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FBC - Q1 2012 Flagstar Bancorp Earnings Conference Call

EVENT DATE/TIME: MAY 01, 2012 / 3:00PM GMT

CORPORATE PARTICIPANTS

Paul Borja *Flagstar Bancorp - CFO*

Joseph Campanelli *Flagstar Bancorp - President, CEO*

Mike Maher *Flagstar Bancorp - CAO*

Matt Kerin *Flagstar Bancorp - Managing Director - Mortgage Banking & Warehouse*

CONFERENCE CALL PARTICIPANTS

Paul Miller *FBR Capital Markets & Co. - Analyst*

Marc Steinberg *Dawson James Securities - Analyst*

Bose George *Keefe, Bruyette & Woods - Analyst*

PRESENTATION

Operator

Good morning my name is [Steve] and I will be your conference operator today. At this time I would like to welcome everyone to the Flagstar Bank first quarter earnings call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operators Instructions). Thank you, I will now turn the call over to Paul Borja, Chief Financial Officer. Please go ahead.

Paul Borja - *Flagstar Bancorp - CFO*

Thank you, good morning everyone. I would like to welcome you to our first quarter 2012 earnings call. My name is Paul Borja and I am the Chief Financial Office of Flagstar Bancorp and Flagstar Bank.

Before we begin our comments I would like to remind you that the presentation today may contain forward-looking statements regarding both our financial condition and our financial results. These statements resolve certain risks that may cause actual results in the future to be different from our current expectations.

These factors include, among other things, changes in economic conditions, changes in interest rates, and competitive pressures within the financial services industry, as well as legislative or regulatory requirements that may affect our businesses.

For additional factors we urge you to review the press release we issued last night as well as our SEC documents such as our recently filed form 10-k. And a legal disclaimer on page two of our earnings call slides that we have posted this morning on our investor relations page at www.flagstar.com.

During the call we may also discuss non-GAAP measures regarding our financial performance. A reconciliation of these measures to life GAAP measure is provided in the tables to our press release, which was issued last night as well as in the appendix to our earnings call slides. With that I'd now like to turn the call over to Joseph Campanelli, our Chairman and Chief Executive Officer. Joe?

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

Thank you Paul. I would also like to welcome you to our first quarter 2012 earnings call. I will begin today with some high level thoughts on our first quarter. After I finish my remarks I will turn it back over to Paul, who will take us through a more detailed financial review, including the business driver outlook. Afterwards, Paul and I along with the rest of the executive team will be available to answer any questions you may have.

During the first quarter we continued to experience significant improvement across each of our business lines, specifically within the Mortgage Banking business where we generated record revenues and anticipate gaining market share. Consistent with our business plan we continue to use strong mortgage banking revenues to help fuel the growth and other lines of business thus diversifying and lessening the volatility of our revenue streams over time.

Our first quarter, pre-tax, pre-credit cost revenue was $206.3 million or $0.36 per share. As you can see on slide five this was more than double the prior quarter level, and significantly higher than any other quarterly level in previous quarters. This revenue, however, was offset primarily by continued legacy credit costs, contributing to a net loss of $0.02 per share for the quarter.

Although we incurred substantial credit costs during the quarter, which I will provide more color on in a moment, remained well capitalized with significant liquidity at the end of the period. We also experienced significant improvement in delinquent loan trends as we continue our emphasis on putting challenges associated with the pre-2009 origination portfolio behind us.

We believe our core business drivers are all moving in the right direction with our continued emphasis on enhanced risk management and controlling credit costs as well as the favorable underlying credit trends we experienced during the quarter.

We still believe that we are still on pace to return to profitability during 2012. This assumes that no material adverse changes in our expectations of economic and business trends.

Before I get into each of the business lines, I would first like to discuss credit quality. For the quarter credit related costs totaled $213.6 million as compared to $173.2 million in the fourth quarter. This increase was driven, primarily, by a $51.2 million increase in loan loss provision expense.

Let's first discuss the loan loss provision. The increase in provision expense from prior quarter was driven by three key items. First, on our fourth quarter 2011 earnings call we mentioned we would continue to enhance our loan loss model by incorporating more granular and segmented data.

During the first quarter we made refinements to both our allowance for loan losses and representation and warranty reserve models, inclusive of improved risk segmentation and quantitative analysis in modeling of the qualitative risk factors.

