BURKE ZANE M
Form 4
February 20, 2003

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response...0.5

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 4

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935
or Section 30(h) of the Investment Company Act of 1940

o Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

1. Name and Address of Reporting Person*

Burke, Zane M.

(Last) (First) (Middle)

2800 Rockcreek Parkway

(Street)

Kansas City, MO 64117

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol

Cerner Corporation (CERN)

3. I.R.S. Identification Number of Reporting Person, if an entity *(Voluntary)*

4. Statement for Month/Day/Year

February 18, 2003

5. If Amendment, Date of Original *(Month/Day/Year)*

6. Relationship of Reporting Person(s) to Issuer *(Check All Applicable)*

o Director o 10% Owner

o Officer *(give title below)*

x Other *(specify below)*

West President

7. Individual or Joint/Group Filing *(Check Applicable Line)*

x Form Filed by One Reporting Person

o Form Filed by More than One Reporting Person

Reminder:	Report on a separate line for each class of securities beneficially owned directly or indirectly.
*	If the form is filed by more than one reporting person, *see* instruction 4(b)(v).

Table I Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security *(Instr. 3)*	2. Transaction Date *(Month/Day/Year)*	2A. Deemed Execution Date, if any *(Month/Day/Year)*	3. Transaction Code *(Instr. 8)*		4. Securities Acquired (A) or Disposed of (D) *(Instr. 3, 4 and 5)*			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) *(Instr. 3 and 4)*	6. Ownership Form: Direct (D) or Indirect (I) *(Instr. 4)*	7. Nature of Indirect Beneficial Ownership *(Instr. 4)*
			Code	V	Amount	(A) or (D)	Price			
Common Stock								1,048	D	
Common Stock	2/18/03		I		5	A	$33.98	1,497	I	By Trust
Common Stock								293	I	By Managed Account

Table II Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security *(Instr. 3)*	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date *(Month/Day/Year)*	3A. Deemed Execution Date, if any *(Month/Day/Year)*	4. Transaction Code *(Instr. 8)*		5. Number of Derivative Securities Acquired (A) or Disposed of (D) *(Instr. 3, 4 and 5)*	
				Code	V	(A)	(D)

Page 3

Table II Derivative Securities Acquired, Disposed of, or Beneficially Owned Continued
(*e.g.*, puts, calls, warrants, options, convertible securities)

6. Date Exercisable and Expiration Date *(Month/Day/Year)*		7. Title and Amount of Underlying Securities *(Instr. 3 and 4)*		8. Price of Derivative Security *(Instr. 5)*	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction(s) *(Instr. 4)*	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) *(Instr. 4)*	11. Nature of Indirect Beneficial Ownership *(Instr. 4)*
Date Exercisable	Expiration Date	Title	Amount or Number of Shares				

Explanation of Responses:

Zane M. Burke	2/20/03
**Signature of Reporting Person	Date

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Page 4

yle="text-align:right;font-size:10pt;">—

Certificates of deposit
(2,972,258
)

(3,001,645
)

—

(3,001,645
)

—

Government deposits
(711,097
)

(705,991
)

—

(705,991
)

—

Wholesale deposit
(384,910
)

(394,442
)

—

(394,442
)

—

Company controlled deposits
(1,101,013
)

(1,095,602
)

—

(1,095,602
)

—

FHLB advances
(3,953,000
)

(4,195,163
)

(4,195,163
)

—

—

Long-term debt
(248,585
)

(80,575
)

—

(80,575
)

—

Accrued interest payable
(8,723
)

(8,723
)

—

(8,723
)

—

Warrant liabilities
(2,411
)

(2,411
)

—

(2,411
)

—

Litigation settlement
(18,300
)

(18,300
)

—

—

(18,300
)
Customer initiated derivative interest rate swaps
(3,296
)

(3,296
)

—

(3,296
)

—

Derivative Financial Instruments

Forward delivery contracts
(42,978
)

(42,978
)

—

(42,978
)

—

Commitments to extend credit
70,965

70,965

—

—

70,965

U.S. Treasury and agency futures/forwards
12,678

12,678

12,678

—

—

The methods and assumptions were used by the Company in estimating fair value of financial instruments that were not previously disclosed.

Cash and cash equivalents. Due to their short-term nature, the carrying amount of cash and cash equivalents approximates fair value.

Loans repurchased with government guarantees. The fair value of loans is estimated by using internally developed discounted cash flow models using market interest rate inputs as well as management's best estimate of spreads for similar collateral.

Loans held-for-investment. The fair value of loans is estimated by using internally developed discounted cash flow models using market interest rate inputs as well as management's best estimate of spreads for similar collateral.

FHLB stock. No secondary market exists for FHLB stock. The stock is bought and sold at par by the FHLB. Management believes that the recorded value is the fair value.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Accrued interest receivable. The carrying amount is considered a reasonable estimate of fair value.

Deposit accounts. The fair value of demand deposits and savings accounts approximates the carrying amount. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for certificates of deposit with similar remaining maturities.

FHLB advances. Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of the existing debt.

Long-term debt. The fair value of the long-term debt is estimated based on a discounted cash flow model that incorporates the Company's current borrowing rates for similar types of borrowing arrangements.

Accrued interest payable. The carrying amount is considered a reasonable estimate of fair value.

Fair Value Option

The Company has elected, under the fair value option in ASC Topic 825: Financial Instruments, to record at fair value certain financial assets and financial liabilities. The fair value election is typically made on an instrument by instrument basis. The decision to measure a financial instrument at fair value cannot be revoked once the election is made. Upon adoption of Statement of Financial Accounting Standards (“SFAS”) 159: The Fair Value Option for Financial Assets and Financial Liabilities, the Company elected the fair value option for loans held-for-sale originated post 2009.

The Company has elected the fair value option to account for the liability representing the obligation to make Additional Payments under the DOJ Agreement. The executed settlement agreement with the DOJ establishes a legally enforceable contract with a stipulated payment plan that meets the definition of a financial liability. The Company made the fair value election as of December 31, 2011, the date the Company first recognized the financial instrument in its financial statements.

The Company elected the fair value option for held-for-sale loans and the litigation settlement liability to better reflect the management of these financial instruments on a fair value basis. Interest income on loans held-for-sale is accrued on the principal outstanding primarily using the "simple-interest" method. Interest expense on the litigation settlement will be included in the overall change in fair value of the liability each quarter.

At December 31, 2012 and 2011, the balances of the fair value loans held-for-sale were $2.9 billion and $1.6 billion, respectively. The changes in fair value included in earnings totaled $784.8 million, $356.3 million and $340.8 million, respectively, for the years ended December 31, 2012, 2011 and 2010. Changes in fair value of the loans held-for-sale are recorded in net gain on loan sales on the Company’s Consolidated Statements of Operations.

At December 31, 2012 and 2011, the balance of the fair value loans held-for-investment were $20.2 million and $22.7 million, respectively. The change in fair value included in earnings was a loss of $(0.6) million and gains of $0.7 million and $0.2 million, respectively, for the years ended December 31, 2012, 2011 and 2010. Changes in fair value of the loans held-for-investment are reflected in interest income on loans on the Company’s Consolidated Statements of Operations.

At December 31, 2012 and 2011, the fair values of financial liabilities which related to the DOJ Agreement totaled $19.1 million and $18.3 million, respectively, and was included in other liabilities in the Consolidated Statements of Financial Condition. There was a $0.8 million and $18.3 million increase recorded during the years ended

December 31, 2012 and 2011, respectively. The increases primarily represented the recognition of the periodic effect of discounting and was recorded in general and administrative expense within non-interest expense on the Consolidated Statements of Operations.

150

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The following table reflects the difference between the aggregate fair value and aggregate remaining contractual principal balance outstanding as of December 31, 2012, 2011 and 2010 for assets and liabilities for which the fair value option has been elected.

	December 31, 2012 (Dollars in thousands)			December 31, 2011			December 31, 2010		
	Unpaid Principal Balance	Fair Value	Fair Value Over/(Under) UPB	Unpaid Principal Balance	Fair Value	Fair Value Over/(Under) UPB	Unpaid Principal Balance	Fair Value	Fair Value Over/(Under)
Assets									
Nonaccrual loans									
Loans held-for-sale	$222	$240	$18	$281	$291	$10	$—	$—	$—
Loans held-for-investment	2,021	2,064	43	2,989	2,963	(26)	2,968	2,980	12
Total loans	$2,243	$2,304	$61	$3,270	$3,254	$(16)	$2,968	$2,980	$12
Other performing loans									
Loans held-for-sale	$2,734,756	$2,865,456	$130,700	$1,570,302	$1,629,327	$59,025	$2,341,494	$2,343,638	$2,144
Loans held-for-investment	17,589	18,155	566	18,699	19,688	989	16,047	16,031	(16)
Total loans	$2,752,345	$2,883,611	$131,266	$1,589,001	$1,649,015	$60,014	$2,357,541	$2,359,669	$2,128
Total loans									
Loans held-for-sale	$2,734,978	$2,865,696	$130,718	$1,570,583	$1,629,618	$59,035	$2,341,494	$2,343,638	$2,144
Loans held-for-investment	19,610	20,219	609	21,688	22,651	963	19,015	19,011	(4)
Total loans	$2,754,588	$2,885,915	$131,327	$1,592,271	$1,652,269	$59,998	$2,360,509	$2,362,649	$2,140
Liabilities									
Litigation settlement	N/A (1)	$(19,100)	N/A (1)	N/A (1)	$(18,300)	N/A (1)	N/A (1)	$—	N/A (1)

(1) Remaining principal outstanding is not applicable to the litigation settlement because it does not obligate the Company to return a stated amount of principal at maturity, but instead return an amount based upon performance on the underlying terms in the Agreement.

Note 5 — Investment Securities

As of December 31, 2012 and 2011, investment securities were comprised of the following.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2012				
Securities classified as trading				
U.S. Treasury bonds	$169,991	$95	$—	$170,086
Securities classified as available-for-sale				
Mortgage securitizations	$101,272	$—	$(10,155)	$91,117
U.S. government sponsored agencies	77,328	2,389	—	79,717
Municipal obligations	13,611	—	—	13,611
Total securities classified as available-for-sale	$192,211	$2,389	$(10,155)	$184,445
December 31, 2011				

Securities classified as trading				
U.S. Treasury bonds	$291,809	$21,574	$—	$313,383
Securities classified as available-for-sale				
Non-agencies CMOs	$278,022	$—	$(23,094)	$254,928
Mortgage securitization	$123,251	$—	$(12,923)	$110,328
U.S. government sponsored agencies	113,885	2,211	—	116,096
Total securities classified as available-for-sale	$515,158	$2,211	$(36,017)	$481,352

151

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Trading

Securities classified as trading are comprised of AAA-rated U.S. Treasury bonds. U.S. Treasury bonds held in trading are distinguished from available-for-sale based upon the intent of the Company to use them as an economic offset against changes in the valuation of the MSR portfolio; however, these securities do not qualify as an accounting hedge.

For U.S. Treasury bonds held, the Company recorded an unrealized loss of $21.5 million, an unrealized gain of $21.1 million and an unrealized gain of $3.9 million during the years ended December 31, 2012, 2011 and 2010, respectively. Additionally, the Company recorded a realized gain of $19.5 million on the sale of U.S. Treasury bonds for the year ended December 31, 2012, compared to no sales for the year ended December 31, 2011 and a realized gain of $76.5 million on the sale of U.S. Treasury bonds for the year ended December 31, 2010.

Available-for-sale

At December 31, 2012 and 2011, the Company had $184.4 million and $481.4 million, respectively, in securities classified as available-for-sale which were comprised of U.S. government sponsored agencies, non-agency CMOs, mortgage securitization and municipal obligations. Securities available-for-sale are carried at fair value, with unrealized gains and losses reported as a component of other comprehensive income (loss) to the extent they are temporary in nature or OTTI as to non-credit related issues. If unrealized losses are, at any time, deemed to have arisen from OTTI, then the credit related portion is reported as an expense for that period. The Company sold the remaining non-agency CMOs and seasoned agency securities during the year ended December 31, 2012. As a result of the sale of these securities, the Company also recognized a tax benefit representing the recognition of the residual tax effect associated with previously unrealized losses on these securities recorded in other comprehensive income (loss).

The following table summarizes by duration the unrealized loss positions, at December 31, 2012 and 2011, on securities classified as available-for-sale.

Type of Security	Unrealized Loss Position with Duration 12 Months and Over			Unrealized Loss Position with Duration Under 12 Months		
	Fair Value	Number of Securities	Unrealized Loss	Fair Value	Number of Securities	Unrealized Loss
	(Dollars in thousands)					
December 31, 2012						
Mortgage securitization	$91,117	1	$(10,155)	$—	—	$—
December 31, 2011						
Non-agency CMOs	$208,515	9	$(21,123)	$46,413	2	$(1,971)
Mortgage securitization	$110,328	1	$(12,923)	$—	—	$—

The unrealized losses on securities available-for-sale amounted to $10.2 million on the mortgage securitization at December 31, 2012. The unrealized losses on securities available-for-sale were $36.0 million on non-agency CMOs and the mortgage securitization at December 31, 2011. These non-agency CMOs consist of interests in investment vehicles backed by residential first mortgage loans.

Generally, an investment impairment analysis is performed every three months. Before an analysis is performed, the Company reviews the general market conditions for the specific type of underlying collateral of each of the non-agency CMOs and municipal obligations. With the assistance of third party experts as deemed necessary, the Company models the expected cash flows of the underlying mortgage assets using historical factors such as default rates, current delinquency rates and estimated factors such as prepayment speed, default speed and severity speed.

Next, the cash flows are modeled through the appropriate waterfall for each non-agency CMOs tranche owned; the level of credit support provided by subordinated tranches is included in the waterfall analysis. The resulting cash flow of principal and interest is then utilized by management to determine the amount of credit losses by security.

The credit losses on the portfolio reflect the economic conditions present in the United States over the course of the last several years and the forecasted effect of changes in such conditions, including changes in the forecasted level of home prices. This includes high mortgage defaults, declines in collateral values and changes in homeowner behavior, such as intentionally defaulting on a note due to a home value worth less than the outstanding debt on the home (so-called "strategic defaults").

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

During the year ended December 31, 2012, the Company recognized $(2.2) million of OTTI on non-agency CMOs and the mortgage securitization, which were recognized on seven securities that had losses prior to December 31, 2012, primarily due to forecasted credit losses. At December 31, 2012, the Company had total OTTI of $2.8 million on one mortgage securitization, with existing OTTI in the available-for-sale portfolio, of which $5.0 million net loss was recognized in other comprehensive income (loss).

During the year ended December 31, 2011, the Company recognized $(24.0) million of OTTI on non-agency CMOs and the mortgage securitization, which were recognized on 11 securities that had losses prior to December 31, 2011, primarily due to forecasted credit losses. At December 31, 2011, the Company had total OTTI of $59.4 million on 11 non-agency CMOs and the mortgage securitization, with existing OTTI in the available-for-sale portfolio, of which $6.4 million net gain was recognized in other comprehensive income (loss).

During the year ended December 31, 2010, the Company recognized $(5.0) million of OTTI on non-agency CMOs and the mortgage securitization, which were recognized on ten securities that had losses prior to December 31, 2010, primarily due to forecasted credit losses. At December 31, 2010, the Company had total OTTI of $40.0 million on ten non-agency CMOs and the mortgage securitization, with existing OTTI in the available-for-sale portfolio, of which $48.6 million net gain was recognized in other comprehensive income (loss). All OTTI due to credit losses was recognized in current operations.

The impairment losses arising from credit related matters were reported in the Consolidated Statements of Operations.

The following table shows the activity for OTTI credit loss.

	For the Years Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Beginning balance of amount related to credit losses on non-agency CMOs and mortgage securitization	$(59,376)	$(40,045)	$(35,272)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the non-agency CMOs and mortgage securitization	6,680	4,708	218
Reductions for non-agency CMOs sold during the period (realized)	52,095	—	—
Additions for the amount related to the credit loss for which an OTTI impairment was not previously recognized	(2,192)	(24,039)	(4,991)
Ending balance of amount related to credit losses on non-agency CMOs and mortgage securitization	$(2,793)	$(59,376)	$(40,045)

Gains (losses) on the sale of U.S. government sponsored agency securities available-for-sale that are recently created with underlying mortgage products originated by the Bank are reported within net gain on loan sale. Securities in this category have typically remained in the portfolio less than 90 days before sale. During the year ended December 31, 2012, there were no sales of U.S. government sponsored agency securities with underlying mortgage products recently originated by the Bank. During the year ended December 31, 2011, sales of U.S. government sponsored agency securities with underlying mortgage products recently originated by the Bank were $13.9 million, resulting in $0.1 million of net gain on loan sales, compared to a $1.2 million net gain on $187.7 million of sales during the year ended December 31, 2010.

Gain (losses) on sales for all other available-for-sale securities types are reported in "net gain on securities available-for-sale" in the Consolidated Statements of Operations. During the year ended December 31, 2012, the

Company had $253.7 million in sales of U.S. government sponsored agencies and non-agency CMOs resulting in a gain of $2.6 million and $4.6 million of purchased U.S. government sponsored agencies, which included a gain on sale of $0.5 million, compared to the year ended December 31, 2011 in which the Company had no sales of U.S. government sponsored agencies and non-agency CMOs. During the year ended December 31, 2010, the Company had a net gain of $6.7 million on $251.0 million sales of non-agency CMOs. The gain on the sale of non-agency CMOs and seasoned agency securities completed during the year ended December 31, 2012 resulted in the Company also recognizing $19.9 million of tax benefits representing the recognition of the residual tax effect associated with unrealized losses on this portfolio previously recorded in other comprehensive income (loss).

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

As of December 31, 2012 and 2011, the aggregate amount of available-for-sale securities from each of the following non-agency issuers was greater than 10 percent of the Company's stockholders' equity.

Name of Issuer	December 31, 2012		December 31, 2011	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
	(Dollars in thousands)			
Countrywide Home Loans (1)	$—	$—	$134,993	$124,313
FSTAR 2006-1 (1)	—	—	123,251	110,328
Total	$—	$—	$258,244	$234,641

(1) As of December 31, 2012, Countrywide Home Loans and Flagstar Second Mortgage 2006-1 available-for-sale security no longer represents 10 percent of the Company's stockholders' equity.

The amortized cost and estimated fair value of securities, excluding trading securities, at December 31, 2012 are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

December 31, 2012	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Due in one year or less	$—	$—
Due after one year through five years	13,611	13,611
Due after five years through ten years	—	—
Due after ten years	178,600	170,834
Total	$192,211	$184,445

Note 6 — Loans Held-for-Sale

Total loans held-for-sale were $3.9 billion and $1.8 billion at December 31, 2012 and 2011, respectively, and were comprised of residential first mortgage loans and commercial loans. The increase was primarily due to the agreements to sell the Northeast-based commercial loan portfolio, in which we transferred $927.7 million commercial loans from the held-for-investment portfolio to the held-for-sale portfolio, and an increase in loan originations net of loans sold with servicing retained and servicing released.

At December 31, 2012 and 2011, $2.9 billion and $1.6 billion of loans held-for-sale were recorded at fair value, respectively. The Company estimates the fair value of mortgage loans based on quoted market prices for securities backed by similar types of loans for which quoted market prices were available. Otherwise, the fair values of loans were estimated by discounting estimated cash flows using management's best estimate of market interest rates for similar collateral.

	December 31, 2012	December 31, 2011
	(Dollars in thousands)	
Consumer loans		
Residential first mortgage	$3,012,039	$1,800,885
Commercial loans		
Commercial real estate	280,399	—
Commercial and industrial	488,361	—
Commercial lease financing	158,921	—
Total commercial loans	927,681	—

Total consumer and commercial loans held-for-sale	$3,939,720	$1,800,885

Note 7 — Loans Repurchased with Government Guarantees

Pursuant to Ginnie Mae servicing guidelines, the Company has the unilateral right to repurchase certain delinquent loans (loans past due 90 days or more) securitized in Ginnie Mae pools, if the loans meet defined criteria. As a result of this unilateral

154

right, once the delinquency criteria have been met, and regardless of whether the repurchase option has been exercised, the Company must treat the loans as having been repurchased and recognize the loans as loans held-for-sale on the Consolidated Statement of Financial Condition and also recognize a corresponding liability for a similar amount. If the loans are actually repurchased, the Company transfers the loans to loans repurchased with government guarantees and eliminates the corresponding liability. At December 31, 2012, the amount of such loans actually repurchased totaled $1.8 billion and were classified as loans repurchased with government guarantees, and those loans which the Company had not yet repurchased but had the unilateral right to repurchase totaled $72.4 million and were classified as loans held-for-sale. At December 31, 2011, the amount of such loans actually repurchased totaled $1.9 billion and were classified as loans repurchased with government guarantees, and those loans which the Company had not yet repurchased but had the unilateral right to repurchase totaled $117.2 million and were classified as loans held-for-sale.

