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PRESENTATION

Operator

Good morning. My name is Tiffany, and I will be your conference operator today. At this time I would like to welcome everyone to the second quarter earnings call. (Operator Instructions). Paul Borja, you may begin your conference.

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Thank you. Good morning, everyone. I would like to welcome you to our second quarter 2011 earnings call. My name is Paul Borja and I am the Chief Financial Officer of Flagstar Bank.

Before we begin our comments let me remind you about a few things. That this presentation does contain some forward-looking statements regarding both our financial condition and our financial results and that these statements involve certain risks that may cause actual results in the future to be different from our current expectations.

These factors including among other things changes in economic conditions, changes in interest rates, competitive pressures within the financial services industry and legislative or regulatory requirements that may affect our business. For additional factors we urge you to please review our press release we issued last night and SEC documents, as well as the legal disclaimer on page two of our earnings call slides that we have posted on our Investor Relations website. I like to now turn the call over to Joseph Campanelli, our Chairman and Chief Executive Officer.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Thank you, Paul, and good morning, everyone. I would also like to welcome you to our second quarter 2011 earnings call.

I would like to begin today by updating you on some of the earlier successes we see in our key initiatives in transforming the Company. Paul will then discuss our financial results and then I'll update and review our outlook for the second half of 2011. Finally Paul and I, along with the rest of the executive management team, will be available to answer any questions you may have.

First off, last night we announced the divestiture of our Georgia bank branches to PNC Bank. PNC is assuming essentially all of our Georgia employees and the deposits of all of our branches in the state. The transaction is expected to close in the fourth quarter of this year.

From a financial perspective, the transaction will be essentially break even relative to book value. However, given the relatively young age of our distribution channel, the revenue stream had yet to mature, resulted in negative contribution margin even before allocation of indirect charges. This sale will allow Flagstar to focus our growth strategy on our two major markets, the Midwest and the Northeast.

Our second quarter net loss of $74.9 million is reflective of the continued credit costs associated with our legacy balance sheet and legacy business operations. They were impacted by the continuing high level of unemployment nationally and the continued weakening of the home price index, or HPI.

When I joined Flagstar in September of 2009 we began making changes and implementing initiatives to build our other lines of business to augment the revenues produced by our best-in-class mortgage banking franchise, thus transforming Flagstar into a full-service, super community bank. We are encouraged by the steady results we are seeing from these initiatives and the continued progress we have made in our transformation.

I would like to take a few minutes to discuss those initiatives. We continue to take aggressive steps to put legacy issues behind us and remain focused on reducing balance sheet risks and addressing underperforming asset concentrations.

During the second quarter, we sold $68.1 million of non-performing assets from our commercial real estate and real estate owned portfolios. These assets sold for a small gain reaffirming the current marks we have on the portfolio. Since the fourth quarter of 2010, we have sold over $622 million in non-performing assets and will continue to implement strategies to further derisk the balance sheet.

We were able to generate positive core earnings before taxes and credit costs attributable to the strong revenues from our mortgage banking franchise. In line with the industry we experienced a decrease in mortgage banking revenues on a linked quarter basis, although a gain on sale [marg] remains strong increasing to 91 basis points for the second quarter of 2011. Equally encouraging, mortgage rate lot commitments increased by 16.8% on a linked quarter basis,indicating strong origination trends heading into the third quarter.

Late in the second quarter we also launched an initiative to promote prime jumbo mortgages which will improve our return on excess cash and meet consumer demand while maintaining strict underwriting criteria. Early [vine] had been encouraging as we had approximately $136 million in rate lock commitments at June 30.

We believe this is a promising initiative that addresses the continued demand for these mortgage products from a segment of the market that has been under served yet has attractive credit and profit fundamentals. We recognize that we've been given an opportunity for jumbo origination growth to support both home purchases and refinancings.

Turning to commercial banking. We are pleased with the early success of our recently launched commercial banking initiative. Over the past year we have funded significant investment and foundation for a solid commercial banking platform. Investments in new systems, enhanced policy procedures and experienced leadership, complemented with robust cash management and other non-credit products and services have begun to pay off.

