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PRESENTATION

Operator

Good day, and welcome to the Flagstar Bank's Fourth Quarter 2017 Earnings Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to David Urban, Director of Investor Relations. Please go ahead.

David L. Urban - *Flagstar Bank, FSB - SVP and Director of IR*

Thank you, Hannah, and good morning, everyone. Welcome to the Flagstar Fourth Quarter 2017 Earnings Call. Before we begin, I would like to mention that our fourth quarter earnings release and presentation are available on our website at flagstar.com.

I would also like to remind you that any forward-looking statements made during today's call are subject to risks and uncertainty. Factors that could materially change our current forward-looking assumptions are described on Slide 2 of today's presentation, in our press release and in our 2016 Form 10-K and subsequent reports on file with the SEC.

We are also discussing GAAP and non-GAAP financial measures, which are described in our earnings release and in the presentation we made available for this earnings call. You should refer to these documents as part of this call.

With that, I'd like to now turn the call over to Sandro DiNello, our President and Chief Executive Officer.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Thank you, David, and thank you, everyone, for joining us today. In addition to David, I am joined this morning by Jim Ciroli, our Chief Financial Officer; Lee Smith, our Chief Operating Officer; Steve Figliuolo, our Chief Risk Officer; and Drew Ottaway, our Michigan Market President.

I'm going to start the call by providing a high-level view of our performance for the quarter, and then I'll turn the call over to Jim for details on our financial results. Lee will follow with a review of our business segments and strategic initiatives, and I'll conclude with guidance for the first quarter before opening up the lines for questions.

I'll focus on operating earnings in my remarks this morning as it's the best reflection of our true performance for the quarter. So let's take a look at what was a really good quarter for Flagstar.

We reported a net loss of $45 million or $0.79 per diluted share and operating net income of $35 million or $0.60 per diluted share after adjusting for the previously reported noncash charge resulting from the new Tax Cuts and Jobs Act. These operating earnings are significantly above our year ago results of $28 million or $0.49 per diluted share. This reflects just how far we've come in producing a significantly more balanced income stream from quarter to quarter. No longer does mortgage activity make or break the quality of our quarter.

In fact, in Q4, all 3 of our business segments showed strength. Community banking continued its upward trajectory as average commercial loans rose $344 million or 9%. For the full year, we added $1.1 billion of high-quality C&I and CRE loans to the balance sheet. As a result, net interest income grew again this quarter, totaling $107 million compared to $87 million in last year's Q4. Importantly, net interest income was up 21% for the full year 2017 versus 2016.

Mortgage also showed strength, with originations totaling $9.7 billion for the quarter, representing a 14% increase in closings. And locks increased an outstanding 42%, both as compared to the same quarter last year, and that's in the face of a smaller market.

We also experienced an improved gain on sale margin that lifted net gain on loan sales above the third quarter level and well above Q4 2016. These results are because of the mortgage acquisitions we made in 2017 that proved their value by strengthening our distribution channels and giving us more flexibility to take advantage of market conditions.

This is a very important point. Not that long ago, Flagstar was a pretty conventional third-party originator. Not much jumbo business, not much retail business and virtually, no business with large TPOs. Now we are securitizing jumbo mortgages. We've more than tripled the level of retail originations, and we are one of the largest bulk purchasers. We now have several levers we can pull that allow us to respond much more dynamically to market opportunities.

And as we announced last week, we have further strengthened the breadth of our mortgage origination channels by bringing to Flagstar a large direct-to-consumer team from Capital One. Led by Rocky Stubbs, we believe this team will put Flagstar on the map in this important channel.

MSR owners continue to validate the quality of our servicing platform by choosing Flagstar as a servicer and subservicer of their mortgage loans. We now service accounts for 442,000 homeowners, up from 415,000 in the third quarter. This is a scale business that puts a premium on strong counterparties. Quarter by quarter, it's becoming a more valuable source of noninterest income, and our experience and capabilities in the space position us well for continued growth.

Beyond the financials, the big news of the quarter was our announcement to acquire the branches of Desert Community Bank located in the high desert region of California for which we received regulatory approval yesterday. The branches of DCB are deposit-rich with good potential for growth. We've been looking for a deposit franchise that could provide low-cost stable funding to support balance sheet growth, and DCB fits the bill. Besides approximately $600 million in deposits, we are acquiring about $70 million in commercial loans, providing a new market for our diversified offering of commercial products and services.

All in all, I think our performance in Q4 was strong in all 3 of our primary business lines, further validating the power of our unique business model. Our banking and servicing businesses are flourishing and have reduced the impact of the swings in our origination business on earnings. Our origination business is benefiting from broader distribution, allowing us to better make use of the scale advantage we have. And once the branches of Desert Community Bank are onboard, we'll have more deposits to fuel our growth as well as a new outlet for our products and services. Plus a new tax legislation and expected capital simplification should accelerate our future capital formation, putting us in a good place from which to start 2018.

With that, my colleagues will take you through a more detailed discussion of our financials and operations. First up is Jim.

James K. Ciroli - *Flagstar Bancorp, Inc. - CFO, Executive VP, CFO of Flagstar Bank and Executive VP of Flagstar Bank*

Thanks, Sandro. Turning to Slide 6. Our operating net income this quarter was $35 million or $0.60 per share as compared to net income of $40 million or $0.70 per share last quarter. Our reported fourth quarter results included a noncash charge to the provision for income taxes of $80 million or $1.37 per share, resulting from the Tax Cuts and Jobs Act.

