FLAGSTAR BANCORP INC
Form 424B3
November 18, 2016

PROSPECTUS
Filed Pursuant to Rule 424(b)(3)

Registration No. 333-214030

FLAGSTAR BANCORP, INC.
(as Issuer)

Offer to Exchange

$250,000,000 aggregate principal amount

6.125% Senior Notes due 2021, which have been registered under Securities Act of 1933

For any and all outstanding unregistered
6.125% Senior Notes due 2021

This exchange offer will expire at 5p.m., Eastern time, on December 15, 2016, unless extended

- We are offering to exchange $250,000,000 aggregate principal amount of our 6.125% senior notes due 2021, which have been registered under the Securities Act of 1933, as amended, or the "Securities Act," and referred to in this prospectus as the "New Notes," for all $250,000,000 aggregate principal amount of outstanding unregistered 6.125% senior notes due 2021 that were issued on July 11, 2016, which are referred to in this prospectus as the "Old Notes." We refer to the Old Notes and the New Notes collectively as "notes."
- Subject to the terms of this exchange offer, we will exchange the New Notes for all Old Notes that are validly tendered and not withdrawn prior to the expiration of this exchange offer.
- The New Notes will be identical in all material respects to the Old Notes, except that the New Notes will be registered under the Securities Act and will not be subject to transfer restrictions or registration rights. The Old Notes were issued in reliance upon an available exemption from the registration requirements of the Securities Act.
- The New Notes will mature on July 15, 2021. Interest on the notes will be payable on January 15 and July 15 and will accrue from July 11, 2016. The first interest payment date will be January 15, 2017.
- The exchange of Old Notes for New Notes pursuant to this exchange offer generally should not be a taxable event for U.S. federal income tax purposes. See "Material United States Federal Income Tax Considerations."
- There is no public market for the New Notes. We have not applied, and do not intend to apply, for listing of the New Notes on any national securities exchange or automated quotation system.
- We will not receive any proceeds from this exchange offer.
- We may redeem some or all of the notes at any time at the applicable redemption price described under "Description of Notes—Optional Redemption by Us."
- The notes will be unsecured and will rank equally and ratably with our unsecured senior indebtedness.
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The notes will be effectively subordinated to our indebtedness, to the extent of the value of the collateral securing such indebtedness, and will be structurally subordinated to the indebtedness and other liabilities and preferred equity of our subsidiaries.

Investing in the notes involves risks. See "Risk Factors" on page 16, included herein, for a discussion of certain risks that you should consider in connection with this prospectus before tendering your Old Notes in this exchange offer.

Neither the Securities and Exchange Commission, or the "SEC," nor any state securities commission has approved or disapproved of the New Notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives New Notes for its own account pursuant to this exchange offer must acknowledge that it will deliver a prospectus in connection with any sale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with sales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such sale until the earlier of 180 days from the date the Registration Statement becomes effective or the date on which each such broker-dealer is no longer required to deliver a prospectus in connection with market-making or other trading activities. See "Plan of Distribution."

The notes are not savings accounts, deposits or other obligations of Flagstar Bank, FSB and are not insured or guaranteed by the Federal Deposit Insurance Corporation or by any other governmental agency or instrumentality.

There is currently no market for the notes. We do not intend to list the notes on any securities exchange or automated quotation system.

The date of this prospectus is November 15, 2016.

FLAGSTAR BANCORP, INC.

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You should rely only on the information contained in this prospectus. We and the initial purchasers have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it.

You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this prospectus.

We are not making an offer to exchange and issue the New Notes in any jurisdiction where the offer or exchange is not permitted.

CERTAIN DEFINED TERMS

In this offering memorandum, unless otherwise specified or the context otherwise requires, the terms "we," "us," "our," the "Company" and "Flagstar" refer to Flagstar Bancorp, Inc. and our consolidated subsidiaries. We also refer to our wholly owned subsidiary, Flagstar Bank, FSB, and Flagstar Capital Markets Corporation, its wholly-owned subsidiary, as the "Bank." References to "initial purchasers" refer to the firms listed on the cover page of this prospectus.

WHERE YOU CAN FIND MORE INFORMATION

We filed a registration statement on Form S-4, of which this prospectus is a part, with the SEC to register the New Notes under the Securities Act. This prospectus does not contain all of the information included in that registration statement. For further information about us and the New Notes offered by this prospectus, you should refer to the registration statement and its exhibits. You can access the registration statement by any of the means described in the following paragraph.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can review and obtain copies of the registration statement, these reports and other information on the SEC’s Internet site at http://www.sec.gov. You may also read and copy any materials we file with the SEC at the Public Reference Room of the SEC at 100

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F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the Public Reference Room.

We also make our periodic reports as well as other information filed with or furnished to the SEC available, free of charge, through our website, at www.flagstar.com, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. The information on or that can be accessed through our website is not part of this prospectus.

We have agreed that if at any time after the completion of this exchange offer the Company is no longer subject to the reporting requirements of the Exchange Act, the Company will nevertheless continue filing the reports and other information referred to in the preceding paragraph with the SEC for so long as any of the notes remain outstanding and the SEC will accept such filings.

FORWARD-LOOKING STATEMENTS

This prospectus includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, "forward looking statements." This prospectus includes forward-looking statements in addition to historical information. These forward-looking statements are included throughout this prospectus, including in the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We use the words "anticipate," "assume," "believe," "budget," "continue," "could," "estimate," "expect," "future," "intend," "may," "plan," "potential," "predict," "project," "will" and similar terms and phrases to identify forward-looking statements in this prospectus.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the "Risk Factors" section of this prospectus. Those factors should not be construed as exhaustive and should be read with the other cautionary statements in this prospectus.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this prospectus. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements that we make in this prospectus speak only as of the date of those statements, and we undertake no obligation to update those statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments, except as required by United States federal securities laws. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

NON-GAAP FINANCIAL MEASURES

In addition to results presented in accordance with GAAP, this prospectus includes non-GAAP financial measures such as the adjusted capitalization table. We believe these non-GAAP financial measures provide additional information that is useful to investors in helping to understand the underlying performance and trends of Flagstar.

Non-GAAP financial measures have inherent limitations, which are not required to be uniformly applied and are not audited. Readers should be aware of these limitations and should be cautious with respect to the use of such measures. To mitigate these limitations, there are practices in place to ensure that these measures are calculated using the appropriate GAAP or regulatory components in their entirety and to ensure that our performance is properly reflected to facilitate consistent period-to-period comparisons. Although we believe the non-GAAP financial measures disclosed in this prospectus enhance investors' understanding of our business and performance, these non-GAAP measures should not be considered in isolation, or as a substitute for those financial measures prepared in accordance with GAAP.

Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure, can be found in this prospectus. Additional discussion of the use of non-GAAP

measures can also be found in periodic Flagstar reports filed with the U.S. Securities and Exchange Commission. These documents can all be found on the Company’s website at flagstar.com.

PROSPECTUS SUMMARY

The following is a brief summary of our business and certain other information contained elsewhere in this exchange offer, but it is not complete and does not contain all of the information that you should consider before making your investment decision. You should carefully read this prospectus and the information incorporated by reference herein completely, including the consolidated financial statements included herein and the related notes and the "Risk Factors" and "Forward Looking Statements" included elsewhere in this prospectus, before deciding whether to participate in the exchange offer. For a more detailed description of the notes, see the section entitled "Description of the Senior Notes." In this prospectus, unless the context requires otherwise, where we say "we," "us," or "our," we usually mean Flagstar Bancorp, Inc. However, in some cases, a reference to "we," "us," or "our" will include our wholly-owned subsidiary Flagstar Bank, FSB (the "Bank"). All capitalized terms used in this section and not otherwise defined in this prospectus have the meanings given to them in the section entitled, "Description of the Notes."

Our Business

Effective January 1, 2016, we reorganized our reportable segments to align with our new management reporting structure and to align with our long-term strategy. Prior period segment financial information has been recast to conform to 2016 presentation. Prior to the reorganization, representation and warranty reserves were reported in the Mortgage Servicing segment and the MSR asset and associated costs were reported in the Other segment. As a result of this change, representation and warranty reserves, as well as the MSR asset and associated costs are now reported in the Mortgage Originations segment.

We are a Michigan-based savings and loan holding company founded in 1993. Our business is primarily conducted through our principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. At September 30, 2016, based on our assets, we are one of the largest banks headquartered in Michigan, providing commercial, small business, and consumer banking services. We have three major operating segments: Community Banking, Mortgage Originations and Mortgage Servicing. Through these lines of business, we emphasize the delivery of a complete set of mortgage and banking products and services and are distinguished by local delivery, customer service and product pricing. Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "FBC." We are considered a controlled company for NYSE purposes, because MP Thrift Investments, L.P. ("MP Thrift") held approximately 62.9 percent of our common stock as of September 30, 2016.

Our Community Banking segment provides deposits and fee based services to consumer, business, and mortgage lending customers through our Branch Banking, Business Banking, Commercial Banking, Government Banking, Warehouse Lending and Held-for-Investment Portfolio groups. We maintain a portfolio of commercial and industrial, commercial real estate and builder finance loans with our commercial customers and we originate or purchase residential mortgage loans through referrals from our branches, consumer direct call center and our website, flagstar.com. At September 30, 2016, we operated 99 branches in Michigan. We leverage the customer relationships we have gained throughout our branch network to cross-sell products to existing customers and increase our customer base. In 2016 we also began to offer new MSR lending and equipment finance lease products.

Through our Mortgage Origination segment, we originate or purchase residential mortgage loans throughout the country and sell them into securitization pools, primarily to Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Government National Mortgage Association ("Ginnie Mae") (collectively, the "Agencies") or as whole loans. In addition, we originate or purchase residential first mortgage loans and other consumer loans, and commercial loans to our held-for-investment loan portfolios. Our revenues include net interest income, income from banking services we provide to customers, and noninterest income

from sales of residential first mortgage loans to the Agencies, and the servicing of loans for others. The combination of our retail, broker and correspondent channels gives us broad access to customers across diverse geographies to originate, fulfill, sell and service our residential mortgage loan products.

The majority of our total loan originations during the nine months ended September 30, 2016 represented mortgage loans that were collateralized by residential first mortgages on single-family residences and were eligible for sale to the Agencies. At September 30, 2016, we originated or purchased residential mortgage loans in all 50 states, the U.S. Virgin Islands, and the District of Columbia through relationships with 556 mortgage brokers and 729 correspondents. At September 30, 2016, we also operated 31 retail locations located in 21 states, which primarily originate one-to-four family residential mortgage loans as part of our Mortgage Originations segment. In addition, we originate other consumer and commercial loans through our Community Banking segment. We continue to expand existing business lines, such as our distributed retail and direct-to-consumer mortgage origination businesses.

Our Mortgage Servicing segment services and subservices mortgage loans for others on a fee for service basis and may also collect ancillary fees, such as late fees and earn income through the use of noninterest bearing escrows. Revenue on our subserviced loans is earned on a contractual fee basis, with the fees varying based on the status of the underlying loans.

Risk Factors

Investing in the notes involves substantial risks. We face risks in operating our business, including risks that may prevent us from achieving our business objectives or that may adversely affect our business, financial condition and operating results. Before you invest in the notes, you should carefully consider all of the information in this prospectus, including matters set forth in the section entitled "Risk Factors" beginning on page 16.

The Exchange Offer

On July 11, 2016, we issued, in a private offering, Old Notes of $250 million in aggregate principal amount of 6.125% Senior Notes due 2021 and entered into a registration rights agreement in which we agreed, among other things, to deliver this prospectus and to complete an exchange offer for the Old Notes.

The summary below describes the principal terms of the exchange offer. Some of the terms and conditions described below are subject to important limitations and exceptions. You should carefully review the "Description of Notes" section of this prospectus, which contains a more detailed description of the terms and conditions of the notes. For purposes of the summary below, the terms "we," "our," "us," and "Flagstar" refer only to Flagstar Bancorp, Inc. and not to any of its subsidiaries.

Issuer	Flagstar Bancorp, Inc.
Old Notes	$250 million aggregate principal amount of 6.125% Senior Notes due 2021 that are not registered under the Securities Act and are subject to certain transfer restrictions and registration rights and additional interest upon failure by us to fulfill our obligations under the registration rights agreement. On November 15, 2016, we are initiating an offer to exchange these Old Notes for a like principal amount of notes, which we refer to as the "New Notes," that have been registered under the Securities Act. The Old Notes are identical in all material respects to the terms of the New Notes, except that the New Notes are registered under the Securities Act and generally are not subject to transfer restrictions, registration rights or additional interest penalties.
New Notes	6.125% Senior Notes due July 15, 2021. The terms of the New Notes are identical in all material respects to the terms of the Old Notes, except that the New Notes

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are registered under the Securities Act and generally are not subject to transfer restrictions, registration rights or additional interest penalties.

Exchange Offer	We are offering to exchange $1,000 principal amount of our New Notes due 2021, for each $1,000 principal amount of our Old Notes due July 15, 2021. Currently, there is $250 million in aggregate principal amount of Old Notes outstanding. Old Notes may be exchanged only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. New Notes will be issued only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. Subject to the terms of this exchange offer, we will exchange New Notes for all of the Old Notes that are validly tendered and not withdrawn prior to the expiration of this exchange offer. In order to exchange an Old Note, you must follow the required procedures and we must accept the Old Note for exchange. We will issue New Notes in exchange for corresponding Old Notes in this exchange offer, if consummated, promptly upon the expiration of this exchange offer.
Expiration Date	This exchange offer will expire at 5 p.m., Eastern time, on December 15, 2016, unless we extend it. We may extend the expiration date for any reason. We do not currently intend to extend the expiration date.
Sale of New Notes	Based on interpretive letters of the SEC staff to third parties, we believe that you may offer for sale, sell and otherwise transfer the New Notes issued pursuant to the exchange offer without compliance with the registration and prospectus delivery provisions of the Securities Act if you:

- acquire the New Notes in the ordinary course of your and any beneficial owner’s business
- are not participating, do not intend to participate and have no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the New Notes issued in the exchange offer
- are not an "affiliate" of ours, as defined in Rule 405 under the Securities Act and
- are not a broker-dealer that acquired the Old Notes from us or in market-making transactions or other trading activities.

By tendering your notes as described in "The Exchange Offer," you will be making representations to this effect. If you fail to satisfy any of these conditions, you cannot rely on the position of the SEC set forth in the interpretive letters referred to above and you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a sale of the new notes.

If you are a broker-dealer that acquired Old Notes as a result of market-making or other trading activities, you must comply with the prospectus delivery requirements of the Securities Act in connection with sales of the New Notes, as

described in this summary under "Restrictions on Sales by Broker-Dealers" below. If you are an affiliate of ours and hold Old Notes, you must comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable to you.

As noted above, we base our belief on interpretations by the SEC staff in no-action letters issued to other issuers in exchange offers like ours. We cannot guarantee that the SEC would make a similar decision about our exchange offer. If our belief is wrong, you could incur liability under the Securities Act. We will not protect you against any loss incurred as a result of this liability under the Securities Act.

