

FLAGSTAR BANCORP INC

Form 424B3

December 31, 2009

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**PROSPECTUS SUPPLEMENT
(To Prospectus Dated December 30, 2009)**

**Up to 704,234,180 Shares of Common Stock
Issuable Upon the Exercise of Subscription Rights**

We are distributing, at no cost, to holders of our common stock, non-transferable subscription rights to purchase up to an aggregate of 704,234,180 shares of our common stock in this rights offering to persons who owned shares of our common stock as of 5:00 p.m., New York City time, on December 24, 2009.

You will receive 1.5023 subscription rights for each share of our common stock that you owned as of 5:00 p.m., New York City time, December 24, 2009. You will not receive any fractional rights, as the aggregate number of subscription rights you receive will be rounded up to the next largest whole number. Subscribers who exercise their rights in full may over-subscribe for additional shares, subject to certain limitations, to the extent shares are available. Each subscription right entitles you to purchase one share of common stock at a subscription price equal to \$0.71 per whole share, which price is above the market price of our common stock as of the date of this prospectus supplement.

The subscription rights are exercisable beginning on the date of this prospectus supplement and continuing until 5:00 p.m., New York City time, on January 25, 2010. We may extend the period for exercising subscription rights in our sole discretion. If you want to participate in this rights offering and you are the record holder of your shares, we recommend that you submit your subscription documents to the subscription agent, Registrar and Transfer Company, before that deadline. If you want to participate in this rights offering and you hold shares through your broker, dealer, bank or other nominee, you should promptly contact your broker, dealer, bank or other nominee and submit your subscription documents in accordance with the instructions and within the time period provided by your broker, dealer, bank or other nominee. Please see page S-28 for further instructions on submitting subscriptions. Subscriptions will, in our discretion, be accepted when received, and if so accepted will not be held in escrow by the subscription agent through the expiration of this rights offering. We reserve the right to cancel this rights offering at any time prior to the acceptance of any subscriptions.

Stockholders who do not participate in this rights offering will continue to own the same number of shares of our common stock, but will own a smaller percentage of the total shares of our common stock issued and outstanding after this rights offering to the extent that other stockholders participate in this rights offering. Subscription rights that are not exercised prior to the expiration of this rights offering will expire and have no value. There is no minimum number of shares of our common stock that we must sell in order to complete this rights offering.

The subscription rights may not be sold or transferred, except that subscription rights may be transferred to affiliates of the recipient as defined in the section entitled **Rights Offering-Non-Transferability of Subscription Rights** and by operation of law.

Shares of our common stock are currently traded on the New York Stock Exchange under the symbol **FBC**, and we will apply for the shares of our common stock issued upon the exercise of subscription rights to also be listed on the New York Stock Exchange. The last sale price of our common stock on December 24, 2009 was \$0.59 per share.

This is not an underwritten offering and there will be no underwriters' discounts or commissions. Accordingly, the gross proceeds (before expenses) to us will be \$0.71 per share and, assuming all subscription rights are exercised in this rights offering, the aggregate gross proceeds (before expenses) to us will be approximately \$500 million.

Investing in our securities involves risks. You should carefully read this prospectus supplement and the accompanying base prospectus carefully before you invest. You should

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also carefully consider the risk factors discussed in the section entitled Risk Factors on page S-11 of this prospectus supplement and page 2 of the accompanying prospectus before exercising your subscription rights.

The securities being offered are not savings accounts, deposits or obligations of any bank and are not insured by any insurance fund of the Federal Deposit Insurance Corporation or any other governmental organization. The securities are not being offered in any jurisdiction where the offer is not permitted under applicable local laws.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is December 30, 2009.

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You may rely on the information contained or incorporated by reference in this prospectus supplement. We have not authorized anyone to provide information different from that contained or incorporated by reference in this prospectus supplement. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither the delivery of this prospectus supplement nor sale of common stock pursuant to exercise of the subscription rights means that information contained in this prospectus supplement is correct after the date of this prospectus supplement. This prospectus supplement is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. In this prospectus supplement, the terms we, us, our, the Company, and Flagstar refer to Flagstar Bancorp, Inc. and our consolidated subsidiaries. We may also refer to our wholly-owned subsidiary, Flagstar Bank, FSB, and Flagstar Capital Markets Corporation (FCMC), its wholly-owned subsidiary, as the Bank.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this supplement.