Again, our operating earnings reflected nice growth in community banking and the strength of our mortgage business. In community banking, earning assets grew 4%, while our net interest margin remained steady. Credit costs remain virtually nonexistent as net charge-offs were negligible, nonperformers and delinquencies stayed at their very low levels and our allowance coverage at 1.8% of total loans was the strongest among our peers. We'll dive deeper into the balance sheet in a few minutes.

In our mortgage origination business, our gain on sale margin strengthened to 91 basis points, while volumes dropped only 3%. Our return on the mortgage servicing asset fell due to an adjustment to our models largely concerning servicing rights on 15-year loans. We also agreed to sell $98 million of mortgage servicing rights, resulting in a 3% charge associated with that transaction. This sale will extend our flexibility into the third quarter for holding mortgage servicing rights on balance sheet without incurring a capital charge. And the mortgage servicing business continued to gain scale and now has a book of business that exceeds 442,000 accounts. Finally, our capital position was strong. We expect our Tier 1 leverage ratio to be 9.2% when the proposed capital simplification regulations are adopted.

So let's turn to Slide 7 and dive deeper into the income statement. Net interest income this quarter rose sequentially to $107 million, representing an increase of $4 million or 4% led by higher earning assets. Average earning assets rose on the strength of a 9% increase in average commercial loans as we benefited from having a full quarter of the balances we grew last quarter. And the net interest margin remained stable at 2.76% as we continue to exercise deposit price discipline.

We grew higher-spread, low-duration loan portfolios and expect to continue to see benefits in the quarter from the rise in short-term rates at the end of the fourth quarter. Our total deposit balances grew 1%, while deposit costs rose 6 basis points as we continue to outperform deposit pricing betas that we have modeled despite 3 increases during the year in short-term rates. Overall, it was a strong performance by the entire community banking team at Flagstar.

Credit costs were negligible this quarter as we provided for net charge-offs. The low level of provision expense reflected continued strong asset quality. Noninterest income fell $6 million or 5% this quarter primarily due to a net loss on mortgage servicing rights, partially offset by an increase in gain on loan sales. The increase in gain on sale revenues largely reflected a higher gain on sale margin this quarter.

Fallout-adjusted locks fell only 3% when compared to last quarter. This reflected the strengthening of our bulk in retail channels through this year's acquisitions. The gain on sale margin rose to 91 basis points. The net return on the mortgage servicing asset was a net loss of $4 million this quarter as compared to a net gain of $6 million last quarter, reflecting a model update, which resulted in a fair value decrease of $4 million. We also recognized a charge of $3 million associated with the pending MSR sale expected to close in the first quarter of 2018.

Finally, the R&W benefit was $2 million as the reserve declined $1 million and stood $15 million at year end. We saw virtually no net R&W losses this quarter, the result of strong underwriting in servicing, which is reflected in the improved risk trends, and a repurchase demand pipeline that was only $3 million at year end.

Looking now to expenses. Noninterest expense rose 4% to $178 million this quarter as compared to $171 million last quarter. The increase from last quarter was largely due to performance-driven incentive compensation and investment in growth initiatives. We will provide more detail later in the presentation.

Finally, the company's adjusted effective tax rate this quarter was 32%, unchanged from last quarter. With tax reform, we expect our new effective tax rate to decline to approximately 20%.

Slide 8 highlights the expansion of our average balance sheet this quarter. Average earning assets increased $642 million or 4%, led by growth in commercial loans. The commercial loan growth of $344 million or 9% is broad based with solid gains in CRE, C&I and warehouse loans. Lee will go into further detail on loan growth later.

Average deposits rose $79 million or 1% in the quarter, led by higher government and company-controlled deposits. Average retail deposits were unchanged at $6.5 billion as higher retail certificates of deposit offset a decline in retail savings deposits. Despite a slight extension of duration in the portfolio from a higher percentage of certificates of deposit, costs remained under control, performing better than the deposit pricing betas we had modeled.

At December 31, our tangible common equity to assets ratio remained strong at 8.2%. Our tangible book value per share fell to $24.04 from the new tax law, and we expect this decline will be offset by future earnings benefits as we experience accelerated capital formation from the lower corporate tax rate. We'll cover regulatory capital levels shortly.

Let's now turn to asset quality on Slide 9. Nonperforming loans fell to only $29 million at the end of the year, while the nonperforming loan ratio dropped to 38 basis points. The absolute level of nonperforming loans at year end remained near the lowest we've reported in over 20 years. Importantly, early-stage delinquencies remain low. Only $5 million of consumer loans were over 30 days delinquent and still accruing at December 31, unchanged from September 30. There were no commercial loans over 30 days delinquent and still accruing.

Net charge-offs were negligible in the quarter, representing a scant 11 basis points of HFI loans. At December 31, our allowance coverage was 1.8% of total HFI loans, well above the coverage levels of any other midsized banking peer. Coverage remains strong at 2.0% of consumer loans and 1.6% of commercial loans. This commercial loan coverage is even stronger, given that 27% of that portfolio is in warehouse loans, which are fully secured and we hold the collateral.

Turning to Slide 10. Capital remained a hallmark. Our Tier 1 leverage ratio was 8.5% at December 31, down 29 basis points from last quarter. The capital impact resulted from over $700 million of average balance sheet growth. When you consider the changes to the capital regulations, we are managing to where we think the capital regulations will ultimately end up. We expect to have a Tier 1 leverage ratio of 9.2% when the proposed regulations are enacted. Further, we expect that we will recover in 2018 most of the 43 basis points of capital that is trapped in our deferred tax assets as we utilize NOLs.

At December 31, our Tier 1 leverage ratio had 351 basis points of stress buffer, above the minimum level needed to be considered well capitalized. If you review our capital position in life of the new capital simplification proposal, we expect to have a capital buffer of approximately 420 basis points of Tier 1 leverage in excess of our well-capitalized minimum. Considering the low level of risk in our business, stellar asset quality with strong allowance coverage, a neutral rate risk position and strong liquidity levels, combined with a robust risk management function, we expect to continue to target a range of 8% to 9% for the Tier 1 leverage ratio over the long term.

