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<<Danny Tamayo, Analyst, Raymond James>>

Alright, why don't we get started here? Good afternoon. My name is Danny Tamayo and I cover Flagstar Bancorp here at Raymond James. We are excited to have Flagstar at the conference for the second time, this afternoon. Flagstar has been executing on its plan to grow its commercial lending business and diversify its revenues from primarily a mortgage driven platform. With that shift, we believe the bank should see an improvement in its valuation multiples.

Presenting on Flagstar's behalf will be President and CEO, Sandro DiNello, who has been President and CEO since 2013 and has been with the Bank for – I wrote 1994 in here, but I believe you corrected me last year.

<<Alessandro P. DiNello, President, Chief Executive Officer>>

It was 39 years.

<<Danny Tamayo, Analyst, Raymond James>>

Okay. 39 years. We also have with us Dave Urban, Head of Investor Relations. So, with that, I welcome Sandro DiNello to the platform.

<<Alessandro P. DiNello, President, Chief Executive Officer>>

Thank you, Danny. So, first of all we'll start by saying, thank you for coming. I appreciate you taking the time. You could out there watching the news and have the chuckle away. This is not shaping news here, but this is all – in fact you might have missed the latest tweet from the President yesterday. He is good mood here. So, it isn't a shame that someone can write an article or a book. I'm sure you've all heard about the book. Totally made up stories in front of picture of a person that is literally in exact opposite of the fact can get away with it without retribution or cost, don't why Washington politicians don't change liable laws. I'm not sure that book is – maybe it's not all true, but it's certainly not an opposite of who he is. But this is real news about Flagstar Bank and we're real proud about the accomplishments we've made at the company in the last five year.

So, I'll be telling a quick story and then we'll get into the slide. So, five years ago, May of '13, I became the CEO of the company, after a long tenure of being in community banking business and becoming president of the bank that ultimately came together with another Bank to form Flagstar. And when I ultimately became CEO, which was in a really bad time, we went to orders with the CFPB and OCC and the Fed and we just come off with a DOJ settlement, so I had great experience of dealing with all of those situations.

But when I first met Tom Curry, Comptroller of Currency for the first time, he said to me and that was in November of '13, I become CEO in May. He said I know who you are and I know your company, you are number one in our problem list. And I tell you that because when I say we're proud of what we accomplished, we took a company that was literally on the brink of failure that had a bad business model that had been devastated by the crisis and here we are now little over five years later, talking about a very different company and that's where we're going to start out talking – what I'm going to start out talking about is how we're a unique organization.

We're a mid-sized bank, but the difference in that is we're national in our operations. Our interest – our earning assets are derived from businesses that operate on a national basis. That's little bit different. Most mid-sized companies have their geographic area where they have the branches and it is pretty much where their loans come from. But we have national businesses that I'll have an opportunity to touch upon in a couple of minutes.

We also have a servicing business. There is really no other bank in the country that's been trying to grow a servicing business over the last few years. We have done that very successfully. We'll be servicing probably around 700,000 loans by the end of the year and most of those are under sub-servicing agreements and it's a nice fee generating business for us that has very little capital investment.

Then finally, we still have this mortgage business. Those of you that have followed Flagstar for a long time know that that really was what formed Flagstar. We've been in the mortgage business for 30 years amongst the banks. We're still the fifth largest originator in the country and if you think about the four that are larger than us, they are very, very big companies; Wells Fargo, Chase, BofA and U.S. Bank. So, it's very unusual for an $18 billion organization like ours to have such big mortgage operation. But we clearly deemphasize that in terms of the overall revenue of the organization over the last few years and I'll show you some evidence of that.

Disciplined management team. I mean what we've been through has forced us to be disciplined. When you are under all the regulatory orders that have been under, we were forced to build very strong infrastructure, risk and compliance, everything we built, all the different lines of business we built were built while we were under these orders. Regulators don't much build businesses, go into new lines of businesses, and if you under and order, unless you are very confident that you built it the right way. So, that can give you as a potential investor confidence that we're doing things the right way.

