Mike Perry's Informal Talk: November 15, 2012

I want to thank Joe for inviting me to speak at Garrett McAuley's 2012 Client Appreciation Dinner.

This dinner and its location in San Francisco reminds me that Joe and I have known each other for nearly half my life. Almost 25 years ago (in the late 1980's), Joe was the COO of Hamilton Savings Bank here in the city and I was the CFO and head of mortgage banking for Commerce Savings Bank, a small Sacramento area thrift. We sold home loans to Hamilton Savings because we had yet to become a Fannie Mae and Freddie Mac seller/servicer. I was at another of Joe's client appreciation dinners at a Chinese restaurant in the City and Joe went around the table – there were about a dozen of us -- and asked us to share a little about our firms and ourselves. When I was done, Joe asked me, "Mike, how old are you?" After I responded, "Twenty-six," Joe said loudly to the rest of the group, "All the best mortgage bankers I know are under thirty" and I have loved Joe ever since.

Joe and Mike know the mortgage and community banking businesses inside and out. I do believe that their very long experience, seeing and experiencing first-hand the ups and downs of our very volatile industry is extremely valuable to all of us. It is why we are all here this evening.

I think most of you know who I am and my background, but if not, you can read about it online on my blog (www.nottoobigtofail.org) or elsewhere, so I am going to focus my brief time with you tonight telling you a little about IndyMac, what happened, my thoughts about the crisis, and then I am going to open it up for questions.

Before I start I would like to mention that while I have settled many of the lawsuits against me (I was personally sued for over $1 billion, including suits from the SEC and private securities cases), I have one big case with the FDIC remaining, which I thought would be resolved by this time when I committed to speak here tonight, so my remarks tonight are made with that in mind.

It is important to my remarks tonight to understand what I inherited in January, 1993 when I took over the predecessor to IndyMac, a publicly-traded mortgage REIT named Countrywide Mortgage Investments, Inc. It had about $800 million in mortgage assets at the time, $120 million of equity capital, and had a market value of about $75 million. In other words, it was trading at about 60 percent of book value because it had no operating business, and the mortgage assets it held less its cost of funds and expenses were projected to lose about $10 million that year. I was hired, at thirty years old, to take charge of this mortgage REIT and turn it around by developing a jumbo and nonconforming mortgage conduit and a warehouse lending business. And I did that. In 1993 as I recall, the old investment portfolio lost about $10 million and the operating businesses made about $13 million, so we squeaked out a small profit.

I can't resist one quick story. In the first quarter of 1993, my small team and I were working day and night to get the mortgage conduit up and running. There was a lot of infrastructure that needed to be built. Near the end of the quarter, I get a call from David Loeb (both Countrywide and the mortgage REIT's Chairman) and in his very gruff voice he asks, "Mike, how much loan volume have you funded this month?" I replied, "Mr. Loeb, we haven't funded any yet. We are working on the loan funding system for the conduit, the seller/servicer guide, contracts, policies and procedures, the infrastructure still." He cut me off and said, "Mike, did you know that during the battle of Gettysburg, Lincoln had to fire three generals before he finally got one, Grant, who said he would charge?" I said, "Mr. Loeb, I get it," and we started funding our first loans in April.

In those early days, even though we were a separate publicly-traded company, we were prohibited by our sponsor Countrywide from entering the conforming or FHA/VA markets, servicing loans (our sellers had to service just like Fannie/Freddie seller servicers), and entering the retail or wholesale channels. Those were their businesses and understandably they sure didn't want to be sponsoring a competitor, even if they were earning millions in annual REIT management fees.

All that changed over the years, but that's why we focused on the nonconforming mortgage market, and that's why it was always our core business up until the private MBS market, a couple trillion dollar market, collapsed in August/September 2007 and has never recovered.

As we built IndyMac over the years, these were some of my core thoughts and beliefs (in no particular order):

1) If Sandy Weill could take a Baltimore subprime mortgage lender and build it into Citigroup, you can do something similar. Maybe smaller and it may take a longer, but similar.

