FLAGSTAR BANCORP INC
Form 10-Q
October 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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 (State or other jurisdiction of Incorporation or organization)	38-3150651 (I.R.S. Employer Identification No.)
5151 Corporate Drive, Troy, Michigan (Address of principal executive offices)	48098-2639 (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 ý 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 ý 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	ý
Non-accelerated filer	o (Do not check if smaller reporting company)	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 ý.
As of October 28, 2013, 56,123,009 shares of the registrant’s common stock, $0.01 par value, were issued and outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Flagstar Bancorp, Inc.
Consolidated Statements of Financial Condition
(In thousands, except share data)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents		
Cash and cash items (includes $460 and $0 of consolidated VIEs, respectively) (1)	$68,228	$38,070
Interest-earning deposits	2,482,882	914,723
Total cash and cash equivalents	2,551,110	952,793
Trading securities	50,053	170,086
Investment securities available-for-sale	495,423	184,445
Loans held-for-sale (includes $1,826,060 and $2,865,696 measured at fair value, respectively)(2)	1,879,290	3,939,720
Loans repurchased with government guarantees	1,231,765	1,841,342
Loans held-for-investment, net		
Loans held-for-investment ($250,297 and $20,219 measured at fair value which includes $161,762 and $0 of consolidated VIEs, respectively) (1) (2)	4,013,507	5,438,101
Less: allowance for loan losses	(207,000)	(305,000)
Total loans held-for-investment, net	3,806,507	5,133,101
Mortgage servicing rights	797,029	710,791
Repossessed assets, net	66,530	120,732
Federal Home Loan Bank stock	301,737	301,737
Premises and equipment, net	229,117	219,059
Other assets	399,254	508,206
Total assets	$11,807,815	$14,082,012
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$1,002,472	$1,309,649
Interest bearing	5,646,813	6,984,646
Total deposits	6,649,285	8,294,295
Federal Home Loan Bank advances	2,907,598	3,180,000
Long-term debt (includes $112,954 and $0 of consolidated VIEs at fair value, respectively) (1) (2)	360,389	247,435
Representation and warranty reserve	174,000	193,000
Other liabilities ($28,470 and $19,100 measured at fair value and $136 and $0 of consolidated VIEs, respectively) (1) (2)	444,188	1,007,920
Total liabilities	10,535,460	12,922,650
Commitments and contingencies – Notes 8 and 19	—	—
Stockholders' Equity		
Preferred stock $0.01 par value, liquidation value $1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding, respectively	264,726	260,390
Common stock $0.01 par value, 70,000,000 shares authorized; 56,114,572 and 55,863,053 shares issued and outstanding, respectively	561	559
Additional paid in capital	1,478,391	1,476,569
Accumulated other comprehensive income (loss)	4,429	(1,658)

Accumulated deficit	(475,752)	(576,498)
Total stockholders' equity	1,272,355	1,159,362
Total liabilities and stockholders' equity	$11,807,815	$14,082,012

(1) Amounts represent the assets and liabilities of consolidated variable interest entities ("VIEs").
(2) Amounts represent the assets and liabilities for which the Company has elected the fair value option.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Interest Income				
Loans	$75,633	$114,158	$249,312	$343,677
Investment securities available-for-sale or trading	1,465	4,912	5,397	20,333
Interest-earning deposits and other	1,709	672	4,145	1,546
Total interest income	78,807	119,742	258,854	365,556
Interest Expense				
Deposits	10,023	17,819	35,680	55,126
Federal Home Loan Bank advances	24,434	27,091	72,766	81,870
Other	1,665	1,753	4,960	5,270
Total interest expense	36,122	46,663	113,406	142,266
Net interest income	42,685	73,079	145,448	223,290
Provision for loan losses	4,053	52,595	56,030	225,696
Net interest income (expense) after provision for loan losses	38,632	20,484	89,418	(2,406)
Non-Interest Income				
Loan fees and charges	20,876	37,359	84,152	102,116
Deposit fees and charges	5,410	5,255	15,749	15,216
Loan administration	30,434	11,099	86,947	74,997
Gain (loss) on trading securities	13	237	85	(2,023)
Net gain on loan sales	75,073	334,427	357,404	751,945
Net transaction costs on sales of mortgage servicing rights	(1,763)	(1,332)	(10,246)	(4,631)
Net gain on investment securities available-for-sale	—	2,616	—	2,946
Total other-than-temporary impairment (loss) gain	—	—	(8,789)	2,810
Loss recognized in other comprehensive income before taxes	—	—	—	(5,002)
Net impairment losses recognized in earnings	—	—	(8,789)	(2,192)
Representation and warranty reserve – change in estimate	(5,205)	(124,492)	(51,541)	(231,058)
Other non-interest income	9,458	8,568	65,437	28,132
Total non-interest income	134,296	273,737	539,198	735,448

