINATION

January 8, 2007

IndyMac Bank, F.S.B.
888 East Walnut Street
Pasadena, CA 91101
Docket Number: 03970

OTS Region:	West
Type of Examination:	Comprehensive Federal Exam with Regular Scope
Examination (Start) Date: Examination Completion Date:	January 8, 2007 March 21, 2007
Subordinate Organizations Examined:	Financial Freedom Senior Funding Corporation and various subsidiaries

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Department of the Treasury
West Region
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Seattle, WA 98101-2419

April 10, 2007

IndyMac Bank, F.S.B.
888 East Walnut Street
Pasadena, CA 91101

Members of the Board:

As required by 12 C.F.R. Section 563.170, we performed a risk-focused examination of IndyMac Bank, F.S.B.. The examination began on January 8, 2007.

The comments that follow summarize conditions, policies, practices, and trends that affect the institution's financial condition. We also summarize other major items of concern, not necessarily related to financial condition. All matters of concern identified within this Report of Examination require the Board of Directors and management's prompt corrective action.

Information contained in the supporting schedules of this report is from the institution's books and records. The examiner based the comments and conclusions in this report on an analysis of information obtained from the institution's records and from other authoritative sources. OTS prepared this report for supervisory purposes and you should not consider it an audit report.

Please review the report in its entirety at your next meeting and note your review in the minutes of that meeting. Also please advise us of what action you took, or will take, regarding each point discussed in the Matters Requiring Board Attention section of this report. In order to expedite the processing of the report, please reply by May 31, 2007.

If you have any questions, please call me at (206) 829-2603 or email me at mark.johnson@ots.treas.gov.

Sincerely,

Mark W. Johnson
Assistant Director

Signatures of Directors

We, the undersigned directors of IndyMac Bank, FSB, have personally reviewed the contents of the report of examination.

Signature	Date
Michael W. Perry	
Louis E. Caldera	
Stuart A. Gabriel	
Gabrielle E. Greene (Director as of January 2007)	
Lyle E. Gramley	
Hugh M. Grant	
Patrick C. Haden	
Terrance G. Hodel	
Robert L. Hunt II	
Lydia H. Kennard	
Senator John Seymour	
Bruce Willison	

Note: This form should remain attached to the report of examination and be retained in the institution's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

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Examination Conclusions and Comments

	Current Examination 01/08/2007	Previous Examination 11/07/2005	Previous Examination 11/15/2004
Composite Uniform Financial Institution Rating	2	2	2
Component Ratings:			
Capital Adequacy	2	2	2
Asset Quality	2	2	2
Management	2	2	2
Earnings	2	2	2
Liquidity	2	2	2
Sensitivity to Market Risk	2	2	3

	Current Examination 01/08/2007	Previous Examination 11/07/2005	Previous Examination 11/15/2004
Compliance Rating	2	2	2

Scope

The Office of Thrift Supervision (OTS) conducted a comprehensive federal regular examination of IndyMac Bank, FSB (IndyMac or Bank). Financial data and information in the report of examination (Report) is as of September 30, 2006, unless otherwise noted. The peer group median financial data used in the Report for analytical and comparative purposes consists of 36 OTS-regulated thrifts in the nation with assets over $5.0 billion.

The scope of the safety and soundness portion of the examination focused on the Bank's current financial condition, credit underwriting and administration, financial reporting, regulatory compliance, and the performance of the Board of Directors (Board) and senior executive management team since the previous federal regular examination dated November 7, 2005. We reviewed the primary risks and factors in each CAMELS area to formulate an assessment and provide a component rating.

We also completed an evaluation of the effectiveness of the compliance management program. This assessment included risk focused reviews of the "core" compliance areas, and additional areas selected on a risk-focused basis, as described in the Compliance section of this Report.

Background

IndyMac's core business continues to be single family residential (SFR) mortgage banking. IndyMac originates and purchases primarily Alt-A loans through its wholesale, correspondent, conduit and retail channels and sells the majority of its originations into the secondary market. In 2006, IndyMac's loan originations totaled approximately $91.7 billion of which 86 percent, or $79.0

Examination Conclusions and Comments (continued)

billion, were sold in the secondary market (19 percent GSE, 38 percent securitizations, and 39 percent whole loan sales). In general, management has proven its ability to manage these assets by having strong controls over loan origination, acquisition, servicing, and risk management.

During the review period, total assets grew 43.2 percent, from $18.5 billion to $26.5 billion, with the permanent mortgage loan portfolio accounting for most of this growth.

Safety and Soundness Performance and Rating

Overall, IndyMac is considered a fundamentally sound institution. The noted findings and concerns are well within the Board's and senior management's capabilities and willingness to correct.

Management and the Board continue to be effective in the oversight and management of the Bank's activities. As noted in prior examinations, the Board and management continue to be committed to enhance the overall operations of the Bank within the regulatory environment. Organizational changes made since the prior examination have strengthened the Bank's overall risk management practices. The Bank's Enterprise Risk Management (ERM) and internal audit functions are considered effective and the compliance management program is considered comprehensive. Management agreed to re-evaluate senior management employment contracts to ensure that the incentive compensation component is appropriately crafted for the employee's responsibilities.

Capital is satisfactory. IndyMac continues to maintain capital levels above FDICIA "well capitalized" standards and above the internal minimum levels for 2006, which OTS found to be appropriate. The Bank maintains higher capital ratios to compensate for perceived higher risk products and geographic concentrations in its operations. In addition to the higher capital levels, management agreed to double risk-weight sub prime loans. During 2006, capital ratios have been maintained above the minimums of 7.0 percent core capital and 11.0 percent total risk-based capital.

Asset quality remains satisfactory and problem loans remain at manageable levels despite recent credit deterioration. The Board and management monitor the Bank's exposures by placing limits to ensure diversification. The internal asset review (IAR) function and allowance for loan and lease (ALLL) reserve methodologies are adequate. The commercial and residential appraisal functions are effective. However, we did note significant internal control weaknesses within the Conduit Division. These weaknesses were well documented in the 2006 and 2007 internal audit reports. We have requested that the Board and management ensure that the Conduit Division address and correct these weaknesses.

Earnings are considered satisfactory and sufficient to augment capital, support operations, and pay proposed dividends. Year-to-date earnings through September 30, 2006, increased significantly as

Examination Conclusions and Comments (continued)

compared to the same period in 2005, primarily as the result of increased lending and sales activities and corresponding increases in gain-on-sale of loans (GOS) and net interest income (NII). While GOS continues to represent the largest percentage of the Bank's income, net interest income has decreased as a percentage over the review period. For the first three quarters of 2006, net income exceeded budget projections; however, fourth quarter 2006 operating results fell well short of management's forecast. The variance from forecasted results highlighted flaws in the forecasting, monitoring and reporting processes, which management is now addressing. Earnings for 2007 have been revised downward but are expected to remain satisfactory.

Liquidity position, funds management practices, information systems and liquidity strategies for analyzing and managing various funding sources are satisfactory. The Bank possesses sufficient secondary sources of liquidity, and management has executed appropriate contingency plans to meet unanticipated liquidity needs. Liquidity management policies and procedures are also satisfactory. Management implemented prior examination recommendations regarding the enhancement of quarterly liquidity stress analysis.

Sensitivity to market risk is adequately controlled and considered moderate. IndyMac's primary sources of market risk continue to include the Bank's large portfolio of variable cash flow instruments (VCI) assets, the mortgage loan warehouse and pipeline, and core-thrift interest rate risk (IRR) from the less-actively managed portfolios. Management has continued to make enhancements toward building a bank-wide market risk framework. The progress made during 2006 has expanded beyond the MSR/IO portfolio and is expected to encompass all of the remaining businesses in 2007. Bank-wide risk measures and metrics are also anticipated sometime in 2007. Prior year examination corrective actions related to the implementation of periodic net income stress analysis and establishing a risk management trigger for basis risk related to the mortgage servicing rights (MSR)/ interest-only (IO) portfolio has been satisfactorily addressed.

Based on the findings of this examination as summarized above, the performance of IndyMac indicates an overall composite rating of "2." Please see the end of this Report for the rating definitions.

Compliance Performance and Rating

IndyMac has a generally effective compliance risk-management program in place. The program addresses each of the SMAART compliance management program components. System, procedures, and internal controls have been developed to ensure that transactions are conducted in compliance with legal obligations. Monitoring programs for supervising the day-to-day compliance systems have been implemented. Assessments of the compliance program's effectiveness are performed periodically. Accountability for compliance performance is well defined. Response to violations,

Examination Conclusions and Comments (continued)

program deficiencies, and complaints is generally prompt and appropriate. Training in compliance requirements and policies is comprehensive and ongoing. However, it is important that management and the Board develop the Bank's fair lending program, which has not kept pace with the increased fair lending risk.

We assigned a Compliance Rating of "2," which reflects the Bank's generally effective compliance management program and overall satisfactory compliance posture. This rating was assigned in accordance with the ratings definitions appended to this Report.

/s/ Mark E. Reiley, F.T.R.
Safety & Soundness Examiner in Charge

/s/ Ryan Wakatsuki, F.C.R.
Compliance Examiner in Charge

Matters Requiring Board Attention

The examiner's review disclosed the following matters that the board should specifically address in their written response to this examination report. If corrective action is not complete by the noted Due Date, please provide a projected timetable. The board is also responsible for the adoption and implementation of any corrective actions called for in other sections of this Report.

Narrative Section	Due Date	Required Response
Compliance	May 31, 2007	• Detail a management action plan, with target dates, outlining projected compliance with Fair Lending findings.
Asset Quality	May 31, 2007	• For the Conduit Division, provide actions taken (1) to address the internal audit findings noted in the 2006 and 2007 internal audits, (2) to improve the internal control environment, and (3) to ensure the Division develops more robust, transparent management reports.
Management	May 31, 2007	• Ensure management re-evaluate senior management employment contracts and ensure that the incentive compensation component is weighed in accordance with the employee's responsibilities.
Earnings	May 31, 2007	• Ensure the new forecasting process is implemented.
Subordinate Organizations	May 31, 2007	• Ensure recommendations noted related to Financial Freedom are adequately addressed and that management ensures continued and planned corrective actions to address the internal audit reports deficiencies are completed in a timely manner.

Capital Adequacy

Capital adequacy is evaluated in relation to supervisory guidelines, the nature and extent of risks to the organization, and the ability of management to address these risks; consideration is given to the level and quality of capital and overall financial condition of the institution; the nature, trend and volume of problem assets and the adequacy of the allowance for loan and lease losses and other valuation reserves; risk exposures presented by off-balance sheet activities; quality and strength of earnings; balance sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and nontraditional activity risk; growth experiences, plans, and prospects; reasonableness of dividends; access to capital markets and other appropriate sources of financial assistance; and ability of management to address emerging needs for additional capital.

Component Rating: 2

Conclusion

Capital is satisfactory. IndyMac continues to maintain capital levels above FDICIA "well capitalized" standards and above the internal minimum levels, which OTS found to be appropriate. The Bank maintains higher capital ratios to compensate for perceived higher risk products and geographic concentrations in its operations. In addition to the higher capital levels, management agreed to double risk-weight sub prime loans. During 2006, capital ratios have been maintained above the minimums of 7.0 percent core capital and 11.0 percent total risk-based capital.

Comments And Supporting Analysis

Capital Levels and Trends

As forecasted by management, capital ratios continue to trend downward, due to significant balance sheet growth. Purchases of 50 percent risk weighted qualifying SFR mortgages are the primary driver of asset growth. During the examination period, risk-weighted asset growth of 39.9 percent slightly exceeded risk-based capital growth of 39.4 percent. Despite the increase in risk-weighted assets, the Bank continues to maintain a lower risk profile than its peers. The average risk-weight of the Bank's assets was 59.3 percent at September 30, 2006, compared to 61.2 percent for the peer group. High volumes of qualifying SFR loans and investment grade (AAA – BBB-) mortgage-backed securities (MBS) contribute to its lower risk profile. The following table compares the Bank's September 30, 2006, capital levels to September 30, 2005, and its peers.