Substantially all of these loans continue to be insured or guaranteed by the Federal Housing Administration ("FHA") and the Company's management believes that the reimbursement process is proceeding appropriately. On average, claims have historically been filed and paid in approximately 18 months from the date of the initial delinquency; however increasing volumes throughout the country, as well as changes in the foreclosure process in certain states and other forms of government intervention may result in changes to the historical norm. These repurchased loans earn interest at a statutory rate, which varies and is based upon the 10-year U.S. Treasury note rate at the time the underlying loan becomes delinquent.

During the year ended December 31, 2012, the Company participated in a HUD-coordinated market auction of loans repurchased with government guarantees, which resulted in the conveyance, in an accelerated fashion, of $306.1 million of loans at par value to HUD. As a result, the Company recognized a reduction in otherwise expected curtailments of debenture interest income previously provided for, resulting in a benefit of $7.8 million that was applied against asset resolution expense during the year ended December 31, 2012.

On June 30, 2011, the Company implemented a reclassification in the financial statement treatment of amounts due from the FHA relating to the servicing of delinquent FHA loans to recognize the accrued credit attributable to the underlying interest income as interest income. Previously, such income relating to the servicing of such delinquent loans was applied as a net offset to non-interest expense (i.e., asset resolution expense). The impact of the reclassification on the years ended December 31, 2011, and 2010 was an increase in net interest income of $25.5 million and $35.0 million, respectively, with a corresponding increase to asset resolution expense.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 8 — Loans Held-for-Investment

Loans held-for-investment are summarized as follows.

	December 31, 2012	December 31, 2011
	(Dollars in thousands)	
Consumer loans		
Residential first mortgage	$3,009,251	$3,749,821
Second mortgage	114,885	138,912
Warehouse lending	1,347,727	1,173,898
HELOC	179,447	221,986
Other	49,611	67,613
Total consumer loans	4,700,921	5,352,230
Commercial loans		
Commercial real estate	640,315	1,242,969
Commercial and industrial	90,565	328,879
Commercial lease financing	6,300	114,509
Total commercial loans	737,180	1,686,357
Total consumer and commercial loans held-for-investment	5,438,101	7,038,587
Less allowance for loan losses	(305,000)	(318,000)
Loans held-for-investment, net	$5,133,101	$6,720,587

For the years ended December 31, 2012 and 2011, the Company transferred $61.8 million and $16.7 million, respectively, of loans held-for-sale to loans held-for-investment. The loans transferred were carried at fair value, and will continue to be reported at fair value while classified as held-for-investment. During the year ended December 31, 2011, the Company sold $83.5 million of non-performing commercial real estate assets.

The Company's commercial leasing activities consisted primarily of equipment leases. Generally, lessees are responsible for all maintenance, taxes, and insurance on leased properties. The following table lists the components of the net investment in financing leases. The decrease in commercial lease financing was primarily due to the CIT Agreement to sell $158.9 million of Northeast-based commercial lease financing loans. See Note 2 of the Notes to the Consolidated Financial Statements, herein, for additional information regarding the sale.

	December 31, 2012	December 31, 2011
	(Dollars in thousands)	
Total minimum lease payments to be received	$5,634	$115,216
Estimated residual values of lease properties	913	6,967
Unearned income	(346)	(8,894)
Net deferred fees and other	99	1,220
Net investment in commercial financing leases	$6,300	$114,509

The following outlines the Company’s minimum lease payment receivable for direct financing leases for the five succeeding years and thereafter.

	December 31, 2012
	(Dollars in thousands)
2013	$2,241
2014	2,587
2015	373
2016	366
2017	67
Thereafter	—

Total	$5,634
156	

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The allowance for loan losses by class of loan is summarized in the following tables.

	Residential First Mortgage	Second Mortgage	Warehouse Lending	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total
	(Dollars in thousands)								
For the Year Ended December 31, 2012									
Beginning balance allowance for loan losses	$179,218	$16,666	$1,250	$14,845	$2,434	$96,984	$5,425	$1,178	$318,00
Charge-offs	(175,803)	(18,753)	—	(17,159)	(4,423)	(105,285)	(4,627)	(1,191)	(327,24
Recoveries	18,561	1,912	—	461	1,786	15,397	77	—	38,194
Provision	197,254	20,376	(351)	20,201	2,243	34,214	2,003	107	276,047
Ending balance allowance for loan losses	$219,230	$20,201	$899	$18,348	$2,040	$41,310	$2,878	$94	$305,00
For the Year Ended December 31, 2011									
Beginning balance allowance for loan losses	$119,400	$25,186	$4,171	$24,819	$5,445	$93,437	$1,542	$—	$274,00
Charge-offs	(41,560)	(19,216)	(1,122)	(16,980)	(4,729)	(57,626)	(644)	—	(141,87
Recoveries	1,656	1,642	5	1,510	1,603	2,408	122	—	8,946
Provision	99,722	9,054	(1,804)	5,496	115	58,765	4,405	1,178	176,931
Ending balance allowance for loan losses	$179,218	$16,666	$1,250	$14,845	$2,434	$96,984	$5,425	$1,178	$318,00
For the Year Ended December 31, 2010									
Beginning balance allowance for loan losses	$277,321	$40,887	$3,766	$37,054	$3,998	$157,998	$2,976	$—	$524,00
Charge-offs	(474,195)	(27,846)	(2,154)	(21,495)	(5,583)	(153,020)	(1,181)	—	(685,47
Recoveries	2,513	1,806	516	1,531	1,615	1,123	17	—	9,121
Provision	313,761	10,339	2,043	7,729	5,415	87,336	(270)	—	426,353
Ending balance allowance for loan losses	$119,400	$25,186	$4,171	$24,819	$5,445	$93,437	$1,542	$—	$274,00

	Residential First Mortgage	Second Mortgage	Warehouse Lending	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total
	(Dollars in thousands)								
December 31, 2012									
Loans held-for-investment									
Individually evaluated (1)	$805,787	$16,949	$—	$734	$—	$95,322	$41	$—	$918,83

Collectively evaluated (2)	2,203,464	97,936	1,347,727	178,713	49,611	544,993	90,524	6,300	4,519,26
Total loans	$3,009,251	$114,885	$1,347,727	$179,447	$49,611	$640,315	$90,565	$6,300	$5,438,
Allowance for loan losses									
Individually evaluated (1)	$150,545	$7,028	$—	$3,074	$—	$2,538	$10	$—	$163,19
Collectively evaluated (2)	68,685	13,173	899	15,274	2,040	38,772	2,868	94	141,805
Total allowance for loan losses	$219,230	$20,201	$899	$18,348	$2,040	$41,310	$2,878	$94	$305,00
December 31, 2011									
Loans held-for-investment									
Individually evaluated (1)	$744,604	$14,237	$307	$1,775	$2	$207,144	$2,402	$—	$970,47
Collectively evaluated (2)	3,005,217	124,675	1,173,591	220,211	67,611	1,035,825	326,477	114,509	6,068,1
Total loans	$3,749,821	$138,912	$1,173,898	$221,986	$67,613	$1,242,969	$328,879	$114,509	$7,038,
Allowance for loan losses									
Individually evaluated (1)	$113,569	$4,738	$—	$1,775	$2	$53,146	$1,588	$—	$174,81
Collectively evaluated (2)	65,649	11,928	1,250	13,070	2,432	43,838	3,837	1,178	143,182
Total allowance for loan losses	$179,218	$16,666	$1,250	$14,845	$2,434	$96,984	$5,425	$1,178	$318,00

(1) Represents loans individually evaluated for impairment in accordance with ASC Topic 310-10, Receivables (formerly FAS 114), and pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans.

(2) Represents loans collectively evaluated for impairment in accordance with ASC Topic 450-20, Loss Contingencies (formerly FAS 5), and pursuant to amendments by ASU 2010-20 regarding allowance for unimpaired loans.

157

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Investment Loans	90 Days and Still Accruing
	(Dollars in thousands)						
December 31, 2012							
Consumer loans							
Residential first mortgage	$62,445	$16,693	$306,486	$385,624	$2,623,627	$3,009,251	$—
Second mortgage	1,171	727	3,724	5,622	109,263	114,885	—
Warehouse lending	—	—	—	—	1,347,727	1,347,727	—
HELOC	2,484	910	3,025	6,419	173,028	179,447	—
Other	587	248	183	1,018	48,593	49,611	—
Total consumer loans	66,687	18,578	313,418	398,683	4,302,238	4,700,921	—
Commercial loans							
Commercial real estate	6,979	6,990	86,367	100,336	539,979	640,315	—
Commercial and industrial	—	—	41	41	90,524	90,565	—
Commercial lease financing	—	—	—	—	6,300	6,300	—
Total commercial loans	6,979	6,990	86,408	100,377	636,803	737,180	—
Total loans	$73,666	$25,568	$399,826	$499,060	$4,939,041	$5,438,101	$—
December 31, 2011							
Consumer loans							
Residential first mortgage	$74,934	$37,493	$372,514	$484,941	$3,264,880	$3,749,821	$—
Second mortgage	1,887	1,527	6,236	9,650	129,262	138,912	—
Warehouse lending	—	—	28	28	1,173,870	1,173,898	—
HELOC	5,342	2,111	7,973	15,426	206,560	221,986	—
Other	1,507	471	611	2,589	65,024	67,613	34
Total consumer loans	83,670	41,602	387,362	512,634	4,839,596	5,352,230	34
Commercial loans							
Commercial real estate	7,453	12,323	99,335	119,111	1,123,858	1,242,969	5,536
Commercial and industrial	11	62	1,670	1,743	327,136	328,879	65
Commercial lease financing	—	—	—	—	114,509	114,509	—
Total commercial loans	7,464	12,385	101,005	120,854	1,565,503	1,686,357	5,601
Total loans	$91,134	$53,987	$488,367	$633,488	$6,405,099	$7,038,587	$5,635

Loans on which interest accruals have been discontinued totaled approximately $401.7 million at December 31, 2012 and $482.7 million at December 31, 2011. Interest income is recognized on impaired loans using a cost recovery method unless the receipt of principal and interest as they become contractually due is not in doubt. Interest that

would have been accrued on such loans totaled approximately $16.5 million, $19.6 million, and $15.5 million during 2012, 2011, and 2010, respectively.

Loan Modifications

A portion of the Company's residential first mortgages have been modified under Company-developed programs. These programs first require an extension of term followed by a reduction of the interest rate. The increase at December 31, 2012, as compared to December 31, 2011 was primarily due to the implementation of the OCC guidance on bankruptcies during 2012. See Note 2 of the Notes to the Consolidated Financial Statements, herein, for additional information regarding the guidance.
At December 31, 2012 and 2011, approximately $3.3 million and $47.2 million, respectively, in commercial loan balances had been modified, primarily consisting of commercial real estate loans.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Periodically, the Company will restructure a note into two separate notes (A/B structure), charging off the entire B note. The A note is structured with appropriate loan-to-value and cash flow coverage ratios that provide for a high likelihood of repayment. The A note is classified as a non-performing note until the borrower has displayed a historical payment performance for a reasonable period of time subsequent to the restructuring. A period of sustained repayment for at least six months generally is required to return the note to accrual status provided that management has determined that the performance is reasonably expected to continue. The A note will be classified as a restructured note (either performing or non-performing) through the calendar year in which historical payment performance on the restructured note has been established. At December 31, 2012 and 2011, there was approximately $5.7 million and $21.8 million, respectively, in carrying amount representing four and ten A/B structures, respectively.

Troubled Debt Restructurings

The following table provides a summary of TDRs by type and performing status.

	TDRs		
	Performing	Non-performing	Total
December 31, 2012	(Dollars in thousands)		
Consumer loans (1)			
Residential first mortgage	$573,941	$140,773	$714,714
Second mortgage	14,534	2,415	16,949
Total consumer loans	588,475	143,188	731,663
Commercial loans (2)			
Commercial real estate	1,287	2,056	3,343
Total TDRs	$589,762	$145,244	$735,006
December 31, 2011			
Consumer loans (1)			
Residential first mortgage	$488,896	$165,655	$654,551
Second mortgage	10,542	1,419	11,961
Other consumer	—	2	2
Total consumer loans	499,438	167,076	666,514
Commercial loans (2)			
Commercial real estate	17,737	29,509	47,246
Total TDRs	$517,175	$196,585	$713,760

(1) The allowance for loan losses on consumer TDR loans totaled $159.0 million and $85.2 million at December 31, 2012 and 2011, respectively.

(2) The allowance for loan losses on commercial TDR loans totaled $0.3 million and $32.2 million at December 31, 2012 and 2011, respectively.

TDRs returned to performing (accrual) status totaled $117.7 million and $127.8 million during the years ended December 31, 2012 and 2011, respectively, and are excluded from non-performing loans. TDRs that have demonstrated a period of at least six months of consecutive performance under the modified terms, are returned to performing (i.e., accrual) status and are excluded from non-performing loans. Although these TDRs have been returned to performing status, they will still continue to be classified as impaired until they are repaid in full, or foreclosed and sold, and included as such in the tables within "repossessed assets." Although many of the TDRs continue to be performing, the full collection of principal and interest on some TDRs may not occur. The resulting potential incremental losses are measured through impairment analysis on all TDRs and have been factored into our allowance for loan losses. At December 31, 2012 and 2011, remaining commitments to lend additional funds to

debtors whose terms have been modified in a commercial or consumer TDR were immaterial.

Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, but instead give rise to potential incremental losses. Such losses are factored into the Company's allowance for loan losses estimate. The impairment of TDRs is measured in accordance with ASC Topic 310-10 (see the table below presenting impaired loans with change in allowance upon modification). Management uses the pooling method to measure impairment under ASC Topic 310-10 for certain loans in its portfolio and also individually measures impairment under ASC Topic 310-10 for other loans in the portfolio depending on the risk characteristics underlying the loan and the availability of data. Management expects

159

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

to continue to refine this process for operational efficiency purposes that will allow for periodic review and updates of impairment data of TDRs grouped by similar risk characteristics. The Company measures impairment using the discounted cash flow method for performing TDRs and measures impairment based on collateral values for re-defaulted TDRs.

The following table presents the years ended December 31, 2012 and 2011 number of accounts, pre-modification unpaid principal balance, and post-modification unpaid principal balance that were new modified TDRs during the years ended December 31, 2012 and 2011. In addition, the table presents the number of accounts and unpaid principal balance of loans that have subsequently defaulted during the years ended December 31, 2012 and 2011 that had been modified in a TDR during the 12 months preceding each period. All TDR classes within consumer and commercial loan portfolios are considered subsequently defaulted as of greater than 90 days past due.

	New TDRs			
	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase (Decrease) in Allowance at Modification
For the Year Ended December 31, 2012	(Dollars in thousands)			
Residential first mortgages	884	$ 287,865	$ 267,364	$29,357
Second mortgages	301	15,287	9,312	(435)
HELOC	69	2,515	—	(178)
Total TDR loans	1,254	$ 305,667	$ 276,676	$28,744
For the Year Ended December 31, 2011				
Residential first mortgages	455	$ 168,849	$ 171,649	$(5,021)
Second mortgages	27	1,999	2,012	—
Other consumer	1	2	2	—
Commercial real estate	6	12,025	7,298	(1,011)
Total TDR loans	489	$ 182,875	$ 180,961	$(6,032)

	TDRs that subsequently defaulted in previous 12 months (2)		
	Number of Accounts	Unpaid Principal Balance	Increase (Decrease) in Allowance at Subsequent Default
For the Year Ended December 31, 2012	(Dollars in thousands)		
Residential first mortgages	72	$ 20,523	$4,451
Second mortgages	19	1,094	441
Total TDR loans	91	$ 21,617	$4,892
For the Year Ended December 31, 2011			
Residential first mortgages	35	$ 10,796	$1,854
Second mortgages	2	233	—
Total TDR loans	37	$ 11,029	$1,854

(1) Post-modification balances include past due amounts that are capitalized at modification date.
(2) Subsequent default is defined as a payment re-defaulted within 12 months of the restructuring date.

160

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The following table presents impaired loans with no related allowance and with an allowance recorded.

	December 31, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
With no related allowance recorded						
Consumer loans						
Residential first mortgage	$231,750	$ 360,575	$—	$45,604	$ 45,604	$—
Second mortgage	1,170	4,545	—	—	—	—
Warehouse lending	—	—	—	307	869	—
HELOC	—	2,506	—	—	—	—
Commercial loans						
Commercial real estate	79,782	109,483	—	47,564	49,156	—
	$312,702	$ 477,109	$—	$93,475	$ 95,629	$—
With an allowance recorded						
Consumer loans						
Residential first mortgage	$574,037	$ 573,610	$150,545	$699,000	$ 699,000	$113,569
Second mortgage	15,779	15,779	7,028	14,237	14,237	4,738
HELOC	734	734	3,074	1,775	1,775	1,775
Other consumer	—	—	—	2	2	2
Commercial loans						
Commercial real estate	15,540	22,917	2,538	159,581	166,874	53,145
Commercial and industrial (1)	41	97	10	2,402	2,402	1,588
	$606,131	$ 613,137	$163,195	$876,997	$ 884,290	$174,817
Total						
Consumer loans						
Residential first mortgage	$805,787	$ 934,185	$150,545	$744,604	$ 744,604	$113,569
Second mortgage	16,949	20,324	7,028	14,237	14,237	4,738
Warehouse lending	—	—	—	307	869	—
HELOC	734	3,240	3,074	1,775	1,775	1,775
Other consumer	—	—	—	2	2	2
Commercial loans						
Commercial real estate	95,322	132,400	2,538	207,145	216,030	53,145
Commercial and industrial	41	97	10	2,402	2,402	1,588
Total impaired loans	$918,833	$ 1,090,246	$163,195	$970,472	$ 979,919	$174,817

The increase in the residential first mortgage impaired loans was primarily due to the refinements to existing loan models done during the first quarter 2012, which resulted in loans severely past due written down to underlying collateral value and specific reserves were removed. The increase in the impaired commercial real estate loans was primarily due to charge-offs on loans, which resulted in no related allowance.

161

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

	For the Years Ended December 31,					
	2012		2011		2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)					
Consumer loans						
Residential first mortgage	$761,213	$12,833	$625,104	$17,068	$609,516	$22,858
Second mortgage	15,609	155	13,521	508	13,987	551
Warehouse lending	—	—	235	—	—	—
HELOC	522	—	365	12	55	3
Commercial loans						
Commercial real estate	142,454	2,345	198,872	5,843	363,709	7,612
Commercial and industrial	99	5	2,155	87	3,320	6
Total impaired loans	$919,897	$15,338	$840,252	$23,518	$990,587	$31,030

The Company utilizes an internal risk rating system which is applied to all commercial and commercial real estate credits. Management conducts periodic examinations which serve as an independent verification of the accuracy of the ratings assigned. Loan grades are based on different factors within the borrowing relationship: entity sales, debt service coverage, debt/total net worth, liquidity, balance sheet and income statement trends, management experience, business stability, financing structure of the deal, and financial reporting requirements. The underlying collateral is also rated based on the specific type of collateral and corresponding liquidity. The combination of the borrower and collateral risk ratings result in the final rating for the borrowing relationship. Descriptions of the Company's internal risk ratings as they relate to credit quality are as follows.

Pass. Pass assets are not impaired nor do they have any known deficiencies that could impact the quality of the asset.

Special mention/watch. Assets identified as special mention or watch possess credit deficiencies or potential weaknesses deserving management's close attention. Special mention or watch assets have a potential weakness or pose an unwarranted financial risk that, if not corrected, could weaken the assets and increase risk in the future.

Substandard. Assets identified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. For HELOC loans and other consumer loans, the Company evaluates credit quality based on the aging and status of payment activity and includes all non-performing loans.

Doubtful. Assets identified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. The possibility of a loss on a doubtful asset is high. However, due to important and reasonably specific pending factors, which may work to strengthen (or weaken) the asset, its classification as an estimated loss is deferred until its more exact status can be determined.