2) As Jack Welch said, "Business is messy". It's not perfect and while you need to constantly seek perfection, you have to manage through messy and imperfect issues.

3) If Fannie Mae and Freddie Mac were AAA-rated firms (I think AA or so without any government-implied guarantee) and the mortgage insurers and monoline bond insurers were highly rated firms, it's okay to be undiversified because we were in the safest part of the market (housing) and there had never been a decline in National Housing prices since the Great Depression, and the Fed won't let us get into a Depression again. In my mind, I always accepted the fact that if AAA-rated Fannie and Freddie fail, of course we are going to fail. We were still a very young company with a relatively small market share in the mortgage business and a lot of work still to be done to perfect our business model. It didn't make sense to diversify yet. Diversify into what? If we diversified into commercial lending, we would be diluting our shareholders given their relative valuation vs. mortgage banking firms like IndyMac. We felt other consumer lending such as credit cards, auto loans, and student loans (which, by the way, is the most abusive consumer lending product in America, issued to kids with no assessment of their ability to repay and they can't be discharged in bankruptcy), were riskier and required huge scale and specialized expertise.

4) I was happy to be initially forced to be in the nonconforming mortgage business, because it had fatter profit margins and because initially, I didn't have to worry about Fannie Mae and Freddie Mac. From my earliest days in the business in the late 1980's, I had always felt that Fannie Mae and Freddie Mac had too much market power in the mortgage industry. I felt that Fannie and Freddie should either be completely privatized so that others could compete against them, or be completely nationalized like FHA. I only stated that view privately, given their power.

5) Surviving the global liquidity crisis of 1998 taught me that you can't and didn't need to foresee the future. No one can prudently rely on doing so because it's not possible. You didn't need to worry about the future too much because you can't control it any way; well-managed companies could fight their way through a very difficult crisis.

6) Portfolio lending was riskier than the originate-to-sell model because it had fewer controls. Portfolio loans were ONLY underwritten and priced internally. As a result, you could make an imprudent or

unprofitable loan and not know about that fact for years (especially with commercial and other consumers loans that don't has as objective of servicing rules as single family mortgages). Contrast that with a loan being originated for the private MBS market. Your company underwrote and priced it, and quality control reviewed a sample possibly pre and post purchase. In private securitization a Wall Street firm would perform loan level due diligence typically utilizing a third party firm, a rating agency would review the pool of loans and rate securities issued off of it, a sophisticated institutional investor would review the prospectus and buy the bonds, and you would sell most of the securitization and book a gain or loss typically within 90 days of originating most loans. That's a lot of control points for both loan underwriting and pricing.

7) Having Citi buy Associates for tens of billions, having nearly all the Wall Street firms get into our business, having Wachovia buy Golden West, having Fannie and Freddie buy private MBS and later Alt-a and other nonconforming loans while negative because of increased competition and reduced profit margins was very positive in that it confirmed our business model. Later having BofA, probably the most or second most respected bank at the time, agree to buy Countrywide (in September 2007) - that was comforting. It said to me that this really was more a subprime and liquidity issue than a massive housing and mortgage crisis.

8) The outer limits of nonconforming credit guidelines for me was FHA/VA. If you were inside FHA/VA guidelines (3.5% down, low to mid 600 FICO's , and debt to income ratios in the mid-40's) and your loans were being accepted by Wall Street underwriters, the rating agencies, and institutional investors, and you didn't have high delinquencies/defaults or a lot of buybacks, that was key. The fact of the matter is that IndyMac's average LTV on its Alt-a 1st mortgages was just over 70% and its average FICO was just over 700.