OTHER INFORMATION

Our principal executive office is located at 5151 Corporate Drive, Troy, Michigan 48098. Our telephone number is (248) 312-2000. Our website address is www.flagstar.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement, the accompanying prospectus, or any other document we file with or furnish to the Securities and Exchange Commission.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents we incorporate by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995. 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. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy and rental expense growth. Examples of forward-looking statements also 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 intended 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 United States 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:

we may become subject to enforcement actions that could have a material negative effect on our business, operations, financial condition, results of operations or the value of our common stock,

our business has been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally,

general business, economic and political conditions may significantly affect our earnings,

we depend on our institutional counterparties to provide services that are critical to our business. If one of more of our institutional counterparties defaults on its obligations to us or becomes insolvent, it could have a

material adverse affect on our earnings, liquidity, capital position and financial condition,

defaults by another larger financial institution could adversely affect financial markets generally,

if we cannot effectively manage the impact of the volatility of interest rates, our earnings could be adversely affected,

the value of our mortgage servicing rights could decline with reduction in interest rates and market liquidity,

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certain hedging strategies that we use to manage our investment in mortgage servicing rights may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates,

we use estimates in determining the fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation,

changes in the fair value or ratings downgrades of our securities may reduce our stockholders' equity, net earnings, or regulatory capital ratios,

our HELOC funding reimbursements have been negatively impacted by loan losses,

current and further deterioration in the housing and commercial real estate markets may lead to increased loss severities and further increases in delinquencies and non-performing assets in our loan portfolios. Additionally, the performance of our standby and commercial letters of credit may be adversely affected as well. Consequently, our allowance for loan losses and guarantee liability may not be adequate to cover actual losses, and we may be required to materially increase our reserves,

current and further deterioration in the housing market, as well as the number of programs that have been introduced to address the situation by government agencies and government sponsored enterprises, may lead to increased costs to service loans which could affect our margins or impair the value of our mortgage servicing rights,

our secondary market reserve for losses could be insufficient,

our home lending profitability could be significantly reduced if we are not able to resell mortgages,

our commercial real estate and commercial business loan portfolios carry heightened credit risk,

our ability to borrow funds, maintain or increase deposits or raise capital could be limited, which could adversely affect our liquidity and earnings,

we may be required to raise capital at terms that are materially adverse to our stockholders,

our holding company is dependent on the Bank for funding of obligations and dividends,

future dividend payments and common stock repurchases are restricted by the terms of the Treasury's equity investment in us,

our new executive team may not be able to successfully work together to meet our business objectives, which would adversely affect our business,

we may not be able to replace key members of senior management or attract and retain qualified relationship managers in the future,

the network and computer systems on which we depend could fail or experience a security breach,

our business is highly regulated,

we are subject to certain regulatory requirements and restrictions outside of the ordinary course of business, and these restrictions could impede our ability to operate our business,

increases in deposit insurance premiums and special FDIC assessments will hurt our earnings,

our business has volatile earnings because it operates based on a multi-year cycle,

our loans are geographically concentrated in only a few states,

we are subject to heightened regulatory scrutiny with respect to bank secrecy and anti-money laundering statutes and regulations,

we are a controlled company that is exempt from certain NYSE corporate governance requirements, and

our controlling stockholder has significant influence over us, including control over decisions that require the approval of stockholders, whether or not such decisions are in the best interests of other stockholders.

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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 of such factors or to assess the effect of each such factor on our business.

Please also refer to the section entitled **Risk Factors** in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2009, June 30, 2009 and September 30, 2009, for further information on these and other risks affecting us.

Although we believe that the assumptions underlying the forward-looking statements contained herein and in the documents incorporated by reference are reasonable, any of the assumptions could be inaccurate, and therefore any of these statements included in this document or in the documents incorporated by reference may prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included herein and in the documents incorporated by reference, 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.

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QUESTIONS AND ANSWERS RELATED TO THE RIGHTS OFFERING

The following are questions that we anticipate you may have about the rights offering. The answers are based on selected information in this prospectus supplement. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about whether to exercise your subscription rights. We urge you to read the entire prospectus supplement and the accompanying prospectus.

*Exercising the rights and investing in our securities involves a high degree of risk. We urge you to carefully read the section entitled *Risk Factors* beginning on page S-11 of this prospectus supplement and the section entitled *Risk Factors* in the accompanying prospectus, as well as the documents listed under the section *Incorporation of Certain Information by Reference* in their entirety before you decide whether to exercise your rights.*

What is this rights offering?

We are distributing, at no cost or charge to our stockholders, subscription rights (a subscription right or rights) consisting of a basic subscription privilege (a basic subscription privilege or basic subscription right) to purchase shares of our common stock and an over-subscription privilege (an over-subscription privilege or an over-subscription right) to purchase additional shares of our common stock. These rights may be exercised only by the stockholders to whom they are distributed, and may not be sold, transferred or assigned to anyone else. Holders of our common stock will receive 1.5023 basic subscription rights for each share of common stock held of record as of 5:00 p.m., New York City time, on December 24, 2009, the record date of the rights offering. The subscription rights will be evidenced by subscription rights certificates. Each basic subscription privilege will entitle you to purchase one share of our common stock at a subscription price equal to \$0.71 per whole share. You may exercise any number of your basic subscription rights, or you may choose not to exercise any basic subscription rights. We will not distribute fractional subscription rights, but instead we will round up the aggregate number of subscription rights you receive to the next whole number.

