FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, my name is Felicia and I will be your conference operator today. At this time I would like to welcome everyone to the Flagstar Bank quarterly conference 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. (Operator Instructions). Thank you. Mr. Borja, you may begin.

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

Thank you. Good morning; I'd like to welcome you to our fourth-quarter 2010 earnings call. My name is Paul Borja and I'm the Chief Financial Officer of Flagstar Bank. Before we begin our comments let me apologize for the delay in starting the call. We had difficulties loading the presentation that relates to this release on the website. We can tell you it's now loaded up, so you may want to check.

Also I'd like to remind you about a few things before we proceed. This presentation does contain some forward-looking statements regarding both our financial condition and our financial results and these statements involve 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; competitive pressures within the financial services industry; and legislative or regulatory requirements that may affect our businesses. For additional factors we urge you to review our press release and SEC documents, as well as the legal disclaimer on page 2 of the slides that we posted on our Investor Relations website for this speech.

With that I'd like to now to call over to Joseph Campanelli, our Chairman and Chief Executive Officer.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Thank you, Paul, and good morning, everyone. I'd also like to welcome you to our fourth-quarter 2010 earnings call. We've had a busy fourth quarter and, for that matter, a busy 2010. We've accomplished a great deal during this time and established a clear direction for returning the Company to profitability.

I'd like to begin by talking briefly about our fourth-quarter results and then discussing the progress that we have made in our transformation to a super community bank. After that Paul is going to discuss the financials in greater detail and then I will update and review our key business drivers for 2011. Paul and I, along with the rest of our executive leadership team, will be available to answer questions you may have following our presentation.

In last night's press release we reported a net loss to common shareholders of $192 million for the fourth quarter which included a $176.5 million loss on the sale of non-performing loans. In November we announced that we had sold $474 million of residential non-performing first mortgage loans.

We also subsequently reclassified an additional $104.2 million of non-performing first mortgage loans as available for sale. The $176.5 million loss was included in our fourth-quarter loss and reflected our provision for loan loss expense.

For the full year 2010 the loss totaled $393.6 million, which includes the $176.5 million loss I just mentioned. Although we are always disappointed to report a loss, we believe that 2010 was a year in which we took steps necessary to de-risk our balance sheet and return the Bank to sustainable profitability.

In the earnings call presentation we have prepared a slide which shows you our pre-tax pre-credit cost earnings. We earned $275 million in 2010 excluding credit cost and nonrecurring charges. We believe this provides a sense of the normalized earnings potential for the Bank and the associated return on assets and return on equity that will help carry us through the transition process and over time supplement a more diversified earnings stream.

We experienced a number of positive trends in our core business during the fourth quarter. Our three biggest credit costs, while significant, are trending down from the prior quarters. This includes provision for loan losses, excluding those related to the sale of non-performing assets or loans; asset resolution; and secondary market and reserve provision. (inaudible) banking revenues continue to be strong with gain on loan sales income of $76.9 million and a margin on that income of 89 basis points.

Fourth-quarter mortgage originations increased by 20% from the prior quarter. And our net interest margin improved significantly as we've seen the results of the steps we took in 2010 to lower funding costs. For the fourth quarter Bank net interest margin was 2.08% which is over a 50 basis point improvement on a linked-quarter basis.

We continued our focus on replacing maturing high-cost brokered and retailed certificates of deposit with lower cost core deposits. Our overall cost of deposits decreased to 2.13% from 2.97% year over year. The prepayment of $500 million in high cost FHLB structured borrowings and restructuring of $1.9 billion of fixed-rate FHLB advances have combined to move our net interest margin more in line with those of our peer group.

During the fourth-quarter we also took major steps towards our ultimate goal of transforming Flagstar into a full service super community bank. We completed a public equity offering where we raised $400 million of new capital through a combination of common and mandatory convertible preferred stock. In December, following the shareholder vote, all of the preferred stock automatically converted to common.

As part of our ongoing strategy to de-risk the balance sheet we sold $474 million of non-performing residential first mortgage loans and transferred the additional $102 million of such loans to our available for sale portfolio. We anticipate entering a binding agreement to sell the remaining balance of non-performing first mortgage loans at or near the end of the first quarter of 2011, which we believe will be well within the mark we took in the fourth-quarter loan loss provision.