From the management perspective we keep adding people. Over the last year, we've added two key people Kristy Fercho who came from the Fannie Mae, 15 years at Fannie Mae come over to be President of the Mortgage business, very highly regarded in nationally in the mortgage business and then most recently Jen Charters who came over from Ally to be our CIO, lot of experience in digital word given that Ally doesn't really have brick and mortar, so that was the right kind of person to bring into our organization as CIO.

Growth opportunities. We've done four acquisitions over the last year and half that were all asset acquisitions because being under the Fed order made it difficult for us to do holding company transactions. All four of those have been done very effectively. Most recently was the acquisition of Desert Community Bank in California where we added eight branches, $600 million of deposits, very low beta, very low cost deposits 22 basis points. But a big deal is coming up here end of November when we close the acquisition 52 branches from Wells Fargo in the Midwest, $2.3 billion of deposits, a 5 basis point cost of funds, virtually no beta. They've been decreased over the last year of 1 basis point in the cost of funds. We model 17% attrition into that deal. We pay the 7% premium if the attrition is 17%, pay that's going to comfortably less than five years. The attrition is less than 17%, it could be a lot quicker than that and our DCB transaction which closed at March we get zero attrition. So, we're confident that the attrition in the Wells Fargo transaction will be less than 17%.

Fundamentally, it's simply a funding play. We're talking $2.3 billion of deposits and paying out $2.3 billion of advances. So, we're moving from 100% beta given the fact that those levels are tied to LIBOR and are costing us over 2.25% to 3% moving at over 5 basis points. So, when you look at the benefit to the Company in terms of margin, it's significant. When you put the two deals together, DCB and Wells, you are talking about $2.9 billion of funding, retail, solid retail, core funding that we've added to the company, 250,000 customers, going – so that takes us from 150,000 retail customers to 400,000 retail customers, between the two deals 60 branches. It's significant transformation of our company. It's accelerating the transformation to more of a commercial bank than a mortgage bank in a critical way than we would have otherwise done it.

Profitable. There is a slide in here you'll see the last six months or the first six months of this year versus the first six months of last year. First six months that we've had an increase year-over-year and 1% ROA, and I think about 10% or 11% ROE you'll see. So, and this is in the face of certainly in my career the toughest mortgage margins that we've seen first six months of this year. Margins are tighter, competition is fierce, a lot of companies just trying to make it through the next day and so there is lot of rationality going out of the business that won't go on further.

And then finally, we think we can make this thing work in any market. We're pretty well balanced from an interest rate risk point of view, slightly asset sensitive, but from a macro point of view, when interest rates are rising can be strong, our banking and our servicing businesses will perform well. When interest rates are declining the mortgage business prospers. So, we think that the business model is pretty resilient to changes in the economy.

It's hard to see on this slide, but this is our footprint, so what's in the dark outlined is where we will have branches once we close the Wells Fargo transaction. The California branches we acquired are there in High Desert, the Red in Michigan are resisting legacy branches and green are the branches that will come over in connection with the Wells Fargo transaction. All these other lighter dots, that are where we have loan production offices around the country, as we do our loan businesses and national and some of these other larger stars I think you can see in our area of operation centers in Seattle and Northern and Southern California and Houston, different parts of the country, so it's clearly a national organization.

I talked about Desert Community Bank. I won't talk about that and our Wells, but Santander warehouse business. We're the fourth largest warehouse lender in the country, so terrific asset. We bought – we had the business, we were eighth or ninth in the country, we bought the Santander business that was fourth in the country. We've been able to grow the balances from Santander form 600 million to 750 million in the few months that we've owned that business from them. This is a high yield more risk business. We love this asset. We now have probably close to 4 billion in commitments in the warehouse business and the acquisition was very effective, because there wasn't a lot of cost associated with it, not a lot of people associated with it, small number of relationship managers, small number of operations people, but a big number in terms of balances that brought over and it helped us continue, they drove the community bank.