This rights offering is an opportunity for you to purchase additional shares of our common stock at a fixed price and in an amount proportional to your existing interest in our common stock. If you exercise your basic subscription privilege in full, you will then be entitled to exercise your over-subscription privilege. This enables you to maintain, or if other stockholders of our common stock do not exercise their subscription rights, to increase your current percentage ownership interest in us.

Why are we engaging in this rights offering, and how will we use the proceeds from this rights offering?

During October 2009, we filed a shelf registration statement on Form S-3 covering up to \$2 billion of shares of our common stock, preferred stock, warrants, stock purchase contracts, units and rights to purchase shares of our common stock. In light of current economic conditions generally we have decided to pursue this rights offering to raise capital which can be used to support the Bank and improve our capital position. Our board of directors also considered other alternatives available for raising equity capital, including an underwritten public offering of our common stock, and determined that the rights offering was in our best interests and those of our stockholders. Because our stock price is well below the current book value of our shares, we believe that giving our current stockholders the right to purchase our shares is the fairest and most equitable approach to raising capital. This rights offering will give you the opportunity to participate in our equity fund-raising and maintain, or if other stockholders do not exercise their subscription rights, to increase your proportional ownership interest in us. We will have broad discretion in determining how the net proceeds of this rights offering will be used. We currently intend to use the net proceeds of this rights offering for general corporate purposes, including contribution of amounts to the capital of, and to support,

the Bank. The Bank's capital levels at September 30, 2009 exceeded well capitalized regulatory capital thresholds.

How was the \$0.71 per share subscription price determined?

A special committee of our board of directors made up of independent directors determined that the subscription price should be designed to provide a reasonable price for our current stockholders to exercise their subscription rights. Factors considered by the special committee in determining the subscription price included the

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amount of proceeds desired, the market price of our common stock historically and during the last thirty days, the volatility of the market price of our common stock, general conditions in the securities markets, our recent operating results, our financial condition, general conditions in the financial services industry, alternatives available to us for raising equity capital and the liquidity of our common stock. Ultimately, the subscription price was set equal to the volume weighted average price of the thirty trading days preceding the announcement of the rights offering. In addition, the special committee engaged Keefe, Bruyette & Woods, Inc. (KBW) to advise them with respect to whether the rights offering was a reasonable means, from a financial point of view, of raising capital to address the capital and liquidity needs of us and the Bank.

The subscription price is not necessarily related to our book value, results of operations, cash flows, financial condition, net worth or any other established criteria of value and may or may not be considered the fair value of our common stock at the time the rights offering was approved by our board or during the rights offering period. The subscription price is above the trading price of our common stock as of the date hereof and if the trading price remains at that level, it would be advantageous for stockholders to purchase additional shares of our common stock on the NYSE rather than pursuant to the rights offering. We cannot assure you that the trading price of our common stock will not decline during or after the rights offering. We also cannot assure you that you will be able to sell shares purchased in this offering at a price equal to or greater than the subscription price. We do not intend to change the subscription price in response to changes in the trading price of our common stock prior to the closing of the rights offering.

Am I permitted to purchase additional shares other than what my basic subscription right entitles me to purchase?

Yes. There are over-subscription privileges available in this rights offering.

Are we requiring a minimum subscription to complete the rights offering?

Unless MP Thrift Investments L.P. (MP Thrift), our controlling stockholder, exercises its subscription rights for at least \$300 million, no subscriptions will be accepted and the rights offering will be terminated. Otherwise, we are not requiring minimum subscriptions to complete the rights offering.

What is the over-subscription privilege?

The over-subscription privilege contained in each subscription right entitles you, if you have fully exercised your basic subscription privilege, to subscribe for additional shares of our common stock (up to the number of shares for which you subscribed under your basic subscription privilege) at the same subscription price per share on a pro rata basis, if any shares are not purchased by other holders of subscription rights under their basic subscription privileges as of the expiration date. Pro rata means in proportion to the number of shares of our common stock that all subscription rights holders who have fully exercised their basic subscription privileges on their common stock have requested to purchase pursuant to the over-subscription privilege. See The Rights Offering Over-Subscription Privilege. Certain of our affiliates have indicated that they will not exercise their over-subscription privilege.

What if there is an insufficient number of shares to satisfy the over-subscription requests?

If there is an insufficient number of shares of our common stock available to fully satisfy the over-subscription requests of rights holders, subscription rights holders who exercised their over-subscription privilege will receive the available shares pro rata based on the number of shares each subscription rights holder has subscribed for under the over-subscription privilege. Any excess subscription payments will be returned, without interest or deduction, promptly after the expiration of the rights offering. See The Rights Offering Over-Subscription Privilege.

Who may participate in this rights offering?

Holders of record of our common stock as of 5:00 p.m., New York City time, on December 24, 2009 are entitled to participate in this rights offering.

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Am I required to subscribe in this rights offering?

No. However, any stockholder who chooses not to exercise its subscription rights will experience dilution of its equity interest in the Company to the extent that other stockholders exercise their subscription rights.

