

Flagstar Bank

2nd Quarter 2014 Earnings Presentation

July 23, 2014

Cautionary Statement

2nd Quarter 2014 Earnings Presentation

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

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

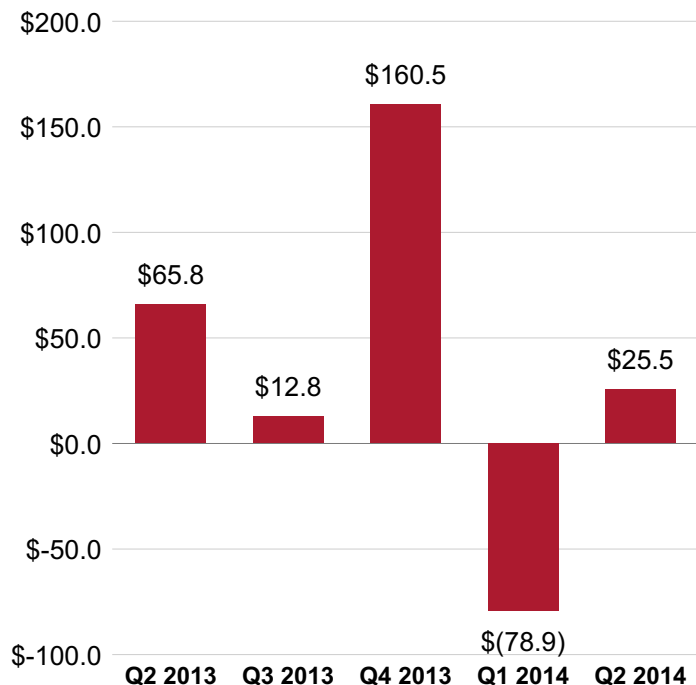
1. General business and economic conditions, including unemployment rates, movements in interest rates, the slope of the yield curve, any increase in mortgage fraud and other related activity and the further decline of asset values in certain geographic markets, that affect us or our counterparties;
2. Volatile interest rates, and our ability to effectively hedge against them, which could affect, among other things, (i) the mortgage business, (ii) our ability to originate loans and sell assets at a profit, (iii) prepayment speeds, (iv) our cost of funds and (v) investments in mortgage servicing rights;
3. The adequacy of our allowance for loan losses and our representation and warranty reserves;
4. Changes in accounting standards generally applicable to us and our application of such standards, including in the calculation of the fair value of our assets and liabilities;
5. Our ability to borrow funds, maintain or increase deposits or raise capital on commercially reasonable terms or at all and our ability to achieve or maintain desired capital ratios;
6. Changes in material factors affecting our loan portfolio, particularly our residential mortgage loans, and the market areas where our business is geographically concentrated or further loan portfolio or geographic concentration;
7. Changes in, or expansion of, the regulation of financial services companies and government-sponsored housing enterprises, including new legislation, regulations, rulemaking and interpretive guidance, enforcement actions, the imposition of fines and other penalties by our regulators, the impact of existing laws and regulations, new or changed roles or guidelines of government-sponsored entities, changes in regulatory capital ratios, and increases in deposit insurance premiums and special assessments of the Federal Deposit Insurance Corporation;
8. Our ability to comply with the terms and conditions of the Supervisory Agreement with the Board of Governors of the Federal Reserve and the Bank's ability to comply with the Consent Order with the Office of Comptroller of the Currency, and our ability to address matters raised by our regulators, including Matters Requiring Attention and Matters Requiring Immediate Attention, if any;
9. The Bank's ability to make capital distributions and our ability to pay dividends on our capital stock or interest on our trust preferred securities;
10. Our ability to attract and retain senior management and other qualified personnel to execute our business strategy, including our entry into new lines of business, our introduction of new products and services and management of risks relating thereto, and our competing in the mortgage loan originations and mortgage servicing and community banking lines of business;
11. Our ability to satisfy our servicing and sub-servicing obligations and manage repurchases and indemnity demands by mortgage loan purchasers, guarantors and insurers;
12. The outcome and cost of defending current and future legal or regulatory litigation, proceedings or investigations;
13. Our ability to create and maintain an effective risk management framework and effectively manage risk, including, among other things, market, interest rate, credit and liquidity risk, including risks relating to the cyclicity and seasonality of our mortgage banking business, litigation and regulatory risk, operational risk, counterparty risk and reputational risk;
14. The control by, and influence of, our majority stockholder;
15. A failure of, interruption in or cybersecurity attack on our network or computer systems, which could impact our ability to properly collect, process and maintain personal data and system integrity with respect to funds settlement;
16. Our ability to meet our forecasted earnings such that we are able to realize the benefits of reversing our deferred tax allowance, or the need to increase the valuation allowance in future periods;
17. Our compliance with the terms and conditions of the agreement with the U.S. Department of Justice and the impact of compliance with that agreement and our ability to accurately estimate the financial impact of that agreement, including the fair value and timing of the future payments; and
18. The downgrade of the long-term credit rating of the U.S. by one or more ratings agencies could materially affect global and domestic financial markets and economic conditions.

All of the above factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such factor on our business.

Although we believe that these forward-looking statements are based on reasonable estimates and assumptions, they are not guaranties of future performance and are subject to known and unknown risks, uncertainties, contingencies and other factors. Accordingly, we cannot give you any assurance that our expectations will in fact occur or that actual results will not differ materially from those expressed or implied by such forward-looking statements. In light of the significant uncertainties inherent in forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

Net Income (Loss) to Common Stockholders

(in millions)



- Net income applicable to common stockholders of \$25.5 million, as compared to a loss of \$78.9 million in prior quarter
 - Net interest income increased to \$62.4 million from \$58.2 million, with Bank's net interest margin increasing to 3.06 percent from 3.05 percent in the prior quarter.
 - Provision for loan losses declined to \$6.2 million from \$112.3 million in the prior quarter.
 - Noninterest income increased to \$102.5 million from \$75.0 million in the prior quarter.
 - Net gain on loan sale increased 20.8 percent to \$54.8 million, as compared to \$45.3 million in the prior quarter.
 - Noninterest expense declined to \$121.4 million from \$139.3 million in the prior quarter.

Summary of Financial Results

2nd Quarter 2014 Earnings Presentation

(in millions, except per share data)

	Q2 2014	Q1 2014	Q2 2013
Net interest income	\$ 62.4	\$ 58.2	\$ 47.1
Provision	\$ 6.2	\$ 112.3	\$ 31.6
Loan fees and charges	\$ 25.3	\$ 12.3	\$ 29.9
Net gain on loan sale	\$ 54.8	\$ 45.3	\$ 144.8
Loan administration	\$ 13.9	\$ 19.6	\$ 36.2
Total noninterest expense	\$ 121.4	\$ 139.3	\$ 174.4
Net income (loss) applicable to common shareholders	\$ 25.5	\$ (78.9)	\$ 65.8
Diluted earnings (loss) per share	\$ 0.33	\$ (1.51)	\$ 1.10
Net interest margin - bank only	3.06%	3.05 %	1.72%
Net interest margin - consolidated	2.98%	2.97 %	1.66%
Mortgage rate lock commitments (fallout adjusted)	\$ 6.7	\$ 4.9	\$ 9.8
Mortgage originations	\$ 6.0	\$ 4.9	\$ 10.9
Gain on loan sale margin (fallout adjusted)	0.82%	0.93 %	1.47%
Total assets	\$ 9,933.1	\$ 9,611.4	\$ 12,735.0
Total stockholders' equity	\$ 1,385.7	\$ 1,351.3	\$ 1,253.7
Return on average assets	1.04%	(3.39)%	2.03%
Return on average equity	7.38%	(21.85)%	21.23%
Book value per common share	\$ 19.90	\$ 19.29	\$ 17.66
NPAs / Total assets (Bank)	1.54%	1.49 %	2.71%
ALLL / NPLs ⁽¹⁾	263.1%	286.9 %	94.2%
NPAs / Tier 1 Capital + Allowance for loan losses ^{(1) (2)}	10.2%	9.8 %	21.1%
Tier 1 leverage to adjusted assets ratio	12.52%	12.44 %	11.00%
Tier 1 leverage (estimated under Basel III) ⁽²⁾	11.44%	10.94%	N/A
Total risk based capital ratio	25.05%	24.93 %	25.01%
Total equity / Total assets	13.95%	14.06 %	9.84%
MSR to Tier 1 Capital ⁽²⁾	24.3%	28.1 %	52.4%

(1) Excludes loans carried under the fair value option.

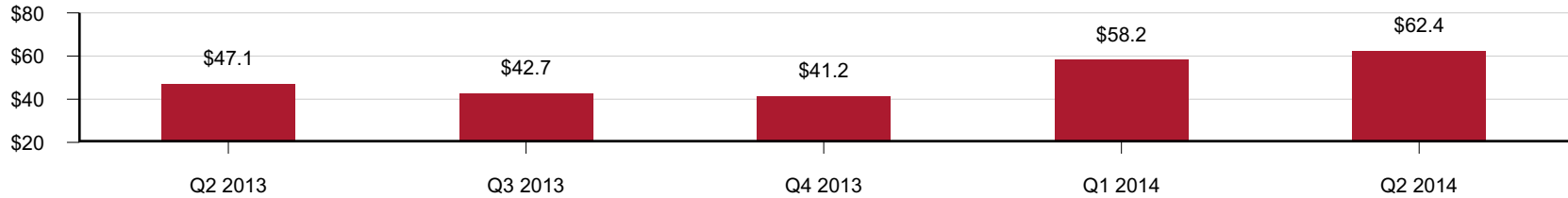
(2) See Non-GAAP reconciliation.

Net Interest Income and Margin Trends

2nd Quarter 2014 Earnings Presentation

Net Interest Income and Margin

(in millions)

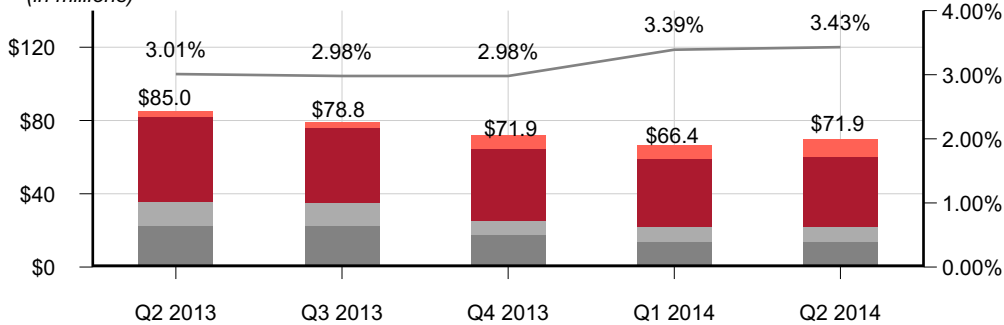


Net Interest Income

	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Net interest margin (Bank)	1.72%	1.68%	1.80%	3.05%	3.06%

Interest Income

(in millions)

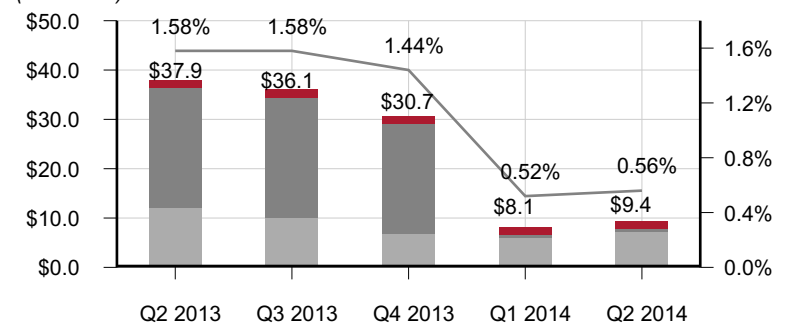


■ Other Interest Income ■ HFI Interest Income
■ Repurchased w/ Gov't Guarantees ■ HFS