The effect of these transactions significantly improved our regulatory capital ratios, asset quality ratios and allowance for loan loss coverage ratios. In the earnings presentation we prepared a number of slides which illustrate the effect of the initial de-risking steps that were completed during the fourth quarter.

Our allowance for non-performing loans held for investment coverage ratio increased to 86% which is the highest level in years. Total 90-day plus non-performing loans held for investment to total investment loans decreased by 59% to 5.05%. In total non-performing assets to total assets decreased by 47% to 4.35%.

Lastly, our Texas ratio declined from 70.4% at the end of the third quarter to 39.14% at the end of the fourth quarter. The improvement of our ratios is driven by the sale of non-performing loans combined with the continued improvement of residential non-performing loan portfolio and our continued efforts to aggressively work out and charge-off non-performing loans in the legacy commercial real estate portfolio.

Our total level of non-performing loans held for investment has declined to its lowest monthly level since April 2008. Total classified loans from a regulatory perspective dropped materially from $1.1 billion at year-end 2009 to $253 million at year end 2010. Total classified assets, which include REO and below investment grade securities, or CMOs, declined by 47% year over year from $1.7 billion to $891 million.

I'm encouraged that the de-risking that we have been undertaking is making an impact as we have moved our asset quality ratios more in line with those of our peers. In addition to the anticipated sale of non-performing loans I mentioned before, we continue to pursue strategies and assess our options with respect to overall classified asset levels.

Let's now turn to the secondary marketing exposure. For 2010 we incurred $61.5 million in provisions which was down from 2009 provisions of $75.6 million. At December 31, 2010 our secondary marketing reserve was $79.4 million.

There have been considerable -- there's been considerable press recently and a number of lawsuits reported concerning the repurchase exposure throughout the mortgage industry. However, it's important to note that these battles are being fought primarily in the non-agency space rather than with regard to loans sold to Fannie Mae and Freddie Mac and through Ginnie Mae, which represents the vast majority of the loans originated and sold by Flagstar.

Agency repurchase activities increased, but we believe that is both manageable and predictable as evidenced by the modest increase in our secondary marketing reserve in 2010. As we continue to work through the pipeline and get beyond the 2007 and 2008 vintage years, we believe that agency repurchase volume will subside as the 2009 and 2010 portfolios are performing quite well. And for the limited amount of non-agency loans that we sold, primarily through securitization trusts, we will continue to access assess our exposure in the normal course of business.

During the quarter we were able to increase our historically high capital ratios. We ended the year with a Tier 1 ratio of 9.61% and a total risk-based capital ratio of 18.49%. We also saw a 3% improvement in our efficiency ratio from the prior quarter as we continue to focus on disciplined expense management. Productivity gains successfully offset significant investments in our risk management infrastructure, new product development and investments in commercial and small business banking resources.

Last I'd like to talk about the accomplishments we made in our transformation to a super community bank. During the fourth quarter the Bank launched its branch business banking initiative targeting businesses with annual revenues of up to $500,000 and loans up to $250,000. In connection with that initiative the Bank upgraded its business banking products set with further upgrades and enhancements to be rolled out throughout 2011.

Teams of business development officers and treasury management professionals have been hired and are providing assistance to augment branch manager calling efforts. In that regard branch managers are now making over 600 calls to targeted small businesses on a weekly basis throughout our franchise. Though their numbers are relatively small, application closing activity has been gradually increasing as has related business deposit growth. We're encouraged by the early results and are looking for meaningful growth in 2011.

The Bank is also in the process of building a business banking middle-market group and I'm excited about sharing some exciting news regarding the commercial banking executive leadership team which we plan on announcing over the next 10 days.

2010 has been a busy year at Flagstar. In just one year we've been able to accomplish significant progress in building out our infrastructure. I am proud that we've been able to deliver on the commitments we've promised. During the year the new management team has been able to raise almost $1 billion in new equity, has meaningfully de-risked the balance sheet and executed key components of our business strategies. We are well underway in attracting and retaining a talented management team in our targeted markets and in key lines of business.

While we've accomplished a lot in a short period of time, we acknowledge there's still a lot more work ahead of us. I'd like to now turn things over to Paul Borja who will take us through the financial results before we discuss the drivers and open it up for questions.

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

Thank you, Joe. I'll be discussing the fourth-quarter and year-to-date results throughout the different categories of the P&L. Our [net loss] (corrected by company after the call) overall for Q4 was $192 million or about $0.74 a share as compared to a $22.6 million loss in Q3 or about $0.15 a share.