How long will this rights offering last?

You will be able to exercise your subscription rights only during a limited period. To exercise your subscription rights, you must do so by 5:00 p.m., New York City time, on January 25, 2010, unless we extend this rights offering. Accordingly, if a rights holder desires to exercise its subscription rights, unless the guaranteed delivery procedures are followed, the subscription agent must actually receive all required documents and payments from the rights holder before the expiration time. We may extend the expiration time for any reason.

When will subscriptions be accepted?

We may, in our discretion, accept basic subscriptions from time to time when received rather than at the expiration of the rights offering period. If we accept any basic subscriptions prior to expiration of the offering period, all basic subscriptions then received in due form will be accepted. If MP Thrift, our controlling stockholder, exercises all or at least \$300 million of its subscription rights for at least \$300 million, the Company intends to accept the subscription of MP Thrift and immediately close the transaction with MP Thrift. No subscription rights will be accepted unless MP Thrift exercises its subscription rights for at least \$300 million. Over-subscription privileges will not be accepted until the rights offering period has terminated.

How do I exercise my subscription rights?

You may exercise your subscription rights by properly completing and signing your subscription rights certificate and delivering it, with full payment of the subscription price for the shares of our common stock for which you are subscribing for the exercise of your basic subscription privilege and, if you so choose, your over-subscription privilege, to the subscription agent at or prior to the expiration time. If you send the subscription rights certificate and other items by mail, we recommend that you send them by registered mail, properly insured, with return receipt requested. If you cannot deliver your subscription rights certificate to the subscription agent on time, you may follow the guaranteed delivery procedures described under *The Rights Offering Guaranteed Delivery Procedures*. If you are exercising your subscription rights through your broker, dealer, bank or other nominee, you should promptly contact your broker, dealer, bank or other nominee and submit your subscription documents and payment for the shares of our common stock subscribed for in accordance with the instructions and within the time period provided by your broker, dealer, bank or other nominee.

What if my shares are not held in my name?

If you hold your shares of our common stock in the name of a broker, dealer, bank or other nominee, then your broker, dealer, bank or other nominee is the record holder of the shares you own. The record holder must exercise the subscription rights on your behalf for the shares of our common stock you wish to subscribe for. Therefore, you will need to have your record holder act for you.

If you wish to participate in this rights offering and purchase shares of our common stock, please promptly contact the record holder of your shares. We will ask the record holder of your shares, who may be your broker, dealer, bank or other nominee, to notify you of this rights offering.

May the board of directors cancel this rights offering?

Yes. The board of directors may decide to cancel this rights offering prior to the acceptance of any subscriptions at any time for any reason. However, upon the acceptance of a subscription from MP Thrift for at least \$300 million and the issuance of common stock pursuant thereto, the board of directors will not have the discretion to cancel this rights offering. Our board of directors will terminate and cancel the rights offering if MP Thrift does not exercise its subscription rights for at least \$300 million.

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If this rights offering is terminated, will my subscription payment be refunded to me?

Yes. If we terminate this rights offering, all subscription payments will be returned as soon as practicable following the termination. We will not pay interest on, or deduct any amounts from, subscription payments if we terminate this rights offering. If we terminate this rights offering, we will not be obligated to issue shares of our common stock to rights holders who have exercised their subscription rights prior to termination.

May I transfer, sell or give away my subscription rights?

No. You may not sell, give away or otherwise transfer your subscription rights. However, your subscription rights may be transferred to your affiliates or by operation of law, for example, upon death. See The Rights Offering Non-Transferability of Subscription Rights.

How many shares may I purchase?

You will receive 1.5023 subscription rights for each share of our common stock that you owned as a holder of record as of 5:00 p.m., New York City time, on December 24, 2009. We will not distribute fractional subscription rights, but instead we will round up the aggregate number of subscription rights you receive to the next whole number. Each whole subscription right entitles you to purchase one share at a subscription price equal to \$0.71 per whole share. In addition, you may exercise your over-subscription privilege up to the number of shares for which you subscribed under your basic subscription privilege. Your over-subscription privilege is subject to proration. See The Rights Offering Over-Subscription Privilege .

Are there risks associated with exercising my subscription rights?

Yes. The exercise of your subscription rights involves buying additional shares of our common stock and should be considered as carefully as you would consider the acquisition of additional shares of our common stock in the market or any other equity investment. Among other things, you should carefully consider the risks described under the heading Risk Factors beginning on page S-11 and those referred to under Risk Factors in the accompanying prospectus.

After I exercise my subscription rights, may I change my mind and cancel my purchase?

No. Once you send in your subscription rights certificate and payment, you cannot revoke the exercise of your subscription rights, even if you later learn information about us that you consider to be unfavorable and even if the market price of our common stock is below the \$0.71 per share subscription price, which is currently the case. However, if we amend this rights offering in a way which we believe is material, we will extend this rights offering and offer all rights holders the right to revoke any subscription submitted prior to such amendment upon the terms and conditions we set forth in the amendment. The extension of the expiration date of this rights offering will not, in and of itself, be considered a material amendment for these purposes. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at a price of \$0.71 per share.

