FLAGSTAR BANCORP INC
Form 10-Q
May 09, 2011

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

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

o **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 þ No o.

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 of 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 o No o.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ.

As of May 6, 2011, 553,883,609 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 forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in a forward-looking statement. Examples of forward-looking statements include statements regarding our expectations, beliefs, plans, goals, objectives and future financial or other performance. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and variations of such words and similar expressions are to identify such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. Except to fulfill our obligations under the U.S. securities laws, we undertake no obligation to update any such statement to reflect events or circumstances after the date on which it is made.

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:

- Volatile interest rates that impact, amongst other things, (i) the mortgage banking business, (ii) our ability to originate loans and sell assets at a profit, (iii) prepayment speeds and (iv) our cost of funds, could adversely affect earnings, growth opportunities and our ability to pay dividends to stockholders;

- Our ability to raise additional capital;

- Competitive factors for loans could negatively impact gain on loan sale margins;

- Competition from banking and non-banking companies for deposits and loans can affect our growth opportunities, earnings, gain on sale margins, market share and ability to transform business model;

- Changes in the regulation of financial services companies and government-sponsored housing enterprises, and in particular, declines in the liquidity of the mortgage loan secondary market, could adversely affect business;

- Changes in regulatory capital requirements or an inability to achieve desired capital ratios could adversely affect our growth and earnings opportunities and our ability to originate certain types of loans, as well as our ability to sell certain types of assets for fair market value or to transform business model;

- General business and economic conditions, including unemployment rates, movements in interest rates, the slope of the yield curve, any increase in mortgage fraud and other criminal activity and the further decline of asset values in certain geographic markets, may significantly affect our business activities, loan losses, reserves, earnings and business prospects;

- Factors concerning the implementation of proposed enhancements and transformation of the business model could result in slower implementation times than we anticipate and negate any competitive advantage that we may enjoy;

- Actions of mortgage loan purchasers, guarantors and insurers regarding repurchases and indemnity demands and uncertainty related to foreclosure procedures could adversely affect business activities and earnings;

- The Dodd-Frank Wall Street Reform and Consumer Protection Act will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Bureau of Consumer Financial Protection and result in new laws, regulations and regulatory supervisors that are expected to increase our costs of operations; and

- Both the volume and the nature of consumer actions and other forms of litigation against financial institutions may increase and to the extent that such actions are brought against us, the cost of defending such suits as well as potential exposure could increase our costs of operations.

All of the above factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such factor on our business.

Please also refer to Item 1A. Risk Factors to Part II of this report, Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and Item 1A to Part II of this Quarterly Report on Form 10-Q, which are incorporated by reference herein, for further information on these and other factors affecting us.

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Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore any of these statements included herein may prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

FLAGSTAR BANCORP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements of the Company are as follows:

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

	March 31, 2011	December 31, 2010
	(Unaudited)	
Assets		
Cash and cash items	$ 49,677	$ 60,039
Interest-earning deposits	1,665,342	893,495
Cash and cash equivalents	1,715,019	953,534
Securities classified as trading	160,650	160,775
Securities classified as available-for-sale	452,368	475,225
Loans available-for-sale ($1,484,824 and $2,343,638 at fair value at March 31, 2011 and December 31, 2010, respectively)	1,609,501	2,585,200
Loans held-for-investment ($22,198 and $19,011 at fair value at March 31, 2011 and December 31, 2010, respectively)	5,764,675	6,305,483
Less: allowance for loan losses	(271,000)	(274,000)
Loans held-for-investment, net	5,493,675	6,031,483
Total interest-earning assets	9,381,536	10,146,178
Accrued interest receivable	24,640	27,424
Repossessed assets, net	146,372	151,085
Federal Home Loan Bank stock	337,190	337,190
Premises and equipment, net	233,621	232,203
Mortgage servicing rights at fair value	635,122	580,299
Government insured repurchased assets	1,781,825	1,731,276
Other assets	426,984	377,810
Total assets	$ 13,016,967	$ 13,643,504
Liabilities and Stockholders Equity		
Deposits	$ 7,748,910	$ 7,998,099
Federal Home Loan Bank advances	3,400,000	3,725,083
Long-term debt	248,610	248,610
Total interest-bearing liabilities	11,397,520	11,971,792
Accrued interest payable	10,124	12,965
Secondary market reserve	79,400	79,400
Other liabilities	292,901	319,684
Total liabilities	11,779,945	12,383,841
Commitments and contingencies Note 21		
Stockholders Equity		
Preferred stock $0.01 par value, liquidation value $1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding at March 31, 2011 and December 31, 2010, respectively	3	3

Common stock $0.01 par value, 700,000,000 shares authorized; 553,711,848 and 553,313,113 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	5,537	5,533
Additional paid in capital preferred	250,569	249,193
Additional paid in capital common	1,462,620	1,461,373
Accumulated other comprehensive loss	(9,760)	(16,165)
Retained earnings (accumulated deficit)	(471,947)	(440,274)
Total stockholders equity	1,237,022	1,259,663
Total liabilities and stockholders equity	$ 13,016,967	$ 13,643,504