Capital Adequacy (continued)

FDICIA PCA Capital Ratios (%)	Well Capitalized Standards	September 30, 2006 IndyMac	September 30, 2006 Peer Group Median	September 30, 2006 Difference	September 30, 2005 IndyMac	September 30, 2005 Peer Group Median	September 30, 2005 Difference
Total Risk-Based	10.0	(a)11.70	12.39	-0.69	(a)11.75	12.92	-1.17
Tier 1 Risk-Based	6.0	11.31	11.69	-0.38	11.27	12.02	-0.75
Tier 1 Leverage	5.0	7.60	7.60	0.00	7.51	7.54	-0.03

(a) Total risk-based capital ratio is lowered to 11.62 percent and 11.58 percent after double risk-weighting subprime loans at September 30, 2006, and 2005, respectively.

During the examination period, total equity capital increased from $1.52 billion at September 30, 2005, to $2.18 billion at September 30, 2006, an increase of $654.4 million. The increase consisted of capital infusions from the Bank's parent holding company equal to $516.7 million and retained earnings of $137.7 million. Retained earnings growth represented 19.4 percent of the of 43.4 percent growth in total assets. Overall, the Bank generated $356.3 million of net income, and paid dividends of $175.2 million to its parent holding company during the same period.

Because of the slowdown in the mortgage market, a flat yield curve, and changing demand to fixed rate mortgage products, management has revised the 2007 forecast to reflect minimal asset growth and reduced net income. The slower asset growth will somewhat reduce pressure for increased capital.

Subprime Loan Capital Component

In addition to the capital ratios as calculated on the quarterly Thrift Financial Reports, the Bank reports to the OTS supplemental capital ratios after double risk-weighting subprime loans. Subprime loans include all loans in first lien positions with FICO scores less than 620 and all second lien positions with FICO scores less than 660, excluding held-for-sale subprime loans originated within the past 90 days and not delinquent. As of September 30, 2006, subprime loans requiring double risk weighting for supplemental capital calculations totaled $136 million. The impact of the double risk weighting reduces the September 30, 2006, total risk-based capital ratio 8 basis points, from 11.70 percent to 11.62 percent, which continues to exceed the minimum 11.0 percent total risk-based capital ratio.

Risk Profile and Asset Concentrations

Although IndyMac continues to have a lower risk profile than thrift peers for risk-based capital calculations, the Bank has several significant asset concentrations that warrant maintaining capital levels at the higher levels of 7.0 percent core and 11.0 percent risk-based. The asset concentrations

Capital Adequacy (continued)

include nontraditional mortgages (geographical and product type), construction loans and VCI. See Concentrations Appendix of this Report for further discussion.

Dividend Payout

For 2007, management projects dividends to the parent holding company totaling 50 percent of net income, or approximately $150 million. Dividends paid by the holding company are projected at $133 million, or 44 percent of the Bank's projected net income. At the holding company level, interest on the TPS, other debt and dividends total approximately $24 million, $3.5 million and $133 million respectively. Combined, these three obligations require approximately $162 million per year and represented 45 percent of 2006 net income of $357 million. Based on the revised 2007 forecast, dividends and debt service will represent 57 percent of the Bank's projected $280 million net income. It is the Bank's policy to pay 50 percent of net income to the holding company. The holding company has adequate liquidity and borrowing capacity to pay the amounts above 50 percent of the Bank's net income. Net income will be sufficient to cover interest expense and dividend payments at the holding company level without placing undue stress on the thrift. A "negative" market scenario shows a decline in total assets to approximately $25.5 billion, approximately $3.0 billion below the $28.7 billion in total assets reported at December 31, 2006.

IndyMac is investigating the issuance of $500 million in perpetual non-cumulative preferred stock. Approximately $300 million will be dividended to the holding company and used to repurchase stock. The remainder is to support growth opportunities at the Bank level.

Corrective Actions

- None

Asset Quality

Asset quality is evaluated in relation to the level, distribution, severity, and trend of problem, classified, delinquent, nonaccrual, nonperforming, and restructured assets, both on- and off-balance sheet; the adequacy of the allowance for loan and lease losses and other valuation reserves; demonstrated ability to identify, administer and collect problem assets; the diversification and quality of loan and investment portfolios; the adequacy of loan and investment policies, procedures, and practices; extent of securities underwriting activities and exposure to counterparties in trading activities; credit risk arising from or reduced by off-balance sheet transactions; asset concentrations; volume and nature of documentation exceptions; effectiveness of credit administration procedures, underwriting standards, risk identification practices, controls, and management information systems.

Component Rating: 2

Conclusion

IndyMac's asset quality remains satisfactory. While the levels of delinquencies and nonperforming assets have increased over the review period, they continue to remain at manageable levels and are comparable to the peer group. Loan originations increased to record levels in 2006, primarily due to production out of the wholesale and conduit channels. Management tightened certain underwriting guidelines and programs to help mitigate credit risk. Construction lending continues to be well managed; however, the Bank is experiencing increased level of classifications due primarily to the downturn in the single-family construction market. IndyMac's IAR function and asset management practices are considered effective in identifying potential problem loans and the level of ALLL reserve is adequate. The commercial and residential appraisal functions are effective. The Board and management are adequately supervising the Bank's concentrations by placing limits to ensure diversification.

During this examination, we did note significant internal control weaknesses within the Conduit Division. These weaknesses were well documented in the 2006 and 2007 internal audit reports. We have requested that the Board and management ensure that the Conduit Division address and correct these weaknesses.

Comments And Supporting Analysis

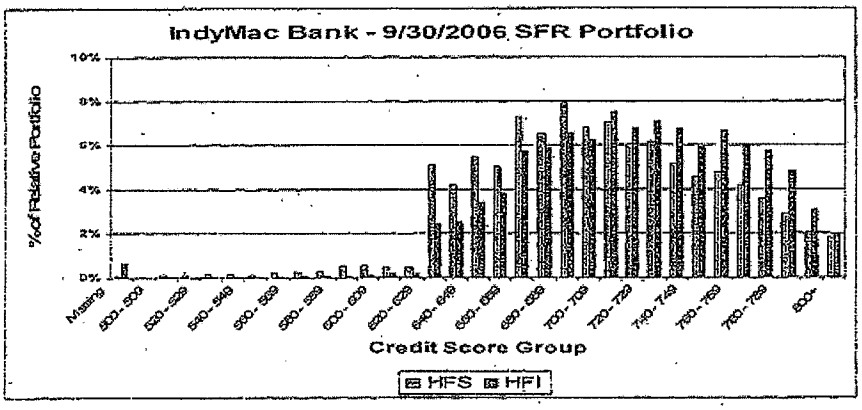
Portfolio Analysis

As of December 31, 2006, IndyMac reported $28.7 billion in total assets. Approximately two-thirds, or $19.4 billion, consisted of mortgage loans, which are primarily adjustable-rate secured by first liens on owner-occupied single-family dwellings or single-family developments. In addition, the Bank reported $4.7 billion in securities, primarily investment grade collateralized mortgage obligations, which represented 16.5 percent of total assets. IndyMac's single-family lending activity is predominantly composed of non-traditional loans originated for sale and, to a lesser degree, for the portfolio. As a mortgage banking operation that "sells" loans to the portfolio, the Bank maintains a held for sale ("HFS") portfolio and a held for investment ("HFI") portfolio, which were roughly

Asset Quality (continued)

equal in size as of December 31, 2006. As expected, the HFS portfolio consisted primarily of newer originations and the HFI portfolio was more seasoned. For the most part, the loans were originated through the IndyMac's wholesale broker network augmented by bulk purchases from the Conduit Division.

As of September 30, 2006, the Bank reported $13.4 billion in closed-end mortgage loans, consisting of $7.0 billion in HFS and $6.4 billion in HFI. For the most part, the loans were interest-only, originated utilizing less than full documentation (e.g. stated income), and were concentrated in California. Based on credit scoring, the HFS portfolio represents a higher risk profile than the HFI group as demonstrated below:



Credit scores are respectable predictors of non-payment but loan-to-value ("LTV") ratios also contribute to the propensity for default. Less than $1.0 billion, or 7.0 percent of total loans had LTV ratios in excess of 80 percent. In addition, portions of those loans were protected with mortgage insurance.

Despite an increase in adverse trends during the second half of 2006, delinquent loans as well as nonperforming assets remain at manageable levels. The following documents credit quality components at the prior three year-ends:

Asset Quality (continued)

Category	12/31/06 $000's	12/31/06 % TA	12/31/05 $000's	12/31/05 % TA	12/31/04 $000's	12/31/04 % TA
Delinquent Loans (30-89 days)	292,879	1.02	136,676	0.67	109,122	0.70
Nonperforming Loans	164,757	0.57	63,220	0.31	98,725	0.63
Repossessed Assets	21,638	0.08	8,224	0.04	7,896	0.05
Nonperforming Assets	186,395	0.65	71,444	0.35	106,621	0.68
Special Mention Assets	222,416	0.77	138,299	0.68	123,950	0.79
Classified Assets ("CA")	338,426	1.18	131,783	0.65	138,850	0.89
CA/Core Capital +reserves		15.65%		7.69%		11.22%

Conduit Division

In 2006, the Conduit Division experienced tremendous growth, accounting for 32.8 percent of the Bank's loan production, which contributed significantly to overall profitability. However, requisite controls for loan production did not keep pace with growth, as evidenced by two consecutive "needs improvement" internal audits. The Division's lack of effective internal controls is well documented in the related 2006 and 2007 internal audits, with many repeat criticisms noted. Specifically, the Conduit Division failed to: (1) adequately monitor sellers and related exposure; (2) obtain trading approvals according to Bank policy; (3) ensure seller agreements were reviewed by legal staff and properly executed; (4) document compensating factors supporting the purchase of loans not meeting IndyMac guidelines; (5) perform minimum due diligence on all loan pools purchased; and (6) resolve collateral deficiencies identified on a pre-funding basis in a timely manner. In addition, the Division must develop more roust transparent management reports that track loans by delinquencies, warehouse agings, put backs to sellers, and repurchase activity from investors. At a minimum, the reports must stratify by seller, product type, and loan characteristics for early identification of any adverse trends. Jim Banks, EVP of Conduit Division, acknowledges that the 2006 internal audit findings did not receive requisite attention, but promises to correct all outstanding deficiencies in a timely manner.

Construction Lending

IndyMac originates land and construction loans in two divisions, the Homebuilder Division ("HBD") and the Home Construction Lending ("HCL") Division. HBD management was effective in monitoring the actions and performance of its borrowers during the review period. HBD grants larger loans for the acquisition, development, and construction of residential tracts as well as condominium formation and conversions. The majority of these loans are secured by properties located in California; however, concentrations in Illinois and Florida are also noted. As a result, the HBD portfolio is susceptible to larger fluctuations in criticized assets and delinquencies, due to the recent deterioration noted in those areas. Several developer/builders are stopping new construction, delaying projects, and aggressively offering concessions to sell existing inventory. Some of this has

Asset Quality (continued)

been caused by speculators abandoning the market as interest rates started rising and price appreciation slowed. In addition, others have requested forbearance. Management may be pressured to renegotiate loan terms to assist borrowers who are unable to meet the original terms of their loans, and maximize recovery. These renegotiations could result in troubled debt restructurings ("TDRs"). We recommend management reevaluate controls and monitor modification activities to ensure proper accounting and records are maintained, and to prevent unnecessary compromises from occurring.

The HCL Division grants smaller loans to individuals for the purpose of building owner-occupied properties, which typically involve construction-to-permanent ("CTP") loans; however, the Division also originates for speculative purposes, including lot loans. During the examination period, the HCL Division tightened its underwriting standards to help offset the additional layering of risk of the portfolio. The CTP loan portfolio performed exceptionally during the recent period of rapid appreciation but may be somewhat challenged during the current operating environment. Based upon our review of the Bank's CTP underwriting standards, disbursement procedures and a sample of CTP loans, we recommend management reassess the CTP underwriting standards with regard to the level of documentation required of borrower income and required level of borrower's equity. We also recommend management reassess the Bank's disbursement procedures, as well as over disbursement limits.

