INGLE ROBERT P
Form 4
December 23, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
INGLE ROBERT P

(Last) (First) (Middle)

2913 US HIGHWAY 70 WEST

(Street)

BLACK MOUNTAIN, NC 28711

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INGLES MARKETS INC [IMKTA]

3. Date of Earliest Transaction (Month/Day/Year)
12/19/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) __X__ Other (specify below)
CEO / Profit Sharing Plan Trustee

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	12/19/2008		S		200	D	$ 16.98	191,877	D	
Class A Common Stock	12/19/2008		S		1,676	D	$ 17	190,201	D	
Class A Common Stock	12/19/2008		S		2,000	D	$ 17.08	188,201	D	
Class A Common	12/19/2008		S		2,000	D	$ 17.1	186,201	D	

Stock									
Class A Common Stock	12/19/2008		S	2,000	D	$ 17.1	184,201	D	
Class A Common Stock	12/19/2008		S	464	D	$ 17.13	183,737	D	
Class A Common Stock	12/19/2008		S	2,000	D	$ 17.15	181,737	D	
Class A Common Stock	12/19/2008		S	2,000	D	$ 17.16	179,737	D	
Class A Common Stock	12/19/2008		S	2,000	D	$ 17.26	177,737	D	
Class A Common Stock	12/19/2008		S	300	D	$ 17.27	177,437	D	
Class A Common Stock	12/19/2008		S	2,000	D	$ 17.31	175,437	D	
Class A Common Stock	12/19/2008		S	2,000	D	$ 17.32	173,437	D	
Class A Common Stock	12/19/2008		S	1,100	D	$ 17.34	172,337	D	
Class A Common Stock							930,000	I	Employee Benefit Plan Trustee

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)

Derivative Security				Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
		Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Class B Common Stock	$ 0 (1)					(2)	(3)	Class A Common Stock	(1)
Class B Common Stock	$ 0 (1)					(2)	(3)	Class A Common Stock	(1)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
INGLE ROBERT P 2913 US HIGHWAY 70 WEST BLACK MOUNTAIN, NC 28711	X		CEO	Profit Sharing Plan Trustee

Signatures

/s/ Ronald B. Freeman/Attorney-in-fact for Robert P. Ingle	12/23/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Class B Common Stock may be converted to Class A Common Stock on a 1-for-1 basis without additional consideration.

(2) Exercisable immediately.

(3) None.

(4) The reporting person is a trustee of the Ingles Markets Investments/Profit Sharing Plan (the ?Plan?). The reporting person disclaims beneficial ownership of the reported securities except to the extent of his or her pecuniary interest therein, if any, and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for purposes of Section 16 or for any other purpose except to the extent of his or her pecuniary interest therein.

(5) The reporting person disclaims beneficial ownership of these shares.

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2,914,637

95,024

3.22
%

3,698,362

106,625

2.88
%
Other
247,819

6,731

2.72
%

247,435

6,620

2.68
%

248,561

6,971

2.80
%
Total interest-bearing liabilities
6,780,341

39,271

0.58
%

9,337,936

144,036

1.53
%

10,786,253

183,739

1.70
%
Noninterest-bearing deposits
1,140,758

1,197,000

2,066,876

Other liabilities (2)
559,250

781,430

681,360

Stockholders’ equity
1,406,038

1,238,550

1,192,281

Total liabilities and stockholders' equity
$

9,886,387

$
12,554,916

$
14,726,770

Net interest-earning assets
$
1,660,073

$
1,543,682

$
2,318,148

Net interest income

$
246,290

$
186,651

$
297,231

Interest rate spread (3)

2.80
%

1.50
%

1.96
%
Net interest margin (4)

2.91
%

1.72
%

2.26
%
Ratio of average interest-earning assets to interest-bearing liabilities

124.5
%

116.5
%

121.5
%

Consumer loans include: residential first mortgage, second mortgage, HELOC and other consumer loans.
(1) Commercial loans include: commercial real estate, commercial and industrial, commercial lease financing loans and warehouse lines.
(2) Includes company controlled deposits that arise due to the servicing of loans for others, which do not bear interest.
(3)

Interest rate spread is the difference between rates of interest earned on interest-earning assets and rates of interest paid on interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average interest-earning assets.

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Rate/Volume Analysis

The following tables present the dollar amount of changes in interest income and interest expense for the components of interest-earning assets and interest-bearing liabilities that are presented in the preceding table. The table below distinguishes between the changes related to average outstanding balances (changes in volume while holding the initial rate constant) and the changes related to average interest rates (changes in average rates while holding the initial balance constant). Changes attributable to both a change in volume and a change in rates were included as changes in rate.

	For the Years Ended December 31, 2014 Versus 2013 Increase (Decrease) Due to:			2013 Versus 2012 Increase (Decrease) Due to:		
	Rate	Volume	Total	Rate	Volume	Total
	(Dollars in thousands)					
Interest-Earning Assets						
Loans held-for-sale	$10,659	$(34,238)	$(23,579)	$(5,021)	$(21,738)	$(26,759)
Loans repurchased with government guarantees	(10,516)	(8,516)	(19,032)	648	(17,404)	(16,756)
Loans held-for-investment						
Consumer loans (1)	(2,726)	(17,044)	(19,770)	(4,111)	(21,191)	(25,302)
Commercial loans (2)	(8,629)	3,440	(5,189)	(1,135)	(72,712)	(73,847)
Total loans held-for-investment	(11,355)	(13,604)	(24,959)	(5,246)	(93,903)	(99,149)
Securities available-for-sale or trading	1,515	25,670	27,185	(6,784)	(3,913)	(10,697)
Interest-earning deposits and other	—	(4,741)	(4,741)	194	2,884	3,078
Total interest-earning assets	$(9,697)	$(35,429)	$(45,126)	$(16,209)	$(134,074)	$(150,283)
Interest-Bearing Liabilities						
Demand deposits	$(231)	$48	$(183)	$(269)	$88	$(181)
Savings deposits	(862)	2,985	2,123	(2,357)	6,453	4,096
Money market deposits	(129)	(170)	(299)	(789)	(619)	(1,408)
Certificate of deposits	(1,442)	(10,125)	(11,567)	(6,582)	(13,477)	(20,059)
Total retail deposits	(2,664)	(7,262)	(9,926)	(9,997)	(7,555)	(17,552)
Demand deposits	(80)	366	286	(51)	1	(50)
Savings deposits	508	406	914	(408)	(424)	(832)
Certificate of deposits	(296)	(46)	(342)	(831)	(214)	(1,045)
Total government deposits	132	726	858	(1,290)	(637)	(1,927)
Wholesale deposits	(10)	(2,980)	(2,990)	713	(8,985)	(8,272)
Total deposits	(2,542)	(9,516)	(12,058)	(10,574)	(17,177)	(27,751)
Federal Home Loan Bank advances	(29,295)	(63,523)	(92,818)	10,624	(22,225)	(11,601)
Other	101	10	111	(320)	(31)	(351)
Total interest-bearing liabilities	$(31,736)	$(73,029)	$(104,765)	$(270)	$(39,433)	$(39,703)
	$22,039	$37,600	$59,639	$(15,939)	$(94,641)	$(110,580)

Change in net interest income

(1) Consumer loans include residential first mortgage, second mortgage, HELOC and other consumer loans.

(2) Commercial loans include: commercial real estate, commercial and industrial, commercial lease financing loans and warehouse lending.

Provision for Loan Losses

2014 Compared to 2013

The provision for loan losses increased $61.4 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase was primarily driven by two changes in estimates: the loss emergence period related to the portfolio of residential loans and the evaluation of the risk associated with payment resets relating to the interest-only loans.

The loss emergence period is an assumption within our model and represents the average amount of time between when the loss event first occurs and when the specific loan is charged-off. The time period starts when the borrower first begins to experience financial difficulty and continues until the actual loss becomes visible to us. We analyzed our recent data including early stage delinquency, the increase in charge-offs for the first quarter 2014, continued emergence of nonperforming loans and our assessment of the time from first delinquency to charge-off. As a result, we qualitatively determined that our estimate of the average loss emergence period has lengthened. This change resulted in a $36.9 million increase to the allowance for loan loss that reflects our updated estimate of probable losses inherent in the portfolio as of December 31, 2014.

In addition, during the first quarter 2014, certain loans in our interest-only residential first mortgage and HELOC loan portfolios began to reset. At the point of reset, the borrower’s monthly payment will increase upon inclusion of repayments of principal and may increase as a result of changes in interest rates. The payment reset increases could give rise to a "payment shock" i.e. a sudden and significant increase in the borrower’s monthly payment. For instance, as of November 30, 2014 we estimated an average payment shock for borrowers with resets in 2015 of approximately 101 percent (i.e. their total monthly payments increase by 101 percent). The extent of the payment shock may increase the likelihood that a borrower could default. Data we reviewed through December 31, 2014 indicated that interest-only loan modifications and defaults were greater than our previous estimates while in addition refinancing levels were below our previous estimates. These conditions resulted in a $59.2 million increase to the allowance for loan loss as of December 31, 2014.

Data we reviewed through December 31, 2014 indicated that actual modifications and defaults in the interest-only portfolio were greater than we had estimated at December 31, 2013. Additionally, these loans are refinancing at levels below those previously estimated. We believe that the combination of these two factors indicated an increase in future delinquencies and charge-offs; therefore, the allowance for loan losses was increased to $297.0 million at December 31, 2014 from $207.0 million at December 31, 2013. These amounts include approximately $111.5 million at December 31, 2014 and $52.3 million at December 31, 2013 related to certain interest-only loans included in our residential first mortgage and HELOC loan held-for-investment portfolios which increased due to both the estimates of the average loss emergence period and our qualitative assessment of the reset risk.

Net charge-offs for the year ended December 31, 2014 totaled $41.6 million, compared to $168.1 million for the year ended December 31, 2013. As a percentage of the average loans held-for-investment, net charge-offs for the year ended December 31, 2014 decreased to 1.07 percent from 4.00 percent for the year ended December 31, 2013. The decrease was primarily due to lower net credit losses on bulk sales, lower levels of nonperforming loans and lower loss severity due to continuing improvement in underlying collateral values.

2013 Compared to 2012

The provision for loan losses decreased $205.9 million for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The decrease was primarily due to the refinements to existing loss models adopted during the first quarter 2012. The decrease also reflects a release of reserves associated with the second and third quarter

2013 troubled debt restructure ("TDR") and nonperforming residential first mortgage loan sales, overall lower net charge-offs, and refinements to the estimates of the allowance for loan losses throughout 2013.

Net charge-offs for the year ended December 31, 2013 totaled $168.1 million, compared to $289.0 million for the year ended December 31, 2012. As a percentage of the average loans held-for-investment, net charge-offs for the year ended December 31, 2013 decreased to 4.00 percent from 4.43 percent for the year ended December 31, 2012. The decrease was primarily due the write down of specific valuation allowances as a result of the refinements to existing loss models adopted during the first quarter 2012 and overall lower net charge-offs due to improvement in credit quality.

See the section captioned "Allowance for Loan Losses" in this discussion for further analysis of the provision for loan losses.

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Noninterest Income

The following table sets forth the components of our noninterest income.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Loan fees and charges	$73,033	$103,501	$142,908
Deposit fees and charges	21,625	20,942	20,370
Net gain on loan sales	205,803	402,193	990,898
Loan administration income	24,304	6,035	(797)
Net return on mortgage servicing asset	24,082	90,609	88,485
Net gain on sale of assets	12,361	2,172	—
Net impairment losses	—	(8,789)	(2,192)
Representation and warranty provision	(10,011)	(36,116)	(256,289)
Other noninterest income	9,868	71,796	37,859
Total noninterest income	$361,065	$652,343	$1,021,242

2014 Compared to 2013

Total noninterest income decreased $291.3 million during the year ended December 31, 2014 from the year ended December 31, 2013. The decrease was primarily due to decreases in net gain on loan sales, net return on mortgage servicing asset, lower other noninterest income and loan fees and charges, partially offset by a decrease in representation and warranty provision.

Our Mortgage Originations and Community Banking segments both earn loan origination fees and collect other charges in connection with originating residential first mortgages, commercial loans and other consumer loans held-for-sale and held-for-investment. Total loan fees and charges decreased $30.5 million for the year ended December 31, 2014, compared to the year ended December 31, 2013, primarily due to a decrease in consumer loan originations to $24.7 billion, as compared to $37.5 billion during the year ended December 31, 2013. The decrease was slightly offset by a $10.0 million unanticipated benefit from a contract renegotiation during the year ended December 31, 2014.

Our Community Banking segment collects deposit fees and other charges such as fees for non-sufficient funds checks, cashier check fees, ATM fees, overdraft protection and other account fees for services we provide to our banking customers. Deposit fees and charges increased $0.7 million for the year ended December 31, 2014, compared to the year ended December 31, 2013, primarily due to an increase in deposit accounts. Our total number of customer checking accounts increased 2.7 percent from approximately 111,230 at December 31, 2013 to 114,286 as of December 31, 2014.

The increase of $18.3 million in loan administration income during the year ended December 31, 2014, as compared to the year ended December 31, 2013 was primarily due to the December 2013 sale of mortgage servicing rights. Subservicing fees, ancillary income and charges on our residential first mortgage servicing increased during the year ended December 31, 2014, compared to the year ended December 31, 2013, primarily due to the MSR sale in December 2013, which we simultaneously entered into an agreement to subservice the residential mortgage loans. The total unpaid principal balance of loans subserviced for others at December 31, 2014 was $46.7 billion, as compared to $40.4 billion at December 31, 2013.

Net gain on loan sales decreased $196.4 million for the year ended December 31, 2014, compared to the year ended December 31, 2013. Loan sales decreased to $24.4 billion during the year ended December 31, 2014, compared to

$39.1 billion sold in the year ended December 31, 2013. For the year ended December 31, 2014, the mortgage rate lock commitments decreased to $29.5 billion, compared to $39.3 billion in the year ended December 31, 2013. The decrease in gain on loan sales was primarily due to a lower volume of mortgage rate lock commitments and a lower gain on sale margin, reflecting a lower overall market. Changes in amounts related to loan commitments and forward sales commitments amounted to a loss of $12.2 million for the year ended December 31, 2014, compared to a loss of $42.0 million during the year ended December 31, 2013. The provision for representation and warranty reserve included in net gain on loan sales reflects our initial estimate of losses on probable mortgage repurchases arising from current loan sales and amounted to $6.9 million and $17.6 million for the years ended December 31, 2014 and 2013, respectively.

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Net return on mortgage servicing asset decreased $66.5 million for the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease was primarily due to a decline in the MSR asset as a result of MSR sales. During the year ended December 31, 2014, we sold mortgage servicing rights on a bulk basis associated with $20.1 billion of underlying mortgage loans and $223.1 million on a mortgage servicing released basis (i.e., sold together with the sale of underlying loans). During the year ended December 31, 2013, we sold mortgage servicing rights on a bulk basis associated with $74.9 billion of underlying mortgage loans (including the $40.7 billion sold) and $0.3 billion on a servicing released basis. Under Basel III, the amount MSRs includable in regulatory capital are subject to stricter limitations. We had $470.2 million of sales on a flow basis during the year ended December 31, 2014, compared to $1.8 billion during the year ended December 31, 2013. The total unpaid principal balance of loans serviced for others at December 31, 2014 was $25.4 billion, compared to $25.7 billion at December 31, 2013.

Our provision for representation and warranty reserve decreased $26.1 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to a change in our estimate of probable future losses related to loans sold in prior periods. The decrease from the year ended December 31, 2014, as compared to the year ended December 31, 2013 is primarily due to lower losses expected following our settlements with Fannie Mae and Freddie Mac along with our continued refinement of the representation and warranty reserve estimate while taking into consideration the recent revisions to the representation and warranty framework as published by the Federal Housing Finance Agency.

Other noninterest income decreased $61.9 million, compared to the same period in 2013. primarily due to a $21.1 million negative fair value adjustment on repurchased performing loans related to loans repurchased principally during periods prior to 2014 and income of $36.8 million related to the reconsolidation, at fair value, of the HELOC securitization trusts and elimination of contingent liabilities as a result of a legal settlement in the second quarter 2013.

2013 Compared to 2012

Total noninterest income decreased $368.9 million during the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to a decrease in net gain on loan sales and loan fees and charges, partially offset by a decrease in representation and warranty provision and an increase in other noninterest income.

Total loan fees and charges decreased $39.4 million for the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to a decrease in consumer loan originations to $37.5 billion, as compared to $53.6 billion during the year ended December 31, 2012.

Deposit fees and charges increased $0.6 million for the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to an increase in deposit accounts. Our total number of customer checking accounts increased 2.6 percent from approximately 108,436 at December 31, 2012 to 111,230 as of December 31, 2013.

Loan administration income increased $6.8 million for the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to a decline in activity due to a decrease in mortgage loan originations.

Net gain on loan sales decreased $588.7 million for the year ended December 31, 2013, compared to the year ended December 31, 2012. The decrease was primarily due to a lower volume of mortgage rate lock commitments and a lower gain on sale margin, reflecting lower base production margin, as well as higher hedging costs, loan level pricing adjustments and the impact from guarantee fee changes from the Agencies. Loan sales decreased to $39.1 billion in loans during the year ended December 31, 2013, compared to $53.1 billion sold in the year ended December 31, 2012. For the year ended December 31, 2013, the mortgage rate lock commitments decreased to $39.3 billion, compared to $66.7 billion in the year ended December 31, 2012. Changes in amounts related to loan commitments and forward sales commitments amounted to a loss of $42.0 million for the year ended December 31, 2013, as compared to a gain

of $44.2 million during the year ended December 31, 2012. The provision for representation and warranty reserve included in net gain on loan sales reflects our initial estimate of losses on probable mortgage repurchases arising from current loan sales and amounted to $17.6 million and $24.4 million for the years ended December 31, 2013 and 2012, respectively.

Net return on mortgage servicing asset increased $2.1 million during the year ended December 31, 2013, compared to the year ended December 31, 2012. During the year ended December 31, 2012, we sold mortgage servicing rights on a bulk basis associated with underlying mortgage loans totaling $17.4 billion and on a servicing released basis totaling $0.5 billion. We had $1.8 billion of sales on a flow basis during the year ended December 31, 2013 and no sales on a flow basis during the year ended December 31, 2012. The total unpaid principal balance of loans serviced for others at December 31, 2013 was $25.7

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billion, as compared to $76.8 billion at December 31, 2012, which decreased primarily due to the sale of the MSR portfolio completed in the fourth quarter 2013.

Our provision for representation and warranty reserve decreased $220.2 million for the year ended December 31, 2013, compared to the same period in 2012. The decrease was primarily due to a lower level of charge-offs and settlement agreements with Fannie Mae and Freddie Mac further explained below.

During the fourth quarter 2013, we entered into settlement agreements with both Fannie Mae and Freddie Mac to resolve substantially all of the repurchase requests and obligations associated with loans originated between January 1, 2000 and December 31, 2008. The settlement with Fannie Mae, reached on November 6, 2013, was for a total resolution amount of $121.5 million and, after paid claim credits and other adjustments, we paid $93.5 million. We settled with Freddie Mac on December 30, 2013 for a total resolution amount of $10.8 million and, after paid claim credits and other adjustments, we paid $8.9 million. As a result of these settlements, we released approximately $24.9 million of previously accrued reserves.

Other noninterest income increased $33.9 million during the year ended December 31, 2013, compared to the same period in 2012, primarily due to a fair value adjustment of $44.1 million related to the Financial Security Assurance Inc. ("Assured") settlement agreement, offset by a loss of $7.2 million related to the MBIA Insurance Corporation ("MBIA") settlement agreement.

The following table provides information on our net gain on loan sales reported in our consolidated financial statements and loans sold within the period.

	2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands)				
Net gain on loan sales	$45,342	$54,756	$52,175	$53,528	205,803
Mortgage rate lock commitments (gross)	6,039,871	8,187,881	7,713,074	7,604,879	29,545,705
Loans sold and securitized	4,474,287	6,029,817	7,072,398	6,830,552	24,407,054
Net margin on loan sales	1.01 %	0.91 %	0.74 %	0.78 %	0.84 %
Mortgage rate lock commitments (fallout adjusted) (1)	$4,853,637	$6,693,366	$6,304,425	$6,155,532	$24,006,960
Net margin on mortgage rate lock commitments (fallout adjusted) (1)	0.93 %	0.82 %	0.83 %	0.87 %	0.86 %

(1) Fallout adjusted refers to mortgage rate lock commitments which are adjusted by a percentage of mortgage loans in the pipeline that are not expected to close based on previous historical experience and the level of interest rates.

	2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands)				
Net gain on loan sales	$137,540	$144,791	$75,073	$44,790	$402,193
Mortgage rate lock commitments (gross)	12,142,000	12,353,000	8,340,000	6,481,782	39,316,782
Loans sold and securitized	12,822,879	11,123,821	8,344,737	6,783,212	39,074,649
Net margin on loan sales	1.07 %	1.30 %	0.90 %	0.66 %	1.03 %
	$9,848,417	$9,837,573	$6,605,432	$5,298,728	$31,590,150

Mortgage rate lock commitments (fallout adjusted) (1)					
Net margin on mortgage rate lock commitments (fallout adjusted) (1)	1.40 %	1.47 %	1.14 %	0.85 %	1.27 %

(1) Fallout adjusted refers to mortgage rate lock commitments which are adjusted by a percentage of mortgage loans in the pipeline that are not expected to close based on previous historical experience and the level of interest rates.

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	2012 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands)				
Net gain on loan sales	$204,853	$212,666	$334,426	$238,953	$990,898
Mortgage rate lock commitments (gross)	14,867,000	17,534,000	18,089,000	16,242,000	66,732,000
Loans sold and securitized	10,829,798	12,777,311	13,876,627	15,610,590	53,094,326
Net margin on loan sales	1.89 %	1.66 %	2.42 %	1.53 %	1.87 %
Mortgage rate lock commitments (fallout adjusted) (1)	$10,725,618	$13,346,568	$13,972,922	$12,587,980	$50,633,088
Net margin on mortgage rate lock commitments (fallout adjusted) (1)	1.91 %	1.59 %	2.39 %	1.90 %	1.96 %

(1) Fallout adjusted refers to mortgage rate lock commitments which are adjusted by a percentage of mortgage loans in the pipeline that are not expected to close based on previous historical experience and the level of interest rates.

Noninterest Expense

The following table sets forth the components of our noninterest expense.

	For the Years Ended December 31, 2014	2013	2012
	(Dollars in thousands)		
Compensation and benefits	$233,185	$279,268	$270,859
Commissions	35,480	54,407	75,345
Occupancy and equipment	80,386	80,042	73,674
Asset resolution	56,486	52,033	91,349
Federal insurance premiums	22,716	34,873	49,273
Loss on extinguishment of debt	—	177,556	15,246
Loan processing expense	36,996	52,223	56,070
Legal and professional expense	50,603	77,742	70,612
Other noninterest expense	63,394	109,971	287,267
Total noninterest expense	$579,246	$918,115	$989,695
Efficiency ratio (1)	95.4 %	109.4 %	75.1 %

(1) Total operating and administrative expenses divided by the sum of net interest income and noninterest income.

2014 Compared to 2013

Total noninterest expense decreased $338.9 million during the year ended December 31, 2014 from the year ended December 31, 2013. The decrease during the year ended December 31, 2014, was primarily due to decreases in compensation and benefits, legal and professional expenses, other noninterest expense and the absence of loss on extinguishment of debt.

The $46.1 million decrease in compensation and benefits expense for the year ended December 31, 2014, compared to the same period in 2013, is primarily attributable to a reduction in our headcount. Our full-time equivalent employees decreased overall by 514 from December 31, 2013 to a total of 2,739 full-time equivalent employees at December 31, 2014 primarily due to the organization restructuring in January 2014.

Commission expense decreased $18.9 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to a decrease in loan originations for the year ended December 31, 2014.

Asset resolution expenses increased $4.5 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to increases in expenses related to GNMA buybacks, expenses related to real estate owned and expenses related to commercial loans, offset by decreases in expenses related to repurchased loans and expenses related to loans serviced for others.

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Federal insurance premiums decreased $12.2 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to a decrease in our assessment base as well as a decrease in our assessment rate. The reduction in the assessment base was caused primarily by a decrease in average total assets from December 31, 2013 compared to December 31, 2014. The decrease in the assessment rate was due to the bank reporting assets of less than $10 billion for four consecutive quarters beginning December 31, 2013 and therefore, qualifying for small bank pricing.

Loss on extinguishment of debt decreased $177.9 million for the year ended December 31, 2014, compared to the same period in 2013, as no prepayments took place in 2014 compared to the prepayment of $2.9 billion of certain long-term Federal Home Loan Bank advances in 2013.

Loan processing expense decreased $15.2 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to a decrease of $12.7 billion in total loan originations.

Legal and professional expense decreased to $50.6 million during the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease was primarily due to lower consulting expenses and legal fees related to the significant reduction in ongoing legal matters.

Other noninterest expense decreased $46.6 million for the year ended December 31, 2014, compared to the same period in 2013. The decrease was primarily due to a change in the estimate of the fair value liability associated with the Department of Justice (“DOJ”) settlement arising principally from updating the related payment schedule within the settlement agreement. This decrease was partially offset by an increase of $27.5 million related to the CFPB settlement.

2013 Compared to 2012

Total noninterest expense decreased $71.6 million during the year ended December 31, 2013 from the year ended December 31, 2012, primarily due to a decrease in commissions, asset resolution, and other noninterest expense, partially offset by higher loss on extinguishment of debt.

The $8.4 million increase in compensation and benefits expense for the year ended December 31, 2013, compared to the year ended December 31, 2012 is primarily due to having a higher number of non-commissioned salaried employees during the first three quarters of the year ended December 31, 2013, compared to the same time period for the year ended December 31, 2012. The increase is partially offset by decreases in incentive pay related to underwriting, production and overtime compensation which resulted from a decline in mortgage activity and an overall reduction in headcount and contract employees at December 31, 2013. This is consistent with our ongoing efforts to optimize our cost structure and manage expenses in line with our current business model and operating requirements. Our full-time equivalent employees decreased overall by 409 from December 31, 2012 to a total of 3,253 at December 31, 2013.

