



March 29, 2006

Office of the Comptroller of the Currency
 Attention: Public Information Room
 250 E Street, SW
 Mail Stop 1-5
 Washington, DC 20219
 Docket No. 05-21

Robert E. Feldman, Executive Secretary
 Attention: Comments, Federal Deposit
 Insurance Corporation
 550 17th Street, NW
 Washington, DC 20429

Jennifer J. Johnson, Secretary
 Board of Governors of the
 Federal Reserve System
 20th Street and Constitution Avenue, NW
 Washington, DC 20551
 Docket No. OP-1246

Regulation Comments
 Chief Counsel's Office
 Office of Thrift Supervision
 1700 G Street, NW
 Washington, DC 20552
 Attention: No. 2005-56

Re: Proposed Guidance on Nontraditional Mortgage Products

Ladies and Gentlemen:

Thank you for the opportunity to comment on the proposed guidance on "nontraditional" mortgage products. For some background information, Indymac Bank is the largest savings and loan in Los Angeles County, and nationwide, it is the ninth largest thrift based on assets and the tenth largest mortgage originator. Indymac, which reported total assets of \$20.3 billion at December 31, 2005, provides financing secured by single-family homes and offers a variety of mortgage products, including nontraditional interest-only and payment-option (option ARM) mortgages, to facilitate consumers' personal financial goals.

Consistent with strong consumer demand and secondary market acceptance, these nontraditional mortgage products are core to our business. The following table demonstrates the significance of these products to Indymac and highlights a few key portfolio characteristics:

(\$Millions, unless otherwise noted)

Permanent first-lien mortgages *	Option ARM	Interest Only	Other
Percent of permanent first-lien mortgage production (2005)	34.1%	34.5%	31.4%
Weighted average LTV ratio (2005)	72.7%	74.6%	71.1%
Weighted average FICO score (2005)	707	708	692
Average loan size (2005)	\$332K	\$295K	\$223K
Cumulative production through 12/31/05 **	\$27,375	\$28,452	\$97,833
Percent of cumulative production sold through 12/31/05	91%	89%	89%
Total servicing portfolio as of 12/31/05	\$22,914	\$20,935	\$36,420
Whole loans held-for-investment as of 12/31/05	\$1,325	\$2,661	\$1,314

* Does not include reverse mortgages.

** Option ARMs and interest-only loans have been offered since July 1999 and July 2002, respectively. Cumulative production for "other" permanent first-lien mortgages reflects production since July 1999.

www.indymacbank.com

Considering our significant activity in the origination/purchase, sale/securitization, and investment/servicing of these products, we have carefully reviewed the agencies' proposal on nontraditional mortgage products. We strongly support the proposal from the standpoint that it primarily represents common sense best practices that we feel we, and many other financial institutions, already employ to control the risks that are inherent in these loans. We believe it is appropriate that the majority of the proposed guidance is broad in nature, since financial institutions differ significantly in terms of their overall financial condition, management capabilities, and specific risk mitigation techniques. This will allow field examiners, who are most familiar with an institution's overall risk profile through the on-site examination process, to exercise sound judgment in the application of any final guidance.

Innovations in the residential mortgage market enhance opportunities for homeownership, which not only benefits individual consumers, but also benefits entire communities. These innovations have provided a safer, less-costly outlet for consumers to obtain financing. If the final guidance is too prescriptive, we are concerned it could hinder these advancements and have an adverse impact on not only regulated financial institutions, but also the individual consumers they are attempting to serve.

As many other financial institutions and trade groups have noted, nontraditional mortgage products are not new. These products have been offered for decades. In fact, as noted by World Savings (one of the nation's largest residential mortgage portfolio lenders) in its response to the agencies' Basel IA proposal, option ARMs have been offered by financial institutions since 1981. Financial institutions, including World Savings, created these products prudently, with safety and soundness in mind, in an attempt to reduce interest rate risk to the banks, as well as credit risk to the banks resulting from payment shock to the borrowers. The majority of World Savings' \$112 billion in permanent residential mortgage loans is comprised of option ARMs, and the company has been originating these loans with nominal loan losses throughout interest rate cycles, recessions, and home price changes.