Restrictions on Sales by Broker-Dealers If you are a broker-dealer that has received New Notes for your own account in exchange for Old Notes that were acquired as a result of market-making or other trading activities, you must acknowledge that you will deliver a prospectus meeting the requirements of the Securities Act in connection with any sale of the New Notes. A broker-dealer may use this prospectus for sales of New Notes for a period ending on the earlier of 180 days from the date the Registration Statement becomes effective or the date on which each such broker-dealer is no longer required to deliver a prospectus in connection with market-making or other trading activities.

Withdrawal of Tenders You may withdraw the tender of your Old Notes at any time prior to the expiration date.

Tax Consequences The exchange of Old Notes for New Notes in this exchange offer generally should not be a taxable event for U.S. federal income tax purposes. See "Material United States Federal Income Tax Considerations." We do not provide legal or tax advice hereby. You should consult your own tax advisor to determine the U.S. federal, state, local and other tax consequences of an investment in the notes based upon your particular facts and circumstances.

Conditions to the Exchange Offer This exchange offer is subject to customary conditions, which we may assert or waive. See "The Exchange Offer."

Procedures for Tendering If you wish to accept this exchange offer and your Old Notes are held by a custodial entity such as a bank, broker, dealer, trust company or other nominee, you must instruct this custodial entity to tender your Old Notes on your behalf pursuant to the procedures of the custodial entity. If your Old Notes are registered in your name, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must also mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the Old Notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal.

Custodial entities that are participants in The Depository Trust Company, or "DTC," may tender Old Notes through DTC’s Automated Tender Offer Program, or "ATOP," which enables a custodial entity and the beneficial owner on whose behalf the custodial entity is acting to electronically agree to be bound by the letter

of transmittal. A letter of transmittal need not accompany tenders effected through ATOP. See "The Exchange Offer."

Consequences of Failure to Exchange	If you are eligible to participate in the exchange offer and you do not tender your Old Notes, you will not have any further registration or exchange rights (subject to certain very limited exceptions) and your Old Notes will continue to be subject to the existing transfer restrictions after the expiration date. These transfer restrictions and the availability of the New Notes could adversely affect the trading market for your notes.
Use of Proceeds	We will not receive any proceeds from the exchange of notes pursuant to the exchange offer. See "Use of Proceeds."
Exchange Agent	Wilmington Trust, National Association is the exchange agent for this exchange offer. The address and telephone number of the exchange agent are set forth under "The Exchange Offer." Wilmington Trust, National Association is also the trustee under the indenture governing the notes.
Risk factors	See "Risk Factors" included herein for a discussion of factors you should carefully consider before deciding to participate in the exchange offer.

The New Notes

The terms of the New Notes are identical in all material respects to the terms of the Old Notes, except that the New Notes generally will not contain terms with respect to transfer restrictions, registration rights or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The New Notes will evidence the same debt as the Old Notes. The New Notes will be governed by the same indenture under which the Old Notes were issued.

The summary below describes the principal terms of the New Notes. You should carefully review the "Description of Notes" section of this prospectus, which contains a more detailed description of the terms and conditions of the New Notes. For purposes of the summary below, the terms "we," "our," "us," and "Flagstar" refer only to Flagstar Bancorp, Inc. and not to any of its subsidiaries.

Issuer	Flagstar Bancorp, Inc.
Senior Notes	$250 million aggregate principal amount of 6.125% Senior Notes due 2021 (the "notes")
Interest Rate	6.125% per annum
Maturity Date	July 15, 2021
Interest Payment Dates	January 15 and July 15 of each year, beginning on January 15, 2017
No Guarantees	The New Notes are not guaranteed by any of our subsidiaries.
Security and Ranking	The New Notes will be unsecured and will rank equally and ratably with the unsecured senior indebtedness of Flagstar Bancorp, Inc. The New Notes will be effectively subordinated to Flagstar Bancorp, Inc.'s secured indebtedness, to the

extent of the value of the collateral securing such indebtedness, and will be structurally subordinated to the indebtedness and other liabilities and preferred equity of our subsidiaries.

As of September 30, 2016:

- Flagstar Bancorp, Inc. had approximately $521 million of indebtedness and other liabilities outstanding (none of which were secured);
- Subsidiaries of Flagstar Bancorp, Inc. had approximately $12.5 billion of indebtedness and other liabilities (including deposits) outstanding;
- Subsidiaries of Flagstar Bancorp, Inc. had no preferred equity outstanding.

The indenture under which the New Notes will be issued does not limit the amount of additional indebtedness we may incur.

Restrictive Covenants	The indenture, among other things, restricts our ability to dispose of, grant a security interest in or issue shares of voting stock of any principal subsidiary bank and to transfer our assets substantially as an entirety or merge into or consolidate with any person, without satisfying the conditions described in the section entitled "Description of Notes." These covenants are subject to a number of important qualifications and limitations.
Optional Redemption	The New Notes may be redeemed by us, at our option, in whole or in part, at any time or from time to time prior to June 15, 2021 (the date that is one month prior to the scheduled maturity date of the New Notes), at a redemption price equal to 100% of the aggregate principal amount of the New Notes to be redeemed, plus a "make-whole" premium plus accrued and unpaid interest thereon, if any, to, but excluding, the redemption date. At any time or from time to time on or after June 15, 2021 (the date that is one month prior to the scheduled maturity date of the New Notes), we may redeem the New Notes in whole or in part by paying the aggregate principal amount of the New Notes to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the redemption date. See "Description of Notes."
Form and Denominations	The New Notes will be issued in fully registered book-entry form without coupons and in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. These global securities will be deposited with or on behalf of DTC and registered in the name of a nominee of DTC.
Future Issuances	The New Notes will initially be limited to an aggregate principal amount of $250 million. We may from time to time, without notice to or consent of holders, increase the aggregate principal amount of the New Notes outstanding by issuing additional notes in the future with the same terms as the New Notes, except for the issue date and offering price and, if applicable, the initial interest payment date and the initial interest accrual date, and such additional notes shall form a single series with the New Notes, provided that such additional notes are fungible with the New Notes for U.S. federal income tax purposes.

Risk factors	An investment in the New Notes as a result of participation in the exchange involves substantial risk. See "Risk Factors" for a discussion of factors you should carefully consider before deciding to invest in the New Notes.
Absence of a Public Market for the Notes	There can be no assurance that a market for the New Notes will develop or as to the liquidity of any market that may develop. See "Risk Factors" and "Plan of Distribution."
Indenture Trustee	Wilmington Trust, National Association
Tax Consequences	See "Material United States Federal Income Tax Considerations." You should consult your own tax advisor to determine the U.S. federal, state, local and other tax consequences of an investment in the notes.
Governing Law	The indenture is and the New Notes will be governed by the laws of the State of New York.

SUMMARY SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our selected historical financial data included in our Consolidated Statements of Operations and Financial Condition for each of the periods indicated. The selected financial data as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements included in this document. The selected financial data as of September 30, 2016 and for the nine months ended September 30, 2016 and 2015 have been derived from our unaudited condensed consolidated financial statements included in this document. The selected financial data for all other periods presented have been derived from our audited consolidated financial statements that are not included in this document. See the "Where You Can Find More Information" section included herein for additional information. The selected historical financial data should be read in conjunction with such financial statements, the notes thereto, and the related management's discussion and analysis of financial condition and results of operations.

	For the Nine Months Ended September 30,		For the Years Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(In millions, except share data)						
Summary of Consolidated Statements of Operations							
Interest income	$306	$260	$355	$286	$330	$481	$465
Interest expense	70	49	68	39	144	184	220
Net interest income	236	211	287	247	186	297	245
(Benefit) provision for loan losses	(9)	(18)	(19)	132	70	276	177
Net interest income after provision for loan losses	245	229	306	115	116	21	68
Noninterest income	389	373	470	361	653	1,021	386
Noninterest expense	418	407	536	579	918	989	635
Income before income taxes provision	216	195	240	(103)	(149)	53	(181)
Provision for income taxes	73	70	82	(34)	(416)	(16)	1
Net income (loss)	143	125	158	(69)	267	69	(182)
Preferred stock dividends/accretion	—	—	—	(1)	(6)	(6)	(17)
Net income (loss) from continuing operations	$143	$125	$158	$(70)	$261	$63	$(199)
Income (loss) per share:							
Basic	$2.21	$1.82	$2.27	$(1.72)	$4.40	$0.88	$(3.62)
Diluted	$2.16	$1.80	$2.24	$(1.72)	$4.37	$0.87	$(3.62)

	September 30,		December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(In millions)						
Summary of Consolidated Statements of Financial Condition							
Total assets	$14,273	$12,519	$13,715	$9,840	$9,407	$14,082	$13,637
Loans receivable, net	$9,944	$8,234	$9,226	$6,523	$6,637	$10,914	$10,421
Mortgage servicing rights	$302	$294	$296	$258	$285	$711	$511
Total deposits	$9,371	$8,137	$7,935	$7,069	$6,140	$8,294	$7,690
Federal Home Loan Bank advances	$2,482	$2,024	$3,541	$514	$988	$3,180	$3,953
Long-term debt	$493	$279	$247	$331	$353	$247	$249
Stockholders' equity	$1,286	$1,504	$1,529	$1,373	$1,426	$1,159	$1,080

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The following table sets forth our consolidated double leverage and interest coverage ratios. The double leverage ratio is computed based on the equity of the Bank divided by the equity of the Company. For the purpose of computing the consolidated interest coverage ratios, earnings consist of pre-tax income plus fixed charges. Fixed charges consist of interest on short-term and long-term debt and where indicated, interest on deposits. The ratios are based solely on historical financial information.

	For the Years Ended December 31,				Last Twelve Months Ended September 30, 2016
	2015	2014	2013	2012	
	(In millions)				
Double Leverage Coverage					
Equity investment in subsidiaries	$1,738	$1,571	$1,618	$1,374	$1,672
Consolidated equity	1,529	1,373	1,426	1,159	1,286
Double leverage ratio	113.7 %	114.4 %	113.5 %	118.6 %	130.0 %
Interest Coverage					
Total deposit interest	$42	$30	$42	$70	$46
Other borrowing interest	26	9	102	114	43
Total interest expense	$68	$39	$144	$184	$89
Pre-tax income (loss)	$240	$(103)	$(149)	$53	$260
Interest coverage (pre-tax income including deposit expense)	4.53	NM	NM	1.29	3.92
Interest coverage (pre-tax income excluding deposit expense)	10.23	NM	NM	1.46	7.05

SUPPLEMENTAL FINANCIAL INFORMATION

For summarized data for each of the quarters in 2015 and 2014, please refer to Note 27 in the Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015, included in this document.

The following table represents summarized data for each of the quarters in 2016.

	2016		
	First Quarter	Second Quarter	Third Quarter
	(Dollars in millions, except per share data)		
Interest income	$ 101	$ 99	$ 106
Interest expense	22	22	26
Net interest income	79	77	80
Benefit for loan losses	(13)	(3)	7
Net interest income after provision for loan losses	92	80	73
Net gain on loan sales	75	90	94
Loan fees and charges	15	19	22
Loan administration income	6	4	4
Net (loss) return on the mortgage servicing assets	(6)	(4)	(11)
Representation and warranty benefit	2	4	6
Other noninterest income	13	15	41
Noninterest expense	137	139	142
Income before income tax	60	69	87
Provision for income taxes	21	22	30
Net income from continuing operations	$ 39	$ 47	$ 57
Basic income per share	$ 0.56	$ 0.67	$ 0.98
Diluted income per share	$ 0.54	$ 0.66	$ 0.96

RISK FACTORS

Investing in the notes involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus in "Risk Factors" before deciding whether to invest in the notes. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of or that we currently believe to be immaterial, may also become important factors that affect us.

If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected.

Market, Interest Rate, Credit and Liquidity Risk

Economic and general market conditions may adversely affect our business.

Our business and results of operations are affected by the financial markets and general economic, market, political and social conditions, including factors such as the level and volatility of short-term and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets and currencies, liquidity of the financial markets, the

availability and cost of capital and credit, investor sentiment and confidence in the financial markets, political risks and the sustainability of economic growth. Continued economic challenges include under-employment, declines in energy prices, the ongoing low interest rate environment, restrained growth in consumer demand, the strengthening of the U.S. Dollar versus other currencies, and continued risk in the consumer and commercial real estate markets. Deterioration of any of these conditions could adversely

affect our consumer and commercial businesses, our level of charge-offs and provision for credit losses, our capital levels and liquidity, and our results of operations.

Our business and results of operations are also affected by domestic and international fiscal and monetary policy. For example, the recent rate increase by the Board of Governors of the Federal Reserve System (the "Federal Reserve") impacts our cost of funds for investing and lending activities. Central bank actions can also affect the value of financial instruments and other assets, such as debt securities and mortgage servicing rights ("MSRs"), and their policies can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in fiscal and monetary policies are beyond our control and difficult to predict but could have an adverse impact on our capital requirements and the costs of running our business.

Further, any deterioration in the mortgage market may also reduce the number of new mortgages that we originate, increase the costs of servicing mortgages without a corresponding increase in servicing fees or adversely affect our ability to sell mortgage loans originated by us. Any such event could adversely affect our business, financial condition and results of operations.

Changes in interest rates could lead to lower mortgage origination volume, which could adversely affect our business, financial condition and results of operations.

For the nine months ended September 30, 2016, approximately 55 percent of our revenue was derived from the origination of residential mortgages. The residential real estate mortgage lending business is sensitive to interest rates, and lower interest rates generally increase that business, while higher interest rates generally cause that business to decrease. Therefore, our performance is typically correlated to fluctuations in interest rates. Historically, mortgage origination volumes and sales for the Bank and for other financial institutions have widened and narrowed in response to these and other factors. During portions of 2015, the interest rate environment was quite favorable for mortgage loan originations, particularly refinancing activity. There is no guarantee that these conditions will persist, and a change in these conditions could have a material adverse effect on our operating results.

In addition, increasing long-term interest rates may decrease our mortgage loan originations. Generally, the volume of mortgage loan originations is inversely related to the long-term interest rate curve. During periods of low long-term interest rates, a significant number of our customers may elect accelerated prepayments as they seek to refinance their mortgages (i.e., pay off their existing higher rate mortgage loans with new mortgage loans obtained at lower interest rates). Our profitability levels and those of others in the mortgage industry have generally been strongest during periods of low and/or declining interest rates.

Changes in interest rates could adversely affect our held-for-investment mortgage loan portfolio, our mortgage related assets, our financial condition and results of operations.

Changes in interest rates may affect the average life of our mortgage loans and mortgage related securities. Decreases in interest rates can trigger an increase in prepayments of our mortgage loans and mortgage-related securities, as borrowers refinance to reduce their own borrowing costs. As prepayment speeds on mortgage related securities increase, any premium amortization would increase on a prospective basis. Any immediate adjustments required under the application of the interest method of income recognition may also result in lower net interest income. On the other hand, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate mortgage loans. Additionally, there were wider spreads between short- and long-term interest rates during portions of 2015, resulting in higher profit margins on loan sales than in prior periods.

