

FLAGSTAR BANCORP INC
Form 10-Q
May 07, 2018
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 March 31, 2018

OR

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

For the transition period from _____ to _____

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)	

Not applicable

(Former name, former address and formal fiscal year, if changed since last report)

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 90 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

Edgar Filing: FLAGSTAR BANCORP INC - Form 10-Q

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act .

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 May 3, 2018, 57,433,671 shares of the registrant's common stock, \$0.01 par value, were issued and outstanding.

Table of Contents

FLAGSTAR BANCORP, INC.
 FORM 10-Q
 FOR THE QUARTER ENDED MARCH 31, 2018
 TABLE OF CONTENTS

PART I. – FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	
Consolidated Statements of Financial Condition – March 31, 2018 (unaudited) and December 31, 2017 (unaudited)	<u>31</u>
Consolidated Statements of Operations – For the three months ended March 31, 2018 and 2017 (unaudited)	<u>32</u>
Consolidated Statements of Comprehensive Income – For the three months ended March 31, 2018 and 2017 (unaudited)	<u>33</u>
Consolidated Statements of Stockholders’ Equity – For the three months ended March 31, 2018 and 2017 (unaudited)	<u>33</u>
Consolidated Statements of Cash Flows – For the three months ended March 31, 2018 and 2017 (unaudited)	<u>34</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	
<u>Note 1 - Basis of Presentation</u>	<u>35</u>
<u>Note 2 - Investment Securities</u>	<u>35</u>
<u>Note 3 - Loans Held-for-Sale</u>	<u>37</u>
<u>Note 4 - Loans Held-for-Investment</u>	<u>37</u>
<u>Note 5 - Loans With Government Guarantees</u>	<u>44</u>
<u>Note 6 - Variable Interest Entities</u>	<u>44</u>
<u>Note 7 - Mortgage Servicing Rights</u>	<u>45</u>
<u>Note 8 - Derivative Financial Instruments</u>	<u>46</u>
<u>Note 9 - Borrowings</u>	<u>49</u>
<u>Note 10 - Warrants</u>	<u>51</u>
<u>Note 11 - Accumulated Other Comprehensive Income (Loss)</u>	<u>52</u>
<u>Note 12 - Earnings Per Share</u>	<u>52</u>
<u>Note 13 - Stock-Based Compensation</u>	<u>53</u>
<u>Note 14 - Income Taxes</u>	<u>53</u>
<u>Note 15 - Regulatory Matters</u>	<u>53</u>
<u>Note 16 - Legal Proceeding, Contingencies, and Commitments</u>	<u>54</u>
<u>Note 17 - Fair Value Measurements</u>	<u>57</u>
<u>Note 18 - Segment Information</u>	<u>65</u>
<u>Note 19 - Recently Issued Accounting Pronouncements</u>	<u>67</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>4</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>69</u>
Item 4. <u>Controls and Procedures</u>	<u>69</u>

PART II. – OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>70</u>
Item 1A. <u>Risk Factors</u>	<u>70</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>70</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>70</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>70</u>
Item 5. <u>Other Information</u>	<u>70</u>
Item 6. <u>Exhibits</u>	<u>71</u>
<u>SIGNATURES</u>	<u>72</u>

Table of Contents

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The following list of abbreviations and acronyms are provided as a tool for the reader and may be used throughout this Report, including the Consolidated Financial Statements and Notes:

Term	Definition	Term	Definition
AFS	Available for Sale	HELOAN	Home Equity Loan
Agencies	Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association, Collectively	HOLA	Home Owners Loan Act
ALCO	Asset Liability Committee	Home equity	Second Mortgages, HELOANs, HELOCs
ALLL	Allowance for Loan & Lease Losses	HTM	Held to Maturity
AOCI	Accumulated Other Comprehensive Income (Loss)	LIBOR	London Interbank Offered Rate
ASU	Accounting Standards Update	LHFI	Loans Held-for-Investment
Basel III	Basel Committee on Banking Supervision Third Basel Accord	LHFS	Loans Held-for-Sale
C&I	Commercial and Industrial	LTV	Loan-to-Value Ratio
CDARS	Certificates of Deposit Account Registry Service	Management	Flagstar Bancorp's Management
CET1	Common Equity Tier 1	MBIA	MBIA Insurance Corporation
CFPB	Consumer Financial Protection Bureau	MBS	Mortgage-Backed Securities
CLTV	Combined Loan to Value Ratio	MD&A	Management's Discussion and Analysis
Common Stock	Common Shares	MSR	Mortgage Servicing Rights
CRE	Commercial Real Estate	N/A	Not Applicable
DFAST	Dodd-Frank Stress Test	NYSE	New York Stock Exchange
DOJ	United States Department of Justice	OCC	Office of the Comptroller of the Currency
DTA	Deferred Tax Asset	OTTI	Other-Than-Temporary-Impairment
EVE	Economic Value of Equity	QTL	Qualified Thrift Lending
Fannie Mae/FNMA	Federal National Mortgage Association	REO	Real estate and other nonperforming assets, net
FASB	Financial Accounting Standards Board	RWA	Risk Weighted Assets
FDIC	Federal Deposit Insurance Corporation	SEC	Securities and Exchange Commission
FHA	Federal Housing Administration	SFR	Single Family Residence
FHLB	Federal Home Loan Bank	TARP Preferred	Troubled Asset Relief Program Fixed Rate Cumulative Perpetual Preferred Stock, Series C
FICO	Fair Isaac Corporation	TDR	Trouble Debt Restructuring
FRB	Federal Reserve Bank	UPB	Unpaid Principal Balance
Freddie Mac	Federal Home Loan Mortgage Corporation	U.S. Treasury	United States Department of Treasury
FTE	Full Time Equivalent Employees	VIE	Variable Interest Entities
GAAP	United States Generally Accepted Accounting Principles	XBRL	eXtensible Business Reporting Language
HELOC	Home Equity Lines of Credit		