Many other financial institutions, including Indymac, have not been offering these products for decades, and many financial institutions have developed numerous variations to the products, some of which clearly present greater risks. However, we believe the vast majority of financial institutions who offer nontraditional products employ effective risk mitigation techniques, including but not limited to, more stringent underwriting guidelines in regards to FICO scores and loan-to-value ratios, and that these risk mitigation techniques reduce overall risks to a manageable level. The acceptance of these products in the secondary market has also led to a wealth of industry-wide information, which has led to greater sophistication by financial institutions in pricing models and other risk mitigation techniques.

While we support the overall intent of the proposed guidance and strongly advocate some of the specific aspects of the proposal, we believe revisions or clarifications are needed to address the following five concerns:

- 1) Qualification standards that require an analysis of worst-case scenarios are not realistic for most borrowers and would limit the financial flexibility these products are intended to provide.
- 2) Restrictions on reduced documentation lending do not acknowledge the proven history of this lending methodology, the risk mitigation techniques that are employed when using reduced documentation standards, and the sufficiency of existing regulations and guidance regarding documentation practices.

- 3) Promotional materials that emphasize worst-case scenarios over clear explanations are not necessary, since standardized disclosures, which clearly explain the program, are already provided at application or within three days of application.
- 4) Regulated financial institutions are not in a position to police the actions of third-party originators and to require practices that go beyond the legal requirements for these lenders.
- 5) The inference that additional capital should be held for nontraditional mortgage loans does not acknowledge the more reasonable risk-sensitive approaches to capital allocation that have been outlined in Basel II proposals.

The following comments provide further support for our concerns and suggestions. Although the agencies have solicited comments on all aspects of the proposed guidance, they have specifically requested comments in relation to certain questions that pertain to qualification and documentation standards. These questions are included verbatim in italics under the applicable headings, along with our responses.

Qualification Standards

- *Should lenders analyze each borrower's capacity to repay the loan under comprehensive debt service qualification standards that assume the borrower makes only minimum payments? What are current underwriting practices and how would they change if such prescriptive guidance is adopted?*
- *Should the guidance address the consideration of future income in the qualification standards for nontraditional mortgage loans with deferred principal and, sometimes, interest payments? If so, how could this be done on a consistent basis? Also, if future events such as income growth are considered, should other potential events also be considered, such as increases in interest rates for adjustable rate mortgage products?*

For nontraditional mortgage loans, the proposal states that the analysis of a borrower's repayment capacity should be based on "comprehensive" debt service qualification standards that include an evaluation of the borrower's ability to repay the debt, including any balance increases that might accrue through a negative amortization provision, by final maturity at the fully indexed rate assuming a fully amortizing repayment schedule. We believe the proposed qualification standards represent worst-case scenarios that are inappropriate for underwriting purposes. We agree with the following statements made by the Conference of State Bank Supervisors in its response to the proposed guidance:

- These qualification standards would essentially require that borrowers qualify under the most stringent scenario, with information that may not accurately reflect future circumstances.
- If the analyses are not meaningful, lenders risk denying home ownership to qualified borrowers.
- These qualification standards, unless also required of nonbank lenders, could place insured financial institutions and their affiliates at a competitive disadvantage. (In fact, we have direct evidence that certain Wall Street firms, who can make their own rules, are already attempting to benefit from the agencies' proposed guidance by rolling out more aggressive guidelines.)

For background, for our option ARM loans, we currently analyze the borrower's ability to repay the original debt by final maturity using the fully indexed rate and assuming a fully amortizing repayment schedule. We do not currently employ the qualification standards that are outlined in

the proposal. That is, we do not consider the amount of negative amortization that can potentially accrue as result of making minimum payments, because we address this through more restrictive underwriting criteria, such as tighter loan-to-value and debt-to income (DTI) ratios.

