FLAGSTAR BANCORP INC
Form 10-K
March 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

OR

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

Commission file number: 001-16577
(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	48098-2639
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (248) 312-2000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes   No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.   Yes   No ý
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 90 days.   Yes ý   No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ý   No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o   Accelerated Filer x   Non-Accelerated Filer o (Do not check if a smaller reporting company)   Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes   No ý

The estimated aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing sale price ($13.96 per share) as reported on the New York Stock Exchange on June 30,

2013, was approximately $277.7 million. The registrant does not have any non-voting common equity shares.
As of March 3, 2014, 56,221,056 shares of the registrant's common stock, $0.01 par value, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in a forward-looking statement. Examples of forward-looking statements include statements regarding our expectations, beliefs, plans, goals, objectives and future financial or other performance. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. Except to fulfill our obligations under the U.S. securities laws, we undertake no obligation to update any such statement to reflect events or circumstances after the date on which it is made.

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:

(1) General business and economic conditions, including unemployment rates, movements in interest rates, the slope of the yield curve, any increase in mortgage fraud and other related activity and the further decline of asset values in certain geographic markets, that affect us or our counterparties;

(2) Volatile interest rates, and our ability to effectively hedge against them, which could affect, among other things, (i) the mortgage business, (ii) our ability to originate loans and sell assets at a profit, (iii) prepayment speeds, (iv) our cost of funds and (v) investments in mortgage servicing rights;

(3) The adequacy of our allowance for loan losses and our representation and warranty reserves;

(4) Changes in accounting standards generally applicable to us and our application of such standards, including in the calculation of the fair value of our assets and liabilities;

(5) Our ability to borrow funds, maintain or increase deposits or raise capital on commercially reasonable terms or at all and our ability to achieve or maintain desired capital ratios;

(6) Changes in material factors affecting our loan portfolio, particularly our residential mortgage loans, and the market areas where our business is geographically concentrated or further loan portfolio or geographic concentration;

(7) Changes in, or expansion of, the regulation of financial services companies and government-sponsored housing enterprises, including new legislation, regulations, rulemaking and interpretive guidance, enforcement actions, the imposition of fines and other penalties by our regulators, the impact of existing laws and regulations, new or changed roles or guidelines of government-sponsored entities, changes in regulatory capital ratios, and increases in deposit insurance premiums and special assessments of the Federal Deposit Insurance Corporation;

(8) Our ability to comply with the terms and conditions of the Supervisory Agreement with the Board of Governors of the Federal Reserve and the Bank’s ability to comply with the Consent Order with the Office of Comptroller of the Currency, and our ability to address matters raised by our regulators, including Matters Requiring Attention and Matters Requiring Immediate Attention, if any;

(9) The Bank’s ability to make capital distributions and our ability to pay dividends on our capital stock or interest on our trust preferred securities;

(10) Our ability to attract and retain senior management and other qualified personnel to execute our business strategy, including our entry into new lines of business, our introduction of new products and services and management of

risks relating thereto, and our competing in the mortgage loan originations and servicing and commercial and retail banking lines of business;

(11) Our ability to satisfy our servicing and subservicing obligations and manage repurchases and indemnity demands by mortgage loan purchasers, guarantors and insurers;

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(12) The outcome and cost of defending current and future legal or regulatory litigation, proceedings or investigations;

(13) Our ability to create and maintain an effective risk management framework and effectively manage risk, including, among other things, market, interest rate, credit and liquidity risk, including risks relating to the cyclicality and seasonality of our mortgage banking business, litigation and regulatory risk, operational risk, counterparty risk and reputational risk;

(14) The control by, and influence of, our majority stockholder;

(15) A failure of, interruption in or cybersecurity attack on our network or computer systems, which could impact our ability to properly collect, process and maintain personal data and system integrity with respect to funds settlement;

(16) Our ability to meet our forecasted earnings such that we are able to realize the benefits of reversing our deferred tax allowance, or the need to increase the valuation allowance in future periods;

(17) Our compliance with the terms and conditions of the agreement with the U.S. Department of Justice and the impact of compliance with that agreement and our ability to accurately estimate the financial impact of that agreement, including the fair value and timing of the future payments; and

(18) The downgrade of the long-term credit rating of the U.S. by one or more ratings agencies could materially affect global and domestic financial markets and economic conditions.

All of the above factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such factor on our business.

Please also refer to Part I, Item 1A of this Annual Report on Form 10-K, which is incorporated by reference herein, for further information on these and other factors affecting us.

Although we believe that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies and other factors. Accordingly, we cannot give you any assurance that our expectations will in fact occur or that actual results will not differ materially from those expressed or implied by such forward-looking statements. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

PART I

ITEM 1. BUSINESS

Where we say "we," "us," or "our," we usually mean Flagstar Bancorp, Inc. However, in some cases, a reference to "we," "us," or "our" will include our wholly-owned subsidiary Flagstar Bank, FSB (the "Bank").

General

We are a Michigan-based savings and loan holding company founded in 1993. Our business is primarily conducted through our principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. At December 31, 2013, our total assets were $9.4 billion, making us the largest bank headquartered in Michigan and one of the top ten largest savings banks in the United States. Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "FBC." We are considered a controlled company for NYSE purposes, because MP Thrift Investments, L.P. ("MP Thrift") held approximately 63.4 percent of our common stock as of December 31, 2013.

As a savings and loan holding company, we are subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve (the "Federal Reserve"). 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") and the Bank's deposits are insured by the FDIC through the Deposit Insurance Fund. The Bank is also subject to the rule-making, supervision and examination authority of the Consumer Financial Protection Bureau (the "CFPB"), which is responsible for enforcing the principal federal consumer protection laws. The Bank is a member of the Federal Home Loan Bank ("FHLB") of Indianapolis.

Our primary business is conducted through our Mortgage Banking segment, in which we originate or purchase residential first mortgage loans throughout the country and sell them into securitization pools, primarily to Fannie Mae, Federal Home Loan Mortgage Corporation ("Freddie Mac") and Government National Mortgage Association ("Ginnie Mae") (collectively, the "Agencies") or as whole loans. Approximately 99.2 percent of our total loan originations during the year ended December 31, 2013 represented mortgage loans that were collateralized by residential first mortgages on single-family residences and were eligible for sale to the Agencies. Our revenue primarily consists of net gain on loan sales, loan fees and charges, net loan administration income, and interest income from residential first mortgage loans held-for-investment and held-for-sale, and second mortgage loans held-for-investment. At December 31, 2013, we originated residential first mortgage loans through our wholesale relationships with approximately 1,100 mortgage brokers and approximately 1,000 correspondents, which were located in all 50 states. At December 31, 2013, we also operated 39 home loan centers located in 19 states, which primarily originate one-to-four family residential first mortgage loans as part of our Mortgage Banking segment. We also originate mortgage loans through referrals from our banking centers, consumer direct call center and our website, www.flagstar.com. The combination of our home lending, broker and correspondent channels gives us broad access to customers across diverse geographies to originate, fulfill, sell and service our residential first mortgage loan products. Our servicing activities primarily include collecting cash for principal, interest and escrow payments from borrowers, assisting homeowners through loss mitigation activities, and accounting for and remitting principal and interest payments to mortgage-backed securities investors and escrow payments to third parties.

Our business also includes the activities conducted through our Community Banking segment, in which our revenue includes net interest income and fee-based income from community banking services. At December 31, 2013, we operated 111 banking centers in Michigan (of which 12 were located in retail stores). Of the 111 banking centers, 68 facilities were owned and 43 facilities were leased. During the first quarter 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. Through our banking centers, we gather deposits and offer a line of consumer and commercial financial products and services to individuals and businesses. We provide deposit and cash management services to governmental units on a relationship basis. We leverage our banking centers to cross-sell loans, deposit products and insurance and investment services to existing customers and to increase our customer base by attracting new customers. At December 31, 2013, we had a total of $6.1 billion in deposits, including $4.9 billion in retail deposits, $0.6 billion in company controlled deposits and $0.6 billion in government deposits.

At December 31, 2013, we had 3,253 full-time equivalent salaried employees of which 359 were account executives and loan officers.

Reversal of Valuation Allowance on Deferred Tax Asset

During the fourth quarter 2013, we reversed 100 percent of the valuation allowance on our federal deferred tax asset ("DTA") and a portion of our state DTA, which had been previously established as of September 30, 2009 and which had increased since that time due to subsequently incurred operating losses. As a result of the DTA reversal, net income was increased due to the recording of a $416.3 million benefit for income taxes during the year ended December 31, 2013. As of January 1, 2013, this benefit was comprised of a $355.8 million DTA valuation allowance reversal, or $6.29 per diluted share, and the current period benefit for income taxes of $60.5 million during the year ended December 31, 2013.

Settlements with Fannie Mae and Freddie Mac

During the fourth quarter 2013, we announced that we had entered into and executed separate settlement agreements with each of 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 and sold to Fannie Mae and Freddie Mac. The Fannie Mae total resolution amount was $121.5 million, and after paid claim credits and other adjustments, we paid $93.5 million to Fannie Mae. The Freddie Mac total resolution amount was $10.8 million, and after paid claim credits and other adjustments, we paid $8.9 million to Freddie Mac. As a result of these settlements, we released approximately $24.9 million of previously accrued reserves.

Sale of Mortgage Servicing Rights

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. The sales transaction closed on December 18, 2013 and the MSRs were thereafter transferred on that date.

Agreement with U.S. Department of Justice

On February 24, 2012, we announced that the Bank had entered into an agreement (the "DOJ Agreement") with the U.S. Department of Justice ("DOJ") relating to certain underwriting practices associated with loans insured by the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD"). The Bank and the DOJ entered into the DOJ Agreement pursuant to which the Bank agreed to comply with all applicable HUD and FHA rules related to its continued participation in the direct endorsement lender program, make an initial payment of $15.0 million within 30 business days of the effective date of the DOJ Agreement, make payments of approximately $118.0 million contingent upon the occurrence of certain future events (as further described below) (the "Additional Payments"), and complete a monitoring period by an independent third party chosen by the Bank and approved by HUD. The Additional Payments will occur if and only if each of the following events happen:

- we generate positive income for a sustained period, such that part or all of our DTA, which was previously offset by a valuation allowance, is more likely than not to be realized, as evidenced by the reversal of the DTA valuation allowance in accordance with U.S. GAAP;
- we are able to include capital derived from the reversal of the DTA valuation allowance in our Tier 1 capital, as limited by the regulatory capital requirements administered by the U.S. bank regulatory agencies; and
- our obligation to repay the $266.7 million in preferred stock held by the U.S. Treasury under the TARP Capital Purchase Program has been either extinguished or excluded from Tier 1 capital for purposes of calculating the Tier 1 capital ratio as described in the paragraph below.

Upon the occurrence of each of the events described above, and provided doing so would not violate any banking regulatory requirement or the OCC does not otherwise object, we will begin making Additional Payments provided that (i) each annual payment would be equal to the lesser of $25.0 million or the portion of the Additional Payments that remains outstanding after deducting prior payments, and (ii) no obligation arises until our call report as filed with the OCC, including any amendments thereto, for the period ending at least six months prior to the making of such Additional Payments, reflects a minimum Tier 1 capital ratio, after excluding any un-extinguished portion of the preferred stock issued in connection with our participation in the TARP Capital Purchase Program, of 11 percent (or higher ratio if required by regulators).

As noted above, as part of the settlement, we agreed to make payments totaling $118.0 million, contingent upon the occurrence of certain future events, including the reversal of the valuation allowance on the DTA. As a result of the fourth quarter 2013 reversal of the DTA valuation allowance and our view that the other conditions had been satisfied or would be satisfied in the near future upon the passage of time, we determined that the fair value liability associated with the DOJ settlement had increased by $61.0 million, in addition to the quarterly management estimates. The total fair value of the DOJ settlement liability was $93.0 million at December 31, 2013, as compared to $19.1 million at December 31, 2012. The fair value of the Additional Payments could increase or decrease in the future, depending on certain factors, and therefore, may affect earnings in future quarters. See Note 4 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein, for the key assumptions used in valuing the litigation settlement.

Preferred Stock and Warrant

On December 18, 2012, the U.S. Treasury announced its intention to auction, during 2013, the preferred stock of a number of institutions, including us, which the U.S. Treasury had purchased in 2009 under the Troubled Asset Relief Program ("TARP") Capital Purchase Program. The auction of our Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock"), closed on March 28, 2013. The U.S. Treasury also auctioned the warrant to purchase up to approximately 645,138 shares of our common stock, par value $0.01 per share (the "Common Stock") at an exercise price of $62.00 per share (the "Warrant"). That auction closed on June 5, 2013. As a result of the auctions, the Series C Preferred Stock and the Warrant, which previously was acquired under the TARP Capital Purchase Program, are now held by third party investors unaffiliated with the U.S. government.

Commercial Loan Sales

In late 2012, we made a strategic decision to exit our New England based commercial loan production offices. In connection with this decision, we entered into two agreements to sell our New England commercial loan portfolios.

Effective December 31, 2012, the Bank entered into a definitive Transaction Purchase and Sale Agreement (the "CIT Agreement") with CIT Bank, the wholly-owned U.S. commercial bank subsidiary of CIT Group Inc. ("CIT"). Under the terms of the CIT Agreement, CIT acquired $1.3 billion in commercial loan commitments, $784.3 million of which was outstanding at December 31, 2012 for a purchase price of $779.2 million. We recognized a gain of $1.0 million recorded in net gain on sale of assets on the Consolidated Statement of Operations. The loans sold consist primarily of asset-based loans, equipment leases and commercial real estate loans. The sale resulted in a reversal of $12.6 million to the allowance for loan loss associated with such loans and which the reversal was recognized at December 31, 2012.

Effective February 5, 2013, the Bank entered into a definitive Asset and Portfolio Purchase and Sale Agreement (the "Customers Agreement") with Customers Bank ("Customers") located in Wyomissing, Pennsylvania. Under the terms of the Customers Agreement, Customers acquired $187.6 million in commercial loan commitments, $150.9 million of which were outstanding at December 31, 2012. The loans sold consist primarily of commercial and industrial loans. The transaction settled on March 28, 2013 for a purchase price of $148.5 million.

We transferred the loans sold pursuant to both the CIT Agreement and the Customers Agreement from the loans held-for investment portfolio to the loans held-for-sale portfolio at December 31, 2012.

Litigation Settlements

In 2009 and 2010, the Bank received repurchase demands from Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. ("Assured") with respect to HELOCs that were sold by the Bank in connection with the two non-agency HELOC securitizations. In 2011, Assured filed a lawsuit related to these repurchase demands. On February 5, 2013, the U.S. District Court for the Southern District of New York (the "Court") issued a decision in the lawsuit filed by Assured. The Court found in favor of Assured on its claims for breach of contract against the Bank in the amount of $89.2 million plus contractual interest and attorneys' fees and costs. On April 1, 2013, the Court issued a final judgment against us for a total of $106.5 million, consisting of $90.7 million in damages plus $15.9 million in pre-judgment interest. The Bank filed a notice of appeal later that month. The Court subsequently issued a memorandum order, in which the court reversed the decision regarding attorneys' fees until after the appeal. On June 21, 2013, the Bank entered into an agreement with Assured (the "Assured Settlement Agreement") to settle the litigation and the Bank's pending appeal. Pursuant to the terms of the Assured Settlement Agreement, Assured's judgment against the Bank has been deemed fully satisfied, the Bank's appeal has been dismissed, and, among other consideration and transaction provisions, the Bank has paid Assured $105.0 million. In addition, the Bank has assumed responsibility for future payments due by Assured to noteholders in the Flagstar non-agency HELOC securitization trust (the "FSTAR 2005-1") and Flagstar non-agency HELOC securitization trust (the "FSTAR 2006-2"), (collectively the "HELOC securitization trusts"), and will receive future reimbursements for claims paid to which Assured would otherwise have been entitled. As a result, the Bank recorded a $49.1 million gain during the second quarter 2013, arising from the reconsolidation of the assets and liabilities of the HELOC securitization trusts at fair value and the reversal of related reserves for pending and threatened litigation. Due to the Assured Settlement Agreement, we reconsolidated the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts assets and liabilities at June 30, 2013. We subsequently became the primary beneficiary of the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts, which is reflected in the Consolidated Financial Statements as a variable interest entity ("VIE").

