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FINANCE

OneWest bank profit: $1.6 billion

As IndyMac, it sold last year for less than that. Investors win, but the FDIC could still lose nearly $11 billion on bad loans that the Pasadena institution made before its sale.

February 20, 2010 | By E. Scott Reckard

The billionaires' club of private financiers who took over the remains of IndyMac Bank from the Federal Deposit Insurance Corp. turned a profit of $1.57 billion last year on the failed mortgage lender -- more than they invested less than a year ago.

Yet under the sale agreement, the federal deposit insurance fund still could lose nearly $11 billion on bad loans that the Pasadena institution made before it was sold last March and renamed OneWest Bank.

"This is one hell of a deal for those owners, but hardly a good deal for the banking industry, which pays the FDIC's bills," said Bert Ely, a longtime consultant to banks.

In taking over IndyMac's assets, the investor group, led by Steven Mnuchin of Dune Capital Management, put up $1.55 billion to revitalize the bank. Other investors included hedge-fund operators George Soros and John Paulson, bank buyout expert J. Christopher Flowers and computer mogul Michael S. Dell.

OneWest's financial results were filed with regulators Friday. Regulators and the investors declined to comment on the profit.

IndyMac failed in July 2008 after depositors, worried about its souring portfolio of complex mortgages, rushed to pull out cash. IndyMac specialized in loans that didn't require much borrower documentation, such as verification of income. And it became one of the earliest high-profile meltdowns in the mortgage market, which helped lead to a crisis that threatened to undermine the nation's financial system.

The run on deposits occurred too quickly for the FDIC to find another bank to take over the failing institution, forcing the agency to operate IndyMac for eight months. During that time, FDIC Chairwoman Sheila Bair oversaw the creation of an anti-foreclosure effort that became the model for the Obama administration's loan-modification program.

In selling the lender, the regulator agreed to absorb a large majority of the potential losses not yet recorded in IndyMac's loan portfolio.

The investors pledged to continue to restructure borrowers' loans.

They also said they would expand OneWest into a larger, solid retail bank. In December, they bought First Federal Bank of Los Angeles when it failed. OneWest's financial results for the fourth quarter do not include FirstFed figures.

The OneWest profit was reminiscent of those earned by aggressive investors who paid low prices for assets of numerous savings and loans that failed in the 1980s. But this time, such profit may make the FDIC a lightning rod for criticism of the government's efforts to clean up the latest debacle.

"It makes you wonder whether the [FDIC] loss is due to the acquirer getting too sweet a deal," Ely said.

As a privately held bank, OneWest does not have to report its financial results to shareholders. But like all U.S. banks and savings and loans, it makes regular reports to regulators. Its fourth-quarter results were released Friday by the Office of Thrift Supervision.

This and previous reports show that OneWest made after-tax profits of $194.9 million in last year's first quarter, $202.7 million in the second quarter, $495.2 million in the third and $680.3 million in the fourth. The entire earnings were retained at the bank; no dividends were paid out.

The huge gains included a fourth-quarter entry of $830 million for assets other than a bank's main source of income, interest on loans. There was no explanation for the huge gain on the report, which has far fewer details than a public company's financial reports.

"I'm dumbfounded," Ely said. "These are just incredibly sweet numbers, but you can't see what's behind [them]. The public policy question is, why are they so good? Particularly given the magnitude of the loss estimated at the FDIC."

Andrew Gray, an FDIC spokesman, wouldn't comment on the results. But he said that the FDIC invited "80 or 90" institutions to bid for IndyMac's remains, at the height of fears of a systemic financial meltdown, and that it took the offer that represented the smallest loss to the insurance fund.

Should OneWest's losses turn out to be less than expected, the deposit insurance fund would lose less than anticipated, he said.

The FDIC found itself defending its arrangement with OneWest under unusual circumstances last week when a video on YouTube kicked up a stir by accusing it of cutting a loss-share deal that was overly favorable to the investors.

In the video, two men discussed a specific example of a foreclosure sale that they said was motivated by the desire to profit from the loss-sharing arrangement.

But the FDIC issued a statement noting that the investors must shoulder the first $2.5 billion in losses on OneWest loans and that the insurance fund has yet to pay a penny for any OneWest losses.

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