FLAGSTAR BANCORP INC
Form 10-Q
May 10, 2012
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

Commission File Number: 001-16577

FLAGSTAR BANCORP, INC.
(Exact name of registrant as specified in its charter).

Michigan (State or other jurisdiction of Incorporation or organization)	38-3150651 (I.R.S. Employer Identification No.)
5151 Corporate Drive, Troy, Michigan (Address of principal executive offices)	48098-2639 (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 ý 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 ý 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	ý
Non-accelerated filer	o (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 ý.
As of May 9, 2012, 557,313,489 shares of the registrant's common stock, $0.01 par value, were issued and outstanding.

Table of Contents

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 inte 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:

(1) 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;

(2) Competitive factors for loans could negatively impact gain on loan sale margins;

(3) 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;

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

(5) Changes in regulatory capital requirements or an inability to achieve or maintain 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;

(6) General business and economic conditions, including unemployment rates, movements in interest rates, the slope of the yield curve, any increase in fraud and other related 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;

(7) Factors concerning the implementation of proposed refinements and transformation of our business model could result in slower implementation times than we anticipate and negate any competitive advantage that we may enjoy;

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

(9) The Dodd-Frank Wall Street Reform and Consumer Protection Act has resulted in the elimination of the Office of Thrift Supervision (the “OTS”), tightening of capital standards, and the creation of a new Consumer Financial Protection Bureau and has resulted, or will result, in new laws, regulations and regulatory supervisors that are expected to increase our costs of operations. In addition, the change to the Office of the Comptroller of the Currency as our primary federal regulator may result in interpretations affecting our operations different than those of the OTS;

(10) Both the volume and the nature of consumer actions and other forms of litigation against financial institutions have increased and to the extent that such actions are brought against us or threatened, the cost of defending such suits as well as potential exposure could increase our costs of operations;

(11) Our compliance with the terms and conditions of the agreement with the U.S. Department of Justice, the impact of performance and enforcement of commitments under, and provisions contained in the agreement, and our accuracy and ability to estimate the financial impact of that agreement, including the fair value of the future payments required, could accelerate our litigation settlement expenses relating thereto;

(12) The recent downgrade by Standards & Poor's of the long-term credit rating of the U.S. could materially affect global and domestic financial markets and economic conditions, which may affect our business activities, financial condition, and liquidity; and

1

Table of Contents

(13) If we do not regain compliance with the New York Stock Exchange ("NYSE") continued listing requirements, our common stock may be delisted from the NYSE.

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 to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 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.

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.

Table of Contents

FLAGSTAR BANCORP, INC.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2012
TABLE OF CONTENTS

PART I. – FINANCIAL INFORMATION		4
Item 1.	Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	56
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	101
Item 4.	Controls and Procedures	102
PART II. – OTHER INFORMATION		103
Item 1.	Legal Proceedings	103
Item 1A.	Risk Factors	103
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	103
Item 3.	Defaults upon Senior Securities	103
Item 4.	Mine Safety Disclosures	103
Item 5.	Other Information	103
Item 6.	Exhibits	104
SIGNATURES		105

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements of the Company are as follows:

Consolidated Statements of Financial Condition – March 31, 2012 (unaudited) and December 31, 2011
Consolidated Statements of Operations – For the three months ended March 31, 2012 and 2011 (unaudited)
Consolidated Statements of Comprehensive Income (Loss)– For the three months ended
March 31, 2012 and 2011(unaudited)
Consolidated Statements of Stockholders' Equity – For the three months ended March 31, 2012 and 2011 (unaudited)
Consolidated Statements of Cash Flows – For the three months ended March 31, 2012 and 2011 (unaudited)
Notes to the Consolidated Financial Statements (unaudited)

Table of Contents

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

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and cash items	$46,946	$49,715
Interest-earning deposits	711,002	681,343
Cash and cash equivalents	757,948	731,058
Securities classified as trading	307,355	313,383
Securities classified as available-for-sale	448,147	481,352
Loans held-for-sale ($2,132,842 and $1,629,618 at fair value at March 31, 2012 and December 31, 2011, respectively)	2,492,855	1,800,885
Loans repurchased with government guarantees	2,002,999	1,899,267
Loans held-for-investment ($20,365 and $22,651 at fair value at March 31, 2012 and December 31, 2011, respectively)	6,659,538	7,038,587
Less: allowance for loan losses	(281,000)	(318,000)
Loans held-for-investment, net	6,378,538	6,720,587
Total interest-earning assets	12,340,896	11,896,817
Accrued interest receivable	108,143	105,200
Repossessed assets, net	108,686	114,715
Federal Home Loan Bank stock	301,737	301,737
Premises and equipment, net	206,573	203,578
Mortgage servicing rights at fair value	596,830	510,475
Other assets	332,538	455,236
Total assets	$14,042,349	$13,637,473
Liabilities and Stockholders' Equity		
Deposits	$8,599,153	$7,689,988
Federal Home Loan Bank advances	3,591,000	3,953,000
Long-term debt	248,585	248,585
Total interest-bearing liabilities	12,438,738	11,891,573
Accrued interest payable	10,124	8,723
Representation and warranty reserve	142,000	120,000
Other liabilities ($19,100 and $18,300 at fair value at March 31, 2012 and December 31, 2011, respectively)	364,066	537,461
Total liabilities	12,954,928	12,557,757
Commitments and contingencies – Note 20	—	—
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, 2012 and December 31, 2011, respectively	256,139	254,732
Common stock $0.01 par value, 700,000,000 shares authorized; 557,132,814 and 555,775,639 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	5,571	5,558
Additional paid in capital	1,467,476	1,466,461
Accumulated other comprehensive income (loss)	6,167	(7,819)
Accumulated deficit	(647,932)	(639,216)

Total stockholders' equity	1,087,421	1,079,716
Total liabilities and stockholders' equity	$14,042,349	$13,637,473

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

Table of Contents

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

	For the Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Interest Income		
Loans	$113,908	$102,115
Securities classified as available-for-sale or trading	8,571	8,097
Interest-earning deposits and other	412	968
Total interest income	122,891	111,180
Interest Expense		
Deposits	18,986	27,022
FHLB advances	27,394	29,979
Other	1,778	1,606
Total interest expense	48,158	58,607
Net interest income	74,733	52,573
Provision for loan losses	114,673	28,309
Net interest (expense) income after provision for loan losses	(39,940)	24,264
Non-Interest Income		
Loan fees and charges	29,973	16,138
Deposit fees and charges	4,923	7,500
Loan administration	38,885	39,336
Loss on trading securities	(5,971)	(74)
Loss on transferors' interest	(409)	(2,381)
Net gain on loan sales	204,853	50,184
Net loss on sales of mortgage servicing rights	(2,317)	(112)
Net gain on securities available-for-sale	310	—
Net gain (loss) on sale of assets	27	(1,036)
Total other-than-temporary impairment gain	3,872	—
Loss recognized in other comprehensive income before taxes	(5,047)	—
Net impairment losses recognized in earnings	(1,175)	—
Representation and warranty reserve – change in estimate	(60,538)	(20,427)
Other fees and charges, net	12,816	7,138
Total non-interest income	221,377	96,266
Non-Interest Expense		
Compensation, commissions and benefits	81,455	63,308
Occupancy and equipment	16,950	16,618
Asset resolution	36,770	38,109
Federal insurance premiums	12,324	8,725
Other taxes	946	866
Warrant income (expense)	2,549	(827)
General and administrative	37,752	20,431
Total non-interest expense	188,746	147,230
Loss before federal income taxes	(7,309)	(26,700)
Provision for federal income taxes	—	264
Net Loss	(7,309)	(26,964)
Preferred stock dividend/accretion (1)	(1,407)	(4,710)

Net loss applicable to common stock	$(8,716)	$(31,674)

6

Table of Contents

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

	For the Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Loss per share		
Basic	$(0.02)	$(0.06)
Diluted	$(0.02)	$(0.06)

(1) The preferred stock dividend/accretion at March 31, 2012 represents only the accretion. As of December 31, 2011, the Company elected the deferral of dividend and interest payments on preferred stock.