	As of December 31, 2012			
Commercial Credit Exposure	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total Commercial
	(Dollars in thousands)			
Grade				
Pass	$277,037	$82,184	$6,300	$365,521

Special mention/watch	230,937	1,642	—	232,579
Substandard	132,341	6,739	—	139,080
Total loans	$640,315	$90,565	$6,300	$737,180

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Consumer Credit Exposure	As of December 31, 2012 Residential First Mortgage	Second Mortgage	Warehouse	HELOC	Other Consumer	Total
	(Dollars in thousands)					
Grade						
Pass	$2,118,961	$95,969	$1,081,579	$175,512	$49,180	$3,521,201
Special mention/watch	583,804	15,192	266,148	910	248	866,302
Substandard	306,486	3,724	—	3,025	183	313,418
Total loans	$3,009,251	$114,885	$1,347,727	$179,447	$49,611	$4,700,921

Commercial Credit Exposure	As of December 31, 2011 Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total Commercial
	(Dollars in thousands)			
Grade				
Pass	$702,641	$324,920	$114,509	$1,142,070
Special mention/watch	347,440	1,595	—	349,035
Substandard	192,853	2,364	—	195,217
Doubtful	35	—	—	35
Total loans	$1,242,969	$328,879	$114,509	$1,686,357

Consumer Credit Exposure	As of December 31, 2011 Residential First Mortgage	Second Mortgage	Warehouse	HELOC	Other Consumer	Total
	(Dollars in thousands)					
Grade						
Pass	$2,915,673	$120,898	$1,173,591	$211,801	$66,531	$4,488,494
Special mention/watch	515,221	11,773	—	2,111	471	529,576
Substandard	318,927	6,241	307	8,074	611	334,160
Total loans	$3,749,821	$138,912	$1,173,898	$221,986	$67,613	$5,352,230

Note 9 — Concentrations of Credit

Properties collateralizing residential first mortgage loans held-for-investment were geographically disbursed throughout the United States (measured by principal balance and expressed as a percent of the total).

State	December 31, 2012		2011	
California	30.7	%	32.4	%
Florida	13.9	%	12.9	%
Michigan	9.9	%	9.2	%
Washington	4.6	%	4.8	%
Arizona	4.2	%	4.1	%
Texas	2.2	%	3.2	%
All other states (1)	34.5	%	33.4	%
Total	100.0	%	100.0	%

(1) No other state contains more than 3.0 percent of the total.

A substantial portion of the Company's commercial real estate loan portfolio at December 31, 2012, 66.5 percent, is collateralized by properties located in Michigan. At December 31, 2011, the Company's commercial real estate portfolio in Michigan was 44.5 percent of the total portfolio.

163

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Additionally, the following loan products' contractual terms may give rise to a concentration of credit risk and increase the Company's exposure to risk of non-payment or realization:

(a) Hybrid or ARM loans that are subject to future payment increases;
(b) Option ARM loans that permit negative amortization; and
(c) Loans under (a) or (b) above with LTV ratios above 80 percent;

The following table details the unpaid principal balance of these loans at December 31, 2012 and 2011.

	Held-for-Investment Portfolio Loans	
	December 31, 2012	December 31, 2011
	(Dollars in thousands)	
Amortizing hybrid ARMs		
3/1 ARM	$118,026	$147,203
5/1 ARM	408,593	607,788
7/1 ARM	20,532	67,392
Interest only hybrid ARMs		
3/1 ARM	170,198	222,200
5/1 ARM	797,347	1,048,006
7/1 ARM	54,417	88,593
Option ARMs	55,848	91,786
All other ARMs	109,827	113,132
Total	$1,734,788	$2,386,100

Of the loans listed above, the following have original LTV ratios exceeding 80 percent.

	Principal Outstanding	
	December 31, 2012	December 31, 2011
	(Dollars in thousands)	
Loans with original LTV ratios above 80 percent		
> 80%< = 90%	$114,736	$144,988
> 90%< = 100%	97,160	150,513
>100%	5,343	6,572
Total	$217,239	$302,073

164

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 10 — Pledged Assets

The Company has pledged certain securities and loans to collateralize lines of credit and/or borrowings with the Federal Reserve Bank of Chicago and the FHLB of Indianapolis and other potential future obligations. The following table details pledged asset by asset class, and the carrying value of pledged assets and the asset maturities. See Note 16 of the Notes to the Consolidated Financial Statements, herein, for cash and securities pledged for derivative activities.

	December 31, 2012		December 31, 2011	
	Carrying Value	Maturities	Carrying Value	Maturities
	(Dollars in thousands)			
Cash	$9,812	—	$31,716	—
Securities classified as trading				
U.S. Treasury bonds	62,382	Various	166,934	Various
Securities classified as available-for-sale				
Non-agency CMOs	—	—	110,328	2036
Loans				
Residential first mortgage (1)	4,517,632	Various	4,444,186	Various
Second mortgage	97,133	Various	128,113	Various
Warehouse	411,320	Various	—	Various
HELOC	161,016	Various	33,505	Various
Commercial loans	495,281	Various	504,579	Various
Loans repurchased with government guarantees	1,452,642	Various	1,741,857	Various
Totals	$7,207,218		$7,161,218	

(1) Includes residential first mortgage loans held-for-investment and residential first mortgage loans held-for-sale.

Note 11 — Private-label Securitization Activity

The Company previously participated in four private-label securitizations of financial assets involving two HELOC loan transactions and two second mortgage loan transactions. In each of these securitizations, the financial assets were derecognized by the Company upon transfer to the securitization trusts, which then issued and sold mortgage-backed securities to third party investors. The Company relinquished control over the loans at the time the financial assets were transferred to the securitization trusts and the Company recognized a gain on the sale of the transferred assets.

In December 2005 and December 2006, the Company participated in non-agency HELOC securitizations (the "FSTAR 2005-1 HELOC Securitization" and the "FSTAR 2006-2 HELOC Securitization," respectively) in the amount of $600.0 million and $302.2 million, respectively. As a result of these securitizations, the Company recorded assets of $26.1 million and $11.2 million in residual interests, respectively. The offered securities in the two HELOC securitizations were both guaranteed by Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. ("Assured").

In April 2006, the Company completed a $400.0 million securitization transaction involving fixed second mortgage loans that the Company held at the time in its investment portfolio. The transaction was treated as a recharacterization of loans held for investment to securities held to maturity and, therefore, no gain on sale was recorded. As of December 31, 2012, the Company still holds this mortgage securitization in available-for-sale investment securities. The offered securities in this second mortgage loan securitization were guaranteed by MBIA Insurance Corporation ("MBIA").

In addition, in March 2007, the Company completed a $620.9 million non-agency securitization transaction involving closed-ended, fixed and adjustable rate second mortgage loans and recorded $22.6 million in residual interests and servicing assets. In June 2007, the Company completed a secondary closing for $98.2 million and recorded an additional $4.2 million in residual interests. The offered securities in this second mortgage loan securitization were guaranteed by MBIA.

The Company has not engaged in any private-label securitization activity except for these four securitizations completed during 2005 through 2007.

In connection with the four private-label securitizations, the Company's retained interests in the securitized mortgage loans and trusts, which generally consisted of residual interests, transferors' interests, and servicing assets. The residual interests

165

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

represent the present value of future cash flows expected to be received by the Company. Residual interests are accounted for at fair value and are included as securities classified as trading in the Consolidated Statements of Financial Condition. Any gains or losses realized on the sale of such securities and any subsequent changes in unrealized gains and losses are reported in the Consolidated Statements of Operations. At December 31, 2012, the Company's residual interests have been deemed to have no value and have been written off. The transferors' interests represent draws on the HELOCs subsequent to them being sold to the trusts that were funded by the Bank rather than being purchased by the securitization trusts. The transferors' interest relating to the FSTAR 2006-2 HELOC Securitization has been fully reserved for and the FSTAR 2005-1 HELOC Securitization has been partially reserved for. The transferors' interests are included in loans held-for-investment in the Consolidated Statements of Financial Condition. At December 31, 2012, the Company no longer serviced any of the loans that were sold to the private-label securitization trusts, and therefore had no servicing assets accounted for on an amortized cost method.

The following table sets forth certain characteristics of each of the HELOC securitizations at their inception and the current characteristics as of and for the year ended December 31, 2012.

	2005-1 at Inception	2005-1 Current Levels	2006-2 at Inception	2006-2 Current Levels
	(Dollars in thousands)			
HELOC Securitization				
Number of loans	8,155	2,204	4,186	1,692
Aggregate principal balance	$600,000	$98,228	$302,182	$102,195
Average principal balance	$55	$45	$72	$60
Weighted average fully indexed interest rate	8.43 %	5.72 %	9.43 %	6.41 %
Weighted average original term	120 months	120 months	120 months	120 months
Weighted average remaining term	112 months	30 months	112 months	44 months
Weighted average original credit score	722	717	715	719

The following table sets forth certain characteristics of each of the fixed rate second mortgage securitizations at their inception and the current characteristics as of and for the year ended December 31, 2012.

	2006-1 at Inception	2006-1 Current Levels	2007-1 at Inception	2007-1 Current Levels
	(Dollars in thousands)			
Fixed Rate Second Mortgage Securitization				
Number of loans	8,325	2,656	12,416	4,988
Aggregate principal balance	$398,706	$99,557	$622,100	$204,208
Average principal balance	$49	$37	$50	$41
Weighted average fully indexed interest rate	7.04 %	6.78 %	8.22 %	7.23 %
Weighted average original term	187 months	187 months	194 months	194 months
Weighted average remaining term	179 months	100 months	185 months	117 months
Weighted average original credit score	729	728	726	729

Transferor’s Interests

Under the terms of the HELOC securitizations, the trusts have purchased and were initially obligated to pay for any subsequent additional draws on the lines of credit transferred to the trusts. Upon entering a rapid amortization period, the Company becomes obligated to fund the purchase of those additional balances as they arise in exchange for a

beneficial interest in the trust (transferors' interest). The Company must continue to fund the required purchase of additional draws by the trust as long as the securitization remains active. The table below identifies the draw contributions for each of the HELOC securitization trusts as well as the fair value of the transferors' interests.

166

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Summary of Transferor's Interest by Securitization	At December 31, 2012		2011	
	FSTAR 2005-1	FSTAR 2006-2	FSTAR 2005-1	FSTAR 2006-2
	(Dollars in thousands)			
Total draw contribution	$35,782	$51,320	$35,430	$51,265
Additional balance increase amount (1)	$25,311	$28,134	$26,567	$29,964
Transferor's interest ownership percentage	24.99 %	26.96 %	22.18 %	24.49 %
Fair value of transferor's interests	$7,103	$—	$9,594	$—
Transferor's interest reserve	$479	$97	$309	$643

(1) Additional draws on lines of credit for which the Company receives a beneficial interest in the Trust.

FSTAR 2005-1 HELOC Securitization. At December 31, 2012 and 2011, outstanding claims due to the note insurer were $16.8 million and $14.4 million, respectively, and based on the Company's internal model, the Company believed that because of the claims due to the note insurer and continuing credit losses on the loans underlying the securitization, the fair value/carrying amount of the transferor's interest was $7.1 million and $9.6 million, respectively. The Company recorded a liability to reflect the expected liability arising from losses on future draws associated with this securitization, of which $0.5 million remained at December 31, 2012. In determining this liability, the Company assumed (i) no further draws would be made with respect to those HELOCs as to which further draws were currently prohibited, (ii) the remaining HELOCs would continue to operate in the same manner as their historical draw behavior indicated, as measured on an individual loan basis and on a pool drawdown basis, and (iii) that any draws actually made and therefore recognized as transferors' interests by the Company would have a loss rate of 71.9 percent.

In order to estimate losses on future draws and the timing of such losses, a forecast for the draw reserve was established. The forecast was used as the basis for recording the liability. Historical observations and draw behavior formed the basis for establishing the key assumptions and forecasted draw reserve.

First, the forecast assumed a 71.9 percent loss on all future draws. Second, the forecast projected future obligations on a monthly basis using twelve-month rolling average of the actual draws as a percentage of the unfunded balance. For example, for the period ended December 31, 2012, the twelve-month rolling average draw rate was 1.0 percent of the unfunded commitments (i.e., those still active). This percentage was computed by dividing (i) the actual draw rate over the twelve month period ending on that date, by (ii) the balance of the unfunded commitments still active on that date. The draw rate was then used to project monthly draws through the remaining expected life of the securitization. In doing so, the 1.0 percent draw rate (as noted above) was applied against the expected declining level of unfunded commitments in future months caused by payoffs, credit terminations and line cancellations. This rate of decline was based on historical experience within the securitization pool of loans.

These calculations of future monthly draws comprise, in the aggregate, the total dollar amount of expected future draws from the securitization pool. Despite a significant reduction in the unfunded commitments, the Company has not observed a similar reduction in the actual draw rate. Even with a constant draw rate, such total dollar amount declines to the extent the level of unfunded commitments that are still active declines, as is the case in the forecast. Because the expected loss on future draws on December 31, 2012 was 71.9 percent, the expected future draws equaled the potential future draw liability at that date.

As indicated above, the forecast uses a constant draw rate as a percentage of the current unfunded commitment that is based on historical observations and draw behavior. The forecast does not contemplate current inactive accounts becoming active and thereby becoming eligible for draw because the nature of the loans that do not currently generate transferor's interests have characteristics that suggest an extremely low likelihood of doing so in the future. Such loans

are those in which the draw feature has been discontinued pursuant to the terms of the underlying loan agreement due to a credit-related deficiency of the borrower or due to a decline in the value of the related residential property serving as collateral.

The forecast also reflects the low or zero draw rates of certain of the unfunded commitments that are still active (i.e., $2.9 million and $3.8 million for FSTAR 2005-1 HELOC Securitization at December 31, 2012 and 2011, respectively). For instance, some loans are still active but have never been drawn upon, suggesting that the loan may have been acquired at the time of a related first mortgage origination solely for contingency purposes but without any actual intent to draw. Similarly, another group of active loans were fully drawn upon at the time of the related first mortgage origination and have been paid down over time, suggesting that the borrower intended the HELOC to serve more as a second mortgage rather than as a revolving line of credit.

167

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

FSTAR 2006-2 HELOC Securitization. At December 31, 2012 and 2011, outstanding claims due to the note insurer were $88.7 million and $82.7 million, respectively, and based on the Company's internal model, the Company believed that because of the claims due to the note insurer and continuing credit losses on the loans underlying the securitization, there was no carrying amount of the transferor's interest. The Company recorded a liability of $7.6 million to reflect the expected liability arising from losses on future draws associated with this securitization, of which $0.1 million remained at December 31, 2012. In determining this liability, the Company (i) assumed no further draws would be made with respect to those HELOCs as to which further draws were currently prohibited, (ii) the remaining HELOCs would continue to operate in the same manner as their historical draw behavior indicated, as measured on an individual loan basis and on a pool drawdown basis, and (iii) that any draws actually made and therefore recognized as transferor's interests by the Company would have a loss rate of 100.0 percent.

In order to estimate losses on future draws and the timing of such losses, a forecast for the draw reserve was established. The forecast was used as the basis for recording the liability. Historical observations and draw behavior formed the basis for establishing the key assumptions and forecasted draw reserve.

First, the forecast assumed a 100 percent loss on all future draws. Second, the forecast projected future obligations on a monthly basis using a three-month rolling average of the actual draws as a percentage of the unfunded balance. For example, for the period ended December 31, 2012, the three-month rolling average draw rate was 0.49 percent of the unfunded commitments (still active). This percentage was computed by dividing (i) the actual draw rate over the three month period ending on that date, by (ii) the balance of the unfunded commitments still active on that date. The draw rate was then used to project monthly draws through the remaining expected life of the securitization. In doing so, the 0.49 percent draw rate (as noted above) was applied against the expected declining level of unfunded commitments in future months caused by payoffs, credit terminations and line cancellations. This rate of decline was based on historical experience within the securitization pool of loans.

These calculations of future monthly draws comprise, in the aggregate, the total dollar amount of expected future draws from the securitization pool. Despite a significant reduction in the unfunded commitments, the Company has not observed a similar reduction in the actual draw rate. Even with a constant draw rate, such total dollar amount declines to the extent the level of unfunded commitments that are still active declines, as is the case in the Company's forecast. Because the expected loss on future draws in December 2012 was 100 percent, the expected future draws equaled the potential future draw liability at that date.

As indicated above, the forecast uses a constant draw rate as a percentage of the current unfunded commitment that is based on historical observations and draw behavior. The forecast does not contemplate current inactive accounts becoming active and thereby becoming eligible for draw because the nature of the loans that do not currently generate transferor's interests have characteristics that suggest an extremely low likelihood of doing so in the future. Such loans are those in which the draw feature has been discontinued pursuant to the terms of the underlying loan agreement due to a credit-related deficiency of the borrower or due to a decline in the value of the related residential property serving as collateral.

The forecast also reflects the low or zero draw rates of certain of the unfunded commitments that are still active (i.e., $0.4 million and $1.6 million for FSTAR 2006-2 HELOC Securitization at December 31, 2012 and 2011, respectively). For instance, some loans are still active but have never been drawn upon, suggesting that the loan may have been acquired at the time of a related first mortgage origination solely for contingency purposes but without any actual intent to draw. Similarly, another group of active loans were fully drawn upon at the time of the related first mortgage origination and have been paid down over time, suggesting that the borrower intended the HELOC to serve more as a second mortgage rather than as a revolving line of credit.

168

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The following table outlines the Company's expected losses on future draws on loans in FSTAR 2005-1 and FSTAR 2006-2 at December 31, 2012.

	Unfunded Commitments (1)	Expected Future Draws as % of Unfunded Commitments (2)	Expected Future Draws (3)	Expected Loss (4)	Potential Future Liability (5)
	(Dollars in thousands)				
FSTAR 2005-1 HELOC Securitization	$2,942	8.5 %	$249	71.9 %	$179
FSTAR 2006-2 HELOC Securitization	489	16.5 %	72	100.0 %	72
Total	$3,431		$321		$251

(1) Unfunded commitments represent the amounts currently fundable at the dates indicated because the underlying borrowers' lines of credit are still active.
(2) Expected future draws on unfunded commitments represents the historical draw rate within the securitization.
(3) Expected future draws reflects unfunded commitments multiplied by expected future draws percentage.
(4) Expected losses represent an estimated reduction in carrying value of future draws.
(5) Potential future liability reflects expected future draws multiplied by expected losses.

The table below sets forth key assumptions and the hypothetical sensitivity of the value of the transferor's interest and the related liability to an immediate adverse change in key assumptions for both the FSTAR 2005-1 HELOC Securitization and FSTAR 2006-2 HELOC Securitization. Changes in value based on 10 percent and 20 percent variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. In practice, changes in one factor may result in changes in other factors, such as increases in market interest rates that may magnify or counteract sensitivities.

	Fair Value	Prepayment Speed	Cumulative Loss Rate	Annual Discount Rate	Change In Valuation
FSTAR 2005-1					
Transferors' interest valuation as of December 31, 2012	$7,103	12.0 %	14.3 %	5.7 %	$—
10 percent adverse change in assumption	$6,039	13.2 %	14.4 %	6.3 %	$(1,065)
20 percent adverse change in assumption	$5,150	14.4 %	14.5 %	6.9 %	$(1,953)

	Fair Value	Loss Rate	Projected Draw Rate	Projected Unfunded Decline	Change In Reserve
FSTAR 2005-1					
Transferors' interest liability as of December 31, 2012	$667	71.9 %	0.96 %	(1.95)%	$—
10 percent adverse change in assumption	$803	74.7 %	1.06 %	(1.76)%	$120
20 percent adverse change in assumption	$898	77.5 %	1.15 %	(1.56)%	$217
FSTAR 2006-2					
Transferors' interest liability as of December 31, 2012	$97	100.0 %	0.84 %	(2.01)%	$—

10 percent adverse change in assumption	$154	100.0 %	0.92 %	(1.81)%	$57
20 percent adverse change in assumption	$177	100.0 %	1.01 %	(1.61)%	$80

Securitization Litigations

The Company is in litigation with Assured and MBIA regarding the alleged breach of various loan level representations and warranties made by the Company in connection with the four private-label securitizations. See Note 29 of the Notes to Consolidated Financial Statements, herein, for further information regarding the securitization litigations.

169

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Unfunded Commitments

The table below identifies separately for each HELOC securitization trust: (i) the notional amount of the total unfunded commitment under the Company's contractual arrangements, (ii) unfunded commitments that have been frozen or suspended because the borrowers do not currently meet the contractual requirements under their HELOC with the Company, and (iii) the amount currently fundable because the underlying borrowers' lines of credit are still active.

