

FLAGSTAR BANCORP INC

Form 424B5

November 01, 2010

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**Filed Pursuant to Rule 424(b)(5)**  
**File No. 333-162823**

**Prospectus supplement**

(To Prospectus Dated December 30, 2009)

*110,000,000 shares**Common stock*

We are offering 110,000,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol FBC. On October 27, 2010, the last reported sale price of our common stock on the NYSE was \$2.32 per share.

**Investing in our securities involves risks. You should carefully consider the risks described in Risk Factors on page S-13 of this prospectus supplement, page 1 of the accompanying prospectus, and the risks set forth under Item 1A. Risk Factors included in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, which are incorporated by reference into this prospectus supplement.**

	Per share	Total
Public offering price	\$ 1.00	\$ 110,000,000.00
Underwriting discounts and commissions(1)	\$ 0.05	\$ 3,330,782.11
Proceeds, before expenses, to Flagstar Bancorp, Inc.(1)	\$ 0.95	\$ 106,669,217.89

- (1) The underwriting discounts and commissions will be \$0.05 per share of common stock. However, the underwriters have agreed that the underwriting discounts and commissions will be \$0.02 per share of common stock for sales to affiliates, including MP Thrift Investments, L.P. The total underwriting discounts and commissions and the total proceeds to us, before expenses, reflect the reduced discount for the shares of common stock to be purchased by affiliates of ours.

The underwriter may also purchase from us up to 5,655,000 shares of common stock within 30 days of the date of this prospectus supplement to cover over-allotments, if any.

Concurrently with this offering, we are offering 13,500,000 shares of our Mandatorily Convertible Non-Cumulative Perpetual Preferred Stock, Series D, or the convertible preferred stock, (or a total of 14,192,250 shares if the underwriter in that offering exercises its option to purchase additional shares in full) in an underwritten offering pursuant to a separate prospectus supplement, or the concurrent convertible preferred stock offering. Each of this offering and the concurrent convertible preferred stock offering is contingent on completion of the other offering.

**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 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 underwriter is offering the shares of our common stock as described in Underwriting. Delivery of the common stock is expected to be made through the book-entry delivery system of The Depository Trust Company and its participants on or about November 2, 2010.

The date of this prospectus supplement is October 28, 2010.

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

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference herein and any free writing prospectus we may authorize to be delivered to you. We have not, and the underwriter has not, authorized any other person to provide you with different information. We are not, and the underwriter is not, making an offer to sell our securities in any jurisdiction in which the offer or sale is not permitted. None of us, the underwriter or any of our officers, directors, agents or representatives make any representation to you about the legality of an investment in our securities. You should not interpret the contents of this prospectus supplement or the accompanying prospectus to be legal, business, investment or tax advice. You should consult with your own advisors for that type of advice and consult with them about the legal, tax, business, financial and other issues that you should consider before investing in our securities.

This prospectus supplement does not offer to sell, or ask for offers to buy, any of our securities in any state or jurisdiction where it would not be lawful or where the person making the offer is not qualified to do so.

No action is being taken in any jurisdictions outside the United States to permit a public offering of the securities or possession or distribution of this prospectus supplement in those jurisdictions. Persons who come into possession of this prospectus supplement in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions that apply in those jurisdictions to this offering or the distribution of this prospectus supplement.

Unless the context of this prospectus supplement indicates otherwise, the terms we, us, our, the Company and Fla refer to Flagstar Bancorp, Inc. and our consolidated subsidiaries. We also refer to our wholly-owned subsidiary, Flagstar Bank, FSB, and Flagstar Capital Markets Corporation, its wholly-owned subsidiary, as the Bank.

**Cautionary statement regarding forward-looking statements**

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and 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 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.

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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:

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

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

Our ability to raise additional capital;

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

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

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

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

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

Financial services reform legislation recently enacted into law by the President will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Bureau of Consumer Financial Protection and result in new laws and regulations that are expected to increase our costs of operations.

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

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Please also refer to **Risk Factors** herein, in the accompanying prospectus, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which are incorporated by reference into this prospectus supplement, for further information on these and other factors affecting us.

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

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**Prospectus supplement summary**

*This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. As a result, it does not contain all of the information that may be important to you or that you should consider before investing in our securities. You should read the prospectus supplement and the accompanying prospectus, including Risk Factors, and the documents incorporated by reference, which are described under Where You Can Find More Information in this prospectus supplement. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the underwriter does not exercise its option to purchase additional shares of our securities to cover over-allotments, if any.*

**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, the Bank, a federally chartered stock savings bank. At September 30, 2010, our total assets were \$13.8 billion, making us the largest publicly held savings bank in the Midwest and one of the top 15 largest savings banks in the United States. We are considered a controlled company for NYSE purposes because MP Thrift Investments, L.P., or MP Thrift, held approximately 69.1% of our voting common stock as of September 30, 2010 and is expected to continue to hold at least 50% of our common stock following this offering and our concurrent convertible preferred stock offering.

As a savings and loan holding company, we are subject to regulation, examination and supervision by the Office of Thrift Supervision, or the OTS, of the United States Department of the Treasury, or Treasury. The Bank is a member of the Federal Home Loan Bank of Indianapolis, or the FHLB, and is subject to regulation, examination and supervision by the OTS and the Federal Deposit Insurance Corporation, or the FDIC. The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund, or the DIF.

We operate 162 banking centers (of which 27 are located in retail stores), including 113 located in Michigan, 22 located in Indiana and 27 located in Georgia. Through our banking centers, we gather deposits and offer a line of consumer and commercial financial products and services to individuals and small and middle market businesses. We also gather deposits on a nationwide basis through our website, [www.FlagstarDirect.com](http://www.FlagstarDirect.com), and provide deposit and cash management services to governmental units on a relationship basis throughout our markets. We leverage our banking centers and internet banking to cross sell other products to existing customers and increase our customer base. At September 30, 2010, we had a total of \$8.6 billion in deposits, including \$5.4 billion in retail deposits, \$0.8 billion in government funds, \$1.3 billion in wholesale deposits and \$1.1 billion in company-controlled deposits.

We also operate 16 stand-alone home loan centers located in 13 states, which originate one-to-four family residential mortgage loans as part of our retail home lending business. These offices employ approximately 153 loan officers. We also originate retail loans through referrals from our 162 retail banking centers, consumer direct call center and our website, [www.flagstar.com](http://www.flagstar.com). Additionally, we have wholesale relationships with more than 2,400 mortgage brokers and nearly 1,000 correspondents, which are located in all 50 states and serviced by 132 account executives. The combination of our retail, broker and correspondent channels gives us broad access to customers across diverse geographies to originate, fulfill, sell and service our first mortgage loan products. Our servicing activities primarily include collecting



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cash for principal, interest and escrow payments from borrowers, and accounting for and remitting principal and interest payments to investors and escrow payments to third parties. We closed over \$17.4 billion in mortgage originations in the first nine months of 2010. For the first six months of 2010, we were ranked by industry sources as the 12th largest mortgage originator with a market share of 1.5%.

Our earnings include net interest income from our retail banking activities, fee-based income from services we provide to our customers, and non-interest income from sales of residential mortgage loans to the secondary market, the servicing of loans for others and the sale of servicing rights related to mortgage loans serviced for others. Nearly all of our total loan production during the nine months ended September 30, 2010 represented mortgage loans that were collateralized by first or second mortgages on single-family residences and were eligible for sale through Fannie Mae, Freddie Mac and Ginnie Mae, or each an Agency or collectively the Agencies.

At September 30, 2010, we had 3,207 full-time equivalent salaried employees, of which 286 were account executives and loan officers.

## **Recent developments**

### **Third quarter unaudited results**

Results and significant items for third quarter 2010 were as follows:

Net loss applicable to holders of our common stock was \$(22.6) million, or a loss of \$(0.15) per share (diluted) based on average shares outstanding of 153,405,000, for the third quarter 2010, as compared to a net loss of \$(97.0) million, or a loss of \$(0.63) per share (diluted) based on average shares outstanding of 153,298,000, for the second quarter 2010. For the third quarter 2009, the net loss applicable to our common stock was \$(298.2) million, or a loss of \$(6.36) per share based on average shares outstanding of 46,853,000.

Net loss applicable to holders of our common stock was \$(201.5) million, or \$(1.57) per share (diluted) based on average shares outstanding of 128,411,000, for the nine months ended September 30, 2010, which equaled a 54% decrease as compared to a net loss of \$(442.2) million, or \$(16.58) per share (diluted) based on average shares outstanding of 26,678,000, during the nine months ended September 30, 2009.

Non-performing assets decreased to \$1.1 billion at September 30, 2010, from \$1.2 billion at both June 30, 2010 and September 30, 2009. This category of assets is comprised of non-performing loans (i.e., loans 90 days or more past due, and matured loans), real estate owned and net repurchased assets and excludes repurchased assets that are insured by the Federal Housing Agency, or FHA. The decline in non-performing assets reflects a reduction in the amount of non-performing loans.

Allowance for loan losses decreased to \$474.0 million, which equaled 6.48% of loans held for investment and 52.0% of non-performing loans, at September 30, 2010, as compared to allowance for loan losses of \$530.0 million, which equaled 7.20% of loans held for investment and 52.3% of non-performing loans, at June 30, 2010. At December 31, 2009, the allowance for loan loss was \$524.0 million and equaled 6.79% of loans held for investment and 48.9% of non-performing loans. The decline in the allowance for loan losses resulted from the decline in the balance of delinquent loans in both residential first mortgage and commercial real estate loans during the third quarter 2010.

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Non-performing commercial real estate mortgages decreased to \$238.6 million at September 30, 2010, as compared to \$324.9 million at June 30, 2010.

Non-performing residential first mortgage loans decreased 1.7%, to \$651.9 million at September 30, 2010, as compared to \$663.5 million at June 30, 2010. The decrease reflected reductions of \$1.1 million in the 90-120 day delinquent category and \$10.5 million in the over 120 day and matured delinquent loan categories.

The secondary marketing reserve, which reflects the estimate of losses that we expect to incur on loans that we sold or securitized in the secondary market, was \$77.5 million at September 30, 2010, as compared to \$76.0 million at June 30, 2010 and \$66.0 million at December 31, 2009. For the third quarter 2010, we incurred a secondary marketing reserve provision expense of \$13.0 million, as compared to \$11.4 million in the second quarter 2010.

The Bank remained well-capitalized for regulatory purposes at September 30, 2010, with regulatory capital ratios of 9.12% for Tier 1 capital and 16.87% for total risk-based capital.

Gain on loan sales increased to \$103.2 million for the third quarter 2010, as compared to \$64.3 million for the second quarter 2010 and \$104.4 million for the third quarter 2009, which reflects the increase in volume, through the increase in both interest rate lock commitments and loan production, and the increase in margin.

Gain on loan sales margins increased to 1.35% for the third quarter 2010, as compared to 1.22% for the second quarter 2010 and 1.37% for the third quarter 2009.

Mortgage rate lock commitments increased to \$11.0 billion for the third quarter 2010, as compared to \$8.3 billion for the second quarter 2010 and \$8.7 billion during the third quarter 2009. Loan production, substantially comprised of agency-eligible residential first mortgage loans, increased to \$7.6 billion for the third quarter 2010, as compared to \$5.5 billion for the second quarter 2010 and \$6.6 billion in the third quarter 2009. For the nine months ended September 30, 2010, loan production was \$17.4 billion, which is comprised of \$9.9 billion originated in the correspondent channel, \$6.0 billion originated in the broker channel and \$1.4 billion originated in the retail channel.

Loans serviced for others increased to \$52.3 billion with a weighted average servicing fee of 31.5 basis points at September 30, 2010, which was an increase from \$50.4 billion with a weighted average servicing fee of 32.4 basis points at June 30, 2010 and a decrease from the \$56.5 billion at December 31, 2009, with a weighted average servicing fee of 32.1 basis points

Net interest margin increased to 1.55% for the third quarter 2010 as compared to 1.53% for the second quarter 2010 and decreased slightly from 1.58% in the third quarter 2009. The increase from the second quarter 2010 reflects a 9 bps decrease in earning asset yields with average interest earning assets declining \$0.4 billion, which was partially offset by a 15 bps decline in funding costs, with average interest bearing liabilities decreasing only \$0.3 billion. The decline in funding costs is due primarily to reduced costs of retail deposits and reduced borrowings and rates associated with FHLB advances and the absence of any repurchase agreements for the third quarter 2010 as they were repaid during the second quarter 2010. In addition, several FHLB advances were restructured to better match funding maturities with asset maturities, maintain an asset sensitive balance sheet structure and obtain the benefit of the current lower interest rate environment. In that regard, a single advance otherwise due in 2011 was prepaid and seven other advances totaling \$1.9 billion were restructured to extend maturities during

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which time the now-current interest rates would apply. As a result, the annual advance cost on the \$1.9 billion of restructured advances was decreased by 123 bps.

Net interest income decreased to \$41.1 million during the third quarter 2010, as compared to \$42.4 million during the second quarter 2010 and \$47.6 million during the third quarter 2009. The decrease from the second quarter 2010 reflected the decline in the average balances of interest-earning assets, including higher-yielding trading securities and loans held for investment, offset in part by the reduction in funding costs due to lower balances and average rates for FHLB advances.

Loan loss provisions declined to \$51.4 million for the third quarter 2010, which is a 40% decrease from \$86.0 million for the second quarter 2010 and \$125.5 million for the third quarter 2009. The reduced loan loss provision expense during the third quarter 2010 reflects the decline in 90 day and over delinquencies on first mortgage loans held for investment between June 30, 2010 and September 30, 2010. Delinquent first mortgage loans (90 days and over) held for investment declined to \$651.9 million at September 30, 2010 from \$663.5 million at June 30, 2010. The decline in the provision for the third quarter 2010 also reflects the lower balance of non-performing commercial real estate loans, following charge-offs of \$57.6 million, of such loans which were previously reserved for during prior quarters.

Non interest income increased to \$144.9 million for the third quarter 2010, as compared to \$100.3 million for the second quarter of 2010 and \$66.2 million for the third quarter 2009, and included the following components:

Gain on loan sales increased to \$103.2 million for the third quarter 2010, which is a 61% increase from \$64.3 million for the second quarter 2010, reflecting both a 33% increase in interest rate locks on mortgage loans, to \$11.0 billion in the third quarter 2010 from \$8.3 billion in the second quarter 2010, and a 43% increase in residential mortgage loan sales, to \$7.6 billion in the third quarter 2010 from \$5.3 billion in the second quarter 2010;

Loan fees, which arise from the origination of residential mortgage loans, increased to \$24.4 million for the third quarter 2010, which is a 21% increase from \$20.2 million for the second quarter 2010. The increase in loan fees reflected a 38% increase in originations to \$7.6 billion during the third quarter 2010, as compared to \$5.5 billion during the second quarter 2010;

Net servicing revenue, which is the combination of net loan administration income and the related hedging effect of gain (loss) on trading securities, increased to \$23.2 million during the third quarter 2010, which is a 55% increase from \$15.0 million during the second quarter 2010; and

Other fees and charges were \$(7.7) million for the third quarter 2010, as compared to \$(6.5) million for the second quarter 2010, principally as the result of a \$1.6 million increase in secondary market reserve provisions accrued for expected losses on loans repurchased from the secondary market.

Non interest expense increased to \$152.5 million in the third quarter 2010, as compared to \$149.0 million in the second quarter 2010 and decreased from \$166.9 million in the third quarter 2009, and included the following components:

Compensation and benefits expense increased \$5.6 million and commissions expense increased \$3.0 million, reflecting the overall build out of the organization, an increase in employees

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handling the increased loan production workload and an increase in incentive pay associated with the heightened underwriting activity;

Asset resolution expenses, which are expenses associated with foreclosed property and repurchased assets, decreased to \$34.2 million in the third quarter 2010, which is a 25% decrease from \$45.4 million in the second quarter of 2010. The decline was principally due to the reduced provisions for possible losses on foreclosed property, to gains recognized on sales of certain foreclosed properties, and to reduced provisions for costs associated with repurchased FHA-insured loans;

Loss on the early extinguishment of debt during the third quarter 2010 arose from the prepayment of a \$250.0 million advance from the FHLB with a 4.825% interest rate and due in September 2011; and

The re-valuation of our outstanding warrants at the end of the third quarter 2010 resulted in income of \$1.4 million, as compared to income of \$3.5 million at the end of the second quarter 2010. The change in value results from reduced expense anticipated in future years based upon the decline in the market price of the common stock since the end of the second quarter 2010.

