

# Flagstar Bancorp, Inc. (NYSE: FBC)

## Earnings Presentation 1<sup>st</sup> Quarter 2016

April 26, 2016



# Cautionary statement

1<sup>st</sup> Quarter 2016

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This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements are based on management's current expectations and assumptions regarding the Company's business and performance, the economy and other future conditions, and forecasts of future events, circumstances and results. However, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies and other factors. Generally, forward-looking statements are not based on historical facts but instead represent our management's beliefs regarding future events. Such statements may be identified by words such as believe, expect, anticipate, intend, plan, believe, estimate, may increase, may fluctuate, and similar expressions or future or conditional verbs such as will, should, would and could. Such statements are based on management's current expectations and are subject to risks, uncertainties and changes in circumstances. Actual results and capital and other financial conditions may differ materially from those included in these statements due to a variety of factors, including without limitation those found in periodic Flagstar reports filed with the U.S. Securities and Exchange Commission, which are available on the Company's website ([flagstar.com](http://flagstar.com)) and on the Securities and Exchange Commission's website ([sec.gov](http://sec.gov)).

Any forward-looking statements made by or on behalf of us speak only as to the date they are made, and we do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made, except as required under United States securities laws.

# Executive Overview

**Sandro DiNello, CEO**

# Progress on strategic initiatives

1<sup>st</sup> Quarter 2016

*Focus on growth and diversification of earnings*

## Expand mortgage originations

- Accelerate growth in distributed and direct-to-consumer retail origination channels
- Continue national expansion of TPO originations with high quality brokers and correspondents

## Grow community banking

- Refresh the Flagstar brand to build awareness, leverage our retail branch network and grow core deposits
- Align lending platforms to expand product offerings to grow a diverse, sustainable portfolio of loans
- Augment and deepen relationships through best-in-class products and services

## Enhance efficiency

- Position bank to generate positive operating leverage
- Drive productivity and revenue improvements to achieve long-term goal of mid-60's efficiency ratio

## Sustain risk management

- Maintain strong risk management and compliance culture
- Exit regulatory orders

## Optimize capital structure

- Redeem TARP
- Execute MSR reduction plan to meet fully phased-in Basel III target

# Financial Overview

**Jim Cirolì, CFO**

# 1<sup>st</sup> quarter key highlights

1<sup>st</sup> Quarter 2016

## Strong profitability

- Net income of \$39 million, or \$0.54 per diluted share, in 1Q16
  - Up \$6 million, or \$0.10 per diluted share vs. 4Q15 on higher net interest income, prov. benefit and net gain on loan sales
  - Up \$7 million, or \$0.11 per diluted share vs. 1Q15 on higher net interest income and provision benefit
  - Returns on assets and equity up vs. 4Q15

## Higher net interest income

- Net interest income increased \$3 million to \$79 million, up 4% from 4Q15 and up 22% from 1Q15
  - Average earning assets increased 6% led by growth in loans held-for-sale and commercial loans
  - Net interest margin decreased 3bps to 2.66%

## Increased noninterest income

- Noninterest income increased \$8 million to \$105 million, up 8% from 4Q15
  - Adjusted net gain on loan sales<sup>(1)</sup> increased 43% on higher fallout-adjusted lock volumes (+37%) and margin (+4bps)
  - Partially offset by a drop in the net return on the mortgage servicing asset and a reduced representation and warranty benefit

## Improved asset quality

- Net charge-offs and consumer delinquencies fell on solid credit performance
  - Adjusted net charge-offs<sup>(2)</sup> were \$6mm or 40 bps
  - \$13 million provision benefit
  - Allowance to loans held-for-investment remained strong at 2.9%

## Robust capital

- Tier 1 leverage remains solid at 11.0%
- On-balance sheet liquidity equal to 20.6% of total assets<sup>(3)</sup>

1) Net gain on loan sales has been adjusted to exclude the \$9mm gain on HFI loans sold during the quarter.

2) Excludes \$6mm of net charge-offs associated with the sale of lower performing loans.

3) Liquid assets include interest earning deposits, investment securities exclude pledged securities less a 7% haircut applied to investment securities to estimate liquidation costs.

# Quarterly income comparison

1<sup>st</sup> Quarter 2016

	\$mm			
	1Q16	4Q15	\$ Variance	% Variance
Net interest income	A \$79	\$76	\$3	4%
(Benefit) provision for loan losses ("PLL")	B (13)	(1)	(12)	N/M
Net interest income after PLL	92	77	15	19%
Net gain on loan sales	C1 75	46	29	63%
Loan fees and charges	15	14	1	7%
Loan administration income	6	7	(1)	(14%)
Net return on the mortgage servicing asset	C2 (6)	9	(15)	N/M
Representation and warranty benefit	C3 2	6	(4)	(67%)
Other noninterest income	13	15	(2)	(13%)
Total noninterest income	105	97	8	8%
Gain sale / total revenue	41%	27%	14%	
Compensation and benefits	68	59	9	15%
Commissions and loan processing expense	22	20	2	10%
Other noninterest expenses	47	50	(3)	(6%)
Total noninterest expense	D 137	129	8	6%
<b>Income before income taxes</b>	<b>60</b>	<b>45</b>	<b>15</b>	<b>33%</b>
Provision for income taxes	21	12	9	(75%)
<b>Net income</b>	<b>\$39</b>	<b>\$33</b>	<b>\$6</b>	<b>18%</b>
<b>Diluted earnings per share</b>	<b>\$0.54</b>	<b>\$0.44</b>	<b>\$0.10</b>	<b>23%</b>

## Profitability

Net interest margin	2.66%	2.69%	-3 bps	
Mortgage rate lock commitments, fallout adjusted	\$6,863	\$5,027	\$1,836	37%
Mortgage closings	\$6,352	\$5,824	\$528	9%
Gain on loan sale margin, adjusted <sup>(1)</sup>	0.96%	0.92%	4 bps	
Efficiency ratio	74.5%	75.2%	N/M	

1) Expressed as a percent of fallout-adjusted locks and has been adjusted to exclude the \$9mm gain on HFI loans sold during the quarter.  
N/M – not meaningful

## Observations

### A Net interest income

- Net interest income increased 4%
  - Earning asset growth of 6%
  - Net interest margin decreased 3 bps to 2.66%

### B (Benefit) provision for loan losses

- \$13 million provision benefit from mortgage loan sales and continued strong credit metrics
- NPLs fell \$13 million to \$53 million or 0.95% of loans held-for-investment

### C Noninterest income

- Noninterest income increased 8%
  - Adjusted net gain on loan sales rose 43% on higher volumes (+37%) and margin (+4bps)
  - Net MSR return decreased on higher prepayments and a smaller benefit from performance incentives on prior period MSR sales
  - Representation & warranty benefit declined as the reserve remained unchanged

### D Noninterest expense

- Noninterest expenses were up 6%
  - Comp. & benefits rose on higher seasonal payroll taxes, anticipated growth initiatives and a full quarter's expense related to the ExLTIP plan
  - Commissions increased primarily due to higher mortgage closings
  - Other noninterest expense decreased on lower warrant and FDIC assessment expenses

# Average balance sheet highlights

1<sup>st</sup> Quarter 2016

## 1Q16 (\$mm)

	Average Balance Sheet		
	\$	Incr (Decr) <sup>(1)</sup>	
		\$	%
Loans held-for-sale	\$2,909	\$425	17%
Consumer loans <sup>(2)</sup>	3,314	(109)	(3%)
Commercial loans <sup>(2)</sup>	2,354	135	6%
Total loans held-for-investment	5,668	26	0%
Other earning assets <sup>(3)</sup>	3,294	180	6%
<b>Interest-earning assets</b>	<b>\$11,871</b>	<b>631</b>	<b>6%</b>
Other assets	1,672	87	5%
Total assets	<u>\$13,543</u>	<u>\$718</u>	6%
Deposits	\$8,050	(81)	(1%)
Short-term debt	1,662	436	36%
Long-term debt	1,560	341	28%
Other liabilities	2,270	349	18%
Total liabilities	\$11,982	704	6%
Preferred Equity	267	-	0%
Common Equity	1,294	14	1%
Total liabilities and equity	<u>\$13,543</u>	<u>\$718</u>	6%
Book value per common share (3/31/16) <sup>(4)</sup>	\$22.82	\$0.49	2%

- 1) Measured vs. the prior quarter.
- 2) Consumer loans include first and second mortgages, HELOC and other loans; commercial loans include commercial real estate, commercial & industrial and warehouse loans.
- 3) Other earning assets include interest earning deposits, investment securities and loans with government guarantees.
- 4) Book value per share has not been reduced for \$94 million of unpaid dividends on our perpetual preferred stock, which have been deferred. If these dividends were paid, book value per share would be reduced by \$1.66 per share.
- 5) Common equity ratio is calculated on ending period balances.

## Observations

### Balance sheet growth

- Average earning assets increased \$0.6 billion or 6% led by a:
  - 17% rise in loans held-for-sale from higher originations
  - 6% increase in commercial loans
  - Partially offset by a 3% decline in consumer loans from HFI loan sales

### Strong balance sheet<sup>(5)</sup>

- Average retail deposits were flat with a slight decline in the cost of funds
- Average long-term FHLB borrowings increased to support asset growth in late 4Q15
- Common equity / assets of 9.4%

### Book value per share

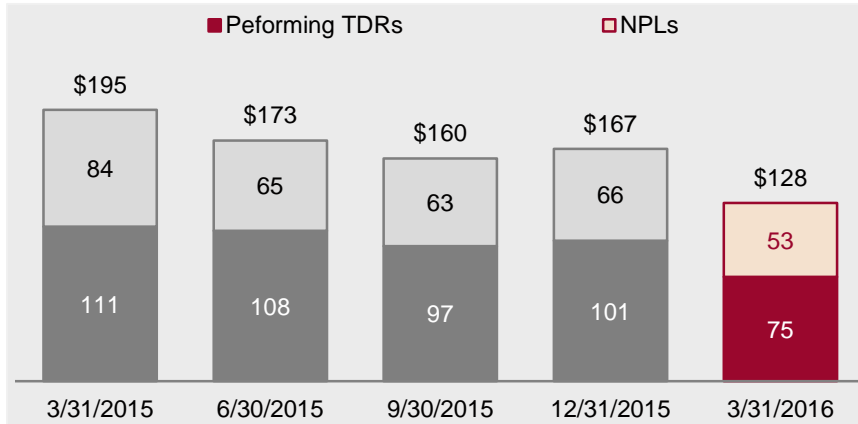
- Price to book ratio of 101% based on closing price as of April 25, 2016