During the second quarter, we originated approximately $100 million in new commercial and specialty relationships and also have grown significant pipeline of established companies across the middle market, business banking and specialty lending [top] markets. Flagstar values the role we can play in helping grow the economy and our target markets, and assisting small and medium sized businesses with their individual plans for expansion, job creation and capital investment.

For the second quarter, our bank net interest margin was 1.86%, essentially flat from the prior quarter at 1.87%. Increases in interest income from our commercial banking initiative and reduced funding cost to offset by reduction average loan balances on our mortgage related portfolios, with linked quarter decreases in both the available-for-sale and wholesale lending portfolios. As we continue to add high quality commercial and specialty loans with attractive spreads to the balance sheet, we expect to see future improvements and reduced volatility in our net interest margin.

We have also made significant progress in building out and launching our treasury management services which help deepen customer relationships and provide an annuity-like recurring stream of free income to supplement our spread income. We are optimistic about the initial success and positive feedback from our commercial customers who are using our treasury products and services.

In addition, this month we relaunched our enhanced business online banking product which has received excellent reviews from our valued customers. We also signed a contract with a private label payroll service provider. Flagstar payroll services will not only be a source of incremental fee revenue, but provide also direct relationships with new customers to cross-market retail services. Most importantly, we continue to attract talented and seasoned veterans to lead the execution of our business strategy.

Our commercial banking operation has made great strides and is well positioned to serve clients in New England and Michigan as well as our other specialty lending businesses. We are now up and running in four locations in New England with offices in Boston and Foxborough, Massachusetts, Providence, Rhode Island and West Hartford, Connecticut. We are also in the process of establishing an additional commercial banking office in Metro Detroit in addition to the team of bankers that we have our headquarters in Troy.

As I said earlier, we are familiar with and experienced in these markets and are confident in our ability to grow these business lines in a prudent and responsible manner; an established Flagstar brand with a new universe of high-quality customers.

Turning to retail banking. We have been working to enhance our sales culture as part of the DNA of our banking staff, and are seeing positive results. The retail team is building on the culture of service excellence, which has earned us two straight J.D. Power awards for excellence in customer satisfactionin making a shift to focus on servicing all of the customer financial needs. To that end, a new companywide sales program was rolled out in June of this past year.

The banking centers have been selling mortgages, generating non-interest income through the sale of investment products and targeting businesses who we can offer consumer banking products to the employees. We are clearly building momentum in the banking centers consistent with our efforts to transform Flagstar into a full service super community bank. We have also stepped up our efforts to sell investment insurance products, as well as retail CDs mature, we are offering customers not only core money market and savings accounts, but also annuities, mutual funds and other investments to generate valuable fee income and increase customer retention.

During the quarter, our borrow bank rating was upgraded as a result of the improvements we've made in our balance sheet and capital position. This is important as it opens the door further for discussions with additional municipalities who were previously limited by the amount of business they could do with us prior to our rating upgrade.

Consistent with the overall retail banking strategy we continue to experience a decline in our overall cost of funds. As we are focused on replacing maturing high-cost wholesale and retail certificates of deposits with low-cost core deposits. For the second quarter of 2001, our overall cost deposits is 1.5% down from 1.63%in the first quarter of 2011. This improvement translates to quarterly savings and interest expense of approximately $2.1 million. Retail core deposits as a percentage of total retail deposits increased approximately 47% as compared to 42% at March 31, 2011 as we continue to push to grow low-cost core deposits.

During the second quarter we had approximately $632 million in retail CDs mature, which carried a weighted average interest rate of 183 basis points. We selectively retained approximately two-thirds of those CDs at a weighted average rate of approximately 75 basis points which also helped drive down funding costs.

As previously announced, we have been developing a credit card program as part of our transformation to full service blank and are slated to launch in the fourth quarter of 2011. We also implemented a number of other retail banking initiatives, including a refreshed and updated home page on flagstar.com, and we're user friendly online banking application. Like our commercial banking area, we continue to attract experienced and talented key executives to lead our retail banking division.