— Avg. Yield on Interest Earning Assets

Interest Expense

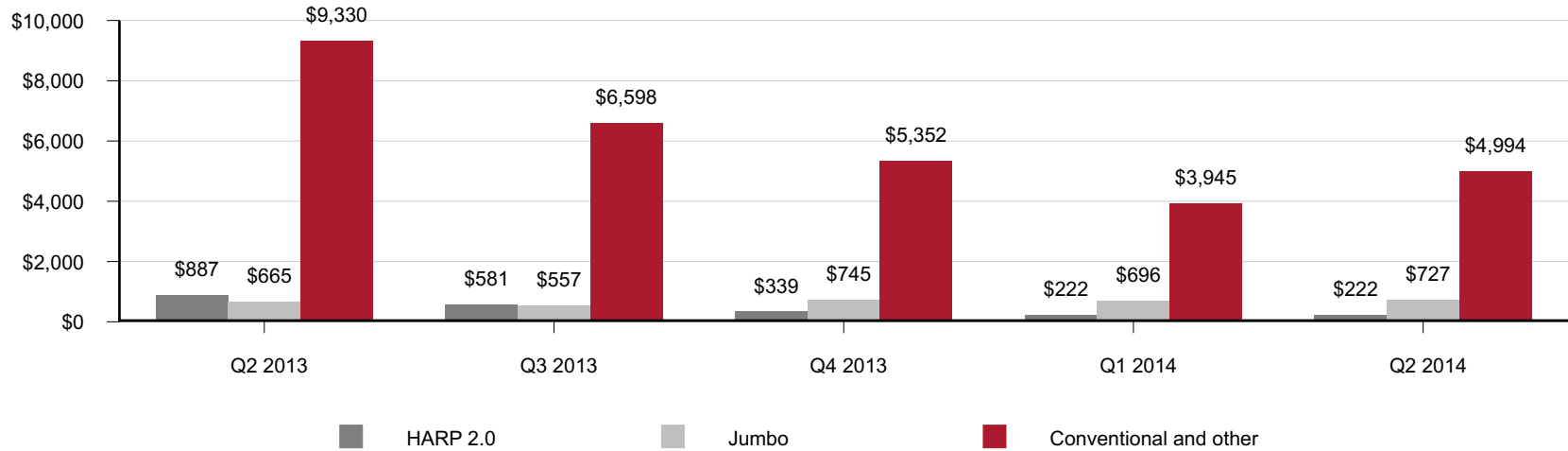
(in millions)



■ Other ■ FHLB
■ Deposits — Avg. Cost of Funds

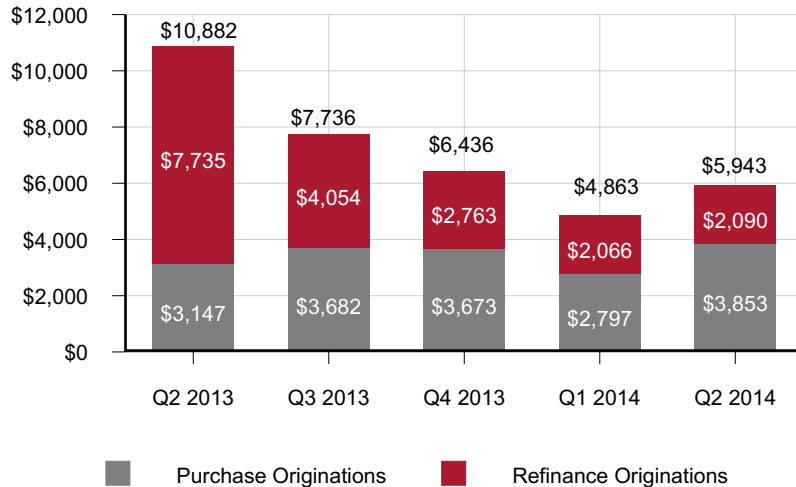
(in millions)

Residential First Mortgage Origination Breakout



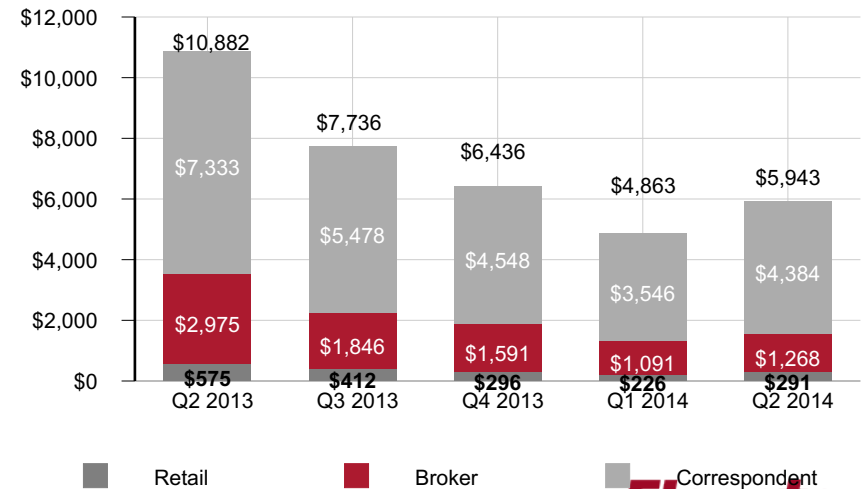
By Product

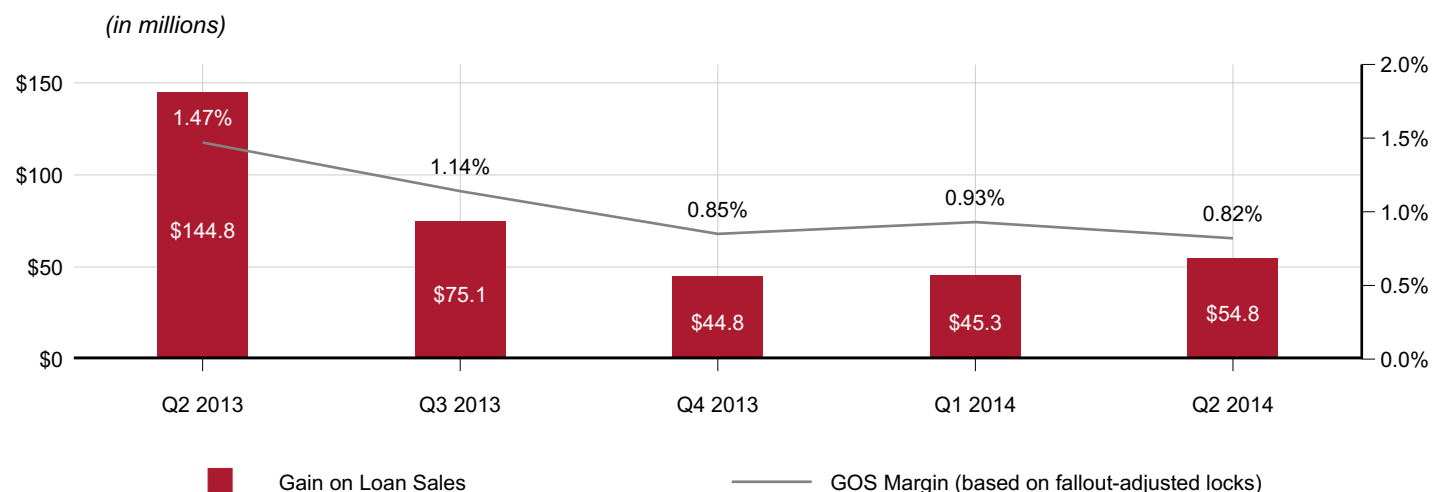
(in millions)



By Channel

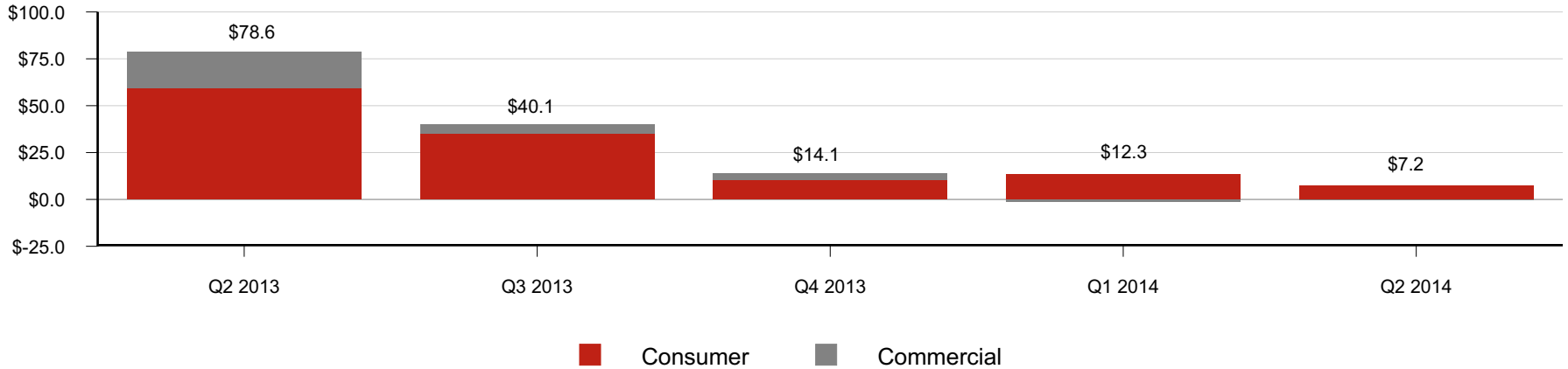
(in millions)



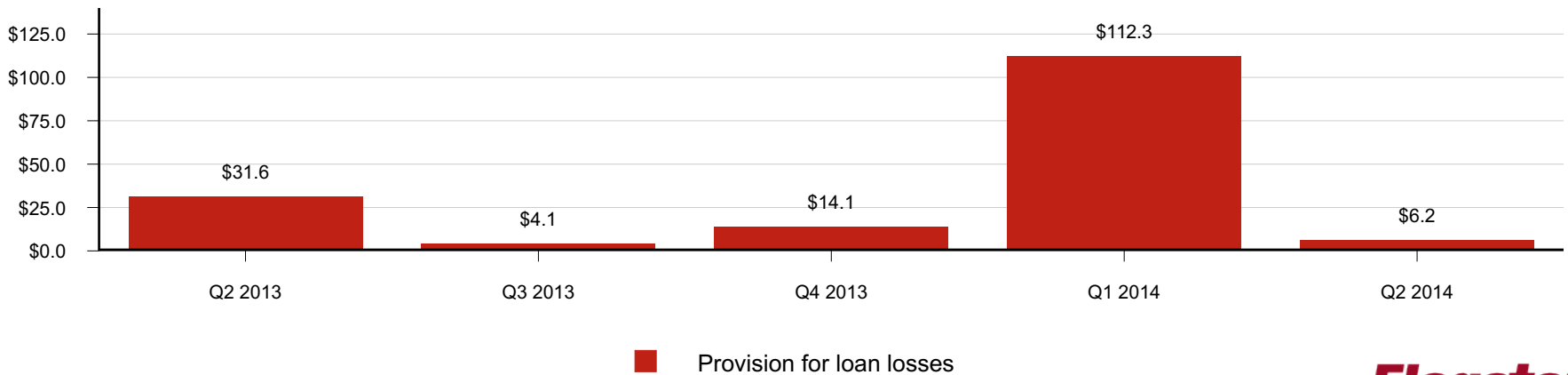


	<u>Q2 2013</u>	<u>Q3 2013</u>	<u>Q4 2013</u>	<u>Q1 2014</u>	<u>Q2 2014</u>
Fallout adjusted mortgage locks (billions)	\$9.8	\$6.6	\$5.3	\$4.9	\$6.7
Net margin (fallout adjusted)	1.47%	1.14%	0.85%	0.93%	0.82%
Loans sales and securitizations (billions)	\$11.1	\$8.3	\$6.8	\$4.5	\$6.0
Net margin (loan sales)	1.30%	0.90%	0.66%	1.01%	0.91%
Gross mortgage locks (billions)	\$12.4	\$8.3	\$6.5	\$6.0	\$8.2
Mortgage originations (billions)	\$10.9	\$7.7	\$6.4	\$4.9	\$6.0