	FSTAR 2005-1	FSTAR 2006-2	Total
	(Dollars in thousands)		
At December 31, 2012			
Notional amount of unfunded commitments (1)	$30,767	$27,447	$58,214
Frozen or suspended unfunded commitments	$27,825	$26,958	$54,783
Unfunded commitments still active	$2,942	$489	$3,431
At December 31, 2011			
Notional amount of unfunded commitments (1)	$33,227	$31,257	$64,484
Frozen or suspended unfunded commitments	$29,454	$29,667	$59,121
Unfunded commitments still active	$3,773	$1,590	$5,363

(1) The Company's total potential funding obligation is dependent on both (a) borrower behavior (e.g., the amount of additional draws requested) and (b) the contractual draw period (remaining term) available to the borrowers. Because borrowers can make principal payments and restore the amounts available for draws and then borrow additional amounts as long as their lines of credit remain active, the funding obligation has no specific limitation and it is not possible to define the maximum funding obligation. However, the Company expects that the maturity dates of the FSTAR 2005-1 HELOC Securitization and the FSTAR 2006-2 HELOC Securitization pools will be reached in 2015 and 2017, respectively, and the Company's exposure will be substantially mitigated at such times, based on prepayment speeds and losses in the cash flow forecast.

Credit Risk on Securitization

With respect to the issuance of private-label securitizations, the Company retains certain limited credit exposure in that it retains non-investment grade residual securities in addition to customary representations and warranties. The Company does not have credit exposure associated with non-performing loans in securitizations beyond its investment in retained interests in non-investment grade residuals and draws (transferors' interests) on HELOCs that it funds and which are not reimbursed by the respective trust. The value of the Company's transferors' interests reflects the Company's credit loss assumptions as applied to the underlying collateral pool. To the extent that actual credit losses exceed the assumptions, the value of the Company's non-investment grade residual securities and unreimbursed draws will be diminished.

During the fourth quarter 2010, all servicing related to loans underlying the private-label securitizations (i.e., HELOC and second mortgage loans) was transferred to a third party servicer.
The following table summarizes the Company's consumer servicing portfolio and the balance of retained assets with credit exposure, which includes residential interests that are included as securities classified as trading and unreimbursed HELOC draws that are included in loans held-for-investment.

	At December 31,			
	2012		2011	
	Amount of Loans	Balance of Retained Assets	Amount of Loans	Balance of Retained Assets

	Serviced	With Credit Exposure	Serviced	With Credit Exposure
	(Dollars in thousands)			
Private-label securitizations	$—	$7,103	$—	$9,594

170

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 12 — Repossessed Assets

Repossessed assets include the following.

	December 31,	
	2012	2011
	(Dollars in thousands)	
One-to-four family properties	$67,863	$71,016
Commercial properties	52,869	43,699
Total repossessed assets	$120,732	$114,715

Note 13 — FHLB Stock

The Company’s investment in FHLB stock remained unchanged at $301.7 million at December 31, 2012 from December 31, 2011. As a member of the FHLB, the Company is required to hold shares of FHLB stock in an amount equal to at least 1.0 percent of the aggregate unpaid principal balance of its mortgage loans, home purchase contracts and similar obligations at the beginning of each year or 5 percent of FHLB advances, whichever is greater. During 2012 the Company had no redemptions of FHLB stock and during 2011 the Company redeemed $35.5 million in FHLB stock. Dividends received on the stock equaled $9.4 million, $8.3 million, and $7.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. These dividends were recorded in the Consolidated Statements of Operations as other fees and charges, net.

Note 14 — Premises and Equipment

Premises and equipment balances and estimated useful lives are as follows.

	Estimated	December 31,	
	Useful Lives	2012	2011
		(Dollars in thousands)	
Land	—	$66,206	$64,095
Office buildings	31.5 years	128,692	127,591
Computer hardware and software	3 — 5 years	159,908	128,543
Furniture, fixtures and equipment	5 — 7 years	67,029	71,306
Automobiles	3 years	230	252
Total		422,065	391,787
Less accumulated depreciation		(203,006)	(188,209)
Premises and equipment, net		$219,059	$203,578

Depreciation expense amounted to approximately $19.2 million, $15.2 million, and $17.8 million, for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company conducts a portion of its business from leased facilities. Such leases are considered to be operating leases based on their lease terms. Lease rental expense totaled approximately $6.8 million, $6.5 million, and $6.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The following outlines the Company's minimum contractual lease obligations.

	December 31, 2012
	(Dollars in thousands)
2013	$7,023
2014	6,512
2015	5,259
2016	3,534
2017	2,305
Thereafter	1,809
Total	$26,442

Note 15 — Mortgage Servicing Rights

The Company has obligations to service residential first mortgage loans. Servicing of residential first mortgage loans is a significant business activity of the Company. The Company recognizes MSR assets on residential first mortgage loans when it retains the obligation to service these loans upon sale. MSRs are subject to changes in value from, among other things, changes in interest rates, prepayments of the underlying loans and changes in credit quality of the underlying portfolio. The Company utilizes the fair value method for residential first MSRs, as elected by under ASC Topic 820, Fair Value Measurement. As such, the Company currently hedges certain risks of fair value changes of MSRs using derivative instruments that are intended to change in value inversely to part or all of the changes in the components underlying the fair value of MSRs.

The Company invests in MSRs to support mortgage strategies and to deploy capital at acceptable returns. The Company also deploys derivatives and other fair value assets as economic hedges to offset changes in fair value of the MSRs resulting from the actual or anticipated changes in prepayments stemming from changing interest rate environments. The Company's portfolio of MSRs is highly sensitive to movements in interest rates, and hedging activities related to the portfolio. The primary risk associated with MSRs is they will lose a substantial portion of value as a result of higher than anticipated prepayments due to loan refinancing prompted, in part, by declining interest rates. Conversely, these assets generally increase in value in a rising interest rate environment to the extent that prepayments are slower than anticipated. There is also a risk of valuation decline due to higher than expected increases in default rates, but the Company does not believe such risk can be sufficiently quantified to effectively hedge. See Note 16 of the Notes to the Consolidated Financial Statements, herein, for additional information regarding the instruments utilized to hedge the risks of MSRs.

Changes in the carrying value of residential first mortgage MSRs, accounted for at fair value, were as follows.

	For the Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Balance at beginning of period	$510,475	$580,299	$649,133
Additions from loans sold with servicing retained	535,875	254,824	239,395
Reductions from bulk sales (1)	(139,738)	(88,828)	(137,392)
Changes in fair value due to (2)			
Decrease in MSR value (3)	(151,470)	(67,881)	(80,118)
All other changes in valuation inputs or assumptions (4)	(44,351)	(167,939)	(90,719)
Fair value of MSRs at end of period	$710,791	$510,475	$580,299
Unpaid principal balance of residential mortgage loans serviced for others (period end)	$76,821,222	$63,770,676	$56,040,063

(1) Includes bulk sales related to underlying serviced loans totaling $17.4 billion, $9.2 billion and $13.4 billion, respectively, for the years ended December 31, 2012, 2011 and 2010.
(2) Changes in fair value are included within loan administration income on the Consolidated Statements of Operations.
(3) Represents decrease in MSR value associated with loans that paid-off during the period.
(4) Represents estimated MSR value change resulting primarily from market-driven changes in interest rates.

The fair value of MSRs is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs, and other

172

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

economic factors, which are determined based on current market conditions. The Company periodically obtains third-party valuations of its MSRs to assess the reasonableness of the fair value calculated by the valuation model.

The key economic assumptions used in determining the fair value of those MSRs capitalized during the years ended December 31, 2012, 2011 and 2010 were as follows.

	For the Years Ended December 31,					
	2012		2011		2010	
Weighted-average life (in years)	6.1		5.9		5.4	
Weighted-average constant prepayment rate	14.8	%	18.7	%	22.2	%
Weighted-average discount rate	7.1	%	7.6	%	7.8	%

The key economic assumptions used in determining the fair value of MSRs at year end were as follows.

	December 31,					
	2012		2011		2010	
Weighted-average life (in years)	5.3		4.5		5.8	
Weighted-average (CPR)	17.3	%	21.6	%	16.9	%
Weighted-average discount rate	7.0	%	7.2	%	9.1	%

During the fourth quarter of 2010, the Company transferred its mortgage servicing rights with respect to its private-label securitizations, i.e., related to HELOC and second mortgage loans, to a third-party servicer pursuant to the terms of the applicable servicing agreements. As a result, for the year ended December 31, 2012, the Company did not hold any mortgage servicing rights related to such securitizations.

Contractual servicing fees. Contractual servicing fees, including late fees and ancillary income, for each type of loan serviced are presented below. Contractual servicing fees are included within loan administration income on the Consolidated Statements of Operations.

	For the Years Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Residential first mortgage	$208,864	$169,884	$151,145
Other	751	211	3,197
Total	$209,615	$170,095	$154,342

Note 16 — Derivative Financial Instruments

The Company follows the provisions of derivatives and hedging accounting guidance, which require it to recognize all derivative instruments on the Consolidated Statements of Financial Condition at fair value. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require a small or no net investment, and allow for the net settlement of positions. A derivative's notional amount serves as the basis for the payment provision of the contract, and takes the form of units, such as shares or dollars. A derivative's underlying variable is a specified interest rate, security price, commodity price, foreign exchange rate, index, or other variable. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the fair value of the derivative contract. Generally, these instruments help the Company manage exposure to interest rate risk, mitigate the credit risk inherent in the loan portfolio, hedge against changes in foreign currency exchange rates, and meet client financing and hedging needs. The following derivative financial instruments were identified and recorded at fair value as of December 31, 2012 and 2011:

- Fannie Mae, Freddie Mac, Ginnie Mae and other forward loan sale contracts;

- Rate lock commitments;
- Interest rate swap; and
- U.S. Treasury and euro dollar futures and options.

Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects of bilateral collateral and master netting agreements. Gross positive fair values are netted with gross negative fair values by

173

counterparty pursuant to a valid master netting agreement. In addition, payables and receivables in respect of cash collateral received from or paid to a given counterparty are included in this netting. However, non-cash collateral is not included. These agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. As a result, the Company could have derivative contracts with negative fair values included in derivative assets on the balance sheet and contracts with positive fair values included in derivative liabilities.

Derivatives Not Designated in Hedge Relationships

Like other financial services institutions, the Company originates loans and extends credit, both of which expose the Company to credit risk. The Company actively manages the overall loan portfolio and the associated credit risk in a manner consistent with asset quality objectives. This objective is accomplished primarily through the use of an investment-grade diversified dealer-traded basket of swaps. These transactions may generate fee income, and diversify and reduce overall portfolio credit risk volatility. Although the Company utilizes swaps for risk management purposes, they are not treated as hedging instruments.

The Company hedges the risk of overall changes in fair value of loans held-for-sale and rate lock commitments generally by selling forward contracts on securities of Fannie Mae, Freddie Mac and Ginnie Mae. The forward contracts used to economically hedge the loan commitments are accounted for as non-designated hedges and naturally offset rate lock commitment mark-to-market gains and losses recognized as a component of gain on loan sale. The Company recognized a pre-tax gain of $44.2 million, a pre-tax loss of $(22.2) million and a pre-tax gain of $12.4 million for the years ended December 31, 2012, 2011, and 2010, respectively, on hedging activity relating to loan commitments and loans held-for-sale. Additionally, the Company hedges the risk of overall changes in fair value of MSRs through the use of various derivatives including purchases of forward contracts on securities of Fannie Mae and Freddie Mac, the purchase/sale of U.S. Treasury futures contracts on U.S. Treasury futures contracts and the purchase/sale of euro dollar future contracts. These derivatives are accounted for as non-designated hedges against changes in the fair value of MSRs. The Company recognized gains of $86.2 million, $160.3 million and $32.5 million for the years ended December 31, 2012, 2011 and 2010, respectively, on MSR fair value hedging activities. The Company does not apply hedge accounting, as prescribed in ASC Topic 815, Derivatives and Hedging to any derivatives.

The Company uses a combination of derivatives (U.S. Treasury futures, euro dollar futures swap futures, and forwards and certain trading securities to hedge the MSRs. For accounting purposes, these hedges represent economic hedges of the MSR asset with both the hedges and the MSR asset carried at fair value on the balance sheet. Certain hedging strategies that the Company use to manage the Company investment in MSRs may be ineffective to fully offset changes in the fair value of such asset due to changes in interest rates and market liquidity. As both the hedges and the MSR asset are carried at fair value on the balance sheet, any hedge ineffectiveness is recognized in current period earnings.

The Company writes and purchases interest rate swaps to accommodate the needs of customers requesting such services. Customer-initiated trading derivatives are used primarily to focus on providing derivative products to customers that enables them to manage interest rate risk exposure. Customer-initiated trading derivatives are tailored to meet the needs of the counterparties involved and, therefore, contain a greater degree of credit risk and liquidity risk than exchange-traded contracts, which have standardized terms and readily available price information. The Company mitigates most of the inherent market risk of customer-initiated interest rate swap contracts by taking offsetting positions. Market risk from unfavorable movements in interest rates is generally economically hedged by concurrently entering into offsetting derivative contracts. The offsetting derivative contracts have nearly identical notional values, terms and indices. These limits are established annually and reviewed quarterly. Interest rate swaps are agreements in

which two parties periodically exchange fixed cash payments for variable payments based on a designated market rate or index, or variable payments based on two different rates or indices, applied to a specified notional amount until a stated maturity. The Company's swap agreements are structured such that variable payments are primarily based on LIBOR (one-month, three-month or six-month) or prime. These instruments are principally negotiated over-the-counter and are subject to credit risk, market risk and liquidity risk.

174

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The Company had the following derivative financial instruments.

Economic Undesignated Hedges	December 31, 2012		
	Notional Amount	Fair Value	Expiration Dates
	(Dollars in thousands)		
Assets (1)			
Mortgage servicing rights			
U.S. Treasury and agency futures / forwards	$13,053,600	$5,822	2013
Mortgage derivatives			
Rate lock commitments	5,149,891	86,200	2013
Customer-initiated derivatives			
Interest rate swaps	101,246	5,954	Various
Total derivative assets	$18,304,737	$97,976	
Liabilities (2)			
Mortgage derivatives			
Forward agency and loan sales	$7,385,430	$14,021	2013
Customer-initiated derivatives			
Interest rate swaps	101,246	5,954	Various
Total derivative liabilities	$7,486,676	$19,975	

	December 31, 2011		
	Notional Amount	Fair Value	Expiration Dates
	(Dollars in thousands)		
Assets (1)			
Mortgage servicing rights			
U.S. Treasury and agency futures / forwards	$1,552,000	$12,678	2012
Mortgage derivatives			
Rate lock commitments	3,869,901	70,965	2012
Customer-initiated derivatives			
Interest rate swaps	32,360	3,296	Various
Total derivative assets	$5,454,261	$86,939	
Liabilities (2)			
Mortgage derivatives			
Forward agency and loan sales	$5,029,000	$42,978	2012
Customer-initiated derivatives			
Interest rate swaps	32,360	3,296	Various
Total derivative liabilities	$5,061,360	$46,274	

(1) Asset derivatives are included in "other assets" on the "Consolidated Statements of Financial Condition."
(2) Liability derivatives are included in "other liabilities" on the "Consolidated Statements of Financial Condition."

Customer–initiated derivatives. Fee income on customer-initiated trading derivatives are earned from entering into various transactions at the request of customer (customer-initiated contracts) interest rate swap contracts. Fair values of customer-initiated derivative financial instruments represent the net unrealized gains or losses on such contracts and are recorded in the Consolidated Statement of Financial Condition in "other assets" and "other liabilities." Changes in fair value are recognized in "other non-interest income" on the Consolidated Statements of Income. There was no net gains (losses) recognized in income on customer-initiated derivative instruments for the years ended December 31, 2012, 2011, and 2010, respectively.

Counterparty credit risk. The Bank is exposed to credit loss in the event of non-performance by the counterparties to its various derivative financial instruments. The Company manages this risk by selecting only well-established, financially strong counterparties, spreading the credit risk among such counterparties, and by placing contractual limits on the amount of unsecured credit risk from any single counterparty.

175

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The Company pledged a total of $76.3 million and $17.7 million of investment securities and cash collateral to counterparties at December 31, 2012 and 2011, respectively, for derivative activities. The Company pledged $61.3 million and zero in cash collateral to counterparties at December 31, 2012 and 2011, respectively, and $15.0 million and $17.7 million in U.S. Treasury bonds at December 31, 2012 and 2011, respectively. The total collateral pledged is included in "other assets" on the Consolidated Statements of Financial Condition.

Note 17 — Deposit Accounts

The deposit accounts are as follows.

	December 31,	
	2012	2011
	(Dollars in thousands)	
Retail deposits		
Demand accounts	$681,983	$566,817
Savings accounts	2,108,170	1,462,185
Money market demand accounts	401,853	491,708
Certificates of deposit	3,175,481	2,972,258
Total retail deposits	6,367,487	5,492,968
Government deposits		
Demand account	98,890	102,911
Savings account	263,841	205,663
Certificate of deposit	456,347	402,523
Total government deposits	819,078	711,097
Wholesale deposits	99,338	384,910
Company controlled deposits	1,008,392	1,101,013
Total deposits	$8,294,295	$7,689,988

Non-interest-bearing deposits included in above balances at December 31, 2012 and 2011, were approximately $1.4 billion, for both periods.

The following table indicates the scheduled maturities for certificates of deposit with a minimum denomination of $100,000.

	December 31,	
	2012	2011
	(Dollars in thousands)	
Three months or less	$834,390	$649,728
Over three months to six months	431,792	334,460
Over six months to twelve months	927,797	799,327
One to two years	103,437	208,309
Thereafter	42,227	76,232
Total	$2,339,643	$2,068,056

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 18 — FHLB Advances

The portfolio of FHLB advances includes floating rate daily adjustable advances, fixed rate putable advances and fixed rate term advances. The following is a breakdown of the advances outstanding.

	December 31,								
	2012			2011			2010		
	Amount	Weighted Average Rate		Amount	Weighted Average Rate		Amount	Weighted Average Rate	
	(Dollars in thousands)								
Daily adjustable advances	$280,000	0.50	%	$553,000	0.40	%	$325,083	0.50	%
Long-term fixed rate term advances	2,900,000	3.30	%	3,400,000	3.10	%	3,400,000	3.52	%
Total	$3,180,000	3.05	%	$3,953,000	2.72	%	$3,725,083	3.25	%

The Company prepaid $500.0 million in higher cost long-term FHLB advances during the third quarter 2012, which resulted in a loss on extinguishment of debt of $15.2 million.

The Company restructured $1.0 billion in FHLB advances during the third quarter 2011. The effect in the overall FHLB advance portfolio was an increase in the average remaining term to 4.3 years at December 31, 2011 from 3.6 years, and a decrease in the weighted average interest rate to 3.1 percent from 3.5 percent.

During 2010, the Company prepaid $500.0 million higher rate FHLB advances, incurring penalties of $19.7 million to prepay these advances. The Company also restructured $1.9 billion in FHLB advances in 2010. This restructuring resulted in the locking in of low terms funding rates while eliminating put features associated with some of the advances. The effect in the overall $3.7 billion FHLB advance portfolio was an increase in the average remaining term to 4.1 years at December 31, 2010 from 2.0 years at December 31, 2009 and a decrease in the weighted average interest rate from 4.29 percent to 3.25 percent.

	For the Years Ended December 31,					
	2012		2011		2010	
	(Dollars in thousands)					
Maximum outstanding at any month end	$3,770,000		$3,953,000		$3,900,000	
Average balance	3,698,362		3,620,368		3,849,897	
Average interest rate	2.88	%	3.26	%	4.03	%

The following outlines the Company’s FHLB advance final maturity dates as of December 31, 2012.

	December 31, 2012
	(Dollars in thousands)
2013	$280,000
2014	250,000
2015	750,000
2016	1,650,000
2017	250,000
Total	$3,180,000

At December 31, 2012, the Company had the authority and approval from the FHLB to utilize a line of credit equal to $7.0 billion and the Company may access that line to the extent that collateral is provided. At December 31, 2012, the Company had available collateral sufficient to access $4.3 billion of the line and had $3.2 billion of advances outstanding. Pursuant to collateral agreements with the FHLB, advances can be collateralized by non-delinquent single-family residential first mortgage loans, loans repurchased with government guarantees, certain other loans and investment securities.

177

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 19 — Long-Term Debt

The Company’s long-term debt is comprised principally of junior subordinated notes which were issued in connection with the issuance of trust preferred securities. The following table presents the outstanding balance and related interest rates of the long-term debt as of the dates indicated.