In Q4 the key drivers that we saw were a decline in the loan loss provision. We did have a loan loss provision of $176.5 million that was related to the non-performing loan sale that Joe mentioned. That $176.5 million translates to about $0.68 a share. We also had during Q4 increased net interest income because of the prepayments of the FHLB advances in June and September as well as the Q3 ending restructuring we did which gave rise to -- which also included lower deposit costs.

For the year we had a $393.6 million loss or about $2.44 a share. Included in that is the $176 million loss related to the non-performing loan sale. That translates to about $1.09 per share. And this is as compared to the $513 million loss in 2009 or about $16 a share. During the course of the year we saw lower loan loss provisions, we saw lower net interest income, a decrease in revenue on loan sales, but also a decrease in the comp and general administrative expenses.

For net interest income purposes, Q4 versus Q3 of 2010, our net interest income increased to $54 million from $41 million in Q3. The increase reflects lower deposit costs, it reflects favorable repricing of CD renewals and it reflects the impact of the FHLB prepayments and restructurings.

Our net interest margin for Q4 was 2.08% as compared to Q3's NIM of 1.55%. The lower cost of deposits within Q4 comprises most of the $18 million decline in the interest expense in Q4 versus Q3 and that reflects about $8.5 million related to the prepayments and restructuring for FHLB and another $6.9 million related to favorable repricing.

For the year our net interest income declined to $175.6 million versus $211 million in 2009. Our NIM was about flat at 1.64% in 2010 versus 2009. Our loan loss provision for Q4 increased to $225.4 million in Q4 versus Q3, $51.4 million; this includes the $176 million related to the non-performing loan loss sale.

The reserve declined at the end of the year to $274 million from $474 million due in part to the non-performing loan sale and the related reduction of the reserve. We had a decrease in charge-offs during the course of Q4. Overall our charge-offs were $98.1 million in Q4 versus $107 million in the Q3. And this relates to first mortgages where we had $32 million in charge-offs in Q4 and $56 million in charge-offs in commercial in Q4.

Overall our charge-offs in Q4 exceeded our provisions by about $49 million. At the end of the year our allowance for loan loss to held for investment ratio decreased to 4.4% from 6.5% at the end of Q3 2010. Our coverage ratio, which is our loan loss reserves to non-performing loans, improved to 86% from 52% in Q3 and from 49% at the end of 2009. Overall for the year our loan loss provision decreased to $426 million in 2010 versus $504 million in 2009.

We also saw changes in our loan fees and charges, quarter over quarter it increased $28.6 million in Q4 from $24 million in Q3 reflecting the increase during Q4 of originations, that is loan closings, in Q4 to $9.2 billion versus $7.6 billion in Q3. For the year we had a decline in loan fees and charges to $89 million versus $125 million in 2009 and this reflects a decrease in originations in 2010 to $26 billion versus $32 billion in 2009.

Our net servicing revenue increased, this is the income from our servicing portfolio plus the effects of our hedging of the MSR portfolio. And you'll see that if you combine the loan administration income and gain/loss on trading securities on our P&L you'll come to this total amount.

It increased to $28 million in Q4 versus $23 million in Q3 and overall increased to $89 million in 2010 versus $13 million in 2009 with an overall return for the year of about 11.8% based upon all-in operating and revenue cost -- revenue. It continues to provide for us an above average return. In Q4 alone it was 16.1% versus 15.4% for Q3, while we are maintaining our exposure within our acceptable risk tolerances.

Our gain on loan sales for the quarter declined to $76.9 million in Q4 versus $103 million in Q3 reflecting a decline in interest rate locks during Q4 to $8.9 billion from $11 billion in Q3, an increase in our mortgage loan sales to $8.6 billion versus $7.6 billion, and a decline in our margin on loan sale to 89 basis points in Q4 versus 1.35% in Q3 2010.

For the year our overall loan sales -- our net gain on loan sales was $297 million versus $501.3 million in 2009, reflecting overall for 2010 a decrease in interest rate loss, a decline in residential mortgage loan sales and a decline in margin on loan sales.

Our other fees and charges changed during the quarter. The adverse effect, the net effect declined to a negative 4.7 from a negative 7.7, so it represented for us an improvement due in part to the decline in our secondary marketing reserve provisions during Q4.