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Non-Interest Expense				
Compensation and benefits	61,552	67,386	209,696	198,776
Commissions	12,099	19,888	44,962	53,193
Occupancy and equipment	18,644	18,833	60,218	54,490
Asset resolution	16,295	12,487	48,661	70,108
Federal insurance premiums	7,910	12,643	26,941	37,071
Loss on extinguishment of debt	—	15,246	—	15,246
Loan processing expense	10,890	15,662	43,390	37,480
Legal and professional expense	19,593	57,209	64,822	87,110
Other non-interest expense	11,453	14,137	30,732	38,261
Total non-interest expense	158,436	233,491	529,422	591,735
Income before federal income taxes	14,492	60,730	99,194	141,307
Provision (benefit) for federal income taxes	220	(20,380)	(5,888)	(19,880)
Net Income	14,272	81,110	105,082	161,187
Preferred stock dividend/accretion (1)	(1,449)	(1,417)	(4,336)	(4,241)
Net income applicable to common stock	$12,823	$79,693	$100,746	$156,946
Income per share				
Basic	$0.16	$1.37	$1.61	$2.63
Diluted	$0.16	$1.36	$1.59	$2.61
Weighted average shares outstanding				
Basic	56,096,376	55,801,692	56,041,844	55,735,095
Diluted	56,541,089	56,233,165	56,458,898	56,083,757

(1) The preferred stock dividend/accretion for the three and nine months ended September 30, 2013 and 2012, respectively, represents only the accretion. On January 27, 2012, the Company elected to defer payment of dividends and interest on the preferred stock.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 (Unaudited)	2012	2013 (Unaudited)	2012
Net income	$14,272	$81,110	$105,082	$161,187
Other comprehensive income, before tax				
Investment securities available-for-sale				
Unrealized gains on investment securities available-for-sale	3,441	12,180	6,087	26,411
Reclassification of gain on sale of investment securities available-for-sale	—	(2,616)	—	(2,946)
Subsequent decreases in the fair value of investment securities available-for-sale previously written down as impaired	—	—	(2,681)	—
Additions for the amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	—	—	8,789	2,192
Total investment securities available-for-sale, before tax	3,441	9,564	12,195	25,657
Deferred tax benefit related to other comprehensive income resulting from the dissolution and sales on investments securities available-for-sale	—	(19,880)	(6,108)	(19,880)
Other comprehensive income, net of tax	3,441	(10,316)	6,087	5,777
Comprehensive income	$17,713	$70,794	$111,169	$166,964

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2011	$254,732	$556	$1,471,463	$ (7,819)	$ (639,216)	$1,079,716
(Unaudited)						
Net income	—	—	—	—	161,187	161,187
Total other comprehensive income	—	—	—	5,777	—	5,777
Restricted stock issued	—	1	(1)	—	—	—
Accretion of preferred stock	4,241	—	—	—	(4,241)	—
Stock-based compensation	—	1	3,918	—	—	3,919
Balance at September 30, 2012	$258,973	$558	$1,475,380	$ (2,042)	$ (482,270)	$1,250,599
Balance at December 31, 2012	$260,390	$559	$1,476,569	$ (1,658)	$ (576,498)	$1,159,362
(Unaudited)						
Net income	—	—	—	—	105,082	105,082
Total other comprehensive income	—	—	—	6,087	—	6,087
Restricted stock issued	—	1	(1)	—	—	—
Accretion of preferred stock	4,336	—	—	—	(4,336)	—
Stock-based compensation	—	1	1,823	—	—	1,824
Balance at September 30, 2013	$264,726	$561	$1,478,391	$ 4,429	$ (475,752)	$1,272,355

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	
Operating Activities		
Net income	$105,082	$161,187
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	56,030	225,696
Depreciation and amortization	17,200	14,774
Loss on fair value of mortgage servicing rights	3,236	165,897
Net gain on loan sales	(357,404)	(751,945)
Net transaction costs on sales of mortgage servicing rights	10,246	4,631
Net gain on investment securities	(85)	(923)
Other than temporary impairment losses on securities classified as available-for-sale	8,789	2,192
Net (gain) loss on transferors' interest	(45,534)	1,771
Proceeds from sales of loans held-for-sale	35,038,925	38,985,990
Origination and repurchase of mortgage loans held-for-sale, net of principal repayments	(32,445,369)	(39,789,896)
Net change in:		
Decrease (increase) in repurchase of mortgage loans with government guarantees, net of claims received	609,577	(31,895)
Decrease (increase) in accrued interest receivable	42,680	(1,258)
Proceeds from sales of trading securities	120,122	141,220
Increase in other assets	(13,141)	(222,898)
Decrease in payable for mortgage repurchase option	(56,978)	(25,828)
Representation and warranty reserve - change in estimate	51,541	231,058
Net charge-offs in representation and warranty reserve	(85,129)	(166,183)
(Decrease) increase in other liabilities	(233,460)	171,707
Net cash provided by (used in) operating activities	2,826,328	(884,703)
Investing Activities		
Proceeds received from the sale of investment securities available-for-sale	—	234,212
Repayment of investment securities available-for-sale	45,769	54,074
Purchase of investment securities available-for-sale	(436,585)	—
Net change from sales of loans held-for-investment	(471,249)	(248,640)
Principal repayments net of origination of portfolio loans	1,551,144	156,320
Proceeds received from the disposition of repossessed assets	83,139	91,580
Acquisitions of premises and equipment, net of proceeds	(27,067)	(22,387)
Proceeds received from the sale of mortgage servicing rights	222,804	24,712
Net cash provided by investing activities	967,955	289,871