	December 31,					
	2012			2011		
	(Dollars in thousands)					
Junior Subordinated Notes						
Floating 3 Month LIBOR						
Plus 3.25% (1), matures 2032	$25,774	3.56	%	$25,774	3.82	%
Plus 3.25% (1), matures 2033	25,774	3.59	%	25,774	3.65	%
Plus 3.25% (1), matures 2033	25,780	3.56	%	25,780	3.83	%
Plus 2.00% (1), matures 2035	25,774	2.34	%	25,774	2.40	%
Plus 2.00% (1), matures 2035	25,774	2.34	%	25,774	2.40	%
Plus 1.75% (1), matures 2035	51,547	2.06	%	51,547	2.30	%
Plus 1.50% (1), matures 2035	25,774	1.84	%	25,774	1.90	%
Plus 1.45% (1), matures 2037	25,774	1.76	%	25,774	2.00	%
Plus 2.50% (1), matures 2037	15,464	2.81	%	15,464	3.05	%
Subtotal	$247,435			$247,435		
Other debt						
Fixed 7.00% due 2013 (2)	—			1,150		
Total long-term debt	$247,435			$248,585		

(1) The securities are currently callable by the Company.
(2) The fixed 7.00 percent note due 2013 was retired early on December 28, 2012.

Interest on all junior subordinated notes related to trust preferred securities is payable quarterly. Under these arrangements, the Company has the right to defer dividend payments to the trust preferred security holders for up to five years. For information about the deferral of dividends, refer to Note 2 of the Notes to the Consolidated Financial Statements, herein.

The aggregate annual maturities of long-term debt obligations (based on final maturity dates) are in the years 2032 through 2037 for the total long-term debt balance of $247.4 million.

Deferral of Interest Payments

Interest on all junior subordinated notes related to trust preferred securities is payable quarterly. Under these arrangements, the Company has the right to defer dividend payments to the trust preferred security holders for up to five years. On January 27, 2012, the Company exercised its contractual rights to defer interest payments with respect to trust preferred securities. Under the terms of the related indentures, the Company may defer interest payments for up to 20 consecutive quarters without default or penalty. These payments will be periodically evaluated and reinstated when appropriate, subject to the provisions of the Company's supervisory agreement with the Federal Reserve. Concurrently, the Company also exercised contractual rights to defer dividend payments with respect to preferred stock issued and outstanding in connection with participation in the TARP Capital Purchase Program, see Note 22 of the Notes to the Consolidated Financial Statements, herein.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 20 — Representation and Warranty Reserve

The following table shows the activity in the representation and warranty reserve.

	For the Years Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Balance, beginning of period,	$120,000	$79,400	$66,000
Provision			
Charged to gain on sale for current loan sales	24,410	8,993	35,200
Charged to representation and warranty reserve — change in estimate	256,289	150,055	61,523
Total	280,699	159,048	96,723
Charge-offs, net	(207,699)	(118,448)	(83,323)
Balance, end of period	$193,000	$120,000	$79,400

Reserve levels are a function of expected losses based on actual pending and expected claims and repurchase requests, historical experience and loan volume. To the extent actual outcomes differ from management estimates, additional provisions could be required that could adversely affect operations or financial position in future periods.

During late 2011 and throughout 2012, the Company continued to see elevated levels of demand request activity from mortgage investors. As a result of the increased demand request activity and communications with mortgage investors, the Company reviewed as part of the quarterly review of accounting estimates the representation and warranty reserve methodology to more effectively incorporate the most recent observable data and trends. This is consistent with the improved risk segmentation and qualitative analysis and modeling performed for other similar reserve estimates, and consistent with expectations of the Bank's primary regulator and the continuing evaluation of the performance dynamics within the mortgage industry. The Company's enhanced first quarter 2012 methodology and related model refines previous estimates by adding granularity to the model by segmenting the sold portfolio by vintage years and investor to assign assumptions specific to each segment. Key assumptions in the model include investor audits, demand requests, appeal loss rates, loss severity, and recoveries.

The increase in the overall reserve balance during the year ended December 31, 2012 was primarily due to refinements in the estimation process as described above, consistent with a more conservative posture taken by the Bank's new primary regulator and a continuing evolution of the performance dynamics within the mortgage industry. In addition, the increase reflected both charge-offs of certain loans previously sold into the secondary market and expectations of continued elevated levels of repurchase requests from Fannie Mae, Freddie Mac and Ginnie Mae (collectively, government sponsored entities or the "GSEs").

The Company routinely obtains information from the GSEs regarding the historical trends of demand requests, and occasionally obtains information on anticipated future loan reviews and potential repurchase demand projections. The Company believes this information provides helpful but limited insight in anticipating GSE behavior, thus helping to better estimate future repurchase requests and validate representation and warranty assumptions. Estimating the balance of the representation and warranty reserve involves using assumptions regarding future repurchase request volumes, expected loss severity on these requests and claims appeal success rates. Notwithstanding the information obtained from the GSEs, the assumptions used to estimate the representation and warranty reserve contain a level of uncertainty and risk that could have a material impact on the representation and warranty reserve balance if they differ from actual results. To assess the sensitivity of the representation and warranty reserve model to adverse changes, management periodically runs a sensitivity analysis using its reserve model by assuming hypothetical increases in the level of repurchase volume.

Note 21 — Warrant Liabilities

May Investors

In full satisfaction of the Company’s obligations under anti-dilution provisions applicable to certain investors (the "May Investors") in the Company’s May 2008 private placement capital raise, the Company granted warrants (the "May Investor Warrants") to the May Investors on January 30, 2009 for the purchase of 142,598 of Common Stock at $62.00 per share. The holders of such warrants are entitled to acquire shares of Common Stock for a period of ten years. During 2009, May Investors exercised May Investor Warrants to purchase 31,484 shares of Common Stock. As a result of the Company’s registered offering on March 31, 2010, of 5.8 million shares of Common Stock at a price per share of $50.00, the number of shares of the Company’s

179

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Common Stock issuable to the May Investors under the May Investor Warrants was increased by 26,667 and the exercise price was decreased to $50.00 pursuant to the antidilution provisions of the May Investors Warrants. As a result of the Company's registered offering on November 2, 2010 of 11.6 million shares of Common Stock at a price per share of $10.00, the number of shares of Common Stock issuable to the May Investors under the May Investor Warrants was increased by 551,126 and the exercise price was decreased to $10.00 pursuant to the antidilution provisions of the May Investors Warrants. For the year ended December 31, 2012, no shares of Common Stock were issued upon exercise of May Investor Warrants, and at December 31, 2012, the May Investors held warrants to purchase 688,907 shares at an exercise price of $10.00.

Management believes the May Investor Warrants do not meet the definition of a contract that is indexed to the Company's own stock under U.S. GAAP. Therefore, the May Investor Warrants are classified as liabilities rather than as an equity instrument and are measured at fair value, with changes in fair value recognized through operations.

On January 30, 2009, in conjunction with the capital investments, the Company recorded the May Investor Warrants at their fair value of $6.1 million. From the issuance of the May Investor Warrants on January 30, 2009 through December 31, 2012, the Company marked these warrants to market which resulted in an increase in the liability during this time of $5.2 million. This increase was recorded in warrant expense and included in non-interest expense.

At December 31, 2012, the Company's liabilities to the holders of May Investors Warrants amounted to $11.3 million. Warrant liabilities are valued using a binomial lattice model and are classified within Level 2 of the valuation hierarchy. Significant observable inputs include expected volatility, a risk free rate and an expected life. Warrant liabilities are reported in "other liabilities" on the Consolidated Statements of Financial Condition.

Treasury Warrants

On January 30, 2009, the Company sold to the U.S. Treasury 266,657 shares of Series C fixed rate cumulative non-convertible perpetual preferred stock ("Series C Preferred Stock") and a warrant to purchase up to approximately 0.7 million shares of Common Stock at an exercise price of $62.00 per share (the "Treasury Warrant") for $266.7 million. The issuance and the sale of the Series C Preferred Stock and Treasury Warrant were exempt from the registration requirements of the Securities Act of 1933, as amended. The Series C Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends quarterly at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Treasury Warrant became exercisable upon receipt of stockholder approval on May 26, 2009 and has a 10 year term.

Note 22 — Stockholder's Equity

On September 24, 2012, the Company's stockholders approved an amendment to the Company's Amended and Restated Articles of Incorporation to effect a reverse stock split of common stock with the exact exchange ratio and timing of the reverse stock split to be determined at the discretion of the Company's board of directors. The board of directors approved a one-for-ten reverse stock split which began trading on a post-split-basis October 11, 2012. In lieu of fractional shares, stockholders received cash payments based on the common stock's closing price on October 9, 2012 of $11.70 per share, which reflects the reverse stock split. The common stock par value remained at $0.01 per share. All common stock and related per share amounts in these Consolidated Financial Statements and notes to the Consolidated Financial Statements are reflected on an after-reverse-split basis for all periods presented.

On November 2, 2010, the Company completed a registered offering of 14,192,250 shares of the Series D Preferred Stock, which included 692,250 shares issued pursuant to the underwriter's over-allotment option, and a registered offering of 11,565,500 shares of Common Stock, which included 565,500 shares issued pursuant to the underwriter's

over-allotment option. The public offering price of the Series D Preferred Stock and Common Stock was $20.00 and $10.00 per share, respectively. Upon stockholder approval on December 21, 2010 of an amendment to increase the number of authorized shares of Common Stock from 30,000,000 shares to 70,000,000 shares, each share of Series D Preferred Stock automatically converted into two shares of Common Stock, based on a conversion price of $10.00 per share of Common Stock. MP Thrift participated in the registered offerings and purchased 8,884,637 shares of Series D Preferred Stock and 7,230,727 shares of Common Stock at the offering price for approximately $250.0 million. The offerings resulted in gross proceeds to the Company of approximately $399.5 million ($384.9 million, after deducting underwriting fees and offering expenses).

On April 1, 2010, MP Thrift converted $50.0 million of Trust Preferred Securities into 625,000 shares of the Common Stock at the rate of $80.00 per share. The number of shares of Common Stock issued for each Trust Preferred Security was equal to $1,000 divided by the adjusted stock price. The adjusted stock price was equal to 90 percent of the volume-weighted average

closing price of Common Stock from February 1, 2009 to April 1, 2010, subject to a floor of $80.00 per share, a ceiling of $200.00 per share and certain adjustments as provided for in the trust agreement.

On March 31, 2010, the Company completed a registered offering of 5.8 million shares of Common Stock, which included 0.8 million shares issued pursuant to the underwriters' over-allotment option that was exercised in full on March 29, 2010 at $50.00 per share. MP Thrift participated in this registered offering and purchased two million shares of Common Stock at $50.00 per share. The offering resulted in aggregate net proceeds to the Company of approximately $276.1 million, net of offering expenses.

On January 27, 2010, MP Thrift exercised its rights to purchase 4,225,353 shares of Common Stock for approximately $300.0 million in a rights offering to purchase up to 7,042,342 shares of Common Stock which expired on February 8, 2010. Pursuant to the rights offering, each stockholder of record as of December 24, 2009 received 0.1502 non-transferable subscription rights for each share of Common Stock owned on the record date and entitled the holder to purchase one share of Common Stock at the subscription price of $71.00. During the rights offering, the Company stockholders (other than MP Thrift) exercised their rights to purchase 8,070 shares of Common Stock. In the aggregate, the Company issued 4,233,422 shares of Common Stock in the rights offering for approximately $300.6 million.

Preferred Stock

Preferred stock with a par value of $0.01 and a liquidation value of $1,000 and additional paid in capital attributable to preferred shares at December 31, 2012 is summarized as follows.

	Rate	Earliest Redemption Date	Shares Outstanding	Preferred Shares	Additional Paid in Capital
	(Dollars in thousands)				
Series C Preferred Stock	5 %	January 31, 2012	266,657	$3	$260,387

See Note 21 of the Notes to the Consolidated Financial Statements, herein, for further information regarding the Series C Preferred Stock.

Deferral of Dividend Payments

On January 27, 2012, the Company provided notice to the U.S. Treasury exercising the contractual right to defer regularly scheduled quarterly payments of dividends, beginning with the February 2012 payment, on preferred stock issued and outstanding in connection with participation in the TARP Capital Purchase Program. Under the terms of the preferred stock, the Company may defer payments of dividends for up to six quarters in total without default or penalty. Concurrently, the Company also exercised contractual rights to defer interest payments with respect to trust preferred securities. For information about the deferral of dividends, refer to Note 2 and Note 19 of the Notes to the Consolidated Financial Statements, herein.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Accumulated Other Comprehensive Income (Loss)

The following table sets forth the components in accumulated other comprehensive income (loss) for each type of available-for-sale security.

	Pre-tax Amount	Income Tax (Expense) Benefit (1)	After-Tax Amount
	(Dollars in thousands)		
Accumulated other comprehensive income (loss)			
Net unrealized gain (loss) on securities available-for-sale			
December 31, 2012			
U.S. government sponsored agency securities	$2,389	$—	$2,389
2006-1 securitization trust	(10,155)	6,108	(4,047)
Total net unrealized gain (loss) on securities available-for-sale	$(7,766)	$6,108	$(1,658)
Net unrealized gain (loss) on securities available-for-sale			
December 31, 2011			
Non-agency collateralized mortgage obligations	$(23,095)	$20,608	$(2,487)
U.S. government sponsored agency securities	2,211	(728)	1,483
2006-1 securitization trust	(12,923)	6,108	(6,815)
Total net unrealized gain (loss) on securities available-for-sale	$(33,807)	$25,988	$(7,819)
Net unrealized gain (loss) on securities available-for-sale			
December 31, 2010			
Non-agency collateralized mortgage obligations	$(29,669)	$20,608	$(9,061)
U.S. government sponsored agency securities	526	(728)	(202)
2006-1 securitization trust	(13,010)	6,108	(6,902)
Total net unrealized gain (loss) on securities available-for-sale	$(42,153)	$25,988	$(16,165)

(1) The income tax (expense) benefit reflects the amount which existed at the time the Company established the valuation allowance for the deferred tax asset and is related to the securities that were held at the date.

Note 23 — Earnings (Loss) Per Share

Basic earnings (loss) per share excludes dilution and is computed by dividing earnings (loss) available to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised and converted into Common Stock or resulted in the issuance of Common Stock that could then share in the earnings (loss) of the Company.

On September 24, 2012, the Company's stockholders approved an amendment to the Company's Amended and Restated Articles of Incorporation to effect a reverse split of the Common Stock at any time prior to October 24, 2012, at an exchange rate of one-for-ten. The Board of Directors on September 27, 2012 approved the one-for-ten reverse stock split, which began trading on a post-split basis on October 11, 2012. In lieu of fractional shares, stockholders received cash payments based on the Common Stock's closing price on October 9, 2012 of $11.70 per share, which reflected the reverse stock split. The par value of the Common Stock remained at $0.01 per share.

182

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The following tables set forth the computation of basic and diluted earnings (loss) per share of Common Stock.

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011			For the Year Ended December 31, 2010		
	Income	Weighted Average Shares	Per Share Amount	Loss	Weighted Average Shares	Per Share Amount	Loss	Weighted Average Shares	Per Share Amount
	(In thousands, except per share data)								
Net income (loss)	$68,376		$—	$(181,778)		$—	$(374,813)		$—
Less: preferred stock dividend/accretion	(5,658)		—	(17,165)		—	(18,748)		—
Basic earnings (loss) per share	62,718			(198,943)			(393,561)		
Deferred cumulative preferred stock dividends	(13,670)	—	—	—	—	—	—	—	—
Net income (loss) applicable to Common Stock	49,048	55,762	0.88	(198,943)	55,434	(3.62)	(393,561)	16,157	(24.36)
Effect of dilutive securities									
Warrants	—	7	—	—	—	—	—	—	—
Stock-based awards	—	425	(0.01)	—	—	—	—	—	—
Diluted earnings (loss) per share									
Net income (loss) applicable to Common Stock	$49,048	56,194	$0.87	$(198,943)	55,434	$(3.62)	$(393,561)	16,157	$(24.36)

Due to the loss attributable to common stockholders for the years ended December 31, 2011 and 2010, the diluted loss per share calculation excludes all Common Stock equivalents, including 1,334,045 shares and 867,013 shares, respectively, pertaining to warrants and 250,914 shares and 107,934 shares respectively, pertaining to stock-based awards. The inclusion of these securities would be anti-dilutive.

Note 24 — Stock-Based Compensation

In 1997, the Company's Board of Directors adopted resolutions to implement various stock option and purchase plans and incentive compensation plans in conjunction with the public offering of Common Stock. On May 26, 2006, the Company’s stockholders approved the Flagstar Bancorp, Inc. 2006 Equity Incentive Plan (the "2006 Plan"). The 2006 Plan consolidates, amends and restates the Company’s 1997 Employees and Directors Stock Option Plan, its 2000 Stock Incentive Plan, and its 1997 Incentive Compensation Plan (each, a "Prior Plan"). Awards still outstanding under any of the Prior Plans will continue to be governed by their respective terms. Under the 2006 Plan, key employees, officers, directors and others expected to provide significant services to the Company and its affiliates are eligible to receive awards. Awards that may be granted under the 2006 Plan include stock options, incentive stock options, cash-settled stock appreciation rights, restricted stock units, performance shares and performance units and other awards.

Under the 2006 Plan, the exercise price of any award granted must be at least equal to the fair market value of Common Stock on the date of grant. Non-qualified stock options granted to directors expire five years from the date of grant. Grants other than non-qualified stock options have term limits set by the board of directors in the applicable agreement. Stock appreciation rights expire seven years from the date of grant unless otherwise provided by the compensation committee of the board of directors.

During 2012, 2011 and 2010, compensation expense recognized related to the 2006 Plan totaled \$6.9 million, \$6.7 million and \$8.3 million, respectively. The Board of Directors approved a one-for-ten reverse stock split,which began trading on a post-split basis on October 11, 2012. All Common Stock and related per share amounts discussed below are reflected on an after-reverse-split basis for all periods presented.

183

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Stock Option Plan

The following tables summarize the activity that occurred in the years ended December 31.

	Number of Shares		
	2012	2011	2010
Options outstanding, beginning of year	111,273	126,935	9,646
Options granted	—	—	132,605
Options canceled, forfeited and expired	(17,645)	(15,662)	(15,316)
Options outstanding, end of year	93,628	111,273	126,935
Options exercisable, end of year	34,061	26,118	7,653

The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010, was zero. Additionally, there was no aggregate intrinsic value of options outstanding and exercised at December 31, 2012 and 2011.

	Weighted Average Exercise Price		
	2012	2011	2010
Options outstanding, beginning of year	$181.00	$171.10	$1,413.00
Options granted	—	—	80.00
Options canceled, forfeited and expired	386.45	100.70	164.30
Options outstanding, end of year	$143.41	$181.00	$171.10
Options exercisable, end of year	$173.32	$510.50	$1,591.50

The following information pertains to the stock options issued pursuant to the Prior Plans, but not exercised at December 31, 2012.

	Options Outstanding			Options Exercisable	
Range of Grant Price	Number of Options Outstanding at December 31, 2012	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2012	Weighted Average Exercise Price
$80.00	90,613	7.05	$80.00	31,046	$80.00
$1,227.00 - $2,471.50	3,015	0.91	$2,049.70	3,015	$2,049.27
	93,628			34,061	

At December 31, 2012, options available for future grants were 202,987.

Cash-settled Stock Appreciation Rights

The Company did not issue any cash-settled stock appreciation rights ("SAR") during the years ended December 31, 2012 and 2011.

The Company used the following weighted average assumptions in applying the Black-Scholes model to determine the fair value of the SAR outstanding at December 31, 2012: dividend yield of 0.0 percent; expected volatility of 34.9 percent to 85.2 percent; a risk-free rate of 0.2 percent to 0.3 percent; and an expected life of 0.2 to 2.1 years.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The following table presents the status and changes in cash-settled stock appreciation rights issued under the 2006 Plan.

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Stock Appreciation Rights Awarded			
Non-vested balance at December 31, 2010	2,038	$895.50	$0.20
Granted	—	—	—
Vested	(1,335)	1,005.70	0.20
Forfeited	(73)	686.00	0.30
Non-vested balance at December 31, 2011	630		
Granted	—	—	—
Vested	(630)	—	—
Forfeited	—	—	—
Non-vested balance at December 31, 2012	—		

The Company recognized income of $0, $8,000 and $35,000 with respect to SARs during the years ended December 31, 2012, 2011 and 2010, respectively.

Restricted Stock Units

The Company issues restricted stock units to officers, directors and key employees in connection with year-end compensation. Restricted stock generally will vest in 1/3 increments on each annual anniversary of the date of grant beginning with the first anniversary. At December 31, 2012, the maximum number of shares of Common Stock that may be issued under the 2006 Plan as the result of any grants is 1,159,562 shares. The Company incurred expenses of approximately $2.9 million, $2.2 million, and $1.7 million with respect to restricted stock units during 2012, 2011 and 2010, respectively. As of December 31, 2012, restricted stock units had a market value of $8.3 million.