And when you look at the growth opportunities of the Company and we are very, very diversified in our lines of business. So, if you look at our balance sheet, you go from top to bottom, so, it's a traditional investment portfolio, of couple of billion maybe $2.5 billion, at a given point in time. We have mortgages that we put on the balance sheet, because we have such a big origination network, we can be selective about mortgages that we like from both a credit and yield perspective and put those on the balance sheet when it make sense. We have the held available for sale portfolio from our mortgage business, so we have portfolio of anywhere from $3 billion to $5 billion of loans that are in the process of being sold to Fannie, Freddie of Ginnie.

We have a lot of flexibility in that balance. Every day we extend the deliveries of our loans, adds $150 million to our balance sheet every day we contract, it uses our balance sheet by $150 million, so we have the ability to adjust our assets to where we want it to be given what's going on in the rest of our funding businesses and the arbitrage on that portfolio is very strong, because you are earning the no-rate while it's in your portfolio, which 4.5%-plus today and we're funding that principally with our custodial deposits from our servicing businesses which cost LIBOR minus something. So, it's very effectively to manage the size of balance sheet.

And when you get into the commercial businesses, we have a standard C&I which is strictly where we have our footprint, so we love to do C&I outside of our branch footprint, where we do CRE nationally, we have people around the country, we have customers that have based in our own states that have had businesses in other parts of the country, so we followed them there. We have a very robust home builder finance business that now totals over $0.5 billion in outstanding. That's a very high return business, because there is not a lot of liquidity in that business around the country. We've lifted out the group of Texas Capital and they've been able to bring their customers over to Flagstar slowly but surely, we're retiring.

We also had the warehouse business I talked about earlier and then a lot of other ancillary commercial businesses like in the MSR lending where we're seeing advanced lending, things that are complementary to our mortgage business and of course we hold MSR asset where we hold that generally add about 28% of capital, but now is a little negative capital implication there because of the Basel rules, but there is a rule that you might be familiar with and raise that 125%. So, we pick up some capital when that happens.

On the mortgage side, servicing is really where the big play is for us now, where we've grown our servicing portfolio to almost 700,000 loans as I mentioned earlier. Every 100,000 loans adds about $6 million in net revenue after all direct allocations. And it allows us to dispose off our MSRs more effectively. If you are originating as much as we're originating, given the size of our balance sheet, we have to dispose off MSRs on a regular basis. So, it's that's very strong relationships with a number of different MSR owners around the country, so this year we've been able to sell 100% of our MSRs to these fund purchasers, all of which have been under sub servicing arrangements. So, we keep the servicing, charge a fee for that, low capital investment and it increases our fee income over time. So, that is a business we're going to continue to grow. We've got ability to grow it to about 1 million right now. We're building the infrastructure. That allows to take that to about 1.5 billion of loans.

This is a really important slide. This shows you how we've grown the banking business over time. This is net interest income and this line they have on the bars interest earning assets. This is the story here, we've been growing the banking business gradually, slowly but surely effectively, very safely and quality of the company is very high. There is absolutely no credit issues. This shows you the growth of the servicing portfolio. That's the number of loans. It will be 700,000 by the end of the year. These are deposits that we did out in servicing business, $1.6 billion, a fairly cost effective deposit, all things considered.

Here is the financial performance slide. I wanted you to see. In the top line you can see that over this – first six months of this year versus the first six months of last year, we've grown the banking revenue from $119 million to $160 million, so 34%. Mortgage has grown little bit, 5%, servicing has grown 16% and Other 10%. Overall 15% growth in revenue year-over-year. You can see the returns almost 1%, 0.97% for the first six months of this year, almost 12% on the ROE and this is in the case of a really lousy mortgage business. So, when the mortgage business gets back and to what I call the equilibrium and the capacity and production, more aligned, you'll see that it performs out the mortgage business.

What are our targets? Well, continue to do what we're doing in banking. We've been growing at a 20% CAGR over the last few years. Our intention is to continue growing at that pace in the banking business. Second is in the servicing business, continue to do what we've been doing in that business. It's – our quality is very high. We have – we won the Fannie Mae STAR Servicer award two years in a row, we have very low problem ratio with the FHA, I'm forgetting the term right now – compare ratio with the FHA. So, quality is not a problem whatsoever. Financial performance the targets are 1.1 to 1.7 on ROA and we're working on our three year strategic plan right now. They will put us in that range of 12% to 17% on equity. I know those are lofty targets, but that's how we think about bringing the return to our shareholders is by being at the top of market.

