

FLAGSTAR BANCORP INC

Form 10-Q/A

September 07, 2005

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-16577

FLAGSTAR BANCORP, INC.

(Exact name of registrant as specified in its charter)

Michigan

38-3150651

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

5151 Corporate Drive, Troy, Michigan

48098

(Address of principal executive offices)

(Zip Code)

(248) 312-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past thirty days. Yes No . Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of August 3, 2005, 62,256,028 shares of the registrant's Common Stock, \$0.01 par value, were outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits

SIGNATURES

Exhibit Index

Section 302 Certification of Chief Executive Officer

Section 302 Certification of Chief Financial Officer

Section 906 Certification of Chief Executive Officer

Section 906 Certification of Chief Financial Officer

Table of Contents

EXPLANATORY NOTE

Statement regarding Review of Financial Statements

As previously disclosed, no procedures required by Rule 10-01(d) of Regulation S-X were performed by an independent registered public accountant on our financial statements for the fiscal quarter ended June 30, 2005 included in the Form 10-Q filed on August 9, 2005 (Original Filing) because Grant Thornton LLP, our previous independent registered public accounting firm, resigned on June 13, 2005 and our new independent registered public accounting firm, Virchow, Krause and Company, LLP, was not engaged until August 5, 2005. For additional information regarding the resignation of Grant Thornton LLP and our engagement of Virchow, Krause and Company, LLP, please refer to our Current Report on Form 8-K filed on June 15, 2005, our Current Report on Form 8-K/A filed on August 4, 2005, and our Current Report on Form 8-K filed August 8, 2005.

This Amendment on Form 10-Q/A (Amendment No. 1) (Amended Filing) sets forth the Original Filing in its entirety and is being filed to confirm that all procedures required by Rule 10-01(d) of Regulation S-X in connection with the filing of interim financial statements included in quarterly reports on Form 10-Q have now been completed by Virchow, Krause and Company, LLP. No information in the Original Filing is amended hereby, except that (i) Note 2 to the Consolidated Financial Statements (Unaudited) on page 8 has been amended to delete a reference to the fact that the Original Filing was not reviewed by an independent registered public accountant and (ii) the chart under the section entitled FHLB Advances on page 28 has been amended to change March 31, 2005 to December 31, 2004. The Amended Filing has not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. For information regarding subsequent events and developments, please refer to our subsequent filings under the Exchange Act with the Commission.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited condensed consolidated financial statements of the Registrant are as follows:

Consolidated Statements of Financial Condition June 30, 2005 (unaudited) and December 31, 2004.

Unaudited Consolidated Statements of Earnings For the three and six months ended June 30, 2005 and 2004.

Consolidated Statements of Stockholders Equity and Comprehensive Income For the six months ended June 30, 2005 (unaudited) and for the year ended December 31, 2004.

Unaudited Consolidated Statements of Cash Flows For the six months ended June 30, 2005 and 2004.

Unaudited Condensed Notes to Consolidated Financial Statements.

This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company including statements preceded by, followed by or that include the words or phrases such as believes, expects, anticipates, plans, trend, objective, continue, pattern or similar expressions or future or conditional verbs such as will, would, should, could, might, can, similar expressions, which are intended to identify forward looking statement within the meaning of the Private Securities Litigation Reform Act of 1995.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- (1) significant increases in competitive pressures among depository institutions;
- (2) reduced net interest margins because of the changes in the interest rate environment;
- (3) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions;
- (4) general economic conditions, either national or in the states in which the Company does business, are less favorable than expected;
- (5) political developments, wars or other hostilities may disrupt, or increase volatility in, securities markets, or other economic conditions;
- (6) legislative or regulatory changes or actions adversely affect the businesses in which the Company is engaged;
- (7) changes and trends in the securities markets;
- (8) a delayed or incomplete resolution of regulatory issues;
- (9) the impact of reputational risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity; and
- (10) the outcome of any regulatory and legal investigations and proceedings.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Table of Contents

Flagstar Bancorp, Inc.
Consolidated Statements of Financial Condition
(in thousands)