For the year it also declined so it improved to a $41.1 million charge against the $49.6 million charge. That was comprised of two key parts, a decline in the secondary marketing reserve provision of $14 million and a decrease in premiums paid as a result of our reinsurance contracts that was a benefit to us of $5.3 million.

As we look to non-interest expense, compensation expense for the quarter increased to $66 million against $59 million in Q3 on a linked-quarter basis reflecting an increase in commissions during Q4 with respect to the production. For the year it declined $238 million in 2010 versus $297 million in 2009.

Our asset resolution expense for the quarter decreased to $30 million in Q4 versus $34 million in Q3 as we reduced provisions for possible losses on foreclosed property and repurchased FHA insured loans and this was offset -- the asset resolution expense was offset by an increase in gains on sale of foreclosed properties.

For the year our asset resolution expense increased to $126 million versus $96 million in 2009, reflecting an increase overall in some provision expenses for foreclosed properties and an increase in losses from some sales of properties offset in part by a decrease of $9 million in foreclosure and legal costs.

For the quarter our warrant expense was $7.9 million as compared to Q3's warrant expense of $1.4 million reflecting two components, an increase in the number of warrants that we issued during Q4 as part of the overall public offering as well as an increase in the value of the warrants outstanding based upon the change in the stock price during the quarter. Our warrant expense for the year overall, though, however decreased to only $4.2 million versus $23 million in 2009.

We also had during the quarter and during the year some loss on extinguishment of debt. There was actually none in Q4. You may recall we prepaid in Q3 and had $11.9 million of a loss and extinguishment of debt in Q3 related to the prepayment of FHLB advances in Q3 with a 4.83% rate. Overall for the year we had a $20.8 million expense on loss and extinguishment of debt versus $16.4 million in 2009.

Our G&A expense during the course of the quarter was relatively flat at $21.6 million versus $21.8 million in Q3. And for the year our overall expenses declined to $80.6 million for G&A versus $116 million in 2009, reflecting declines in reserves associated with our reinsurance contracts and declines in line of credit expenses and consulting and legal fees.

On our balance sheet our assets declined to $13.6 billion at 12-31 versus $13.8 billion at the end of Q3 September 30, and it declined from $14 billion at the end of 12-31-09. We saw an increase in the balance sheet in available for sale loans, but had a decline in the held for investment loans due to continued runoffs and sale and transfer of the non-performing loans during the fourth quarter.

We had an increase in liabilities -- I'm sorry, a decrease in liabilities of $12.4 billion, both from Q3, amount of $12.8 billion and from year end of 2009's amount of $13.4 billion as we continue to -- we saw a decline in deposits as we continue to see some of our higher cost brokered deposits move away and we're replacing them over time with lower-cost core deposits.

Our equity increased at the end of the year to $1.26 billion at 12-31-10 versus $1.06 billion at the end of -- I'm sorry, at the end of Q3. This includes the net proceeds during Q4's public offerings of about $386 million. At the end of the year our book value per share was $1.83. With that I'll turn the -- turn this over to Joe Campanelli.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Thank you, Paul. I'd like to now turn your attention to page 44 of the presentation where we discuss our 2011 drivers of our key lines of business. With respect to our asset size, we're widening at the lower end of our range from a target asset range of $14.5 billion modestly to $14.3 billion. We're reiterating the upper end of the range of $15.5 billion as we continue to execute on our super community bank strategy.

We are encouraged by early indications of our ability to attract high-quality relationship managers and executive leadership and customers in both our legacy markets as well as in the Northeast markets which we know quite well from our past experience.

Moving to the residential mortgage originations, for 2011 we're reiterating our forecast of $21 billion to $25 billion of residential mortgage originations. With the recent hike in rates combined with seasonality we've seen a softening in lock volume in line with the industry, but we anticipate, like 2010, volume will increase as we enter the home buying season.

In addition, we believe that our niche within the wholesale space positions us well as we look to the implementation of recent regulations imposed by the Federal Reserve and under the Dodd-Frank Act. We continue to intend to sell the vast majority of our agency eligible production in 2010; therefore loan sales for 2011 are forecasted to be in the range of $20 billion to $24 billion.

