

FLAGSTAR BANCORP INC
Form PRE 14A
June 06, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

FLAGSTAR BANCORP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - 1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

[____], 2008

To our stockholders:

We invite you to attend a Special Meeting of Stockholders of Flagstar Bancorp, Inc. to be held at the national headquarters of the Company, 5151 Corporate Dr., Troy, Michigan on [____], [____], 2008 at [____] p.m., local time.

On May 16, 2008, we announced that we had entered into definitive agreements to raise an aggregate of approximately \$100 million through the direct sale of equity securities to seven institutional investors, to Mark T. Hammond, our Vice Chairman, President and Chief Executive Officer, and to me. With the proceeds of the offering, we strengthened our regulatory capital position.

In the offering, we sold 12 million shares of our common stock and 47,982 shares of our mandatory convertible non-cumulative perpetual preferred stock with a liquidation preference of \$1,000 per share. Upon approval by our stockholders, the preferred stock will automatically convert into approximately 11,289,878 shares of our common stock, based upon a per share conversion price of \$4.25.

At the Special Meeting, holders of our shares of common stock will be asked to consider and vote on a proposal to approve the conversion of the preferred stock into common stock. Our Board of Directors has unanimously approved this proposal and recommends that our stockholders vote for this proposal. Unless stockholder approval is received at this special meeting, or unless our stockholders approve a similar proposal at a subsequent meeting, the preferred stock will not mandatorily convert.

Please read the attached proxy statement carefully for information about the matters you are being asked to consider and vote upon. Your vote is very important to us. On behalf of the Board of Directors, we urge you to sign, date and return the enclosed proxy as soon as possible, even if you currently plan to attend the Special Meeting. This will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the Special Meeting.

Thank you for your continuing support.

Sincerely,

/s/ Thomas J. Hammond
Thomas J. Hammond
Chairman of the Board

FLAGSTAR BANCORP, INC.
5151 CORPORATE DR.
TROY, MI 48098
(248) 312-2000

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON [___], 2008

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders (the Special Meeting) of Flagstar Bancorp, Inc. (the Company) will be held on [____], [____], 2008 at [___] p.m., local time, at the national headquarters of the Company, 5151 Corporate Dr., Troy, Michigan.

A proxy card and a proxy statement for the Special Meeting are enclosed.

The Special Meeting is for the purpose of considering and acting upon the following matter:

1. To approve the conversion of our Mandatory Convertible Non-Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock), into common stock. The Preferred Stock was issued to the institutional investors in our recent equity investment transaction as described in the attached proxy statement.

This item of business is more fully described in the proxy statement accompanying this Notice. Submission of this proposal to our stockholders is required under the terms of the purchase agreements dated as of May 16, 2008, between Flagstar Bancorp, Inc. and the institutional investors in our recent equity investment transaction.

The Board of Directors recommends that stockholders vote FOR the proposal.

Stockholders of record of our common stock at the close of business on [____], 2008 will be entitled to vote at the Special Meeting and any adjournments or postponements thereof.

You are requested to fill in and sign the enclosed form of proxy, which is solicited by the Board of Directors, and to mail it promptly in the enclosed envelope. This will ensure the presence of a quorum at the Special Meeting and will save us the expense of additional solicitations. The proxy will not be used if you attend and choose to vote in person at the Special Meeting.

BY ORDER OF THE BOARD OF
DIRECTORS

/s/ Mary Kay Ruedisueli
Mary Kay Ruedisueli
Secretary

Troy, Michigan
[___], 2008

It is important that proxies be returned promptly. Therefore, whether or not you plan to be present in person at the Special Meeting, please sign, date, and complete the enclosed proxy card and return it in the enclosed envelope. No postage is required if mailed in the United States.

PROXY STATEMENT
OF
FLAGSTAR BANCORP, INC.
5151 CORPORATE DR.
TROY, MI 48098
(248) 312-2000

SPECIAL MEETING OF STOCKHOLDERS

June [____], 2008

This proxy statement (Proxy Statement) and the enclosed Proxy Card are furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Flagstar Bancorp, Inc. (the Company). They will be used at a Special Meeting of Stockholders of the Company (the Special Meeting) to be held on [____], [____], 2008 at [____] p.m., local time, at the national headquarters of the Company and Flagstar Bank, fsb (the Bank), 5151 Corporate Dr., Troy, Michigan. The accompanying Notice of Special Meeting, this Proxy Statement, and the Proxy Card are being first mailed to stockholders entitled to vote at the Special Meeting on or about [____], 2008. As used in this Proxy Statement, the terms we, us, and our refer to the Company.

QUESTIONS AND ANSWERS

Why am I receiving these materials?

On May 16, 2008, we entered into purchase agreements to raise an aggregate of approximately \$100 million through direct sale of equity securities to seven institutional investors (the Institutional Investors) and to two individual investors, Thomas J. Hammond, our Chairman, and Mark T. Hammond, our Vice Chairman, President and Chief Executive Officer (the Individual Investors, and together with the Institutional Investors, the Investors).

Pursuant to the purchase agreements, the Institutional Investors acquired 11,365,000 shares of our common stock, in the aggregate, at a purchase price of \$4.25 per share, and the Individual Investors acquired 635,000 shares of our common stock, in the aggregate, at a purchase price of \$5.88 per share. In addition, we issued 47,982 shares of the Mandatory Convertible Non-Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock), in the aggregate, to the Institutional Investors at a purchase price and liquidation preference of \$1,000 per share. We refer to the transactions contemplated by the purchase agreements as the equity investment transaction.

As a condition to our sale of the Preferred Stock, we agreed to seek stockholder approval, at a special meeting of stockholders, to issue the shares of our common stock required for the conversion of the Preferred Stock.

Accordingly, the Board is providing these proxy materials to you in connection with a Special Meeting to be held on [____], 2008. As a stockholder of record of our common stock on the Record Date, you are invited to attend the Special Meeting and are entitled and requested to vote on the item of business described in this Proxy Statement. Pursuant to the Michigan Business Corporation Act, holders of the Preferred Stock are also receiving these proxy materials. However, holders of the Preferred Stock, are not entitled to vote those shares with respect to this proposal.

Who is entitled to vote?

Only stockholders of record at the close of business on [____], 2008 (the Record Date) will be entitled to notice of and vote at the Special Meeting.

What information is contained in this Proxy Statement?

This information relates to the proposal to be voted on at the Special Meeting, the voting process and certain other information required to be disclosed in this Proxy Statement.

Who is soliciting my vote pursuant to this Proxy Statement?

The Board is soliciting your vote at a Special Meeting. In addition, certain of our officers and employees may solicit, or be deemed to be soliciting, your vote.

How many shares are eligible to be voted?