In May 2010, the Bank received repurchase demands from MBIA Insurance Corporation ("MBIA") with respect to closed-end, fixed and adjustable second mortgage loans that were sold by the Bank in connection with its two non-agency second mortgage loan securitizations. On January 11, 2013, MBIA filed a lawsuit against the Bank in the U.S. District Court for the Southern District of New York, alleging a breach of various loan level representations and warranties and seeking relief for breach of contract, as well as full indemnification and reimbursement of amounts that it has paid and would pay under the respective insurance policies, plus interest and costs. In the litigation, MBIA alleged damages to date of $165.0 million and unspecified future damages. In March 2013, the Bank filed a motion to dismiss, and MBIA filed a motion for partial summary judgment on the basis of collateral estoppels. On May 2, 2013, the Bank entered into an agreement with MBIA (the "MBIA Settlement Agreement") to settle the litigation. Pursuant to the terms of the MBIA Settlement Agreement, MBIA dismissed its lawsuit against the Bank and in exchange, among other consideration and transaction provisions, the Bank paid MBIA $110.0 million. Following the MBIA Settlement Agreement, the Flagstar non-agency second mortgage securitization trust (the "FSTAR 2006-1") which was recorded as available-for-sale investment securities, was dissolved and we then transferred the loans associated with the securitization to our loans held-for-investment portfolio at fair value, approximately $73.3 million of second mortgage loans, and dissolved the FSTAR 2006-1 mortgage securitization trust. As a result, we recognized a $4.9 million loss during the second quarter 2013. In addition, the MBIA Settlement Agreement also noted that MBIA will be required to satisfy all of its obligation under the Flagstar non-agency second mortgage securitization trust (the "FSTAR 2007-1") insurance policy and related FSTAR 2007-1 obligations without further recourse to us.

For further information, see Notes 10 and 28 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

Reverse Stock Split

Our board of directors authorized a one-for-ten reverse stock split on September 24, 2012 following the annual meeting of stockholders on that date at which the reverse stock split was approved by our stockholders. Our common stock began trading on a post-split basis on October 11, 2012. Unless noted otherwise, all share-related amounts herein reflect the one-for-ten reverse stock split.

In connection with the reverse stock split, stockholders received one new share of common stock for every ten shares held at the effective time. The reverse stock split reduced the number of outstanding shares of common stock from approximately 558.3 million to 55.8 million. The number of authorized shares of common stock was reduced from 700 million to 70 million. Proportional adjustments were made to our outstanding options, warrants and other securities entitling holders to purchase or receive shares of common stock. In lieu of fractional shares, stockholders received cash payments based on the common stock's closing price on October 9, 2012, adjusted for the reverse stock split. The reverse stock split did not negatively affect any of the rights that accrue to holders of our outstanding options, warrants and other securities entitling holders to purchase or receive shares of common stock, except to adjust the number of shares relating thereto accordingly. For further information on the reverse stock split, see Note 21 and Note 22 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

Consent Order

Effective October 23, 2012, the Bank's board of directors executed a Stipulation and Consent (the "Stipulation"), accepting the issuance of a Consent Order (the "Consent Order") by the OCC. The Consent Order replaces the supervisory agreement entered into between the Bank and the Office of Thrift Supervision (the "OTS") on January 27, 2010, which the OCC terminated simultaneous with issuance of the Consent Order. We are still subject to the Supervisory Agreement with the Board of Governors of the Federal Reserve (the "Supervisory Agreement").

Under the Consent Order, the Bank is required to adopt or review and revise various plans, policies and procedures related to, among other things, regulatory capital, enterprise risk management and liquidity. Specifically, under the terms of the Consent Order, the Bank's board of directors has agreed to, among other things, which include but are not limited to the following:

- Review, revise, and forward to the OCC a written capital plan for the Bank covering at least a three-year period and establishing projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability and funding structure, capital and liquidity adequacy, as well as a contingency capital funding process and plan that identifies alternative capital sources should the primary sources not be available;
- Adopt and forward to the OCC a comprehensive written liquidity risk management policy that systematically requires the Bank to reduce liquidity risk; and
- Develop, adopt, and forward to the OCC a written enterprise risk management program that is designed to ensure that the Bank effectively identifies, monitors, and controls its enterprise-wide risks, including by developing risk limits for each line of business.

Each of the plans, policies and procedures referenced above in the Consent Order, as well as any subsequent amendments or changes thereto, must be submitted to the OCC for a determination that the OCC has no supervisory objection to them. Upon receiving a determination of no supervisory objection from the OCC, the Bank must implement and adhere to the respective plan, policy or procedure. The foregoing summary of the Consent Order does not purport to be a complete description of all of the terms of the Consent Order, and is qualified in its entirety by reference to the copy of the Consent Order filed with the SEC as an exhibit to our Current Report on Form 8-K filed on October 24, 2012.

We intend to address the banking issues identified by the OCC in the manner required for compliance by the OCC. There can be no assurance that the OCC will not provide substantive comments on the capital plan or other submissions that the Bank makes pursuant to the Consent Order that will have a material impact on us. We believe that the actions taken, or to be taken, to address the banking issues set forth in the Consent Order should, over time, improve our enterprise risk management practices and risk profile. For further information regarding the risks related to the Consent Order, please also refer to Item 1A to Part I of this Annual Report on Form 10-K, herein.

Supervisory Agreement

We are subject to the Supervisory Agreement, dated January 27, 2010, which will remain in effect until terminated, modified, or suspended in writing by the Federal Reserve. The failure to comply with the Supervisory Agreement could result in the initiation of further enforcement action by the Federal Reserve, including the imposition of further operating restrictions, and could result in additional enforcement actions against us. We have taken actions which we believe are appropriate to comply with, and intend to maintain compliance with, all of the requirements of the Supervisory Agreement.

Pursuant to the Supervisory Agreement, we submitted a capital plan to the OTS, predecessor in interest to the Federal Reserve. In addition, we agreed to request prior non-objection of the Federal Reserve to pay dividends or other capital distributions; purchase, repurchase or redeem certain securities; and incur, issue, renew, roll over or increase any debt; and enter into certain affiliate transactions. We also agreed to comply with restrictions on the payment of severance and indemnification payments, director and management changes and employment contracts and compensation arrangements. The foregoing summary of the Supervisory Agreement does not purport to be a complete description of all of the terms of the Supervisory Agreement and is qualified in its entirety by reference to the copy of the Supervisory Agreement filed with the SEC as an exhibit to our Current Report on Form 8-K filed on January 28, 2010. For further information regarding the risks related to the Supervisory Agreement, please also refer to Item 1A to Part I of this Annual Report, herein.

Payment of Dividend and Interest Payments

We are a legal entity separate and distinct from the Bank and our non-banking subsidiaries. In 2008, we discontinued the payment of dividends on common stock. On January 27, 2012, we provided notice to the U.S. Treasury exercising our contractual right to defer regularly scheduled quarterly payments of dividends, beginning with the February 2012 payment, on preferred stock issued and outstanding. Beginning after January 30, 2014, the rate will increase to 9.0 percent from the December 31, 2013 rate of 5.0 percent. Under the terms of the preferred stock, we may defer payments of dividends for up to six quarters in total without default or penalty. Since we have exceeded six quarters of interest deferrals, the holders of such preferred stock have the right to elect two directors to our board of directors but have advised us that they currently do not intend to do so. Concurrently, we also exercised our contractual rights to defer interest payments with respect to trust preferred securities. We may not recommence payments on either the preferred stock or trust preferred securities without commencing payments on the other as well. Under the terms of the indentures related to the trust preferred securities, we may defer interest payments for up to 20 consecutive quarters without default or penalty. These payments will be periodically evaluated and reinstated when appropriate, subject to provisions of the Consent Order and Supervisory Agreement.

In addition, we are generally prohibited from making any dividend payments on stock except pursuant to the prior non-objection of the Federal Reserve as set forth in the Consent Order and Supervisory Agreement. Our principal sources of funds are cash dividends paid by the Bank and other subsidiaries, investment income and borrowings. Federal laws and regulations limit the amount of dividends or other capital distributions that the Bank may pay us. The Bank has an internal policy to remain "well-capitalized" under OCC capital adequacy regulations. The Bank does not currently expect to pay dividends to us and, even if it determined to do so, would not make payments if the Bank was not well-capitalized at the time or if such payment would result in the Bank not being well-capitalized. In addition, the Bank must seek prior approval from the OCC at least 30 days before it may make a dividend payment or other capital distribution to us.

Business and Strategy

We, as well as the rest of the mortgage industry and most other lenders, were negatively affected in recent years by increased credit losses from the prolonged and unprecedented economic recession. There have been moderate improvements beginning in 2012 and throughout 2013 in a number of macroeconomic factors which impact our business. However, near term concerns remain over unemployment, the U.S. mortgage market, access to credit and liquidity markets, energy costs and global political issues such as sovereign debt defaults. Financial institutions also continue to face heightened levels of scrutiny from regulators regarding capital and liquidity requirements, credit risk and other matters.

We believe that despite the increased scrutiny and heightened capital and liquidity requirements, regulated financial institutions should benefit from reduced competition from unregulated entities that lack the access to and breadth of significant funding sources as well as the capital to meet the financing needs of their customers and the ability to satisfy compliance requirements.

We believe that our management team has the necessary experience to appropriately manage through the credit and operational challenges that are present in today's markets. Our Mortgage Banking and Community Banking segments complement each other and contribute to the establishment of a diversified mix of revenue streams.

We intend to continue to seek ways to maximize the value of our Mortgage Banking segment while effectively managing and mitigating risk, with a critical focus on expense management, improving asset quality, increasing profitability, and preserving capital. We expect to pursue opportunities to build our core deposit base through our existing branch banking structure and to serve the credit and non-credit needs of the business customers in our markets, as we diversify our businesses and risk through executing our business plan and transitioning to a full-service and diversified community banking model.

The segments are based on an internally-aligned segment leadership structure, which is also how the results are monitored and performance assessed. We expect that the combination of our business model and the services that our operating segments provide will result in a competitive advantage that supports revenue and earnings. Our business model emphasizes the delivery of a complete set of mortgage and banking products and services, including originating, acquiring, selling and servicing one-to-four family residential first mortgage loans, which we believe is distinguished by timely processing and customer service.

Operating Segments

Our business is comprised of three operating segments - Mortgage Banking, Community Banking and Other. Our Mortgage Banking segment originates, acquires, sells and services residential first mortgage loans on one-to-four family residences. Our Community Banking segment currently offers a line of financial products and services to individuals, small and middle market businesses, and mortgage lenders. Our Other segment includes corporate treasury, tax benefits not assigned to specific operating segments, and miscellaneous other expenses of a corporate nature. Each operating segment supports and complements the operations of the other. For example, funding for the Mortgage Banking segment is primarily provided by deposits obtained through the Community Banking segment. Financial information regarding the three operating segments is set forth in Note 29 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data, herein. A more detailed discussion of the three operating segments is set forth below.

Mortgage Banking

Our Mortgage Banking segment originates, acquires, sells and services one-to-four family residential first mortgage loans. Throughout 2013, 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.

During the year ended December 31, 2013, 34.3 percent of our residential first mortgage originations were purchase mortgages, as compared to 21.8 percent in the year ended December 31, 2012. Historically, the purchase and refinance mix of our mortgage originations has generally tracked the mix of the overall mortgage industry. This is also the case in each of our production channels.

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 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, 2013 we maintained 39 home loan centers. At the same time, our centralized loan processing gains 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 1,100 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 do not acquire loans from correspondents on a bulk basis without prior review. Instead, we perform a full review of each loan, purchasing only those that were originated in accordance with our underwriting guidelines. We have active correspondent relationships with approximately 1,000 companies, including banks, credit unions and mortgage companies located in all 50 states.

As of December 31, 2013, 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.

	2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
	(Dollars in thousands)				
Home Lending	$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

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	2012				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
	(Dollars in thousands)				
Home Lending	$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

	2011				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
	(Dollars in thousands)				
Home Lending	$329,973	$354,359	$481,057	$616,765	$1,782,154
Broker	1,341,973	1,436,632	2,178,801	2,931,106	7,888,512
Correspondent	3,184,364	2,851,716	4,266,593	6,639,229	16,941,902
Total	$4,856,310	$4,642,707	$6,926,451	$10,187,100	$26,612,568
Purchase originations	$1,702,041	$2,347,212	$2,538,925	$2,148,300	$8,736,478
Refinance originations	3,154,269	2,295,495	4,387,526	8,038,800	17,876,090
Total	$4,856,310	$4,642,707	$6,926,451	$10,187,100	$26,612,568
Conventional	$2,965,986	$2,726,979	$4,431,229	$7,180,349	$17,304,543
Government	1,645,232	1,680,766	1,759,984	2,135,840	7,221,822
Jumbo	245,092	234,962	735,238	870,911	2,086,203
Total	$4,856,310	$4,642,707	$6,926,451	$10,187,100	$26,612,568

Underwriting

During the year ended December 31, 2013, we primarily originated residential first mortgage loans for sale to the Agencies, each of which has its particular underwriting guidelines.

Residential first mortgage loans are underwritten on a loan-by-loan basis. Generally, residential first mortgage loans in the held-for-investment loan portfolio were initially reviewed by one of our in-house loan underwriters or by a contract underwriter. In all cases, loans must be underwritten to our underwriting standards. We also originate jumbo adjustable-rate mortgage loans held-for-investment and the underwriting criteria is similar to lenders originating for securitization.

Our current criteria for underwriting generally includes, but are not limited to, full documentation of borrower income and other relevant financial information, fully indexed rate consideration for adjustable-rate loans, and for Agency loans, the specific Agency eligible LTV ratios with full appraisals when required. Variances from any of these standards are permitted only to the extent allowable under the specific investor program requirements. Mortgage loans are collateralized by a first or second mortgage on a one-to-four family residential property.

In general, for loans originated in 2008 and prior, those loans with a balance under $1,000,000 required a valid Agency automated underwriting system ("AUS") response for approval consideration. Documentation and ratio guidelines were driven by the AUS response. A FICO credit score for the borrower was required and a full appraisal of the underlying property that serve as collateral was obtained. For loans over $1,000,000 originated in 2008 and prior, traditional manual underwriting documentation and ratio requirements were required as were two years plus year to date income documentation and two months of bank statements. Income documentation based solely on a borrower's statement was an available underwriting option for each loan category. Even so, in these cases employment of the borrower was verified under the vast majority of loan programs, and income levels were typically checked against third party sources to confirm validity.

We believe our underwriting process, which relies on the electronic submission of data and images and is based on an imaging workflow process, allows for underwriting at a higher level of accuracy and with more timeliness than exists with processes that rely on paper submissions. We also provide our underwriters with integrated quality control tools, such as automated valuation models, multiple fraud detection engines and the ability to electronically submit IRS Form 4506 to ensure underwriters have the information that they need to make informed decisions. The process begins with the submission of an electronic application and an initial determination of eligibility. The application and required documents are then uploaded to our corporate underwriting department and all documents are identified by optical character recognition or our underwriting staff. The underwriter is responsible for checking the data integrity and reviewing credit. The file is then reviewed in accordance with the applicable guidelines established the Agencies for the particular product. Quality control checks are performed by the underwriting department using the tools outlined above, as necessary, and a decision is then made and communicated to the prospective borrower.

Loans held-for-investment

Residential first mortgage loans. At December 31, 2013, 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. During the year ended December 31, 2013, we originated amortizing jumbo adjustable-rate mortgages (adjustable-rate mortgages with loan balances above the Agencies limits) for our held-for-investment portfolio. During the year ended December 31, 2013, we increased the amount of jumbo mortgage loans held-for-investment originations and further volume growth in originations is planned for 2014.

At December 31, 2013, the largest geographic concentrations of our residential first mortgage loans in our held-for investment portfolio were in California, Florida and Michigan, and the aggregate unpaid principal balance of which represented 52.5 percent of total unpaid principal balance of such loans.

The following table identifies our held-for-investment mortgages by major category, at December 31, 2013 and December 31, 2012.

	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, 2013	(Dollars in thousands)									
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	%
December 31, 2012										
Residential first mortgage loans										
Amortizing	1,662,753	4.15	%	704	669	311	77.5	%	92.7	%
Interest only	1,251,658	4.11	%	724	709	276	74.4	%	93.2	%
Option ARMs	55,848	3.54	%	717	684	309	70.4	%	108.9	%
Subprime (4)	3,755	8.37	%	616	650	295	73.4	%	100.4	%
Total residential first mortgage loans	$2,974,014	4.13	%	712	686	296	76.1	%	93.2	%

(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, 2013.
(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013.
(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.

Set forth below is a table describing the characteristics of the residential first mortgage loans in our held-for-investment portfolio at December 31, 2013, by year of origination.

Year of Origination	2009 and Prior		2010		2011		2012		2013		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$2,250,018		$22,401		$29,951		$28,014		$153,940		$2,484,324	
Average note rate	3.92	%	4.67	%	4.48	%	3.90	%	3.39	%	3.90	%
Average original FICO score	710		717		735		736		764		714	
Average current FICO score (2)	706		723		744		752		767		711	
Average original LTV ratio	75.4	%	79.7	%	78.8	%	72.6	%	66.5	%	74.9	%
Housing Price Index LTV, as recalculated (3)	82.7	%	71.4	%	71.2	%	63.8	%	65.2	%	81.2	%
	35.0	%	—	%	1.0	%	—	%	—	%	31.0	%

Underwritten with low or
stated income
documentation

(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, 2013.
(3) The housing price index ("HPI") LTV is updated from the original LTV based on Metropolitan Statistical Area-level Office of Federal Housing Enterprise Oversight ("OFHEO") data as of September 30, 2013.