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

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	
Financing Activities		
Net (decrease) increase in deposit accounts	(1,645,010)	1,799,181
Net decrease in Federal Home Loan Bank advances	(272,402)	(865,000)
Payment on long-term debt	(7,026)	(25)
Net disbursement of payments of loans serviced for others	(282,968)	(94,013)
Net receipt of escrow payments	11,440	27,028
Net cash (used in) provided by financing activities	(2,195,966)	867,171
Net increase in cash and cash equivalents	1,598,317	272,339
Beginning cash and cash equivalents	952,793	731,058
Ending cash and cash equivalents	$2,551,110	$1,003,397
Supplemental disclosure of cash flow information		
Loans held-for-investment transferred to repossessed assets	$167,898	$328,384
Interest paid on deposits and other borrowings	$109,342	$138,466
Federal income taxes paid	$5,300	$225
Reclassification of loans originated for investment to loans held-for-sale	$542,822	$288,428
Reclassification of mortgage loans originated held-for-sale then to loans held-for-investment	$53,208	$39,788
Mortgage servicing rights resulting from sale or securitization of loans	$323,216	$370,013
Recharacterization of investment securities available-for-sale to loans held-for-investment	$73,283	$—
Reconsolidation of HELOC's of variable interest entities (VIEs)	$170,507	$—
Reconsolidation of long-term debt of VIEs	$119,980	$—

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements (Unaudited)

Note 1 – Nature of Business

Flagstar Bancorp, Inc. ("Flagstar" or the "Company"), the holding company for Flagstar Bank, FSB (the "Bank") is a Michigan-based savings and loan holding company founded in 1993. The Company's business is primarily conducted through its principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. At September 30, 2013, the Company's total assets were $11.8 billion. The Company has the largest bank headquartered in Michigan, one of the ten largest savings banks in the United States.

In preparing these consolidated financial statements, subsequent events were evaluated through the time the financial statements were issued. The consolidated financial statements are considered issued when they are widely distributed to all stockholders and other financial statement users, or filed with the U.S. Securities and Exchange Commission ("SEC"). All material subsequent events have been either recognized in the Consolidated Financial Statements or disclosed in the Notes to the Consolidated Financial Statements.

The primary business of the Company is conducted through the Mortgage Banking segment, in which the Company originates or purchases residential first mortgage loans throughout the country and sells them into securitization pools, primarily to Fannie Mae and Freddie Mac (collectively, government sponsored enterprises or the "GSEs") or as whole loans and generally retains the right to service the mortgage loans that it sells. These mortgage servicing rights ("MSRs") are sold by the Company in transactions separate from the sale of the underlying mortgages. The Company has, from time to time, retained certain loan originations in the held-for-investment portfolio. Mortgage loans are originated through home lending centers, national call centers, the Internet, unaffiliated banks and mortgage brokerage companies. As of September 30, 2013, the Company operated 45 home loan centers in 19 states.

The Company also offers a range of products and services to consumers and businesses through the Community Banking segment. As of September 30, 2013, the Company operated 111 banking centers in Michigan. The Company offers consumer products including deposit accounts, standard and jumbo home mortgage loans, home equity lines of credit ("HELOC") and personal loans, including auto and boat loans. The Company offers commercial loans and treasury management services. Commercial products offered include deposit and sweep accounts, telephone banking, term loans and lines of credit, lease financing, government banking products and treasury management services including remote deposit and merchant services.

The Bank is subject to regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC") of the U.S. Department of the Treasury ("U.S. Treasury"). The Bank is also subject to regulation, examination and supervision by the Federal Deposit Insurance Corporation ("FDIC") and the Consumer Financial Protection Bureau (the "CFPB"). The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund. The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve ("Federal Reserve"). The Bank is also a member of the Federal Home Loan Bank ("FHLB") of Indianapolis.

Note 2 – Basis of Presentation, Accounting Policies and Recent Developments

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. These interim financial statements include all adjustments, consisting of normal recurring accruals that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three and nine months ended September 30, 2013, are not

necessarily indicative of the results that may be expected for any other interim period or for the full year ending December 31, 2013. In addition, certain prior period amounts have been reclassified to conform to the current period presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, which are available on the Company’s Investor Relations web page, at www.flagstar.com, and on the SEC website, at www.sec.gov.

Variable Interest Entities

The accompanying unaudited consolidated financial statements include variable interest entities ("VIEs") in which the Company has determined to have a controlling financial interest. The Company consolidates a VIE if it has: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., the Company is considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments.

A VIE is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. On a quarterly basis, the Company will reassesses whether it has a controlling financial interest in and is the primary beneficiary of a VIE. The quarterly reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances.

The reassessment also considers whether the Company has acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which the Company is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively, with assets and liabilities of a newly consolidated VIE initially recorded at fair value. A gain or loss may be recognized upon deconsolidation of a VIE depending on the carrying amounts of deconsolidated assets and liabilities compared to the fair value of retained interests and ongoing contractual arrangements. The Company primarily uses VIEs for its securitization activities, in which the Company transfers whole loans or debt securities into a trust or other vehicle such that the assets are legally isolated from the creditors of the Company. Assets held in a trust can only be used to settle obligations of the trust. The creditors of these trusts typically have no recourse to the Company except in accordance with the Company's obligations under standard representations and warranties. When the Company is the servicer of whole loans held in a securitization trust, including home equity loans, the Company has the power to direct the most significant activities of the trust. The Company does not have the power to direct the most significant activities of a residential mortgage agency trust unless the Company holds substantially all of the issued securities and has the unilateral right to liquidate the trust. The Company consolidates a whole-loan securitization trust if it has the power to direct the most significant activities and also holds securities issued by the trust or has other contractual arrangements, other than standard representations and warranties, which could potentially be significant to the trust.