I will now turn it to Lee for more insight in each of our businesses.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

Thanks, Jim, and good morning, everyone. We're very pleased with our operating earnings of $0.60 per diluted share for the quarter and $2.47 per diluted share for the full year after adjusting for the noncash charge from the new tax legislation. Furthermore, we continue to build our reputation as a strong community bank complemented by our national mortgage origination and servicing businesses.

In addition to our strong earnings, we've also executed on some key strategic initiatives in 2017, including: we've grown average earning assets $2.6 billion during the year, of which $1.1 billion came from our C&I and CRE lending businesses. This growth enabled us to increase net interest income $67 million or 21% year-over-year as we remain focused on growing earnings from the community bank, smoothing out earnings volatility and creating a sustainable and predictable earnings stream.

We closed 2 mortgage acquisitions during 2017 as we strengthened our market position nationally in the delegated correspondent and distributed retail channels. These acquisitions enabled us to fund almost $35 billion of mortgage closings in 2017 at a gain on sale margin of 82 bps.

In November, we announced we have signed a definitive agreement for the acquisition of 8 Desert Community Bank branches in San Bernardino County, California from East West Bank. These branches will provide approximately $600 million of high-quality, low-cost deposits to fund loan growth and expand our banking footprint outside of Michigan and into our largest mortgage origination state. We recently received regulatory approval and expect the transaction to close towards the end of Q1.

We have sold or agreed to sell approximately $42 billion of mortgage servicing rights during 2017, making us one of the biggest sellers in the country, and have retained the subservicing on 87% of these sales. I believe this high retention rate is testament to our best-in-class servicing team and platform.

Our capital ratios remain strong as we ended the year with a Tier 1 leverage ratio of 8.51%, and this is after growing our balance sheet $2.9 billion or 20% in 2017. Our capital position is only going to be further enhanced by future earnings, a lower corporate tax rate and the capital simplification proposal, which would further increase Tier 1 leverage by approximately 70 basis points as of December 31.

Finally, we have won 3 best places to work awards in 2017, a Diversity & Inclusion Award from the Mortgage Bankers Association and a Fannie Mae award for General Servicing. It's been an exciting and productive year. We're executing on our strategy and feel we are well positioned to continue to grow and be successful across all 3 business lines in 2018 and beyond.

I will now outline some of the key operating metrics from each of our major business segments during the year and quarter. Please turn to Slide 12. Operating highlights for the community banking segment include: average commercial loans increased $344 million or 9.3% versus the prior quarter to $4 billion, following solid growth from all loan categories in the portfolio; average commercial real estate loans grew $220 million or 13%; commercial and industrial loans grew $63 million or 6%, while average warehouse loans increased $61 million or 6%.

For the full year, we increased average C&I and CRE balances $1.1 billion as we continued our commercial lending growth and our transition to a strong community bank. We expect a similar rate of growth in our commercial lending businesses in 2018, given the introduction of several new business lines over the last 2 years, including builder finance lending, MSR lending, equipment finance and leasing and nonauto indirect lending. Our recruiting efforts over the last 12 months, strengthening our core commercial lending businesses, and the recently announced Desert Community Bank acquisition will give us a presence to expand commercial lending and business banking activity in the high desert region of California to complement our already national warehouse and builder finance lending businesses.

We're very excited about our commercial lending businesses and the high-quality, interest-earning assets they are generating. Average consumer loans increased $148 million in the quarter and $563 million year-over-year as we added high-quality jumbo and home equity lines of credit to our portfolio. This again illustrates the power of our business model and our ability to generate assets from multiple business lines.

Average total deposits increased $79 million or 1% in the quarter led by an increase in government and company-controlled deposits. Average retail deposits were largely unchanged as higher retail certificates of deposit offset a decline in retail savings deposits.

We remain focused on executing on several strategic initiatives to drive further organic and inorganic deposit growth, including acquisition opportunities, and we're excited to soon be welcoming the Desert Community Bank branch team to the Flagstar family, building out a digital strategy, putting greater emphasis on bringing in deposits from commercial customers and leveraging our subservicing business for custodial and escrow deposits. We're very encouraged by the sustained growth in the community bank, our positioning and potential for the future.

Please turn to Slide 13. Operating highlights for the mortgage origination business include: fallout-adjusted lock volume declined slightly by 3% to $8.6 billion quarter-over-quarter; solid growth of 38% in our bulk correspondent channel in Q4 versus Q3 helped offset anticipated seasonal declines across other origination channels.

Mortgage closings increased slightly in Q4 to $9.7 billion. This increase is testament to the operational excellence of our underwriting and fulfillment teams. Furthermore, in a recent analysis from inside mortgage trends, Flagstar had only 500,000 of agency repurchases in Q3 2017 and ranked 97 out of all originators who repurchased volume, which is outstanding, given we're the ninth largest originator in the country. We're extremely proud of the underlying quality of the loans we originate.

Our net gain on loan sale margin increased 7 basis points quarter-over-quarter to 91 basis points as we took advantage of market pricing opportunities. And gain on sale revenues increased to $79 million in Q4 versus $75 million in Q3.

The strategy behind our 2 mortgage acquisitions in 2017 was to preserve mortgage banking revenues in a declining market where we also knew there would be pressure on margins. Our gain on sale and MSR revenues combined in 2017 are basically the same as they were in 2016, so our thesis has been validated. Furthermore, we now have a strong national distributed retail presence as we move towards a purchase market, and our scale across all origination channels allows us to be dynamic with our pricing strategies, and you saw the benefit this quarter in our bulk correspondent channel.