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

Table of Contents

Flagstar Bancorp, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	For the Three Months Ended March 31,	
	2012	2011
Net loss	$(7,309)	$(26,964)
Other comprehensive income (loss), before tax:		
Securities available-for-sale:		
Change in net unrealized loss on sale of securities available-for-sale	13,121	6,405
Reclassification of gain on sale of securities available-for-sale	(310)	—
Reclassification of loss on securities available-for-sale due to other-than-temporary impairment	1,175	—
Total securities available-for-sale	13,986	6,405
Other comprehensive income, before tax	13,986	6,405
Deferred tax expense (benefit) related to other comprehensive income	—	—
Other comprehensive income, net of tax	13,986	6,405
Comprehensive income (loss)	$6,677	$(20,559)

Table of Contents

Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2010 (Unaudited)	$249,196	$5,533	$1,461,373	$ (16,165)	$(440,274)	$1,259,663
Net loss	—	—	—	—	(26,964)	(26,964)
Total other comprehensive income	—	—	—	6,405	—	6,405
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	$250,572	$5,537	$1,462,620	$ (9,760)	$(471,947)	$1,237,022
Balance at December 31, 2011 (Unaudited)	$254,732	$5,558	$1,466,461	$ (7,819)	$(639,216)	$1,079,716
Net loss	—	—	—	—	(7,309)	(7,309)
Total other comprehensive income	—	—	—	13,986	—	13,986
Restricted stock issued	—	6	(6)	—	—	—
Accretion of preferred stock (1)	1,407	—	—	—	(1,407)	—
Stock-based compensation	—	7	1,021	—	—	1,028
Balance at March 31, 2012	$256,139	$5,571	$1,467,476	$ 6,167	$(647,932)	$1,087,421

(1) The preferred stock dividend/accretion during the three months ended March 31, 2012 represents only the accretion. As of December 31, 2011, the Company elected the deferral of dividend and interest payments on preferred stock.

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 Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Operating Activities		
Net loss	$(7,309)	$(26,964)
Adjustments to net loss to net cash used in operating activities		
Provision for loan losses	114,673	28,309
Depreciation and amortization	4,469	3,642
Loss (gain) on fair value of residential first mortgage servicing rights	6,927	(4,123)
Stock-based compensation expense	1,028	1,251
Net loss on the sale of assets	670	1,158
Net gain on loan sales	(204,853)	(50,184)
Net loss on sales of mortgage servicing rights	2,317	112
Net gain on securities classified as available-for-sale	(310)	—
Other than temporary impairment losses on securities classified as available-for-sale	1,175	—
Net loss on trading securities	5,971	74
Net loss on transferor interest	409	2,381
Proceeds from sales of loans held-for-sale	11,474,194	5,914,461
Origination and repurchase of mortgage loans held-for-sale, net of principal repayments	(11,886,555)	(4,949,989)
Increase in repurchase of mortgage loans with government guarantees, net of claims received	(103,732)	(81,782)
Increase in accrued interest receivable	(2,943)	(2,969)
Decrease (increase) in other assets	122,214	(12,300)
Increase (decrease) in accrued interest payable	1,401	(2,841)
(Decrease) increase liability for checks issued	(988)	3,830
Decrease in payable for mortgage repurchase option	(30,683)	(19,743)
Increase in representation and warranty reserve	22,000	—
Decrease in other liabilities	(20,073)	(8,533)
Net cash (used) provided in operating activities	(499,998)	795,790
Investing Activities		
Proceeds from the sale of investment securities available-for-sale	20,665	—
Net repayment of investment securities available-for-sale	25,405	29,299
Net proceeds from sales of loans held-for-investment	(187,768)	6,736
Origination of portfolio loans, net of principal repayments	208,523	476,784
Proceeds from the disposition of repossessed assets	25,035	37,572
Acquisitions of premises and equipment, net of proceeds	(7,150)	(5,046)
Proceeds from the sale of mortgage servicing rights	16,394	—
Net cash provided by investing activities	101,104	545,345
Financing Activities		
Net increase (decrease) in deposit accounts	909,165	(249,189)
Net decrease in Federal Home Loan Bank advances	(362,000)	(325,083)
Net disbursement of payments of loans serviced for others	(126,288)	(9,023)
Net receipt of escrow payments	4,907	6,978
Dividends paid to preferred stockholders	—	(3,333)

Net cash provided by (used) in financing activities	425,784	(579,650)
Net increase in cash and cash equivalents	26,890	761,485

Table of Contents

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

	For the Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Beginning cash and cash equivalents	731,058	953,534
Ending cash and cash equivalents	$757,948	$1,715,019
Loans held-for-investment transferred to repossessed assets	$171,375	$64,290
Total interest payments made on deposits and other borrowings	$46,756	$61,448
Federal income taxes paid	$225	$—
Reclassification of mortgage loans originated for portfolio to mortgage loans held-for-sale	$200,908	$383
Reclassification of mortgage loans originated held-for-sale then transferred to portfolio loans	$13,140	$7,119
Mortgage servicing rights resulting from sale or securitization of loans	$111,484	$50,700

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

Table of Contents

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. With $14.0 billion in total assets at March 31, 2012, the Company is the largest insured depository institution headquartered in Michigan and is the largest publicly held savings bank headquartered in the Midwest.
The Company is a full-service financial services company, offering a range of products and services to consumers, businesses, and homeowners. As of March 31, 2012, the Company operated 113 banking centers in Michigan, 28 home loan centers in 13 states, and a total of four commercial banking offices in Massachusetts, Connecticut, and Rhode Island. In April 2012, two banking centers in Michigan were closed to better align the branch structure with the Company's focus on key market areas and to improve banking center efficiencies. The Company originates loans nationwide and is one of the leading originators of residential first mortgage loans. The Company also offers consumer products including deposit accounts, standard and jumbo home loans, home equity lines of credit, and personal loans, including auto and boat loans. The Company also offers commercial loans and treasury management services throughout Michigan and through its four commercial banking offices in Massachusetts, Rhode Island and Connecticut. Commercial products include deposit and sweep accounts, telephone banking, term loans and lines of credit, lease financing, 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 refine the Company's leverage ability and to receive the interest spread between earning assets and paying liabilities.
The Bank is subject to regulation, examination and supervision by the Office of the Comptroller of the Currency (“OCC”) of the United States Department of the Treasury (“U.S. Treasury”). The Bank is also subject to regulation, examination and supervision by the Federal Deposit Insurance Corporation (“FDIC”) and the Consumer Financial Protection Bureau (the “CFPB”). The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund (“DIF”). The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve (“Federal Reserve”). The Bank is also a member of the Federal Home Loan Bank (“FHLB”) of Indianapolis.
Branch Sales

During the fourth quarter 2011, the Bank completed the previously announced sale of 27 banking centers in Georgia and 22 banking centers in Indiana to PNC Bank, N.A., part of The PNC Financial Services Group, Inc. ("PNC") and First Financial Bank, N.A. ("First Financial"), respectively. Management believes that the Company's presence in the Georgia and Indiana markets lacked market density and sufficient scale, and believes that these transactions are consistent with the strategic focus on core Midwest banking markets and on deployment of capital towards continuing growth in commercial and consumer banking in those markets, as well as the emerging Northeast market.

In the Georgia sale, PNC purchased the facilities or assumed the leases associated with the banking centers and purchased associated business and retail deposits in the amount of $211.3 million. PNC paid the net carrying value of the acquired real estate and fixed and other personal assets associated with the banking centers.

In the Indiana sale, First Financial paid a consideration of a seven percent premium on the consumer and commercial deposits in the Indiana banking centers. The total amount of such consumer and commercial deposits was $462.0 million for a gain of $22.1 million. First Financial paid net carrying value on real estate and personal assets of the banking centers and assumed the existing leases on 14 of the banking centers.

The Company predominantly originated residential mortgage loans for sale in the secondary market in both the Georgia and Indiana markets. Accordingly, the amount of loans on the balance sheet was immaterial and no loans were transferred in either transaction.

Supervisory Agreements

On January 27, 2010, the Company and the Bank entered into supervisory agreements (collectively, the “Supervisory Agreements”) with their then primary regulator the Office of Thrift Supervision ("OTS"). The Supervisory Agreements will remain in effect until terminated, modified, or suspended in writing by the Company's and the Bank's current primary regulators, the

Table of Contents

Federal Reserve and the OCC, respectively, and the failure to comply with the Supervisory Agreements could result in the initiation of further enforcement action by the Federal Reserve or the OCC, including the imposition of further operating restrictions and result in additional enforcement actions against the Company and the Bank.

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, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011, 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, 2012, the Company adopted the update to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 220, "Comprehensive Income" and applied the provisions retrospectively. Under the amended guidance, an entity had the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income ("OCI") either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The adoption of the guidance did not have a material effect on the Company's Consolidated Financial Statements or the Notes thereto. For further information concerning comprehensive income, refer to Consolidated Statements of Comprehensive Income and Note 15 - Stockholders' Equity.