Net Charge-offs

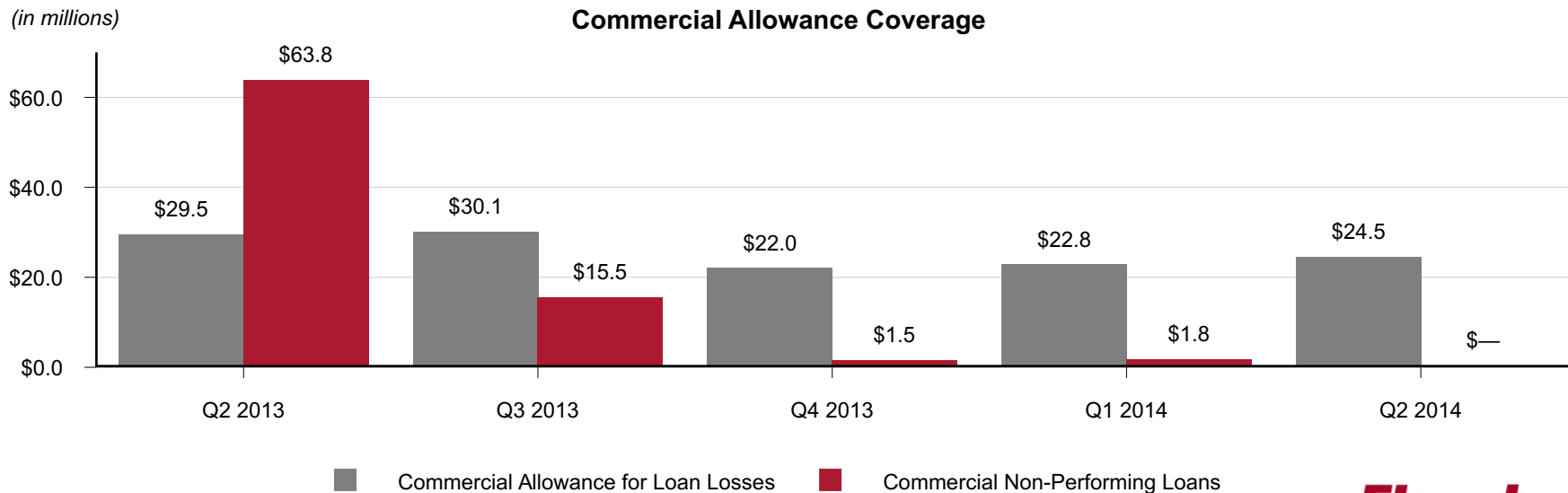
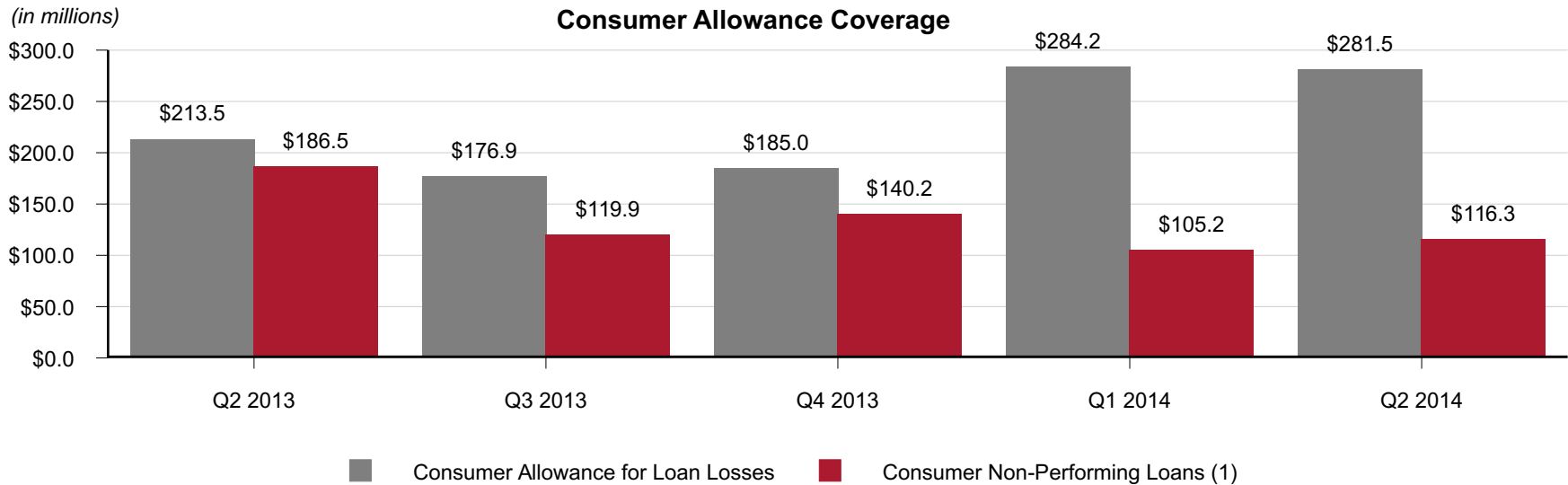


Provision for Loan Losses



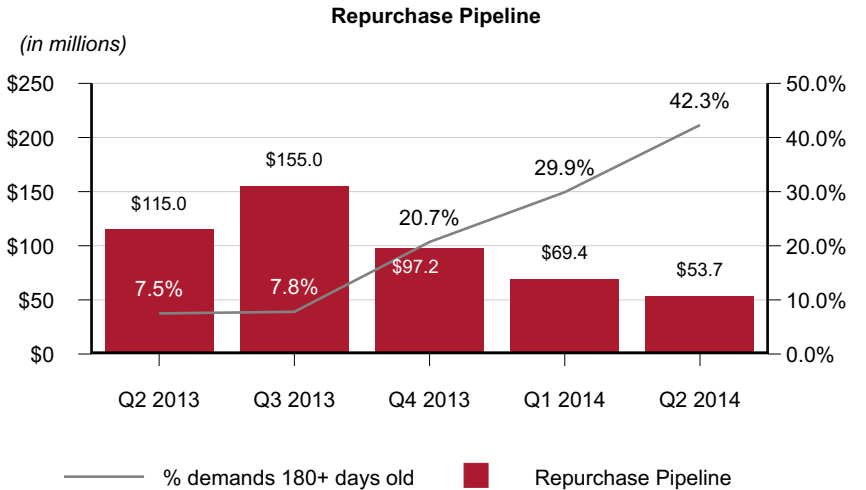
Strong Allowance Coverage

2nd Quarter 2014 Earnings Presentation

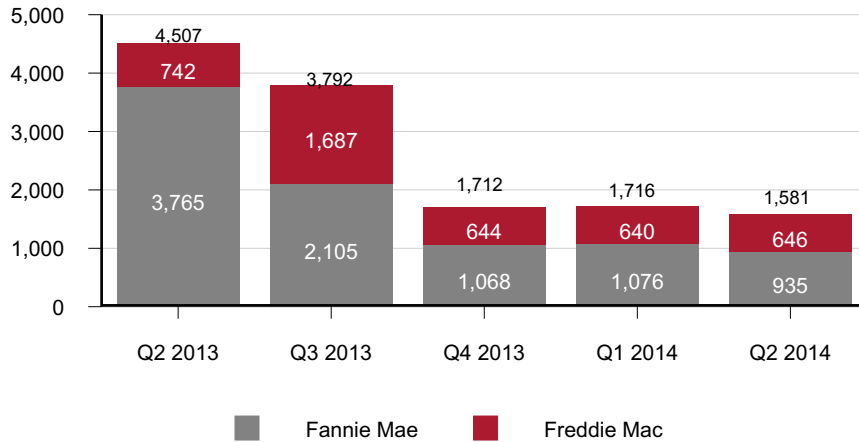


(1) Excludes loans carried under the fair value option.

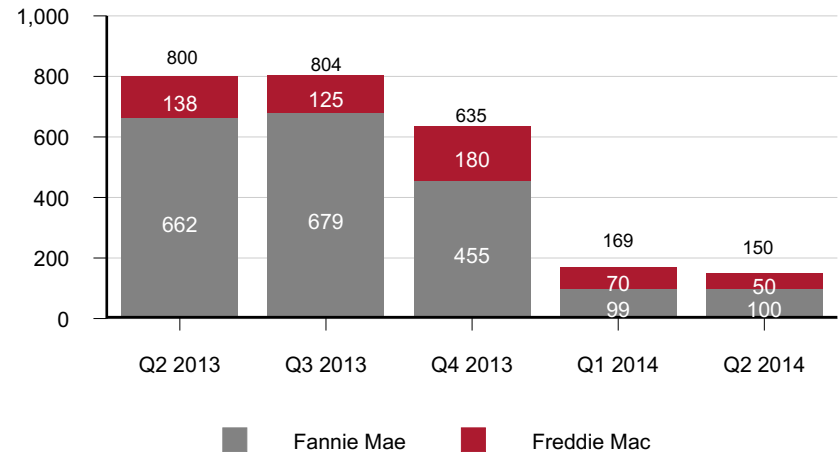
(in millions)	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Beginning balance	\$185.0	\$185.0	\$174.0	\$54.0	\$48.0
Additions	\$34.0	\$8.9	\$(12.4)	\$(0.4)	\$7.0
Net charge-offs	\$(34.0)	\$(19.9)	\$(107.6)	\$(5.6)	\$(5.0)
Ending Balance	\$185.0	\$174.0	\$54.0	\$48.0	\$50.0



Audit File Pulls (units)

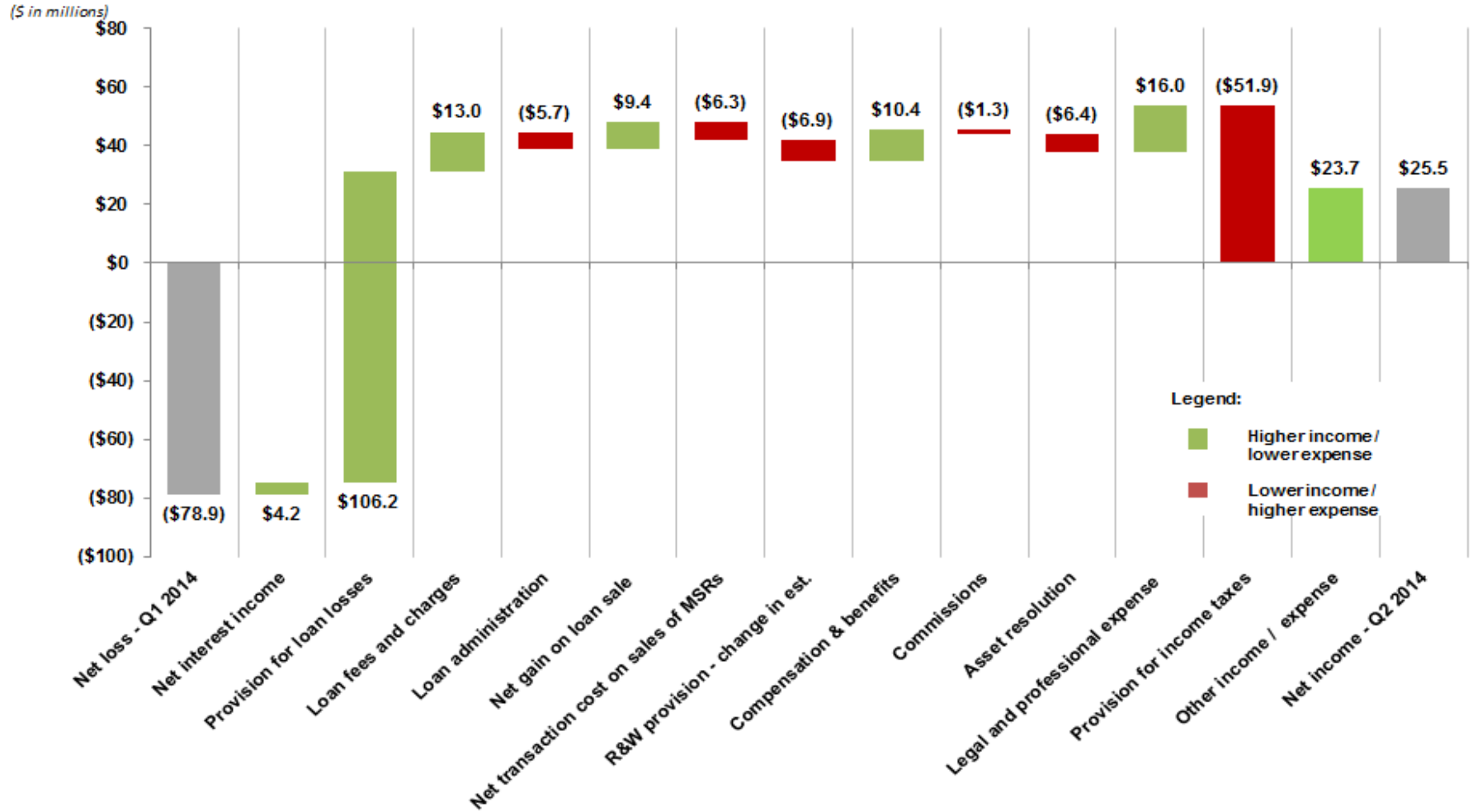


Repurchase Demands (units)



Net Income Bridge – Q1 2014 to Q2 2014

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Condensed Income Statement

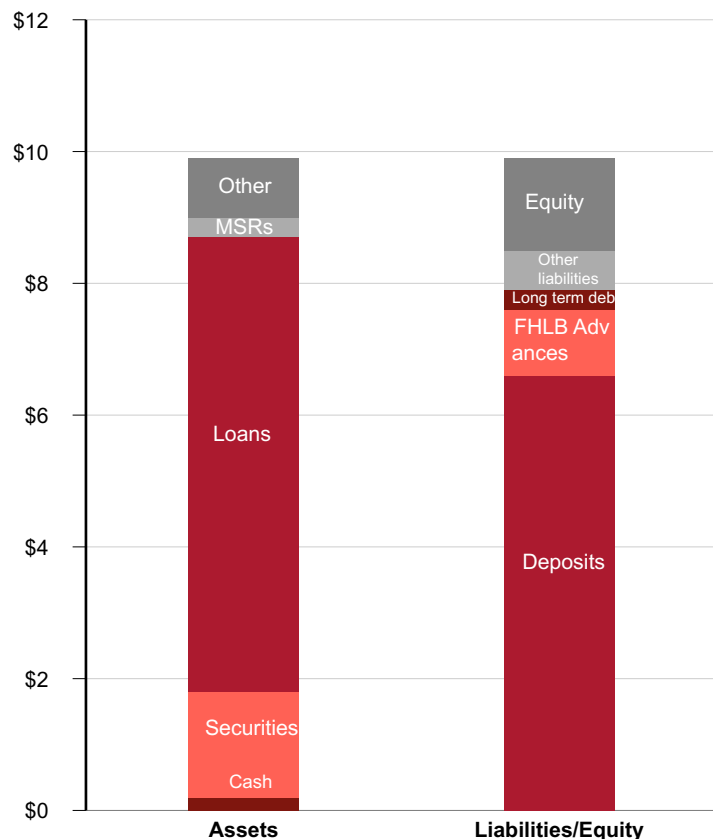
2nd Quarter 2014 Earnings Presentation

(in millions, except per share data)