As of the Record Date, the Company had [_____] shares of common stock outstanding and entitled to vote. However, for purposes of obtaining stockholder approval, as required under New York Stock Exchange (NYSE) rules, as discussed below, only the 60,336,506 shares of common stock outstanding prior to the equity investment transaction are considered shares entitled to vote. Each share of common stock will entitle its holder to one vote on each matter to be voted on at the Special Meeting. For information regarding security ownership by the beneficial owners of more than 5% of our common stock and by management, see SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS and SECURITY OWNERSHIP OF MANAGEMENT.

What am I voting on?

You are voting on the approval of the conversion of the Preferred Stock into common stock. The Preferred Stock was issued to the institutional investors in our recent equity investment transaction as described in this Proxy Statement.

What securities did the Company issue in the equity investment transaction?

The Company issued a total of 12,000,000 shares of common stock and 47,982 shares of the Preferred Stock in the equity investment transaction. The Preferred Stock has a liquidation preference of \$1,000 per share and is mandatorily convertible into 11,289,878 shares of our common stock, assuming a conversion price of \$4.25 per share of common stock, upon receipt of stockholder approval. The condition to conversion of the Preferred Stock is the affirmative vote of our existing common stockholders approving the conversion of the Preferred Stock into common stock for purposes of Section 312.03 of the NYSE Listed Company Manual (described below under Proposal 1). Since the shares of common stock issued in the equity investment transaction were not outstanding at the time of the transaction, they will not be counted for purposes of the approval necessary to comply with NYSE rules as discussed below.

Why is our Board seeking stockholder approval of the proposal?

Because our common stock is listed on the NYSE, we are subject to NYSE rules and regulations. Section 312.03 of the NYSE Listed Company Manual requires stockholder approval prior to any issuance or sale of common stock, or securities convertible into or exercisable for common stock, in any transaction or series of transactions (i) if the common stock to be issued has, or will have upon issuance, voting power equal to 20% or more of the voting power outstanding before the issuance, or (ii) if the number of shares of common stock to be issued is, or will be upon issuance, equal to 20% or more of the number of shares of common stock outstanding before the issuance.

Our proposed conversion of the Preferred Stock falls under this rule because the common stock issued at the closing of the equity investment transaction, together with the common stock to be issued upon conversion of the Preferred Stock, will exceed 20% of both the voting power and number of shares of our common stock outstanding before the issuance, and none of the exceptions to this NYSE rule was applicable to this transaction.

How will the conversion of the Preferred Stock occur?

Upon receipt of stockholder approval, each share of Preferred Stock will be automatically converted into a number of shares of common stock determined by dividing (i) \$1,000 (the purchase price per share of the Preferred Stock) by (ii) the conversion price of the Preferred Stock then in effect, subject to certain adjustments. The initial conversion price of the Preferred Stock is \$4.25 per share, which results in an initial conversion rate of approximately 235.294 shares of common stock for each share of Preferred Stock.

How does the Board recommend that I vote?

The Board unanimously recommends that you vote FOR the approval of the conversion of the Preferred Stock into common stock.

Why is the Board recommending approval of the proposal?

In the current banking and credit environment, our management and the Board determined that it would be prudent to seek significant equity capital in order to strengthen our capital ratios in light of the deteriorating conditions in the U.S. housing and credit markets and resulting elevated credit losses in our loan portfolio. The Board also concluded that in light of a variety of factors, including the weakening economy, increasing loan delinquencies, and capital markets volatility, it was important that we raise additional equity promptly and with a high degree of certainty of completion. After exploring and considering a broad range of potential financing and other alternatives, the Board determined that the equity investment transaction was the most effective means to address our capital needs on a timely basis and was in the best interests of our stockholders.

Accordingly, the Board unanimously recommends that stockholders vote FOR the proposal so that the Preferred Stock will convert to shares of common stock. If stockholder approval is not received by November 15, 2008, which is the six-month anniversary of the date of issuance of the Preferred Stock, we will be required to make a cash payment to the holders of the Preferred Stock in the amount of 5% of the aggregate liquidation amount of the Preferred Stock owned by such holders (out of funds legally available for the payment of dividends). Thereafter, the annual dividend rate on the Preferred Stock will be 12% of the liquidation preference. Also, in the event we do not pay a dividend on the Preferred Stock when due, the initial conversion price of the Preferred Stock, \$4.25 per share, will be reduced by \$0.50 per share on each six-month anniversary of the date of issuance of the Preferred Stock if stockholder approval has not been obtained prior to that anniversary, up to a maximum reduction of \$2.00 per share. The Board believes that the required dividend payments and declining conversion price would be disadvantageous to us and our existing common stockholders if the stockholder approval does not occur.

What happens if the stockholder approval is received?

If the conversion of the Preferred Stock into common stock is approved at the Special Meeting, we will automatically issue to holders of each share of Preferred Stock a number of shares of common stock equal to \$1,000 divided by the then-applicable conversion price (currently, \$4.25 per share). Upon the conversion, all rights with respect to the Preferred Stock will terminate, all shares of Preferred Stock will be cancelled and no further dividends will accrue thereon.

What happens if stockholder approval is not received?

Unless stockholder approval is received at the Special Meeting or unless our stockholders approve similar proposals at a subsequent meeting by November 15, 2008, which is the six-month anniversary of the date of issuance of the Preferred Stock, the Preferred Stock will remain outstanding in accordance with its terms and we will be required to pay dividends on the Preferred Stock. We have agreed, pursuant to the purchase agreements, to seek to obtain the stockholder approval no less than twice per year until the stockholder approval is obtained.

If the Preferred Stock remains outstanding on November 15, 2008, we will make a cash payment to the holders of the Preferred Stock in the amount of 5% of the aggregate liquidation amount of the Preferred Stock owned by such holders (out of funds legally available for the payment of dividends). Thereafter, the Preferred Stock will accrue non-cumulative dividends at an annual rate of 12% of the liquidation preference.

Also, in the event we do not pay a dividend on the Preferred Stock when due, the initial conversion price of the Preferred Stock, \$4.25 per share, will be reduced by \$0.50 per share on each six-month anniversary of the date of issuance of the Preferred Stock if stockholder approval has not been obtained prior to that anniversary, up to a maximum reduction of \$2.00 per share.

How many votes are required to hold the Special Meeting and what are the voting procedures?

Quorum Requirement: Michigan law and our bylaws provides that a quorum be present to allow any stockholder action at a meeting. A quorum consists of a majority of all of our outstanding shares of common stock that are entitled to vote at the Special Meeting. Therefore, at the Special Meeting, the presence, in person or by proxy, of the holders of at least [___] shares of our common stock will be required to establish a quorum. Stockholders of record who are present

at the Special Meeting in person or by proxy, but who abstain from voting are still counted towards the establishment of a quorum. This will include brokers holding customers' shares of record even though they may abstain from certain votes.