In any industry or business you always have doomsayers, and there were plenty in ours over the years. It didn't seem to me like we had more in the mid-2000's than we have had any time else. As they say, "Even a broken watch is right twice a day." Just look at the famous investor Paulsen's returns since his huge win betting against mortgages and financial firms… They are horrible. I think his two or three main funds are down about 25% to 40% over the past year or so. Just look today at the concerns about the dollar, U.S. Treasuries, the Fed's actions, the stock market, etc. When you run a business, how can you take that all in? You can't run or build a business and listen to the minority of doomsayers If you did, you would close up shop. You must manage to the consensus, especially if you are in a highly regulated business like banking and the consensus didn't see this crisis coming.

Clearly, I, our management team and our board didn't see the magnitude of this crisis coming or we would have taken even greater measures. But neither did our shareholders. Our stock was near an all-time high at the end of 2006, For those who say, "well that's because you misled those investors," not true. Not a single SEC allegation in my case was before February 12, 2008. In fact, the only SEC allegation that remained against me, and which I settled without admitting or denying, was as of May 12, 2008, after the mortgage and financial crisis was already long well-known. Also, in April or May of 2007, our primary regulator, the OTS, rated us a CAMELS 2 across the board. This is in the publicly available OIG report, and the subjective comments made within this report were the most laudatory we had ever received since becoming a thrift in July, 2000. So, how do you radically change your business model when your team and board aren't seeing it? Your shareholders aren't seeing it? Your banking regulators aren't seeing it? And you aren't seeing it in the objective numbers; strong earnings, manageable delinquencies, near historic low NPAs, and few buybacks?

"Given history, we (the Fed) believed that any decline in home prices would be gradual. Destabilizing debt problems were not perceived to arise under these conditions."
Greenspan, "*The Crisis"*, April 15, 2010

The first hint of a problem came when we missed our fourth quarter 2006 earnings projection. As I recall we were projecting something like an 18% or so ROE and we came in around 15%. We didn't find out about this until mid-January 2007 when we rolled up the fourth quarter numbers and as soon as I did, we dug in and found it was partly due to deteriorating credit trends and in particular, increased loan buybacks from early payment defaults in the fourth quarter of 2006. You might say, "Mike, why didn't you know that sooner; weren't you monitoring that?" The truth was no, I was not – my team was. At first the difference between 18% and 15% ROE might seem significant to short-term shareholders, but it's not a safety and soundness issue and you can't manage what you can't see. Credit had been such a non-issue for so long that as soon as it affected our earnings, even in a relatively small way, I was on top of it. From that moment forward everything Indymac and I did was about keeping IndyMac Bank safe and sound. For example, when we dug into the increased repurchases in Q4 2006, we could see that they were concentrated in a very small percent of our guidelines/loan products and we took steps to immediately stop originating those types of loans and we dramatically reduced our loan buybacks. Even at their peak, they were only about 1% of our loan volume back in late 2006 and early 2007 and declined substantially from that level into 2008. In addition, in 2007 we raised over $500 million in capital before we ever had a single quarterly loss and we raised roughly $675 million in total capital in 2007, more than covering our unprecedented losses in the 2nd half of 2007. I don't think many major banks could say that. Throughout 2007 we continued to tighten our lending guidelines. We closed divisions like our conduit and construction lending, became more of a conforming lender, right-sized staff and other expenses, and built strong credit reserves; everything that you are supposed to do to keep an institution safe and sound. But as you know, the crisis just got worse and worse. By mid-2008, primarily as a result of rating agency downgrades to our multi-billion AAA, private MBS portfolio, and related mark to market accounting, our capital levels deteriorated rapidly.