	Q2 2014	Q4 2013	Q2 2013
Net interest income	\$ 62.4	\$ 58.2	\$ 47.1
Provision for loan losses	6.2	112.3	31.6
Net interest income (loss) after provision for loan losses	56.2	(54.1)	15.5
Non-interest income	102.5	75.0	220.0
Non-Interest expense	121.4	139.3	174.4
Income (loss) before federal income taxes	37.3	(118.4)	61.1
Provision (benefit) for federal income taxes	11.9	(40.0)	(6.1)
Net income (loss)	25.5	(78.4)	67.2
Preferred stock dividend/accretion	—	(0.5)	(1.4)
Net income (loss) applicable to common stockholders	<u>\$ 25.5</u>	<u>\$ (78.9)</u>	<u>\$ 65.8</u>
Diluted earnings (loss) per share	<u>\$ 0.33</u>	<u>\$ (1.51)</u>	<u>\$ 1.10</u>

Balance Sheet as of June 30, 2014

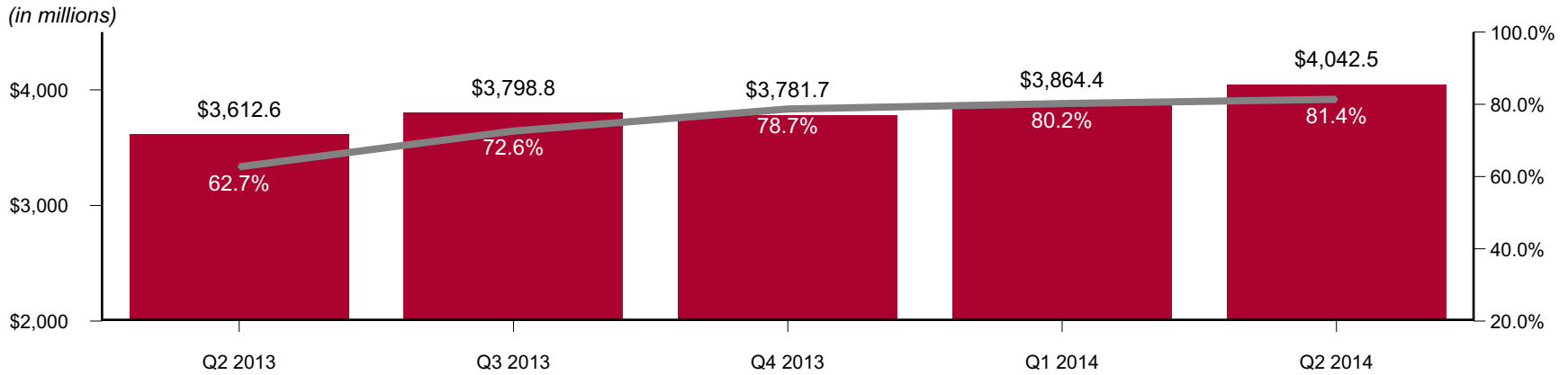
(in billions)



(in millions)

	June 30, 2014	March 31, 2014	June 30, 2013
Total assets	\$ 9,933.1	\$ 9,611.4	\$ 12,735.0
Cash and interest earning deposits	\$ 202.5	\$ 219.2	\$ 2,704.4
Residential first mortgage loans	\$ 2,353.0	\$ 2,348.7	\$ 2,628.0
Second mortgage loans	157.8	164.6	180.8
Commercial real estate loans	523.0	513.0	476.5
Warehouse loans	683.3	408.9	676.5
Consumer lending (including HELOC and other)	302.0	308.3	363.8
Other commercial loans	340.3	276.4	165.5
Loans held-for-investment portfolio	\$ 4,359.4	\$ 4,019.9	\$ 4,491.1
Loans held-for-sale	\$ 1,342.6	\$ 1,673.8	\$ 2,331.5
Loans repurchased with government guarantees	1,217.7	1,266.7	1,509.4
Total loans	\$ 6,919.7	\$ 6,960.4	\$ 8,332.0
Investment securities available-for-sale or trading	\$ 1,605.8	\$ 1,207.4	\$ 143.0
Mortgage servicing rights	289.2	320.2	729.0

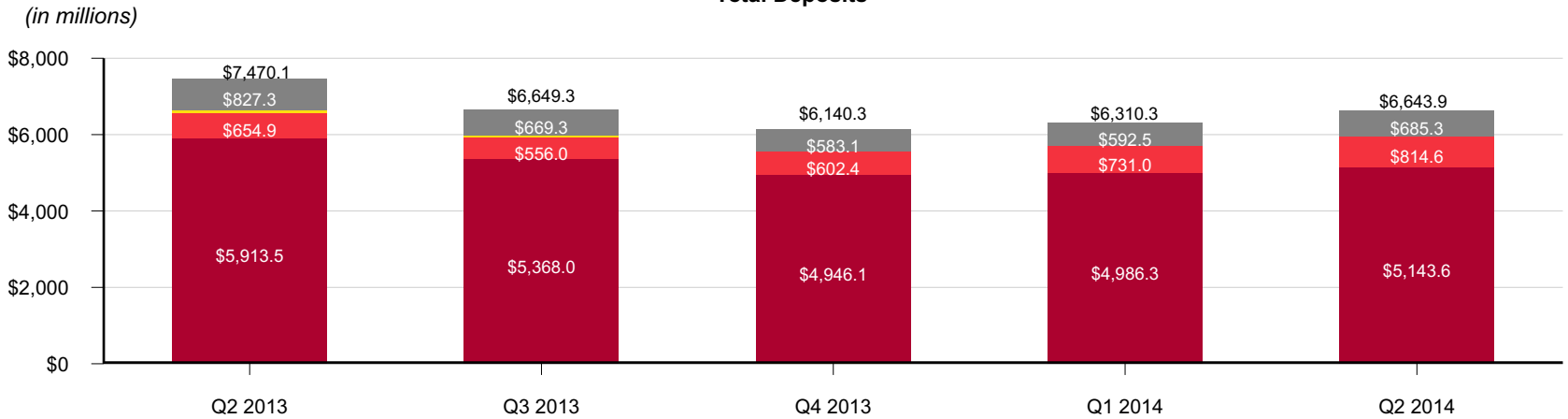
Core Deposits



*Excludes commercial deposits.

■ Core deposits* — Core deposits / retail deposits*

Total Deposits

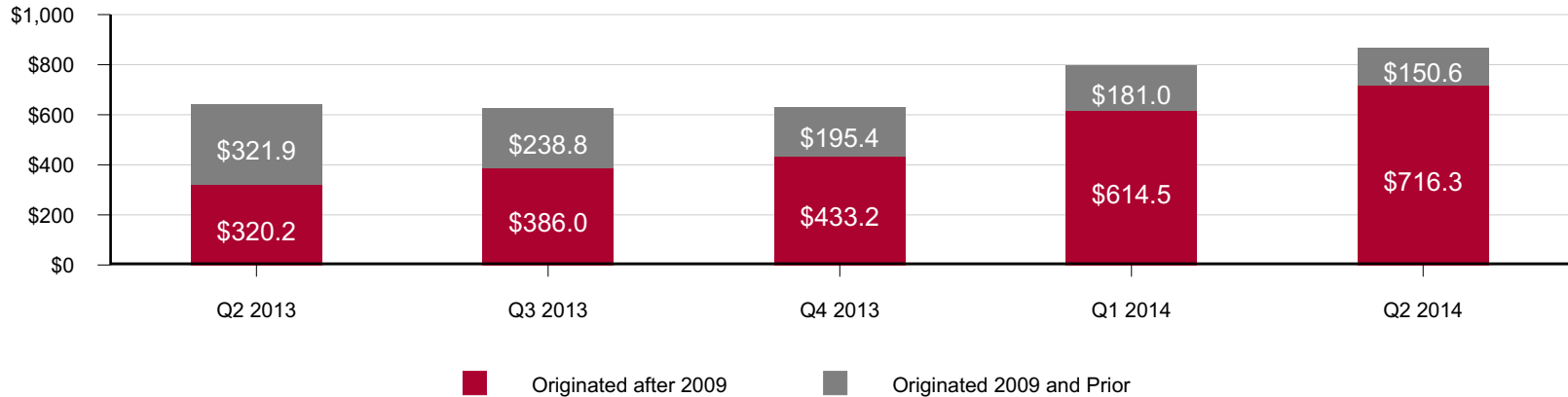


■ Retail Deposits ■ Government Deposits ■ Wholesale Deposits ■ Company Controlled Deposits



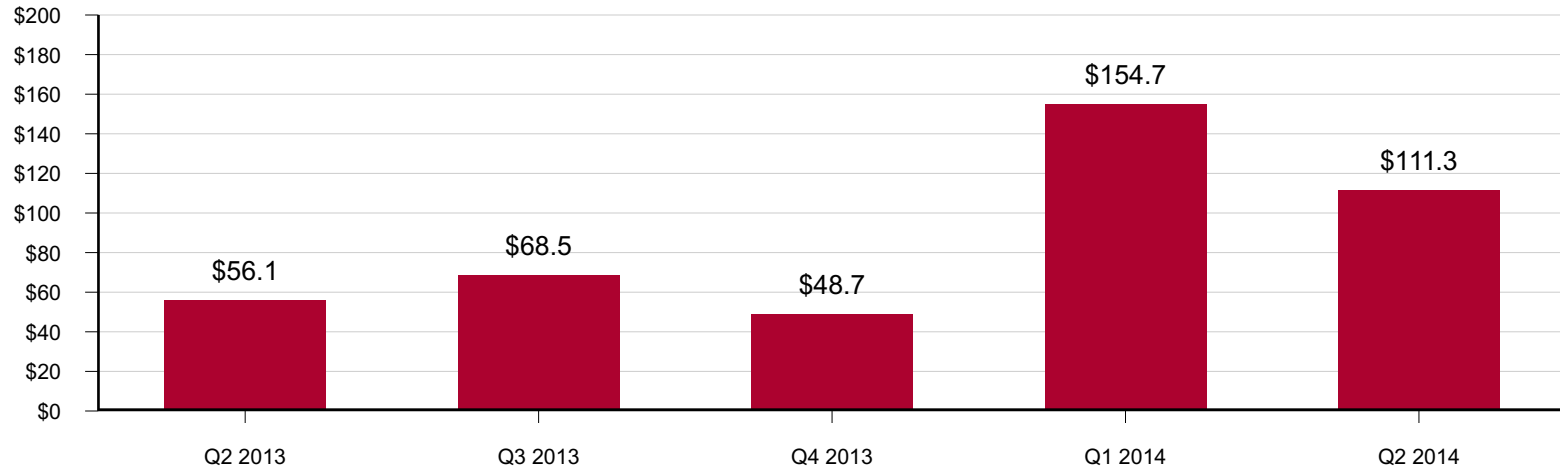
Commercial Loan Balances

(in millions)



Commercial Loan Originations

(in millions)

