

FLAGSTAR BANCORP INC

Form 10-Q

November 09, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

Commission File Number: 001-16577

(Exact name of registrant as specified in its charter).

Michigan

38-3150651

(State or other jurisdiction of
Incorporation or organization)

(I.R.S. Employer
Identification No.)

5151 Corporate Drive, Troy, Michigan

48098-2639

(Address of principal executive offices)

(Zip code)

(248) 312-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of November 8, 2010, 269,278,468 shares of the registrant's common stock, \$0.01 par value, were issued and outstanding.

Table of Contents

FORWARD LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in a forward-looking statement. Examples of forward-looking statements include statements regarding our expectations, beliefs, plans, goals, objectives and future financial or other performance. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and variations of such words and similar expressions are used to identify such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. Except to fulfill our obligations under the U.S. securities laws, we undertake no obligation to update any such statement to reflect events or circumstances after the date on which it is made.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include:

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;

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

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.

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

Please also refer to Item 1A. Risk Factors to Part II of this report, Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and Item 1A to Part II of our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2010 and March 31, 2010, which are incorporated by reference herein, for further information on these and other factors affecting us.

Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore any of these statements included herein may prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

FLAGSTAR BANCORP, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2010
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	77
<u>Item 4. Controls and Procedures</u>	79

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	80
<u>Item 1A. Risk Factors</u>	80
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	87
<u>Item 3. Defaults upon Senior Securities</u>	87
<u>Item 4. (Removed and Reserved)</u>	87
<u>Item 5. Other Information</u>	87
<u>Item 6. Exhibits</u>	88

SIGNATURES 89

EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements of the Company are as follows:

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

Table of Contents

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

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash items	\$ 50,422	\$ 73,019
Interest-bearing deposits	962,711	1,009,470
Cash and cash equivalents	1,013,133	1,082,489
Securities classified as trading	161,000	330,267
Securities classified as available for sale	503,568	605,621
Other investments restricted		15,601
Loans available for sale (\$1,780,486 and \$1,937,171 at fair value at September 30, 2010 and December 31, 2009, respectively)	1,943,096	1,970,104
Loans held for investment (\$35,994 and \$11,287 at fair value at September 30, 2010 and December 31, 2009, respectively)	7,312,226	7,714,308
Less: allowance for loan losses	(474,000)	(524,000)
Loans held for investment, net	6,838,226	7,190,308
Total interest-earning assets	10,408,601	11,121,371
Accrued interest receivable	37,898	44,941
Reposessed assets, net	198,585	176,968
Federal Home Loan Bank stock	373,443	373,443
Premises and equipment, net	233,235	239,318
Mortgage servicing rights at fair value	447,023	649,133
Mortgage servicing rights, net		3,241
Other assets	2,087,366	1,331,897
Total assets	\$ 13,836,573	\$ 14,013,331
Liabilities and Stockholders Equity		
Deposits	\$ 8,561,943	\$ 8,778,469
Federal Home Loan Bank advances	3,400,000	3,900,000
Security repurchase agreements		108,000
Long term debt	248,610	300,182
Total interest-bearing liabilities	12,210,553	13,086,651
Accrued interest payable	18,338	26,086
Secondary market reserve	77,500	66,000
Other liabilities	469,453	237,870
Total liabilities	12,775,844	13,416,607

Commitments and contingencies 21

Stockholders Equity

Preferred stock \$0.01 par value, liquidation value \$1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding at September 30, 2010 and December 31, 2009, respectively	3	3
Common stock \$0.01 par value, 300,000,000 shares authorized; 153,512,990 and 46,877,067 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	1,535	469
Additional paid in capital preferred	247,837	243,778
Additional paid in capital common	1,079,042	447,449
Accumulated other comprehensive loss	(19,484)	(48,263)
Accumulated deficit	(248,204)	(46,712)
 Total stockholders equity	 1,060,729	 596,724
 Total liabilities and stockholders equity	 \$ 13,836,573	 \$ 14,013,331