With respect to margin, we are widening or 2011 estimate for margin on the origination and sale of loans to a range of 85 basis points to 115 basis points from our prior estimates of 95 basis points to 115 basis points as we've seen some pricing pressure from market competitors, but we experienced a similar pattern last year and it subsided as the year progressed.

With respect to the net interest margin, we are increasing our range for the Bank net interest margin of 2011 from 175 basis points to 210 -- to a range of 200 to 260 basis points. We were pleased with our fourth-quarter NIM of 208 as our ability to reduce funding cost was more dramatic than we originally projected and we believe that we'll be able to continue to improve the NIM with the transformation strategies that are well underway.

We'll continue to work out our sale of non-performing loans and replace them with interest earning assets while focusing on core deposit growth to lower our funding cost. On the provision side, we're reducing our estimate for provision expense for 2011 from the $100 million to $150 million range to $85 million to $120 million.

Although we continue to model the clients on real estate values and high levels of unemployment in line with a bearish market sentiment, we continued concerns about strategic defaulters, we have a strategic -- we have a static seasoned portfolio.

As previously discussed, we've had material reductions in our classified assets in non-performing loans in both commercial real estate and the residential portfolio and recognize it's been almost three years of seasoning in the static pool. We've got to know these assets quite well, feel comfortable with the forecast we've laid out.

With that said I'll turn it over Paul to lead us in the discussion of any questions and answers.

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

Thank you, Joe. We'll turn it over to the operator for any questions from the group.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bose George, Keefe, Bruyette & Woods.

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

Good morning. I wanted to start with the one on the credit. I was wondering, are there opportunities to sell any of the distressed CRE? And then just in terms of the charge-offs for next year, do you think charge-offs will be in line with provisions or higher as your delinquent stuff just kind of runs off over time?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Let me start with -- hi, Bose, it's Joe. How are you? Let me start with the CRE workout strategies. As you know, each commercial loan is somewhat unique based on the credit structure, the guarantor strength and things along those lines. We're evaluating and moving along multiple paths on an individual obligor basis and on a pool basis to expedite the disposition of our commercial real estate assets and quote the legacy portfolio.

We would expect it to continue the momentum throughout 2011 and pushing those assets out of the Bank. We've seen a heightened level of interest for potential buyers, so we're confident that we can show a lot of success in reducing our carrying values there.

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

As to your question regarding charge-offs and provisions, we normally give drivers for provisions and we -- I know there's a correlation, a rough correlation I guess overall though for 2011, we would expect them to be roughly in sync.

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

Okay.

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

We may extend (multiple speakers).

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

Great, and then let me switch to the residential side. I just wanted to ask about the GSE proposal on servicing fees on reducing them. I was just curious, you guys I know historically have spoken about this issue as well, so I just wanted to get an updated view -- how you're thinking about that.

Matt Roslin - *Flagstar Bancorp, Inc. - EVP*

Yes, Bose, this is Matt Roslin. The -- it would appear that something is going to happen this year, as to what remains to be seen. There's been a lot of talk in Washington about a number of different proposals. Anything that reduces the capital intensive nature of the servicing asset we think is beneficial to us from an industry landscape since our competitors in that space are much larger entities, the Chase's, the Well's, the Citi's, the [Ebay's] of the world. And it certainly looks like it's moving in that direction.

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

Great and then just one last thing on gain on sale. When we look at forecasting gain on sale income for you guys, I mean is it more accurate to look more at the rate lock number as opposed to the closings number as more of your revenue coming at time of lock or how is that divided?

Matt Kerin - *Flagstar Bancorp, Inc. - EVP*

This is Matt Kerin, Bose. We actually -- that is actually the primary item that we look at as we forecast our -- it just gets translated into sales for purposes of the analyst presentation. But from a business management perspective we typically would look at the mark to market on the locks.

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

Okay. So when we think about when the revenue should flow in, it really should flow in closer to the locks versus the closings?

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Matt Kerin - *Flagstar Bancorp, Inc. - EVP*

That's right, technically from a GAAP perspective that's when we recognize --.

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

Bose, this is Paul. One other piece, on the expense side it's the timing anomaly. From the expense side you would, for accounting purposes, recognize those as you close the transaction which means as you dispose of a loan. So you are going to have a timing mismatch, for instance, when you have a quarter in which your closings exceed your locks.

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

Okay. So there is a bit of a frontloading of the revenue in that sense?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

It's at fair value, so it gets adjusted for fallout and movements in rates depending on your hedge.