In order to comply with NYSE rules, for approval of the proposal being considered at the Special Meeting, the total vote cast on the proposal must represent 50% in interest of all the securities that were outstanding prior to the equity investment transaction and entitled to vote on the proposal. Prior to the equity investment transaction, there were 60,336,506 shares of common stock outstanding (the Pre-Transaction Common Stock). Therefore, at the Special Meeting, at least 30,168,254 shares of Pre-Transaction Common Stock must be voted in order to satisfy the minimum voting requirements under NYSE rules. Stockholders of record who are present at the Special Meeting in person or by proxy, but who abstain from voting will not be counted towards the satisfaction of NYSE rules.

Required Vote: Each outstanding share of our common stock is entitled to one vote on the proposal at the Special Meeting. The conversion of the Preferred Stock into common stock will be approved if the proposal receives the minimum number of affirmative votes of shares as required under Michigan law and NYSE rules. For purposes of Michigan law, the proposal must receive the affirmative vote of greater than a majority of shares represented at the Special Meeting, either in person or by proxy, and entitled to vote. Failure to vote and broker non-votes will have no effect because these shares will not be considered shares entitled to vote and therefore will not be counted as votes for or against the proposal. However, abstentions will have the same effect as voting against the approval of the conversion of the Preferred Stock into common stock.

For purposes of NYSE rules, at least a majority of the Pre-Transaction Common Stock represented at the Special Meeting, either in person or by proxy, and entitled to vote must be cast in favor of the proposal. Failure to vote and broker non-votes will have no effect because these shares of Pre-Transaction Common Stock will not be considered shares entitled to vote and therefore will not be counted as votes for or against the proposal. However, abstentions by holders of Pre-Transaction Common Stock will have the same effect as voting against the approval of the conversion of the Preferred Stock into common stock.

What is a broker non-vote?

If you hold your shares in street name through a broker or other nominee, whether the broker may vote your shares in its discretion depends on the proposals before the meeting. Under the rules of the NYSE, your broker may vote your shares in its discretion on routine matters. For example, election of directors and ratification of independent registered public accountants are currently considered routine matters. Proposals that are considered non-routine cannot be voted unless you specifically instruct your broker. The proposal being presented at the Special Meeting is a non-routine matter. Accordingly, if your broker has not received your voting instructions with respect to this non-routine proposal, your broker cannot vote your shares on that proposal. This is referred to as a broker non-vote.

How may I cast my vote?

If you are the stockholder of record: You may vote by one of the following two methods:

1. in person at the Special Meeting; or
2. by mail by completing the proxy card and returning it.

Whichever method you use, the proxies identified on the proxy card will vote the shares of which you are the stockholder of record in accordance with your instructions. If you submit a signed proxy card without giving specific voting instructions, the proxies will vote the shares as recommended by the Board.

If you own your shares in street name, that is, through a brokerage account or in another nominee form: You must provide instructions to the broker or nominee as to how your shares should be voted. Brokers do not have the discretion to vote on the proposal and will only vote at the direction of the underlying beneficial owners of the shares of common stock. Accordingly, if you do not instruct your broker to vote your shares, your broker will not have the discretion to vote your shares. Your broker or nominee will usually provide you with the appropriate instruction forms at the time you receive this Proxy Statement. If you own your shares in this manner, you cannot vote in person at the Special Meeting unless you receive a proxy to do so from the broker or the nominee, and you bring the proxy to the Special Meeting.

How may I revoke or change my vote?

If you are the record owner of your shares, you may revoke your proxy at any time before it is voted at the Special Meeting by:

1. submitting a new proxy card bearing a later date;
2. delivering written notice to the Secretary of the Company prior to [___], 2008, stating that you are revoking your proxy; or
3. attending the Special Meeting and voting your shares in person.

If your shares are held in street name and you have instructed a broker, bank or other nominee to vote your shares of our common stock, you may revoke those instructions by following the directions received from your broker, bank or other nominee to change those instructions.

Please note that your attendance at the Special Meeting will not, by itself, constitute revocation of your proxy.

Who is paying for the costs of this proxy solicitation?

We will bear the cost of preparing, printing and mailing the materials in connection with this solicitation of proxies. In addition to mailing these materials, our officers and regular employees may, without being additionally compensated, solicit proxies personally and by mail, telephone, facsimile or electronic communication. We will reimburse banks and brokers for their reasonable out-of-pocket expenses related to forwarding proxy materials to beneficial owners of stock or otherwise in connection with this solicitation.

Who will count the votes?

Matthew I. Roslin and Mary Kay Ruedisueli, our inspectors of election for the Special Meeting, will receive and tabulate the ballots and voting instruction forms.

What happens if the Special Meeting is postponed or adjourned?

Your proxy will still be effective and may be voted at the postponed meeting. You will still be able to change or revoke your proxy until it is voted.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement and the documents incorporated by reference into this proxy statement may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In many but not all cases you can identify forward-looking statements by words such as anticipate, believe, could, estimate, expect, forecast, goal, intend, may, objective, plan, potential, projection, should, will and would or the like or other similar expressions. These forward-looking statements include statements regarding our assumptions, beliefs, expectations or intentions about the future, and are based on information available to us at this time. These statements are not statements of historical fact. We assume no obligation to update any of these statements and specifically decline any obligation to update or correct any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Forward looking statements are estimates and projections reflecting our judgment and involve risks and uncertainties that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward looking statements.

Some of the important factors that could cause our actual results, performance or financial condition to differ materially from our expectations or projections contained in the forward looking statements are: (1) general business, economic and political conditions may significantly affect our earnings; (2) if we cannot effectively manage the impact of the volatility of interest rates, our earnings could be adversely affected; (3) the value of our mortgage servicing rights could decline with reduction in interest rates; (4) gains on mortgage servicing rights may be difficult to realize due to disruption in the capital markets; (5) we use estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; (6) current and further deterioration in the housing and commercial real estate markets may lead to increased loss severities and further worsening of 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; (7) our secondary market reserve for losses could be insufficient; (8) our home lending profitability could be significantly reduced if we are not able to resell mortgages; (9) our commercial real estate and commercial business loan portfolios carry heightened credit risk; (10) we have substantial risks in connection with securitizations and loan sales; (11) our ability to borrow funds, maintain deposits or custodial accounts, or raise capital could

be limited, which could adversely affect our earnings; (12) we may be required to raise capital at terms that are materially adverse to our stockholders; (13) our holding company is dependent on the Bank for funding of obligations and dividends; (14) we may not be able to replace key members of senior management or attract and retain qualified relationship managers in the future; (15) the network and computer systems on which we depend could fail or experience a security breach; (16) our business is highly regulated; (17) our business has volatile earnings because it operates based on a multi-year cycle; (18) our loans are geographically concentrated in only a few states; (19) a larger percentage of our loans are collateralized by real estate, and an adverse change in the real estate market may result in losses and adversely affect our portfolio; (20) a significant part of our business strategy involves adding new branch locations, and our failure to grow may adversely affect our business, prospects, and results of operations and financial condition; (21) we are subject to heightened regulatory scrutiny with respect to bank secrecy and anti-money laundering statutes and regulations; and (22) certain hedging strategies that we use to manage our investment in mortgage servicing rights or otherwise to manage interest rate risk may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rate; and (23) we depend on our institutional counterparties to provide services that are critical to our business.