Average original LTV represents the loan balance at origination, as a percentage of the original appraised value of the property. LTVs are refreshed quarterly based on estimates of home prices using the most current FHFA data, and the refreshed LTVs reflect the modest recovery in home prices over the past 18 months.

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

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)
	(Dollars in thousands)						
Residential first mortgage loans							
Amortizing							
3/1 ARM	$125,463	3.30 %	691	700	254	80.2 %	76.8 %
5/1 ARM	335,424	3.49 %	720	731	274	73.4 %	70.2 %
7/1 ARM	132,084	3.49 %	758	764	347	68.3 %	66.8 %
Other ARM	53,934	3.16 %	676	687	246	83.2 %	72.9 %
Fixed mortgage loans (4)	745,873	4.56 %	696	666	320	75.9 %	85.9 %
Total amortizing	1,392,778	4.03 %	707	695	302	75.3 %	78.9 %
Interest only							
3/1 ARM	172,949	3.44 %	722	724	259	74.5 %	81.8 %
5/1 ARM	668,717	3.25 %	723	737	261	75.0 %	82.0 %
7/1 ARM	38,061	5.81 %	732	732	282	74.5 %	93.8 %
Other ARM	42,253	3.25 %	730	734	275	73.5 %	81.3 %
Other interest only	129,177	6.41 %	728	723	279	73.6 %	93.3 %
Total 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 (5)							
3/1 ARM	48	10.30 %	685	734	262	95.0 %	62.1 %
Other ARM	72	9.75 %	572	593	270	95.0 %	79.3 %
Other subprime	3,110	8.09 %	629	643	282	69.4 %	92.7 %
Total subprime	$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 %
Second mortgage loans (6) (7)	$169,680	7.07 %	729	729	116	20.6 %	20.9 %
HELOC loans (6) (7)	$289,303	5.53 %	728	728	50	26.5 %	27.0 %

(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, 2013.

(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013.

(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 $64.7 million and $155.0 million of second mortgage and HELOC loans, respectively, that are accounted for under the fair value option at December 31, 2013. The combined LTV information is not available for these loans.

The following table sets forth characteristics of those loans in our held-for-investment mortgage portfolio as of December 31, 2013 that were originated with less documentation than is now required by the Agencies. Loans as to which underwriting information was accepted from a borrower without validating that particular item of information are referred to as "low doc" or "stated." Substantially all of those loans were underwritten with verification of employment, but with the related job income, personal assets, or both, stated by the borrower without verification of actual amount. The lack of verification of borrower provided information may increase the risk profile of those loans. Loans as to which underwriting information was supported by third party documentation or procedures are referred to as "full doc," and the information therein is referred to as "verified." Also set forth are different types of loans that may have a higher risk of non-collection than other loans.

December 31, 2013	Low Doc % of Held-for-Investment loans		% of Residential First Mortgage loans		Unpaid Principal Balance (1)
	(Dollars in thousands)				
Characteristics					
SISA (stated income, stated asset)	1.85	%	2.93	%	$74,420
SIVA (stated income, verified assets)	10.53	%	16.73	%	424,284
High LTV (i.e., at or above 95 percent at origination)	0.18	%	0.29	%	7,389
Second lien products (HELOCs, second mortgages)	3.41	%	5.43	%	137,591
Loan types					
Option ARM loans (2)	0.54	%	0.86	%	21,929
Interest-only loans (2)	9.43	%	14.98	%	379,933
Subprime (2) (3)	0.05	%	0.08	%	2,017

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

(2) For additional information regarding the orginal and current FICO scores and LTV ration, please see the table on the preceding page.

(3) 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.

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 AUS 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. All occupancy and specific-purpose loan types were allowed at lower LTVs. At times ARMs were underwritten at an initial rate, also known as the "start rate," that was lower than the fully indexed rate but only for loans with lower LTV ratios and higher FICO scores. Other ARMs were either underwritten at the note rate if the initial fixed term was two years or greater, or at the note rate plus two percentage points if the initial fixed rate term was six months to one year.

Set forth below is a table describing the characteristics of our ARM loans in our residential first mortgage held-for-investment loan portfolio at December 31, 2013, by year of origination.

Year of Origination	2009 and Prior	2010	2011	2012	2013	Total / Weighted Average
	(Dollars in thousands)					
Unpaid principal balance (1)	$1,424,808	$9,661	$15,614	$13,462	$142,619	$1,606,164
Average note rate	3.38 %	4.29 %	4.21 %	3.88 %	3.34 %	3.39 %
Average original FICO score	717	730	743	756	766	722
Average current FICO score (2)	727	739	758	769	768	731
Average original LTV ratio	75.4 %	75.5 %	74.9 %	62.4 %	66.4 %	74.5 %
Housing Price Index LTV, as recalculated (3)	79.7 %	69.9 %	67.3 %	55.9 %	65.3 %	78.0 %
Underwritten with low or stated income documentation	35.0 %	— %	1.0 %	— %	— %	31.0 %

(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, 2013.
(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013.

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 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 is a table describing specific characteristics of option ARMs in our held-for-investment mortgage portfolio at December 31, 2013, which were originated in 2008 or prior.

Year of Origination	2008 and Prior
	(Dollars in thousands)
Unpaid principal balance (1)	$37,159
Average note rate	2.94 %
Average original FICO score	717
Average current FICO score (2)	708
Average original LTV ratio	69.2 %
Average original CLTV ratio	73.9 %
Housing Price Index LTV, as recalculated (3)	92.0 %
Underwritten with low or stated income documentation	$21,929
Total principal balance with any accumulated negative amortization	$23,254
Percentage of total ARMS with any accumulated negative amortization	1.6 %
Amount of net negative amortization (i.e., deferred interest) accumulated as interest income during the year ended December 31, 2013	$2,368

(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, 2013.
(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013.

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)	
2013	$23,254	$ 2,368
2012	$37,747	$ 3,513
2011	$82,536	$ 7,847

(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, 2013, will reset.

Reset frequency	# of Loans	Balance	% of the Total
	(Dollars in thousands)		
Monthly	98	$19,332	1.2 %
Semi-annually	2,988	916,705	57.0 %
Annually	2,427	351,117	21.9 %
No reset — nonperforming loans	1,079	319,010	19.9 %
Total	6,592	$1,606,164	100.0 %

Set forth below as of December 31, 2013, are the amounts of the ARM loans in our held-for-investment loan portfolio with interest rate reset dates in the periods noted. As noted 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)			
2014	$503,580	$576,346	$576,514	$569,927
2015	574,462	591,631	597,872	584,983
2016	588,106	600,376	605,169	592,749
Later years (1)	684,296	610,615	709,105	634,067

(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.

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, 2013, by year of origination.

Year of Origination	2009 and Prior		2010		2011		2012		2013		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$1,045,555		$270		$—		$—		$5,332		$1,051,157	
Average note rate	3.77	%	3.38	%	—	%	—	%	3.00	%	3.76	%
Average original FICO score	724		755		—		—		773		724	
Average current FICO score (2)	733		751		—		—		777		733	
Average original LTV ratio	74.7	%	51.4	%	—	%	—	%	54.0	%	74.6	%
Housing Price Index LTV, as recalculated (3)	83.9	%	51.4	%	—	%	—	%	41.8	%	83.7	%
Underwritten with low or stated income documentation	36.0	%	—	%	—	%	—	%	—	%	36.0	%

(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, 2013.
(3) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013.

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, 2013.

	2014		2015		2016		2017		2018		Thereafter		Total / Weighted Average	
	(Dollars in thousands)													
Unpaid principal balance (1)	$281,278		$361,037		$60,558		$282,158		$7,911		$7,265		$1,000,207	
Weighted average rate	3.39	%	3.35	%	3.46	%	4.52	%	4.92	%	3.07	%	3.59	%
Average original monthly payment per loan (dollars)	$1,367		$1,407		$1,682		$2,689		$2,103		$294		$1,613	
Average current monthly payment per loan (dollars)	$902		$791		$924		$1,972		$1,589		$193		$1,033	
Average amortizing payment per loan (dollars)	$1,776		$1,609		$1,780		$3,180		$2,098		$383		$1,916	
Loan count	906		1,284		198		569		23		113		3,093	
Payment shock (dollars)	$874		$818		$855		$1,208		$509		$190		$789	
Payment shock (percent)	96.9	%	103.4	%	92.5	%	61.2	%	32.1	%	98.0	%	76.4	%

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

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.

Set forth below is a table describing the characteristics of the second mortgage loans in our held-for-investment portfolio at December 31, 2013, by year of origination.

Year of Origination	Prior to 2009		2010		2011		2012		2013		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$167,285		$662		$119		$237		$1,377		$169,680	
Average note rate	7.10	%	6.92	%	7.06	%	5.24	%	4.42	%	7.07	%
Average original FICO score	729		710		692		763		757		729	
Average original LTV ratio (2) (3)	20.5	%	17.1	%	18.7	%	21.0	%	43.8	%	20.6	%
Average original CLTV ratio	51.1	%	80.3	%	73.5	%	94.8	%	60.7	%	51.3	%
Housing Price Index LTV, as recalculated (4)	20.8	%	14.7	%	15.6	%	19.1	%	43.3	%	20.9	%

(1) Unpaid principal balance, net of write downs, does not include premiums or discounts.
(2) Reflects lower LTV only as to second liens because information regarding the first liens is not available.
(3) Includes $64.7 million of second mortgage loans at December 31, 2013 that are accounted for under the fair value option. The LTV information is not yet available for these loans.
(4) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013. The HPI LTV is not available for the loans associated with the MBIA Settlement.

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. For HELOC loans originated in 2009 and prior, 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 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.

Set forth below is a table describing the characteristics of the HELOCs in our held-for-investment portfolio at December 31, 2013, by year of origination.

Year of Origination	2009 and Prior		2010		2011		2012		2013		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$260,142		$—		$1,644		$9,117		$18,400		$289,303	
Average note rate (2)	5.75	%	—	%	3.88	%	3.74	%	3.48	%	5.53	%
Average original FICO score	724		—		750		763		765		728	
Average original LTV ratio (3)	25.1	%	—	%	42.2	%	45.5	%	36.4	%	26.5	%
	26.8	%	—	%	31.3	%	33.5	%	26.9	%	27.0	%

Housing Price Index LTV, as recalculated (4)

(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 currently the minimum rate on virtually all of the loans is in effect.

(3) Includes $155.0 million of HELOC loans at December 31, 2013 that are accounted for under the fair value option. The LTV information is not yet available for these loans.

(4) The HPI LTV is updated from the original LTV based on Metropolitan Statistical Area-level OFHEO data as of September 30, 2013. Reflects lower LTV because these are second liens and information regarding the first lien is not available. The HPI LTV is not available for the loans reconsolidated as part of the Assured Settlement Agreement.

Loan Sales and Securitizations

We sell substantially all of the residential mortgage loans we produce into the secondary market on a whole loan basis or by first securitizing the loans into mortgage-backed securities. Our securitizations are with Fannie Mae, Ginnie Mae and to a lesser extent Freddie Mac.

The following table indicates the breakdown of our loan sales/securitizations for the period as indicated.

	For the Years Ended December 31,					
	2013 Principal Sold %		2012 Principal Sold %		2011 Principal Sold %	
Agency securitizations	99.3	%	99.0	%	96.1	%
Whole loan sales	0.7	%	1.0	%	3.9	%
Total	100.0	%	100.0	%	100.0	%

Upon our sale of mortgage loans, we may retain the servicing of the mortgage loans, or sell the servicing rights ("MSRs") to other secondary market investors. In general, we do not sell the servicing rights to mortgage loans that we originate for our own portfolio. When we retain MSRs, we are entitled to receive a servicing fee equal to a specified percentage of the outstanding principal balance of the loans. We may also be entitled to receive additional servicing compensation, such as late payment fees and earn additional income through the use of noninterest bearing escrows.

We previously participated in four private-label securitizations of financial assets involving two HELOC loan transactions and two second mortgage loan transactions. The private-label securitizations (excluding one) have been reconsolidated or dissolved as a result of the settlement agreements with MBIA and Assured. We previously acted as the principal underwriter of the beneficial interests that were sold to investors. The financial assets were derecognized when they were transferred to the securitization trusts, which then issued and sold mortgage-backed securities to third party investors. We relinquished control over the loans at the time the financial assets were transferred to the securitization trusts. We have not engaged in any private-label securitization activity except for these four securitizations completed from 2005 to 2007. See Notes 10 and 28 of the Notes to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, herein.

As a result of the settlement agreement with Assured, we became the primary beneficiary of the FSTAR 2005-1 and FSTAR 2006-2 HELOC securitization trusts because we obtained the power to direct the activities that most significantly impact the economic performance of the trusts (power to select or remove the servicer) and the obligation to absorb probable losses and receive residual returns (support of the guarantor and holder of residual interests in trusts). Accordingly, as noted above, the assets and liabilities of these securitization trusts have been reconsolidated on to our balance sheet and are carried at fair value.

Loan servicing. The Mortgage Banking segment also services mortgage loans for others. Servicing residential mortgage loans for third parties generates fee income and represents a significant business activity. At December 31, 2013 and 2012, we serviced portfolios of mortgage loans of $25.7 billion and $76.8 billion, respectively. We had an average balance of serviced mortgage loans of $70.3 billion and $74.2 billion, respectively, which generated gross revenue of $190.7 million and $209.6 million, respectively, during the years ended December 31, 2013 and 2012. The fair value estimate uses a valuation model that calculates the present value of estimated future net servicing cash flows by taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions.

As part of our business model, we periodically sell MSRs, in transactions separate from the sale of the underlying loans, principally for capital management, balance sheet management or interest rate risk purposes. MSRs created in a lower interest rate environment generally will have a higher market value because the underlying loan is less likely to be prepaid. Conversely, an MSR created in a higher interest rate environment will generally sell at a market price below the original fair value recorded because of the increased likelihood of prepayment of the underlying loans, resulting in a loss. MSRs can be sold on a bulk basis or a flow basis. MSRs sold on a bulk basis are reflected in our financial statements after the completion of loan sales and later sold to a third party as the opportunity arises. MSRs sold on a flow basis are completed when we sell the servicing rights shortly after the servicing rights are acquired pursuant to an existing arrangement, generally with no gain realized on the sale. The majority of our MSR sales were completed on a bulk basis.

On December 18, 2013, we sold $40.7 billion unpaid principal balance of our MSR portfolio to 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 retain a portion of the ancillary fees to be paid as the subservicer of the loans.

Over the past three years, we sold MSRs related to $101.6 billion of loans serviced for others on a bulk basis, including $74.9 billion during the year ended December 31, 2013, which includes the $40.7 billion sold to Matrix. We incurred $19.2 million of transaction costs on the sale of our MSRs during the year ended December 31, 2013.

The following table presents the unpaid principal balance of residential loans serviced and the number of accounts associated with those loans.

	December 31, 2013		December 31, 2012	
	Amount	Number of accounts	Amount	Number of accounts
Residential loan servicing				
Serviced for own loan portfolio (1)	$4,375,009	28,069	$6,078,758	32,597
Serviced for others	25,743,396	131,413	76,821,222	377,210
Subserviced for other (2)	40,431,867	198,256	—	—
Total residential loans serviced for others (2)	$70,550,272	357,738	$82,899,980	409,807

(1) Includes both loans held-for-investment (residential first mortgage, second mortgage and HELO) and loans held-for-sale (residential first mortgage).
(2) Does not include temporary short-term subservicing performed as a result of some sales of servicing.

Set forth below is a table describing the characteristics of the mortgage loans serviced for others at December 31, 2013, by year of origination.

Year of Origination	2009 and Prior	2010	2011	2012	2013	Total / Weighted Average
	(Dollars in thousands)					
Unpaid principal balance (1)	$3,726,665	$2,163,316	$2,568,144	$9,806,352	$7,478,919	$25,743,396
Average unpaid principal balance per loan	$144,080	$164,223	$176,021	$218,916	$226,661	$195,898
Weighted average service fee (basis points)	0.31 %	0.29 %	0.27 %	0.28 %	0.27 %	0.28 %
Weighted average rate	5.19 %	4.66 %	4.24 %	3.61 %	4.27 %	4.18 %
Weighted average original maturity (months)	349	337	309	327	324	329
Weighted average age (months)	69	41	29	18	3	24
Average current FICO score (2)	692	732	745	749	747	739
Average original LTV ratio	75.8 %	75.2 %	69.0 %	73.0 %	75.2 %	73.8 %

Housing Price Index LTV, as recalculated (3)	81.8 %	72.6 %	63.0 %	66.7 %	74.2 %	71.2 %
Loan count	25,859	13,173	14,590	44,795	32,996	131,413

(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, 2013.

Set forth below is a table of the past due trends in mortgage loans serviced for others at December 31, 2013, by year of origination.