What happens if I choose not to exercise my subscription rights?

You will retain your current number of shares of our common stock even if you do not exercise your subscription rights. However, if other stockholders exercise their subscription rights and you do not, the percentage of our issued and outstanding common stock that you own will diminish, and your voting and other rights will be diluted. Your subscription rights will expire and have no value if they are not exercised by the expiration time.

Will I be charged any fees if I exercise my subscription rights?

We will not charge a fee to holders for exercising their subscription rights. However, any holder exercising its subscription rights through a broker, dealer, bank or other nominee will be responsible for any fees charged by its broker, dealer, bank or other nominee.

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Will the subscription rights be listed on a stock exchange or trading market?

No. The subscription rights may not be sold, transferred or assigned to anyone else and will not be listed on the NYSE or any other stock exchange or trading market or on the OTC Bulletin Board. Our common stock trades on the NYSE under the symbol FBC, and the shares of common stock to be issued in connection with the rights offering will also be listed on the NYSE under the same symbol.

If I exercise my subscription rights, when will I receive the shares for which I have subscribed?

We will issue the shares of our common stock for which subscriptions have been properly received as soon as practicable after this rights offering expires or, in our discretion, after acceptance, from time to time, of subscriptions relating to basic subscription privileges. We currently intend to accept the subscription of MP Thrift for at least \$300 million upon receipt, and will issue the shares of common stock to MP Thrift immediately thereafter.

How many shares of common stock are currently issued and outstanding, and how many shares will be issued and outstanding after this rights offering?

As of December 24, 2009, we had a total of 468,770,671 shares of our common stock issued and outstanding. This number excludes shares of our common stock issuable pursuant to outstanding stock options, shares of our common stock that may be issued pursuant to our equity compensation and incentive plans and shares of our common stock that may be issued upon the exercise of our outstanding warrants. The number of shares of our common stock that will be issued and outstanding after this rights offering will depend on the number of shares of our common stock that are purchased in this rights offering. If we sell all of the shares of our common stock being offered, then we will issue 704,234,180 shares of our common stock. In that case, there will be approximately 1,173,004,851 shares of our common stock issued and outstanding after this rights offering, which would represent an increase of approximately 150% in the number of issued and outstanding shares of our common stock. However, we do not expect that all of the subscription rights will be exercised. In this regard, we have been advised that MP Thrift expects to exercise not less than 75% of its subscription rights. However, MP Thrift has advised us that it reserves the right, in its sole discretion, not to make such an investment. In exercising that discretion, MP Thrift has indicated that it will consider, at the time of its investment decision, factors it deems relevant, including the satisfactory resolution of any material regulatory constraints on management's ability to implement and execute its current business plan.

How much money will the Company receive from this rights offering?

If we sell all of the shares of common stock being offered, we will receive gross proceeds (before expenses) of approximately \$500 million. We are offering shares of our common stock in this rights offering with no minimum purchase requirement other than with respect to MP Thrift's purchase of at least \$300 million. As a result, there is no assurance we will sell all or any of the shares of our common stock being offered.

What are the United States federal income tax consequences to me of exercising my subscription rights?

The receipt and exercise of your subscription rights are intended to be nontaxable events. You should seek specific tax advice from your personal tax advisor. See Material U.S. Federal Income Tax Considerations Taxation of Stockholders.

Has the board of directors made a recommendation as to whether I should exercise my subscription rights?

No. Our board of directors has not made any recommendation as to whether you should exercise your subscription rights. You should decide whether to subscribe for shares of our common stock or simply take no action with respect

to your subscription rights based upon your own assessment of your best interests.

What if I have other questions?

If you have other questions about the exercise of your rights pursuant to this rights offering, please contact our subscription agent, Registrar and Transfer Company, by telephone at (800) 368-5948.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before making an investment decision. Before making an investment decision, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the matters discussed in Risk Factors in this prospectus supplement, the accompanying prospectus, our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2009, as such risk factors may be amended, updated or modified periodically in our reports filed with the Securities and Exchange Commission, or SEC, and the financial data and related notes and the reports incorporated by reference in this prospectus supplement and the accompanying prospectus.

Flagstar Bancorp, Inc.

We are a Michigan-based savings and loan holding company founded in 1993. Our business is primarily conducted through our principal subsidiary, Flagstar Bank, FSB (the Bank), a federally chartered stock savings bank. At September 30, 2009, our total assets were \$14.8 billion, making us one of the largest publicly-held savings banks headquartered in the Midwest and one of the 15 largest savings banks in the United States. Our principal executive offices are located at 5151 Corporate Drive, Troy, Michigan 48098, and our telephone number is (248) 312-2000. We are a controlled company because MP Thrift Investments L.P. (MP Thrift) owns approximately 80% of our voting stock. Our common stock is traded on the New York Stock Exchange (the NYSE) under the symbol FBC. Our website is www.flagstar.com, but the website is not incorporated by reference into or otherwise a part of this prospectus and you should not rely on it in deciding whether to invest in our securities.