Commission expense decreased $20.9 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to the decrease in residential first mortgage loan originations for the year ended December 31, 2013.

Asset resolution expense decreased $39.3 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to gains on the sale of real estate owned which resulted in an expense reduction of $25.9 million. There was also a $27.7 million reduction in expense on repurchased loans and a $15.7 million reduction in agency compensatory fees during the year ended December 31, 2013.

Federal insurance premiums decreased $14.4 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to a lower assessment rate. Our assessment rate reflected improvement in risk assessment values related to balance sheet liquidity and lower underperforming assets, and a decrease in our average total assets used in the calculation of our assessment base

Loss on extinguishment of debt increased $162.3 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to the prepayment of $2.9 billion of certain long-term Federal Home Loan Bank advances in 2013.

Loan processing expense decreased $3.8 million during the year ended December 31, 2013 as compared to the year ended December 31, 2012. This reflects decreases in residential first mortgage loan origination volume, contract underwriting

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expenses and costs related to the transfer of loans due to servicing sales, partially offset by an increase in contracted default servicing costs.

Legal and professional expense increased $7.1 million during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase was primarily due to consulting fees.

Other noninterest expense decreased $177.3 million for the year ended December 31, 2013, compared to the same period in 2012. The decrease was primarily due to $236.6 million lower legal settlement costs for pending and threatened litigation, related to the Assured and MBIA litigations, partially offset by a $73.0 million increase related to the fair value liability arising from the DOJ litigation. The increase in the fair value liability related to the DOJ litigation was triggered by various business and economic events, including the reversal of the valuation allowance on the DTA and other items affecting the timing of the expected cash flows. This resulted in a $64.5 million increase in the fair value liability associated with the DOJ settlement in the fourth quarter of 2013.

Benefit for Income Taxes

Our benefit for income taxes for the year ended December 31, 2014 was $34.0 million, compared to a benefit of $416.3 million in 2013 and a benefit of $15.6 million in 2012.

The Company’s effective tax rate for 2014 was a benefit of 32.9 percent. The difference between the effective tax rate and the statutory tax rate of 35 percent is primarily due to non-taxable income and expense items, primarily the exclusion of the non-deductible penalty paid to the CFPB and the non-taxable impact of changes related to our warrants. See Note 21 of the Notes to the Consolidated Financial Statements for additional details.

The Company’s effective tax rate for 2012 was a benefit of 29.7 percent. The difference between the effective tax rate and the statutory tax rate of 35 percent is primarily due to a change in our valuation allowance for net deferred tax assets and the tax benefit representing the recognition of the residual tax effect associated with previously unrealized losses on securities recorded in other comprehensive income (loss).

The table below provides the balance of our deferred tax asset valuation allowance and the associated activity.

	For the Years Ended December 31,		
	2014	2013	2012
Deferred tax asset valuation allowance	(Dollars in thousands)		
Balance, beginning of year	$24,864	$379,149	$418,393
Charged to costs and expenses - net operating losses and other temporary differences	8,196	(348,177)	(19,364)
Charged to other accounts - other comprehensive income tax benefit	—	(6,108)	(19,880)
Balance, end of year	$33,060	$24,864	$379,149

See Note 21 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

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Fourth Quarter Results

The following table sets forth selected quarterly data.

	Three Months Ended		
	December 31, 2014 (Unaudited)	September 30, 2014 (Unaudited)	December 31, 2013 (Unaudited)
	(Dollars in thousands)		
Net interest income	$61,302	$64,363	$41,203
Provision for loan losses	(4,986)	(8,097)	(14,112)
Net interest income after provision for loan losses	56,316	56,266	27,091
Noninterest income	98,441	85,188	113,146
Noninterest expense	(139,253)	(179,389)	(388,693)
Income (loss) before income taxes	15,504	(37,935)	(248,456)
(Provision) benefit for income taxes	(4,428)	10,303	410,362
Net income (loss)	11,076	(27,632)	161,906
Preferred stock dividend/accretion	—	—	(1,449)
Net income (loss) applicable to common stockholders	$11,076	$(27,632)	$160,457
Income (loss) per share			
Diluted	$0.07	$(0.61)	$2.77
Efficiency ratio	87.2%	120.0%	251.8%

Fourth Quarter 2014 compared to Third Quarter 2014

Our net income applicable to common stock for the three months ended December 31, 2014 was $11.1 million, or $0.07 per diluted share, as compared to a loss of $27.6 million, or $0.61 loss per share, for the three months ended September 30, 2014.

Net interest income decreased to $61.3 million for the three months ended December 31, 2014, as compared to $64.4 million during the three months ended September 30, 2014. The decrease in net interest income was attributable to lower interest income from the Company's Ginnie Mae early buy-outs, due to a reduction in the average interest rate earned in accordance with the terms of loans with government guarantees, as well as jumbo residential first mortgage loan sales.

Provision for loan losses totaled $5.0 million for the three months ended December 31, 2014, as compared to $8.1 million for the three months ended September 30, 2014. The decrease was primarily attributable to lower net charge-offs. Net charge offs for the three months ended December 31, 2014 were $9.0 million, or 0.91 percent of applicable loans, compared to $13.1 million, or 1.36 percent of applicable loans for the three months ended September 30, 2014. The fourth quarter 2014 amount included $3.0 million of net charge-offs associated with the sale of $24.0 million of lower performing loans during the quarter. The net charge-offs associated with these loan sales accounted for 31 basis points of the fourth quarter's net charge-off rate.

Fourth quarter 2014 noninterest income was $98.4 million, as compared to noninterest income of $85.2 million for the third quarter 2014. The third quarter of 2014 included a $10.4 million charge related to certain Federal Housing Administration indemnifications.

Fourth quarter 2014 net gain on loan sales increased to $53.5 million, as compared to $52.2 million for the third quarter 2014. The increase from the prior quarter reflects higher refinance volume driven by lower rates in October and early December, offsetting the seasonal decline in purchase origination volume. Fallout-adjusted locks were $6.2

billion for the fourth quarter 2014, as compared to $6.3 billion for the third quarter 2014. The net gain on loan sale margin increased to 0.87 percent for the fourth quarter 2014, as compared to 0.83 percent for the third quarter 2014. Representation and warranty provision improved to income of $6.1 million for the fourth quarter 2014, as compared to an expense of $12.5 million reported for the third quarter 2014. The change was primarily due to a $10.4 million charge in the prior quarter related to certain indemnifications made by the Company.

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Noninterest expense was $139.3 million for the three months ended December 31, 2014, as compared to $179.4 million during the three months ended September 30, 2014. The third quarter 2014 included a $37.5 million litigation settlement expense with the CFPB, as well as $1.1 million in related legal expenses.

Fourth Quarter 2014 compared to Fourth Quarter 2013

Our net income applicable to common stock for the three months ended December 31, 2014 was $11.1 million, or $0.07 per diluted share, as compared to income of $160.5 million, or $2.77 per diluted share, for the three months ended December 31, 2013. The decrease was primarily due to the reversal of the tax asset valuation allowance, partially offset by lower noninterest expense and higher net interest income.

Net interest income increased $20.1 million for the three months ended December 31, 2014, compared to the same period in 2013. The increase primarily reflects a $21.8 million decrease in the interest expense on Federal Home Loan Bank advances resulting from the prepayment of long-term advances in the fourth quarter of 2013.

The provision for loan losses decreased to $5.0 million for the three months ended December 31, 2014, as compared to $14.1 million for the three months ended December 31, 2013. The decrease was primarily attributable to lower net charge-offs.

Noninterest income decreased $14.7 million in the fourth quarter of 2014, compared to the same period in 2013. The decrease was primarily attributable to a $15.1 million decrease in the net return on the mortgage servicing asset (including off-balance sheet hedges of mortgage servicing rights) resulting from lower derivative gains, partially offset by lower net transaction costs on the sales of MSR assets. Our provision for representation and warranty decreased $9.3 million due to the benefit associated with the previously announced settlement agreements with Fannie Mae and Freddie Mac.

Noninterest expense decreased $249.4 million for the three months ended December 31, 2014, compared to the same period in 2013. The fourth quarter of 2013 reflected a loss on extinguishment of debt in the amount of $177.9 million resulting from the prepayment of $2.9 billion in long-term fixed-rate Federal Home Loan Bank advances. Other noninterest expense decreased by $63.2 million primarily due to a decrease in the fair value liability associated with the DOJ settlement. In addition, compensation and benefits decreased $10.6 million primarily due to a reduction in headcount. These decreases were partially offset by a $10.0 million increase in asset resolution expense resulting from higher loss rates on Federal Housing Administration ("FHA") loans.

Provision for income tax increased $414.8 million to $4.4 million for the three months ended December 31, 2014, compared to a benefit of $410.4 million during the three months ended December 31, 2013. The change was primarily attributable to the full reversal of the federal DTA valuation allowance and a partial reversal of the state DTA valuation allowance in the fourth quarter of 2013.

OPERATING SEGMENTS

Overview

For detail on each segment's objectives, strategies, and priorities, please read this section in conjunction with Item 1: Business section and in Note 25 of the Notes to Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein, and other sections for a full understanding of our consolidated financial performance.

The net income (loss) by operating segment is presented in the following table.

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Mortgage Originations	$106,263	$185,657	$426,936
Mortgage Servicing	(101,331)	(82,689)	85,052
Community Banking	(130,248)	(62,572)	(256,681)
Other	55,851	226,591	(186,931)
Total net income (loss)	$(69,465)	$266,987	$68,376

The selected average balances by operating segment are presented in the following table.

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Average loans held-for-sale			
Mortgage Originations	$1,471,257	$2,312,129	$3,075,284
Average loans repurchased with government guarantees			
Mortgage Servicing	$1,215,516	$1,476,801	$2,018,079
Average loans held-for-investment			
Community Banking	$4,121,036	$4,407,177	$6,511,455
Average total assets			
Mortgage Originations	$1,630,184	$2,442,375	$3,135,077
Mortgage Servicing	1,349,230	1,711,147	2,376,169
Community Banking	3,943,106	4,509,497	6,483,269
Other	2,963,867	3,891,897	2,732,255
Average interest-earning deposits			
Community Banking	$5,593,349	$6,168,679	$6,606,246

Mortgage Originations

Our Mortgage Originations segment originates, acquires and sells one-to-four family residential mortgage loans. We sell substantially all of the residential mortgage loans we produce into the secondary market on a whole loan basis or securitizing the loans into mortgage-backed securities with the Agencies. During 2014, we remained one of the country's leading mortgage loan originators. We utilize three production channels to originate or acquire mortgage loans: home lending (also referred to as "retail"), as well as brokers and correspondents (also collectively referred to as "wholesale"). Each production channel originates mortgage loan products which are underwritten to the same standards. We expect to continue to leverage technology to streamline the mortgage origination process, thereby bringing service and convenience to brokers and correspondents. Sales support offices are maintained to assist brokers and correspondents nationwide. We also continue to make available to our customers various web-based tools that facilitate the mortgage loan origination process through each of our production channels. Brokers and correspondents

are able to register and lock loans, check the status of inventory, deliver documents in electronic format, generate closing documents, and request funds through the Internet. Funding for our Mortgage Originations segment is provided primarily by deposits and borrowings obtained by our Community Banking segment.

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Home Lending. In a home lending transaction, loans are originated through a nationwide network of stand-alone home loan centers, as well as referrals from our Community Banking segment and the national direct to consumer call center. When loans are originated on a retail basis, most aspects of the lending process are completed internally, including the origination documentation (inclusive of customer disclosures) as well as the funding of the transactions. At December 31, 2014 we maintained 16 loan origination centers. At the same time, our centralized loan processing provides efficiencies and allows lending sales staff to focus on originations.

Broker. In a broker transaction, an unaffiliated bank or mortgage brokerage company completes several steps of the loan origination process including the loan paperwork, but the loans are underwritten on a loan-level basis to our underwriting standards and we supply the funding for the loan at closing (also known as "table funding") thereby becoming the lender of record. Currently, we have active broker relationships with approximately 600 banks, credit unions and mortgage brokerage companies located in all 50 states.

Correspondent. In a correspondent transaction, an unaffiliated bank or mortgage company completes the loan paperwork and also supplies the funding for the loan at closing. After the bank or mortgage company has funded the transaction, we purchase the loan at a market price. We perform a full review of each loan, whether purchased in bulk or not, purchasing only those that were originated in accordance with our underwriting guidelines. We have active correspondent relationships with approximately 750 companies, including banks, credit unions and mortgage companies located in all 50 states.

As of December 31, 2014, we ranked in the top ten mortgage lenders nationwide based on our residential first mortgage loan originations. The following tables disclose residential first mortgage loan originations by channel, type and mix for each respective period.

	2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands)				
Home Lending Centers	$226,007	$291,159	$349,244	$327,699	$1,194,109
Broker	1,091,068	1,267,403	1,497,548	1,483,493	5,339,512
Correspondent	3,545,588	4,384,181	5,333,469	4,787,706	18,050,944
Total	$4,862,663	$5,942,743	$7,180,261	$6,598,898	$24,584,565
Purchase originations	$2,796,654	$3,853,266	$4,460,628	3,543,232	$14,653,780
Refinance originations	2,066,009	2,089,477	2,719,633	3,055,666	9,930,785
Total	$4,862,663	$5,942,743	$7,180,261	$6,598,898	$24,584,565
Conventional	$2,950,876	$3,706,807	$4,392,367	$4,108,262	$15,158,312
Government	1,215,652	1,508,134	1,853,645	1,555,977	6,133,408
Jumbo	696,135	727,802	934,249	934,659	3,292,845
Total	$4,862,663	$5,942,743	$7,180,261	$6,598,898	$24,584,565

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	2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands)				
Home Lending Centers	$697,340	$575,016	$411,940	$296,123	$1,980,419
Broker	3,201,371	2,974,555	1,845,465	1,591,372	9,612,763
Correspondent	8,524,540	7,332,558	5,478,385	4,548,166	25,883,649
Total	$12,423,251	$10,882,129	$7,735,790	$6,435,661	$37,476,831
Purchase originations	$2,339,269	$3,146,501	$3,682,411	3,672,538	$12,840,719
Refinance originations	10,083,982	7,735,628	4,053,379	2,763,123	24,636,112
Total	$12,423,251	$10,882,129	$7,735,790	$6,435,661	$37,476,831
Conventional	$8,591,784	$7,681,337	$5,247,910	$4,130,976	$25,652,007
Government	2,799,000	2,535,378	1,930,538	1,560,059	8,824,975
Jumbo	1,032,467	665,414	557,342	744,626	2,999,849
Total	$12,423,251	$10,882,129	$7,735,790	$6,435,661	$37,476,831

	2012				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands)				
Home Lending Centers	$729,369	$751,075	$961,591	$998,804	$3,440,839
Broker	2,909,446	3,156,949	4,117,742	4,524,775	14,708,912
Correspondent	7,530,594	8,638,977	9,434,287	9,833,218	35,437,076
Total	$11,169,409	$12,547,001	$14,513,620	$15,356,797	$53,586,827
Purchase originations	$2,188,508	$3,324,501	$3,267,788	2,915,724	$11,696,521
Refinance originations	8,980,901	9,222,500	11,245,832	12,441,073	41,890,306
Total	$11,169,409	$12,547,001	$14,513,620	$15,356,797	$53,586,827
Conventional	$7,859,960	$8,762,268	$10,020,863	$10,427,131	$37,070,222
Government	2,611,691	3,085,247	3,178,563	3,363,134	12,238,635
Jumbo	697,758	699,486	1,314,194	1,566,532	4,277,970
Total	$11,169,409	$12,547,001	$14,513,620	$15,356,797	$53,586,827

The following table sets forth the net income of the Mortgage Originations segment.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net interest income	$58,180	$75,774	$99,850
Net loan fees and charges	51,763	85,156	120,181
Net gain on loan sales	208,975	419,342	1,014,586
Other noninterest income	(4,491)	9,043	4,277
Compensation and benefits	(71,983)	(90,825)	(84,995)
Commissions	(35,601)	(53,369)	(74,759)
Loan processing expense	(15,452)	(30,751)	(39,734)
Other noninterest expense	(85,128)	(228,713)	(612,470)
Net income	$106,263	$185,657	$426,936

Average balances			
Total loans held-for-sale	$1,471,257	$2,312,129	$3,075,284
Total assets	1,630,184	2,442,375	3,135,077

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2014 compared to 2013

The Mortgage Originations segment net income decreased $79.4 million during the year ended December 31, 2014, compared to the same period in 2013, primarily due to a decrease in net gain on loan sales, partially offset by a decrease in noninterest expense. Net loan fees and charges decreased $33.4 million, primarily due to a decrease in residential mortgage loan originations. The decrease in net gain on loan sales during the year ended December 31, 2014, as compared to the year ended December 31, 2013 was primarily due to lower residential mortgage rate lock commitments and a lower gain on sale margin.

Compensation and benefits decreased to $72.0 million for the year ended December 31, 2014, as compared to $90.8 million for the year ended December 31, 2013, primarily due to the completion of previously announced staff reductions and decreases in employee benefit and incentive compensation costs. During the year ended December 31, 2014, as compared to the year ended December 31, 2013, the decreases in commissions and loan processing expense were primarily due to lower residential first mortgage originations. During the year ended December 31, 2014, other noninterest expense decreased to $85.1 million, as compared to $228.7 million for the year ended December 31, 2013, primarily due to reduced corporate overhead and direct operating allocations.

2013 compared to 2012

The Mortgage Originations segment net income decreased $241.3 million during the year ended December 31, 2013, compared to the year ended December 31, 2012. This decrease was primarily due to a decrease in net gain on loan sales, partially offset by a decrease in noninterest expense during the year ended December 31, 2013, compared to the year ended December 31, 2012. Net loan fees and charges decreased to $85.2 million for the year ended December 31, 2013, as compared to $120.2 million for the year ended December 31, 2012, primarily due to a decrease in residential mortgage loan originations. The decrease in net gain on loan sales during the year ended December 31, 2013, as compared to the year ended December 31, 2012 was primarily due to lower residential mortgage rate lock commitments and a lower gain on sale margin.

Compensation and benefits increased to $90.8 million for the year ended December 31, 2013, as compared to $85.0 million for the year ended December 31, 2012, primarily due to an expansion of the Home Lending production channel in 2013. During the year ended December 31, 2013, as compared to the year ended December 31, 2012, the decreases in commissions and loan processing expense were primarily due to lower residential first mortgage originations. During the year ended December 31, 2013, other noninterest expense decreased to $228.7 million, as compared to $612.5 million for the year ended December 31, 2012, primarily due to reduced corporate overhead and direct operating allocations.

Mortgage Servicing

The Mortgage Servicing segment services and subservices mortgage loans on a fee basis for others. Also, the Mortgage Servicing segment services residential mortgages held-for-investment by the Community Banking segment and mortgage servicing rights held by the Other segment. Funding for our Mortgage Servicing segment is provided primarily by deposits and borrowings obtained by our Community Banking segment.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net interest income	$20,873	$38,031	$47,440
Loan administration	39,946	48,111	18,068
Representation and warranty provision	551	(36,116)	(256,289)
Other noninterest income	17,788	(3,984)	188,164

Compensation and benefits	(13,675)	(31,454)	(31,841)
Asset resolution	(52,789)	(61,374)	(86,761)
Loan processing expense	(16,870)	(16,769)	(13,033)
Other noninterest expense	(97,155)	(19,134)	219,304
Net income	$(101,331)	$(82,689)	$85,052
Average balances			
Total loans repurchased with government guarantees	$1,215,516	$1,476,801	$2,018,079
Total assets	1,349,230	1,711,147	2,376,169

2014 compared to 2013

The Mortgage Servicing segment reported a net loss of $101.3 million for the year ended December 31, 2014, compared to a net loss of $82.7 million for the year ended December 31, 2013, primarily due to an increase in other noninterest expense, partially offset by decreases in representation and warrant reserve, asset resolution expense and compensation and benefits expense and an increase in other noninterest income. The decrease in the representation and warranty reserve for the year ended December 31, 2014, as compared to the year ended December 31, 2013, was primarily due to the settlement agreements with Fannie Mae and Freddie Mac in the quarter ending December 31, 2013. Other noninterest income increased to $17.8 million for the year ended December 31, 2014, as compared to a loss of $4.0 million for the year ended December 31, 2013, primarily due to an unanticipated benefit in tax service fees from a contract renegotiation during the third quarter 2014, offset by a decrease in other loan fees due to subservice agreements and a loss on the sale of repurchased loans during the year ended December 31, 2013.

Noninterest expense increased for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to an increase in other noninterest expense, partially offset by a decrease in compensation and benefits and asset resolution. During the year ended December 31, 2014, other noninterest expense increased to $97.2 million, as compared to $19.1 million for the year ended December 31, 2013, primarily due to an increase in net corporate overhead allocations following the settlement agreement with the CFPB, including legal fees and penalties, during the third quarter 2014. Compensation and benefits decreased to $13.7 million for the year ended December 31, 2014, as compared to $31.5 million for the year ended December 31, 2013, primarily due to staff reductions. Asset resolution expense decreased to $52.8 million for the year ended December 31, 2014, as compared to $61.4 million for the year ended December 31, 2013, as a result of a reduction in legacy foreclosure expense and expenses related to repurchased loans.

2013 compared to 2012

The Mortgage Servicing segment reported a net loss of $82.7 million for the year ended December 31, 2013, compared to net income of $85.1 million for the year ended December 31, 2012, primarily due to a decrease in other noninterest income and an increase in other noninterest expense, partially offset by an increase in loan administration income and a decrease in representation and warrant reserve and asset resolution expense. Loan administration income increased to $48.1 million for the year ended December 31, 2013 as compared to $18.1 million for the year ended December 31, 2012, due to a change in transfer pricing methodology to loans held-for-investment by the Community Banking segment and mortgage servicing rights held by the other segment. The decrease in the representation and warranty reserve for the year ended December 31, 2013, as compared to the year ended December 31, 2012, was primarily due to lower loss rates following the settlement agreements with Fannie Mae and Freddie Mac. Other noninterest income decreased to a loss of $4.0 million for the year ended December 31, 2013, as compared to income of $188.2 million for the year ended December 31, 2012, primarily due to a redistribution of MSR asset income as part of the previously announced company reorganization.

Noninterest expense increased for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to an increase in other noninterest expense, partially offset by a decrease in asset resolution expense. Asset resolution expense decreased to $61.4 million for the year ended December 31, 2013, as compared to $86.8 million for the year ended December 31, 2012, as a result of decreases in debenture interest expense on government insured loans and agency fee accruals. During the year ended December 31, 2013, other noninterest expense increased to $19.1 million, as compared to income of $219.3 million for the year ended December 31, 2012. The increase is a result of a net benefit received from the allocation of representation and warrants expenses to the Mortgage Origination segment throughout 2012.

The Mortgage Servicing segment primarily services mortgage loans for others. Servicing of residential mortgage loans for third parties generates fee income and represents a significant business activity. At December 31, 2014 and December 31, 2013, we serviced portfolios of mortgage loans of $25.4 billion and $25.7 billion, respectively. We had a total average balance of serviced mortgage loans of $26.7 billion for the year ended December 31, 2014 and $69.9 billion for the year ended December 31, 2013, which generated servicing fee revenue of $11.4 million and $37.0 million, respectively.

The Mortgage Servicing segment also began subservicing mortgage loans for others in the fourth quarter 2013. Subservicing residential mortgage loans for third parties generates fee income. At December 31, 2014 and December 31, 2013, we subserviced portfolios of mortgage loans of $46.7 billion and $40.4 billion, respectively. We had a total average balance of subserviced mortgage loans of $43.4 billion, which generated gross servicing fee revenue of $19.9 million, during the year ended December 31, 2014.

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The following table presents the unpaid principal balance (net of write downs) of residential loans serviced and the number of accounts associated with those loans.

	December 31, 2014		December 31, 2013	
	Amount	Number of accounts	Amount	Number of accounts
Residential loan servicing				
Serviced for Flagstar (1)	$4,521,125	26,268	$4,375,009	28,069
Serviced for others	25,426,768	117,881	25,743,396	131,413
Subserviced for others (2)	46,723,713	238,498	40,431,867	198,256
Total residential loans serviced	$76,671,606	382,647	$70,550,272	357,738

(1) Includes loans held-for-investment (residential first mortgage, second mortgage and HELOC), loans held-for-sale (residential first mortgage), loans repurchased with government guarantees and repossessed assets.

(2) Does not include temporary short-term subservicing performed as a result of sales of servicing-released mortgage servicing rights. Includes repossessed assets.

Over the past three years, we sold MSRs related to $112.4 billion of loans serviced for others on a bulk basis, including $20.1 billion during the year ended December 31, 2014. We incurred $2.0 million of transaction costs on the sale of our MSRs during the year ended December 31, 2014, which is included in net return on mortgage servicing asset on the Consolidated Statements of Operations.

Set forth below is a table describing the characteristics of the mortgage loans serviced for others at December 31, 2014, by year of origination.

Year of Origination	2010 and Prior	2011	2012	2013	2014	Total / Weighted Average
	(Dollars in thousands)					
Unpaid principal balance (1)	$1,515,507	$159,371	$1,332,481	$3,128,773	$19,290,636	$25,426,768
Average unpaid principal balance per loan	$161	$137	$195	$221	$224	$216
Weighted average service fee (basis points)	28.0	27.0	29.0	26.0	27.0	27.0
Weighted average coupon	4.73 %	4.59 %	3.49 %	4.33 %	4.17 %	4.19 %
Weighted average original maturity (months)	357	323	344	326	335	336
Weighted average age (months)	73	42	28	14	6	12
Average current FICO score (2)	705	729	735	746	729	730
Average original LTV ratio	80.3 %	76.2 %	86.8 %	76.0 %	80.9 %	80.6 %
Housing Price Index LTV, as recalculated (3)	71.3 %	60.1 %	71.0 %	68.3 %	78.4 %	76.3 %

Loan count	9,442	1,166	6,835	14,169	86,278	117,890

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

(2) Average note rate reflects the rate that is currently in effect. As these loans adjust on a monthly basis, the average note rate could increase, but would not decrease, as in the current market, the floor rate on virtually all of the loans is in effect.

(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2014.

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Set forth below is a table of the past due trends in mortgage loans serviced for others at December 31, 2014, by year of origination.