We believe these forward looking statements are reasonable; however, these statements are based on current expectations. Forward looking statements speak only as of the date they are made. We undertake no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by applicable federal securities laws.

BACKGROUND TO THE PROPOSAL

In the current banking and credit environment, our management and the Board determined that it would be prudent to seek significant equity capital in order to strengthen our capital ratios in light of the deteriorating conditions in the U.S. housing and credit markets and resulting elevated credit losses in our loan portfolio. The Board also concluded that in light of a variety of factors, including the weakening economy, increasing loan delinquencies, and capital markets volatility, it was important that we raise additional equity promptly and with a high degree of certainty of completion.

After exploring and considering a broad range of potential financing and other alternatives, the Board determined that the equity investment transaction was the most effective means to address our capital needs on a timely basis and was in the best interests of our stockholders. Because of the NYSE rule described above, it was necessary to structure the equity investment transaction to include convertible preferred stock until we could obtain the necessary stockholder approval to issue common stock in its place.

On May 16, 2008, we entered into purchase agreements with the Institutional Investors and the Individual Investors. The Institutional Investors agreed to purchase, in the aggregate, 11,365,000 shares of our common stock at a purchase price of \$4.25 per share and 47,982 shares of mandatory convertible non-cumulative perpetual preferred stock at a purchase price and liquidation preference of \$1,000 per share. The Individual Investors agreed to purchase, in the aggregate, 635,000 shares of the Company's common stock at a purchase price of \$5.88 per share.

Closing for the issuance of the common stock and the Preferred Stock occurred on May 19, 2008. The shares of common stock and Preferred Stock issued and sold in the equity investment transaction were issued from our authorized share capital and stockholders are not being asked to vote upon the issuance and sale of those securities.

The Company received aggregate consideration of \$100,017,050 in the equity investment transaction and is currently considering the amount of such proceeds it will contribute to Flagstar Bank, FSB, our principal subsidiary, as additional capital. The Company has retained the remaining net proceeds from the equity investment transaction, which it intends to use, on a consolidated basis, to enhance the capital ratios of Flagstar Bank, FSB as well as for general corporate purposes.

In addition to the 12,000,000 shares of common stock that were issued to the investors immediately upon the consummation of the transactions contemplated by the purchase agreements, subject to receipt of stockholder approval, we estimate that we will be required to issue an additional 11,289,878 shares of common stock upon the conversion of all the shares of Preferred Stock if this proposal is adopted.

PROPOSAL 1
APPROVAL OF THE CONVERSION OF MANDATORY CONVERTIBLE NON-CUMULATIVE
PERPETUAL
PREFERRED STOCK, SERIES A INTO COMMON STOCK

On May 13, 2008, the Board adopted a resolution declaring it advisable and in our best interests and our stockholders to approve the conversion of all shares of the Preferred Stock into shares of common stock and the automatic cancellation of the Preferred Stock upon such conversion.

The Board further directed that the proposed actions be submitted for consideration to our stockholders at a special meeting to be called for that purpose.

Because our common stock is listed on the NYSE, we are subject to the NYSE rules and regulations. Section 312.03 of the NYSE listed company manual requires stockholder approval prior to any issuance or sale of common stock, or securities convertible into or exercisable for common stock, in any transaction or series of transactions if the common stock has, or will have upon issuance, voting power equal to, or in excess of, 20% of the voting power outstanding before the issuance of such shares or of securities convertible into or exercisable for common stock, or if the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance.

Our proposed issuance of common stock to the Institutional Investors upon conversion of the Preferred Stock falls under this rule because the common stock issued at the closing of the equity investment transaction, together with the common stock issuable upon conversion of the Preferred Stock, will exceed 20% of the voting power and number of shares of common stock outstanding before the equity investment transaction.

The purpose of Proposal 1 is to satisfy, in connection with the Company's sale and issuance of the Preferred Stock, its obligations under the purchase agreements, as described below, and to allow the automatic conversion of Preferred Stock in accordance with the NYSE rules described above.

In the event that our stockholders do not approve this Proposal 1, the mandatory conversion of the Preferred Stock into common stock cannot be completed.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE PROPOSED CONVERSION OF PREFERRED STOCK.

DESCRIPTION OF THE PURCHASE AGREEMENTS

As described above, the Investors entered into purchase agreements with us to purchase common stock and Preferred Stock. Certain terms and conditions of the purchase agreements are described below. However, this description of the purchase agreements is a summary of the material terms of such agreements and does not purport to be a complete description of all of the terms of such agreements. Stockholders can find a form of the purchase agreements and further information about the equity investment transaction in the Current Report on Form 8-K that we filed with the SEC on May 16, 2008. For more information about accessing this current report on Form 8-K and the other information we file with the SEC, see **WHERE YOU CAN FIND MORE INFORMATION** below.

Representations And Warranties

We made customary representations and warranties to the Institutional Investors relating to us, our business and the issuance of the common stock and Preferred Stock and agreed to indemnify the Institutional Investors for breaches of our representations and warranties in certain circumstances. These provisions do not apply to the Individual Investors. The Institutional Investors and Individual Investors made customary representations and warranties to us about themselves and their compliance with securities laws.

Agreement to Seek Stockholder Approval

We agreed to promptly call a special meeting of our stockholders. We also agreed to provide each stockholder a proxy statement soliciting their affirmative vote for approval of the conversion of the Preferred Stock into common stock, to

use our best efforts to solicit our stockholders' approval, and to cause the Board to recommend that the stockholders approve such conversion. We are obligated to seek to obtain the stockholder approval not later than 90 days following the closing date. If we are unable to obtain the approval of such stockholders within 90 days of the closing date, we have undertaken to obtain such approval at (i) the next annual meeting of the stockholders (and each annual meeting thereafter) and (ii) a special meeting of the stockholders to be held every 180 days following our annual meeting in each year until such approval is obtained.

Registration Rights

We have granted the Investors shelf registration rights with respect to the common stock, including the common stock issuable upon conversion of the Preferred Stock, purchased by them in the equity investment transaction, which may be used to effect sales of such common stock. We have agreed to file a registration on Form S-3 registering the securities subject to the registration rights as soon as practicable after May 19, 2008 (but in no event later than 30 days). We have the right to suspend the use of the prospectus forming a part of the registration statement under certain circumstances.