Total assets were \$13.8 billion at September 30, 2010, as compared to \$13.7 billion at June 30, 2010 and \$14.0 billion at December 31, 2009. The increase from the second quarter 2010 reflected an increase in loans available for sale partially offset by sales of trading securities and securities available for sale and the continued run-off of the Bank's held-for-investment portfolio.

Retail deposits were \$5.4 billion at September 30, 2010, as compared to \$5.2 billion at June 30, 2010 and 5.5 billion at December 31, 2009. At September 30, 2010, the Bank had a collateralized \$4.0 billion line of credit with the FHLB with \$587.0 million of remaining capacity.

We have presented the financial information for the three and nine months ended September 30, 2010 based on our current financial statements, which have not been reviewed by Baker Tilly Virchow Krause LLP, our independent registered public accounting firm.

## **Potential dispositions of non-performing assets**

We are committed to continuing to take actions to improve asset quality metrics. Our management believes that the proceeds of this offering and the concurrent convertible preferred stock offering will provide us with sufficient additional capital to permit an acceleration of our loss mitigation strategies through efforts to aggressively reduce nonperforming assets. Our management is evaluating the potential disposition of our nonperforming residential mortgage loans, our performing troubled debt restructurings ( TDRs ), our collateralized mortgage obligations and our real estate owned, all of which are believed to be saleable in the current environment. If the results of this evaluation affirm the saleability of these assets, management may initiate efforts to dispose of these assets in a series of transactions commencing within a reasonable time following this offering and the concurrent common stock offering. Based on the range of pricing which we understand to be currently available in the market for such assets, ranging from 44% to 45% of book value for non-insured residential mortgage non-performing loans, 65% to 75% of book value for performing residential mortgage TDRs, 99% to 101% of book value for collateralized mortgage obligations and 85% to 95% of book value for residential real estate owned, we believe, if pursued, we would be able to execute a series of disposition transactions on acceptable terms. We have received a firm offer on \$473 million of non-insured residential mortgage non-performing loans with a price of 44% of book value, which we are currently evaluating. However, any such disposition of assets is subject to the completion of this offering and the concurrent common stock offering, Board approval authorizing us to proceed with dispositions and the continued availability



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of acceptable pricing and other transaction terms. Accordingly, there can be no assurance that we will enter into agreements for or consummate any such transactions, and it is possible that we may hold all such assets to their maturity or contemplate other dispositions in the normal course of business.

The illustrative ratios below assume the completion, as of September 30, 2010, of (i) this offering (assuming no exercise of the underwriter's over-allotment option), after deducting underwriter's discounts and commissions and estimated offering expenses, (ii) the concurrent common stock offering (assuming no exercise of the underwriter's over-allotment option), after deducting underwriter's discounts and commissions and estimated offering expenses, and (iii) a sale of \$560 million of non-insured residential mortgage non-performing loans, \$417 million of residential performing TDRs, \$348 million of collateralized mortgage obligations, and \$94 million residential real estate owned at the midpoint of the indicative price ranges set forth above. As of September 30, 2010, we had reserves relating to non-insured residential mortgage non-performing loans of \$160 million and reserves relating to residential performing TDRs of \$32 million. The amounts listed above represent all of our non-insured residential mortgage non-performing loans, residential performing TDRs, collateralized mortgage obligations and residential real estate owned as of September 30, 2010, which amounts fluctuate over time in the ordinary course. The amounts assume proceeds from the sale of assets are applied to cash and the expected repayment of \$450 million of certificates of deposit pursuant to short term contractual maturities.

	<b>Actual</b>	<b>Pro forma(8)</b>
Core capital ratio(1)	9.1%	10.1%
Tier 1 risk-based capital ratio(2)	15.6%	18.8%
Tier 1 common ratio(3)	9.5%	12.0%
Tangible common equity-to-total assets(4) (consolidated)	5.9%	6.8%
Texas ratio (NPA)(5)	70.4%	32.2%
Texas ratio (SNL)(6)	123.6%	43.3%
Non-performing assets(7)-to-total assets	8.2%	3.6%

(1) Calculated as Tier 1 capital divided by adjusted total assets.

(2) Calculated as Tier 1 capital divided by risk weighted assets.

(3) Calculated as Tier 1 capital less perpetual preferred stock, qualifying minority interest in subsidiaries and qualifying trust preferred securities divided by risk weighted assets.

(4) Calculated as Tier 1 capital less perpetual preferred stock divided by total assets.

(5) Calculated as non-performing loans plus real estate owned and uninsured repurchased assets divided by Tier 1 capital and general reserves.

(6) Calculated as non-performing loans, including performing TDRs, plus real estate owned and uninsured repurchased assets divided by common equity and loan loss reserves.

(7) Non-performing assets equals non-performing loans plus real estate owned and uninsured repurchased assets.

(8) Calculated using the midpoint of the range of pricing disclosed above.

**Corporate 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](http://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 or any other document we file with or furnish to the Securities and Exchange Commission, or the SEC.

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**Table of Contents****The offering**

For a more complete description of the terms of the common stock being offered by this prospectus supplement and the accompanying prospectus, see **Description of Our Capital Stock** in the accompanying prospectus.

Issuer	Flagstar Bancorp, Inc., a Michigan corporation.
Securities offered	110,000,000 shares of common stock.
Common stock outstanding after this offering(1)	263,572,390 shares.
Convertible preferred stock outstanding after the concurrent convertible preferred stock offering	13,500,000 shares of convertible preferred stock.
Concurrent convertible preferred stock offering	Concurrently with this offering, we are offering 13,500,000 shares of our convertible preferred stock (or a total of 14,192,250 shares if the underwriter in that offering exercises its option to purchase additional shares in full) in an underwritten offering pursuant to a separate prospectus supplement. Each share of convertible preferred stock has a liquidation preference, subject to adjustment, of \$20.00 and is mandatorily convertible into 20 shares of common stock on the mandatory conversion date as described herein. This offering is contingent on the completion of the concurrent convertible preferred stock offering, and the concurrent convertible preferred stock offering is contingent on the completion of this offering. See <b>Description of the Capital Stock - Convertible Preferred Stock</b> for additional information.
Stockholder approval	We have agreed to use our best efforts to hold a special meeting of our stockholders as soon as practicable, but not later than December 27, 2010, which is 60 days after the date of this prospectus supplement, or the approval deadline, at which we will seek to obtain the requisite stockholder approval by holders of more than a majority of our common stock of an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of our common stock to a number at least sufficient to permit the full conversion of the convertible preferred stock into shares of our common stock. We intend to ask our stockholders to authorize the issuance of 300,000,000 additional

- (1) Based on 153,572,390 shares outstanding on October 27, 2010. Unless otherwise indicated, the number of outstanding shares in this prospectus supplement excludes, as of October 27, 2010: 6,451,379 shares issuable upon exercise of a warrant to purchase common stock held by Treasury, or the Treasury Warrant, 1,377,814 shares issuable upon warrants to purchase common stock held by other investors, or the Investor Warrants, 2,209,236 shares underlying awards granted under our 2006 Equity Incentive Plan and 5,655,000 shares issuable pursuant to the exercise of the underwriter's over-allotment option, and 283,845,000 shares issuable upon conversion of the convertible preferred securities offered in the concurrent convertible preferred stock offering including 13,845,000 shares issuable upon conversion of the convertible preferred securities issued pursuant to the exercise of the underwriter's over-allotment option.





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shares of common stock for purposes of the conversion of the convertible preferred stock, as well as an additional 100,000,000 additional shares of common stock to provide future flexibility. If we fail to obtain such stockholder approval by the approval deadline, we have agreed that we will continue to seek to obtain such approval at least as frequently as every six months thereafter until approval has been obtained. MP Thrift currently owns approximately 69.1% of our outstanding common stock and has indicated that it intends to vote in favor of the proposal.

We refer to the amendment to our amended and restated articles of incorporation to increase our authorized common stock as provided above as the common stock amendment, and the first stockholders meeting following the completion of this offering at which we seek to obtain approval of the common stock amendment as the initial stockholder meeting.

If we obtain stockholder approval of the common stock amendment at the initial stockholder meeting held on or before the approval deadline, then on the first business day following the initial stockholder meeting:

the convertible preferred stock will automatically convert into shares of our common stock at a conversion rate, subject to adjustment, of 20 shares of our common stock for each share of convertible preferred stock, or the conversion rate, with cash being paid for fractional shares; and

all shares of our convertible preferred stock will cease to exist and will resume the status of authorized and unissued shares of our preferred stock, and all other rights of the holders of such shares of convertible preferred stock will terminate.

**Purchase by our affiliate**

MP Thrift, our controlling stockholder, may participate in the purchase of the common stock and the convertible preferred stock. To the extent that it or any of our other affiliates elects to purchase common stock in this offering or convertible preferred stock in the concurrent convertible preferred stock offering, such affiliates will not be permitted to participate in the pricing of the securities. MP Thrift held approximately 69.1% of our voting common stock as of September 30, 2010 and is expected to continue to hold at least 50% of our common stock following this offering and our concurrent convertible preferred stock offering.

**Closing conditions**

This offering is contingent upon a number of closing conditions, including, but not limited to, the completion of the concurrent convertible preferred stock offering.

**Use of proceeds**

Our net proceeds from this offering and the concurrent convertible preferred stock offering will be approximately \$367.3 million, or approximately \$385.8 million if the underwriter exercises its overallotment option in full, in each case after deducting

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underwriter's discounts and commissions and estimated offering expenses payable by us.

We expect to use the net proceeds of this offering and the concurrent convertible preferred stock offering for general corporate purposes, including potential disposition of non-performing assets or potential restructuring of the balance sheet.

Listing

Our common stock is listed for trading on the New York Stock Exchange (the NYSE ) under the symbol FBC.

**Risk factors**

See Risk Factors in this prospectus supplement and the accompanying prospectus and Item 1A. Risk Factors in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, as the same may be updated from time to time by filings under the Exchange Act that we incorporate by reference herein and in the accompanying prospectus, for a discussion of or reference to important factors you should consider carefully in deciding whether to invest in our securities.

**Table of Contents****Summary selected consolidated financial information**

The following table sets forth summary historical consolidated financial information at or for years ended December 31, 2009, 2008, 2007, 2006 and 2005 (which has been derived from, and is qualified by reference to, our audited consolidated financial statements and related notes), and as of and for the nine months ended September 30, 2010 and 2009. You should read the following selected consolidated financial information in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the notes to those financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which have been filed with the SEC and are incorporated by reference into this prospectus supplement.

in thousands except per share data)	For the nine months ended September 30		2009	2008	For the years ended Decem		
	2010	2009			2007	2006	
<b>Summary of Consolidated Statements of Operations</b>							
Income	\$ 379,445	\$ 539,933	\$ 689,338	\$ 777,997	\$ 905,509	\$ 800,866	\$ 7
Expense	258,242	375,593	477,798	555,472	695,631	585,919	4
Interest Income	121,203	164,340	211,540	222,525	209,878	214,947	2
Provision for Loan Losses	(200,978)	(409,420)	(504,370)	(343,963)	(88,297)	(25,450)	(
Interest (Loss) Income After Provision for Loan Losses	(79,775)	(245,080)	(292,830)	(121,438)	121,581	189,497	2
Interest Income	317,217	391,728	523,286	130,123	117,115	202,161	1
Interest Expense	424,875	521,392	672,126	432,052	297,510	275,637	2
Earnings Before Federal Income Tax	(187,433)	(374,744)	(441,670)	(423,367)	(58,814)	116,021	1
Provision (Benefit) for Federal Income Taxes		55,008	55,008	(147,960)	(19,589)	40,819	.
Net Earnings	(187,433)	(429,752)	(496,678)	(275,407)	(39,225)	75,202	
Dividend Stock Dividends/Accretion	(14,059)	(12,464)	(17,124)				
Net Earnings Attributable to Common Shareholders	\$ (201,492)	\$ (442,216)	\$ (513,802)	\$ (275,407)	\$ (39,225)	\$ 75,202	\$
Earnings Per Share(3)	\$ (1.57)	\$ (16.58)	\$ (16.17)	\$ (38.17)	\$ (6.41)	\$ 11.84	\$
Dividends Per Common Share(3)	\$ (1.57)	\$ (16.58)	\$ (16.17)	\$ (38.17)	\$ (6.37)	\$ 11.69	\$
Dividend Payout Ratio						N/M	51%

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	As of the nine months ended September 30				As of the years ended	
	2010	2009	2009	2008	2007	2006
<b>Assets except per percentages)</b>						
<b>Consolidated Financial</b>						
Securities Held	\$13,836,573	\$14,820,815	\$14,013,331	\$14,203,657	\$15,791,095	\$15,497,203
Net	8,781,322	9,676,375	9,684,412	10,566,801	11,645,707	12,128,480
g Rights	447,023	567,800	652,374	520,763	413,986	173,288
	8,561,943	8,533,968	8,778,469	7,841,005	8,236,744	7,623,488
	3,400,000	4,800,000	3,900,000	5,200,000	6,301,000	5,407,000
se Agreements		108,000	108,000	108,000	108,000	990,800
	248,610	300,182	300,182	248,660	248,685	207,472
uity(1)	1,060,729	667,597	596,724	472,293	692,978	812,234
<b>and Statistical</b>						
Ratio	9.12%	6.39%	6.19%	4.95%	5.78%	6.31%
	9.12%	6.39%	6.19%	4.95%(2)	5.78%	6.31%
Capital Ratio	16.87%	12.06%	11.68%	9.10%(2)	10.66%	11.55%
Ratio (at the end	7.67%	4.50%	4.26%	3.33%	4.39%	5.24%
Ratio (average for	7.14%	5.43%	5.15%	4.83%	4.48%	5.29%
Share(3)	\$5.30	\$9.07	\$7.53	\$56.48	\$115.00	\$127.70
g(3)	153,513	46,853	46,877	8,363	6,027	6,363
utstanding(3)	128,411	46,853	31,766	7,215	6,115	6,350
originated or						
ated or	\$17,396,195	\$25,405,969	\$32,330,658	\$27,990,118	\$25,711,438	\$18,966,354
	26,958	57,220	44,443	316,471	981,762	1,241,588
curitized	17,893,675	25,183,401	32,326,643	27,787,884	24,255,114	16,370,923
erived for						
	52,287,204	53,159,885	56,521,902	55,870,207	32,487,337	15,032,504
of Mortgage						
	0.85%	1.06%	1.15%	0.93%	1.27%	1.15%
nd-Consolidated	1.47%	1.49%	1.54%	1.71%	1.33%	1.42%
n-Consolidated	1.41%	1.56%	1.55%	1.67%	1.40%	1.54%
nd-Bank Only	1.50%	1.53%	1.58%	1.76%	1.39%	1.44%
n-Bank Only	1.50%	1.65%	1.65%	1.78%	1.50%	1.63%
e Assets	(1.92%)	(3.65%)	(3.24%)	(1.83%)	(0.24%)	0.49%
e Equity	(26.85%)	(67.44%)	(62.87%)	(37.66%)	(5.14%)	9.42%

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(dollars in thousands except per share data and percentages)	As of the nine months ended		As of the years ended December 31,				
	September 30 2010	September 30 2009	2009	2008	2007	2006	2005
Efficiency Ratio	96.9%	93.8%	91.5%	122.5%	91.0%	66.1%	64.8%
Net Charge Off Ratio	4.53%	3.96%	4.20%	0.79%	0.38%	0.20%	0.16%
Ratio of Allowance to Investment Loans	6.48%	6.79%	6.79%	4.14%	1.28%	0.51%	0.37%
Ratio of Non-Performing Assets to Total Assets	8.25%	8.44%	9.25%	5.97%	1.91%	1.03%	0.98%
Ratio of Allowance to Non-Performing Loans	52.0%	50.0%	48.9%	52.1%	52.8%	80.2%	60.7%
Number of Banking Centers	162	176	165	175	164	151	137
Number of Home Loan Centers	27	42	23	104	143	76	101

- (1) Includes preferred stock totaling \$243,781 for 2009, no other year includes preferred stock.
- (2) On January 30, 2009, we raised additional capital amounting to \$523 million through a private placement and the Troubled Asset Relief Program ( TARP ) Capital Purchase Program. As a result of the capital received, the OTS provided the Bank with written notification that the Bank s capital category at December 31, 2008, remained well capitalized.
- (3) Restated for a one-for-ten reverse stock split announced and effective on May 27, 2010.