Changes in interest rates could adversely affect our results of operations and financial condition, including on our net interest margin and the value of our investment assets.

Our results of operations and financial condition could be significantly affected by changes in interest rates. Our financial results depend substantially on net interest income, which is the difference between the interest income that we earn on interest-earning assets and the interest expense we pay on interest-bearing liabilities. While we have modeled rising interest rate scenarios using historic data and such scenarios result in an increase in our net interest income, our interest-bearing liabilities may reprice or mature more quickly than modeled, thus resulting in a decrease in our net interest income.

Changes in interest rates also affect the value of our variable rate loans held-for-sale, loans held-for-investment and investment securities. Generally, the value of our investment securities fluctuates inversely with changes in interest rates. Decreases in the fair value of our investment securities, therefore, could have an adverse effect on our stockholders' equity or our earnings if the decrease in fair value is deemed to be other than temporary.

At September 30, 2016 we had $302 million of MSRs which we manage using certain derivative strategies which may be ineffective.

We invest in MSRs to support mortgage strategies and to deploy capital at acceptable returns. Our MSRs are sensitive to interest rate volatility and are highly susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, when interest rates fluctuate, repricing risks arise from the timing difference in the maturity and/or repricing of assets, liabilities and off-balance sheet positions. While such repricing mismatches are fundamental to our business, they can expose us to fluctuations in income and economic value, in particular as interest rates vary. We utilize derivatives and other fair value assets as part of our overall hedging strategy to manage the impact of changes in the fair value of the MSRs, but these risk management strategies do not completely eliminate repricing risk. Although we use models to assess the impact of interest rates on mortgage related revenues, the estimates of revenues produced by these models are dependent on estimates and assumptions of future loan demand, prepayment speeds and other factors which may differ from actual subsequent experience. In addition, our hedging strategies rely on assumptions and projections regarding assets and general market factors, many of which are outside of our control. If one or more of these assumptions and projections proves to be incorrect, our hedging strategies may not adequately mitigate the impact of changes in interest rates or prepayment speeds, and as a result we may incur losses that would adversely impact earnings.

At September 30, 2016, our MSR asset was $302 million or 24.6 percent of Tier 1 Capital. We may be unable to effectively manage our MSR concentration risk which could impact capital under Basel III, which when fully phased-in will require any MSR balance exceeding 10 percent of our Common Equity Tier 1 (CET1) capital deduction threshold to be deducted from capital.

As of January 1, 2015, we are subject to new rules relating to capital standards requirements, including requirements contemplated by Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") as well as certain standards initially adopted by the Basel Committee on Banking Supervision, which standards are commonly referred to as Basel III. Basel III established a new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and MSRs. Basel III limits the inclusion of MSRs and deferred tax assets to 10 percent of Common Equity Tier 1 (as defined in the Basel III final framework, "CET1"), individually, and 15 percent of CET1, in the aggregate. We have established a plan to reduce these assets before the Basel III full implementation date of January 1, 2018 and are taking other actions to reduce our book balance by that date. However, no assurances can be given that we will be able to do so, or that we will be successful in selling these assets at their current fair value. If implemented September 30, 2016, we would experience another

201 basis points reduction in Tier 1 Capital (to risk weighted assets) and 106 basis points reduction in the leverage ratio (Tier 1 Capital to adjusted average assets). The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. See Note 22 of the Consolidated Financial Statements and Notes as of and for the

period ended December 31, 2015 and the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this document for additional information regarding Basel III.

At September 30, 2016 our allowance for loan and lease losses was $143 million, covering 2.3 percent of total loans held-for-investment. Our estimate of the inherent losses are imperfect, the portfolio is relatively new and we are using underwriting standards which have not been in place for a long period of time.

Our estimate of the allowance for loan and lease losses of $143 million at September 30, 2016, may not be adequate to cover actual credit losses, and future provisions for credit losses could adversely affect our business, financial condition, results of operations, cash flows and prospects. Our allowance for loan losses is based on prior experience as well as an evaluation of the risks incurred in the current portfolio. The determination of an appropriate level of loan loss allowance is an inherently subjective process that requires significant management judgment including estimates of loss and the loss emergence period. We make various assumptions, estimates and judgments about the collectability of our loan portfolio including but not limited to the creditworthiness of our borrowers and the value of real estate or other collateral backing the repayment of loans. New information regarding existing loans, identification of additional problem loans, failure of borrowers and guarantors to perform in accordance with the terms of their loans, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Moreover, our regulators, as part of their supervisory function, periodically review our allowance for loan losses. Our regulators, who have access to broader industry data that we do not have access to, may recommend or require us to change our allowance for loan losses, based on their judgment, which may be different from that of our management or other regulators. Any increase in our loan losses could have an adverse effect on our earnings and financial condition.

Concentration of loans held-for-investment in certain geographic locations may increase risk.

Our mortgage loan portfolio is geographically concentrated in certain states, including California, Michigan and Florida, which collectively represent approximately 54 percent of the portfolio at September 30, 2016. In addition, approximately 80 percent of our commercial real estate loans are in Michigan or are repayable by borrowers who have significant operations in Michigan. This concentration has made, and will continue to make, our loan portfolio particularly susceptible to downturns in the general economy and the real estate and mortgage markets. Michigan and California have had significant volatility in housing prices in the recent past. Adverse conditions beyond our control, including unemployment, inflation, recession, natural disasters, declining property values, municipal bankruptcies and other factors in these markets could increase default rates in our loan portfolio and could reduce our ability to generate new loans and otherwise negatively affect our financial results.

In 2016, we have continued to grow our portfolio of commercial real estate and commercial and industrial loans, which generally expose us to a greater risk of nonpayment and loss than residential real estate loans due to the more complex nature of underwriting associated with commercial loans. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Also, many of our borrowers have more than one commercial loan outstanding. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a residential real estate loan.

Liquidity is essential to our business and our ability to borrow funds, maintain or increase deposits or raise capital at commercially reasonable terms or at all may adversely affect our liquidity and earnings.

We require substantial liquidity to meet our deposit and debt obligations as they come due, fund our operations and for potential unforeseen liabilities or losses, including without limitation those that could be incurred in connection with the settlement of litigation, regulatory proceedings or other matters. Our access to liquidity could be impaired by

our inability to access the capital markets or unforeseen outflows of deposits. Our access to external sources of financing, including deposits,

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as well as the cost of that financing, is dependent on various factors including regulatory restrictions. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, declining financial results and losses, material changes to operating margins, financial leverage on an absolute or relative to peers, changes within the organization, specific events that impact our financial condition or reputation, disruptions in the capital markets, specific events that adversely impact the financial services industry, counterparty availability, changes affecting assets, the corporate and regulatory structure, balance sheet and capital structure, geographic and business diversification, interest rate fluctuations, market share and competitive position, general economic conditions and the legal, regulatory, accounting and tax environments governing funding transactions. Many of these factors are beyond our control. The material deterioration in any one or a combination of these factors could result in a downgrade of our credit or servicer standing with counterparties or a decline in our reputation within the marketplace and could result in higher cash outflows requiring additional access to liquidity, having a limited ability to borrow funds, maintain or increase deposits (including custodial deposits for our agency servicing portfolio) or to raise capital on commercially reasonable terms or at all.

Our ability to make mortgage loans and fund our investments and operations depends largely on our ability to secure funds on terms acceptable to us. Our primary sources of funds to meet our financing needs include loan sales; deposits, which include custodial accounts from our servicing portfolio and brokered deposits and public funds; borrowings from the Federal Home Loan Bank or other federally backed entities; borrowings from investment and commercial banks through repurchase agreements; and capital-raising activities. If we are unable to maintain any of these financing arrangements, are restricted from accessing certain funding sources by our regulators, are unable to arrange for new financing on terms acceptable to us or at all or if we default on any of the covenants imposed upon us by our borrowing facilities, then we may have to reduce the number of mortgage loans we are able to originate for sale in the secondary market or for our own investment or take other actions that could have other negative effects on our operations. A prolonged significant reduction in loan originations that occurs as a result could adversely impact our earnings, financial condition, results of operations and future prospects. There is no guarantee that we will be able to renew or maintain our financing arrangements or deposits or that we will be able to adequately access capital markets when or if a need for additional capital arises.

In addition, we previously provided notice to the U.S. Treasury exercising our contractual right to defer regularly scheduled quarterly payments of dividends, beginning with the February 2012 payment, on the TARP Preferred. Also, under the terms of our indenture agreements related to the TruPS, we have deferred interest payments since 2012 and may do so for up to 20 consecutive quarters without default or penalty. If we intend to resume interest or dividend payments on either or both the TARP Preferred and the TruPS and do not have adequate financing at the holding company this would require a dividend from the Bank to the holding company, which could adversely affect the business, financial condition and results of operations of the Bank. Please see "Regulatory Risk," for additional risk factors on the risk of default of the TruPS.

We use assumptions and estimates in determining the fair value of certain of our assets and liabilities, which assumptions and estimates may prove to be incorrect, resulting in significant declines or increases in valuation.

As of September 30, 2016, a total of $4,968 million of assets and $163 million of liabilities are carried on our Consolidated Statements of Financial Condition at fair value, including our MSRs, loans held-for-sale, certain loans held-for-investment, available-for-sale investment securities, derivatives, certain long-term debt and the future obligations arising from our settlement with the Department of Justice ("DOJ"). Generally, for assets that are reported at fair value, we use quoted market prices when available. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. In such cases, we use internally developed financial models that utilize observable market data inputs as well as asset specific collateral data and market inputs for interest rates to estimate the fair value of certain of these assets and liabilities. These valuation

models rely to some degree on management's assumptions, estimates and judgment, which are inherently uncertain. We cannot be certain that the models or the underlying assumptions will prove to be predictive and remain so over time, and therefore, actual results may differ from our models and assumptions. Different assumptions could result in significant declines in valuation, which in turn could result in significant declines or increases in the dollar amount of assets or increases in the liabilities we report on our Consolidated Statements of Financial

Condition. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment. If assumptions or estimates underlying our Consolidated Statements of Financial Condition are incorrect, we may experience material losses.

Regulatory Risk

Flagstar Bancorp, Inc. and the Bank remain subject to the restrictions and conditions of the Consent Orders with the OCC and CFPB, and the Supervisory Agreement with the Federal Reserve. Failure to comply with the Consent Orders or the Supervisory Agreement could result in further enforcement action against us.

There is no guarantee that the Bank will be able to fully comply with the Consent Order by the Office of the Comptroller of the Currency ("OCC"), dated October 23, 2012, and the Consent Order with the Consumer Financial Protection Bureau (the "CFPB"), dated September 29, 2014 (collectively, the "Consent Orders"). In the event that the Bank is in material non-compliance with the terms of the Consent Orders, the CFPB and OCC have the authority to subject the Bank to additional corrective actions. Moreover, they could initiate further enforcement actions against the Bank, seek an injunction requiring the Bank and its officers and directors to comply with the Consent Orders and seek civil money penalties against the Bank and its officers and directors. Any failure by the Bank to comply with the terms of the Consent Orders or additional actions could adversely affect our business, financial condition and results of operations. In addition, the Bank’s competitors may not be subject to similar actions, which could limit our ability to compete effectively. These corrective actions could negatively impact the Bank’s and our operations and financial performance. See the Consent Order discussion in Note 22 of the Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015 and the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this document, for further details.

We also remain subject to the Supervisory Agreement with the Federal Reserve, dated January 27, 2010 (the "Supervisory Agreement"), which requires that we take certain actions to address issues identified by the Office of Thrift Supervision (the "OTS"). The Supervisory Agreement is enforced by the Federal Reserve as the successor regulator to the OTS with respect to savings and loan holding companies. The Supervisory Agreement requires that we submit a capital plan; receive written non-objection before declaring or paying any dividend or other capital distribution, incurring or renewing any debt and engaging in affiliate transactions (with limited exceptions); comply with applicable regulatory requirements before making certain severance and indemnification payments; and provide notice prior to changes in directors and certain executive officers or entering into, renewing, extending or revising compensation or benefits agreements of such directors or executive officers, with such changes being subject to Federal Reserve approval. While we believe that we have taken numerous steps to comply with, and intend to comply with in the future, the requirements of the Supervisory Agreement, failure to comply with the Supervisory Agreement in the time frames provided, or at all, could result in additional enforcement orders or penalties, which could include further restrictions on us, assessment of civil money penalties on us, as well as our directors, officers and other affiliated parties and removal of one or more officers and/or directors. Any failure by us to comply with the terms of the Supervisory Agreement or additional actions by the Federal Reserve could adversely affect our business, financial condition and results of operations. Moreover, our competitors may not be subject to similar actions, which could limit our ability to compete effectively. See the Supervisory Agreement discussion in Note 22 of the Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015 and the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this document, for further details.

Expanded regulatory oversight over our business could significantly increase our risks and costs associated with complying with current and future regulations, which could adversely affect our financial condition and results of operations.

We are subject to a wide variety of banking, consumer protection and securities laws, regulations and supervisory expectations and numerous regulatory and enforcement authorities. As a result of and in addition to new legislation aimed at regulatory reform, such as the Dodd-Frank Act, and the increased capital requirements introduced by the Basel III final rules, the regulatory agencies generally are taking a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. Flagstar Bancorp, Inc., the Bank and our products and services all remain subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements in the foreseeable future.

As a result of increasing scrutiny and regulation of the banking industry and consumer practices, we may face a greater number or wider scope of examinations, investigations, enforcement actions and litigation, thereby increasing our costs associated with responding to or defending such actions, as well as potentially resulting in costs associated with fines, penalties, settlements or judgments. In addition, increased regulatory inquiries and investigations, as well as any additional legislative or regulatory developments affecting our businesses, and any required changes to our operations resulting from these developments, could reduce our revenue, limit the products or services that we offer or increase the costs thereof, impose additional compliance costs, harm our reputation or otherwise adversely affect our businesses. Some of these laws may provide a private right of action that a consumer or class of consumers may seek to pursue to enforce these laws and regulations.

Financial services reform legislation has resulted in, among other things, numerous restrictions and requirements which could negatively impact our business and increase our costs of operations.

The Dodd-Frank Act has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act and its implementing regulations have increased and may continue to increase our operating and compliance costs and our non-interest expense. In addition, compliance obligations have exposed us and will continue to expose us to additional noncompliance risk and could divert management’s focus from our business operations. Furthermore, the combined effect of numerous rulemakings by multiple governmental agencies and regulators, and the potential conflicts or inconsistencies among such rules, present challenges and risks to our business and operations.

The CFPB has broad and unique rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers, including prohibitions against unfair, deceptive or abusive practices in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service including regulations related to the origination and servicing of residential mortgages. The concept of what may be considered to be an "abusive" practice is new under the law. The CFPB has also finalized a number of significant rules and guidance that impact nearly every aspect of the life cycle of a residential mortgage. The CFPB continues to revise these rules and propose new rules. The Bank is subject to the CFPB’s supervisory, examination and enforcement authority with respect to consumer protection laws and regulations, due to reporting assets of more than $10 billion for four consecutive quarters. As a result, we could incur increased costs, potential litigation or be materially limited or restricted in our business, product offerings or services in the future.