	Shares	Weighted — Average Grant-Date Fair Value per Share
Restricted Stock		
Non-vested at December 31, 2010	193,943	$ 31.90
Granted	99,429	14.90
Vested	(27,439)	62.90
Canceled and forfeited	(38,485)	24.30
Non-vested at December 31, 2011	227,448	$ 22.00
Non-vested at December 31, 2011	227,448	$ 22.00
Granted	329,025	9.79
Vested	(109,588)	24.98
Canceled and forfeited	(21,674)	22.28
Non-vested at December 31, 2012	425,211	$ 12.70

Incentive Compensation Plans

The Incentive Compensation Plans ("Incentive Plans") are administered by the compensation committee of the Board of Directors. Each year the committee decides which employees of the Company will be eligible to participate in the plans and the size of the bonus pool. The Company incurred expenses of $31.1 million, $22.8 million and $8.6 million

for the years ended December 31, 2012, 2011 and 2010, respectively, for incentive plans.

185

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 25 — Employee Benefit Plans

The Company maintains a 401(k) plan for its employees. Under the plan, eligible employees may contribute up to 60 percent of their annual compensation, subject to a maximum amount proscribed by law. The maximum annual contribution was $17,000 for 2012, and $16,500 for 2011 and 2010. Participants who are age 50 or older at the end of the calendar year, were also able to make additional contributions of up to $5,500 for 2012, 2011 and 2010. On January 1, 2011, the Company established a non-discretionary matching contribution in an amount equal to 50 percent of deferral contribution subject to a maximum of 3 percent in eligible compensation deferred. The Company's contributions vest at a rate such that an employee is fully vested after five years of service. The Company's contributions to the plan for the years ended December 31, 2012, 2011, and 2010 were approximately $2.1 million, $1.2 million and none, respectively. The Company may also make discretionary contributions to the plan; however, none have been made.

Note 26 — Income Taxes

Federal

Components of the provision (benefit) for federal income taxes from operations consist of the following.

	For the Years Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Current provision (benefit)	$4,235	$1,056	$2,104
Deferred (benefit) provision	(19,880)	—	—
Total (benefit) provision	$(15,645)	$1,056	$2,104

The Company's effective tax rate differs from the statutory federal tax rate. The following is a summary of such differences.

	For the Years Ended December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Provision (benefit) at statutory federal income tax rate (35%)	$18,456	$(63,253)	$(130,448)
Increases (decreases) resulting from			
Valuation allowance	(19,224)	52,999	129,080
Residual tax effect associated with other comprehensive income	(19,880)	—	—
Warrant (income) expense	3,127	(2,411)	1,466
Non-deductible compensation	1,144	1,267	1,704
Litigation settlement	293	11,655	—
Other	439	799	302
Provision (benefit) at effective federal income tax rate	$(15,645)	$1,056	$2,104

Deferred income tax assets and liabilities at December 31, 2012 and 2011 reflect the effect of temporary differences between assets, liabilities and equity for financial reporting purposes and the bases of such assets, liabilities and equity as measured by tax laws, as well as tax loss and tax credit carry forwards. The Company sold the remaining non-agency CMOs and seasoned agency securities during the year ended December 31, 2012. As a result of the sale of these securities, the Company also recognized a tax benefit representing the recognition of the residual tax effect of $19.9 million associated with previously unrealized losses on these securities recorded in other comprehensive income (loss).

186

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Temporary differences and carry forwards that give rise to deferred tax assets and liabilities are comprised of the following.

	December 31,	
	2012	2011
	(Dollars in thousands)	
Deferred tax assets		
Tax loss carry forwards (expiration dates 2028 - 2031)	$249,419	$339,425
Allowance for loan and other losses	218,587	183,693
Legal accruals for pending and threatened litigation	80,039	280
Representation and warranty reserves	67,550	42,000
Non-accrual interest revenue	17,784	15,197
Alternative Minimum Tax credit carry forward (indefinite carry forward period)	10,880	5,738
Supplemental Employee Retirement Plan Accrual	4,268	3,059
Stock based compensation	2,865	2,012
Premises and equipment	2,519	5,319
Vacation Pay	1,965	2,311
REMIC	4,302	4,779
Other	3,786	1,526
Total (1)	663,964	605,339
Valuation allowance	(341,884)	(383,832)
Total (net)	322,080	221,507
Deferred tax liabilities		
Mortgage loan servicing rights	(235,435)	(163,589)
Loan securitizations	(47,541)	(45,691)
Mark-to-market adjustments	(29,439)	(630)
FHLB stock	(4,050)	(4,050)
Commercial lease financing	(3,105)	(1,364)
State and local taxes	(2,477)	(2,308)
Other	(33)	(3,875)
Total (1)	(322,080)	(221,507)
Net deferred tax asset	$—	$—

(1) December 31, 2011 amounts have been updated to reflect December 31, 2012 measurement thresholds.

The Company incurred federal net operating losses of $1.1 million, $532.0 million, and $243.7 million during the years 2011, 2010, and 2009, respectively. As of December 31, 2012, the company has a total net operating loss carry forward of $712.6 million. These carry forwards, if unused, expire in calendar years 2031, 2030, 2029, and 2028. Furthermore, on January 30, 2009, the Company incurred a change in control within the meaning of Section 382 of the Internal Revenue Code. As a result, federal tax law places an annual limitation on the use of the Company’s net operating loss carry forwards that existed at the time of the change in control. As a result, federal tax law places an annual limitation of approximately $17.4 million on the amount of the Company’s net operating loss carry forward that may be used. As of December 31, 2012, $175.6 million of the total net operating loss carry forwards of $712.6 million is subject to this limitation.

The Company has not provided deferred income taxes for the Bank’s pre-1988 tax bad debt reserve of approximately $4.0 million because it is not anticipated that this temporary difference will reverse in the foreseeable future. Such reserves would only be taken into taxable income if the Bank, or a successor institution, liquidates, redeems shares, pays dividends in excess of earnings and profits, or ceases to qualify as a bank for tax purposes.

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized in future periods, a deferred tax valuation allowance would be established. Consideration is given to all positive and negative evidence related to the realization of the deferred tax assets.

187

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

In evaluating this available evidence, management considers, among other things, historical financial performance, expectation of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectations of future performance.

In particular, additional scrutiny must be given to deferred tax assets of an entity that has incurred pre-tax losses during the three most recent years because it is significant negative evidence that is objective and verifiable and therefore difficult to overcome. The Company had pre-tax losses for 2011, 2010 and 2009, and the Company's management considered this factor in its analysis of deferred tax assets. As a result the Company recorded a $341.9 million valuation allowance against its net deferred tax assets.

At December 31, 2011, the Company had $73.9 million of net tax asset recorded as a component of "other assets". This was comprised primarily of a federal carryback claim for a net operating loss which incurred in 2007. Early in 2012, the Company received a refund in federal income taxes from the U.S. Treasury Department, which was previously included as a component of "other assets."

The Company's income tax returns are subject to review and examination by federal, state and local government authorities. On an ongoing basis, numerous federal, state and local examinations are in progress and cover multiple tax years. At December 31, 2012, the Internal Revenue Service had completed an examination of the Company through the taxable year ended December 31, 2008. The years open to examination by state and local government authorities vary by jurisdiction.

The following table provides a reconciliation of the total amounts of unrecognized tax benefits for the years ended December 31, 2012 and 2011.

	December 31,	
	2012	2011
	(Dollars in thousands)	
Balance at January 1,	$1,642	$1,550
Additions to tax positions recorded during prior years	93	92
Balance at December 31,	$1,735	$1,642

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense and/or franchise tax expense. For the years ended December 31, 2012, 2011 and 2010, the Company recognized interest expense of approximately $93,000, $92,000 and $100,000 respectively, and no penalty expense for the years ended December 31, 2012, 2011 and 2010. Approximately $1.7 million of the above tax positions are expected to reverse during the next 12 months, all of which relates to state tax controversies expected to be settled on resolution of a state tax audit.

State

The Company accrues and pays state taxes in numerous states in which it does business. State tax provisions (benefits) are included in the Consolidated Statements of Operations under non-interest expense-other taxes.

State tax (expense) benefits are as follows.

	For the Years Ended December 31,		
	2012	2011	2010

	(Dollars in thousands)		
State tax benefits	$(3,349)	$(7,818)	$(15,155)
Valuation allowance	4,161	6,487	13,561
Net (benefits) expense	$812	$(1,331)	$(1,594)

188

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

State deferred tax assets are as follows.

	December 31,	
	2012	2011
	(Dollars in thousands)	
Tax loss carry forwards (expiration dates through 2031)	$44,218	$46,620
Temporary differences, net	13,113	6,550
Total	57,331	53,170
Valuation allowance (1)	(57,331)	(53,170)
Net deferred state tax assets	$—	$—

(1) As discussed above in the Federal income tax portion of this footnote, the Company has recorded a valuation allowance against its state deferred tax assets.

Note 27 — Related Party Transactions

The Company has and expects to have in the future, transactions with certain of the Company's directors and principal officers. Such transactions are made in the ordinary course of business and included extensions of credit and professional services. With respect to the extensions of credit, all are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and do not, in management's opinion, involve more than normal risk of collectability or present other unfavorable features. At December 31, 2012, the balance of the loans attributable to directors and principal officers totaled approximately $483,800, with the unused lines of credit totaling approximately $27,900. At December 31, 2011, the balance of the loans attributable to directors and principal officers totaled $362,800, with the unused lines of credit totaling $17,300. As of both December 31, 2012 and 2011, no directors or executive officers were affiliated with any correspondents or brokers.

Note 28 — Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the U.S. bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's Consolidated Financial Statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

Quantitative measures that have been established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). The Bank's primary regulatory agency, the OCC, requires that the Bank maintain minimum ratios of tangible capital (as defined in the regulations) of 1.5 percent, Tier 1 capital to adjusted tangible assets and Tier 1 capital to risk-weighted assets of 4.0 percent, and total risk-based capital to risk-weighted assets of 8.0 percent. The Bank is also subject to prompt corrective action capital requirement regulations set forth by the FDIC. The FDIC requires the Bank to maintain minimum ratios of Tier 1 capital to adjusted tangible assets of 5.0 percent, Tier 1 capital to risk-weighted assets of 6.0 percent, and total risk-based capital to risk-weighted assets of 10.0 percent.

On October 23, 2012, the Bank entered into a Consent Order with the OCC. The Consent Order reflects matters identified by the OCC during supervisory examinations of the Bank conducted mainly in the fourth quarter of 2011 and the first quarter of 2012. Regulatory supervision of the Bank transitioned from the OTS to the OCC, which under

the Dodd-Frank Act became the Bank's primary regulator in July 2011. The Consent Order replaces a previous OTS enforcement action. See Note 2 of the Notes to the Consolidated Financial Statements, herein. The Company and the Bank believe they have taken numerous steps to comply with, and intend to comply in the future with, all of the requirements of the Consent Order, and do not believe that the Consent Order will preclude them from executing on their business plan, including achieving goals of additional full service bank branches and the origination of commercial loans to small businesses.

To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below, as of the date of filing of its quarterly report with the OCC. The Bank is considered “well capitalized” at both December 31, 2012 and 2011. There are no conditions or events since that notification that management believes have changed the Bank’s category.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

	Actual		For Capital Adequacy Purposes		Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2012						
Tangible capital (to tangible assets)	$1,295,841	9.26 %	N/A	N/A	N/A	N/A
Tier 1 capital (to adjusted tangible assets)	1,295,841	9.26 %	559,985	4.0 %	699,982	5.0 %
Tier 1 capital (to risk weighted assets)	1,295,841	15.90 %	325,956	4.0 %	488,926	6.0 %
Total capital (to risk weighted assets)	1,400,126	17.18 %	651,902	8.0 %	814,877	10.0 %
December 31, 2011						
Tangible capital (to tangible assets)	$1,215,220	8.95 %	N/A	N/A	N/A	N/A
Tier 1 capital (to adjusted tangible assets)	1,215,220	8.95 %	543,223	4.0 %	679,028	5.0 %
Tier 1 capital (to risk weighted assets)	1,215,220	15.37 %	316,203	4.0 %	474,304	6.0 %
Total capital (to risk weighted assets)	1,315,703	16.64 %	632,405	8.0 %	790,506	10.0 %

N/A - Not applicable.

Note 29 — Legal Proceedings, Contingencies and Commitments

Legal Proceedings

The Company and certain subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. Although there can be no assurance as to the ultimate outcome of these proceedings, the Company, together with its subsidiaries, believes it has meritorious defenses to the claims presently asserted against the Company, including the matters described below. With respect to such legal proceedings, the Company intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to the best interests of the Company and its shareholders.

On at least a quarterly basis, the Company assesses the liabilities and loss contingencies in connection with pending or threatened legal proceedings utilizing the latest information available. In accordance with ASC Topic 450 (formerly SFAS 5), the Company establishes accruals for legal claims and regulatory matters when the Company believes it is probable that a loss may be incurred and that the amount of such loss can be reasonably estimated. Once established, litigation accruals are adjusted from time to time, as appropriate, in light of additional information.

Resolution of legal claims are inherently dependent on the specific facts and circumstances of each specific case, and therefore the actual costs of resolving these claims may be substantially higher or lower than the amounts accrued. Based on current knowledge, and after consultation with legal counsel, management believes that current accruals are adequate and the amount of any incremental liability that may otherwise arise is not expected to have a material adverse effect on the Company's consolidated financial condition or results of operations. Certain legal claims considered by the Company in its analysis of the sufficiency of its related accruals include the following.

DOJ litigation settlement

On February 24, 2012, the Company announced that the Bank had entered into a DOJ Agreement relating to certain underwriting practices associated with loans insured by FHA. The Bank and the DOJ entered into the DOJ Agreement pursuant to which the Bank agreed to:

- comply with all applicable HUD and FHA rules related to the continued participation in the direct endorsement lender program;
- make an initial payment of $15.0 million within 30 business days of the effective date of the DOJ Agreement (which was paid on April 3, 2012);
- make the Additional Payments of approximately $118.0 million contingent only upon the occurrence of certain future events (as further described below); and
- complete a monitoring period by an independent third party chosen by the Bank and approved by HUD.

190

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Subject to the Bank's full compliance with the terms of the DOJ Agreement, the DOJ, HUD, and FHA, agreed to:

- immediately release the Bank and all of the current or former officers, directors, employees, affiliates and assigns from any civil or administrative claim it has or may have under various federal laws, the common law or equitable theories of fraud or mistake of fact in connection with the mortgage loans the Bank endorsed for FHA insurance during the period January 1, 2002 to the date of the DOJ Agreement (the "Covered Period");
- not refuse to pay any insurance claim or seek indemnification or other relief in connection with the mortgage loans the Bank endorsed for FHA insurance during the Covered Period but for which no claims have yet been paid on the basis of the conduct alleged in the complaint or referenced in the DOJ Agreement; and
- not seek indemnification or other relief in connection with the mortgage loans the Bank endorsed for FHA insurance during the Covered Period and for which HUD has paid insurance claims on the basis of the conduct alleged in the complaint or referenced in the DOJ Agreement.

As of December 31, 2012, the Bank has accrued $19.1 million, which represents the fair value of the Additional Payments. See Note 4 of the Notes to the Consolidated Financial Statements, herein, for further information on the fair value of the DOJ litigation settlement. Other than as set forth above, the DOJ Agreement does not have any effect on FHA insured loans in the portfolio, including loans classified as loans repurchased with government guarantees as discussed in Note 7 of the Notes to the Consolidated Financial Statements, herein. The Company believes that such loans retain FHA insurance, and the Bank continues to process such loans for insurance claims in the normal course and receive payments thereon from the FHA. Based on the experience subsequent to the Bank's agreement with the DOJ, the Company believes such claims are not subject to denial or dispute other than in the normal course of insurance claim processing.

Mortgage-Related Litigation, Regulatory and Other Matters

Regulatory Matters

From time to time, governmental agencies conduct investigations or examinations of various mortgage related practices of the Bank. Currently, ongoing investigations relate to whether the Bank violated laws or regulations relating to mortgage origination or servicing practices and to whether its practices with regard to servicing residential first mortgage loans are adequate. The Bank is cooperating with such agencies and providing information as requested. In addition, the Bank has routinely been named in civil actions throughout the country by borrowers and former borrowers relating to the origination, purchase, sale and servicing of mortgage loans.

Repurchase Demands and Indemnification Claims

In the normal course of its operations, the Bank receives repurchase and indemnification demands from counterparties involved with the purchase of residential first mortgages for alleged breaches of representations and warranties. The Bank establishes a representation and warranty reserve in connection with the estimated potential liability for such potential demands.

In 2009 and 2010, the Bank received repurchase demands from Assured, with respect to HELOCs that were sold by the Bank in connection with the HELOC securitizations. See Note 11 of the Notes to Consolidated Financial Statements, herein, for further information regarding the securitizations. Assured is the note insurer for each of the two HELOC securitizations completed by the Bank. In April 2011, Assured filed a lawsuit against the Bank in the U.S. District Court for the Southern District of New York, alleging a breach of various loan level representations and warranties and seeking relief for breach of contract, as well as full indemnification and reimbursement of amounts that it had paid under the respective insurance polices, plus interest and costs (the "Assured Litigation"). On March 1, 2012, the court dismissed Assured's claims for indemnification and reimbursement, but allowed the case to proceed on the breach of contract claims related to the Bank's repurchase obligations. The court issued a memorandum opinion, on September 25, 2012, supporting and explaining the court's March 1 decision. In the memorandum, the court stated

that the principal issue in the case is whether the Bank's breach of representations and warranties materially increased the risk of loss to Assured at the time of the securitization as compared to the risk of loss that Assured reasonably should have expected. The bench trial before Judge Rakoff began on October 10, 2012, and concluded with closing arguments on November 13, 2012. On February 5, 2013, Judge Rakoff issued a decision granting judgment in favor of Assured on its claims for breach of contract against the Bank in the amount of $89.2 million plus contractual interest and attorneys' fees and costs. The Bank intends to vigorously contest the judgment on appeal. In late February 2013, the parties briefed certain disputed issues, including the amount of attorneys' fees and expenses to award to Assured; the manner in which interest payable to Assured should be calculated; whether the Bank is liable for pending and future claims by Assured; and whether all or any portion of the reimbursements Assured receives prospectively from the securitization trusts should be provided to Flagstar. These issues have been fully briefed, and the court has scheduled oral argument on these issues for March 21, 2013. The Bank is vigorously contesting Assured's attempt to

191

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

obtain additional damages with respect to alleged future losses and believes such request is meritless. Consequently, the Bank believes that any recovery for future losses is not probable.

In May 2010, the Bank received repurchase demands from MBIA, with respect to non-agency securitization transaction involving closed-ended, fixed and adjustable second mortgage loans that were sold by the Bank in connection with its two non-agency second mortgage loan securitizations. See Note 11 of the Notes to Consolidated Financial Statements, herein, for further information regarding the securitizations. MBIA is the insurer for each of the two second mortgage loan securitizations completed by the Bank. On January 11, 2013, MBIA filed a complaint against the Bank in the U.S. District Court for the Southern District of New York, alleging a breach of various loan level representations and warranties and seeking relief for breach of contract, as well as full indemnification and reimbursement of amounts that it has paid and will pay under the respective insurance policies, plus interest and costs (the "MBIA Litigation"). In the MBIA Litigation, MBIA alleges damages to date of $165.0 million and unspecified future damages. The Bank is in the process of formulating its response to MBIA.

In May 2012, the Bank and Flagstar Reinsurance Company were named as defendants in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Pennsylvania, alleging a violation of Section 8 provisions of Real Estate Settlement Procedures Act ("RESPA"). Section 8 of RESPA generally prohibits anyone from accepting any fee or thing of value pursuant to any agreement or understanding that business related to a real estate settlement service involving a mortgage loan shall be referred to any person. Section 8 of RESPA also prohibits anyone from accepting any portion, split, or percentage of any charge made or received for the rendering of a real estate settlement service in connection with a mortgage loan other than for services actually performed. The lawsuit specifically alleges that the Bank and Flagstar Reinsurance Company violated Section 8 of RESPA through a captive reinsurance arrangement, involving allegedly illegal payments for the referral of private mortgage insurance business from private mortgage insurers to Flagstar Reinsurance Company, and Flagstar Reinsurance Company's purported receipt of an unlawful split of private mortgage insurance premiums. The case is in an early stage. The Bank intends to vigorously defend against the allegations.

Pending Settlement of 401(k) Litigation

In February 2010, the Company was named as a defendant in a putative class action filed in the U.S. District Court alleging that it violated its fiduciary duty pursuant to the Employee Retirement Income Security Act ("ERISA") to employees who participated in the Company's 401(k) plan ("Plan") by continuing to offer Company stock as an investment option after investment in the stock allegedly ceased to be prudent. On January 25, 2013, the Company agreed to settle the case for $3.0 million. The Company expects the settlement to be finalized by March 31, 2013.