Year of Origination	2010 and Prior	2011	2012	2013	2014	Total
	(Dollars in thousands)					
30-59 days past due	$72,535	$5,590	$13,712	$9,641	$79,821	$181,299
60-89 days past due	32,578	2,223	4,710	1,247	13,880	54,638
90 days or greater past due	167,991	5,651	3,735	5,859	7,918	191,154
Total past due	273,104	13,464	22,157	16,747	101,619	427,091
Current	1,242,403	145,907	1,310,325	3,112,026	19,189,016	24,999,677
Unpaid principal balance (1)	$1,515,507	$159,371	$1,332,482	$3,128,773	$19,290,635	$25,426,768

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

Set forth below is a table describing the characteristics of the residential mortgage loans subserviced for others at December 31, 2014, by year of origination.

Year of Origination	2010 and Prior	2011	2012	2013	2014	Total / Weighted Average
	(Dollars in thousands)					
Unpaid principal balance (1)	$7,773,686	$5,109,332	$19,759,465	$12,484,686	$1,596,544	$46,723,713
Average unpaid principal balance per loan	$134	$176	$220	$223	$280	$196
Weighted average service fee (basis points)	36.0	27.0	28.0	27.0	25.0	29.0
Weighted average coupon	5.16 %	4.19 %	3.61 %	3.62 %	4.40 %	3.96 %
Weighted average original maturity (months)	346	318	327	328	360	330
Weighted average age (months)	67	40	29	20	7	33
Average current FICO score (2)	692	751	755	751	756	744
Average original LTV ratio	88.8 %	72.6 %	73.5 %	75.0 %	73.0 %	76.3 %
Housing Price Index LTV, as recalculated (3)	78.3 %	55.8 %	57.6 %	63.5 %	70.0 %	62.9 %
Loan count	58,044	29,078	89,803	55,864	5,709	238,498

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

(2) Average note rate reflects the rate that is currently in effect. As these loans adjust on a monthly basis, the average note rate could increase, but would not decrease, as in the current market, the floor rate on virtually all of the loans is in effect.

(3)

The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2014.

Set forth below is a table of the past due trends in residential mortgage loans subserviced for others at December 31, 2014, by year of origination.

Year of Origination	2010 and Prior	2011	2012	2013	2014	Total
	(Dollars in thousands)					
30-59 days past due	$400,134	$51,059	$103,184	$48,996	$2,042	$605,415
60-89 days past due	219,878	23,604	35,661	15,150	—	294,293
90 days or greater past due	378,050	40,581	67,895	28,270	—	514,796
Total past due	998,062	115,244	206,740	92,416	2,042	1,414,504
Current	6,775,623	4,994,089	19,552,725	12,392,270	1,594,502	45,309,209
Unpaid principal balance (1)	$7,773,685	$5,109,333	$19,759,465	$12,484,686	$1,596,544	$46,723,713

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

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Community Banking

Our Community Banking segment consists primarily of four groups: Branch Banking, Commercial and Business Banking, Warehouse Lending and held-for-investment loan portfolio. The groups within the Community Banking segment originate consumer loans, commercial loans and warehouse loans; accept consumer, business and governmental deposits; and offer liquidity management products, capital markets services and other services. The liquidity management products include customized treasury management solutions and international wire services. Capital market services that allow for risk mitigation are offered through interest rate swap products. At December 31, 2014, Branch Banking included 107 banking centers located throughout Michigan. During year ended December 31, 2014, we relocated one and closed five banking centers to better align the branch structure with the Company's focus on key market areas and to improve banking center efficiencies. Commercial and Business Banking includes relationship and portfolio managers throughout Michigan's major markets. Warehouse Lending offers lines of credit to other mortgage lenders nationally, allowing those lenders to fund the closing of residential first mortgage loans.

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net interest income	$149,586	$159,859	$208,209
Provision for loan losses	(131,553)	(70,142)	(276,047)
Deposit fees and charges	21,613	20,942	20,379
Other noninterest income	(2,699)	6,912	5,635
Compensation and benefits	(56,842)	(64,751)	(68,923)
Federal insurance premiums	(15,071)	(21,064)	(30,329)
Other noninterest expense	(95,282)	(94,328)	(115,605)
Net (loss) income	$(130,248)	$(62,572)	$(256,681)
Average balances			
Total loans held-for-investment	$4,121,036	$4,407,177	$6,511,455
Total assets	3,943,106	4,509,497	6,483,269
Total interest-bearing deposits	5,593,349	6,168,679	6,606,246

2014 compared to 2013

During the year ended December 31, 2014, the Community Banking segment reported an increase in net loss, as compared to the year ended December 31, 2013. The increase in net loss during the year ended December 31, 2014, as compared to the year ended December 31, 2013, was primarily due to an increase in provision for loan losses and decreases in net interest income and noninterest income.

Net interest income decreased to $149.6 million during the year ended December 31, 2014, as compared to $159.9 million during the year ended December 31, 2013, as a result of lower average residential first mortgage held-for-sale loans and lower average warehouse and residential first mortgage held-for-investment loans.

The provision for loan losses increased to $131.6 million during the year ended December 31, 2014, as compared to $70.1 million during the year ended December 31, 2013, primarily driven by two changes in estimates: the change in estimate of the loss emergence period and the risk associated with payment resets relating to the interest-only loans.

Noninterest income decreased during the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to the first quarter 2014 adjustment to the originally recorded fair value of performing repurchased loans. Total noninterest expenses increased for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to decreases in compensation and benefits and federal deposit insurance premiums, partially offset by an increase in asset resolution expenses.

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2013 compared to 2012

During the year ended December 31, 2013, the Community Banking segment reported a decrease in net loss as compared to the year ended December 31, 2012 primarily due to a decrease in provision for loan losses and a decrease in noninterest expense, partially offset by a decrease in net interest income.

Net interest income decreased to $159.9 million during the year ended December 31, 2013, as compared to $208.2 million during the year ended December 31, 2012, as a result of lower average commercial, warehouse and residential first mortgage held-for-investment loans due to a decrease in loan originations and the sale of commercial loans during the year ended December 31, 2013.

The provision for loan losses decreased to $70.1 million during the year ended December 31, 2013, as compared to $276.0 million during the year ended December 31, 2012, primarily due to continued run-off of the loan portfolio, risk model enhancements and the release of loan loss reserves resulting from the sale of TDR and nonperforming loans.

Noninterest income increased during the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to lower internal loan servicing charges. Total noninterest expenses decreased for the year ended December 31, 2013, as compared to the year ended December 31, 2012 due to decreases in compensation and benefits, federal deposit insurance premiums and asset resolution expenses.

Loans held-for-investment

Residential first mortgage loans. At December 31, 2014, most of our held-for-investment residential first mortgage loans had been originated in 2008 or prior years with underwriting criteria that varied by product and with the standards in place at the time of origination. Loans originated after 2008 are loans that generally satisfy specific criteria for sale into securitization pools insured by the Agencies or were repurchased from the Agencies subsequent to such sales.

At December 31, 2014, the largest geographic concentrations of our residential first mortgage loans in our held-for investment portfolio were in California, Florida and Michigan, which represented 53.9 percent of such loans outstanding.

The following table identifies our held-for-investment mortgages by major category, at December 31, 2014 and December 31, 2013.

	Unpaid Principal Balance (1)	Average Note Rate	Average Original FICO Score	Average Current FICO Score (2)	Weighted Average Maturity	Average Original LTV Ratio	Housing Price Index LTV, as recalculated (3)
December 31, 2014	(Dollars in thousands)						
Residential first mortgage loans							
Amortizing	$1,540,298	3.79 %	714	715	292	75.7 %	70.6 %
Interest only	627,982	3.63 %	727	738	263	74.0 %	80.1 %
Option ARMs	32,417	2.86 %	719	717	282	69.6 %	87.5 %
Subprime (4)	2,018	8.42 %	625	685	268	74.8 %	85.2 %
Total residential first mortgage loans	$2,202,715	3.73 %	718	721	283	75.2 %	73.6 %
December 31, 2013							
Residential first mortgage loans							
Amortizing	$1,392,778	4.03 %	707	695	302	75.3 %	78.9 %
Interest only	1,051,157	3.76 %	724	733	264	74.6 %	83.7 %
Option ARMs	37,159	2.94 %	717	708	297	69.2 %	92.0 %
Subprime (4)	3,230	8.16 %	628	643	282	70.2 %	92.0 %
Total residential first mortgage loans	$2,484,324	3.90 %	714	711	286	74.9 %	81.2 %

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

(2) Current FICO scores obtained at various times during the year ended December 31, 2014.

(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2014.

(4) Subprime loans are defined in accordance with the FDIC's assessment regulations definitions for subprime loans, which includes loans with FICO scores below 620 or similar characteristics.

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The following table identifies our held-for-investment mortgages by major category, at December 31, 2014.

December 31, 2014	Unpaid Principal Balance (1)	Average Note Rate		Average Original FICO Score	Average Current FICO Score (2)	Weighted Average Maturity	Average Original LTV Ratio		Housing Price Index LTV, as recalculated (3)	
	(Dollars in thousands)									
Residential first mortgage loans										
Amortizing										
3/1 ARM	$122,947	3.19	%	688	709	238	79.2	%	66.4	%
5/1 ARM	571,820	3.33	%	721	736	259	74.5	%	65.5	%
7/1 ARM	165,631	3.56	%	758	774	345	70.7	%	65.8	%
Other ARM	45,138	3.09	%	679	700	234	83.2	%	65.0	%
Fixed mortgage loans (4)	634,762	4.44	%	703	683	322	77.1	%	77.8	%
Total amortizing	1,540,298	3.79	%	714	715	292	75.7	%	70.6	%
Interest only										
3/1 ARM	89,116	3.26	%	727	727	249	74.3	%	78.3	%
5/1 ARM	366,580	3.13	%	723	739	259	75.0	%	82.0	%
7/1 ARM	30,155	2.74	%	731	736	268	74.5	%	86.2	%
Other ARM	50,232	3.13	%	751	765	307	65.1	%	60.4	%
Other interest only	91,899	6.52	%	729	730	270	73.7	%	84.4	%
Total interest only	627,982	3.63	%	727	738	263	74.0	%	80.1	%
Option ARMs	32,417	2.86	%	719	717	282	69.6	%	87.5	%
Subprime (5)										
3/1 ARM	47	10.30	%	685	683	250	95.0	%	62.0	%
Other ARM	71	9.75	%	572	658	258	90.0	%	76.6	%
Other subprime	1,900	8.32	%	625	686	269	73.7	%	86.0	%
Total subprime	$2,018	8.42	%	625	685	268	74.8	%	85.2	%
Total residential first mortgage loans	$2,202,715	3.73	%	718	721	283	75.2	%	73.6	%
Second mortgage loans (6) (7)	$149,779	6.88	%	728	728	115	20.6	%	19.0	%
HELOC loans (6) (7)	$255,663	5.39	%	731	731	78	26.0	%	24.3	%

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

(2) Current FICO scores obtained at various times during the year ended December 31, 2014.

(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2014.

(4) Includes substantially fixed rate mortgage loans.

(5) Subprime loans are defined in accordance with the FDIC's assessment regulations definitions for subprime loans, which includes loans with FICO scores below 620 or similar characteristics.

(6) Reflects lower LTV only as to second liens because information regarding the first liens is not available.

(7) Includes $53.1 million and $131.6 million of second mortgage and HELOC loans, respectively, that are accounted for under the fair value option at December 31, 2014. The combined LTV information is not available for these loans.

Adjustable-rate mortgage loans. Adjustable rate mortgage ("ARM") loans held-for-investment were originated using Fannie Mae and Freddie Mac guidelines as a base framework, and the debt-to-income ratio guidelines and documentation typically followed the Automated Underwriting System guidelines. Our underwriting guidelines were

designed with the intent to minimize layered risk. The maximum ratios allowable for purposes of both the LTV ratio and the combined loan-to-value ("CLTV") ratio, which includes second mortgages on the same collateral, was 100 percent, but subordinate (or second mortgage) financing was not allowed over a 90 percent LTV ratio. At a 100 percent LTV ratio with private mortgage insurance, the minimum acceptable FICO score, or the "floor," was 700, and at lower LTV ratio levels, the FICO floor was 620.

Option ARMs. We previously offered option ARMs, which are adjustable rate mortgage loans that permit a borrower to select one of three monthly payment options when the loan is first originated: (i) a principal and interest payment that would fully repay the loan over its stated term, (ii) an interest-only payment that would require the borrower to pay only the interest

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due each month but would have a period (usually 10 years) after which the entire amount of the loan would need to be repaid or refinanced, and (iii) a minimum payment amount selected by the borrower and which might include principal and some interest, with the unpaid interest added to the balance of the loan (i.e., a process known as "negative amortization").

Set forth below are the accumulated amounts of interest income arising from the net negative amortization portion of loans during the years ended December 31.

	Unpaid Principal Balance of Loans in Negative Amortization At Year-End (1)	Amount of Net Negative Amortization Accumulated as Interest Income During Period
	(Dollars in thousands)	
2014	$18,934	$2,063
2013	$23,254	$2,368
2012	$37,747	$3,513

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

Set forth below are the frequencies at which the interest rate on ARM loans outstanding at December 31, 2014, will reset.

Reset frequency	# of Loans	Balance	% of the Total	
	(Dollars in thousands)			
Monthly	90	$16,860	1.1	%
Semi-annually	2,719	826,242	56.0	%
Annually	2,295	314,251	21.3	%
No reset — nonperforming loans	1,235	316,801	21.5	%
Total	6,339	$1,474,154	100.0	%

Set forth below as of December 31, 2014, are the amounts of the ARM loans in our held-for-investment loan portfolio with interest rate reset dates in the periods noted. As indicated in the above table, loans may reset more than once over a three-year period and nonperforming loans do not reset while in the nonperforming status. Accordingly, the table below may include the same loans in more than one period.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(Dollars in thousands)			
2015	$463,454	$484,432	$519,162	$477,114
2016	512,441	492,977	524,791	484,231
2017	515,570	497,775	526,579	487,034
Later years (1)	596,269	566,010	641,559	584,963

(1) Later years reflect one reset period per loan.

Interest-only mortgages. We offer, on a limited basis, adjustable-rate, fixed term loans with 10-year, interest-only options. These loans were originated using Fannie Mae and Freddie Mac guidelines as a base framework. We generally applied the debt-to-income ratio guidelines and documentation using the automated underwriting Approve/Reject response requirements of Fannie Mae and Freddie Mac. During 2013, we began originating interest-only home equity line of credit loans that were secured by first lien mortgages. These loans have a 10-year interest-only draw period followed by a 20-year fixed fully amortizing period. Once these loans reach the 20-year fixed fully amortizing period these loans are classified as amortizing loans for this disclosure.

Explanation of Responses:

Set forth below is a table describing the characteristics of the interest-only mortgage loans at the dates indicated in our held-for-investment mortgage portfolio at December 31, 2014, by year of origination.

Year of Origination	2004 and Prior		2005		2006		2007		Post 2008		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$28,843		$304,974		$57,610		$204,954		$31,601		$627,982	
Average note rate	3.37	%	3.32	%	3.38	%	4.25	%	3.27	%	3.63	%
Average original FICO score	716		728		724		724		763		727	
Average current FICO score (2)	694		743		729		734		767		738	
Average original LTV ratio	75.3	%	75.0	%	74.0	%	74.6	%	59.0	%	74.0	%
Housing Price Index LTV, as recalculated (3)	72.2	%	79.5	%	84.3	%	85.9	%	47.2	%	80.1	%
Underwritten with low or stated income documentation	25.0	%	31.0	%	47.0	%	52.0	%	1.0	%	37.0	%

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.
(2) Current FICO scores obtained at various times during the year ended December 31, 2014.
(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2014.

Set forth below is a table describing the amortization date and payment shock of current interest-only mortgage loans at the dates indicated in our held-for-investment mortgage portfolio at December 31, 2014.

	2015		2016		2017		2018		Thereafter		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$313,242		$55,307		$221,210		$9,574		$28,649		$627,982	
Weighted average rate	3.34	%	3.31	%	4.07	%	4.54	%	3.09	%	3.45	%
Average original monthly payment per loan (dollars)	$1,399		$1,562		$2,760		$2,323		$293		$1,458	
Average current monthly payment per loan (dollars)	$776		$798		$1,726		$1,538		$145		$844	
Average amortizing payment per loan (dollars)	$1,593		$1,610		$3,038		$2,191		$344		$1,623	
Loan count	1,132		198		448		25		472		2,275	
Payment shock (dollars) (2)	$818		$811		$1,313		$653		$198		$779	
Payment shock (percent)	105.0	%	102.0	%	76.0	%	42.0	%	137.0	%	92.0	%

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.
(2) Represents difference between current payment and new payment.

Second mortgage loans. The majority of second mortgages we originated were closed in conjunction with the closing of the residential first mortgages originated by us. We generally required the same levels of documentation and ratios as with our residential first mortgages. For second mortgages closed in conjunction with a residential first mortgage loan that was not being originated by us, our allowable debt-to-income ratios for approval of the second mortgages were capped at 40 percent to 45 percent. In the case of a loan closing in which full documentation was required and the loan was being used to acquire the borrower's primary residence, we allowed a CLTV ratio of up to 100 percent; for similar loans that also contained higher risk elements, we limited the maximum CLTV to 90 percent. FICO floors ranged from 620 to 720, and fixed and adjustable rate loans were available with terms ranging from five to 20 years.

Home Equity Line of Credit loans. HELOC loan originations were re-launched in June 2011 as a banking center originated portfolio product. Current HELOC guidelines and pricing parameters have been established to attract high credit quality loans with long term profitability. The minimum FICO is 680, maximum CLTV is 80 percent, and the maximum debt-to-income ratio is 45 percent. In relation to HELOC loans originated in 2009 and prior years, the majority were closed in conjunction with the closing of related first mortgage loans originations. Documentation requirements for HELOC applications were generally the same as those required of borrowers for the first mortgage loans originated by us, and debt-to-income ratios were capped at 50 percent. For HELOCs closed in conjunction with the closing of a first mortgage loan that was not being

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originated by us, our debt-to-income ratio requirements were capped at 40 percent to 45 percent and the LTV was capped at 80 percent. The qualifying payment varied over time and included terms such as either 0.75 percent of the line amount or the interest only payment due on the full line based on the current rate plus 0.5 percent. HELOCs were available in conjunction with primary residence transactions that required full documentation, and the borrower was allowed a CLTV ratio of up to 100 percent. For similar loans that also contained higher risk elements, we limited the maximum CLTV to 90 percent. FICO floors ranged from 620 to 720. The HELOC terms called for monthly interest only payments with a balloon principal payment due at the end of 10 years. At times, initial teaser rates were offered for the first three months.

Commercial loans held-for-investment. Our Commercial and Business Banking group includes relationship and portfolio managers throughout Michigan's major markets. Our commercial loans held-for-investment totaled $1.8 billion at December 31, 2014 and $1.0 billion at December 31, 2013, and consists of four loan types: commercial real estate, commercial and industrial, commercial lease financing and warehouse loans, each of which is discussed in more detail below. During the year ended December 31, 2014, we originated $397.8 million in commercial loans, compared to $239.5 million during the year ended December 31, 2013. The following table identifies the commercial loan held-for-investment portfolio by loan type and selected criteria.

Commercial Loans Held-for-Investment

December 31, 2014	Balance	Average Note Rate	Loan on Nonaccrual Status
	(Dollars in thousands)		
Commercial real estate loans:			
Fixed rate	$80,999	5.1%	$—
Adjustable rate	541,519	2.9%	—
Total commercial real estate loans	622,518		$—
Net deferred fees and other	(2,505)		
Total commercial real estate loans	$620,013		
Commercial and industrial loans:			
Fixed rate	$17,702	4.2%	$—
Adjustable rate	408,407	3.4%	—
Total commercial and industrial loans	426,109		$—
Net deferred fees and other	(6,609)		
Total commercial and industrial loans	$419,500		
Commercial lease financing loans:			
Fixed rate	$9,654	3.5%	$—
Net deferred fees and other	33		
Total commercial lease financing loans	$9,687		
Warehouse Loans			
Adjustable rate	788,518	3.8%	
Net deferred fees and other	(19,874)		
Total warehouse loans	768,644		
Total commercial loans and warehouse loans:			
Fixed rate	$108,355	4.8%	$—
Adjustable rate	1,738,444	3.3%	—
Total commercial loans held-for-investment	1,846,799		$—
Net deferred fees and other	(28,955)		
Total commercial loans held-for-investment	$1,817,844		

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Explanation of Responses:

Commercial Loans Held-for-Investment

December 31, 2013	Balance	Average Note Rate	Loan on Nonaccrual Status
	(Dollars in thousands)		
Commercial real estate loans:			
Fixed rate	$172,598	5.4%	$1,500
Adjustable rate	237,071	3.0%	—
Total commercial real estate loans	409,669		$1,500
Net deferred fees and other	(799	)	
Total commercial real estate loans	$408,870		
Commercial and industrial loans:			
Fixed rate	$12,782	4.3%	$—
Adjustable rate	195,500	2.7%	—
Total commercial and industrial loans	208,282		$—
Net deferred fees and other	(1,095	)	
Total commercial and industrial loans	$207,187		
Commercial lease financing loans:			
Fixed rate	$10,613	3.5%	$—
Net deferred fees and other	(272	)	
Total commercial lease financing loans	$10,341		
Warehouse Loans			
Adjustable rate	429,158	4.2%	
Net deferred fees and other	(5,641	)	
Total warehouse loans	423,517		
Total commercial loans:			
Fixed rate	$195,993	5.2%	$1,500
Adjustable rate	861,729	3.5%	—
Total commercial loans held-for-investment	1,057,722		$1,500
Net deferred fees and other	(7,807	)	
Total commercial loans held-for-investment	$1,049,915		

The average loan balance in our total commercial held-for-investment loan portfolio was approximately $1.2 million for the period ending December 31, 2014, with the largest loan being $49.8 million. There are approximately 53 loans with more than $5.0 million of unpaid principal balance (net of write downs) and those loans comprised approximately $601.1 million, or 56.8 percent, of the total commercial held-for-investment loan portfolio in the aggregate.

Commercial real estate loans. Our commercial real estate held-for-investment loan portfolio is comprised of loans that are collateralized by real estate properties intended to be income-producing in the normal course of business.

The following table discloses our total unpaid principal balance (net of write downs) of commercial real estate held-for-investment loans by geographic concentration and collateral type at December 31, 2014.

Collateral Type	State			
	Michigan	California	Other	Total (1)
	(Dollars in thousands)			
Office	$145,833	$7,017	$—	$152,850
Retail	89,874	9,259	17,623	116,756
Industrial	79,292	10,734	9,884	99,910
Apartments	72,225	—	4,902	77,127
Other	162,491	1,301	12,083	175,875
Total	$549,715	$28,311	$44,492	$622,518
Percent	88.3 %	4.5 %	7.1 %	100.0 %

(1)Unpaid principal balance, net of write downs, does not include premiums or discounts.

Commercial and industrial loans. Commercial and industrial held-for-investment loan facilities typically include lines of credit and term loans to small or middle market businesses for use in normal business operations to finance working capital needs, equipment purchases and expansion projects.

Warehouse lending. We also continue to offer warehouse lines of credit to other mortgage lenders. These allow the lender to fund the closing of residential first mortgage loans. Each extension or drawdown on the line is collateralized by the residential first mortgage loan being funded. Underlying mortgage loans are predominately originated using Agencies underwriting standards. These lines of credit are, in most cases, personally guaranteed by one or more principal officers of the borrower. The aggregate committed amount of adjustable rate warehouse lines of credit granted to other mortgage lenders at December 31, 2014 was $1.6 billion, of which $0.8 billion was outstanding, compared to $2.1 billion committed at December 31, 2013, of which $0.4 billion was outstanding.

Other

The Other segment includes treasury functions, income and expense impact of equity and cash, the effect of eliminations of transactions between segments, tax benefits not assigned to specific operating segments, the funding revenue associated with stockholders' equity, and charges or credits of an unusual or infrequent nature that are not reflective of the normal operations of the operating segments and miscellaneous other expenses of a corporate nature. The treasury functions include administering the investment portfolio, balance sheet funding, interest rate risk management and MSR asset valuation, hedging and sales into the secondary market.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net interest income	$17,651	$(87,013)	$(58,268)
Loan administration	(11,388)	(36,995)	(7)
Net return on mortgage servicing asset	23,976	90,854	(109,690)
Other noninterest income	15,030	49,077	15,938
Noninterest expense	(23,397)	(205,582)	(50,549)
Income (loss) before taxes	21,872	(189,659)	(202,576)
Benefit for income taxes	33,979	416,250	15,645
Net (loss) income	$55,851	$226,591	$(186,931)
Average balances			
Total assets	2,963,867	3,891,897	2,732,255

Net interest income includes the impact of administering our investment securities portfolios, debt, and the net impact of derivatives used to hedge interest rate sensitivity. Noninterest income includes servicing fees from MSRs net of a loan administration fee to the Mortgage Servicing segment to service the loan and the impact of hedging (see Note 11 of the Notes to the Consolidated Financial Statements, herein, for additional information regarding MSRs), gains or losses on the sale of

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MSRs, trading asset gains or losses and other treasury related items. Noninterest income also includes insurance income and miscellaneous fee income not allocated to other operating segments. Noninterest expense includes treasury operating expenses, certain corporate administrative and other miscellaneous expenses not allocated to other operating segments. The provision for income taxes is not allocated to the operating segments as new corporate income tax liability will not occur until after the utilization of the existing deferred tax assets.

2014 compared to 2013

For the year ended December 31, 2014, the Other segment net income decreased by $170.7 million, as compared to the year ended December 31, 2013. The increase was primarily due to an increase in net interest income and a decrease in noninterest expense, partially offset by decreases in noninterest income and benefit for income taxes. Net interest income increased during the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to the fourth quarter 2013 extinguishment of Federal Home Loan Bank long-term advances. Noninterest income decreased for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to a second quarter 2013 fair value adjustment related to the Assured settlement agreement and decrease in net return on MSR. Noninterest expense decreased primarily due to the prepayment fee on the extinguishment of the Federal Home Loan Bank advance. Benefit for income taxes decreased due to the reversal of the valuation allowance against the deferred tax asset.