On January 1, 2012, the Company prospectively adopted the update to FASB ASC Topic 820, "Fair Value Measurement." The amended guidance did not modify the requirements for when fair value measurements apply, rather it generally represents clarifications on how to measure and disclose fair value under Topic 820, Fair Value Measurement. The guidance is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"), by ensuring that fair value has the same meaning in U.S. GAAP and IFRS and respective disclosure requirements are the same except for inconsequential differences in wording and style. The adoption of the guidance did not have a material effect on the Company's Consolidated Financial Statements or the Notes thereto. For further information concerning fair value, refer to Note 3 - Fair Value Accounting.

On January 1, 2012, the Company adopted FASB ASC Topic 860, "Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements." Under the amended guidance, a transferor maintains effective control over transferred financial assets if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity. In addition, the following requirements must be met: (i) the financial asset to be repurchased or redeemed are the same or substantially the same as those transferred, (ii) the

agreement is to repurchase or redeem the transferred financial asset before maturity at a fixed or determinable price, and (iii) the agreement is entered into contemporaneously with, or in contemplation of the transfer. The adoption of the guidance did not have a material effect on the Company's Consolidated Financial Statements or the Notes thereto.

On July 1, 2011, the Company adopted the update to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, "Receivables - A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring" and applied the provisions retrospectively to January 1, 2011. The troubled debt restructuring ("TDR") guidance clarifies whether loan modifications constitute TDRs, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether the restructuring constitutes as a TDR and a concession has been granted to the borrower, and clarifies the guidance for creditors to use in determining whether a borrower is experiencing financial difficulties. The adoption of the guidance did not have a material effect on the Company's Consolidated Financial Statements or the Notes thereto. For further information concerning TDRs, refer to Note 7 - Loans Held-for-Investment.

Table of Contents

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-10, “Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate - a Scope Clarification.” The guidance represents the consensus reached in EITF Issue No. 10-E, “Derecognition of in Substance Real Estate” and applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. ASU 2011-10 provides that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. This guidance is effective prospective for annual and interim periods beginning on or after June 15, 2012. Early adoption is permitted. The adoption of the guidance is not expected to have a material impact on the Company's Consolidated Financial Statements or the Notes thereto.

In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.” The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position. The FASB issued common disclosure requirements related to offsetting arrangements to allow investors to better compare financial statements prepared in accordance with IFRS or U.S. GAAP. The objective of this guidance is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This guidance is effective retrospectively for annual and interim periods beginning on or after January 1, 2013. The adoption of the guidance is not expected to have a material impact on the Company's Consolidated Financial Statements or the Notes thereto.

Note 3 – Fair Value Accounting

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in either case through an orderly transaction between market participants at the measurement date. The Company utilizes fair value measurements to record certain assets and liabilities at fair value and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Company uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation models rely on market-based parameters when available, such as interest rate yield curves, credit spreads or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions and estimates related to credit quality, asset growth, the Company's future earnings, interest rates and other relevant inputs. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Valuation Hierarchy

U.S. GAAP establishes a three level valuation hierarchy for disclosure of fair value measurements that is based on the transparency of the inputs used in the valuation process. The three levels of the hierarchy, highest ranking to lowest, are as follow:

Level 1 -Quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Company can participate as of the measurement date.
Level 2 -Quoted prices for similar instruments in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 -Unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the overall fair value measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

The following is a description of the valuation methodologies used by the Company for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Table of Contents

Assets

Securities classified as trading. These securities are comprised of U.S. government sponsored agency mortgage backed securities, U.S. Treasury bonds and non investment grade residual securities that arose from private label securitizations of the Company. The U.S. government sponsored agency mortgage backed securities and U.S. Treasury bonds trade in an active, open market with readily observable prices and are therefore classified within the Level 1 valuation hierarchy. The non investment grade residual securities do not trade in an active, open market with readily observable prices and are therefore classified within the Level 3 valuation hierarchy. Under Level 3, the fair value of residual securities is determined by discounting estimated net future cash flows using expected prepayment rates and discount rates that approximate current market rates. Estimated net future cash flows include assumptions related to expected credit losses on these securities. The Company maintains a model that evaluates the default rate and severity of loss on the residual securities collateral, considering such factors as loss experience, delinquencies, loan to value ratios, borrower credit scores and property type. At March 31, 2012 and December 31, 2011, the Company had no Level 3 securities classified as trading. See Note 9 - Private-label Securitization Activity, for the key assumptions used in the residual interest valuation process.

Securities classified as available-for-sale. These securities are comprised of U.S. government sponsored agency mortgage backed securities and CMOs. Where quoted prices for securities are available in an active market, those securities are classified within Level 1 of the valuation hierarchy. Where quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and those securities are classified within Level 2 of the valuation hierarchy. Where markets are illiquid and fair values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, those securities are classified within Level 3 of the valuation hierarchy. Due to illiquidity in the markets, the Company determined the fair value of the FSTAR 2006-1 securitization trust using a discounted estimated net future cash flow model and therefore classified it within the Level 3 valuation hierarchy as the model utilizes significant inputs which are unobservable.

Loans held-for-sale. The Company generally estimates the fair value of mortgage loans held-for-sale based on quoted market prices for securities backed by similar types of loans. Where quoted market prices were available, such market prices were utilized as estimates for fair values. Otherwise, the fair values of loans was computed by discounting cash flows using observable inputs inclusive of interest rates, prepayment speeds and loss assumptions for similar collateral. These measurements are classified as Level 2.

Loans held-for-investment. Loans held-for-investment are generally recorded at amortized cost. The Company does not record these loans at fair value on a recurring basis. However, from time to time a loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Once a loan is identified as impaired, the fair value of the impaired loan is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. The fair value of the underlying collateral is determined, where possible, using market prices derived from appraisals or broker price opinions which are considered to be Level 3. Fair value may also be measured using the present value of expected cash flows discounted at the loan's effective interest rate. The Company records the impaired loan as a non-recurring Level 3 valuation.

Loans held-for-investment on a recurring basis are loans that were previously recorded as loans held-for-sale but subsequently transferred to the held-for-investment category. As the Company selected the fair value option for the held-for-sale loans, they continue to be reported at fair value and measured consistent with the Level 2 methodology for loans held-for-sale.

Repossessed assets. Loans on which the underlying collateral has been repossessed are adjusted to fair value less costs to sell upon transfer to repossessed assets. Subsequently, repossessed assets are carried at the lower of carrying value or fair value, less anticipated marketing and selling costs. Fair value is generally based upon third-party appraisals or internal estimates and considered a Level 3 classification.

Residential MSRs. The current market for residential MSRs is not sufficiently liquid to provide participants with quoted market prices. Therefore, the Company uses an option adjusted spread valuation approach to determine the fair value of residential MSRs. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk adjusted discount rates. The key assumptions used in the valuation of residential MSRs include mortgage prepayment speeds and discount rates. Management obtains third party valuations of the residential MSR portfolio on a quarterly basis from independent valuation experts to assess the reasonableness of the fair value calculated by its internal valuation model. Due to the nature of the valuation inputs, residential MSRs are classified within Level 3 of the valuation hierarchy. See Note 10 - Mortgage Servicing Rights, for the key assumptions used in the residential MSR valuation process.

Table of Contents

Derivative financial instruments. Certain classes of derivative contracts are listed on an exchange and are actively traded, and they are therefore classified within Level 1 of the valuation hierarchy. These include U.S. Treasury futures and U.S. Treasury options. The Company's forward loan sale commitments and interest rate swaps are valued based on quoted prices for similar assets in an active market with inputs that are observable and are classified within Level 2 of the valuation hierarchy. Rate lock commitments are valued using internal models with significant unobservable market parameters and therefore are classified within Level 3 of the valuation hierarchy. The Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. The derivatives are reported in either “other assets” or “other liabilities” on the Consolidated Statements of Financial Condition.

Equity-linked transaction and option commitment. The equity-linked transaction and option commitment serves as a hedge (off-set) to the market risk incurred with the Company's participation of equity-linked certificates of deposit. The option represents the premium over the total notional amount of the hedge. The valuations are based on counterparty risk systems measuring the present value of each instrument and its future payments. The risk systems takes into consideration economic terms of the trade and current market levels including spot rates, and underlying volatility and correlation among other factors.

Liabilities

Warrants. 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.