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

Our business is currently comprised of two operating segments—banking and home lending. Our banking operation offers a line of consumer and commercial financial products and services to consumers and to small and middle market businesses through a network of banking centers (i.e., our bank branches) in Michigan, Indiana, and Georgia. Our home lending operation originates, acquires, sells and services mortgage loans on one-to-four family residences in the United States. Each operating segment supports and complements the operation of the other, with funding for the home lending operation primarily provided by deposits and borrowings obtained through the banking operation. At September 30, 2009, we operated 176 banking centers (of which 40 are located in retail stores such as Wal-Mart) located in Michigan, Indiana and Georgia. We also operated 42 home loan centers located in 18 states.

Our earnings include net interest income from our retail banking activities and non-interest income from sales of residential mortgage loans to the secondary market, the servicing of loans for others, the sale of servicing rights related to mortgage loans serviced and fee-based services provided to our customers. Approximately 99% of our total loan production during 2008 and the first three quarters of 2009 represented mortgage loans and home equity lines of credit that were collateralized by first or second mortgages on single-family residences.

Regulatory Developments

We and the Bank are subject to regulatory requirements and restrictions in the ordinary course of business. While we are not currently subject to a formal agreement with the regulators, additional regulatory restrictions currently apply to us. The additional regulatory restrictions include prohibiting:

asset growth in an amount that exceeds new interest credited on deposit liabilities during the applicable quarter without the prior written approval of the Office of Thrift Supervision (the "OTS");

the acceptance, renewal or roll over of any brokered deposits without the prior non-objection of the OTS;

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the declaration or payment of dividends or capital distributions, including the repurchase or redemption of capital stock, without the prior written approval of the OTS;

the appointment, or change in responsibilities, of any director or senior executive officer without the prior notification of the OTS;

indemnification and severance payments without complying with regulatory requirements regarding such payments;

the entrance into, or renewal, extension or revision of any contractual arrangement related to compensation or benefits with any directors or senior executive officer without providing prior written notice to the OTS;

the entrance into and arrangement or contract with a third party provider that is significant to our overall operations or financial condition or outside of normal course of business without the non-objection of the OTS; and

the entrance into transactions with affiliates without complying with regulatory requirements.

At this time, the only restriction that we believe could have a material effect on us is the restriction on brokered deposits. As of the date that the regulatory restrictions were imposed, the Bank had \$2.4 billion of brokered deposits, of which \$372.2 million are CDARS deposits, 88.7% of which are scheduled to mature in 2010. The maturities of the brokered deposits, in the aggregate, are as follows: \$668.4 million with a scheduled maturity on or before June 30, 2010, \$796.2 million with a scheduled maturity between July 1, 2010 and December 31, 2010, \$537 million with a scheduled maturity in 2011, and \$387.3 million with a scheduled maturity in 2012 or later. We have requested a waiver of the brokered deposit restriction as it relates to the acceptance of CDARS deposits, and we intend to seek a broader approval, waiver or modification of the brokered deposit restriction, as well as any other restriction that we believe may have an adverse affect on our operations and the operations of the Bank in the future. If our requests are not granted, we intend to utilize other funding sources, including non-CDARS retail deposits and FHLB advances to replace maturing brokered deposits, while at the same time continuing our efforts to reduce our assets through sales. There can be no assurance that any or all of our requests to approve, waive or modify the regulatory restrictions will be granted, or that our efforts to utilize other funding sources or to sell assets will be successful.

We intend to request approval, waiver or modification of any of these restrictions that could have an adverse effect on our operations and the operations of the Bank. In addition, our board of directors formed a special committee comprised of independent directors to explore whether a capital offering was appropriate and achievable in a timely manner to address concerns of the regulators. MP Thrift has indicated its current intention to purchase at least \$300 million (and up to its pro rata share, in its discretion) of common stock to be offered in the rights offering. However, MP Thrift reserves the right, in its sole discretion, not to make such an investment. In exercising that discretion, MP Thrift has indicated that it will consider, at the time of its investment decision, factors it deems relevant, including the satisfactory resolution of any material regulatory constraints on management's ability to implement and execute its current business plan.

We anticipate that the regulators will impose further requirements and restrictions on us, which, depending on the success of the capital offering, could impede our ability to execute on our business plan. We expect that such further requirements and restrictions, when imposed, will come in the form of a formal agreement. In addition to the regulatory restrictions discussed above, we believe that any formal agreement may require us to increase our capital to specific minimum capital ratios and to reduce the level of classified assets. Notwithstanding the fact that we have not entered into a formal agreement, we are currently in the process of complying with the regulatory requirements and

restrictions that we are currently under, including the restriction on brokered deposits, and we are operating in a manner that enhances and preserves our capital ratios. Notwithstanding these actions that we are now taking, failure to comply with any such restriction, or any formal agreement that is entered into, could result in the initiation of further action by the OTS.