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is Management's Discussion and Analysis of the financial condition and results of operations of Flagstar Bancorp, Inc. for the first quarter of 2018, which should be read in conjunction with the financial statements and related notes set forth in Part I, Item 1 of this Form 10-Q and Part II, Item 8 of Flagstar Bancorp, Inc.'s 2017 Annual Report on Form 10-K for the year ended December 31, 2017.

Certain statements in this Form 10-Q, including but not limited to statements included within the Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements are based on the current beliefs and expectations of our management. Actual results may differ from those set forth in forward-looking statements. See Forward-Looking Statements on page 30 of this Form 10-Q and Part I, Item 1A, Risk Factors of Flagstar Bancorp, Inc.'s 2017 Annual Report on Form 10-K for the year ended December 31, 2017. Additional information about Flagstar can be found on our website at www.flagstar.com.

Where we say "we," "us," "our," the "Company," "Bancorp" or "Flagstar," we usually mean Flagstar Bancorp, Inc. However, in some cases, a reference will include our wholly-owned subsidiary Flagstar Bank, FSB (the "Bank"). See the Glossary of Abbreviations and Acronyms on page 3 for definitions used throughout this Form 10-Q.

Introduction

We are a 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 founded in 1987. We provide commercial and consumer banking services and we are the 5th largest bank mortgage originator in the nation. At March 31, 2018, we had 3,659 full-time equivalent employees. Our common stock is listed on the NYSE under the symbol "FBC." We are considered a controlled company for NYSE purposes, because approximately 62.0 percent of our common stock is owned by MP Thrift Investments, L.P. which is managed by MatlinPatterson, a global asset manager.

We have a relationship-based business model which leverages our full-service bank's capabilities with our national mortgage scale to create and build financial relationships with our customers. Our banking network emphasizes the delivery of a complete set of banking and mortgage products and services. We distinguish ourselves by crafting specialized solutions for our customers, local delivery, high quality customer service and competitive product pricing. Our community bank growth model has focused on attracting seasoned bankers with larger bank lending experience who can attract their preexisting long-term customer relationships to Flagstar. At March 31, 2018, we operated 107 full service banking branches, including 99 throughout Michigan's major markets and eight Desert Community Bank branches in San Bernardino County, California, which we acquired on March 19, 2018. Our branches offer a full set of banking products to consumer, commercial, and government customers.

We originate mortgages through a wholesale network of brokers and correspondents in all 50 states, and our own loan officers from 92 retail locations in 31 states and two call centers, which includes our direct-to-consumer lending team. The Bank has the opportunity to expand correspondent relationships by providing warehouse lending, mortgage servicing and other services. Servicing and subservicing of loans provides fee income and generates a stable long-term source of funding through custodial deposits.

Operating Segments

Our operations are conducted through our three operating segments: Community Banking, Mortgage Originations, and Mortgage Servicing. Additionally, our Other segment includes the remaining reported activities. For additional

information, please see MD&A - Operating Segments and Note 18 - Segment Information.

4

Table of Contents

Selected Financial Ratios

(Dollars in millions, except share data)

Three Months
 Ended March 31,
 2018 2017
 (In millions, except
 per share data and
 percentages)

Selected Mortgage Statistics:

Mortgage rate lock commitments (fallout-adjusted) (1)	\$7,722	\$5,996
---	---------	---------

Mortgage loans sold and securitized	7,247	4,484
-------------------------------------	-------	-------

Selected Ratios:

Interest rate spread (2)	2.54	%	2.49	%
--------------------------	------	---	------	---

Net interest margin	2.76
---------------------	------