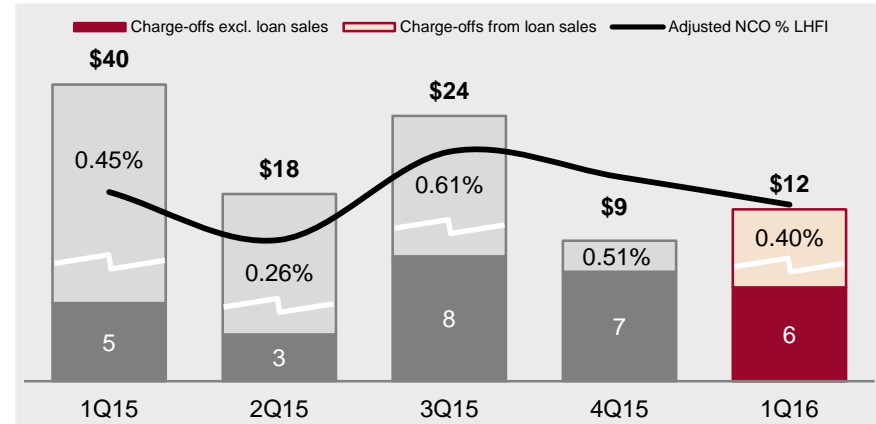
# Asset quality

1<sup>st</sup> Quarter 2016

## Performing TDRs and NPLs (\$mm)

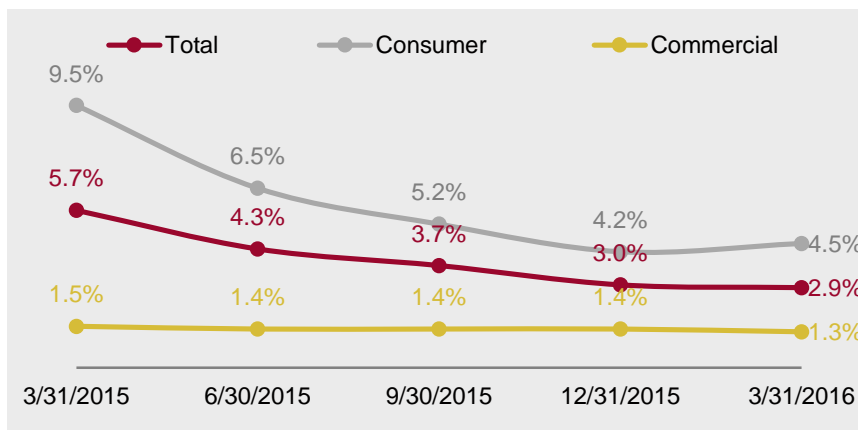


## Net charge-offs<sup>(1)</sup> (\$mm)



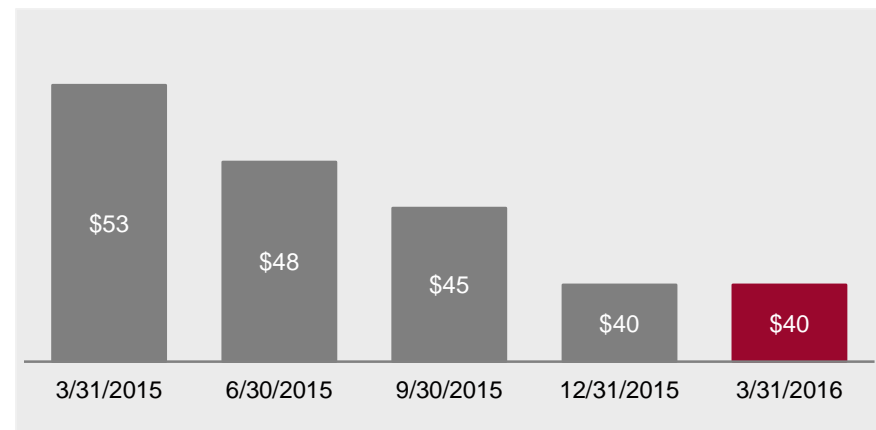
1) Excludes charge-offs of \$36M, \$15M, \$16M, \$2M and \$6M related to loan sales during 1Q15 – 1Q16, respectively.

## Allowance coverage<sup>1</sup> (% of loans HFI)

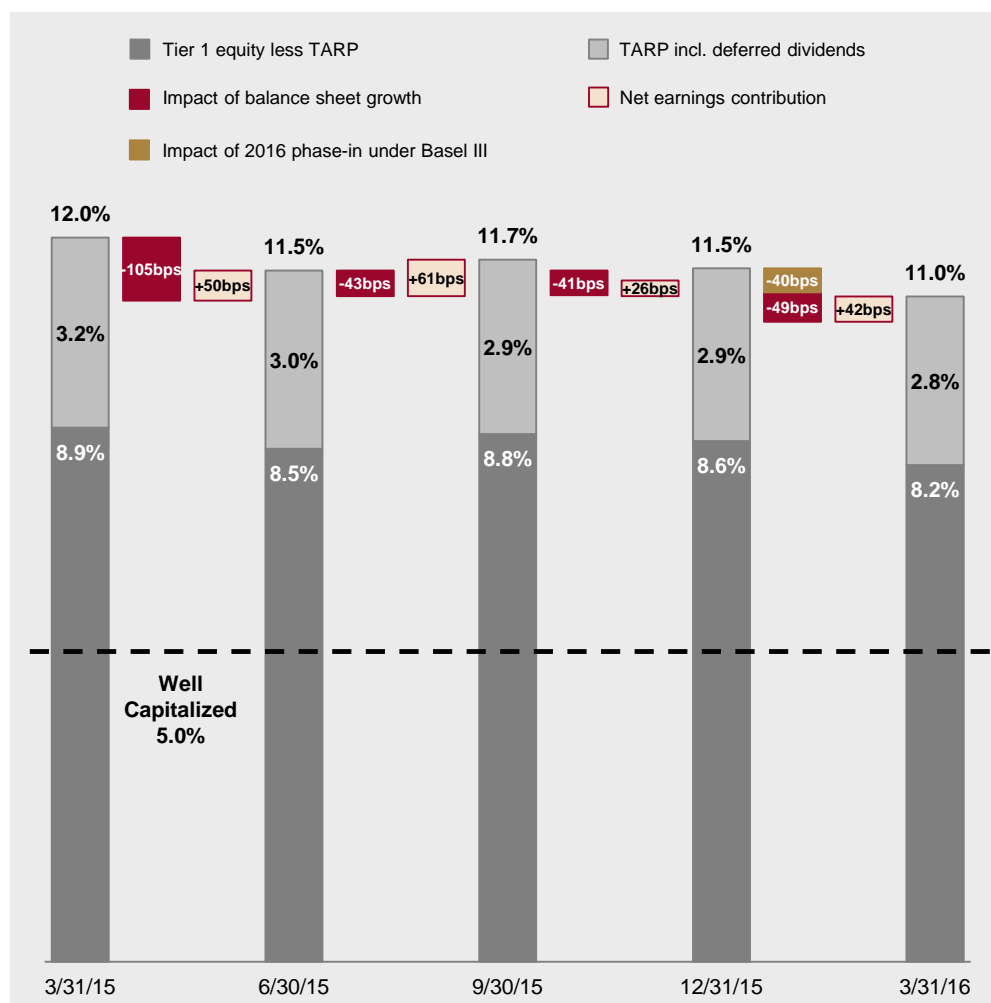


1) Excludes loans carried under the fair value option.

## Representation & warranty reserve (\$mm)



## Flagstar Bancorp Tier 1 leverage



## Observations 1Q16

	Tier 1 Leverage	CET-1 to RWA	Tier 1 to RWA	Total RBC to RWA
3/31/16	11.0%	14.0%	19.7%	21.0%
12/31/15	11.5%	14.1%	19.0%	20.3%

- Decrease in Tier 1 leverage ratio led by the impact of 2016 phase-in under Basel III
- Utilization of NOL-related DTA has released regulatory capital to support balance sheet growth
  - Benefitted Tier 1 Leverage ratio 12bps during 1Q16

## Higher rate capital generation (near-term)

- Flagstar has used excess capital to support balance sheet growth
- Flagstar grows regulatory capital at a greater pace as it utilizes its NOL-related DTAs and reduces its MSRs
- The balance sheet has trapped capital of:
  - \$212mm of NOL-related DTAs (161bps of Tier 1 leverage)
  - \$133mm of MSRs (101bps of Tier 1 leverage)
- Robust capital generation will support future growth

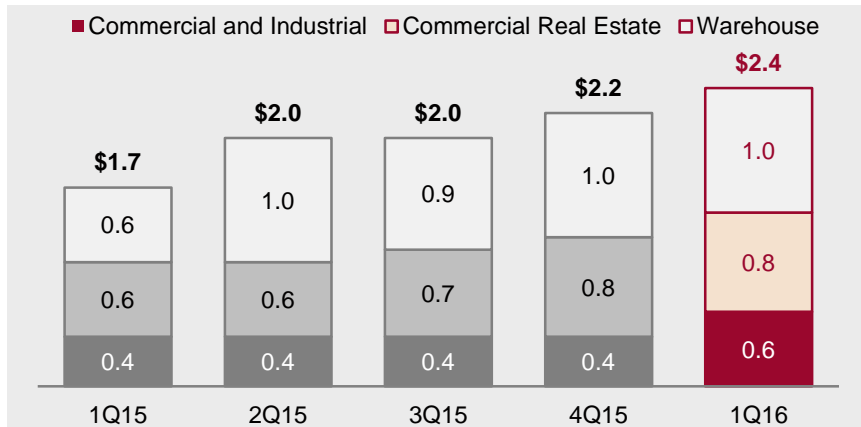
# Business Segment Overview

**Lee Smith, COO**

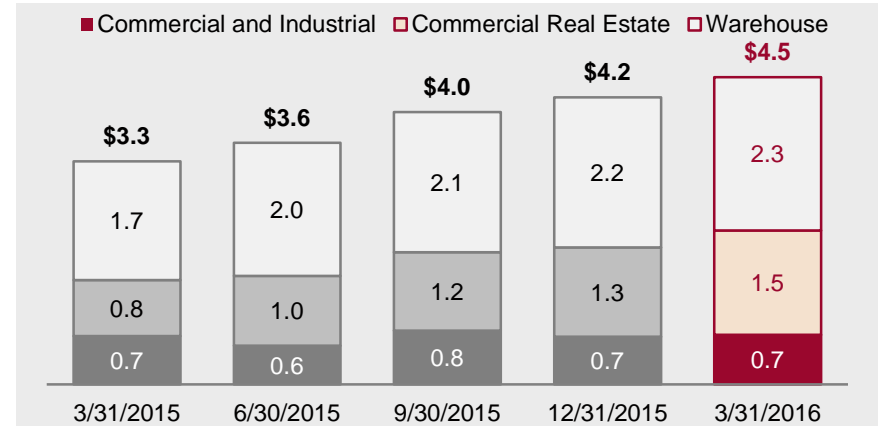
# Community banking

1<sup>st</sup> Quarter 2016

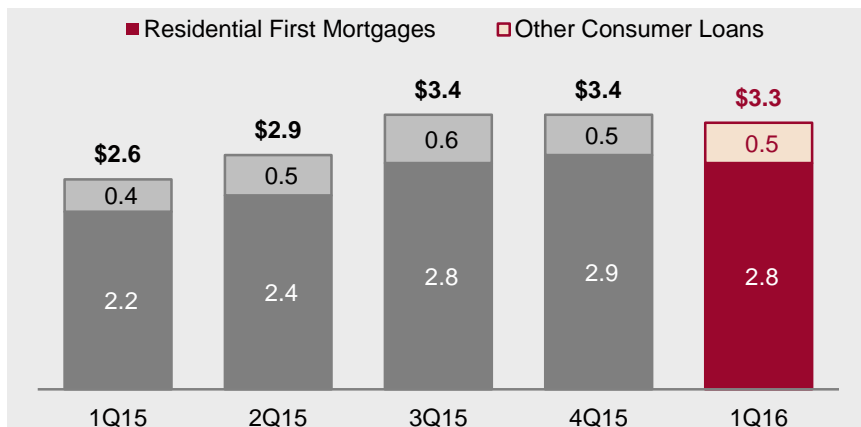
## Average commercial loans (\$bn)