	At June 30, 2005	At December 31, 2004
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 171,326	\$ 156,457
Mortgage-backed securities held to maturity	17,842	20,710
Investment securities	20,662	18,391
Mortgage loans available for sale	1,961,977	1,506,311
Investment loan portfolio	11,784,482	10,558,463
Less: allowance for losses	(33,372)	(37,627)
Investment loan portfolio, net	11,751,110	10,520,836
Total earning assets	13,751,591	12,066,248
Accrued interest receivable	43,731	35,047
Repossessed assets, net	35,809	37,823
Repurchased assets, net	15,786	17,099
Federal Home Loan Bank stock	262,477	234,845
Premises and equipment, net	188,807	180,095
Mortgage servicing rights, net	284,331	187,975
Other assets	162,769	209,899
Total assets	\$14,916,627	\$13,125,488
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits	\$ 7,887,028	\$ 7,379,655
Federal Home Loan Bank advances	5,161,035	4,090,000
Long term debt	181,748	104,427
Total interest-bearing liabilities	13,229,811	11,574,082
Accrued interest payable	32,814	28,145
Undisbursed payments on loans serviced for others	477,083	496,210
Escrow accounts	285,033	176,424
Liability for checks issued	21,784	18,941
Federal income taxes payable	52,766	26,115
Secondary market reserve	15,600	19,002
Other liabilities	46,458	51,732
Total liabilities	14,161,349	12,390,651

Commitments and contingencies

Stockholders Equity

Common stock \$.01 par value, 150,000,000 shares authorized;
62,243,888 and 61,357,614 shares issued and outstanding at June 30,
2005 and December 31, 2004, respectively

	623	614
Additional paid in capital	44,348	40,754
Accumulated other comprehensive income	5,520	5,343
Retained earnings	704,787	688,126
Total stockholders equity	755,278	734,837
Total liabilities and stockholders equity	\$14,916,627	\$13,125,488

The accompanying notes are an integral part of these financial statements.

-3-

Table of Contents

Flagstar Bancorp, Inc.
Unaudited Consolidated Statements of Earnings
(in thousands, except per share data)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Interest Income				
Loans and mortgage backed securities	\$ 165,617	\$ 139,516	\$ 328,306	\$ 269,440
Other	494	698	931	1,615
Total	166,111	140,214	329,237	271,055
Interest Expense				
Deposits	61,698	38,813	114,659	72,863
FHLB advances	41,138	34,794	82,190	71,536
Other	4,834	7,286	8,737	16,358
Total	107,670	80,893	205,586	160,757
Net interest income	58,441	59,321	123,651	110,298
Provision for losses	2,903	3,603	9,150	12,905
Net interest income after provision for losses	55,538	55,718	114,501	97,393
Non-Interest Income				
Loan fees and charges, net	3,213	6,017	5,835	10,088
Deposit fees and charges	4,400	3,291	7,977	6,159
Loan administration, net	1,669	5,590	7,614	13,822
Net gain on loan sales	31,177	7,513	40,933	39,645
Net gain on sales of mortgage servicing rights	2,262	37,248	6,510	59,033
Other fees and charges	12,148	11,380	21,561	20,373
Total	54,869	71,039	90,430	149,120
Non-Interest Expense				
Compensation and benefits	31,620	29,298	62,339	56,407
Occupancy and equipment	18,048	16,514	34,446	33,611
Communication	1,563	1,846	3,116	3,704
Other taxes	2,463	3,096	4,531	6,047
General and administrative	13,380	12,583	26,364	25,947
Total	67,074	63,337	130,796	125,716
Earnings before federal income taxes	43,333	63,420	74,135	120,797
Provision for federal income taxes	15,533	22,230	26,557	42,650
Net Earnings	\$ 27,800	\$ 41,190	\$ 47,578	\$ 78,147

Net earnings per share	basic	\$ 0.45	\$ 0.68	\$ 0.77	\$ 1.29
Net earnings per share	diluted	\$ 0.43	\$ 0.65	\$ 0.74	\$ 1.22

The accompanying notes are an integral part of these financial statements.