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

Okay.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

So I still say it's front end, it's a timing issue.

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

Right.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

It could be a plus or a minus depending on your lock to closing ratio for the month.

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

Right, right. Okay, great, thanks a lot.

Operator

Paul Miller, FBR Capital Markets.

Kevin Barker - *FBR Capital Markets - Analyst*

Hello, this is [Kevin Barker] on behalf of Paul Miller. I just wanted to ask a question about the net interest margin. You see it going up about 25 basis points to 50 basis points next year compared to last year. And I was wondering if you can just give some color around that and where that would be driven specifically?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes, if you look at our historical performance versus our peers, one of the drivers on our NIM has been the higher level of non-earning assets that we've been carrying and then our deposit composition between FHLB borrowings and our deposit mix.

A year ago we transitioned our strategy much more retail customer driven on our branch banking side and we've seen success there, moving away from the higher cost CD weighting to really looking at the household penetration from cross-selling which going after that key core account.

So we're really seeing the NIM improve both from a [contribution] on the asset side improving the proportion of earning assets versus non-earning and on the liability and funding side both through the FHLB restructuring and on the deposit strategy. The combination of those forces work on both sides of the balance sheet should move our NIM in line with our -- many of our competitors within our peer group. Paul, I don't know if you want to add something?

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

Yes. And what you can -- if you take a look at Q4, as I was discussing, you can see the decline in interest expense Q over Q which shows really a full quarterly effect of the FHLB prepayments during 2010 as well as the restructuring we do with the FHLB at the end of Q3.

In addition, as Joe mentioned, as these CDs mature we're able to reprice them at a lower interest rate environment. So you do see a full effect of that in Q4 and as this trend goes forward into 2011 you'll see that it will have an uptick on the overall NIM.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes and I'd just add to the point that FHLB was a structuring tactic, it made sense, it made sense, where -- with the success we're having in reducing our weighted average core deposit cost from our resale network is really a result of the relationship driven strategy Sandro and his team have been executing.

Sandro DiNello - *Flagstar Bancorp, Inc. - EVP & Head of Retail Banking*

This is Sandro DiNello, if I could add a couple of things. We're always focusing on the cost side of NIM, but there's also an impact on the asset side because we'll be for the first time in a long time adding new loans to the balance sheet and that will allow us to bring in loans at better yields than what we've had in the past.

So that effort where we're bringing these small businesses in and then in the near future middle-market businesses to the Company will not only allow us to improve the yield on the asset side, but it will also allow us to grow more fundamentally valuable core deposits on the liability side.

So a lot of factors going on. The other one that we haven't mentioned yet, in response to your question, is broker deposits. We've got a substantial amount of broker deposits that will be maturing this year as we had in 2010 and those will be replaced with much lower cost deposits as we go forward.

Kevin Barker - *FBR Capital Markets - Analyst*

Okay. So theoretically as you restructure your deposit and asset base by the second half or maybe to the end of 2011, where -- let's suppose that the yield curve stays fairly static and you're able to have loans on the books at the same levels, where do you see that NIM heading towards on a run rate basis by the end of 2011?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes, I think if you look at the outlook we talked about in the NIM forecast between 200 and 260, that's based on the timing of our success of moving the very strategy we talked about. So you can do your own analysis on the run rates on a quarterly basis. But --.

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

Yes, Kevin, as Sandro and Joe were mentioning, as we continue to roll out the strategy for the commercial lending, bring in the deposits associated with that while getting the full effect of the deposit expense savings off of current CDs maturing and the full effect of the FHLB. Generally when you think in those terms you would tend to think of a ramp-up towards the second half of the year to get us to the overall annual number we show on the drivers of 200 to 260.

Kevin Barker - *FBR Capital Markets - Analyst*

Okay. So once the effect of restructuring of all this finishes you'll probably see closer to like the end of the year where you're more on a normalized [basis]?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes.

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

Right.

Kevin Barker - *FBR Capital Markets - Analyst*

Okay. Thank you.

Operator

Terry McEvoy, Oppenheimer.

Terry McEvoy - *Oppenheimer - Analyst*

Thanks, good morning. First question, what's the anticipated cost or charge-offs related to that $104 million of NPLs that were moved to held for sale? I believe you said it would be a first-quarter or a second-quarter event. Could you just provide kind of some members around that?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes, when we announced -- when we moved that to available for sale we put the same market that we used for the $474 million, it was essentially a 44 basis point recovery. We feel very confident that we'll be executing well within those parameters.