IAR and ALLL Reserves

IndyMac's various business units internally identify and classify troubled loans for asset review purposes; however, corporate oversight of the process through the Chief Credit Officer and the Credit Risk Management Committee ("CRMC") ensure consistency of findings. For the most part, the business units and the corporate oversight were effective during the review period; however, the Bank lacks a policy and corresponding procedures for the identification and classification of troubled collateral dependent loans ("TCDLs") pursuant to Section 260 of the Examination Handbook. Although management provided policies and procedures for impaired loans pursuant to Statement of Financial Accounting Standards 114, that guidance fails to address TCDLs that are not impaired. In addition, the HCL Division is working to improve and upgrade its early detection/loss prevention model, as current methodology produces numerous "false positives" that distract finite resources and limit the usefulness of critical information. Fortunately, the HCL asset managers are extremely effective in documenting and resolving issues, once identified.

The business units also forecast provisions for loan and lease losses based on the best available data. Again, the Chief Credit Officer and CRMC, as well as the Enterprise Risk Management Committee provide oversight of the projections. As of December 31, 2006, the ALLL reserve is adequate given the loss history, current economic factors, and credit risk management practices. The following chart documents the coverage of the IndyMac's ALLL over a three-year period, compared to the Bank's

Asset Quality (continued)

peer group median:

Measures of ALLL Adequacy	12/31/06		12/31/05		12/31/04	
	IndyMac	Median	IndyMac	Median	IndyMac	Median
ALLL / Mortgages	0.27	0.32	0.30	0.25	0.33	0.33
ALLL / Nonperforming Assets	32.58	82.10	73.31	118.76	43.21	150.02
ALLL / Adversely Classified Assets	17.95	92.81	39.74	100.21	33.18	97.45

Fortunately, historical losses are negligible; however, recent trends suggest more meaningful data will be available for analysis. Management should refine current practices, or introduce new methodologies, to take advantage of more robust data and improve forecasts. For the most part, the Bank controls its credit risk by limiting concentrations in various products to manageable levels. For example, the recent problems in the subprime market have only marginally impacted the Bank, due to internal balance sheet limitations. Nevertheless, almost 20 percent of the managed portfolio consists of subprime loans, which may impact operations in the loan-servicing group if negative trends continue.

Appraisal Function

The residential and commercial appraisal functions are considered effective. We did make various recommendations in a letter dated February 16, 2007, that management agreed to address and correct. However, the issue with regard to "borrowers paying appraisers directly" will be handled separately outside of the examination process.

Non-Traditional Loan Origination Activity and HFI Portfolio

IndyMac's single-family lending activity is predominantly composed of non-traditional loans originated for sale and, to a lesser degree, for the portfolio. As the following table demonstrates, during 2006, the Bank increased its mortgage banking activity (originated and sold) of interest-only loans, while mortgage banking activity for option arm lending declined.

Key Data Pertaining to Non-Traditional Lending Products				
	Interest-Only Loans		Option ARMs	
	12/2006	12/2005	12/2006	12/2005
$ Loans Originated (millions)	21,292	11,056	10,202	13,214
$ Loans sold or securitized (millions)	18,894	9,738	4,911	5,265
$ Loans in Portfolio (HFI and AFS) (millions)	7,106	4,301	3,494	1,611
% Loans in Portfolio (HFI and AFS) to Total Assets	24.7	21.2	12.2	7.9
% Loans in Portfolio (HFI and AFS) to Core Capital	338.0	258.8	166.2	96.9
% Loans in Portfolio (HFI and AFS) to SFR Loans (1st Lien)	50.1	44.3	24.6	16.6
$ HFI Portfolio (millions)	3,870	2,477	1,162	1,253
% of HFI Portfolio	60.6*	46.7	18.2	22.3

*Management Policy requires reporting to Corporate Credit Group if limit of 60% is exceeded.

Asset Quality (continued)

Similar to other portfolios, non-traditional loan performance indicators have worsened, yet are still within manageable levels. Management maintains a complement of reports for managing the option ARM and interest-only loans for the HFS, HFI and servicing portfolios. Our analysis of the layered risk reports prepared by management, including a focus on credit scores, LTV, and delinquency rates, indicates that IndyMac is appropriately controlling risk. IndyMac offsets additional layers of risk posed by factors such as reduced documentation and flexible payment options with more stringent underwriting requirements, such as more conservative LTVs and credit scores.

Management has taken an active role in addressing the Interagency Guidance on Non-Traditional Mortgage Products ("Guidance") issued September 29, 2006. Management prepared a Gap analysis for our review comparing its policies and practices to the Guidance. In addition, management also provided reports of its 2/28 and 3/27 subprime lending activity, anticipating that these loan types will also be incorporated into the Guidance. We are satisfied with efforts and will continue to work with management and advise so the Bank can ensure compliance with the Guidance.

Below are key metrics for the non-traditional portfolios at year-end:

Key Non-Traditional Lending Products Performance Data as of December 31, 2006

	Interest Only Loans	Option ARMs
	2006	2006
% 30-89 day DQ – HFI and AFS	1.60	2.00
% 90+ Day DQ – HFI and AFS	0.96	0.48
% Weight Avg. LTV – HFI and AFS	74.1	75.3
Weight Avg. FICO – HFI and AFS	714	699
% Combined HFI Portfolio With FICO < 620 and FICO >660	1.7/86.6	
% Combined HFI Portfolio With LTV <=80% and >80% w/o MI	95.3/1.2	
% 30-89 day DQ – HFI Portfolio	1.65	0.82
% 90+ Day DQ – HFI Portfolio	1.05	0.86
% HFI Weighted Avg. Loss Levels	0.39	0.83

Corrective Actions

- Management must ensure the Conduit Division corrects the internal audit findings noted in the last report and ensure the Division is operating in a strong internal controls environment. In addition, the Division must develop more robust, transparent management reports.
- Management must establish a policy and related procedures for the identification and classification of troubled collateral dependent loans.

Asset Quality (continued)

- Management should refine current ALLL practices, or introduce new methodologies, to take advantage of more robust data and improve forecasts.

Management / Administration

Management and the Board of directors are evaluated against all factors necessary to operate the institution in a safe and sound manner and their ability to identify, measure, monitor, and control the risks of the institution's activities. Comments also include Assessment of Compliance Management. Consideration is given to level and quality of oversight and support provided by management and the Board; compliance with regulations and statutes; ability to plan for and respond to risks that may arise from changing business conditions or initiation of new products or services; accuracy, timeliness, and effectiveness of management information and risk monitoring systems; adequacy of and compliance with internal policies and controls; adequacy of audit and internal control systems; responsiveness to recommendations from auditors and supervisory authorities; reasonableness of compensation policies and avoidance of self-dealing; demonstrated understanding and willingness to serve the legitimate Banking needs of the community; management depth and succession; the extent that management is affected by or susceptible to dominant influence or concentration of authority; and the overall performance of the institution and its risk profile.

Component Rating: 2

Conclusion:

The Board and management continue to be effective in the oversight and management of the Bank's activities. Both continue to be committed to enhancement of overall Bank operations within the regulatory environment. Organizational changes made since the prior examination have strengthened the Bank's overall risk management practices. The Bank's ERM and internal audit functions are considered effective and the compliance management program is considered adequate.

During our prior examination, we recommended minor policy enhancements, continued progress in risk management practices, and the resolution of weaknesses identified at the Bank's subsidiary, Financial Freedom, which the Board and management devoted considerable resources and effort in addressing and correcting. Our primary recommendations in this examination are that management focus on: (1) continuing to improve the fair lending program; (2) ensuring the Conduit Division's internal control weakness are corrected; (3) re-evaluating senior management employment contracts to ensure that the incentive compensation component is weighted in accordance with the employee's responsibilities; (4) improve the forecasting process; and, (5) ensuring Financial Freedom compliance issues are adequately addressed. We our confident that the Board and management will be diligent in addressing all our report findings and recommendations in a timely manner.

Comments And Supporting Analysis:

Board and Management Oversight

Board membership has continued to be very stable, which demonstrates the Directorate's commitment to effectively manage the Bank. The Board is comprised of experienced and knowledgeable Directors from a variety of backgrounds. The Board generally meets bi-monthly, or more frequently if deemed necessary. Board meeting attendance by the Directors is exemplary. Since the prior OTS examination, Director Ukropina retired in mid 2006 and a new, qualified

Management / Administration (Continued)

Director, Ms. Gabrielle Greene, was appointed to the Board in January 2007. Ms. Greene is a General Partner of a local private equity fund holdings firm.

The Board has delegated sufficient authority to management, through established Board committees, to promote effective and efficient performance and foster an environment for regulatory compliance, while retaining sufficient control to discharge its responsibility to stockholders, regulatory authorities, customers, and employees.

There are three non-holding company directors on the Bank's Board to continue its independence from the holding company' s Board. They are Directors Stuart Gabriel, Richard Wohl, and Gabrielle Greene. Director Kennard is the latest Bank director voted onto the holding company's Board.

Since the prior examination, the key senior management positions changes included Michelle Miner being appointed as CEO of Financial Freedom and Canise Arredondo being appointed Chief Auditor, replacing Charles Williams. Mrs. Miner was brought into Financial Freedom to strengthen the operational side of the business and address and correct compliance and internal control findings noted in prior internal audits. See the Operating Suborganizations Section of this Report for our review of the Financial Freedom operations.

As part of our examination, we reviewed certain senior managers employment contracts. We noted that, in general, the incentive compensation component of the contracts tend to be heavily weighed toward production and earnings metrics and little, if any, consideration is given to operational metrics. For example, the EVP of Conduit Lending and CEO of Financial Freedom employment contracts incentive compensation components are entirely weighted toward net income metrics. Given that these managers are responsible for both production and operations we expect that the incentive compensation components include operational metrics. Furthermore, both business units have had "needs for improvement" internal audits and it would be reasonable to expect that the incentive compensation components include consideration for correcting the internal audit findings. We recommend that the Board and management re-evaluate senior management employment contracts and ensure that incentive compensation components address all components of the employee's responsibilities.

ERM Function

Management has continued to strengthen risk management functions through the ERM. The purpose of ERM is to develop, maintain, and monitor the Bank's risk management framework. In order to strengthen ERM, there were several changes in personnel as well as the addition of a Corporate Model Management and Research Group within ERM. During the review period, among other accomplishments, ERM completed revisions to the Investment Policy, strengthened IRR

Management / Administration (continued)

management, implemented a Model Review Policy and procedures, and, jointly with the Internal Audit Department, developed a risk assessment framework and created a risk scoring system for business units. In addition, given the current credit environment, ERM is enhancing and improving its oversight and reporting of each business unit's credit quality performance, while identifying and outlining any negative trends. As ERM continues to mature and evolve in its development, we recommend ERM include oversight of Consumer Compliance and Information Technology in its risk management framework.

Internal Audit Function

Overall, the internal audit function continues to be effective. In October of 2006, EVP, Chief Audit Executive Charles Williams was terminated without cause. His position was filled internally by SVP Canise Arredondo. Ms. Arredondo joined IndyMac in July of 2004. She is a certified public accountant and prior to her current role was the Director of Framework Management. Ms. Arredondo reports directly to the Board Audit Committee and administratively to the CEO. Ms. Arredondo also works closely with the ERM group to ensure high-risk areas identified by ERM are considered in audit planning. The audit department's current organizational structure promotes independence and does not appear to be subject to any undue influences by management.

The 2006 Audit Plan was approved by the audit committee and encompasses the high-risk areas of the Bank. Our review included a limited sample of internal audits completed in 2006. Audit reports reviewed were thorough and appropriately targeted. High-risk audits are completed in a timely fashion. In general, there continues to be an effective audit tracking system to ensure that audit findings are promptly resolved. The 2007 Audit Plan was approved on October 30, 2006. The plan continues to focus on high-risk areas but the approach now emphasizes functional audits rather than departmental audits. This strategy will enable the audit department to concentrate on higher risk exposure Bank-wide and across business lines.

IndyMac has a contract with the Institute of Internal Audit (IIA). This organization conducts an independent assessment of the Internal Audit department. An audit is scheduled for May of 2007. An independent assessment is required every five years in order to be in compliance with IIA standards.