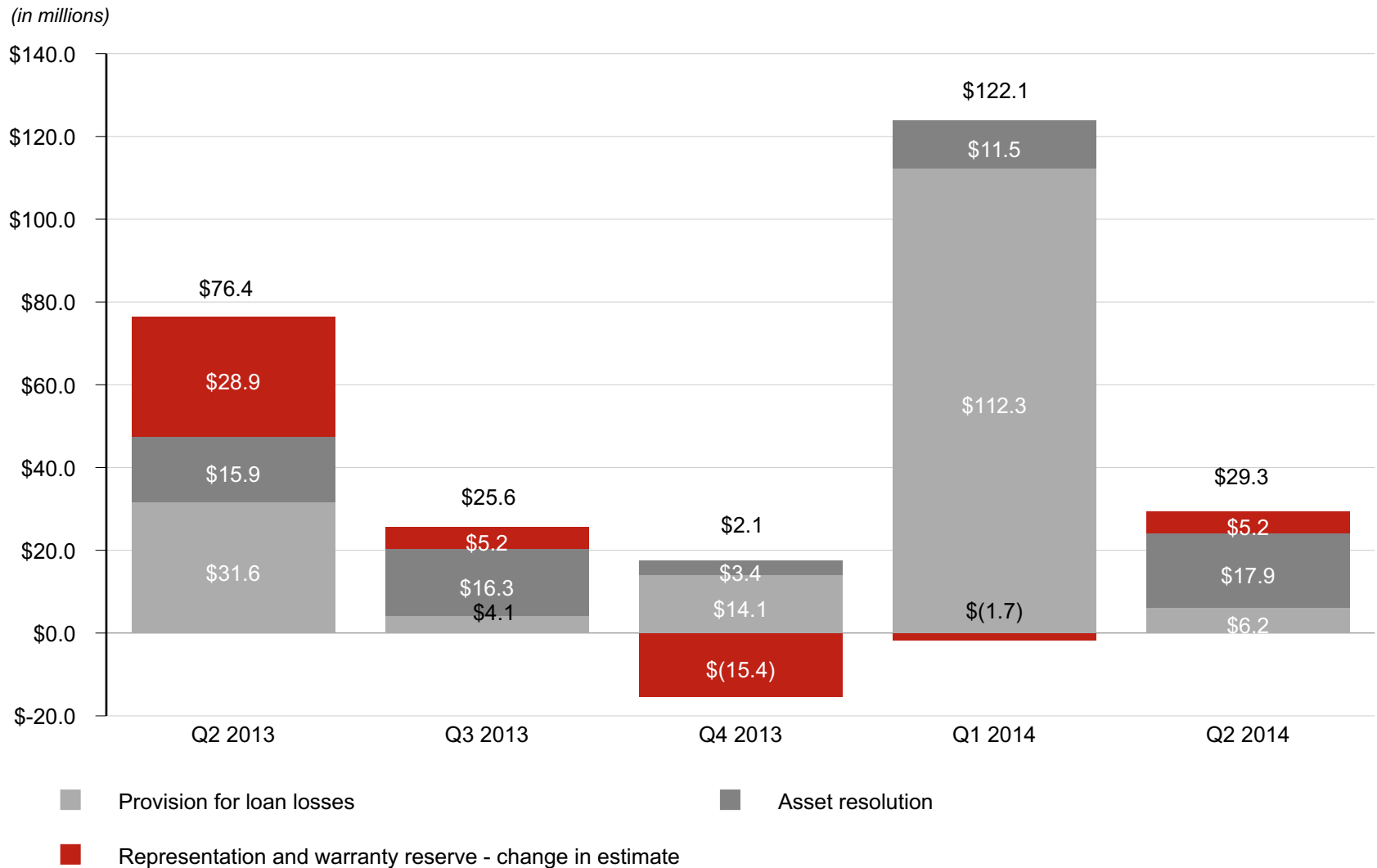


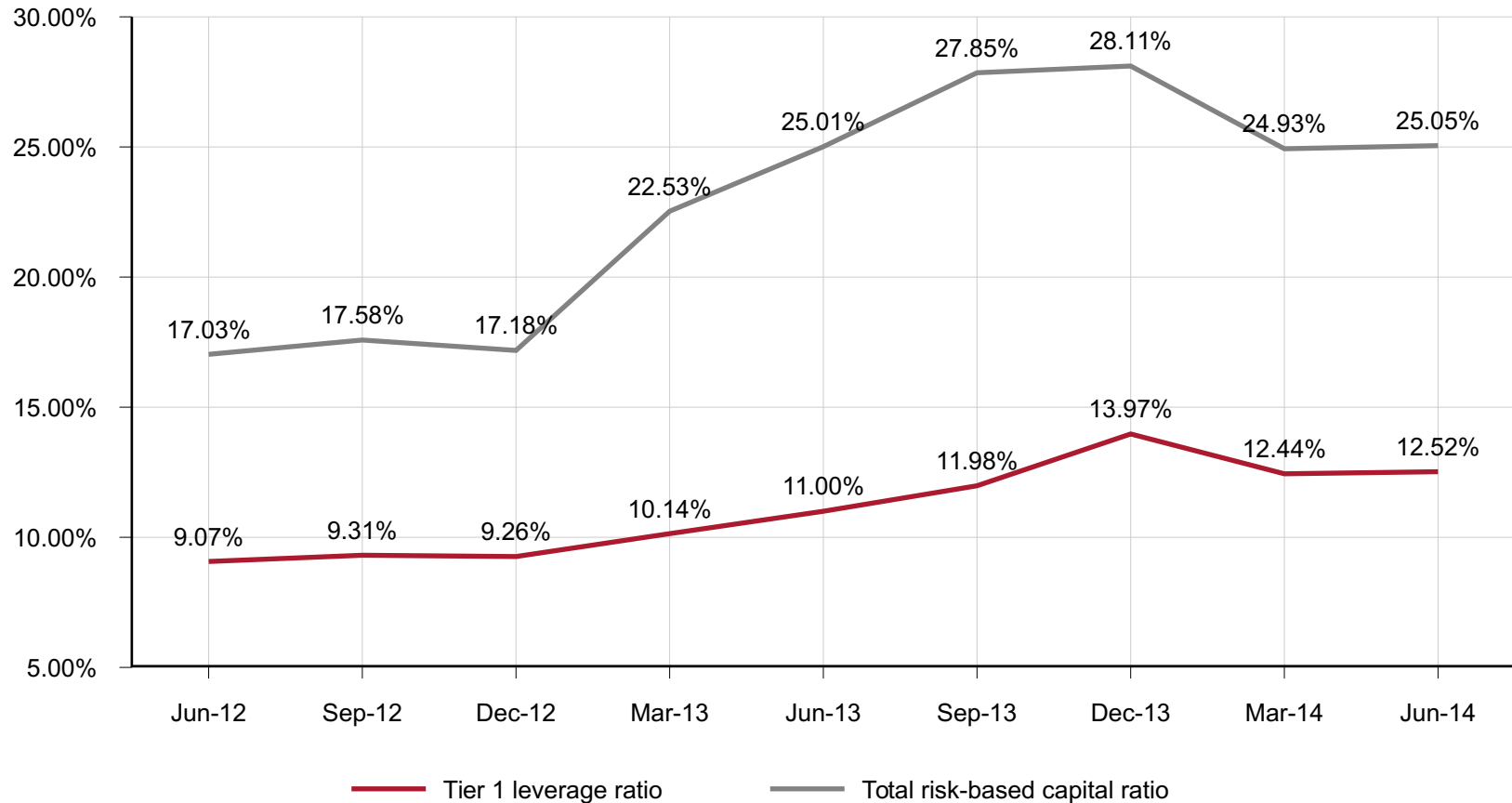
Note: Reflects unpaid principal balance, net of write downs, does not include premiums or discounts.



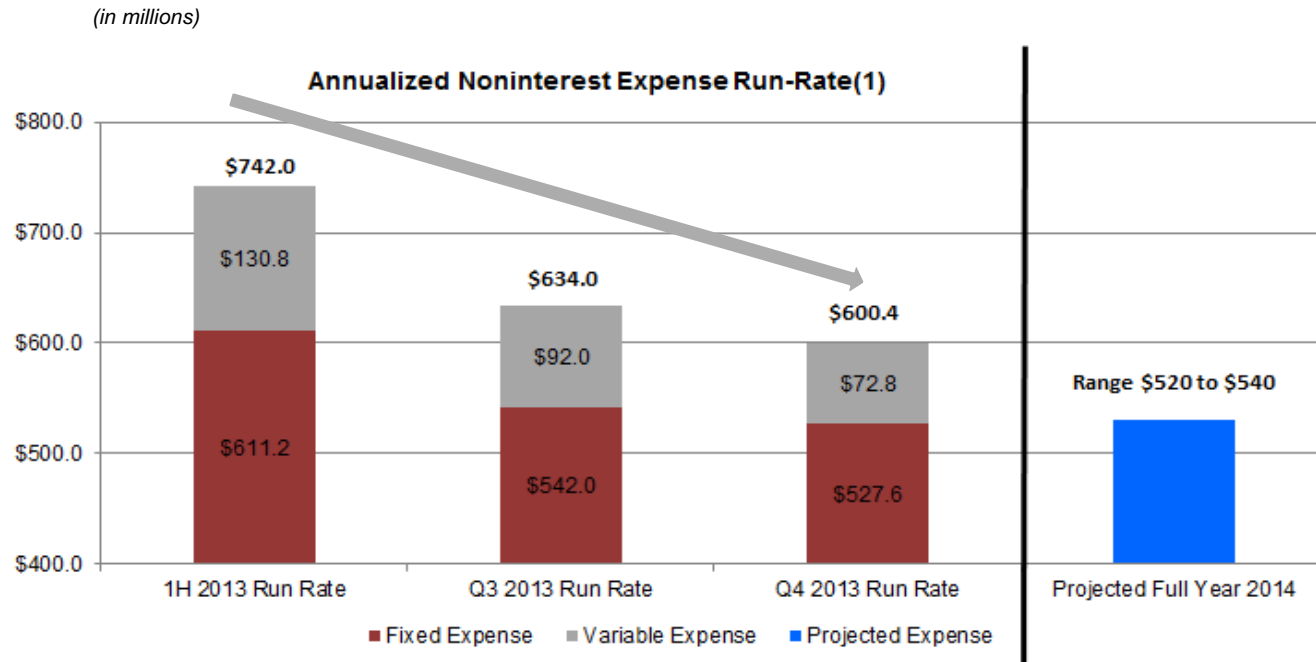
Primary Credit-Related Costs

2nd Quarter 2014 Earnings Presentation





Appendix



(1) See Non-GAAP reconciliation. Q4 2013 non-interest expense run-rate excludes non-recurring significant items - \$177.6 million loss on extinguishment of debt from FHLB prepayment adjustment and \$61.0 million in incremental expense related to Department of Justice estimated liability.

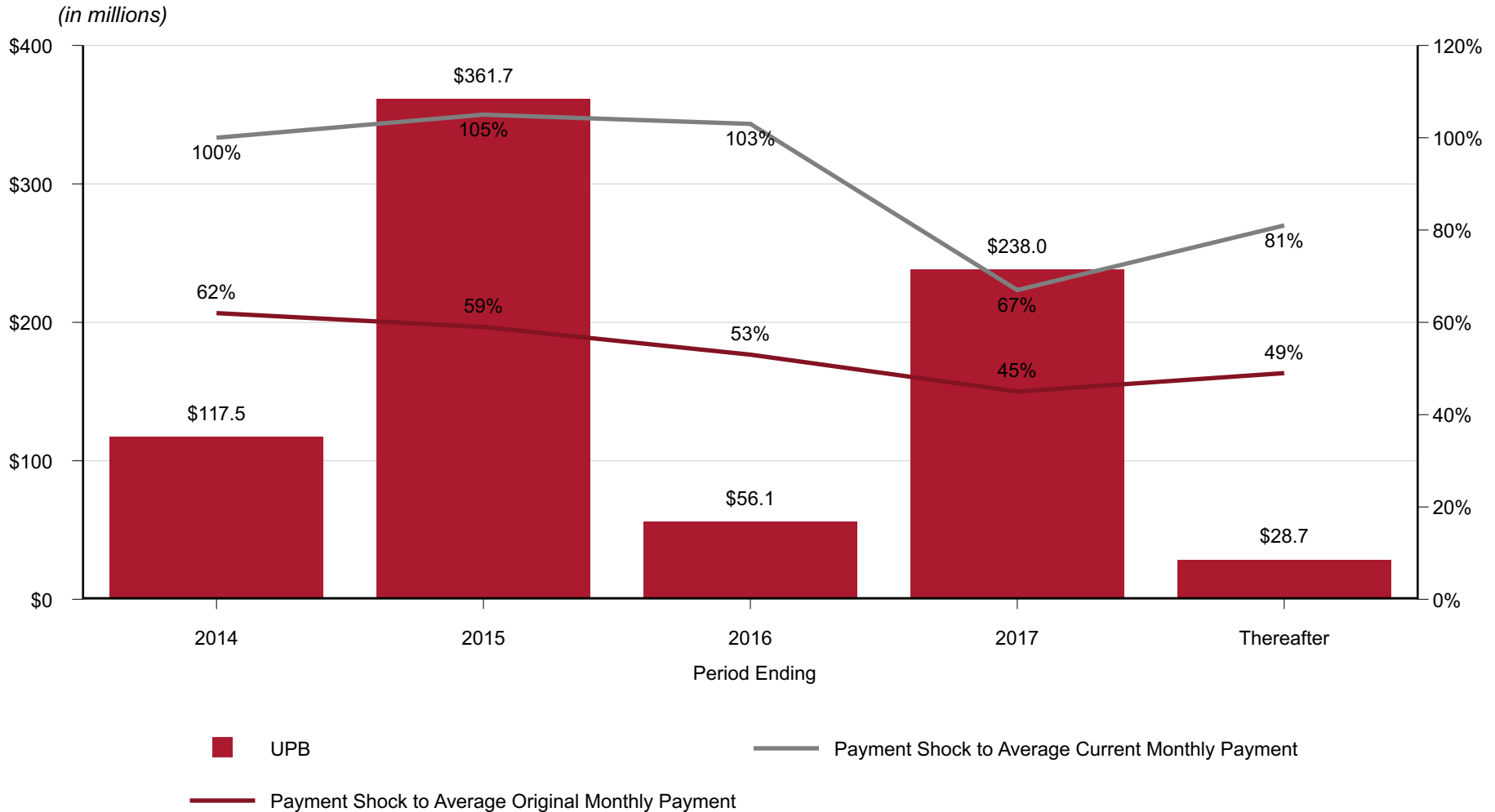
Note:

- Fixed expenses include compensation and benefits, occupancy and equipment, FDIC premiums, asset resolution, legal and professional expense, and other non-interest expense.
- Variable expenses include commissions and loan processing expense.