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

So we -- so based upon what we had told folks with the 44 price and having moved it to available for sale it's already been marked. And so the transaction that Joe was mentioning earlier, the transaction we expect to consummate in the course of Q1 would be still well within those parameters.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Right. So it would effectively affect our NIM to some extent because it would be a non-earning asset gone. And then our coverage ratios relative to our Texas ratio provision covers it.

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

But we're not anticipating at this point, Terry, a further charge on the final disposition of those assets.

Terry McEvoy - *Oppenheimer - Analyst*

Okay. And then just looking at the comp and the benefit line, could you just talk about how new hires potentially will impact that line in 2011? And then I guess on the offset, assuming lower residential mortgage loan production you'd see a decline in the expenses in that area?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes, at a high level I'll touch on what Paul (inaudible) more details on it. But essentially we've been implementing productivity gains throughout the organization and we have additional systems enhancements and conversion of core servicing platforms that will drive additional gains throughout the course of 2011.

Those improvements have been funding the investment in our risk management processes, building on our credit approval function, our overall enterprise risk management, in addition to recruiting the relationship management we've talked about and some of the treasury folks that are already on board here. And will continue to fund some of the leadership additions that we'll be adding over the next month or so. So all in all we think it's a pretty balanced approach in how we fund and reinvest the efficiency gains. Paul, do want to add anything?

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

So for the comp and benefits of what you should be seeing, to your point, is do we think we'll have an up-tick during the course of the year as we bring on different folks to provide staffing for the new initiatives. And we think overall that there will be an up-tick in the comp and benefits expense offset, to Joe's point, by a large savings from efficiencies and reduced need to focus on some of the non-performing loan matters that we're dealing with now due to the de-risking of the balance sheet.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Right. And we also factored in improving some of the overall benefits that provide (inaudible) 401(k), things along those lines, that we think are important to recognize the contributions of our rank and file employees that have worked really hard to get us through this process.

Terry McEvoy - *Oppenheimer - Analyst*

And just the last question on the new branch banking or business. Could you just talk about I guess the market's response? Has this been rolled out into all 160 plus branches? And I guess kind of the branch manager turnover that you potentially have seen in order to bring in the right person that is more proactive in making those calls that you had mentioned in your prepared remarks.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes, it's one of these things that our strategy is not to do it with a big bang so to speak. We introduced it into certain markets, fine-tuned it to make sure we have the right positioning from a branding and collateral and operational perspective.

And then once we feel confident that we can go to full scale we'll roll it out through the entire franchise which is a multifaceted plan with respect to training, modifying our incentive structures, going through and identifying where there's a gap in skill set versus the market opportunity and making the appropriate changes there either to enhance training or change personnel.

You have your typical percentage of people that have the experience and knowledge base and some that need a little more encouragement. Sandro, why don't you --.

Sandro DiNello - *Flagstar Bancorp, Inc. - EVP & Head of Retail Banking*

Yes, Joe is right on there. I mean, we've completed a tremendous amount of training and I can tell you from visiting branches and as a result of a sales rally that we had recently, the team out in the field has never been more energized than they are today. They're excited about the new product set that we have to offer. And the fact of the matter is it makes their job easier to build their business by having these new products on both sides of the balance sheet.

So I think that from a turnover perspective there will be some people that will decide that this isn't for them. But many of those people will be able to be placed in other positions within the Company where they do have value and where they will be more comfortable. So, we are enhancing the skill set out in the branch network, but in terms of results, early results are very encouraging.

As Joe said in his earlier comments, we're making a lot of calls on a weekly basis, the application activity is gradually increasing trade, but this is a type of business that requires a ramp-up period. Businesses don't immediately change who they bank with the day that you make a call on them. It takes time, you have to develop a confidence level in them and we're saying that.

There are -- many, many businesses are not pleased with the banks that they're currently doing business with. And I'm extremely optimistic that we'll be able to start showing you some results on these on a quarterly basis as we go forward.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes and I think the benefits that were indicated with winning the J.D. Power award is coming through in our receptivity of listening to our story. So I think we're well positioned from a strategy, now it's all about the execution.