Compliance Management

The Bank is in an adequate compliance management position. The program addresses each of the SMAART compliance management program components. System, procedures, and internal controls have been developed to ensure that transactions are conducted in compliance with legal obligations. Monitoring programs for supervising the day-to-day compliance systems have been implemented. Assessments of the compliance program's effectiveness are performed periodically. An evaluation of

Management / Administration (continued)

the Bank's compliance self-assessments and the other SMAART components indicates that the compliance management program is generally appropriate to the Bank's size, business strategy, operational complexity, and risk profile. During the review period, insufficient progress was made in the development of the Bank's fair lending program. While management is seriously addressing this deficiency, more work remains to be done. Please see the Compliance section of this Report for further details.

At the previous examination, the examiners had some concerns with Financial Freedom, but noted that management had made considerable progress in improving Financial Freedom's Compliance Management program. We found that management has continued to make improvements in the subsidiary's compliance management program, especially in certain areas of the anti-money laundering program. We encourage management to continue its efforts to address compliance issues and enhance its compliance programs on a bank-wide basis.

Corrective Actions

- Ensure that the Board and management re-evaluate senior management employment contracts and ensure that the incentive compensation component addresses all significant aspects of the employee's responsibilities.

Earnings

Quality and quantity of earnings are evaluated in relation to the ability to provide for adequate capital through retained earnings; level, trend, and stability of earnings; sources of earnings; level of expenses in relation to operations; vulnerability of earnings to market risk exposures; adequacy of provisions to maintain the allowance for loan and lease losses and other valuation reserves; reliance on unusual or nonrecurring gains or losses; the contribution of extraordinary items, securities transactions, and tax effects to net income; and adequacy of budgeting systems, forecasting processes, and management information systems.

Component Rating: 2

Conclusion

Earnings are satisfactory to support operations, augment capital, and provide for sufficient reserves after payment of dividends to the holding company. The level of year-to-date (YTD) earnings through September 30, 2006, increased significantly from the same period in 2005, primarily as the result of increased lending and sales activities and corresponding increases in GOS and NII. These increases offset the compression of margins on GOS and NII. Earnings from GOS as a percentage of the two earnings streams decreased from the same period in 2005 reflecting IndyMac's plan to reduce its dependence on mortgage banking gains and for NII to exceed GOS by year end 2009. The Bank is continuing to build a retail franchise as part of a hybrid thrift/mortgage banking strategy designed to provide flexibility to operate efficiently in varying interest rate environments. For the first three quarters of 2006, net income exceeded budget projections; however, fourth quarter 2006 operating results fell well short of management's forecast. The variance from forecast results highlighted flaws in the forecasting, monitoring and reporting processes, which management is now addressing. Earnings for 2007 have been revised downward but are expected to remain satisfactory.

Comments And Supporting Analysis

Level and Trend of Earnings

Through the first nine months of 2006, earnings displayed a significant 21.0 percent increase, to $280.1 million from $230.8 million for the same period in 2005. Increased earnings were primarily the result of increased lending and sales activities and corresponding increases in GOS and NII, to $497.2 million and $408.3 million, respectively. Consistent with the Bank's strategy to reduce its reliance on mortgage banking gains, earnings from GOS as a percentage of the two earnings streams decreased to 55 percent from 59 percent for the same period in 2005. The fourth quarter saw the mix of loan production shift to lower profit products, a compression of net interest margin, and increased credit costs, which when combined resulted in net income approximately 30 percent below forecast amounts.

Earnings (continued)

Earnings Highlights ($000's)	Year Ended 12/31/2004	Year Ended 12/31/2005	YTD 09/30/2006	Year Ended 12/31/06
GOS	366,688 (a)	591,463	497,177	661,361
NII	415,462	430,585	408,331	517358
Noninterest Expense	519,816	620,202	578,743	788,676
Net Income	182,808	306,998	280,065	357,575

(a) Includes $52.5 million one-time charge for rate lock accounting adjustment.

Key Profitability Measures

Key profitability measures are summarized in the table below. Through September 30, 2006, IndyMac's YTD return on average assets (ROAA) decreased moderately to 1.39 percent from 1.52 percent in 2005, as increased net income from annualized asset growth of 40.5 percent was offset by a narrowing net interest margin (NIM). However, YTD ROAA continues to compare favorably with the peer group median of 0.99 percent. Year-end results are still sound, with a return on average assets of 126 basis points and return on equity (ROE) of 17.9 percent.

Key Profitability Measures (%)	Year Ended 12/31/2004	Year Ended 12/31/2005	YTD 09/30/2006	Year Ended 12/31/06
Yield on Interest Earning Assets	5.49	6.08	7.37	6.38
Cost of Funds (COF)	2.72	3.93	5.37	4.08
NIM	2.56	2.14	2.03	1.93
GOS	2.26 (a)	2.94	2.48	2.34
Noninterest Expense	3.21	3.08	2.88	2.79
ROAA	1.13	1.52	1.39	1.26
ROE	15.65	21.03	19.46	17.91

(a) Ratio increases to 2.59 percent when $52.2 million one-time rate lock accounting adjustment is excluded.

The decrease in the NIM is mainly attributable to the flattening yield curve and the cost of the Bank's borrowings. The YTD COF of 5.37 percent of average assets is 138 basis points higher than the peer group median of 3.99 percent. The Bank's heavy reliance on wholesale borrowings such as FHLB advances drives the higher liability costs. As of September 30, 2006, FHLB borrowings totaled $9.3 billion, or 35.2 percent of total assets, compared to the peer group median of 15.8 percent. The Bank's YTD GOS, as a percentage of average assets, decreased to 2.48 percent from 2.94 percent in 2005, indicating somewhat reduced dependence on mortgage banking activities.

YTD noninterest expense of 2.88 percent of average assets is high compared to the peer group median of 1.64 percent, primarily due to expenses related to mortgage originations. However, noninterest expense is trending downward from 3.08 percent in 2005 and 3.21 in 2004. Personnel expense is the largest component of noninterest expense and YTD personnel expense of 1.70 percent of average assets is down from 1.77 percent in 2005 and 1.86 percent in 2004. At the beginning of the third quarter of 2006, the Bank instituted a hiring freeze on all non-revenue generating personnel.

Earnings (continued)

The table below summarizes information on lending and sales volumes. YTD mortgage loan originations and purchases have increased significantly to $63.3 billion, or 47.6 percent, from $42.9 billion for the same period in 2005. As of September 30, 2006, IndyMac estimated its share of the mortgage origination market at 3.87 percent, up from 1.95 percent in the third quarter of 2005. YTD mortgage loan sales increased to $55.9 billion, or 50.0 percent, from $37.2 billion for the same period in 2005. Substantial increases in lending and sales volumes helped to offset decreases in GOS margins, which YTD declined to 0.89 percent from 1.12 percent in 2005 and 1.28 percent in 2004. The decrease in GOS margins was the result of market competition and a shift in product mix to lower margin conduit loans. In the third quarter of 2005, IndyMac became the ninth largest SFR mortgage lender nationwide. One of the Bank's major strategic goals is to become one of the top six SFR mortgage lenders by 2010.

Lending and Sales Volumes ($000s)	Year Ended 12/31/2004	Year Ended 12/31/2005	YTD 09/30/2005	Year Ended 12/31/06
Mortgage Loan Originations	24,589,286	33,835,205	31,030,934	42,066,522
Mortgage Loan Purchases	13,814,224	27,031,015	32,273,122	47,026,463
Subtotal Mtg Loan Orig. & Pur.	38,403,510	60,866,220	63,304,056	89,092,985
Mortgage Loan Sales	32,792,508	53,020,940	55,863,477	79,210,249
Total Loans Serviced For Others	49,873,166	84,556,594	124,525,184	139,975,885

Forecasting and Strategic Plan

The 2007 - 2011 Strategic Plan forecasted net income of $370.2 million for 2006. However, as a result of fourth quarter performance at approximately 30.0 percent below the forecast, the Bank's 2006 net income was $357 million. For the first three quarters of 2006, IndyMac's income was ahead of budget. Management indicated that the significant variance between actual and forecast performance highlighted some significant flaws in the forecasting process. Specifically, the forecasting process needed to be: (1) more timely; (2) the information and reporting process more granular and transparent; and, (3) the business units must be held more accountable for forecasting and variances. EVP Brian Carter has been appointed to oversee the forecasting function and reports directly to CEO Perry. EVP Carter is in the process of implementing the revised forecasting process.

Given the Bank's 2006 actual results, IndyMac's net income projections for 2007 have been scaled back to approximately $280 million with a ROE of approximately 14.4 percent. Management projects earnings to be lower during the first two quarters (11 percent to 13 percent ROE), with improvement in the latter half of the year as the mortgage market recovers.

Earnings (continued)

Corrective Actions

- Management must ensure the new forecasting process is implemented.

Liquidity

Liquidity is evaluated in relation to the trend and stability of deposits; the degree of reliance on short-term, volatile sources of funds, including any undue reliance on borrowings or brokered deposits, to fund longer term assets; availability of assets readily convertible to cash without undue loss; ability to securitize and sell certain pools of assets; access to money markets and other sources of funding; the adequacy of liquidity sources and ability to meet liquidity needs; the effectiveness of liquidity policies and practices, funds management strategies, management information systems, and contingency funding plans; capability of management to properly identify, measure, monitor, and control liquidity; and the level of diversification of funding sources, both on- and off-balance sheet.

Component Rating: 2

Conclusion

IndyMac's liquidity position, funds management practices, information systems and liquidity strategies for analyzing and managing various funding sources are satisfactory. In addition, the Bank possesses sufficient secondary sources of liquidity, and management has executed appropriate contingency plans to meet unanticipated liquidity needs. Liquidity management policies and procedures are also satisfactory. Management implemented prior examination recommendations regarding the enhancement of quarterly liquidity stress analysis.

Comments And Supporting Analysis

Cash Flow and Liquidity Management

IndyMac's cash flow and liquidity management practices are satisfactory. Cash management and liquidity policies comply with regulatory guidelines. The liquidity policy has established minimum liquidity standards consistent with Thrift Bulletin 77. It also provides quantitative guidelines and limits to ensure the Bank maintains adequate sources of liquidity and contingency funding sources to address unanticipated liquidity needs. The Treasury Division is responsible for liquidity management and the Capital, Funding and Liquidity Committee (CLC) monitors actual and projected liquidity. The CLC provides the Board ERM Committee with liquidity management information on a quarterly basis. In addition, the CLC prepares stress tests that project the status of the Bank's liquidity position in the event of market downturns or unanticipated economic conditions.

The liquidity policy establishes a short-term liquidity target equal to the greater of $300 million or 3.0 percent of the liquidity base, as measured on a daily (spot short-term liquidity) and quarterly average basis (QTD average short-term liquidity). Pursuant to policy, total liquidity must be the greater of $1.0 billion or 10.0 percent of the liquidity base as measured on a quarterly basis. The policy prescribes a minimum short-term liquidity ratio of 3.0 percent. During the review period, the QTD average short-term liquidity ratio ranged between 4.01 and 3.37 percent; however, the daily spot short term liquidity level fell below the 3.0 percent threshold five times during the review period. In one

Liquidity (continued)

instance, the ratio dipped as low as 1.21 percent. Management self reported the shortfalls and maintained quarterly liquidity within policy guidelines.

In our review of the CLC committee minutes, we noted that, contrary to policy-required monthly meetings, the CLC committee met only five times during 2006. Management indicated that due to the frequency of meetings held by Treasury subcommittees and the daily flow of information to CLC, it was not necessary for CLC to meet monthly. Management agreed to revise the policy to more accurately reflect the frequency of meetings to be held by CLC.

Deposits and Borrowed Funds

The Bank places significant reliance on wholesale sources to meet its funding needs. Liquidity risk is mitigated by the short holding period of the assets these liabilities fund. The majority of IndyMac's short-term borrowings fund loans that are securitized into mortgage-backed securities under IndyMac's shelf registration or held for sale. These loans and securities are usually sold within ninety days after origination, consistent with the Bank's stated mortgage banking strategy.