We are highly dependent on the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") to sell mortgage loans and any changes in these entities or their current roles could adversely affect our business, financial condition and results of operations.

We sell approximately 65 percent of our mortgage loans to Fannie Mae and Freddie Mac (collectively, the "Agencies"). Fannie Mae and Freddie Mac remain in conservatorship and a path forward is unclear. Their future roles

could be reduced, modified or eliminated and the nature of their guarantees could be limited or eliminated relative to historical measurements.

The elimination or modification of the traditional roles of Fannie Mae or Freddie Mac could adversely affect our business, financial condition and results of operations. Furthermore, any discontinuation of, or significant reduction in, the operation of these agencies, any significant adverse change in the level of activity of these agencies in the primary or secondary mortgage markets or in the underwriting criteria of these agencies could materially and adversely affect our business, financial condition and results of operations.

Changes in the servicing or origination guidelines required by the Agencies could adversely affect our business, financial condition and results of operations.

We are required to follow specific guidelines that impact the way that we service and originate agency loans, including guidelines with respect to credit standards for mortgage loans, our staffing levels and other servicing practices, the servicing and ancillary fees that we may charge, our modification standards and procedures and the amount of non-reimbursable advances.

We cannot negotiate these terms with the Agencies and they are subject to change at any time. A significant change in these guidelines that has the effect of decreasing the fees we charge or requires us to expend additional resources in providing mortgage services could decrease our revenues or increase our costs, which would adversely affect our business, financial condition and results of operations.

In addition, changes in the nature or extent of the guarantees provided by Fannie Mae and Freddie Mac or the insurance provided by the Federal Housing Administration could also have broad adverse market implications. The fees that we are required to pay to the Agencies for these guarantees have changed significantly over time and any future increases in these fees would adversely affect our business, financial condition and results of operations.

We depend upon having Federal Deposit Insurance Corporation ("FDIC") insurance to raise deposit funding at reasonable rates. Increases in deposit insurance premiums and special FDIC assessments will adversely affect our earnings.

The Dodd-Frank Act required the FDIC to substantially revise its regulations for determining the amount of an institution’s deposit insurance premiums. The FDIC has defined the deposit insurance assessment base for an insured depository institution as average consolidated total assets during the assessment period, minus average tangible equity. Our assessment rate is determined by use of a scorecard that combines a financial institution’s Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity ("CAMELS") ratings with certain forward-looking financial information. The FDIC may determine that we present a higher risk to the Deposit Insurance Fund than other banks due to certain factors. These factors include significant risks relating to interest rates, loan portfolio and geographic concentration, concentration of high credit risk loans, increased loan losses, regulatory compliance (including under existing agreements with regulators such as the Consent Orders and the Supervisory Agreement), existing and future litigation and other factors. As a result, we could be subject to higher deposit insurance premiums and special assessments in the future that could adversely affect our earnings. The Bank’s deposit insurance premiums and special assessments in the future also may be higher than competing banks may be required to pay.

We are a holding company and therefore dependent on the Bank for funding of obligations and dividends.

As a holding company with no significant assets other than the capital stock of the Bank, our ability to service our debt or preferred stock obligations, including interest payments on debentures underlying the trust preferred securities and dividend payments on the preferred shares, is dependent upon available cash on hand and the receipt of dividends from the Bank on such capital stock. The declaration and payment of dividends by the Bank on all classes of its capital stock is subject to the discretion of the Bank’s board of directors and to applicable regulatory and legal

limitations, including receiving approval from the OCC, compliance with the approved capital plan submitted pursuant to the Consent Order and receiving approval from the Federal Reserve. If the Bank does not make sufficient dividend payments to us, we may not be able to

service our debt or preferred stock obligations, which could have a material adverse effect on our financial condition and results of operations.

Operational Risk

A failure of our information technology systems, or those of our key third party vendors or service providers, could cause operational losses and damage our reputation.

Our businesses are increasingly dependent on our ability to process, record and monitor a large number of complex transactions and data. If our internal financial, accounting, or other information technology systems fail, we may be unable to conduct business for a period of time, which may impact our financial results if that interruption is sustained. In addition, our reputation with our customers or counterparties may suffer, which could have a further, long-term impact on our financial results.

Also, because we conduct part of our business over the Internet and outsource a significant number of our critical functions to third parties, our operations depend on our third-party service providers to maintain and operate their own technology systems. To the extent these third parties' systems fail, we may be unable to conduct business or provide certain services, and we may face financial and reputational losses as a result.

We collect, store and transfer our customers' personally identifiable information, and any compromise to the security of that information may have meaningful consequences for us.

Data breaches are of a particular concern as in the processing of consumer transactions, our businesses receive, transmit and store a large volume of personally identifiable information and other user data. There are a myriad of federal, state and international laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and user data.

We have policies and processes in place that are intended to meet the requirements of those laws, including security systems in place to prevent unauthorized access to that information. Nevertheless, those processes and systems may be inadequate. Also, to the extent we rely upon third parties to handle personally identifiable data on our behalf, we may be responsible if such data is compromised while in the custody and control of those third parties.

Privacy laws are still evolving, and many local jurisdictions have laws that differ from federal law. At times, we may also be governed by privacy laws outside the U.S., with which we are less familiar. If we fail to comply with applicable privacy policies or federal, state or international laws and regulations or any compromise of security that results in the unauthorized release of personally identifiable information or other user data, those events could damage the reputation of our business, and discourage potential users from utilizing our products and services. In addition, we may have to bear the cost of mitigating identity theft concerns, and may additionally be subject to fines or legal proceedings by governmental agencies or consumers. Any of these events could adversely affect our business, financial condition and results of operations.

We may be terminated as a servicer or subservicer or incur costs, liabilities, fines and other sanctions if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions.

We act as servicer and subservicer for mortgage loans owned by third parties, which, as of September 30, 2016, is approximately 10 percent of our revenue and $1.5 billion of our average deposits. In such capacities for those loans, we have certain contractual obligations, including foreclosing on defaulted mortgage loans or, to the extent applicable, considering alternatives to foreclosure. If we commit a material breach of our obligations as servicer, we may be

subject to termination if the breach is not cured within a specified period of time following notice, causing us to lose servicing income.

For certain investors and/or certain transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for servicing errors with respect to the loan. If we have increased repurchase obligations because of claims for which we did not satisfy our obligations as a servicer, or increased loss severity on such repurchases, we may have a significant reduction in noninterest income or increase in noninterest expense. We may incur significant costs if we are required to, or if we elect to, re-execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. We may incur litigation costs if the validity of a foreclosure action is challenged by a borrower. If a court were to overturn a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to the borrower and/or to any title insurer of the property sold in foreclosure if the required process was not followed. These costs and liabilities may not be legally or otherwise reimbursable to us.

We may be required to repurchase mortgage loans, pay fees or indemnify buyers against losses in some circumstances, which could harm liquidity, results of operations and financial condition.

When mortgage loans are sold by us, we make customary representations and warranties to purchasers, guarantors and insurers, including the Agencies, about the mortgage loans, and the manner in which they were originated. We have made, and will continue to make, such representations and warranties in connection with the sale of loans. Whole loan sale agreements require us to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan or we may be required to pay fees. We also are subject to litigation relating to these representations and warranties and the costs of such litigation may be significant. With respect to loans that are originated through our broker or correspondent channels, the remedies we have available against the originating broker or correspondent, if any, may not be as broad as the remedies available to purchasers, guarantors and insurers of mortgage loans against us. In addition, we also face further risk that the originating broker or correspondent, if any, may not have financial capacity to perform remedies that otherwise may be available. Therefore, if a purchaser, guarantor or insurer enforces its remedies against us, we may not be able to recover losses from the originating broker or correspondent. If repurchase and indemnity demands increase and such demands are valid claims, our liquidity, results of operations and financial condition may also be adversely affected.

Our representation and warranty reserve for losses at September 30, 2016 is $32 million. This may not be adequate to cover losses for loans that we have sold or securitized into the secondary market which we may be subsequently required to repurchase, pay fines or fees, or indemnify purchasers and insurers because of violations of customary representations and warranties. In addition, our regulators, as part of their supervisory function, periodically review our representation and warranty reserve for losses. Our regulators may recommend or require us to increase our reserve, based on their judgment, which may be different from that of our management. Any increase in our loan losses could have an adverse effect on our earnings and financial condition.

We utilize third party mortgage originators over whom we have less control which may expose us to risk.

We rely on third party mortgage originators to make and document the mortgage loans we purchase. While we perform investigations on the mortgage companies with whom we do business and review the loan files and loan documents we purchase to attempt to detect any irregularities or legal noncompliance, we have less control over these originators than employees of the Bank. Our ability to control the third party mortgage originators could have an adverse impact on our business. In addition, these arrangements with third party mortgage originators and the fees payable by us to such third parties could be subject to additional regulatory scrutiny and restrictions in the future.

Our mortgage volume may be impacted by our use of third party mortgage originators.

Approximately 95 percent of our residential first mortgage volume depends upon the use of third party mortgage originators, who are not our employees. These third parties originate mortgages and provide services to many different banks

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and other entities. Accordingly, they may have relationships with or loyalties to such banks and other parties that are different from those they have with or to us. Failure to maintain good relations with such third party mortgage originators could have a negative impact on our market share which would negatively impact our net income.

Due to increasing regulatory scrutiny, our third party mortgage originators could choose or be required to either reduce the scope of their business or exit the mortgage origination business altogether. This could lead to a decrease in our mortgage volume.

Our financial results fluctuate as a result of the cyclical nature of our business and seasonality, which may adversely affect our business, financial condition and results of operations and make it difficult to predict our future performance.

Our mortgage origination business is subject to the cyclical and seasonal trends of the real estate market. Cyclicality in our industry could lead to periods of strong growth in the mortgage and real estate markets followed by periods of sharp declines and losses in such markets. One of the primary influences on our mortgage business is the aggregate demand for mortgage loans in our market areas, which is affected by prevailing interest rates. If we are unable to respond to the cyclicality of our industry by appropriately adjusting our operations, headcount and overhead, our business, financial condition and results of operations could be adversely affected.

In addition, seasonal trends have historically reflected the general patterns of residential and commercial real estate sales, which typically peak in the spring and summer seasons. Although in recent periods the broader cyclical trends in the mortgage and real estate markets have disrupted the customary historical seasonal trends, such seasonal trends could resume in the future, which could cause our quarterly operating results to fluctuate and make it difficult to predict our future operating performance. Furthermore, Basel III also provides for a countercyclical capital buffer to induce banking organizations to hold capital in excess of regulatory minimums.

While we recently reversed the valuation allowance for our deferred tax assets, we may not be able to realize these assets or may have to establish a valuation allowance in the future, which could adversely affect our operating results.

Management assesses the valuation allowance recorded against deferred tax assets at each reporting period and currently has no valuation allowance related to federal deferred tax assets and a valuation allowance of $30 million related to state taxes. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all available positive and negative evidence. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred taxes represents our best estimate as described in Note 21 to the Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015 included in this document. Changes in our current estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations.

General Risk Factors

MP Thrift, an entity managed and controlled by MatlinPatterson, owns 62.9 percent of our common stock and has significant influence over us, including control over decisions that require the approval of stockholders, whether or not such decisions are in the best interests of other stockholders.

MP Thrift owns a substantial majority of our outstanding common stock and as a result, has control over our decisions to enter into any corporate transaction and also the ability to prevent any transaction that requires the approval of our board of directors or the stockholders regardless of whether or not other members of our board of directors believe

that any such transactions are in our best interests or stockholders believe that any such transactions are in their own best interests. So long as MP Thrift continues to hold a majority of our outstanding common stock, it will have the ability to control the vote in any

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election of directors and other matters being voted on, and continue to exert significant influence over us. Furthermore, MP Thrift may have interests that could diverge from the interests of other stockholders and the interests of the holders of the notes, and may use its control to make decisions that adversely affect the interest of other common stockholders, the holders of the notes and other holders of our debt or other equity instruments.

Additionally, our ability to use our deferred tax assets to offset future taxable income may be significantly limited if we experience an "ownership change" as defined for U.S. federal income tax purposes. Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), imposes restrictions on the use of a corporation's net operating losses, certain recognized built-in losses, and other carryovers after an ownership change occurs. As we have a controlling stockholder, any stock offering in isolation or when combined with other stock ownership changes, could cause us to experience an ownership change for purposes of Section 382 of the Code. If an ownership change were to occur, we believe it could cause us to permanently lose the ability to realize a portion of our deferred tax assets related to net operating losses, resulting in reduction to total stockholders' equity.

We are subject to a number of legal or regulatory proceedings, therefore making them difficult to predict.

At any given time, we are defending ourselves against a number of legal and regulatory investigations and proceedings. Proceedings or actions brought against us may result in judgments, settlements, fines, penalties, injunctions, business improvement orders, consent orders, supervisory agreements, restrictions on our business activities or other results adverse to us, which could materially and negatively affect our businesses. If such claims and other matters are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. In addition, some of the laws and regulations to which we are subject may provide a private right of action that a consumer or class of consumers may pursue to enforce these laws and regulations. We also have been, and may continue to be in the future, subject to stockholder derivative actions, which could seek significant damages or other relief. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. Moreover, claims asserted against us can be highly complicated and slow to develop, making the outcome of such proceedings difficult to predict or estimate early in the process. As a participant in the financial services industry, it is likely that we will continue to experience a high level of litigation and regulatory scrutiny and investigations relating to our business and operations. The results of these legal and regulatory proceedings could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal and regulatory proceedings, amounts accrued may not represent the ultimate loss to us from the legal and regulatory proceedings in question. As a result, our ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies.

For a further discussion of the unpredictability of legal proceedings and description of certain of our pending legal proceedings, see Note 23 in our Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015 included in this document.

Risks Relating to the Exchange Offer and the New Notes

If you fail to exchange your Old Notes for New Notes, you will continue to hold notes subject to transfer restrictions, and it may be harder for you to sell the Old Notes.

The Old Notes were not registered under the Securities Act or under the securities laws of any state. Any Old Notes that remain outstanding after this exchange offer will continue to be subject to restrictions on their transfer. Thus, if you do not exchange your Old Notes for New Notes in this exchange offer, or if you do not properly tender your Old Notes in this exchange offer, you will not be able to sell, offer to sell or otherwise transfer your Old Notes unless they are registered under the Securities Act or unless you sell them, offer to sell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act and applicable state securities laws. After this exchange offer, holders of Old Notes will not have any further rights to have their Old Notes exchanged for New Notes registered under the Securities Act.

Because we anticipate that most holders of old notes will elect to participate in this exchange offer, we expect that the liquidity of the market for the old notes after the completion of this exchange offer will be substantially reduced. Old notes tendered and exchanged in the exchange offer will reduce the aggregate principal amount of old notes outstanding. Accordingly, the liquidity of the market for any old notes could be adversely affected, and it may be difficult for you to sell them.