As a result of the settlement agreement with Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. ("Assured"), the Company reconsolidated the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts assets and liabilities at June 30, 2013. The Company became the primary beneficiary of the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts because the Company obtained the power to direct the activities that most significantly impact the economic performance of the trusts (power to select or remove the servicer) and the obligation to absorb expected losses and receive residual returns (support of the guarantor and holder of residual interests in trusts), which is reflected in the Consolidated Financial Statements as a VIE. See Note 8 for information on VIEs.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact

on the Consolidated Financial Statements or the Notes thereto or results of operations upon adoption.

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." The guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This guidance is effective retrospectively, for annual and interim periods, beginning after December 15, 2013. The adoption of the guidance is not expected to have a material impact on the Consolidated Financial Statements or the Notes thereto.

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In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective prospectively, for annual and interim periods, beginning after December 15, 2013. The adoption of the guidance is not expected to have a material impact on the Consolidated Financial Statements or the Notes thereto.

Recent Developments

Preferred Stock and Warrant

On December 18, 2012, the U.S. Treasury announced its intention to auction, during 2013, the preferred stock of a number of institutions, including the Company, that the U.S. Treasury purchased in 2009 under the Troubled Asset Relief Program ("TARP") Capital Purchase Program. The auction of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the “Series C Preferred Stock”), closed on March 28, 2013. The U.S. Treasury also auctioned the warrant to purchase up to approximately 645,138 shares of the Company's common stock, par value $0.01 per share (the "Common Stock") at an exercise price of $62.00 per share (the "Warrant"). That auction closed on June 5, 2013. As a result of the auctions, the Series C Preferred Stock and the Warrant, which previously was acquired under the TARP Capital Purchase Program, are now held by third party investors unaffiliated with the U.S. government.

Commercial Loan Sales

Effective December 31, 2012, the Bank entered into a definitive Transaction Purchase and Sale Agreement (the "CIT Agreement") with CIT Bank, the wholly-owned U.S. commercial bank subsidiary of CIT Group Inc. ("CIT"). Under the terms of the CIT Agreement, CIT acquired $1.3 billion in commercial loan commitments, $784.3 million of which was outstanding at December 31, 2012 for a purchase price of $779.2 million. The Company recognized a gain of $1.0 million recorded in "net gain on sale of assets" on the Consolidated Statement of Operations. The loans sold consist primarily of asset-based loans, equipment leases and commercial real estate loans. The sale resulted in a reversal of $12.6 million to the allowance for loan loss associated with such loans and which the reversal was recognized at December 31, 2012.

Effective February 5, 2013, the Bank entered into a definitive Asset and Portfolio Purchase and Sale Agreement (the "Customers Agreement") with Customers Bank ("Customers") located in Wyomissing, Pennsylvania. Under the terms of the Customers Agreement, Customers acquired $187.6 million in commercial loan commitments, $150.9 million of which were outstanding at December 31, 2012. The loans sold consist primarily of commercial and industrial loans. The transaction settled on March 28, 2013 for a purchase price of $148.5 million.

Litigation Settlements

In 2009 and 2010, the Bank received repurchase demands from Assured with respect to HELOCs that were sold by the Bank in connection with the two non-agency HELOC securitizations. On February 5, 2013, the U.S. District Court for the Southern District of New York (the "Court") issued a decision in the lawsuit filed by Assured. The Court found in favor of Assured on its claims for breach of contract against the Bank in the amount of $89.2 million plus

contractual interest and attorneys' fees and costs. On April 1, 2013, the Court issued a final judgment against the Company for a total of $106.5 million, consisting of $90.7 million in damages plus $15.9 million in pre-judgment interest. The Bank filed a notice of appeal later that month. The Court subsequently issued a memorandum order, in which the court reserved the decision regarding attorneys' fees until after the appeal. On June 21, 2013, the Bank entered into an agreement with Assured (the "Assured Settlement Agreement") to settle the litigation and the Bank's pending appeal. Pursuant to the terms of the Assured Settlement Agreement, Assured's judgment against the Bank has been deemed fully satisfied, the Bank's appeal has been dismissed, and, among other consideration and transaction provisions, the Bank has paid Assured $105.0 million. In addition, the Bank has assumed responsibility for future payments due by Assured to noteholders in the Flagstar non-agency HELOC securitization trust (the "FSTAR 2005-1") and Flagstar non-agency HELOC securitization trust (the "FSTAR 2006-2"), (collectively the "HELOC securitization trusts"), and will receive future reimbursements for claims paid to which Assured would otherwise have been entitled. As a result, the Bank recorded a $49.1 million gain during the second quarter 2013, arising from the reconsolidation of the assets and liabilities of the HELOC securitization trusts at fair value and the reversal of related reserves for pending and

threatened litigation. Due to the Assured Settlement Agreement, the Company reconsolidated the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts assets and liabilities at June 30, 2013. The Company subsequently became the primary beneficiary of the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts, which is reflected in the Consolidated Financial Statements as a VIE.