Litigation Accruals and Other Possible Contingent Liabilities

When establishing an accrual for contingent liabilities, the Company determines a range of potential losses for each matter that is probable to result in a loss and where the amount of the loss can be reasonably estimated. The Company then records the amount it considers to be the best estimate within the range. As of December 31, 2012, the Company's total accrual for contingent liabilities was $247.8 million, which includes the accruals for the Assured Litigation, the MBIA Litigation and other pending cases. There may be further losses that could arise but the occurrence of which is not probable (but is reasonably possible) or the amount is not reasonably estimable, and therefore accruals for such amounts are not required to be accrued. The Company has determined based upon available information that there is no loss contingency that is reasonably possible (but not probable) to result in further losses and where the Company can reasonably estimate the amount of the possible loss or the range of possible loss. In the event of one or more unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, could result in a higher loss that, individually or in the aggregate, may be material to the Company's

results of operations, or cash flows, for any particular period.

Contingencies and Commitments

A summary of the contractual amount of significant commitments is as follows.

192

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

	December 31,	
	2012	2011
	(Dollars in thousands)	
Commitments to extend credit		
Mortgage loans (interest-rate lock commitments)	$5,150,000	$3,870,000
HELOC trust commitments	58,000	64,000
Standby and commercial letters of credit (1)	66,000	72,000

(1) As of December 31, 2012, $63.0 million of the commercial letters of credit are associated with the December sale of commercial loans under the CIT Agreement.

Commitments to extend credit are agreements to lend. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements. The commitments related to mortgage loans are disclosed in the above table. The Company has entered into a definitive agreement to sell a substantial portion of Northeast-based commercial letters of credit expected to be sold during the first quarter 2013.

The Company enters into forward contracts for the future delivery or purchase of agency and loan sale contracts. These contracts are considered to be derivative instruments under U.S. GAAP. Changes to the fair value of these forward loan sales as a result of changes in interest rates are recorded on the Consolidated Statements of Financial Condition as an other asset. Further discussion on derivative instruments is included in Note 16 of the Notes to the Consolidated Financial Statements, herein.

The Company has unfunded commitments under its contractual arrangement with the HELOC securitization trusts to fund future advances on the underlying HELOC. Further discussion of this issue is included in Note 11 of the Notes to the Consolidated Financial Statements, herein.

Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party.

The credit risk associated with loan commitments, standby and commercial letters of credit are essentially the same as that involved in extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management’s credit assessment of the customer. The guarantee liability for standby and commercial letters of credit was less than $0.1 million at December 31, 2012 and $8.2 million at December 31, 2011.

Note 30 — Segment Information

The Company’s operations are conducted through three operating segments: Community Banking, Mortgage Banking and Other. The operating segments have been identified based on the Company's organizational and management structure. Each business operates under the same banking charter, but is reported on a segmented basis for this report. Each of the operating segments is complementary to each other and because of the interrelationships of the segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Certain prior period amounts have been reclassified to conform with current year presentation.

In late 2012, the Company reorganized the way its operations are managed. The segments are based on an internally-aligned segment leadership structure, which is how the results are monitored and performance assessed. The

three operating segments are organized in a combination of the business model and the services provide a competitive advantage that supports revenue and earnings. The business model emphasizes the delivery of a complete set of mortgage and banking products and services, and is distinguished by local delivery, customer service and product pricing.

Revenues are comprised of net interest income (before the provision for loan losses) and non-interest income. Non-interest expenses are fully allocated to each operating segment. Allocation methodologies are subject to periodic adjustment as the internal management accounting system is revised and the business or product lines within the segments change. Also, because the development and application of these methodologies is a dynamic process, the financial results presented may be periodically revised.

193

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

The Community Banking segment originates loans and deposits to consumer, business and mortgage lending customers through its Branch Banking, Business and Commercial Banking, Government Banking, and Warehouse Lending groups. Products offered through these teams include checking accounts, savings accounts, money market accounts, certificates of deposit, consumer loans, commercial loans and warehouse lines of credit. Other financial services available to consumer and commercial customers include lines of credit, revolving credit, customized treasury management solutions, equipment leasing, inventory and accounts receivable lending and capital markets services such as interest rate risk protection products.

The Mortgage Banking segment originates, acquires, sells and services mortgage loans. The origination and acquisition of mortgage loans is the majority of the lending activity. Mortgage loans are originated through home lending centers, national call centers, the Internet, unaffiliated banks and mortgage brokerage companies, where the net interest income and the gains from sales associated with these loans are recognized in the Mortgage Banking segment. Also, the Mortgage Banking segment services mortgage loans for others and sells MSRs into the secondary market.

The Other segment includes the funding revenue associated with shareholders' equity, the impact of interest rate risk management, the impact of balance sheet funding activities, changes or credits of an unusual or infrequent nature that are not reflective of the normal operations of the operating segments and miscellaneous other expenses of a corporate nature. In addition, the Other segment includes revenue and expenses related to treasury and corporate assets, liabilities and equity not directly assigned or allocated to one of the two primary operating segments.

The following tables present financial information by operating segment for the periods indicated.

	For the Year Ended December 31, 2012			
	Community Banking	Mortgage Banking	Other	Total
Summary of Operations	(Dollars in thousands)			
Net interest income (loss)	$153,197	$195,312	$(51,278)	$297,231
Net gain on loan sales	723	990,175	—	990,898
Representation and warranty reserve - change in estimate	—	(256,289)	—	(256,289)
Other non-interest income	42,857	225,835	17,941	286,633
Total net interest income (loss) and non-interest income	196,777	1,155,033	(33,337)	1,318,473
Provision for loan losses	(40,008)	(236,039)	—	(276,047)
Asset resolution	(6,955)	(84,363)	(31)	(91,349)
Other non-interest expense	(197,147)	(651,004)	(50,195)	(898,346)
Total non-interest expense	(204,102)	(735,367)	(50,226)	(989,695)
Income (loss) before federal income taxes	(47,333)	183,627	(83,563)	52,731
Benefit for federal income taxes	—	—	15,645	15,645
Net income (loss)	$(47,333)	$183,627	$(67,918)	$68,376
Average balances				
Loans held-for-sale	$2,535	$3,076,155	$—	$3,078,690
Loans held-for-investment	2,951,143	3,560,560	8,357	6,520,060
Total assets	3,076,297	9,616,825	2,033,648	14,726,770
Interest-bearing deposits	6,606,247	—	233,083	6,839,330

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

	For the Year Ended December 31, 2011			
	Community Banking	Mortgage Banking	Other	Total
Summary of Operations	(Dollars in thousands)			
Net interest income (loss)	$125,368	$125,821	$(5,816)	$245,373
Net gain on loan sales	521	300,268	—	300,789
Representation and warranty reserve - change in estimate	—	(150,055)	—	(150,055)
Other non-interest income	42,080	186,708	5,994	234,782
Total net interest income (loss) and non-interest income	167,969	462,742	178	630,889
Provision for loan losses	(62,321)	(114,610)	—	(176,931)
Asset resolution	(14,229)	(113,857)	(227)	(128,313)
Other non-interest expense	(192,288)	(265,610)	(48,469)	(506,367)
Total non-interest expense	(206,517)	(379,467)	(48,696)	(634,680)
Income (loss) before federal income taxes	(100,869)	(31,335)	(48,518)	(180,722)
Provision for federal income taxes	—	—	(1,056)	(1,056)
Net income (loss)	$(100,869)	$(31,335)	$(49,574)	$(181,778)
Average balances				
Loans held-for-sale	$—	$1,928,339	$—	$1,928,339
Loans held-for-investment	2,031,748	4,158,032	13,913	6,203,693
Total assets	2,194,841	8,953,593	2,200,160	13,348,594
Interest-bearing deposits	6,109,708	—	551,696	6,661,404

	For the Year Ended December 31, 2010			
	Community Banking	Mortgage Banking	Other	Total
Summary of Operations	(Dollars in thousands)			
Net interest income (loss)	$120,348	$94,150	$(3,835)	$210,663
Net gain on loan sales	546	296,419	—	296,965
Representation and warranty reserve - change in estimate	—	(61,523)	—	(61,523)
Other non-interest income	42,613	164,603	11,022	218,238
Total net interest income (loss) and non-interest income	163,507	493,649	7,187	664,343
Provision for loan losses	(95,808)	(330,545)	—	(426,353)
Asset resolution	(47,564)	(113,755)	(7)	(161,326)
Other non-interest expense	(156,221)	(228,604)	(64,548)	(449,373)
Total non-interest expense	(203,785)	(342,359)	(64,555)	(610,699)
Income (loss) before federal income taxes	(136,086)	(179,255)	(57,368)	(372,709)
Provision for federal income taxes	—	—	(2,104)	(2,104)
Net income (loss)	$(136,086)	$(179,255)	$(59,472)	$(374,813)
Average balances				
Loans held-for-sale	$—	$1,945,913	$—	$1,945,913
Loans held-for-investment	2,188,639	5,053,894	—	7,242,533
Total assets	2,263,763	10,214,598	1,551,811	14,030,172
Interest-bearing deposits	5,842,816	—	1,404,311	7,247,127

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 31 — Holding Company Only Financial Statements

The following are unconsolidated financial statements for the Company. These condensed financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

Flagstar Bancorp, Inc.
Condensed Unconsolidated Statements of Financial Condition
(Dollars in thousands)

	December 31,	
	2012	2011
Assets		
Cash and cash equivalents	$56,552	$65,087
Investment in subsidiaries (1)	1,374,201	1,267,504
Other assets	5,005	2,416
Total assets	$1,435,758	$1,335,007
Liabilities and Stockholders' Equity		
Liabilities		
Long term debt	$247,435	$247,435
Total interest paying liabilities	247,435	247,435
Other liabilities	28,961	7,856
Total liabilities	276,396	255,291
Stockholders' Equity		
Preferred Stock	260,390	254,732
Common stock	559	556
Additional paid in capital	1,476,569	1,471,463
Accumulated other comprehensive loss	(1,658)	(7,819)
Accumulated deficit	(576,498)	(639,216)
Total stockholders' equity	1,159,362	1,079,716
Total liabilities and stockholders' equity	$1,435,758	$1,335,007

(1) Includes unconsolidated trusts.

196

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Flagstar Bancorp, Inc.
Condensed Unconsolidated Statements of Operations
(Dollars in thousands)

	For the Years Ended December 31,		
	2012	2011	2010
Income			
Dividends from subsidiaries	$—	$—	$—
Interest	482	247	266
Total	482	247	266
Expenses			
Interest	6,894	6,446	8,883
General and administrative	20,619	4,097	10,982
Total	27,513	10,543	19,865
Income (loss) earnings before undistributed loss of subsidiaries	(27,031)	(10,296)	(19,599)
Equity in undistributed income (loss) of subsidiaries	95,390	(171,482)	(355,215)
Income (loss) before federal income taxes	68,359	(181,778)	(374,814)
Benefit for federal income taxes	17	—	—
Net income (loss)	68,376	(181,778)	(374,814)
Preferred stock dividends/accretion	(5,658)	(17,165)	(18,748)
Net income (loss) applicable to common stock	62,718	(198,943)	(393,562)
Other comprehensive income (loss) (1)	74,537	(173,432)	(342,715)
Comprehensive income	$137,255	$(372,375)	$(736,277)

(1) See Consolidated Statements of Comprehensive Income for other comprehensive income (loss) detail.

197

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Flagstar Bancorp, Inc.
Condensed Unconsolidated Statements of Cash Flows
(Dollars in thousands)

	For the Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$68,376	$(181,778)	$(374,814)
Adjustments to reconcile net loss to net cash provided by operating activities			
Equity in (income) losses of subsidiaries	(95,390)	171,482	355,215
Stock-based compensation	5,109	5,113	6,374
Change in other assets	(2,590)	(2,344)	(20)
Provision for deferred tax benefit	2,567	18	(8,532)
Change in other liabilities	18,538	(4,512)	5,867
Net cash used in operating activities	(3,390)	(12,021)	(15,910)
Investing Activities			
Net change in investment in subsidiaries	(5,145)	(73,113)	(809,958)
Net cash used in investment activities	(5,145)	(73,113)	(809,958)
Financing Activities			
Issuance of common stock	—	—	687,643
Proceeds from exercise of stock options and grants issued	—	—	(12)
Issuance of preferred stock	—	—	274,984
Dividends paid on preferred stock	—	(11,628)	(13,334)
Net cash provided financing activities	—	(11,628)	949,281
Net (decrease) increase in cash and cash equivalents	(8,535)	(96,762)	123,413
Cash and cash equivalents, beginning of year	65,087	161,849	38,436
Cash and cash equivalents, end of year	$56,552	$65,087	$161,849

198

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

Note 32 — Quarterly Financial Data (Unaudited)

The following table represents summarized data for each of the quarters in 2012, 2011, and 2010 certain per share results have been adjusted to conform to the current presentation.

	2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share data)			
Interest income	$122,891	$122,923	$119,742	$115,415
Interest expense	48,158	47,445	46,663	41,474
Net interest income	74,733	75,478	73,079	73,941
Provision for loan losses	114,673	58,428	52,595	50,351
Net interest (expense) income after provision for loan losses	(39,940)	17,050	20,484	23,590
Loan administration income	38,885	25,012	11,099	25,010
Net gain on loan sales	204,853	212,666	334,427	238,953
Net loss on MSR sales	(2,317)	(983)	(1,332)	(7,687)
Representation and warranty reserve - change in estimate	(60,538)	(46,028)	(124,492)	(25,231)
Other non-interest income	40,494	49,667	54,035	54,750
Non-interest expense	(188,746)	(169,497)	(233,491)	(397,962)
(Loss) income before federal income tax provision	(7,309)	87,887	60,730	(88,577)
Provision (benefit) for federal income taxes	—	500	(20,380)	4,235
Net (loss) income	(7,309)	87,387	81,110	(92,812)
Preferred stock dividends/accretion	(1,407)	(1,417)	(1,417)	(1,417)
Net (loss) income applicable to common stock	$(8,716)	$85,970	$79,693	$(94,229)
Basic (loss) income per share (1)	$(0.22)	$1.48	$1.37	$(1.75)
Diluted (loss) income per share (1)	$(0.22)	$1.47	$1.36	$(1.75)

	2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share data)			
Interest income	$111,180	$108,061	$120,025	$126,145
Interest expense	58,607	56,737	54,411	50,282
Net interest income	52,573	51,324	65,614	75,863
Provision for loan losses	28,309	48,384	36,690	63,548
Net interest income after provision for loan losses	24,264	2,940	28,924	12,315
Loan administration income (loss)	39,336	30,450	(3,478)	28,295
Net gain on loan sales	50,184	39,827	103,858	106,919
Net loss on MSR sales	(112)	(2,381)	(2,587)	(2,823)
Representation and warranty reserve - change in estimate	(20,427)	(21,364)	(38,985)	(69,279)
Other non-interest income	27,285	11,546	53,743	55,509
Non-interest expense	(147,230)	(130,922)	(150,691)	(205,837)
Loss before federal income tax provision	(26,700)	(69,904)	(9,216)	(74,901)
Provision for federal income taxes	264	264	264	264
Net loss	(26,964)	(70,168)	(9,480)	(75,165)
Preferred stock dividends/accretion	(4,710)	(4,720)	(4,719)	(3,016)
Net loss available to common stockholders	$(31,674)	$(74,888)	$(14,199)	$(78,181)

Basic loss per share (1)	$(0.57)	$(1.35)	$(0.26)	$(1.41)
Diluted loss per share (1)	$(0.57)	$(1.35)	$(0.26)	$(1.41)

199

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements - continued

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share data)			
Interest income	$132,293	$137,170	$133,307	$130,012
Interest expense	88,523	87,617	82,103	63,876
Net interest income	43,770	49,553	51,204	66,136
Provision for loan losses	63,560	86,019	51,399	225,376
Net interest expense after provision for loan losses	(19,790)	(36,466)	(195)	(159,240)
Loan administration income (loss)	26,150	(54,665)	12,924	28,270
Net gain on loan sales	52,566	64,257	103,211	76,931
Net loss on MSR sales	(2,213)	(1,266)	(1,195)	(2,303)
Representation and warranty reserve - change in estimate	(26,827)	(11,389)	(12,958)	(10,349)
Other non-interest income	22,322	103,394	42,906	43,915
Non-interest expense	(129,428)	(156,181)	(162,589)	(162,501)
Loss before federal income tax provision	(77,220)	(92,316)	(17,896)	(185,277)
Provision for federal income taxes	—	—	—	2,104
Net loss	(77,220)	(92,316)	(17,896)	(187,381)
Preferred stock dividends/accretion	(4,680)	(4,690)	(4,690)	(4,689)
Net loss available to common stockholders	$(81,900)	$(97,006)	$(22,586)	$(192,070)
Basic loss per share (1)	$(10.54)	$(6.33)	$(1.47)	$(7.39)
Diluted loss per share (1)	$(10.54)	$(6.33)	$(1.47)	$(7.39)

(1) Restated for a one-for-ten reverse stock split announced September 27, 2012 and began trading on October 11, 2012.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as amended (the Exchange Act), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (b) accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving the desired control objectives, and that our management's duties require it to make its best judgment regarding the design of our disclosure controls and procedures.

As of December 31, 2012, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control Over Financial Reporting

Our management, under the supervision of the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Internal control over financial reporting includes policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with existing policies or procedures may deteriorate.

With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012, based on the

framework and criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, as of December 31, 2012 and based on the specific criteria, we assert that we have maintained effective internal control over financial reporting, involving the preparation and reporting of our Consolidated Financial Statements presented in uniformity with U.S. GAAP.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012, has been audited by Baker Tilly Virchow Krause, LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

201

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Effective as of March 4, 2013, the Bank and Steven J. Issa, an Executive Vice President, who most recently served as Managing Director, Commercial Banking, entered into a retention agreement (the “Issa Retention Agreement”). The Issa Retention Agreement provides financial incentives for Mr. Issa to remain employed by the Bank through April 2013 and to assist the Bank by supervising the process of obtaining the consents required by, and facilitating the transfer of loans and leases under, the Transaction Purchase and Sale Agreement, dated as of December 31, 2012, between the Bank and CIT Finance LLC, and the Asset and Portfolio Purchase and Sale Agreement, dated February 5, 2013, between the Bank and Customers Bank.
The Issa Retention Agreement provides that Mr. Issa's 2013 annualized cash compensation will be $1,000,000 and his 2013 annualized share salary will be $600,000, in each case adjusted retroactive to January 2013 and paid through the end of his employment by the Bank. (The Bank currently expects that Mr. Issa will not be employed by the Bank beyond April 2013.) In addition, subject to the terms and conditions of the Issa Retention Agreement, Mr. Issa will receive a retention payment of $160,000 on March 29, 2013 (with respect to March 2013), and a retention payment of $250,000 on April 25, 2013 (with respect to April 2013), if in each case Mr. Issa has remained actively employed by the Bank through the date of that payment and in the discretion of the Bank's Chief Executive Officer, Mr. Issa has used his reasonable best efforts to provide in all material respects the transitional support outlined in the Issa Retention Agreement. The payments under the Issa Retention Agreement are subject to compliance with applicable legal requirements, including the regulations promulgated under the Emergency Economic Stabilization Act of 2008, as amended, which we sometimes refer to as the TARP Rules. The Bank expects that Mr. Issa's total 2013 compensation under the Issa Retention Agreement will be approximately $900,000, if Mr. Issa remains employed by the Bank through April 25, 2013, and excluding any adjustment that may be required by the TARP Rules.
As permitted by applicable rules, we are providing this disclosure in this Annual Report on Form 10-K in lieu of providing disclosure pursuant to Item 5.02 of Form 8-K.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

Except as set forth below, the information required by this Item 10 is hereby incorporated by reference to the Proxy Statement for our 2013 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed pursuant to Regulation 14A within 120 days after the end of our 2012 fiscal year.

We have adopted a Code of Business Conduct and Ethics that applies to our employees, officers and directors, including the principal executive officer, principal financial officer, and principal accounting officer. Our Code of Business Conduct and Ethics can be found on our website, which is located at www.flagstar.com, or is available upon written request of stockholders to Flagstar Bancorp, Inc., Attn: Paul Borja, CFO, 5151 Corporate Drive, Troy, MI 48098. We intend to make all required disclosures concerning any amendments to, or waivers from, our Code of Business Conduct and Ethics on our website.

We have also adopted Corporate Governance Guidelines and charters for the Audit Committee, Compensation Committee, and Nominating Corporate Governance Committee and copies are available at www.flagstar.com or upon written request for stockholders to Flagstar Bancorp, Inc., Attn: Paul Borja, CFO, 5151 Corporate Drive, Troy, MI 48098.

