

FLAGSTAR BANCORP INC

Form 10-Q

August 09, 2010

Table of Contents

**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 June 30, 2010

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 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 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 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

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a 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 August 2, 2010, 153,363,870 shares of the registrant's common stock, \$0.01 par value, were issued and outstanding.

Table of Contents

FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the financial condition, results of operations, liquidity, 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, 2009 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) defaults by another larger financial institution could adversely affect financial markets generally; (3) we may be required to raise capital at terms that are materially adverse to our stockholders; (4) if we cannot effectively manage the impact of the volatility of interest rates our earnings could be adversely affected; (5) if we do not meet the New York Stock Exchange continued listing requirements, our common stock may be delisted; (6) 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; (7) 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. Consequently, our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our reserves; (8) changes in the fair value or ratings downgrades of our securities may reduce our stockholders equity, net earnings, or regulatory capital ratios; (9) 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 and market liquidity; (10) our ability to borrow funds, maintain or increase deposits or raise capital could be limited, which could adversely affect our liquidity and earnings; (11) our business is highly regulated and subject to change; (12) we are subject to the restrictions and conditions of supervisory agreements with the Office of Thrift Supervision. Failure to comply with the supervisory agreements could result in further enforcement action against us; (13) increases in deposit insurance premiums and special Federal Deposit Insurance Corporation assessments will adversely affect our earnings; (14) we are subject to heightened regulatory scrutiny with respect to bank secrecy and anti-money laundering statutes and regulations; (15) future dividend payments and common stock repurchases may be restricted; (16) we depend on our institutional counterparties to provide services that are critical to our business. If one or more of our institutional counterparties defaults on its obligations to us or becomes insolvent, it could have a material adverse affect on our earnings, liquidity, capital position and financial condition; (17) we use estimates in determining the fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; (18) our home equity lines of credit funding reimbursements could be negatively impacted by loan losses; (19) our secondary market reserve for losses could be insufficient; (20) our home lending profitability could be significantly reduced if we are not able to resell mortgages; (21) our holding company is dependent on Flagstar Bank for funding of obligations and dividends; (22) we may be exposed to other operational and reputational risks; (23) we have many new members of our executive team; (24) the potential loss of key members of senior management or the inability to attract and retain qualified relationship managers in the future could affect our ability to operate effectively; (25) the network and computer systems on which we depend could fail or experience a security breach; (26) our loans are geographically concentrated in only a few states; (27) we are subject to environmental liability risk associated with lending activities; (28) severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business; (29) general business, economic and political conditions may significantly affect our earnings; (30) we are a controlled company that is exempt from certain New York Stock Exchange corporate governance requirements; (31) our controlling stockholder has significant influence over us, including control over decisions that require the

approval of stockholders, whether or not such decisions are in the best interests of other stockholders; and (32) financial reform legislation recently signed by the President will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

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 JUNE 30, 2010
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	76
<u>Item 4. Controls and Procedures</u>	77

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	78
<u>Item 1A. Risk Factors</u>	78
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	78
<u>Item 3. Defaults upon Senior Securities</u>	79
<u>Item 4. (Removed and Reserved)</u>	79
<u>Item 5. Other Information</u>	79
<u>Item 6. Exhibits</u>	80

<u>SIGNATURES</u>	81
<u>EXHIBIT 3.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements of the Company are as follows:

<u>Consolidated Statements of Financial Condition</u> June 30, 2010 (unaudited) and December 31, 2009.	5
<u>Consolidated Statements of Operations</u> For the three and six months ended June 30, 2010 and 2009. (Unaudited)	6
<u>Consolidated Statements of Stockholders' Equity and Comprehensive (Loss)</u> For the six months ended June 30, 2010 and 2009. (Unaudited)	7
<u>Consolidated Statements of Cash Flows</u> For the six months ended June 30, 2010 and 2009. (Unaudited)	8
<u>Notes to Consolidated Financial Statements. (Unaudited)</u>	10