The notes are not insured or guaranteed by the Federal Deposit Insurance Corporation.

The notes are not a savings account, deposit or other obligation of any of our bank or nonbank subsidiaries. The notes are not insured by the FDIC or any other governmental agency or instrumentality or public or private insurer.

Our access to funds from our subsidiaries may become limited, thereby restricting our ability to make payments on our obligations, including the notes.

We are a savings and loan holding company and depend primarily on dividends and advances from the Bank and other operating subsidiaries to fund our cash needs. These obligations and needs include capitalizing subsidiaries, repaying maturing indebtedness and paying debt service on outstanding indebtedness. The Bank is subject to regulatory limitations on its ability to make dividend payments and other distributions to us based on its earnings and capital position and as a result of the restrictions imposed on the Bank by the Consent Orders. A failure by the Bank to generate sufficient cash flow or to obtain approval from the regulators to make dividend payments to us may have a negative impact on our results of operations and financial position and consequently our ability to service our debt obligations, such as the notes. In addition, we or the Bank may become subject to regulatory orders that restrict our ability to service our debt obligations, such as the notes, including requirements that we satisfy any deposit liabilities or losses to the Deposit Insurance Fund as a result of the failure of the Bank.

The notes will be structurally subordinated to all of our subsidiaries' indebtedness and junior to all of our future secured indebtedness.

As the notes will not be guaranteed by any of our subsidiaries, the notes will be structurally subordinated to the indebtedness and other liabilities and preferred equity of our subsidiaries, including any future indebtedness and other liabilities of Flagstar Bancorp, Inc. that are guaranteed by subsidiaries. In any liquidation, dissolution, bankruptcy or other similar proceeding involving one of our subsidiaries, any right we or any holders of the notes have to participate in the assets of the subsidiary will effectively be subordinated to the claims of creditors of the subsidiary, and following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets remaining to make payments to us as a stockholder or otherwise. As of September 30, 2016, our subsidiaries had, in the aggregate, outstanding indebtedness and other liabilities, including deposits, of approximately $12.5 billion. As of that date, Flagstar Bancorp, Inc. had no outstanding indebtedness or other liabilities guaranteed by subsidiaries.

In addition, the notes will be effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness. In the event that we are declared bankrupt, become insolvent or are liquidated or reorganized, any indebtedness that ranks ahead of the notes will be entitled to be paid in full from our assets before any

payment may be made with respect to the notes. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same ranking as the notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we may not have sufficient assets to pay amounts due on the notes. As a result, if holders of the notes receive any payments, they may receive less, ratably, than holders of secured indebtedness. As of September 30, 2016, Flagstar Bancorp, Inc. had no outstanding secured indebtedness.

Your ability to transfer the New Notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the notes.

The notes are a new issue of securities for which there is no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or for quotation of the notes on any automated dealer quotation system. An active market for the New Notes may not develop or, if developed, may not continue. The liquidity of any market for the New Notes will depend upon, among other things, the number of holders of the notes, our performance, the market for similar securities, the interest of securities dealers in making a market in the New Notes and other factors. If a market develops, the New Notes could trade at prices that may be lower than the initial offering price of the notes. Historically, the market for non-investment grade debt securities has been subject to disruptions that have caused substantial price volatility. The market, if any, for the New Notes may not be free from similar disruptions and any such disruptions may adversely affect the prices at which you may sell your notes.

We may incur additional indebtedness in the future; the limited covenants in the indenture for the notes do not restrict our ability to do so.

We are not restricted from incurring additional indebtedness or other liabilities, including additional senior indebtedness, under the indenture pursuant to which we will issue the New Notes. If we incur additional indebtedness or liabilities, our ability to pay our obligations on the New Notes could be adversely affected. We expect to incur, from time to time, additional indebtedness and other liabilities.

In addition, there are no financial covenants in the indenture. You are not protected under the indenture in the event of a highly leveraged transaction, reorganization, a default under our existing indebtedness, restructuring, merger or similar transaction that may adversely affect you, except to the extent described under "Description of Notes—Merger, Consolidation or Sale of Assets," "Description of Notes—Events of Default, Notice and Waiver" and "Description of Notes—Restrictive Covenants" included in this prospectus.

Changes in our credit ratings may adversely affect your investment in the notes.

The credit ratings of our indebtedness are an assessment by rating agencies at the present time of our ability to pay our indebtedness when due. These ratings are not recommendations to purchase, hold or sell the notes, inasmuch as the ratings do not comment as to market price or suitability for a particular investor, are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the view of each rating agency at the time the rating is issued. The ratings are based on current information furnished to the ratings agencies by us and information obtained by the ratings agencies from other sources. An explanation of the significance of such ratings may be obtained from such rating agency. A downgrade or potential downgrade in these ratings or the assignment of new ratings that are lower than existing ratings could reduce the number of potential investors of the notes and adversely affect the prices and liquidity of the notes. There can be no assurance that such credit ratings will

remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant.

RATIOS OF EARNINGS TO FIXED CHARGES

	For the Nine Months Ended September 30,	For the Year Ended December 31,				
	2016	2015	2014	2013	2012	2011
	(Dollars in millions)					
Income (loss) before income tax	$216	$240	$(103)	$(149)	$53	$(181)
Fixed charges:						
Interest on short-term borrowings	$4	$2	$2	$—	$2	$17
Interest on long-term debt	32	24	7	102	112	108
Combined fixed charges, excluding interest on deposits	36	26	9	102	114	125
Interest on deposits	34	42	30	42	70	95
Combined fixed charges, including interest on deposits	$70	$68	$39	$144	$184	$220
Ratio of earnings to combined fixed charges:						
Excluding interest on deposits	7.00	10.23	(1)	(1)	1.46	(1)
Including interest on deposits	4.09	4.53	(2)	(2)	1.29	0.18

(1) Earnings were insufficient to cover fixed charges excluding deposits and preferred stock dividends by approximately $94 million, $47 million and $56 million for the years ended December 31, 2014, 2013, and 2011, respectively.

(2) Earnings were insufficient to cover fixed charges including deposits and preferred stock dividends by approximately $64 million and $5 million for the years ended December 31, 2014 and 2013, respectively.

USE OF PROCEEDS

This exchange offer is intended to satisfy our obligations under the registration rights agreement into which we entered when we issued the Old Notes. We will not receive any cash proceeds from this exchange offer.

In exchange for the Old Notes that you tender pursuant to this exchange offer, you will receive New Notes in like principal amount that are identical in all material respects to the Old Notes, except that the transfer restrictions, certain registration rights and rights to additional interest applicable to the Old Notes generally do not apply to the New Notes. The Old Notes that are surrendered in exchange for the New Notes will be retired and canceled by us upon receipt and cannot be reissued. Accordingly, the issuance of the New Notes under this exchange offer will not result in any increase in our outstanding indebtedness.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2016 which reflects the offering of the Old Notes, which occurred on July 11, 2016, and the application of the estimated net proceeds of the offering and dividend from the Bank, which occurred in July 2016. This table should be read in conjunction with our Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015 and as of September 30, 2016, included in this document. See "Where You Can Find More Information" in this prospectus.

	As of September 30, 2016
	(Dollars in millions)
Federal Home Loan Bank Advances	
Short-term adjustable rate	$ 20
Short-term fixed rate term advances	865
Other short-term	20
Long-term LIBOR adjustable advances	1,025
Long-term fixed rate advances	552
Trust Preferred Securities	
Floating Three Month LIBOR	
Plus 3.25%, matures 2032	26
Plus 3.25%, matures 2033	26
Plus 3.25%, matures 2033	26
Plus 2.00%, matures 2035	26
Plus 2.00%, matures 2035	26
Plus 1.75%, matures 2035	51
Plus 1.50%, matures 2035	25
Plus 1.45%, matures 2037	25
Plus 2.50%, matures 2037	16
6.125% Senior Notes due 2021 offered hereby	246
Total Debt	$ 2,975
Stockholders’ Equity	
Preferred stock $0.01 par value, liquidation value $1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding	$ —
Common stock $0.01 par value, 70,000,000 shares authorized; 56,597,271 shares issued and outstanding	1
Additional paid in capital	1,494
Accumulated other comprehensive loss	(20)
Accumulated deficit	(189)
Total Stockholders' Equity	$ 1,286
Total Capitalization	$ 4,261
Common equity-to-assets ratio	9.0 %
Common equity Tier 1 capital ratio	12.0 %
Tier 1 leverage ratio	8.9 %
Tier 1 risk-based capital ratio	14.0 %
Total risk-based capital ratio	15.3 %

BUSINESS

General

We are a Michigan-based savings and loan holding company founded in 1993. Our business is primarily conducted through our principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. At September 30, 2016, based on our assets, we are one of the largest banks headquartered in Michigan, providing commercial, small business, and consumer banking services. We have three major operating segments: Community

Banking, Mortgage Originations and Mortgage Servicing. Through these lines of business, we emphasize the delivery of a complete set of mortgage and banking products and services and are distinguished by local delivery, customer service and product pricing. Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "FBC." We are considered a controlled company for NYSE purposes, because MP Thrift Investments, L.P. ("MP Thrift") held approximately 62.9 percent of our common stock as of September 30, 2016.

Our Community Banking segment provides deposits and fee based services to consumer, business, and mortgage lending customers through our Branch Banking, Business Banking, Commercial Banking, Government Banking, Warehouse Lending and Held-for-Investment Portfolio groups. We maintain a portfolio of commercial and industrial, commercial real estate and builder finance loans with our commercial customers and we originate or purchase residential mortgage loans through referrals from our branches, consumer direct call center and our website, flagstar.com. At September 30, 2016, we operated 99 branches in Michigan. We leverage the customer relationships we have gained throughout our branch network to cross-sell products to existing customers and increase our customer base. In 2016 we also began to offer new MSR lending and equipment finance lease products.

Through our Mortgage Origination segment, we originate or purchase residential mortgage loans throughout the country and sell them into securitization pools, primarily to Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Government National Mortgage Association ("Ginnie Mae") (collectively, the "Agencies") or as whole loans. In addition, we originate or purchase residential first mortgage loans, other consumer loans and commercial loans to our held-for-investment loan portfolios. Our revenues include net interest income, income from banking services we provide to customers, and noninterest income from sales of residential first mortgage loans to the Agencies, and the servicing of loans for others. The combination of our retail, broker and correspondent channels gives us broad access to customers across diverse geographies to originate, fulfill, sell and service our residential mortgage loan products.

The majority of our total loan originations during the nine months ended September 30, 2016 represented mortgage loans that were collateralized by residential first mortgages on single-family residences and were eligible for sale to the Agencies. At September 30, 2016, we originated or purchased residential mortgage loans in all 50 states, the U.S. Virgin Islands, and the District of Columbia through relationships with 556 mortgage brokers and 729 correspondents. At September 30, 2016, we also operated 31 retail locations located in 21 states, which primarily originate one-to-four family residential mortgage loans as part of our Mortgage Originations segment. In addition, we originate other consumer and commercial loans through our Community Banking segment. We continue to expand existing business lines, such as our distributed retail and direct-to-consumer mortgage origination businesses.

Our Mortgage Servicing segment services and subservices mortgage loans for others on a fee for service basis and may also collect ancillary fees, such as late fees and earn income through the use of noninterest bearing escrows. Revenue on our subserviced loans is earned on a contractual fee basis, with the fees varying based on the status of the underlying loans.

At September 30, 2016, we had 2,881 full-time equivalent employees inclusive of account executives and loan officers.

Mortgage Originations

We originate, acquire and sell one-to-four family residential mortgage loans. Substantially all of the residential mortgage loans we sell are delivered into the secondary market on a whole loan basis or securitizing the loans into mortgage-backed securities with the agencies.

Mortgage Servicing

We also service and sub-service mortgage loans on a fee basis for others, and we service residential mortgages held-for-investment for our own portfolio.

Lending Activities

Our principal lending activities consist of the origination of residential first mortgage, second mortgage, HELOC and commercial loans generally located within our primary market and service areas.

Residential first mortgage loans. We originate conforming and non-conforming residential first mortgage loans that are generally made to consumers for the purchase or refinance of a residence. These loans are generally financed over a 15-year to 30-year term and, in most cases, are extended to borrowers to finance their primary residence. Applications are underwritten centrally using consistent credit policies and processes.

Second mortgage loans. The majority of second mortgages we originate are closed in conjunction with the closing of the residential first mortgages originated by us. We generally require the same levels of documentation and ratios as with our residential first mortgages. Second mortgage loans require full documentation and are underwritten and priced to ensure high credit quality and loan profitability.

Home Equity Line of Credit ("HELOC") loans. HELOC guidelines and pricing parameters have been established to attract high credit quality loans with long term profitability. HELOCs, which are secured by a first-lien or junior-lien on the borrower’s residence, allow customers to borrow against the equity in their homes or refinance existing mortgage debt. Applications are underwritten centrally in conjunction with an automated underwriting system. The HELOC underwriting criteria are based on minimum credit scores, debt-to-income ratios, and LTV ratios, with current collateral valuations.

Commercial loans. Commercial loans include commercial and industrial, commercial real estate and warehouse loans. Commercial and industrial loans are made to commercial customers involved in a broad range of industries for use in normal business operations to finance working capital needs, equipment purchases and other capital investments. Our commercial and industrial customers are involved in financial, insurance, service, manufacturing, and distribution. Commercial borrowers are made of up primarily of Michigan relationships, as well as national finance companies. Commercial real estate loans consist of loans to developers and support income producing commercial real estate properties. These loans are made to finance properties such as owner-occupied, retail, office, multi-family apartment buildings, industrial buildings, and residential developments. They are repaid through cash flows related to the operation, sale, or refinance of the property. Warehouse loans are lines of credit to other mortgage lenders. In 2016, we launched a national home builder finance program to grow our balance sheet, increase commercial deposits and develop incremental revenue through our retail purchase mortgage channel.

Deposits

Deposits include retail, commercial, government and company controlled deposits. Through our branches and commercial relationships, we gather deposits and offer a line of consumer and commercial financial products to individuals and businesses. We continue to focus our efforts towards the growth of our core deposits, which includes checking, savings and money market deposit accounts. We believe core deposits represent a more stable funding source. Government deposits are gathered from local municipalities primarily across the state of Michigan and are comprised mainly of property taxes that are collected. See Note 12 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein, for more information regarding deposits.

Borrowed funds

The Federal Home Loan Bank provides funding on a fully collateralized basis to us. We are currently authorized through a resolution of our board of directors to apply for advances from the Federal Home Loan Bank using approved loan types as collateral, such as residential first mortgage loans, home equity lines of credit, commercial real estate loans.

We have arrangements with the Federal Reserve Bank of Chicago to borrow as appropriate from its discount window. The discount window is a borrowing facility that is intended to be used only for short-term liquidity needs arising from special or unusual circumstances. The amount we are allowed to borrow is based on the lendable value of the collateral that we agree to provide. To collateralize the line, we pledge commercial and industrial loans that are eligible based on Federal Reserve Bank of Chicago guidelines.