This quarter, we executed on our second securitization, which consisted a $576 million of fully amortizing, high-balance conforming and jumbo fixed qualified mortgage loans, and we expect this to be a regular activity in 2018. As Sandro mentioned, we're also excited about the direct-to-consumer team we've recently recruited from Capital One to further strengthen this channel. We believe we have one of the best mortgage origination platforms in the country and are primed to take advantage of any dislocation in the industry, given the smaller and more competitive market, further consolidating our position as the fifth largest bank originator in the nation.

Moving to servicing. Quarterly operating highlights for the mortgage servicing segment on Slide 14 include: we currently service or subservice 442,000 loans, of which 310,000 are subserviced for others, making us the eighth largest subservicer in the country. The remaining 132,000 loans are MSRs we own or a part of our HFI book.

It should be noted, less than 2% of the loans we service or subservice are more than 60 days delinquent. In 2017, we sold $33.2 billion of MSRs and agreed to sell an additional $9 billion in Q4, which will close in February, for a total of $42 billion in MSR sales. This makes us one of the biggest sellers of MSRs in the country. And we retain the subservicing on 87% of these sales. I believe our unique platform combines quality, operational expertise and complimentary ancillary offerings.

We've previously spoken about the Fannie Mae STAR awards for 2 consecutive years from a quality point of view. And we also offer MSR lending, servicing advanced lending and recapture services for a comprehensive one-stop shop to owners of MSR assets. If you combine this offering with a robust risk and compliance infrastructure and a well-capitalized bank, you can see the attractiveness of our proposition and our strength as a solid and reliable counterparty.

The escrow and custodial deposits these loans generate also help us fund our balance sheet, and we held $1.6 billion of such deposits at the end of the quarter, up slightly from Q3 given the increase in loans serviced. Our MSR to CET1 capital ratio at the end of December was 24% but is closer to 16% if you include the $9 billion UPB of pending MSR sales that are expected to close in February. The recently announced capital simplification proposal would allow us to hold up to 25% of MSRs to CET1 capital before it became punitive. This is obviously a significant and very positive development for Flagstar and would increase Tier 1 leverage by approximately 70 basis points as of December 31 if enacted as proposed.

Putting that further into context, given where our MSR to CET1 ratio will be following the closing of the $9 billion pending MSR sale, we estimate we can get through Q3 2018 before having to sell any more MSRs and still remain under the 25% limit. We have the capacity to service or subservice 1 million loans and will continue to grow our subservicing platform through a combination of MSR sales where we subservice the underlying loans and onboarding non-Flagstar-originated loans, given the strength of our platform. In 2017, we have increased the number of loans we subserviced by almost 90,000 loans or 40% and believe we can continue this trajectory in 2018.

Moving on to expenses on Slide 15. Our noninterest expense increased $7 million to $178 million quarter-over-quarter, which was primarily driven by additional incentive compensation for 2017 performance and incremental compensation and benefits following investments in growth initiatives. We also saw higher commissions and loan processing expense given the increased mortgage closings in Q4.

Our efficiency ratio increased 3% to 77% quarter-over-quarter because of the increase in expenses for the reasons outlined above. We estimate noninterest expense will be between $183 million and $188 million during the first quarter of 2018. The increase in quarterly expenses is primarily due to $6 million of seasonally higher payroll taxes, another benefit expense; and continued investment in growth opportunities. We remain focused on improving our efficiency ratio through increasing revenues, particularly from our new businesses and core businesses where we've invested in growth initiatives while maintaining our cost discipline across the organization.

We're very pleased with how we've performed in 2017. We're delivering on our strategic plan and believe we have the right team, platform and business model to continue to create significant value for our shareholders.

With that, I'll hand it back to Sandro.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Thank you, Lee. I'm now going to close our prepared remarks with some guidance for Q1 and then open the call for your questions and answers.

Please turn to Slide 17. We expect net interest income will be fairly steady with higher homebuilder and consumer loans largely offsetting the decline in loans held for sale and warehouse loans. We anticipate a fairly stable net interest margin. We expect relatively steady gain on loan sale income with no meaningful impact in the quarter from the previously noted expansion of our direct-to-consumer mortgage team.

We anticipate the net return MSRs will approximate 5% to 7% before transaction costs from the closing of MSR sales. We expect loan fees and charges will fall moderately on lower mortgage loan closings, while all other noninterest income will remain steady with Q4 levels. And as Lee noted, noninterest expense will rise to between $183 million and $188 million.

This concludes our prepared remarks, and we'll now open the call to questions from our listeners. Hannah?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Scott Siefers with Sandler O'Neill and Partners.

Brendan Jeffrey Nosal - *Sandler O'Neill + Partners, L.P., Research Division - VP of Equity Research*

This is actually Brendan on the line for Scott. Just starting with expenses, I appreciate the guidance for the first quarter and some of the color around what appears to be some transitory costs in the 1Q as well as maybe some more permanent investment in growth initiatives. Just looking past the first quarter, do you think there's an opportunity to take the expense base down in the 2Q and the remainder of the year, some of these transitory costs fall out of the run rate? And then if so, why do you feel that way?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Well, you're asking me to give you guidance past Q1, and we don't do that. We provide guidance forward 1 quarter and no further than that. The only comment I'll make, and Lee maybe wants to add something here, is in order for us to continue to increase the revenues at the pace that we have, we've got to continue to invest in the business, and we're not afraid to do that. And I think, as you can see from the results that we've posted this quarter, while the expenses were a little higher than what the analysts estimated, the revenues were higher by a greater degree. So we think we're doing the right thing, and we're going to keep building the business like we have been.