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THE RIGHTS OFFERING

For a more complete description of the terms of the rights offering being made by this prospectus supplement and the accompanying prospectus, see **The Rights Offering** in this prospectus supplement and **Description of Securities We May Offer**, **Description of Rights** and **Description of Common Stock** in the accompanying prospectus.

Securities Offered

We are distributing at no cost or charge to you 1.5023 subscription rights for each share of common stock that you owned as of 5:00 p.m., New York City time, on the record date, December 24, 2009, either as a holder of record or, in the case of shares held of record by brokers, custodian banks or other nominees on your behalf, as beneficial owner of the shares. These rights may be exercised only by you, and cannot be sold, transferred or assigned to anyone else.

We will not distribute fractional subscription rights, but instead we will round up the aggregate number of subscription rights you receive to the next whole number.

Basic Subscription Privilege

For each subscription right that you own, you will have a basic subscription privilege to buy from us one share of our common stock at the subscription price. You may exercise your basic subscription privilege for some or all of your basic subscription rights, or you may choose not to exercise any of your basic subscription rights.

Over-Subscription Privilege

If you elect to exercise your basic subscription privilege in full, you may also subscribe for additional shares (up to the number of shares for which you subscribed under your basic subscription privilege) at the same subscription price per share. If an insufficient number of shares are available to satisfy fully the over-subscription privilege requests, the available shares will be distributed proportionately among rights holders who exercised their over-subscription privilege based on the number of shares each rights holder subscribed for under the over-subscription privilege. The subscription agent will return any excess payments by mail without interest or deduction promptly after the expiration of the rights offering. Certain of our affiliates have indicated that they will not exercise their over-subscription privilege.

Subscription Price

The subscription price per share of common stock shall be equal to \$0.71, which price is above the market price of our common stock as of the date of this prospectus supplement. Your exercise of subscription rights will not be considered effective until your payment has cleared. In the case of immediately available funds, such as a wire transfer, funds will be deemed to clear upon receipt, but in the case of a check, up to five business days may be required and the check must clear prior to the expiration of the rights offering period.

Minimum Subscriptions

Unless MP Thrift exercises its subscription rights for at least \$300 million, no subscriptions will be accepted and the rights offering will be terminated.

Record Date

December 24, 2009

Expiration Date

The subscription rights will expire at 5:00 p.m., New York City time, on January 25, 2010, unless the expiration date is extended. We reserve the right to extend the subscription rights period at our sole discretion.

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Procedure for Exercising Subscription Rights	<p>The subscription rights may be exercised at any time during the subscription period, which commences on the date of this prospectus supplement. To exercise your subscription rights, you must properly complete the enclosed subscription rights certificate and deliver it, along with the full subscription price, to the subscription agent, Registrar and Transfer Company, before 5:00 p.m., New York City time, on January 25, 2010, unless the expiration date is extended.</p> <p>If you use the mail, we recommend that you use insured, registered mail, return receipt requested. If you cannot deliver your subscription rights certificate to the subscription agent on time, you may follow the guaranteed delivery procedures described below under the heading entitled <i>The Rights Offering – Guaranteed Delivery Procedures</i>.</p>
Net Proceeds of Offering	<p>The net proceeds to us will depend on the number of subscription rights that are exercised. If we issue all 704,234,180 shares available for the exercise of subscription rights in the rights offering, the net proceeds to us, after deducting estimated offering expenses, will be approximately \$499.3 million. We estimate that the expenses of the combined rights and supplemental offerings will be approximately \$665,000. We currently intend to use the net proceeds of this rights offering for general corporate purposes, including contribution to the capital of, and to support, the Bank as needed. See <i>Use of Proceeds</i> herein.</p>
Non-Transferability of Subscription Rights	<p>The subscription rights may not be sold, transferred or assigned to anyone else and will not be listed for trading on the NYSE or any other stock exchange or trading market or on the OTC Bulletin Board.</p>
No Revocation of Exercise by Stockholders	<p>All exercises of subscription rights are irrevocable, even if you later learn information about us that you consider unfavorable. You should not exercise your subscription rights unless you are certain that you wish to purchase the shares of common stock offered pursuant to the rights offering.</p>
Conditions to the Rights Offering	<p>The completion of the rights offering is subject to the conditions described in the section below entitled <i>The Rights Offering – Cancellation and Amendment of Rights Offering</i>.</p>
Amendment; Cancellation	<p>We may amend the terms of the rights offering or extend the rights offering period. While we also reserve the right to cancel the rights offering at any time prior to the expiration date for any reason, we may not cancel this rights offering after shares of our common stock are issued pursuant to the rights offering to MP Thrift, which is expected to occur prior to the expiration date. If MP Thrift does not exercise its subscription rights for at least \$300 million, the rights offering will be terminated. If the rights offering is cancelled, all subscription payments received by the subscription agent or by us will be returned, without interest or penalty, as soon as practicable to those persons who subscribed for shares in the</p>

rights offering.