Current Interest Only Loans – Payment Shock vs. Current and Original Monthly Payments

2nd Quarter 2014 Earnings Presentation



Interest-only Mortgage Loans - Reset Statistics 2nd Quarter 2014 Earnings Presentation

- Contact rates have been successful:
 - * Overall contact rate of second quarter 2014 resets is 99.8 percent
 - * Overall contact rate of third quarter 2014 resets is 97.4 percent
 - * Overall contact rate of fourth quarter 2014 resets is 82.6 percent

- Resets of interest-only mortgage loans January 1, 2013 through June 30, 2014 are:

	<u>Number of loans</u>	<u>Percent</u>
Resolutions:		
Paid in full	144	20.7%
Cash flow reset	297	42.8%
Loans sales	83	11.9%
Modifications	34	4.9%
Charge-off / foreclosure	47	6.8%
Default servicing	21	3.0%
Total resolutions	<u>626</u>	<u>90.1%</u>
In process	<u>69</u>	<u>9.9%</u>
Total resets through June 30, 2014	<u><u>695</u></u>	<u><u>100.0%</u></u>

Interest-only Mortgage Loans by Geography

2nd Quarter 2014 Earnings Presentation

Geographic mix by amortization date and payment shock year

(\$ in thousands)

State	2014		2015		2016		2017		Thereafter		Total		
	Number of Loans	UPB	Number of Loans	UPB	Number of Loans	UPB	Number of Loans	UPB	Number of Loans	UPB	Number of Loans	UPB	Percent
CA	103	\$40,230	249	\$97,372	34	\$13,688	176	\$100,572	8	\$3,698	570	\$255,560	31.8%
FL	63	12,760	306	72,709	48	12,356	53	22,967	6	1,837	476	122,629	15.3%
MI	30	7,152	92	19,643	10	2,466	18	5,933	320	16,980	470	52,174	6.5%
WA	21	6,489	65	17,372	17	4,786	38	17,515	6	1,660	147	47,822	6.0%
AZ	24	5,898	88	21,103	13	3,200	34	16,447	2	480	161	47,128	5.9%
CO	22	5,470	42	8,954	7	1,663	13	6,765	1	209	85	23,061	2.9%
MD	6	2,098	38	12,890	10	3,265	21	10,080	2	591	77	28,924	3.6%
NY	5	2,119	19	6,956	4	1,441	7	2,819	1	269	36	13,604	1.7%
VA	18	5,841	45	15,689	3	970	12	6,517	—	—	78	29,017	3.6%
TX	7	1,995	10	1,461	—	—	4	2,573	1	845	22	6,874	0.9%
NJ	6	2,103	18	5,390	3	1,143	4	1,752	1	230	32	10,618	1.3%
NV	15	4,423	42	10,079	—	—	9	3,073	—	—	66	17,575	2.2%
Other	89	20,907	291	72,102	50	11,145	93	40,932	8	1,940	531	147,026	18.3%
Total	409	\$117,485	1,305	\$361,720	199	\$56,123	482	\$237,945	356	\$28,739	2,751	\$802,012	100.0%

*Excludes any resolutions

*Population is fixed as of 12/31/11

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items.

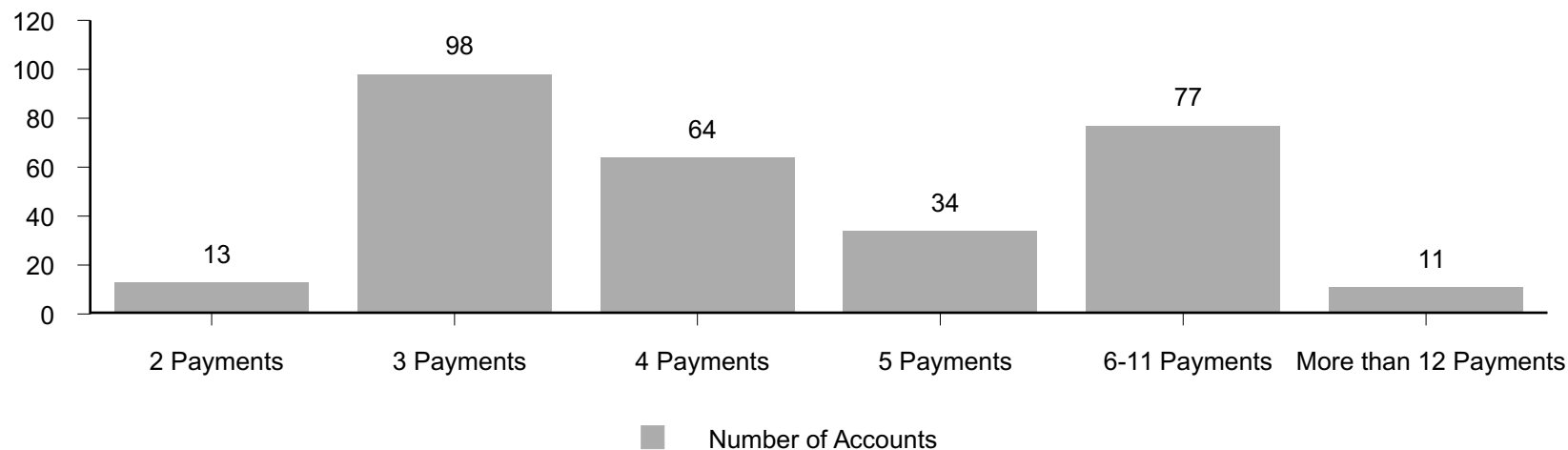
House Price Appreciation by State

State	1 year	National Rank
CA	15.78%	3
FL	10.65%	5
All	6.62%	N/A

*FHFA first quarter 2014 HPI Index



Cash Flow Resets by Post Reset Payments Made



- Aging of cash flow resets of interest-only mortgage loans January 1, 2013 through June 30, 2014 are:

	Number of Loans	Percent
2 Payments	13	4.4%
3 Payments	98	33.1%
4 Payments	64	21.5%
5 Payments	34	11.4%
6-11 Payments	77	25.9%
More than 12 Payments	11	3.7%
Total	297	100.0%

- For the future resets due to occur in interest-only mortgage loans
 - 82.5 percent have current FICO's that are 660 or greater
 - 80.2 percent have current LTV's less than 100 percent

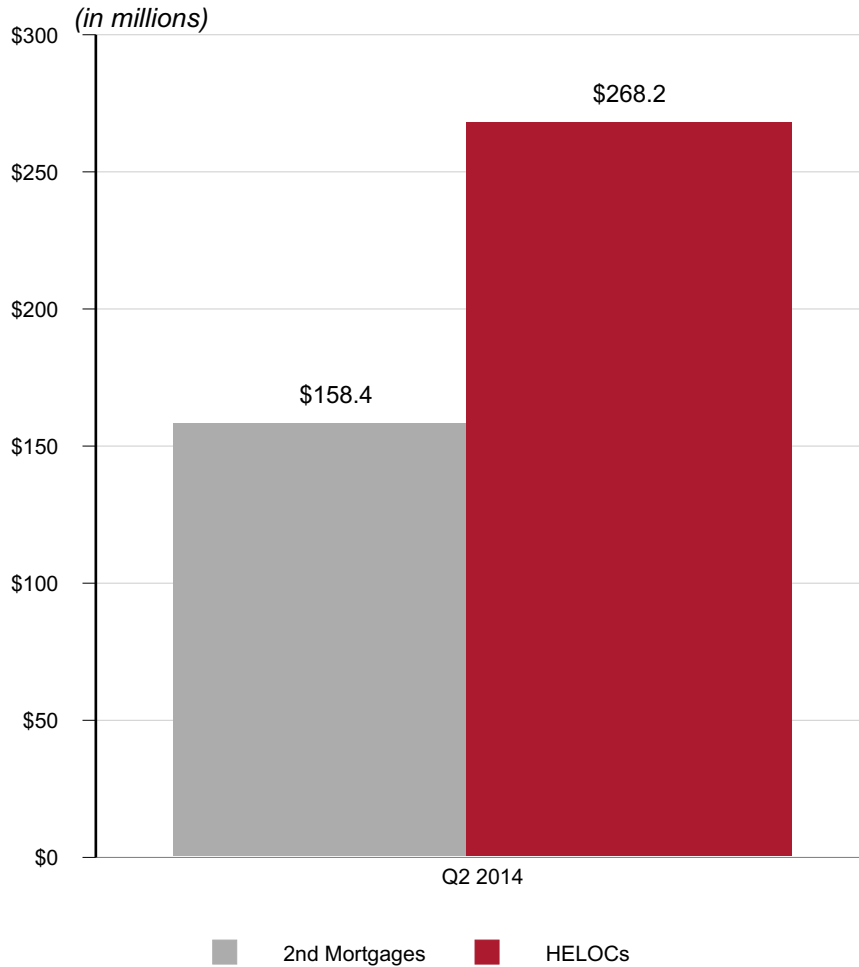
Amortizing date and payment shock

(\$ in thousands)

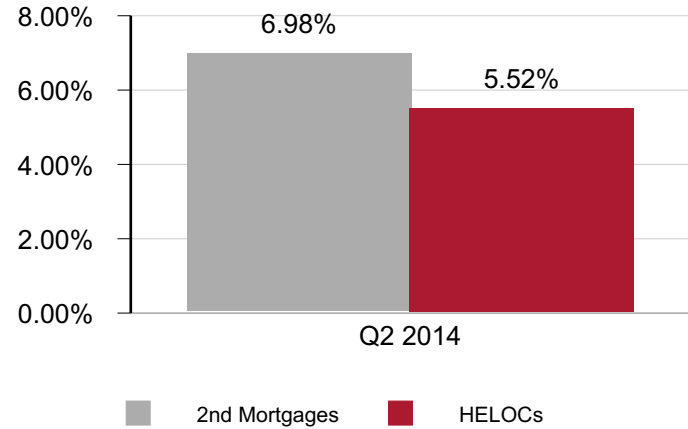
		Current LTVs				
		<70	70-89	90-99	100+	Total
Current FICOs	740+	\$ 89,498	\$ 168,539	\$ 77,027	\$ 78,293	\$ 413,357
	700-739	23,519	66,738	27,342	30,347	\$ 147,946
	660-699	20,187	37,808	21,842	20,753	\$ 100,590
	620-659	13,955	21,268	16,025	12,506	\$ 63,754
	<620	13,658	29,670	16,380	16,657	\$ 76,365
	Total	\$ 160,817	\$ 324,023	\$ 158,616	\$ 158,556	\$ 802,012

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items.