Table of Contents

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

	June 30, 2010	December 31, 2009
	(Unaudited)	
Assets		
Cash and cash items	\$ 52,867	\$ 73,019
Interest-bearing deposits	702,251	1,009,470
Cash and cash equivalents	755,118	1,082,489
Securities classified as trading	487,370	330,267
Securities classified as available for sale	544,474	605,621
Other investments restricted	1,951	15,601
Loans available for sale (\$1,692,286 and \$1,937,171 at fair value at June 30, 2010 and December 31, 2009, respectively)	1,849,718	1,970,104
Loans held for investment (\$14,935 and \$11,287 at fair value at June 30, 2010 and December 31, 2009, respectively)	7,365,817	7,714,308
Less: allowance for loan losses	(530,000)	(524,000)
Loans held for investment, net	6,835,817	7,190,308
Total interest-earning assets	10,421,581	11,121,371
Accrued interest receivable	41,840	44,941
Repossessed assets, net	198,230	176,968
Federal Home Loan Bank stock	373,443	373,443
Premises and equipment, net	234,880	239,318
Mortgage servicing rights at fair value	473,724	649,133
Mortgage servicing rights, net	1,090	3,241
Other assets	1,896,175	1,331,897
Total assets	\$ 13,693,830	\$ 14,013,331
Liabilities and Stockholders Equity		
Deposits	\$ 8,254,046	\$ 8,778,469
Federal Home Loan Bank advances	3,650,000	3,900,000
Security repurchase agreements		108,000
Long term debt	248,635	300,182
Total interest-bearing liabilities	12,152,681	13,086,651
Accrued interest payable	25,117	26,086
Secondary market reserve	76,000	66,000
Other liabilities	363,671	237,870
Total liabilities	12,617,469	13,416,607
Commitments and contingencies	Note 19	
Stockholders Equity		

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

Preferred stock \$0.01 par value, liquidation value \$1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding at June 30, 2010 and December 31, 2009, respectively	3	3
Common stock \$0.01 par value, 300,000,000 shares authorized; 153,338,007 and 46,877,067 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	1,533	469
Additional paid in capital preferred	246,481	243,778
Additional paid in capital common	1,077,244	447,449
Accumulated other comprehensive loss	(23,282)	(48,263)
Accumulated deficit	(225,618)	(46,712)
Total stockholders equity	1,076,361	596,724
Total liabilities and stockholders equity	\$ 13,693,830	\$ 14,013,331

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

5

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Unaudited)			
Interest Income				
Loans	\$ 108,805	\$ 156,761	\$ 219,000	\$ 315,383
Securities classified as available for sale or trading	20,735	30,659	36,102	56,136
Interest-bearing deposits	481	426	1,124	1,283
Other	1	2	2	24
Total interest income	130,022	187,848	256,228	372,826
Interest Expense				
Deposits	41,521	66,547	83,407	133,897
FHLBI advances	42,151	57,284	83,938	114,093
Security repurchase agreements	1,597	1,166	2,750	2,319
Other	2,348	2,834	6,044	5,770
Total interest expense	87,617	127,831	176,139	256,079
Net interest income	42,405	60,017	80,089	116,747
Provision for loan losses	86,019	125,662	149,579	283,876
Net interest expense after provision for loan losses	(43,614)	(65,645)	(69,490)	(167,129)
Non-Interest Income				
Loan fees and charges	20,236	35,022	36,565	67,944
Deposit fees and charges	8,798	7,984	17,211	15,217
Loan administration	(54,665)	41,853	(28,515)	10,053
Gain (loss) on trading securities	69,660	(39,085)	66,348	(15,338)
Loss on residual and transferors' interest	(4,312)	(3,400)	(6,994)	(15,935)
Net gain on loan sales	64,257	104,664	116,823	300,358
Net loss on sales of mortgage servicing rights	(1,266)	(2,544)	(3,479)	(2,626)
Net gain on securities available for sale	4,523		6,689	
Total other-than-temporary impairment gain (loss)	11,274	8,461	36,796	(103,633)
Gain (loss) recognized in other comprehensive income before taxes	11,665	8,788	40,473	(86,064)
Net impairment loss recognized in earnings	(391)	(327)	(3,677)	(17,569)
Other fees and charges	(6,509)	(9,630)	(28,642)	(16,608)
Total non-interest income	100,331	134,537	172,329	325,496
Non-Interest Expense				

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

Compensation, commissions and benefits	51,104	71,638	112,125	163,427
Occupancy and equipment	15,903	17,499	31,914	36,378
Asset resolution	45,439	17,977	62,012	42,850
Federal insurance premiums	10,640	16,612	20,688	20,848
Other taxes	841	1,098	1,696	2,105
Warrant (income) expense	(3,486)	12,977	(2,259)	24,005
Loss on extinguishment of debt	8,971		8,971	
General and administrative	19,621	34,017	37,229	64,874
Total non-interest expense	149,033	171,818	272,376	354,487
Loss before federal income taxes	(92,316)	(102,926)	(169,537)	(196,120)
Benefit for federal income taxes		(31,261)		(59,957)
Net Loss	(92,316)	(71,665)	(169,537)	(136,163)
Preferred stock dividend/accretion	(4,690)	(4,921)	(9,369)	(7,841)
Net loss applicable to common stock	\$ (97,006)	\$ (76,586)	\$ (178,906)	\$ (144,004)
Loss per share				
Basic	\$ (0.63)	\$ (3.20)	\$ (1.55)	\$ (8.77)
Diluted	\$ (0.63)	\$ (3.20)	\$ (1.55)	\$ (8.77)