We believe these are consistent with our ongoing risk assessment process focused on the impacts of the current economic environment and related borrow repayment behavior on our credit performance. Back-testing and validation of the results of our qualitative modeling of the risk and efforts to use better quality information.

Such is consistent with the expectations of the bank's primary regulator and continuing evolution of the performance dynamics within the mortgage banking industry. Part of the first quarter provision expenses is related to these refinements.

Second, during the first quarter we also eliminated our specific valuation allowance practice to conform to regulatory guidance as we are now required to file an OCC Call Report on and quarterly basis, beginning with the quarter ended March 31st, 2012. Those specific reserves were charged off during the quarter contributing, in part, to an increase in provision expense.

We would expect that a portion of the first quarter provision relating to these items should not impact future quarters. Paul will address this further in his review of our outlook for the second quarter.

Third, our first quarter loan loss revision expense includes the impact of increased loan modification and other loss mitigation activities. This increased activity is the result of strategic initiatives we implemented in the fourth quarter of 2011, which are designed to put legacy portfolio challenges behind us.

We believe these strategies are working. As evidenced by, first, about $445 million reduction in Residential First Mortgage held for investment portfolio, an 18.7% decline in Residential First Mortgage Delinquent Loans, an 18.1% decline in Residential First Mortgage Non-performing Loans, and lastly the satisfactory resolution of $147 million in Residential Held-for-Investment Loans to financial distressed customers through either modifications or other loss mitigation options, including short sales or deed-in-lieu of foreclosure.

At March 31st, 2012, our overall allowance loan losses was $281 million as compared to $318 million at December 31st, 2011. The decrease in the allowance of loan losses reflects an increased level of charge-offs due to the write up of specific valuation allowances to conform with regulatory guidance.

Our allowance to non-performing loan ratio increased to 69% at March 31st, 2012, as compared to 65% at December 31st, 2011.

Net charge-offs related to first mortgages comprised $94.6 million of the first quarter total as compared to $18.6 million in the fourth quarter of 2011. Net charge-offs related to commercial real estate loans also increased to $43 million in the first quarter of 2012 as compared to $1.7 million in the fourth quarter of 2011. These increases from the prior quarter, which have been primarily by the elimination of specific valuation allowances

During the quarter we experienced positive credit trends in the overall level of delinquent loans as well as the 90-day plus non-performing category, which is a leading indicator of future charge-offs. We believe these improvements were driven in large part by the significant investment our mortgage-servicing platform, including single-point of contact strategy along with an economy that is showing some signs of stabilization in employment trends and changes in housing prices.

Total delinquent loans, those that are 30-days or more past due also decreased by 15.8% during the quarter to $533.4 million as compared to $633.5 million at December 31st, 2011.

Overall, 90-day plus non-performing loans decreased by $16.7 million to $406.6 million at the end of the quarter as compared to $488.4 million at December 31st, 2011. This improvement was driven primarily by decreases of $69.7 million in non-performing residential first mortgage loans and $7.1 million in commercial real estate loans.

Our ratio of non-performing assets to tier-one capital in allowance for loan losses commonly referred to as a Texas Ratio, also improved to 34.6% as compared to 39.3% at December 31st, 2011.

Turning to loan repurchases, we also experienced continued hiked in provisions related to our representation warranty reserve, reflecting both increased charge-off of loans previously sold and expectations for continued levels of repurchase requests from GSEs.

Remain committed to maintaining our long-term partnership with Fannie Mae and Freddie Mac and will work to make sure those relationships are mutually beneficial. However, we continue to have ongoing discussion with the GSEs over they're anticipated levels of future repurchase requests.

At March 31st, 2012, our representation and warranty reserve increased to $142 million an 18.3% increase compared to $120 million at December 31st, 2011.

I would now like to discuss our business line starting with Mortgage Banking. The strength of our distribution channels, our industry lending position as conforming residential mortgage originator and the strategy initiatives we implemented as well as the current dislocation in the market, has well positioned us to gain additional market share which we believe we have been able to accomplish.

The results of these efforts and the strong refinance market drove a record level of mortgage banking revenues in first quarter. Gain on loan sales income for the first quarter increased by about 92% from the prior quarter to $204.9 million with a margin of 189 basis points. This was the result of the strong margin due to decreased competition, efficient origination and sale execution and increases in the overall levels of residential first mortgage volume.