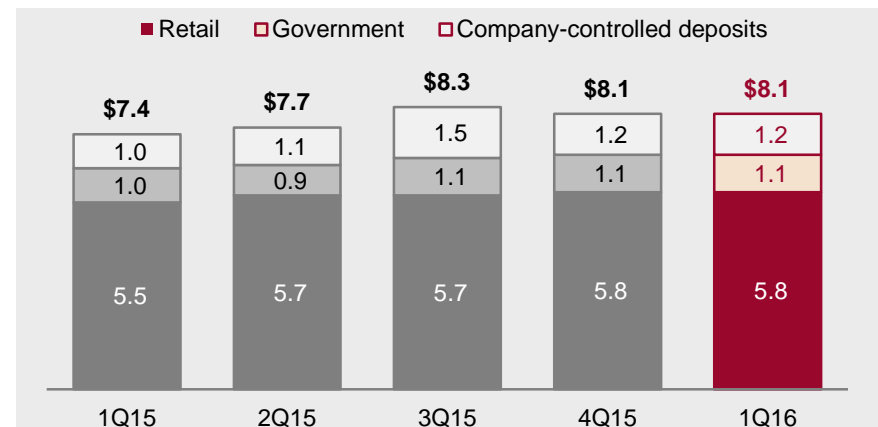
## Commercial loan total commitments (\$bn)



## Average consumer loans (\$bn)



## Average deposit funding<sup>(1)</sup> (\$bn)

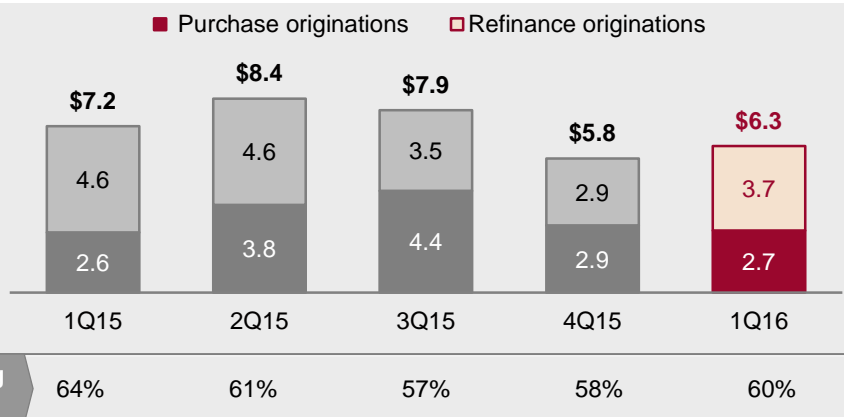


1) Includes company controlled deposits which are included as part of mortgage servicing.

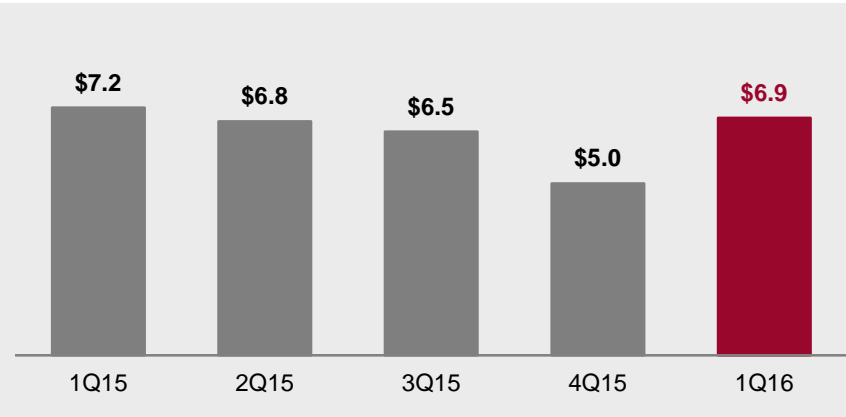
# Mortgage originations

1<sup>st</sup> Quarter 2016

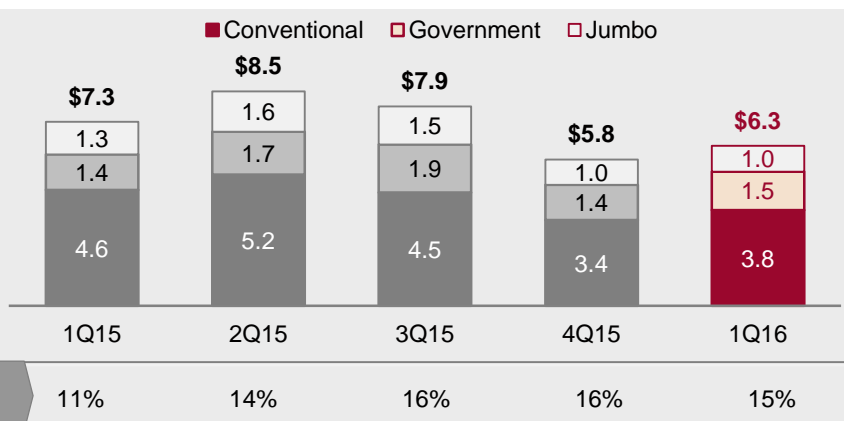
## Closings by purpose (\$bn)



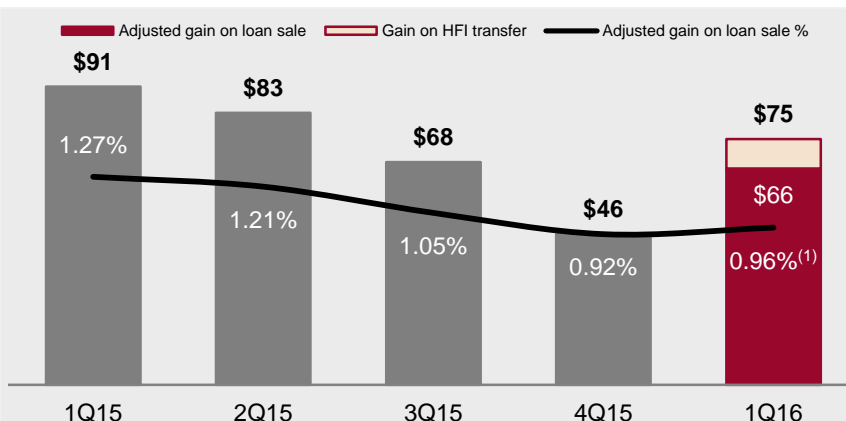
## Fallout-adjusted locks (\$bn)



## Closings by mortgage type (\$bn)



## Net gain on loan sales – revenue and margin

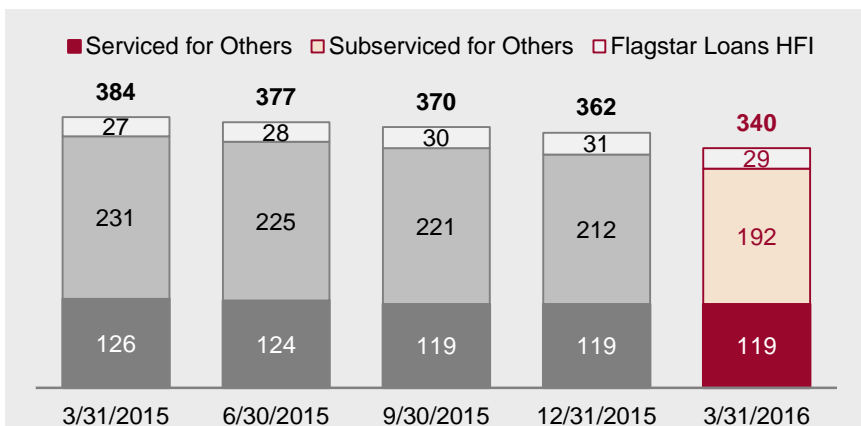


1) Net margin on fallout-adjusted locks has been adjusted to exclude gain on HFI loans sold during the quarter.

# Mortgage servicing

1<sup>st</sup> Quarter 2016

## Loans serviced ('000)

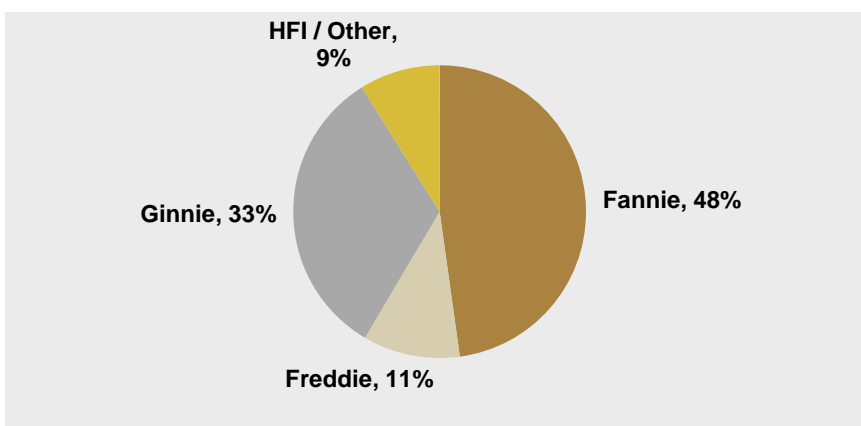


## \$ UPB of MSR sold<sup>(1)</sup> (\$bn)

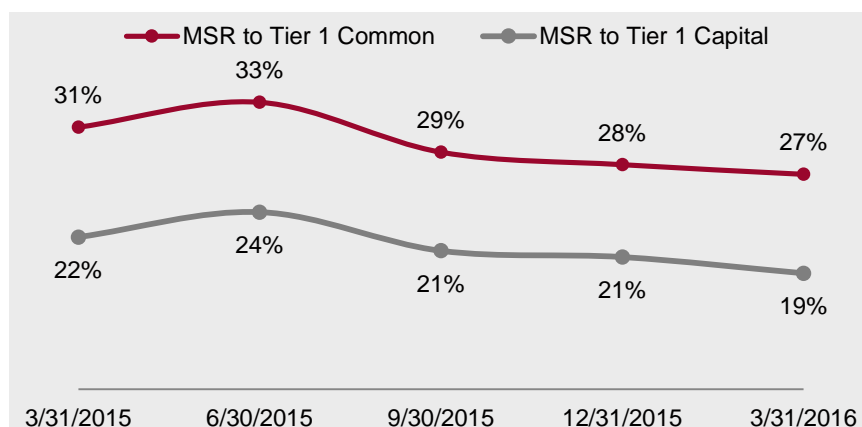


1) Includes bulk sales only; flow transactions are excluded.