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

Table of Contents

Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss) (Unaudited)
(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, 2008 (Unaudited)	\$	\$ 84	\$	\$ 119,776	\$ (81,742)	\$ 434,175	\$ 472,293
Net loss						(136,163)	(136,163)
Reclassification of loss on securities available for sale due to other-than-temporary impairment					11,420		11,420
Change in net unrealized loss on securities available for sale					6,788		6,788
Total comprehensive loss							(117,955)
Cumulative effect for adoption of FSP FAS 115-2 and FAS 124-2					(32,914)	32,914	
Issuance of preferred stock	6		507,488				507,494
Conversion of preferred stock	(3)	375	(268,574)	268,202			
Issuance of common stock to management		7		5,314			5,321
Reclassification of Treasury Warrants				49,673			49,673
Issuance of common stock for exercise of May Warrants		3		4,373			4,376
Restricted stock issued				(45)			(45)
Dividends on preferred stock						(5,629)	(5,629)
Accretion of preferred stock			2,211			(2,211)	
Stock-based compensation				458			458
Tax effect from stock-based				(465)			(465)

compensation

**Balance at June 30,
2009**

\$ 3	\$ 469	\$ 241,125	\$ 447,286	\$ (96,448)	\$ 323,086	\$ 915,521
------	--------	------------	------------	-------------	------------	------------

**Balance at
December 31, 2009**
(Unaudited)

\$ 3	\$ 469	\$ 243,778	\$ 447,449	\$ (48,263)	\$ (46,712)	\$ 596,724
------	--------	------------	------------	-------------	-------------	------------

Net loss

(169,537) (169,537)

Reclassification of
gain on sale of
securities available for
sale

(6,278) (6,278)

Reclassification of
loss on securities
available for sale due
to other-than-
temporary impairment

3,677 3,677

Change in net
unrealized loss on
securities available for
sale

27,582 27,582

Total comprehensive
loss

(144,556)

Issuance of common
stock

1,061 625,852 626,913

Restricted stock
issued

(12) (12)

Dividends on
preferred stock

(6,666) (6,666)

Accretion of preferred
stock

2,703 (2,703)

Stock-based
compensation

3 4,071 4,074

Tax effect from
stock-based
compensation

(116) (116)

**Balance at June 30,
2010**

\$ 3	\$ 1,533	\$ 246,481	\$ 1,077,244	\$ (23,282)	\$ (225,618)	\$ 1,076,361
------	----------	------------	--------------	-------------	--------------	--------------

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

Table of Contents

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

	For the Six Months Ended	
	June 30,	
	2010	2009
	(Unaudited)	
Operating Activities		
Net loss	\$ (169,537)	\$ (136,163)
Adjustments to net loss to net cash used in operating activities		
Provision for loan losses	149,579	283,876
Depreciation and amortization	9,314	11,957
(Decrease) increase in valuation allowance in mortgage servicing rights	(64)	2,016
Loss on fair value of residential mortgage servicing rights net of hedging gains (losses)	153,672	13,887
Stock-based compensation expense	4,074	458
(Gain) loss on interest rate swap	(484)	227
Net loss on the sale of assets	6,436	1,464
Net gain on loan sales	(116,823)	(300,358)
Net loss on sales of mortgage servicing rights	3,479	2,626
Net gain on sale of securities classified as available for sale	(6,689)	
Other than temporary impairment losses on securities classified as available for sale	3,677	17,569
Net (gain) loss on trading securities	(66,348)	15,338
Net loss on residual and transferor interest	6,994	15,935
Proceeds from sales of loans available for sale	10,179,349	16,761,330
Origination and repurchase of mortgage loans available for sale, net of principal repayments	(10,197,955)	(18,692,067)
Purchase of trading securities	(899,012)	(783,370)
Proceeds from sales of trading securities	806,496	(143)
Decrease in accrued interest receivable	3,101	518,793
Increase in other assets	(565,692)	(193,234)
Increase (decrease) in accrued interest payable	(969)	391
Net tax effect of stock grants issued	116	465
Increase (decrease) in liability for checks issued	(4,657)	3,303
Increase (decrease) in federal income taxes payable	455	(10,270)
Increase in other liabilities	119,681	97,791
Net cash used in operating activities	(581,807)	(2,368,179)
Investing Activities		
Net change in other investments	13,650	(4,768)
Proceeds from the sale of investment securities available for sale	401,104	
Net (purchase) repayment of investment securities available for sale	(153,071)	56,608
Proceeds from sales of portfolio loans	(58,546)	29,961
Origination of portfolio loans, net of principal repayments	127,234	325,416
Investment in unconsolidated subsidiary		1,547
Proceeds from the disposition of repossessed assets	108,799	122,970

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

Acquisitions of premises and equipment, net of proceeds	(4,451)	(7,724)
Proceeds from the sale of mortgage servicing rights	112,848	27,536
Net cash provided by investing activities	547,567	551,546