Residential first mortgage originations increased to $11.2 billion in the first quarter as compared to $10.2 billion in the fourth quarter of 2011. In addition, first quarter residential first mortgage rate locks also increased approximately 32% to $14.9 billion.

Some of you may be wondering about HARP 2. While the enhanced making home affordable program is still in its relative infancy, as you may imagine we are actively working with borrowers nationally on refinancing options to keep them in their homes and stabilize the housing market.

I would have to say it has been a real success in the levels of locks and closings that are falling right in line with expectations as the new program gains an operational efficiency and consumer awareness grows throughout the market.

We have built our mortgage banking loan organization model around efficiency, which is why we have not had to add significant staff and dramatically increase non-interest expense to handle increased mortgage volumes. Our first quarter credit adjusted efficiency ratio improved to 42.6% as compared to 65.8% in the fourth quarter of 2011. At the same time both loan fees and charges in net servicing revenue for our mortgage servicing rights increased from the prior quarter.

Turning to Commercial Banking, our commercial and specialty banking groups continue to execute on the strategic plan we laid out in 2010. Since that time we have made significant investments in infrastructure, developed a competitive suite of lending and treasury management products and services and added experienced relationship managers and credit and support staff.

Since starting essentially from ground zero in the first quarter of 2011 we have been able to achieve all of our loan, fee, deposit and asset quality goals consistent with our forecast. Our current pipeline is strong and we continue to add new customers and cross-sell opportunities in a thoughtful and controlled manner.

Management is focused on building a high-quality, diversified portfolio of commercial, specialty, and small business relationships.

Turning to Personal Financial Services, which we formerly referred to as Retail Banking. We continue to be successful in improving deposit mix and reducing funding costs. We increase retail core deposits by approximately $352.5 million from the prior quarter, with an improved retail core deposit ratio of about 48% at March 31st, 2012.

The improvement core deposits lead to reduction in overall funding costs with the first quarter average costs of funds declining to 1.76% as compared to 1.81% in the fourth quarter of 2011. This improvement in funding costs partially offset declines in yields and balances on average earning assets.

Overall, first quarter net interest margin remained flat at 2.41% as compared to 2.43% in the fourth quarter of 2011.

Personal, financial services continue to successful grow deposits primarily to its branch and business-banking network. Its savings account promotion continues to be very successful, both in terms of acquiring new customers and new deposits and also retaining those dollars beyond the initial four-month promotional period

PFS continues on acquiring new personal and business checking customers then cross selling those customers the full range of financial products offered.

PFS has completely replaced the deposits sold from the Indiana and Georgia Branch divestiture. Michigan deposits grew by $925 million between September 30, 2011 and March 31st, 2012. $744 million of that growth centered in our branch banking which more than replaced the amount of deposits sold in the two divestitures.

At March 31st, 2012 we remained well capitalized to the Tier 1 ratio of the 8.64% a Tier 1 common to risk weighted assets of 8.85% and total risked based capital ratio of 16.06%. We also maintained significant liquidity to fund ongoing business with approximately $758 million in cash and interest earning deposits in addition to approximately $670 million in collateralized borrowings at the FHLB and approximately $270 in unencumbered marketable securities.

I would now like to turn the presentation over to Paul.

Paul Borja - *Flagstar Bancorp - CFO*

Thank you Joe, good morning everyone. As indicated in our earnings release we had a $8.7 million loss during the first quarter or about $0.02 per share which was primarily attributable to an increase in loan loss provision expense of $51.2 million. This is our smallest quarterly loss in over three years and reflects a strong core revenue generation capability of the Company this quarter.

Revenue Generation, Expense Management, and Credit Costs. In the first quarter the bank's revenue generation capability was primarily reflected in the high level of gain-on-loan-sale income and increased revenue from mortgage servicing rights, as well as, continued strength of its net interest income.

The bank's net interest margin declined slightly to 2.41% from 2.43% during the fourth quarter. This reflects net interest income of $74.7 million during the first quarter, just slightly believe the $75.9 million of net interest income during the fourth quarter.

Both yield on assets and cost of liabilities declined during the quarter by 5 basis points and so the spread earned on our assets remained constant. However, as noted earlier, our average balance has declined slightly resulting in a lower net interest margin percentage.

In particular our interest income decline during the quarter reflecting lower average balances for our help for investment loans, especially, our residential mortgage loans and our warehouse loans. The average yield on these residential mortgage loans declined as loans refinanced, contributing to the decline in interest income for that asset.