Note: N/M not meaningful.

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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 the accompanying prospectus and in the other documents incorporated by reference herein and therein. In addition, you should carefully consider all of the other information included herein and in the accompanying prospectus or incorporated by reference into herein or therein, 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**

**Market, interest rate and liquidity risk**

*Our business has been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.*

The financial services industry has been materially and adversely affected by significant declines in the values of nearly all asset classes and by a significant and prolonged period of negative economic conditions. This was initially triggered by declines in the values of subprime mortgages, but spread to virtually all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes. The United States economy has continued to be adversely affected by these events as shown by increased unemployment across most industries, increased delinquencies and defaults on loans. There is also evidence of strategic defaults on loans, which are characterized by borrowers that appear to have the financial means to satisfy the required mortgage payments as they come due but choose not to do so because the value of the assets securing their debts (such as the value of a house securing a residential mortgage) may have declined below the amount of the debt itself. Further, there are several states, such as California, in which many residential mortgages are effectively non-recourse in nature or in which statutes or regulations cause collection efforts to be unduly difficult or expensive to pursue. There are also a multitude of commercial real estate loans throughout the United States that are soon to mature, and declines in commercial real estate values nationwide could prevent refinancing of the debt and thereby result in an increase in delinquencies, foreclosures and nonperforming loans, as well as further reductions in asset values. The decline in asset values to date has resulted in considerable losses to secured lenders, such as the Bank, that historically have been able to rely on the underlying collateral value of their loans to be minimize or eliminate losses. There can be no assurance that property values will stabilize or improve and if they continue to decline, there can be no assurance that the Bank will not continue to incur significant credit losses.

Prior market conditions have also led to the failure or merger of a number of the largest financial institutions in the United States and global marketplaces and could recur. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under bilateral derivatives and other contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, cause rating agencies to lower credit ratings, and otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in central bank borrowing rates and other government actions. Banks and other lenders have suffered significant losses and often have become reluctant to

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lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral.

In response to market conditions, governments, regulators and central banks in the United States and worldwide took numerous steps to increase liquidity and restore investor confidence but asset values have continued to decline and access to liquidity remains very limited.

Overall, during fiscal 2010 and for the foreseeable future, the business environment has been extremely adverse for our business and there can be no assurance that these conditions will improve in the near term. Until they do, we expect our results of operations to be adversely affected.

***If we cannot effectively manage the impact of the volatility of interest rates our earnings could be adversely affected.***

Our main objective in managing interest rate risk is to maximize the benefit and minimize the adverse effect of changes in interest rates on our earnings over an extended period of time. In managing these risks, we look at, among other things, yield curves and hedging strategies. As such, our interest rate risk management strategies may result in significant earnings volatility in the short term because the market value of our assets and related hedges may be significantly impacted either positively or negatively by unanticipated variations in interest rates. In particular, our portfolio of mortgage servicing rights and our mortgage banking pipeline are highly sensitive to movements in interest rates.

Our profitability depends in substantial part on our net interest margin, which is the difference between the rates we receive on loans made to others and investments and the rates we pay for deposits and other sources of funds. Our profitability also depends in substantial part on the volume of loan originations and the related fees received from our mortgage banking operations. Our net interest margin and our volume of mortgage originations will depend on many factors that are partly or entirely outside our control, including competition, federal economic, monetary and fiscal policies, and economic conditions generally. Historically, net interest margin and the mortgage origination volumes for the Bank and for other financial institutions have widened and narrowed in response to these and other factors. Also, our volume of mortgage originations will also depend on the mortgage qualification standards imposed by the Agencies such that if their standards are tightened, our origination volume could be reduced. Our goal has been to structure our asset and liability management strategies to maximize the benefit of changes in market interest rates on our net interest margin and revenues related to mortgage origination volume. However, a sudden or significant change in prevailing interest rates may have a material adverse effect on our operating results.

There exists a natural counterbalance of our loan production and servicing operations. Increasing long-term interest rates may decrease our mortgage loan originations and sales. Generally, the volume of mortgage loan originations is inversely related to the level of long-term interest rates which is directly related to the value of our servicing operations. During periods of low long-term interest rates, a significant number of our customers may elect to refinance their mortgages (i.e., pay off their existing higher rate mortgage loans with new mortgage loans obtained at lower interest rates). Our profitability levels and those of others in the mortgage banking industry have generally been strongest during periods of low and/or declining interest rates, as we have historically been able to sell the resulting increased volume of loans into the secondary market at a gain. We have also benefited from periods of wide spreads between short- and long-term interest rates. During much of 2010, the interest rate



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environment was quite favorable for mortgage loan originations and sales, in large part due to government intervention through the purchase of mortgage-backed securities that facilitated a low-rate interest rate environment for the residential mortgage market. In addition, there were wide spreads between short- and long-term interest rates for much of 2010, resulting in higher profit margins on loan sales than in prior periods. These conditions may not continue and a change in these conditions could have a material adverse effect on our operating results.

When interest rates fluctuate, repricing risks arise from the timing difference in the maturity and/or repricing of assets, liabilities and off-balance sheet positions. While such repricing mismatches are fundamental to our business, they can expose us to fluctuations in income and economic value as interest rates vary. Our interest rate risk management strategies do not completely eliminate repricing risk.

A significant number of our depositors are believed to be rate sensitive. Because of the interest rate sensitivity of these depositors, there is no guarantee that in a changing interest rate environment we will be able to retain all funds in these accounts.

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

The housing and the residential mortgage markets have experienced a variety of difficulties and changed economic conditions. In response, federal and state government, as well as the Agencies, have developed a number of programs and instituted a number of requirements on servicers in an effort to limit foreclosures and, in the case of the Agencies, to minimize losses on loans that they guarantee or own. These additional programs and requirements may increase operating expenses or otherwise change the costs associated with servicing loans for others, which may result in lower margins or an impairment in the expected value of our mortgage servicing rights.

***Current and further deterioration in the housing and commercial real estate markets may lead to increased loss severities and further increases in delinquencies and non-performing assets in our loan portfolios. Consequently, our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our reserves.***

Approximately 61.4% of our loans held for investment portfolio as of September 30, 2010 were comprised of loans collateralized by real estate in which we were in the first lien position. A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have an adverse effect on our business, financial condition, results of operations, cash flows and prospects. Unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond our ability to predict, influence or control.

As with most lending institutions, we maintain an allowance for loan losses to provide for probable and inherent losses in our loans held for our investment portfolio. Our allowance for loan losses may not be adequate to cover actual credit losses, and future provisions for credit losses could adversely affect our business, financial condition, results of operations, cash flows and prospects. The allowance for loan losses reflects management's estimate of the probable

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and inherent losses in our portfolio of loans at the relevant statement of financial condition date. Our allowance for loan losses is based on prior experience as well as an evaluation of the risks in the current portfolio, composition and growth of the portfolio and economic factors. The determination of an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and these losses may exceed current estimates. Moreover, our regulators may require revisions to our allowance for loan losses, which may have an adverse effect on our earnings and financial condition.

Recently, the housing and the residential mortgage markets have experienced a variety of difficulties and changed economic conditions. If market conditions continue to deteriorate, they may lead to additional valuation adjustments on our loan portfolios and real estate owned as we continue to reassess the market value of our loan portfolio, the loss severities of loans in default, and the net realizable value of real estate owned.

If market conditions remain poor or further deteriorate, they may lead to additional valuation adjustments on our loan portfolios and real estate owned as we continue to reassess the fair value of our non-performing assets, the loss severities of loans in default, and the fair value of real estate owned. We also may realize additional losses in connection with our disposition of non-performing assets. Poor economic conditions could result in decreased demand for residential housing, which, in turn, could adversely affect the value of residential properties. A sustained weak economy could also result in higher levels of non-performing loans in other categories, such as commercial and industrial loans, which may result in additional losses. Management continually monitors market conditions and economic factors throughout our footprint for indications of change in other markets. If these economic conditions and market factors negatively and/or disproportionately affect our loans, then we could see a sharp increase in our total net-charge offs and also be required to significantly increase our allowance for loan losses. Any further increase in our non-performing assets and related increases in our provision expense for losses on loans could negatively affect our business and could have a material adverse effect on our capital, financial condition and results of operations.

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

At September 30, 2010, \$0.5 billion of our securities were classified as available-for-sale. The estimated fair value of our available-for-sale securities portfolio may increase or decrease depending on market conditions. Our securities portfolio is comprised primarily of fixed rate securities. We increase or decrease stockholders' equity by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax benefit, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold, the decrease may be recovered over the life of the securities.

We conduct a periodic review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which we consider in our analysis include, but are not limited to, the severity and duration of

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the decline in fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, our intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. We generally view changes in fair value caused by changes in interest rates as temporary, which is consistent with our experience. If we deem such decline to be other-than-temporary related to credit losses, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income.

We have, in the past, recorded other-than-temporary impairment, or OTTI, charges. We continue to monitor our securities portfolio as part of our ongoing OTTI evaluation process. No assurance can be given that we will not need to recognize OTTI charges related to securities in the future.

The capital that we are required to hold for regulatory purposes is impacted by, among other things, the securities ratings. Therefore, ratings downgrades on our securities may have a material adverse effect on our risk-based regulatory capital.

***Certain hedging strategies that we use to manage our investment in mortgage servicing rights may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity.***

We invest in mortgage servicing rights to support our mortgage banking strategies and to deploy capital at acceptable returns. The value of these assets and the income they provide tend to be counter-cyclical to the changes in production volumes and gain on sale of loans that result from changes in interest rates. We also enter into derivatives to hedge our mortgage servicing rights to offset changes in fair value resulting from the actual or anticipated changes in prepayments and changing interest rate environments. The primary risk associated with mortgage servicing rights is that they will lose a substantial portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates. Conversely, these assets generally increase in value in a rising interest rate environment to the extent that prepayments are slower than anticipated. Our hedging strategies are highly susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, our hedging strategies rely on assumptions and projections regarding our assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates or prepayment speeds, we may incur losses that would adversely impact our earnings.

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

Our access to external sources of financing, including deposits, as well as the cost of that financing, is dependent on various factors including regulatory restrictions. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, further reductions in our debt ratings, financial results and losses, changes within our organization, specific events that adversely impact our reputation, disruptions in the capital markets, specific events that adversely impact the financial services industry, counterparty availability, changes affecting our assets, the corporate and regulatory structure, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions. Many of these factors depend upon market perceptions of events that are beyond our control, such as the failure of other banks or

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financial institutions. Other factors are dependent upon our results of operations, including but not limited to material changes in operating margins; earnings trends and volatility; funding and liquidity management practices; financial leverage on an absolute basis or relative to peers; the composition of the consolidated statement of financial condition and/or capital structure; geographic and business diversification; and our market share and competitive position in the business segments in which we operate. The material deterioration in any one or a combination of these factors could result in a downgrade of our credit or servicer standing with counterparties or a decline in our financial reputation within the marketplace and could result in our having a limited ability to borrow funds, maintain or increase deposits (including custodial deposits for our agency servicing portfolio) or to raise capital. Also, we compete for funding with other banks and similar companies, many of which are substantially larger, and have more capital and other resources than we do. In addition, as some of these competitors consolidate with other financial institutions, these advantages may increase. Competition from these institutions may increase our cost of funds.

Our ability to make mortgage loans and fund our investments and operations depends largely on our ability to secure funds on terms acceptable to us. Our primary sources of funds to meet our financing needs include loan sales and securitizations; deposits, which include custodial accounts from our servicing portfolio and brokered deposits and public funds; borrowings from the FHLB or other federally backed entities; borrowings from investment and commercial banks through repurchase agreements; and capital-raising activities. If we are unable to maintain any of these financing arrangements, are restricted from accessing certain of these funding sources by our regulators, are unable to arrange for new financing on terms acceptable to us, or if we default on any of the covenants imposed upon us by our borrowing facilities, then we may have to reduce the number of loans we are able to originate for sale in the secondary market or for our own investment or take other actions that could have other negative effects on our operations. A sudden and significant reduction in loan originations that occurs as a result could adversely impact our earnings, financial condition, results of operations and future prospects. There is no guarantee that we will be able to renew or maintain our financing arrangements or deposits or that we will be able to adequately access capital markets when or if a need for additional capital arises.

***Defaults by another larger financial institution could adversely affect financial markets generally.***

The commercial soundness of many financial institutions may be closely interrelated as a result of credit or other relationships between and among institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as *systemic risk* and may adversely affect financial intermediaries, such as banks with which we interact on a daily basis, and therefore could adversely affect us.

**Regulatory risk**

***Financial services reform legislation recently signed by the President will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Consumer Financial Protection Bureau and, together with other potential legislation, result in new laws and regulations that are expected to increase our costs of operations.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law on July 21, 2010. This new law will significantly change the current bank

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regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Various federal agencies must adopt a broad range of new implementing rules and regulations and are given significant discretion in drafting the implementing rules and regulations. Consequently, the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on the Company. For example, the new law provides that the OTS, which currently is the primary federal regulator for the Company and the Bank, will be abolished. The Office of the Comptroller of the Currency, which is currently the primary federal regulator for national banks, will become the primary federal regulator for federal thrifts, including the Bank. The Board of Governors of the Federal Reserve System, or the Federal Reserve, will supervise and regulate all savings and loan holding companies that were formerly regulated by the OTS, including the Company.

Savings and loan holding companies, including the Company, will also be required to serve as a source of financial strength to their depository institution subsidiaries. The Federal Reserve is also authorized to impose capital requirements on savings and loan holding companies and subject such companies to new and potentially heightened examination and reporting requirements.

Also effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company's interest expense.

The Dodd-Frank Act directs the FDIC to redefine the base for deposit insurance assessments paid by banks from domestic deposits to average consolidated total assets less tangible equity capital, and the change will affect the deposit insurance fees paid by the Bank. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, and effectively extends the FDIC's program of insuring non-interest bearing transaction accounts on an unlimited basis through December 31, 2013.

The Dodd-Frank Act creates a new Bureau of Consumer Financial Protection, or the Bureau, with broad powers to supervise and enforce consumer protection laws. The Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act also established new requirements relating to residential mortgage lending practices, including limitations on mortgage origination fees and new minimum standards for mortgage underwriting.

At this time, it is difficult to predict the overall impact of the Dodd-Frank Act and the implementing rules and regulations on the Bank. However, it is expected that, at a minimum, operating and compliance costs will increase and interest expense could increase. Moreover, the Dodd-Frank Act did not address reform of the Agencies, and the results of any such reform, and their impact on us, are difficult to predict and may result in unintended consequences.