Year of Origination	2009 and Prior	2010	2011	2012	2013	Total
	(Dollars in thousands)					
30-59 days past due	$251,895	$51,085	$35,147	$80,823	$14,843	$433,793
60-89 days past due	118,986	16,653	11,148	18,717	250	165,754
90 days or greater past due	480,993	35,526	18,449	14,197	762	549,927
Total past due	851,874	103,264	64,744	113,737	15,855	1,149,474
Current	2,874,791	2,060,051	2,503,400	9,692,615	7,463,065	24,593,922
Unpaid principal balance (1)	$3,726,665	$2,163,315	$2,568,144	$9,806,352	$7,478,920	$25,743,396

(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, 2013, by year of origination.

Year of Origination	2009 and Prior		2010		2011		2012		2013		Total / Weighted Average	
	(Dollars in thousands)											
Unpaid principal balance (1)	$3,986,560		$2,596,713		$4,083,155		$16,524,344		$13,241,095		$40,431,867	
Average unpaid principal balance per loan	$126		$164		$183		$230		$233		$204	
Weighted average service fee (basis points)	0.40	%	0.31	%	0.27	%	0.28	%	0.27	%	0.29	%
Weighted average rate	5.59	%	4.67	%	4.21	%	3.61	%	3.58	%	3.92	%
Weighted average original maturity (months)	335		334		305		322		327		324	
Weighted average age (months)	59		41		28		18		8		21	
Average current FICO score (2)	664		734		753		758		753		747	
Average original LTV ratio	90.8	%	82.5	%	71.8	%	71.7	%	74.8	%	75.3	%
Housing Price Index LTV, as recalculated (3)	91.5	%	74.7	%	61.2	%	62.4	%	70.3	%	68.5	%
Loan count	31,606		15,822		22,344		71,699		56,785		198,256	

(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, 2013.

Set forth below is a table of the past due trends in residential mortgage loans subserviced for others at December 31, 2013, by year of origination.

Year of Origination	2009 and Prior	2010	2011	2012	2013	Total
	(Dollars in thousands)					
30-59 days past due	$372,331	$59,416	$48,792	$89,309	$42,429	$612,277
60-89 days past due	181,296	27,173	18,034	18,874	7,832	253,209
90 days or greater past due	109,011	16,549	10,037	15,765	4,197	155,559
Total past due	662,638	103,138	76,863	123,948	54,458	1,021,045
Current	3,323,922	2,493,574	4,006,291	16,400,397	13,186,638	39,410,822
Unpaid principal balance (1)	$3,986,560	$2,596,712	$4,083,154	$16,524,345	$13,241,096	$40,431,867

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

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), 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, we 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, generally we have no liability to the purchaser for losses it may incur on such loan.

We maintain a representation and warranty reserve to account for the probable losses inherent in loans we might be required to repurchase (or the indemnity payments we may have to make to purchasers). The representation and warranty reserve takes into account both our estimate of probable losses inherent in loans sold during the current accounting period, as well as adjustments to our previous estimates of probable losses inherent in loans sold. In each case, these estimates are based on the most recent data available to us, including data from third parties, regarding demands for loan repurchases, actual loan repurchases, and actual credit losses on repurchased loans, among other factors. Provisions added to the representation and warranty reserve for current loan sales reduce our net gain on loan sales. Adjustments to our previous estimates are recorded under noninterest income in the income statement as an increase or decrease to representation and warranty reserve - change in estimate. The amount of our representation and warranty reserve equaled $54.0 million and $193.0 million at December 31, 2013 and 2012, respectively.

During the fourth quarter 2013, we entered into 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.

Community Banking

Our Community Banking segment consists primarily of three groups: Branch Banking, Commercial and Business Banking and Warehouse Lending. The groups within the Community Banking segment originate consumer loans, commercial loans and warehouse loans, accept consumer, business and governmental deposits, offer investments and insurance services and offer liquidity management products. The liquidity management products include customized treasury management solutions, equipment leasing, international services and capital markets services such as interest rate risk protection products. At December 31, 2013, Branch Banking included 111 banking centers located throughout Michigan. During the first quarter 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, allowing those lenders to fund the closing of residential first mortgage loans.

Our Community Banking segment intends to achieve our strategic objective of becoming a standalone, profitable line of business through implementation of a number of important initiatives, including strengthening the leadership team, enhancing the sales process, improving operating efficiencies, and developing a streamlined account opening strategy. Branch Banking intends to continue optimizing our network of offices through strategic growth and relocations. Commercial and Business Banking intends to continue our focus on acquiring new customer relationships throughout

Michigan.

Our Community Banking segment's mission is to build strong and lasting relationships with customers, and such relationships are intended to include the delivery of multiple financial products and services. Regardless of whether customers are first introduced to us through a deposit account, mortgage loan, or other product, the Community Banking segment's focus is to strengthen those relationships by meeting multiple additional financial needs. Our Community Banking segment also cross-sells primary products, such as checking accounts, savings accounts, investment products, and consumer loans, to new and existing customers.

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 $626.4 million at December 31, 2013 and $737.2 million at December 31, 2012, and consists of three loan types: commercial real estate, commercial and industrial, and commercial lease financing, each of which is discussed in more detail below. During the year ended December 31, 2013, we originated $239.5 million in commercial loans, compared to $727.1 million during the year ended December 31, 2012. The decrease in commercial loan originations is primarily due to the strategic decision, made in late 2012, to exit our New England based commercial loan production offices. The following table identifies the commercial loan held-for-investment portfolio by loan type and selected criteria.

Commercial Loans Held-for-Investment

December 31, 2013	Balance	Average Note Rate	Loan on Non-accrual 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		
Total commercial loans:			
Fixed rate	$195,993	5.2 %	$1,500
Adjustable rate	432,571	2.9 %	—
Total commercial loans held-for-investment	628,564		$1,500
Net deferred fees and other	(2,166)		
Total commercial loans held-for-investment	$626,398		

Commercial Loans Held-for-Investment

December 31, 2012	Balance	Average Note Rate	Loan on Non-accrual Status
	(Dollars in thousands)		
Commercial real estate loans:			
Fixed rate	$342,296	5.5%	$38,909
Adjustable rate	299,489	4.1%	47,458
Total commercial real estate loans	641,785		$86,367
Net deferred fees and other	(1,470)		
Total commercial real estate loans	$640,315		
Commercial and industrial loans:			
Fixed rate	$33,124	3.5%	$—
Adjustable rate	58,544	2.7%	41
Total commercial and industrial loans	91,668		$41
Net deferred fees and other	(1,103)		
Total commercial and industrial loans	$90,565		
Commercial lease financing loans:			
Fixed rate	$5,634	6.2%	$—
Net deferred fees and other	666		
Total commercial lease financing loans	$6,300		
Total commercial loans:			
Fixed rate	$381,054	5.2%	$38,909
Adjustable rate	358,033	3.9%	47,499
Total commercial loans held-for-investment	739,087		$86,408
Net deferred fees and other	(1,907)		
Total commercial loans held-for-investment	$737,180		

The following table sets forth the unpaid principal balance (net of write downs) of our commercial loan held-for-investment portfolio at December 31, 2013 by year of origination.

Year of Origination	2009 and Prior	2010	2011	2012	2013	Total
	(Dollars in thousands)					
Commercial real estate	$194,738	$8,658	$13,082	$70,528	$122,663	$409,669
Commercial and industrial	656	610	27,451	35,037	144,528	208,282
Commercial lease financing	—	—	—	10,613	—	10,613
Total	$195,394	$9,268	$40,533	$116,178	$267,191	$628,564

The average loan balance in our total commercial held-for-investment loan portfolio was approximately $0.8 million for the period ending December 31, 2013, with the largest loan being $39.1 million. There are approximately 72 loans with $2.5 million of unpaid principal balance and those loans comprised approximately $383.6 million, or 61.0 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 of commercial real estate held-for-investment loans that were geographically concentrated at December 31, 2013.

	December 31, 2013		
State	Percent		Amount (1)
	(Dollars in thousands)		
Michigan	77.7	%	$318,099
California	5.6	%	22,754
Florida	3.8	%	15,638
Indiana	2.1	%	8,648
Tennessee	2.0	%	7,975
Other	8.8	%	36,555
Total	100.0	%	409,669

(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.

The following table discloses our total unpaid principal balance of commercial held-for-investment loans that were geographically concentrated at December 31, 2013.

	December 31, 2013		
State	Percent		Amount (1)
	(Dollars in thousands)		
Michigan	88.4	%	$184,106
California	5.2	%	10,874
Texas	3.8	%	7,917
Kentucky	2.1	%	4,471
Other	0.5	%	914
Total	100.0	%	208,282

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

Commercial lease financing loans. Our commercial lease financing held-for-investment loan portfolio is comprised of equipment leased to customers in a direct financing lease. The net investment in financing leases includes the aggregate amount of lease payments to be received and the estimated residual values of the equipment, less unearned income. Income from lease financing is recognized over the lives of the leases on an approximate level rate of return on the unrecovered investment. The residual value represents the estimated fair value of the leased asset at the end of the lease term. Unguaranteed residual values of leased assets are reviewed at least annually for impairment. If any declines in residual values are determined to be other-than-temporary they will be recognized in earnings in the period such determinations are made.

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. During the year ended December 31, 2013, we subsequently acquired approximately 80.9 percent of residential first mortgage loans funded through the warehouse lines. 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, 2013 was $2.1 billion, of which $0.4 billion was outstanding and bearing an average interest rate of 5.0 percent, compared to $2.3 billion committed at December 31, 2012, of which $1.3 billion was outstanding with an average interest rate of 5.4 percent. The levels of outstanding balances of such warehouse lines are generally correlated to the level of our overall production levels because many of our correspondents (from whom we purchase mortgage loans) are also warehouse lending customers. During the year ended December 31, 2013, our warehouse lines funded 61.3 percent of the loans in our correspondent channel, as compared to 68.6 percent during the year ended December 31, 2012. There were 298 warehouse lines of credit to other mortgage lenders with an average size of $6.9 million at December 31, 2013, compared to 311 warehouse lines of credit with an average size of $7.5 million at December 31, 2012. We had no warehouse lines on non-accrual status at December 31, 2013 and 2012.

Deposits

Through our banking centers, we gather deposits and offer a line of consumer and commercial financial products and services to individuals and businesses. We continue to focus our efforts towards the growth of our core deposits, which includes checking, savings and money market deposit accounts. We believe core deposits represent a more stable funding source and their increase has allowed us to replace maturing brokered CDs and other potentially less stable funding sources. At December 31, 2013, we had a total of $6.1 billion in deposits, including $4.9 billion in retail deposits, $0.6 billion in company controlled deposits and $0.6 billion in government deposits. See Note 16 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein, for more information regarding deposits.

Non-bank Subsidiaries

At December 31, 2013, our corporate legal structure consisted of the Bank, including its wholly-owned subsidiaries (which includes the two consolidated VIEs) and wholly-owned non-bank subsidiaries that are either not material or inactive, which we conduct other business through. We also own nine statutory trusts that are not consolidated with our operations. For additional information, see Notes 3, 10 and 30 of the Notes to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, herein.

Paperless Office Solutions, Inc. ("POS"), our wholly-owned subsidiary, provides on-line paperless office solutions for mortgage originators. DocVelocity is the flagship product developed by POS to bring web-based paperless mortgage processing to mortgage originators. On February 13, 2013, we announced an agreement to sell the assets and operations of POS to Capsilon Corporation, a provider of cloud-based document sharing, imaging and collaboration solutions for mortgage lenders. During the year ended December 31, 2013, the activity in this subsidiary was immaterial and is currently inactive.

Flagstar Reinsurance Company ("FRC") is our wholly-owned subsidiary, which was formed during 2007 as a successor in interest to another wholly-owned subsidiary, Flagstar Credit Inc., a reinsurance company which was subsequently dissolved in 2007. FRC is a reinsurance company that provided credit enhancement with respect to certain pools of mortgage loans underwritten and originated by us during each calendar year. During 2010, FRC terminated its agreement with the last mortgage insurance company with whom it had a reinsurance agreement. During the year ended December 31, 2013, FRC recorded an $8.2 million reversal on the valuation allowance on the deferred tax asset. FRC is currently inactive.

Regulation and Supervision

We are registered as a savings and loan holding company under the Home Owners Loan Act ("HOLA") and are currently subject to Federal Reserve regulation, examination and supervision. The Bank is a federally chartered savings bank and subject to OCC regulation, examination and supervision. In addition, the Bank is subject to regulation by the FDIC and the CFPB, and the Bank’s deposits are insured by the FDIC through the Deposit Insurance Fund ("DIF"). Accordingly, we and the Bank are subject to an extensive regulatory framework which imposes activity restrictions, minimum capital requirements, lending and deposit restrictions and numerous other requirements primarily intended for the protection of depositors, the federal deposit insurance fund and the banking system as a whole, rather than for the protection of stockholders and creditors. Many of these laws and regulations have undergone significant changes and, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), will significantly change in the future. Our non-bank financial subsidiaries are also subject to various federal and state laws and regulations.

Pursuant to the Dodd-Frank Act, the OTS ceased to exist on July 21, 2011 and its functions were transferred to the OCC and the Federal Reserve. After the transfer, the Federal Reserve became our primary regulator and supervisor, and the OCC became the primary regulator and supervisor of the Bank. In addition, the CFPB assumed responsibility for regulation of the principal federal consumer protection laws. However, the laws and regulations applicable to us did not materially change by virtue of the elimination of the OTS, other than as otherwise modified by the Dodd-Frank Act. HOLA and the regulations issued thereunder generally still apply but are subject to interpretation by the Federal Reserve and the OCC. Many provisions of the Dodd-Frank Act became effective on the transfer date and throughout the remaining months. In addition, the scope and impact of many of the Dodd-Frank Act's provisions will continue to be determined through the rulemaking process. Because there are many provisions of the Dodd-Frank Act that have not yet been implemented, we cannot fully predict the ultimate impact of the Dodd-Frank Act on us or the Bank.

In addition to the terms and conditions of the Supervisory Agreement and the Consent Order discussed above, we are generally subject to certain laws and regulations that are summarized below.

Holding Company Status, Acquisitions and Activities

We are a savings and loan holding company, as defined by federal banking law, as is our controlling stockholder, MP Thrift. Without prior written approval of the Federal Reserve , neither we, nor MP Thrift: (i) may acquire control of another savings association or holding company thereof, or acquire all or substantially all of the assets thereof; (ii) acquire or retain, with certain exceptions, more than 5 percent of the voting shares of a non-subsidiary savings association, a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by the HOLA; or (iii) acquire or retain control of a depository institution that is not federally insured. Similarly, we may not be acquired by a bank holding company, or any company, unless the Federal Reserve approves such transaction. We may not be acquired by an individual unless the Federal Reserve fails to object after receiving notice. In all situations, the public must have an opportunity to comment on any such proposed acquisition and the OCC or the Federal Reserve must complete an application review. In addition, the Gramm-Leach-Bliley Act (the "GLBA") generally restricts any non-financial entity from acquiring us unless such non-financial entity was, or had submitted an application to become, a savings and loan holding company on or before May 4, 1999. Also, because we were a savings and loan holding company prior to May 4, 1999 and control a single savings bank that meets the qualified thrift lender ("QTL") test under HOLA, we may engage in non-financial or commercial activities.

Source of Strength

We are required to act as a source of strength to the Bank and to commit managerial assistance and capital to support the Bank. Capital loans by a savings and loan holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the Bank. In the event of a savings and loan holding company's bankruptcy, any commitment by the savings and loan holding company to a federal bank regulator to maintain the capital of a subsidiary bank should be assumed by the bankruptcy trustee and may be entitled to a priority of payment.

Standards for Safety and Soundness

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

Regulatory Capital Requirements

In July 2013, U.S. banking regulators approved final Basel III Regulatory Capital rules ("Basel III"). These final rules adopt changes to meet the regulatory capital requirements of the Dodd-Frank Act. The Basel III rules will be effective January 1, 2014 for advanced approaches banking organizations that are not savings and loan holding companies and

January 1, 2015 for all other covered banking organizations. Since the Bank and the Holding Company are not advanced approaches banking organizations, our mandatory compliance date is January 1, 2015. In October 2013, the OCC and Federal Reserve published a final rule consistent with Basel III that replaces their existing risk-based and leverage capital rules.

Savings and loan holding companies, like us, 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 will be subject to the same consolidated capital requirements as bank holding companies. As a result, our holding company will be required to maintain Tier 1 capital of at least 6 percent of risk-weighted assets and off-balance sheet items, total capital (the sum of Tier 1 capital and Tier 2 capital) of at least 8 percent of risk-weighted assets and off-balance sheet items, and Tier 1 capital of at least 4 percent of adjusted quarterly average assets. In addition, the final rule implements a new common equity Tier 1 minimum capital requirement of at least 4.5 percent of risk-weighted assets.