I was impressed with the background with a lot of our retail books coming out of Michigan National and La Salle and Comerica and others that have different types of services to the middle market segment. So -- and small business. So I think that transition is going as well as I would have -- better than I would have imagined.

Sandro DiNello - *Flagstar Bancorp, Inc. - EVP & Head of Retail Banking*

Yes, our ability to hire business development professionals and treasury management professionals that have good experience in the market place with large banks has been extremely, extremely good. We've got a really strong group of people that we've tired and, as Joe has mentioned, I think you'll see that as we bring on relationship managers and the other commercial sectors that people are looking to go to work at a bank that's really, really interested in making loans. And that's where we're at.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

And we've done it before and realizing lending money is easy, the trick is always getting it back. So we're making sure we have all the right people in place to kind of launch a sustainable program.

Terry McEvoy - *Oppenheimer - Analyst*

Appreciate everything. Thank you.

Operator

[Herb Wamholt], shareholder.

Herb Wamholt - *- Shareholder*

I might have to apologize here; I might be a little ahead of myself. But my main question is what are your plans for paying off TARP?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

I think that right now our priority is executing on the strategy that was laid out. We do have a sizable deferred tax asset allowance, which was essentially about $330 million at year end, which would come back into capital once we could show our auditors that we have sustainability and profitability and be able to use those tax benefits going forward. That gives us a significant source of capital to pay off the $260 million some odd that's out there in TARP.

Herb Wamholt - *- Shareholder*

Can you give me -- is there a time frame that this could happen? Is it six months, a year, two years?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Yes.

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

One of the things that we -- this is Paul Borja. One of the things that we've talked about with investors generally is that we're sensitive to the repayment. We're also sensitive to the fact that the TARP changes its interest rate from 5% to 9% after 2013. And we are committed to avoiding that increase in the interest rates through repayment.

Herb Wamholt - - *Shareholder*

Thank you.

Operator

Larry Callahan, Wheelhouse Securities.

Larry Callahan - *Wheelhouse Securities - Analyst*

Good morning. I'm a new shareholder and I just wondered if you could talk about where you see the level of government insured repurchased assets going. And how it would be best to think about liability associated with that and whether the level of those affects the net interest margin or is it more reflected in the mortgage servicing income?

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

This is Paul Borja. The government insured repurchased assets are at $1.7 billion at year end. We continue to work through a different -- a pipeline based upon several years worth of origination. We would expect that those would flux up and down over the course of the next 12 months, fluxing up as we continue the repurchases and fluxing down as we settle on the claims and also as we remediate some of those through sales.

With respect to the expenses and restructuring of the NIM, from the NIM perspective it doesn't have any effect on the NIM per se because it's not an interest earning asset or a non-interest earning asset. So it's viewed as just another asset. It does have an effect on the NIM to the extent that you would have interest earning assets otherwise available. From the expense side as we incur the expenses we book them in the other expenses categories under asset resolution.

Larry Callahan - *Wheelhouse Securities - Analyst*

And how would you characterize the turnover in those? Is there some average turnover on an asset you take in and then --?

Matt Kerin - *Flagstar Bancorp, Inc. - EVP*

Yes, this is Matt Kerin. Currently the time frame runs anywhere from about 230 to 300 days for the (inaudible) claims which is the unpaid principal amount. And that's the function of where they are in the delinquency process. We began to buy out of the loans as soon as we were able to starting about six or seven months ago. And that has some timing impact as a result in terms of how long it's been in our possession, but it's also a better asset to have in your hands earlier than later (multiple speakers) perspective.

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

And if I could add to Matt's point. One of the items that's going to affect the overall time period that's on your balance sheet are the right of redemption periods for the individual states which range anywhere from 30 days to four years. And so from that perspective that's going to have an uncontrollable effect on us.

Larry Callahan - *Wheelhouse Securities - Analyst*

Do you see those peaking in 2011?

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

I mean, if you look at where we think the economy is going I'd say it could be a reasonable assumption to suggest that the level of delinquencies should abate. And in terms of the absolute dollars, we were a fairly substantial originator of this product. And I think from our perspective I wouldn't anticipate any major declines.

Larry Callahan - *Wheelhouse Securities - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). And there are no further questions at this time.

Joseph Campanelli - *Flagstar Bancorp, Inc. - Chairman, President & CEO*

Well, thank you, everyone, for joining us. I look forward to seeing you all down the road.

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

Thank you.

Operator

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