Non-bank Subsidiaries

At September 30, 2016, our corporate legal structure consisted of the Bank, including its wholly-owned subsidiaries and wholly-owned non-bank subsidiaries through which we conduct other non-material business or which are inactive. The Bank comprised of 99.5 percent of our total assets at September 30, 2016. We also own nine statutory trusts that are not consolidated with our operations. For additional information, see Notes 1, 7 and 26 of the Notes to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Regulation and Supervision

The banking industry is highly regulated. Statutory and regulatory controls are designed primarily for the protection of depositors and the financial system, and not for the purpose of protecting our shareholders. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on us and the Bank. Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies, cannot be predicted and may have a material effect on our business and results.

The Bank is a savings and loan holding company. We must comply with a wide variety of banking, consumer protection and securities laws, regulations and supervisory expectations and are regulated by multiple regulators, including the Board of Governors of the Federal Reserve (the "Federal Reserve"), the Office of the Comptroller of the Currency ("OCC") of the U.S. Department of the Treasury ("U.S. Treasury"), Consumer Financial Protection Bureau (the "CFPB"), the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission (the "SEC") or collectively "the regulatory agencies." The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund.

As a general matter, the regulatory agencies are taking a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. We, the Bank and our products and services all remain subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations.

Consent Order with OCC

Effective October 23, 2012, the Bank's board of directors executed a Stipulation and Consent (the "Stipulation"), accepting the issuance of a Consent Order (the "Consent Order") by the OCC. The Consent Order replaces the supervisory agreement entered into between the Bank and the Office of Thrift Supervision (the "OTS") on January 27, 2010, which the OCC terminated simultaneous with issuance of the Consent Order." For further information and a complete description of all of the terms of the Consent Order, please refer to the copy of the Consent Order filed with the SEC as an exhibit to our Current Report on Form 8-K filed on October 24, 2012.

Supervisory Agreement

We are also subject to the Supervisory Agreement with the Board of Governors of the Federal Reserve (the "Supervisory Agreement"), dated January 27, 2010. A failure to comply with the Supervisory Agreement could result in the initiation of further enforcement action by the Federal Reserve, including the imposition of further operating restrictions, and could result in additional enforcement actions against the Company. The Company has taken actions which it believes are appropriate to comply with and intends to maintain compliance with all of the requirements of the Supervisory Agreement. For further information and a complete description of all of the terms of the Supervisory Agreement, please refer to the copy of the Supervisory Agreement filed with the SEC as an exhibit to the Company's Current Report on Form 8-K filed on January 28, 2010.

Consent Order with CFPB

On September 29, 2014, the Bank entered into a Consent Order with the CFPB. The Consent Order relates to alleged violations of federal consumer financial laws arising from the Bank’s residential first mortgage loan loss mitigation practices and default servicing operations dating back to 2011. Under the terms of the Consent Order, the Bank has paid $28 million for borrower remediation and $10 million in civil money penalties. The settlement does not involve any admission of wrongdoing on the part of the Bank or its employees, directors, officers, or agents.

Holding Company Status, Acquisitions and Activities

We are a unitary savings and loan holding company, as defined by federal banking law, as is our controlling stockholder, MP Thrift. We may only conduct, or acquire control of companies engaged in, activities permissible for a savings and loan holding company pursuant to the relevant provisions of the Savings and Loan Holding Company Act and relevant regulations. Without prior written approval of the Federal Reserve, neither we, nor MP Thrift may: (i) acquire control of another savings association or holding company thereof, or acquire all or substantially all of the assets thereof; or (ii) acquire or retain, with certain exceptions, more than 5 percent of the voting shares of a non-subsidiary savings association or a non-subsidiary savings and loan holding company. We are prohibited from acquiring control of a depository institution that is not federally insured or retaining control of a savings association subsidiary for more than one year after the date that such subsidiary becomes uninsured. Similarly, we may not be acquired by a bank holding company, or any company, unless the Federal Reserve approves such transaction. In all situations, the public must have an opportunity to comment on any such proposed acquisition, and the OCC or the Federal Reserve must complete an application review. In addition, the Gramm-Leach-Bliley Act (the "GLBA") generally restricts any non-financial entity from acquiring us.

Source of Strength

The Dodd-Frank Act codified the Federal Reserve’s "source of strength" doctrine and extended it to savings and loan holding companies. Under the Dodd-Frank Act, the prudential regulatory agencies are required to promulgate joint rules requiring bank holding companies and savings and loan holding companies to serve as a source of financial strength for any depository institution subsidiary by maintaining the ability to provide financial assistance to such insured depository institution in the event that it suffers financial distress.

Regulatory Capital Requirements

The Bank and the holding company are currently subject to the regulatory capital framework and the implementation of the agreement reached by the Basel Committee on Banking and Supervision “Basel III” as adopted by the OCC and Federal Reserve. The OCC and Federal Reserve have risk-based capital adequacy guidelines intended to measure capital adequacy with regard to a banking organization’s balance sheet, including off-balance sheet exposures such as unused portions of loan commitments, letters of credit, and recourse arrangements. The Bank is required to comply with these capital adequacy standards. Beginning in 2015, our holding company was required to comply with the Federal Reserve Bank’s capital adequacy guidelines. Prior to 2015, these rules did not apply to savings and loan holding companies. Federal law and regulations established five levels of capital compliance: well-capitalized,

adequately capitalized, under-capitalized, significantly under-capitalized and critically under-capitalized.

At December 31, 2015, the Bank and the holding company were considered "well-capitalized" for regulatory purposes under the Prompt Corrective Action framework. An institution is considered well-capitalized if its ratio of total risk-based capital to risk-weighted assets is 10.0 percent or more, its ratio of Tier 1 capital to risk-weighted assets is 8.0 percent or more, its ratio of common equity tier 1 capital to risk-weighted assets is 6.5 percent or more, and its leverage ratio of Tier 1 capital to total assets is 5.0 percent or more. Any institution that is not well capitalized or adequately capitalized is considered under-capitalized. Any institution with a tangible equity to total assets ratio of 2.0 percent or less is considered critically under-capitalized. See Note 22 - Regulatory Matters - Regulatory Capital, for additional information.

Effective on January 1, 2015, the capital framework under the Basel III final rule replaced the existing regulatory capital rules for all banks, savings associations, and U.S. bank holding companies with greater than $500 million in total assets, and all savings and loan holding companies. The final rule implements a new common equity Tier 1 minimum capital requirement. In addition, the new regulations subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization did not maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5 percent of its total risk-weighted assets. The effect of the capital conservation buffer will be to increase the minimum common equity Tier 1 capital ratio to 7.0 percent, the minimum Tier 1 risk-based capital ratio to 8.5 percent and the minimum total risk-based capital ratio to 10.5 percent. The capital conservation buffer becomes effective January 1, 2016 with transition provisions through 2018.

The new regulations grandfather the regulatory capital treatment of hybrid debt and equity securities, such as trust preferred securities issued prior to May 19, 2010, for banks or holding companies with less than $15.0 billion in total consolidated assets as of December 31, 2009. Although the Company may continue to include our existing trust preferred securities as Tier 1 capital, the prohibition on the use of these securities as Tier 1 capital going forward may limit the Company’s ability to raise capital in the future.

Various aspects of Basel III are subject to multi-year transition periods through December 31, 2018. Basel III will materially change our Tier 1, Tier 1 common and total capital calculations.

Standards for Safety and Soundness

Federal law requires each U.S. bank regulatory agency to prescribe certain safety and soundness standards for all insured financial institutions. To that end, the U.S. bank regulatory agencies adopted Interagency Guidelines Establishing Standards for Safety and Soundness. These are used by the U.S. bank regulatory agencies to identify and address problems at insured financial institutions before capital becomes impaired. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, compensation and benefits, earnings, and other operational and managerial standards as the agency deems appropriate. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. If the appropriate U.S. banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Qualified Thrift Lender

The Bank is required to meet a Qualified Thrift Lender ("QTL") test to avoid certain restrictions on operations, including restrictions applicable to multiple savings and loan holding companies, restrictions on the ability to branch interstate, and our mandatory registration as a bank holding company under the Bank Holding Company Act of 1956. A savings bank satisfies the QTL test if: (i) on a monthly basis, for at least nine months out of each twelve month

period, at least 65 percent of a specified asset base of the savings bank consists of loans to small businesses, credit card loans, educational loans, or certain assets related to domestic residential real estate, including residential mortgage loans and mortgage securities, as well as a portion of residential loans originated and sold within 90 days of origination; or (ii) at least 60 percent of the savings bank’s total assets consist of cash, U.S. government or government agency debt or equity securities, fixed assets, or loans secured by deposits, real property used for residential, educational, church, welfare, or health purposes, or real property in certain urban renewal areas. The Bank is currently, and expects to remain, in compliance with QTL standards.

FDIC Insurance and Assessment

The FDIC insures the deposits of the Bank and such insurance is backed by the full faith and credit of the U.S. government through the Deposit Insurance Fund ("DIF"). The Dodd-Frank Act raised the standard maximum deposit insurance amount to $250,000 per depositor, per insured financial institution for each account ownership category. Deposits held in noninterest bearing transaction accounts are now aggregated with any interest bearing deposits the owner may hold in the same ownership category and the combined total is insured up to at least $250,000.

Pursuant to the Dodd-Frank Act, the minimum reserve ratio designated by the FDIC each year is 1.35 percent of the assessment base, as opposed to 1.15 percent under prior law. The FDIC is required to meet the minimum reserve ratio by September 30, 2020 and is required to offset the effect of the increased reserve ratio for banks with assets less than $10 billion. The FDIC has established a higher reserve ratio of 2 percent as a long-term goal beyond what is required by statute. The FDIC is operating under a DIF Restoration Plan while the reserve ratio remains below the minimum target. The Restoration Plan allows the FDIC to evaluate whether growth in the DIF under current assessment rates is likely to be sufficient to meet the statutory requirements. In October of 2015, the FDIC proposed to increase the DIF to the statutorily required minimum level of 1.35 percent. The Dodd-Frank Act made banks with $10 billion or more in total assets responsible for the increase from 1.15 percent to 1.35 percent. Under the current rule regular assessment rates for all banks will decline when the reserve ratio reaches 1.15 percent, which the FDIC expects will occur in early 2016. The proposed rule will impose on the Bank a surcharge of 4.5 cents per $100 of our assessment base, after making certain adjustments. The FDIC expects the reserve ratio would likely reach 1.35 percent after approximately two years of payments of the proposed surcharges. The DIF is funded mainly through quarterly assessments on insured banks.

The FDIC maintains the DIF by assessing each financial institution an insurance premium. The FDIC defined deposit insurance assessment base for an insured depository institution is equal to the average consolidated total assets during the assessment period, minus average tangible equity.

During 2015, the Bank was classified as a small institution for deposit insurance assessment purposes. As a small institution, the Bank was assigned to one of three Capital Groups based on our capitalization level. The Bank was also assigned to one of three Supervisory Groups based on the supervisory evaluations provided by the Bank’s primary federal regulator. Our assessment rate, as a small institution, was determined based upon the Risk Category to which we are assigned. Our Risk Category was determined based on a combination of our Supervisory and Capital Group assignments.

Effective January 1, 2016, as a result of reporting assets of more than $10 billion for four consecutive quarters, the Bank is classified as a large institution for deposit insurance assessment purposes. The assessment rate schedule for large financial institutions (i.e., financial institutions with at least $10 billion in assets) is determined by use of a scorecard that combines a financial institution's Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity ("CAMELS") ratings with certain forward-looking financial information to measure the risk to the DIF. Pursuant to this scorecard method, two scores (a performance score and a loss severity score) are combined and converted to an initial base assessment rate (also referred to as IBAR). The performance score measures a financial institution's financial performance and ability to withstand stress. The loss severity score measures the relative magnitude of potential losses to the FDIC in the event of the financial institution's failure. Total scores are converted

pursuant to a predetermined formula into an initial base assessment rate, which is subject to adjustment based upon significant risk factors not captured in the scoreboard. Total assessment rates range from 2.5 basis points to 45 basis points for such large financial institutions.

All FDIC-insured financial institutions must pay an annual assessment to provide funds for the payment of interest on bonds issued by the Financing Corporation, a federal corporation chartered under the authority of the Federal Housing Finance Board. The bonds, which are referred to as FICO bonds, were issued to capitalize the Federal Savings and Loan Insurance Corporation, and the assessments will continue until the bonds mature in 2019.

Affiliate Transaction Restrictions

The Bank is subject to the affiliate and insider transaction rules applicable to member banks of the Federal Reserve as well as additional limitations imposed by the OCC. These provisions prohibit or limit the Bank from extending credit to, or entering into certain transactions with certain affiliates, principal stockholders, directors and executive officers of the banking institution and certain of its affiliates. The Dodd-Frank Act imposed further restrictions on transactions with certain affiliates and extension of credit to executive officers, directors and principal stockholders.

Incentive Compensation

The U.S. bank regulatory agencies issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of U.S. banks do not undermine the safety and soundness of such banks by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of a bank, either individually or as part of a group, is based upon the key principles that a bank’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the bank’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the bank’s board of directors.

The U.S. bank regulatory agencies review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of U.S. banks that are not "large, complex banking organizations." These reviews are tailored to each bank based on the scope and complexity of the bank’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives are included in reports of examination. Deficiencies are incorporated into the bank’s supervisory ratings, which may affect the bank’s ability to make acquisitions and take other actions. Enforcement actions will be taken against a bank if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the bank’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. See the Supervisory Agreement discussion, in Item 1. Business for further discussion of the executive compensation notice requirements.

Federal Reserve

Numerous regulations promulgated by the Federal Reserve affect our business operations as well as those of the Bank. These include regulations relating to electronic fund transfers, collection of checks, availability of funds, and reserve requirements.

Federal Reserve regulations require federally chartered savings associations to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). During 2016, a 3 percent reserve is to be maintained against aggregate transaction accounts between $15 million and $110 million (subject to adjustment by the Federal Reserve) plus a reserve of 10 percent (subject to adjustment by the Federal Reserve between 8 percent and 14 percent) against that portion of total transaction accounts in excess of $110 million. For 2015, a 3 percent reserve will be required to be maintained against aggregate transaction accounts between $14.5 million and $103.6 million (subject

to adjustment by the Federal Reserve) plus a reserve of 10 percent (subject to adjustment by the Federal Reserve between 8 percent and 14 percent) against that portion of total transaction accounts in excess of $103.6 million.

Required reserves must be maintained in the form of vault cash, an account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve. Pursuant to the Emergency Economic Stabilization Act of 2008, the Federal Reserve Banks pay interest on depository institutions' required and excess reserve balances. These interest rates are determined by the Federal Reserve, and currently both rates are 0.50 percent per annum.

Bank Secrecy Act ("BSA")

The BSA requires all financial institutions, including banks, to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. Under the BSA, an internal controls program should, at a minimum, include independent testing for compliance, designate an individual responsible for coordinating and monitoring day-to-day compliance and provide training for appropriate personnel. The BSA also includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting), as well as due diligence/know-your-customer documentation requirements. The Bank has established a global anti-money laundering program in order to comply with the BSA requirements and certain requirements under the Consent Order relating to its compliance with the BSA.