Turning to the balance sheet. Total assets decreased to $12.7 billion in the second quarter of 2011 from $13 billion in the first quarter as we reinvested excess liquidity into interest earning assets. As a result, we saw a 19.6% increase in available-for-sale loans and a 3.6% increase in help-for-investment loans. Given a reduction in assets, we were able to allow for selective reductions in some of our non-core deposits which helped lower funding costs.

During the second quarter, we also purchased some agency mortgage-backed securities and brought some of our off-balance sheet hedges back on which should improve our net interest margin and collateral management.

With respect to asset quality, non-performing assets decreased on a linked quarter basis, both in absolute value and as a percentage of total assets. The decrease reflected a sale of non-performing commercial real estate assets and a decline of the level of real estate-owned property. Partially offsetting the overall decrease was an increase in 90-plus day delinquent residential loans which will be discussed in greater detail during the call.

At the same time, we continue to maintain a healthy allowance with a June 30, 2011 allowance for loan losses to non-performing loan coverage ratio at 67.9% and allowance for loan losses to help investment loan ratio of 4.59%.

On the expense side, our second quarter 2011 non-interest expense declined by $16.3 million, or 11.1% from the prior quarter. The decrease was driven by a decline in asset resolution expense and a decrease in compensation, benefits, and commissions. We remain committed to pursuing ongoing improvements in operating efficiencies and expense reductions as we continue to diversify the Company.

Our capital liquidity levels remain strong. We closed the second quarter with a Tier 1 ratio of 10.07% and a total risk base capital ratio of 19.73%.

Consistent with our business plan, we invested $50 million in capital from the holding company to the bank during the second quarter as an equity investment. We ended the second quarter with a liquidity position of $1.6 billion consisting of cash on hand, interest earning deposits and marketable securities.

Before I turn things over to Paul, I would like to spend a few minutes and discuss some of the key industry issues and how they impact Flagstar. As you know, the federal reserve bank recently issued final rule in connection with the Durbin Amendment.

This rule while much more favorable to banks than the original proposal, still represents a 45% loss in revenues that we used to provide low-cost accounts to customers and to deter fraud. We are currently in the process of evaluating how this rule will fully impact our current checking account offering and expect some changes to be introduced during the course of this year.

Despite this negative impact on our business and the industry in general, we still believe we are uniquely positioned to respond in a way that will allow us to continue to grow our core deposits and the income effectively. We are committed to delivering service that earned us two consecutive J.D. Power awards for excellence and customer satisfaction which we will combine with the best-in-class retail products.

There has been much talk in the media about the settlements with 14 of the major servicers and the impact it will have on the cost of servicing for others. Flagstar was not part of that settlement. However we view the subsequent guidance as establishing a baseline for best practices in the industry.

We are constantly updating the factors we use to determine the valuation of our mortgage servicing assets, and believe that as of quarter end, we have factored into our evaluation the additional cost of service. I would like to now turn things over to Paul Borja who will take us through the financial results before we discuss drivers and then move on to the Q&A.

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Thank you, Joe. So to review the financial operating results for the quarter versus the prior quarter, we had a $74.9 million loss during the second quarter as compared to a loss of $31.7 in the first quarter.

The increases that contributed to this loss included an OTTI charge in our securities, evaluation charge of about $16 million, a decline in our loan administration income of about $9 million, a decline in our gain on loan sales of about $10 million and an increase in our loan loss provisions of about $20 million. These were offset in part by our improvement in our non-interest expense of about $17 million, as Joe mentioned earlier.

Within that net loss in the operations of the Company, we had a net interest income decline of about $1.2 million which gave rise to a relatively flat NIM.

As I mentioned earlier, our provision increased about $20 million on a linked quarter basis. The commercial provision portion of that declined slightly during the quarter due to a lower amount of loan downgrades and fewer declines from the appraisals. Our residential provision did increase during the quarter due in large part to an increase in over 90-day delinquent loans and higher loss rate that we are applying to loans in our legacy portfolio.