2013 compared to 2012

For the year ended December 31, 2013, the Other segment net income increased $413.5 million, as compared to the year ended December 31, 2012. The increased net income was primarily due to the reversal of the valuation allowance against the deferred tax asset, an increase in net return on mortgage servicing asset and the fair value adjustment related to the Assured settlement agreement, partially offset by the loss on extinguishment of debt (included in noninterest expense) from the prepayment of Federal Home Loan Bank advances during the year ended December 31, 2013. The increase in net return on mortgage servicing asset was due to a redistribution of income as part of the previously announced company reorganization.

RISK MANAGEMENT

Like all financial services companies, we engage in business activities and assume the related risks. The risks we are subject to in the normal course of business, include, but are not limited to, credit, regulatory compliance, legal, reputation, liquidity, market, operational, strategic and capital adequacy. Our risk management activities are focused on ensuring we properly identify, measure and manage such risks across the entire enterprise to maintain safety and soundness and maximize profitability.

A comprehensive discussion of risk management and capital matters affecting us can be found in the Risk Factors section included in Item 1A of this Form 10-K. Some of the more significant processes used to manage and control credit, liquidity, market, operational and capital risks are described in the following paragraphs.

Credit Risk

Credit risk is the risk of loss to us arising from an obligor’s inability or failure to meet contractual payment or performance terms. Like other financial services institutions, we make loans, extend credit, purchase securities and enter into financial derivative contracts, all of which have related credit risk. The majority of our credit risk is associated with lending activities, as the acceptance and management of credit risk is central to profitable lending.

Loans held-for-sale. Essentially all of our mortgage loans produced are sold into the secondary market on a whole loan basis. For further information on loans held-for-sale, see Note 3 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

The following table sets forth the balance of loans in our held-for-sale portfolio, by loan type, as of the December 31, for the past five years.

	December 31,				
	2014	2013	2011	2010	2009
	(Dollars in thousands)				
Consumer loans	$1,243,792	$1,480,418	$3,012,039	$1,800,885	$2,585,200
Commercial loans (1)	—	—	927,681	—	—
Total consumer and commercial loans held-for-sale	$1,243,792	$1,480,418	$3,939,720	$1,800,885	$2,585,200

(1) Includes the loans that were sold as part of the agreement to sell Northeast commercial loans.

Loans repurchased with government guarantees. The amount of loans repurchased with government guarantees totaled $1.1 billion at December 31, 2014 and the loans which we have not yet repurchased but had the unilateral right to repurchase totaled $9.2 million and were classified as loans held-for-sale. At December 31, 2013, loans repurchased with government guarantees totaled $1.3 billion and those loans which we had not yet repurchased but had the unilateral right to repurchase totaled $20.8 million and were classified as loans held-for-sale. The balance of this portfolio continued to decrease during the year ended December 31, 2014, primarily due to reductions in repurchases, normal pay-downs, re-sales and accelerated dispositions.

Substantially all of these loans continue to be insured or guaranteed by the Federal Housing Administration ("FHA") and management believes that the reimbursement process is proceeding appropriately. These repurchased loans earn interest at a statutory rate, which varies for each loan, but is based on the 10-year U.S. Treasury note rate at the time the loan becomes greater than 60 days delinquent. This interest is recorded as interest income and the related claims settlement expenses are recorded in asset resolution expense on the Consolidated Statements of Operations. When a government guaranteed loan becomes nonperforming and is outside the reasonable period, the interest is recognized in

accrued interest and is offset by a contra account.

Beginning in January 2015, the adoption of ASU Update No. 2014-14, Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40) will move approximately $372.8 million of repossessed assets and claims receivable from loans repurchased with government guarantees to other assets on the Consolidated Statements of Financial Condition.

For further information on loans repurchased with government guarantees, see Note 4 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

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Loans held-for-investment. Loans held-for-investment increased $391.2 million at December 31, 2013, from December 31, 2014, primarily due to increases in warehouse, commercial real estate loans and commercial and industrial loans. Warehouse loans increased $345.1 million, primarily due to an increase in warehouse lending lines of credit transaction levels through pricing adjustments and marketing efforts. Commercial real estate loans increased $211.1 million, primarily due to new originations. These increases were partially offset by a decrease in residential first mortgage loans, primarily due to loan sales and continuing amortization of our legacy residential mortgage loan portfolio.

Loans held-for-investment includes $211.2 million and $238.3 million of loans valued under the fair value option at December 31, 2014 and 2013, respectively.

For information relating to the loans held-for-investment and concentration of credit of our loans held-for-investment, see Notes 5 and 6 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statement and Supplementary Data, herein.

The following table sets forth a breakdown of our loans held-for-investment portfolio at December 31, 2014.

LOANS HELD-FOR-INVESTMENT, BY RATE TYPE

	Fixed Rate	Adjustable Rate	Total
	(Dollars in thousands)		
Consumer loans			
Residential first mortgage [1]	$713,437	$1,479,815	$2,193,252
Second mortgage	142,925	6,107	149,032
HELOC	—	256,318	256,318
Other	31,108	—	31,108
Total consumer loans	887,470	1,742,240	2,629,710
Commercial loans			
Commercial real estate	79,334	540,680	620,014
Commercial and industrial	11,549	407,950	419,499
Commercial lease financing	9,687	—	9,687
Warehouse lending	—	768,644	768,644
Total commercial loans	100,570	1,717,274	1,817,844
Total consumer and commercial loans held-for-investment	$988,040	$3,459,514	$4,447,554

(1) Includes $629.2 million of owner occupied real estate loans.

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Explanation of Responses:

The two tables below provide a comparison of the breakdown of loans held-for-investment and the detail for the activity in our loans held-for-investment portfolio for each of the past five years.

LOANS HELD-FOR-INVESTMENT

	At December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Consumer loans					
Residential first mortgage	$2,193,252	$2,508,968	$3,009,251	$3,749,821	$3,792,712
Second mortgage	149,032	169,525	114,885	138,912	174,789
HELOC	256,318	289,880	179,447	221,986	271,326
Other	31,108	37,468	49,611	67,613	86,710
Total consumer loans	2,629,710	3,005,841	3,353,194	4,178,332	4,325,537
Commercial loans					
Commercial real estate	620,014	408,870	640,315	1,242,969	1,250,301
Commercial and industrial	419,499	207,187	90,565	328,879	8,875
Commercial lease financing	9,687	10,341	6,300	114,509	—
Warehouse lending	768,644	423,517	1,347,727	1,173,898	720,770
Total commercial loans	1,817,844	1,049,915	2,084,907	2,860,255	1,979,946
Total consumer and commercial loans held-for-investment	4,447,554	4,055,756	5,438,101	7,038,587	6,305,483
Allowance for loan losses	(297,000)	(207,000)	(305,000)	(318,000)	(274,000)
Total loans held-for-investment, net	$4,150,554	$3,848,756	$5,133,101	$6,720,587	$6,031,483

LOANS HELD-FOR-INVESTMENT PORTFOLIO ACTIVITY SCHEDULE

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance, beginning of year	$4,055,756	$5,438,101	$7,038,587	$6,305,483	$7,714,308
Loans originated (1)	1,266,249	868,288	901,121	1,017,330	168,995
Change in lines of credit (2)	—	379,526	139,021	107,912	(159,329)
Loans transferred from loans held-for-sale	19,201	64,289	61,770	16,733	90,746
Loans transferred to loans held-for-sale (3)(4)(5)(6)	(425,589)	(831,739)	(1,220,231)	(136,149)	(740,155)
Loan amortization / prepayments	(410,902)	(1,687,294)	(1,112,900)	(61,203)	(212,046)
Loans transferred to repossessed assets	(57,161)	(175,415)	(369,267)	(211,519)	(557,036)
Balance, end of year	$4,447,554	$4,055,756	$5,438,101	$7,038,587	$6,305,483

(1) During the year ended December 31, 2013, there were $170.5 million of HELOC loans and $73.3 million of second mortgage loans that were reconsolidated at fair value as a result of the settlement agreements with Assured and MBIA.

(2) A reclass of warehouse loans is included in the schedule in 2014.

(3) During the year ended December 31, 2010, loans transferred from various portfolios include $578.2 million transferred to loans held-for-sale as part of the sale of nonperforming residential first mortgage loans in the year.

(4) During the year ended December 31, 2012, loans transferred from held-for-investment to held-for-sale include $927.7 million of commercial loans related to the agreements to sell a substantial portion of Northeast-based commercial loans.

(5)

During the year ended December 31, 2013, loans transferred from held-for-investment to held-for-sale include $508.4 million unpaid principal balance of residential first mortgage nonperforming and TDR loans that were sold and $277.9 million unpaid principal balance of residential first jumbo adjustable-rate mortgage loans.

(6) During the year ended December 31, 2014, loans transferred from held-for-investment to held-for-sale included $225.4 million unpaid principal balance of residential first jumbo mortgage loans.

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Credit Quality

Management considers a number of qualitative and quantitative factors in assessing the level of its allowance for loan losses. See the section captioned "Allowance for Loan Losses" in this discussion. As illustrated in the tables following, trends in certain credit quality characteristics such as nonperforming loans and past due statistics have recently stabilized or even begun to show signs of improvement. This is predominantly a result of the nonperforming and TDR loan sales and a decrease in net charge-offs, as well as run off of the legacy portfolios and the addition of new commercial loans with strong credit characteristics.

The following table sets forth certain information about our nonperforming assets as of the end of each of the last five years.

NONPERFORMING LOANS AND ASSETS

	At December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Nonperforming loans held-for-investment (1)	$74,839	$98,976	$254,582	$291,782	$200,111
Nonperforming TDRs	28,687	25,808	60,516	66,567	77,858
Nonperforming TDRs at inception but performing for less than six months	16,965	20,901	84,728	130,018	40,447
Total nonperforming loans held-for investment	120,491	145,685	399,826	488,367	318,416
Repurchased nonperforming assets, net (1)	—	—	—	—	28,472
Real estate and other repossessed assets, net	18,693	36,636	120,732	114,715	151,085
Nonperforming assets	$139,184	$182,321	$520,558	$603,082	$497,973
Ratio of nonperforming assets to total assets	1.42 %	1.95 %	3.70 %	4.43 %	4.35 %
Ratio of nonperforming loans held for investment to loans held-for-investment	2.71 %	3.59 %	7.35 %	6.94 %	5.05 %
Ratio of allowance to nonperforming loans held-for-investment (1)	255.7 %	145.9 %	76.3 %	65.1 %	86.1 %
Ratio of allowance to loans held-for-investment (1)	7.01 %	5.42 %	5.61 %	4.52 %	4.35 %
Ratio of net charge-offs to average loans held-for-investment (1)	1.07 %	4.00 %	4.43 %	2.14 %	9.34 %
Ratio of nonperforming assets to loans held-for-investment and repossessed assets	3.12 %	4.46 %	9.36 %	8.43 %	7.71 %

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

The following table sets forth the activity of nonperforming commercial loans, exclusive of premiums or discounts (primarily commercial real estate and commercial and industrial loans).

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		

Beginning unpaid principal balance	$12,940	$139,128	$145,006
Additions	5,235	120,655	266,309
Returned to performing	—	—	(12,081)
Principal payments	(6,369)	(96,992)	(75,765)
Sales	(11,079)	(101,951)	(63,404)
Charge-offs, net of recoveries	1,013	(39,075)	(108,585)
Valuation write downs	(1,740)	(8,825)	(12,352)
Ending unpaid principal balance	$—	$12,940	$139,128

Past due loans held-for-investment

At December 31, 2014, we had $164.4 million of past due loans held-for-investment. Of those past due loans, $120.5 million loans were nonperforming. At December 31, 2013, we had $207.4 million of past due loans held-for-investment. Of those past due loans, $145.7 million loans were nonperforming. The decrease from December 31, 2013 to December 31, 2014 was primarily due to sales of nonperforming and TDR residential first mortgage loans in the amount of $69.3 million.

Consumer loans. As of December 31, 2014, nonperforming consumer loans totaled $120.5 million, a decrease from $144.2 million at December 31, 2013, primarily due to the sale of nonperforming and TDR residential first mortgage loan. Net charge-offs in consumer loans totaled $42.6 million for the year ended December 31, 2014, compared to $129.1 million for the year ended December 31, 2013, primarily due to lower net losses related to loan sales, lower levels of nonperforming loans and improving property values thereby reducing the level of write downs.

Commercial loans. As of December 31, 2014, there were no nonperforming commercial loans compared to $1.5 million at December 31, 2013. Nonperforming commercial loans percentage of total commercial loans was 0.2 percent at December 31, 2013. Net recoveries in commercial loans totaled $1.0 million for the year ended December 31, 2014, which was a decrease from net charge-offs of $39.0 million for the year ended December 31, 2013, primarily due to a continued decline in nonperforming loans and legacy portfolio balances.

Troubled debt restructurings (held-for-investment)

Troubled debt restructurings ("TDRs") are modified loans in which a borrower is experiencing financial difficulties and has been granted concession not otherwise available. Our ongoing loan modification efforts to assist homeowners and other borrowers continued to increase our overall balance of TDRs. Nonperforming TDRs were 37.9 percent and 32.1 percent of total nonperforming loans at December 31, 2014 and 2013, respectively.

Nonperforming TDRs are included in nonaccrual loans and performing TDRs are excluded from nonaccrual loans because it is probable that all contractual principal and interest due under the restructured terms will be collected. Within consumer nonperforming loans, residential first mortgage TDRs were 37.5 percent of residential first mortgage nonperforming loans at December 31, 2014, compared to 31.7 percent at December 31, 2013. The level of modifications that were determined to be TDRs in these portfolios is expected to result in elevated nonperforming loan levels for longer periods, because TDRs remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms, or ultimate resolution occurs. TDRs primarily reflect our loss mitigation efforts to proactively work with borrowers having difficulty making their payments. Although many of the TDRs continue to be performing, we have increased our allowance on TDRs, which also increased the allowance for loan losses.

	TDRs		
	Performing	Nonperforming	Total
	(Dollars in thousands)		
December 31, 2014			
Consumer loans (1)	$361,450	$45,652	$407,102
Commercial loans	403	—	403
Total TDRs	$361,853	$45,652	$407,505
December 31, 2013			
Consumer loans (1)	$382,529	$46,709	$429,238
Commercial loans	456	—	456
Total TDRs	$382,985	$46,709	$429,694

(1)

Consumer loans include: residential first mortgage, second mortgage, HELOC and other consumer loans. The allowance for loan losses on consumer TDR loans totaled $81.2 million and $82.3 million at December 31, 2014 and 2013, respectively.

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The following table sets forth the activity during each of the years presented with respect to performing TDRs and nonperforming TDRs.

	TDRs		
	For the Years Ended December 31,		
	2014	2013	2012
Performing	(Dollars in thousands)		
Beginning balance	$382,985	$589,762	$517,175
Additions	43,703	57,245	115,924
Transfer to nonperforming TDR	(33,782)	(40,342)	(111,230)
Transfer from nonperforming TDR	6,892	43,419	117,688
Principal repayments	(7,252)	(258,475)	(23,463)
Reductions (1)	(30,693)	(8,624)	(26,332)
Ending balance	$361,853	$382,985	$589,762
Nonperforming			
Beginning balance	$46,709	$145,244	$196,585
Additions	13,899	48,018	83,685
Transfer to nonperforming TDR	33,782	40,342	111,230
Transfer from nonperforming TDR	(6,892)	(43,419)	(117,688)
Principal repayments	(588)	(134,924)	(85,065)
Reductions (1)	(41,258)	(8,552)	(43,503)
Ending balance	$45,652	$46,709	$145,244

(1) Includes loans paid in full or otherwise settled, sold or charged off.

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The following table sets forth information regarding past due loans at the dates listed. At December 31, 2014, 92.7 percent of all past due loans were loans in which we had a first lien position on residential real estate, compared to 91.6 percent at December 31, 2013.

PAST DUE LOANS HELD-FOR-INVESTMENT

	December 31,				
Days Past Due	2014	2013	2012	2011	2010
	(Dollars in thousands)				
30 – 59 days					
Consumer loans					
Residential first mortgage	$29,157	$36,526	$62,445	$74,934	$96,768
Second mortgage	971	1,997	1,171	1,887	3,587
HELOC	3,581	2,197	2,484	5,342	3,735
Other	296	293	587	1,507	939
Commercial loans					
Commercial real estate	—	—	6,979	7,453	28,245
Commercial and industrial	—	—	—	11	175
Total 30 – 59 days past due	34,005	41,013	73,666	91,134	133,449
60 – 89 days					
Consumer loans					
Residential first mortgage	8,099	19,096	16,693	37,493	40,821
Second mortgage	393	271	727	1,527	1,968
HELOC	1,344	1,238	910	2,111	3,783
Other	58	127	248	471	335
Commercial loans					
Commercial real estate	—	—	6,990	12,323	6,783
Commercial and industrial	—	—	—	62	55
Total 60 – 89 days past due	9,894	20,732	25,568	53,987	53,745
90 days or greater					
Consumer loans					
Residential first mortgage	115,093	134,340	306,486	372,514	122,924
Second mortgage	2,054	2,820	3,724	6,236	7,480
HELOC	3,222	6,826	3,025	7,973	6,713
Other	122	199	183	611	822
Commercial loans					
Commercial real estate	—	1,500	86,367	99,335	175,559
Commercial and industrial	—	—	41	1,670	4,918
Warehouse lending	—	—	—	28	—
Total 90 days or greater past due (1)	120,491	145,685	399,826	488,367	318,416
Total past due loans	$164,390	$207,430	$499,060	$633,488	$505,610

(1) Includes loans carried under the fair value option of $4.5 million and $4.0 million at December 31, 2014 and 2013, respectively.

The following table sets forth information regarding loans held-for-investment and nonperforming loans (i.e., 90 days or greater past due loans) as to which we have ceased accruing interest.

LOANS HELD-FOR-INVESTMENT AND NONACCRUAL LOANS

	December 31, 2014			
	Investment Loan Portfolio	Non Accrual Loans	As a % of Loan Specified Portfolio	As a % of Non Accrual Loans
	(Dollars in thousands)			
Consumer loans				
Residential first mortgage	$2,193,252	$115,093	5.2 %	95.5 %
Second mortgage	149,032	2,054	1.4 %	1.7 %
HELOC	256,318	3,222	1.3 %	2.7 %
Other consumer	31,108	122	0.4 %	0.1 %
Total consumer loans	2,629,710	120,491	4.6 %	100.0 %
Commercial loans				
Commercial real estate	620,014	—	— %	— %
Commercial and industrial	419,499	—	— %	— %
Commercial lease financing	9,687	—	— %	— %
Warehouse lending	768,644	—	— %	— %
Total commercial loans	1,817,844	—	— %	— %
Total loans (1)	$4,447,554	$120,491	2.7 %	100.0 %
Less allowance for loan losses	(297,000)			
Total loans held-for-investment, net	$4,150,554			

(1) Includes $4.5 million of nonaccrual loans carried under the fair value option at December 31, 2014.

The following table sets forth the nonperforming (i.e., 90 days or greater past due loans) residential first mortgage loans by year of origination (i.e., vintage) and the total amount of unpaid principal balance (net of write downs) loans outstanding at December 31, 2014.

RESIDENTIAL FIRST MORTGAGE LOANS

	December 31, 2014		
Vintage	Performing Loans	NonAccrual Loans	Unpaid Principal Balance (1)
	(Dollars in thousands)		
Pre-2006	$984,490	$39,504	$1,023,994
2006	167,671	9,800	177,471
2007	525,624	37,013	562,637
2008	64,637	19,556	84,193
2009	32,282	3,435	35,717
2010	15,045	1,866	16,911
2011	22,729	1,667	24,396
2012	21,425	—	21,425
2013	45,029	713	45,742
2014	208,690	1,539	210,229
Total loans	$2,087,622	$115,093	$2,202,715
Net deferred fees and other			(9,463)
Total residential first mortgage loans			$2,193,252

(1) Unpaid principal balance, net of write downs, does not include net deferred fees, premiums or discounts and other.

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Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses that are inherent in our loans held-for-investment portfolio but which have not yet been realized. The consumer loan portfolio includes residential first mortgages, second mortgages, HELOC and other consumer loans. The commercial loan portfolio includes commercial real estate, commercial and industrial, commercial lease financing loans and warehouse lending. See Notes 1 and 5 to the Consolidated Financial Statements for additional information.

The allowance for loan losses was $297.0 million and $207.0 million at December 31, 2014 and 2013, respectively. The increase in the allowance for loan losses was driven primarily by an increase in our estimated average loss emergence period for the consumer portfolio as well as an increase to our qualitative assessment of the reset risk related to loans in our interest-only portfolio. Both of these items are further explained above in the Provision for Loan Losses section of Management’s Discussion and Analysis.

The allowance for loan losses as a percentage of nonperforming loans increased to 255.7 percent at December 31, 2014 from 145.9 percent at December 31, 2013, which was primarily due to the sale of nonperforming and TDR loans and the increase in the allowance for loan losses.

The allowance for loan losses as a percentage of loans held-for-investment increased to 7.01 percent as of December 31, 2014 from 5.42 percent as of December 31, 2013, primarily due to the increase in the allowance for loan losses.

The allowance for loan losses is considered adequate based upon management's assessment of relevant factors, including the types and amounts of nonperforming loans, historical and current loss experience on such types of loans, and the current economic environment.

The following tables set forth certain information regarding the allocation of our allowance for loan losses to each loan category.

ALLOWANCE FOR LOAN LOSSES

	December 31, 2014					
	Investment Loan Portfolio	Percent of Portfolio		Allowance Amount	Percentage of Total Allowance	
	(Dollars in thousands)					
Consumer loans						
Residential first mortgage	$2,167,321	51.2	%	$234,288	78.9	%
Second mortgage	95,915	2.3	%	12,424	4.2	%
HELOC	124,754	2.9	%	18,723	6.3	%
Other	31,108	0.7	%	766	0.3	%
Total consumer loans	2,419,098	57.1	%	266,201	89.7	%
Commercial loans						
Commercial real estate	620,014	14.6	%	17,359	5.8	%
Commercial and industrial	419,499	9.9	%	10,581	3.6	%
Commercial lease financing	9,687	0.2	%	131	—	%
Warehouse lending	768,644	18.2	%	2,728	0.9	%
Total commercial loans	1,817,844	42.9	%	30,799	10.3	%
Total consumer and commercial loans (1)	$4,236,942	100.0	%	$297,000	100.0	%

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

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The following tables set forth certain information regarding our allowance for loan losses as of December 31, 2014 and the allocation of the allowance for loan losses over the past five years.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	At December 31,														
	2014			2013			2012			2011			2010		
	Allowance Amount	Allowance to Total Loans		Allowance Amount	Allowance to Total Loans		Allowance Amount	Allowance to Total Loans		Allowance Amount	Allowance to Total Loans		Allowance Amount	Allowance to Total Loans	
	(Dollars in thousands)														
Consumer loans															
Residential first mortgage	$234,288	5.6	%	$161,142	4.2	%	$219,230	4.0	%	$179,218	2.5	%	$122,437	1.9	%
Second mortgage	12,424	0.3	%	12,141	0.3	%	20,201	0.4	%	16,666	0.2	%	25,187	0.4	%
HELOC	18,723	0.4	%	7,893	0.2	%	18,348	0.3	%	14,845	0.2	%	21,369	0.3	%
Other	766	—	%	2,412	0.1	%	2,040	0.1	%	2,434	0.1	%	3,450	0.1	%
Total consumer loans	266,201	6.3	%	183,588	4.8	%	259,819	4.8	%	213,163	3.0	%	172,443	2.7	%
Commercial loans															
Commercial real estate	17,359	0.4	%	18,540	0.5	%	41,310	0.7	%	96,984	1.4	%	95,844	1.5	%
Commercial and industrial	10,581	0.2	%	3,332	0.1	%	2,878	0.1	%	5,425	0.1	%	1,542	—	%
Commercial lease financing	131	—	%	148	—	%	94	—	%	1,178	—	%	—	—	%
Warehouse lending	2,728	0.1	%	1,392	—	%	899	—	%	1,250	—	%	4,171	0.1	%
Total commercial loans	30,799	0.7	%	23,412	0.6	%	45,181	0.8	%	104,837	1.5	%	101,557	1.6	%
Total consumer and commercial loans (1)	$297,000	7.0	%	$207,000	5.4	%	$305,000	5.6	%	$318,000	4.5	%	$274,000	4.3	%

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

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ACTIVITY IN THE ALLOWANCE FOR LOAN LOSSES

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Beginning balance	$207,000	$305,000	$318,000	$274,000	$524,000
Provision for loan losses (1)	131,553	70,142	276,047	176,931	426,353
Charge-offs					
Consumer loans					
Residential first mortgage (1)(2)	(37,584)	(133,326)	(175,803)	(41,559)	(474,195)
Second mortgage	(3,211)	(6,252)	(18,753)	(19,217)	(27,846)
HELOC	(5,857)	(5,473)	(17,159)	(16,980)	(21,495)
Other consumer	(1,923)	(3,622)	(4,423)	(4,729)	(5,583)
Total consumer loans	(48,575)	(148,673)	(216,138)	(82,485)	(529,119)
Commercial loans					
Commercial real estate	(2,463)	(47,982)	(105,285)	(57,626)	(153,020)
Commercial and industrial	—	(350)	(4,627)	(644)	(1,181)
Commercial lease financing	—	(1,299)	(1,191)	—	—
Warehouse lending	(74)	(45)	—	(1,122)	(2,154)
Total commercial loans	(2,537)	(49,676)	(111,103)	(59,392)	(156,355)
Total charge offs	(51,112)	(198,349)	(327,241)	(141,877)	(685,474)
Recoveries					
Consumer loans					
Residential first mortgage	3,049	15,329	18,561	1,656	2,513
Second mortgage	477	1,178	1,912	1,642	1,806
HELOC	183	1,020	461	1,510	1,531
Other consumer	2,311	2,079	1,786	1,603	1,615
Total consumer loans	6,020	19,606	22,720	6,411	7,465
Commercial loans					
Commercial real estate	3,319	10,162	15,397	2,408	1,123
Commercial and industrial	111	151	77	122	17
Commercial lease financing	47	288	—	—	—
Warehouse lending	62	—	—	5	516
Total commercial loans	3,539	10,601	15,474	2,535	1,656
Total recoveries	9,559	30,207	38,194	8,946	9,121
Charge-offs, net of recoveries	(41,553)	(168,142)	(289,047)	(132,931)	(676,353)
Ending balance	$297,000	$207,000	$305,000	$318,000	$274,000
Net charge-off ratio (1)(2)(3)	1.07%	4.00%	4.43%	2.14%	9.34%

(1) December 31, 2010 includes the provision for loan losses and charge-offs related to the sale of nonperforming loans held-for-sale of $176.5 million and $327.3 million, respectively. Excluding the sale of nonperforming loans held-for-sale the net charge-off ratio would have been 4.82 percent at December 31, 2010.