What is ironic is that we held this multi-billion AAA private MBS portfolio, because it was our core business. We thought it was very safe, and because we believed the government when they said that they would not come to the rescue of Fannie Mae and Freddie Mac, so it was economically rational for us to hold AAA-private MBS. They had a somewhat higher yield but not so much that it would cause you concern. More a "liquidity/less-liquid market" premium and yet under regulatory capital rules had the same capital requirements as Fannie/Freddie backed MBS, and they had subordination/protection below the AAA (typically 6% or so on an Alt-a securitization). And yet, we got screwed both ways on this investment. The government did come in and rescue Fannie and Freddie, and if we had held riskier Alt-a whole loans (the same loans collateralizing our AAA-private MBS, but in whole loan form), while the economics over the long haul would have been somewhat worse (because of the 6% subordination), in the short run, we would not have been subject to abrupt and unprecedented ratings downgrades and mark to market accounting rules (when most of the comparable transactions were distressed transactions). Holding our Alt-a loans as AAA MBS rather than as riskier whole loans perversely led to IndyMac's rapid demise in 2008. Before TARP, before $250,000 deposit insurance, before unlimited deposit insurance for near-zero-rate transaction accounts, before the SEC's retroactive (to January 1, 2009) change in mark to market accounting rules, and before the FED-engineered low rate environment (because of the crisis and our business model and this private MBS portfolio), we were unfortunately early and yet Not Too Big To Fail.

“Because financial intermediation requires significant leverage to be profitable, risks, sometimes large risks, are inherent to this indispensable process. And on very rare occasions, it will bring down and may require the temporary substitution of the sovereign credit for private capital.”
Greenspan, “*The Crisis”*, April 15,, 2010

“We do know how the crisis ended. Government removed the fear that banks wouldn’t be able to meet their own obligations by providing them with liquidity. Government also removed the fear of what government itself might do by refraining from using its regulatory authority to declare banks insolvent on a mark to market basis.”
Holman Jenkins, Wall Street Journal OpEd 4/14/10

“…in particular, the infusion of capital into the banking system through historically low fed-funds target rates pulled many Banks from the precipice of collapse….Banks have enjoyed virtually free access to money, while retirees have been deprived of any meaningful yield….”
Charles Schwab, Wall Street Journal OpEd 2010

At this point, let me just reel off a few statements/observations:

1. Fannie Mae and Freddie Mac, when placed in conservatorship, were not bailed out to the tune of $137 billion or whatever it is currently, it was the private and public investors in their unsecured and MBS bonds that were bailed out. This saved many banks, insurers, and bond funds around the world from failure, and government agencies in the U.S., and even some foreign sovereigns from tens of billions in losses. It also preserved the ability of the U.S. to issue Treasury debt to foreigners and protected the dollar as the world’s reserve currency.

2. I believe that if the private MBS market had not existed pre-crisis, we would still have had a bubble and bust and the losses to the government through the GSEs and FHA would have been much greater. There weren’t subprime or Alt-a markets in many other developed countries that had housing bubbles and busts and financial crises.

   “After two foreclosures and two bankruptcies, Hermes Maldonado is as surprised as anyone that he’s getting a third shot at home ownership. The 61-year-old machine operator at a plastics factory bought a $170,000 house in Moreno Valley this summer…The last time he owned a home, Maldonado refinanced four times and took on a second mortgage. He put a Cadillac and Mercedes-Benz C300W in the driveway and racked up about $45,000 in credit card bills and other debts. His debt-fueled lifestyle ended only when he filed for bankruptcy. His reentry into homeownership three years later came courtesy of FHA. The agency has become a major source of cash for so-called rebound buyers…a burgeoning crop of homeowners with past defaults who otherwise would be shut out of the market. Critics worry that the FHA is foolishly allowing marginal buyers to get loans just three years after foreclosure with as little as 3.5% down. What’s more, the agency doesn’t even track how many rebound borrowers it backs. Exactly how much money is hemorrhaging from the agency could be revealed Thursday, when the agency files a self-evaluation report to Congress. Analysts say the FHA could request a bailout from the U.S. Treasury for the first time in its history. At a minimum, the experiences of Maldonado and other rebound borrowers illustrate how fast the financial errors of the boom are being wiped clean by government policy that is eager to give the housing market a boost….”If somebody goes through foreclosure or bankruptcy, or whatever, you don’t allow them to jump back into the housing market as quickly as three years,” said Guy Cecala, publisher of Inside Mortgage