## Breakdown of loans serviced (as of 3/31/16)



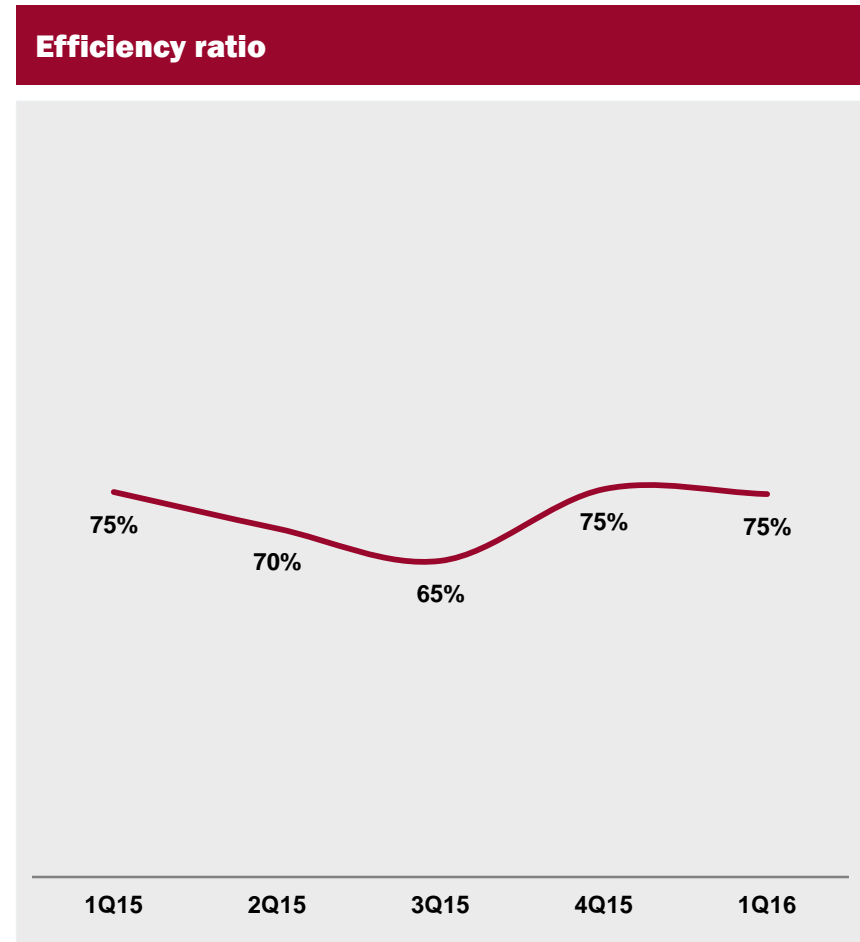
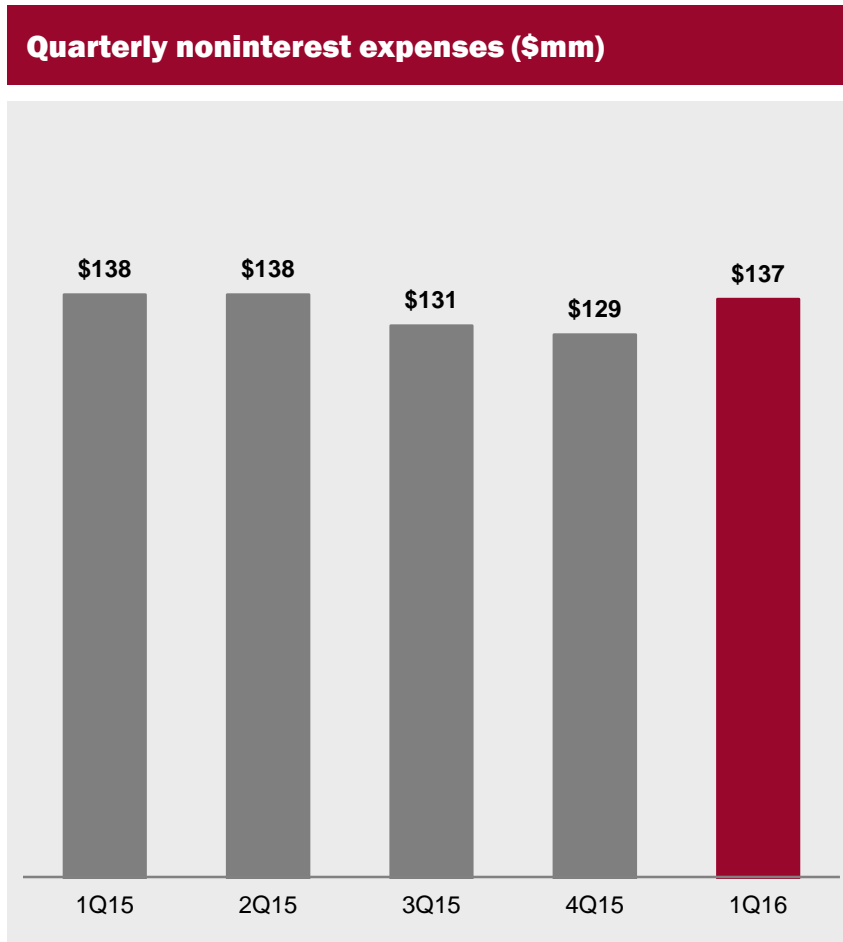
## MSR / regulatory capital



# Noninterest expenses and efficiency ratio

1<sup>st</sup> Quarter 2016

- Flagstar's long-term objective is to achieve an efficiency ratio in the mid-60's



## **Closing Remarks / Q&A**

**Sandro DiNello, CEO**



## 2016 2<sup>nd</sup> quarter outlook<sup>(2)</sup>

<b>Net interest income</b>	<ul style="list-style-type: none"> <li>• Average earning assets and net interest margin remain relatively stable</li> </ul>
<b>Mortgage originations</b>	<ul style="list-style-type: none"> <li>• Fallout-adjusted locks up 15-20 percent on seasonal increase in mortgage market</li> </ul>
<b>Gain on loan sales</b>	<ul style="list-style-type: none"> <li>• Gain on loan sale margin up moderately from adjusted Q1 number on higher retail originations</li> </ul>
<b>Net servicing revenue</b>	<ul style="list-style-type: none"> <li>• Net return on the mortgage servicing asset continues to be impacted by prepayments</li> <li>• Mortgage servicing asset declines slightly</li> </ul>
<b>Provision for loan losses</b>	<ul style="list-style-type: none"> <li>• Provision for loan losses to match 1Q16 net charge-offs (excluding loan sales and loans with government guarantees)</li> </ul>
<b>Noninterest expenses</b>	<ul style="list-style-type: none"> <li>• Noninterest expenses to rise to \$140 - \$145 million due to seasonally higher mortgage originations and investment in growth businesses</li> </ul>

1) See cautionary statements on slide 2.

2) Estimates do not contemplate TARP repayment.

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# Flagstar at a glance

## Corporate Overview

- Traded on the NYSE (FBC)
- Headquartered in Troy, MI
- Market capitalization \$1.3bn
- Member of the Russell 2000 Index

## Community banking

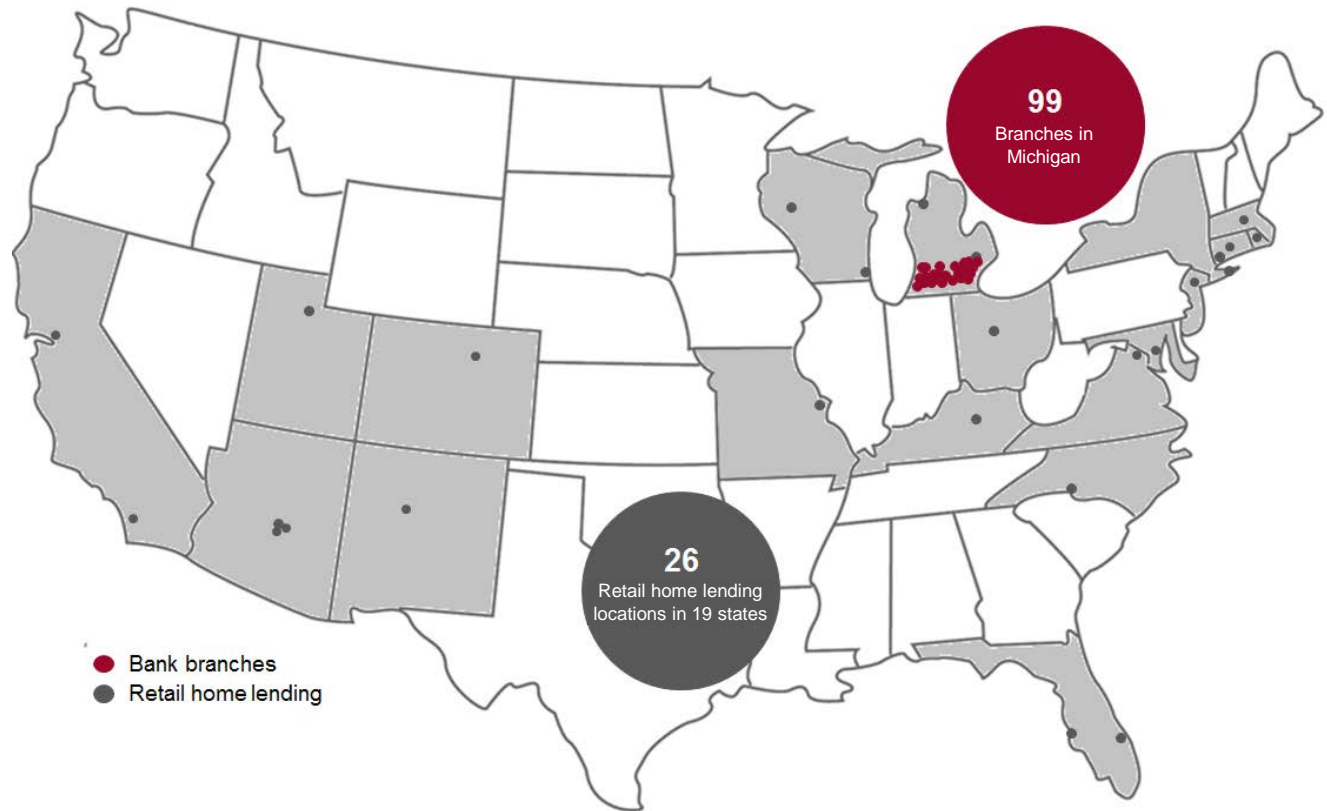
- Leading Michigan-based bank
- \$13.7bn of assets
- \$8.5bn of deposits
- 99 branches
- 104k household & 13k business relationships