If the registration statement is not filed by us with the SEC by the filing deadline set forth in the purchase agreements, then for each day following that deadline, until but excluding the date the registration statement is filed, or if the registration statement is not declared effective by the SEC by the effectiveness deadline set forth in the purchase agreements, then for each day following that deadline, until but excluding the date the registration statement becomes effective, we will, for each such day, be required to pay a cash amount per 30 day period equal to 1.0% of the purchase price paid by such Institutional Investors for their shares of common stock and Preferred Stock purchased pursuant to the purchase agreements. For any such 30-day period, such payment shall be made no later than three business days following such 30-day period.

If we suspend the use of the prospectus forming a part of the registration statement for more than 60 days or in aggregate more than 90 days in any 365 day period, then for each day on which a suspension is in effect that exceeds the maximum allowed period, we will be required to pay an amount per 30 day period equal to 1.0% of the purchase price paid by such Institutional Investors for their shares of common stock and Preferred Stock purchased pursuant to the purchase agreements.

In no event will we be obligated to pay any liquidated damages in an aggregate amount that exceeds 10% of the purchase price paid by each Institutional Investor for the shares of common stock and Preferred Stock purchased by it pursuant to the purchase agreements. The liquidated damages provisions do not apply to the Individual Investors.

Anti-Dilution Protection

If, prior to May 19, 2009, we issue common stock or securities convertible into common stock at a price per share less than \$4.25, then we must pay to the Institutional Investors in cash an amount equal to (A) the difference between (i) \$4.25 per share and (ii) the greater of the per share cash consideration paid in such issuance or \$2.50, multiplied by (B) the difference between (i) the total number of shares of common stock, including the Preferred Stock on an as-converted basis, purchased by the Institutional Investors and (ii) any shares of our common stock sold by the Institutional Investors after the closing date of May 19, 2008. No payments are required if the shares of common stock are issued (i) pursuant to employee benefit plans approved by stockholder and the Board or (ii) in connection with stock splits, dividends or other distributions. The anti-dilution protections do not apply to the Individual Investors.

Voting Agreement

Certain of our stockholders have agreed to vote their shares of common stock in favor of the stockholder approvals. As of the Record Date, those stockholders had the power to vote 27,677,208 shares of common stock, representing approximately 38% of the shares of common stock outstanding on that date. However, these stockholders had the power to vote 27,042,208 shares of Pre-Transaction Common Stock, representing approximately 45% of the shares of Pre-Transaction Common Stock.

DESCRIPTION OF THE PREFERRED STOCK

The following is a summary of the material terms and provisions of the preferences, limitations, voting powers and relative rights of the Preferred Stock as contained in the Certificate of Designations that we filed with the Michigan Department of Labor and Economic Growth on May 16, 2008 (the Certificate of Designations). This summary of the Certificate of Designations does not purport to be a complete description of all of its terms. The Certificate of

Designations

is attached to this proxy statement as Annex A and incorporated by reference into this Proxy Statement. Stockholders are urged to read the Certificate of Designations relating to the Preferred Stock in its entirety.

Authorized Shares And Liquidation Preference

The number of authorized shares of the Preferred Stock is 47,982. Shares of the Preferred Stock have a \$0.01 par value per share and the liquidation preference of the Preferred Stock is \$1,000 per share.

Ranking

The Preferred Stock will rank as to dividends, proceeds upon liquidation or dissolution, or special voting rights: senior to junior stock, meaning our common stock and any other class or series of our stock now existing or hereafter authorized over which the Preferred Stock has preference or priority as to dividends, proceeds upon liquidation or dissolution, or special voting rights;

equally with parity stock, if any, meaning any other class or series of our stock hereafter authorized that ranks on par with the Preferred Stock as to dividends, proceeds upon liquidation or dissolution, or special voting rights; and

junior to senior stock, meaning any class or series of our stock now existing or hereafter authorized which has preference or priority over the Preferred Stock as to dividends, proceeds upon liquidation or dissolution, or special voting rights.

The Preferred Stock will rank junior in payment to our trust preferred securities.

Dividends

Prior to and including November 15, 2008, we are not required to pay dividends on the Preferred Stock unless we pay dividends on our common stock. If stockholder approval is not received by November 15, 2008, then we will be required to make a cash payment to the holders of the Preferred Stock in the amount of 5% of the aggregate liquidation amount of the Preferred Stock owned by such holders (out of funds legally available for the payment of dividends). After November 15, 2008, the annual dividend rate on the Preferred Stock will be 12% of the liquidation preference, payable quarterly in arrears on the last business day of February, May, August and November beginning in February, 2009 (Dividend Payment Date).

Dividends on the Preferred Stock are not cumulative. Accordingly, if for any reason the Board does not declare a dividend on the Preferred Stock for a dividend period prior to the related Dividend Payment Date, that dividend will not accrue and we will have no obligation to pay a dividend for that dividend period on the Dividend Payment Date or at any time in the future, whether or not the Board of directors declares a dividend on the Preferred Stock or any other series of our capital stock for any future dividend period.

So long as any share of Preferred Stock remains outstanding, unless full dividends on all outstanding shares of Preferred Stock with respect to all prior dividend periods have been paid in full or declared and set aside for payment, (i) no dividend shall be declared or paid or set aside for payment and no distribution shall be declared or made or set aside for payment on any junior stock, (ii) no shares of junior stock shall be repurchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than as a result of a reclassification of junior stock for or into other junior stock, or the exchange or conversion of one share of junior stock for or into another share of junior stock, and other than through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock), nor shall any monies be paid to or made available for a sinking fund for the redemption of any such junior stock by us and (iii) no shares of parity stock shall be repurchased, redeemed or otherwise acquired for consideration by us otherwise than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Preferred Stock and such parity stock, except by conversion into or exchange for junior stock. These limitations do not apply to purchases or acquisitions of our junior stock pursuant to any of our employee or director incentive or benefit plans or arrangements. To the extent we declare dividends on the Preferred Stock and on any parity stock but cannot make full payment of such declared dividends, we will allocate the dividend payment on a pro rata basis among the holders of the shares of Preferred Stock and holders of and parity stock then outstanding.

Liquidation

In the event the we voluntarily or involuntarily liquidate, dissolve or wind up, the holders of the Preferred Stock will be entitled, out of assets legally available therefor, before payment or distribution to holders of junior stock, including our common stock, and subject to the rights of holders of senior stock or parity stock and the rights of our depositors or creditors,

to receive liquidating distributions in the amount of \$1,000 per share of Preferred Stock, plus an amount equal to any declared but unpaid dividends on the Preferred Stock to and including the date of such liquidation.

If our assets are not sufficient to pay in full the liquidation preference plus any dividends which have been declared but not yet paid to all holders of Preferred Stock and all holders of any parity stock, the amounts paid to the holders of Preferred Stock and to the holders of all parity stock shall be pro rata in accordance with the respective aggregate liquidation preferences, plus any dividends which have been declared but not yet paid, of Preferred Stock and all such parity stock.