-4-

Table of Contents

Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders Equity and Comprehensive Income
(in thousands, except per share data)

	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2003	\$607	\$35,394	\$ 2,173	\$605,494	\$643,668
Net earnings				143,754	143,754
Net realized gain on swap extinguishment			2,650		2,650
Net unrealized gain on swaps used in cash flow hedges			520		520
Total comprehensive income					146,924
Stock options exercised and grants issued, net	7	3,311			3,318
Tax benefit from stock-based compensation		2,049			2,049
Dividends paid (\$1.00 per share)				(61,122)	(61,122)
Balance at December 31, 2004 (Unaudited)	614	40,754	5,343	688,126	734,837
Net earnings				47,578	47,578
Reclassification of gain on swap extinguishment			(668)		(668)
Net unrealized gain on swaps used in cash flow hedges			845		845
Total comprehensive income					47,755
Stock options exercised and grants issued, net	9	3,594			3,603
Dividends paid (\$0.50 per share)				(30,917)	(30,917)
Balance at June 30, 2005	\$623	\$44,348	\$ 5,520	\$704,787	\$755,278

The accompanying notes are an integral part of these financial statements.

-5-

Table of Contents

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

	For the six months ended	
	June 30,	
	2005	2004
Operating Activities		
Net earnings	\$ 47,578	\$ 78,147
Adjustments to reconcile net earnings to net cash used in operating activities		
Provision for losses	9,150	12,905
Depreciation and amortization	52,036	60,845
FHLB stock dividends	(5,035)	(4,869)
Net gain on the sale of assets	(1,062)	(1,261)
Net gain on loan sales	(40,933)	(39,645)
Net gain on sales of mortgage servicing rights	(6,510)	(59,033)
Proceeds from sales of loans available for sale	11,343,851	15,766,701
Originations and repurchase of loans, net of principal repayments	(12,200,076)	(17,027,099)
Increase in accrued interest receivable	(8,684)	(1,489)
Decrease (increase) in other assets	49,739	(89,384)
Increase in accrued interest payable	4,669	1,436
Increase in the liability for checks issued	2,843	183
Increase in federal income taxes payable	25,529	6,824
(Decrease) increase in other liabilities	(8,676)	29,268
Net cash used in operating activities	(735,581)	(1,266,471)
Investing Activities		
Net change in investment securities	(2,271)	(1,208)
Net change in mortgage backed securities	2,868	4,528
Origination of loans held for investment, net of principal repayments	(817,377)	(19,860)
Purchases of Federal Home Loan Bank stock	(22,597)	(26,579)
Investment in unconsolidated subsidiary	2,321	2,328
Proceeds from the disposition of repossessed assets	22,567	19,641
Acquisitions of premises and equipment, net of proceeds from sales	(24,613)	(16,772)
Increase in mortgage servicing rights	(162,286)	(169,475)
Proceeds from the sale of mortgage servicing rights	36,262	207,295
Net cash used in investing activities	(965,126)	(102)
Financing Activities		
Net increase in deposit accounts	507,373	854,325
Issuance of junior subordinated debt	75,000	
Redemption of preferred securities		(74,750)
Net increase in Federal Home Loan Bank advances	1,071,035	387,199
Net (disbursement) receipt of payments of loans serviced for others	(19,127)	17,113
Net receipt of escrow payments	108,609	124,959
Proceeds from the exercise of stock options	3,603	2,397
Dividends paid to stockholders	(30,917)	(30,442)

Net cash provided by financing activities	1,715,576	1,280,801
Net increase in cash and cash equivalents	14,869	14,228
Beginning cash and cash equivalents	156,457	148,417
Ending cash and cash equivalents	\$ 171,326	\$ 162,645

The accompanying notes are an integral part of these financial statements.

-6-

Table of Contents

Flagstar Bancorp, Inc.
Unaudited Consolidated Statements of Cash Flows (continued)
(in thousands)

Supplemental disclosure of cash flow information:

Loans receivable transferred to repossessed assets	\$ 19,446	\$ 20,253
Total interest payments made on deposits and other borrowings	\$200,917	\$ 159,321
Federal income taxes paid	\$	\$ 36,000
Loans held for sale transferred to loans held for investment	\$441,492	\$1,901,750

The accompanying notes are an integral part of these financial statements.

-7-

Table of Contents

Flagstar Bancorp, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Business

Flagstar Bancorp, Inc. (Flagstar or the Company) is the holding company for Flagstar Bank, FSB (the Bank), a federally chartered stock savings bank founded in 1987. With \$14.9 billion in assets at June 30, 2005, Flagstar is the largest savings institution and second largest banking institution headquartered in Michigan.