The Bank must maintain a minimum amount of capital to satisfy the various standard regulatory capital requirements under OCC regulations and federal law. Federal law and regulations establish five levels of capital compliance: well-capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. At December 31, 2013, the Bank was considered "well-capitalized" for regulatory purposes, with regulatory capital ratios of 13.97 percent for Tier 1 capital and 28.11 percent for total risk-based capital. An institution is considered well-capitalized if its ratio of total risk-based capital to risk-weighted assets is 10.0 percent or more, its ratio of Tier 1 capital to risk-weighted assets is 6.0 percent or more, its leverage ratio (also referred to as its core capital ratio) is 5.0 percent or more, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the OCC to meet and maintain a specific capital level for any capital measure. An institution is considered to be only "adequately-capitalized" if its capital structure satisfies lesser required levels, such as a total risk-based capital ratio of not less than 8.0 percent, a Tier 1 risk-based capital ratio of not less than 4.0 percent, and (unless it is in the most highly-rated category) a leverage ratio of not less than 4.0 percent. Any institution that is not well capitalized or adequately-capitalized is considered undercapitalized. Any institution with a tangible equity ratio of 2.0 percent or less is considered critically undercapitalized.

Various aspects of Basel III will be subject to multi-year transition periods ending December 31, 2018. Basel III generally continues to be subject to interpretation by the U.S. banking regulators. It introduces new minimum capital ratios and buffer requirements, proposes a supplementary leverage ratio, changes the composition of regulatory capital, expands and modifies the calculation of risk-weighted assets for credit and market risk (the Advanced Approach), revises the adequately capitalized minimum requirements under the Prompt Corrective Action framework and introduces a Standardized Approach for the calculation of risk-weighted assets, which will replace the current rules (Basel I - 2013 Rules) effective January 1, 2015. Basel III will materially change our Tier 1, Tier 1 common and Total capital calculations.

Qualified Thrift Lender

The Bank is required to meet a Qualified Thrift Lender ("QTL") test to avoid certain restrictions on operations, including the activities restrictions applicable to multiple savings and loan holding companies, restrictions on the ability to branch interstate, and our mandatory registration as a bank holding company under the Bank Holding Company Act of 1956. A savings bank satisfies the QTL test if: (i) on a monthly basis, for at least nine months out of each twelve month period, at least 65 percent of a specified asset base of the savings bank consists of loans to small businesses, credit card loans, educational loans, or certain assets related to domestic residential real estate, including residential mortgage loans and mortgage securities, as well as a portion of residential loans originated and sold within 90 days of origination; or (ii) at least 60 percent of the savings bank’s total assets consist of cash, U.S. government or government agency debt or equity securities, fixed assets, or loans secured by deposits, real property used for residential, educational, church, welfare, or health purposes, or real property in certain urban renewal areas. The Bank is currently, and expects to remain, in compliance with QTL standards.

FDIC Insurance and Assessment

The FDIC insures the deposits of the Bank and such insurance is backed by the full faith and credit of the U.S. government through the DIF. The Dodd-Frank Act raised the standard maximum deposit insurance amount to $250,000 per depositor, per insured financial institution for each account ownership category. Under the Dodd-Frank Act, noninterest bearing transaction accounts had unlimited deposit insurance through December 31, 2012. As scheduled, this unlimited deposit insurance expired December 31, 2012. Deposits held in noninterest bearing transaction accounts are now aggregated with any interest bearing deposits the owner may hold in the same ownership category and the combined total is insured up to at least $250,000.

Pursuant to the Dodd-Frank Act, the minimum reserve ratio designated by the FDIC each year is 1.35 percent of the assessment base, as opposed to 1.15 percent under prior law. The FDIC is required to meet the minimum reserve ratio by September 30, 2020 and is required to offset the effect of the increased reserve ratio for banks with less than $10 billion. If the Bank reports assets of less than $10 billion, it must do so for four consecutive quarters before it will be reclassified as a small institution. The Dodd-Frank Act also eliminates requirements under prior law that the FDIC pay dividends to member institutions if the reserve ratio exceeds certain thresholds, and the FDIC has proposed that in lieu of dividends, it will adopt lower rate schedules when the reserve ratio exceeds certain thresholds. The FDIC has established a higher reserve ratio of 2 percent as a long-term goal beyond what is required by statute.

The FDIC maintains the DIF by assessing each financial institution an insurance premium. Prior to April 2011, the amount of the FDIC assessments paid by an insured depository institution was based on its relative risk of default as measured by our FDIC supervisory rating, and other various measures, such as the level of brokered deposits, unsecured debt and debt issuer ratings, and the amount of deposits.

Effective April 2011, the FDIC defined deposit insurance assessment base for an insured depository institution was changed to such institution's average consolidated total assets during the assessment period, minus average tangible equity. The FDIC adopted a final rule implementing this change to the assessment calculation effective April 1, 2011. The assessment rate schedule for larger institutions, such as the Bank (i.e., financial institutions with at least $10 billion in assets), differentiates between such large financial institutions by use of a scorecard that combines a financial institution's Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity ("CAMELS") ratings with certain forward-looking financial information to measure the risk to the DIF. Pursuant to this scorecard method, two scores (a performance score and a loss severity score) are combined and converted to an initial base assessment rate (also referred to as IBAR). The performance score measures a financial institution's financial performance and ability to withstand stress. The loss severity score measures the relative magnitude of potential losses to the FDIC in the event of the financial institution's failure. Total scores are converted pursuant to a predetermined formula into an initial base assessment rate, which is subject to adjustment based upon significant risk factors not captured in the scoreboard. Total assessment rates range from 2.5 basis points to 45 basis points for such large financial institutions. Premiums for the Bank are calculated based upon the average balance of total assets minus average tangible equity as of the close of business for each day during the calendar quarter.

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

Affiliate Transaction Restrictions

We are subject to the affiliate and insider transaction rules applicable to member banks of the Federal Reserve as well as additional limitations imposed by the OCC. These provisions prohibit or limit a banking institution from extending credit to, or entering into certain transactions with, affiliates, principal stockholders, directors and executive officers of the banking institution and its affiliates. The Dodd-Frank Act imposed further restrictions on transactions with affiliates and extension of credit to executive officers, directors and principal stockholders that were effective as of July 21, 2012.

Incentive Compensation

In June 2010, the U.S. bank regulatory agencies issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of U.S. banks do not undermine the safety and soundness of such banks by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of a bank, either individually or as part of a group, is based upon the key principles that a bank’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the bank’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the bank’s board of directors.

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

Federal Reserve

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

Federal Reserve regulations require federally chartered savings associations to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3 percent is to be maintained against aggregate transaction accounts between $12.4 million and $79.5 million (subject to adjustment by the Federal Reserve) plus a reserve of 10 percent (subject to adjustment by the Federal Reserve between 8 percent and 14 percent) against that portion of total transaction accounts in excess of $79.5 million. The first $12.4 million of otherwise reservable balances (subject to adjustment by the Federal Reserve) is exempt from the reserve requirements.

Required reserves must be maintained in the form of vault cash, an account at a Federal Reserve bank or a pass-through account as defined by the Federal Reserve. Pursuant to the Emergency Economic Stabilization Act of 2008, the Federal Reserve banks pay interest on depository institutions’ required and excess reserve balances. The interest rate paid on required reserve balances is currently the average target federal funds rate over the reserve maintenance period. The rate on excess balances will be set equal to the lowest target federal funds rate in effect during the reserve maintenance period. FHLB System members are also authorized to borrow from the Federal Reserve "discount window," but Federal Reserve regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve bank.

Bank Secrecy Act ("BSA")

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

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

The PATRIOT Act, which was enacted following the events of September 11, 2001, includes numerous provisions designed to detect and prevent international money laundering and to block terrorist access to the U.S. financial system. The PATRIOT Act mandates that financial services companies implement additional policies and procedures and take heightened measures designed to address any or all of the following: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes and cooperation between financial institutions and law enforcement authorities. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the U.S. bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities. The Bank has established policies and procedures intended to fully comply with the PATRIOT Act’s provisions, the BSA, as well as other aspects of anti-money laundering legislation.

Office of Foreign Assets Control Regulation

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

Consumer Protection Laws and Regulations

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

CFPB and Regulations Related to Mortgage Origination and Servicing. In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. Compliance with these rules will likely increase our overall regulatory compliance costs. We continue to evaluate the rules to determine the level of their long-term impact on our mortgage loan origination and servicing activities.

On January 10, 2013, the CFPB issued a final rule concerning lenders' assessments of consumers' ability to repay home loans. Currently, Regulation Z prohibits creditors from extending higher priced mortgage loans without regard for the consumer's ability to repay. The rule extends application of this requirement to all loans secured by dwellings (except open-end credit plans, timeshares, reverse mortgages and temporary loans) regardless of the terms or pricing. Creditors must, at a minimum, consider eight specified factors while making a reasonable and good faith determination that the consumer has a reasonable ability to repay the loan before entering any consumer credit transaction secured by virtually any dwelling. The factors include information such as the consumer's income, debt obligations, credit history and monthly payments on the loan. Lenders that generate Qualified Mortgage loans will receive specific protections against borrower lawsuits that could result from failing to satisfy the ability-to-repay rule. As defined by the CFPB, Qualified Mortgages are mortgages that must meet the following standards prohibiting or limiting certain high risk products and features: (1) no excessive upfront points and fees - generally points and fees paid by the borrower must not exceed 3 percent of the total amount borrowed; (2) no toxic loan features - prohibited features include interest-only loans, negative-amortization loans, terms beyond 30 years and balloon loans and (3) limit on debt-to-income ratios borrowers' debt-to-income ratios must be no higher than 43 percent. Special rules are temporarily in place that extend the definition of Qualified Mortgages to include loans that are eligible for purchase by the Agencies or to be insured or guaranteed by HUD, VA or the USDA. There are two levels of liability protection for Qualified Mortgages, the Safe Harbor protection and the Rebuttable Presumption protection. Safe Harbor Qualified Mortgages are generally lower priced loans with interest rates closer to the prime rate, issued to borrowers with high credit scores. Borrowers suing lenders under Safe Harbor Qualified Mortgages are faced with overcoming the pre-determined legal conclusion that the lender has satisfied the ability-to-repay rule. Rebuttable Presumption Qualified Mortgages are generally loans at higher prices that are granted to borrowers with lower credit scores. Lenders generating Rebuttable Presumption Qualified Mortgages receive the protection of a presumption that they have legally satisfied the ability-to-repay rule while the borrower can rebut that presumption by proving that the lender did not consider the borrower's living expenses after their mortgage and other debts. The rule became effective January 10, 2014. The special temporary QM rules are in place for Agencies eligible loans until the earlier of the end of the FHFA's conservatorship or January 10, 2021, and for loans eligible to be insured or guaranteed by HUD, VA or the USDA, until the earlier of the date the agency promulgates its own QM rule or January 10, 2021.

Also on January 10, 2013, the CFPB issued its final mortgage escrow account rule relating to the establishment of mandatory escrow accounts on higher-priced mortgage loans. The final rule became effective June 1, 2013. This rule implements changes to earlier regulations, lengthens the time that mandatory escrow accounts must be maintained on higher-priced mortgage loans from one year to five years and exempts certain types of transactions from the escrow requirement. A creditor or servicer may not cancel escrow accounts required under the rule except upon either the termination of the loan or receipt of a consumer's request to cancel the escrow account no earlier than five years after consummation, whichever happens first. The creditor or servicer may not cancel the escrow account unless the unpaid principal balance is less than 80 percent of the secured property's original value and the consumer is not delinquent or in default on the loan at the time of the request.

Additionally, on January 10, 2013, the CFPB issued a final rule to expand the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 ("HOEPA"). Loans that meet HOEPA’s high-cost coverage tests are subject to special disclosure requirements and restrictions on loan terms, and borrowers in high-cost mortgages have enhanced remedies for violations of the law. The rule revises and expands the definition of high-cost mortgages and imposes additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. This rule also bans certain features from high-cost mortgages, such as prepayment penalties, loan modification fees, and most fees charged to a borrower who requests a payoff statement. Balloon payments would also be banned, except in special circumstances. The rule became effective January 10, 2014.

On January 17, 2013, the CFPB issued its final rules relating to mortgage servicing. These rules address the following nine major servicing topics: (i) periodic billing statements with timing, form and content requirements; (ii) interest rate adjustment notices for ARM loans that must be provided to consumers prior to payment changes from rate changes; (iii) prompt crediting of payments and timing requirements for payoff statements; (iv) force placed insurance notice, coverage and cancellation requirements; (v) procedural requirements for error resolution and information requests from consumers; (vi) policy and procedure requirements for servicing functions and document management; (vii) early intervention notice requirements with delinquent borrowers about loss mitigation options; (viii) continuity of contact between servicer personnel and delinquent borrowers throughout the loss mitigation process; and (ix) loss mitigation procedures and restrictions on "dual tracking" of foreclosure alternatives with the foreclosure process. The rule became effective on January 10, 2014.

On January 18, 2013, the CFPB issued final rules related to appraisals for higher-priced mortgage loans and consumer access to appraisals. The rule on appraisals for higher-price mortgages prohibits creditors from making such mortgage loans unless certain conditions are met, including obtaining a written appraisal based on a full interior appraisal. The rule on appraisal access requires creditors to notify consumers within a certain time period of their right to receive a copy of the appraisal and requires creditors to provide copies of the appraisal and other written valuation. The rule became effective January 18, 2014.

On January 20, 2013, the CFPB issued its final loan originator compensation rules which, among other things, created compensation restrictions and qualifications for loan originators. Under the rule, loan originators are prohibited from basing their compensation on "any transaction's terms or conditions" and dual compensation is generally prohibited. This portion of the rule will become effective on January 1, 2014. The rule also mandates certain qualifications for loan originators, such as licensing, and requires loan originator organizations to ensure compliance with the Secure and Fair Enforcement for Mortgage Licensing Act, where applicable. Additionally, the rule prohibits: (i) the use of mandatory arbitration clauses in both mortgage and home equity loan agreements; and (ii) the financing of single premiums or fees for credit insurance in connection with a consumer credit transaction secured by a dwelling. These later provisions are effective June 1, 2013. All other provisions of the rule are effective January 10, 2014.

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

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

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

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

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

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

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

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

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

Truth In Lending Act ("TILA"). The TILA is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things. In addition, the TILA also provides a variety of substantive protections for consumers.

Fair Housing Act ("FH Act"). The FH Act regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered illegal, under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act (the "HMDA"). The HMDA grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. In 2004, the Federal Reserve amended regulations issued under HMDA to require the reporting of certain pricing data with respect to higher-priced mortgage loans. This expanded reporting is being reviewed by U.S. bank regulatory agencies and others from a fair lending perspective.

Real Estate Settlement Procedures Act ("RESPA").Lenders are required by RESPA to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of RESPA may result in civil liability or administrative sanctions.

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

Community Reinvestment Act

The Community Reinvestment Act ("CRA") requires the U.S. bank regulatory agencies when deciding on a bank’s application to expand their branching to evaluate how the bank has helped to meet the credit needs of the communities it serves, including low to moderate income neighborhoods, while maintaining safe and sound banking practices. The evaluation rates an institution based on its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low- or moderate-income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs and other offices. The primary banking agency assigns one of four possible ratings to an institution's CRA performance and is required to make public an institution's rating and written evaluation. The four possible ratings of meeting community credit needs are outstanding, satisfactory, needs to improve and substantial non-compliance.

An institution's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities, including, but not limited to, engaging in acquisitions and mergers. In 2009, the Bank received a "satisfactory" CRA rating from the OTS (as predecessor to the OCC) and this remains our current rating.

Regulatory Reform

On July 21, 2010, the Dodd-Frank Act was signed into law. This law made extensive changes to the then existing bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including us and the Bank. Various federal agencies began to adopt a broad range of rules and regulations and these agencies have been given significant discretion in drafting these rules and regulations. Consequently, many of the details and much of the impact of the Dodd-Frank Act remains uncertain pending interpretive guidance from the agencies regarding these new rules, the extent of enforcement by regulators, and the financial industry’s reaction to these new rules and regulations. The full consequences of Dodd-Frank may not be known for many months or years.

The Dodd-Frank Act contains a number of provisions intended to strengthen bank capital. For example, the bank regulatory agencies are directed to establish minimum leverage and risk-based capital requirements that are at least as stringent as those currently in effect. In addition, we will be subject to consolidated capital requirements for the first time and will be required to serve as a source of strength to the Bank.

The Dodd-Frank Act also expands the affiliate transaction rules in Sections 23A and 23B of the Federal Reserve Act to broaden the definition of affiliate and to apply to securities lending, repurchase agreement and derivatives activities that the Bank may have with an affiliate, as well as to strengthen collateral requirements and limit Federal Reserve exemptive authority. Also, the definition of "extension of credit" for transactions with executive officers, directors and principal shareholders is expanded to include credit exposure arising from a derivative transaction, a repurchase or reverse repurchase agreement and a securities lending or borrowing transaction. These expansions became effective one year after the transfer date. These provisions did not have a material effect on us or the Bank.