## Mortgage origination

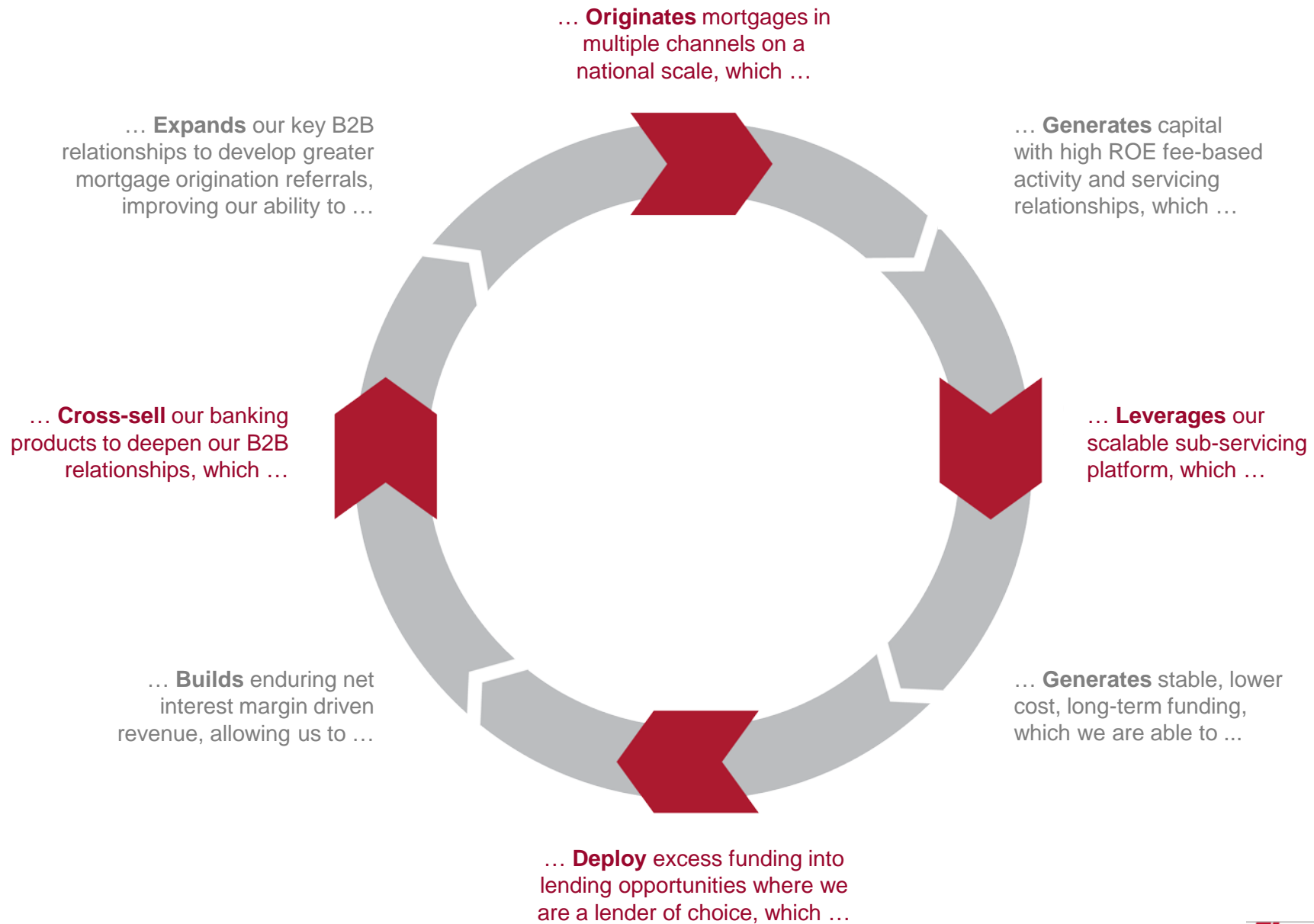
- 10<sup>th</sup> largest originator nationally
- Originated \$28.5bn of residential mortgage loans during the last 12 months
- Approximately 1,200 TPO relationships
- Retail lending network included 26 locations in 19 states

## Mortgage servicing

- 7<sup>th</sup> largest sub-servicer of mortgage loans nationwide
- Currently servicing approximately 340k loans
- Scalable platform with capacity to service 1mm loans
- Low cost deposits from escrow balances



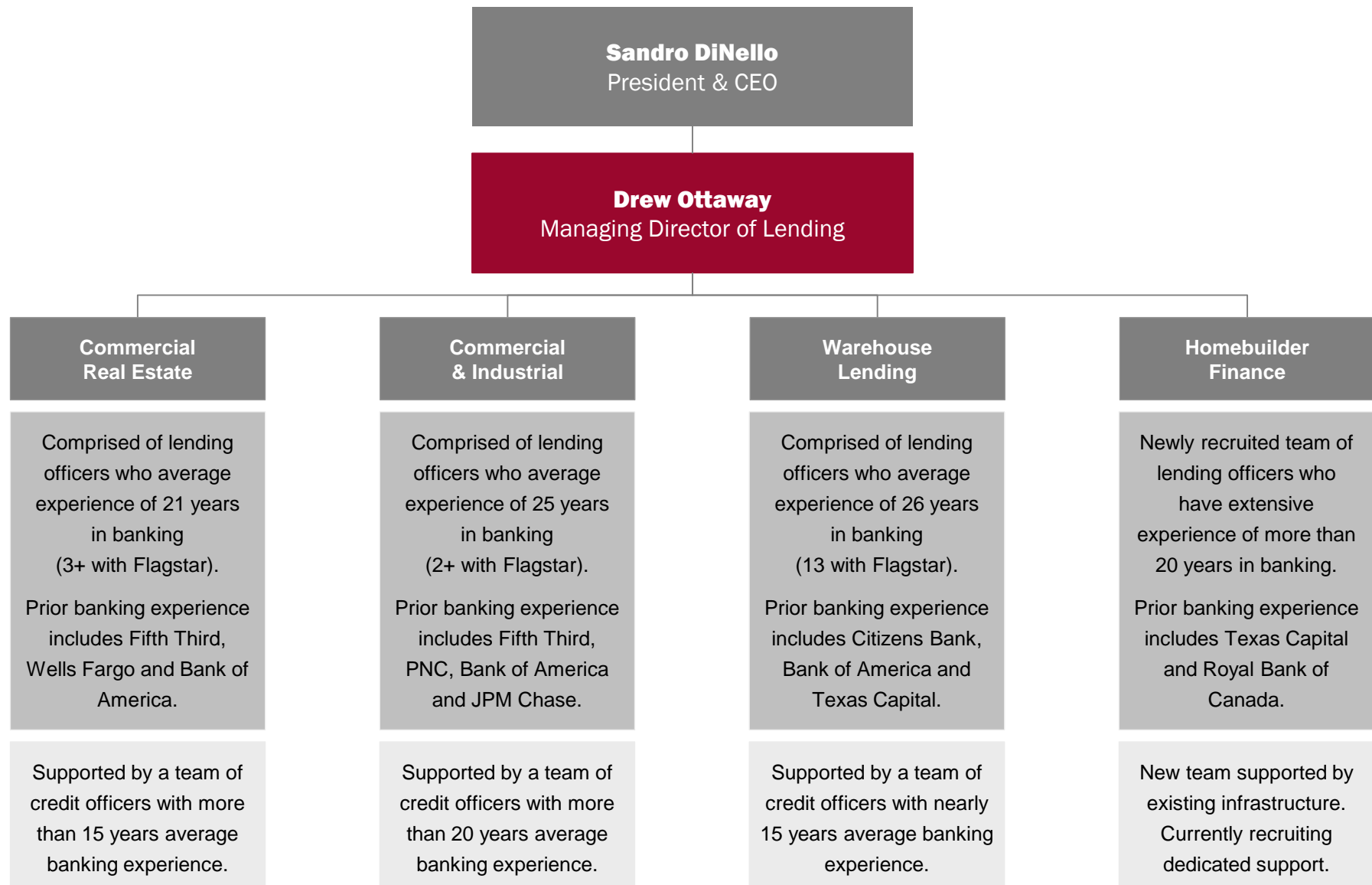
# Flagstar's one-of-a-kind business model