Finance. “Aren’t you setting yourself up for future losses…if you make those loans to the same high-risk borrows?” Proponents say rebound lending is essential to the economy. This group has emerged as an unexpected source of strength for housing this year, particularly in badly scarred areas such as the Inland Empire. Besides, advocates argue, giving people a second chance…or even a third chance…is as deeply ingrained in American culture as buying a home itself. Home builders and real estate agents are capitalizing on this market. The FHA is trying to straddle the line between financial caution and doing what it can to aid the economic recovery. HUD Secretary Donovan said the FHA has tightened its standards significantly but must still lend to those who wouldn’t otherwise qualify for a mortgage.” LA Times 11/14/12

“Tight regulations on mortgage lending, for example down payment requirements of 30% or more….would severely dampen enthusiasm for homeownership. But that would delimit homeownership to the affluent, unless low and moderate ownership were fully subsidized by the government.” Greenspan, “The Crisis”, April 15, 2010

3. No one has ever investigated the short sellers, those who shorted the ABX index and public financial institutions (and are now shorting sovereign debt of weaker countries around the world). If you read Soros’ book on the crisis, he believes in an economic principle called “Reflexivity.” Classic economic theory teaches us efficient, rationale markets and with price being a function of supply and demand. Soros says plainly that “man can manipulate his environment/markets and make his own reality come true.” I believe the short sellers made the mortgage, housing, and financial crisis far worse than it needed to be. And I believe that the short sellers, plaintiff’s attorneys, and some of the press are working together. I know being in the press these days is financially tough because of the internet, and I wonder if some of the press is being paid by the short sellers and plaintiff’s attorneys, or using the flow of information from these parties as a shortcut for a juicy (but inaccurate) story?

4. Schumer may (or may not) have caused IndyMac Bank’s ultimate demise. As the OTS said at the time, “we will never know”. Even Sheila Bair notes in her new book the inappropriateness of his actions, and also says something like, “it has never been determined what his motive was…”

5. The FDIC’s $600 million civil lawsuit against me says that I should have foreseen the complete collapse of the private MBS market because I sent around doom and gloom industry articles to my team saying, “be careful.” Therefore I was negligent because I should have caused Indymac Bank to not fund $10 billion in nonconforming home loans that we got stuck with when the private MBS market collapsed in August/September 2007; because we transferred them from held for sale to held for investment on November 1, 2007 and took roughly $600 million in credit marks upon transfer. Even after this loss, we were Well Capitalized at December 31, 2007 because we had prudently raised about $675 million in capital in 2007. The FDIC specifically says in their legal filings related to this suit that “they are not alleging that I caused the bank to fail or the insurance fund to suffer a loss.” How then do they have standing to sue me? Under the banking law, they don’t have to prove an insurance fund loss . They are allowed to step into the shoes of IndyMac Bank’s shareholders, and in California-only (no other State in the Union), it appears that they may be able to sue me for ordinary negligence.

6. There are many unfair and inaccurate things that have been written about IndyMac’s failure, but two that really bother me are as follows: First, is the phrase ”the notorious collapse of IndyMac Bank.” I am not sure how it was notorious? We operated our business honestly and with

> integrity to the very best of our abilities and we failed in the worst financial crisis in history. (Greenspan said the financial crisis portion of this global economic crisis was even worse than the Great Depression.) And second, when I see the term "Liar's loans" to describe Alt-a lending, I think this term was "invented" by the short sellers, the plaintiff's attorneys, and the anti-banker press. . (Did you know that Paulson gifted millions to the Center for Responsible Lending to write negative reports about banks like IndyMac, Wells Fargo and others? I believe he did it because it gave him "cover" for destroying markets and financial firms and enhanced his short selling strategy.) The bottom line is that lending on the equity in someone's home and their credit history is a sound business if run properly. FHA's still originates billions in no doc, equity-based home loans – they are called a reverse mortgage.