In May 2010, the Bank received repurchase demands from MBIA Insurance Corporation ("MBIA") with respect to closed-end, fixed and adjustable second mortgage loans that were sold by the Bank in connection with its two non-agency second mortgage loan securitizations. On January 11, 2013, MBIA filed a lawsuit against the Bank in the U.S. District Court for the Southern District of New York, alleging a breach of various loan level representations and warranties and seeking relief for breach of contract, as well as full indemnification and reimbursement of amounts that it has paid and will pay under the respective insurance policies, plus interest and costs. In the litigation, MBIA alleged damages to date of $165.0 million and unspecified future damages. In March 2013, the Bank filed a motion to dismiss, and MBIA filed a motion for partial summary judgment on the basis of collateral estoppel. On May 2, 2013, the Bank entered into an agreement with MBIA (the "MBIA Settlement Agreement") to settle the litigation. Pursuant to the terms of the MBIA Settlement Agreement, MBIA dismissed its lawsuit against the Bank and in exchange, among other consideration and transaction provisions, the Bank paid MBIA $110.0 million. Following the MBIA Settlement Agreement, the Flagstar non-agency second mortgage securitization trust (the "FSTAR 2006-1") which was recorded as available-for-sale investment securities, was dissolved and the Company then transferred the loans associated with the securitization to its loans held-for-investment portfolio at fair value, approximately $73.3 million of second mortgage loans, and dissolved the FSTAR 2006-1 mortgage securitization trust. As a result, the Company recognized a $4.9 million loss during the second quarter 2013. In addition, the MBIA Settlement Agreement also noted that MBIA will be required to satisfy all of its obligation under the Flagstar non-agency second mortgage securitization trust (the "FSTAR 2007-1") insurance policy and related FSTAR 2007-1 obligations without further recourse to the Company.

For further information, see Notes 8 and 19.

Note 3 – Fair Value Measurements

The Company utilizes fair value measurements to record certain assets and liabilities at fair value and to determine fair value disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in either case through an orderly transaction between market participants at the measurement date. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Company uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation models rely on market-based parameters when available, such as interest rate yield curves, credit spreads or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions and estimates related to credit quality, the Company's future earnings, interest rates and other relevant inputs. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Valuation Hierarchy

U.S. GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements that is based on the transparency of the inputs used in the valuation process. The three levels of the hierarchy, highest ranking to lowest, are as follows.

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Company can participate as of the measurement date;

Level 2 - Quoted prices for similar instruments in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 - Unobservable inputs that reflect the Company's own assumptions about the expectations that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the overall fair value measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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Assets

Trading securities. These securities are comprised of U.S. government sponsored agency securities, U.S. Treasury bonds and non-investment grade residual securities that arose from securitization trusts of the Company. The U.S. government sponsored agency securities and U.S. Treasury bonds trade in an active, open market with readily observable prices and are therefore classified within the Level 1 valuation hierarchy. The non-investment grade residual securities do not trade in an active, open market with readily observable prices and are therefore classified within the Level 3 valuation hierarchy. Under Level 3, the fair value of residual securities is determined by discounting estimated net future cash flows using expected prepayment rates and discount rates that approximate current market rates. Estimated net future cash flows include assumptions related to expected credit losses on these securities. The Company maintains a model that evaluates the default rate and severity of loss on the residual securities collateral, considering such factors as loss experience, delinquencies, loan-to-value ratios, borrower credit scores and property type.

Investment securities available-for-sale. These securities are comprised of U.S. government sponsored agencies and non-agency collateralized mortgage obligations ("CMOs") and municipal obligations.

- U.S. government sponsored agencies are classified within Level 1 of the valuation hierarchy due to the quoted prices for these securities being available in an active market.
- The quoted market prices are not available for municipal obligations and the fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and those securities are classified within Level 2 of the valuation hierarchy.
- Non-agency CMOs are classified within Level 2 of the valuation hierarchy and were previously classified within Level 3. Non-agency CMOs were transferred from Level 3 to Level 2 during the first quarter 2012 due to increased market liquidity and an increase in the number of available pricing models. The non-agency CMOs are valued based on pricing provided by external pricing services. Previously, the markets were illiquid and fair values were based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, which was the reason for a Level 3 classification. As of September 30, 2012, the Company sold the remaining securities in non-agency collateralized mortgage obligation securities that were related to the investments arising out of strategies to fully utilize available balance sheet leverage capacity.
- The Company determined the fair value of the mortgage securitization, FSTAR 2006-1 mortgage securitization trust, using a discounted estimated net future cash flow model and therefore classified it within the Level 3 valuation hierarchy as the model utilizes significant inputs which are unobservable. As of June 30, 2013, following the MBIA Settlement Agreement, the FSTAR 2006-1 mortgage securitization, which was recorded as available-for-sale investment securities, was collapsed and the Company then transferred the loans associated with the securitization to its loan held-for-investment portfolio at fair value and dissolved the FSTAR 2006-1 mortgage securitization trust.

Loans held-for-sale. The Company generally estimates the fair value of loans held-for-sale based on quoted market prices for securities backed by similar types of loans. Where quoted market prices were available, such market prices were utilized as estimates for fair values. Otherwise, the fair value of loans was computed by discounting cash flows using observable inputs inclusive of interest rates, prepayment speeds and loss assumptions for similar collateral. These measurements are classified as Level 2.

Loans held-for-investment. Loans held-for-investment are generally recorded at amortized cost. The Company does not record these loans at fair value on a recurring basis. However, from time to time, a loan becomes impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Once a loan is identified as impaired, the fair value of the impaired loan is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. The fair value of the underlying collateral is determined, where possible, using market prices derived from appraisals or broker price

opinions which are considered to be Level 3. Fair value may also be measured using the present value of expected cash flows discounted at the loan's effective interest rate. The Company records the impaired loans as a non-recurring Level 3 valuation.

Loans held-for-investment on a recurring basis are loans that were previously recorded as loans held-for-sale but subsequently transferred to the held-for-investment category. As the Company selected the fair value option for the held-for-sale loans, they continue to be reported at fair value and measured consistent with the Level 2 methodology for loans held-for-sale.