The liability mix remained stable during the examination period. The table below depicts the Bank's sources of funds over the examination period and the percentage concentration of each category:

	September 30, 2006		September 30, 2005	
Funding Sources	Amount	% of TOTAL	Amount	% of TOTAL
Core Deposits(*)	1,982	8.6	1,470	9.0
Escrow	691	3.0	686	4.2
Certificates of Deposit	6,114	26.6	3,900	4.0
Broker Deposits	1,528	6.7	1,365	8.4
Total Deposits	10,315	44.9	7,421	45.6
FHLB advances	9,333	40.6	6,621	40.5
Reverse Repos + Fed Funds	677	3.0	733	4.4
Other Borrowings	2,638	11.5	1,553	9.5
Total Borrowings	12,648	55.1	8,907	54.4
TOTAL	22,963	100	16,328	100

Source: 3 – yr. OTS UTPR & TFR

Liquidity (continued)

Retail deposits and FHLB advances are IndyMac's primary funding sources. The Bank offers a variety of deposit products through its 27 branches in Southern California. Telebanking and internet channels offer additional deposit gathering avenues. Deposit activity grew during the review period from $7.4 billion at September 30, 2005, to $10.3 billion at September 30, 2006. Management plans to continue the growth of retail deposits and expand the branch system in order to augment sources of lower cost funds and to reduce the Bank's reliance on wholesale funding. Due to the slowing mortgage market, the pace of branch expansion has been curtailed and only one office was opened in 2006. However, CEO Perry has indicated management is still committed to further expanding its branch system and projects opening an additional twelve branches by 2009. In addition, IndyMac has recently hired an experienced Retail Banking manager to oversee the branch network.

On September 30, 2006, the Bank had a FHLB borrowing capacity of 50.0 percent of total assets, or $13.3 billion. Outstanding FHLB borrowings totaled $9.3 billion and borrowing availability was $4.0 billion, subject to eligible collateral. In addition to advances, the Bank holds whole loan and bond facilities, and reverse repurchase agreements to supplement its liquidity sources. Committed financing facilities totaled $6.9 billion ($6.5 billion whole loan facilities, $300.0 million bond facilities and $100.0 million in unsecured revolving line-of-credit). Of these committed financing facilities, $2.9 billion was utilized, and $1.1 billion was available for use, based on eligible collateral.

Asset/Liability Management

We determined that the Bank's asset/liability management policies and processes are satisfactory. Total assets increased $8.0 billion, or 43.4 percent, from $18.5 billion at September 30, 2005, to $26.5 billion at September 30, 2006. Asset growth was centered in the MBS and the mortgage loan portfolios, which grew 54.3 percent and 37.3 percent, respectively. During the same period, total liabilities increased $7.4 billion, or 43.5 percent, from $16.9 billion to $24.3 billion. Liability growth was primarily in FHLB advances and deposits. Other borrowings remained stable during the review period.

In April 2006, management established the Northlake Capital Funding Program, a single seller asset-backed commercial paper facility, which allows the Bank to directly issue secured liquidity notes backed by mortgage loans. The Bank is authorized to issue up to $2.5 billion in short-term notes, with expected maturities not to exceed 180 days after issuance and final maturities of 60 days following the expected maturities. On September 30, 2006, IndyMac had $501.0 million in secured liquidity notes outstanding.

Liquidity (continued)

Liquidity Stress Testing

The prior report of examination recommended that management expand the liquidity stress test analysis to include the impact from the liquidity management strategies on earnings and capital. Management revised the liquidity stress test to include the recommended analysis.

Recommended Corrective Actions

- Revise the liquidity policy to reflect Treasury meetings as acceptable substitutes for CLC meetings.

Sensitivity to Market Risk

Sensitivity to market risk reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect earnings or the economic value of capital, the ability of management to identify, measure, monitor, and control exposures to market risk given the institution's size, complexity, and risk profile; the nature and complexity of interest rate risk exposure arising from nontrading positions; and where appropriate, the nature and complexity of market risk arising from trading and foreign operations.

Component Rating: 2

Conclusion:

IndyMac is exposed to moderate levels of market risk. IndyMac's primary sources of market risk continue to include the Bank's large portfolio of VCI assets, the mortgage loan warehouse and pipeline, and core-thrift IRR from the less-actively managed portfolios. Management is effective in managing these risks.

Management has continued to make enhancements toward building a bank-wide market risk framework. The progress made during 2006 has expanded beyond the MSR/IO portfolio and is expected to encompass all of the remaining businesses in 2007. Bank-wide risk measures and metrics are also anticipated sometime in 2007.

Prior year examination corrective actions related to the implementation of periodic net income stress analysis and establishing a risk management trigger for basis risk related to the MSR/IO portfolio has been satisfactorily addressed.

Comments And Supporting Analysis

Level and Trend of IRR Exposure

Throughout the examination period, the Bank's IRR exposure was maintained at "minimal" levels, as defined in Thrift Bulletin 13a (TB 13a). IRR exposure has remained within Board established limits throughout the review period. IndyMac's major sources of market risk include the VCI portfolio, the mortgage loan warehouse and pipeline, and the investment portfolio. The following table shows IndyMac's IRR results based on the Bank's internal QRM model:

IRR Measure	12/31/2005	3/31/2006	6/30/2006	9/30/2006	12/31/2006
Pre-Shock NPV Ratio	10.94%	10.33%	11.88%	11.34%	11.00%
Post-Shock NPV Ratio[a]	10.28%	9.48%	11.41%	10.50%	10.28%
Sensitivity Measure	66 bps	85 bps	47 bps	83 bps	73 bps
Level of IRR[b]	Minimal	Minimal	Minimal	Minimal	Minimal

[a] Post-shock is defined as the +200 basis points rate shock scenario.
[b] As defined in TB 13a, Table 1. Does not consider qualitative factors.

Sensitivity to Market Risk (continued)

Results of the OTS Net Portfolio Value (NPV) model continue to show higher levels of interest rate sensitivity and lower NPV ratios than the internal QRM model. The OTS results indicate a pre-shock NPV ratio of 9.09 percent and a post-shock (+200 basis points upward shock in rates) NPV ratio at 6.75 percent, indicating an interest rate sensitivity of 233 basis points at December 31, 2006. Based on OTS model results, IRR is at a moderate level.

The primary differences between the internal and OTS IRR results are the lower valuations estimated by the OTS model related to the mortgage servicing portfolio and 12 MAT and hybrid loan portfolios. The OTS model also estimated longer durations for both the 12 MAT and hybrid ARM loan portfolios. The Bank's internal model indicates a greater increase in value in rising rates for the MSR than the OTS results, which produces a lower sensitivity measure for the bank, as a whole, relative to OTS. We believe the internal QRM model results provide a more accurate measure of IRR, given the more granular level of data and more instrument-specific assumptions utilized.

Although IRR is minimal as measured by IndyMac's internal IRR model, we conclude that the Bank is exposed to an overall moderate level of market risk, due to the relatively high concentration of more volatile VCI assets. At December 31, 2006, the VCI portfolio (MSR and AAA-rated interest-only securities) totaled $1.9 billion, with the MSR (net of deferred tax) representing approximately 59.9 percent of Tier-1 Core capital. The concentration of the same categories of VCI assets relative to capital increased from December 31, 2005, when these assets represented $1.1 billion, with MSR representing approximately 41.5 percent of tier-1 core capital. The increase in VCI assets was largely due to retention of new mortgage servicing as the result of relatively high mortgage loan production and sales over the review period. Please refer to the Concentrations section of this Report for further information on MSR concentration.

Valuation practices regarding the VCI assets continue to be satisfactory, including values that appear reasonable and adequately supported. We recognize that the VCI portfolio is very sensitive to changes in mortgage prepayments, and generally loses value as interest rates fall, and gains value as interest rates rise. Management has actively hedged this portfolio to mitigate adverse changes in the fair market value.

Net Interest Income & Net Income Modeling

The Asset/Liability Management group calculates the net interest income (NII) sensitivity analysis for the global thrift (mortgage backed securities, HFI securities, and Remainder Assets). While the Board established NII triggers for only the HFI and MBS businesses, a Bank-wide NII trigger is anticipated but not currently established. In addition to the NII analysis, Financial Planning and

Sensitivity to Market Risk (continued)

Forecasting provides an earnings sensitivity analysis based on deterministic performance scenarios. We observed that while the worst case business scenarios are primarily based on significantly reduced loan production and declining mortgage banking revenue, no material changes to net interest margin were incorporated.

Management's hedge focus is on mitigating adverse changes in economic value. In the fourth quarter of 2006, the Bank's net interest margin (NIM) substantially declined, from 2.02 percent in the prior quarter to 1.64 percent. The primary contributors to the NIM decline were the increased cost related to the replacement of lower cost fixed-rate borrowings and increasing deposit costs. Hedge costs that began amortizing in the fourth quarter also contributed to the decline in the NIM. The impact of these events are reflected in management's 2007 NIM forecast. Management has instituted more rigorous controls in its forecasting and planning process to ensure more accurate earnings guidance and better awareness of the accounting impact on the NIM.

ERM - Independent Interest Rate Risk Management

Management has been actively working on implementing elements of the IRR Master policy by business unit. Progress to date includes a robust risk framework related to the Bank's most volatile asset portfolio (MSR/IO) and completing the integration of the MBS and HFI businesses. Management also enhanced its IRR analyses by expanding its IRR analytics group and establishing a centralized IRR group policy charter. Management also formalized an independent model validation group and established a new model validation policy and procedures.

Full implementation of the market risk framework is in process with regard to the other business units. When completed, management should achieve consistent and comprehensive IRR measures and controls for both the individual business units and on a Bank-wide perspective. Our expectation continues to be the implementation of Bank-wide risk measures that are sub-allocated, as appropriate, to the individual business units as described in the IRR Master policy.

Corrective Actions

- We support management's build-out of the Bank's market risk framework. Bank-wide risk measures should be developed and implemented and sub-allocated, as appropriate, to all individual business units.

Compliance

The Compliance rating reflects the institution's compliance management performance and implementation of SMAART. Considerations include the commitment of management to compliance and its ability and willingness to take the necessary steps to assure compliance, and the adequacy of operating systems, including internal procedures, controls, audit activities, and training designed to ensure compliance on a routine and consistent basis. The rating may incorporate other factors that significantly affect the overall effectiveness of an institution's compliance efforts. The rating evaluates compliance factors but does not take into account an institution's record of lending performance under the CRA or its compliance with the applicable provisions of the implementing regulations since institutions receive a separate rating for CRA purposes.

Compliance Rating: 2

Conclusion

IndyMac is in a satisfactory compliance position and has an effective compliance risk-management program. The program covers all six SMAART components and management is working towards best practices in developing, maintaining, and executing its compliance management program. The program is appropriate to the bank's size, business strategy, operational complexity, and risk profile. However, management needs to continue development of its fair lending program.

Comments And Supporting Analysis

SCOPE

The compliance portion of the examination included a review of the overall effectiveness of the bank's compliance management program (see Management section). The review included risk-focused reviews of the following core compliance areas:

- Fair Lending and Nondiscrimination Laws and Regulations;
- Bank Secrecy Act (BSA), Office of Foreign Asset Control (OFAC), USA PATRIOT Act (USAPA) Economic Sanctions, and Anti-Money Laundering (AML) and Anti-Terrorist Financing Controls;
- Flood Disaster Protection Act (FDPA);
- Home Mortgage Disclosure Act (HMDA).

FINDINGS

Fair Lending Risk Management and Control Program

IndyMac's fair lending risk has increased over the past two years, and its fair lending program has not kept pace. While executive management has clearly evidenced its commitment to the principles of nondiscrimination in lending, it erred in retaining an executive level fair lending officer who lacked the knowledge, skills, and expertise necessary for the position. As a result, during much of the

Compliance (continued)

review period, the institution's program for fair lending monitoring, testing, and control was effectively in abeyance. We recognize that executive management, realizing this, took steps to address the situation and that, since the third quarter of 2006, there has been increased executive and board oversight, appointment of a new fair lending officer, approval of a strategic plan, and development of analyses and testing.