If we alter our qualification practices in this manner, this could significantly impact borrowers seeking homeownership and financial flexibility, while not providing a reasonable advancement in safety and soundness. For example, using the original qualification rate (and assuming that the minimum payments lead to a loan amount of 110% of the original balance), based on our 2005 loan originations, 24% of our borrowers in the full and stated documentation program would be impacted. This is a result of the average DTI for impacted borrowers rising only a modest 2.4%.

Additionally, in our experience, assuming borrowers make only the minimum payment over the initial period is overly conservative. For example, as of December 31, 2005, only 15% of the borrowers in our servicing portfolio had made 12 consecutive minimum payments, and this percentage would decline significantly if we were to look at a three to five-year period.

While we do not currently consider the potential for future income growth in our qualification procedures, if we are required to assume worst-case scenarios, then we believe we should be allowed to consider future income. The Asset Quality section of the OTS Examination Handbook already allows for this consideration. For example, in a discussion of qualification procedures for interest-only loans, the handbook states, "As with ARM loans, savings associations may consider the potential for increase in a borrower's income and compare that figure against higher amortizing payments."

If the guidance does address the consideration of future income, then the agencies should clearly outline standards and practices in this regard to avoid potential discrimination issues. We would also argue that the consideration of future income and/or the use of worst-case scenarios for payment behavior assumptions would just be rendering the initial analysis less and less meaningful and reliable. For this reason, we feel that worst-case scenarios, including those that consider potential increases in interest rates, are best addressed through portfolio-level stress tests and sensitivity analyses.

Documentation Standards

- *What specific circumstances would support the use of the reduced documentation feature commonly referred to as "stated income" as being appropriate in underwriting nontraditional mortgage loans? What other forms of reduced documentation would be appropriate in underwriting nontraditional mortgage loans and under what circumstances? Please include specific comment on whether and under what circumstances "stated income" and other forms of reduced documentation would be appropriate for subprime borrowers.*

There are too many specific circumstances that support the use of reduced documentation for nontraditional mortgage loans to list them here. As just one example, a reduced documentation loan is appropriate for a self-employed individual who has demonstrated personal financial responsibility, has sufficient equity in his home, and is willing to pay a premium for the convenience that the reduced documentation feature provides.

Almost any form of documentation can be appropriate, even for nontraditional mortgage loans, as long as the institution has appropriate risk mitigation techniques to compensate for the additional risk or uncertainty that is created by the lack of full documentation. Appropriate risk mitigation techniques include, but are not limited to, a strong appraisal review function, stringent underwriting

requirements in regards to loan-to-value ratios and FICO scores, proper pricing mechanisms, and ongoing and comprehensive monitoring programs.

The Asset Quality section of the OTS Examination Handbook states, "OTS will consider low-doc residential mortgage loans prudently underwritten for purposes of meeting the 50% capital risk weighting requirements for qualifying residential mortgages, provided the following conditions are met:

- The loans otherwise meet the requirements of Section 567.1. (*Section 567.1 includes the definitions to the capital regulations.*)
- The association adequately documents the value of the security property pursuant to the requirements of 12 CFR Part 564. (*Part 564 includes the appraisal regulations.*)
- The association adequately documents its analysis of each borrower's credit history (as evidenced by a credit report or credit score, for example).
- OTS has no major safety and soundness criticisms of the association's lending program.

To retain the 50% risk weighting, the loans should perform as well as well-documented qualifying mortgages, given their risk profile, loss variance, and profitability." We believe the above conditions are appropriate and could be used by the agencies when attempting to answer their specific questions.

Market History and Acceptance

Reduced documentation lending, also known as "Alt A" lending, has been a major component of the overall mortgage market for nearly 15 years and has become well established and accepted. Outside of GSE purchases, \$330 billion in Alt A loans were originated and securitized in 2005 alone, with over \$650 billion securitized since 1999.¹ There has been extensive research on the Alt A market, including research on option ARMs and interest-only loans by rating agencies and investment banks, with our library alone containing over 200 articles. All three major rating agencies have extensive experience with reduced documentation lending, including nontraditional and subprime mortgages, and their models are very specific regarding levels of documentation. Highlights from recent research articles show the following trends in Alt A:

- The majority of Alt A collateral consists of loans made to relatively strong quality borrowers, and despite the growth in Alt A volume, the collateral characteristics for an average Alt A pool in 2005 remained comparable to 2004.²
- After controlling for differences in LTV, interest-only Alt A ARMs still outperformed non interest-only Alt A ARMs.³
- The number of Alt A upgrades increased in 2005 to 149, resulting in an upgrade to downgrade ratio of 5.2:1.⁴

The GSE's are also very familiar with Alt A lending and have been buying Alt A loans from us for over six years. Currently, the GSE's buy approximately 70% of our prime, conforming balance, Alt A loans, and they are also buyers of interest only and option ARM loans. The significant secondary market liquidity for securities backed by reduced documentation loans, including

¹ UBS, US Non-Agency Mortgage Market, January 2006 update

² Moody's Investors Service, Structured Finance Special Report, January 23, 2006

³ UBS Mortgage Strategist, November 8, 2005

⁴ Standard and Poor's, Rating Transitions 2005

subprime and interest-only loans and an increasing amount of option ARM loans, proves the market acceptance of these products.

Existing Regulations and Guidance

We would also like to point out that guidance in relation to loan documentation practices has been addressed in a regulation for savings associations for more than ten years through 12 CFR 560.170, Records for Lending Transactions. The Appendix to 12 CFR 570, Interagency Guidelines Establishing Standards for Safety and Soundness, also contains similar guidance for documentation practices. Per the regulations, savings associations are required to maintain loan documentation practices that:

- Ensure the institution can make an informed lending decision and can assess risk on an ongoing basis;
- Identify the purpose and all sources of repayment for each loan, and assess the ability of the borrower(s) and any guarantor(s) to repay the indebtedness in a timely manner;
- Ensure that any claims against a borrower, guarantor, security holders, and collateral are legally enforceable;
- Demonstrate appropriate administration and monitoring of its loans; and
- Take into account the size and complexity of its loans.

We believe the above guidance is appropriate. As the Asset Quality section of the OTS Examination Handbook states, "While there can be much debate over which documents are needed to support the loan decision, the ultimate proof of whether the association's loans are adequately underwritten lies in the performance of its portfolio relative to similar but well-documented portfolios." Due to the more stringent underwriting requirements that are in place for our reduced documentation loans, such as lower loan-to-value ratios and higher FICO scores, internal analysis shows that these loans present no more risk than full documentation loans based on historical performance, as well as the "B" loss coverage in Standard and Poor's LEVELS model, which the industry typically uses as a proxy for the "lifetime loss estimate."

Based on our 2005 production, the "lifetime loss estimate" for the full documentation loans was 59 basis points, versus 48 basis points (19% lower) for the stated income loans and 22 basis points (64% lower) for the no documentation loans. These results are consistent with the way our underwriting guidelines are intended to work. Specifically, when one underwriting criterion is "relaxed," others become more restrictive to mitigate the overall risk. As stated in the Interagency Policy Statement on Documentation for Loans to Small and Medium-sized Businesses and Farms, which was issued in March of 2003, "The maintenance of documentation beyond that necessary for a credit officer to make a sound credit decision and to justify that decision to the institution's management adds to loan administration costs without improving the credit quality of the institution."

Consumer Protection Issues (Written Communications, Including Disclosures)

The proposal states that institutions should ensure that communications with consumers, including advertisements and promotional materials, provide clear and balanced information about the relative risks and benefits of these products. We agree that institutions should provide consumers with information in a clear manner and format that will enable them to make informed decisions. However, we do not agree with the proposal's specific suggestion that promotional materials and product descriptions should state the maximum monthly payment a consumer would be required to

pay under a hypothetical loan example once amortizing payments are required and the interest rate and negative amortization caps have been reached. While we believe that marketing materials must not mislead consumers and must be factual, we feel that providing equal prominence to all of the risks in our advertisements would be an extreme measure, particularly when standardized disclosures, which clearly explain the program, are already provided at application or within three days of application and include an explanation of a borrower's legal rights to rescind the credit transaction.