Capital. Solid capital position, we're in the mid 8s – 8.7 and Tier 1 leverage. Two areas that are going to bring a lot of capital to the bank, look at the last two bullet points, one is form Capital Simplification, that is about 15 basis point there, another 30 basis points in NOLs, so from capital perspective, we can grow the company easily $5 billion without raising any capital or diluting our shareholders in anyway.

So here is the value story. We're trading at 74% to 75% of peers, both on price to book and price to earnings ratio. We got that up to 95% close to the end of last year on the earning side. We are concerned about mortgage headwinds, our stock price performed very positively right after the Wells announcement, jumped up to 37.75. Came down after we had our private equity partner did a secondary sold shares, and went off at 34.50 and kind of hanging around that number we're little bit below it right now since the secondary took place. So, we think there is value opportunity right now, and timing of being at this conference couldn't be better.

So, wrap it up, I had to run this real quickly, but again you see that as a mid-sized bank, there is a lot of things here that are different of other mid-sized banks. So, you've got understand the story, got to take some time to dig into it. This certainly isn't enough for 20 minutes that I have with you here. But if you are interested to speak all by it, we'd love to have a separate conversation with you, if you not on a schedule today and I'm happy to do that by phone or whether we do in ideal roadshow and kind of see you the next time when we're here.

We're also going to justify – try to tell you more specifically about why we think there are growth opportunities and talk about profitability of the company and hope you understand why a little bit better why we feel like we can operate profitably in any economic environment.

So with that, I think I'm about where I'm supposed to be time wise. And Q&A. We got few minutes for Q&A, if anybody wants to ask something.

Q&A

<Q – Unidentified Analyst>: [Question Inaudible].

<A – Alessandro P. DiNello>: Okay, so question is on the warehouse side, how many relationships do we have? So, I'm going to give you a split answer. I'll tell you about the – the legacy Flagstar and then the Santander, because they are kind of different. So, the legacy Flagstar warehouse business has been around for 20 years, 22 years probably.

That has right now about, let's call $800 million or at the end of the June $800 million or so of outstanding, and probably was about 250 relationships. So you'll have to do the math on that in terms of the average. But the large small companies that we have become correspondents that we are brokers and we have to become correspondents. So there is a lot of $1 million, $2 million, $3 million lines there, but there are also lines that get up to $100 million.

Santander was very different. It was targeted towards very large originators. So the $600 that came over from there was probably only 50 customers, so a very different profile. Now the spreads under Santander's business is a little bit less than it spreads on the legacy Flagstar business, but in both cases the overall returns are very strong. You add in the fees because every time there is a draw, there's a fee, and of course there is no losses in that business. Credit losses for us and Santander, we've been in the business, 1 or maybe 1.5 basis points. So there is no credit risk. There is little bit of fraud that we are careful of, but we've been able to avoid that so far. Was there a question back there? Did that answer your question?

<Q – Unidentified Analyst>: Sandro, as it relates to the pending Wells Fargo branch acquisition. Can you guys see on a daily or weekly basis where the level of deposits are, and what the cost of those deposits are?

<A – Alessandro P. DiNello>: The question is can we monitor what's going on with the Wells' deposits that we're purchasing. Not day-to-day data, but we do know that as of June – at the end of June, which is the most recent data that we have, it was about the same in terms of the balance, say within $10 million, so very, very stable balances. And the costs of funds maybe went up by 0.5 basis points in that period of time, so very stable which we were hopeful would be the case. The premium that we are paying, 7% premium we are paying is based on deposits on the day of close. So it's a good sign that we haven't seen any exit as of yet. Any other questions?

<Q – Danny Tamayo>: So you came out, you removed from the Supervisor Agreement with Fed that was a few weeks ago. Can you talk about the implications of that and particularly around Capital One?