While positive, more work needs to be done to bring the program to a level consistent with the institution's size, complexity, business strategy, and fair lending risk. We agree that there are factors that serve to limit the institution's residual fair lending risk, particularly its use of a highly automated decision and pricing system (e-MITS). The Bank's risk of steering is also reduced by not having separate prime and subprime channels, although it does have products priced as subprime regardless of borrower creditworthiness. IndyMac's fair lending risk has significantly increased, however, due to the institution's overall growth and attendant increased visibility and to the increasing attention paid by government and public interest groups to pricing and steering issues, particularly with the availability of pricing data since 2004 as a result of changes in the HMDA reporting regulations (Regulation C). This, combined with the inherent risk in the institution's business model – primarily broker-originated mortgage lending that includes risk-based pricing of Alt-A, A-minus, and subprime credit, with a significant portion being payment option, adjustable-rate, and interest-only mortgages, requires robust monitoring and controls.

One indication of a change in the institution's fair lending risk profile is that IndyMac was flagged in the Federal Reserve Board's analysis of the national 2005 HMDA data as having statistically significant race and ethnicity disparities in denial rates and pricing. Due to the weaknesses in the institution's fair lending program, IndyMac was not prepared to respond to the issues raised by the Federal Reserve's analysis. While some analysis had been done, it was not adequate for this purpose. Instead, the institution had to complete a more detailed analysis upon receipt of our request in late November 2006. Although this analysis needs further development, in particular the use of well designed segmentation to identify and control the areas and causes of disparities, it was evident from the results that, after controlling for explanatory factors, there remained statistically significant disparities in pricing in broker originations. Although the institution has caps on broker compensation, it has not included disparities within the range established by those caps in its broker monitoring. (As part of the OTS national response to disparities flagged by the Federal Reserve, we have opened a Special Limited Compliance Examination to review the issues raised by that analysis. As we are sure the Board can appreciate, until that examination is completed, further conclusions on those issues would be inappropriate.)

Executive management has taken very seriously our comments and expressed its commitment to development of a robust, effective fair lending program. Accordingly, IndyMac must: (1) continue development of all aspects of its fair lending program as outlined in its strategic plan; (2) further

Compliance (continued)

develop its analysis and testing, incorporating well designed segmentation, so that it can identify and control the areas and causes of disparities in pricing and decisions; and, (3) improve its monitoring and control of brokers to manage the associated fair lending risks, particularly in broker compensation and selection of products. Management also must develop an action plan, with target dates, outlining projected compliance with the above noted findings.

BSA, USAPA, OFAC Economic Sanctions, and AML and Anti-Terrorist Financing Controls

IndyMac has an effective BSA program that meets the requirements set forth in 12 CFR 563.177.(b) and (c). The BSA program has been reduced to writing, and approved by the Board. It adequately documents the bank's anti-money laundering program, including the customer identification program. BSA compliance management also includes an adequate system of internal controls to assure ongoing BSA compliance. Individuals have been designated to coordinate the BSA program and oversee the day-to-day monitoring. Independent testing is conducted to determine the effectiveness of the program. The bank maintains an effective program of ongoing BSA compliance training.

IndyMac has a relatively low BSA risk profile. The Bank's deposit base is considerably smaller than banks of similar asset size. IndyMac does not actively solicit transaction accounts that are considered higher risk accounts from a BSA perspective. Transaction accounts represented 0.61 percent of total assets as of September 30, 2006, compared to a peer median of 3.4 percent of total assets.

At the previous examination, we had some concerns regarding one of the bank's business units; Financial Freedom. Management's quarterly compliance reviews noted ongoing customer identification program and OFAC weaknesses over the past two years. A further review and discussions with management indicate that the audit findings involved violations of internal bank policies and procedures only and were not regulatory violations. New management was put in place at Financial Freedom in 2006 and the December 2006 quarterly compliance review indicated significant improvement in these compliance areas.

The Bank has established an effective program for ensuring compliance with OFAC economic sanctions. The program includes written policies and procedures, the designation of a qualified individual to be responsible for day-to-day compliance, independent OFAC compliance testing, and an ongoing training program for affected employees.

IndyMac has also implemented satisfactory policies, procedures, and internal controls for ensuring compliance with USAPA requirements. We noted no violations of USAPA requirements. Management did not have policies and procedures for the handling and processing of national security letters, but agreed to develop and implement policies and procedures.

Compliance (continued)

FDPA

Management has established adequate policies and procedures for the FDPA. We found no related regulatory compliance exceptions in our review of policies and procedures and the limited review of loan files.

HMDA

Management has established adequate policies and procedures for HMDA. We found no related regulatory compliance exceptions in our review of policies and procedures and the limited review of loan files.

Corrective Actions

- Management must: (1) continue development of all aspects of its fair lending program as outlined in its strategic plan; (2) further develop its analysis and testing, incorporating well designed segmentation, so that it can identify and control the areas and causes of disparities in pricing and decisions; and, (3) improve its monitoring and control of brokers to manage the associated fair lending risks, particularly in broker compensation and selection of products. Management also must develop an action plan, with target dates, outlining projected compliance with the above noted findings.

Directors, Senior Executive Officers, and Attorneys

Number of Directors Meetings Held During Past 12 Months: 10
Number of Directors Authorized: 13 as of January 2007
Number of Vacancies: 0

Name Principal Occupation	Title Year of Birth	No. of Meetings Attended in 12 Months	Service as Director Since Year Appointed to Current Term Expires	Annual Compensation
Michael W. Perry	CB, CEO 1962	10	1997 2007	$ 1,000,000 [1] 400,831 [2] 1,000,000 [3,7]
Richard H. Wohl	P/D 1958	10	2005 2007	750,000 [4] 136,849 [5] 883,644 [6]
Louis A. Caldera College President	D 1956	10	2002 2007	123,750 [7]
Stuart A. Gabriel College Professor	D 1953	10	2004 2007	86,250 [8]
Lyle E. Gramley Senior Economic Advisor	D 1927	10	2000 2007	83,750 [7]
Hugh M. Grant Business Consultant	D 1936	10	2000 2007	180,417 [7]
Gabrielle E. Greene General Partner/Private Equity Fund	D 1960	N/A	1/2007	
Patrick C. Haden Investment Banker.	D 1953	9	2000 2007	96,250 [7]
Terrance G. Hodel Retired Mortgage Banker	D 1942	10	2003 2007	91,250 [7]
Robert L. Hunt II Former Bank Executive	D 1950	10	2001 2007	128,750 [7]
Lydia H. Kennard Construction Company Executive	D 1954	10	2002 2007	91,250 [8]
John F. Seymour (Retired Senator) Housing Consultant	D 1937	10	2000 2007	181,250 [7]

Directors, Senior Executive Officers, and Attorneys (continued)

James R. Ukropina	D 1937	4	2001 Retired mid-2006	91,666 [7]
Bruce G. Willison College Dean	D 1948	10	2005 2007	99,583 [7]
A. Scott Keys	EVP, CFO 1962			490,500 [4] 12,790 [5] 375,000 [6]
S. Blair Abernathy	EVP 1962			627,000 [4] 84,005 [5] 748,838 [6]
Ashwin Adarkar	EVP 1958			381,600 [4] 25,546 [5] 835,413 [6]
Terrence O. Hughes	EVP 1959			400,000 [4] 281,250 [6]
James R. Mahoney	EVP/ CO-CEO FF 1953			1,500,000 [4] 755,000 [6]
Ruthann Melbourne	EVP 1966			275,000 [4] 208,691 [6]
John D. Olinski	EVP 1960			350,000 [4] 73,416 [5] 599,214 [6]
Frank M. Sillman	EVP 1963			350,000 [4] 73,195 [5] 946,704 [6]
Charles A. Williams	EVP 1958			300,000 [4] 172,500 [6, 9]

[1] Annual salary paid by holding company
[2] Deferred compensation paid by holding company
[3] Bonus paid in 2006 by holding company
[4] Annual salary paid by bank
[5] Deferred compensation paid by bank

Directors, Senior Executive Officers, and Attorneys (continued)

[6] Bonus paid in 2005 by bank
[7] Also a holding company director; meeting fees paid by holding company
[8] Meeting fees paid by bank
[9] Contract terminated in October 2006

Principal Operating Committees

Name of Committee	Frequency of Meeting	Members of Committee
Audit Committee	at least 4 times annually	Hugh Grant (Chair) Gabrielle Greene – 1/2007 Rob Hunt Bruce Willison
Compliance & Technology (Bank only)	at least quarterly	Lydia Kennard (Chair) Stuart Gabriel Gabrielle Greene 1/2007 Pat Haden Richard Wohl
Corporate Governance	at least 4 times annually	Sen. John Seymour (Chair) Louis Caldera Hugh Grant
Enterprise Risk Management	at least 4 times annually	Rob Hunt (Chair) Stuart Gabriel (Bank only) Lyle Gramley Terry Hodel
Management Dev. & Compensation	at least 4 times annually	Sen. John Seymour (Chair) Louis Caldera Hugh Grant
Strategic & Financial Planning	at least 4 times annually	Pat Haden (Chair) Lyle Gramley Terry Hodel Rob Hunt Bruce Willison

Concentrations

Non-Traditional Loan Origination Activity and HFI Portfolio

IndyMac's SFR lending activity is predominantly composed of non-traditional loans originated for sale and to a lesser degree for the portfolio. As the following table demonstrates, during 2006, the Bank increased its mortgage banking activity (originated and sold) of interest only loans, while mortgage banking activity for option arm lending declined.

Key Data Pertaining to Non-Traditional Lending Products

	Interest Only		Option Arms	
	1-2/2006	12/05	1-2/2006	12/05
$ Loans Originated (millions)	21,292	11,058	10,202	13,214
$ Loans sold or securitized (millions)	18,894	9,738	4,911	5,265
$ Loans in Portfolio (HFI and AFS) (millions)	7,106	4,301	3,494	1,611
% Loans in Portfolio (HFI and AFS) to Total Assets	24.7	21.2	12.2	7.9
% Loans in Portfolio (HFI and AFS) to Core Capital	338.0	256.8	166.2	96.9
% Loans in Portfolio (HFI and AFS) to SFR Loans (1st Lien)	50.1	44.3	24.6	16.6
$ HFI Portfolio (millions)	3,870	2,477	1,162	1,253
% of HFI Portfolio	60.6*	46.7	18.2	22.3

*Management policy requires reporting to Corporate Credit Group if limit of 60 percent is exceeded.

Similar to other portfolios, non-traditional loan performance indicators have worsened, yet are still within manageable levels. Management maintains a complement of reports for managing the option arm and interest only loan for the AFS, HFI and servicing portfolios. Our analysis of the layered risk reports prepared by management, including a focus on credit scores, LTV, and delinquency rates, indicates that IndyMac is appropriately controlling risk. We found that IndyMac offsets additional layers of risk posed by factors such as reduced documentation and flexible payment options with more stringent underwriting requirements, such as more conservative LTVs and credit score.

Key Non-Traditional Lending Products Performance Statistics as of December 31, 2006

	Interest Only	Option Arms
	2006	2006
% 30-89 day DQ – HFI and AFS	1.60	2.00
% 90+ Day DQ – HFI and AFS	0.96	0.48
% Weight Avg. LTV – HFI and AFS	74.1	75.3
Weight Avg. FICO – HFI and AFS	714	699
% Combined HFI Portfolio With FICO < 620 and FICO >660	1.7/86.6	
% Combined HFI Portfolio With LTV <=80% and >80% w/o MI	95.3/1.2	
% 30-89 day DQ – HFI Portfolio	1.65	0.82
% 90+ Day DQ – HFI Portfolio	1.05	0.86
% HFI Weighted Avg. Loss Levels	0.39	0.83

Concentrations (continued)

Management has taken an active role in addressing the Interagency Guidance on Non-Traditional Mortgage Products (Guidance) issued September 29, 2006. Management prepared a gap analysis for our review comparing its policies and practices to the Guidance. In addition, management also provided reports of its 2/28 and 3/27 subprime lending activity, anticipating that these loan types will also be incorporated into the Guidance. We are satisfied with managements efforts and will continue to work with management and advise where the Bank can ensure its compliance with the Guidance.