Litigation settlement. On February 24, 2012, the Company announced that the Bank had entered into an agreement (the “DOJ Agreement”) with the U.S. Department of Justice ("DOJ") relating to certain underwriting practices associated with loans insured by the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD"). 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), only upon the occurrence of certain future events (as further described below), is obligated to make payments of approximately $118.0 million (the "Additional Payments"), and complete a monitoring period by an independent third party chosen by the Bank and approved by HUD.

Based on analysis of the DOJ agreement, the Company recorded a liability of $33.3 million at December 31, 2011. During the three months ended March 31, 2012 the Company recorded an increase to the liability of $0.8 million, principally representing the recognition of the periodic effect of discounting, and the total liability was $34.1 million at March 31, 2012, which includes $19.1 million representing the estimated fair value of the $118.0 million Additional Payments. Future changes in the fair value of the Additional Payments will affect earnings each quarter.

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 signed settlement contract 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 specific terms of the payment structure are as follow:

- The Company generates positive income for a sustained period, such that part or all of the Deferred Tax Asset ("DTA"), which has been offset by a valuation allowance ("DTA Valuation Allowance"), is likely to be realized, as

evidenced by the reversal of the DTA Valuation Allowance in accordance with U.S. GAAP;

- The Company is able to include capital derived from the reversal of the DTA Valuation Allowance in the Bank's Tier 1 capital, which is the lesser of 10 percent of Tier 1 capital or the amount of the DTA that the Company expects to recover within one year based on financial projections;
- The Company's obligation to repay the $266.7 million in preferred stock held by the U.S. Treasury under the TARP Capital Purchase Program has been either extinguished or excluded from Tier 1 capital for purposes of calculating the Tier 1 capital ratio as described in the paragraph below;
- Upon the occurrence of each of the future events described above, and provided doing so would not violate any banking regulatory requirement or the OCC does not otherwise object, the Company will begin making Additional Payments provided that (i) each annual payment would be equal to the lesser of $25 million or the portion of the Additional Payments that remains outstanding after deducting prior payments; and (ii) no obligation arises until the Company's call report as filed with the OCC, including any amendments thereto, for the period ending at least six months prior to the making of

Table of Contents

such Additional Payments, reflects a minimum Tier 1 capital ratio of 11 percent (or higher if required by regulators), after excluding any unextinguished portion of the preferred stock held by U.S. Treasury under the TARP Capital Purchase Program; and

- In no event will the Company be required to make an Additional Payment if doing so would violate any material banking regulatory requirement or the OCC (or any successor regulator under the safety and soundness program) objects in writing to the making of an Additional Payment.

The fair value of the DOJ Agreement is based on a discounted cash flow valuation model that incorporates the Company's current estimate of the most likely timing and amount of the cash flows necessary to satisfy the obligation. These cash flow estimates are reflective of the Company's detailed financial and operating projections for the next three years, as well as more general growth earnings and capital assumptions for subsequent periods.

The timing of each of the metrics is dependent on the preceding metric being achieved and actual Bank operating results and forecasted assumptions could materially change the value of the liability. As the Bank's profitability increases, the value of the deferred liability would also increase.

The cash flows are discounted using a 17.1 percent discount rate that is inclusive of the risk free rate based on the expected duration of the liability and an adjustment for nonperformance risk that represents the Company's credit risk. The model assumes 12 quarters of profitability prior to reversing the valuation allowance associated with the deferred tax asset.

The liability is classified within Level 3 of the valuation hierarchy given the projections of earnings and growth rate assumptions are unobservable inputs. The litigation settlement is included in “other liabilities” on the Consolidated Financial Statements and changes in the fair value of the litigation settlement will be recorded each quarter in general and administrative expense within non-interest expense on the Consolidated Statements of Operations.

Table of Contents

Assets and liabilities measured at fair value on a recurring basis

The following tables present the financial instruments carried at fair value as of March 31, 2012 and December 31, 2011, by caption on the Consolidated Statement of Financial Condition and by the valuation hierarchy (as described above).

	Level 1	Level 2	Level 3	Total Carrying Value
March 31, 2012	(Dollars in thousands)			
Securities classified as trading:				
U.S. Treasury bonds	$307,355	$—	$—	$307,355
Securities classified as available-for-sale:				
Non-agency collateralized mortgage obligations	—	235,136	105,034	340,170
U.S. government sponsored agencies	107,977	—	—	107,977
Loans held-for-sale:				
Residential first mortgage loans	—	2,132,842	—	2,132,842
Loans held-for-investment:				
Residential first mortgage loans	—	20,365	—	20,365
Residential mortgage servicing rights	—	—	596,830	596,830
Equity-linked CD purchase option	241	—	—	241
Derivative assets:				
Forward agency and loan sales	—	832	—	832
Rate lock commitments	—	—	68,265	68,265
Interest rate swaps	—	2,852	—	2,852
Total derivative assets	—	3,684	68,265	71,949
Total assets at fair value	$415,573	$2,392,027	$770,129	$3,577,729
Derivative liabilities:				
Agency forwards	$—	$(2,141)	$—	$(2,141)
U.S. Treasury futures	(6,181)	—	—	(6,181)
Interest rate swaps	—	(2,852)	—	(2,852)
Total derivative liabilities	(6,181)	(4,993)	—	(11,174)
Warrant liabilities	—	(4,960)	—	(4,960)
Equity-linked CD written option	(241)	—	—	(241)
Litigation settlement (1)	—	—	(19,100)	(19,100)
Total liabilities at fair value	$(6,422)	$(9,953)	$(19,100)	$(35,475)

Table of Contents

	Level 1	Level 2	Level 3	Total Carrying Value
December 31, 2011	(Dollars in thousands)			
Securities classified as trading:				
U.S. Treasury bonds	$313,383	$—	$—	$313,383
Securities classified as available-for-sale:				
Non-agency collateralized mortgage obligations	—	—	365,256	365,256
U.S. government sponsored agencies	116,096	—	—	116,096
Loans held-for-sale:				
Residential first mortgage loans	—	1,629,618	—	1,629,618
Loans held-for-investment:				
Residential first mortgage loans	—	22,651	—	22,651
Residential mortgage servicing rights	—	—	510,475	510,475
Derivative assets:				
U.S. Treasury futures	3,316	—	—	3,316
Rate lock commitments	—	—	70,965	70,965
Agency forwards	9,362	—	—	9,362
Interest rate swaps	—	3,296	—	3,296
Total derivative assets	12,678	3,296	70,965	86,939
Total assets at fair value	$442,157	$1,655,565	$946,696	$3,044,418
Derivative liabilities:				
Forward agency and loan sales	$—	$(42,978)	$—	$(42,978)
Interest rate swaps	—	(3,296)	—	(3,296)
Total derivative liabilities	—	(46,274)	—	(46,274)
Warrant liabilities	—	(2,411)	—	(2,411)
Litigation settlement (1)	—	—	(18,300)	(18,300)
Total liabilities at fair value	$—	$(48,685)	$(18,300)	$(66,985)

(1) Does not include the $15.0 million payment required to be paid within 30 business days after the effective date of the DOJ Agreement, which was paid on April 3, 2012.

Table of Contents

A determination to classify a financial instrument within Level 3 of the valuation hierarchy is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources). Also, the Company manages the risk associated with the observable components of Level 3 financial instruments using securities and derivative positions that are classified within Level 1 or Level 2 of the valuation hierarchy; these Level 1 and Level 2 risk management instruments are not included below, and therefore the gains and losses in the tables do not reflect the effect of the Company's risk management activities related to such Level 3 instruments. If the market for an instrument becomes more liquid or active and pricing models become available which allow for readily observable inputs, the Company will transfer the instruments from a Level 3 to a Level 2 valuation hierarchy.

The Company transferred $235.1 million in non-agency collateralized mortgage obligations recorded at fair value on a recurring basis out of Level 3 fair value measurement into a Level 2 asset during the three months ended March 31, 2012, compared to no transfers for three months ended March 31, 2011. There were no transfers of liabilities recorded at fair value on a recurring basis into or out of Level 3 fair value measurements during the three months ended March 31, 2012 and 2011. The Company reclassified the 2010 and 2011 nonrecurring hierarchy disclosures for impaired loans and repossessed assets from Level 2 to Level 3 to reflect that the appraised values, broker price opinions or internal estimates contain unobservable inputs. The impact was limited to disclosure.

Interest rate swap derivatives were transferred from a Level 1 to a Level 2 during the fourth quarter 2011 because the derivatives are not actively being traded on a listed exchange. The interest rate swap derivatives are valued based on quoted prices for similar assets in an active market with inputs that are observable and are now classified within Level 2 of the valuation hierarchy.