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	For the Three Months Ended March 31, 2011	2010
	(Unaudited)	
Interest Income		
Loans	$ 89,340	$ 110,195
Securities classified as available-for-sale or trading	8,097	15,367
Interest-earning deposits and other	968	644
Total interest income	98,405	126,206
Interest Expense		
Deposits	27,022	41,887
FHLB advances	29,979	41,788
Security repurchase agreements		1,153
Other	1,606	3,695
Total interest expense	58,607	88,523
Net interest income	39,798	37,683
Provision for loan losses	28,309	63,559
Net interest expense after provision for loan losses	11,489	(25,876)
Non-Interest Income		
Loan fees and charges	16,138	16,329
Deposit fees and charges	7,500	8,413
Loan administration	39,336	26,150
Loss on trading securities	(74)	(3,312)
Loss on residual and transferors interest	(2,381)	(2,682)
Net gain on loan sales	50,184	52,566
Net loss on sales of mortgage servicing rights	(112)	(2,213)
Net gain on securities available-for-sale		2,166
Net loss on sale of assets	(1,036)	
Total other-than-temporary impairment gain (loss)		15,688
Gain (loss) recognized in other comprehensive income before taxes		18,974
Net impairment losses recognized in earnings		(3,286)
Other fees and charges	(13,289)	(22,133)
Total non-interest income	96,266	71,998
Non-Interest Expense		
Compensation, commissions and benefits	63,308	61,022
Occupancy and equipment	16,618	16,011
Asset resolution	25,335	16,573

Federal insurance premiums	8,725	10,047
Other taxes	866	855
Warrant (income) expense	(827)	1,227
General and administrative	20,430	17,607
Total non-interest expense	134,455	123,342
Loss before federal income taxes	(26,700)	(77,220)
Provision for federal income taxes	264	
Net Loss	(26,964)	(77,220)
Preferred stock dividend/accretion	(4,710)	(4,680)
Net loss applicable to common stock	$ (31,674)	$ (81,900)
Loss per share		
Basic (1)	$ (0.06)	$ (1.05)
Diluted (1)	$ (0.06)	$ (1.05)

(1) Restated for a 1-for-10 reverse stock split announced May 27, 2010 and completed on May 28, 2010.

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 Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders Equity
Balance at December 31, 2009	$ 3	$ 469	$ 243,778	$ 447,449	$ (48,263)	$ (46,712)	$ 596,724
(Unaudited)							
Net loss						(77,220)	(77,220)
Reclassification of gain on sale of securities available-for-sale					(1,594)		(1,594)
Reclassification of loss on securities available-for-sale due to other-than-temporary impairment					3,286		3,286
Change in net unrealized loss on securities available-for-sale					7,019		7,019
Total comprehensive loss							(68,509)
Issuance of common stock		999		576,251			577,250
Restricted stock issued				(12)			(12)
Dividends on preferred stock						(3,334)	(3,334)
Accretion of preferred stock			1,346			(1,346)	
Stock-based compensation		2		2,759			2,761
Tax effect from stock-based compensation				(116)			(116)
Balance at March 31, 2010	$ 3	$ 1,470	$ 245,124	$ 1,026,331	$ (39,552)	$ (128,612)	$ 1,104,764

Balance at December 31, 2010	$ 3	$ 5,533	$ 249,193	$ 1,461,373	$ (16,165)	$ (440,274)	$ 1,259,663
(Unaudited)							
Net loss						(26,964)	(26,964)
Change in net unrealized loss on securities available-for-sale					6,405		6,405
Total comprehensive loss							(20,559)
Restricted stock issued		2		(2)			
Dividends on preferred stock						(3,333)	(3,333)
Accretion of preferred stock			1,376			(1,376)	
Stock-based compensation		2		1,249			1,251
Balance at March 31, 2011	$ 3	$ 5,537	$ 250,569	$ 1,462,620	$ (9,760)	$ (471,947)	$ 1,237,022