(2) Includes charge-offs of $15.1 million related to the sale of nonperforming loans and TDRs during the year ended December 31, 2014. Excluding the sale of nonperforming and TDR loans, the net charge-off ratio would have been 0.62 percent for the year ended December 31, 2014.

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

Mortgage servicing rights

At December 31, 2014 MSRs at fair value decreased $26.9 million, compared to December 31, 2013, primarily due to MSR sales and a reduction in fair value of MSRs during the year ended December 31, 2014. During the years ended

December 31, 2014 and 2013, we recorded additions to our MSRs of $271.5 million and $401.7 million, respectively. Also,

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during the year ended December 31, 2014, we reduced the amount of MSRs by $231.5 million related to bulk servicing sales and $31.0 million related to loans that paid off during the period. The fair value of MSRs decreased by $35.8 million resulting from the recognition of expected cash flows and market driven changes, primarily as a result of decreases in mortgage loan rates that led to an expected increase in prepayment speeds. During the year ended December 31, 2013, we reduced the amount of MSRs by $834.5 million as a result of bulk servicing sales, $99.3 million due to loans that paid off during the period, and an increase of $106.0 million in the fair value of MSRs resulting from the realization of expected cash flows, as well as market driven changes, primarily decreases in mortgage loan rates, that caused us to assume a higher level of prepayment speeds. Once fully phased in, the Basel III capital rules will significantly reduce the allowable amount of the fair value of MSRs included in Tier 1 capital. We reduced our MSR concentration during the fourth quarter 2013 (discussed below) which should result in a decrease of the exclusion to our allowable capital levels under Basel III. See Note 11 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein. Our ratio of MSRs to Tier 1 capital is 22.1 percent at December 31, 2014, as compared to 22.6 percent at December 31, 2013. See "Use of Non-GAAP Financial Measures."

On December 18, 2013, we entered into a definitive agreement to sell $40.7 billion unpaid principal balance of our MSR portfolio to Matrix Financial Services Corporation ("Matrix"), a wholly owned subsidiary of Two Harbors Investment Corp. Covered under the agreement are certain mortgage loans serviced for both Fannie Mae and Ginnie Mae, originated primarily after 2010. Simultaneously, we entered into an agreement with Matrix to subservice the residential mortgage loans covered under the agreement to sell. As a result, we will receive subservicing income and return a portion of the ancillary fees to be paid as the subservicer of the loans.

The principal balance of the loans underlying our total MSRs was $25.4 billion at December 31, 2014, compared to $25.7 billion at December 31, 2013, with the decrease primarily attributable to our bulk and flow servicing sales of $20.6 billion in underlying loans and by a decrease in loan origination activity for the year ended December 31, 2014.

The recorded amount of the MSR portfolio at December 31, 2014 and 2013 as a percentage of the unpaid principal balance of the loans we are servicing was 1.0 percent and 1.1 percent, respectively. When our Mortgage Originations segment sells mortgage loans in the secondary market, it usually retains the right to continue to service the mortgage loans for a fee. The weighted average service fee on loans serviced for others is currently 27.2 basis points of the loan principal balance outstanding. The amount of MSRs initially recorded is based on the fair value of the MSRs determined on the date when the underlying loan is sold. Our determination of fair value, and thus the amount we record (i.e., the capitalization amount) is based on internal valuations and available market pricing. Estimates of fair value reflect the anticipated prepayment speeds (also known as the constant prepayment rate ("CPR"), product type (i.e., conventional, government, balloon), fixed or adjustable rate of interest, interest rate, term (i.e., 15 or 30 years), servicing costs per loan, discounted yield rate and estimate of ancillary income such as late fees and prepayment fees.

At December 31, 2014, the fair value of the MSR was based upon the following weighted-average assumptions: (1) a discount rate of 10.9 percent; (2) an anticipated loan prepayment rate of 15.0 CPR; and (3) annual servicing costs per conventional loan of $67, $88 for each government loan and $85 for each adjustable-rate loan, respectively. At December 31, 2013, the fair value of the MSR was based upon the following weighted-average assumptions: (1) a discount rate of 10.2 percent; (2) an anticipated loan prepayment rate of 11.9 CPR; and (3) servicing costs per conventional loan of $67, $88 for each government loan and $85 for each adjustable-rate loan, respectively.

The following table sets forth activity in loans serviced for others during the past five years.

LOANS SERVICED FOR OTHERS

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010

	(Dollars in thousands)				
Balance, beginning of year	$25,743,396	$76,821,222	$63,770,676	$56,040,063	$56,521,902
Loans serviced additions	24,407,054	35,827,484	53,094,326	27,437,433	26,325,610
Loan amortization/prepayments	(3,919,312)	(9,895,791)	(22,096,691)	(9,488,100)	(11,673,592)
Servicing sales (1)	(20,804,370)	(77,009,519)	(17,947,089)	(10,218,720)	(15,133,857)
Balance, end of year	$25,426,768	$25,743,396	$76,821,222	$63,770,676	$56,040,063

(1) Includes the sale of $40.7 billion to Matrix in 2013, which we now subservice.

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Repossessed assets

Real property we acquire as a result of the foreclosure process is classified as real estate owned until it is sold. It is transferred from the loans held-for-investment portfolio at the lower of cost or market value, less disposal costs. Management decides whether to rehabilitate the property or sell it "as is" and whether to list the property with a broker. The $17.9 million decrease in repossessed assets from December 31, 2013 to December 31, 2014 was primarily due to the sale of commercial repossessed assets.

The following schedule provides the activity for repossessed assets during each of the past five years.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Beginning balance	$36,636	$120,732	$114,715	$151,085	$176,968
Additions	33,177	63,609	124,879	88,755	204,926
Disposals	(51,120)	(147,705)	(118,862)	(125,125)	(230,809)
Ending balance	$18,693	$36,636	$120,732	$114,715	$151,085

Investment securities available-for-sale

Investment securities available-for-sale, comprised of U.S. government sponsored agencies and municipal obligations, increased from $1.0 billion at December 31, 2013, to $1.7 million at December 31, 2014. The increase was primarily due to the purchase of $1.1 billion in U.S. government sponsored agencies during the year ended December 31, 2014, offset by sales of approximately $0.4 billion. The investment securities available-for-sale were purchased as part of our strategy to redeploy a portion of our cash into higher yielding, yet very liquid, investment alternatives. See Note 2 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

Representation and warranty reserve

We sell most of the residential first mortgage loans that we originate into the secondary mortgage market. When we sell mortgage loans, we make customary representations and warranties to the purchasers, including sponsored securitization trusts and their insurers (primarily Fannie Mae and Freddie Mac).

REPRESENTATION AND WARRANTY RESERVE

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Beginning balance	$54,000	$193,000	$120,000	$79,400	$66,000
Provision for new loan sales	6,854	17,606	24,410	8,993	35,200
Provision adjustment for previous estimates	10,011	36,116	256,289	150,055	61,523
Charge-offs, net of recoveries	(17,865)	(192,722)	(207,699)	(118,448)	(83,323)
Ending balance	$53,000	$54,000	$193,000	$120,000	$79,400

The decrease in the amount charged to representation and warranty reserve expense was primarily due to lower losses estimates following our settlements with Fannie Mae and Freddie Mac, along with our change in estimates related to the recent revision to the representation and warranty reserve framework as published by the Federal Housing Finance Agency, offset partially by an increase to account for the liability associated with estimated losses on claims expected from HUD on losses incurred related to loans on which we have executed indemnification agreements.

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The following table summarizes the amount of annual Fannie Mae and Freddie Mac audit file review requests by number of accounts. Such requests precede the repurchase demands that Fannie Mae and Freddie Mac may make thereafter.

	For the Years Ended December 31,		
	2014	2013	2012
Fannie Mae	3,765	9,510	8,578
Freddie Mac	2,361	3,876	5,963
Total	6,126	13,386	14,541

During the year ended December 31, 2014, we had $117.1 million in Fannie Mae new repurchase demands and $40.5 million in Freddie Mac new repurchase demands. The following table summarizes the amount of yearly new repurchase demands we have received by loan origination year.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
2008 and prior (1)	$33,372	$570,597	$865,670
2009-2014	124,655	74,471	182,749
Total	$158,027	$645,068	$1,048,419
Number of accounts	761	3,478	5,255

(1) Includes a significant portion of the repurchase requests and obligations associated to loans within the settlement agreements with Fannie Mae and Freddie Mac.

The following table summarizes the aggregate amount of pending repurchase demands at the end of each year noted.

	December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Period end balance	$43,368	$97,170	$224,182
Percent non-agency (approximately)	1.6 %	2.6 %	0.3 %

The following table summarizes the trends over the last two years with respect to key model attributes and assumptions for estimating the representation and warranty reserve.

	December 31, 2014	December 31, 2013
	(Dollars in Thousands)	
UPB of loans sold (1) (2)	$261,000,000	$244,100,000
Loan file review as percentage of unpaid principal balance	7.1 %	8.2 %
Repurchase demand rate (3)	15.9 %	14.5 %
Actual repurchase rate (4)	33.3 %	35.5 %
Loss severity rate (5)	8.7 %	12.3 %

(1) Includes servicing sold with recourse.
(2) Includes a significant portion of the repurchase requests and obligations associated to loans within the settlement agreements with Fannie Mae and Freddie Mac.
(3) The percent of loan file reviews that is expected to result in a repurchase demand.
(4) Weighted average of the appeals loss rate.
(5) Average loss severity rate expected to be experienced on actual repurchases made (post appeal loss).

See Note 16 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

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Liquidity Risk

Liquidity risk is the risk that we will not have sufficient funds to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits and to take advantage of interest rate and market opportunities. The ability of a financial institution to meet current financial obligations is a function of the balance sheet structure, the ability to liquidate assets, and the access to various sources of funds.

We primarily originate agency eligible loans held-for-sale and therefore the majority of new residential first mortgage loan originations are readily convertible to cash, either by selling them as part of our monthly agency sales, private party whole loan sales, or by pledging them to the Federal Home Loan Bank of Indianapolis and borrowing against them. We use the Federal Home Loan Bank of Indianapolis as a significant source for funding our residential mortgage business due to its flexibility in terms of being able to borrow or repay borrowings as daily cash needs require.

Our principal uses of funds include loan originations and operating expenses. At December 31, 2014, we had outstanding rate-lock commitments to lend $2.6 billion in mortgage loans, compared to $2.3 billion at December 31, 2013. These commitments may expire without being drawn upon and therefore, do not necessarily represent future cash requirements. Total commercial and consumer unused collateralized lines of credit totaled $1.4 billion at December 31, 2014 and $2.0 billion at December 31, 2013.

The amount we can borrow, or the value we receive for the assets pledged to our liquidity providers, varies based on the amount and type of pledged collateral as well as the perceived market value of the assets and the "haircut" of the market value of the assets. That value is sensitive to the pricing and policies of our liquidity providers and can change with little or no notice.

In addition to operating expenses at a particular level of mortgage originations, our cash flows are fairly predictable and relate primarily to the funding cash outflows of residential first mortgages and sales cash inflows of those residential first mortgages. Our mortgage warehouse funding line of business also generates cash flows as funds are extended to correspondent relationships to close new loans. Those loans are repaid when the correspondent sells the loan. Other material cash flows relate to growing our commercial lines of business and the loans we service for others and consist primarily of principal, interest, taxes and insurance escrows. Those monies come in over the course of the month and are paid out based on predetermined schedules. Those flows are largely a function of the size of the servicing book and the volume of refinancing activity of the loans serviced. In general, monies received in one month are paid during the following month with the exception of taxes and insurance monies that are held until they are due.

Our Consolidated Statements of Cash Flows shows cash used in operating activities of $8.1 billion, $1.6 billion, $0.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively. This does not have an impact on our liquidity position or how we manage liquidity. Rather, it is a reflection of the manner in which we execute certain loan sales for which the cash outflow is included in operating activities and the corresponding cash inflow is included in the investing section.

As governed and defined by our internal liquidity policy, we maintain adequate excess liquidity levels appropriate to cover both unanticipated operational and regulatory requirements. In addition to this liquidity, we also maintain targeted minimum levels of unused borrowing capacity as an additional cushion against unexpected liquidity needs. Each business day, we forecast 90 days of daily cash needs. This allows us to determine our projected near term daily cash fluctuations and also to plan and adjust, if necessary, future activities. As a result, we would be able to make adjustments to operations as required to meet the liquidity needs of our business, including adjusting deposit rates to increase deposits, planning for additional Federal Home Loan Bank borrowings, accelerating sales of loans

held-for-sale (Agencies and/or private), selling loans held-for-investment or securities, borrowing through the use of repurchase agreements, reducing originations, making changes to warehouse funding facilities or borrowing from the discount window.

Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations.

Federal Home Loan Bank stock. At December 31, 2014, holdings of Federal Home Loan Bank stock decreased to $155.4 million from $209.7 million at December 31, 2013, due to the Federal Home Loan Bank's repurchase of excess stock for $54.3 million. Once purchased, Federal Home Loan Bank shares must be held for five years before they can be redeemed. As a member of the Federal Home Loan Bank, we are required to hold shares of Federal Home Loan Bank stock in an amount

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equal to at least 1.0 percent of aggregate unpaid principal balance of our mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 5.0 percent of our Federal Home Loan Bank advances, whichever is greater.

Deposits. Our deposits consist of four primary categories: retail deposits, government deposits, wholesale deposits and company controlled deposits. Total deposits increased $928.3 million, or 15.1 percent at December 31, 2014, compared to December 31, 2013, primarily due to increases in savings accounts and government deposits.

Our branch deposits increased $364.0 million, or 7.6 percent at December 31, 2014, compared to December 31, 2013, primarily due to an increase in core deposits.

We have continued to increase our core deposit accounts and improve our mix of deposits. The overall need for deposit funding declined in the second half of 2014, consistent with the slow-down in mortgage originations. This has allowed us to run-off higher costing deposits, as we continue to have success in bringing in core checking, savings and money market accounts.

We have focused on increasing our commercial retail deposits. Our commercial retail deposits have increased $67.1 million or 47.5 percent at December 31, 2014, compared to December 31, 2013.

We call on local governmental agencies, and other public units, as an additional source for deposit funding. These deposit accounts include $355.0 million of certificates of deposit with maturities typically less than one year and $563.0 million in checking and savings accounts at December 31, 2014.

We generate deposits from our retail banking network and no longer purchase wholesale deposits. Wholesale deposits continued to run-off during the year ended December 31, 2014 and decreased by $8.5 million from December 31, 2013.

Company controlled deposits arise due to our servicing of loans for others and represent the portion of the investor custodial accounts on deposit with the Bank. These deposits do not bear interest.

We participate in the Certificates of Deposit Account Registry Service ("CDARS") program, through which certain customer certificates of deposit ("CD") are exchanged for CDs of similar amounts from other participating banks. This gives customers the potential to receive FDIC insurance up to $50.0 million. At December 31, 2014, we had $393.2 million of total CDs enrolled in the CDARS program. We received reciprocal CDs from other participating banks totaling $94.3 million from public entities and $299.0 million from retail customers at December 31, 2014. We had CDARS originations of $390.8 million from public entities and $5.5 million from retail customers at December 31, 2014. The total CDARS balances increased $57.3 million at December 31, 2014, from December 31, 2013.

The composition of our deposits was as follows at the date indicated.

	December 31, 2014 (Dollars in thousands)			2013		
	Balance	Yield/Rate	% of Deposits	Balance	Yield/Rate	% of Deposits
Retail deposits						
Branch retail deposits						
Demand deposit accounts	$726,157	0.08 %	10.3 %	$670,039	0.09 %	10.9 %
Savings accounts	3,426,722	0.72 %	48.5 %	2,849,644	0.46 %	46.4 %
Money market demand accounts	208,549	0.15 %	3.0 %	262,009	0.15 %	4.3 %
Certificates of deposit/CDARS(1)	807,400	0.65 %	11.4 %	1,023,141	0.72 %	16.7 %
Total branch retail deposits	5,168,828	0.60 %	73.1 %	4,804,833	0.45 %	78.3 %
Commercial retail deposits						
Demand deposit accounts	133,296	0.01 %	1.9 %	93,515	0.01 %	1.5 %
Savings accounts	26,948	0.35 %	0.4 %	19,635	0.40 %	0.3 %
Money market demand accounts	42,901	0.60 %	0.6 %	25,095	0.54 %	0.4 %
Certificate of deposit/CDARS (1)	5,145	0.29 %	0.1 %	2,988	0.41 %	0.1 %
Total commercial retail deposits	208,290	0.18 %	3.0 %	141,233	0.17 %	2.3 %
Total retail deposits subtotal	5,377,118	0.59 %	76.1 %	4,946,066	0.44 %	80.6 %
Government deposits						
Demand deposit accounts	246,055	0.38 %	3.5 %	314,804	0.38 %	5.1 %
Savings accounts	316,917	0.52 %	4.5 %	183,128	0.27 %	3.0 %
Certificate of deposit/CDARS	354,971	0.43 %	5.0 %	104,466	0.26 %	1.7 %
Total government deposits (2)	917,943	0.45 %	13.0 %	602,398	0.33 %	9.8 %
Wholesale deposits	247	0.06 %	— %	8,717	3.43 %	0.1 %
Company controlled deposits (3)	773,298	— %	10.9 %	583,145	— %	9.5 %
Total deposits (4)	$7,068,606	0.50 %	100.0 %	$6,140,326	0.39 %	100.0 %

(1) The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was approximately $0.8 billion at both December 31, 2014 and 2013.

(2) Government deposits include funds from municipalities and schools.

(3) These accounts represent a portion of the investor custodial accounts and escrows controlled by us in connection with loans serviced for others and that have been placed on deposit with the Bank.

(4) The aggregate amount of deposits with a balance over $250,000 was approximately $2.6 billion and $1.7 billion at December 31, 2014 and 2013, respectively.

The following table indicates the scheduled maturities of our certificates of deposit with a minimum denomination of $100,000 by acquisition channel as of December 31, 2014.

	Retail Deposits	Government Deposits	Total
	(Dollars in thousands)		
Twelve months or less	$381,113	$337,498	$718,611
One to two years	30,584	8,865	39,449
Two to three years	22,686	—	22,686
Three to four years	5,988	—	5,988
Four to five years	5,749	—	5,749
Thereafter	5,078	—	5,078

Total	$451,198	$346,363	$797,561

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The following table sets forth information relating to our total deposit flows for each of the years indicated.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Beginning deposits	$6,140,326	$8,294,295	$7,689,988	$7,998,099	$8,778,469
Interest credited	30,334	42,392	70,143	95,546	154,692
Net deposit increase (decrease)	897,946	(2,196,361)	534,164	(403,657)	(935,062)
Total deposits, end of the year	$7,068,606	$6,140,326	$8,294,295	$7,689,988	$7,998,099

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 and their increase has allowed us to replace maturing brokered CDs and other potentially less stable funding sources.

Borrowings. The Federal Home Loan Bank provides loans, also referred to as advances, on a fully collateralized basis, to savings banks and other member financial institutions. 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. At December 31, 2014, we had an authorized line of credit of $7.0 billion that could be utilized to the extent we provide sufficient collateral. At December 31, 2014, we had available collateral sufficient to access $2.7 billion of the line and as to which we had $0.5 billion of advances outstanding.

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 provide. To collateralize the line, we pledge commercial and industrial loans that are eligible based on Federal Reserve Bank of Chicago guidelines. At December 31, 2014, we had pledged commercial and industrial loans amounting to $53.3 million with a lendable value of $30.6 million. At December 31, 2013, we had pledged commercial and industrial loans amounting to $38.7 million with a lendable value of $25.5 million. At December 31, 2014 and 2013, we had no borrowings outstanding against this line of credit.

Federal Home Loan Bank advances. Federal Home Loan Bank advances decreased $0.5 billion at December 31, 2014 from December 31, 2013. We rely upon advances from the Federal Home Loan Bank as a source of funding for the origination or purchase of loans for sale in the secondary market and for providing duration specific short-term and medium-term financing. The outstanding balance of Federal Home Loan Bank advances fluctuates from time to time depending on our current inventory of mortgage loans held-for-sale and the availability of lower cost funding sources such as repurchase agreements. During the year ended December 31, 2014, we had an increase in funds available from other sources, including proceeds from the sale of mortgage servicing rights, commercial loans, and residential first mortgage nonperforming and TDR loans, which reduced the need for the short-term borrowings from Federal Home Loan Bank.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Maximum outstanding at any month end	$1,300,000	$2,907,598	$3,770,000
Average balance	939,173	2,914,637	3,698,362
Average remaining borrowing capacity	1,947,000	735,391	1,040,677
Average interest rate	0.23%	3.22%	2.88%

See Note 14 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein for additional information of Federal Home Loan Bank advances.

Long-term debt. As part of our overall capital strategy, we previously raised capital through the issuance of trust-preferred securities by our special purpose financing entities formed for the offerings. The outstanding trust preferred securities mature 30 years from issuance, are callable by us after five years and pay interest quarterly. Under these trust preferred arrangements, we have the right to defer interest payments to the trust preferred security holders for up to five years without default or penalty.

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On January 27, 2012, we notified holders of the trust preferred securities our intention to exercise the contractual right to defer regularly scheduled quarterly payments of interest, beginning with the February 2012 payment, with respect to trust preferred securities. These payments will be periodically evaluated and reinstated when appropriate, subject to provisions of the Consent Order and Supervisory Agreement. At December 31, 2014, we have deferred for 12 consecutive quarters.

As of June 30, 2013, following the Assured Settlement Agreement, we reconsolidated the debt associated with the HELOC securitizations, held in a trust or variable interest entity ("VIE"), at fair value. At December 31, 2014, long-term debt includes a fair value of $83.8 million in VIE long-term debt associated with HELOC securitizations, which are consolidated in the Consolidated Financial Statements, in Item 1. Financial Statements herein. We acquired the HELOC loans and the proceeds of which were used by the trust to repay outstanding debt.

Loan Sales. We sell a significant portion of our mortgage loans we originate. Sales of loans totaled $24.4 billion, or 99.2 percent of originations during the year ended December 31, 2014, compared to $39.1 billion, or 104.3 percent of originations during the year ended December 31, 2013. The decrease in the dollar volume of sales during the year ended December 31, 2014 was primarily due to the decrease in origination volumes, as compared to the year ended December 31, 2013. As of December 31, 2014, we had outstanding commitments to sell $3.0 billion of mortgage loans. Generally, these commitments are funded within 120 days.

Loan Principal Payments. We also invest in loans that we hold for our own portfolio and their principal payments on which provide another source of funds for us.

The following tables set forth, at December 31, 2014, the expected repayment of our loans held-for-investment, both as fixed rate and adjustable rate loans.

LOAN PRINCIPAL REPAYMENT SCHEDULE
FIXED RATE LOANS

	December 31, 2014							
	Within 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 5 Years	5 Years to 10 Years	10 Years to 15 Years	Over 15 Years	Totals (1)
	(Dollars in thousands)							
Residential first mortgage	$14,675	$15,382	$16,124	$34,625	$102,362	$129,779	$412,133	$725,080
Second mortgage	6,239	6,681	7,155	15,870	50,642	57,051	—	143,638
Other consumer	3,143	3,318	3,507	5,834	11,886	877	—	28,565
Commercial real estate	30,349	31,921	18,729	—	—	—	—	80,999
Commercial and industrial	3,756	3,916	4,082	5,948	—	—	—	17,702
Commercial lease financing	1,177	1,219	1,261	2,657	3,340	—	—	9,654
Total loans	$59,339	$62,437	$50,858	$64,934	$168,230	$187,707	$412,133	$1,005,638

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

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LOAN PRINCIPAL REPAYMENT SCHEDULE
ADJUSTABLE RATE LOANS

	December 31, 2014							
	Within 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 5 Years	5 Years to 10 Years	10 Years to 15 Years	Over 15 Years	Totals (1)
	(Dollars in thousands)							
Residential first mortgage	$46,494	$48,029	$49,614	$104,195	$292,113	$343,619	$593,571	$1,477,635
Second mortgage	267	286	306	678	2,165	2,439	—	6,141
HELOC	34,262	36,153	38,149	82,732	64,367	—	—	255,663
Other consumer	26	—	—	—	—	—	—	26
Commercial real estate	141,337	145,445	149,671	105,066	—	—	—	541,519
Commercial and industrial	128,810	133,301	137,948	8,348	—	—	—	408,407
Warehouse lending	788,518	—	—	—	—	—	—	788,518
Total loans	$1,139,714	$363,214	$375,688	$301,019	$358,645	$346,058	$593,571	$3,477,909

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.

Contractual Obligations and Commitments

We have various financial obligations, including contractual obligations and commitments, which require future cash payments. Refer to Notes 1, 13, 14 and 15 of the Notes to Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein. The following table presents the aggregate annual maturities of contractual obligations (based on final maturity dates) at December 31, 2014.

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(Dollars in thousands)				
Deposits without stated maturities	$5,127,792	$—	$—	$—	$5,127,792
Certificates of deposits	981,105	140,179	33,882	12,350	1,167,516
Federal Home Loan Bank advances	214,000	175,000	—	125,000	514,000
Trust preferred securities	—	—	—	247,435	247,435
Consolidated VIEs	—	—	83,759	—	83,759
Operating leases	6,075	7,492	1,724	954	16,245
Other debt	—	—	—	81,580	81,580
Total	$6,328,972	$322,671	$119,365	$467,319	$7,238,327

Market Risk

Market risk is the risk of reduced earnings and or declines in the net market value of the balance sheet primarily due to changes in interest rates, currency exchange rates, or equity prices. We do not have any material foreign currency exchange risk or equity price risk. The primary market risk is interest rate risk and results from timing differences in the repricing of our assets and liabilities, changes in the relationships between rate indices, and the potential exercise of explicit or embedded options.