The average yield on warehouse loans increased reflecting, in part, the volatility in the overall interest rate marketplace. However, the increase in the yield was not sufficient to offset the decline in the average balance of the warehouse loans, resulting in a reduction in interest income for that loan portfolio.

We were successful, however, in continuing to reduce our funding costs during the first quarter. Our retail funding costs declined to 1.06% from 1.15% in the fourth quarter. Our overall deposit cost declined to 1.15% from 1.24% in the fourth quarter.

At the same time we have been able to increase our retail deposit base, both in savings deposits and lower costing retail Certificates of Deposits. This growth has provided replacement funding for the outflow of maturing higher cost retail Certificates of Deposits and also replacement of higher cost wholesale CDs. Overall, our total funding costs for the first quarter declined to 1.76% as compared to 1.81% for the prior quarter.

For the second quarter of 2012 we would expect our net interest income to be slightly above the level of the first quarter with net interest rates remaining unchanged but with a slight increase in average interest earning assets.

We expect such increase to arise from the continued growth in mortgage production during the quarter, thereby increasing the level of available for sale mortgage loans and warehouse loans. As such, we would expect our net interest margin to remain relatively unchanged for the second quarter.

Further, as was the case during the first quarter, we expected our commercial lending operations will continue to build their portfolios and thereby contribute to the reduced volatility in net interest income. Interest income generated by this growing portfolio increased by 48% over the fourth quarter 2011 during Q1.

Our ability to meet this estimate of net interest income for the second quarter of 2012 depends upon a number of factors, including the continuing ability to generate and maintain higher average balances warehouse loans and available for sale mortgage loans, our ability to meet our commercial lending goals, a continuation of current low interest rate environment and no substantial increases in either non-performing or non-accrual loans.

The bank's mortgage business during their first quarter again produced gain on loan sales that was larger than the prior quarter which itself had been significant. As the bank continued to refinance first mortgage loans and also participated in the HARP 2 program.

The gain on loan sales reflects both growth in overall volume as well as strong margins. The volume growth is we believe due in part to the recent and continuing growth in our overall market share as competitors exit the market place. We continue to believe that we remain well positioned to experienced increase in our overall industry market share during 2012.

For the second quarter 2012, we expect that our production will be approximately 10% above that of the first quarter. Depending upon the composition of that production we believe that our margin levels could be at or slightly believe first quarter margin.

Accordingly and based on preliminary April results, it would be reasonable to expect that our gain on sale income for the second quarter 2012 would be well above that of any quarter of 2011 and could be slightly at or slightly below that of the first quarter.

Our estimate is based on a number of factors, including that there are no significant increases or volatile movements in the current interest rate environment that could affect consumer demand or are hedging costs, that the operating environment for mortgage banking activity does not significantly change, that the expected trend in mortgage originations industry-wide for the second quarter does not decline beyond current industry projections and that there are no regulatory or other impediments to our full participation in mortgage banking.

Another driver of mortgage banking revenue is our net servicing revenue which is a combination of revenue we earn from servicing loans and the net effect of the hedges on the mortgage servicing rights on our balance sheet. In total our net loan administration income was $32.9 million for the first quarter 2012, an increase from $29 million in the fourth quarter of 2011.

Our servicing asset increased during the first quarter to $597 million from $510 million at the end of fourth quarter, due in large part to our high levels of loan production during the first quarter. At March 31st, 2012 that asset reflected approximately $68.2 billion of loans we are servicing for others, primarily the GSEs. Our goal is to earn a 6% return on the value of the asset at a minimum.

For the second quarter 2012 we expect that net servicing revenue will be approximately equal to two-thirds of the amount earned during the first quarter. This assumption is predicated on the interplay between the 10-year treasury and mortgage rates as well as the absence of significant volatility in the mortgage rates and interest rate curves.

Non-interest expense excluding asset resolution was $152 million in the first quarter 2012 as compared to $173.4 million in the fourth quarter 2011. The decrease from prior quarter was reflective of the inclusion in the prior quarter of the $34 million settlement amount associated with our agreement with the Department of Justice. We had outlined this in greater detail in our form 10-k that we filed in March 2012.

For the first quarter 2012, non-interest expense also included increase compensation costs as we continue to increase our emphasis on lost mitigation and enhance servicing through the roll out of enhance programs.