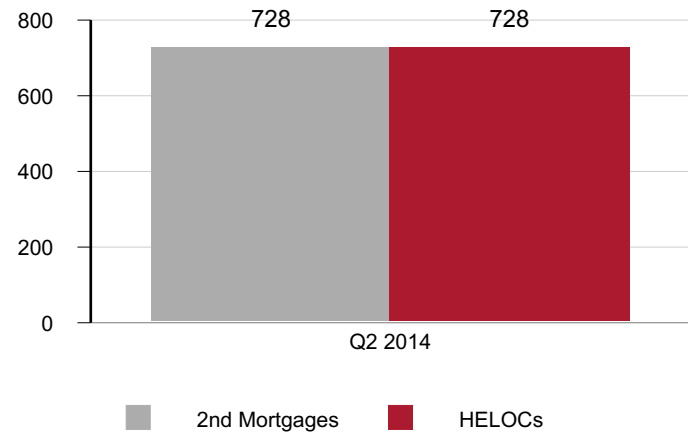
Balances



Average Note Rate



Average Current FICO



\$ in thousands

State	HFS					HFI				
	ARM	Fixed	Balloon	Total	% of Total	ARM	Fixed	Balloon	Total	% of Total
CA	\$ 61,232	\$ 345,347	\$ —	\$ 406,579	31.7%	\$ 441,763	\$ 188,136	\$ 11,921	\$ 641,820	27.3%
FL	7,972	104,204	—	112,176	8.8%	215,244	103,313	7,247	325,804	13.8%
MI	2,862	56,446	157	59,465	4.6%	200,394	50,811	9,126	260,331	11.0%
WA	5,243	34,320	—	39,563	3.1%	69,193	35,156	4,572	108,921	4.6%
AZ	2,384	33,376	—	35,760	2.8%	67,749	28,358	1,666	97,773	4.1%
CO	4,241	30,349	197	34,787	2.7%	42,649	18,716	2,254	63,619	2.7%
MD	4,579	24,536	—	29,115	2.3%	42,004	24,923	2,007	68,934	2.9%
NY	1,906	45,079	—	46,985	3.7%	28,663	32,318	3,558	64,539	2.7%
VA	3,918	25,442	—	29,360	2.3%	37,642	16,254	3,678	57,574	2.4%
TX	5,327	98,957	—	104,284	8.1%	31,638	26,144	2,038	59,820	2.5%
NJ	1,779	18,320	—	20,099	1.6%	25,569	18,690	2,798	47,057	2.0%
NV	1,432	6,999	—	8,431	0.7%	31,057	9,531	1,427	42,015	1.8%
IL	3,913	27,767	308	31,988	2.5%	31,232	17,315	1,399	49,946	2.1%
GA	430	24,064	—	24,494	1.9%	25,234	19,000	763	44,997	1.9%
OH	433	13,768	—	14,201	1.1%	26,798	8,372	532	35,702	1.5%
Other	26,099	256,736	339	283,174	22.1%	242,576	134,297	15,921	392,794	16.7%
Total :	\$ 133,750	\$ 1,145,710	\$ 1,001	\$ 1,280,461	100.0 %	\$ 1,559,405	\$ 731,334	\$ 70,907	\$ 2,361,646	100.0 %

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items.

\$ in thousands

Year	HFS					HFI				
	ARM	Fixed	Balloon	Total	% of Total	ARM	Fixed	Balloon	Total	% of Total
Older	\$ —	\$ —	\$ 197	\$ 197	0.0%	\$ 36,698	\$ 18,740	\$ 2,190	\$ 57,628	2.4%
2003	—	—	465	465	0.0%	119,115	14,052	3,533	136,700	5.8%
2004	317	240	—	557	0.0%	397,936	26,233	6,779	430,948	18.2%
2005	370	1,260	—	1,630	0.1%	440,314	34,880	11,894	487,088	20.7%
2006	—	280	—	280	0.0%	92,442	92,103	10,578	195,123	8.3%
2007	149	4,873	339	5,361	0.4%	228,936	360,450	34,227	623,613	26.4%
2008	—	7,855	—	7,855	0.6%	9,908	81,978	1,646	93,532	4.0%
2009	—	11,728	—	11,728	0.9%	6,799	32,974	—	39,773	1.7%
2010	—	2,972	—	2,972	0.2%	8,219	11,502	—	19,721	0.8%
2011	—	2,349	—	2,349	0.2%	13,766	12,365	60	26,191	1.1%
2012	—	6,566	—	6,566	0.5%	12,055	14,545	—	26,600	1.1%
2013	11,926	332	—	12,258	1.0%	33,808	16,065	—	49,873	2.1%
2014	120,988	1,107,255	—	1,228,243	96.1%	159,409	15,447	—	174,856	7.4%
Total :	\$ 133,750	\$ 1,145,710	\$ 1,001	\$ 1,280,461	100.0 %	\$ 1,559,405	\$ 731,334	\$ 70,907	\$ 2,361,646	100.0 %

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items.

\$ in thousands

FICO	HFS					HFI				
	ARM	Fixed	Balloon	Total	% of Total	ARM	Fixed	Balloon	Total	% of Total
< 580	\$—	\$ 3,643	\$ —	\$ 3,643	0.3%	\$ 15,875	\$ 22,258	\$ 895	\$ 39,028	1.7%
580 - 619	120	7,492	—	7,612	0.6%	18,712	41,886	1,508	62,106	2.6%
620 - 659	8,517	160,468	505	169,490	13.2%	89,527	79,580	4,829	173,936	7.4%
660 - 699	23,302	255,021	—	278,323	21.7%	366,218	179,722	25,341	571,281	24.2%
> 699	101,811	719,086	496	821,393	64.2%	1,069,073	407,888	38,334	1,515,295	64.1%
Total :	\$133,750	\$1,145,710	\$ 1,001	\$ 1,280,461	100.0 %	\$ 1,559,405	\$ 731,334	\$ 70,907	\$ 2,361,646	100.0 %

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items.

\$ in thousands										
Original LTV	HFS					HFI				
	ARM	Fixed	Balloon	Total	% of Total	ARM	Fixed	Balloon	Total	% of Total
<=70.00%	\$ 34,202	\$ 199,008	\$ —	\$ 233,210	18.2%	\$ 448,350	\$ 199,416	\$ 16,381	\$ 664,147	28.1%
>70.00% - 79.99%	40,478	321,840	465	362,783	28.3%	933,544	354,993	41,967	1,330,504	56.4%
>80.00% - 89.99%	18,999	133,451	339	152,789	11.9%	97,436	66,883	8,640	172,959	7.3%
>90.00% - 99.99%	38,999	464,113	197	503,309	39.4%	78,739	101,273	3,800	183,812	7.8%
100.00% -109.99%	857	19,735	—	20,592	1.6%	965	5,548	—	6,513	0.3%
110.00% -124.99%	215	5,645	—	5,860	0.5%	371	2,547	—	2,918	0.1%
>125.00%	—	1,918	—	1,918	0.1%	—	674	119	793	0.0%
Total:	\$ 133,750	\$ 1,145,710	\$ 1,001	\$ 1,280,461	100.0%	\$ 1,559,405	\$ 731,334	\$ 70,907	\$ 2,361,646	100.0%

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items.

\$ in thousands										
HPI Adjusted LTV	HFS					HFI				
	ARM	Fixed	Balloon	Total	% of Total	ARM	Fixed	Balloon	Total	% of Total
<=70.00%	\$ 37,287	\$ 205,886	\$ —	\$ 243,173	19.0%	\$ 627,306	\$ 192,055	\$ 14,256	\$ 833,617	35.4%
70.00% - 79.99%	37,458	319,060	505	357,023	27.9%	367,464	125,083	10,628	503,175	21.3%
80.00% - 89.99%	19,813	139,587	339	159,739	12.5%	229,111	146,552	14,720	390,383	16.5%
90.00% - 99.99%	33,620	389,362	157	423,139	33.0%	172,450	117,248	14,791	304,489	12.9%
100.00% -109.99%	5,357	79,424	—	84,781	6.6%	92,763	76,495	8,715	177,973	7.5%
110.00% -124.99%	215	9,392	—	9,607	0.8%	53,303	49,200	6,211	108,714	4.6%
>=125.00%	—	2,999	—	2,999	0.2%	17,008	24,701	1,586	43,295	1.8%
Total :	\$ 133,750	\$ 1,145,710	\$ 1,001	\$ 1,280,461	100.0%	\$ 1,559,405	\$ 731,334	\$ 70,907	\$ 2,361,646	100.0%

Note: Reflects unpaid principal balance, net of write downs, of underlying loans before accounting adjustments for discounts and other items. The housing price index (HPI adjusted) LTV is updated from the original LTV based on Metropolitan Statistical Area-level Office of Federal Housing Enterprise Oversight (OFHEO) data.

(in millions)			
	Q2 2014	Q1 2014	Q2 2013
Consumer ⁽¹⁾	\$ 42.8	\$ 49.3	\$ 60.9
Commercial ⁽¹⁾	—	2.1	0.2
Total 30 - 59 Days Past Due	\$ 42.8	\$ 51.4	\$ 61.1
Consumer ⁽¹⁾	\$ 9.0	\$ 15.5	\$ 13.4
Commercial ⁽¹⁾	—	—	22.7
Total 60 - 89 Days Past Due	\$ 9.0	\$ 15.5	\$ 36.1
Consumer ⁽¹⁾	\$ 120.2	\$ 109.0	\$ 194.2
Commercial ⁽¹⁾	—	1.8	63.8
Total Greater than 90 Days Past Due	\$ 120.2	\$ 110.8	\$ 258.0
Non-performing Assets	\$ 151.7	\$ 141.8	\$ 344.3
<i>To Total Assets (Bank only)</i>	<i>1.54%</i>	<i>1.49%</i>	<i>2.71%</i>
Provisions for Loan Losses	\$ 6.2	\$ 112.3	\$ 31.6
Charge-offs, Net of Recoveries	\$ 7.2	\$ 12.3	\$ 78.6
Allowance for Loan Losses	\$ 306.0	\$ 307.0	\$ 243.0
<i>To Loans Held for Investments ⁽²⁾</i>	<i>7.41%</i>	<i>8.11%</i>	<i>5.75%</i>
<i>To Non-performing Loans</i>	<i>263.1%</i>	<i>286.9%</i>	<i>94.2%</i>
Real Estate Owned	\$ 31.6	\$ 31.1	\$ 86.4

(1) Consumer loans include: residential first mortgage, second mortgage, warehouse lending, HELOC, and other consumer loans. Commercial loans include: commercial real estate, commercial and industrial, and commercial lease financing loans.

(2) Excludes loans carried under fair value option.

\$ in thousands

Loan Type	Balance	Non-performing Loans	% of Balance	% of Overall NPLs	Q2 '14 Charge Offs, Net of Recoveries	Collectively Evaluated Reserves	Individually Evaluated Reserves	Total Reserves
Residential first mortgage	\$ 2,352,965	\$ 113,210	4.8%	94.1%	\$ (5,145)	\$ 162,272	\$ 86,918	\$ 249,190
Second mortgage	157,772	1,878	1.2%	1.6%	(1,050)	7,561	6,094	13,655
Warehouse	683,258	—	—%	—%	—	2,557	—	2,557
HELOC	268,655	4,880	1.8%	4.1%	(993)	12,313	1,753	14,066
Other consumer	33,364	194	0.6%	0.2%	(109)	2,030	—	2,030
Commercial real estate	523,006	—	—%	—%	107	19,266	—	19,266
Commercial and industrial	330,256	—	—%	—%	40	5,096	—	5,096
Commercial lease financing	10,017	—	—%	—%	—	140	—	140
Total:	\$ 4,359,293	\$ 120,162	2.8%	100.0%	\$ (7,150)	\$ 211,235	\$ 94,765	\$ 306,000

Note: Non-performing loans include 90+ days delinquent and matured, and performing non-accruals.