Lessons learned, right? We rarely analyze our success for why, why did they happen. But we always analyze our failures? I have told my wife and many friends privately that frankly most of the lessons that I have learned from this crisis and IndyMac's failure are the wrong lessons. Yes, you heard me right, the wrong lessons.

What do I mean by that?

The first wrong lesson this crisis taught me is that "the details of managing a business" and "operational perfection" are far less important than the macroeconomic environment. Yet when you are in an operating business, how the heck can you get in and out of business at a rapid pace? As a major mortgage banker, we essentially ran a large manufacturing operation (10,000 employees or so and many offices and regions at our peak). We weren't traders like Goldman who could relatively easily enter and exit a market within days or weeks.

It taught me, that economists were wrong. Markets, even huge markets like housing and mortgage finance, are not efficient and can become irrational and for long periods of time. That the Federal Reserve and its Chairmen, who I and many others thought were relatively infallible at the time, were fallible. I believed them, and wanted to believe, when they said that they were focused on stable asset prices, because without stable prices companies and industries can't prudently make business decisions. I believed the Fed when Greenspan said that we have never had a decline National Home prices and that he didn't think the housing market, because of its high transaction costs and its noneconomic benefits like neighborhoods, schools, etc., could become speculative. I believed when the Fed wrote a paper explaining in 2005 that house prices had risen because houses had become a luxury item in many markets and those Americans who could afford this luxury's incomes were rising roughly commensurate with housing prices.

"Asset prices, particularly house prices, accordingly moved dramatically higher in the 20 developed nations. Geopolitical events led to the fall in rates and in turn, with lag, in an unsustainable boom in housing prices globally." Greenspan, "The Crisis", April 15,, 2010

It taught me, that when a crisis comes and if you fail, good corporate governance doesn't mean a thing (IndyMac was "top-rated" on governance for S&P 400 mid-caps and for publicly-traded financial institutions). What is the purpose of having a management team and a board of directors, and compromising with them on issues of business judgment and in particular judgment in times of an uncertain future, if only the CEO (and maybe the CFO) are going to be sued? Did you know by the way, that outside counsel (even internal counsel) works for the company and not the executives or board, and so you are not able to use their advice and opinions in your defense (without a lot of work and then it is all kept strictly confidential)? Did you know that California is the ONLY state in the U.S. where directors are protected by the Business Judgment Rule, but officers may not be? How can you have two standards – how can the CEO and management team take direction from and/or be held to account by an independent board that is held to a different legal standard?

It taught me to never admit you made a mistake, because that will be regurgitated back to you in a lawsuit. It taught me never to write an email. It taught me never to speak publicly or say anything positive as a public company officer. It taught me never to sign a SOX certification form. It taught me that group D&O policies, where everyone is covered the same, don't work.

It taught me you need to look out for yourself. Being selfless in a crisis doesn't pay. Doing everything in your power to save your company in a crisis isn't going to matter if you fail. Abandoning ship at the first signs of a crisis will result in a better outcome for you personally.

So, while these are truly some of the lessons I have learned. I think these lessons are the wrong lessons, because I think the majority of government, the SEC, and the FDIC (and cynical private plaintiffs' lawyers) have diagnosed this crisis improperly. Rather than seeing it as a system-wide, and really worldwide, crisis caused by major fault lines in the global economic system, they have improperly looked to blame a few home lenders, banks, and Wall Street firms. This crisis occurred around the world with real estate bubbles and busts in many developed countries and major financial institutions failing (or being bailed out) in every single one of these countries.