We agree that current disclosure requirements are ineffective, and as a result, we believe additional disclosures are appropriate and necessary. To this end, we have developed and recently enhanced one of the disclosure documents that we send directly to borrowers in our retail-direct and third-party, table-funded channels. We are proud of the simplicity and transparency that is provided in the new document, especially in terms of payment features and the potential for payment shock and negative amortization. A copy of this new disclosure document is attached. We believe the agencies should review and revise existing disclosure requirements in an attempt to improve their effectiveness industry-wide.

Third-Party Originations

As a regulated institution with a significant volume of loan origination that is done through third parties, we are in a unique position to comment on this specific aspect of the proposed guidance. We agree that institutions that use third-party channels, such as mortgage brokers or correspondents, to originate mortgage loans should have strong approval and control systems to ensure the quality of third-party originations and compliance with applicable laws and regulations, with particular emphasis on borrower disclosure practices. To this end, for our table-funded or wholesale loans, we send disclosures directly to the borrowers and do not rely upon brokers to fulfill this important step.

Having said that, however, we do not agree that controls over all third-party channels should be designed to ensure that loans made through these channels reflect the standards and practices used by the institution in its direct lending activities. For loans closed by third-party originators, we make every reasonable attempt to ensure the originators follow not only truth in lending laws, but also go beyond that and follow the spirit of the laws by providing disclosures that are consistent with our standards and fully inform the borrowers of the risks that are inherent in the loan programs they choose. Nevertheless, while we can encourage the use of enhanced disclosures, we cannot dictate practices in this channel beyond those that are required by existing laws and regulations.

It is not our role to be the regulator for the third-party originators. Any deficiency in truth in lending laws should be addressed through changes in the laws themselves, not indirectly and partially through restrictions on only those loans that are made by or through regulated institutions. This would clearly put regulated financial institutions at a competitive disadvantage and would likely push a lot of this business away from regulated financial institutions to other institutions, including Wall Street firms. To enhance compliance with laws and regulations and reduce mortgage fraud, we believe there should be a nationwide database of individuals and companies in the mortgage industry (including mortgage brokers, real estate agents, appraisers, title companies, closing agents, and lenders) who have been named as defendants in lawsuits and have lost or have been identified in relation to other specific filings or issues, as determined by regulators and industry leaders. Financial institutions expend significant resources to ensure Suspicious Activity Reports (SARs) are filed in accordance with the law, so it would seem especially useful if the information reported in SARs could be shared with financial institutions in a confidential manner.

Clearly, one must consider the risk-return tradeoff, and we feel that strong approval and control systems sufficiently mitigate the risk of using third-party channels to originate mortgage loans. Our approval process for third-party sellers requires the consideration of various factors including, but not limited to, the company's financial condition/net worth, licensing information, background checks through Dunn and Bradstreet (D&B) and the Mortgage Asset Research Institute (MARI), the owners' personal credit, investor/lender and mortgage insurance company references, and years of experience. Furthermore, our control systems include pre-funding and post-purchase quality control reviews and comprehensive seller monitoring procedures, including complaint tracking in our origination and servicing platforms. If any concerns are identified through these processes in regards to the quality of specific loans, we take appropriate actions including, but not limited to, product limitations, additions to a watch list requiring all loans be subject to a pre-funding quality control review, and terminations of the business relationship.

If the final guidance requires financial institutions to police the marketing activities of third-party brokers to the standards in the guidance, there could be significant ramifications. Financial institutions are not privy to the conversations brokers have had with applicants. To ensure third-party marketing activities conform to our standards, we would essentially have to contact every applicant to make sure they were provided with a sufficient explanation of the loan program. This would add a significant cost to the loan, which would be reflected in a higher cost to the applicant. This would also be confusing to the consumer, since their relationship is with their broker, who has spent more time with them and has a better understanding of their specific needs. Furthermore, if this is not required of non-regulated lenders, it would put regulated financial institutions at an extreme competitive disadvantage.