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***Our business is highly regulated and the regulations applicable to us are subject to change.***

The banking industry is extensively regulated at the federal and state levels. Insured depository institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. The OTS is currently the primary regulator of the Bank and its affiliated entities. In addition to its regulatory powers, the OTS also has significant enforcement authority that it can use to address banking practices that it believes to be unsafe and unsound, violations of laws, and capital and operational deficiencies. The FDIC also has significant regulatory authority over the Bank and may impose further regulation at its discretion for the protection of the DIF. Such regulation and supervision are intended primarily for the protection of the DIF and for our depositors and borrowers, and are not intended to protect the interests of investors in our securities. Further, the Bank's business is affected by consumer protection laws and regulation at the state and federal level, including a variety of consumer protection provisions, many of which provide for a private right of action and pose a risk of class action lawsuits. In the current environment, it is likely that there will be significant changes to the banking and financial institutions regulatory regime in light of recent government intervention in the financial services industry, and it is not possible to predict the impact of such changes on our results of operations. Changes to statutes, regulations or regulatory policies, changes in the interpretation or implementation of statutes, regulations or policies are continuing to become subject to heightened regulatory practices, requirements or expectations, the implementation of new government programs and plans, and changes to judicial interpretations of statutes or regulations could affect us in substantial and unpredictable ways. For example, regulators view of capital adequacy has been evolving, and while we have historically operated at lower Tier 1 capital levels, we are currently operating at a Tier 1 capital ratio of greater than 9% and do not currently intend to operate at lower Tier 1 capital levels in the future. Among other things, such changes, as well as the implementation of such changes, could result in unintended consequences and could subject us to additional costs, constrain our resources, limit the types of financial services and products that we may offer, increase the ability of nonbanks to offer competing financial services and products, and/or reduce our ability to effectively hedge against risk.

***We and the Bank are subject to the restrictions and conditions of the supervisory agreements with the OTS. Failure to comply with the supervisory agreements could result in further enforcement action against us, which could negatively affect our results of operations and financial condition.***

We and the Bank entered into supervisory agreements with the OTS on January 27, 2010, which require that the Bank and we separately take certain actions to address issues identified by the OTS, as further described in our Current Report on Form 8-K filed with the SEC on January 28, 2010. While we believe that we have taken numerous steps to comply with, and intend to comply in the future with, the requirements of the supervisory agreements, failure to comply with the supervisory agreements in the time frames provided, or at all, could result in additional enforcement orders or penalties from our regulators, which could include further restrictions on the Bank's and our business, assessment of civil money penalties on the Bank, as well as its directors, officers and other affiliated parties, termination of deposit insurance, removal of one or more officers and/or directors and the liquidation or other closure of the Bank. Such actions, if initiated, could have a material adverse effect on our operating results and liquidity.

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***Increases in deposit insurance premiums and special FDIC assessments will adversely affect our earnings.***

Beginning in late 2008 and continuing in 2009, the economic environment caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the deposit insurance fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. The base assessment rate was increased by seven basis points (seven cents for every \$100 of deposits) for the first quarter of 2009. Effective April 1, 2009, initial base assessment rates were changed to range from 12 basis points to 45 basis points across all risk categories with possible adjustments to these rates based on certain debt-related components. These increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on insured institutions due to recent bank and savings association failures. The emergency assessment amounted to five basis points on each institution's assets minus Tier 1 capital as of June 30, 2009, subject to a maximum equal to 10 basis points times the institution's assessment base. The FDIC assessment is also based on risk categories, with the assessment rate increasing as the risk the financial institution poses to the DIF increases. Any increases resulting from our movement within the risk categories could increase our deposit insurance costs and negatively impact our earnings. The FDIC may also impose additional emergency special assessments that will adversely affect our earnings.

In addition, the Dodd-Frank Act requires the FDIC to substantially revise its regulations for determining the amount of an institution's deposit insurance premiums. The Dodd-Frank Act also makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. These changes may result in additional increases to our FDIC deposit insurance premiums.

***We are subject to heightened regulatory scrutiny with respect to bank secrecy and anti-money laundering statutes and regulations.***

In recent years, regulators have intensified their focus on the USA PATRIOT Act's anti-money laundering and Bank Secrecy Act compliance requirements. There is also increased scrutiny of our compliance with the rules enforced by Treasury's Office of Foreign Assets Control. In order to comply with regulations, guidelines and examination procedures in this area, we have been required to revise policies and procedures and install new systems. We cannot be certain that the policies, procedures and systems we have in place are flawless. Therefore, there is no assurance that in every instance we are in full compliance with these requirements.

***The short-term and long-term impact of the new Basel III capital standards is uncertain.***

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. The agreement is supported by the U.S. federal banking agencies. While the short- and long-term impact of any U.S. implementation of Basel III remains uncertain, Basel III is expected to impose new minimum capital requirements on banking institutions, as well as a capital conservation buffer that can be used by banks to absorb losses during periods of financial and economic stress. As currently drafted, Basel III would limit the

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inclusion of mortgage servicing rights and deferred tax assets to 10% of Tier 1 capital, individually, and 15% of Tier 1 capital, in the aggregate. Our mortgage servicing rights and deferred tax assets currently significantly exceed the limit, and there is no assurance that they will be includable in Tier 1 capital in the future. The final package of Basel III reforms is expected to be submitted at the G-20 Leaders Summit in November 2010 for endorsement by G-20 leaders and will be subject to adoption by member nations. The agreement calls for national jurisdictions to implement the new requirements beginning January 1, 2013. At that time, the U.S. federal banking agencies will be expected to have implemented appropriate changes to incorporate the Basel III concepts into U.S. capital adequacy standards. While the Basel III changes as implemented in the United States will likely result in generally higher regulatory capital standards, it is difficult at this time to predict how any new standards will ultimately be applied to us or the Bank.

**Operational risk**

*We depend on our institutional counterparties to provide services that are critical to our business. If one or more of our institutional counterparties defaults on its obligations to us or becomes insolvent, it could have a material adverse affect on our earnings, liquidity, capital position and financial condition.*

We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. We believe that our primary exposures to institutional counterparty risk are with third-party providers of credit enhancement on the mortgage assets that we hold in our investment portfolio, including mortgage insurers and financial guarantors, issuers of securities held on our consolidated statement of financial condition, and derivatives counterparties. Counterparty risk can also adversely affect our ability to acquire, sell or hold mortgage servicing rights in the future. For example, because mortgage servicing rights are a contractual right, we may be required to sell the mortgage servicing rights by counterparties. The challenging mortgage and credit market conditions have adversely affected, and will likely continue to adversely affect, the liquidity and financial condition of a number of our institutional counterparties, particularly those whose businesses are concentrated in the mortgage industry. One or more of these institutions may default in its obligations to us for a number of reasons, such as changes in financial condition that affect their credit ratings, a reduction in liquidity, operational failures or insolvency. Several of our institutional counterparties have experienced economic hardships and liquidity constraints. These and other key institutional counterparties may become subject to serious liquidity problems that, either temporarily or permanently, negatively affect the viability of their business plans or reduce their access to funding sources. The financial difficulties that a number of our institutional counterparties are currently experiencing may negatively affect the ability of these counterparties to meet their obligations to us and the amount or quality of the products or services they provide to us. A default by a counterparty with significant obligations to us could result in significant financial losses to us and could have a material adverse effect our ability to conduct our operations, which would adversely affect our earnings, liquidity, capital position and financial condition. In addition, a default by a counterparty may require us to obtain a substitute counterparty which may not exist in this economic climate and which may, as a result, cause us to default on our related financial obligations.



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***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.***

A portion of our assets are carried on our consolidated statement of financial condition at fair value, including our mortgage servicing rights, certain mortgage loans held for sale, trading assets, available-for-sale securities, and derivatives. Generally, for assets that are reported at fair value, we use quoted market prices or internal valuation models that utilize observable market data inputs to estimate their fair value. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. We use financial models to value certain of these assets. These models are complex and use asset specific collateral data and market inputs for interest rates. We cannot assure you that the models or the underlying assumptions will prove to be predictive and remain so over time, and therefore, actual results may differ from our models. Any assumptions we use are complex as we must make judgments about the effect of matters that are inherently uncertain and actual experience may differ from our assumptions. Different assumptions could result in significant declines in valuation, which in turn could result in significant declines in the dollar amount of assets we report on our consolidated statement of financial condition.

***Our home equity lines of credit, or HELOCs, funding reimbursements have been negatively impacted by loan losses.***

Two of our securitizations involving HELOCs have experienced more losses than originally expected. As a result, the note insurer relating thereto determined that the status of such securitizations should be changed to rapid amortization. Accordingly, we are no longer being reimbursed by the issuers of those securitizations for draws that we are required to fund under the HELOC loan documentation until after the issuer expenses and noteholders are paid in full (of which an aggregate \$71.7 million is outstanding as of September 30, 2010) and the note insurer is reimbursed for any amounts owed. Consequently, this status change may result in us not receiving reimbursement for all funds that we have advanced to date or that we may be required to advance in the future. As of September 30, 2010, we had advanced a total of \$16.6 million of funds under these arrangements, which we refer to as transferors' interests. Our potential future funding obligations are dependent upon a number of factors specified in our HELOC loan agreements, which obligations as of September 30, 2010 are \$30.3 million after excluding unfunded commitment amounts that have been frozen or suspended by us pursuant to the terms of such loan agreements. We continually monitor the credit quality of the borrowers to ensure that they meet their original obligations under their HELOCs, including with respect to the collateral value. We determined that the transferors' interests had deteriorated to the extent that, under accounting guidance ASC Topic 450, Contingencies, a liability was required to be recorded. We recorded a liability to reflect the expected liability arising from losses on future draws associated with this securitization, of which \$8.0 million remained at September 30, 2010. There can be no assurance that we will not suffer additional losses on the transferors' interests or that additional liabilities will not be recorded.

***Our secondary market reserve for losses could be insufficient.***

We currently maintain a secondary market reserve, which is a liability on our consolidated statement of financial condition, to reflect our best estimate of expected losses that we have incurred on loans that we have sold or securitized into the secondary market and must subsequently repurchase or with respect to which we must indemnify the purchasers and

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insurers because of violations of customary representations and warranties. Increases to this reserve for current loan sales reduce our net gain on loan sales, with adjustments to our previous estimates recorded as an increase or decrease to our other fees and charges. The level of the reserve reflects management's continuing evaluation of loss experience on repurchased loans, indemnifications, and present economic conditions, among other things. The determination of the appropriate level of the secondary market reserve inherently involves a high degree of subjectivity and requires us to make significant estimates of repurchase risks and expected losses. Both the assumptions and estimates used could be inaccurate, resulting in a level of reserve that is less than actual losses. If additional reserves are required, it could have an adverse effect on our consolidated statements of financial condition and results of operations.

***We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances, which could harm our liquidity, results of operations and financial condition.***

When we sell mortgage loans, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers, including the Agencies, about the mortgage loans and the manner in which they were originated. Our whole loan sale agreements require us to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan. With respect to loans that are originated through our broker or correspondent channels, the remedies available to us against the originating broker or correspondent, if any, may not be as broad as the remedies available to a purchasers, guarantors and insurers of mortgage loans against us, and we face the further risk that the originating broker or correspondent, if any, may not have the financial capacity to perform remedies that otherwise may be available to us. Therefore, if a purchasers, guarantors or insurers enforce their remedies against us, we may not be able to recover our losses from the originating broker or correspondent. In recent months, the rate of repurchase demands has been increasing. If repurchase and indemnity demands increase, our liquidity, results of operations and financial condition will be adversely affected.

***Our home lending profitability could be significantly reduced if we are not able to originate and resell a high volume of mortgage loans.***

Mortgage production, especially refinancings, decline in rising interest rate environments. While we are currently experiencing historically low interest rates, the low interest rate environment will not continue indefinitely. When interest rates increase, there can be no assurance that our mortgage production will continue at current levels. Because we sell a substantial portion of the mortgage loans we originate, the profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market.

Our ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by the Agencies and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including the Agencies, are

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government-sponsored enterprises whose activities are governed by federal law. Any future changes in laws that significantly effect the activity of such government-sponsored enterprises could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the United States government. Although to date, the conservatorship has not had a significant or adverse effect on our operations, it is currently unclear whether further changes would significantly and adversely affect our operations. In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the Agencies and other institutional and non-institutional investors. Our ability to remain eligible to originate and securitize government insured loans may also depend on having an acceptable peer-relative delinquency ratio for Federal Housing Administration, or FHA, loans and maintaining a delinquency rate with respect to Ginnie Mae pools that are below Ginnie Mae guidelines. In the case of Ginnie Mae pools, the Bank has repurchased delinquent loans to maintain compliance with the minimum required delinquency ratios. Although these loans are typically insured as to principal by FHA, such repurchases increase our capital and liquidity needs, and there can be no assurance that we will have sufficient capital or liquidity to continue to purchase such loans out of the Ginnie Mae pools.

Any significant impairment of our eligibility with any of the Agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time-to-time by the sponsoring entity which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

***We are a holding company and therefore dependent on the Bank for funding of obligations and dividends.***

As a holding company without significant assets other than the capital stock of the Bank, our ability to service our debt or preferred stock obligations, including payment of interest on debentures issued as part of capital raising activities using trust preferred securities and payment of dividends on the preferred stock we issued to Treasury, is dependent upon available cash on hand and the receipt of dividends from the Bank on such capital stock. The declaration and payment of dividends by the Bank on all classes of its capital stock is subject to the discretion of the board of directors of the Bank and to applicable regulatory and legal limitations, including the prior written non-objection of the OTS under its supervisory agreement with the OTS. If the earnings of our subsidiaries are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to service our debt or our preferred stock obligations, which could have a material adverse effect on our financial condition and results of operations. Furthermore, the OTS has the authority, and under certain circumstances the duty, to prohibit or to limit the payment of dividends by the holding companies they supervise, including us.

***We may be exposed to other operational, legal and reputational risks.***

We are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees, disputes with employees and contractors, customers or outsiders, litigation, unauthorized transactions by employees or operational errors. Negative public opinion can result from our actual or alleged conduct in activities, such as lending practices, data security, corporate governance and foreclosure practices, or our involvement in government

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programs, such as TARP, and may damage our reputation. Additionally, actions taken by government regulators and community organizations may also damage our reputation. This negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. For example, current public opinion regarding defects in the foreclosure practices of financial institutions may lead to an increased risk of consumer litigation, uncertainty of title, a depressed market for non-performing assets and indemnification risk from our counterparties, including the Agencies.

Our dependence upon automated systems to record and process our transaction volume poses the risk that technical system flaws, poor implementation of systems or employee errors or tampering or manipulation of those systems could result in losses and may be difficult to detect. We may also be subject to disruptions of our operating systems arising from events that are beyond our control (for example, computer viruses, electrical or telecommunications outages). We are further exposed to the risk that our third party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors as we are). These disruptions may interfere with service to our customers and result in a financial loss or liability.

***We could experience a disproportionate impact from continued adverse economic conditions because our loans are geographically concentrated in only a few states.***

A significant portion of our mortgage loan portfolio is geographically concentrated in certain states, including California, Michigan, Florida, Washington, Colorado, Texas and Arizona, which collectively represent approximately 68.2% of our mortgage loans held for investment balance at September 30, 2010. In addition, 54.8% of our commercial real estate loans are in Michigan. Continued adverse economic conditions in these markets could cause delinquencies and charge-offs of these loans to increase, likely resulting in a corresponding and disproportionately large decline in revenues and demand for our services and an increase in credit risk and the value of collateral for our loans to decline, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

***Failure to successfully implement core systems conversions could negatively impact our business.***

In February 2010, the Bank converted to a new core banking system, and we are currently in the process of converting our mortgage servicing system and installing a commercial loan system. Each of these initiatives is intended to enable the Bank to support business development and growth as well as improving our overall operations. The replacement of our core systems has wide-reaching impacts on our internal operations and business. We can provide no assurance that the amount of this investment will not exceed our expectations and result in materially increased levels of expense or asset impairment charges. There is no assurance that these initiatives will achieve the expected cost savings or result in a positive return on our investment. Additionally, if our new core systems do not operate as intended, or are not implemented as planned, there could be disruptions in our business which could adversely affect our financial condition and results of operations.