As of June 30, 2013, the HELOC securitizations have been reconsolidated such that the HELOC loans associated with the FSTAR 2005-1 and FSTAR 2006-2 securitization trusts have been recorded in the Consolidated Financial Statement as loans held-for-investment, as a result of the Assured Settlement Agreement. These loans are recorded at fair value using the present value of expected cash flows discounted at market rates typical of assets with similar risk profiles. The Company

records these loans as a recurring Level 3 valuation. Included in loans held-for-investment prior to June 30, 2013 was transferors' interest on the HELOC securitization trusts. The Company determined the fair value of transferors' interest based on the claims due to the note insurer and continuing credit losses on the loans underlying the securitizations, which were considered to be Level 3.

Also, included in loans held-for-investment are the second mortgage loans associated with the previous FSTAR 2006-1 mortgage securitization trust. The loans are valued using a discounted estimated net future cash flow model and therefore classified within the Level 3 valuation hierarchy as the model utilizes significant inputs which are unobservable. As of June 30, 2013, following the MBIA Settlement Agreement, the FSTAR 2006-1 mortgage securitization, which was recorded as available-for-sale investment securities, was collapsed and the Company then transferred the second mortgage loans associated with the mortgage securitization to its loans held-for-investment portfolio at fair value and dissolved the FSTAR 2006-1 mortgage securitization trust. The Company records these loans as a recurring Level 3 valuation. See Note 8 - Private-Label Securitization and Variable Interest Entities for additional information.

Repossessed assets. Loans on which the underlying collateral has been repossessed are adjusted upon transfer to repossessed assets to fair value less costs to sell. Subsequently, repossessed assets are carried at the lower of carrying value or fair value, less anticipated marketing and selling costs. Fair value is generally based upon third-party appraisals or internal estimates and considered a Level 3 classification.

MSRs. Although there are MSR sales transacting, the current market for MSRs is not sufficiently liquid to provide participants with quoted market prices for all tranches of MSRs. Therefore, the Company uses an option-adjusted spread valuation approach to determine the fair value of MSRs. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The key assumptions used in the valuation of MSRs include mortgage prepayment speeds and discount rates. Management obtains third-party valuations of the MSR portfolio on a quarterly basis from independent valuation experts to assess the reasonableness of the fair value calculated by its internal valuation model. In certain circumstances, based on the probability of the completion of a sale of MSRs pursuant to a bona-fide purchase offer, the Company considers the bid price of that offer and identifiable transaction costs in comparison to the calculated fair value and may adjust the estimate of fair value to reflect the terms of the pending transaction. Due to the nature of the valuation inputs, MSRs are classified within Level 3 of the valuation hierarchy. See Note 9 - Mortgage Servicing Rights, for the key assumptions used in the residential MSR valuation process.

Derivative financial instruments. Certain classes of derivative contracts are listed on an exchange and are actively traded, and they are therefore classified within Level 1 of the valuation hierarchy. These include U.S. Treasury futures and U.S. Treasury options. The Company's forward loan sale commitments and interest rate swaps are valued based on quoted prices for similar assets in an active market with inputs that are observable and are classified within Level 2 of the valuation hierarchy. Rate lock commitments are valued using internal models with significant unobservable market parameters and therefore are classified within Level 3 of the valuation hierarchy. The Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. The derivatives are reported in either "other assets" or "other liabilities" on the Consolidated Statements of Financial Condition.

Liabilities

Warrants. Warrant liabilities are valued using a binomial lattice model and are classified within Level 2 of the valuation hierarchy. Significant observable inputs include expected volatility, a risk free rate and an expected life. Warrant liabilities are reported in "other liabilities" on the Consolidated Statements of Financial Condition.

Long-term debt. As of June 30, 2013, following the Assured Settlement Agreement, the Company reconsolidated the debt associated with the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts at fair value. The fair value of the debt is estimated using quantitative models which incorporate observable and, in some instances, unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs. The Company also considers the impact of its own credit spreads in determining the discount rate used to value these liabilities. The credit spread is determined by reference to observable spreads in the secondary bond markets, which are considered to be Level 3. The Company records this debt as a recurring Level 3 valuation.

DOJ litigation settlement. On February 24, 2012, the Company announced that the Bank had entered into an agreement (the "DOJ Agreement") with the U.S. Department of Justice ("DOJ") relating to certain underwriting practices associated with loans insured by the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD"). The Bank and the DOJ entered into the DOJ Agreement pursuant to which the Bank agreed to comply

with all applicable HUD and FHA rules related to the continued participation in the direct endorsement lender program, make an initial payment of $15.0 million within 30 business days of the effective date of the DOJ Agreement, make payments of approximately $118.0 million contingent upon the occurrence of certain future events (the "Additional Payments"), and complete a monitoring period by an independent third party chosen by the Bank and approved by HUD. The Company made the initial payment of $15.0 million on April 3, 2012.

The Company elected the fair value option to account for the liability representing the obligation to make Additional Payments under the DOJ Agreement. As of September 30, 2013, the Bank has accrued $28.5 million, which represents the fair value of the Additional Payments. The signed DOJ Agreement establishes a legally enforceable contract with a stipulated payment plan that meets the definition of a financial liability. The Company made the fair value election as of December 31, 2011, the date the Company first recognized the financial instrument in its financial statements.