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

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Unaudited)			
Interest Income				
Loans	\$ 111,744	\$ 136,849	\$ 330,745	\$ 452,233
Securities classified as available for sale or trading	10,968	29,738	47,069	85,873
Interest-earning deposits	504	517	1,628	1,799
Other	1	3	3	28
Total interest income	123,217	167,107	379,445	539,933
Interest Expense				
Deposits	40,270	58,352	123,677	192,248
FHLB advances	39,816	56,116	123,755	170,210
Security repurchase agreements		1,178	2,750	3,497
Long term debt and other	2,017	3,867	8,060	9,638
Total interest expense	82,103	119,513	258,242	375,593
Net interest income	41,114	47,594	121,203	164,340
Provision for loan losses	51,399	125,544	200,978	409,420
Net interest expense after provision for loan losses	(10,285)	(77,950)	(79,775)	(245,080)
Non-Interest Income				
Loan fees and charges	24,365	29,422	60,930	97,366
Deposit fees and charges	7,585	8,438	24,796	23,655
Loan administration	12,924	(30,293)	(15,590)	(20,240)
Gain on trading securities	10,354	21,714	76,702	6,377
Loss on residual and transferors' interest	(4,665)	(50,689)	(11,660)	(66,625)
Net gain on loan sales	103,211	104,416	220,034	404,773
Net loss on sales of mortgage servicing rights	(1,195)	(1,319)	(4,674)	(3,945)
Net gain on securities available for sale			6,689	
Total other-than-temporary impairment gain (loss)		34,100	35,200	(69,533)
Less: portion of other-than-temporary impairment gains (losses) recognized in other comprehensive income before taxes		36,975	38,877	(49,089)
Net impairment loss recognized in earnings		(2,875)	(3,677)	(20,444)
Other fees and charges	(7,691)	(12,582)	(36,333)	(29,189)

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

Total non-interest income	144,888	66,232	317,217	391,728
Non-Interest Expense				
Compensation, commissions and benefits	59,817	68,611	171,944	232,038
Occupancy and equipment	15,757	17,175	47,670	53,553
Asset resolution	34,233	26,811	96,245	69,660
Federal insurance premiums	8,522	7,666	29,209	28,514
Other taxes	1,964	12,944	3,660	15,049
Warrant (income) expense	(1,405)	3,556	(3,664)	27,561
Loss on extinguishment of debt	11,855		20,826	
General and administrative	21,756	30,143	58,985	95,017
Total non-interest expense	152,499	166,906	424,875	521,392
Loss before federal income taxes	(17,896)	(178,624)	(187,433)	(374,744)
Provision for federal income taxes		114,965		55,008
Net Loss	(17,896)	(293,589)	(187,433)	(429,752)
Preferred stock dividend/accretion	(4,690)	(4,623)	(14,059)	(12,464)
Net loss applicable to common stock	\$ (22,586)	\$ (298,212)	\$ (201,492)	\$ (442,216)
Loss per share				
Basic	\$ (0.15)	\$ (6.36)	\$ (1.57)	\$ (16.58)
Diluted	\$ (0.15)	\$ (6.36)	\$ (1.57)	\$ (16.58)

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

Table of Contents

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

	Preferred Stock	Common Stock	Additional Paid in Capital - Preferred	Additional Paid in Capital - Common	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders Equity
Balance at December 31, 2008 (Unaudited)	\$	\$ 84	\$	\$ 119,776	\$ (81,742)	\$ 434,175	\$ 472,293
Net loss						(429,752)	(429,752)
Reclassification of loss on securities available for sale due to other-than- temporary impairment					13,289		13,289
Change in net unrealized loss on securities available for sale					53,682		53,682
Total comprehensive loss							(362,781)
Cumulative effect for adoption of new guidance for other-than-temporary impairments					(32,914)	32,914	
Issuance of preferred stock	6		507,488				507,494
Conversion of preferred stock	(3)	375	(268,574)	268,202			
Issuance of common stock to management		7		5,314			5,321
Reclassification of Treasury Warrants				49,673			49,673
Issuance of common stock for exercise of May Warrants		3		4,373			4,376
Restricted stock issued				(45)			(45)
Dividends on preferred stock						(8,927)	(8,927)
Accretion of preferred stock			3,537			(3,537)	
				658			658