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**General risks**

***We may incur additional costs and expenses relating to our foreclosure procedures.***

Officials in 50 states and the District of Columbia have announced a joint investigation of the procedures followed by banks and mortgage companies in connection with completing affidavits relating to home foreclosures, specifically with respect to (i) whether the persons signing such affidavits had the requisite personal knowledge to sign the affidavits and (ii) compliance with notarization requirements. Although we are continuing our review, we believe that there are a number of structural differences between our business and the resulting practices and those of the larger servicers that have been publicized in the media. For example, we do not engage of bulk purchases of loans from other servicers or investors, nor have we engaged in any acquisitions that typically result in multiple servicing locations and integration issues from both a processing and personnel standpoint. As a result, we are not required to service seasoned loans following a transfer and all of our servicing functions are performed in one location and on one core operating system. In addition, we sell servicing rights with some regularity and the sale of servicing rights has allowed for a more reasonable volume of loans that our staff has to manage. Despite these structural differences, we expect to incur additional costs and expenses in connection with our foreclosure procedures. In addition, there can be no assurance that we will not incur additional costs and expenses as a result of legislative, administrative or regulatory investigations or actions relating to our foreclosure procedures.

***Our ability to make opportunistic acquisitions and our participation in FDIC-assisted acquisitions or assumption of deposits from a troubled institution are subject to significant risks, including the risk that our regulators will not provide the requisite approvals.***

We may make opportunistic whole or partial acquisitions of other banks, branches, financial institutions, or related businesses from time to time that we expect may further our business strategy, including through participation in FDIC-assisted acquisitions or assumption of deposits from troubled institutions. Any possible acquisition will be subject to regulatory approval, and there can be no assurance that we will be able to obtain such approval in a timely manner or at all. Even if we obtain regulatory approval, these acquisitions could involve numerous risks, including lower than expected performance or higher than expected costs, difficulties related to integration, diversion of management's attention from other business activities, changes in relationships with customers, and the potential loss of key employees. In addition, we may not be successful in identifying acquisition candidates, integrating acquired institutions, or preventing deposit erosion or loan quality deterioration at acquired institutions. Competition for acquisitions can be highly competitive, and we may not be able to acquire other institutions on attractive terms. There can be no assurance that we will be successful in completing or will even pursue future acquisitions, or if such transactions are completed, that we will be successful in integrating acquired businesses into our operations. Our ability to grow may be limited if we choose not to pursue or are unable to successfully make acquisitions in the future.

***We could, as a result of a stock offering or future trading activity in our common stock or convertible preferred stock, experience an ownership change for tax purposes that could cause us to permanently lose a portion of our U.S. federal deferred tax assets.***

As of September 30, 2010, our net federal and state deferred tax assets were approximately \$267.1 million and \$42.4 million respectively, which includes both federal and state operating losses. These net deferred tax assets were fully offset by valuation allowances of the same amounts. As of

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December 31, 2009, our federal net operating loss carry forwards totaled approximately \$427 million, which gave rise to \$149.4 million of federal deferred tax assets. Our ability to use our deferred tax assets to offset future taxable income will be significantly limited if we experience an ownership change as defined for U.S. federal income tax purposes. MP Thrift, our controlling stockholder, held approximately 69.1% of our voting common stock as of September 30, 2010. Even if this offering and the concurrent convertible preferred stock offering do not cause us to experience an ownership change, these transactions may materially increase the risk that we could experience an ownership change in the future. As a result, issuances or sales of common stock or other securities in the future (including common stock or convertible preferred stock issued in this offering or the concurrent convertible preferred stock offering), or certain other direct or indirect changes in ownership, could result in an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code. Section 382 of the Code imposes restrictions on the use of a corporation's net operating losses, certain recognized built-in losses, and other carryovers after an ownership change occurs. An ownership change is generally a greater than 50 percentage point increase by certain 5% shareholders during the testing period, which is generally the three year-period ending on the transaction date. Upon an ownership change, a corporation generally is subject to an annual limitation on its prechange losses and certain recognized built-in losses equal to the value of the corporation's market capitalization immediately before the ownership change multiplied by the long-term tax-exempt rate (subject to certain adjustments). The annual limitation is increased each year to the extent that there is an unused limitation in a prior year. Since U.S. federal net operating losses generally may be carried forward for up to 20 years, the annual limitation also effectively provides a cap on the cumulative amount of prechange losses and certain recognized built-in losses that may be utilized. Prechange losses and certain recognized built-in losses in excess of the cap are effectively lost.

The relevant calculations under Section 382 of the Code are technical and highly complex. Any stock offering, combined with other ownership changes, could cause us to experience an ownership change. If an ownership change were to occur, we believe it could cause us to permanently lose the ability to realize a portion of our deferred tax asset, resulting in reduction to total shareholders' equity.

***Our management team may not be able to successfully execute our revised business strategy.***

A significant number of our executive officers, including our Chairman and Chief Executive Officer, have been employed by us for a relatively short period of time. In addition, several of our non-employee directors have been appointed to the board of directors since the beginning of 2009. Since joining us, the newly constituted management team has devoted substantial efforts to significantly change our business strategy and operational activities. These efforts may not prove successful and the management team may not be able to successfully execute upon the revised business strategy and operational activities.

***The potential loss of key members of senior management or the inability to attract and retain qualified relationship managers in the future could affect our ability to operate effectively.***

We depend on the services of existing senior management to carry out our business and investment strategies. As we expand and as we continue to refine and reshape our business model, we will need to continue to attract and retain additional senior management and recruit qualified individuals to succeed existing key personnel that leave our employ. In addition, as we continue to grow our business and plan to continue to expand our locations, products and services, we will need to continue to attract and retain qualified banking personnel.

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Competition for such personnel is especially keen in our geographic market areas and competition for the best people in most businesses in which we engage can be intense. In addition, as a TARP recipient, the American Recovery and Reinvestment Act of 2009 limits the amount of incentive compensation that can be paid to certain executives. The effect could be to limit our ability to attract and retain senior management in the future. If we are unable to attract and retain talented people, our business could suffer. The loss of the services of any senior management personnel, and, in particular, the loss for any reason, including death or disability of our Chairman and Chief Executive Officer or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our consolidated results of operations, financial condition and prospects.

***The network and computer systems on which we depend could fail or experience a security breach.***

Our computer systems could be vulnerable to unforeseen problems. Because we conduct part of our business over the Internet and outsource several critical functions to third parties, our operations depend on our ability, as well as that of third-party service providers, to protect computer systems and network infrastructure against damage from fire, power loss, telecommunications failure, physical break-ins or similar catastrophic events. Any damage or failure that causes interruptions in operations could have a material adverse effect on our business, financial condition and results of operations.

In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

Market acceptance of Internet banking depends substantially on widespread adoption of the Internet for general commercial and financial services transactions. If another provider of commercial services through the Internet were to suffer damage from physical break-in, security breach or other disruptive problems caused by the Internet or other users, the growth and public acceptance of the Internet for commercial transactions could suffer. This type of event could deter our potential customers or cause customers to leave us and thereby materially and adversely affect our business, financial condition and results of operations.

***We are subject to environmental liability risk associated with lending activities.***

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before

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initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

***Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.***

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

***General business, economic and political conditions may significantly affect our earnings.***

Our business and earnings are sensitive to general business and economic conditions in the United States. These conditions include short-term and long-term interest rates, inflation, recession, unemployment, real estate values, fluctuations in both debt and equity capital markets, the value of the United States dollar as compared to foreign currencies, and the strength of the United States economy, as well as the local economies in which we conduct business. If any of these conditions worsen, our business and earnings could be adversely affected. For example, business and economic conditions that negatively impact household incomes could decrease the demand for our home loans and increase the number of customers who become delinquent or default on their loans; or, a rising interest rate environment could decrease the demand for loans.

In addition, our business and earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve, which regulates the supply of money and credit in the United States, and the perception of those policies by the financial markets. The Federal Reserve's policies influence both the financial markets and the size and liquidity of the mortgage origination market, which significantly impacts the earnings of our mortgage lending operation and the value of our investment in mortgage servicing rights and other retained interests. The Federal Reserve's policies and perceptions of those policies also influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. Changes in those policies or perceptions are beyond our control and difficult to predict and could have a material adverse effect on our business, results of operations and financial condition.

***We are a controlled company that is exempt from certain NYSE corporate governance requirements.***

Our common stock is currently listed on the NYSE. The NYSE generally requires a majority of directors to be independent and requires audit, compensation and nominating committees to be composed solely of independent directors. However, under the rules applicable to the NYSE, if another company owns more than 50% of the voting power of a listed company, that company is considered a controlled company and exempt from rules relating to independence of the board of directors and the compensation and nominating committees. We are a



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controlled company because MP Thrift beneficially owns more than 50% of our outstanding voting stock. A majority of the directors on the compensation and nominating committees are affiliated with MP Thrift. While a majority of our directors are currently independent, MP Thrift has the right, if exercised, to designate a majority of the directors on the board of directors. Our stockholders do not have, and may never have, all the protections that these rules are intended to provide. If we become unable to continue to be deemed a controlled company, we would be required to meet these independence requirements and, if we are not able to do so, our common stock could be delisted from the NYSE.

***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.***

MP Thrift beneficially owns a substantial majority of our outstanding common stock and as a result, has control over our decisions to enter into any corporate transaction and also the ability to prevent any transaction that requires the approval of our board of directors or the stockholders regardless of whether or not other members of our board of directors or stockholders believe that any such transactions are in their own best interests. So long as MP Thrift continues to hold a majority of our outstanding common stock, it will have the ability to control the vote in any election of directors and other matters being voted on, and continue to exert significant influence over us.

***The results of the stress test that we have conducted using the SCAP methodology may be incorrect and may not accurately predict potential losses on our assets, our future revenue to offset such losses or the impact on us if the condition of the economy were to continue to deteriorate more than assumed.***

In May 2009, the Federal Reserve announced the results of the Supervisory Capital Assessment Program, or the SCAP, commonly referred to as the stress test, of the near-term capital needs of the 19 largest U.S. banks. Under the SCAP methodology, financial institutions were required to maintain Tier 1 common equity at or above 4% of risk weighted assets. Although we were not subject to the Federal Reserve review under the SCAP, we conducted our own analysis of our capital position as of December 31, 2009, using many of the same methodologies of the SCAP. Although our analysis concluded that we will maintain sufficient Tier 1 common equity under a SCAP methodology, there can be no assurance that the analysis is correct. In addition, while we believe we applied appropriate assumptions in performing the analysis, the SCAP methodology may not accurately predict potential losses on our assets and the underlying assumptions of our future revenue to offset such losses may be inaccurate. Moreover, the results of the stress test may not accurately reflect the impact on us if economic conditions are materially different than our assumptions.

***Changes in accounting standards may impact how we report our financial condition and results of operations.***

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In

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addition, we may from time to time experience weaknesses or deficiencies in our internal control over financial reporting that can affect our recording and reporting of financial information. In some cases we could be required to apply a new or revised standard retroactively, resulting in a restatement of prior period financial statements

**Risks related to our securities**

***We may be required to raise capital at terms that are materially adverse to our stockholders, if it is available at all.***

We suffered losses in excess of \$201.5 million during the first nine months of 2010 and \$513.8 million and \$275.4 million during 2009 and 2008, respectively, and as a result, our stockholders' equity and regulatory capital declined. During 2008, 2009 and early 2010, we raised capital at terms that were significantly dilutive to our stockholders. There can be no assurance that we will not suffer additional losses or that additional capital will not otherwise be required for regulatory or other reasons. In those circumstances, we may be required to obtain additional capital to maintain our regulatory capital ratios at the highest, or well capitalized, level. Such capital raising could be at terms that are dilutive to existing stockholders and there can be no assurance that any capital raising we undertake would be successful given the current level of disruption in financial markets.

***Our issuance of additional capital stock or debt securities, whether or not convertible, may reduce the market price for shares of our common stock and dilute the ownership interests of existing stockholders.***

We cannot predict the effect, if any, that future sales of our capital stock or debt securities, or the availability of our securities for future sale, will have on the market price of shares of our common stock. Sales of substantial amounts of our common stock or preferred stock, or debt securities convertible into or exercisable or exchangeable for common stock in the public market, or the perception that such sales might occur, could negatively impact the market price of our common stock and the terms upon which we may obtain additional equity financing in the future. The issuance of any additional shares of our common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to holders of our common stock, including purchasers of securities in this offering.

***The trading volume in our common stock is less than that of other financial services companies.***

Our common stock is listed on the NYSE under the symbol FBC. The average daily trading volume for shares of our common stock is less than larger financial institutions. During the twelve months ended September 30, 2010, the average daily trading volume for our common stock was approximately 336,800 shares. As a result, sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

***Future dividend payments and common stock repurchases may be further restricted.***

Under the terms of the TARP, for so long as any preferred stock issued under the TARP remains outstanding, we are prohibited from increasing dividends on our common stock and preferred stock, and from making certain repurchases of equity securities, including our common stock

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and preferred stock, without Treasury's consent until the third anniversary of Treasury's investment or until Treasury has transferred all of the preferred stock it purchased under the TARP to third parties. Furthermore, as long as the preferred stock issued to Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our common stock and preferred stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

In addition, our ability to make dividend payments is subject to statutory restrictions and the limitations set forth in the supervisory agreements. Pursuant to our supervisory agreement with the OTS, we must receive the prior written non-objection of the OTS in order to pay dividends. Also, under Michigan law, we are prohibited from paying dividends on our capital stock if, after giving effect to the dividend, (i) we would not be able to pay our debts as they become due in the usual course of business or (ii) our total assets would be less than the sum of our total liabilities plus the preferential rights upon dissolution of stockholders with preferential rights on dissolution which are superior to those receiving the dividend.

***The common stock is subordinate to our existing and future indebtedness and preferred stock, and our board of directors is subject to restrictions in its ability to declare dividends on the common stock.***

The shares of common stock are equity interests and do not constitute indebtedness. This means the shares of common stock will rank junior to all of our indebtedness and to other non-equity claims on us and our assets available to satisfy claims on us, including claims in our liquidation. Accordingly, the common stock will rank junior in right of payment to our junior subordinated notes issued in connection with the issuance of trust preferred securities (currently outstanding in the aggregate liquidation preference amount of \$240,000,000) and to all obligations of our subsidiaries. We may defer the payment of interest on each of the junior subordinated debentures for a period not to exceed 20 consecutive quarters, *provided that* the deferral period does not extend beyond the stated maturity. During such deferral period, distributions on the corresponding trust preferred securities will also be deferred and we may not pay cash dividends to the holders of shares of our common stock or our preferred stock including the securities offered hereby. Our existing and future indebtedness may restrict payment of dividends on the common stock. Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of the common stock, (i) dividends are payable only if declared by the board of directors, (ii) as a corporation, we are subject to restrictions on dividend payments and redemption payments out of lawfully available funds, and (iii) we are subject to restrictions on dividend payments pursuant our supervisory agreement with the OTS and federal regulatory considerations. In that regard, we must receive the prior written non-objection of the OTS in order to pay dividends. In addition, the common stock will rank junior to the convertible preferred stock and our Series C preferred stock as to payment of dividends or in the distribution of assets. The convertible preferred stock and the Series C preferred stock place limitations on our ability to pay dividends on the common stock in the event that we have not paid dividends on such preferred stock.

***The vote of holders of our common stock is required for the mandatory conversion of the convertible preferred stock.***

We will be required to call a special meeting of stockholders to obtain the affirmative vote of holders of more than 50% of our common stock to amend our amended and restated articles of incorporation to increase the number of authorized shares of our common stock. We will call and

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hold a stockholder meeting to procure the stockholder approval within 60 days after the date of this prospectus supplement. If we are unable to obtain stockholder approval within 60 days after the date of this prospectus supplement, we will undertake to obtain stockholder approval at (i) a special meeting of our stockholders held no later than 180 days after the stockholder meeting, (ii) each annual meeting of our stockholders in each year until stockholder approval is obtained, and (iii) a special meeting of our stockholders to be held every 180 days following our annual meeting in each year until stockholder approval is obtained.

If the stockholder approval is not obtained, the convertible preferred stock will not convert to shares of common stock and dividends payable in respect of the convertible preferred stock will be increased to an amount equal to the greater of (i) the annualized dividend yield based on our most recent quarterly common stock cash dividend and (ii) a per annum rate of 15%.