At September 30, 2013 and December 31, 2012, the cash flows were discounted using a 12.1 percent and 14.9 percent, respectively, discount rate that is inclusive of the risk free rate based on the expected duration of the liability and an adjustment for non-performance risk that represents the Company's credit risk. The model assumes 12 quarters of sustained profitability prior to reversing the valuation allowance associated with the deferred tax asset. The decrease in the discounted cash flow rate is primarily due to the adjustments for non-performance risk that represents the Company's credit risk.

The liability is classified within Level 3 of the valuation hierarchy given the projections of earnings and growth rate assumptions are unobservable inputs. The litigation settlement is included in other liabilities on the Consolidated Financial Statements and changes in the fair value of the litigation settlement will be recorded each quarter in other non-interest expense on the Consolidated Statements of Operations. See Note 19 - Legal Proceedings, Contingencies and Commitments, for further information on the DOJ litigation settlement.

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Assets and liabilities measured at fair value on a recurring basis

The following tables present the financial instruments carried at fair value as of September 30, 2013 and December 31, 2012, by caption on the Consolidated Statement of Financial Condition and by level in the valuation hierarchy.

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2013	(Dollars in thousands)			
Trading securities				
U.S. Treasury bonds	$50,053	$—	$—	$50,053
Investment securities available-for-sale				
U.S. government sponsored agencies	474,681	—	—	474,681
Municipal obligations	—	20,742	—	20,742
Loans held-for-sale				
Residential first mortgage loans	—	1,826,060	—	1,826,060
Loans held-for-investment				
Residential first mortgage loans	—	19,276	—	19,276
Second mortgage loans	—	—	69,259	69,259
HELOC loans	—	—	161,762	161,762
Mortgage servicing rights	—	—	797,029	797,029
Derivative assets				
U.S. Treasury futures	929	—	—	929
Forward agency and loan sales	2,495	—	—	2,495
Rate lock commitments	—	—	64,195	64,195
Interest rate swaps	—	1,411	—	1,411
Total derivative assets	3,424	1,411	64,195	69,030
Total assets at fair value	$528,158	$1,867,489	$1,092,245	$3,487,892
Derivative liabilities				
Agency forwards	—	(69,807)	—	(69,807)
Interest rate swaps	—	(1,411)	—	(1,411)
Total derivative liabilities	—	(71,218)	—	(71,218)
Warrant liabilities	—	(8,232)	—	(8,232)
Long-term debt	—	—	(112,954)	(112,954)
DOJ litigation	—	—	(28,470)	(28,470)
Total liabilities at fair value	$—	$(79,450)	$(141,424)	$(220,874)

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	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2012	(Dollars in thousands)			
Trading securities				
U.S. Treasury bonds	$170,086	$—	$—	$170,086
Investment securities available-for-sale				
Mortgage securitization	—	—	91,117	91,117
U.S. government sponsored agencies	79,717	—	—	79,717
Municipal obligations	—	13,611	—	13,611
Loans held-for-sale				
Residential first mortgage loans	—	2,865,696	—	2,865,696
Loans held-for-investment				
Residential first mortgage loans	—	20,219	—	20,219
Transferors' interest	—	—	7,103	7,103
Mortgage servicing rights	—	—	710,791	710,791
Derivative assets				
U.S. Treasury futures	2,203	—	—	2,203
Rate lock commitments	—	—	86,200	86,200
Agency forwards	3,618	—	—	3,618
Interest rate swaps	—	5,813	—	5,813
Total derivative assets	5,821	5,813	86,200	97,834
Total assets at fair value	$255,624	$2,905,339	$895,211	$4,056,174
Derivative liabilities				
Forward agency and loan sales	$—	$(14,021)	$—	$(14,021)
Interest rate swaps	—	(5,813)	—	(5,813)
Total derivative liabilities	—	(19,834)	—	(19,834)
Warrant liabilities	—	(11,346)	—	(11,346)
DOJ litigation	—	—	(19,100)	(19,100)
Total liabilities at fair value	$—	$(31,180)	$(19,100)	$(50,280)

A determination to classify a financial instrument within Level 3 of the valuation hierarchy is based upon the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 inputs, observable inputs (that is, inputs that are actively quoted and can be validated to external sources). Also, the Company manages the risk associated with the observable components of Level 3 financial instruments using securities and derivative positions that are classified within Level 1 or Level 2 of the valuation hierarchy; these Level 1 and Level 2 risk management instruments are not included below, and therefore the gains and losses in the tables do not reflect the effect of the Company's risk management activities related to such Level 3 instruments. If the market for an instrument becomes more liquid or active and pricing models become available which allow for readily observable inputs, the Company will transfer the instruments from Level 3 to Level 2 valuation hierarchy.

Non-agency CMOs were transferred from Level 3 to Level 2 during the nine months ended September 30, 2012 due to increased market liquidity and an increase in the number of available pricing models. The non-agency CMOs were valued based on pricing provided by external pricing services and were subsequently sold during the third quarter 2012.

Transferor's interest was transferred into Level 3 during the nine months ended September 30, 2012 due to the assumptions utilized in the valuation of the claims to the note insurer and continuing credit losses on the loans underlying the securitization. Transferor's interest was valued based on pricing of the loans underlying the

securitization and were now classified within Level 3 of the valuation hierarchy. As of June 30, 2013, following the Assured Settlement Agreement, the transferor's interest has been reversed and the assets and liabilities of the FSTAR 2005-1 HELOC securitization trust have been recorded on the Consolidated Financial Statements.