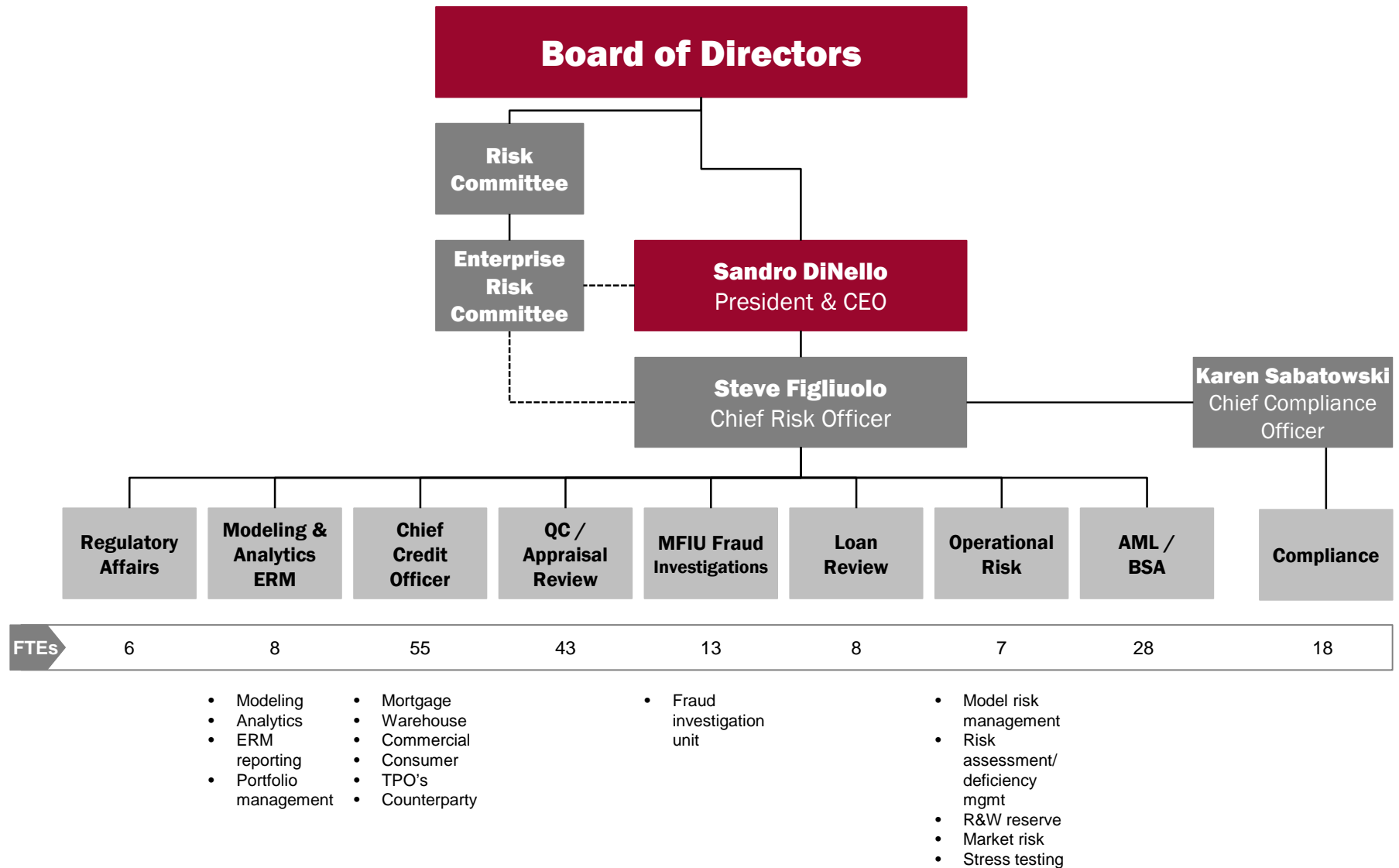
# Flagstar has a strong executive team



# Flagstar has deep commercial lending experience



# Flagstar has built a best-in-class risk management platform with 186 dedicated FTEs<sup>(1)</sup>



1) Excludes 22 FTEs in internal audit and 4 FTEs in Sarbanes-Oxley compliance

# Strong growth opportunities

	<b>Grow community banking</b>	<b>Expand mortgage business</b>
<b>Build</b>	<ul style="list-style-type: none"> <li>• Team lift outs</li> <li>• Grow housing-related relationships                             <ul style="list-style-type: none"> <li>- Expand warehouse lending (400bps spreads)</li> <li>- Launch builder finance lending (350bps spreads)</li> <li>- Initiate MSR lending (500bps spreads; LTVs&lt;60%)</li> </ul> </li> <li>• Cultivate middle-market commercial relationships in foot-print</li> </ul>	<ul style="list-style-type: none"> <li>• Recruit experienced talent to increase share of origination market                             <ul style="list-style-type: none"> <li>- Distributed retail</li> <li>- TPO account executives</li> </ul> </li> <li>• Grow servicing operations                             <ul style="list-style-type: none"> <li>- Acquire new sub-servicing relationships</li> <li>- Cross-sell additional revenue capabilities</li> </ul> </li> </ul>
<b>Buy</b>	<ul style="list-style-type: none"> <li>• Buyers of size in Michigan are engaged on other projects for the foreseeable future</li> <li>• Michigan is a highly fragmented banking market</li> <li>• Focused on our share in metro markets</li> <li>• Acquiring deposit oriented franchises that lag in profitability because of lack of asset generation</li> </ul>	<ul style="list-style-type: none"> <li>• No strategic buyers of size</li> <li>• Highly fragmented industry with aging individual ownership</li> <li>• Regulatory and interest rate environment is accelerating exits</li> <li>• Will consider accretive transactions that add incrementally to annual origination volume</li> </ul>



# Long-term targets

## Revenues

### Banking

- Lender of choice in key markets (Michigan, national housing finance)
- Long-term target of 50% of revenue
- Growth trajectory 10-15%
  - Every additional \$1bn of earning assets increases pre-tax profits ~\$20mm – \$25mm
  - Rotate lower spread assets to higher spread assets while minimizing capital costs

### Mortgage

- Nationally recognized leader
- Long-term target of 50% of revenue
- Growth trajectory 5-10%
  - Expand retail originations (distributed, DTC)
  - Every 100k in new loans sub-serviced generates \$5-7mm of incremental pre-tax profits

## Financial Performance

### Return on assets

- Long-term target of 1.2 – 1.6%
  - Add incremental revenue with a low incremental cost
  - Improved risk management will deliver long-run savings
  - ROA of 1.32% for 2015 is amongst the top quartile of banks \$10bn - \$50bn of assets

### Return on equity

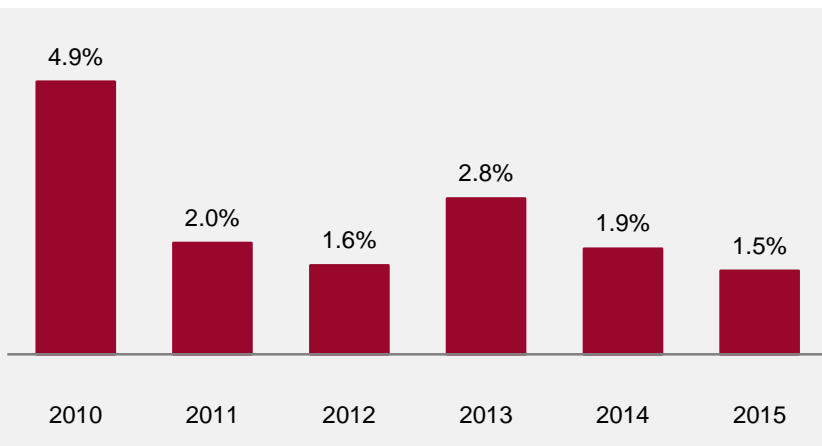
- Long-term target of 13 - 18%
  - Add / increase high ROE businesses

# Strong market position as leading Michigan-based community bank

COMMUNITY BANKING

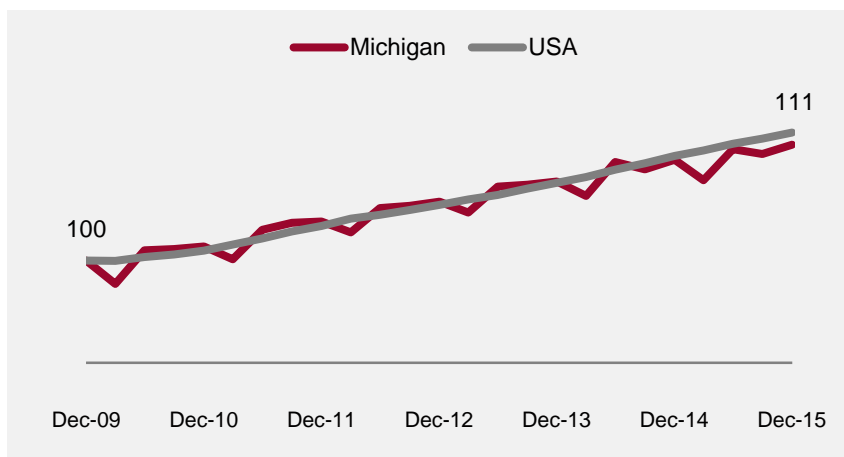
1<sup>st</sup> Quarter 2016

## Michigan real gross domestic product growth (%)



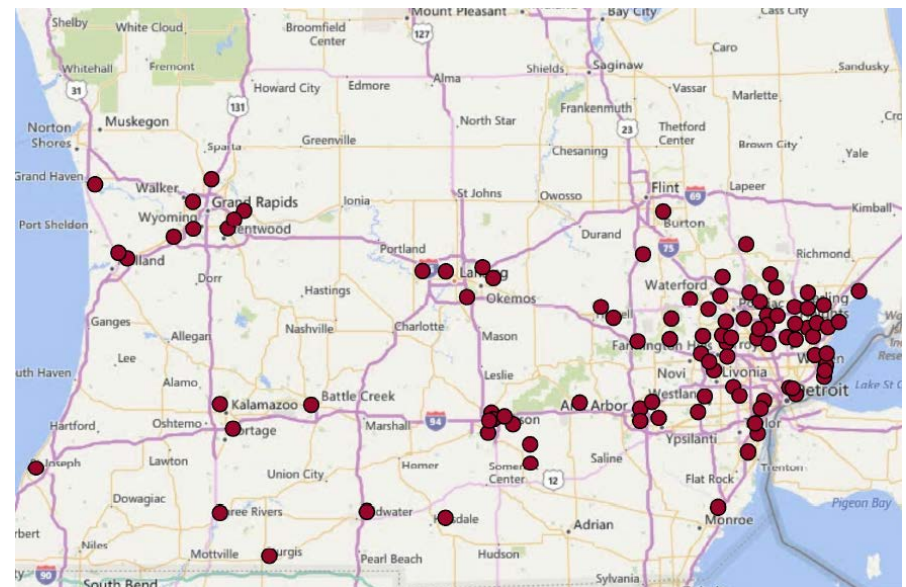
Source: Bloomberg; 2015 growth is estimated based upon YTD results reported through 9/30/2015.