From a non-interest income perspective, our non-interest income declined $38 million on a linked quarter basis compared to Q1. Included within that decline was the other-than-temporary-impairment charge I mentioned earlier on our CMO securities of approximately $16 million. Additionally, our gain on loan sales declined about $10.4 million. We did have higher locks during the course of the quarter, but we did have lower margins and we did see stiffer pricing competition.

Our loan administration income, which is income we earn off of our mortgage servicing rights as well as the income we earn off of our securities that we use to hedge it, declined about $9 million on a linked quarter basis. This decrease in the level of the return was attributable primarily to decline in the value of the MSR due to a lower and more volatile interest rate environment during the second quarter.

From a non-interest expense perspective, our non-interest expense declined about $17 million. Key among that was a decline in our asset resolution expense, which is the expense that we record for foreclosure costs and for curtailment costs on our Ginnie Mae portfolio. The decline was due in large part to reduced provisions that we took for potential real estate losses. We also had some income that was accredited to the non-interest expense side arising from a decline in the warrant expense that we expect to pay on outstanding warrants.

From an asset quality side, we touched on that briefly in Joe's comments. Our non-performing assets did decline on a linked quarter basis to $519 million from $554 million. Our coverage ratio remains strong at 67.93% as compared to 74%, so just a slight decline, and we still have a strong ALLL to help for investment loan portfolio ratio of 4.59%.

Overall, our NIM remained essentially flat on a linked quarter basis. We had some decline in interest expense which offset some slight declines in our interest income.

Our liquidity remains strong at quarter end with cash of 7 -- I'm sorry with cash on our balance sheet of about $758 million and total liquidity when combined with our marketable securities of $1.6 billion at June 30. We remain strong at Tier 1 with 10.07% Tier 1 versus 9.87% at the end of Q1, and our risk-based capital remains strong at 19.73% at the end of the quarter.

Also you will notice on the slides we did have a brief presentation on our deferred tax asset valuation allowance. At the end of second quarter our deferred tax asset valuation allowance was approximately $365 million. That translates into a book value of approximately $0.66 per share. With that, I will turn it back to Joe.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Thanks, Paul. On Page 17, excuse me, Page 18 of the presentation, I will provide you our outlook for 2011 for each of our key drivers. If you turn to Page 18, I would like to address each one.

Starting with asset size, while we expect to continue to grow our earning assets, we also expect the balance sheet will decline due to the shrinkage from the Georgia branch sale as well as the continued disposition of non-core and non-performing assets. As such, we are reducing our estimate of year-end asset size from the range of $12.5 billion to $13.5 billion.

With respect to residential mortgage originations, we are slightly reducing our outlook originations of performing residential mortgage loans to a range of $20 billion to $24 billion. This is based on our assessment of the expected decline in overall industry production as indicated by recently published forecast and trade groups which is consistent with our recent experience and factoring in our origination initiatives.

On loan sales, we expect to sell most of our performing residential mortgage loans that we originate. Therefore, we have not changed the outlook for loan sales for the year.

With respect to gain on loan sales, our experience over the years that margins on loan sales tighten as overall industry production declines. As we discussed above, we expect industry production to decline during the rest of the year. Accordingly, we are reducing our outlook slightly to a range of 75 to 100 basis points for the year.

On the net interest margin side, our goal has been to transform our operations to a super community bank to development and commercial lending franchise, and as opportunity permits, origination jumbo loans. We began originating in each of these areas this year, although later than initially planned as we built out the appropriate controls and procedures and as we managed through the recent volatility in interest rates.

As such, our operations will not have the benefit of the revenue contribution for those loans for the entire portion of the year. Accordingly, we are lowering our estimate on net interest margins slightly to a range of 190 basis points to 210.

As we discussed earlier, we have seen an increase in the over-90 day residential mortgage loans, and also, the effect of a more severe outlook on home prices in the near-term. With this in mind, we revised our outlook for provision expense associated with our loan loss allowance and are increasing to a range of $110 million to $150 million for the full year. With that said, let me turn over this discussion to our CFO, Paul Borja, to start our question-and-answer session.

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Thank you, Joe. If anyone has any questions, I would be happy to address them.