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The Company had no transfers of assets or liabilities recorded at fair value between the fair value Levels for the three and nine months ended September 30, 2013, respectively.

Fair value measurements using significant unobservable inputs

The tables below include a roll forward of the Consolidated Statement of Financial Condition amounts for the three and nine months ended September 30, 2013 and 2012 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

		Recorded in Earnings		Recorded in OCI						
Three Months Ended September 30, 2013	Balance at Beginning of Period	Total Unrealized Gains / (Losses)	Total Realized Gains / (Losses)	Total Unrealized Gains / (Losses)	Purchases	Sales	Settlements	Transfers In (Out)	Balance at End of Period	Unrealized Gains / (Losses) Held at End of Period (4)
Assets	(Dollars in thousands)									
Loans held-for-investment										
Second mortgage loans	$73,327	$1,548	$265	$—	$—	$—	$(5,881)	$—	$69,259	$14,192
HELOC loans	170,507	526	2,750	—	96	—	(12,118)	—	161,761	16,020
Mortgage servicing rights	729,019	169	—	—	86,109	—	(18,268)	—	797,029	(67)
Derivative financial instruments										
Rate lock commitments	$(23,746)	$32,390	—	—	$75,433	$(16,804)	$(3,078)	—	64,195	37,441
Totals	$949,107	$34,633	$3,015	$—	$161,638	$(16,804)	$(39,345)	$—	$1,092,244	$67,586
Liabilities										
Long-term debt	$(119,980)	$—	$(5,139)	$—	$—	$—	$12,165	$—	$(112,954)	$—
DOJ litigation	(23,270)	—	(5,200)	—	—	—	—	—	(28,470)	—
Totals	$(143,250)	$—	$(10,339)	$—	$—	$—	$12,165	$—	$(141,424)	$—
Three Months Ended September 30, 2012										
Investment securities available-for-sale (1)(2)(3)										
Non-agency CMOs	$204,326	$—	$—	$—	$—	$(204,326)	$—	$—	$—	$—
Mortgage securitization	100,306	—	—	400	—	(4,598)	—	—	96,108	—
Loans held-for-investment										
Transferors' interest	7,660	75	(118)	—	—	—	—	—	7,617	75
	638,865	(28,762)	—	—	131,837	(9,589)	(45,552)	—	686,799	44,141

Mortgage servicing rights										
Derivative financial instruments										
Rate lock commitments	132,388	255,947	—	—	287,537	(344,909)	(100,913)	—	230,050	85,980
Totals	$1,083,545	$227,260	$(118)	$400	$419,374	$(563,422)	$(146,465)	$—	$1,020,574	$130,196
Liabilities										
DOJ litigation	$(19,100)	$—	$—	$—	$—	$—	$—	$—	$(19,100)	$—

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		Recorded in Earnings		Recorded in OCI						
Nine Months Ended September 30, 2013	Balance at Beginning of Period	Total Unrealized Gains / (Losses)	Total Realized Gains / (Losses)	Total Unrealized Gains / (Losses)	Purchases	Sales	Settlements	Transfers In (Out)	Balance at End of Period	Changes In Unrealized Held at End of Period (4
Assets	(Dollars in thousands)									
Investment securities available-for-sale (1)(2)(3)										
Mortgage securitization	$91,117	$—	$(8,789)	$871	$—	$(73,327)	$(9,872)	$—	$—	$—
Loans held-for-investment										
Second mortgage loans	—	1,548	(6,951)	—	80,543	—	(5,881)	—	$69,259	14,192
HELOC loans	—	526	2,750	—	170,603	—	(12,118)	—	$161,761	16,020
Transferor's interest	7,103	(174)	45,708	—	—	(52,637)	—	—	—	—
Mortgage servicing rights	710,791	84,161	—	—	323,216	(233,742)	(87,397)	—	797,029	63,507
Derivative financial instruments										
Rate lock commitments	86,200	—	(134,162)	—	313,521	(167,292)	(34,072)	—	64,195	(8,686)
Totals	$895,211	$86,061	$(101,444)	$871	$887,883	$(526,998)	$(149,340)	$—	$1,092,244	$85,033
Liabilities										
Long-term debt	$—	$—	$(5,139)	$—	$(119,980)	$—	$12,165	$—	$(112,954)	$—
DOJ litigation	(19,100)	—	(9,370)	—	—	—	—	—	(28,470)	—
Totals	$(19,100)	$—	$(14,509)	$—	$(119,980)	$—	$12,165	$—	$(141,424)	$—
Nine Months Ended September 30, 2012										
Investment securities available-for-sale (1)(2)(3)										
Non-agency CMOs	$254,928	$(2,192)	$330	$17,160	$—	$(249,246)	$(20,980)	$—	$—	$—
Mortgage securitization	110,328	—	—	2,091	—	(16,311)	—	—	96,108	—
Loans held-for-investment										
Transferor's interest	9,594	(1,578)	(118)	—	—	—	(281)	—	7,617	(1,578)
Mortgage servicing rights	510,475	(64,348)	—	—	370,012	(27,791)	(101,549)	—	686,799	(33,032)
Derivative financial instruments										
Rate lock commitments	70,965	490,712	—	—	673,989	(753,822)	(251,794)	—	230,050	92,462

Totals	$956,290	$422,594	$212	$19,251	$1,044,001	$(1,047,170)	$(374,604)	$—	$1,020,574	$57,852
Liabilities										
DOJ litigation	$(18,300)	$—	$(800)	$—						