## Michigan employment growth



Source: Bloomberg; SNL Financial

## Flagstar's branch network



## Flagstar's branch network (as of June 30, 2015)

MSA	\$ Dep	% of FBC	% Mkt Share
Detroit-Warren-Dearborn	\$5,071	64.7%	4.4%
Jackson	443	5.7%	28.1%
Grand Rapids	385	4.9%	2.0%
Ann Arbor	288	3.7%	3.8%
<b>Key Flagstar MSAs</b>	<b>\$6,187</b>	<b>78.9%</b>	<b>4.3%</b>
Other Michigan MSAs	726	9.3%	1.7%
Company Controlled Deposits	925	11.8%	0.5%
<b>Total Michigan</b>	<b>\$7,837</b>	<b>100.0%</b>	<b>4.2%</b>

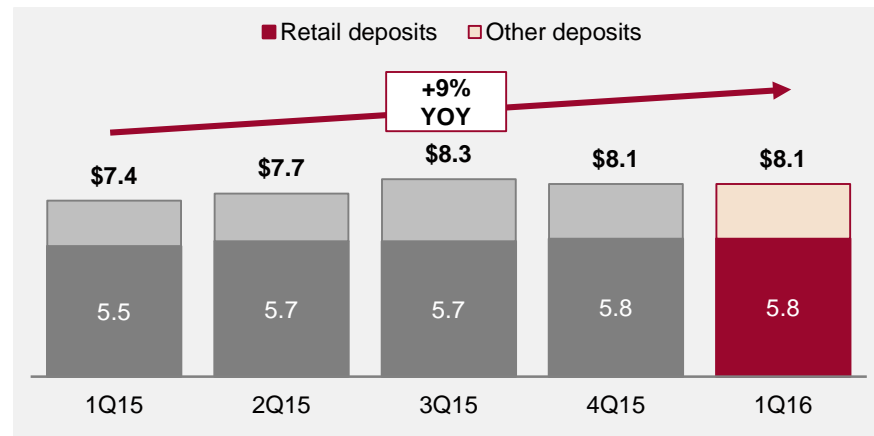
# Deposits

## Portfolio and strategy overview

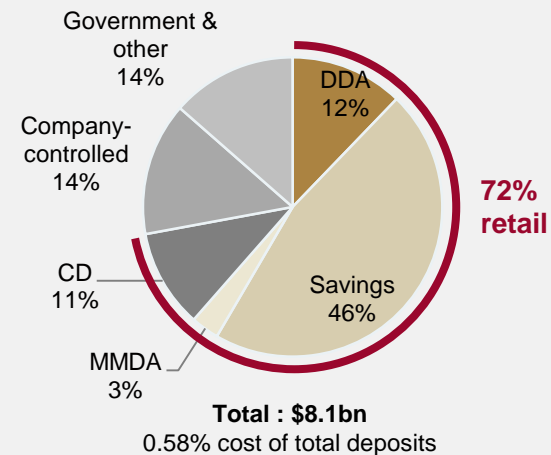
- **Flagstar gathers deposits from consumers, small businesses and select governmental entities**

- Traditionally, CDs and savings accounts represented the bulk of our branch-based retail depository relationships
- Today, we are focused on growing DDA relationships with small business and consumers
- We additionally maintain depository relationships in connection with our mortgage origination and servicing businesses, and with Michigan governmental entities
- Cost of total deposits equal to 0.58%

### Total average deposits (\$bn)



### Q1 2016 total average deposits



# Deposit growth opportunities

## Core Deposits

### Retail

- Average balance of \$5.5bn during 1Q16 of which 81% are customer demand & savings accounts
- Cost of total retail deposits: 0.67% during 1Q16
- Average deposits equal to \$56mm per branch
- Flagstar is refreshing its brand to build awareness to grow its core deposit base

### Commercial

- Average balance of \$0.3bn during 1Q16
- Over the past year, Flagstar has invested in its treasury management services to year-over-year growth of :
  - Commercial deposits 21%
  - Fee income 18%

## Other Deposits

### Government

- Average balance of \$1.1bn during 1Q16
- Cost of deposits: 0.47% during 1Q16
- Michigan deposits are not collateralized
- We have strong relationships across the state
- Collection of property taxes partially offset seasonal declines in company-controlled deposits

### Company controlled

- Average balance of \$1.2bn during 1Q16 on 340k loans serviced and sub-serviced
- Low cost of deposits
- Deposit balances increase along with the number of loans serviced & sub-serviced

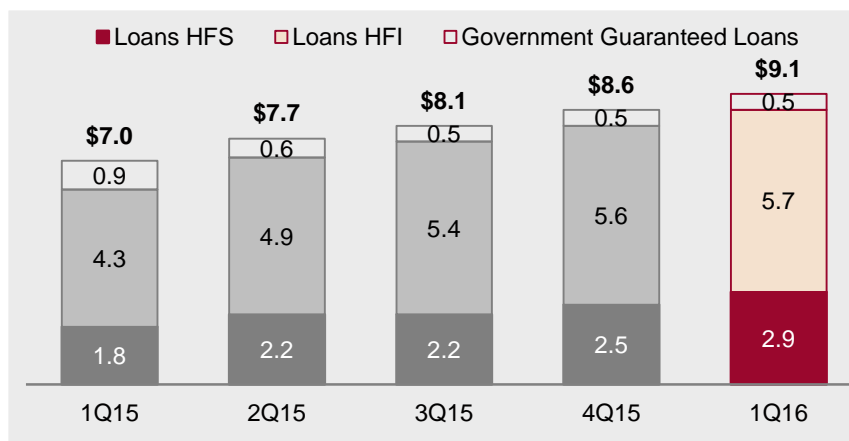
- **Flagstar's largest category of earning assets consists of loans held-for-investment which averaged \$5.7bn during 1Q16**

- Loans to consumers consist of residential first and second mortgage loans, HELOC and other
- C&I / CRE lending is an important growth strategy, offering risk diversification and asset sensitivity
- Warehouse lending to both originators that sell to Flagstar and those who sell to other investors

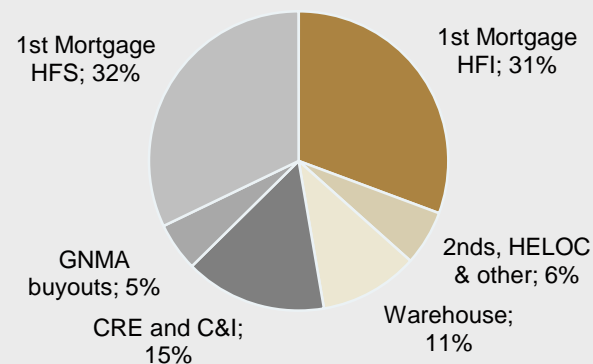
- **Flagstar maintains a balance of mortgage loans held for sale which averaged \$2.9bn during 1Q16**

- Essentially all of our mortgage loans originated are sold into the secondary market
- Flagstar has the option to direct a portion of the mortgage loans it originates to its own balance sheet

### Total average loans (\$bn)



### Q1 2016 average loans



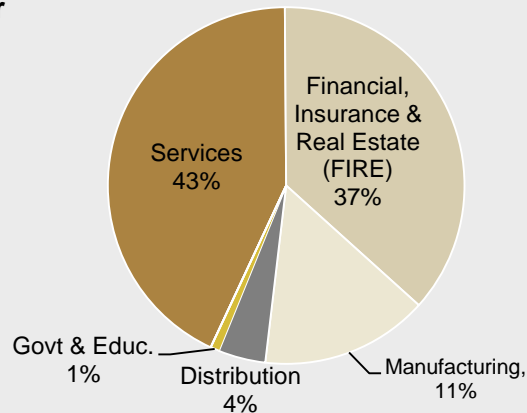
# Commercial lending

C&I predominately in-footprint and well diversified

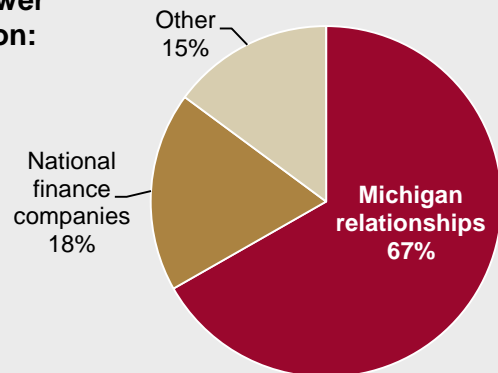
1<sup>st</sup> Quarter 2016

## C&I as of 3/31/16 - \$571 mm

### Borrower type:



### Borrower location:



- Built a relationship-based C&I portfolio by recruiting seasoned bankers from larger competitors
- Our portfolio is comprised of well diversified industries
  - Primarily services, FIRE and manufacturing
  - SNC participation where we can increase the depth of our relationship with the borrower
- Primarily Michigan based relationships or relationships with national finance companies
- Recently launched complementary products in MSR lending and equipment finance

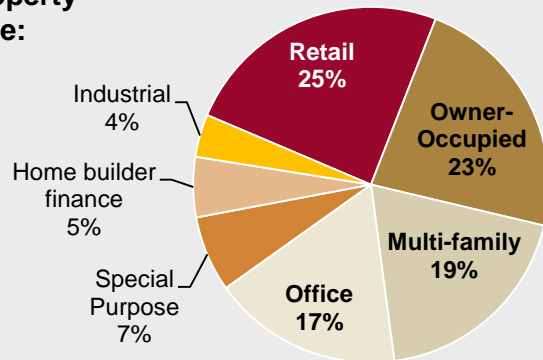
# Commercial real estate lending

CRE predominately in-footprint and well diversified

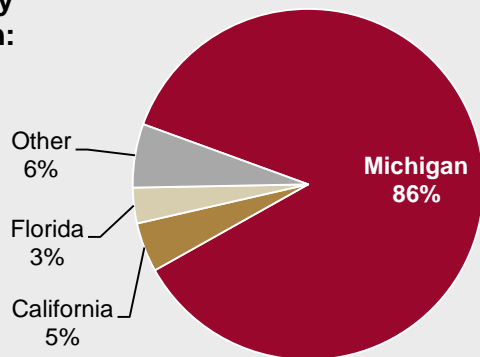
1<sup>st</sup> Quarter 2016

## CRE as of 3/31/16 - \$851mm

### Property type:



### Property location:



- Flagstar has built a relationship-based CRE portfolio by recruiting seasoned bankers from larger competitors
  - Focused on experienced top-tier developers with significant deposit and non-credit opportunities
- Our portfolio is comprised of well diversified property types
  - Owner-occupied (23%)
  - Other major property types include retail, multi-family and office
- Primarily Michigan based relationships
- We launched a national home builder financing platform to grow our balance in a measured way and raise our profile in purchase mortgage financing

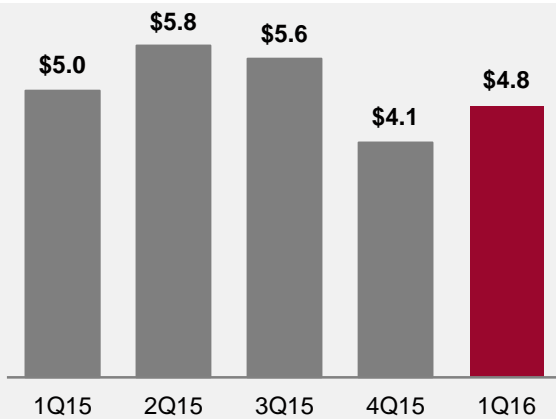
# Originates mortgages in multiple channels on a national scale (10<sup>th</sup> largest originator)

