

FLAGSTAR BANCORP INC

Form 10-Q

November 09, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2009**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 001-16577**

(Exact name of registrant as specified in its charter).

**Michigan**

**38-3150651**

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

**5151 Corporate Drive, Troy, Michigan**

**48098-2639**

(Address of principal executive offices)

(Zip code)

**(248) 312-2000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated  
filer

Accelerated filer

Non-accelerated filer   
(Do not check if smaller reporting  
company)

Smaller reporting  
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 6, 2009, 468,571,775 shares of the registrant's common stock, \$0.01 par value, were issued and outstanding.



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**FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Flagstar Bancorp, Inc. ( Flagstar or the Company ) and these statements are subject to risk and uncertainty. Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, include those using words or phrases such as believes, expects, anticipates, plans, trend, objective, continue, remain, pattern or similar expressions or future or conditional as will, would, should, could, might, can, may or similar expressions.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed under the heading Risk Factors in Part I, Item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2008 and under Part II, Item 1A of this quarterly report on Form 10-Q, including: (1) our business has been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally; (2) general business, economic and political conditions may significantly affect our earnings; (3) we depend on our institutional counterparties to provide services that are critical to our business. If one of more of our institutional counterparties defaults on its obligations to us or becomes insolvent, it could have a material adverse affect our earnings, liquidity, capital position and financial condition; (4) defaults by another larger financial institution could adversely affect financial markets generally; (5) if we cannot effectively manage the impact of the volatility of interest rates, our earnings could be adversely affected; (6) the value of our mortgage servicing rights could decline with reduction in interest rates; (7) certain hedging strategies that we use to manage our investment in mortgage servicing rights may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates; (8) we use estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; (9) changes in the fair value or ratings downgrades of our securities may reduce our stockholders equity, net earnings, or regulatory capital ratios; (10) current and further deterioration in the housing and commercial real estate markets may lead to increased loss severities and further increases in delinquencies and non-performing assets in our loan portfolios. Additionally, the performance of our standby and commercial letters of credit may be adversely affected as well. Consequently, our allowance for loan losses and guarantee liability may not be adequate to cover actual losses, and we may be required to materially increase our reserves; (11) our secondary market reserve for losses could be insufficient; (12) our home lending profitability could be significantly reduced if we are not able to resell mortgages; (13) our commercial real estate and commercial business loan portfolios carry heightened credit risk; (14) our ability to borrow funds, maintain or increase deposits or raise capital could be limited, which could adversely affect our liquidity and earnings; (15) our inability to realize our deferred tax assets may have a material adverse affect on our consolidated results of operations and our financial condition; (16) we may be required to raise capital at terms that are materially adverse to our stockholders; (17) our holding company is dependent on the Bank for funding of obligations and dividends; (18) future dividend payments and equity repurchases are restricted by the terms of the Treasury s equity investment in us; (19) we may not be able to replace key members of senior management or attract and retain qualified relationship managers in the future; (20) the network and computer systems on which we depend could fail or experience a security breach; (21) our business is highly regulated; (22) our business has volatile earnings because it operates based on a multi-year cycle; (23) our loans are geographically concentrated in only a few states; (24) we are subject to heightened regulatory scrutiny with respect to bank secrecy and anti-money laundering statutes and regulations; (25) we are a controlled company that is exempt from certain NYSE corporate governance requirements; and (26) current and further deterioration in the housing market, as well as the number of programs that have been introduced to address the situation by government agencies and government sponsored enterprises, may lead to increased costs to service loans which could affect our margins or impair the value of our mortgage servicing rights.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

**FLAGSTAR BANCORP, INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2009**  
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The unaudited condensed consolidated financial statements of the Company are as follows:

Consolidated Statements of Financial Condition September 30, 2009 (unaudited) and December 31, 2008.

Unaudited Consolidated Statements of Operations For the nine and three months ended September 30, 2009 and 2008.

Consolidated Statements of Stockholders Equity and Comprehensive Loss For the nine months ended September 30, 2009 (unaudited) and for the year ended December 31, 2008.

Unaudited Consolidated Statements of Cash Flows For the nine months ended September 30, 2009 and 2008.

Unaudited Notes to Consolidated Financial Statements.