QUESTIONS AND ANSWERS

Operator

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

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

Good morning. I had a couple of questions. I just wanted to start with the net interest margin outlook. Can we think of this as effectively being pushed out into 2012 and so you get to the same ending point, it's just being deferred a little bit?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Yes. As you are familiar with the business models, we build the consumer and small business portfolios, those are not as volatile as the available-for-sale, and hence we will have more stability in that margin, so it's an issue of timing.

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

Okay. And is there any way to think about how much the timing has been deferred over the course of this quarter?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

It hasn't been significant. I would put it in the range of 90 to 120 days, [Steve] --

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Would you like to comment on that?

Steven Issa - *Flagstar Bancorp Inc - EVP, Managing Director, Commercial Banking Division*

Yes, I would say 90 to 120 days is good.

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

Okay. Great. Thanks, and then if you would like to switch to the reclassification you guys did on the FHA loans. I mean, I understand why you reclassified them and raised the interest income, but I don't really fully understand why you took the loss resolution expense up. My understanding is that the interest is fully reimbursed by the FHA. Are you anticipating curtailments? Just walk us through that a little bit would be great.

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Sure. The asset resolution expense that we have shown in prior quarters has been a combination of the expense associated with the Ginnie Mae's offset in part by the income associated with the Ginnie Mae's. What we have done because of the size of the asset, is to break out the P&L portion as well as the balance sheet portion as we've have done in the past.

We have had discussions with outside advisors and reviewed outside financials and believe this is best practice and most transparent to investors. In doing so, we have taken the income portion that was otherwise offsetting the asset resolution expense and moved it up into the interest income side. What this does then is it increases the asset resolution expense by a corresponding amount.

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

But just to make sure I understand. The interest expense or the interest component of the FHA is fully reimbursable to you guys, right, eventually?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Yes

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

When that loan is submitted. So over time the interest clearly would exceed the asset resolution expense. Is that right?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

The principle is 100% insured. The interest is earned at a debenture rate. We are paid the interest, less any sort of curtailment claims that apply to the particular loans.

So the goal is to receive 100% principle insurance, and to receive interest income, less any curtailments. So we should be able to receive all of the interest income assuming there are no curtailments. To the extent there are curtailments, that expense is set forth in the asset resolution line item on the P&L.

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

Okay. Great. Thanks very much.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Thanks, Bose.

Operator

Your next question comes from the line of Paul Miller with FBR. Your line is open.

Unidentified Participant - *FBR Capital Markets - Analyst*

Hello, [Kevin Bartner] filling in for Paul Miller. He had another engagement he had to go to. As far as the provision expense coming forward, the $110 million, the $150 million, could you give us some color on what that entails, what you are looking at as a run rate. Do you expect that the delinquencies from the residential portfolio to stay slightly elevated going forward, or I mean, you did see the MPH tick off. Do you expect that to continue? Do you expect it to be a little bit soft during the next couple of quarters? Can you give us a little bit of color on it?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

This is Paul. I will start and then I think Matt Kerin will also jump in. From the provision perspective, the increase primarily reflects our outlook from a residential provision side. One of the drivers there is the increase in the over 90-day loans within our help-for-investment portfolio.

The increase in the over 90-day loans arises in stark effect because, as you may recall, back in November we sold most of our non-performing loans. We have now seen non-performing loans coming as they roll routinely from over 60 to over 90. In the normal course you would see those over 90-day loans, similar amount, roll out into foreclosure because these are new loans and not yet seasoned, they have not yet been in a position to roll out. We are seeing a trend that has been going up, and I think Matt Kerin will speak to where that trend is intending to level off.

Matthew Kerin - *Flagstar Bancorp Inc - EVP, Managing Director of Mortgage Banking & Warehouse, FSB*

Hi, Kevin. How are you?

Unidentified Participant - *FBR Capital Markets - Analyst*

Good.

Matthew Kerin - *Flagstar Bancorp Inc - EVP, Managing Director of Mortgage Banking & Warehouse, FSB*

I think that from the perspective of how we are looking at our 90 days, when you look at cleaning out basically $600 million plus of delinquent loans, 60, 90-plus, you have essentially eliminated a population of loans that otherwise would go to foreclosure or other resolution on the course.