Besides spending an enormous amount of my time defending myself against meritless civil litigation, I have also spent a considerable amount of time trying to understand the truth. What really happened? I have found the following books very helping in understanding the true roots of the financial crisis:

- "Fault Lines…How Hidden Fractures Still Threaten the World Economy" by Raghuram Rajan
- "Fooled by Randomness and The Black Swan" by Nassim Nicholas Taleb
- John Taylor and Others' "How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis", "The Road Ahead for the Fed" and "Ending Government Bailouts as We Know Them"
- George Soros' "The Crash of 2008 and What it Means: The New Paradigm for Financial Markets"
- Ron Paul's "End the Fed"
- Greenspan's paper "The Crisis"
- Bernanke's November 17, 2009 Testimony before the Financial Crisis Commission
- The dissenting reports of the Financial Crisis Commission (I believe the majority report was politically biased to present government in a more favorable light than private sector participants).
- Michael Lewis' "The Big Short" and "Boomerang: Travels in the New Third World"

"Cynical as it may seem, easy credit has been used as a palliative throughout history by governments that are unable to address the deeper anxieties of the middle class directly. Politicians, however, want to couch the objective in more uplifting and persuasive terms than that of crassly increasing consumption. In the United States, the expansion of home ownership…a key element of the American Dream…to low-and middle-income households was the defensible linchpin for the broader aims of expanding credit and consumption. But when easy money pushed by a deep-pocketed government comes into contact with the profit motive of a sophisticated, competitive, and amoral financial sector, a deep fault line develops." Rajan, "Fault Lines"

"The classic explanation of financial crises, going back hundreds of years, is that they are caused by excesses…frequently monetary excesses…that lead to boom and inevitable bust, which in turn led to financial turmoil in the U.S. and other countries. I begin showing that monetary (Fed Policy) excesses were the main cause of that boom and resulting bust." John B. Taylor, "Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis"

"There is always some risk that cannot be covered by bank capital. Central banks have chosen to set bank capital and reserve standards that exclude once or twice in a century crises." Greenspan, "The Crisis", April 15, 2010

"So how'd we get into this mess? In the boom-time 1990s, said UCLA professor emeritus Daniel Mitchell, the party was on, and not just for government employees. People ran up credit card debt, bought big houses and borrowed against them thinking appreciation would go on forever. The projections for growth were so rosy that in 1999, the (California) state Senate approved a big pension hike, and I need you to sit down for the next part. There was not a single dissenting vote. Even the Republicans were all in. Today, it's hard to believe that anyone thought the state could forever afford to have thousands of employees retire in their 50's with up to 90% of their pay and family health benefits for life. But easy money made people loopy, and they all believed there would be no end to the gold rush. By one prediction, the Dow Jones ticker was expected to hit 25,000 by 2009. We've come up a little short there haven't we? When the hangover began, private citizens put away their credit cards and corporations rolled back retirement benefits. But government was contractually stuck with the deals that had been cut, and so here we are." LA Times 11/14/12

I will leave you with a little story Taleb tells in one of his two books I mentioned. He notes that a young turkey is initially very wary of the turkey farmer…fearing him every day he comes out to the pen to feed him, but every day as he feeds him he becomes more trusting and comfortable of the farmer and in fact, the day before Thanksgiving he is the MOST trusting and comfortable of the farmer. That is until the farmer chops his head off…" I have to tell you, that is definitely how I felt. I was very wary of our business and business model when we were a mortgage REIT, but as time went on and we became a thrift (and no longer had much funding risk), as low rates and the economic and housing market boom brought record profits and yet delinquencies and loan buybacks to record lows, as more major financial players entered our business, as the Wall Street firms, the rating agencies, and investors bought our securities (a trillion plus marketplace at its peak), as shareholders boosted our stock price and as our regulators, management team, board, and industry told me how good we were….in hindsight just before the crisis. I became a little like that turkey. I became more comfortable. I worked as hard as always and gave my very best, but I worried less and became less tough with my team about being perfect (more collegial) and I delegated more as a result of our outstanding performance and growing size. It doesn't bother me though, because I know I gave everything I had to Indymac before and during the crisis. I know that no one could have done more, with the facts available at the time to keep IndyMac safe and sound. The crisis was just too big and unprecedented and centered too much in our core business: housing, mortgage finance, and private MBS securitization.

Thanks again to Joe and Mike for inviting me to speak here this evening and I would be happy to take any questions you may have, if time permits.