### ***We may issue securities that could dilute your ownership in the Company.***

We may decide to raise additional funds through public or private debt or equity financings to fund our operations. If we raise funds by issuing equity securities or instruments that are convertible into equity securities, the percentage ownership of our current stockholders will be reduced, the new equity securities may have rights and preferences superior to those of the common stock and the convertible preferred stock, and additional issuances could be at a sales price that is lower than the sale price for this offering. We may also issue equity securities as consideration for acquisitions we may make that could be dilutive to your ownership in the Company.

### ***Anti-takeover provisions in our amended and restated articles of incorporation and bylaws and Michigan law could make a third party acquisition of us difficult.***

Our amended and restated articles of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire us (even if doing so would be beneficial to our stockholders) and for holders of our common stock to receive any related takeover premium for their common stock. We are also subject to certain provisions of Michigan law that could delay, deter or prevent a change in control of us. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

### ***The price of our common stock may be subject to fluctuations and volatility.***

The market price of our common stock has been and is likely to continue to be subject to significant fluctuations. Among the factors that could affect the price of our common stock are those discussed in these risk factors as well as:

- actual or anticipated variations in our operating results;
- changes in financial reports by securities analysts;
- developments related to investigations, proceedings, or litigation that involves us;
- announcements relating to strategic relationships, acquisitions or investments;
- the occurrence of major catastrophic events including terrorist attacks;
- general financial market conditions; and
- the legal and regulatory environment for banks.

The stock markets have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

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**Use of proceeds**

We expect that our net proceeds from this offering and the concurrent convertible preferred stock offering will be approximately \$367.3 million, or approximately \$385.8 million if the underwriter exercises its overallotment option in full, in each case after deducting underwriter's discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds of this offering and the concurrent convertible preferred stock offering for general corporate purposes, including potential disposition of non-performing assets or potential restructuring of the balance sheet. A portion of these proceeds will be invested in the Bank, and therefore is expected to be classified as Tier 1 capital of the Bank for regulatory purposes.

We have not otherwise designated the amount of net proceeds we will use for any particular purpose. Accordingly, our management will retain broad discretion to allocate the net proceeds of this offering and the concurrent convertible preferred stock offering.

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**Capitalization**

The following table sets forth our capitalization and per common share book values:

as of September 30, 2010;

after giving effect to the issuance of 110,000,000 shares of common stock in this offering, which is expected to result in net proceeds of approximately \$106.3 million after deducting underwriter's discounts and commissions and our estimated offering expenses. If the underwriter's over-allotment option is exercised in full, the proceeds from the sale of the common stock would be expected to increase to \$111.7 million; and

after giving effect to the issuance of 13,500,000 shares of the convertible preferred stock in the concurrent convertible preferred stock offering, which is expected to result in net proceeds of approximately \$261.0 million after deducting underwriter's discounts and commissions and our estimated offering expenses. If the underwriter's over-allotment option is exercised in full, the proceeds from the sale of the convertible preferred stock would be expected to increase \$274.1 million.

The following data should be read in conjunction with Management's Discussion and Analysis Financial Condition and Results of Operations and the consolidated financial statements and the notes thereto incorporated by reference into this prospectus supplement from our Annual Report on Form 10-K for the year ended December 31, 2009 and our Current Report on

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Form 8-K filed October 27, 2010, as well as financial information in the other documents incorporated by reference into this prospectus supplement.

<b>(dollar amounts in thousands, except per share data)</b>	<b>Actual</b>	<b>As adjusted for this offering</b>	<b>As of September 30, 2010 As further adjusted for the concurrent convertible preferred stock offering</b>
Cash and cash items	\$ 1,013,132	\$ 1,119,454	\$ 1,380,432
<b>Long-term Debt</b>			
Junior subordinated notes related to trust preferred securities	247,435	247,435	247,435
FHLB advances	3,400,000	3,400,000	3,400,000
Fixed 7.00% due 2013	1,175	1,175	1,175
Total long-term debt	3,648,610	3,648,610	3,648,610
<b>Stockholders Equity</b>			
Preferred stock \$0.01 par value, 25,000,000 shares authorized:			
266,657 shares of Series C preferred stock, liquidation value \$1,000 per share, authorized, issued and outstanding at September 30, 2010	3	3	3
14,192,250 shares of Series D preferred stock, liquidation preference \$20.00 per share, authorized and 13,500,000 shares issued and outstanding as further adjusted for the concurrent convertible preferred stock offering			135
Common stock \$0.01 par value, 300,000,000 shares authorized, 153,512,990 shares issued and outstanding at September 30, 2010, 263,512,990 shares of common stock issued and outstanding as adjusted for of this offering	1,535	2,635	2,635
Additional paid in capital preferred	247,840	247,840	508,683
Additional paid in capital common	1,079,041	1,184,263	1,184,263
Accumulated other comprehensive loss	(19,484)	(19,484)	(19,484)
Retained earnings (accumulated deficit)	(248,204)	(248,204)	(248,204)
Total stockholders equity	1,060,732	1,167,053	1,428,031

Total long-term debt and stockholders equity	\$ 4,709,342	\$ 4,815,663	\$ 5,076,641
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**Per Common Share**

Common book value per share(1)	\$ 5.30	\$ 2.21
Tangible common book value per share(1)	\$ 5.30	\$ 2.21

(1) Assumes that stockholder approval to increase shares of authorized common stock has been obtained and all shares of convertible preferred stock have automatically converted into shares of common stock.

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Our common stock trades on the NYSE under the symbol FBC. The following table sets forth the high and low sales prices per share of our common stock as reported on the NYSE and the cash dividends declared per share of our common stock from January 1, 2008 through October 27, 2010.

<b>Quarter</b>	<b>High(1)</b>	<b>Low(1)</b>	<b>Dividend(1)</b>
2010:			
Fourth Quarter (through October 27, 2010)	\$ 2.75	\$ 1.83	\$
Third Quarter	\$ 3.58	\$ 1.81	
Second Quarter	\$ 9.00	\$ 3.00	
First Quarter	\$ 10.10	\$ 5.30	
2009:			
Fourth Quarter	\$ 12.10	\$ 5.70	
Third Quarter	\$ 11.60	\$ 6.00	
Second Quarter	\$ 19.20	\$ 6.80	
First Quarter	\$ 10.90	\$ 5.30	
2008:			
Fourth Quarter	\$ 34.20	\$ 5.00	
Third Quarter	\$ 49.00	\$ 27.90	
Second Quarter	\$ 75.30	\$ 27.80	
First Quarter	\$ 89.70	\$ 54.00	

(1) Reflects one-for-ten reverse stock split effective as of May 27, 2010.

On October 27, 2010, the last reported sale price of our common stock on the NYSE was \$2.32 per share, and we had 153,572,390 shares of common stock outstanding. As of September 30, 2010, there were approximately 19,600 holders of record of our common stock.

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**Dividend policy**

We have not paid dividends on our common stock since the fourth quarter of 2007. The amount and nature of any dividends declared on our common stock in the future will be determined by our board of directors in their sole discretion. Our board of directors has suspended any future dividend on our common stock until the capital markets normalize and residential real estate shows signs of improvement. Moreover, we are prohibited from increasing dividends on our common stock above \$0.05 per share without the consent of Treasury until the third anniversary of Treasury's investment in us or until Treasury has transferred all of the preferred stock it purchased under the TARP to third parties pursuant to the terms of the TARP. As long as the preferred stock issued to Treasury is outstanding, dividend payments on our common stock are also prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. In addition, under our supervisory agreement, we must obtain the prior written non-objection of the OTS to pay or declare any dividend.

Dividends from the Bank constitute the principal source of income to us. The Bank is subject to various statutory and regulatory restrictions, including restrictions in its supervisory agreement, on its ability to pay dividends to us, which determines our ability to pay dividends to our stockholders.

Payments of the distributions on the trust preferred securities issued by subsidiary trusts, which are wholly owned Connecticut or Delaware statutory trusts, are fully and unconditionally guaranteed by us. The junior subordinated debentures that we have issued to our subsidiary trusts are senior to our shares of common stock and the securities offered hereby. As a result, we must make required payments on the junior subordinated debentures before any dividends can be paid on our common stock or the securities offered hereby and, in the event of our bankruptcy, dissolution or liquidation, the interest and principal obligations under the junior subordinated debentures must be satisfied before any distributions can be made on our common stock or the securities offered hereby. We may defer the payment of interest on each of the junior subordinated debentures for a period not to exceed 20 consecutive quarters, *provided that* the deferral period does not extend beyond the stated maturity. During such deferral period, distributions on the corresponding trust preferred securities will also be deferred and we may not pay cash dividends to the holders of shares of our common stock or our preferred stock including the securities offered hereby.

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**Description of the capital stock**

We are authorized to issue 300,000,000 shares of the common stock, par value \$0.01 per share, and 25,000,000 shares of serial preferred stock, par value \$0.01 per share. At the initial stockholder meeting, our stockholders will be asked to vote to increase the number of authorized shares of our common stock. For a complete description of the terms of the common stock being offered by this prospectus supplement and the accompanying prospectus, see **Description of Our Capital Stock** in the accompanying prospectus.

The following is a brief description of the terms of the convertible preferred stock being offered in the concurrent convertible preferred stock offering, as well as a brief description of the terms of the Series C preferred stock and warrants to purchase our common stock currently outstanding. These descriptions do not purport to be complete and are subject to and qualified in its entirety by reference to our amended and restated articles of incorporation, including any amendments thereto with respect to the convertible preferred stock, the instruments governing the warrants and to applicable Michigan law. Where this description is inconsistent with the terms of the convertible preferred stock in the amended and restated articles of incorporation, or any amendment thereto, the amended and restated articles of incorporation or any amendments thereto will control. Copies of the amended and restated articles of incorporation may be obtained from us upon request.

**Convertible preferred stock**

**General**

Shares of the convertible preferred stock represent a single series of our authorized preferred stock. We are offering the shares of the convertible preferred stock pursuant to a separate prospectus supplement. Holders of the convertible preferred stock have no preemptive rights. Shares of the convertible preferred stock, upon issuance against full payment of the purchase price, will be fully paid and non-assessable. Prior to this offering, there has been no public market for the convertible preferred stock. We have applied to list the convertible preferred stock on the NYSE under the symbol **FBC PR**. If the convertible preferred stock is approved for listing, trading on the NYSE is expected to begin within 30 days of the initial delivery of the convertible preferred stock.

**Stockholder approval of common stock amendment**

To provide for the authorization of a sufficient number of authorized, unissued and unreserved shares of our common stock into which the convertible preferred stock can convert in full, we have agreed to use our best efforts to hold a special meeting of our stockholders as soon as practicable, but not later than December 27, 2010, which is 60 days after the date of this prospectus supplement, or the approval deadline, at which we will seek to obtain the requisite approval of holders of more than 50% of our stock an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of our common stock to a number at least sufficient to permit the full conversion of our convertible preferred stock into shares of our common stock. If we fail to obtain such stockholder approval by the approval deadline, we have agreed that we will continue to seek to obtain such approval at least as frequently as every six months thereafter until approval has been obtained.

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We refer to the amendment to our amended and restated articles of incorporation to increase our authorized common stock as provided above as the common stock amendment, and the first stockholders meeting following the completion of this offering at which we seek to obtain approval of the common stock amendment as the initial stockholder meeting.

If we obtain stockholder approval of the common stock amendment at the initial stockholder meeting held on or before the approval deadline, then at 9:30 a.m., New York City time, on the first business day following the date on which stockholder approval has been obtained, or the mandatory conversion date:

the convertible preferred stock will automatically convert into shares of our common stock at a conversion rate, subject to adjustment, of 20 shares of our common stock for each share of convertible preferred stock, or the conversion rate, with cash being paid for fractional shares; and

all shares of our convertible preferred stock will cease to exist and will resume the status of authorized and unissued shares of our preferred stock, and all other rights of the holders of such shares of convertible preferred stock will terminate, in each case, irrespective of whether the certificates of convertible preferred stock have been surrendered to the transfer agent.

We will notify holders of the convertible preferred stock of the status of the common stock amendment on the business day immediately succeeding the date on which stockholder approval of the common stock amendment has been received or the date on which stockholder approval has been sought but not received, as applicable. If stockholder approval of the common stock amendment has been received, such notice will state (i) that such business day is the mandatory conversion date, (ii) the number of shares of common stock to be issued upon conversion of each share of convertible preferred stock, and (iii) instructions regarding the surrender of certificates of convertible preferred stock for common stock to the transfer agent. In the aggregate, upon issuance, 283,845,000 shares of our common stock (subject to adjustment) will be issuable upon conversion of the shares of convertible preferred stock offered in the concurrent convertible preferred stock offering (or 270,000,000 shares of our common stock if the underwriter for that offering exercises its over-allotment option in full). See Mandatory conversion.

A business day means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

## **Dividends**

### ***General***

Holders of our convertible preferred stock will be entitled to receive, on each share of convertible preferred stock if, and when declared by our board of directors or any duly authorized committee thereof, but only out of assets legally available therefor, dividends and any other distributions, whether payable in cash, securities or any other form of property or assets, in an amount determined as described below.

Dividends payable on the convertible preferred stock are non-cumulative. If neither our board of directors nor any duly authorized committee thereof declares a dividend on our convertible preferred stock in respect of a dividend period (as defined below), no dividend will accrue, and we will have no obligation to pay, and holders will have no right to receive, a dividend for such dividend period, whether or not dividends on the convertible preferred stock or any other series

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of our preferred stock or common stock have been declared, or are declared, for any other dividend period. References to the accrual of non-cumulative dividends refer only to the determination of the amount of such dividends and do not imply that any right to a dividend arises prior to the date on which a dividend is declared.

Dividend period means the period from and including any dividend payment date (or, if a dividend payment date has not occurred, the date of original issuance of the convertible preferred stock) to, but excluding, the immediately succeeding dividend payment date.

Dividend payment date means February 15 and August 15 of each year.

Notwithstanding the foregoing and for the avoidance of doubt, prior to the approval deadline, on the same date that we pay any dividend or distribution on shares of our common stock (irrespective of whether such date is a dividend payment date as defined above), we will pay a corresponding dividend or distribution, on an as-converted basis, to holders of the convertible preferred stock, which date will be considered a dividend payment date, calculated as described in the following paragraphs.

From, and including, the first original issuance date of the convertible preferred stock to, but excluding, the approval deadline, our board of directors or a duly authorized committee thereof may not declare or pay any dividend or make any distribution (including, but not limited to, regular quarterly dividends) in respect of our common stock, whether payable in cash, securities or any other form of property or assets, unless our board of directors or a duly authorized committee thereof declares and pays to the holders of our convertible preferred stock, at the same time (irrespective of whether or not such time is a dividend payment date (as defined above)) and on the same terms as holders of our common stock, a dividend per share of our convertible preferred stock equal to the product of (i) any dividend or distribution, as applicable, declared and paid or made in respect of each share of our common stock and (ii) the conversion rate as of the record date for such dividend or distribution. Any dividend or distribution payable on the convertible preferred stock as described in this paragraph will be paid in the same form of consideration (whether cash, securities or any other form of property or assets, as the case may be) as the corresponding dividend or distribution on our common stock.

For each dividend period from, and including, the approval deadline, non-cumulative cash dividends will be payable on the convertible preferred stock in an amount equal to the greater of (i) the as-converted dividend amount and (ii) the alternate dividend amount (each as defined below).

The as-converted dividend amount means, with respect to any dividend period, the product of:

the pro forma per share quarterly common stock dividend derived by (i) annualizing the last quarterly cash dividend declared during such dividend period on our common stock and (ii) dividing such annualized dividend by four; and

the then-current conversion rate;

*provided that* for any such dividend period during which no quarterly cash dividend has been declared on our common stock, the as-converted dividend amount will be deemed to be \$0.00.

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The alternate dividend amount means an amount equal to the product of (i) the liquidation amount of the convertible preferred stock and (ii) a per annum rate of 15%.