Non-agency collateralized mortgage obligations were transferred from a Level 3 to a Level 2 during the three months ended March 31, 2012 because of increased market liquidity as well as an increase in the number of available pricing models. The non-agency collateralized mortgage obligations are valued based on pricing provided by external pricing services.

Table of Contents

Fair value measurements using significant unobservable inputs

The tables below include a roll forward of the Consolidated Statement of Financial Condition amounts for the three months ended March 31, 2012 and 2011 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

		Recorded in Earnings		Recorded in OCI							
For the Three Months Ended March 31, 2012	Balance at Beginning of Period	Total Unrealized Gains / (Losses)	Total Realized Gains / (Losses)	Total Unrealized Gains / (Losses)	Issuances	Purchases	Sales	Settlements	Transfers In (Out)	Balance at End of Period	Chang In Unreal Held a of Peri
Assets	(Dollars in thousands)										
Securities classified as available-for-sale (1)(2)(3)											
Non-agency collateralized mortgage obligations	$365,256	$—	$—	$685	$—	$—	$(5,979)	$—	$(254,928)	$105,034	$685
Residential mortgage servicing rights	510,475	(6,927)	—	—	—	111,484	(18,202)	—	—	596,830	—
Derivative financial instruments:											
Rate lock commitments	70,965	48,338	—	—	—	171,149	(159,168)	(63,036)	—	68,248	—
Totals	$946,696	$41,411	$—	$685	$—	$282,633	$(183,349)	$(63,036)	$(254,928)	$770,112	$685
Liabilities											
Litigation settlement	$18,300	$—	$(800)	$—	$—	$—	$—	$—	$—	$19,100	$—
For the Three Months Ended March 31, 2011											
Securities classified as available-for-sale: (1)(2)(3)											
Non-agency collateralized mortgage obligations	$467,488	$—	$—	$7,722	$—	$—	$(30,253)	$—	$—	$444,957	$7,72
Residential mortgage servicing rights	580,299	4,123	—	—	—	50,700	—	—	—	635,122	—

Derivative financial instruments:											
Rate lock commitments	14,396	(6,201)	—	—	—	48,844	(32,952)	(10,307)	—	13,780	—
Totals	$1,062,183	$(2,078)	$—	$7,722	$—	$99,544	$(63,205)	$(10,307)	$—	$1,093,859	$7,72

(1) Realized gains (losses), including unrealized losses deemed other than temporary and related to credit issues, are reported in non interest income.

(2) U.S. government agency securities classified as available-for-sale are valued predominantly using quoted broker/dealer prices with adjustments to reflect for any assumptions a willing market participant would include in its valuation. Non agency securities classified as available-for-sale are valued using internal valuation models and pricing information from third parties.

(3) Management had anticipated that the non agency securities would be classified under Level 2 of the valuation hierarchy. However, due to illiquidity in the markets, the fair value of these securities has been determined using internal models and therefore is classified within Level 3 of the valuation hierarchy and pricing information from third parties.

(4) Changes in the unrealized gains (losses) related to financial instruments held at the end of the year.

Table of Contents

The following tables present the quantitative information about recurring Level 3 fair value financial instruments and the fair value measurements as of March 31, 2012 and December 31, 2011.

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
March 31, 2012	(Dollars in thousands)			
Assets				
FSTAR 2006-1	$105,034	Discounted cash flows	Discount rate Prepay rate - 12 month historical average CDR rate - 12 month historical average Loss severity	7.2% - 10.8% (9.0%) 7.6% - 11.4% (9.5%) 5.2% - 7.9% (6.5%) 80.0% - 120.0% (100.0%)
Residential mortgage servicing rights	$596,830	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	4.6% - 6.9% (5.8%) 14.3% - 21.8% (18.1%) 57.8% - 86.7% (72.2%)
Rate lock commitments	$68,265	Mark-to-Market	Origination pull-through rate	60.3% - 90.4% (75.3%)
Liabilities				
Litigation settlement	$19,100	Discounted cash flows	Asset growth rate MSR growth Rate Return on assets (ROA) improvement	4.4% - 6.6% (5.5%) 1.4% - 0.9% (1.2%) 0.02% - 0.04% (0.03%)

The significant unobservable inputs used in the fair value measurement of the FSTAR 2006-1 securitization trust are discount rates, prepayment rates and default rates. While loss severity (in the event of default) is an unobserveable input, the sensitivity of the fair value to this input is zero because of the insurer coverage on the deal. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases in both prepay rates and default rates in isolation result in a higher fair value; however, generally a change in the assumption used for the probability of default is accompanied by a directionally opposite change in the assumption used for prepayment rates, which would offset a portion of the fair value change.

The significant unobservable inputs used in the fair value measurement of the MSRs are option adjusted spreads, prepayment rates, and cost to service. Significant increases (decreases) in all three assumptions in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable input used in the fair value measurement of the rate lock commitments is the pull through rate. The pull through rate is a statistical analysis of the Company's actual rate lock fallout history to determine the sensitivity of the residential mortgage loan pipeline compared to interest rate changes and other deterministic values. New market prices are applied based on updated loan characteristics and new fall out ratios (i.e., the inverse of the pull through rate) are applied accordingly. Significant increases (decreases) in the pull through rate in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the assumption utilized for the probability of default is accompanied by a directionally similar change in the assumption utilized for the loss severity and a directionally opposite change in assumption utilized for prepayment rates.

The significant unobservable inputs used in the fair value measurement of the DOJ Agreement are future balance sheet and growth rate assumptions for overall asset growth, MSR growth, and return on assets improvement. The current assumptions are based on management's strategic performance targets beyond the current strategic modeling horizon (2015). The Bank's target asset growth rate post 2015 is based off of growth in the balance sheet post TARP preferred stock repayment. Significant increases (decreases) in the bank's asset growth rate in isolation would result in

a significantly lower (higher) fair value measurement. Significant increases (decreases) in the bank's MSR growth rate in isolation would result in a marginally lower (higher) fair value measurement. Significant increases (decreases) in the bank's return on assets improvement in isolation would result in a marginally higher (lower) fair value measurement.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets are measured at the lower of cost or market and had a fair value below cost at the end of the period as summarized below.

Table of Contents

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets are measured at the lower of cost or market and had a fair value below cost at the end of the period as summarized below.

Assets Measured at Fair Value on a Non-recurring Basis

	Total	Level 3
	(Dollars in thousands)	
March 31, 2012		
Impaired loans held-for-investment: (1)		
Residential first mortgage loans	$133,179	$133,179
Commercial real estate loans	134,072	134,072
Repossessed assets (2)	108,686	108,686
Totals	$375,937	$375,937
December 31, 2011		
Impaired loans held-for-investment: (1)		
Residential first mortgage loans	$210,040	$210,040
Commercial real estate loans	180,306	180,306
Repossessed assets (2)	114,715	114,715
Totals	$505,061	$505,061

(1) As of December 31, 2011 the Company reclassified impaired loans and repossessed assets from Level 2 to Level 3 to reflect that many of the appraised values, price opinions or internal estimates contain unobservable inputs.

(2) The Company recorded $47.8 million and $14.6 million in fair value losses on impaired loans (include in provision for loan losses on the Consolidated Statements of Operations) during the three months ended March 31, 2012 and 2011, respectively.

(3) The Company recorded $8.0 million and $13.2 million in losses related to write-downs of repossessed assets based on the estimated fair value of the specific assets, and recognized net loss of $0.7 million and a net loss of $0.1 million on sales of repossessed assets during the three months ended March 31, 2012 and 2011, respectively.

The following tables present the quantitative information about non-recurring Level 3 fair value financial instruments and the fair value measurements as of March 31, 2012 and December 31, 2011.

	Fair Value	Valuation Technique(s)
March 31, 2012	(Dollars in thousands)	
Impaired loans held-for-investment:		
Residential mortgage loans	$133,179	Appraisal value
Commercial real estate loans	$134,072	Appraisal value
Repossessed assets	$108,686	Appraisal value

The Company has certain impaired residential and commercial real estate loans that are measured at fair value on a nonrecurring basis. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Appraisals or other third party price opinions are generally obtained to support the fair value of the collateral and incorporate measures such as recent sales prices for comparable properties. In cases where the carrying value exceeds the fair value of the collateral less cost to sell, an impairment charge is recognized. At March 31, 2012, the Company identified $133.2 million and $134.1 million in residential and commercial real estate loans, respectively, carried at fair value on a non-recurring basis. For the three month period ended March 31, 2012, non-recurring fair value impairment of $47.8 million was recorded within the provision for credit losses.

