To All Indymac Employees:

I am writing to follow up on my communication of a month ago on our need to reduce our workforce by 10%, or roughly 1,000 positions, as we adapt to the realities of the mortgage market. In a nutshell, since September 1, we have been able to reduce our workforce by 1,165 positions in what I believe is the most positive way possible. Combined with the 382 positions we eliminated in July, our total workforce reduction for Q3 was 1,547. I believe that we are largely done with staff reductions at this time except for some small, targeted layoffs over the next 30 days … unless, of course, the mortgage market takes another turn for the worse.

Before I get into the details, I do want to say that, while having any layoffs is painful, we have fared much better than most companies in the mortgage industry in this regard. Some companies have laid off up to 30% of their people, and many others have failed altogether with thousands of jobs being lost; yet at Indymac this year, the worst year ever experienced in the mortgage industry, while we have had some limited involuntary layoffs, for the year through 9/30 our workforce has grown by 7%.

Keeping involuntary layoffs to a minimum at Indymac

There are three key reasons we have had lower involuntary layoffs of our permanent staff than almost all others in our industry. First, at the top level of the company, we were able to foresee some of what was coming in the mortgage market, and, anticipating a slowdown, we put in place a hiring freeze on non-revenue generating personnel back in July of 2006, which we further tightened in February of 2007. Had we not done this, our involuntary layoffs would surely have been considerably worse than they actually have been. Second, roughly 15% of our total workforce consists of staff who work for third party vendors. One important purpose of using third party staffing is that you can rapidly expand or contract this workforce depending on business needs, and, as we contract, these people can generally be redeployed by the staffing vendors. Finally, we decided to employ a Voluntary Resignation and Severance Program. While this program is more complicated to administer than an involuntary layoff, we just felt that it was the fairest way to meet our need to reduce staff.

Here are the details of how we have been able to reduce our workforce since September 1:

	HEADCOUNT	% OF TOTAL
Voluntary Resignation & Severance Program	682	59%
Temp/Offshore Reduction	285	24%
Involuntary Reduction	<u>198</u>	<u>17%</u>
Total	1,165	100%

As indicated, 83% of the reduction was accomplished through the Voluntary Resignation and Severance Program and temporary/non-traditional workforce reduction. The involuntary layoffs primarily reflected strategic changes we made or operational restructurings to achieve overall efficiencies that could not have been accomplished through the voluntary program. First, we made the decision to close down the Conduit division. While this division was a strong contributor to our profits from 2003 to 2006, in the current environment this is no longer a viable business. Second, volumes in our Correspondent Services division are down substantially, requiring us to cut costs and become more efficient quickly. Our response was to restructure the division by consolidating its three operations centers into one main center in Phoenix. Finally, we made the strategic decision to eliminate a sales/marketing support position at Financial Freedom, which we determined just wasn't adding the value that we needed to justify the position.

Doing the right thing … for employees … and for shareholders

As we approached the necessary downsizing of our workforce, we debated how to handle it in a manner that was consistent with our values and culture as a company. In that respect, the first of our six core values is Fairness, and in describing this value we talk about what it means to be fair to both employees and shareholders. Our view is that how you act in times of adversity and how you treat people as they leave your company says a lot about what kind of a company you are and what your true values are. In that respect, our policy has always been that the fair and right thing to do is to provide our departing employees with a generous severance program to ease their transition to the next stage of their career. Our severance program, which provides one month of pay and one month of Indymac-paid COBRA insurance coverage for each year of service (with a minimum of 6 weeks pay for the voluntary program), is clearly the most generous in the mortgage industry, if not among most of the Fortune 500. As a result, the permanent staff leaving Indymac as part of the voluntary and involuntary reductions in the 3rd quarter will be receiving average severance of $20,388, which is equivalent to 3.7 months of average monthly pay for this group, plus a payment for accrued unused vacation averaging $1,467 per employee. Our program stands in stark contrast to another lender and competitor whose reported maximum severance of two weeks pay is our minimum.

We also believe strongly that how we have handled these staff reductions is in the long-term interest of our shareholders. The sense of security that all our people should have, knowing that they will be treated well if their position is eliminated, should build loyalty in our workforce and enable us to attract the best people in our industry, which will clearly benefit our shareholders in the long term. In the short-term, the total staff reductions of our permanent employees that have taken place in the third quarter will result in a one-time, pre-tax charge to earnings of $28 million (there is no charge associated with the reduction in our temporary and offshore workforce). However, our annual savings are projected to be $101 million, such that the Q3 charge we are taking will be earned back through savings in roughly 3 ½ months, a clear benefit to our shareholders and a necessary move for us to have made in today's challenging environment.

At the end of the day, "actions speak louder than words," and I believe that the way we have handled the painful but necessary workforce reduction at Indymac speaks volumes about our company.

Where do we go from here?

The short answer is, "back to work" … back to the hard work of rebuilding our company in the face of what is still a very challenging housing, mortgage and secondary market. While in general, the voluntary severance program has reduced excess capacity, in some areas we might now appear to be short-staffed. We need to seize upon these areas as an opportunity to improve our business by having all employees, particularly managers, look at how they do things and reengineer processes and restructure teams to meet their goals. Everyone should know that they, in consultation with their manager and with consideration to how their actions affect others, have a key role in remaking processes and rewriting rules to be more efficient. While this year has been a period of learning to do more with less, the necessary reduction in our workforce should serve as a catalyst to reduce bureaucracy and eliminate work that doesn't add value greater than its expense, especially work that can be automated. This will result in higher productivity and a better work environment for everyone in the long-run.

It is also important to note that, even with our staff reductions, we have still grown our workforce year-to-date from 8,775 to 9,394, as we have built our Retail Lending Group from under 100 people to roughly 2,000 today. In so doing, we have really re-made our workforce and "sharpened the point of our spear," with a major shift toward revenue-generating personnel, as indicated below:

	1/1/07			**Current Proforma**	
Staff Category	**Head-count**	**%**		**Head-count**	**%**
Directly Revenue Generating – Marketing & Sales	2,842*	32%		4,380*	47%
Indirectly Revenue Generating – Operations	3,304	38%		2,713	29%
Indirectly Revenue Generating – Servicing	575	7%		676	7%
Revenue Generating Overhead	1,090	12%		909	10%
Corporate Overhead	964	11%		716	7%
Total	**8,775**	100%		**9,394**	100%
* Direct revenue generating retail lending staff have increased from 61 at 1/1/07 to 1,442 today.					

As you look at it, clearly we have geared ourselves as a much "leaner and meaner" machine, and we are poised to really take advantage of opportunities as the mortgage market recovers.

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In closing, I want to thank all those employees who are leaving us for their years of service to Indymac and wish them the very best in the future. To everyone else who is staying, I also want to thank you … for your hard work, dedication and commitment to Indymac. In staying with our team, remember that Indymac is a meritocracy and, by persevering through the hard times, continuing to add value and continually improving everything around you, you will find this company ripe with opportunities for personal, professional and financial success well into the future.

mike