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**Flagstar Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
(In thousands, except for share data)

	<b>At September 30, 2009</b>	<b>At December 31, 2008</b>
	(Unaudited)	
<b>Assets</b>		
Cash and cash items	\$ 607,035	\$ 300,989
Interest-bearing deposits	228,842	205,916
Cash and cash equivalents	835,877	506,905
Securities classified as trading	1,012,309	542,539
Securities classified as available for sale	817,424	1,118,453
Other investments restricted	41,519	34,532
Loans available for sale (\$2,051,058 at fair value on September 30, 2009)	2,070,878	1,484,680
Loans held for investment	8,133,497	9,082,121
Less: allowance for loan losses	(528,000)	(376,000)
Loans held for investment, net	7,605,497	8,706,121
Total interest-earning assets	11,776,469	12,092,241
Accrued interest receivable	50,611	55,961
Repossessed assets, net	164,898	109,297
Federal Home Loan Bank stock	373,443	373,443
Premises and equipment, net	241,710	246,229
Mortgage servicing rights at fair value	564,029	511,294
Mortgage servicing rights, net	3,771	9,469
Other assets	1,038,849	504,734
Total assets	\$ 14,820,815	\$ 14,203,657
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
Deposits	\$ 8,533,968	\$ 7,841,005
Federal Home Loan Bank advances	4,800,000	5,200,000
Security repurchase agreements	108,000	108,000
Long term debt	300,182	248,660
Total interest-bearing liabilities	13,742,150	13,397,665
Accrued interest payable	24,839	36,062
Secondary market reserve	53,000	42,500
Other liabilities	333,229	255,137
Total liabilities	14,153,218	13,731,364
Commitments and Contingencies		
<b>Stockholders Equity</b>		

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Preferred stock \$0.01 par value, liquidation value \$1,000 per share 25,000,000 shares authorized; 266,657 issued and outstanding at September 30, 2009		3	
Common stock \$0.01 par value, 750,000,000 shares authorized; 468,529,878 and 83,626,726 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	4,685		836
Additional paid in capital preferred	242,451		
Additional paid in capital common	443,270		119,024
Accumulated other comprehensive loss	(47,685)		(81,742)
Retained earnings	24,873		434,175
Total stockholders equity	667,597		472,293
Total liabilities and stockholders equity	\$ 14,820,815	\$	14,203,657

**The accompanying notes are an integral part of these consolidated financial statements.**



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**Flagstar Bancorp, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
<b>Interest Income</b>				
Loans	\$ 136,849	\$ 172,163	\$ 452,233	\$ 526,039
Mortgage-backed securities held to maturity				15,576
Securities classified as available for sale and trading	29,738	14,563	85,873	51,325
Interest-bearing deposits	517	1,416	1,799	5,561
Other	3	395	28	1,453
<b>Total interest income</b>	<b>167,107</b>	<b>188,537</b>	<b>539,933</b>	<b>599,954</b>
<b>Interest Expense</b>				
Deposits	58,352	60,940	192,248	215,807
FHLB advances	56,116	62,348	170,210	190,168
Security repurchase agreements	1,178	1,179	3,497	5,541
Other	3,867	4,229	9,638	12,400
<b>Total interest expense</b>	<b>119,513</b>	<b>128,696</b>	<b>375,593</b>	<b>423,916</b>
<b>Net interest income</b>	<b>47,594</b>	<b>59,841</b>	<b>164,340</b>	<b>176,038</b>
Provision for loan losses	125,544	89,612	409,420	167,708
<b>Net interest (expense) income after provision for loan losses</b>	<b>(77,950)</b>	<b>(29,771)</b>	<b>(245,080)</b>	<b>8,330</b>
<b>Non-Interest Income</b>				
Loan fees and charges	29,422	777	97,366	2,278
Deposit fees and charges	8,438	7,183	23,655	20,029
Loan administration	(30,293)	25,655	(20,240)	45,980
Gain on trading securities	21,714		6,377	
Loss on residual and transferors' interests	(50,689)	(12,899)	(66,625)	(26,485)
Net gain on loan sales	104,416	22,152	404,773	129,403
Net (loss) gain on sales of mortgage servicing rights	(1,319)	896	(3,945)	348
Net gain on sales of securities available for sale		149		5,019
Total other-than-temporary impairment recoveries (losses)	34,100		(69,533)	
Recoveries (losses) recognized in other comprehensive income (before taxes)	36,975		(49,089)	
<b>Net impairment losses recognized in earnings</b>	<b>(2,875)</b>		<b>(20,444)</b>	
Other fees and charges	(12,582)	9,475	(29,189)	29,768

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Total non-interest income	66,232	53,388	391,728	206,340
<b>Non-Interest Expense</b>				
Compensation,commissions and benefits	68,611	51,461	232,038	157,538
Occupancy and equipment	17,175	19,462	53,553	59,721
Asset resolution	26,811	18,019	69,660	29,799
Communication	1,411	1,678	4,761	5,263
Other taxes	12,944	(1,359)	15,049	(83)
General and administrative	39,954	29,903	146,331	49,830
Total non-interest expense	166,906	119,164	521,392	302,068
Loss before federal income taxes	(178,624)	(95,547)	(374,744)	(87,398)
Provision (benefit) for federal income taxes	114,965	(33,456)	55,008	(30,454)
<b>Net Loss</b>	(293,589)	(62,091)	(429,752)	(56,944)
Preferred stock dividends/accretion	(4,623)		(12,464)	
<b>Net Loss Applicable To Common Stock</b>	<b>\$ (298,212)</b>	<b>\$ (62,091)</b>	<b>\$ (442,216)</b>	<b>\$ (56,944)</b>
Loss per share				
Basic	\$ (0.64)	\$ (0.79)	\$ (1.66)	\$ (0.83)
Diluted	\$ (0.64)	\$ (0.79)	\$ (1.66)	\$ (0.83)