Interest rate risk is monitored by the asset liability committee ("ALCO"), which is composed of several of our executive officers and other members of management, in accordance with policies approved by our board of directors. In determining the appropriate level of interest rate risk, the ALCO considers the impact projected interest rate scenarios have on earnings and capital, liquidity, business strategies, and other factors. The ALCO meets monthly or as deemed necessary to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and fair values of assets and liabilities, unrealized gains and losses, purchase and sale activity, loans held-for-sale and commitments to originate loans, and the maturities of investments, borrowings and time deposits.

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Financial instruments used to manage interest rate risk include derivative financial instruments such as interest rate swaps and forward sales commitments. Further discussion of the use of and the accounting for derivative instruments is included in Notes 12 and 24 of the Notes to Consolidated Financial Statements, in Item 8 Financial Statements and Supplementary Data, herein. All of our derivatives are accounted for at fair market value. All mortgage loan production originated for sale is accounted for on a fair value basis.

To effectively measure and manage interest rate risk, sensitivity analysis is used to determine the impact on earnings and the net market value of the balance sheet across various interest rate scenarios, balance sheet trends, and strategies. From these simulations, interest rate risk is quantified and appropriate strategies are developed and implemented. Additionally, duration and net interest income sensitivity measures are utilized when they provide added value to the overall interest rate risk management process. The overall interest rate risk position and strategies are reviewed by executive management and the board of directors on an ongoing basis. Business is traditionally managed to reduce overall exposure to changes in interest rates. However, management has the latitude to increase interest rate sensitivity position within certain limits if, in management's judgment, the increase will enhance profitability.

Net interest income simulation analysis provides estimated net interest income of the current balance sheet across alternative interest rate scenarios. The net interest income analysis measures the sensitivity of interest sensitive earnings over a twelve month time horizon. The analysis holds the current balance sheet values constant and does not take into account management intervention. The net interest income simulation demonstrates the level of interest rate risk inherent in the existing balance sheet.

The following table is a summary of the changes in our net interest income that are projected to result from hypothetical changes in market interest rates. The interest rate scenarios presented in the table include interest rates as of December 31, 2014 and 2013 and adjusted by instantaneous parallel rate changes plus or minus 200 basis points.

December 31, 2014						
Scenario	Net interest Income	$ Change		% Change		
(Dollars in thousands)						
200	$296,811	$42,312		17.0		%
Constant	254,499	—		—		%
(200)	206,953	(47,546	)	(19.0		)%
December 31, 2013						
Scenario	Net interest Income	$ Change		% Change		
(Dollars in thousands)						
200	$286,048	$35,058		14.0		%
Constant	250,990	—		—		%
(200)	211,613	(39,377	)	(16.0		)%

In the net interest income simulation, our balance sheet exhibits slight asset sensitivity. When interest rates rise our interest income increases, conversely when interest rates fall our interest income decreases. The net interest income simulation measures the interest rate risk of the balance sheet over a short period over time, typically twelve months. An additional analysis is completed that measures the interest rate risk over an extended period of time. The Economic Value of Equity ("EVE") analysis provides a fair value of the balance sheet in alternative interest rate scenarios. The EVE analysis does not take into account management intervention and assumes the new rate environment is constant and the change is instantaneous.

The following table is a summary of the changes in our EVE that are projected to result from hypothetical changes in market interest rates. EVE is the market value of assets, less the market value of liabilities, adjusted for the market value of off balance sheet instruments. The interest rate scenarios presented in the table include interest rates at

December 31, 2014 and 2013, and as adjusted by instantaneous parallel rate changes upward to 300 basis points and downward to 100 basis points. The scenarios are not comparable due to differences in the interest rate environments, including the absolute level of rates and the shape of the yield curve. Each rate scenario reflects unique prepayment, repricing, and reinvestment assumptions. Management derives these assumptions by considering published market prepayment expectations, the repricing characteristics of individual instruments or groups of similar instruments, our historical experience, and our asset and liability management strategy. Further, this analysis assumes that certain instruments would not be affected by the changes in interest rates or would be partially affected due to the characteristics of the instruments.

This analysis is based on our interest rate exposure at December 31, 2014 and 2013, and does not contemplate any actions that we might undertake in response to changes in market interest rates, which could impact EVE. Further, as this framework evaluates risks to the current statement of financial condition only, changes to the volumes and pricing of new business opportunities that can be expected in the different interest rate outcomes are not incorporated in this analytical framework. For instance, analysis of our history suggests that declining interest rate levels are associated with higher loan production volumes at higher levels of profitability. While this "natural business hedge" historically offset most, if not all, of the identified risks associated with declining interest rate scenarios, these factors fall outside of the EVE framework. Further, there can be no assurance that this natural business hedge would positively affect the economic value of equity in the same manner and to the same extent as in the past.

There are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates. It is not possible to fully model the market risk in instruments with leverage, option, or prepayment risks. Also, we are affected by basis risk, which is the difference in repricing characteristics of similar term rate indices. As such, this analysis is not intended to be a precise forecast of the effect a change in market interest rates would have on us.

If EVE increases in any interest rate scenario, that would indicate an increasing direction for the margin in that hypothetical rate scenario. A perfectly matched balance sheet would possess no change in the EVE, no matter what the rate scenario. The following table presents the EVE in the stated interest rate scenarios.

December 31, 2014					December 31, 2013				
Scenario	NPV	NPV%	$ Change	% Change	Scenario	NPV	NPV%	$ Change	% Change
(Dollars in thousands)									
300	$1,462,245	16.6 %	$(217,372)	(12.9)%	300	$1,131,146	13.4 %	$(261,137)	(18.8)%
200	1,537,040	17.0 %	(142,577)	(8.5)%	200	1,233,357	14.3 %	(158,926)	(11.4)%
100	1,617,851	17.4 %	(61,766)	(3.7)%	100	1,325,836	15.0 %	(66,447)	(4.8)%
Current	1,679,617	17.7 %	—	— %	Current	1,392,283	15.4 %	—	— %
(100)	1,703,179	17.6 %	23,562	1.4 %	(100)	1,416,747	15.4 %	24,464	1.8 %

Our balance sheet exhibits sensitivity in a rising interest rate scenario as the EVE decreases. The decrease in EVE is the result of the amount of liabilities that would be expected to reprice in the near term exceeding the amount of assets that could similarly reprice over the same time period because such assets may have longer maturities or repricing terms.

Operational Risk

As with all companies, we are subject to operational risk. Operational risk is the risk of loss due to human error; inadequate or failed internal systems and controls; violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards; and external influences such as market conditions, fraudulent activities, disasters, and security risks. We continuously strive to strengthen our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk. We evaluate internal systems, processes and controls to mitigate loss from cyber-attacks and, to date, have not experienced any material losses. The goal of this framework is to implement effective operational risk techniques and strategies, minimize operational and fraud losses and enhance our overall performance.

Capital

Under the capital distribution regulations, a savings bank that is a subsidiary of a savings and loan holding company must either notify or seek approval from the OCC of an association capital distribution at least 30 days prior to the declaration of a dividend or the approval by our board of directors of the proposed capital distribution. The 30-day period allows the OCC to determine whether the distribution would not be advisable. Because we are under the

Consent Order, we currently must seek approval from the OCC prior to making a capital distribution from the Bank. In addition, under the Supervisory Agreement, the Company agreed to request prior non-objection of the Federal Reserve to pay dividends or other capital distributions.

Under the terms of the Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock") the Company may defer payments of dividends. Beginning with the February 2012 payment, the Company has exercised its contractual right to defer regularly scheduled quarterly payments of dividends on Series C Preferred Stock, and is therefore currently in arrears with the dividend payments. As of December 31, 2014, the amount of the arrearage on the dividend payments of the Series C Preferred Stock was $56.3 million. At the time that the Company pays the $56.3 million of deferred

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dividends, this payment will result in a reduction of equity. Currently, the impact of the deferred dividends is removed from net income, for calculating the Company's earnings per share. We also would have to simultaneously bring the deferred interest payments of the Trust Preferred Securities current, which total $20.3 million, at December 31, 2014, have been accrued and reflected within interest expense during the appropriate period.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

At December 31, 2014, the Bank was considered "well-capitalized" for regulatory purposes. The following table shows the regulatory capital ratios as of the dates indicated. These ratios are applicable to the Bank only.

	December 31, 2014			December 31, 2013		
	Amount	Ratio		Amount	Ratio	
Tier 1 leverage (to adjusted tangible assets)	$1,167,422	12.43	%	$1,257,608	13.97	%
Total adjusted tangible asset base (1)	$9,392,178			$9,004,904		
Tier 1 capital (to risk weighted assets)	$1,167,422	22.54	%	$1,257,608	26.82	%
Total risk-based capital (to risk weighted assets)	1,234,958	23.85	%	1,317,964	28.11	%
Risk weighted asset base (1)	$5,178,781			$4,688,545		

(1) Based on adjusted total assets for purposes of core capital and risk-weighted assets for purposes of total risk-based capital.

The bank regulatory agencies have issued guidelines establishing capital requirements for banks. These guidelines are based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision ("BCBS"). We currently calculate our risk-based capital ratios under guidelines adopted by the OCC based on the Basel I framework. Under the current risk based capital framework, a bank’s balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that comprises the denominator of certain risk-based capital ratios. Tier 1 capital and Total Risk Based capital are each divided by this denominator (risk-weighted assets) to determine the Tier 1 capital and Total Risk-Based capital ratios.

In July 2013, the federal bank regulators issued interim final rules (the "New Capital Rules") implementing the Basel Committee’s December 2010 final capital framework for strengthening international capital standards, known as Basel III, as well as certain provisions of the Dodd-Frank Act. In October 2013, the OCC and Federal Reserve released final rules detailing the U.S. implementation of Basel III. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The New Capital Rules revise the components of capital and address other issues affecting the numerator in regulatory capital ratios. The New Capital Rules also address asset risk weights and other issues affecting the denominator in regulatory capital ratios and replace the existing general risk-weighting approach based on Basel I with a more risk-sensitive approach based, in part, on the standardized approach as part of Basel II. The New Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal bank regulators’ rules.

The New Capital Rules are effective for us on January 1, 2015 subject to a phase-in period extending through January 2019. The New Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier

1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Savings and loan holding companies are not currently subject to consolidated capital requirements. Pursuant to the Dodd-Frank Act, the U.S. bank regulatory agencies have established minimum leverage and risk-based capital requirements for savings and loan holding companies. Beginning January 1, 2015, savings and loan holding companies are subject to the same consolidated capital requirements as bank holding companies.

The New Capital Rules also introduce a new capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation

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buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. When fully phased-in on January 1, 2019, the New Capital Rules will require us to maintain an additional capital conservation buffer of 2.5 percent of risk-weighted assets above the minimum risk-based capital ratio requirements.

We are not subject to the Federal Reserve’s Comprehensive Capital Analysis and Review ("CCAR") program. Banks with assets greater than $10 billion are required to submit a Dodd-Frank stress test ("DFAST") under the final rules established by their primary regulator. DFAST requires banks to project results over a nine-quarter planning horizon under three scenarios (baseline, adverse, and severely adverse) published by the Federal Reserve and to show that the bank would exceed regulatory minimum capital standards for the Tier 1 leverage ratio, Tier 1 common ratio, Tier 1 risk-based capital ratio, and the Total risk-based capital ratio under all of these scenarios. In addition, banks are encouraged to employ an additional bank-specific, idiosyncratic scenario designed to "break the bank". This latter scenario is designed to provide senior management and the Board with a worst-case analysis to guide their capital planning.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such items, in the aggregate, exceed 15 percent of CET1. The New Capital Rules prescribe a new standardized approach for risk weightings that expands the risk-weighting categories from the current four Basel I-derived categories to a much larger and more risk-sensitive number of categories resulting in higher risk weights for a variety of asset classes.

Certain regulatory capital ratios for the Bank as of December 31, 2014 are shown in the following table.

December 31, 2014	Regulatory Minimums		Regulatory Minimums to be Well-Capitalized		Bank	
Basel I Ratios						
Tier 1 leverage ratio	4.00	%	5.00	%	12.43	%
Basel III Ratios (fully phased-in) (1)						
Common equity Tier 1 capital ratio (1)	4.50	%	6.50	%	19.80	%
Tier 1 leverage ratio (1)	4.00	%	5.00	%	10.96	%

(1) See "Use of Non-GAAP Financial Measures."

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and Notes thereto presented herein have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Use of Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this report includes non-GAAP financial measures such as an adjusted efficiency ratio, adjusted earnings, the ratio of total nonperforming assets to Tier 1 capital (to adjusted total assets) and estimated Basel III ratios. 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 the Company.

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, we have 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 report 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.

Efficiency ratio and efficiency ratio (adjusted). The efficiency ratio, which generally measures the productivity of a bank, is calculated as noninterest expense divided by total operating income. Total operating income includes net interest income and total noninterest income. Management utilizes the efficiency ratio to monitor its own productivity and believes the ratio provides investors with a meaningful tool to monitor period-to-period productivity trends. The efficiency ratio (adjusted), excludes from noninterest expense and noninterest income (GAAP) certain adjusting items, that are described in the table below. As the provision for loan losses is already excluded by the ratio's own definition, we believe that the exclusion of representation and warranty provision provides investors with a more complete picture of our productivity and ability to generate operating income. The efficiency ratio (adjusted) provides investors with a meaningful base for period to period comparisons, which management believes will assist investors in analyzing our operating results and predicting future performance. These non-GAAP financial measures are also utilized internally by management to assess the performance of our own business.

Our calculations of the efficiency ratio may differ from the calculation of similar measures used by other bank and thrift holding companies, and should be used to determine and evaluate period to period trends in our performance, rather than in comparison to other similar non-GAAP measurements utilized by other companies. In addition, investors should keep in mind that certain items excluded from income and expenses in the efficiency ratio (adjusted) are recurring and integral expenses to our operations, and that these expenses will still accrue under similar GAAP measures.

Adjusted Income from Operations and Adjusted Earnings Per Share. In addition to analyzing the Company’s results on a reported basis, management reviews the Company’s results and the results on an adjusted basis. These non-GAAP measures reflect the adjustment of the reported U.S. GAAP results for significant items that management does not believe are reflective of the Company’s current and ongoing operations.

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The following table provides a reconciliation of non-GAAP financial measures utilized in the adjusted efficiency ratio and adjusted earnings per share.

	For the Years Ended December 31,	
	2014	2013
	(Dollars in thousands)	
Net interest income (a)	$246,291	$186,651
Noninterest income (b)	361,065	652,343
Less provisions:		
Representation and warranty provision	364	61,016
Adjusting items:		
Loan fees and charges (1)	(10,000)	—
Net impairment loss (2)	—	8,789
Representation and warranty provision (3)	10,375	(24,900)
Other noninterest income (4)	21,056	(36,854)
Adjusted noninterest income	$382,496	$599,378
Adjusted income (c)	$629,151	$847,045
Noninterest expense (d)	$579,246	$918,115
Adjusting items:		
Loss on extinguishment of debt (5)	—	(177,556)
Legal and professional expense (6)	(3,995)	—
Other noninterest expense (7)	(27,500)	(51,000)
Adjusted noninterest expense	$547,751	$689,559
Efficiency ratio (d/(a+b))	95.4%	109.4%
Efficiency ratio (adjusted) ((d-e)/(a+b+c))	87.1%	81.4%
Net (loss) income applicable to common stockholders	$(69,948)	$261,203
Adjustment to remove adjusting items (1-7 above), net of tax	52,926	175,591
Tax impact of adjusting items	—	(60,579)
Adjusting tax item	—	(355,769)
Adjusted net (loss) income applicable to common stockholders	$(17,022)	$20,446
Diluted (loss) income per share	$(1.72)	$4.37
Adjustment to remove adjusting items	0.94	3.11
Tax impact of adjusting items	—	(1.07)
Adjusting tax item	—	(6.30)
Diluted adjusted (loss) income per share	$(0.78)	$0.11
Weighted average shares outstanding		
Basic	56,246,528	56,063,282
Diluted	56,246,528	56,518,181

(1) Reverse benefit for contract renegotiation.

(2) Add back impairment charge related to the litigation settlement with MBIA.

(3) Add back reserve increase related to indemnifications claims on government insured loans.

(4) In 2014, negative fair value adjustment on repurchased performing loans and a benefit for contract renegotiation. In 2013, reversal of contingent liability reserve resulting from terms of settlement reached on a litigation settlement related to the HELOC securitization trusts.

(5) Loss on extinguishment of debt as a result of the prepayment of the higher cost long-term Federal Home Loan Bank advances.

(6) Adjust for legal expenses related to the litigation settlements during the respective periods.

(7) Adjust CFPB litigation settlement expense.

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Nonperforming assets / Tier 1 + Allowance for Loan Losses. The ratio of nonperforming assets to Tier 1 and allowance for loan losses divides the total level of nonperforming assets held for investment by Tier 1 capital (to adjusted total assets), as defined by bank regulations, plus allowance for loan losses. We believe these measurements are meaningful measures of capital adequacy used by investors, regulators, management and others to evaluate the adequacy of capital in comparison to other companies within the industry.

	December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Nonperforming assets / Tier 1 capital + allowance for loan losses					
Nonperforming assets	$139,184	$182,321	$520,557	$603,082	$497,973
Tier 1 capital (to adjusted total assets) (1)	1,167,422	1,257,608	1,295,841	1,215,220	1,306,104
Allowance for loan losses	297,000	207,000	305,000	318,000	274,000
Tier 1 capital + allowance for loan losses	$1,464,422	$1,464,608	$1,600,841	$1,533,220	$1,580,104
Nonperforming assets / Tier 1 capital + allowance for loan losses	9.5 %	12.4 %	32.5 %	39.3 %	31.5 %

(1) Represents Tier 1 capital for the Bank.

Mortgage servicing rights to Tier 1 capital ratio. The ratio of mortgage servicing rights to Tier 1 capital divides the total mortgage servicing rights by Tier 1 capital, as defined by bank regulations. We believe these measurements are meaningful measures of capital adequacy, especially in relation to the level of our mortgage servicing rights. This ratio allows our investors, regulators, management and other parties to measure the adequacy and quality of our mortgage servicing rights and capital, in comparison to other companies within our industry.

	December 31,	
	2014	2013
Flagstar Bank	(Dollars in thousands)	
Mortgage servicing rights to Tier 1 capital ratio		
Mortgage servicing rights	$257,827	$284,678
Tier 1 capital (to adjusted total assets)	1,167,422	1,257,608
Mortgage servicing rights to Tier 1 capital ratio	22.1 %	22.6 %

	December 31,	
	2014	2013
Flagstar Bancorp	(Dollars in thousands)	
Mortgage servicing rights to Tier 1 capital ratio		
Mortgage servicing rights	$257,827	$284,678
Tier 1 capital (to adjusted total assets)	1,183,625	1,280,532
Mortgage servicing rights to Tier 1 capital ratio	21.8 %	22.2 %

Basel I to Basel III (fully phased-in) reconciliation. We currently calculate our risk-based capital ratios under guidelines adopted by the OCC based on the 1988 Capital Accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). In December 2010, the Basel Committee released its final framework for Basel III, which will strengthen international capital and liquidity regulations. When fully phased-in, Basel III will increase capital requirements through higher minimum capital levels as well as through increases in risk-weights for certain exposures. Additionally, the final Basel III rules place greater emphasis on common equity. In October 2013, the OCC and Federal Reserve released final rules detailing the U.S. implementation of Basel III and the application of the

risk-based and leverage capital rules to top-tier savings and loan holding companies. We have transitioned to the Basel III framework beginning in January 2015 and are subject to a phase-in period extending through January 2019. Accordingly, the calculations provided below are estimates. These measures are considered to be non-GAAP financial measures because they are not formally defined by GAAP and the Basel III implementation regulations will not be fully phased-in until 2019. The regulations are subject to change as clarifying guidance becomes available and the calculations currently include our interpretations of the requirements including informal feedback received through the regulatory process. Other entities may calculate the Basel III ratios differently from ours based on their interpretation of the guidelines. Since analysts and banking regulators may assess our capital adequacy using the Basel III framework, we believe that it is useful to provide investors information enabling them to assess our capital adequacy on the same basis.

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December 31, 2014	Common Equity Tier 1 (to Risk Weighted Assets)	Tier 1 Leverage (to Adjusted Tangible Assets) (1)
Flagstar Bank		
Regulatory capital – Basel I to Basel III (fully phased-in) (2)		
Basel I capital	$1,167,422	$1,167,422
Increased deductions related to deferred tax assets, mortgage servicing assets, and other capital components	(117,406)	(117,406)
Basel III (fully phased-in) capital (2)	$1,050,016	$1,050,016
Risk-weighted assets – Basel I to Basel III (fully phased-in) (2)		
Basel I assets	$5,178,781	$9,392,178
Net change in assets	124,516	192,481
Basel III (fully phased-in) assets (2)	$5,303,297	$9,584,659
Capital ratios		
Basel I (3)	22.54 %	12.43 %
Basel III (fully phased-in) (2)	19.80 %	10.96 %

(1) The definition of total assets used in the calculation of the Tier 1 Leverage ratio changed from ending total assets under Basel I to quarterly average total assets under Basel III.
(2) Basel III information is considered estimated and not final at this time as the Basel III rules continue to be subject to interpretation by U.S. Banking Regulators.
(3) The Bank is currently subject to the requirements of Basel I.

December 31, 2013	Common Equity Tier 1 (to Risk Weighted Assets)	Tier 1 Leverage (to Adjusted Tangible Assets) (1)
Flagstar Bancorp		
Regulatory capital – Basel I to Basel III (fully phased-in) (2)		
Basel I capital	$669,533	$1,183,624
Increased deductions related to deferred tax assets, mortgage servicing assets, and other capital components	(205,243)	(209,028)
Basel III (fully phased-in) capital (2)	$464,290	$974,596
Risk-weighted assets – Basel I to Basel III (fully phased-in) (2)		
Basel I assets	$5,189,822	$9,403,220
Net change in assets	(97,735)	108,862
Basel III (fully phased-in) assets (2)	$5,092,087	$9,512,082
Capital ratios		
Basel I (3)	12.90 %	12.59 %
Basel III (fully phased-in) (2)	9.12 %	10.25 %

(1) The definition of total assets used in the calculation of the Tier 1 Leverage ratio changed from ending total assets under Basel I to quarterly average total assets under Basel III.
(2) Basel III information is considered estimated and not final at this time as the Basel III rules continue to be subject to interpretation by U.S. Banking Regulators.
(3) The Company is currently subject to the requirements of Basel I.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A discussion regarding our management of market risk is included in "Market Risk" in this report in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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March 16, 2015

Management's Report

Flagstar Bancorp's management is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Internal control over financial reporting includes policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with existing policies or procedures may deteriorate.

With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014, based on the framework and criteria established in the 1992 Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, as of December 31, 2014, we have not maintained effective internal control over financial reporting based on the COSO criteria because of control deficiencies identified in the preparation and review process of the statements of cash flows that, when evaluated, constituted a material weakness.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014, has been audited by Baker Tilly Virchow Krause, LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

/s/ Alessandro DiNello
Alessandro DiNello
President and Chief Executive Officer
(Principal Executive Officer)

/s/ James K. Ciroli
James K. Ciroli
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders

To Shareholders, Audit Committee and Board of Directors
Flagstar Bancorp, Inc.
Troy, MI

We have audited the accompanying consolidated statements of financial condition of Flagstar Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements include examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances.We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flagstar Bancorp Inc. and subsidiaries as of December 31, 2014 and 2013, and the

consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, because of a material weakness in internal controls related to the classification of certain transactions within its statement of cash flows, as described in Management's Report on Internal Control appearing under Item 9A, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements. Our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

As described in Note 1, the consolidated statement of cash flows for the year ended December 31, 2013 has been restated to correct an error in the classification of certain transactions between operating, investing, and financing cash flows.

/s/ Baker Tilly Virchow Krause, LLP
Southfield, Michigan
March 16, 2015

Flagstar Bancorp, Inc.
Consolidated Statements of Financial Condition
(In thousands, except share data)

	December 31,	
	2014	2013
Assets		
Cash and cash equivalents	$136,014	$280,505
Investment securities available-for-sale	1,672,179	1,045,548
Loans held-for-sale ($1,196,216 and $1,140,507 measured at fair value, respectively)	1,243,792	1,480,418
Loans repurchased with government guarantees	1,128,359	1,308,073
Loans held-for-investment, net		
Loans held-for-investment ($210,612 and $238,322 measured at fair value, respectively)	4,447,554	4,055,756
Less: allowance for loan losses	(297,000)	(207,000)
Total loans held-for-investment, net	4,150,554	3,848,756
Mortgage servicing rights	257,827	284,678
Federal Home Loan Bank stock	155,443	209,737
Premises and equipment, net	237,942	231,350
Net deferred tax asset	442,349	414,681
Other assets	415,392	303,555
Total assets	$9,839,851	$9,407,301
Liabilities and Stockholders' Equity		
Deposits		
Noninterest bearing	$1,209,275	$930,060
Interest bearing	5,859,331	5,210,266
Total deposits	7,068,606	6,140,326
Federal Home Loan Bank advances	514,000	988,000
Long-term debt ($83,759 and $105,813 measured at fair value, respectively)	331,194	353,248
Representation and warranty reserve	53,000	54,000
Other liabilities ($81,580 and $93,000 measured at fair value, respectively)	500,230	445,853
Total liabilities	8,467,030	7,981,427
Stockholders' Equity		
Preferred stock $0.01 par value, liquidation value $1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding, respectively	266,657	266,174
Common stock $0.01 par value, 70,000,000 shares authorized; 56,332,307 and 56,138,074 shares issued and outstanding, respectively	563	561
Additional paid in capital	1,482,465	1,479,265
Accumulated other comprehensive income (loss)	8,380	(4,831)
Accumulated deficit	(385,244)	(315,295)
Total stockholders' equity	1,372,821	1,425,874
Total liabilities and stockholders' equity	$9,839,851	$9,407,301

The accompanying notes are an integral part of these Consolidated Financial Statements.