Redemption

The Preferred Stock is not redeemable either at our option or at the option of holders of the Preferred Stock at any time.

Conversion Terms

Conversion Price. Each share of Preferred Stock will be convertible, on the terms at such time as set forth below, into approximately 235.294 shares of our common stock, based on a conversion price of \$4.25 per share of common stock (as it may be adjusted, the conversion price). In the event we do not pay a dividend on the Preferred Stock when due, the conversion price will be reduced by \$0.50 on each six-month anniversary of the date of issuance of the Preferred Stock if stockholder approval has not been obtained prior to that anniversary, up to a maximum reduction of \$1.75 per share.

Mandatory Conversion. Each share of Preferred Stock is mandatorily convertible into shares of our common stock based on the conversion price upon stockholder approval. If we are unable to obtain stockholder approval by November 15, 2008, then holders of the Preferred Stock will retain their shares of Preferred Stock until stockholder approval has been obtained, at which point conversion shall be immediate and mandatory.

Fractional Shares. No fractional shares of common stock will be issued upon conversion. In lieu of any fractional share of common stock, we will at our option either (i) issue to such holder a whole share of common stock or (ii) pay an amount in cash in lieu of fractional shares based on the closing price of our common stock determined as of the second trading day immediately preceding the date of the mandatory conversion.

Preemptive Rights

Holders of the Preferred Stock have no preemptive rights.

Anti-Dilution Adjustments

The conversion price is subject to adjustment from time under the circumstances described below:

Stock Dividends and Distributions and Subdivisions, Splits and Combinations of the common stock. If we issue common stock as a dividend or distribution on our common stock to all holders of the common stock, or if we affect a share split or share combination of our common stock, the conversion price will be adjusted based on the following formula:

$$CR1 = CR0 \times (OS0 / OS1)$$

where:

CR0 = The conversion price in effect immediately prior to the adjustment relating to such event

CR1 = The new conversion price in effect taking into account such event

OS0 = The number of shares of common stock outstanding immediately prior to such event

OS1 = The number of shares of common stock outstanding immediately after such event

Any adjustment made pursuant to this paragraph will become effective on the date that is immediately after (i) the date fixed for the determination of holders of common stock entitled to receive such dividend or other distribution or (ii) the date on which such split or combination becomes effective, as applicable. If any dividend or distribution described in this paragraph is declared but not so paid or made, the conversion price will be readjusted to the conversion price that would then be in effect if such dividend or distribution had not been declared.

Calculation of Adjustments. No adjustment to the conversion price need be made if the holders may participate in the transaction that would otherwise give rise to such adjustment on an as-converted basis. The applicable conversion price shall not be adjusted:

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;

upon the issuance of any shares of our common stock or options or rights to purchase those shares pursuant to any of our present or future employee, director or consultant benefit plans, or any employee agreement or arrangement or program;

upon the issuance of any shares of common stock pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security outstanding as of the issue date of the Preferred Stock;

for a change in the par value of our common stock; and

as a result of a tender offer solely to holders of fewer than 100 shares of the common stock.

General. We shall have the power to resolve any ambiguity and its action in so doing, as evidenced by a resolution of the Board, or a duly authorized committee of the Board, shall be final and conclusive unless clearly inconsistent with the intent hereof.

Notice of Adjustment. Whenever the conversion price is to be adjusted, we shall: (i) compute the adjusted conversion price and prepare and transmit to our transfer agent a certificate of an officer setting forth the adjusted conversion price, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based; (ii) as soon as practicable following the occurrence of an event that requires an adjustment to the conversion price (or if we are not aware of such occurrence, as soon as practicable after becoming so aware), provide, or cause to be provided, a written notice to the holders of the Preferred Stock of the occurrence of such event and (iii) as soon as practicable following the determination of the revised conversion price provide, or cause to be provided, to the holders of the Preferred Stock a statement setting forth in reasonable detail the method by which the adjustment to the conversion price was determined and setting forth the revised conversion price.

Reorganization Events

In the event of:

any consolidation or merger of us with or into another person in each case pursuant to which our common stock will be converted into cash, securities or other property of us or another person;

any sale, transfer, lease or conveyance to another person of all or substantially all of the property and assets of us and our subsidiaries, taken as a whole; or

any statutory exchange of our securities for those of another person, each of which is referred to as a reorganization event, each share of the Preferred Stock outstanding immediately prior to such reorganization event will, without the consent of holders, become convertible, on an as converted basis, into the kinds of securities, cash, and other property receivable in such reorganization event by a holder of shares of common that was not a counterparty to such reorganization event or an affiliate of such party. In the event that holders of the shares of our common stock have the opportunity to elect the form of consideration to be received in such transaction, the consideration that the holders of the Preferred Stock are entitled to receive will be deemed to be the types and amounts of consideration received by the majority of the holders of the shares of our common stock that affirmatively make an election.

Voting Rights

Except as set forth below, holders of the Preferred Stock will not have any voting rights, including the right to elect any directors.

If approval or other action of stockholders voting as a separate class is required by Michigan law or our articles of incorporation, each share of Preferred Stock shall be entitled to one vote. The affirmative vote of a majority of such shares at a meeting at which a majority of such shares are present or represented shall be sufficient to constitute such approval or other action unless a higher percentage is otherwise required.

Unless a higher percentage is expressly required by Michigan law, approval of holders of a majority of the Preferred Stock outstanding, by aggregate liquidation preference, and all other preferred stock or securities having similar voting rights

voting in proportion to the respective liquidation preferences, voting as a class, shall be required: (A) to amend our articles of incorporation to authorize the issuance of any class or series of parity stock or senior stock, to reclassify the Preferred Stock, to alter or abolish the liquidation preferences or any other preferential right of the Preferred Stock, or to alter the Certificate of Designations in a manner adverse to the holders of the Preferred Stock; or (B) to approve (i) any sale of all or substantially all of our assets or business, (ii) any liquidation, dissolution or winding up of us, or (iii) merger or consolidation of us with or into any other entity unless we are the surviving entity in such merger or consolidation and the Preferred Stock remains outstanding or we are not the surviving entity in such merger or consolidation but the Preferred Stock is not changed in such merger or consolidation into anything other than a class or series of preferred stock of the surviving or resulting entity, or the entity controlling such entity, having such rights, preferences, privileges and voting powers, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers of the Preferred Stock, taken as a whole.

CONSEQUENCES IF THE CONVERSION OF PREFERRED STOCK IS APPROVED

Rights of Institutional Investors

If stockholder approval is received, the rights and privileges associated with the common stock issued upon conversion of the Preferred Stock, will be identical to the rights and privileges associated with the common stock held by our existing common stockholders, including voting rights. However, the Institutional Investors will be entitled to the registration rights and anti-dilution protections discussed in DESCRIPTION OF THE PURCHASE AGREEMENTS above.