The Dodd-Frank Act imposes a number of additional requirements on servicers of residential mortgage loans by amending certain existing provisions and adding new sections to TILA and RESPA. The penalties for noncompliance with TILA and RESPA are also significantly increased by the Dodd-Frank Act and could lead to an increase in lawsuits against mortgage servicers. In addition, the Dodd-Frank Act generally requires that implementing regulations be issued before many of its provisions relating to these matters become effective. Therefore, several of these provisions will not be effective until early 2014. On January 17, 2013, the CFPB issued final rules amending TILA and RESPA to implement certain mortgage servicing standards set forth by the Dodd-Frank Act and to address other issues identified by the CFPB (discussed above). When fully implemented, the regulations will prevent or limit servicers of residential mortgage loans from taking certain actions that are typically taken today (e.g. the charging of certain fees) and will impose new requirements that are not currently required. The effect of which will be to increase costs and risks or reducing revenues currently generated by mortgage servicing.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. In addition, the Federal Reserve adopted a rule addressing interchange fees applicable to debit card transactions which lowered fee income generated from this source. The reduced debit card fee income did not have a material impact on the Bank.

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The final rule, as drafted by a variety of federal financial regulatory agencies, was issued December 10, 2013, with an effective date of April 2014. The statutory provision is commonly called the "Volcker Rule." The final rules are highly complex, and many aspects of their application remain uncertain. We do not currently anticipate that the Volcker Rule will have a meaningful effect on our operations or those of our subsidiaries, as we do not materially engage in the businesses prohibited by the Volcker Rule. We may incur costs if required to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material. There are uncertainties with respect to the Volcker Rule, and the industry is still attempting to fully understand its implications. Until more interpretive guidance is available and the cost of the required compliance programs can be estimated, the precise financial impact of the rule on us, our customers, or the financial industry more generally, cannot be accurately determined.

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

Capital Planning and Stress Testing Requirements

In October 2012, the OCC published its final rules requiring annual capital-adequacy stress tests for national banks and federal savings associations with consolidated assets of more than $10 billion, which were proposed in January 2012. If the Bank reports assets of less than $10 billion, it must do so for four consecutive quarters before it will be reclassified as a small institution. The requirement to perform annual capital-adequacy stress tests became applicable in October 2013 for federal savings associations with consolidated assets between $10 billion and $50 billion, such as the Bank. Under the rules, the OCC will provide institutions with economic scenarios, reflecting baseline, adverse and severely adverse conditions. The Bank is required to use the scenarios to calculate, for each quarter-end within a nine-quarter planning horizon, the impact of such scenarios on revenues, losses, loan loss reserves and regulatory capital levels and ratios, taking into account all relevant exposures and activities. On or before March 31 of each year beginning in 2014, The Bank will be required to submit a report of the results of its stress test to the OCC and publish a summary of the results between June 15 and June 30 of each year following the submission to the OCC. The rule also requires each institution to establish and maintain a system of controls, oversight and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the institution are effective in meeting the requirements of the rule.

In June 2011, the U.S. bank regulatory agencies also proposed guidance on stress testing for banking organizations with more than $10 billion in total consolidated assets, such as the Bank. The proposed guidance provides an overview of how a banking organization should structure its stress testing activities and ensure they fit into overall risk management. The guidance outlines broad principles for a satisfactory stress testing framework and describes the manner in which stress testing should be employed as an integral component of risk management that is applicable at various levels of aggregation within a banking organization, as well as for contributing to capital and liquidity planning.

Limitation on Capital Distributions

OCC regulations impose limitations upon certain capital distributions by savings associations, such as certain cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. We do not currently pay dividends on our capital stock. See "Item 1, Business - Payment of Dividends and Interest Payments".

The OCC regulates all capital distributions made by the Bank, directly or indirectly, to the holding company, including dividend payments. A subsidiary of a savings and loan holding company, such as the Bank, must file a notice or seek affirmative approval from the OCC at least 30 days prior to each proposed capital distribution. Whether an application is required is based on a number of factors including whether the institution qualifies for expedited treatment under the OCC rules and regulations or if the total amount of all capital distributions (including each proposed capital distribution) for the applicable calendar year exceeds net income for that year to date plus the retained net income for the preceding two years. In addition, as a subsidiary of a savings and loan holding company, the Bank must receive approval from the FRB, and prior written non-objection by the OCC under the consent order, before declaring any dividends.

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

Loans to One Borrower

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

Regulatory Enforcement

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

Assessments

The OCC charges assessments to recover the costs of examining savings associations and their affiliates. These assessments are generally based on an institution’s total assets, with a surcharge for an institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination. Our expense for these assessments totaled $3.9 million and $4.0 million, respectively, for the years ending December 31, 2013 and 2012.

Federal Home Loan Bank System

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

Environmental Regulation

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

Competition

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

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

Additional Information

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

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

ITEM 1A. RISK FACTORS

Our financial condition and results of operations may be adversely affected by various factors, many of which are beyond our control. In addition to the factors identified elsewhere in this Report, the most significant risk factors affecting our business include those set forth below. The below description of risk factors is not exhaustive, and readers should not consider the description of such risk factors to be a complete set of all potential risks that could affect us.

Market, Interest Rate, Credit and Liquidity Risk

Our business has been and may continue to be adversely affected by conditions in the mortgage and real estate markets, global financial markets and macro-economic conditions.

Our business, and the financial services industry generally, have been materially and adversely affected by a significant and prolonged period of negative market and economic conditions. This was initially triggered by declines in the values of subprime mortgages, but spread to virtually all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes. Our business, in particular our Mortgage Banking business, was adversely affected by these issues. Furthermore, continued concerns regarding the recovery of the U.S. and global economies, unemployment, declines in real property values, global political and economic issues, such as political instability and sovereign debt defaults, access to credit and capital markets, high rates of delinquencies and defaults on loans and other factors have contributed to volatility and uncertainty in the mortgage and real estate markets, global financial markets and the U.S. economy. Though market conditions have improved somewhat, there can be no assurance that economic and market conditions will continue to improve or even that the existing improvements will be sustained. As a result, our results of operations could be affected. Moreover, unlike many of our competitors, we are subject to regulatory and other limitations, such as requirements under the Consent Order and the Supervisory Agreement, which could limit our ability to recover from the recession at the same pace as other financial services institutions.

In addition, these negative market and economic conditions led to difficulty in refinancing for some of our commercial and residential mortgage customers and increased the rate of defaults and foreclosures. Furthermore, the decline in asset values in recent years resulted in considerable losses to the Bank and other secured lenders that historically have been able to rely on the underlying collateral value of their loans to minimize or eliminate losses. A significant portion of our loans-held-for-investment portfolio is comprised of loans collateralized by real estate in which we are in the first lien position. Although there have been signs of recovery, there can be no assurance that property values will continue to stabilize or improve, and if they decline again, there can be no assurance that the Bank will not incur credit losses. Deterioration in the housing and commercial real estate markets may lead to increased loss severities and increases in past due loans and nonperforming assets in our loan portfolios. Additionally, it is often expensive and difficult to pursue collection efforts and foreclosure proceedings due to regulatory and other issues, which could increase our costs or otherwise cause us to incur losses in our mortgage portfolio. Any of these effects could adversely affect our business, financial condition and results of operations.

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

Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, had combined in recent years to increase swap spreads, cause rating agencies to lower credit ratings, and otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in central bank borrowing rates and other government actions. Banks and other lenders suffered significant losses in recent years and often became reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral.

Volatility of interest rates could lead to increased prepayment rates and lower mortgage origination volume and sales, which could adversely affect our business, financial condition and results of operations.

More than 80 percent of our revenues in 2013 and 2012, were realized from our Mortgage Banking segment. The residential real estate mortgage lending business is very sensitive to changes in interest rates, and low interest rates generally increase that business, while high interest rates generally cause that business to decrease. Thus, our performance normally has a strong correlation to interest rate levels. In particular, our profitability depends in substantial part on our net interest margin, which is the difference between the rates we receive on loans made to others and investments and the rates we pay for deposits and other sources of funds, as well as the volume of mortgage loan originations and sales and the related fees received from our Mortgage Banking segment. Our net interest margin and our volume of mortgage originations and sales will depend on many factors that are partly or entirely outside our control, including competition, federal economic, monetary and fiscal policies, and global and domestic economic conditions generally. Historically, net interest margin and the mortgage origination volumes and sales for the Bank and for other financial institutions have widened and narrowed in response to these and other factors. A significant or prolonged change in prevailing interest rates may have a material adverse effect on our business, financial condition and results of operations.

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

Certain hedging strategies that we use to manage investment in Mortgage Servicing Rights ("MSRs") and other interest rate risks may be ineffective.

We invest in MSRs to support mortgage strategies and to deploy capital at acceptable returns. We utilize derivatives and other fair value assets as economic hedges to offset changes in fair value of the MSRs resulting from the actual or anticipated changes in prepayments stemming from changing interest rate environments and to otherwise manage interest rate risk. Our main objective in managing interest rate risk is to maximize the benefit and minimize the adverse effect of changes in interest rates on our earnings over an extended period of time. In managing these risks, we look at, among other things, yield curves and hedging strategies. As such, our interest rate risk management strategies may result in significant earnings volatility in the short term because the market value of our assets and related hedges may be significantly impacted either positively or negatively by unanticipated variations in interest rates. In particular, our portfolio of MSRs and our mortgage pipeline are highly sensitive to movements in interest rates, and hedging activities related to the portfolio. Our MSRs could lose a substantial portion of their value as a result of higher than anticipated prepayments due to loan refinancing prompted, in part, by declining interest rates. Conversely, MSRs generally increase in value in a rising interest rate environment to the extent that prepayments are slower than anticipated.

Our hedging strategies to manage these risks relating to our MSRs and interest rate volatility are highly susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, when interest rates fluctuate, repricing risks arise from the timing difference in the maturity and/or repricing of assets, liabilities and off-balance sheet positions. While such repricing mismatches are fundamental to our business, they can expose us to fluctuations in income and economic value as interest rates vary. Our interest rate risk management strategies do not completely eliminate repricing risk. Although we use models to assess the impact of interest rates on mortgage related revenues, the estimates of revenues produced by these models are dependent on estimates and assumptions of future loan demand, prepayment speeds and other factors which may differ from actual subsequent experience. In addition, our hedging strategies rely on assumptions and projections regarding assets and general market factors, many of which are outside of our control. If one or more of these assumptions and projections proves to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates or prepayment speeds, we may incur losses that would adversely impact earnings. Hedging strategies also involve transaction and other costs. The failure of our ability to effectively hedge interest rate risks could adversely affect our business, financial condition and results of operations.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase reserves.

There is a risk of default with respect to all of our mortgages and other loans, and our remedies to collect, foreclose or otherwise recover may not fully satisfy the debt owed to us. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to provide for probable and inherent losses in our loans held for our investment portfolio. Our allowance for loan losses, however, may not be adequate to cover actual credit losses, and future provisions for credit losses could adversely affect our business, financial condition, results of operations, cash flows and prospects. The allowance for loan losses reflects management's estimate of the probable and inherent losses in our portfolio of held-for-investment loans at the relevant statement of financial condition date. Our allowance for loan losses is based on prior experience as well as an evaluation of the risks in the current portfolio, composition and maintaining our current revenue pace of the portfolio and economic factors. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have an adverse effect on our business, financial condition, results of operations, cash flows and prospects. The determination of an appropriate level of loan loss allowance is an inherently subjective process that requires significant management judgment and is based on numerous assumptions. Changes in economic conditions affecting borrowers and real estate valuations, new information regarding existing loans, identification of additional problem loans, failure of borrowers and guarantors to perform in accordance with the terms of their loans, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Moreover, our regulators, as part of their supervisory function, periodically review our allowance for loan losses. Our regulators may recommend or require us to increase our allowance for loan losses or to recognize further losses, based on their judgment, which may be different from that of our management or other regulators. Any increase in our loan losses could have an adverse effect on our earnings and financial condition.

Changes in the fair value of our securities may reduce our stockholders’ equity, net earnings, or results of operations.

The estimated fair value of available-for-sale securities portfolio may increase or decrease depending on market conditions. Our securities portfolio is comprised primarily of fixed rate securities. We increase or decrease stockholders’ equity by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of available-for-sale securities portfolio, net of the related tax benefit, under the category of accumulated other comprehensive income (loss). Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders’ equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold.

We conduct a periodic review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which are considered in the analysis include, but are not limited to, the severity and duration of the decline in fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. Generally these changes in fair value caused by changes in interest rates are viewed as temporary, which is consistent with experience. If we deem such decline to be other than temporary impairment ("OTTI") related to credit losses, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of noninterest income.

In the past, we have recorded OTTI charges. Our securities portfolio is monitored as part of ongoing OTTI evaluation process. No assurance can be given that we will not recognize OTTI charges related to securities in the future. Any changes in the fair value of our securities and/or any OTTI charges could have an adverse effect on our stockholders’ equity, net earnings or results of operations.

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

We require substantial liquidity to meet our deposit and debt obligations as they come due, fund our operations and for potential unforeseen liabilities or losses, including without limitation those that could be incurred in connection the settlement of litigation, regulatory proceedings or other matters. Our access to liquidity could be impaired by our inability to access the capital markets or unforeseen outflows of deposits. Our access to external sources of financing, including deposits, as well as the cost of that financing, is dependent on various factors including regulatory restrictions. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, downgrades in our debt ratings, declining financial results and losses, material changes to operating margins, financial leverage on an absolute or relative to peers, changes within the organization, specific events that adversely impact our financial condition or reputation, disruptions in the capital markets, specific events that adversely impact the financial services industry, counterparty availability, changes affecting assets, the corporate and regulatory structure, balance sheet and capital structure, geographic and business diversification, interest rate fluctuations, market share and competitive position, general economic conditions and the legal, regulatory, accounting and tax environments governing funding transactions. Many of these factors are beyond our control. The material deterioration in any one or a combination of these factors could result in a downgrade of our credit or servicer standing with counterparties or a decline in our reputation within the marketplace and could result in our having a limited ability to borrow funds, maintain or increase deposits (including custodial deposits for our agency servicing portfolio) or to raise capital on commercially reasonable terms or at all. Furthermore, in prior years, we raised capital on terms that were significantly dilutive to our stockholders, and we could be required to do so again in the future. We compete for funding with other banks and similar companies, many of which are substantially larger, and have more capital and other resources than we do. In the event that these competitors consolidate with other financial institutions, these advantages may increase. Competition from these institutions may increase our cost of funds.

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

Our loan portfolio and geographic concentration could increase our potential for significant losses.

More than 80 percent of our revenues in 2013 and 2012, were realized from our Mortgage Banking segment.Our mortgage loan portfolio also is geographically concentrated in certain states, including California, Michigan, Florida, Washington and Arizona. In addition, a significant number of commercial real estate loans held-for-investment are in Michigan. This concentration has made, and will continue to make, our loan portfolio particularly susceptible to downturns in the general economy and the real estate and mortgage markets in the geographic areas where we conduct our business activities. Adverse conditions, including unemployment, inflation, recession, natural disasters, declining property values, municipal bankruptcies and other factors in these markets could cause delinquencies and charge-offs of these loans to increase, likely resulting in a corresponding and disproportionately large decline in revenues and demand for our services and an increase in credit risk and the value of collateral for our loans to decline, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. Furthermore, the economic, real estate market and other conditions in any one or more of our market areas may recover at a slower pace than any recovery in the U.S. real estate market generally.

Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market areas could adversely affect the value of our assets, revenues, results of operations and financial condition. Moreover, there are no assurances that we will benefit from any market growth or favorable economic conditions in our primary market areas when and if they do occur. Any efforts that we may undertake to diversify our loan portfolio and business activities against concentration risks may not be successful.

We depend on our institutional counterparties to provide services that are critical to our business. If one or more of our institutional counterparties defaults on its obligations to us or becomes insolvent, it could have a material adverse effect on our earnings, liquidity, capital position and financial condition.

Financial services institutions are interrelated as a result of market-making, trading, clearing, counterparty, or other relationships. We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. We believe that our primary exposures to institutional counterparty risk are with third-party providers of credit enhancement on the mortgage assets that we hold in our investment portfolio, including mortgage insurers and financial guarantors, issuers of securities held on our Consolidated Statements of Financial Condition, and derivatives counterparties. Furthermore, a significant deterioration in the credit quality of one or more of our counterparties could lead to concerns about the credit quality of other counterparties in the industry. Counterparty risk can also adversely affect our ability to acquire, sell or hold MSRs in the future. Adverse mortgage and credit market conditions have adversely affected, and if recent positive trends are not sustained, they could again adversely affect, the liquidity and financial condition of a number of our institutional counterparties, particularly those whose businesses are concentrated in the mortgage industry. One or more of these institutions may default in its obligations to us for a number of reasons, such as changes in financial condition that affect their credit ratings, a reduction in liquidity, operational failures or insolvency. A default by a counterparty with significant obligations to us could result in significant financial losses to us and could have a material adverse effect our ability to conduct our operations, which would adversely affect our earnings, liquidity, capital position and financial condition. In addition, a default by a counterparty may require us to obtain a substitute counterparty which may not exist in this economic climate and which may, as a result, cause us to default on our related financial obligations. In addition, concerns about, or a default or threatened default by one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as banks with which we interact on a daily basis, and therefore could adversely affect us.