So we saw a modest uptick in the inflows into the over 90 in part because we took back a substantial portfolio that was serviced by others, and in the course of the transfer loss mitigation activities were temporarily postponed, so you don't have a hand-off issue there. And also, you saw your typical uptick in delinquencies due to a normal servicing transfer.

At the same time, we are beginning to Paul's point, we are looking at a portfolio that now has probably an average life of over 90, of about 9 months. We are getting to the stage where we should begin to see the outflows, and I am optimistic by year end we should see a turn that the inflows will be exceeded by the outflows.

Unidentified Participant - *FBR Capital Markets - Analyst*

I just want to follow-up also on the other temporary impairment on the AFS securities and CMOs. How many of those do you have left? How should we look at those? Is there still some deterioration there? Was it something that sold off this past quarter? I know the market took a turn for the worse over the second quarter. Were you selling in the face of that?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

This is Paul. We did not sell any of the CMOs. The temporary impairment reflects our quarterly evaluation. Part of the quarterly evaluation process involves our review of the general trends out there, delinquencies and values, and in particular, the home price index. And in viewing that and establishing our own views of that, we have taken into account the use of others, other independent persons. We did see and we mentioned in the press release, I believe we did see a negative outlook for at least the next two years in the home price index. That particular outlook is factored into our view of the current value of the CMOs and it's reflected in the OTTI impairment.

Unidentified Participant - *FBR Capital Markets - Analyst*

How many of those do you have left?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

We have the same amount as last quarter, one, two, three, six, nine, ten, 11, I believe it's on page --31.

Unidentified Participant - *FBR Capital Markets - Analyst*

Okay. And then finally, has there been any change in whether you are looking to off load the TDRs? Or perhaps maybe another large sale of non-performers? Or do you consider where the balance sheet is right now is where you are looking to take it going forward?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

We are continuing to aggressively work the residential and residential portfolios and constantly weighing the best execution. I don't contemplate any material size in the bulk sale, but we are continuing to clear the pipeline as run-off portfolio.

The average origination dates were back, on the commercial side, mid to late 2000s, 2005 to 2008. Same thing on the resi side. We have some good granular data points, and we are going to continue to work them down with the team of people we have, and be aggressive on that front.

You saw in this part quarter we were able to pull off, on the commercial side, a package of pull for just under $70 million above our book value. Those opportunities present themselves, we'll take them. If not, we will continue to work individual asset levels.

Unidentified Participant - *FBR Capital Markets - Analyst*

All right. Thank you very much, Joe. Thanks, Paul.

Operator

Your next question comes from the line of Terry McEvoy with Oppenheimer. Your line is open.

Terry McEvoy - *Oppenheimer & Co. - Analyst*

Thanks, good morning. As I look at slide five, the pre-tax, pre-credit cost income dip down to $41 million. As you look at your guidance for the next couple of quarters, and I have not done it yet in my model, are you calling for that pre-tax, pre-credit cost income? Is this a bottom? Do you think that grows from here based on what you know and see today?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

Well, what we know and see today, I think that as the PP&R decline is attributable on a linked quarter basis to decline in mortgage income, decline in MSR income. The MSR income is the volatile one and mortgage income ties into our production trends. However, from our perspective, we have not given guidance on the PP&R, but we don't see that as something that we would expect to find decline significantly further at all.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

That volatility, Terry, is part of the business model of mortgage banking which we want to diversify and smooth out a bit. So while we expect it to -- if you look historically, it's moved around a bit, and given those shifts, we would expect the same type of movement in 2011 until we get into the out-years where we have more balanced offset with commercial and retail banking.

Matthew Kerin - *Flagstar Bancorp Inc - EVP, Managing Director of Mortgage Banking & Warehouse, FSB*

Terry, this is Matt Kerin. I would also suggest that some of the production numbers and gain on sale are attributable to the uncertainty around Dodd-Frank, and some of the lender, loan officer paid compensation issues that flesh themselves out late in the time frame for the first quarter and early second quarter. Where with the business is right now and the pipeline and what we are seeing from some of our various initiatives, I think we are fairly comfortable with our guidance.