Flagstar Bancorp, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	For the Years Ended December 31,		
	2014	2013	2012
Interest Income			
Loans	$245,907	$313,477	$456,141
Investment securities available-for-sale or trading	39,097	11,912	22,609
Interest-earning deposits and other	557	5,298	2,220
Total interest income	285,561	330,687	480,970
Interest Expense			
Deposits	30,334	42,392	70,143
Federal Home Loan Bank advances	2,206	95,024	106,625
Other	6,731	6,620	6,971
Total interest expense	39,271	144,036	183,739
Net interest income	246,290	186,651	297,231
Provision for loan losses	131,553	70,142	276,047
Net interest income after provision for loan losses	$114,737	$116,509	$21,184
Noninterest Income			
Loan fees and charges	$73,033	$103,501	$142,908
Deposit fees and charges	21,625	20,942	20,370
Net gain on loan sales	205,803	402,193	990,898
Loan administration income	24,304	6,035	(797)
Net return on mortgage servicing asset	24,082	90,609	88,485
Net gain on sale of assets	12,361	2,172	—
Net impairment losses	—	(8,789)	(2,192)
Representation and warranty provision	(10,011)	(36,116)	(256,289)
Other noninterest income	9,868	71,796	37,859
Total noninterest income	$361,065	$652,343	$1,021,242
Noninterest Expense			
Compensation and benefits	$233,185	$279,268	$270,859
Commissions	35,480	54,407	75,345
Occupancy and equipment	80,386	80,042	73,674
Asset resolution	56,486	52,033	91,349
Federal insurance premiums	22,716	34,873	49,273
Loss on extinguishment of debt	—	177,556	15,246
Loan processing expense	36,996	52,223	56,070
Legal and professional expense	50,603	77,742	70,612
Other noninterest expense	63,394	109,971	287,267
Total noninterest expense	$579,246	$918,115	$989,695
(Loss) income before income taxes	$(103,444)	$(149,263)	$52,731
Benefit for income taxes	(33,979)	(416,250)	(15,645)
Net (loss) income	(69,465)	266,987	68,376
Preferred stock dividend/accretion	(483)	(5,784)	(5,658)
Net (loss) income applicable to common stock	$(69,948)	$261,203	$62,718
(Loss) earnings per share			
Basic	$(1.72)	$4.40	$0.88
Diluted	$(1.72)	$4.37	$0.87
Weighted average shares outstanding			
Basic	56,246,528	56,063,282	55,762,196

Diluted	56,246,528	56,518,181	56,193,515

The accompanying notes are an integral part of these Consolidated Financial Statements.

Flagstar Bancorp, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	For the Years Ended December 31,		
	2014	2013	2012
Net (loss) income	$(69,465)	$266,987	$68,376
Other comprehensive income (loss), before tax			
Investment securities available-for-sale			
Unrealized gains (loss)	24,431	(19,197)	26,485
Reclassification of net gain (loss) on the sale, dissolution and OTTI	(4,038)	17,921	(444)
Total investment securities available-for-sale, before tax	20,393	(1,276)	26,041
Other comprehensive income, deferred tax (loss) benefit			
Provision for income taxes	7,182	1,897	19,880
Other comprehensive income (loss), net of tax	13,211	(3,173)	6,161
Comprehensive (loss) income	$(56,254)	$263,814	$74,537

The accompanying notes are an integral part of these Consolidated Financial Statements.

Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2011	$254,732	$556	$1,471,463	$ (7,819)	$ (639,216)	$1,079,716
Net income	—	—	—	—	68,376	68,376
Total other comprehensive income	—	—	—	6,161	—	6,161
Restricted stock issued	—	1	(1)	—	—	—
Accretion of preferred stock	5,658	—	—	—	(5,658)	—
Stock-based compensation	—	2	5,107	—	—	5,109
Balance at December 31, 2012	$260,390	$559	$1,476,569	$ (1,658)	$ (576,498)	$1,159,362
Net income	—	—	—	—	266,987	266,987
Total other comprehensive loss	—	—	—	(3,173)	—	(3,173)
Restricted stock issued	—	1	(1)	—	—	—
Accretion of preferred stock	5,784	—	—	—	(5,784)	—
Stock-based compensation	—	1	2,697	—	—	2,698
Balance at December 31, 2013	$266,174	$561	$1,479,265	$ (4,831)	$ (315,295)	$1,425,874
Net loss	—	—	—	—	(69,465)	(69,465)
Total other comprehensive income	—	—	—	13,211	—	13,211
Restricted stock issued	—	2	(2)	—	—	—
Accretion of preferred stock	483	—	—	—	(484)	(1)
Stock-based compensation	—	—	3,202	—	—	3,202
Balance at December 31, 2014	$266,657	$563	$1,482,465	$ 8,380	$ (385,244)	$1,372,821

The accompanying notes are an integral part of these Consolidated Financial Statements.

Flagstar Bancorp, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	For the Years Ended December 31,		
	2014	2013 As Restated	2012
Operating Activities			
Net (loss) income	$(69,465)	$266,987	$68,376
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Provision for loan losses	131,553	70,142	276,047
Representation and warranty provision	10,011	36,116	256,289
Depreciation and amortization	23,983	23,232	20,206
Changes in valuation allowance on deferred tax assets	8,196	(355,769)	(19,224)
Deferred income taxes	(35,864)	(58,912)	—
Changes in fair value of MSRs, DOJ liability and long-term debt	63,909	94,632	163,290
Premium, change in fair value, and other non-cash changes of loans	(998,424)	(1,070,333)	(1,619,528)
Stock-based compensation expense	3,203	2,698	5,109
Net gain on loan and asset sales	(223,186)	(429,450)	(1,002,040)
Other than temporary impairment losses on investment securities AFS	—	8,789	2,192
Net (gain) loss on transferors' interest	—	(45,534)	2,552
Net change in:			
Proceeds from sales of loans held-for-sale	17,188,671	37,161,473	55,766,614
Origination and repurchase of loans held-for-sale, net of principal repayments	(24,178,597)	(37,065,736)	(54,649,464)
Repurchase of loans with government guarantees, net of claims received	(63,673)	(39,833)	57,925
(Increase) decrease in accrued interest receivable	33,524	43,833	13,208
Net proceeds from sales of trading securities	—	170,154	141,220
(Increase) decrease in other assets, excludes purchase of other investments	(32,539)	125,008	57,546
Net charge-offs in representation and warranty reserve	(17,865)	(192,722)	(207,699)
Increase (decrease) in other liabilities	11,593	(306,163)	277,566
Net cash (used in) provided by operating activities	$(8,144,970)	$(1,561,388)	$(389,815)
Investing Activities			
Proceeds from sale of available for sale securities including loans that have been securitized	$9,191,583	$3,411,754	$233,902
Collection of principal on investment securities available-for-sale	160,011	55,348	88,645
Purchase of investment securities available-for-sale and other	(1,277,784)	(1,057,389)	(20,000)
Proceeds received from the sale of held-for-investment loans	72,500	1,434,391	—
Origination of loans held-for-investment, net of principal repayments	(923,047)	665,680	70,487
Proceeds from the disposition of repossessed assets	38,796	117,310	85,362
Redemption of Federal Home Loan Bank stock	54,293	92,000	—
Acquisitions of premises and equipment, net of proceeds	(33,027)	(35,979)	(34,673)
Proceeds from the sale of mortgage servicing rights	225,727	850,478	128,119
Net cash provided by investing activities	$7,509,052	$5,533,593	$551,842
Financing Activities			

Net increase (decrease) in deposit accounts	$928,281	$(2,153,969)	$604,307
Proceeds from increases in Federal Home Loan Bank Advances	18,972,000	4,315,000	25,231,000
Repayment of Federal Home Loan Bank advances	(19,446,000)	(6,507,000)	(26,004,000)
Repayment of trust preferred securities and long-term debt	(28,638)	(20,335)	(1,150)
Net receipt (disbursement) of payments of loans serviced for others	70,249	(278,382)	216,108
Net receipt of escrow payments	(4,465)	193	13,443
Net cash provided by (used in) financing activities	$491,427	$(4,644,493)	$59,708
Net (decrease) increase in cash and cash equivalents	(144,491)	(672,288)	221,735
Beginning cash and cash equivalents	280,505	952,793	731,058
Ending cash and cash equivalents	$136,014	$280,505	$952,793
Supplemental disclosure of cash flow information			
Interest paid on deposits and other borrowings	$32,325	$142,720	$179,043
Income tax (refund) payments	$(1,357)	$6,352	$2,930
FHLB prepayment penalty payment	$—	$177,556	$—
Non-cash reclassification of loans originated HFI to loans held-for-sale ("HFS)	$425,589	$831,739	$1,220,231
Non-cash reclassification of mortgage loans originated HFS to HFI	$19,201	$64,289	$61,770
Non-cash reclassification of mortgage loans HFS to AFS securities	$8,800,280	$3,375,562	$—
Mortgage servicing rights resulting from sale or securitization of loans	$271,459	$401,735	$535,875
Recharacterization of investment securities AFS to loans HFI	$—	$91,117	$—
Reconsolidation of HELOC's of variable interest entities (VIEs)	$—	$170,507	$—
Reconsolidation of long-term debt of VIEs	$—	$119,980	$—

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements

Note 1 — Description of Business, Basis of Presentation, and Summary of Significant Accounting Standards

Description of Business

Flagstar Bancorp, Inc. ("Flagstar" or the "Company"), is a Michigan-based savings and loan holding company founded in 1993. The Company's business is primarily conducted through its principal subsidiary, Flagstar Bank, FSB (the "Bank"), a Michigan-based federally chartered stock savings bank founded in 1987. The Company has the largest bank headquartered in Michigan.

The Bank is subject to regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC") of the U.S. Department of the Treasury ("U.S. Treasury"). The Bank is also subject to regulation, examination and supervision by the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund. The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve ("Federal Reserve"). The Bank is also a member of the Federal Home Loan Bank ("FHLB") of Indianapolis.

Consolidation and Basis of Presentation

The Consolidated Financial Statements include our accounts and accounts of all variable interest entities ("VIEs") for which we are the primary beneficiary. The accounting and reporting policies of Flagstar and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States ("GAAP") and with general financial services industry practices. Certain prior period amounts have been reclassified to conform to the current period presentation.

Restatement of Consolidated Statements of Cash Flows

During the course of compiling the 2014 Consolidated Statements of Cash Flows utilizing an enhanced preparation and control process, the Company self-identified the need to reclassify the reporting of certain cash flows as coming from operating, financing and investing activities in the Consolidated Statements of Cash Flows for the year ended December 31, 2013 and each of the quarterly periods in the years 2013 and 2014. These reclassifications relate only to the presentation of certain cash flows among the cash flows from operating, financing and investing activities within the Consolidated Statements of Cash Flows and have no impact on the total cash flows for the periods impacted or beginning or ending cash balances for any of these periods.

These reclassifications have no impact on the Consolidated Statements of Financial Condition, Consolidated Statements of Operations or the Consolidated Statements of Comprehensive Income (Loss) or on any of the Company’s key financial ratios, including liquidity measures and regulatory capital.

On March 10, 2015, the Audit Committee of the Board of Directors of the Company, upon consultation with the Company’s independent auditors, determined that, as a result of the reclassification of the presentation of these cash flows within the Consolidated Statements of Cash Flows, the financial statements for the periods above should not be relied upon. The Company intends to file its Annual Report on Form 10-K for the year ended December 31, 2014 on March 16, 2015 with a restated Consolidated Statement of Cash Flows for the year ended December 31, 2013 and each of the quarterly periods in the years 2013 and 2014. The Company believes that the financial statements filed in that report can be relied upon.

The primary cause of the reclassifications related to cash flows associated with our commercial loan sales that settled in the first quarter of 2013 and our nonperforming loan sales that occurred throughout 2013 and 2014, which were presented as cash flows provided from operating activities but should have been included in cash flows provided by investing activities. Prior to closing on these transactions, the Company in accordance with GAAP, transferred these assets from loans held-for-investment to loans held-for-sale. Cash Flows related to these assets are required to be classified consistent with the original balance sheet classification rather than their classification at the time of sale per ASC 230-45-12.

The Consolidated Statement of Cash Flows for the year ended December 31, 2013, has been restated in this Form 10-K. The restated Consolidated Statements of Cash Flows revising the amounts as originally included in the Form 10-Q for the three months ended March 31, 2014 and 2013, the six months ended June 30, 2014 and 2013, and the nine months ended September 30, 2014 and 2013 are included in this Form 10-K, see Note 27 to the consolidated financial statements.

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Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements

	For the Year Ended December 31, 2013	
	As Reported	As Restated
	(Dollars in thousands)	
Net cash used in operating activities	$(195,938)	$(1,561,388)
Net cash provided by investing activities	4,161,975	5,533,593
Net cash used in financing activities	(4,638,325)	(4,644,493)

Subsequent Events

The Company has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-K. In February of 2015, the Company no longer intends to hold certain TDR loans for investment purposes. As a result of this decision, the Company will transfer approximately $300.0 million (unpaid principal balance) loans currently classified as held-for-investment to loans held-for-sale in the first quarter of 2015. Management does not expect the impact of this subsequent event to have a detrimental impact in the first quarter of 2015. No other significant subsequent events have been identified.

Use of Estimates

The preparation of Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could materially differ from the reported amounts due to estimates and assumptions used in a variety of areas, including but not limited to, assets and liabilities measured at fair value, other litigation accruals, the allowance for loan losses and the representation and warranty reserve.

Fair Value Measurements

The Company utilizes fair value measurements to record or disclose the fair value on certain assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Company uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation models rely on market-based parameters when available, such as interest rate yield curves or credit spreads. Unobservable inputs may be based on management's judgment, assumptions and estimates related to credit quality, the Company's future earnings, interest rates and other relevant inputs. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Cash and Cash Equivalents

Cash on hand, cash items and amounts due from correspondent banks and the Federal Reserve Bank are included in cash and cash equivalents. Short-term investments that have a maturity at the date of acquisition of three months or less and are readily convertible to cash are considered cash equivalents.

Investment Securities

Trading securities are debt and equity securities that we purchase and hold but intend to sell in the near term. These assets are recorded at fair value in the Company’s Consolidated Statements of Financial Condition, with unrealized and

realized gains or losses included as a component of "gain on trading securities" in the Consolidated Statements of Operations. As of December 31, 2014, the Company had no trading securities.

The Company measures available-for-sale securities at fair value in the Consolidated Statements of Financial Condition, with unrealized gains and losses, net of tax, included in "other comprehensive income (loss)" in shareholders' equity. The Company recognizes realized gains and losses on available-for-sale securities when securities are sold. The cost of securities sold is based on the specific identification method. Any gains or losses realized upon the sale of a security are reported in "net gain on securities available-for-sale" in the Consolidated Statements of Operations.

The fair value of available-for-sale securities is based on observable market prices, when available. If observable market prices are not available, our valuations are based on alternative methods, including: quotes for similar fixed-income

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securities, matrix pricing, discounted cash flow using benchmark curves or other factors. The fair values are obtained through independent third parties from pricing services which the Company compares to independent pricing sources. Also included in available-for-sale securities is a municipal obligation which is valued based on similar non-rated bonds and cost approximates fair value. See Note 2 and Note 24 of the Notes to the Consolidated Financial Statements, herein, for additional information on recurring fair value and investment security disclosures.

The Company evaluates available-for-sale securities for other-than-temporary impairment ("OTTI") on a quarterly basis. An OTTI is considered to have occurred when the fair value of a debt security is below its amortized cost and the Company intends to sell or it is more likely than not that the Company will be required to sell the security before recovery when a credit loss exists. At December 31, 2014, the Company had no OTTI on the available-for-sale investment securities held.

Any security for which there has been an OTTI is written down to its estimated fair value through a charge to earnings for the amount representing the credit loss on the security and a charge is recognized in other comprehensive income (loss) related to gains (losses), reclassifications, impairments, credit loss and deferred tax. Realized securities gains and declines in value judged to be other-than-temporary representing credit losses are included in "net impairment losses" in the Consolidated Statements of Operations.

Investment transactions are recorded on the trade date. Interest earned on securities, including the amortization of premiums and the accretion of discounts using the effective interest method over the period of maturity, is included in interest income. For a discussion of valuation of securities, see Note 2 of the Notes to the Consolidated Financial Statements, herein.

Reverse Repurchase Agreement

The fair value of the reverse repurchase agreement is determined by cost, which approximates the fair value. The reverse repurchase agreement is guaranteed by a third party and secured by government and agency securities, which are held by a third party. In case of default, the Company would receive the collateral from the third party. The reverse repurchase agreement is included in other assets on the Consolidated Statements of Financial Condition and in Note 24 as an other investment. See Note 24 of the Notes to the Consolidated Financial Statements, herein, for additional information on recurring fair value and investment security disclosures.

Loans Held-for-Sale

The Company classifies loans as held-for-sale when it originates or purchases loans that it intends to sell. For loans originated that the Company intends to sell, the Company has elected the fair value option. The Company estimates the fair value of mortgage loans based on quoted market prices for securities backed by similar types of loans, where available, or is determined by discounting estimated cash flows using observable inputs inclusive of interest rates, prepayment speeds and loss assumptions for similar collateral. See Note 24 of the Notes to the Consolidated Financial Statements, herein, for additional recurring fair value disclosures.

Loans are transferred into the held-for-sale portfolio from the held-for-investment portfolio when there is an intent to sell these loans. Loans held-for-sale are recorded at lower of cost or fair value. Gains or losses recognized upon the sale of loans are determined using the specific identification method.

Loans Held-for-Investment

The Company classifies loans that it has the intent and ability to hold until maturity as held-for-investment. Loans held-for-investment are reported at their outstanding principal balance adjusted for any deferred and unamortized cost basis adjustments, including purchase premiums, discounts and other cost basis adjustments (amortized cost). The Company recognizes interest income on held-for-investment loans using the interest method, including the amortization of any deferred cost basis adjustments; unless the Company believes that the ultimate collection of contractual principal or interest payments in full is not reasonably assured. Interest income recorded on our loans is adjusted by the amortization of net premiums, net deferred loan origination costs and the amount of negative amortization (i.e., capitalized interest) arising from our option ARM loans.

As a result of the Company carrying its mortgage loans held-for-sale at fair value, any transfers of loans held-for-sale to loans held-for-investment continue to be measured and reported at fair value on a recurring basis with any changes in fair value reported in the Company's Consolidated Statements of Operations. See Note 24 of the Notes to the Consolidated Financial Statements, herein, for additional recurring fair value disclosures.

Also included in loans held-for-investment are the reconsolidated VIE loans associated with the FSTAR 2005-1, 2006-1, and 2006-2 securitization trusts. The Company elected the fair value option for these assets and changes in fair value are recorded to "other noninterest income" on the Consolidated Statements of Operations. Fair value of these loans is calculated using a discounted cash flow model which utilizes observable inputs inclusive of interest rates, prepayment speeds and loss assumptions for similar collateral.

When loans originally designated as held-for-sale or loans originally designated as held-for-investment are reclassified, cash flows associated with the loans will be classified in the Consolidated Statements of Cash Flows as operating or investing, as appropriate, in accordance with the initial classification of the loans rather than their current classification. As a result of the Company carrying its mortgage loans held-for-sale at fair value, any transfers of loans held-for-sale to loans held-for-investment continue to be reported at fair value with any changes in fair value reported in the Company’s Consolidated Statements of Operations.

Loan Modifications (Troubled Debt Restructurings)

The Company may modify certain loans in both consumer and commercial loan portfolio segments. Troubled Debt Restructurings ("TDRs") result in those instances in which a borrower demonstrates financial difficulty and for which a concession has been granted, which includes reductions of interest rate, extensions of amortization period, principal and/or interest forgiveness and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. If the loan was nonperforming prior to restructuring, these loans will continue on nonaccrual status until the borrower has established a willingness and ability to make the restructured payments for at least six months, after which they will begin to accrue interest.

Consumer loan modifications. For consumer loan programs (e.g., residential first mortgages, second mortgages, HELOC, and other consumer), the Company enters into a modification when the borrower has indicated a hardship, including illness or death in the family, or a loss of employment. Other modifications occur when it is confirmed that the borrower does not possess the financial resources necessary to continue making loan payments at the current amount, but the Company’s expectation is that payments at lower amounts can be made. The primary concession given to consumer loan borrowers includes a reduced interest rate and/or an extension of the amortization period or maturity date.

Commercial loan modifications. Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve a reduction of the interest rate and/or an extension of the term of the loan. The Company also engages in other loss mitigation activities with troubled borrowers, which include repayment plans, forbearance arrangements, and the capitalization only of past due amounts.

Past Due and Impaired Loans

Loans are considered to be past due when any payment of principal or interest is 30 days past due. While it is the goal of management to collect on loans, a method we use is to work out a satisfactory repayment schedule or modification with a past due borrower, we will undertake foreclosure proceedings if the delinquency is not satisfactorily resolved. The Company's practices regarding past due loans are designed to both assist borrowers in meeting their contractual obligations and minimize losses incurred by the bank. The Company customarily mails several notices of past due payments to the borrower within 30 days after the due date and late charges are assessed in accordance with certain parameters. The Company's collection department makes telephone or personal contact with borrowers after loans are 30 days past due. In certain cases, the Company recommends that the borrower seek credit-counseling assistance and may grant forbearance if it is determined that the borrower is likely to correct a past due loan within a reasonable

period of time. The Company ceases the accrual of interest on loans that we classify as "nonperforming" once they become 90 days past due or earlier when concerns exist as to the ultimate collection of principal or interest. Subsequently, interest is recognized as income only when it is actually collected.

For all classes within the consumer and commercial loan portfolio, loans are placed on nonaccrual status when any portion of principal or interest is 90 days past due (or nonperforming), or earlier when the Company becomes aware of information indicating that collection of principal and interest is in doubt. When a loan is placed on nonaccrual status, the accrued interest income is reversed. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Loans are considered impaired if it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement or when any portion of principal or interest is 90 days past due (or

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nonperforming). See Note 24 of the Consolidated Financial Statements, herein, for additional non-recurring fair value disclosures.

When a loan within any class is impaired, the accrual of interest income is discontinued unless the receipt of principal and interest is no longer in doubt. Cash receipts received on nonperforming impaired loans within any class are applied entirely against principal until the loan has been collected in full, after which time any additional cash receipts are recognized as interest income. Cash receipts received on accruing impaired loans within any class are applied in the same manner as accruing loans that are not considered impaired.

Allowance for Loan Losses

The consumer portfolio segment includes residential first mortgages, second mortgages, HELOC and other consumer loans. The commercial portfolio segment includes commercial real estate, commercial and industrial, commercial lease financing and warehouse lending loans. The allowance for loan losses represents management's estimate of probable losses in the Company's loans held-for-investment portfolio, excluding loans carried under the fair value option, as of the date of the consolidated financial statements. The allowance provides for probable losses that have been identified with specific customer relationships (individually evaluated) and for probable losses believed to be inherent in the loan portfolio but that have not been specifically identified (collectively evaluated).

A specific allowance is established on a loan when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan and the recorded investment in the loan exceeds its fair value. Fair value is measured using either the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent, reduced by estimated disposal costs. A general allowance for losses inherent on non-impaired loans is calculated using the Company's loss history by specific product, or if the product is not sufficiently seasoned, per readily available industry peer loss data.

The loss history is normally a one- to five-year rolling average updated periodically as new data becomes available. In addition to the loss history, the Company will also include a qualitative adjustment that considers economic risks, industry and geographic concentrations and other factors not adequately captured in the Company's loss methodology.

Consumer loans. For consumer loans that have not been identified for evaluation for impairment, the allowance for loan losses is determined based on a collective basis utilizing forecasted losses that represent management’s best estimate of inherent loss. Loans are pooled by loan types with similar risk characteristics. Historical loss models designed for each pool are utilized to develop the loss estimates based on historical losses. Management evaluates the results of the allowance for loan losses model and makes qualitative adjustments to the results of the model when it is determined that model results do not reflect all losses inherent in the loan portfolios due to changes in recent economic trends and conditions, or other relevant factors.

For consumer loans deemed impaired, the loans are evaluated on at least a quarterly basis for impairment. The Company measures the level of impairment based on the present value of the expected future cash flows discounted at the loan’s effective interest rate, the observable market price of the loan, or the fair value of the collateral if the loan is collateral dependent, reduced by estimated disposal costs. If the fair value less the costs to sell are less than the carrying value of the loan, an impairment is recorded, otherwise no allowance is recorded.

Loans secured by real estate are charged-off to the estimated fair value of the collateral when a loss is confirmed or at 120 days past due, whatever is sooner. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure or receipt of an asset valuation indicating a collateral deficiency and the asset is the sole source of repayment.

Commercial loans. Commercial loans are assessed for estimated losses by grouping the portfolio into two segments based on underwriting and origination characteristics: legacy and new. For both segments, management observes historical losses over a relevant period. These loss estimates are adjusted as appropriate based on additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data or other risks identified from current economic conditions and credit quality trends.

The commercial loan portfolio is segmented into loans originated prior to January 1, 2011 and loans originated on or after January 1, 2011, while still retaining the segmentation by product type. The loss rates attributed to the loans originated prior to January 1, 2011 portfolio are based on historical losses of this segment. Due to the brief period of time that loans in the

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loans originated on or after January 1, 2011 portfolio have been outstanding, and thus the absence of a sufficient loss history for that portfolio, the Company uses loss data from a third party data aggregation firm (adjusting for the qualitative factors) as a proxy for estimating an allowance for loan losses. The Company separately identifies a population of commercial banks with similar size balance sheets (and loan portfolios) to serve as the Company's peer group. The Company utilizes this peer group's publicly available historical loss data (adjusted for the qualitative factors) as a proxy for loss rates used to determine the allowance for loan losses on the loans originated on or after January 1, 2011 commercial portfolio.

Commercial loans are evaluated on a loan level basis and either charged-off or written down to net realizable value if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment.

Potential losses that may not be reflected in our model assumptions are captured through the qualitative factor adjustments discussed above. Management reviews these models on an ongoing basis and updates them as appropriate to reflect then-current industry conditions, heightened access to enhanced loss data and based upon continuous back testing of the allowance for loan losses model.