Dilution

If stockholder approval is received, we will issue pursuant to the conversion of the Preferred Stock approximately 11,289,878 shares of common stock (in addition to the 12,000,000 shares of common stock previously issued at the closing of the equity investment transaction). As a result, our existing stockholders will incur substantial dilution to their voting interests and will own a smaller percentage of our outstanding common stock.

Elimination of Dividend and Liquidation Rights of Holders of Preferred Stock

If stockholder approval is received, all shares of Preferred Stock will be cancelled. As a result, approval of the conversion of Preferred Stock will result in the elimination of the dividend rights and liquidation preference existing in favor of the Preferred Stock. The Board believes that the elimination of the requirement to pay dividends on the Preferred Stock and the elimination of the liquidation preference existing in favor of the Preferred Stock would be in our best interests and the best interests of our stockholders.

Elimination on Restriction on Share Repurchases

If stockholder approval is received, all shares of the Preferred Stock will be cancelled and the restriction on our ability to redeem or repurchase any shares of our common stock or other junior stock will be eliminated.

CONSEQUENCES IF THE CONVERSION OF PREFERRED STOCK IS NOT APPROVED

Stockholders Meeting

If stockholder approval is not received by November 15, 2008, the Preferred Stock will remain outstanding in accordance with its terms and we have agreed, in accordance with the terms of the purchase agreements, to seek stockholder approvals at the next annual meeting of our stockholders (and each annual meeting thereafter) and at a special meeting of our stockholders held 180 days after each annual meeting of our stockholders until such stockholder approval is obtained or made.

Dividend Payment

If stockholder approval is not received by November 15, 2008, we will be required to make a cash payment to the holders of the Preferred Stock in the amount of 5% of the aggregate liquidation amount of the Preferred Stock owned by such

holders (out of funds legally available for the payment of dividends). Thereafter, we will be required to pay a dividend on the Preferred Stock at an annual rate of 12% of the liquidation preference. The Board believes that paying these dividends would be disadvantageous to us and our existing common stockholders.

Decrease in Conversion Price

If stockholder approval is not received by November 15, 2008, the conversion price of the Preferred Stock will be reduced by \$0.50 per share in the event we do not pay a dividend on the Preferred Stock when due. The conversion price will be further reduced by \$0.50 per share on each six-month anniversary thereafter if stockholder approval has not been obtained, up to a maximum reduction of \$2.00 per share.

Restriction on Payment of Dividends and Share Repurchases

For as long as the Preferred Stock remains outstanding, we are prohibited from redeeming, purchasing or acquiring any shares of common stock or other junior stock, subject to limited exceptions. In addition, we are restricted from paying dividends on any shares of our common stock or other junior stock if the full quarterly dividends on the Preferred Stock have not been paid in the applicable dividend period.

Liquidation Preference

For as long as the Preferred Stock remains outstanding, it will retain a senior liquidation preference over shares of our common stock in connection with any liquidation of it and, accordingly, no payments will be made to holders of our common stock upon any liquidation of it unless the full liquidation preference on the Preferred Stock is made. After payment of the full liquidation preference on the Preferred Stock, holders of Preferred Stock will be entitled to participate in any further distribution of our remaining assets based on their as-converted ownership percentage of the our common stock.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Persons and groups beneficially owning more than 5% of our common stock are generally required under federal securities laws to file certain reports with the SEC detailing such ownership. The term beneficial ownership means the shares held as of the Record Date plus shares underlying any options or securities that are exercisable as of or within 60 days before or after the Record Date. The following table sets forth, as of the Record Date, certain information as to our common stock beneficially owned by any person or group of persons who are known to us to be the beneficial owners of more than 5% of our common stock. Other than as disclosed below, management knows of no person who beneficially owned more than 5% of our common stock at the Record Date.

| Name and Address of Beneficial Owner (a) | Amount and Nature of Beneficial Ownership | Percent of Class (b) |
|---|--|-------------------------|
| Thomas J. Hammond (c) | 10,857,637(d)(e) | 15.0% |
| Mark T. Hammond (c) | 7,034,622(d)(f) | 9.7 |
| Janet G. Hammond (c) | 4,333,106(d)(g) | 6.0 |
| Dimensional Fund Advisors LP 1299 Ocean Avenue Santa Monica, CA 90401 | 4,161,677(h) | 5.8 |

(a) Unless otherwise noted, the address of record for each of the individuals named below is c/o Flagstar Bancorp, Inc.,

5151 Corporate
Drive, Troy,
Michigan
48098.

- (b) The percentage owned is calculated for each stockholder by dividing (i) the total number of outstanding shares beneficially owned by such stockholder as of the Record Date plus the number of shares such person has the right to acquire within 60 days of the Record Date, into (ii) the total number of outstanding shares as of the Record Date plus the total number of shares that such person has the right to acquire within 60 days of the Record Date.
- (c) Mr. Thomas Hammond is the husband of Ms. Janet Hammond. Further, Mr. Mark Hammond is the adult child of Mr. Thomas Hammond and

Ms. Janet
Hammond.

(d) These amounts include beneficial ownership of shares with respect to which voting or investment power may be deemed to be directly or indirectly controlled, but does not include stock owned by each stockholder's spouse, as to which the respective person disclaims beneficial ownership.

(e) This amount includes 10,305,157 shares held indirectly in a revocable living trust, 70,234 shares held indirectly in the Flagstar Bank 401(k) Plan, 64,294 shares of restricted stock, and stock options exercisable as of the Record Date, or that will become exercisable within 60 days thereafter, to purchase 100,452 shares of Common

Stock.

- (f) This amount includes 5,533,847 shares held indirectly in a revocable living trust, 92,320 shares held indirectly in the Flagstar Bank 401(k) plan, 91,071 shares of restricted stock, and stock options exercisable as of the Record Date, or that will become exercisable within 60 days thereafter, to purchase 984,595 shares of Common Stock.
- (g) These shares are held indirectly in a revocable living trust.
- (h) Based solely on a Schedule 13G for the fiscal year ended December 31, 2007 filed with the SEC on February 6, 2008.