Terry McEvoy - *Oppenheimer & Co. - Analyst*

Just looking at the branch network, are you pleased with the pace of improvement in the branches, more multi-product customers? And is the multi-product customer today, is that just an old Flagstar customer, or is this more foot traffic or an increase in foot traffic, and you are able to hopefully sell that more than a high-cost CD?

Michael Tierney - *Flagstar Bancorp Inc - EVP, Managing Director Retail Banking*

This is Mike Tierney. We are definitely pleased with the improvements in cross-sell. Cross-sell has improved five straight months. And we are hard at work at revising our products. We have introduced a whole new sales training process to all of our colleagues to help them cross-sell.

We have also become much more efficient in the branches. We scaled back our hours which, I think, is very well received by our colleagues, and was really done without any issues from our clients. So we are very pleased with the sales enhancement while at the same time becoming more efficient.

Terry McEvoy - *Oppenheimer & Co. - Analyst*

Just one last question. If I look at loan growth going forward, Northeast versus the Michigan Midwest, where is there the best pipeline in that mix going forward? Is it going to be skewed towards any one market?

Steven Issa - *Flagstar Bancorp Inc - EVP, Managing Director, Commercial Banking Division*

Hi, it's Steve Issa. Basically in the future, with the full build out of the commercial team both in Midwest Michigan and in the Northeast New England, we expect it to be evenly balanced in the quarters to come. And the growth has comeprobably, I would say, 55% to 60% in New England in specialty, because we didn't really have the buildup in Michigan yet, which we do now.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Yes. I think the strategy has always been when looked down the line demographics, the Northeast has been less severely impacted over the course of the last multiple year recession from underlying asset values and diversification of the economy and allowed us to grow a little faster in that region. We are being thoughtful and careful, and our credit exposure going forward, and have a very balanced approach to executing that strategy.

Terry McEvoy - *Oppenheimer & Co. - Analyst*

Appreciate it. Thank you.

Operator

(Operator Instructions). Your next question comes from the line of Mark Steinberg with Dawson James Securities. Your line is open.

Mark Steinberg - *Dawson James Securities - Analyst*

Thank you. Good morning. I have a question for you, and that is that in laymen's terms, taking into account the levels of high unemployment in the housing market, why do you think that the actual loss per share was so much higher than what the analysts who follow Flagstar thought it would be?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

The loss share relative to our loan portfolio? Is that where are going with it, Mark?

Mark Steinberg - *Dawson James Securities - Analyst*

The actual loss per share. What was estimated to be the loss per share and what was the actual? Why do you think the analysts thought it would be so much less than it actually was? The analysts who follow what's happening with the Company and with the industry?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

I can't speak to the specific analyst and reconcile their [mrs] to ours, but as Paul Borja mentioned earlier, we took a $15 million or $16 million impairment on the CMOs, factoring in new perspectives in the second quarter relative to future house expectations. I think that was somewhat disappointing from an industry standpoint looking at housing prices, backing up, and the impact that would have on both the carrying value of the same old portfolio and on a severity level on delinquencies that we would have in our residential area. So that I think those two factors accounted for probably $35 million of higher impact from the lower housing market. I've in fact [set it down as a] first share differential.

Mark Steinberg - *Dawson James Securities - Analyst*

And assuming that the housing market doesn't improve anytime soon or at least materially, what's the plan to offset that?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

If you look at where those losses are coming from, it's from a legacy portfolio that has been in run-off state for a couple of years now, so it's very seasoned. We are looking aggressively within the HFI portfolio to identify specific areas that are impacted. We are talking housing in general here, but the reality of it, it's a very local index. Depending upon where you are in Michigan or California, there is different experiences, so we really have drilled our portfolio down into different regions, and looked at how we can effect our servicing of the portfolio to be more anticipatory. Many of the charges we took are looking out into the future and factoring in those expectations.