Loan Sales and Variable Interest Entities

The Company’s recognition of gain or loss on the sale of loans for which it surrenders control is accounted for as a sale to the extent that consideration received does not include a beneficial interest in the transferred assets. In the event the Company retains a beneficial interest in the transferred assets, the carrying value of the assets sold is allocated between the assets sold and the retained interests, other than the mortgage servicing rights, based on their relative fair values. Retained mortgage servicing rights are recorded at fair value.

In assessing whether control has been surrendered, the Company considers whether the transferee would be a consolidated affiliate, the existence and extent of any continuing involvement in the transferred financial assets and the impact of all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of transfer.

If the sale criteria are met, the transferred financial assets are removed from the Consolidated Statements of Financial Condition and a gain or loss on sale is recognized. For certain transfers, such as in connection with complex transactions or where the Company has continuing involvement such as servicing responsibilities, generally a legal opinion is obtained as to whether the transfer results in a "true sale" by law.

In order to conclude whether or not a variable interest entity is required to be consolidated, careful consideration and judgment must be given to the Company's continuing involvement with the variable interest entity. In circumstances where the Company has both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity that could be significant, the Company would conclude that it would consolidate the entity, which would also preclude the Company from recording an accounting sale on the transaction. In the case of a consolidated variable interest entity, the accounting is similar to a secured financing, (i.e., the Company continues to carry the loans and records the related securitized debt on the balance sheet).

Repossessed Assets

Repossessed assets include one-to-four family residential property, commercial property and one-to-four family homes under construction that were acquired through foreclosure or acceptance of a deed-in-lieu of foreclosure. Repossessed assets are initially recorded at estimated fair value of the collateral, less estimated costs to sell. Losses arising from the initial acquisition of such properties are charged against the allowance for loan losses at the time of transfer. Subsequent valuation adjustments to reflect fair value, as well as gains and losses on disposal of these properties, are charged to "asset resolution" within noninterest expense in the Consolidated Statements of Operations as incurred. See Note 24 of the Notes to the Consolidated Financial Statements, herein, for additional non-recurring fair value disclosures.

Loans Repurchased with Government Guarantees

Pursuant to Ginnie Mae servicing guidelines, the Company has the unilateral right to repurchase certain delinquent loans (loans past due 90 days or more) securitized in Ginnie Mae pools, if the loans meet defined delinquent loan criteria. As a result of this unilateral right, once the delinquency criteria have been met, and regardless of whether the repurchase option has

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been exercised, the Company accounts for the loans as if they had been repurchased and recognizes the loans as loans repurchased with government guarantees on the Consolidated Statements of Financial Condition and also recognizes a corresponding liability for a similar amount recorded in other liabilities on the Consolidated Statement of Financial Condition. If the loans are actually repurchased, the Company records the loans to loans repurchased with government guarantees and eliminates the corresponding liability.

Federal Home Loan Bank Stock

The Bank owns stock in the Federal Home Loan Bank of Indianapolis. No market quotes exists for the stock. The stock is redeemable at par and is carried at cost. The investment is required to permit the Bank to obtain membership in and to borrow from the Federal Home Loan Bank.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at historical cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which generally ranges from three to thirty years. Capitalized software is amortized on a straight-line basis over its useful life, which generally ranges from three to seven years. Repair and maintenance costs and software expenditures that are considered general, administrative, or of a maintenance nature are expensed as incurred.

Mortgage Servicing Rights ("MSRs")

The Company purchases and originates mortgage loans for sale to the secondary market and sells the loans on either a servicing-retained or servicing-released basis. For servicing retained sales, an MSR is created at the time of sale which is recorded at fair value. The Company uses an option-adjusted spread valuation approach to determine the fair value of MSRs. The key assumptions used in the valuation of MSRs include mortgage prepayment speeds and discount rates. Management obtains third-party valuations of the MSR portfolio on a quarterly basis from independent valuation experts to assess the reasonableness of the fair value calculated by its internal valuation model. For the mortgage servicing rights, the gains and losses recorded in earnings are included in "net return on mortgage servicing" on the Consolidated Statements of Operations. See Note 24 of the Notes to the Consolidated Financial Statements, herein, for additional recurring fair value disclosures.

The Company periodically sells portions of its MSRs, and may simultaneously enter into an agreement to subservice the residential mortgage loans sold, which qualify as sales transactions. A transfer of servicing rights related to loans previously sold qualifies as a sale at the date on which title passes, if substantially all risks and rewards of ownership have irrevocably passed to the transferee and any protection provisions retained by the transferor are minor and can be reasonably estimated. In addition, if a sale is recognized and only minor protection provisions exist, a liability is accrued for the estimated obligation associated with those provisions. As MSRs are not considered financial assets for accounting purposes, the accounting model used to determine if the transfer of an MSR asset qualifies as a sale is based on a risks and rewards approach. Upon completion of MSR sales, we account for the transactions as a sale and derecognize the mortgage servicing rights from the Consolidated Statements of Financial Condition.

Servicing Fee Income

Servicing fee income, which is included on the Consolidated Statements of Operations as loan administration income, is recorded for fees earned, net of third party subservicing costs, for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Late fees and ancillary fees are also included on the Consolidated Statements of Operations as loan

administration income.

Financial Instruments and Derivatives

The Company enters into derivative financial instruments to manage interest rate risk and to facilitate asset/liability management. The Company generally hedges its pipeline of loans held-for-sale with forward commitments to sell Fannie Mae or Freddie Mac or Ginnie Mae mortgage backed securities. Further, the Company occasionally enters into swap agreements to hedge the cash flows on certain liabilities. The Company does not elect to apply or does not qualify for hedge accounting and therefore accounts for the derivatives as economic undesignated derivatives.

Flagstar Bancorp, Inc.
Notes to the Consolidated Financial Statements

The Company recognizes all derivatives as either other assets or other liabilities in the Consolidated Statements of Financial Condition at their fair value. Changes in the fair value of the derivatives and realized gains and losses are recognized immediately in total noninterest income on the Consolidated Statements of Operations.

The Company also enters into various derivative agreements with customers desiring protection from possible adverse future fluctuations in interest rates using rate lock commitments. As an intermediary, the Company generally maintains a portfolio of matched offsetting derivative agreements. The Company takes into account the impact of bilateral collateral and master netting agreements that allow all derivative contracts held to settle with a single counterparty on a net basis, and to offset the net derivative position with the related collateral when recognizing derivative assets and liabilities. For the rate lock commitments, the gains and losses recorded in earnings are included in "net gain on loan sales" on the Consolidated Statements of Operations.

U.S. Treasury futures and U.S. Treasury options are actively traded and their fair values are obtained from an exchange. Forward loan sale commitments and interest rate swaps are valued based on quoted prices for similar assets in an active market with inputs that are observable. Rate lock commitments are valued using internal models with significant unobservable market parameters. The Company assesses the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions at each period end. As of December 31, 2014 and 2013, the Company determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives.

The Company writes and purchases interest rate swaps for customer-initiated trading derivatives which are used primarily to provide derivative products to customers enabling them to manage interest rate risk exposure. In the event that a customer requests early termination of a derivative transaction, a termination confirmation and transaction summary will be completed. If the market rate is higher at termination than at trade inception, the customer will receive a payment from the Company. In turn, the Company will receive that payment from the dealer due to the termination of the hedge. Conversely, if the market rate is lower at termination than at trade inception, the Company will be due a payment from the customer. In turn, the Company will owe that payment to the dealer due to the termination of the hedge.

Additional information regarding the accounting for derivatives is provided in Note 12 and additional recurring fair value disclosures in Note 24 of the Notes to the Consolidated Financial Statements, herein.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. Significant judgments and estimates are required in determining the income tax expense and the Company is subject to the income tax laws of the U.S., its states and municipalities.

Deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. The Company records a valuation allowance to reduce its deferred tax assets to the amount it believes will be realized if, based on available evidence at the time the determination is made, it is more likely than not that some or all of the deferred tax assets will not be realized.

Representation and Warranty Reserve

When the Company sells mortgage loans into the secondary mortgage market, it makes customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties are in place for the life of the loan. If a defect in the origination process is identified, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, the Company has no liability to the purchaser for losses it may incur on such loan. Upon the sale of a loan, the Company recognizes a liability for that guarantee at its fair value. Subsequent to the sale, the liability is re-measured on an ongoing basis based on an estimate of probable future losses. In each case, these estimates are based on the Company's most recent data regarding loan repurchases and indemnifications, and loss severity on repurchased and indemnified loans, among other factors. Increases to the representation and warranty reserve for current loan sales reduce the Company's net gain on loan sales. Adjustments to the

Company's previous estimates are recorded as an increase or decrease to representation and warranty provision in the Consolidated Statements of Operations.

Advertising Costs

Advertising costs are expensed in the period they are incurred and are included as part of "other noninterest expense" expenses in the Consolidated Statements of Operations. Advertising expenses totaled $10.0 million, $8.9 million, and $11.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Stock-Based Compensation

All share-based payments to employees, including grants of employee stock options and restricted stock units, are recognized as expense in the Consolidated Statements of Operations based on their fair values. The amount of compensation is measured at the grant date and is expensed over the requisite service period, which is normally the vesting period. The Company utilizes the weighted average assumptions in applying a Black-Scholes model to determine the fair value of employee stock options. See Note 20 of the Notes to the Consolidated Financial Statements, herein, for further discussion and details of stock-based compensation.

Department of Justice ("DOJ") Litigation Settlement

The Company elected the fair value option to account for the liability representing the obligation to make additional payments under the DOJ Agreement. The executed settlement agreement with the DOJ establishes a legally enforceable contract with a stipulated payment plan that meets the definition of a financial liability.

As of December 31, 2014 the remaining future payments totaled $118.0 million for which the Company used a discounted cash flow model to estimate the current fair value. The model utilizes estimates including the Company's forecasts of net income, balance sheet and capital levels and considers multiple scenarios and possible outcomes as a result of the uncertainty inherent in those inputs which impact the estimated timing of the additional payments. These scenarios are probability weighted and consider the view of a market participant to estimate the fair value of the liability. As of December 31, 2014, the liability was $81.6 million.

We value our contractual obligation to pay utilizing a discounted cash flow model that incorporates our current estimate of the most likely timing and amount of the cash flows necessary to satisfy the obligation. These cash flow estimates are reflective of our detailed financial and operating projections for the next three years, as well as more general earnings and capital assumptions for subsequent periods. At December 31, 2014, we discounted the expected cash flows using an 8.7 percent discount rate that is inclusive of the risk free rate based on the expected duration of the liability and an adjustment for nonperformance risk that represents our own credit risk. The recorded liability, at fair value, represents the present value of these estimated cash flows and is included in "other liabilities" on the Consolidated Financial Statements. We will estimate the fair value of this liability at each measurement date and record any changes in that estimate, as well as the effect of the accretion of the face amount of the liability, during the period in which these changes occur. See Note 24 of the Consolidated Financial Statements, herein, for additional information on the valuation of the litigation settlement.

Recently Issued Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-04, "Receivables-Troubled Debt Restructurings by Creditors (Topic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The guidance amends the guidance in the FASB Accounting Standards Codification Topic 310-40, "Receivables -

Troubled Debt Restructurings by Creditors," in efforts to reduce diversity in practice through clarifying when an in substance repossession or foreclosure occurs. Essentially, the guidance addresses when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan so that the loan should be derecognized and the real estate property recognized in the financial statements. This guidance is effective prospectively, for annual and interim periods, beginning after December 15, 2014. The Company's current policy reflects the practices discussed in this guidance. Therefore, the adoption of the guidance is not expected to have a material impact on the consolidated financial statements or the Notes thereto.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this guidance will allow discontinued operations to include a component of an entity or a group of

components of an entity. A disposal is required to be reported in discontinued operations if it represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. This guidance is effective prospectively, for annual and interim periods, beginning after December 15, 2014. The adoption of the guidance is not expected to have a material effect on the Company’s Consolidated Financial Statements or the Notes thereto.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under the amended guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective prospectively, for annual and interim periods, beginning after December 15, 2016. Management is currently evaluating this guidance and does not expect this guidance to have a material impact on the Company’s Consolidated Financial Statements, but significant disclosures to the Notes thereto will be required.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures." The amendments in this guidance requires repurchase-to-maturity transactions to be accounted for as secured borrowings. The guidance for certain transactions accounted for as a sale, repurchase agreements, securities lending transactions and repurchase-to-maturity transactions accounted for as secured borrowings is effective prospectively, for annual and interim periods, beginning after December 15, 2014. The adoption of the guidance is not expected to have a material effect on the Company’s Consolidated Financial Statements or the Notes thereto.

In August 2014, the FASB issued ASU No. 2014-13, Consolidation (Topic 810). A reporting entity that consolidates a collateralized financing entity within the scope of this update may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in this update or Topic 820 on fair value measurement. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of this update, the amendments clarify that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collaterlized financing entity should be measured using the requirements of Topic 820 and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The Company's current policy reflects the practices discussed in this guidance. Therefore, the adoption of this guidance is not expected to have a material effect on the Company’s Consolidated Financial Statements or the Notes thereto.

In August 2014, the FASB issued ASU Update No. 2014-14, Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40). The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance is expected to move approximately $372.8 million of repossessed assets and claims receivable to other assets on the Consolidated Statements of Financial Condition.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued when applicable). The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The adoption of this guidance is not expected to have a material effect on the Company’s Consolidated Financial Statements or the Notes thereto.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual items (Subtopic 22-20). The amendments in this update eliminate the concept of extraordinary items. The amendments in this update are effective prospectively or retrospectively for annual and interim periods beginning after December 15, 2015. The adoption of

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this guidance is not expected to have a material effect on the Company's Consolidated Financial Statements or the Notes thereto.

Note 2 — Investment Securities

As of December 31, 2014 and 2013, investment securities were comprised of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2014				
Available-for-sale securities				
Agency	$924,405	$6,244	$(2,147)	$928,502
Agency-collateral mortgage obligations	734,443	8,322	(1,068)	741,697
Municipal obligations	1,980	—	—	1,980
Total available-for-sale securities	$1,660,828	$14,566	$(3,215)	$1,672,179
December 31, 2013				
Available-for-sale securities				
Agency	$426,083	$862	$(4,101)	$422,844
Agency-collateral mortgage obligations	611,206	684	(6,486)	605,404
Municipal obligations	17,300	—	—	17,300
Total available-for-sale securities	$1,054,589	$1,546	$(10,587)	$1,045,548

Trading

For trading securities held, the Company recorded a loss of zero, $0.1 million and $21.5 million during the years ended December 31, 2014, 2013 and 2012, respectively.

The Company had no sales of trading securities during the year ended December 31, 2014, as compared to $170.0 million sold, which resulted in a realized gain of $0.2 million for the year ended December 31, 2013 and $290.0 million sold, which resulted in a realized gain of $19.5 million for the year ended December 31, 2012.

The Company had no purchases of trading securities at December 31, 2014 and 2013. During the year ended December 31, 2012, the Company purchased $170.0 million of trading securities.

Available-for-sale

The Company purchased $1.2 billion of investment securities, all of which were U.S. government sponsored agencies, comprised of mortgage-backed securities and collateralized mortgage obligations during the year ended December 31, 2014. During the year ended December 31, 2013 the Company purchased $1.1 billion of investment securities issued by U.S. government sponsored agencies and $20.0 million of municipal obligations, compared to no purchases of U.S. government sponsored agencies and $20.0 million of municipal obligations during the year ended December 31, 2012.

The Company has pledged investment securities available-for-sale, primarily agency collateralized mortgage obligations, to collateralize lines of credit and/or borrowings with the Fannie Mae and other institutions. At December 31, 2014, the Company pledged $0.1 million of available-for-sale securities, compared to $7.8 million at December 31, 2013.

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Explanation of Responses:

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The following table summarizes by duration the unrealized loss positions on securities classified as available-for-sale.

Type of Security	Unrealized Loss Position with Duration 12 Months and Over			Unrealized Loss Position with Duration Under 12 Months		
	Fair Value	Number of Securities	Unrealized Loss	Fair Value	Number of Securities	Unrealized Loss
	(Dollars in thousands)					
December 31, 2014						
Agency	$53,298	6	$(461)	$304,972	21	$(1,686)
Agency-collateralized mortgage obligations	97,906	10	(790)	37,664	4	(278)
December 31, 2013						
Agency	$—	—	$—	$325,711	19	$(4,102)
Agency-collateralized mortgage obligations	$—	—	$—	$499,597	44	$(6,485)
December 31, 2012						
Mortgage securitization	$91,117	1	$(10,155)	$—	—	$—

During the year ended December 31, 2014, the Company had no other-than-temporary impairments ("OTTI") due to credit losses.

During the year ended December 31, 2013, the Company recognized $8.8 million of additional OTTI on the FSTAR 2006-1 mortgage securitization, which was subsequently dissolved at June 30, 2013. The Company recognized a tax benefit of $6.1 million during the second quarter 2013 representing the recognition of the residual tax effect associated with the previously unrealized losses on the mortgage securitization recorded in other comprehensive income (loss). At December 31, 2013, the Company had no OTTI.

During the year ended December 31, 2012, the Company recognized $2.2 million of OTTI on non-agency collateralized mortgage obligations and the mortgage securitization, which were recognized on seven securities that had losses prior to December 31, 2012, primarily due to forecasted credit losses. At December 31, 2012, the Company had total OTTI of $2.8 million on one non-agency collateralized mortgage obligation and the mortgage securitization, with existing OTTI in the available-for-sale portfolio, of which $5.0 million net gain was recognized in other comprehensive income (loss).

The following table shows the activity for OTTI credit loss.

	For the Years Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Beginning balance of amount related to credit losses	$—	$(2,793)	$(59,376)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life	—	389	6,680
Reductions for investment securities sold during the period (realized)	—	11,193	52,095
Additions for the amount related to the credit loss for which an OTTI impairment was not previously recognized	—	(8,789)	(2,192)
Ending balance of amount related to credit losses	$—	$—	$(2,793)

Gains (losses) on the sales of investment securities available-for-sale are reported in net gain on securities available-for-sale in the Consolidated Statements of Operations. During the year ended December 31, 2014, there

were $413.7 million in sales of U.S. government sponsored agency securities, which resulted in a gross gain of $4.4 million, partially offset by a gross loss of $0.4 million. During the year ended December 31, 2013, the Company sold $38.6 million of U.S. government sponsored agencies, which resulted in a gross gain of $1.0 million, compared to $253.7 million sales of agency and agency collateralized mortgage obligations during the year ended December 31, 2012, which resulted in a gross gain of $5.7 million, partially offset by a gross loss of $3.1 million. The gain on the sale of non-agency collateralized mortgage obligations and seasoned agency securities completed during the year ended December 31, 2012, resulted in the Company also recognizing $19.9 million of tax benefits representing the recognition of the residual tax effect associated with unrealized losses on this portfolio previously recorded in other comprehensive income.

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The amortized cost and estimated fair value of securities, excluding trading securities, at December 31, 2014 and 2013, are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Investment Securities Available-for-Sale			
	Amortized Cost	Estimated Fair Value	Weighted-Average Yield	
December 31, 2014	(Dollars in thousands)			
Due in one year or less	$ 1,980	$ 1,980	3.66	%
Due after one year through five years	—	—	—	%
Due after five years through ten years	57,062	57,189	2.58	%
Due after ten years	1,601,786	1,613,010	2.68	%
Total	$ 1,660,828	$ 1,672,179		

Note 3 — Loans Held-for-Sale

At December 31, 2014 and 2013, residential first mortgage loans held-for-sale totaled $1.2 billion and $1.5 billion, of which $1.2 billion and $1.1 billion were recorded at fair value, respectively, under the fair value option.

At December 31, 2014 and 2013, $47.5 million and $340.0 million, respectively, of loans held-for-sale were recorded at lower of cost or fair value, based on the intent to sell the loans. Certain loans were transferred into the held-for-sale portfolio from the held-for-investment portfolio and after the transfer, any amount by which cost exceeded fair value was recorded as a valuation adjustment.

During the year ended December 31, 2014, the Company sold nonperforming and TDR residential first mortgage loans with UPB in the amount of $72.5 million, with an allowance for loan loss reserve release of $5.8 million and recognized a gain of $2.5 million. During the year ended December 31, 2013, the Company sold nonperforming mortgage loans with UPB in the amount of $508.4 million, with an allowance for loan loss reserve of $66.1 million and recognized a gain of $1.0 million.

During the year ended December 31, 2014, the Company sold residential first mortgage jumbo loans with unpaid principal balance in the amount of $559.8 million and recognized a gain of $8.1 million.

The Company has pledged certain loans held-for-sale to collateralize lines of credit and/or borrowings with the Federal Home Loan Bank of Indianapolis. At December 31, 2014 and 2013, the Company pledged $0.9 billion and $1.2 billion, respectively, of loans held-for-sale.

Note 4 — Loans Repurchased with Government Guarantees

At December 31, 2014, the amount of loans repurchased totaled $1.1 billion, and those loans which the Company had the unilateral right to repurchase which had not been exercised totaled $9.2 million and were classified as loans repurchased with government guarantees. At December 31, 2013, the amount of loans repurchased totaled $1.3 billion and were classified as loans repurchased with government guarantees, and those loans which the Company had the unilateral right to repurchase which had not been exercised totaled $20.8 million and were classified as loans held-for-sale.

During the year ended December 31, 2014, the Company sold loans repurchased with government guarantees with UPB in the amount of $19.7 million, with an allowance for loan losses reserve release of $0.9 million and recognized a gain of $1.8 million.

Substantially all of these loans continue to be insured or guaranteed by the FHA, and the Company's management believes that the reimbursement process is proceeding appropriately. These repurchased loans earn interest at a statutory rate, which varies and is based upon the 10-year U.S. Treasury note rate at the time the underlying loan becomes delinquent, which can be curtailed under certain circumstances.

The Company has pledged certain loans repurchased with government guarantees to collateralize lines of credit and/or borrowings with the Federal Home Loan Bank of Indianapolis. At December 31, 2014 and 2013, the Company pledged $763.8 million and $787.1 million, respectively, of loans repurchased with government guarantees.

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Note 5 — Loans Held-for-Investment

Loans held-for-investment are summarized as follows.

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Consumer loans		
Residential first mortgage	$2,193,252	$2,508,968
Second mortgage	149,032	169,525
HELOC	256,318	289,880
Other	31,108	37,468
Total consumer loans	2,629,710	3,005,841
Commercial loans		
Commercial real estate	620,014	408,870
Commercial and industrial	419,499	207,187
Commercial lease financing	9,687	10,341
Warehouse lending	768,644	423,517
Total commercial loans	1,817,844	1,049,915
Total consumer and commercial loans held-for-investment	4,447,554	4,055,756
Less allowance for loan losses	(297,000)	(207,000)
Loans held-for-investment, net	$4,150,554	$3,848,756

For the years ended December 31, 2014, 2013 and 2012, the Company transferred $19.2 million, $64.3 million and $61.8 million, respectively, of loans held-for-sale to loans held-for-investment.

The Company has pledged certain loans held-for-investment to collateralize lines of credit and/or borrowings with the Federal Reserve Bank of Chicago and the Federal Home Loan Bank of Indianapolis. At December 31, 2014 and 2013, the Company pledged $2.4 billion and $2.5 billion, respectively, of loans held-for-investment.

The allowance for loan losses, other than those that have been identified for individual evaluation for impairment, is determined on a loan pool basis by grouping loan types with similar risk characteristics to determine the Company's best estimate of incurred losses. Management evaluates the results of the allowance for loan losses model and makes qualitative adjustments to the results of the model when it is determined that model results do not reflect all losses inherent in the loan portfolios due to changes in recent economic trends and conditions, or other relevant factors.

For those loans not individually evaluated for impairment, management has sub-divided the commercial and consumer loans into portfolios with common risk characteristics.

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The allowance for loan losses by class of loan is summarized in the following tables.

	Residential First Mortgage	Second Mortgage	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Warehouse Lending	Total
Year Ended December 31, 2014									
Beginning balance allowance for loan losses	$161,142	$12,141	$7,893	$2,412	$18,540	$3,332	$148	$1,392	$207,000
Charge-offs	(37,584)	(3,211)	(5,857)	(1,923)	(2,463)	—	—	(74)	(51,112)
Recoveries	3,049	477	183	2,311	3,319	111	47	62	9,559
Provision	107,681	3,017	16,504	(2,034)	(2,037)	7,138	(64)	1,348	131,553
Ending balance allowance for loan losses	$234,288	$12,424	$18,723	$766	$17,359	$10,581	$131	$2,728	$297,000
Year Ended December 31, 2013									
Beginning balance allowance for loan losses	$219,230	$20,201	$18,348	$2,040	$41,310	$2,878	$94	$899	$305,000
Charge-offs	(133,326)	(6,252)	(5,473)	(3,622)	(47,982)	(350)	(1,299)	(45)	(198,349)
Recoveries	15,329	1,178	1,020	2,079	10,162	151	288	—	30,207
Provision	59,909	(2,986)	(6,002)	1,915	15,050	653	1,065	538	70,142
Ending balance allowance for loan losses	$161,142	$12,141	$7,893	$2,412	$18,540	$3,332	$148	$1,392	$207,000
Year Ended December 31, 2012									
Beginning balance allowance for loan losses	$179,218	$16,666	$14,845	$2,434	$96,984	$5,425	$1,178	$1,250	$318,000
Charge-offs	(175,803)	(18,753)	(17,159)	(4,423)	(105,285)	(4,627)	(1,191)	—	(327,241)
Recoveries	18,561	1,912	461	1,786	15,397	77	—	—	38,194
Provision	197,254	20,376	20,201	2,243	34,214	2,003	107	(351)	276,047
Ending balance allowance for loan losses	$219,230	$20,201	$18,348	$2,040	$41,310	$2,878	$94	$899	$305,000

	Residential First Mortgage	Second Mortgage	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Commercial Lease Financing	Warehouse Lending	Total
December 31, 2014									
Loans held-for-investment									
Individually evaluated	$385,358	$30,625	$1,114	$121	$403	$—	$—	$—	$417,621

Collectively evaluated (1)	1,781,963	65,290