Brendan Jeffrey Nosal - *Sandler O'Neill + Partners, L.P., Research Division - VP of Equity Research*

All right. Then maybe moving over to the gain on sale margin. It performed pretty nicely as the origination mix has become richer throughout 2017. Do you feel like there's any more opportunity to enriching the mix further and have some gain on sale margin expansion? Or is the 91 basis points a pretty fair run rate going forward?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

I think as we look to the first quarter, I think what's -- basically, what we're saying, we think we're going to be in that neighborhood. I mean, looking further along, I don't know. Your guess is as good as mine. The market right now is expected to be smaller in 2018 than it was in '17. So to think that in a smaller market with overcapacity that there's going to be some great opportunity to widen margins, that's probably not a fair thing to think is likely. But we've got tax reform and lower corporate taxes, and maybe that'll spur the economy more. And if it does, maybe we can see some benefit in the back half of 2018, but we're not ready to guide you to a wider margin at this point.

Brendan Jeffrey Nosal - *Sandler O'Neill + Partners, L.P., Research Division - VP of Equity Research*

All right, totally fair. And then kind of one last one here on the net gain on loan sales for the first quarter. Guidance calls for relatively stable levels of revenue there, and it feels like a pretty stable gain on sale margin. Just talk a little bit about your comfort in holding the origination side relatively constant in light of what's typically a seasonally softer quarter.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Yes. I think the fourth quarter is evidence of how we've changed this mortgage business and made it more stable because we've got different levers we can pull, as we said in the speech, depending on where the market opportunity is. And so while many others, maybe even most others, saw declines in production in Q4 and -- Q4 versus Q3 as well as Q4 versus last year's Q4, you didn't see that happening at Flagstar. So we think that we can adjust as necessary given the now very, very broad origination system that we have.

Operator

We'll go to our next question with Jessica Levi-Ribner with B. Riley FBR.

Jessica Sara Levi-Ribner - *B. Riley FBR, Inc., Research Division - Analyst*

Can you talk a little bit about the third -- kind of getting third-party subservicing in, who would your clients be? And what kind of traction are you seeing in that business today?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

Yes. So the way we can grow our subservicing business, Jessica, is fourfold. We can sell MSRs that we create through our mortgage origination business, and then we subservice the underlying loans after we sell the MSR. We can onboard loans which we haven't originated typically from the MSR buyers who also buy loans from us because they're buying from others but they like the quality of the subservicing that we're doing. We could work directly with [bank and credit] , and we have capacity subservicing agreements with both. And then the fourth option would be private label subservicing, and that's something we're looking to launch in the second half of this year. So those are the 4 ways we can grow subservicing. I think you've seen nice growth this year. A lot of that came from us selling MSRs and subservicing the underlying loans, but we were also able to add loans that we didn't originate as well, and that's why you saw the growth of 90,000 loans from a subservicing point of view year-over-year.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

And I would add that this servicing platform is a very, very compelling offer. There's a lot of reasons for that. And those people that are buying our MSRs, they don't have to leave those loans with us. They're choosing to leave those loans with us, and I think, I don't know, maybe 87% of a sale?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

97%.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

The subservicing is stable at Flagstar. So I think that speaks to how compelling that offer is that we have. And the quality, the recapturing, all these things that Lee speaks to is a very unique offering in the industry today.

Jessica Sara Levi-Ribner - *B. Riley FBR, Inc., Research Division - Analyst*

And what kind of size do you think you can grow it to?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

Yes. So Jessica, we have capacity today to subservice 1 million loans. And at the end of 2017, we were at 442,000, so we have plenty of capacity.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

And Jessica, if you look at Slide 14, you can see in the top-right side there how that -- the number of loans has grown very steadily. And I think if I was modeling, keep looking at that going forward and saying this is what they've done and maybe this is what they could do going forward.

Jessica Sara Levi-Ribner - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. Then another one on acquisitions. As you look into '18 and you think about kind of what your strategic goals are for the company, what kind of acquisitions could we expect for you to make?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

I don't know if you can expect anything other than what we announced, which was the DCB. At this point last year, I couldn't have said to you that we're going to do 3 -- announce 3 transactions. I just didn't know then, and I don't know that today either. Here's what I'll tell you, is I think that our ability to grow the company organically, grow earnings organically and, therefore, grow shareholder value organically is pretty -- also pretty compelling. So if we see the right situation like we saw with the Stearns transaction as well as the Opes transaction and the DCB transaction, relatively small transactions that we can bolt on with some ease that are accretive, we're going to do that, but only if they really, really make sense. And so if we don't do it with M&A, that's just fine. We're very confident with how we can continue to grow earnings. If we find the right situation, maybe it propels earnings growth a little quicker.

Jessica Sara Levi-Ribner - *B. Riley FBR, Inc., Research Division - Analyst*

Fair enough. And the last one from me is just in terms of the capital simplification, lower taxes, do you think that you're on kind of on a trajectory to achieve your $5 billion in balance sheet growth earlier than expected?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Oh, I don't know if I can say that just yet. I mean, it all depends what happens with the economy. I personally believe that a lower tax rate was the right thing for companies. And I think that the possibility of spurning greater economic growth is good. And if it does that, then the economy should grow faster, and that should allow us to perhaps reach those targets quicker. But I think it's way too early to be coming to that conclusion.