SECURITY OWNERSHIP OF MANAGEMENT

This table and the accompanying footnotes provide a summary of the beneficial ownership of our common stock as of the Record Date by all of our directors and executive officers as a group. A total of [_____] shares of common stock were issued and outstanding as of the Record Date.

| Amount and Nature of Beneficial | Percent |
|---------------------------------------|---------|
|---------------------------------------|---------|

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| Name of Beneficial Owner | Ownership (a)(b) | of Class |
|--|------------------|----------|
| Thomas J. Hammond | 10,857,637(c) | 15.0% |
| Mark T. Hammond | 7,034,622(d) | 9.7% |
| Charles Bazy | 72,500 | * |
| James D. Coleman | 273,665(e) | * |
| Richard S. Elsea | 27,825(f) | * |
| Kirstin A. Hammond | 196,829(g) | * |
| Michael Lucci, Sr. | 17,500(h) | * |
| Frank D Angelo | 9,800 | * |
| Robert Dewitt | 23,847(i) | * |
| Robert O. Rondeau, Jr. | 292,214(j) | * |
| B. Brian Tauber | 33,000(k) | * |
| Jay J. Hansen | 10,269(l) | * |
| Paul D. Borja | 31,694(m) | * |
| William F. Pickard | 0 | * |
| All directors and executive officers as a group (15) | 18,909,986 | 26.1% |

* Less than 1.0%

(a) These amounts include beneficial ownership of shares with respect to which voting or investment power may be deemed to be directly or indirectly controlled, but does not include stock owned by each stockholder's spouse, as to which the respective person disclaims beneficial ownership.

(b) These amounts set forth below include options exercisable as of the Record Date, or that will become

exercisable
within 60 days
thereafter, to
purchase shares
of common
stock for the
following
persons:
Mr. Thomas
Hammond,
100,452 shares,
Mr. Mark
Hammond,
984,595 shares,
Mr. Bazy,
2,500 shares,
Mr. Coleman,
3,500 shares,
Mr. Elsea, 2,500
shares, Ms.
Hammond,
105,719 shares,
Mr. Lucci,
2,500 shares,
Mr. D Angelo,
2,500 shares,
Mr. Dewitt,
2,500 shares,
Mr. Rondeau,
96,379 shares,
Mr. Hansen,
1,500 shares,
Mr. Tauber,
1,500 shares,
Mr. Borja,
11,429 shares,
and all directors
and executive
officers as a
group,
1,317,574
shares.

(c) This amount includes 10,305,157 shares held indirectly in a revocable living trust, 64,294 shares of restricted stock and 70,234 shares held indirectly in the Flagstar Bank 401(k) Plan.

(d) This amount includes 5,533,847 shares held indirectly in a revocable living trust, 91,071 shares of restricted stock and 92,320 shares held indirectly in the Flagstar Bank 401(k) Plan.

(e) This amount includes 45,000 shares held indirectly by Mr. Coleman's wife.

(f) This amount includes 10,925 shares held indirectly in a marital trust and 14,400 shares held indirectly in a deferred compensation trust.

(g)

This amount includes 52,742 shares held indirectly in a revocable living trust, 6,375 shares of restricted stock and 27,857 shares held indirectly in the Flagstar Bank 401(k) Plan.

- (h) This amount includes 15,000 shares held indirectly in a revocable living trust.
- (i) This amount includes 6,470 shares held indirectly in an individual retirement account, 3,692 shares held indirectly by Mr. Dewitt s wife s individual retirement account, and 2,000 shares held indirectly by Mr. Dewitt s wife s trust and 1,350 shares held indirectly by Mr. DeWitt s wife.
- (j) This amount includes 106,567 shares held indirectly in a revocable living trust, 6,375 shares of restricted stock

and 81,757
shares held
indirectly in the
Flagstar Bank
401(k) Plan.
This amount
does not include
2,824,430
shares held by
his wife as to
which he
disclaims
beneficial
ownership.

(k) This amount
includes 31,500
shares held
indirectly in a
revocable living
trust.

(l) This amount
includes 2,129
shares held
indirectly in an
individual
retirement
account.

(m) This amount
includes 9,107
shares of
restricted stock.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and, in compliance with the Exchange Act, we file periodic reports and other information with the SEC. These reports and the other information we file with the SEC can be read and copied at the public reference room facilities maintained by the SEC in Washington, DC at 100 F Street, N.E., Washington, DC 20549. The SEC's telephone number to obtain information on the operation of the public reference room is (800) SEC-0330. These reports and other information are also filed by us electronically with the SEC and are available at the SEC's website, www.sec.gov.

STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING

It is anticipated that our Annual Meeting in 2009 will be held on May 22, 2009. Stockholders who intend to present a proposal for action at that meeting and would like a copy of the proposal included in our proxy materials must forward a

copy of the proposal or proposals to our principal executive office at 5151 Corporate Dr. Road, Troy, Michigan 48098, and it must be received by us not later than December 31, 2008. In order to be included in the proxy statement, such proposals must comply with applicable law and regulations, including SEC Rule 14a-8, as well as our articles of incorporation.

We will have discretionary authority to vote proxies on matters at the 2009 Annual Meeting if the matter is not included in the proxy statement and notice by a stockholder to consider the matter was not received by us prior to the deadline provided in our articles of incorporation for such matters. Under our articles of incorporation, stockholders must provide written notice of nominations for new directors or proposals for new business to our Secretary not fewer than 30 days nor more than 60 days prior to the date of the Annual Meeting. For the 2009 Annual Meeting of Stockholders, notice must be received by our Secretary no later than the close of business on April 22, 2009 and no earlier than the close of business on March 23, 2009. However, if public disclosure of the Annual Meeting is given fewer than 40 days before the date of the Annual Meeting, written notice of the proposal must be given prior to 10 days following the day on which notice of the Annual Meeting is mailed to stockholders. Such written notice must comply with our articles of incorporation.

Nothing in this paragraph shall be deemed to require us to include in our proxy statement and proxy relating to the 2009 Annual Meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the SEC in effect at the time such proposal is received. A copy of our articles of incorporation can be obtained by written request to Paul Borja, CFO, Flagstar Bancorp, Inc., 5151 Corporate Drive, Troy, Michigan 48098.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this proxy statement documents we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this proxy statement, and later information that we file with the SEC as specified below will update and supersede that information. We incorporate by reference Items 7, 7A, 8 and 9 from our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, Items 1, 2 and 3 from our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008, and any other items in that Quarterly Report expressly updating the above referenced items from our Annual Report on Form 10-K.

This proxy statement incorporates important business and financial information about us from other documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this proxy statement through the SEC at its website, www.sec.gov, by written request to Paul Borja, CFO, Flagstar Bancorp, Inc., 5151 Corporate Drive, Troy, Michigan 48098, or by telephone at (248) 312-2000. If so requested, we will provide a copy of the incorporated filings by first class mail or equally prompt means within one business day of our receipt of your request.

OTHER MATTERS

The Board is not aware of any other business to be presented for action by the stockholders at the Special Meeting other than the matter described in this proxy statement and matters incident to the conduct of the Special Meeting. If, however, any other matters are properly brought before the Special Meeting, the persons named in the accompanying proxy will vote such proxy on such matters as determined by a majority of the Board.

BY ORDER OF THE BOARD OF
DIRECTORS

/s/ Mary Kay Ruedisueli
Mary Kay Ruedisueli
Secretary

[____], 2008