Capital

We agree that institutions should hold capital commensurate with the risk characteristics of their portfolios. However, we do not agree with the proposal's inference that additional capital should be held for nontraditional mortgage products solely due to the limited performance history of these products. We believe this inference is overly simplistic and does not adequately consider the actual risk characteristics of the loans or the fact that the performance history of these products is not as limited as the agencies suggest. In fact, we would argue that some of our nontraditional mortgage loans present less risk of loss given default than some of our traditional mortgage loans due to the use of more stringent underwriting standards in relation to loan-to-value ratios, FICO scores, etc. The proposed guidance also does not reference the risk-sensitive approaches to capital allocation that have been outlined in the proposed Basel IA and Basel II frameworks.

Considering that most financial institutions, including Indymac, hold capital well in excess of the minimum thresholds for a well-capitalized financial institution and that the minimum thresholds (which include a 5% Tier 1 Core Leverage Capital Ratio and a 10% Total Risk-based Capital Ratio) do not consider a financial institution's balance sheet mix, we would argue that most thrifts, which hold a greater percentage of lower-risk, housing-related assets, have a significant amount of excess capital in comparison to other financial institutions. This argument is also supported by the proposed Basel IA and Basel II frameworks.

Currently, qualifying residential mortgage loans receive a 50% risk weighting for risk-based capital purposes. The agencies' Basel IA proposal, however, suggests that the vast majority of our mortgage loans are significantly overcapitalized, with a reduced risk weighting of 35% being proposed for qualifying mortgage loans that have loan-to-value ratios between 61% and 80%. Clearly, certain features may cause some loans to present greater risk of default than other loans, but the likelihood of loss given default in any particular loan is largely a function of its loan-to-value

ratio. As a result, a risk-based approach to capital allocation that is primarily based on loan-to-value ratios, regardless of loan product, is appropriate. Using the advanced internal ratings-based approach for credit risk, the results from the latest Basel II Quantitative Impact Study (QIS-4) also suggest that residential mortgages are significantly overcapitalized, with the risk-based capital requirements for these loans declining 61% for the 26 institutions in the QIS-4 participant population.

To conclude, we would like to reiterate our appreciation for the opportunity to comment on the agencies' proposed guidance for nontraditional mortgage products. We hope our comments have been useful in your considerations. If you have any questions, please feel free to contact me at (626) 535-8139.

Sincerely,

/s/

Ruthann Melbourne
Executive Vice President and Chief Risk Officer

Sample with Numbers

What You Need to Understand about the Loan Product You Have Chosen

You have applied for a Flex Pay Adjustable Rate Mortgage (ARM) loan in the amount of \$300,000.00

Below is a summary of key loan terms to assist you in evaluating whether this mortgage product is right for your needs.

Don't decide on any loan unless you've reviewed and understood your disclosures.

Why do consumers choose the Flex Pay ARM (also known as an "Option ARM" or "12 MAT ARM")?

There is just one answer: payment flexibility. Most mortgage products offer just one principal and/or interest payment to make each month. The Flex Pay ARM provides up to three payment options to choose from each month. Note: the figures shown below do not include any funds for payment of tax or insurance bills (or mortgage insurance premiums, if applicable):

The Minimum Payment	\$1,101.37 (this will be the minimum payment for up to 60 months)
An Interest Only Payment (for second payment due)	\$1,688.54 (estimated – will vary each month)
A Fully Amortizing Payment (for second payment due)	\$1,947.07 (estimated – will vary each month)

About your interest rate:

- The 1.95% Starting Interest Rate or "teaser rate" on your loan applies to the first month of your loan term only.
- After that, your interest rate will adjust every month, based on a moving index plus the margin specified in your Note. This is called the "Fully Indexed Rate." As of 1/27/2006, the index is equal to 3.618% and the margin being considered for your loan is 3.150%. If these values were to remain intact, this means that beginning with the second month of your loan, your interest rate would be **6.768%** (your actual rate could be higher or lower, depending on how the index changes and whether your loan closes with this margin). **If you are refinancing for the purpose of lowering your interest rate, you should compare your current rate to this Fully Indexed Rate, and not the Starting Interest Rate.**

Potential Payment Shock:

As with all Adjustable Rate Mortgage (ARM) loans, your interest rate can increase or decrease. In the case of a Flex Pay ARM, your payment can increase substantially after the first 60 months or if your loan balance rises to 110% of the original amount borrowed, and this creates the potential for payment shock. Payment shock means that the increase in the payment is so significant that it can substantially affect your monthly cash flow. Based on the sum of the index plus the margin, your Flex Pay ARM interest rate can rise to a figure as high as **9.95%** or fall as low as your margin (currently 3.150%).