Construction Loans

Indymac's HCL and HBD divisions originate portfolio loans that represent concentrations of risk. As of December 31, 2006, construction loans totaled $2.9 billion and represented 10.0 percent of total assets and 137.0 percent of core capital. In addition, construction loans in process totaled $2.1 billion, which elevates potential exposure to $4.9 billion, or 234.7 percent of core capital. Management has effectively monitored these portfolios during the review period. The Bank's construction lending is discussed more fully in the Asset Quality Section of the Report.

MSR & AAA Rated IO's

As of December 31, 2006, MSR and AAA-rated IO's totaled $1.9 billion (net of the associated deferred tax liability), or approximately 59.9 percent of core capital. These assets have little or no credit risk, but have high price volatility. At December 31, 2005, the net balance and percent of core capital were $1.1 billion and 41.5 percent, respectively. The increase in MSR was largely due to the retention of servicing on sold and securitized loan production.

At December 31, 2006, the Bank had a deferred tax liability of $676.5 million. This liability stems from a timing difference in taxable income recognition because of the difference between tax and book basis of MSRs. For concentration monitoring purposes, management nets the amount of the deferred tax liability against the carrying value of the related MSRs. This is because any curtailment in MSR income would result in a corresponding recovery of the deferred tax liability.

Management adequately measures, monitors and controls the risks associated with this concentration. Please refer to the Sensitivity section of this Report for further details regarding the Bank's market risk management practices.

Subordinate Organizations

Name and Address:	Financial Freedom Senior Funding Corporation
Location of Offices:	1 Banting, Irvine, CA 92618
Type of Entity:	Operating Subsidiary
Date Last Examined:	November 7, 2005
Principal Business:	Originates, sells, and services reverse mortgage loans
Association Ownership:	100.0 percent

Association's Investment	Amount ($000s)	Percentage of Institution Assets
Stock (at cost)	$100,398	
Secured Loans	724,410	
Unsecured Loans		
Guarantees of Debt	0	
Other – Retained Earnings	82,900	
Total	$907,708	3.2%

FINDINGS

Description of Activities

On July 5, 2006, IndyMac announced its decision to purchase the remaining 6.25 percent of the outstanding stock of Financial Freedom Senior Funding Corporation (Financial Freedom or company) from CEO Jim Mahoney and thereby increase its holdings in Financial Freedom to 100.0 percent. Effective February 6, 2007, CEO Mahoney relinquished his position to Michelle Minier. He is now the Chairman of Financial Freedom.

Financial Freedom is licensed to conduct business in all 50 states and during 2006 retained its position as the largest originator and servicer of reverse mortgage loans. Financial Freedom originated $5.0 billion of loans during 2006, an increase of 72.4 percent over the $2.9 billion in originations during 2005. Financial Freedom continues to maintain a market share of over 50.0 percent of the reverse mortgage market, with 80.0 percent of its production from wholesale sources and 20.0 percent from retail sources. The majority of its lending activity is in the states of California, Florida, Texas, and New York, together comprising 48.8 percent of total Financial Freedom originations.

The bank sells all reverse mortgages originated and has recently expanded its investor base from only FNMA and Lehman Brothers to include, among other investors, Bank of America. For yearend 2006, management reported a servicing portfolio of 116,065 loans with an outstanding balance of $13.1 billion. This represents a loan count increase of 50.0 percent and a loan balance increase of 68.0 percent when compared to yearend 2005.

Subordinate Organizations (continued)

Financial Condition

As of December 31, 2006, Financial Freedom reported total assets of $998.5 million, representing an increase of 280.0 percent when compared to reported assets of $262.7 million as of September 30, 2005. Assets were centered in loans available for sale of $762.6 million, mortgage servicing rights of $110.2 million and goodwill of $77.6 million. Financial Freedom reported total liabilities of $815.2 million representing an increase of 364.8 percent when compared to reported liabilities of $175.4 million as of September 30, 2005. Liabilities were centered in warehouse lines of credit with the Bank of $724.4 million, and included $31.6 million of net deferred income tax payable as well as $25.8 million of accounts payable and accrued liabilities. As of December 31, 2006, the company reported capital of $183.3 million, representing an increase of 110.0 percent from the capital position as of September 30, 2005. While asset growth outpaced capital growth during the review period, Financial Freedom's 18.3 percent capital ratio remains adequate and can support anticipated growth during 2007.

Reported income for the twelve-months ended December 31, 2006, listed gross revenues of $193.1 million, resulting primarily from $160.8 million from gains on the sale of loans and $21.1 million in loan servicing fees. Operating expenses totaled $106.3 million, or 55.0 percent of gross revenues. Pre-tax income totaled $86.8 million, resulting in net income after taxes of $52.2 million, compared to $23.5 million reported for the twelve-months ended December 31, 2005, or an increase of 122.1 percent. Financial Freedom's net income has continued its upward growth trend of $52.2 million, $23.5 million, $15.2 million and $5.0 million reported for fiscal years 2006, 2005, 2004 and 2003.

Reverse Mortgage Loans

A reverse mortgage loan enables eligible homeowners to convert the equity in their homes to cash to address their financial needs without having to sell their home, give up title, or take on a new monthly mortgage payment. The program is designed by HUD and features FHA insurance to benefit senior homeowners who are 62 years of age or older who own their homes free and clear or with little outstanding debt. Loan proceeds can be taken out as a line of credit, lump sum payment, fixed monthly payment, or similar combinations. The mortgage is not due or payable as long as the borrower occupies the property as his or her principal residence, does not vacate the property for more than 6 consecutive months, and does not violate any covenants of the mortgage loan such as maintaining the property. If the final outstanding loan balance of principal and interest exceeds the value of the home, the loss is borne by FHA mortgage insurance.

There are three primary reverse mortgage loan products: (1) the Home Equity Conversion Mortgage (HECM); (2) the Fannie Mae HomeKeeper loan, which are known as Agency loans because they are

Subordinate Organizations (continued)

FHA insured and are funded within the FHA limits; and, (3) a proprietary noninsured loan, where the loan amount exceeds the FHA loan limit. Presently, the loan amount is determined by regional loan limits established by HUD/FHA that cannot exceed 87% of the applicable FNMA/FHLMC lending limit ($417,000, continental U.S.).

In accordance with Fannie Mae requirements, originators of reverse mortgages must comply with all local, state, or federal laws, including those that relate to fair housing, equal credit opportunity, truth in lending, and wrongful discrimination in residential lending. If Fannie Mae later determines that the lender did not comply with the eligibility requirements specified by HUD or Fannie Mae, the lender must repurchase the mortgage. Fannie Mae also requires the borrower to first meet with a HUD-approved reverse mortgage counselor before the lender can initiate any loan processing. Congress limited the number of FHA insurable reverse mortgage loans to 275,000. As of February 15, 2007, this limit was exceeded and shortly thereafter Congress passed a continuing resolution that, among other things, lifted the 275,000 reverse mortgage loan cap until September 30, 2007.

Loan Counselor

The counselor's job is to educate the borrower about reverse mortgages, to inform them about other alternative options available given the borrowers situation, and to assist them in determining which particular reverse mortgage product would best fit their needs if a reverse mortgage is chosen. This counseling session is at no cost to the borrower and can be done in person or over the telephone. Similar to the FHA product, management requires a counseling session for its proprietary loan products; however, management has acknowledged that given recent competitive entrants into the market it may reconsider this requirement.

Financial Freedom is reliant on the broker community to source upwards of 80.0 percent of the reverse mortgages funded. The counselor's role becomes critical to educate the borrower regarding the complexities of the loan and to ensure that all the borrowers interests are considered during their loan selection process. Further, the counselor serves an integral role in promoting Financial Freedom's efforts to protect the consumer and minimize reputation risk. Financial Freedom has a significant interest in assuring that both the loan broker and independent counselor are effectively performing their duties to protect the institution from reputation risk.

Internal Audit

As noted in previous examinations, internal audit has identified various concerns within Financial Freedom ranging from significant to minor weaknesses. Significant concern areas include: 1) Loan Funding – Wire Beneficiaries, Access and Call-back; 2) Loan Funding – Title Insurers/Closing Agents and Closing Protection Letter Expiry; and, 3) Loan Documentation – Mortgage Insurance

Subordinate Organizations (continued)

Endorsement. Obtaining mortgage insurance is critical for the origination and sale of reverse mortgage loans. We reviewed management's efforts to correct deficiencies in the loans in order to obtain mortgage insurance certification from FHA/HUD. In this regard we observed managements heightened efforts to address these deficiencies for existing loans as well as to correct the overall lending process to avoid these deficiencies from recurring.

Given the continued growth as noted above, it is incumbent upon management to address all these control weaknesses in a timely fashion. Further, management must maintain adequate controls in order to effectively respond to emerging issues that may come with the contemplated growth in lending and servicing along with competitive factors arising outside the company.

We found management's commitment to improve controls and the ongoing progress to resolve the remaining issues to be appropriate. We again reviewed management's action plan for developing information systems and technology platforms to improve the efficiency of the lending and servicing operations, including the use of imaging systems and the development of additional metrics to measure the operational performance of Financial Freedom. Senior management ranks have been enhanced with the recent appointment of CEO Michelle Minier, having a demonstrated expertise in operational controls, as well as personnel additions in other key oversight areas.

Lending and Secondary Market Activity

Financial Freedom originated $5.0 billion in reverse mortgages in 2006. The majority of originations in 2006 were Agency-type loans totaling $4.3 billion, or 86.0 percent of production, while the funding of Proprietary loans totaled $748.8 million. All loan originations in 2006 were adjustable-rate loans with an average loan-to-value ratio of 32.7 percent. For the same period, the bank sold $4.5 billion of reverse loans to investors for a gain-on-sale of $160.9 million. To fund the lending operations, Financial Freedom has a $1.5 billion revolving warehouse line of credit with IndyMac. The warehouse line carries an interest rate based on the one month LIBOR rate plus 35 basis points. As of December 31, 2006, the outstanding usage of the warehouse line of credit totaled $724.4 million.

During the previous examination, we expressed concern regarding the limited secondary market for reverse mortgages. Through midyear 2006, the HECM loans by contract could only be sold to FNMA, while the non-insured loans could only be sold to Lehman. During the second half of 2006 management expanded its investor base for the sale of the Agency reverse mortgage loans and in so doing, increased the entities gain on sale revenues. Similarly, uninsured loans, exceeding the FHA lending limit, are now offered to multiple investors.

Subordinate Organizations (continued)

Together the expansion of the overall reverse mortgage borrower market along with the growth of the secondary market investors for both the Agency and non-agency product has contributed to the growth and success of Financial Freedom. While Financial Freedom has enjoyed the benefits of the increased investor competition for its products, management has also observed loan pricing reductions from new entrants into the reverse mortgage lending environment and anticipates reductions in profit margins during 2007.

Servicing Asset

The servicing portfolio totals 116,065 loans. The borrower is required to pay a servicing fee of approximately $25 to $35 per month to compensate the servicer for the varied responsibilities of servicing the reverse mortgage, including overseeing occupancy status and property maintenance. The required servicing cost can be negotiated at the time of loan origination in order to provide the borrower with increased net proceeds. The average service fee charged to borrowers as of December 31, 2006, was $31.77 for Agency loans and $26.09 for Proprietary loans. Management continues to make strides in improving efficiency in managing its servicing portfolio. Average cost to service the loan per month declined from $7.14 for 2005 to $6.60 as of yearend 2006. We anticipate that during the next full scope examination we will review the reverse mortgage servicing operations platform.

IndyMac currently sells all the reverse mortgages it originates to investors with servicing retained, resulting in the recordation of a servicing asset. As of December 31, 2006, IndyMac reported a servicing asset of $110.2 million associated with the reverse mortgage-servicing portfolio of $13.1 billion. Generally, the prepayment speeds to date have been low and predictable, as they do not respond to changes in interest rates, as is found with the prepayment risks associated with normal mortgage servicing. In fact, since a portion of the prepayments are associated with the death of a borrower, the speeds can be forecast by using actuarial tables for life expectancy, coupled with models developed for persons moving out of their homes for health or other reasons dictated by borrower needs. As noted during the previous examination, the "reverse-mortgage" servicing asset is not considered as risky as the "forward mortgage" servicing asset; however, with the advent of increased competition for, and introduction of, new products, the ability to reasonably predict prepayments may decline.