Non-performing Loans HFI – by State

2nd Quarter 2014 Earnings Presentation

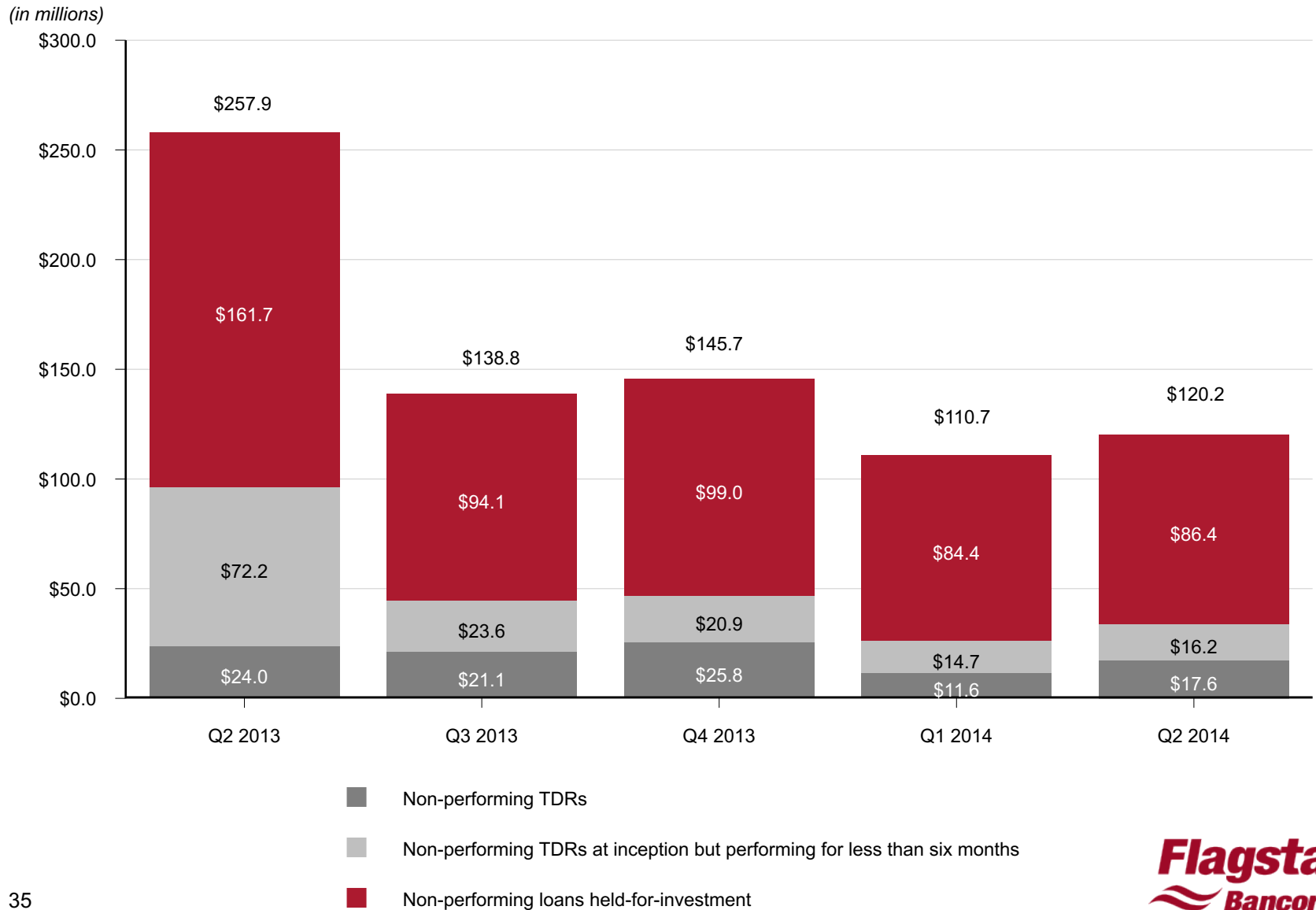
\$ in thousands							
State	Mortgage	Percent of Mortgage	Second Mortgage	HELOC	Consumer	Total	Percent of Total
FL	\$ 24,194	21.5%	\$ 176	\$ 782	\$ 50	\$ 25,202	21.1%
CA	19,516	17.2%	143	695	—	20,354	16.9%
NY	9,842	8.7%	24	298	—	10,164	8.5%
MI	5,220	4.6%	703	1,318	108	7,349	6.1%
NJ	6,054	5.3%	—	—	—	6,054	5.0%
MD	4,098	3.6%	54	342	—	4,494	3.7%
TX	4,218	3.7%	26	16	—	4,260	3.5%
WA	4,202	3.7%	40	—	—	4,242	3.5%
IL	2,940	2.6%	49	—	—	2,989	2.5%
AZ	2,646	2.3%	—	—	—	2,646	2.2%
GA	2,235	2.0%	—	184	—	2,419	2.0%
HI	2,370	2.1%	—	34	—	2,404	2.0%
NV	1,709	1.5%	73	491	—	2,273	1.9%
OH	2,078	1.8%	30	81	—	2,189	1.8%
SC	2,077	1.8%	2	—	—	2,079	1.7%
Other	19,811	17.6%	558	639	36	21,044	17.6%
Total	\$ 113,210	100.0%	\$ 1,878	\$ 4,880	\$ 194	\$ 120,162	100.0%

Note: Non-performing loans include 90+ days delinquent and matured, and performing non-accruals. Excludes participations and first mortgage repurchases.

\$ in thousands							
Vintage	First Mortgage	Percent of Mortgage	Second Mortgage	HELOC	Other Consumer	Total	Percent of Total
Older	\$ 7,842	6.9%	\$ 277	\$ 211	\$ 2	\$ 8,332	6.9%
2004	12,922	11.4%	174	1,274	36	14,406	12.0%
2005	13,003	11.5%	403	1,194	—	14,600	12.2%
2006	10,500	9.3%	—	1,418	2	11,920	9.9%
2007	39,678	35.1%	770	740	3	41,191	34.3%
2008	21,156	18.7%	—	43	50	21,249	17.7%
2009	3,934	3.5%	41	—	—	3,975	3.3%
2010	1,678	1.5%	137	—	31	1,846	1.5%
2011	2,049	1.8%	76	—	—	2,125	1.8%
2012	—	—%	—	—	7	7	—%
2013	166	0.1%	—	—	63	229	0.2%
2014	282	0.2%	—	—	—	282	0.2%
Total	\$ 113,210	100.0%	\$ 1,878	\$ 4,880	\$ 194	\$ 120,162	100.0%

Note: Non-performing loans include 90+ days delinquent and matured, and performing non-accruals. Excludes participations and first mortgage repurchases.

Non-performing Loans





Deposit Mix

2nd Quarter 2014 Earnings Presentation

(in millions)	June 30, 2014		March 31, 2014		June 30, 2013	
	Balance	Rate	Balance	Rate	Balance	Rate
Branch Retail Deposits:						
Demand deposits	\$ 707	0.08%	\$ 700	0.08%	\$ 632	0.11%
Savings deposits	3,105	0.65%	2,918	0.52%	2,671	0.67%
Money market deposits	231	0.15%	246	0.15%	310	0.22%
Certificates of deposit	926	0.73%	956	0.73%	2,150	0.90%
Total branch deposits	\$ 4,969	0.56%	\$ 4,820	0.48%	\$ 5,763	0.67%
Commercial Retail Deposits:						
Demand deposits	\$ 106	0.01%	\$ 111	0.01%	\$ 111	0.13%
Savings deposits	33	0.51%	26	0.49%	17	0.73%
Money market deposits	35	0.57%	25	0.54%	19	0.51%
Commercial Certificates of deposit	1	0.84%	3	0.53%	4	0.56%
Total commercial deposits	\$ 175	0.22%	\$ 165	0.18%	\$ 151	0.26%
Total Retail deposits	\$ 5,144		\$ 4,985		\$ 5,914	
Government Banking Deposits:						
Demand deposits	\$ 175	0.38%	\$ 143	0.38%	\$ 118	0.35%
Savings deposits	300	0.52%	251	0.52%	164	0.30%
Certificates of deposit	340	0.40%	337	0.39%	373	0.48%
Total government banking deposits	\$ 815	0.44%	\$ 731	0.43%	\$ 655	0.41%
Company controlled deposits	\$ 685	0.00%	\$ 593	0.00%	\$ 827	0.00%
Wholesale deposits	—	0.00%	—	0.00%	74	4.81%
Total deposits	\$ 6,644	0.48%	\$ 6,309	0.43%	\$ 7,470	0.61%
Number of banking branches	106		106		111	

(1) Approximately \$265.8 million of retail CDs represent government deposit relationships that have been exchanged for retail CDs as part of our participation in the CDARs program at June 30, 2014.

Note: Represents the ending balance and rate for period noted. Retail core deposits include demand, savings and money market accounts.

Non – GAAP Reconciliation

2nd Quarter 2014 Earnings Presentation

\$ in millions

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Efficiency ratio (adjusted)					
Net interest income (a)	\$ 62.4	\$ 58.2	\$ 41.2	\$ 42.7	\$ 47.1
Noninterest income (b)	102.5	75.0	113.1	134.3	220.0
Less provisions:					
Representation and warranty reserve - change in estimate	5.2	(1.7)	9.5	5.2	28.9
Significant one-time items:					
Net impairment loss recognized through earnings	—	—	—	—	8.8
Representation and warranty reserve – change in estimate (one time)	—	—	(24.9)	—	—
Other noninterest income	—	21.1	—	—	(36.9)
Adjusted income (c)	170.1	152.6	138.9	182.2	267.9
Noninterest expense (d)	121.4	139.3	388.7	158.4	174.4
Significant one-time items:					
Loss on extinguishment of debt	—	—	(177.6)	—	—
Legal and professional expense	—	—	(61.0)	—	10.0
Adjusted noninterest expense (e)	\$ 121.4	\$ 139.3	\$ 150.1	\$ 158.4	\$ 184.4
Efficiency ratio (d/(a+b))	73.6%	104.6%	251.8%	89.5%	65.3%
Efficiency ratio (adjusted) (e/c)	71.3%	91.3%	108.1%	87.0%	68.8%

\$ in millions

	June 30, 2014	March 31, 2014	December 31, 2013	June 30, 2013
Non-performing assets	\$ 151.7	\$ 141.8	\$ 182.3	\$ 344.3
Tier 1 Capital	1,188.9	1,139.8	1,257.6	1,390.6
Allowance for Loan Losses	306.0	307.0	207.0	243.0
Tier 1 Capital + Allowance for Loan Losses	\$ 1,494.9	\$ 1,446.8	\$ 1,464.6	\$ 1,633.6
Non-performing assets/ Tier 1 Capital + Allowance for Loan Losses	10.2%	9.8%	12.4%	21.1%

\$ in millions

	June 30, 2014	March 31, 2014	December 31, 2013	June 30, 2013
Mortgage Servicing Rights	\$ 289.2	\$ 320.2	\$ 284.7	\$ 729.0
Tier 1 Capital	1,188.9	1,139.8	1,257.6	1,390.6
MSR to Tier 1 ratio	24.3%	28.1%	22.6%	52.4%

Non – GAAP Reconciliation (cont'd)

2nd Quarter 2014 Earnings Presentation

\$ in millions

June 30, 2014

Flagstar Bank (the Bank)	Common Equity Tier 1 (to Risk Weighted Assets)	Tier 1 Leverage (to Adjusted Tangible Assets) (1)
Regulatory capital – Basel I to Basel III (fully phased-in) (2)		
Basel I capital	\$1,188.9	\$1,188.9
Increased deductions related to deferred tax assets, mortgage servicing assets, and other capital components	(154.9)	(154.9)
Basel III (fully phased-in) capital (2)	\$1,034.0	\$1,034.0
Risk-weighted assets – Basel I to Basel III (fully phased-in) (2)		
Basel I assets	\$5,006.9	\$9,493.5
Net change in assets	83.7	(453.2)
Basel III (fully phased-in) assets (2)	\$5,090.6	\$9,040.3
Capital ratios		
Basel I (3)	23.75%	12.52%
Basel III (fully phased-in) (2)	20.31%	11.44%
March 31, 2014		
Regulatory capital – Basel I to Basel III (fully phased-in) (2)		
Basel I capital	\$1,139.8	\$1,139.8
Increased deductions related to deferred tax assets, mortgage servicing assets, and other capital components	(190.4)	(190.4)
Basel III (fully phased-in) capital (2)	\$949.4	\$949.4
Risk-weighted assets – Basel I to Basel III (fully phased-in) (2)		
Basel I assets	\$4,826.0	\$9,160.9
Net change in assets	28.7	(486.5)
Basel III (fully phased-in) assets (2)	\$4,854.7	\$8,674.4
Capital ratios		
Basel I (3)	23.62%	12.44%
Basel III (fully phased-in) (2)	19.56%	10.94%

(1) The definition of total assets used in the calculation of the Tier 1 Leverage ratio changed from ending total assets under Basel I to quarterly average total assets under Basel III.

(2) Basel III information is considered estimated and not final at this time as the Basel III rules continue to be subject to interpretation by U.S. Banking Regulators. The new capital requirements begin January 1, 2015 and will be fully phased-in on January 1, 2019.

(3) The Bank is currently subject to the requirements of Basel I.

\$ in millions

	1H 2013*	Q3 2013	Q4 2013	1H 2014 *
	Run Rate	Run Rate	Run Rate	Run Rate
Fixed expenses				
Compensation and benefits	\$ 148.2	\$ 61.6	\$ 69.6	\$ 120.8
Occupancy and equipment	41.6	18.6	19.8	39.8
Asset resolution	32.3	16.3	3.4	29.4
Other noninterest expense (1)	83.5	39.0	39.1	39.0
Total fixed expenses	<u>\$ 305.6</u>	<u>\$ 135.5</u>	<u>\$ 131.9</u>	<u>\$ 229.0</u>
Variable expenses				
Commissions	\$ 32.9	\$12.1	\$ 9.4	\$ 15.8
Loan processing expenses	32.5	10.9	8.8	15.9
Total variable expenses	<u>\$ 65.4</u>	<u>\$ 23.0</u>	<u>\$ 18.2</u>	<u>\$ 31.7</u>
Non-recurring Items (excluded)				
Loss on extinguishment of debt	\$ —	\$ —	\$ 177.6	\$ —
Incremental expenses (2)	—	—	61.0	—
Total non-recurring items	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 238.6</u>	<u>\$ —</u>
Total noninterest expense	<u>\$ 371.0</u>	<u>\$ 158.5</u>	<u>\$ 388.7</u>	<u>\$ 260.7</u>
Annualized fixed expenses	<u>\$ 611.2</u>	<u>\$ 542.0</u>	<u>\$ 527.6</u>	<u>\$ 458.0</u>
Annualized variable expenses	<u>\$ 130.8</u>	<u>\$ 92.0</u>	<u>\$ 72.8</u>	<u>\$ 63.4</u>

(1) Other noninterest expense includes Federal insurance premiums, legal and professional expense and other noninterest expense.

(2) Included in legal and professional expense on our consolidated financial statements.

* 1H represents the six months ended June 30.

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