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)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Operating Activities	(Unaudited)	
Net loss	$ (26,964)	$ (77,220)
Adjustments to net loss to net cash used in operating activities		
Provision for loan losses	28,309	63,559
Depreciation and amortization	3,642	4,648
Increase in valuation allowance in mortgage servicing rights		176
(Loss) gain on fair value of residential first mortgage servicing rights net of hedging gains (losses)	(4,123)	41,471
Stock-based compensation expense	1,251	2,761
Gain on interest rate swap		(221)
Net loss on the sale of assets	1,158	4,480
Net gain on loan sales	(50,184)	(52,566)
Net loss on sales of mortgage servicing rights	112	2,213
Net gain on securities classified as available-for-sale		(2,166)
Other than temporary impairment losses on securities classified as available-for-sale		3,286
Net loss on trading securities	74	3,312
Net loss on residual and transferor interest	2,381	2,682
Proceeds from sales of loans available-for-sale	5,914,461	5,079,635
Origination and repurchase of mortgage loans available-for-sale, net of principal repayments	(4,949,989)	(4,874,084)
Purchase of trading securities		(746,589)
Increase (decrease) in accrued interest receivable	2,784	(7,766)
Proceeds from sales of trading securities		178,480
Increase in government insured repurchased assets	(50,549)	(100,620)
Increase in other assets	(49,286)	(6,418)
Decrease in accrued interest payable	(2,841)	(4,360)
Net tax effect of stock grants issued		115
Increase (decrease) liability for checks issued	3,830	(3,930)
Increase in federal income taxes payable		457
(Decrease) increase in payable for mortgage repurchase option	(19,743)	441,020
Decrease in other liabilities	(8,553)	(2,191)
Net cash provided in operating activities	$ 795,790	$ 9,836
Investing Activities		
Net change in other investments		11,173
Proceeds from the sale of investment securities available-for-sale		54,948
Net repayment (purchase) of investment securities available-for-sale	29,299	(176,078)
Net proceeds from sales of portfolio loans	6,736	(109,496)
Origination of portfolio loans, net of principal repayments	476,784	44,167
Proceeds from the disposition of repossessed assets	37,572	48,943

Acquisitions of premises and equipment, net of proceeds	(5,046)	(2,949)
Proceeds from the sale of mortgage servicing rights		112,848
Net cash provided by (used in) investing activities	$ 545,345	$ (16,444)

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

	For the Three Months Ended March 31,	
	2011	**2010**
		(Unaudited)
Financing Activities		
Net decrease in deposit accounts	$ (249,189)	$ (632,790)
Net decrease in Federal Home Loan Bank advances	(325,083)	
Net (disbursement) receipt of payments of loans serviced for others	(9,023)	14,636
Net receipt (disbursement) of escrow payments	6,978	(705)
Net tax benefit for stock grants issued		(116)
Dividends paid to preferred stockholders	(3,333)	(3,334)
Issuance of common stock		577,250
Net cash used in financing activities	(579,650)	(45,059)
Net increase (decrease) in cash and cash equivalents	761,485	(111,339)
Beginning cash and cash equivalents	953,534	1,082,489
Ending cash and cash equivalents	$ 1,715,019	$ 971,150
Loans held-for-investment transferred to repossessed assets	$ 64,290	$ 93,155
Total interest payments made on deposits and other borrowings	$ 61,448	$ 92,883
Reclassification of mortgage loans originated for portfolio to mortgage loans available-for-sale for sale	$ 383	$ 109,496
Reclassification of mortgage loans originated available-for-sale then transferred to portfolio loans	$ 7,119	$
Mortgage servicing rights resulting from sale or securitization of loans	$ 50,700	$ 48,267

The accompanying notes are an integral part of these Consolidated Financial Statements.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements (Unaudited)

Note 1 Nature of Business

Flagstar Bancorp, Inc. (Flagstar or the Company), is the holding company for Flagstar Bank, FSB (the Bank), a federally chartered stock savings bank founded in 1987. Flagstar is the largest insured depository institution headquartered in Michigan, and is the largest publicly held savings bank headquartered in the Midwest. At March 31, 2011, Flagstar had $13.0 billion in total assets, $7.7 billion in deposits and $1.2 billion in stockholders equity.

The Company offers a full array of banking and lending products and services to meet the needs of both consumers and businesses. Consumer products include deposit accounts, standard and jumbo home loans, home equity lines of credit, and personal loans, including auto, and boat loans. Business products include deposit and sweep accounts, telephone banking, term loans and lines of credit, government banking products and treasury management services such as remote deposit and merchant services.

The Company sells or securitizes most of the mortgage loans that it originates and generally retains the right to service the mortgage loans that it sells. These mortgage-servicing rights (MSRs) are occasionally sold by the Company in transactions separate from the sale of the underlying mortgages. The Company may also invest in its loan originations to enhance the Company s leverage ability and to receive the interest spread between earning assets and paying liabilities.

The Bank is a member of the Federal Home Loan Bank (FHLB) of Indianapolis and is subject to regulation, examination and supervision by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). The Bank s deposits are insured by the FDIC through the Deposit Insurance Fund (DIF).

Note 2 Basis of Presentation and Accounting Policies

The unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (the SEC). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements. The accompanying interim financial statements are unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three month period ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. In addition, certain prior period amounts have been reclassified to conform to the current period presentation. For further information, reference should be made to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, which are available on the Company s Investor Relations web page, at **www.flagstar.com**, and on the SEC website, at **www.sec.gov**.

Recently Adopted Accounting Standards

On January 1, 2010, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing. New authoritative accounting guidance under ASC Topic 860, Transfers and Servicing, amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The adoption of the new authoritative accounting guidance did not have an effect on the Company s Consolidated Financial Statements.

As of and for the year ended December 31, 2010, the Company adopted Accounting Standards Updat