The programs focus on a single point of contact for consumers. Seek to assist borrowers with payment difficulties as early as possible and provide a solid foundation for our continuing servicing partnership with the GSEs. Our increase is also due, in part, to an increase in commissions -- a slight increase in commissions based on the increase in loan selectivity during the quarter.

We anticipate the second quarter 2012 non-interest expense to be flat or slightly below that of the first quarter. This assumes that the FDIC assessment rate remains unchanged, that our mortgage volumes, remain at levels experienced during the first quarter and that upcoming regulations or governmental directives do not require change in either our service levels or our general business operations.

Turning to our credit costs. Joe discussed briefly our loan loss provision and our provision for the representation and warranty expense. Our loan loss provision increased to $114.7 million for the first quarter as compared to $63.5 million for the fourth quarter of 2011. As noted earlier, this increase allowed us to build our loan reserves and increase our coverage ratio. That is, the loan loss reserves divided by our non-performing loans, to approximately 69%.

Including in this increase were enhancements to our loan loss methodology. These included consideration of segmenting, during different factors and industry practice. That industry practice is finding to be better indicators of loss severity.

In addition, we incorporated into the analysis a more formalized consideration of non-portfolio specific qualitative factors, such as macro economic considerations that could affect the manner in which our loan portfolio responds under adverse conditions. We intend to provide more details of these items in our quarterly 10-Q filing.

The increase in the loan loss reserves also reflects the continuing change in the composition of the overall portfolio, which may carry higher loss rates. For instance, during the first quarter we meaningfully increased the bank's loss mitigation activities to keep borrowers in their homes by modifying their loans or by allowing them to sell their homes for less than the value of their loan which is a process referred to as short sales.

For those modified loans that are referred to as Trouble Debt Restructurings or TDRs, the loss rate in our model is higher than loans, which are performing because of the perceived increase in the fault rate that would eventually lead to a loss.

Similarly, short sales while beneficial to consumers are generally affected at a loss to the bank. This loss experience must be included in the overall loss rate applied to our overall performing loan portfolio. A key part of our loss mitigation strategy is to continue to modify loans for homeowners and so we would expect the overall amount of TDRs in our portfolio to continue to increase for the foreseeable future.

At the same time we note that our total loan balances in our 30, 60, and 90-day category -- past due categories have all declined. We expect that this decline especially in a residential mortgage loan area as we continue our loss mitigation efforts should reduce over time our over 90-day delinquent residential mortgages during 2012.

We also expect to continue to enhance our overall loan loss reserve methodology during 2012 by incorporating more granular and segmented data. At this time we anticipate that the provisions for the loan losses for the second quarter of 2012 should be between one-half and two-thirds of that in the first quarter.

This estimate assumes among other things that current trends of unemployment and housing prices remain unchanged and that the growth rates of TDRs and short sales remain flat. It assumes that the loss rates that we applied against our different portfolios don't change significantly based on our experience with our own portfolio, different segmentation, or due to the effect of various macro economic or other factors.

We also continue to refine our methodology for estimating the representation in warranty reserve. This is the reserve that we maintain for potential losses and repurchases of loans we have sold into the secondary market place. Our refinements include incorporating more recent data related to loan file requests from the GSEs. Which we believe is a more appropriate indicator of the nature and extent of any possible repurchases.

To that end we analyze data on an ongoing basis, based upon our review of continuing level of requests we increased our reserves during the first quarter. We expect to continue our review of loan file data as it becomes available to better assess our exposure in light of recent GSE activity.

For the second quarter 2012, we would expect that our provision expense in this area would be approximately two-thirds to three-quarters of that in the first quarter.

Finally, asset resolution expense increased slightly to $36.8 million during the first quarter. We anticipate the second quarter of 2012 level to be slightly lower as we expect this expense to decline slightly over the course of the rest of the year due to our loss mitigation efforts and our improved processing of repurchase government insured loans.

With that I'll turn it back to Joe.

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

Thank you Paul. Now I would ask Steve our operator to open it up for questions. Myself, Paul and the members of the executive management team are all available to address any questions that people may have if they are on the line.

Q-AND-A+++

Operator

(Operator Instructions). Your first question comes from the line of Paul Miller of FBR, your line is open.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Yes, thank you very much, gentlemen. On the reps and warrant slide, page 20, you talk about the $36 million from '009-'011 vintage, this is somewhat brand new and you don't expect to incur any losses on that. Can you just add some color to that?