<A – Alessandro P. DiNello>: I mentioned the orders on various regulatory advisors earlier, and as Danny points out the Fed Supervisor Agreement, which is actually the oldest one that was executed back in 2011 I think. It was just released by the Fed recently. So what does that mean? It means well they are pretty slow. Number two, it means that from a holding company perspective, the Fed is a holding company regulator. It now allows us to apply for dividends, stock repurchases, any capital raises we may want to do in the way that doesn't require extra oversight or approvals. So, basically, the normal process for one of those transactions as we file the documents that you need to file is pitted. They know it's pitted. If they have an issue, they're like now in 30 days, and if we don't hear from them, you just go.

Previously it would take months to get something like something simple approved and you might not even get it approved. So there is a lot more strategic flexibility at the holding company level. I also think that reputation was important because you are as an investor would ask why we sold. Why are they still – got this order? What is there you are not telling us?

You know what problem are they concerned about? So, just getting that off done with I think is an important message. And then you know, we're – I'm not a big – I don't have the big interest in buying banks. I like what we are doing with Wells Fargo a lot better because we are the very strong asset generating organization. And why should I buy a whole bank and take on all of that risk associated with that when I can do what we are doing here.

Now if I want to buy a bank, before I couldn't, now I can, so that is an option. I want to emphasize how important it's for us to have opportunities like the DCB and Wells acquisitions because we do have a very strong asset generating company because we've been able to hire a lot of really good bankers into our company from all over the country. And it's a story that keeps developing because bankers come, they like working at Flagstar, they tell friends of theirs in the business. They want to come to Flagstar. We actually get call from people and say, we had a group that's interested coming to Flagstar. So, if we can do what we're doing here, which is use Federal Home Loan Bank to fund asset growth and they go and buy deposits and move that funding from advances to retail deposits. And they go do it again, increase loans again by $1 billion, and they go buy deposits again.

And I think that – I actually think there is going to be these opportunities, going forward I think some of the biggest banks like Wells, like perhaps others like Citi may look in to divest themselves of branch networks and non-strategic areas that we would view as areas we love. So we did DCB very seamlessly, no attrition. We're going to do the same thing with Wells. We hopefully love alteration and I think that allows us to have opportunities to do that in the futures as well.

<Q – Danny Tamayo>: So the State of Michigan seems to be in a pretty good place economically, I've pointed down your 4% manufacturing payrolls been relatively strong. Can you describe the attitude or the environment around what you're commercial clients are feeling?

<A – Alessandro P. DiNello>: So our C&I business is largely Michigan and we can stay out of the auto area because we have enough risk in all of this because we are in Michigan. But from a real estate development and investment point of view, as well as manufacturing, it's very, very bullish right now. And we are getting lots of opportunities for good solid deals. Where we build our companies, we make sure as I said earlier we get the right people to come to the organization, and then you got to get the right borrowers. When you have good people that are going to work with you if they bump into a problem, we are going to have a downturn at some point in time. And what sets banks apart during that – when that happens, is the quality of partners.

It's more important than the collateral that you have or their business is who they are, their character and we are very, very disciplined in that regard. We do not lend the people who have a history, if they had any history of not dealing with their banks in the right way. He did at once, I am concerned he might do it again, and so we just stay away from that. So in Michigan and really across the country, but certainly Michigan there is a lot of history there, right, lot of history whether you – in terms of how you behaved with your financial institutions. And we are making sure we're doing business with the right people.

So we're going to have a downturn at some point, but we're pretty comfortable where we sit in that regard because of not only the borrowers that we have, but we didn't mention in the presentation, but our allowance coverage is one of the highest in the mid-sized bank growth. I mean it's basically almost 100 basis points and if you take warehouse out of it, it's just a strong allowance coverage ratio. It's criticized a little bit over the years for not releasing some of that for being too conservative, but I believe it's going to prove out to be the right strategy and whether it's because we have a downturn or just because of what's going to happen with sea salt. We were going to be in a position where we are more protective in that respect.

<Q – Danny Tamayo>: We have time for one more.

<<Alessandro P. DiNello, President, Chief Executive Officer>>

Anybody else? Right. We're going to stay on the stock right now. So, buy one of the stocks. Thanks for coming. I appreciate it very much.