Repossessed assets are measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the repossessed asset. The fair value of repossessed assets, upon initial recognition, are

estimated using Level 3 inputs based on customized discounting criteria. The significant unobservable inputs used in the Level 3 fair value measurements of the Company's impaired loans and repossessed assets included in the table above primarily relate to internal valuations or analysis.

Table of Contents

Fair Value of Financial Instruments

The accounting guidance for financial instruments requires disclosures of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Certain financial instruments and all non-financial instruments are excluded from the scope of this guidance. Accordingly, the fair value disclosures required by this guidance are only indicative of the value of individual financial instruments as of the dates indicated and should not be considered an indication of the fair value of the Company.

The following table presents the carrying amount and estimated fair value of certain financial instruments not recorded at fair value in entirety on a recurring basis.

	March 31, 2012				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial Instruments					
Assets:					
Cash and cash equivalents	$757,948	$757,948	$757,948	$—	$—
Securities classified as trading	307,355	307,355	307,355	—	—
Securities classified as available-for-sale	448,147	448,147	107,977	235,136	105,034
Loans held-for-sale	2,492,855	2,488,869	—	2,488,869	—
Loans repurchased with government guarantees	2,002,999	2,002,999	—	2,002,999	—
Loans held-for-investment, net	6,378,538	6,420,211	—	—	6,420,211
Accrued interest receivable	108,143	108,143	—	108,143	—
Repossessed assets	108,686	108,686	—	—	108,686
FHLB stock	301,737	301,737	301,737	—	—
Mortgage servicing rights	596,830	596,830	—	—	596,830
Customer initiated derivative interest-rate swaps	2,852	2,852	—	2,852	—
Liabilities:					
Retail deposits:					
Demand deposits and savings accounts	(2,873,274)	(2,794,436)	—	(2,794,436)	—
Certificates of deposit	(3,119,581)	(3,145,829)	—	(3,145,829)	—
Government accounts	(780,404)	(775,340)	—	(775,340)	—
National certificates of deposit	(345,901)	(353,760)	—	(353,760)	—
Company controlled deposits	(1,479,993)	(1,475,575)	—	(1,475,575)	—
FHLB advances	(3,591,000)	(3,850,921)	(3,850,921)	—	—
Long-term debt	(248,585)	(85,109)	—	(85,109)	—
Accrued interest payable	(10,124)	(10,124)	—	(10,124)	—
Warrant liabilities	(4,960)	(4,960)	—	(4,960)	
Litigation settlement	(19,100)	(19,100)	—	—	(19,100)
Customer initiated derivative interest-rate swaps	(2,852)	(2,852)	—	(2,852)	—
Derivative Financial Instruments:					
Forward delivery contracts	832	832	—	832	—
Commitments to extend credit	68,265	68,265	—	68,265	—
U.S. Treasury and agency futures/forwards	(8,321)	(8,321)	(8,321)	—	—

Table of Contents

	December 31, 2011				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial Instruments					
Assets:					
Cash and cash equivalents	$731,058	$731,058	$731,058	$—	$—
Securities classified as trading	313,383	313,383	313,383	—	—
Securities classified as available-for-sale	481,352	481,352	116,096	—	365,256
Loans held-for-sale	1,800,885	1,823,421	—	1,823,421	—
Loans repurchased with government guarantees	1,899,267	1,899,267	—	1,899,267	—
Loans held-for-investment, net	6,720,587	6,748,914	—	—	6,748,914
Accrued interest receivable	105,200	105,200	—	105,200	—
Repossessed assets	114,715	114,715	—	—	114,715
FHLB stock	301,737	301,737	301,737	—	—
Mortgage servicing rights	510,475	510,475	—	—	510,475
Customer initiated derivative interest-rate swaps	3,296	3,296	—	3,296	—
Liabilities:					
Retail deposits:					
Demand deposits and savings accounts	(2,520,710)	(2,440,208)	—	(2,440,208)	—
Certificates of deposit	(2,972,258)	(3,001,645)	—	(3,001,645)	—
Government accounts	(711,097)	(705,991)	—	(705,991)	—
National certificates of 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.

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

25

Table of Contents

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 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 SFAS 159: The Fair Value Option for Financial Assets and Financial Liabilities, the Company made a policy decision to elect 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 signed settlement contract 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 March 31, 2012 and December 31, 2011 the balance of the fair value of the loans held-for-sale were $2.1 billion and $1.6 billion respectively. For the three months ended March 31, 2012 and 2011, the fair value of held-for-sale loans at fair value increased $503.2 million and decreased $858.8 million, respectively. The change in fair value included in earnings was $121.1 million and $44.3 million, respectively, for the three months ended March 31, 2012 and 2011, respectively. 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 March 31, 2012 and December 31, 2011 the balance of the fair value of the loans held-for-investment were $20.4 million and $22.7 million, respectively. For the three months ended March 31, 2012 and 2011, the fair value of held-for-investment loans at fair value decreased $2.3 million and increased $3.2 million, respectively. The change in fair value included in earnings was $(1.1) million and $0.5 million, respectively, for the three months ended March 31, 2012 and 2011. 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 March 31, 2012 and December 31, 2011, the fair value of financial liabilities, which related to the DOJ Agreement, was $19.1 million and $18.3 million, respectively, and included in other liabilities in the Consolidated Statements of Financial Condition. The increase of $0.8 million, principally representing the recognition of the periodic effect of discounting, is included in general and administrative expense within non-interest expense for the three months ended March 31, 2012 on the Consolidated Statements of Operations.

Table of Contents

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

	March 31, 2012 (Dollars in thousands)			December 31, 2011		
	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) UPB	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) UPB
Assets						
Nonaccrual loans:						
Loans held-for-sale	$—	$—	$—	$281	$291	$10
Loans held-for-investment	2,961	2,987	26	2,989	2,963	(26)
Total loans	2,961	2,987	26	3,270	3,254	(16)
Other performing loans:						
Loans held-for-sale	2,051,490	2,132,842	81,352	1,570,302	1,629,327	59,025
Loans held-for-investment	16,900	17,378	478	18,699	19,688	989
Total loans	2,068,390	2,150,220	81,830	1,589,001	1,649,015	60,014
Total loans:						
Loans held-for-sale	2,051,490	2,132,842	81,352	1,570,583	1,629,618	59,035
Loans held-for-investment	19,861	20,365	504	21,688	22,651	963
Total loans	$2,071,351	$2,153,207	$81,856	$1,592,271	$1,652,269	$59,998
Liabilities						
Litigation settlement	NA (1)	$(19,100)	NA (1)	NA (1)	$(18,300)	NA (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 4 – Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
March 31, 2012				
Securities classified as trading:				
U.S. Treasury bonds	$291,752	$15,603	$—	$307,355
Securities classified as available-for-sale:				
Non-agency collateralized mortgage obligations	$362,461	$—	$(22,291)	$340,170
U.S. government sponsored agencies	105,507	2,470	—	107,977
Total securities classified as available-for-sale	$467,968	$2,470	$(22,291)	$448,147
December 31, 2011				
Securities classified as trading:				
U.S. Treasury bonds	$291,809	$21,574	$—	$313,383
Securities classified as available-for-sale:				
Non-agency collateralized mortgage obligations	401,273	—	(36,017)	365,256
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

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 $(6.0) million during the three months ended March 31, 2012. For the three months ended March 31, 2011, the Company recorded a loss of $(0.1) million all of which was unrealized gain on U.S. Treasury bonds held at March 31, 2011.

Available-for-Sale

At March 31, 2012 and December 31, 2011, the Company had $448.1 million and $481.4 million, respectively, in securities classified as available for sale which were comprised of U.S. government sponsored agency and non agency collateralized mortgage obligations ("CMOs"). Securities available for sale are carried at fair value, with unrealized gains and losses reported as a component of other comprehensive loss to the extent they are temporary in nature or "other than temporary impairments" ("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 following table summarizes by duration the unrealized loss positions, at March 31, 2012 and December 31, 2011, on securities classified as available-for-sale.

	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
Type of Security	(Dollars in thousands)					
March 31, 2012						
Non-agency collateralized mortgage obligations	$294,457	9	$(21,944)	$45,713	2	$(347)
December 31, 2011						
Non-agency collateralized mortgage obligations	$318,843	10	$(34,046)	$46,413	2	$(1,971)

The unrealized losses on securities available-for-sale amounted $22.3 million on non-agency CMOs at March 31, 2012. The unrealized losses on securities available for sale were $36.0 million on non-agency CMOs at December 31, 2011. These 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 each of the CMOs; in this case, the mortgage market in general has suffered from significant losses in value. 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 CMO 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 U.S. 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").