**The accompanying notes are an integral part of these consolidated financial statements.**

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**Flagstar Bancorp, Inc.**  
**Consolidated Statements of Stockholders Equity and Comprehensive Loss**  
(In thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital Preferred	Additional Paid in Capital Common	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders Equity
<b>Balance at January 1, 2008</b>	\$	\$ 637	\$	\$ 64,350	\$ (11,495)	\$(41,679)	\$ 681,165	\$ 692,978
Net loss							(275,407)	(275,407)
Reclassification of gain on dedesignation of swaps used in cash flow hedges					(236)			(236)
Reclassification of gain on sale of securities available for sale					(3,262)			(3,262)
Reclassification of loss on securities available for sale due to other-than-temporary impairment					40,541			40,541
Change in net unrealized loss on securities available for sale					(107,290)			(107,290)
Total comprehensive loss								(345,654)
Cumulative effect adjustment due to change of accounting for residential MSR mortgage servicing rights							28,417	28,417
Issuance of preferred stock	1			45,796				45,797
Issuance of common stock		199		54,162				54,361
Issuance of treasury stock						41,092		41,092
Conversion of preferred stock	(1)			(45,796)				(45,797)
Restricted stock issued				(587)		587		
				77				77

Stock options exercised						
Stock-based compensation			1,227			1,227
Tax effect from stock-based compensation			(205)			(205)
<b>Balance at December 31, 2008</b>	836		119,024	(81,742)		434,175
(Unaudited)						472,293
Net loss						(429,752)
Reclassification of loss on securities available for sale due to other-than-temporary impairment				13,289		(429,752)
Change in net unrealized loss on securities available for sale				53,682		13,289
						53,682
Total comprehensive loss						(362,781)
Cumulative effect for adoption of new guidance for other-than-temporary-impairments recognition on debt securities				(32,914)		32,914
Issuance of preferred stock	6		507,488			507,494
Conversion of preferred stock	(3)	3,750	(268,574)	264,827		
Issuance of common stock to management		67		5,254		5,321
Reclassification of Treasury Warrants				49,673		49,673
Issuance of common stock for exercise of May Warrants		31		4,345		4,376
Restricted stock issued		1		(46)		(45)
Dividends on preferred stock						(8,927)
Accretion of preferred stock			3,537			(8,927)
Stock-based compensation				658		658
Tax effect from stock-based				(465)		(465)

compensation

**Balance at**

**September 30, 2009**    \$ 3    \$ 4,685    \$ 242,451    \$ 443,270    \$ (47,685)    \$ 24,873    \$ 667,597

**The accompanying notes are an integral part of these consolidated financial statements.**

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**Flagstar Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
	(Unaudited)	
<b>Operating Activities</b>		
Net loss	\$ (429,752)	\$ (56,944)
Adjustments to net loss to net cash used in operating activities		
Provision for loan losses	409,420	167,708
Depreciation and amortization	17,075	18,964
Increase (decrease) in valuation allowance in mortgage servicing rights	3,774	(82)
Loss on fair value of residential mortgage servicing rights, net of hedging gains	91,078	58,839
Stock-based compensation expense	658	867
Net (gain) loss on interest rate swap	(326)	149
Net loss (gain) on the sale of assets	1,241	(429)
Net gain on loan sales	(404,773)	(129,403)
Net loss (gain) on sales of mortgage servicing rights	3,945	(348)
Net loss (gain) on securities classified as available for sale	20,444	(5,019)
Net loss on trading securities	60,248	26,485
Proceeds from sales of trading securities	1,079,716	
Proceeds from sales of loans available for sale	24,267,675	18,745,006
Origination and repurchase of mortgage loans available for sale, net of principal repayments	(25,236,411)	(21,068,787)
Purchase of trading securities, net of principal repayments	(744,946)	
Decrease in accrued interest receivable	5,350	4,580
Increase in other assets	(533,774)	(88,256)
Decrease in accrued interest payable	(11,223)	(19,833)
Net tax effect for stock grants issued	465	205
Decrease in federal income taxes payable	(36,527)	(98,996)
Increase in other liabilities	72,637	47,591
Net cash used in operating activities	(1,364,006)	(2,397,703)
<b>Investing Activities</b>		
Net change in other investments	(6,987)	(5,013)
Repayment of mortgage-backed securities held to maturity		90,846
Proceeds from sale of investment securities available for sale		913,798
Repayment of investment securities available for sale	46,487	