No Board Recommendation

Our board of directors is making no recommendations regarding your exercise of the subscription rights. You are urged to make your own decision whether or not to exercise your subscription rights based on your own assessment of our business and the rights offering. See the section below entitled Risk Factors.

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Issuance of Common Stock	If you purchase shares of common stock through the rights offering, we will issue those shares to you as soon as practicable after the completion of the rights offering or, if we accept subscriptions relating to basic subscription privileges sooner, as soon as practicable after any such acceptance.
Listing of Common Stock	The subscription rights will not be listed on the NYSE or any other stock exchange or trading market or on the OTC Bulletin Board. Our common stock trades on the NYSE under the symbol FBC, and the shares to be issued in connection with the rights offering will also be listed on the NYSE under the same symbol.
Certain Material U.S. Federal Income Tax Considerations	The receipt and exercise of your subscription rights will generally not be taxable under U.S. federal income tax laws. However, you should seek specific tax advice from your personal tax advisor in light of your personal tax situation and as to the applicability and effect of any other tax laws. See Material U.S. Federal Income Tax Considerations herein.
Subscription Agent	Registrar and Transfer Company
Shares of Common Stock Outstanding Before the Rights Offering	As of December 24, 2009, 468,770,671 shares of our common stock were outstanding.
Shares of Common Stock Outstanding After Completion of the Rights Offering	We will issue up to 704,234,180 shares of common stock in the rights offering, depending on the number of subscription rights that are exercised. Assuming no options or warrants are exercised and there are no other changes in the number of outstanding shares prior to the expiration of the rights offering period, and based on the number of shares of common stock outstanding as of December 1, 2009, if we issue all 704,234,180 shares of common stock available for the exercise of subscription rights in the rights offering, we would have 1,173,004,851 shares of common stock outstanding following the completion of the rights offering.
Risk Factors	Stockholders considering making an investment by exercising subscription rights in the rights offering should carefully read and consider the information set forth in the section entitled Risk Factors beginning on page S-11 of this prospectus supplement and page 2 of the accompanying prospectus, together with the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including the information contained under the heading Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission and any updates of those Risk Factors contained in our quarterly reports on Form 10-Q, before making a decision to invest in our common stock.
Fees and Expenses	We will pay the fees and expenses related to the rights offering.

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RISK FACTORS

Investing in the offered securities described in this prospectus supplement involves risks, many of which are beyond our control. You should carefully consider the risks discussed herein and in other documents incorporated by reference into this prospectus supplement, including without limitation any updated risk factors included in our subsequently filed quarterly reports on Form 10-Q and subsequently filed annual reports on Form 10-K, and any amendments to those documents. In addition, you should carefully consider all of the other information included in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and related notes, in evaluating an investment in our securities. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance.

Risks Related to Our Company

We may become subject to enforcement actions that could have a material negative effect on our business, operations, financial condition, results of operations or the value of our common stock.

In light of the current challenging operating environment, along with our elevated level of non-performing assets, delinquencies, and adversely classified assets, we are subject to increased regulatory scrutiny and additional regulatory restrictions. Even though the Bank exceeds well-capitalized regulatory capital thresholds, the regulatory agencies have the authority to restrict our operations to those consistent with adequately capitalized institutions. For example, the regulatory agencies have placed limitations on our use of brokered deposits. The regulatory agencies also have the power to limit the rates paid by the Bank to attract retail deposits in its local markets. We also may be required to reduce our levels of non-performing assets within specified time frames. These time frames might not necessarily result in maximizing the price that might otherwise be received for the underlying properties. In addition, if such restrictions were also imposed upon other institutions that operate in the Bank's markets, multiple institutions disposing of properties at the same time could further diminish the potential proceeds received from the sale of these properties. If any of these or other additional restrictions are placed on us, it would limit the resources currently available to us as a well-capitalized institution.

In addition, under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the OTS, and separately the FDIC as insurer of the Bank's deposits, have authority to compel or restrict certain actions if the Bank's capital should fall below adequate capital standards as a result of operating losses, or if its regulators otherwise determine that it has insufficient capital. Among other matters, the corrective actions may include, but are not limited to, requiring us or the Bank to enter into informal or formal enforcement orders, including memoranda of understanding, written agreements, supervisory letters, commitment letters, and consent or cease and desist orders to take corrective action and refrain from unsafe and unsound practices; removing officers and directors and assessing civil mandatory penalties; and taking possession of and closing and liquidating the Bank.

We are currently subject to regulatory restrictions that are outside of the ordinary course of business. See Prospectus Summary Regulatory Developments. We anticipate that the OTS will impose further requirements and restrictions on us which could impede our ability to execute on our business plan. We expect that such further requirements and restrictions, when imposed, will come in the form of a formal agreement or order. While the form and terms of such agreement or o