Mike Maher - *Flagstar Bancorp - CAO*

Yes, sure Paul, this is Mike Maher, how are you?

Paul Miller - *FBR Capital Markets & Co. - Analyst*

How are you doing?

Mike Maher - *Flagstar Bancorp - CAO*

Good, good. We indicated in a short little footnote there that the vast majority of the increased demands related to the 2009 to 2011 vintage, represent primarily Freddie Mac documentation requests for which we have, typically, been very successful in supplying the necessary info and as such we expect to have very little exposure to loss, if any.

In essence it represents a change in practice by Freddie Mac compared to how they have been operating in the past. It does not indicate any further exposure to us just, frankly, a little bit more work on our end to provide the information that we have always been successful in providing.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

And just back of the envelope calculations it appears that you worked through -- correct me if I am wrong, you worked through about $190 million in requests? Is that about right? You took $44 million loss on that?

Mike Maher - *Flagstar Bancorp - CAO*

I hadn't done the math, certainly we took $44 million of loss, $190 million would be the change in new to the end. I don't know where you get $190 million from Paul?

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Well, I am just taking you have the $343 million and the $357 million, which is a $13 million difference. I am backing out the $36 million. I guess. For the $239 million, so $203 million came in. Right? I forgot how I did it. I guess the loss rates about 44%, am I correct on those reps and warrants that you do buy back?

Mike Maher - *Flagstar Bancorp - CAO*

Our loss severity on the bottom right table is 36%.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

36%?

Mike Maher - *Flagstar Bancorp - CAO*

Right. And if you look at -- I am not sure how you did you math, but if you look at the chart, at the end of the year we had pending demands of $343 million. We received additional demands during the quarter and ended up at $357 million.

I don't necessarily have the nominal amount of demands. You have got the increase of $239 million, so if we went from $343 million and added $239 million and only went up $16 million we would have indeed resolved about $220 million of demand given that our total inventory only went up by $14 million.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Is that a good run rate going forward, moving through this?

Mike Maher - *Flagstar Bancorp - CAO*

Yes, I would suggest that our volume, our capacity to resolve requests and whatever you calculate in terms of quarterly run rates is indicative of what we have been able to accomplish. If anything, we have been able to resolve more in the recent quarters than what our previous run rate had been.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

And then on slide 33, in the appendix. It is really a good slide backing out all your different add backs or environmental costs, I would say. You mentioned that your reps and warrant reserves should drop by, anywhere from two-thirds to three-quarters. And I missed the asset resolution. What should that -- should that start to move down or is that going to remain relatively constant?

Paul Borja - *Flagstar Bancorp - CFO*

This is Paul. The asset resolution -- Paul Borja. The asset resolution expense, we expect, would start to decline quarter-over-quarter towards the end of the year, slight declines, but definitely a trend downward.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Okay. And then the provision, that was a big provision and you talked about it. But where should that go back to?

Paul Borja - *Flagstar Bancorp - CFO*

You mean our provision expense for second quarter. We are expecting that to move back down to one-half to two-thirds in Q2. And in Q3 and Q4 we expect that to be moderating down further.

I think, part of it, Paul Miller is that we need to as we go through Q3 and Q4. We have to be mindful of our loss mitigation activities and the impact that, for instance, modifications have on the overall loss rates. As we do modification with TDR as we have to be mindful of redefault rate. As we start to see redefault rates we have to provide a redefault loss curve built within those TDRs -- the performing TDRs and so that has an impact on overall loan loss provision.

But, all things being equal, you would expect that given that it is a static portfolio, you would expect to see a loan loss provision for the residential side to continue to move downward.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Okay, and one last question on HARP. Have you -- I know a lot of guys have...most of the stuff in first quarter was done by mining your own portfolio for HARP eligible loans. Have you seen applications coming in or have you been actively seeking other servicing portfolio HARP product yet?

Matt Kerin - *Flagstar Bancorp - Managing Director - Mortgage Banking & Warehouse*

Yes, this is Matt Kerin. The answer is yes, we are running at about year-to-date probably four-to-one other servicer to Flagstar.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

So four-to-one?

Matt Kerin - *Flagstar Bancorp - Managing Director - Mortgage Banking & Warehouse*

Yes, roughly. It is roughly 20% -- Flagstar service is about 25% and part of that, if you think about the market place and our distribution we don't service a significant percentage of the total servicing of loans out in the market place. We have been a pretty active seller of servicing.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Yes.