None of the information currently posted, or posted in the future, on our website is incorporated by reference into this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is hereby incorporated by reference to the Proxy Statement. Reference is also made to the information appearing in "Market for the Registrant's Common Equity and Related Stockholder Matters – Equity Compensation Plan Information" under Item 5 of this Form 10-K, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is hereby incorporated by reference to our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference to our Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) — Financial Statements and Schedules

The information required by these sections of Item 15 are set forth in the Index to Consolidated Financial Statements under Item 8 of this annual report on Form 10-K.

(3) — Exhibits

The following documents are filed as a part of, or incorporated by reference into, this report:

Exhibit No.	Description
2.1*	Purchase and Assumption Agreement, dated as of July 26, 2011, by and among Flagstar Bank, FSB, the Company and PNC Bank, National Association (previously filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-K, dated November 9, 2011, and incorporated herein by reference).
2.2*	Purchase and Assumption Agreement, dated as of August 15, 2011, by and among Flagstar Bank, FSB, the Company and First Financial Bank, N.A. (previously filed as Exhibit 2.2 to the Company's Quarterly Report on Form 10-K, dated November 9, 2011, and incorporated herein by reference).
3.1*	Amended and Restated Articles of Incorporation of Flagstar Bancorp, Inc. (previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, dated October 30, 2012, and incorporated herein by reference).
3.2*	Certificate of Designation of Mandatory Convertible Non-Cumulative Perpetual Preferred Stock, Series A of the Company (previously filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K, dated as of May 20, 2008, and incorporated herein by reference).
3.3*	Certificate of Designation of Convertible Participating Voting Preferred Stock, Series B of the Company (previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
3.4*	Certificate of Designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series C of the Company (previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
3.5*	Certificate of Designations for the Mandatorily Convertible Non-Cumulative Perpetual Preferred Stock, Series D (incorporated by reference to Exhibit 3.5 to the Company’s Form 8-A, filed with the Commission on October 28, 2010).
3.6*	Sixth Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 to the Company’s Current Report on Form 8-K, dated February 2, 2009, and incorporated herein by reference).
10.1*+	Employment Agreement, dated as of February 28, 2007, between the Company, Flagstar Bank, FSB, and Paul D. Borja as amended effective December 31, 2008 (previously filed as Exhibit 10.3 to the Company’s Annual Report on Form 10-K, dated as of March 13, 2009, and incorporated herein by reference).
10.2*+	Flagstar Bancorp, Inc. 1997 Employees and Directors Stock Option Plan as amended (previously filed as Exhibit 4.1 to the Company’s Form S-8 Registration Statement (No. 333-125513), dated June 3, 2005, and incorporated herein by reference).
10.3*+	

	Flagstar Bank 401(k) Plan (previously filed as Exhibit 4.1 to the Company’s Form S-8 Registration Statement (No. 333-77501), dated April 30, 1999, and incorporated herein by reference).
10.4*+	Flagstar Bancorp, Inc. 2000 Stock Incentive Plan as amended (previously filed as Exhibit 4.1 to the Company’s Form S-8 Registration Statement (No. 333-125512), dated June 3, 2005, and incorporated herein by reference).
10.5*+	Flagstar Bancorp, Inc. Incentive Compensation Plan (previously filed as Exhibit 10.4 to the Company’s Form S-1 Registration Statement (No. 333-21621), dated April 17, 1997, and incorporated herein by reference).
10.6*+	Flagstar Bancorp, Inc. 2006 Equity Incentive Plan (previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8 K, dated May 18, 2011, and incorporated herein by reference).

204

Exhibit No.	Description
10.7*	Form of Purchase Agreement, dated as of May 16, 2008, between the Company and the purchasers named therein (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of May 16, 2008, and incorporated herein by reference).
10.8*	Form of First Amendment to Purchase Agreement, dated as of December 16, 2008, between the Company and the purchasers named therein (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of December 17, 2008, and incorporated herein by reference).
10.9*	Form of Warrant (previously filed as Exhibit 99.1 to the Company's Current Report on Form 8-K, dated as of December 17, 2008, and incorporated herein by reference).
10.10*	Investment Agreement, dated as of December 17, 2008, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of December 19, 2008, and incorporated herein by reference).
10.11*	Form of Registration Rights Agreement, dated as of January 30, 2009, between the Company and certain management investors (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.12*	Closing Agreement, dated as of January 30, 2009, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.13*	Letter Agreement, including the Securities Purchase Agreement—Standard Terms incorporated therein, dated as of January 30, 2009, between the Company and the United States Department of the Treasury (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.14*	Warrant to purchase up to 64,513,790 shares of the Company's common stock (previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.15*+	Form of Waiver, executed on January 30, 2009, by each of Thomas J. Hammond, Mark T. Hammond, Paul D. Borja, Kirstin A. Hammond, Robert O. Rondeau, and Matthew I. Roslin (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.16*+	Form of Agreement Relating to Flagstar Bancorp, Inc.'s Participation in the Department of the Treasury's Capital Purchase Program, executed on January 30, 2009 by Thomas J. Hammond, Mark T. Hammond, Paul D. Borja, Kirstin A. Hammond, Robert O. Rondeau, and Matthew I. Roslin (previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.17*	Purchase Agreement, dated as of February 17, 2009, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of February 19, 2009, and incorporated herein by reference).
10.18*	Second Purchase Agreement, dated as of February 27, 2009, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of February 27, 2009, and incorporated herein by reference).
10.19*	Capital Securities Purchase Agreement, dated as of June 30, 2009, by and between the Company, Flagstar Statutory Trust XI, a Delaware statutory trust and MP Thrift

	Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of July 1, 2009, and incorporated herein by reference).
10.20*+	Employment Agreement, effective as of September 29, 2009, by and between the Company and Joseph P. Campanelli (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 2, 2009, and incorporated herein by reference).
10.21*+	Stock Award Agreement, dated October 20, 2009, by and between the Company and Joseph P. Campanelli (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 23, 2009, and incorporated herein by reference).
10.22*+	Employment Agreement, dated October 23, 2009, by and between the Company and Salvatore A. Rinaldi (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 28, 2009, and incorporated herein by reference).

Exhibit No.	Description
10.23*+	Form of Stock Award Agreement to be entered into by certain executive officers of the Company (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 28, 2009, and incorporated herein by reference).
10.24*+	Employment Agreement, entered into December 4, 2009, by and between the Company and Matthew A. Kerin (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of December 8, 2009, and incorporated herein by reference).
10.25*	Supervisory Agreement, dated as of January 27, 2010, by and between the Company and the OCC (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of January 28, 2010, and incorporated herein by reference).
10.26*	Stipulation and Order of Settlement and Dismissal, dated February 24, 2012, by and among the Company, the Bank and the United States of America (previously filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K, dated as of March 20, 2012, and incorporated herein by reference).
10.27*+	Letter Agreement, dated January 24, 2012, by and between the Company and Joseph P. Campanelli (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of January 26, 2012, and incorporated herein by reference).
10.28*+	Election Form, dated January 24, 2012, executed by Joseph P. Campanelli and accepted by Flagstar Bancorp, Inc. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of January 26, 2012, and incorporated herein by reference).
10.29*+	Offer Letter, dated February 7, 2011, executed by Joseph P. Campanelli and accepted by Steven P. Issa (previously filed as Exhibit 10.32 to the Company's Quarterly Report on Form10-Q, dated as of May 10, 2012, and incorporated herein by reference).
10.30*+	Form of TARP Restricted Stock Award Agreement to be entered into by and between the Company and certain executive officers of the Company (previously filed as Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q, dated as of May 10, 2012, and incorporated herein by reference).
10.31*+	Employment Agreement, dated as of October 1, 2012, by and between Flagstar Bancorp, Inc. and Michael J. Tierney (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 3, 2012, and incorporated herein by reference).
10.32 *	Stipulation to the Issuance of a Consent Order, effective as of October 23, 2012, by and between the Office of the Comptroller of the Currency and Flagstar Bank, FSB (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 24, 2012, and incorporated herein by reference).
10.33 *	Consent Order, dated October 23, 2012, by and between Flagstar Bank, FSB and the Office of the Comptroller of the Currency (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of October 24, 2012, and incorporated herein by reference).
10.34	Transaction Purchase and Sale Agreement, effective as of December 31, 2012, by and between Flagstar Bank, FSB and CIT Bank.
10.35 +	Consulting Agreement, dated as of December 21, 2012, by and between Flagstar Bancorp, Inc. and John Lewis.
10.36 +	Separation and Release Agreement, dated November 1, 2012, by and between the Company and Joseph P. Campanelli.
10.37 +	Consulting Agreement, dated November 1, 2012, by and between the Company and Joseph P. Campanelli.
11	Statement regarding computation of per share earnings incorporated by reference to Note 23 of the Notes to the Consolidated Financial Statements, in Item 8. Financial

	Statements and Supplementary Data, herein.
12	Statement of Computation of Ratios of Earnings to Fixed Charges and Preferred Dividends.
14*	Flagstar Bancorp, Inc. Code of Business Conduct and Ethics (previously filed as Exhibit 14 to the Company's Annual Report on Form 10-K, dated March 16, 2006, and incorporated herein by reference)

206

Exhibit No.	Description
18*	Letter re Change in Accounting Principles (previously filed as Exhibit 18 to the Company’s Current Report on Form 8-K, dated as of May 18, 2011, and incorporated herein by reference).
21	List of Subsidiaries of the Company.
23	Consent of Baker Tilly Virchow Krause, LLP
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer
99.1	Certification of Principal Executive Officer of the Company (Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as amended).
99.2	Certification of Principal Financial Officer of the Company (Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as amended).
101 **	Financial statements from Annual Report on Form 10-K of the Company for the year ended December 31, 2012, formatted in XBRL: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

* Incorporated herein by reference

\+ Constitutes a management contract or compensation plan or arrangement

** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Flagstar Bancorp, Inc. will furnish to any stockholder a copy of any of the exhibits listed above upon written request and upon payment of a specified reasonable fee, which fee shall be equal to the Company’s reasonable expenses in furnishing the exhibit to the stockholder. Requests for exhibits and information regarding the applicable fee should be directed to “Paul Borja, CFO” at the address of the principal executive offices set forth on the cover of this Annual Report on Form 10-K.

(b) — Exhibits. See Item 15(a)(3) above.

(c) — Financial Statement Schedules. See Item 15(a)(2) above.

[Remainder of page intentionally left blank.]

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 5, 2013.

FLAGSTAR BANCORP, INC.

By: /s/ Michael J. Tierney
Michael J. Tierney
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 5, 2013.

	SIGNATURE	TITLE
By:	/S/ MICHAEL J. TIERNEY Michael J. Tierney	President and Chief Executive Officer (Principal Executive Officer)
By:	/S/ PAUL D. BORJA Paul D. Borja	Executive Vice-President and Chief Financial Officer (Principal Financial and Accounting Officer)
By:	/S/ JOHN D. LEWIS John D. Lewis	Chairman
By:	/S/ DAVID J. MATLIN David J. Matlin	Director
By:	/S/ PETER SCHOELS Peter Schoels	Director
By:	/S/ GREGORY ENG Gregory Eng	Director
By:	/S/ MICHAEL J. SHONKA Michael J. Shonka	Director
By:	/S/ DAVID L. TREADWELL David L. Treadwell	Director
By:	/S/ WALTER N. CARTER Walter N. Carter	Director
By:	/S/ JAY J. HANSEN Jay J. Hansen	Director
By:	/S/ JAMES A. OVENDEN James A. Ovenden	Director

EXHIBIT INDEX

Exhibit No.	Description
2.1*	Purchase and Assumption Agreement, dated as of July 26, 2011, by and among Flagstar Bank, FSB, the Company and PNC Bank, National Association (previously filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-K, dated November 9, 2011, and incorporated herein by reference).
2.2*	Purchase and Assumption Agreement, dated as of August 15, 2011, by and among Flagstar Bank, FSB, the Company and First Financial Bank, N.A. (previously filed as Exhibit 2.2 to the Company's Quarterly Report on Form 10-K, dated November 9, 2011, and incorporated herein by reference).
3.1*	Amended and Restated Articles of Incorporation of the Flagstar Bancorp, Inc. (previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, dated October 30, 2012, and incorporated herein by reference).
3.2*	Certificate of Designation of Mandatory Convertible Non-Cumulative Perpetual Preferred Stock, Series A of the Company (previously filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K, dated as of May 20, 2008, and incorporated herein by reference).
3.3*	Certificate of Designation of Convertible Participating Voting Preferred Stock, Series B of the Company (previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
3.4*	Certificate of Designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series C of the Company (previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
3.5*	Certificate of Designations for the Mandatorily Convertible Non-Cumulative Perpetual Preferred Stock, Series D (incorporated by reference to Exhibit 3.5 to the Company’s Form 8-A, filed with the Commission on October 28, 2010).
3.6*	Sixth Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 to the Company’s Current Report on Form 8-K, dated February 2, 2009, and incorporated herein by reference).
10.1*+	Employment Agreement, dated as of February 28, 2007, between the Company, Flagstar Bank, FSB, and Paul D. Borja as amended effective December 31, 2008 (previously filed as Exhibit 10.3 to the Company’s Annual Report on Form 10-K, dated as of March 13, 2009, and incorporated herein by reference).
10.2*+	Flagstar Bancorp, Inc. 1997 Employees and Directors Stock Option Plan as amended (previously filed as Exhibit 4.1 to the Company’s Form S-8 Registration Statement (No. 333-125513), dated June 3, 2005, and incorporated herein by reference).
10.3*+	Flagstar Bank 401(k) Plan (previously filed as Exhibit 4.1 to the Company’s Form S-8 Registration Statement (No. 333-77501), dated April 30, 1999, and incorporated herein by reference).
10.4*+	Flagstar Bancorp, Inc. 2000 Stock Incentive Plan as amended (previously filed as Exhibit 4.1 to the Company’s Form S-8 Registration Statement (No. 333-125512), dated June 3, 2005, and incorporated herein by reference).
10.5*+	Flagstar Bancorp, Inc. Incentive Compensation Plan (previously filed as Exhibit 10.4 to the Company’s Form S-1 Registration Statement (No. 333-21621), dated April 17, 1997, and incorporated herein by reference).
10.6*+	Flagstar Bancorp, Inc. 2006 Equity Incentive Plan (previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8 K, dated May 18, 2011, and incorporated herein by reference).
10.7*	

	Form of Purchase Agreement, dated as of May 16, 2008, between the Company and the purchasers named therein (previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K, dated as of May 16, 2008, and incorporated herein by reference).
10.8*	Form of First Amendment to Purchase Agreement, dated as of December 16, 2008, between the Company and the purchasers named therein (previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K, dated as of December 17, 2008, and incorporated herein by reference).
10.9*	Form of Warrant (previously filed as Exhibit 99.1 to the Company’s Current Report on Form 8-K, dated as of December 17, 2008, and incorporated herein by reference).

209

Exhibit No.	Description
10.10*	Investment Agreement, dated as of December 17, 2008, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of December 19, 2008, and incorporated herein by reference).
10.11*	Form of Registration Rights Agreement, dated as of January 30, 2009, between the Company and certain management investors (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.12*	Closing Agreement, dated as of January 30, 2009, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.13*	Letter Agreement, including the Securities Purchase Agreement—Standard Terms incorporated therein, dated as of January 30, 2009, between the Company and the United States Department of the Treasury (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.14*	Warrant to purchase up to 64,513,790 shares of the Company's common stock (previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.15*+	Form of Waiver, executed on January 30, 2009, by each of Thomas J. Hammond, Mark T. Hammond, Paul D. Borja, Kirstin A. Hammond, Robert O. Rondeau, and Matthew I. Roslin (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.16*+	Form of Agreement Relating to Flagstar Bancorp, Inc.'s Participation in the Department of the Treasury's Capital Purchase Program, executed on January 30, 2009 by Thomas J. Hammond, Mark T. Hammond, Paul D. Borja, Kirstin A. Hammond, Robert O. Rondeau, and Matthew I. Roslin (previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, dated as of February 2, 2009, and incorporated herein by reference).
10.17*	Purchase Agreement, dated as of February 17, 2009, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of February 19, 2009, and incorporated herein by reference).
10.18*	Second Purchase Agreement, dated as of February 27, 2009, between the Company and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of February 27, 2009, and incorporated herein by reference).
10.19*	Capital Securities Purchase Agreement, dated as of June 30, 2009, by and between the Company, Flagstar Statutory Trust XI, a Delaware statutory trust and MP Thrift Investments L.P. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of July 1, 2009, and incorporated herein by reference).
10.20*+	Employment Agreement, effective as of September 29, 2009, by and between the Company and Joseph P. Campanelli (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 2, 2009, and incorporated herein by reference).
10.21*+	Stock Award Agreement, dated October 20, 2009, by and between the Company and Joseph P. Campanelli (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 23, 2009, and incorporated herein by reference).

10.22*+	Employment Agreement, dated October 23, 2009, by and between the Company and Salvatore A. Rinaldi (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 28, 2009, and incorporated herein by reference).
10.23*+	Form of Stock Award Agreement to be entered into by certain executive officers of the Company (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 28, 2009, and incorporated herein by reference).
10.24*+	Employment Agreement, entered into December 4, 2009, by and between the Company and Matthew A. Kerin (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of December 8, 2009, and incorporated herein by reference).
10.25*	Supervisory Agreement, dated as of January 27, 2010, by and between the Company and the OCC (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of January 28, 2010, and incorporated herein by reference).
10.26*	Stipulation and Order of Settlement and Dismissal, dated February 24, 2012, by and among the Company, the Bank and the United States of America (previously filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K, dated as of March 20, 2012, and incorporated herein by reference).

Exhibit No.	Description
10.27*+	Letter Agreement, dated January 24, 2012, by and between the Company and Joseph P. Campanelli (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of January 26, 2012, and incorporated herein by reference).
10.28*+	Election Form, dated January 24, 2012, executed by Joseph P. Campanelli and accepted by Flagstar Bancorp, Inc. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of January 26, 2012, and incorporated herein by reference).
10.29*+	Offer Letter, dated February 7, 2011, executed by Joseph P. Campanelli and accepted by Steven P. Issa (previously filed as Exhibit 10.32 to the Company's Quarterly Report on Form10-Q, dated as of May 10, 2012, and incorporated herein by reference).
10.30*+	Form of TARP Restricted Stock Award Agreement to be entered into by and between the Company and certain executive officers of the Company (previously filed as Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q, dated as of May 10, 2012, and incorporated herein by reference).
10.31*+	Employment Agreement, dated as of October 1, 2012, by and between Flagstar Bancorp, Inc. and Michael J. Tierney (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 3, 2012, and incorporated herein by reference).
10.32 *	Stipulation to the Issuance of a Consent Order, effective as of October 23, 2012, by and between the Office of the Comptroller of the Currency and Flagstar Bank, FSB (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of October 24, 2012, and incorporated herein by reference).
10.33 *	Consent Order, dated October 23, 2012, by and between Flagstar Bank, FSB and the Office of the Comptroller of the Currency (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated as of October 24, 2012, and incorporated herein by reference).
10.34	Transaction Purchase and Sale Agreement, effective as of December 31, 2012, by and between Flagstar Bank, FSB and CIT Bank.
10.35 +	Consulting Agreement, dated as of December 21, 2012, by and between Flagstar Bancorp, Inc. and John Lewis.
10.36 +	Separation and Release Agreement, dated November 1, 2012, by and between the Company and Joseph P. Campanelli.
10.37 +	Consulting Agreement, dated November 1, 2012, by and between the Company and Joseph P. Campanelli.
11	Statement regarding computation of per share earnings incorporated by reference to Note 23 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.
12	Statement of Computation of Ratios of Earnings to Fixed Charges and Preferred Dividends.
14*	Flagstar Bancorp, Inc. Code of Business Conduct and Ethics (previously filed as Exhibit 14 to the Company’s Annual Report on Form 10-K, dated March 16, 2006, and incorporated herein by reference)
18*	Letter re Change in Accounting Principles (previously filed as Exhibit 18 to the Company’s Current Report on Form 8-K, dated as of May 18, 2011, and incorporated herein by reference).
21	List of Subsidiaries of the Company.
23	Consent of Baker Tilly Virchow Krause, LLP
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer

32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

211

Exhibit No.	Description
99.1	Certification of Principal Executive Officer of the Company (Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as amended).
99.2	Certification of Principal Financial Officer of the Company (Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as amended).
101 **	Financial statements from Annual Report on Form 10-K of the Company for the year ended December 31, 2012, formatted in XBRL: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

* Incorporated herein by reference

\+ Constitutes a management contract or compensation plan or arrangement

** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

212