The dividends described in the three immediately preceding paragraphs will:

be non-cumulative;

begin to accrue from, and including, the approval deadline; and

to the extent declared by our board of directors or a duly authorized committee thereof, be payable semi-annually on each dividend payment date, commencing with the dividend period ending on, and including, February 15, 2011.

In the event that any dividend payment date in respect of which a dividend is to be paid would otherwise fall on a day that is not a business day, the dividend payment due on that date will be postponed to the next day that is a business day and no additional dividends will accrue as a result of that postponement.

Dividends that are payable on our convertible preferred stock in respect of any dividend period from, and including, the approval deadline will be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on our convertible preferred stock from, and including, the approval deadline on any date prior to the end of a dividend period or on any dividend payment date for a dividend period that is shorter than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on our convertible preferred stock will be payable to holders of record of our convertible preferred stock as they appear on our stock register on the applicable record date, which:

with respect to dividends payable from and including the original issuance date of the convertible preferred stock to, but excluding, the approval deadline, will be the same day as the record date for the payment of the corresponding dividends to the holders of shares of our common stock; and

with respect to dividends payable from and including the approval deadline, will be the February 1 or August 1, as the case may be, immediately preceding the relevant dividend payment date or such other record date fixed by our board of directors or any duly authorized committee thereof that is not more than 60 nor less than 10 days prior to such dividend payment date, or each a dividend record date.

Any such day that is a dividend record date will be a dividend record date whether or not such day is a business day.

Holders of our convertible preferred stock will not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on our convertible preferred stock as specified in this Dividends section (subject to the other provisions of the certificate of designations).

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***Dividend stopper***

So long as any share of our convertible preferred stock remains outstanding:

no dividend or distribution will be declared or paid on our common stock or any other shares of junior stock (other than dividends payable on junior stock other than our common stock solely in shares of our common stock) or parity stock, subject to the immediately following paragraph in the case of parity stock; and

no common stock, junior stock or parity stock will be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by us or any of our subsidiaries;

unless, in each case, full dividends on all outstanding shares of the convertible preferred stock have been paid or declared and set aside for payment in respect of the most recently completed dividend period.

The foregoing limitation will not apply to:

redemptions, purchases or other acquisitions of shares of our common stock or other junior stock in connection with the administration of any employee benefit plan in the ordinary course of business (including purchases to offset the share dilution amount (as defined below) pursuant to a publicly announced repurchase plan) and consistent with past practice; *provided that* any purchases to offset the share dilution amount will in no event exceed the share dilution amount;

any dividends or distributions of rights of junior stock in connection with a stockholders' rights plan or any redemption or repurchase of rights pursuant to any stockholders' rights plan, so long as provision is made so that holders of the convertible preferred stock receive such rights upon conversion of their shares of convertible preferred stock into shares of our common stock on the mandatory conversion date, and subject to any applicable adjustment in the conversion rate pursuant to clause (iii) under "Conversion rate adjustments" below;

the acquisition by us or any of our subsidiaries of record ownership in junior stock or parity stock for the beneficial ownership of any other persons (other than us or any of our subsidiaries), including as trustees or custodians; or

the exchange or conversion of junior stock for or into other junior stock or of parity stock for or into other parity stock (with the same or lesser aggregate liquidation amount) or junior stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the original issuance date of the convertible preferred stock or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for our common stock.

The "share dilution amount" means the increase in the number of diluted shares outstanding (determined in accordance with generally accepted accounting principles in the United States and as measured from the date of our consolidated financial statements most recently filed with the SEC prior to the first original issuance date of the convertible preferred stock) resulting from the grant, vesting or exercise of equity-based compensation to employees and equitably adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction.

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When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any dividend payment date (or, in the case of parity stock having dividend payment dates different than the dividend payment dates of our convertible preferred stock, on a dividend payment date falling within a dividend period related to such dividend payment date) in full upon our convertible preferred stock and any shares of parity stock, all dividends declared on our convertible preferred stock and all such parity stock and payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates of our convertible preferred stock, on a dividend payment date falling within the dividend period related to such dividend payment date) will be declared pro rata so that the respective amounts of such dividends declared will bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of our convertible preferred stock and all parity stock payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates of our convertible preferred stock, on a dividend payment date falling within the dividend period related to such dividend payment date) (subject to their having been declared by our board of directors or a duly authorized committee thereof out of legally available funds and including, in the case of parity stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. However, we will have no obligation to pay, and holders will have no right to receive, any remaining accrued but unpaid dividends, as described in General above. If our board of directors or a duly authorized committee thereof determines not to pay any dividend or a full dividend on a dividend payment date, we will provide written notice to the holders of our convertible preferred stock prior to such dividend payment date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by our board of directors or any duly authorized committee thereof may be declared and paid on any securities, including our common stock and other junior stock, from time to time out of any funds legally available for such payment, and holders of our convertible preferred stock will not be entitled to participate in any such dividends.

**Liquidation preference**

In the event of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, holders of our convertible preferred stock will be entitled to receive for each share of convertible preferred stock, out of our assets or proceeds thereof (whether capital or surplus) available for distribution to our stockholders, subject to the rights of any of our creditors and the holders of our senior stock, before any distribution of such assets or proceeds is made to or set aside for the holders of our common stock or other stock of ours ranking junior to our convertible preferred stock as to such distribution, payment in full in an amount equal to the sum of (x) the liquidation amount per share of convertible preferred stock and (y) the amount of any unpaid dividends, whether or not declared, accrued from, and including, the immediately preceding dividend payment date to, but excluding, the date of payment, or such amounts collectively, the liquidation preference.

If in any distribution described above our assets or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of our convertible preferred stock and the corresponding amounts payable with respect to any other stock of ours ranking equally with our convertible preferred stock as to such distribution, holders of our convertible preferred stock and the holders of such other stock will share ratably (based on the relative



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liquidation preference of the convertible preferred stock and such other stock) in any such distribution in proportion to the full respective distributions to which they are entitled.

If the liquidation preference has been paid in full to all holders of our convertible preferred stock and the corresponding amounts payable with respect to any other stock of ours ranking equally with our convertible preferred stock as to such distribution have been paid in full, the holders of our other stock will be entitled to receive all remaining assets of ours (or proceeds thereof) according to their respective rights and preferences; *provided that* if the amount of such assets or proceeds to be distributed with respect to a number of shares of our common stock equal to the then-current conversion rate, or the as-converted liquidation amount, exceeds the liquidation preference, then holders of our convertible preferred stock will be entitled to receive, for each share of convertible preferred stock, an additional amount, or the liquidation participation amount, out of such assets or proceeds such that the as-converted liquidation amount equals the sum of the liquidation preference, *plus* the liquidation participation amount, after making appropriate adjustment such that the holders of our convertible preferred stock receive the same amount on an as-converted basis as the holders of a number of shares of our common stock equal to the then-current conversion rate.

For purposes of this Liquidation preference section, the merger or consolidation of us with any other corporation or other entity, including a merger or consolidation in which the holders of our convertible preferred stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of our assets, will not constitute a liquidation, dissolution or winding up of us.

## **Voting rights**

### ***General***

Each share of convertible preferred stock will entitle the holders thereof to a number of votes equal to the conversion rate as of the record date for the vote or consent on all matters submitted to a vote of our stockholders; *provided that* the holders of convertible preferred stock will not be entitled to vote on the common stock amendment, unless required by applicable law.

Except as otherwise provided in this prospectus supplement or by applicable law, the holders of shares of convertible preferred stock and the holders of shares of our common stock will vote together as one class on all matters submitted to a vote of our stockholders, except the common stock amendment.

### ***Preferred directors***

Whenever, at any time or times, from and including the approval deadline, dividends payable on the shares of convertible preferred stock have not been paid for an aggregate of three semi-annual dividend periods (or their equivalent) or more, whether or not consecutive, or a nonpayment, the authorized number of our directors will automatically be increased by two and the holders of the convertible preferred stock will have the right, with holders of shares of any one or more other classes or series of voting parity stock (as defined below) outstanding at the time, voting together as a class (and with voting rights allocated pro rata based on the liquidation amount of each such class or series), to elect two directors, or collectively, the preferred directors and each, a preferred director, to fill such newly created directorships at our next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of our stockholders until full

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dividends have been paid on our convertible preferred stock following a nonpayment for at least two semi-annual consecutive dividend periods, at which time such right will terminate with respect to the convertible preferred stock, except as otherwise provided in this prospectus supplement or expressly provided by law, subject to revesting in the event of each and every nonpayment; *provided that* it will be a qualification for election for any preferred director that the election of such preferred director will not cause us to violate any corporate governance requirements of any securities exchange or other trading facility on which our securities may then be listed or traded that listed or traded companies must have a majority of independent directors.

Voting parity stock means, with regard to any matter on which the holders of our convertible preferred stock are entitled to vote as described in the two immediately preceding paragraphs, any and all series of parity stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

Upon any termination of the right of the holders of shares of our convertible preferred stock and voting parity stock as a class to vote for directors as provided above, the preferred directors will cease to be qualified as directors, the term of office of all preferred directors then in office will terminate immediately, and the authorized number of directors will be reduced by the number of preferred directors elected as described above. Any preferred director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders of a majority of the shares of convertible preferred stock at the time outstanding voting separately as a class together with the holders of shares of voting parity stock (and with voting rights allocated pro rata based on the liquidation preference of each such class or series), to the extent the voting rights of such holders described above are then exercisable. If the office of any preferred director becomes vacant for any reason other than removal from office as aforesaid, the remaining preferred director may choose a successor who will hold office for the unexpired term in respect of which such vacancy occurred.

***Adverse changes***

So long as any shares of convertible preferred stock are outstanding, in addition to any other vote or consent of stockholders required by law or by our amended and restated articles of incorporation, the vote or consent of the holders of at least 66 $\frac{2}{3}$ % of the shares of our convertible preferred stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, will be necessary for effecting or validating:

any amendment or alteration of the certificate of designations for our convertible preferred stock or our amended and restated articles of incorporation to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of our capital stock ranking senior to the convertible preferred stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of us;

any amendment, alteration or repeal of any provision of the certificate of designations for the convertible preferred stock or our amended and restated articles of incorporation (including, unless no vote on such merger or consolidation is required as described in the immediately succeeding bullet, any amendment, alteration or repeal by means of a merger,

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consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the convertible preferred stock; or

any consummation of a binding share exchange or reclassification involving the convertible preferred stock, or of a merger or consolidation of us with another corporation or other entity, unless in each case (x) the shares of our convertible preferred stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent that is an entity organized and existing under the laws of the United States, any state thereof or the District of Columbia and that is a corporation for U.S. federal income tax purposes and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions of the convertible preferred stock immediately prior to such consummation, taken as a whole.

However, notwithstanding the foregoing, (i) the holders of our convertible preferred stock will not be entitled to vote on the common stock amendment, except as required by applicable law; and (ii) for all purposes of this Adverse changes section, any increase in the amount of our authorized preferred stock, including any increase in the authorized amount of our convertible preferred stock necessary to satisfy preemptive or similar rights granted by us to other persons prior to the original issuance date of the convertible preferred stock, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of our preferred stock, or any securities convertible into or exchangeable or exercisable for any such other series of our preferred stock, ranking equally with and/or junior to our convertible preferred stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon our liquidation, dissolution or winding up will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and will not require the affirmative vote or consent of, the holders of outstanding shares of our convertible preferred stock.

### **Maturity; redemption; repurchase**

Our convertible preferred stock has no maturity date, is not redeemable at our option at any time and is not subject to repurchase at the option of holders at any time. In addition, the shares of our convertible preferred stock are not subject to the operation of a sinking fund. Accordingly, our convertible preferred stock will remain outstanding indefinitely unless we receive the shareholder approval described in Stockholder approval of common stock amendment, in which case the shares of our convertible preferred stock will automatically convert into shares of our common stock as described in that section and in the Mandatory conversion section.

### **Mandatory conversion**

Effective as of the close of business on the mandatory conversion date, each share of our convertible preferred stock will automatically convert into shares of our common stock at the then-current conversion rate.

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In addition, effective immediately prior to the close of business on the mandatory conversion date, we will no longer declare dividends on any such converted shares of our convertible preferred stock and such shares of convertible preferred stock will cease to be outstanding, in each case, subject to the right of holders of our convertible preferred stock to receive any:

declared and unpaid dividends or distributions (with respect to dividends or distributions from, and including, the original issuance date of the convertible preferred stock to, but excluding, the approval deadline as described under Dividends ) on such shares;

declared and unpaid dividends or distributions (with respect to dividends or distributions for any dividend period beginning on or after the approval deadline as described under Dividends ) on such shares in an amount calculated as if the mandatory conversion date were a dividend payment date; and

other payments to which they are otherwise entitled pursuant to the terms of the certificate of designations.

No allowance or adjustment, except as described in the Conversion rate adjustments section, will be made in respect of dividends payable to holders of our common stock of record as of any date prior to the close of business on the mandatory conversion date (except to the extent of the dividends described under Dividends ). Prior to the close of business on the mandatory conversion date, the shares of our common stock or other securities issuable upon conversion of our convertible preferred stock will not be deemed outstanding for any purpose, and holders of our convertible preferred stock will have no rights with respect to our common stock (or other exchange property, as defined under Recapitalizations, reclassifications and changes of our common stock, consisting, in whole or in part, of other securities) issuable upon conversion (including, without limitation, voting rights, rights to respond to tender offers for our common stock or such other securities and rights to receive any dividends or other distributions on our common stock or such other securities issuable upon conversion) by virtue of holding shares of our convertible preferred stock (except to the extent of the dividends described in Dividends and the voting rights described in Voting rights ).

The person or persons entitled to receive our common stock (or other exchange property) issuable upon conversion of our convertible preferred stock will be treated for all purposes as the record holder(s) of such shares of our common stock (or other exchange property) as of the close of business on the mandatory conversion date. In the event that a holder will not by written notice designate the name in which shares of our common stock (or other exchange property) to be issued or paid upon conversion of shares of our convertible preferred stock should be registered or paid or the manner in which such shares of our common stock (or other exchange property) should be delivered, we will be entitled to register and deliver such shares of common stock (or other exchange property), and make such payment, in the name of the holder of the convertible preferred stock (as of the close of business on the mandatory conversion date) and in the manner shown on our records.

In order to cause an effective date for the certificate of amendment evidencing the relevant increase in the number of authorized but unissued shares of our common stock no later than one business day following receipt of shareholder approval of the common stock amendment, we will file a certificate of amendment to our amended and restated articles of incorporation with the State of Michigan as soon as practicable after the date we receive such shareholder approval, but no later than one business day following receipt of shareholder approval of the common stock amendment. As soon as practicable after the effective date of such certificate of

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amendment, we will at all times reserve and keep available out of our authorized and unissued common stock or shares acquired by us, solely for issuance upon the conversion of shares of our convertible preferred stock as provided in the certificate of designations, free from any preemptive or other similar rights, such number of shares of our common stock as will from time to time be issuable upon the conversion of all the shares of convertible preferred stock then outstanding at the then-current conversion rate. For this purpose, the number of shares of our common stock that will be deliverable upon the conversion of all outstanding shares of convertible preferred stock will be computed as if at the time of computation all such outstanding shares were held by a single holder.

Prior to our delivery of the common stock that we are obligated to deliver upon conversion of the convertible preferred stock, we will comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

**Conversion rate adjustments**

The conversion rate will be subject to adjustment, without duplication, under the following circumstances:

(i) the issuance by us of our common stock as a dividend or distribution to all or substantially all holders of our common stock, or a subdivision or combination (including, without limitation, a reverse stock split) of our common stock, in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times (OS^1 / OS_0)$$

where,

- $CR_0$  = the conversion rate in effect immediately prior to the close of business on the record date (as defined below) for such dividend or distribution or immediately prior to the open of business on the effective date for such subdivision or combination, as the case may be;
- $CR^1$  = the conversion rate in effect immediately after the close of business on such record date or immediately after the open of business on such effective date, as the case may be;
- $OS_0$  = the number of shares of common stock outstanding immediately prior to the close of business on such record date or immediately prior to the open of business on such effective date, as the case may be (and prior to giving effect to such event); and
- $OS^1$  = the number of shares of common stock that would be outstanding immediately after, and solely as a result of, such dividend, distribution, subdivision or combination.