Matt Kerin - *Flagstar Bancorp - Managing Director - Mortgage Banking & Warehouse*

In particular the vintages. It is a lot of the vintages we are talking about, so we are continuing through our retail channel and through our existing customers, the life clients focusing on the Flagstar service loans but in addition we are doing other servicer.

Paul Miller - *FBR Capital Markets & Co. - Analyst*

Okay, hey gentlemen thank you very much.

Matt Kerin - *Flagstar Bancorp - Managing Director - Mortgage Banking & Warehouse*

Good-bye.

Operator

Your next question comes from the line of Marc Steinberg with Dawson James Securities. You line is open.

Marc Steinberg - *Dawson James Securities - Analyst*

Yes, good morning. I was wondering what options and/or actions are the Company -- is the Company considering to deal with the delisting issue that is hanging over their head.

Paul Borja - *Flagstar Bancorp - CFO*

Yes, hi this is Paul Borja. I think there is several things. First of all, it is a question that has been raised before. We still have, we did have initially, a time frame until February 18. That time frame was extended for us to be able to consider at the annual meeting. The Board of Directors has not yet scheduled the annual meeting but intends to consider that, I believe, very shortly.

Marc Steinberg - *Dawson James Securities - Analyst*

Okay, I am sorry sir, you say you were talking about the annual meeting, but my question was what particular options or actions are on the table or are at least being discussed to deal with the issue.

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

One is to execute our business plan and restore the Company to profitability. By doing so we believe we will be trading close to the book value than at the significant discount we have now. As of the end of the quarter, I believe our book value per share was $1.49, so significant difference between our current trading level.

We also have options available relative to reserve splits and other mechanical type things that would restore us to NYSE trading guidelines. So we have until our annual meeting to put that to a vote and resolve the issue.

Marc Steinberg - *Dawson James Securities - Analyst*

On the last conference call it was stated that a reverse split was something that the Company, at that point, was really not considering? Is that still an accurate statement?

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

It would be -- it's an option that we have available which was part of your question. It currently is not our preferred option. Our preferred option is to have the value of the Company truly reflected in the market cap and the steps we are taking to execute our business plan will move us forward along that path sooner. But it is clearly an option that is there.

Marc Steinberg - *Dawson James Securities - Analyst*

Okay, understood. Well, thank you.

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

Thank you.

Operator

(Operator Instructions). Your next question comes for the line of Bose George from KBW. Your line is open.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Good morning. I was wondering, do you have the number or the percentage of HARP loans versus the percentage of volume in the first quarter?

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

Total [originations] (inaudible)

Mike Maher - *Flagstar Bancorp - CAO*

Yes, we are running at about -- for the first quarter we are running about 15% of our closings, of our locks, excuse me. It is a much lesser percentage of closings because they haven't closed yet. It is about 11% I think.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Okay and do you think that number trends up or is that fairly stable?

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

There is a steady increase month-over-month which we anticipated as the program gets rolls out. There's been some refinements. There is still some issues with Freddie that will have some impact as they straighten those out. In the first month the AUS programs weren't available until March, so we were basically only using the manual through our retail channel at the time, because we had been doing that for a long time.

I did want to clarify an earlier comment. The four-to-one was our current run rate for the month of April. It is actually about three-to-one year-to-date.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Okay, great. And if you are switching -- pull up on that rep and warranty slide, the 2008 vintage had a little pop up as well. And I was just curious what drove that?

Paul Borja - *Flagstar Bancorp - CFO*

The 2008 vintage?

Bose George - *Keefe, Bruyette & Woods - Analyst*

Yes, the increase in the 2008 vintage to $63 million from $45 million last quarter?

Mike Maher - *Flagstar Bancorp - CAO*

Yes, this is Mike Maher again. I would attribute the increase in 2008 to again, largely, be related to either Freddie Mac or Fannie Mae increase requests, largely due to documentation. It is not indicative of any sort of adverse trend for the Company.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Okay, great, thank you.

Operator

I am showing there are no further questions at this time. I will turn it back to Joe Campanelli for any closing comments.

Joseph Campanelli - *Flagstar Bancorp - President, CEO*

Thank you Steve. I want to thank everyone for taking time out of I am sure is a very busy schedule, to share our discussion this morning and we look forward to chatting with all of you in the future and have a great day, thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.