So OTTI standpoint, that's kind of backed into the numbers. We are not expecting any material improvement in unemployment or corresponding housing prices. If it happens, great. But if not we have laid out where we expect things to be, and continue to execute our strategy of what we are doing, fixing the losses coming out of the legacy business model, maximizing revenues that we can get out of the mortgage banking business, and diversifying in the commercial, small business and getting more retail revenues out of our branches. A three-prong strategy.

Mark Steinberg - *Dawson James Securities - Analyst*

If I may ask one further question. Can you give a little bit of an update as to what's going on with assured guaranty?

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

It's subject to litigation. I think the judge's ruling, we dismissed two of the four charges speaks for itself, and it will be, I think, something that we will manage through over the course of the legal proceeding. It being in litigation, we really restrict the amount we can comment. I am sure my attorney looking at me thinks I already said too much.

Mark Steinberg - *Dawson James Securities - Analyst*

Okay. All right. Well, listen, thank you.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Thank you.

Operator

Your next question comes from the line of [Johann Liax] with [IMS]. Your line is open.

Unidentified Participant - *FBR Capital Markets - Analyst*

Hello. A few quarters ago you talked about the Texas Ratio of Flagstar, but since last quarter you haven't talked about it and what the Texas Ratio now of Flagstar Bancorp. Thank you.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

We will get that quickly for you, Jo. Why don't we take another question while we pull up that ratio and point out what slide it's on, if you don't mind, Jo.

Operator

Your next question comes from the line of Brice McLaughlin who is an individual investor. Your line is open.

Bryce McLaughlin - - *Private Investor*

Good morning. Follow-up to the two questions back just in terms of analyst expectations and differential in results. Understand that you can't reconcile analysts, but for a couple of years now, we have been receiving information in terms of business drivers. And the question I have asked over the years is, when do we start to transition from talking about business drivers to talking about profitability and real financial results that an individual investor invests in a company for? Where are we on that? When do we start to communicate in terms of what myself, as an investor, need to see out of the bank?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

That's a good question. We are in the process of doing that. I appreciate what you are saying. We are working on a different set of drivers, at a minimum, so that it better tunes to the different models that are out there and hopefully will provide better guidance to analysts.

I think what drives part of this question is why do the analysts miss as much. As Joe indicated, there were a number of different credit issues out there. There was also a volatile interest rate market that occurred towards the end of the second quarter which affected in part the MSR income and also affecting the parts on the loan production.

But to your point, our goal is to get to a point where we have additional business drivers. Some of these will change. Our target right now is for Q3, as well as to get to the point where we say here is where we think our earnings estimate is or loss estimate is for the upcoming quarter.

Bryce McLaughlin - - *Private Investor*

Yes. That's exactly the crux of the question. So without pinning you down, you think by Q3 we might be speaking about earnings estimates rather than business drivers? Is that a fair expectation I can hold into Q3?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

I think a fair expectation is at a minimum, we are going to have different, hopefully we will have more detailed drivers. Work internally as to how that number comes out and be able to communicate that.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Okay. The goal is to provide more and more transparency to our public reporting. The drivers go back at a point in time from a legacy issue where we primarily were a mortgage operation. And now, we have recognized the need to change those as we become more bank-like, but we appreciate your comments.

Bryce McLaughlin - - *Private Investor*

Thank you.

Operator

There are no further questions at this time.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Did we get that Texas ratio?

Paul Borja - *Flagstar Bancorp Inc - EVP, CFO*

If I could respond to the question earlier. On page four of the earning slide that we have posted, we do have the Texas Ratio. In Q1 we had indicated it was 36.75% in our formulation and in Q2 34.42%. It's listed on page four under the heading; non-performing assets, or NPAs to Tier 1 Capital plus general reserves. This is just in response to the earlier question we deferred.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Tiffany, do we have any other questions?

Operator

There are no further questions at this time. I turn the conference back over to our presenters.

Joseph Campanelli - *Flagstar Bancorp Inc - CEO*

Okay. Well thank you, everyone. I appreciate you taking time in your busy schedule to chat with us. Obviously, Paul, myself and other members of the management team are available for questions that may arise with our release, and we look forward to getting out on the road and seeing all of you soon. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.