MORTGAGE ORIGINATIONS

1<sup>st</sup> Quarter 2016

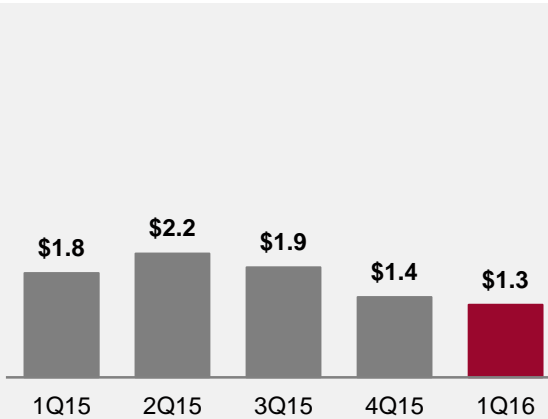
## Residential mortgage originations by channel (\$bn)

### Correspondent



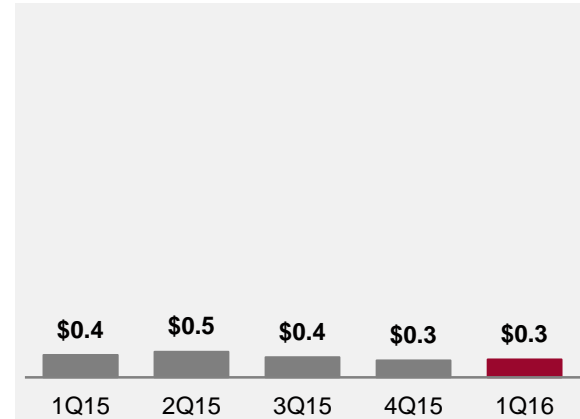
- 3.6% market share with #5 national ranking<sup>(1)</sup>
- Nearly 700 correspondent partners in 50 states in Q1 2016
- Top 10 relationships account for 17% of overall correspondent volume
- Warehouse lines with more than 250 correspondent relationships

### Broker



- 4.2% market share with #4 national ranking<sup>(1)</sup>
- More than 500 brokerage relationships in 50 states in Q1 2016
- Top 10 relationships account for 22% of overall brokerage volume

### Retail



- Loan officer additions have expanded our retail footprint to 26 locations in 19 states
- Direct-to-consumer is 36% of retail volume

1) Data source: Inside Mortgage Finance, January 28, 2016.



# MSR portfolio

as of 3/31/16

## MORTGAGE SERVICING

1<sup>st</sup> Quarter 2016

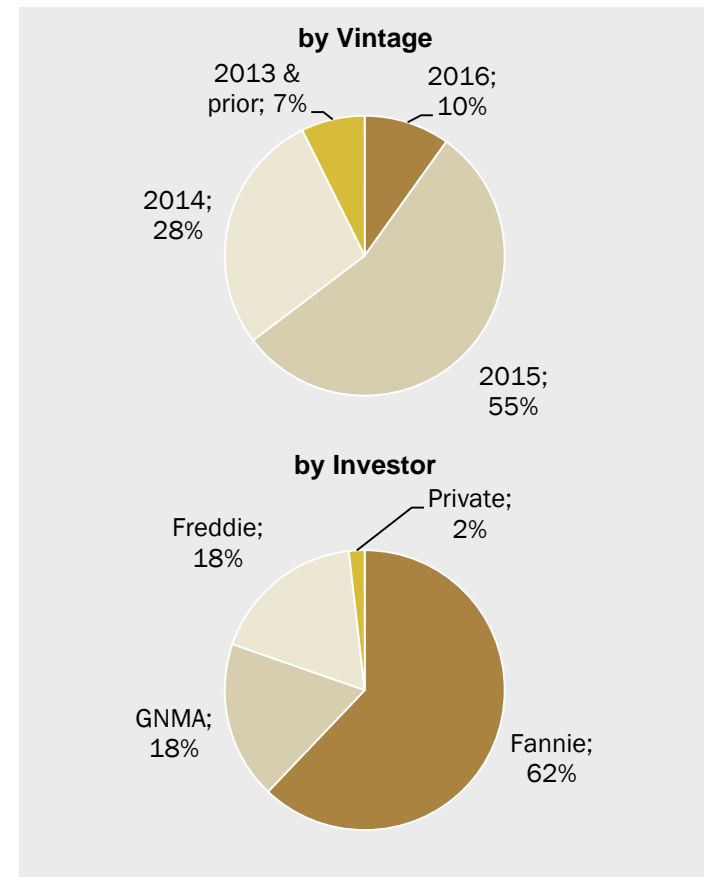
### MSR portfolio statistics

Measure (\$mm)	3/31/2016	12/31/2015	Difference
Unpaid principal balance	\$26,613	\$26,145	\$468
Fair value of MSR	\$281	\$296	(\$15)
Capitalized rate	1.06%	1.13%	-0.08%
Multiple	3.766	4.134	(0.368)
Note rate	4.092%	4.118%	-0.026%
Service fee	0.282%	0.277%	0.005%
<b>Average Measure (\$000)</b>			
UPB per loan	\$224	\$220	\$4
FICO	731	731	-
Loan to value	75.13%	76.17%	-1.04%

### \$ return – MSR asset

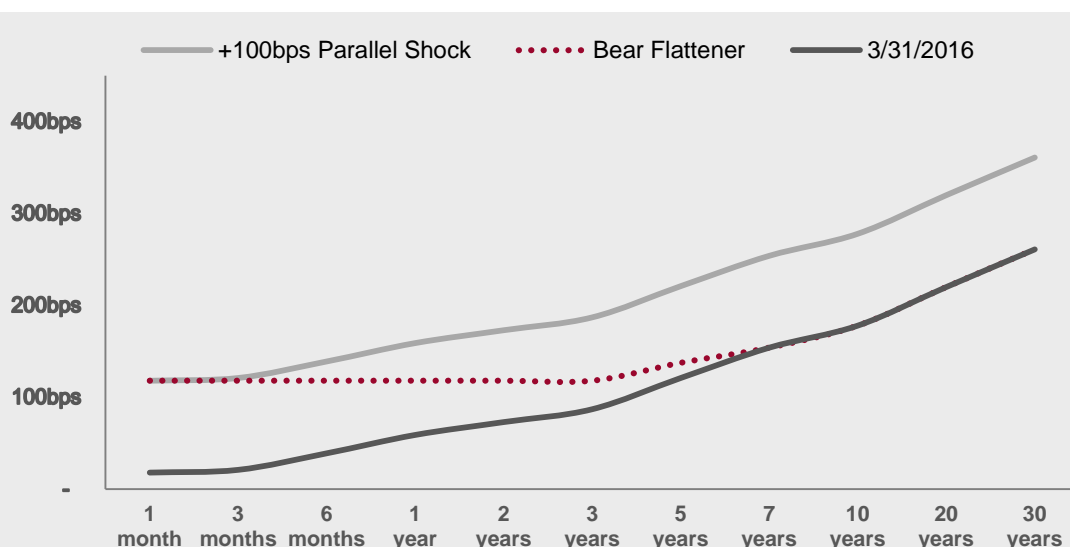
\$ Return	1Q15	2Q15	3Q15	4Q15	1Q16
Net hedged profit (loss)	(\$4)	\$4	\$1	\$1	\$1
Carry on asset	18	22	19	16	6
Run-off	(15)	(12)	(8)	(8)	(11)
<b>Gross return on the mortgage servicing asset</b>	<b>(\$1)</b>	<b>\$14</b>	<b>\$12</b>	<b>\$9</b>	<b>(\$4)</b>
Sale transaction & P/L	(2)	(5)	3	-	(2)
Model Changes	-	-	(3)	-	-
<b>Net return on the mortgage servicing asset</b>	<b>(\$2)</b>	<b>\$9</b>	<b>\$12</b>	<b>\$9</b>	<b>(\$6)</b>
<b>Average mortgage servicing rights</b>	<b>\$265</b>	<b>\$271</b>	<b>\$317</b>	<b>\$304</b>	<b>\$285</b>

### MSR portfolio characteristics (% UPB)



# Low interest rate risk

## Net interest margin – 12 month horizon instantaneous shocks (\$mm)



(\$ in mm)	Up 100bps	
	Parallel Shift	Bear Flattener
Net interest income	\$4	(\$16)
Noninterest Income	(\$4) to \$0	\$0 to \$16

## Interest rate risk management

- The shorter term measure of the “Earnings at Risk” interest rate risk position is asset sensitive due to the immediate repricing of the variable rate assets including the mortgage banking pipeline, warehouse loans and commercial loans while liabilities reprice more slowly.
- The longer term measure of the “Economic Value of Equity” interest rate position is liability sensitive as the average duration of the liabilities is shorter than the average duration of the assets.
- Flagstar also performs a Net Income Simulation that includes the effect of changes in interest rates on the mortgage business. Net income is projected to increase significantly in a decreasing rate environment due to increased mortgage originations.

## Economic value of equity

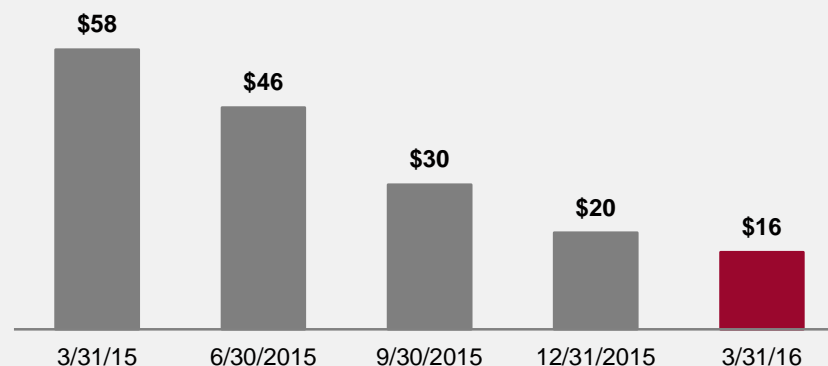
Change in Rates (bps)	Economic Value of Equity (\$bn)	Change		Policy Limit (%)
		(\$bn)	(%)	
+400	\$1.83	(\$0.25)	(12.1%)	(30.0%)
+300	\$1.90	(\$0.17)	(8.2%)	(22.5%)
+200	\$2.00	(\$0.08)	(4.1%)	(15.0%)
+100	\$2.06	(\$0.02)	(1.0%)	(7.5%)
Market Implied	\$2.07	\$0.00	0.0%	0.0%

# Representation & Warranty reserve details

## Repurchase reserve (\$mm)

(in millions)	3/31/15	6/30/15	9/30/15	12/31/15	3/31/16
Beginning balance	\$53	\$53	\$48	\$45	\$40
Additions	0	(3)	(4)	(5)	0
Net charge-offs	(0)	(2)	1	(0)	0
<b>Ending Balance</b>	<b>\$53</b>	<b>\$48</b>	<b>\$45</b>	<b>\$40</b>	<b>\$40</b>

## Repurchase pipeline (\$mm)



## Repurchase activity with Fannie and Freddie