Operator

We'll go next to Bose George with KBW.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

I just wanted to follow up on the question about the acquisition landscape. In 2017, on the mortgage side, volumes were down. It looked like that sort of shook up the industry a little bit, created some opportunities. I mean, I was just -- wanted your take on how 2018 could look. I mean, volumes will be down but definitely a little more moderately. So just curious what you're seeing from that standpoint in terms of what could open up.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

So if you're speaking to mortgage M&A, I think there probably will be a lot of opportunities, but we're not really looking for that. We've accomplished what we wanted to do, which was to spur our distributed retail growth, and we did that with the Opes acquisition. And we really need to completely digest that. And then more recently, we strengthened our DTC offering by bringing Rocky and his team over from Capital One. So we're in pretty good shape, I think, to continue to take advantage of opportunities in the industry for growth. But doing an M&A deal, it would have to be really, really strong for us to do that.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay, that makes sense. And then with the new capital rules, as soon as they go into effect, you'll have more flexibility there on the MSRs. But just I'm curious about the -- how you see the return on the MSRs versus other uses of capital. Is there a scenario where your MSRs could decline more meaningfully if just the pricing in the market is attractive? And could we see the MSR capital invested in that sector decline?

James K. Ciroli - *Flagstar Bancorp, Inc. - CFO, Executive VP, CFO of Flagstar Bank and Executive VP of Flagstar Bank*

Bose, this is Jim. You've seen us guide to a 5% to 7% return on the MSR asset, and we more often than not beat that expectation. So I think that asset, especially how we hedge it, provides a good return without a significant downside. So that's a very attractive asset to us, and we'd like to continue to use that as long as it makes sense from a capital standpoint. As you think about the capital standpoint, when we do have the opportunity to gain more flexibility like you saw in this quarter, we sold some mortgage servicing rights that bought us additional capital and MSR holding flexibility deeper into 2018, we'll look at those. And where it makes sense, we'll take advantage of those opportunities.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Bose, we're a seller of MSRs. We're not a buyer of MSRs, and we're not in the MSR business. But we're comfortable holding the asset, so being in a 15% to 25% range is probably where you'll see us be. Even if we get above 25% a little bit at times, we can afford a little bit of negative impact to capital. But I would tell you this, that we're going to be -- we're going to continue to be very optimistic, and our team has done an outstanding job of not only carrying those assets at the right level of being able to dispose of them efficiently. And so I'm very, very confident with our ability to continue to do that going forward.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay, great. And just one more on the servicing. If the -- your average servicing fee is up a couple of basis points year-over-year. Is that just a little more excess or -- of mix? So just curious what drove that.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Personally, I can't speak to that. I don't know. Jim or Lee can you add anything on that?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

I think it may be mix. We're just holding a little bit more [G&A] . But we can confirm that and come back to you, Bose.

Operator

We'll go next to Henry Coffey with Wedbush.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Specialty Finance*

Obviously, the growth of the bank portfolio is beginning to become very defining. Is that the way to -- we should start really thinking about the business going forward?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Well, I think we're -- I think I said this in my comments, we're a unique business model. So growing banking certainly is a big, big focus of ours, and I noted it -- the stats on how we've increased net interest income. Drew has done a great job since he's been here last couple of years of continuing to bring the right people into the organization as well as expanding the lines of business that we're in within the commercial banking group, and I think that's a huge advantage. I mean, there's not a lot of midsized bank like us that have the national lending platforms that we have. So expanding that, continue to expand that, that's certainly a part of the secret sauce here. But we'll never not be a significant mortgage lender. That's just too good of a business. We've got too much scale, too much market share for that not to always be a big part of our business. And then you throw in there the servicing that we've been talking about a little bit this morning. It gives us a nice little balance there against those other 2 businesses. We feel pretty good about the way things are shaping up on the balance sheet.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Specialty Finance*

When you look at loan growth, you immediately start worrying. Everybody does. You obviously have no losses now. The portfolio has had phenomenal performance for the years I followed the company. The economy is relatively strong. You obviously know what you're doing. What's the thought process between putting the brakes on certain business lines? And what other business lines are likely to see real significant growth in '18?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

It's not a matter of putting the brakes on, Henry. If you don't compromise where you are relative to both credit and return, then it's not -- you don't put the brakes on. The business just doesn't come. And -- but with Flagstar, if that were to be the case, if we were in an economic downturn, then, number one, as Jim noted in his comments, we've got the best allowance coverage in the business. So we've got more room there to cover some losses that might appear. But because of the mortgage business that, theoretically, if we're on a downturn in the economy, interest rates are probably lower. There's probably more mortgage business on the refinance side that can help us offset the impacts of that. So you got to be disciplined, you got to be committed to quality. And Lee mentioned, it's -- I know this is on the mortgage side, but I think it's evidence of quality. We're the ninth largest originator in the country, and yet when it comes to repurchases, we have the 97th amount of repurchases. I think that speaks to the fact that in the mortgage business, we don't go out there and just originate anything. We make sure that we get the right quality, and that's something that's tried and true across our entire company.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Specialty Finance*

And then just looking at the subservicing business, which is slowly sort of very much becoming its own source of revenue and ultimately, a significant business line, are there competitive dynamics that you're basically able to originate, sell servicing, and then sort of retain what you grew at home? Are there -- when you look around on the -- at the horizon, are there large portfolios that might come your way given all the dislocation that's going on in the business?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

Yes. Look, I'm not going to necessarily comment about future business. I mentioned to Jessica earlier how we can grow subservicing. The fact that we can generate our own MSR, sell those, subservice them is a huge advantage. But again, it's not just that. It's the underlying quality. It's the ancillary offerings around recapture MSR lending, servicing advanced lending. We're a well-capitalized bank, and we have a strong risk and compliance infrastructure. And we're the only full-service bank that is growing subservicing. The bigger banks tend to have servicing businesses for their own portfolios. So we're in a very unique position, and I do feel that we're in a great position to continue to grow that business.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Henry, if you haven't figured it out yet, I'd rather hit singles than grand slams. And so we're going to keep knocking it down step by step. And as I mentioned, in response to Jessica's question earlier, the growth in the loans we service has been very, very steady. That's not to say that there might not to be an opportunity that presents itself to take a big bite and grow it by 100,000 loans all at once. But it's got to really make sense, and we have to be prepared from an infrastructure point of view to be able to take that on. So if you do see that happen, that'll tell you that we're very, very comfortable that we can handle it. But we're not out there thinking that we need to do that. The servicing business, as you noted, is slowly but surely becoming very meaningful.