Stock-based compensation							
Tax effect from stock-based compensation				(465)			(465)
Balance at September 30, 2009	\$ 3	\$ 469	\$ 242,451	\$ 447,486	\$(47,685)	\$ 24,873	\$ 667,597
Balance at December 31, 2009	\$	\$ 469	\$ 243,778	\$ 447,449	\$(48,263)	\$ (46,712)	\$ 596,724
(Unaudited)							
Net loss						(187,433)	(187,433)
Reclassification of gain on sale of securities available for sale					(6,689)		(6,689)
Reclassification of loss on securities available for sale due to other-than-temporary impairment					3,677		3,677
Change in net unrealized loss on securities available for sale					31,791		31,791
Total comprehensive loss							(158,654)
Issuance of common stock		1,061		626,441			627,502
Restricted stock issued				(12)			(12)
Dividends on preferred stock						(10,000)	(10,000)
Accretion of preferred stock			4,059			(4,059)	
Stock-based compensation		5		5,164			5,169
Tax effect from stock-based compensation							
Balance at September 30, 2010	\$	\$ 1,535	\$ 247,837	\$ 1,079,042	\$(19,484)	\$(248,204)	\$ 1,060,729

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

Table of Contents

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

	For the Nine Months Ended	
	September 30,	
	2010	2009
	(Unaudited)	
Operating Activities		
Net loss	\$ (187,433)	\$ (429,752)
Adjustments to net loss to net cash used in operating activities		
Provision for loan losses	200,978	409,420
Depreciation and amortization	13,748	17,075
Increase in valuation allowance in mortgage servicing rights	961	3,774
Loss on fair value of residential mortgage servicing rights net of hedging gains (losses)	231,923	91,078
Stock-based compensation expense	5,169	658
Gain on interest rate swap	(728)	(326)
Net loss on the sale of assets	5,908	1,241
Net gain on loan sales	(220,034)	(404,773)
Net loss on sales of mortgage servicing rights	4,674	3,945
Net gain on sale of securities classified as available for sale	(6,689)	
Other than temporary impairment losses on securities classified as available for sale	3,677	20,444
Net gain on trading securities	(76,702)	(6,377)
Net loss on residual and transferor interest	11,660	66,625
Proceeds from sales of loans available for sale	18,019,645	24,267,675
Origination and repurchase of mortgage loans available for sale, net of principal repayments	(18,101,403)	(25,236,411)
Purchase of trading securities	(899,011)	(744,946)
Proceeds from sales of trading securities	1,143,279	1,079,716
Decrease in accrued interest receivable	7,043	5,350
Increase in other assets	(757,727)	(533,774)
Decrease in accrued interest payable	(7,748)	(11,223)
Net tax effect of stock grants issued		465
Increase in liability for checks issued	7,547	9,701
Decrease in federal income taxes payable		(36,527)
Increase in other liabilities	145,914	62,936
Net cash used in operating activities	(455,349)	(1,364,006)
Investing Activities		
Net change in other investments	15,601	(6,987)
Proceeds from the sale of investment securities available for sale	418,178	
Net (purchase) repayment of investment securities available for sale	(124,815)	46,487
Proceeds from sales of portfolio loans	(65,077)	9,184
Origination of portfolio loans, net of principal repayments	25,545	437,396
Investment in unconsolidated subsidiary		1,547
Proceeds from the disposition of repossessed assets	169,063	178,539

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

Acquisitions of premises and equipment, net of proceeds	(7,287)	(9,692)
Proceeds from the sale of mortgage servicing rights	124,729	119,815
Net cash provided by investing activities	555,937	776,289

Financing Activities

Net (decrease) increase in deposit accounts