More Information About Flex Pay ARM Payment Choices:

The Minimum Payment (can cause negative amortization):

The Minimum Payment will stay the same for the first five years of your loan term, or until your loan balance rises to 110% of the original amount borrowed, whichever ever comes first. It is based on your Starting Interest Rate; that is why it is so low. Except for the very first mortgage payment (for which interest is charged at the Starting Interest Rate), the Minimum Payment probably will not be sufficient to cover the interest due each month. That's because your Minimum Payment is based on your Starting Interest Rate, while the interest due from you is based on the Fully Indexed Rate. If you choose to make the Minimum Payment, the difference between that amount and the interest due for that month will be added to your outstanding balance. That process is called "negative amortization," and it means your loan balance goes up rather than down.

Your Minimum Payment will change after your 60th payment (five years), and then once per year thereafter. These are scheduled change dates. Your Minimum Payment can also undergo an unscheduled change, if your loan balance rises to 110% of the amount originally borrowed. Your first payment change will alter your Minimum Payment to an amount that equals a Fully Amortizing Payment, so that you can begin paying down your balance each month.

The Interest Only Payment:

The amount of the Interest Only Payment will vary each month. This payment option may only be chosen if it is greater than the Minimum Payment. It is an amount sufficient to cover all of the interest due that month, but it will not result in any reduction to your mortgage loan balance and won't cause any negative amortization.

The Fully Amortizing Payment:

The amount of the Fully Amortizing Payment will vary each month. This payment option may only be chosen if it is greater than the Minimum Payment. It is an amount sufficient to cover all of the interest due that month and reduce your mortgage loan balance over the term remaining on your loan.

Your loan carries a Prepayment Penalty!

Your proposed loan terms include a prepayment penalty that will expire after the first three years of your loan term. Prepayment penalties vary by state but can cost thousands of dollars if you prepay your loan before the prepayment expiration. You can contact your loan officer to discuss how large your payoff penalty can be. This penalty will apply regardless of the reason for early payoff: in other words, whether you pay your loan off due to the sale of the home or because you have refinanced your loan. **You can choose a loan without a prepayment penalty, but it may mean your interest rate, margin and/or points may be higher.**