Flagstar is a consumer-oriented financial services organization. The Company s principal business is obtaining funds in the form of deposits and borrowings and investing those funds in various types of loans. The acquisition or origination of single-family mortgage loans is the Company s primary lending activity. The Company also originates consumer loans, commercial real estate loans, and non-real estate commercial loans.

A majority of the single-family mortgage loans originated that conform to underwriting standards of Fannie Mae, Freddie Mac or Ginnie Mae are securitized and sold on a servicing-retained basis. Any out-of-market servicing rights may then be sold in a separate transaction. The Company may also invest in a significant amount of its loan production for its own portfolio to maximize the Company s leverage ability and to receive the interest spread between earning assets and paying liabilities.

The Bank is a member of the Federal Home Loan Bank System (FHLB) and is subject to regulation, examination and supervision by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). The Bank s deposits are insured by the FDIC through the Savings Association Insurance Fund (SAIF).

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and their non-trust subsidiaries. All significant intercompany balances and transactions have been eliminated.

The unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying interim financial statements are unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and six month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Certain amounts within the accompanying consolidated financial statements and the related notes have been reclassified to conform to the 2005 presentation.

Note 3. Recent Accounting Developments

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (FAS 154). FAS 154 replaces Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes and FAS No. 3, Reporting Accounting Changes in Interim Financial Statements*. FAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented using the new accounting principle. FAS 154 also requires that a change in method of depreciation or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed a restatement. FAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The implementation of FAS 154 is not expected to have a material impact on the Company s financial statements.

Table of Contents**Note 4. Stock-Based Compensation**

The Company has two stock incentive plans, the 1997 Employees and Directors Stock Option Plan and the 2000 Stock Incentive Plan (collectively, the Plans), which collectively provide for the granting of non-qualified stock options, incentive stock options, restricted stock awards, performance stock awards, stock bonuses and other awards to our employees (including officers and directors). Awards are granted at the average market price of the Company's common stock on the grant date, vest over varying periods generally beginning six months from the date of grant, and expire ten years from the date of grant.

As currently permitted by SFAS 123, the Company continues to measure and recognize compensation expense using the intrinsic value method specified in APB Opinion No. 25, *Accounting for Stock Issued to Employees*. As required under the provisions of SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the following table discloses the pro forma net earnings and pro forma basic and diluted earnings per share had the fair value method been applied to all stock awards for the periods presented:

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Net earnings, as reported	\$27,800	\$41,190	\$47,578	\$78,147
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(575)	(719)	(1,151)	(1,437)
Pro forma net earnings	\$27,225	\$40,471	\$46,427	\$76,710
Basic earnings per share				
As reported	\$ 0.45	\$ 0.68	\$ 0.77	\$ 1.29
Pro forma	\$ 0.44	\$ 0.66	\$ 0.75	\$ 1.26
Diluted earnings per share				
As reported	\$ 0.43	\$ 0.65	\$ 0.74	\$ 1.22
Pro forma	\$ 0.42	\$ 0.63	\$ 0.72	\$ 1.20

Note 5. Segment Information

The Company's operations can be categorized into two business segments: home lending and banking. Each business operates under the same banking charter, but is reported on a segmented basis for this report. Each of the business operations is complementary to each other.

The banking operation includes the gathering of deposits and investing those deposits in duration-matched assets primarily originated by the home lending operation. The banking group holds these loans in the investment portfolio in order to earn income based on the difference, or spread, between the interest earned on loans and the interest paid for deposits and other borrowed funds. All of the Company's non-bank consolidated subsidiaries are included in the banking segment, and none are material to the Company's operations.

The home lending operation involves the origination, packaging and sale of mortgage loans in order to receive transaction income. It also services mortgage loans for others and may sell mortgage servicing rights (MSRs) into the secondary market. Funding for the home lending operation is provided by deposits and borrowings obtained by the banking group.

Table of Contents

Following is a presentation of financial information by segment for the periods indicated:

For the three months ended June 30, 2005

	Banking Operation	Home Lending Operation	Elimination	Combined
Net interest income	\$41,845	\$ 16,596	\$	\$58,441
Gain on sale revenue		33,439		