During the three months ended March 31, 2012, the Company recognized $1.2 million of OTTI on CMOs, which were recognized on seven securities that had losses prior to March 31, 2012, primarily due to forecasted credit losses. At March 31, 2012, the Company had total OTTI of $54.0 million on 11 CMOs with existing OTTI in the available-for-sale portfolio with $5.0 million net loss recognized in other comprehensive income. During the three months ended March 31, 2011, there was no additional OTTI due to credit losses on CMOs. All OTTI due to credit losses was recognized in current operations. At December 31, 2011, the cumulative amount of OTTI due to credit

losses totaled $59.4 million on 11 CMOs in the available-for-sale portfolio. 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.

Table of Contents

	For the Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands)	
Balance, beginning of period	$(59,376)	$(40,263)
Additions on CMOs with no prior OTTI	2,962	1,222
Reduction of principal on CMOs	3,591	—
Net change on CMOs with previous OTTI recognized	(1,175)	3,090
Balance, end of period	$(53,998)	$(35,951)

Gains (losses) on the sale of U.S. government sponsored agency mortgage backed 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 three months ended March 31, 2012 and 2011, there were no sales of agency securities with underlying mortgage products recently originated by the Bank.

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 three months ended March 31, 2012, the Company had $22.9 million in sales of non-agency securities resulting in a gain of $0.3 million, compared to no sales of agency and non-agency securities for the three months ended March 31, 2011.

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

	March 31, 2012		December 31, 2011	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Name of Issuer	(Dollars in thousands)			
Countrywide Home Loans	$128,097	$122,946	$134,993	$124,313
Flagstar Home Equity Loan Trust 2006-1 (1)	—	—	123,251	110,328
Total	$128,097	$122,946	$258,244	$234,641

(1) As of March 31, 2012 , Flagstar Home Equity Loan Trust 2006-1 available-for-sale security no longer represents 10 percent of the Company's stockholders' equity.

Note 5 – Loans Held-for-Sale

Total loans held-for-sale were $2.5 billion and $1.8 billion at March 31, 2012 and December 31, 2011, respectively, and were comprised primarily of residential first mortgage loans. During the three months ended March 31, 2012, the Company sold $10.8 million of non-performing residential first mortgage loans in the held-for-sale category at a sale price which approximated carrying value.

At March 31, 2012 and December 31, 2011, $2.1 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.

Note 6 – Loans Repurchased With Government Guarantees

Pursuant to Ginnie Mae servicing guidelines, the Company has the unilateral option to repurchase certain delinquent loans securitized in Ginnie Mae pools, if the loans meet defined criteria. As a result of this unilateral option, 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 March 31, 2012, the amount of such loans actually repurchased totaled $2.0 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 $86.5 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.

Table of Contents

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.

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 three months ended March 31, 2011 was an increase in net interest income of $12.8 million with a corresponding increase to asset resolution expense.

Note 7 – Loans Held-for-Investment

Loans held-for-investment are summarized as follows.

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Consumer loans:		
Residential first mortgage	$3,304,889	$3,749,821
Second mortgage	132,463	138,912
Warehouse lending	1,104,205	1,173,898
HELOC	209,228	221,986
Other	62,111	67,613
Total consumer loans	4,812,896	5,352,230
Commercial loans:		
Commercial real estate	1,157,911	1,242,969
Commercial and industrial	544,481	328,879
Commercial lease financing	144,250	114,509
Total commercial loans	1,846,642	1,686,357
Total consumer and commercial loans held-for-investment	6,659,538	7,038,587
Less allowance for loan losses	(281,000)	(318,000)
Loans held-for-investment, net	$6,378,538	$6,720,587

For the three month periods ended March 31, 2012, the Company transferred $13.1 million in 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 three months ended March 31, 2011, the Company transferred $7.1 million in loans held-for-sale to loans to held-for-investment.

The Company's commercial leasing activities consist 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.

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Total minimum lease payment to be received	$142,230	$115,216
Estimated residual values of lease properties	8,557	6,967
Unearned income	(12,153)	(8,894)

Net deferred fees and other	5,616	1,220
Net investment in commercial financing leases	$144,250	$114,509

Table of Contents

Accounting standards require a reserve to be established as a component of the allowance for loan losses when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan and the recorded investment in the loan exceeds its fair value. Fair value is measured using either the present value of the expected future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the collateral if the loan is collateral dependent, reduced by estimated disposal costs.

Nonperforming commercial and commercial real estate loans are considered to be impaired and typically have an allowance allocated based on the underlying collateral's appraised value, less management's estimates of costs to sell. In estimating the fair value of collateral, the Company utilizes outside fee based appraisers to evaluate various factors such as occupancy and rental rates in our real estate markets and the level of obsolescence that may exist on assets acquired from commercial business loans. Appraisals are updated at least annually but may be obtained more frequently if changes to the property or market conditions warrant.

Impaired residential loans include loan modifications considered to be TDRs and certain nonperforming loans that have been charged-down to collateral value. Fair value of nonperforming residential mortgage loans, including redefaulted TDRs and certain other severely delinquent loans, is based on the underlying collateral's value obtained through appraisals or broker's price opinions, updated at least semi-annually, less management's estimates of cost to sell. The allowance allocated to TDRs performing under the terms of their modification is typically based on the present value of the expected future cash flows discounted at the loan's effective interest rate, either on a loan level or pooled basis, as these loans are not considered to be collateral dependent.

For those loans not individually evaluated for impairment, management has sub-divided the commercial and consumer loans into homogeneous portfolios.

As part of the Company's ongoing risk assessment process which remains focused on the impacts of the current economic environment and the related borrower repayment behavior on the Company's credit performance, management continues to back test and validate the results of quantitative and qualitative modeling of the risk in loans held-for-investment portfolio in efforts to use the best quality information available. This is consistent with the expectations of the Bank's primary regulator and a continuing evaluation of the performance dynamics within the mortgage industry. As a result of an analysis completed during the first quarter of 2012, the Company determined it was appropriate to make refinements to its allowance for loan loss methodology and related model. Such refinements included improved risk segmentation and quantitative analysis, and enhancements to and alignment of the qualitative risk factors.

The impact of the refinements adopted during the first quarter of 2012 resulted in an increase to the Company's allowance for loan loss of $59.0 million in the consumer portfolio and $11.0 million in the commercial portfolio.

The following key refinements were made:

Historically, the Company segmented the population of consumer loans held-for-investment (“LHFI”) by product type and by delinquency status for purposes of estimating an adequate allowance for loan losses. Management performed a thorough analysis of the largest product type, residential first mortgage loans and risk segmentation in connection with the ability to detect losses inherent in the portfolio, and determined it is currently more responsive to industry dynamics to segment the portfolio by loan-to-value (“LTV”) rather than delinquency status. This is consistent with a shift in the mortgage market as to the relevance of various indicators. Due to this refined segmentation, management added more formal qualitative factors to the loan loss analysis to incorporate delinquency statistics and trends. To allow the Company the appropriate amount of time to analyze portfolio statistics and allow for the appropriate validation of the reasonableness of the new qualitative factors, management adjusted the historical look back period for loss rates to lag a quarter (as compared to the previous policy of a month).

The commercial loan portfolio is segmented into commercial “legacy” loans (loans originated prior to January 1, 2011) and commercial “new” loans (loans originated on or after January 1, 2011) while still retaining the segmentation by product type. Due to the changes in the Company's strategy and to changes in underwriting and origination practices and controls related to that strategy, management determined the refinement was added to better reflect the dynamics in the two portfolios. The loss rates attributed to the “legacy” portfolio are based on historical losses of this segment.

Due to the lack of seasoning in the “new” portfolio, the Company was previously utilizing loss data from a third party (adjusting for the Company's qualitative factors) as a proxy for estimating an allowance on its “new” portfolio. As a refinement in the first quarter of 2012, the Company identified a population of commercial banks with similar size balance sheets (and loan portfolios) to serve as a peer group. The Company now uses this peer group's publicly available historical loss data (adjusted for the Company's qualitative factors) as a new proxy for their loss rates.

Table of Contents

As a result of these refinements (in addition to the refinements noted below), management has determined that it no longer requires an unallocated portion of allowance for loan losses. Management expects to review these models on an ongoing basis and update it as appropriate to reflect then-current industry conditions, heightened access to enhanced loss data, and refinements based upon continuous back testing of the model.