Key Loan Terms and Definitions

Loan Characteristic	Your Proposed Loan Terms	What This Means for You
Loan Amount	\$300,000.00	This is the amount of credit you requested.
Loan Purpose	Cash out	If Purchase: Your objective is the purchase of real property. If Cash Out: Your objective is to draw cash from the equity in your mortgaged property. If Rate/Term Refinance: Your objective is to lower your rate and/or improve other terms of your mortgage financing.
Loan Product	Flex Pay ARM	This is an adjustable rate mortgage (ARM) with an interest rate that can change every month. The primary benefit of this product is that it offers you up to three payment options per month: a minimum payment (the lowest payment available, which may cause your loan balance to rise because it does not cover all of the interest due), an interest only payment (which covers all of the interest due but will not reduce your loan balance) and a fully amortizing payment (which covers all of the interest due and will reduce your loan balance).
Frequency of Interest Rate Changes	Monthly	Your interest rate can change every month. It can increase or decrease.
Frequency of Payment Changes	Five Years/ Annually, thereafter	Your Minimum Payment will change after your 60 th payment (five years), and then once per year thereafter. These are scheduled change dates. Your Minimum payment can also undergo an unscheduled change, if your loan balance rises to 110% of the amount originally borrowed through negative amortization. Your first payment change will alter your Minimum Payment to an amount that equals a Fully Amortizing Payment, so that you can begin paying down your balance each month. As a result, this payment change can be dramatic, raising your Principal and Interest (P&I) payment 50% or more over your previous Minimum Payment. This creates the potential for payment shock. Payment shock means that the rise in the payment is so significant that it can substantially affect your monthly cash flow.
Starting Interest Rate	1.95%	The primary purpose of this low starting interest rate is to establish a low "minimum" payment. It applies only for the first month of your loan. If you continue to make this minimum payment in the second month or any month thereafter, any difference between the minimum payment and the interest only payment will result in negative amortization. See "Starting (Minimum) Payment" below.
Starting Interest Rate Period	1 Month	This is how long your starting interest rate applies. After that, your interest rate is adjusted each month, using an Index plus a Margin. See also "Fully Indexed Interest Rate."
Starting ("Minimum") Payment	\$1,101.37	This is an artificially low starting P&I payment based on your starting interest rate. Because the interest rate charged after the first month of the loan may be substantially higher than the starting interest rate, remittance of this payment amount may not be sufficient to cover all of the interest due each month. When this happens, the difference is added to your unpaid loan balance, a process known as Negative Amortization . So your loan balance will rise rather than fall.
Starting Payment Period	5 Years	Your Minimum Payment is scheduled to stay in effect for up to five years. See "Frequency of Payment Changes, above, for further detail.
Index to Be Used for the Loan	12-MAT	The formal name for your index is "12-month Average of Monthly Treasury Yields on Actively Traded United States Securities, Adjusted to a Constant Maturity of One Year."
Value of This Index as of 1/27/2006	3.618%	The value of the index changes once per month. If the value of this index rises, your Interest Only and Fully Amortizing payment amounts will also rise. In addition, increases in the index, combined with the remittance of the minimum payment amount can lead to additional negative amortization, and when your minimum payment is recalculated, the associated payment increase will be more dramatic and could cause payment shock, as described above.
Margin	3.150%	This is the Margin appearing on your loan record, today. It may change prior to loan closing.
Fully Indexed Interest Rate	6.768%	This is the sum of the Index plus your Margin, today. This figure can change each month, but this is a good indication of the kind of interest rate you will pay at the start of your loan term, based on the current Index value and the Margin currently on your loan record. If you are refinancing for the purpose of lowering your interest rate, you should compare your current rate to this rate, and not the starting interest rate.
Interest Rate Cap	9.95%	Your interest rate may rise, but it will never be higher than the percentage shown here.
Interest Rate Floor	3.150%	Your interest rate may fall, but it will never be lower than the amount of your Margin, shown here.
Negative Amortization Cap	110% of loan amount or \$330,000.00	This is the limit placed on increases to your loan balance (resulting from Negative Amortization). Your balance will never exceed the figure shown.
Payment Cap	7.5%	This is the limit placed upon scheduled annual payment changes, beginning after your 72 nd payment.
Prepayment Penalty - Duration	3 Years	This is the period of time for which your prepayment penalty will apply.
The nature of the prepayment penalty	See Description at Right	Prepayment penalties vary by state but can cost thousands of dollars if you prepay your loan before the prepayment expiration. This penalty will apply regardless of the reason for early payoff: in other words, whether you pay your loan off due to the sale of the home or because you have refinanced your loan. You can choose a loan without a prepayment penalty, but it may mean your interest rate, margin and/or points may be higher.
P&I Payment Options (figures are estimates and do not include an escrow deposit)	Minimum	\$1101.37
	Interest Only	\$1688.54
	Fully Amortizing	\$1947.07

Acknowledgement:

I have reviewed, understand and accept these loan characteristics. The loan amount and loan purpose shown are accurate. I understand that for a full understanding of my loan terms, I must review the disclosures sent to me by Indymac Bank, as well as the Note, Security Instrument, Truth in Lending Statement and the other documents that I will be presented with at my loan closing.

<Borrower> _____ Date _____

<Co-Borrower 1> _____ Date _____

<Co-Borrower 2> _____ Date _____

<Co-Borrower 3> _____ Date _____