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

Pursuant to accounting principles generally accepted in the United States, we are required to use certain assumptions and estimates in preparing our Consolidated Statements of Financial Condition. A portion of our assets and liabilities are carried on our Consolidated Statements of Financial Condition at fair value, including our MSRs, certain mortgage loans held-for-sale, trading assets, available-for-sale securities, derivatives and the future obligations arising from our settlement with the DOJ. Generally, for assets that are reported at fair value, we use quoted market prices when available. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. In such cases, we use internally developed financial models that utilize observable market data inputs as well as asset specific collateral data and market inputs for interest rates to estimate the fair value of certain of these assets and liabilities. These valuation models rely to some degree on managements' assumptions, estimates and judgment, which are inherently uncertain. We cannot be certain that the models or the underlying assumptions will prove to be predictive and remain so over time, and therefore, actual results may differ from our models and assumptions. Different assumptions could result in significant declines in valuation, which in turn could result in significant declines or increases in the dollar amount of assets or increases in the liabilities we report on our Consolidated Statements of Financial Condition. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment. If assumptions or estimates underlying our Consolidated Statements of Financial Condition are incorrect, we may experience material losses.

Regulatory Risk

Our business is highly regulated and the regulations applicable to us are subject to change.

The banking industry is extensively regulated at the federal and state levels. Insured financial institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. These laws and regulations significantly affect the way that we do business and could restrict the scope of our existing and future businesses, product offerings and operations, restrict our ability to pursue acquisitions and divestitures, reduce the profitability of products and services that we offer and make our products and services more expensive for our customers.

Currently, the Bank is subject to supervision and regulation by the OCC, the FDIC and the CFPB. In addition, the Federal Reserve is responsible for supervising and regulating all savings and loan holding companies that were formerly regulated by the OTS, including us. The Federal Reserve is also authorized to impose capital requirements on savings and loan holding companies and subject such companies to new and potentially heightened examination and reporting requirements. Savings and loan holding companies, including us, are also required to serve as a source of financial strength to their financial institution subsidiaries, which means that the Federal Reserve expects us to be able to infuse capital into the Bank should its capital levels become inadequate. Thus, the Federal Reserve may discourage us from using up any capital-raising capacity so that, in the event we ever need to do so, we can raise funds to infuse capital into the Bank; the Federal Reserve also may insist, in the event that the Bank needs a capital infusion, that our duty to infuse capital takes priority of obligations to creditors. The OCC is the primary regulator of the Bank and its affiliated entities. In addition to its regulatory powers, the OCC has significant enforcement authority that it can use to address banking practices that it believes to be unsafe and unsound, violations of laws, and capital and operational deficiencies. The FDIC also has significant regulatory authority over the Bank and may impose further regulation at its discretion for the protection of the DIF. Such regulation and supervision are intended primarily for the protection of the DIF and for the Bank’s depositors and borrowers, and are not intended to protect the interests of investors in our securities. The CFPB is responsible for enforcement of the principal federal consumer protection laws over institutions that have assets of $10 billion or more. If the Bank reports assets of less than $10 billion, it must do so for four consecutive quarters before it will be reclassified as a small institution. Since we believe the Bank’s assets will likely return to $10 billion in the near future, we will continue to operate if we are subject to the CFPB’s jurisdiction.

Further, the Bank's business is affected by consumer protection laws and regulation at the state and federal level, including a variety of consumer protection provisions, many of which provide for a private right of action and some of which pose a risk of class action lawsuits. In the current environment, there have been, and will likely be, significant changes to the banking and financial institutions regulatory regime in light of recent government intervention in the financial services industry, and it is not possible to predict the impact of all such changes on our results of operations. Changes to, or in the interpretation or implementation of, statutes, regulations or policies, heightened regulatory scrutiny, requirements or expectations, implementation of new government programs and plans, and changes to judicial interpretations of statutes or regulations could affect us in substantial and unpredictable ways. For example, our regulators' views as to the adequacy of our capital has evolved since the economic recession. As a result, while we have historically operated at lower Tier 1 capital levels, we are currently operating at a Tier 1 capital ratio of greater than 9 percent and do not currently intend to operate at lower Tier 1 capital levels in the future. Among other things, such changes, as well as the implementation of such changes, could result in unintended consequences and could subject us to additional costs, constrain our resources, limit the types of financial services and products that we may offer, increase the ability of non-banks to offer competing financial services and products, and/or reduce our ability to effectively hedge against risk. See the Regulatory discussion, in Item 1. Business, herein, for further discussion of regulations applicable to us.

The Bank has entered into a Consent Order with the OCC, which requires the Bank to adopt or review and revise various plans, policies and procedures. Non-compliance with the Consent Order may lead to additional corrective actions by the OCC, civil penalties or other adverse actions, which could negatively impact our operations and financial performance.

Effective October 23, 2012, the Bank entered into a Consent Order with the OCC. Under the Consent Order, the Bank is required to adopt or review and revise various plans, policies and procedures related to, among other things, regulatory capital; enterprise risk management and liquidity as well as capital; allowance for loan and lease losses and our representation and warranty reserve; internal audit; internal loan review; concentrations; Bank Secrecy Act risk assessment, program, internal controls, customer due diligence, and independent testing; compliance management; flood insurance; and information technology. See the Consent Order discussion, in Item 1. Business, herein. The Bank has submitted or will submit these plans, policies and procedures to the OCC for a written determination that the OCC has no supervisory objection to them. Upon the Bank's receipt of no supervisory objection from the OCC, the Consent Order requires the Bank to implement and ensure adherence to the plans, policies and procedures. Although management has commenced working to resolve the concerns of the OCC under the Consent Order, the OCC may not agree that it has resolved all of these issues.

While subject to the Consent Order, the Bank's management and Board of Directors will be required to focus a substantial amount of time on complying with its terms, which could adversely affect our financial performance. There is also no guarantee that the Bank will be able to fully comply with the Consent Order. In the event the Bank is in material non-compliance with the terms of the Consent Order, the OCC has the authority to subject the Bank to additional corrective actions. In particular, if the Bank fails to submit a written capital plan within a time period acceptable to the OCC, or fails to implement a written capital plan for which the OCC has provided a written determination of no supervisory objection, then at the sole discretion of the OCC, the Bank may be deemed undercapitalized for purposes of the Consent Order. If the OCC determines that the Bank is undercapitalized for purposes of the Consent Order, it may at its discretion impose certain additional corrective actions on the Bank's operations that are applicable to undercapitalized institutions. These corrective actions could negatively impact the Bank's operations and financial performance. Moreover, in the event the OCC believes that the Bank has failed to comply with the Consent Order, it could initiate further enforcement actions against the Bank, seek an injunction requiring the Bank and its officers and directors to comply with the Consent Order and seek civil money penalties against the Bank and its officers and directors as well as against us. Any failure by the Bank to comply with the terms of the Consent Order or additional actions by the OCC could adversely affect our business, financial condition and results of operations. In addition, the Bank’s competitors may not be subject to similar actions, which could limit our ability to compete effectively.

We remain subject to the restrictions and conditions of the Supervisory Agreement. Failure to comply with the Supervisory Agreement could result in further enforcement action against us, which could negatively affect our results of operations and financial condition.

We remain subject to the Supervisory Agreement, which requires that we take certain actions to address issues identified by the OTS. The Supervisory Agreement is enforced by the Federal Reserve as a successor regulator to the OTS. That agreement requires submission of a capital plan, a prohibition on the declaration of dividends, a prohibition against any incursion of debt, a prohibition against affiliate transactions with limited exceptions, a limitation on severance and indemnification payments, prior notification of the Federal Reserve in the case of changes in directors or senior executive officers with such changes being subject to Federal Reserve approval, and a prohibition against entering into compensation or benefit arrangements for directors and senior executive officers without Federal Reserve approval. While we believe that we have taken numerous steps to comply with, and intend to comply in the future with, the requirements of the Supervisory Agreement, failure to comply with the Supervisory Agreement in the time frames provided, or at all, could result in additional enforcement orders or penalties from our regulators, which could include further restrictions on us, assessment of civil money penalties on us, as well as our directors, officers and other affiliated parties and removal of one or more officers and/or directors. Such actions, if initiated, could have a material adverse effect on our operating results and liquidity. Moreover, our competitors may not be subject to similar actions, which could limit our ability to compete effectively. See the Supervisory Agreement discussion, in Item 1. Business, herein.

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

The Dodd-Frank Act was signed into law on July 21, 2010 and has significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. As a result, various federal agencies were required to adopt a broad range of new implementation rules and regulations and are given significant discretion in drafting the implementation rules and regulations. Consequently, it is difficult to predict the ultimate impact of Dodd-Frank Act on us or the Bank, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. Nor can we predict the impact or substance of other future legislation or regulation. However, it is expected that at a minimum they will increase our operating and compliance costs and potentially our interest expense. In addition, compliance obligations will expose us to additional noncompliance risk and could divert management’s focus from our business operations. Moreover, the Dodd-Frank Act did not address reform of the Fannie Mae and Freddie Mac (collectively, government sponsored entities or the "GSEs"). While options for the reform of the GSEs have been released, no specific reform proposal has been enacted. The results of any such reform, and its effect on us, are difficult to predict and may result in unintended consequences.

The CFPB may reshape the consumer financial laws through rulemaking and enforcement. Compliance with any such changes may impact our operations.

The CFPB has broad and unique rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers, including prohibitions against unfair, deceptive or abusive practices in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an "abusive" practice is new under the law. Moreover, the Bank will be supervised and examined by the CFPB for compliance with the CFPB’s regulations and policies. While the full scope of the CFPB’s rulemaking and regulatory agenda relating to the mortgage industry remains unclear, it has already been active in issuing guidelines, rules and regulations affecting our business, and it has also been active in enforcing consumer financial protection laws against mortgage originators and servicers.

The CFPB and regulations promulgated under the Dodd-Frank Act or by the CFPB could materially and adversely affect the manner in which we conduct our businesses, result in heightened federal regulation and oversight of our business activities, increased costs and potential litigation associated with our business activities and materially limit and restrict the Bank’s business, product offerings and services. Furthermore, our failure to comply with the laws, rules or regulations to which we are subject, whether actual or alleged, would expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on our business, financial condition or results of operations.

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

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

We are highly dependent on the Agencies, and any changes in these entities or their current roles could adversely affect our business, financial condition and results of operations.

Our ability to generate revenues through mortgage loan sales depends significantly on programs administered by the Agencies, such as Fannie Mae and Freddie Mac, government agencies, including Ginnie Mae, and others that facilitate the issuance of mortgage-backed securities in the secondary market. These agencies play a critical role in the residential mortgage industry, and we have significant business relationships with many of them. We also derive other material financial benefits from these relationships, including the assumption of credit risk by these agencies on loans included in such mortgage securities in exchange for our payment of guarantee fees and the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures.

There is uncertainty regarding the future of Fannie Mae and Freddie Mac, including with respect to how long they will continue to be in existence, the extent of their roles in the market and what forms they will have. Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac since they were placed into conservatorship, additional funding may not be provided within the required time periods or the actions of the U.S. Treasury may not be adequate for their needs. If such funding is not provided as required, the Federal Housing Finance Agency ("FHFA") would be obligated to place Fannie Mae and Freddie Mac into receivership. Further, Fannie Mae or Freddie Mac could be placed into receivership at the discretion of the FHFA at any time under certain circumstances. If the actions of the U.S. Treasury are inadequate or pending repurchase requests by Fannie Mae and Freddie Mac to lenders prove unsuccessful, or if Fannie Mae and Freddie Mac are adversely affected by events such as ratings downgrades, foreclosure problems and delays and problems with mortgage insurers, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. In addition, the future roles of Fannie Mae and Freddie Mac could be reduced or eliminated and the nature of the guarantees could be limited relative to historical measurements.

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

Changes in the Agencies' guidelines or guarantees could adversely affect our business, financial condition and results of operations.

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

In particular, the FHFA has directed the Agencies to align their guidelines for servicing delinquent mortgages that they own or that back securities which they guarantee, which can result in monetary incentives for servicers that perform well and penalties for those that do not. In addition, the FHFA has directed Fannie Mae to assess compensatory penalties against servicers in connection with the failure to meet specified timelines relating to delinquent loans and foreclosure proceedings, and other breaches of servicing obligations.

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

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

Current or future regulations and programs to limit foreclosures and loan modifications may result in increased costs to service loans which could affect our margins or impair the value of our MSRs.

The housing and the residential mortgage markets have experienced a variety of difficulties and changed economic conditions. In response, federal and state governments, as well as the Agencies, have developed a number of programs and instituted a number of requirements on servicers in an effort to limit foreclosures and, in the case of the Agencies, to minimize losses on loans that they guarantee or own. These additional programs and requirements may increase operating expenses or otherwise change the costs associated with servicing loans for others, which may result in lower margins or impairment in the expected value of our MSRs.

Increases in deposit insurance premiums and special FDIC assessments will adversely affect our earnings.

Since late 2008, the economic environment has caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the DIF. As a result, we were required to pay higher deposit insurance premiums and special assessments that adversely affected our earnings. In addition, the Dodd-Frank Act required the FDIC to substantially revise its regulations for determining the amount of an institution's deposit insurance premiums. The Dodd-Frank Act also made changes, among other things, to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to financial institutions when the reserve ratio exceeds certain thresholds. The FDIC has established a higher reserve ratio of 2 percent as a long-term goal beyond what is required by statute. Effective April 1, 2011, the FDIC implemented a new assessment rate schedule, which included changing the deposit insurance assessment base to an amount equal to the insured institution's average consolidated total assets during the assessment period minus average tangible equity and requiring the use of a scorecard that combines CAMELS ratings with certain forward looking information. These changes resulted in increases to our FDIC deposit insurance premiums. Moreover, if the FDIC believes we present a higher risk to the DIF than other banks because of significant risks relating to interest rates, loan portfolio and geographic concentration, concentration of high credit risk loans, increased loan losses, regulatory compliance (including under existing agreements with regulators such as the Consent Order and Supervisory Agreement), existing and future litigation and other factors, then we could be subject to higher deposit insurance premiums and special assessments in the future that could adversely affect our earnings. The Bank’s deposit insurance premiums and special assessments in the future also may be higher than competing banks may be required to pay.

We are subject to heightened regulatory scrutiny with respect to bank secrecy and anti-money laundering statutes and regulations.

In recent years, regulators have intensified their focus on bank secrecy and anti-money laundering statutes, regulations and compliance requirements, as well as compliance with the rules enforced by OFAC, and we have been required to revise policies and procedures and install new systems in order to comply with regulations, guidelines and examination procedures in this area. More recently, the Bank agreed in the Consent Order to review and revise the Bank's bank secrecy and anti-money laundering risk assessment and written program of policies and procedures adopted in accordance with the Bank Secrecy Act and update the status of the Bank's plan and timeline for the implementation of enhanced bank secrecy and anti-money laundering internal controls. We cannot be certain that the policies, procedures and systems we have in place or may in the future put in place are or will be successful. Therefore, there is no assurance that in every instance we are and will be in full compliance with these requirements or the Consent Order. Banks that are not subject to consent orders have been heavily fined for violations of bank secrecy and anti-money laundering laws, and, thus, irrespective of compliance with the Consent Order, non-compliance with bank secrecy and anti-money laundering laws may result in significant fines.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even for inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal and regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by OFAC that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

The impact of the new Basel III capital standards is uncertain.

In December 2010, the Basel Committee issued its framework for strengthening capital and liquidity requirements (together, "Basel III"). Basel III will impose new minimum capital requirements on banking institutions, as well as a capital conservation buffer and, if applicable, a countercyclical capital buffer that can be used by banks to absorb losses during periods of financial and economic stress. In addition, Basel III limits the inclusion of MSRs and deferred tax assets to 10 percent of Common Equity Tier 1 (as defined in the Basel III final framework, "CET1"), individually, and 15 percent of CET1, in the aggregate. Our MSRs and deferred tax assets currently significantly exceed the limit, and there is no assurance that they will be includable in CET1 in the future. Basel III also proposes minimum liquidity measures.

In August 2012, the U.S. bank regulatory agencies requested comment on three sets of proposed rules that implement the Basel III capital framework. The first of the three rules addressed minimum capital requirements, regulatory capital, and additional capital "buffer" standards to enhance the resilience of banking organizations to withstand periods of financial stress. The second set of rules proposed revisions to the methodologies for calculating risk-weighted assets incorporating aspects of the Basel II standardized approach and established alternative standards of creditworthiness in place of credit ratings. The final proposal included proposed changes to the U.S. bank regulatory agencies current advanced approaches risk-based capital rule.