In recent years, regulators have intensified their focus on bank secrecy and anti-money laundering statutes, regulations and compliance requirements, as well as compliance with economic sanctions administered by OFAC, and we have been required to revise policies and procedures and install new systems in order to comply with regulations, guidelines and examination procedures in this area. As a part of the Consent Order, the Bank agreed to review and revise the Bank's bank secrecy and anti-money laundering risk assessment and written program of policies and procedures adopted in accordance with the Bank Secrecy Act and update the status of the Bank's plan and timeline for the implementation of enhanced bank secrecy and anti-money laundering internal controls. We cannot be certain that the policies, procedures and systems we have in place or may in the future put in place are or will be successful. Therefore, there is no assurance that in every instance we are and will be in full compliance with these requirements or the Consent Order.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "PATRIOT Act")

The PATRIOT Act amended the BSA to include numerous provisions designed to detect and prevent the financing of international money laundering and terrorism. The PATRIOT Act mandates that U.S. financial institutions (and foreign financial institutions with U.S. operations) implement additional policies and procedures that meet certain minimum requirements and take heightened measures designed to address any or all of the following: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes and cooperation between financial institutions and law enforcement authorities. Other required actions include terminating correspondent accounts for foreign "shell banks," obtaining information about the owners of foreign bank clients, and providing the name and address of the foreign bank's agent for service of process in the United States. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the U.S. bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities. The Bank has established policies and procedures intended to comply with the PATRIOT Act's provisions, the BSA, as well as other aspects of anti-money laundering legislation.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals, individuals, entities and others. These are typically known as the "OFAC" rules based on their

administration by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting certain persons and countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country or with a sanctioned person, including prohibitions against direct or indirect imports from and exports to a sanctioned country or person and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country or person; and (ii) a blocking of assets in which the sanctioned country or person have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Consumer Protection Laws and Regulations

The Bank is subject to many federal consumer protection statutes and regulations, the examination and enforcement of which has become more pronounced since the passage of the Dodd-Frank Act and the creation of the CFPB. The CFPB has assumed the responsibility for the development and enforcement of the federal consumer protection statutes and regulations, such as the Electronic Fund Transfer Act, the Fair Credit Reporting Act, the Homeowners Protection Act, the Fair Debt Collection Practices Act, the Home Mortgage Disclosure Act, the Home Ownership and Equity Protection Act, the Secure and Fair Enforcement for Mortgage Licensing Act, the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, the Servicemembers' Civil Relief Act and the Truth in Saving Act. The Dodd-Frank Act gave the CFPB: (i) broad rule-making, supervisory, examination and enforcement authority in this area over financial institutions that have assets of more than $10 billion, (ii) expanded data collecting powers for fair lending purposes for both small business and mortgage loans and (iii) authority to prevent unfair, deceptive and abusive practices. The consumer complaint function of the OCC also has been transferred to the CFPB. The Dodd-Frank Act also narrows the scope of federal preemption of state laws related to federally chartered financial institutions, including savings banks such as the Bank, which gives broader rights to state attorney generals to enforce certain consumer protection loans.

During 2015, the Bank was not subject to the CFPB's supervisory, examination and enforcement authority with respect to consumer protection laws and regulations because the Bank had reported assets of less than $10 billion for four consecutive quarters. Instead, it was subject to the OCC's supervisory, examination and enforcement authority in this area. As of December 31, 2015, the total assets of the Bank have exceeded $10 billion for four consecutive quarters, and as such, the Bank is again subject to the CFPB's supervisory, examination and enforcement authority with respect to consumer protection laws and regulations starting in January 2016.

In 2016 and future years, the Company anticipates that it will continue to be financially impacted by several meaningful regulatory changes. The most significant changes of which include:

Amendments to the 2014 Regulations Related to Mortgage Origination and Servicing. In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. While these final rules amended existing regulations applicable to Flagstar, adjustments in our business operations necessary to comply with these rules have increased our overall regulatory compliance costs. In addition, the CFPB continues to modify and refine the new substantive requirements. In 2014, the CFPB issued final and proposed rules and guidance to amend and supplement its mortgage loan servicing rules. On July 8, 2014, the CFPB issued a final rule to clarify that the name of a deceased borrower's heir generally may be added to a mortgage without triggering the ability-to-repay rule. On August 19, 2014, the CFPB issued guidance that outlines what CFPB examiners will look for when mortgage servicing rights are transferred to ensure that mortgage servicers are fulfilling their obligations under the mortgage servicing rules and highlights regulatory requirements that may be implicated by a transfer of mortgage servicing rights. On October 22, 2014, the CFPB issued a final rule that provides a limited, post-consummation cure mechanism for loans that exceed the points and fees limit for Qualified Mortgages, but that meet the other requirements for being a Qualified Mortgage at consummation. In addition, on November 20, 2014, the CFPB proposed several amendments

to certain mortgage servicing rules, including amendments that would require servicers to provide certain borrowers with foreclosure protections more than once over the life of the loan, clarify when a consumer is considered “delinquent,” expand protections provided to certain borrowers during a servicing transfer and prevent wrongful disclosures. The CFPB is expected to continue to revise its rules related to mortgage loan origination and mortgage loan servicing, and additional rulemaking affecting the residential mortgage business is expected.

The TILA-RESPA Integrated Disclosure Rule. On November 20, 2013, the CFPB issued a final rule and official interpretation, which established integrated mortgage disclosure requirements for lenders and settlement agents in connection with most closed-end consumer credit transactions secured by real property. The final rule, commonly referred to as "TRID," became effective as to mortgage applications received on or after October 3, 2015 and combines certain disclosures that consumers receive in connection with applying for and closing on a mortgage loan under the Truth in Lending Act and the Real Estate Settlement Procedures Act. Among other things, the rule mandates the use of two new disclosure forms, a Loan Estimate form and a Closing Disclosure form, which replace existing disclosure forms and include additional content not required by the prior forms. In addition, the rule requires that the Closing Disclosure form be received by the borrower at least three business days before closing in most cases, limits the circumstances in which borrowers may be required to pay more for settlement services than the amount stated on the Loan Estimate form and imposes certain recordkeeping requirements.

The Home Mortgage Disclosure Act (the “HMDA”) and Updated Reporting Requirements. The HMDA grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. Regulation C provides the mechanism for this collection and reporting of data, which has been applicable to closed-end consumer loans secured by a dwelling and which a financial institution originates, purchases, or for which it receives an application. On October 15, 2015, the CFPB issued a final rule amending Regulation C, expanding the amount of data to be gathered and reported as well as subjecting home equity lines of credit and reverse mortgages to these requirements. The new data gathering requirements will become effective on January 1, 2018 while the new reporting obligations will become effective in 2019, although it is not yet clear how much of this new data will be made publicly available. We will continue to assess the impact to Flagstar as we update our procedures and system controls and as the CFPB provides additional guidance on how much of the data will be made publicly available.

Predatory lending. Federal regulations require additional disclosures and consumer protections to borrowers for certain lending practices, including predatory lending. The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. Predatory lending typically involves at least one, and perhaps all three, of the following elements:

- Making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation;
- Inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced, also known as loan flipping; and/or
- Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

In addition, many states also have predatory lending laws that may be applicable to the Bank.

Gramm-Leach Bliley Act ("GLBA"). The GLBA includes provisions that protect consumers from the unauthorized transfer and use of their non-public personal information by financial institutions. Privacy policies are required by federal banking regulations which limit the ability of banks and other financial institutions to disclose non-public

personal information about consumers to non-affiliated third parties. Pursuant to those rules, financial institutions must provide:

- Initial notices to customers about their privacy policies, describing the conditions under which they may disclose non-public personal information to non-affiliated third parties and affiliates;
- Annual notices of their privacy policies to current customers; and
- A reasonable method for customers to "opt out" of disclosures to non-affiliated third parties.

These privacy protections affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, states are permitted under the GLBA to have their own privacy laws, which may offer greater protection to consumers than the GLBA. Numerous states in which the Bank does business have enacted such laws.

In addition, the Bank is subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of the GLBA. The guidelines describe the U.S. bank regulatory agencies expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to, or use of, such records or information that could result in substantial harm or inconvenience to any customer.

Fair Credit Reporting Act and the Fair and Accurate Credit Transactions Act (“FACT Act”). The Fair Credit Reporting Act, as amended by the FACT Act, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with the FACT Act, U.S. bank regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer's election to opt out would be applicable for at least five years.

Equal Credit Opportunity Act (“ECOA”). The ECOA generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

Truth In Lending Act (“TILA”). The TILA is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things. In addition, the TILA, through its implementation of Regulation Z also provides a variety of substantive protections for consumers, including but not limited to the technical requirements of the new TILA RESPA Integrated Disclosure Rule. These protections also include the rules applicable to assessing a consumer’s ability to repay as well as what constitutes a “qualified mortgage," the rules applicable to higher-priced mortgage loans, the strict requirements applicable to making a “High Cost Mortgage Loan," and rules restricting loan originator compensation. Regulation Z also impacts mortgage loan servicing, through rules applying to billing statements, interest rate adjustment notices, and the way in which payments are to be applied. Violations of these provisions can result in civil liability and/or administrative sanctions.

Fair Housing Act (“FH Act”). The FH Act regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be

considered illegal, under the FH Act, including some that are not specifically mentioned in the FH Act itself.

Real Estate Settlement Procedures Act (“RESPA”). Lenders are required by RESPA to provide borrowers with disclosures regarding the nature and cost of real estate settlements. While many of these requirements are now spelled out under the Truth in Lending Act’s Regulation Z pursuant to the TILA RESPA Integrated Disclosure Rule, RESPA and its Regulation X continue to impact mortgage servicing compliance through several rules, including but not limited to those applicable to handling borrower requests for information and notices of error, force placed insurance, loss mitigation and foreclosure, and the transfer of servicing. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of RESPA may result in civil liability or administrative sanctions.

Servicemembers’ Civil Relief Act (the “SCRA”). The SCRA applies to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limits the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability.

Enforcement. Enforcement actions under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the FACT Act, ECOA, TILA, FH Act, HMDA, RESPA and SCRA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Community Reinvestment Act ("CRA")

The CRA, as implemented by OCC regulations, requires the OCC to evaluate how federal savings associations have helped to meet the credit needs of the communities they serve, including low to moderate income neighborhoods, while maintaining safe and sound banking practices. The evaluation rates an institution based on its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests: (i) a lending test, to evaluate the institution’s record of making loans in its service areas (ii) an investment test, to evaluate the institution’s record of investing in community development projects, affordable housing, and programs benefiting low- or moderate-income individuals and businesses; and (iii) a service test, to evaluate the institution’s delivery of services through its branches, ATMs and other offices. The OCC assigns one of four possible ratings to an institution's CRA performance and is required to make public an institution's rating and written evaluation. The four possible ratings of meeting community credit needs are outstanding, satisfactory, needs to improve and substantial non-compliance.

An institution’s failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities, including, but not limited to, engaging in acquisitions and mergers. CRA ratings are also considered in evaluating applications to open a branch.

Regulatory Reform

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and affiliates from engaging in proprietary trading and investing in and sponsoring certain "covered funds," including hedge funds and private equity funds. The statutory provision is commonly called the "Volcker Rule." The final rules implementing the Volcker Rule, as drafted by a variety of federal financial regulatory agencies, were issued December 10, 2013. The final rules extend the conformance period to July 21, 2015. Pursuant to the requirements of the Volcker Rule, we have established a standard compliance program based on the size and complexity of our operations. The standard compliance program includes written policies and procedures that document and limit our risk mitigating hedging and market-making related activities; a system of internal controls to monitor compliance; a management framework that provides a clear accountability for compliance including appropriate management review of limits; incentive compensation; and other matters identified as requiring attention; independent testing and audits; training;

and recordkeeping requirements.

We expect to incur ongoing operational and system costs for ongoing compliance with the multitude of new laws and regulations. Furthermore, there may be additional federal or state laws enacted during this period that place additional obligations on servicers of residential loans.

Stress Testing Requirements

The U.S. federal banking agencies, including the OCC and the Federal Reserve, issued final rules implementing provisions of the Dodd-Frank Act that require banking organizations, including savings associations and savings and loan holding companies, with total consolidated assets of more than $10 billion but less than $50 billion to conduct annual company-run stress tests, report the results to their primary federal regulator and the Federal Reserve and publish a summary of the results. Each Dodd-Frank Act Stress Test, or DFAST, must be conducted using certain scenarios (baseline, adverse and severely adverse), which the OCC and Federal Reserve will publish by February 15 of each year. Banking organizations are required to use the scenarios to calculate, for each quarter-end within a nine-quarter planning horizon, the impact of such scenarios on revenues, losses, loan loss reserves and regulatory capital levels and ratios, taking into account all relevant exposures and activities. The rules also require each banking organization to establish and maintain a system of controls, oversight and documentation, including policies and procedures, designed to ensure that the DFAST procedures used by the banking organization are effective in meeting the requirements of the rules.

Limitation on Capital Distributions

Under the Supervisory Agreement, we shall not declare or pay any cash dividends or other capital distributions or purchase, repurchase, or redeem, or commit to purchase, repurchase, or redeem any equity stock without the prior written nonobjection of the Federal Reserve. The Company does not currently pay dividends on the capital stock.

OCC regulations impose limitations upon certain capital distributions by savings associations, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital.

The OCC regulates all capital distributions made by the Bank, directly or indirectly, to the holding company, including dividend payments. A subsidiary of a savings and loan holding company, such as the Bank, must file a notice or application with the OCC at least 30 days prior to each proposed capital distribution. Whether an application is required is based on a number of factors including whether the institution qualifies for expedited treatment under the OCC rules and regulations or if the total amount of all capital distributions (including each proposed capital distribution) for the applicable calendar year exceeds net income for that year to date plus the retained net income for the preceding two years. Under the Consent Order, the Bank may not pay a dividend or make a capital distribution if it is not in compliance with its approved capital plan or would not remain in compliance after making the dividend or capital distribution, and the Bank must receive OCC approval under the generally applicable application or notice requirements. In addition, as a subsidiary of a savings and loan holding company, the Bank must receive approval from the Federal Reserve Bank ("FRB") before declaring any dividends. Additional restrictions on dividends apply if the Bank fails the QTL test.

The Bank may not pay dividends to us if, after paying those dividends, it would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements or if the dividend would violate a prohibition contained in any statute, regulation or agreement. Under the Federal Deposit Insurance Act ("FDIA") an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" (as such term is used in the FDIA). Payment of dividends by the Bank also may be restricted at any time at the discretion of the OCC if it deems the payment to constitute an unsafe and unsound banking practice.