Historically, the Company performed impairment analysis on troubled debt restructurings (“TDRs”) by using the discounted cash flows method on a portfolio or pooled approach when the TDRs were not deemed collateral dependent. During the first quarter of 2012, management generated a significant increase in TDRs relative to its past history due in part to a strategic initiative implemented in the fourth quarter of 2011 to increase loan modifications and other loss mitigation activities. Due to the increased emphasis on loss mitigation activities and increased number of TDRs, management implemented new procedures relating to “new” TDRs (loans that were designated TDRs generally beginning on or after October 1, 2011) to capture the necessary data to perform the impairment analysis at an individual loan level. Such data was not previously available and currently continues to not be available for loans designated as TDRs prior to September 30, 2011. This data is now being captured in part due to the Company's loan servicing system conversion in late 2011. As such, for “new” TDRs, management is performing the impairment calculation on a loan by loan basis. Given data constraints and the significant volume of the “old” TDR portfolio as of December 31, 2011, the pooled approach is still being utilized on the “old” TDR portfolio, and thus the March 31, 2012, balance reflects a hybrid methodology.

Historically, when under the regulatory oversight of the OTS, savings and loan institutions had been permitted to establish specific valuation allowance (“SVAs”) for portions of assets classified as loss instead of recording charge-offs. In connection with the Company's transition to an OCC-regulated institution, as of first quarter 2012, SVAs are no longer permitted (as the OCC does not permit the carrying of SVAs). Thus, the SVAs were charged off during the quarter. The effect of these charge-offs does not require a change to the form of or results of the allowance for loan losses calculations as such were already considered as part of the historical loss experience incorporated into the Company's loss models.

Table of Contents

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 Three Months Ended March 31, 2012									
Beginning balance allowance for loan losses	$179,218	$16,666	$1,250	$14,845	$2,434	$96,984	$5,425	$1,178	$318,000
Charge-offs (1)	(95,432)	(5,283)	—	(6,419)	(1,190)	(45,033)	(1,581)	—	(154,938)
Recoveries	550	249	—	257	212	1,992	5	—	3,265
Provision	74,325	7,435	574	6,095	1,137	17,527	6,104	1,476	114,673
Ending balance allowance for loan losses	$158,661	$19,067	$1,824	$14,778	$2,593	$71,470	$9,953	$2,654	$281,000
For the Three Months Ended March 31, 2011									
Beginning balance allowance for loan losses	$119,400	$25,186	$4,171	$24,819	$5,445	$93,437	$1,542	$—	$274,000
Charge-offs	(2,482)	(5,778)	—	(6,522)	—	(19,289)	(48)	—	(34,119)
Recoveries	337	866	5	873	—	729	—	—	2,810
Provision	10,783	1,821	(2,159)	197	(265)	17,527	154	251	28,309
Ending balance allowance for loan losses	$128,038	$22,095	$2,017	$19,367	$5,180	$92,404	$1,648	$251	$271,000

	Residential First Mortgage	Second Mortgage	Warehouse Lending	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Total
	(Dollars in thousands)								
March 31, 2012									
Loans held-for-investment									
Individually evaluated (2)	$711,879	$14,909	$307	$73	$2	$174,244	$184	$—	$901,598
Collectively evaluated (3)	2,593,010	117,554	1,103,898	209,155	62,109	983,667	544,297	144,250	5,757,940
Total loans	$3,304,889	$132,463	$1,104,205	$209,228	$62,111	$1,157,911	$544,481	$144,250	$6,659,538
Allowance for loan losses									
Individually evaluated (2)	$85,569	$3,342	$—	$18	$1	$19,028	$32	$—	$107,990
	73,092	15,725	1,824	14,760	2,592	52,442	9,921	2,654	173,010

Collectively evaluated (3)									
Total allowance for loan losses	$158,661	$19,067	$1,824	$14,778	$2,593	$71,470	$9,953	$2,654	$281,000
December 31, 2011									
Loans held-for-investment									
Individually evaluated (2)	$744,604	$14,237	$307	$1,775	$2	$207,144	$2,402	$—	$970,471
Collectively evaluated (3)	3,005,217	124,675	1,173,591	220,211	67,611	1,035,825	326,477	114,509	6,068,116
Total loans	$3,749,821	$138,912	$1,173,898	$221,986	$67,613	$1,242,969	$328,879	$114,509	$7,038,587
Allowance for loan losses									
Individually evaluated (2)	$113,569	$4,738	$—	$1,775	$2	$53,146	$1,588	$—	$174,818
Collectively evaluated (3)	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	$318,000

(1) Charge-offs for Commercial and Industrial loans were applicable to loans originated prior to 2011.

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

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

There were loans totaling $0.1 million and $5.6 million greater than 90 days past due that were still accruing interest as of March 31, 2012 and December 31, 2011, respectively. The following table presents an age analysis of past due loans by class of loan.

	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)						
March 31, 2012							
Consumer loans:							
Residential first mortgage	$58,827	$35,515	$302,461	$396,803	$2,908,086	$3,304,889	$ —
Second mortgage	2,044	1,824	5,994	9,862	122,601	132,463	—
Warehouse lending	—	—	28	28	1,104,177	1,104,205	—
HELOC	6,258	1,487	5,315	13,060	196,168	209,228	—
Other	590	307	434	1,331	60,780	62,111	87
Total consumer loans	67,719	39,133	314,232	421,084	4,391,812	4,812,896	87
Commercial loans:							
Commercial real estate	10,952	8,787	92,246	111,985	1,045,926	1,157,911	52
Commercial and industrial	181	15	105	301	544,180	544,481	—
Commercial lease financing	—	—	—	—	144,250	144,250	2
Total commercial loans	11,133	8,802	92,351	112,286	1,734,356	1,846,642	54
Total loans	$78,852	$47,935	$406,583	$533,370	$6,126,168	$6,659,538	$ 141
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 $409.4 million and $374.7 million at March 31, 2012 and 2011, respectively. Interest on these loans is recognized as income when collected. Interest that would have been accrued on such loans totaled approximately $6.6 million and $6.2 million during the three months ended March 31, 2012 and 2011, respectively.

For all classes within the consumer and commercial loan portfolios, delinquent loans are calculated utilizing a reporting convention that considers a loan past due when the borrower fails to make a second consecutive scheduled payment (Federal Financial Institutions Examination Council ("FFIEC") guideline method). This method considers a loan to be delinquent if no payment is received after the first day of the month following the month of the missed payment. Other companies with mortgage banking operations similar to ours may use the Mortgage Bankers

Association Method (“MBA Method”) which considers a loan to be delinquent if payment is not received by the end of the month of the missed payment. The key difference between the two methods is that a loan considered “delinquent” under the MBA Method would not be considered “delinquent” under the other method for another 30 days. Under the MBA Method of calculating delinquent loans, 30 day delinquencies equaled $148.9 million, 60 day delinquencies equaled $76.2 million and greater than 90 day delinquencies equaled $445.4 million at March 31, 2012. Total delinquent loans under the MBA Method total $670.5 million or 10.1 percent of loans held-for-investment at March 31, 2012. By comparison, 30 days delinquencies equaled $166.3 million, 60 days delinquencies equaled $95.0 million and greater than 90 days delinquencies equaled $529.5 million at December 31, 2011 under the MBA Method and total delinquent loans under the MBA Method were $790.8 million or 11.2 percent of loans held-for-investment at December 31, 2011.

Table of Contents

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. During the three months ended March 31, 2012, 362 accounts with a balance of $104.1 million residential first mortgage loans have been modified and were still outstanding. For the year ended December 31, 2011, 489 accounts with a balance of $181.0 million residential first mortgage loans have been modified and were still outstanding.
At March 31, 2012 and December 31, 2011, approximately $26.1 million and $47.2 million, respectively, in commercial loan balances had been modified, primarily consisting of commercial real estate loans.
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 nonperforming) through the calendar year in which historical payment performance on the restructured note has been established. At March 31, 2012 and December 31, 2011, there was approximately $15.2 million and $21.8 million, respectively, in carrying amount representing eight 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
March 31, 2012	(Dollars in thousands)		
Consumer loans: (1)			
Residential first mortgage	$517,448	$ 138,490	$655,938
Second mortgage	10,915	3,218	14,133
Other consumer	174	61	235
Total consumer loans	528,537	141,769	670,306
Commercial loans: (2)			
Commercial real estate	8,661	17,360	26,021
Commercial and industrial	39	—	39
Total commercial loans	8,700	17,360	26,060
Total TDRs	$537,237	$ 159,129	$696,366
December 31, 2011			
Consumer loans: (1)			
Residential first mortgage	$488,896		