Notwithstanding the foregoing, no adjustment will be made pursuant to this clause (i) for the issuance of our common stock as a dividend or distribution to all or substantially all holders of common stock to the extent (but only to the extent) such dividend or distribution is paid to all holders of convertible preferred stock as described in the sixth paragraph under **Dividends General**.

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Any adjustment made under this clause (i) will become effective immediately after the close of business on the record date for such dividend or distribution, or immediately after the open of business on the effective date for such share subdivision or combination, as the case may be. If any dividend or distribution of the type described in this clause (i) is declared but not so paid or made, the conversion rate will be immediately readjusted, effective as of the date our board of directors or a duly authorized committee thereof determines not to pay such dividend or distribution, to the conversion rate that would then be in effect if such dividend or distribution had not been declared.

(ii) the issuance by us to all or substantially all holders of our common stock of rights, options or warrants entitling them for a period expiring 60 days or less from the date of issuance of such rights, options or warrants to subscribe for or purchase shares of our common stock at less than the current market price (as defined below) per share of common stock as of the announcement date for such issuance, in which event the conversion rate will be increased based on the following formula:

$$CR^1 = CR_0 \times (OS_0 + X) / (OS_0 + Y)$$

where,

- CR<sub>0</sub> = the conversion rate in effect immediately prior to the close of business on the record date for such issuance;
- CR<sup>1</sup> = the conversion rate in effect immediately after the close of business on such record date;
- OS<sub>0</sub> = the number of shares of common stock outstanding immediately prior to the close of business on such record date;
- X = the total number of shares of common stock issuable pursuant to such rights, options or warrants; and
- Y = the aggregate price payable to exercise such rights, *divided by* the current market price per share of common stock as of the announcement date for such issuance.

Notwithstanding the foregoing, no adjustment will be made pursuant to this clause (ii) for the issuance to all or substantially all holders of our common stock of rights, options or warrants to purchase shares of our common stock at less than the current market price per share of common stock as of the announcement date for such issuance to the extent (but only to the extent) such issuance is paid to all holders of convertible preferred stock as described in the sixth paragraph under **Dividends General**.

Any increase in the conversion rate made pursuant to this clause (ii) will become effective immediately after the close of business on the record date for such issuance. To the extent such rights, options or warrants are not exercised prior to their expiration or termination, the conversion rate will be decreased, effective as of the date of such expiration or termination, to the conversion rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the number of shares of common stock actually delivered. If such rights, options or warrants are not so issued, the conversion rate will be decreased, effective as of the date our board of directors or a duly authorized committee thereof determines not to

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issue such rights, options or warrants, to the conversion rate that would then be in effect if such record date for such issuance had not occurred.

For purposes of this clause (ii), in determining whether any rights, options or warrants entitle the holders thereof to subscribe for or purchase shares of our common stock at less than the current market price per share of common stock as of the announcement date for such issuance, and in determining the aggregate price payable to exercise such rights, options or warrants, there will be taken into account any consideration received by us for such rights, options or warrants and any amount payable on exercise or conversion thereof will be taken into account, value of such consideration, if other than cash, to be determined by our board of directors or a duly authorized committee thereof.

The current market price per share of our common stock on any day means the average of the VWAP per share of our common stock on each of the 10 consecutive trading days ending on, and including, the specified date with respect to the issuance or distribution requiring such computation, appropriately adjusted by our board of directors or a duly authorized committee thereof to take into account the occurrence during such period of any event described in this Conversion rate adjustments section.

The VWAP per share of our common stock (or any other security for which a VWAP must be determined) on any trading day means, in the case of our common stock, the per share volume-weighted average price as displayed under the heading Bloomberg VWAP on Bloomberg page FBC.UQ <equity> AQR (or its equivalent successor if such page is not available) or, in the case of such other security, the per share volume-weighted average price as displayed on the appropriate Bloomberg page, in each case in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such trading day (or if such volume-weighted average price is unavailable, the market value of one share of common stock (or such other security) on such trading day determined, using a volume-weighted average method, by each of at least three nationally recognized investment banking firms (each unaffiliated with us) retained for this purpose by us).

A trading day means a business day on which (a) there is no market disruption event and (b) trading in our common stock generally occurs on the relevant exchange, except that if no relevant exchange exists for our common stock (or other security for which a VWAP must be determined), then trading day means a business day.

A market disruption event means (a) a failure by the primary United States national or regional securities exchange or market on which our common stock is listed or admitted for trading to open (the relevant exchange ) for trading during its regular trading session or (b) the occurrence or existence prior to 1:00 p.m., New York City time, on any day that is scheduled to be a trading day for more than one half-hour period in the aggregate during regular trading hours of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant stock exchange or otherwise) in our common stock or in any options, contracts or future contracts relating to our common stock.

(iii) we pay a dividend or other distribution to all or substantially all holders of our common stock of shares of our capital stock (other than our common stock) or evidences of our indebtedness or our assets (excluding (x) any dividend, distribution or issuance as to which an adjustment was effected pursuant to clause (i) or (ii) above or clause (iv) or (v) below and

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(y) spin-offs as to which the provisions set forth below in this clause (iii) apply), in which event the conversion rate will be increased based on the following formula:

$$CR^1 = CR_0 \times SP_0 / (SP_0 - FMV)$$

where,

- CR<sub>0</sub> = the conversion rate in effect immediately prior to the close of business on the record date for such dividend or distribution;
- CR<sup>1</sup> = the conversion rate in effect immediately after the close of business on such record date;
- SP<sub>0</sub> = the current market price per share of common stock as of such record date; and
- FMV = the fair market value (as determined in good faith by our board of directors or a duly authorized committee thereof) on the record date for such dividend or distribution of shares of our capital stock or evidences of our indebtedness or our assets so distributed, expressed as an amount per share of common stock.

Notwithstanding the foregoing, no adjustment will be made pursuant to this portion of clause (iii) for any dividend or other distribution to all or substantially all holders of our common stock of shares of our capital stock (other than our common stock) or evidences of our indebtedness or our assets to the extent (but only to the extent) such dividend or other distribution is paid to all holders of convertible preferred stock as described in the sixth paragraph under Dividends General.

If our board of directors or a duly authorized committee thereof determines the FMV (as defined above) of any dividend or other distribution for purposes of this clause (iii) by referring to the actual or when-issued trading market for any securities, it will in doing so consider the prices in such market over the same period used in computing the current market price per share of our common stock as of the record date for such dividend or other distribution. Notwithstanding the foregoing, if FMV (as defined above) is equal to or greater than SP<sub>0</sub> (as defined above), in lieu of the foregoing increase, each holder of convertible preferred stock will receive, in respect of each share thereof, at the same time and upon the same terms as holders of common stock receive the shares of our capital stock (other than our common stock) or evidences of our indebtedness or our assets, the amount of shares of our capital stock (other than our common stock) or evidences of our indebtedness or our assets that such holder would have received if such holder owned a number of shares of our common stock equal to the conversion rate in effect immediately prior to the close of business on the record date for such dividend or other distribution.

Any increase made under the portion of this clause (iii) above will become effective immediately after the close of business on the record date for such dividend or other distribution. If such dividend or other distribution is not so paid or made, the conversion rate will be decreased, effective as of the date our board of directors or a duly authorized committee thereof determines not to pay the dividend or other distribution, to the conversion rate that would then be in effect if the dividend or other distribution had not been declared.

Notwithstanding the foregoing, if the transaction that gives rise to an adjustment pursuant to this clause (iii) is one pursuant to which the payment of a dividend or other distribution on common stock consists of shares of our capital stock of, or similar equity interests in, a subsidiary or other business unit of ours (i.e., a spin-off) that are, or, when issued, will be,



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traded on a U.S. national securities exchange, then the conversion rate will instead be increased based on the following formula:

$$CR^1 = CR_0 \times (FMV_0 + MP_0) / MP_0$$

where,

- $CR_0$  = the conversion rate in effect at the close of business on the tenth trading day immediately following, and including, the date on which ex-dividend trading commences for such dividend or distribution on the relevant exchange;
- $CR^1$  = the conversion rate in effect immediately after the close of business on the tenth trading day immediately following, and including, the date on which ex-dividend trading commences for such dividend or distribution on the relevant exchange;
- $FMV_0$  = the average VWAP per share of such capital stock or similar equity interests distributed to holders of our common stock applicable to one share of our common stock over each of the 10 consecutive trading days commencing on, and including, the date on which ex-dividend trading commences for such dividend or distribution on the relevant exchange; and
- $MP_0$  = the average VWAP per share of our common stock over each of the 10 consecutive trading days commencing on, and including, the date on which ex-dividend trading commences for such dividend or distribution on the relevant exchange.

Notwithstanding the foregoing, no adjustment will be made under this portion of clause (iii) for any dividend or other distribution on our common stock that consists of shares of our capital stock of, or similar equity interests in, a subsidiary or other business unit of ours to the extent (but only to the extent) such dividend or other distribution is paid to all holders of convertible preferred stock as described in the sixth paragraph under Dividends General.

The adjustment to the conversion rate under the preceding paragraph will become effective at the close of business on the tenth trading day immediately following, and including, the date on which ex-dividend trading commences for such dividend or distribution on the relevant exchange; *provided that* if the mandatory conversion date occurs during the ten trading day period immediately following, and including, the date on which ex-dividend trading commences for such dividend or distribution on the primary U.S. national or regional securities exchange or market on which our common stock is then listed or quoted, then references in the portion of this clause (iii) related to spin-offs to 10 trading days will be deemed replaced with such lesser number of trading days as have elapsed between the ex-dividend date of such spin-off and the mandatory conversion date in determining the applicable conversion rate as of such mandatory conversion date.

(iv) we pay a distribution consisting exclusively of cash to all or substantially all holders of our common stock, excluding (a) any cash that is distributed as part of a distribution referred to in clause (iii) above and (b) any consideration payable in connection with a

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tender or exchange offer made by us or any of our subsidiaries referred to in clause (v) below, in which event the conversion rate will be increased based on the following formula:

$$CR^1 = CR_0 \times SP_0 / (SP_0 - C)$$

where,

- CR<sub>0</sub> = the conversion rate in effect immediately prior to the close of business on the record date for such distribution;
- CR<sup>1</sup> = the conversion rate in effect immediately after the close of business on the record date for such distribution;
- SP<sub>0</sub> = the current market price per share of our common stock as of the record date for such distribution; and
- C = an amount of cash per share of our common stock we distribute to holders of our common stock.

Notwithstanding the foregoing, no adjustment will be made pursuant to this clause (iv) for any distribution consisting exclusively of cash to all or substantially all holders of our common stock to the extent (but only to the extent) such dividend or other distribution is paid to all holders of convertible preferred stock as described in the sixth paragraph under Dividends General.

The adjustment to the conversion rate pursuant to this clause (iv) will become effective immediately after the close of business on the record date for such distribution. Notwithstanding the foregoing, if C (as defined above) is equal to or greater than SP<sub>0</sub> (as defined above), in lieu of the foregoing increase, each holder of convertible preferred stock will receive, in respect of each share thereof, at the same time and upon the same terms as holders of shares of our common stock, the amount of cash that such holder would have received if such holder owned a number of shares of our common stock equal to the conversion rate in effect immediately prior to the close of business on the record date for such or distribution. If such distribution is not so paid, the conversion rate will be decreased, effective as of the date our board of directors or a duly authorized committee thereof determines not to pay such dividend, to the conversion rate that would then be in effect if such distribution had not been declared.

(v) we or one or more of our subsidiaries purchases our common stock pursuant to a tender offer or exchange offer and the cash and value of any other consideration included in the payment per share of our common stock validly tendered or exchanged exceeds the VWAP per share of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, or the expiration date, in which event the conversion rate will be increased based on the following formula:

$$CR^1 = CR_0 \times [(FMV + (SP^1 \times OS^1))] / (SP^1 \times OS_0)$$

where,

- CR<sub>0</sub> = the conversion rate in effect immediately prior to the close of business on the tenth trading day immediately following, and including, the trading day next succeeding the expiration date;

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- CR<sup>1</sup> = the conversion rate in effect immediately after the close of business on the tenth trading day immediately following, and including, the trading day next succeeding the expiration date;
- FMV = the fair market value (as determined in good faith by our board of directors or a duly authorized committee thereof) as of the expiration date of the aggregate value of all cash and any other consideration paid or payable for shares of common stock validly tendered or exchanged and not withdrawn as of the expiration date, or the purchased shares;
- OS<sup>1</sup> = the number of shares of our common stock outstanding as of the last time tenders or exchanges may be made pursuant to such tender or exchange offer, or the expiration time, less any purchased shares;
- OS<sub>0</sub> = the number of shares of our common stock outstanding at the expiration time, including any purchased shares; and
- SP<sup>1</sup> = the average VWAP per share of our common stock over the ten consecutive trading day period commencing on, and including, the trading day next succeeding the expiration date.

The adjustment to the conversion rate under this clause (v) will become effective immediately after the close of business on the tenth trading day immediately following, and including, the trading day next succeeding the expiration date; *provided that* if the mandatory conversion date occurs during the ten trading day period immediately following, and including, the trading day next succeeding the expiration date, references in this clause (v) to ten trading days will be deemed replaced with such lesser number of trading days as have elapsed between the trading day next succeeding the expiration date and the mandatory conversion date in determining the applicable conversion rate as of such mandatory conversion date.

We will calculate all adjustments to the conversion rate to the nearest 1/10,000th of one share of common stock (or if there is not a nearest 1/10,000th of a share, to the next lower 1/10,000th of a share). No adjustment to the conversion rate will be required unless such adjustment would require an increase or decrease of at least one percent; *provided, however,* that any such minor adjustments that are not required to be made will be carried forward and taken into account in any subsequent adjustment, and *provided further* that any such adjustment of less than one percent that has not been made will be made upon (x) the end of each fiscal year of ours and (y) the mandatory conversion date.

Except as otherwise provided in this Conversion rate adjustments section, the conversion rate will not be adjusted for the issuance of our common stock or any option, warrant or right exercisable for, or securities convertible into or exchangeable for, our common stock or carrying the right to purchase any of the foregoing or for the repurchase of our common stock.

In addition, no adjustment to the conversion rate need be made:

upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in our common stock under any plan;

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upon the issuance of any shares of common stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries; or

solely for a change in the par value of the common stock.

On or after the approval deadline, no adjustment to the conversion rate need be made for a transaction referred to in this Conversion rate adjustments section if holders of the convertible preferred stock participate in the transaction that would otherwise require an adjustment (other than in the case of a share split or share combination), at the same time, upon the same terms and otherwise on the basis as holders of our common stock and solely as a result of holding convertible preferred stock, as if such holders held a number of shares of our common stock equal to the conversion rate as of the record date for such transaction, *multiplied* by the number of shares of convertible preferred stock held by such holders.

To the extent that we have a rights plan in effect on the mandatory conversion date, each share of our common stock issued upon conversion of the convertible preferred stock will be entitled to receive the appropriate number of rights, if any, and the certificates representing our common stock issued upon such conversion will bear such legends, if any, in each case as may be provided by the terms of any stockholder rights plan, as the same may be amended from time to time. If, however, on the mandatory conversion date, the rights have separated from the shares of our common stock in accordance with the provisions of the applicable stockholder rights plan so that the holders would not be entitled to receive any rights in respect of the common stock issuable upon conversion of the convertible preferred stock, then the conversion rate will be adjusted at the time of the separation as if we paid a dividend or other distribution to all or substantially all holders of our common stock of shares of our capital stock (other than common stock) or evidences of our indebtedness or our assets as provided in clause (iii) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

For purposes of this Conversion rate adjustments section, record date means, with respect to any dividend, distribution or other transaction or event in which the holders of our common stock have the right to receive any cash, securities or other property or in which common stock (or other applicable security) is exchanged for or converted into any combina