Operator

We'll go next to Kevin Barker with Piper Jaffray.

Kevin James Barker - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Could you help quantify the difference between retaining servicing over the next few quarters given the capital release? Maybe more detail on the transaction cost or the opportunity cost associated with holding that servicing?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

So when you say servicing, you're talking about the MSR assets?

Kevin James Barker - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Yes.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

So we have seen in the past what our costs had been, and we expect that the transaction costs we would experience in the future would be comparable to what we've experienced in the past. We've been able largely to sell at our marks, so I wouldn't expect that we're going to get gains or losses in any significant way. We haven't had that in the past. So I think it's kind of much of the same, if you will. As Lee said, we don't think anybody sold more servicing in -- servicing assets in 2017 than us. So I think there's a pretty strong track record for you to compare it to.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

One additional comment, Kevin, and we mentioned this in the prepared remarks. Assuming that capital simplification rule is since enacted as proposed, we don't actually have to sell any more MSRs until Q3, and we'll still be under the 25% limit. So although we sold $42 billion or have agreed to sell and sold $42 billion in '17, we don't have to continue that run rate in 2018.

Kevin James Barker - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

And then your gain on sale margins were significantly stronger than last quarter. I'm assuming that Opes played a pretty big role in that, and it came through in the fourth quarter. Could you help quantify the difference between the retail origination and how much of a contribution Opes was?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Well, with respect to the margin itself, as you know, we haven't provided specific guidance on how the margin is made up amongst the different delivery channels. I won't start doing that today. But I'll reemphasize the points that a number of us have made today both in the prepared remarks and otherwise. Because we have a real end-to-end mortgage business that could take advantage of market opportunities in a lot of different channels, that makes a big difference. And so what we did in Q4 was just that. I wouldn't say that it's attributed to any particular area. It's looking at where the opportunity is on a daily basis and adjusting accordingly, adjusting the pricing accordingly and that delivery channel and taking advantage of it. And I think that the channel margins, together with secondary margins, we're just in a much better place today than we were in the past.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

Again, the only thing I would add, Kevin, if you look at the deck that we sent out this morning, Page 41, and we talk and think about things by channel, you can see the -- how the retail channel has grown in the second half of 2017. And obviously, we closed the Opes transaction in May of 2017. So you can get a feel for the impact in the second half of 2017 from that slide.

Kevin James Barker - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then with the hiring of Rocky Stubbs from Capital One and integrating him with the Flagstar platform, can you help us understand how you expect his role to play out within the consumer direct channel? Are you expecting him to significantly modify how your platform that currently exists or to have him in a role that just fits into how Flagstar is just currently operating right now?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Yes. I think it's enhancements in growth. So I've said this many, many times in the past that the key to building businesses and deciding what building -- what business you build is getting the right people to lead it. And so we've been searching for the right person to take this business to another level, and we got Rocky to come aboard. And that's a big, big opportunity for us. So we do pretty good job right now with recapture, within the servicing business, in particular. But going forward, more and more people are going to take advantage of the direct-to-consumer channel as their way of doing business in the mortgage industry. And so we're going to build the business in order to be able to respond to whatever way our customers and those customers that we have access to might want to do business. So the digital space is an area where we need to get stronger, and then we will. We're working on that right now. And now that we have a solid and proven team in place, I think you'll see us grow that part of our business going forward. And look, who knows whether DTC works in a purchase market, but we're going to follow that. We're going to figure that out. Any if that opportunity presents itself, we'll be ready to seize upon it.

Operator

We'll go next to Jesus Bueno with Compass Point.

Manuel Jesus Bueno - *Compass Point Research & Trading, LLC, Research Division - VP & Research Analyst*

Congrats on the hire of Rocky Stubbs. Maybe -- I know it's early in the quarter but sort of relates to mortgage, you have sort of a larger national mortgage origination platform. Have you seen any divergence perhaps between higher tax states like California and New York versus your other kind of lower tax state markets?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Not yet, I haven't and honestly don't think that, that's going to have an impact on us. First of all, I think that, overall, if the tax reform does it what it's supposed to do, economic growth, as I said earlier, should become better. And so the mortgage market maybe, as that happens, gets bigger. But only 4% of our loans are -- that we made in '17 would have been impacted by the mortgage deduction change. And so given what I've been talking about all morning here with having a broad distribution system, we can adjust if that -- let's say, that was to be cut in half and 2% of it goes away. That's a business we can pick up some place else pretty easily.

Manuel Jesus Bueno - *Compass Point Research & Trading, LLC, Research Division - VP & Research Analyst*

Very helpful. And just on the -- if I could ask on the mortgage warehouse. Your average balance is up nicely quarter-over-quarter. Is there anything behind that? Are you seeing any benefit from the addition of the Stearns that we get a corresponding -- perhaps across on there?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Yes, a little bit. I mean, that does take time. I think our team has been out there calling on those people. And we haven't been in a situation where the mortgage market is growing. So not -- people aren't generally looking for new warehouse lines. So it's a little harder to move warehouse lines. But yes, we're starting to see a little bit of benefit there. And people are out there. Well, I should -- let me back up a second. We've hired a couple, right, Drew? We've hired a couple of people that are experienced, and that's probably helped as well.