Commercial Real Estate Lending

Lending operations that involve concentrations of commercial real estate loans are subject to enhanced scrutiny by federal banking regulators. Regulators have advised financial institutions of the risks posed by commercial real estate lending concentrations. Such loans generally include land development, construction loans and loans secured by multifamily property and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. Interagency guidance prescribes the following guidelines for examiners to help identify institutions that are potentially exposed to concentration risk and may warrant greater supervisory scrutiny:

- Total reported loans for construction, land development and other land represent 100 percent or more of the institution's total capital, or
- Total commercial real estate loans represent 300 percent or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 months.

Loans to One Borrower

Under the Home Owners Loan Act ("HOLA"), savings associations are generally subject to the national bank limits on loans to one borrower. Generally, savings associations may not make a loan or extend credit to a single or related group of borrowers in excess of 15 percent of the institution's unimpaired capital and surplus (as defined by HOLA). Additional amounts may be loaned if such loans or extensions of credit are secured by readily-marketable collateral, but in no case may they be in excess of an additional 10 percent of unimpaired capital and surplus.

Regulatory Enforcement

Both the OCC and the FDIC may take regulatory enforcement actions against any of their regulated institutions, such as the Bank, that do not operate in accordance with applicable regulations, policies and directives. Proceedings may be instituted against any banking institution, or any "institution-affiliated party," such as a director, officer, employee, agent or controlling person, who engages in unsafe and unsound practices, including violations of applicable laws and regulations. The OCC has authority under various circumstances to appoint a receiver or conservator for an insured institution that it regulates, to issue cease and desist orders, to obtain injunctions restraining or prohibiting unsafe or unsound practices, to revalue assets and to require the establishment of reserves. The FDIC has additional authority to terminate insurance of accounts, after notice and hearing, upon a finding that the insured institution is or has engaged in any unsafe or unsound practice that has not been corrected, is operating in an unsafe or unsound condition or has violated any applicable law, regulation, rule, or order of, or condition imposed by, the FDIC. In addition, the Federal Reserve may take regulatory enforcement actions against us, and the CFPB may also have the authority to take regulatory enforcement actions against us or the Bank.

Assessments

In its normal course of business, the OCC charges assessments to savings associations to fund its operations. The general assessment is paid on a semi-annual basis and is generally based on an institution's total assets, with a surcharge for an institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination. Our expense for these assessments totaled $3 million for each of the years ending December 31, 2015 and 2014.

Federal Home Loan Bank System

The primary purpose of the Federal Home Loan Banks ("FHLBs") is to act as a central credit facility and provide loans to their respective members, such as the Bank, in the form of collateralized advances for making housing loans as well as for affordable housing and community development lending. The FHLBs are generally able to make advances to their member institutions at interest rates that are lower than the members could otherwise obtain. The Federal Housing Finance Agency, a government agency, is generally responsible for regulating the FHLB system. The FHLB system consists of 12 regional FHLBs, each being federally chartered, but privately owned, by their respective member institutions. The Bank is currently a member of the FHLB of Indianapolis, and as such, is required to purchase and hold shares of capital stock in that FHLB in an amount as required by that FHLB’s capital plan and minimum capital requirements. At December 31, 2015, we held 169,881,300 shares of FHLB stock with a value of $170 million.

Environmental Regulation

Our business and properties are subject to federal, state and local laws and regulations governing environmental matters, including the regulation of hazardous substances and wastes. For example, under the federal Comprehensive Environmental Response, Compensation, and Liability Act, as amended and similar state laws, owners and operators of contaminated properties may be liable for the costs of cleaning up hazardous substances without regard to whether such persons actually caused the contamination. Such laws may affect us both as a current or former owner or operator of properties used in or held for our business or upon which we have foreclosed, and as a secured lender on property that is found to contain hazardous substances or wastes. Our general practice is to obtain an environmental assessment prior to foreclosing on commercial property. We may elect not to foreclose on properties that contain such hazardous substances or wastes, thereby limiting, and in some instances precluding, the liquidation of such properties.

Anti-Tying Restrictions

Under HOLA, the Bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, the Bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that: (i) the customer obtain or provide some additional credit, property, or services from or to the Bank, us or the Bank’s or our subsidiaries or (ii) the customer may not obtain some other credit, property, or services from a competitor, except in each case to the extent reasonable conditions are imposed to assure the soundness of the credit extended. Certain arrangements are permissible. For example, the Bank may offer more favorable terms if a customer obtains two or more traditional bank products.

Competition

We face substantial competition in attracting deposits and making loans. Our most direct competition for deposits has historically come from other savings banks, commercial banks and credit unions in our local market areas. Money market funds and full-service securities brokerage firms also compete with us for these funds and, in recent years, many financial institutions have competed for deposits through the Internet. We compete for deposits by offering high quality and convenient banking services at a large number of convenient locations, and "sit-down" banking in which a customer is served at a desk rather than in a teller line and offered a broad range of products. We also compete by offering competitive interest rates on our deposit products.

From a lending perspective, there are a large number of institutions offering mortgage loans, consumer loans and commercial loans, including many mortgage lenders that operate on a national scale, as well as local savings banks, commercial banks, and other lenders. With respect to those products that we offer, we compete by offering competitive interest rates, fees, and other loan terms, banking products and services and by offering efficient and rapid service.

Additional Information

Our executive offices are located at 5151 Corporate Drive, Troy, Michigan 48098, and our telephone number is (248) 312-2000. Our stock is traded on the NYSE under the symbol "FBC."

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on our website at www.flagstar.com, under "Investor Relations," as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission (the "SEC"). These reports are also available without charge on the SEC website at www.sec.gov.

PROPERTIES

At September 30, 2016, our headquarters located in Troy, Michigan, totaled approximately 373,210 square feet with approximately 80 percent capacity. We also operate a regional office in Jackson, Michigan, 99 branches in Michigan and 28 retail locations, including 9 satellite offices, in 19 states. We also maintain four wholesale lending offices, one information technology office and three commercial lending offices. Our banking centers consist of 76 free-standing office buildings, two in-store banking centers and 21 centers in buildings in which there are other tenants, typically strip malls.

As of September 30, 2016, we owned buildings and land for 76 of our offices (including our headquarters) and lease the remaining 61 offices. The offices that we lease have lease expiration dates ranging from 2016 to 2023.

LEGAL PROCEEDINGS

We and our subsidiaries are subject to various pending or threatened legal proceedings arising out of the normal course of business operations. In addition, the Bank is routinely named in civil actions throughout the country by borrowers and former borrowers relating to the origination, purchase, sale, and servicing of mortgage loans. From time to time, governmental agencies also conduct investigations or examinations of various mortgage-related practices of the Bank. In the course of such investigations or examinations, the Bank cooperates with such agencies and provides information as requested.

We assess the liabilities and loss contingencies in connection with such pending or threatened legal and regulatory proceedings on at least a quarterly basis and establish accruals when we believe it is probable that a loss may be incurred and that the amount of such loss can be reasonably estimated. Once established, litigation accruals are adjusted, as appropriate, in light of additional information.

Management does not believe that the amount of any reasonably possible losses in excess of any amounts accrued with respect to ongoing proceedings or any other known claims will be material to our financial statements, or that the ultimate outcome of these actions will have a material adverse effect on our financial condition, results of operations or cash flows.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section is intended to provide information that will assist you in understanding our consolidated financial statements, the changes in those financial statements from period to period and the primary factors contributing to those changes. The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this prospectus.

In addition to historical financial information, the following discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs, but that also involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus. See particularly "Risk Factors" and "Forward-Looking Statements."

Overview

We are a Michigan-based savings and loan holding company founded in 1993. Our business is primarily conducted through our principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. At September 30, 2016, based on our assets, we are one of the largest banks headquartered in Michigan, providing commercial, small business, and consumer banking services. We have three major operating segments: Community Banking, Mortgage Originations, and Mortgage Servicing. Through these lines of business, we emphasize the delivery of a complete set of mortgage and banking products and services and are distinguished by local delivery, customer service and product pricing. Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "FBC." We are considered a controlled company for NYSE purposes, because MP Thrift Investments, L.P. ("MP Thrift") held approximately 62.9 percent of our common stock as of September 30, 2016.

Effective January 1, 2016, we reorganized our reportable segments to align with our new management reporting structure and to align with our long-term strategy. Prior period segment financial information has been recast to conform to 2016 presentation. Prior to the reorganization, representation and warranty reserves were reported in the Mortgage Servicing segment and the MSR asset and associated costs were reported in the Other segment. As a result of this change, representation and warranty reserves, as well as the MSR asset and associated costs are now reported in the Mortgage Originations segment.

Our Community Banking segment provides deposits and fee based services to consumer, business, and mortgage lending customers through our Branch Banking, Business Banking, Commercial Banking, Government Banking, Warehouse Lending and Held-for-Investment Portfolio groups. We maintain a portfolio of commercial and industrial, commercial real estate and builder finance loans with our commercial customers and we originate or purchase residential mortgage loans through referrals from our branches, consumer direct call center and our website, flagstar.com. At September 30, 2016, we operated 99 branches in Michigan. We leverage the customer relationships we have gained throughout our branch network to cross-sell products to existing customers and increase our customer base. In 2016, we also began to offer new MSR lending and equipment finance lease products.

Through our Mortgage Origination segment, we originate or purchase residential mortgage loans throughout the country and sell them into securitization pools, primarily to Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Government National Mortgage Association ("Ginnie Mae") (collectively, the "Agencies") or as whole loans. In addition, we originate or purchase residential first mortgage loans and other consumer loans, and commercial loans to our held-for-investment loan portfolios. Our revenues include net interest income, income from banking services we provide to customers, and noninterest income from sales of residential first mortgage loans to the Agencies, and the servicing of loans for others. The combination of our retail, broker and correspondent channels gives us broad access to customers across diverse geographies to originate, fulfill, sell and service our residential mortgage loan products.

The majority of our total loan originations during the nine months ended September 30, 2016 represented mortgage loans that were collateralized by residential first mortgages on single-family residences and were eligible for sale to the Agencies. At September 30, 2016, we originated or purchased residential mortgage loans in all 50 states, the U.S. Virgin Islands, and the District of Columbia through relationships with 556 mortgage brokers and 729 correspondents. At September 30, 2016, we also operated 31 retail locations located in 21 states, which primarily originate one-to-four family residential mortgage loans as part of our Mortgage Originations segment. In addition, we originate other consumer and commercial loans through our Community Banking segment. We continue to expand existing business

lines, such as our distributed retail and direct-to-consumer mortgage origination businesses.

Our Mortgage Servicing segment services and subservices mortgage loans for others on a fee for service basis and may also collect ancillary fees, such as late fees and earn income through the use of noninterest bearing escrows. Revenue on our subserviced loans is earned on a contractual fee basis, with the fees varying based on the status of the underlying loans.

At September 30, 2016, we had 2,881 full-time equivalent employees inclusive of account executives and loan officers.

Critical Accounting Policies

Various elements of our accounting policies, by their nature, are subject to estimation techniques, valuation assumptions and other subjective assessments. Certain accounting policies that, due to the judgment, estimates and assumptions in those policies are critical to an understanding of our Consolidated Financial Statements, in Item 1. Financial Statements herein. These policies relate to: (a) fair value measurements; (b) the determination of our allowance for loan losses; (c) the accounting for income taxes; and (d) the determination of our representation and warranty reserve. We believe the judgment, estimates and assumptions used in the preparation of our Consolidated Financial Statements and the Notes, in Item 1, are appropriate given the factual circumstances at the time. However, given the sensitivity of our Consolidated Financial Statements and the Notes, in Item 1, herein, to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in our results of operations and/or financial condition. For further information on our critical accounting policies, please refer to our Consolidated Financial Statements and Notes as of and for the period ended December 31, 2015, included in this document.

Selected Financial Ratios

(Dollars in millions, except share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
Mortgage loans originated (1)	$9,198		$7,876		$23,880		$23,578	
Mortgage loans sold and securitized	$8,723		$7,318		$23,611		$21,143	
Interest rate spread	2.36	%	2.56	%	2.43	%	2.59	%
Net interest margin	2.58	%	2.75	%	2.62	%	2.76	%
Average common shares outstanding	56,580,238		56,436,026		56,556,188		56,419,354	
Average fully diluted shares outstanding	57,933,806		57,207,503		57,727,262		57,050,789	
Average interest earning assets	$12,318		$10,693		$11,944		$10,165	
Average interest paying liabilities	$9,773		$8,354		$9,600		$8,044	
Average stockholders' equity	$1,379		$1,510		$1,515		$1,466	
Return on average assets	1.61	%	1.52	%	1.40	%	1.43	%
Return on average equity	16.53	%	12.41	%	12.59	%	11.36	%
Return on average common equity	17.45	%	15.08	%	14.52	%	13.88	%
Efficiency ratio	59.9	%	65.0	%	66.9	%	69.6	%
Equity-to-assets ratio (average for the period)	9.75	%	12.27	%	11.05	%	12.56	%
Charge-offs to average LHFI (2)	0.51	%	1.84	%	0.66	%	2.34	%
Charge-offs to average LHFI, adjusted (2)(3)	0.15	%	0.61	%	0.15	%	0.43	%

	September 30, 2016	December 31, 2015	September 30, 2015
Book value per common share	$22.72	$22.33	$21.91
Number of common shares outstanding	56,597,271	56,483,258	56,436,026
Mortgage loans serviced for others	$31,372	$26,145	$26,306

Mortgage loans subserviced for others	$38,801		$40,244		$42,282	
Weighted average service fee (basis points)	28.1		27.7		28.3	
Capitalized value of mortgage servicing rights	0.96	%	1.13	%	1.12	%
Mortgage servicing rights to Tier 1 capital	24.60	%	20.63	%	21.10	%
Ratio of allowance for loan losses to LHFI (2)	2.30	%	3.00	%	3.66	%
Ratio of allowance for loan losses to LHFI and loans with government guarantees (2)	2.16	%	2.78	%	3.34	%
Ratio of nonperforming assets to total assets	0.39	%	0.61	%	0.64	%
Equity-to-assets ratio	9.01	%	11.14	%	12.01	%
Common equity-to-assets ratio	9.01	%	9.20	%	9.88	%
Tier 1 leverage ratio (to adjusted total assets)	8.88	%	11.51	%	11.65	%
Common equity Tier 1 capital ratio (to risk-weighted assets)	12.04	%	14.09	%	14.93	%
Total risk-based capital ratio (to risk-weighted assets)	15.26	%	20.28	%	21.64	%
Number of bank branches	99		99		99	
Number of FTE employees	2,881		2,713		2,677	

(1) Includes residential first mortgage and second mortgage loans.

(2) Excludes loans carried under the fair value option.

(3) Excludes charge-offs of zero and $16 million related to the sale of loans during the three months ended September 30, 2016 and September 30, 2015, respectively, and $8 million and $67 million related to the transfer and subsequent sale of loans during the nine months ended September 30, 2016 and September 30, 2015, respectively. Also excludes charge-offs related to loans with government guarantees of $6 million and $13 million during the three and nine months ended September 30, 2016.

Summary of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in millions)			
Net interest income	$80	$73	$236	$211
Provision (benefit) for loan losses	7	(1)	(9)	(18)
Total noninterest income	156	128	389	373
Total noninterest expense	142	131	418	