The reverse mortgage servicing asset of $110.2 million represents 5.2 percent of the bank's core capital. The reverse mortgage servicing is included in IndyMac's overall MSR concentration total and management annually obtains a third party valuation of the reverse mortgage servicing asset. Management also continues to develop the information systems to analyze how borrower characteristics may influence loan credit performance and prepayment speeds.

Subordinate Organizations (continued)

CORRECTIVE ACTIONS

- The Board must ensure management has developed an appropriate contingency plan in the event Congress does not increase the reverse mortgage loan cap by September 30, 2007, or if other unfavorable events in the reverse mortgage market limit loan volume;
- Management must ensure, to the best of its ability, that both the loan broker and independent counselor are effectively performing their duties to protect the institution from reputation risk; and,
- Management must ensure that the continued and planned corrective actions to address the internal audit report deficiencies are completed in a timely manner.

Subordinate Organizations (continued)

Name and Address:	IndyMac Resources, Inc.
Location of Offices:	155 North Lake Avenue, Pasadena, CA 91101
Type of Entity:	Operating Subsidiary
Date Last Examined:	November 7, 2005
Principal Business:	Personnel leasing subsidiary to IndyMac Bank, F.S.B., and its affiliates
Association Ownership:	100 %

Association Investment	Amount ($000's)	Percent of Institution Assets
Stock (at cost)	$37,770	0.14%
Secured Loans	0	
Unsecured Loans	0	
Guarantees of Debt	0	
Other (Retained Earnings and YTD Net Income)	25,826	0.10%
Total	$63,596	0.24%

FINDINGS

Description of Activities

IndyMac Resources, Inc. (IndyMac Resources) is a wholly owned subsidiary of IndyMac that leases employees and provides human resource services to IndyMac and its subsidiaries. These human resource services include payroll, benefits, and other administration and recruiting services. The majority of IndyMac's employees are included in the "leased employee" structure, having been transferred to IndyMac Resources effective December 31, 2003, with the exception of IndyMac's executive management team and employees of the Consumer Banking Division. In return for providing these services, IndyMac Resources contractually receives an annual fee of 5.0 percent of the aggregate salaries of all leased employees provided to IndyMac, its subsidiaries, and its affiliates.

The purpose of IndyMac Resources is to allow IndyMac and its subsidiaries to share payroll and administration costs, to efficiently distribute employees among the subsidiaries, and to provide savings on state income and franchise taxes and on state and federal employment taxes.

As of September 30, 2006, IndyMac Resources reported total assets of $155.5 million, including $77.4 million in inter-company receivables and $76.0 million in cash. Liabilities totaled $91.9 million, of which $78.3 million were accounts payable, and shareholder's equity totaled $63.6 million. Net income for the nine-month period totaled $11.4 million.

Subordinate Organizations (continued)

CORRECTIVE ACTIONS

- None

Subordinate Organizations (continued)

Name and Address:	IndyMac ABS, Inc.
Location of Offices:	155 North Lake Avenue, Pasadena, CA 91101
Type of Entity:	Operating Subsidiary
Date Last Examined:	November 7, 2005
Principal Business:	Facilitates the issuance of asset-backed securities
Association Ownership:	100%

Association Investment	Amount ($000s)	Percent to Institution Assets
Stock (at cost)	$177,981	0.67%
Secured Loans	0	
Unsecured Loans	0	
Guarantees of Debt	0	
Other (Retained Earnings and YTD Net Income)	34,381	0.13%
Total	$211,961	0.80%

FINDINGS

Description of Activities

IndyMac ABS, Inc. (ABS) is a bankruptcy-remote entity that facilitates the issuance of asset-backed securities collateralized by manufactured housing, subprime, and home improvement mortgage loans. IndyMac sells these loans to ABS, which then immediately transfers the loans to third party trustees. ABS holds the remaining lower-rated subordinate residuals. IndyMac services the collateralized loans and remits principal and interest payments to ABS and other investors.

As of September 30, 2006, ABS reported total assets of $230.1 million, comprised primarily of $66.7 million in mortgage securities available-for-sale, $89.9 million in trading mortgage securities, and $73.3 million in inter-company receivables. Total liabilities were $18.1 million, comprised primarily of $16.3 million in income taxes payable, and shareholder's equity totaled $212.0 million. Total revenue for the nine-month period was $11.9 million, and net income was $7.2 million.

CORRECTIVE ACTIONS

- None

Subordinate Organizations (continued)

Name and Address:	IndyMac Securities Corporation
Location of Offices:	155 North Lake Avenue, Pasadena, CA 91101
Type of Entity:	Operating Subsidiary
Date Last Examined:	N/A (new organization, incorporated December 23, 2005)
Principal Business:	Underwriting, dealing in, and brokering mortgage-backed and asset-backed securities
Association Ownership:	100%

Association Investment	Amount ($000's)	Percentage of Institution Assets
Stock (at cost)	$5,000	0.02%
Secured Loans	0	
Unsecured Loans	0	
Guarantees of Debt	0	
Other (YTD Net Income)	(1)	(nil)
Total	$4,999	0.02%

FINDINGS

Description of Activities

The formation of IndyMac Securities Corporation (ISC) as an operating subsidiary of IndyMac was approved by OTS on December 7, 2005, and ISC was incorporated on December 23, 2005. ISC operates as a registered broker-dealer in underwriting, dealing in, and brokering mortgage-backed securities and asset-backed securities in the primary and secondary markets for IndyMac and other institutional clients. The Corporation also acts as a broker of whole loan pools in the secondary market.

At September 30, 2006, ISC reported $5.0 million in total assets, almost exclusively comprised of cash. Liabilities totaled $26,000, primarily comprised of accounts payable, and shareholder's equity totaled $4.99 million. ISC originally projected total assets of $78.4 million and net income of $2.4 million for the year 2006, but for the nine-month period ending September 30, 2006, the corporation operated at a loss, due to slower than expected start-up and a change in management in the middle of the year. Negative net income of $1,067 was reported for the nine-month period including total revenues of $193,412 and expenses of $194,479.

CORRECTIVE ACTIONS

- None

Subordinate Organizations (continued)

Name and Address:	IndyMac Retained Assets, Inc.
Location of Offices:	155 North Lake Avenue, Pasadena, CA 91101
Type of Entity:	Operating Subsidiary
Date Last Examined:	N/A (new organization, incorporated December 6, 2005)
Principal Business:	Holding residual securities retained from securitizations
Association Ownership:	100%

Association Investment	Amount ($000's)	Percent to Institution Assets
Stock (at cost)	0	
Secured Loans	0	
Unsecured Loans	0	
Guarantees of Debt	0	
Other	0	
Total	0	0.00%

FINDINGS

Description of Activities

The formation of IndyMac Retained Assets, Inc. (IndyMac Retained Assets) as an operating subsidiary of IndyMac, was approved by the OTS on November 3, 2005, through a letter of non-objection, and was incorporated on December 6, 2005. It was formed for the purpose of holding financial assets that IndyMac and other affiliates would transfer to it. The Board of Directors would then determine how IndyMac Retained Assets would subsequently loan, invest, or otherwise apply the proceeds and any other income received from the assets. The financial assets held by this organization are expected to include mortgage-backed securities, financial instruments, and contract rights, such as derivatives, interest rate swaps, currency swaps, and high-yield debt.

IndyMac Retained Assets was originally projected to have total assets of $67,000, total liabilities of $50,000 and shareholder's equity of $17,000 by December 31, 2006. Net income of $6,648 was originally projected for the year. As of September 30, 2006, there is no activity in this subsidiary, and no financial information had been reported.

CORRECTIVE ACTIONS

- None

Rating Definitions

CAMELS Rating Definitions

Composite 1
Financial institutions in this group are sound in every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These financial institutions are the most capable of withstanding the vagaries of business conditions and are resistant to outside influences such as economic instability in their trade area. These financial institutions are in substantial compliance with laws and regulations. As a result, these financial institutions exhibit the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile, and give no cause for supervisory concern.

Composite 2
Financial institutions in this group are fundamentally sound. For a financial institution to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These financial institutions are stable and are capable of withstanding business fluctuations. These financial institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.

Composite 3
Financial institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. These financial institutions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Financial institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, these financial institutions may be in significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. These financial institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions.

Composite 4
Financial institutions in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. Financial institutions in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity, and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institutions in this group pose a risk to the deposit insurance fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Composite 5
Financial institutions in this group exhibit extremely unsafe and unsound practices or conditions; exhibit a critically deficient performance; often contain inadequate risk management practices relative to the institution's size, complexity, and risk profile; and are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the financial institution to be viable. Ongoing supervisory attention is necessary. Institutions in this group pose a significant risk to the deposit insurance fund and failure is highly probable.

Rating Definitions (continued)

Compliance Rating Definitions

Rating 1
An association in this category is in a strong compliance management position. The compliance management program completely and reliably covers all six SMAART components and applies best practices in developing, maintaining and executing that program. The institution conducts thorough and reliable self-assessments in accordance with a well-conceived risk schedule and promptly corrects any violations or operational deficiencies. System records are complete. Review reports are well prepared and integral to management and board decisions. Training maintains staff compliance expertise. Monitoring controls are strong resulting in any compliance violations being infrequent, self-identified and timely corrected. There is no evidence of prohibited discrimination, reimbursable violations, or systemic deficiencies resulting in repeated substantive violations. The institution's compliance management gives no cause for supervisory concern.

Rating 2
An association in this category is in an adequate compliance management position. Management has a demonstrated capacity to administer an effective compliance program that satisfactorily addresses the SMAART components. Self-assessments may or may not be conducted, but in any case are not thorough enough, or their results adequately assimilated, to be a sufficient basis upon which to grade compliance management performance. Separate evaluation of the other SMAART components by the examiner supports favorable findings of compliance management capabilities and performance given the institution's size, business strategy, operational complexity and risk profile. Some areas of programmatic weakness or areas for improvement may occur that either had not been self-identified or were self-identified but not promptly self-corrected. Readily attainable enhancements to the institution's compliance program and/or the establishment of additional review/audit procedures will eliminate performance deficiencies. Although there may be technical compliance violations and limited infrequent substantive violations readily remedied, there is no evidence of prohibited discrimination, reimbursable violations, or programmatic deficiencies resulting in repeated substantive violations.

Rating 3
An association in this category is in a less than satisfactory compliance position requiring a further supervisory review. Management does not conduct reliable self-assessments, and the other components of the compliance management program do not perform sufficiently well to prevent systemic or repeated non-technical compliance violations. Overall implementation of the SMAART components is not up to the standards expected of institutions of similar capacity. Violations may be numerous. Substantive regulatory violations were either not self-identified or were not fully remedied as part of the institution's regular monitoring or response processes. There is no finding of prohibited discrimination. By identifying an institution with marginal compliance early, additional supervisory oversight may be employed to assure compliance management improvements are implemented and further deterioration of the institution's compliance performance is prevented.

Rating 4
An association in this category requires prompt supervisory intervention to correct serious compliance program deficiencies. Management has material shortfalls in its implementation of a comprehensive compliance management program as measured by SMAART. Management failures have resulted in substantive compliance violations, often involving a significant segment of consumers or requiring substantial monetary remedies, that have not been remedied on the institution's initiative in a timely fashion, or are significantly below standards for the institution's expected level of competence given its size, strategy, sophistication and risk profile. Close supervision of agency-directed institution self-assessment may be required to assure reliability or thoroughness of corrective actions. Transaction analysis supports the need for agency intervention to effectively supervise the institution's return to an acceptable level of compliance performance.

Rating 5
An association in this category is in need of the strongest supervisory intervention and oversight. SMAART components have been ineffectually implemented or ignored. The association is substantially in noncompliance with several of the civil rights, consumer or public interest statutes and regulations. The severity of its noncompliance creates legal and financial exposure of significant risk to the association. Management has demonstrated its unwillingness or inability to operate within the scope of these statutes and regulations. Previous efforts on the part of the regulatory authority to obtain voluntary compliance have not been effective. Discrimination, substantial overcharges or other practices resulting in systemic or serious repeat violations are present.