Andrew W. Ottaway - *Flagstar Bancorp, Inc. - Executive VP, MD of Lending, Executive VP of Flagstar Bank and MD of Lending of Flagstar Bank*

Yes, I think that's exactly right, Sandro. We've been able to attract a couple of very experienced, qualified folks with deep relationships in that industry. We'll leverage those relationships much in the same way as our other lending lines of business and pull out those customers over one by one. So we have seen some pickup there, and then we've seen some additional usage on the lines.

Manuel Jesus Bueno - *Compass Point Research & Trading, LLC, Research Division - VP & Research Analyst*

That's great. And let me ask a question on the -- on your deposits. So your recent acquisition certainly helps you there. You saw a little dip in your noninterest-bearing deposits this quarter but not too dissimilar from what other banks have seen. I guess, what efforts are you making to retain some of those deposits or even grow your deposit base from here?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Well, first of all, I think you're talking about point to point. There was a decline. The average balance actually increased quarter over quarter. Now admittedly not a lot, but it did increase as opposed to decrease. So a few things going forward, Jesus, number one, continue to leverage our existing branches. We do think that there's more opportunities there, and we're very focused on expanding our relationships there. We've talked in the past about building our brand awareness in our primary market for funding here in Michigan, and we're working strongly on that. We talked about the business sponsorship and how we think that can help us. So those are very important. But other things would be, as you noted, the Desert Community Bank opportunity, there's $600 million of deposits there. And I don't think it stops there. I think that gives us access to a big market, and that's a big market where we already do a lot of business if you consider the Opes business out there as well as our warehouse business, our [CRE] business, our home builder finance business. It was kind of a natural for us to expand our funding gathering activities into California. And then we're also working on enhancing our direct bank offerings. We think with all of the customers that we service around the country that there's a potential opportunity there. Maybe with our distributed retail loan offices, there might be an opportunity there. So there's a lot of ways that we might be able to change the dynamics for funding at Flagstar, and we're considering all of those.

Manuel Jesus Bueno - *Compass Point Research & Trading, LLC, Research Division - VP & Research Analyst*

That's great. If I could just slip 1 more on in, and I apologize if this was asked already. I jumped on late. But did you provide the guidance for the tax -- effective tax rate for the first quarter for 2018?

James K. Ciroli - *Flagstar Bancorp, Inc. - CFO, Executive VP, CFO of Flagstar Bank and Executive VP of Flagstar Bank*

Yes. Jesus, we've provided guidance. 20% would be our expected tax rate.

Operator

We'll go next to Daniel Tamayo with Raymond James.

Daniel Tamayo

Actually, I was just about to ask about -- can you hear me?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Yes.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - COO, Executive VP, COO of Flagstar Bank and Executive VP of Flagstar Bank*

Yes.

Daniel Tamayo

Sorry about that. So I was just going to ask about the deposits as well. But I guess just on the period-end decline in noninterest-bearing, anything unusual in there that may bounce back in the first quarter?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Yes. No, nothing unusual. I would expect that we would see growth. I mean, we're certainly struggling, working hard at it.

Andrew W. Ottaway - *Flagstar Bancorp, Inc. - Executive VP, MD of Lending, Executive VP of Flagstar Bank and MD of Lending of Flagstar Bank*

Yes. I mean, I think it's -- this is Drew. I think, as Sandro alluded to, there's a number of different strategies underway. You have seen a little bit of rotation on the interest-bearing side from savings to longer-duration CDs. But I don't think we've seen anything anomalous on the noninterest-bearing side.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Just keep in mind, those can't be controlled, so they bounce around a lot. So looking to point to point, there could be a lot of different things in there.

Operator

It appears there are no further questions in queue. At this time, I'd like to turn it back over to Sandro DiNello with any additional or closing remarks.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - CEO, President & Director and CEO, President & Director of Flagstar Bank*

Thanks, Hannah, and thanks to everyone for your interest in Flagstar. In our earnings press release, I said that a key takeaway from the quarter was the durability of our earnings. We've talked a lot in the past about consistency in earnings. We've sought it, and I think we've achieved it. But durability suggests more, and it's an important nuance. Durability is persevering through adversity, getting knocked around and still producing through interest rate changes, regulatory changes and volatility in the mortgage market. You name it, and we've managed through it.

A second key takeaway is growth, growth of banking by adding high-quality, relationship-based commercial loans and high-quality efficient deposits; growth of mortgage originations by building a broader and more diversified distribution system; and growth with servicing by building a very compelling solution. Overall, our growth is thoughtful and always with the goal of increasing shareholder value.

The third takeaway is quality and compliance. We will not compromise either. As an example, for the fourth quarter and throughout the year, asset quality has been sterling. Our net charge-offs for the fourth quarter were a modest $2 million, and our allowance coverage is among the best in the industry. The way we have fortified our balance sheet against adversity helps protect the durability of our earnings.

In closing, the continued growth of our community bank supports our transformation into a strong commercial bank, and our mortgage acquisitions provide more levers to allow us to maximize revenues. Given all this, we believe we are well positioned to continue to drive earnings growth and deliver increased shareholder value.

I'm proud to say, according to SNL, Flagstar had the highest percentage increase in shareholder value among all midsize banks in 2017 at 39%. As always, we appreciate the loyalty and support of our shareholders, and we thank our employees for their extraordinary efforts to make Flagstar a success.

Finally, thank you for your time this morning. I look forward to reporting Q1 results in April.

Operator

And that concludes today's conference. Thank you for your participation. You may now disconnect.