In July 2013, the U.S. bank regulatory agencies adopted an interim final rule ("the rule") that revises the risk-based and leverage capital requirements for banking organizations. The rule consolidates three separate notices of proposed rulemaking published in the Federal Register in August 2012, with selected changes. The rule implements a revised definition of regulatory capital, a new common equity tier 1 minimum capital requirement, and a higher minimum tier 1 capital requirement and requires new deductions from capital for investments in unconsolidated financial institutions, mortgage servicing assets and deferred tax assets that exceed specified thresholds. The rule incorporates these new requirements into the U.S. bank regulatory agencies prompt corrective action framework. In addition, the rule establishes limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Further, the rule amends the methodologies for determining risk-weighted assets for all banking organizations. The rule also adopts changes to the U.S. bank regulatory agencies regulatory capital requirements that meet the requirements of section 171 and section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rule codifies the U.S. bank regulatory agencies regulatory capital rules, which have previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework. In addition, the OCC is amending the market risk capital rule (market risk rule) to apply to Federal savings associations, and the Federal Reserve is amending the advanced approaches and market risk rules to apply to top-tier savings and loan holding companies domiciled in the United States, except for certain savings and loan holding companies that are substantially engaged in insurance underwriting or commercial activities. The mandatory compliance date was January 1, 2014 for advanced approaches banking organizations that are not savings and loan holding companies and January 1, 2015 for all other covered banking organizations, with transitional provisions applicable to capital adjustments and deductions through December 31, 2017. Once fully phased in, the Basel III capital rules will significantly reduce the allowable amount of the fair value of MSRs and deferred tax assets included in Tier 1 capital.

The effect of these requirements will be to require all banks and their holding companies, including us, to hold greater amounts of common equity capital than previously required.

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

As a holding company without significant assets other than the capital stock of the Bank, our ability to service our debt or preferred stock obligations, including interest payments on debentures underlying the trust preferred securities, and dividend payments on the preferred stock we issued to the U.S. Treasury, is dependent upon available cash on hand and the receipt of dividends from the Bank on such capital stock. The declaration and payment of dividends by the Bank on all classes of its capital stock is subject to the discretion of the Bank's board of directors and to applicable regulatory and legal limitations, including the prior written non-objection of the OCC as a result of the Consent Order. If the Bank does not make dividend payments to us, we may not be able to service our debt or preferred stock obligations, which could have a material adverse effect of our financial condition and results of operations. Furthermore, under the Supervisory Agreement, the Federal Reserve has the authority, and under certain circumstances the duty, to prohibit or to limit our payment of dividends.

We may not be able to resume making future payments of dividends on our capital stock and interest on trust preferred securities.

We have not paid dividends on any of our stock in 2013 and 2012 and dividends on preferred stock were last paid in 2011. In addition, our ability to make dividend payments in the future is subject to the limitations set forth in the Supervisory Agreement, which provides that we must receive the prior written non-objection of the Federal Reserve in order to pay dividends, and to the receipt of dividends from the Bank, which are restricted by the Consent Order. In early 2012, we provided notice to the U.S. Treasury exercising our contractual right to defer our regularly scheduled quarterly payments of dividends, beginning with the February 2012 payment, on preferred stock issued and outstanding. We also exercised our contractual right to defer interest payments with respect to our trust preferred securities. Under the terms of the related indentures, we may defer interest payments for up to 20 consecutive quarters without default or penalty. As a result of such deferrals, we are prohibited from making dividend payments on our capital stock, because the terms of the preferred stock and the trust preferred securities prohibit dividend payments and repurchases or redemptions of certain equity securities until all accrued and unpaid dividends and interest are paid, subject to limited exceptions. Also, under Michigan law, we are prohibited from paying dividends on our capital stock if, after giving effect to the dividend, (i) we would not be able to pay our debts as they become due in the usual course of business or (ii) our total assets would be less than the sum of our total liabilities plus the preferential rights upon dissolution of stockholders with preferential rights on dissolution which are superior to those receiving the dividend. There can be no assurances that we will be able to resume making these dividend and interest payments in the future, and our inability to do so after a number of quarters may cause us to default on those obligations.

Operational Risk

We recently restructured our executive team, and our new management team's ability to execute our business strategy may not prove successful.

We restructured our executive team in 2012 and 2013, and many members of our executive team are serving in new capacities, including in the position of chief executive officer. Moreover, several of our directors were elected to the board of directors relatively recently. We expect to experience additional changes in our senior management as we seek to fill certain key officer positions in various areas of our operations. These are significant changes implemented over a relatively short period of time. Some of our executive team members are in new positions or come from different companies and backgrounds, so it may take time for our new executive team to develop a coordinated management style. New executive teams also are generally more likely to experience turnover and may take more time to develop effective teamwork. Our restructured executive team has devoted substantial efforts to significantly change our business strategy and operational activities, yet there is no assurance that these efforts will prove successful or that the executive team will be able to successfully execute upon our business strategy and operational activities.

Our challenges in attracting and retaining members of senior management and other qualified employees in the future could affect our ability to operate effectively.

We depend on the services of our senior management and other qualified employees to carry out our business and investment strategies. We may experience challenges in attracting and retaining key members of senior management and other qualified employees due in part to our ongoing regulatory compliance issues, long-term performance issues and our geographic location away from other regions that have clusters of financial institutions. As we continue to refine and reshape our business model and execute our business plan, it is critical that we retain our senior management team and recruit qualified individuals to succeed existing key personnel that leave our employ. In addition, in order to grow and diversify our business, we will need to continue to attract and retain qualified banking and other personnel. Furthermore, we depend on senior management and other key employees to meet our regulatory compliance requirements under applicable laws regulations and our obligations under the Consent Order and Supervisory Agreement.

Competition for such personnel is intense in our geographic markets and the businesses in which we engage. In addition, we are required to receive regulatory approval prior to entering into compensation arrangements with certain executives and subject certain regulatory limitations on payments upon termination to any employee. The effect could be to limit our ability to attract and retain senior management in the future, because our competitors may not be subject to such approval requirements and limitations. If we are unable to attract and retain talented people, our business could suffer. The loss of the services of any senior management personnel, and, in particular, the loss for any reason, including death or disability of our chairman, our chief executive officer or other members of the executive team, or the inability to recruit and retain senior management and other qualified employees in the future, could have an adverse effect on our business, financial condition and results of operations.

We may be subject to additional risks as we enter new lines of business or introduce new products and services.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. For example, the Bank recently sold a substantial portion of its MSRs to a third party but will continue to act as the subservicer on all of the mortgage loans underlying such MSRs and thereby retain the right to receive certain fees relating to such subservicing activities but not certain liabilities associated with the MSRs. While management believes this model will be accretive to our business and help us successfully execute our business strategy, there are uncertainties associated with it. In addition, we continue to evaluate the expansion of our commercial and retail lending businesses. There are substantial risks and uncertainties associated with these and any other efforts to enter into new lines of business or introduce new products and services, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. We may not be able to attract and retain talented employees to help develop and implement new lines of business or a new product or service. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

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

We act as servicer and subservicer for mortgage loans owned by third parties. In such capacities for those loans, we have certain contractual obligations, including foreclosing on defaulted mortgage loans or, to the extent applicable, considering alternatives to foreclosure such as loan modifications or short sales. If we commit a material breach of our obligations as servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, causing us to lose servicing income.

For certain investors and/or certain transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for servicing errors with respect to the loan. If we have increased repurchase obligations because of claims that we did not satisfy our obligations as a servicer, or increased loss severity on such repurchases, we may have a significant reduction to net servicing income within our mortgage banking noninterest income. We may incur significant costs if we are required to, or if we elect to, re-execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. We may incur litigation costs if the validity of a foreclosure action is challenged by a borrower. If a court were to overturn a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to the borrower and/or to any title insurer of the property sold in foreclosure if the required process was not followed. These costs and liabilities may not be legally or otherwise reimbursable to us. In addition, if certain documents required for a foreclosure action are missing or defective, we could be obligated to cure the defect or repurchase the loan. We also may incur liability to securitization investors relating to delays or deficiencies in our processing of mortgage assignments or other documents necessary to comply with state law governing foreclosures. The fair value of our MSRs may be negatively affected to the extent our servicing costs increase because of higher foreclosure costs. We may be subject to fines and other sanctions imposed by Federal or state regulators as a result of actual or perceived deficiencies in our foreclosure practices or in the foreclosure practices of other mortgage loan servicers. Any of these actions may harm our reputation or negatively affect our home lending or servicing business.

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

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

Our mortgage banking business depends, in part, upon third party mortgage originators who do not originate mortgages for us exclusively and over whom we have less control.

Our Mortgage Banking segment depends, in part, upon the use of third party mortgage originators who are not our employees. These third parties originate mortgages and provide services to many different banks and other entities. Accordingly, they may have relationships with or loyalties to such banks and other parties that are different from those they have with or to us. Failure to maintain good relations with such third party mortgage originators could have a negative impact on our business. Moreover, we must rely on the third party mortgage originators in making and documenting the mortgage loans. While we perform investigations on the mortgage companies with whom we do business and review the loan files and loan documents we purchase to attempt to detect any irregularities or legal noncompliance, we have less control over these originators than employees of the Bank. Our ability to control the third party mortgage originators could have an adverse impact on our business. In addition, these arrangements with third party mortgage originators and the fees payable by us to such third parties could be subject to additional regulatory scrutiny and restrictions in the future.

Our representation and warranty reserve for losses could be insufficient.

We currently maintain a representation and warranty reserve, which is a liability on the Consolidated Statements of Financial Condition, to reflect our best estimate of probable losses that have been incurred on loans that we have sold or securitized into the secondary market, including to the securitized trusts in our private-label securitizations and must subsequently repurchase or with respect to which we must indemnify the purchasers and insurers because of violations of customary representations and warranties. Our representation and warranty reserve takes into account both our estimate of probable losses inherent in loans sold during the current accounting period, as well as adjustments to our previous estimates of probable losses inherent in loans sold based upon a number of factors. In addition, the OCC, as part of its supervisory function, periodically reviews our representation and warranty reserve. The OCC may require us to increase our representation and warranty reserve or to recognize further losses, based on its judgment, which may be different from that of our management. The results of such reviews could have an effect on the Bank’s reserves. In each case, these estimates are based on our most recent data regarding loan repurchases, and actual credit losses on repurchased loans and rely on managements’ assumptions, estimates and judgment, which are inherently uncertain. We also make increases or decreases to the representation and warranty reserve based on current loan sales which reduces our net gain on loan sales. Adjustments to our previous estimates are recorded as an increase or decrease in our representation and warranty reserve - change in estimate. Both the assumptions and estimates used could be inaccurate, resulting in a level of reserve that is less than actual losses. If additional reserves are required, it could have an adverse effect on our financial condition and results of operations.

Our Mortgage Banking segment profitability could be significantly reduced if we are not able to originate and resell a high volume of mortgage loans.

Our loan portfolio is significantly concentrated in residential mortgage loans. Mortgage originations, especially refinancing activity, decline in rising interest rate environments. While we have been experiencing historically low interest rates, the low interest rate environment likely will not continue indefinitely. When interest rates increase, there can be no assurance that our mortgage production will continue at current levels. Because we sell a substantial portion of the mortgage loans we originate, the profitability of our Mortgage Banking segment depends in large part upon our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

Our ability to originate and sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by the Agencies and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Because the largest participants in the secondary market are government-sponsored enterprises whose activities are governed by federal law, any future changes in laws that significantly affect the activity of the Agencies could, in turn, adversely affect our operations. In September 2008, the Agencies were placed into conservatorship by the U.S. government. Although to date, the conservatorship has not had a significant or adverse effect on our operations; it is currently unclear whether further changes would significantly and adversely affect our operations. The government and others have provided options to reform the Agencies, but the results of any such reform, and their impact on us, are difficult to predict. To date, no reform proposal has been enacted. In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the Agencies and other institutional and non-institutional investors. Our ability to remain eligible to originate and securitize government insured loans may also depend on having an acceptable peer-relative delinquency ratio for FHA loans and maintaining a delinquency rate with respect to Ginnie Mae pools that are below Ginnie Mae guidelines. In the case of Ginnie Mae pools, the Bank has repurchased past due loans to maintain compliance with the minimum required delinquency ratios. Although these loans are typically insured as to principal by FHA, such repurchases increase our liquidity needs, and there can be no assurance that we will have sufficient liquidity to continue to purchase such loans out of the Ginnie Mae pools. In addition, due to our unilateral ability to repurchase such loans out of the Ginnie Mae pools, we are required to account for them on our balance sheet whether or not we choose to repurchase them, which could adversely affect our capital ratios.

Any significant impairment of our eligibility with any of the Agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time-to-time by the sponsoring entity which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

We may incur additional costs and expenses relating to foreclosure procedures.

Officials in 50 states and the District of Columbia concluded a joint investigation of foreclosure practices across the industry and proposed significant changes in servicing practices related to foreclosures and substantial penalties, and, in the first quarter of 2012, DOJ announced that the federal government and attorneys general of 49 states (the state of Oklahoma reached a separate agreement) reached a $25 billion settlement agreement with five of the largest servicers to address mortgage loan servicing and foreclosure abuses. We were not a party to this settlement, but we reached a separate settlement with DOJ on related matters. Although we are continuing to review available information to ascertain the potential impact of the settlement agreement on servicing and foreclosure practices, there are a number of structural differences between our business model and the resulting practices and those of the larger servicers that have been publicized in the media. For example, we do not engage in the practice of bulk purchases of loans from other servicers or investors, nor have we engaged in any acquisitions that typically result in multiple servicing locations and integration issues from both a processing and personnel standpoint. As a result, we are not required to service seasoned loans following a transfer and all of the servicing functions are performed in one location and on one core operating system. In addition, we sell servicing rights with some regularity and the sale of servicing rights has allowed for a more reasonable volume of loans that our staff has to manage. Despite these structural differences, we expect to incur additional costs and expenses in connection with foreclosure procedures. In addition, there can be no assurance that we will not incur additional costs and expenses as a result of legislative, administrative or regulatory investigations or actions relating to foreclosure procedures.

We operate in a highly competitive industry, and our inability to compete successfully could adversely affect our business, financial condition and results of operations.

We operate in a highly competitive industry that could become even more competitive as a result of economic, legislative, regulatory and technological changes. With respect to mortgage loan origination, we face competition in such areas as mortgage loan offerings, rates, fees and customer service. With respect to mortgage servicing, we face competition in areas such as fees, performance in reducing delinquencies and entering into successful modifications. Competition in servicing mortgage loans and in originating or acquiring newly originated mortgage loans primarily comes from large commercial banks and savings institutions and other independent mortgage servicers and originators. Many of these institutions have significantly greater resources and access to capital than we do, which gives them the benefit of a lower cost of funds. In addition, technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services. This has intensified competition among banks and non-banks, as applicable, in offering mortgage loans and commercial and retail banking services. If we are unable to compete successfully in our industry, it could adversely affect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about customers and counterparties, and any inaccurate or misleading information could adversely affect our financial condition and results of operations.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. We may also rely on representations and warranties of those customers, counterparties or other third parties, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could cause us to enter into unfavorable transactions, which could adversely affect our financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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

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

In addition, seasonal trends have historically reflected the general patterns of residential and commercial real estate sales, which typically peak in the spring and summer seasons. Although in recent periods the broader cyclical trends in the mortgage and real estate markets have disrupted the customary historical seasonal trends, such seasonal trends could resume in the future, which could cause our quarterly operating results to fluctuate and make it difficult to predict our future operating performance.

We may be exposed to other operational, legal and reputational risks.

We are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees, disputes with employees and contractors, customers or outsiders, litigation, unauthorized transactions by employees, breaches of internal control systems and information systems and compliance requirements, business continuation, disaster recovery, or operational errors. Negative public opinion can result from our actual or alleged conduct in activities, such as lending practices, data security, corporate governance and foreclosure practices, or our involvement in government programs and may damage our reputation. Additionally, actions taken by government regulators and community organizations in response to any of the above may also damage our reputation. This negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. For example, current public opinion regarding defects in the foreclosure practices of financial institutions may lead to an increased risk of consumer litigation, uncertainty of title, a depressed market for nonperforming assets and indemnification risk from our counterparties, including the Agencies. We are further exposed to the risk that our third party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors as we are). These disruptions may interfere with service to our customers and result in the bank suffering reputational damage in addition to financial losses and/or liability.

While we recently reversed the valuation allowance for our deferred tax assets, we may not be able to realize these assets in the future and they may be subject to additional valuation allowances, which could adversely affect our operating results.

During 2009, we established a valuation allowance to reflect the reduced likelihood that we would realize the benefits of our deferred tax assets. Management assesses the valuation allowance recorded against deferred tax assets at each reporting period. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence. As indicated by applicable accounting standards, it is inherently difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. We utilize a rolling three years of actual and current year anticipated results as the primary measure of cumulative losses. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred taxes represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations.

Based on the weight of all the positive and negative evidence at December 31, 2013, management concluded that it was more likely than not that the net deferred tax assets will be realized based upon future taxable income and therefore, reversed 100 percent of the valuation allowance on our federal deferred tax asset and a portion of our state deferred tax asset at December 31, 2013.

At December 31, 2013, approximately $321.0 million of our deferred tax assets was disallowed when calculating regulatory capital. Applicable banking regulations permit us to include these deferred tax assets, up to a maximum amount, when calculating our regulatory capital to the extent these assets will be realized based on future projected earnings within one year of the report date.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at December 31, 2013 that it is more likely than not that the net deferred tax asset will be realized is based upon management's estimate of future taxable income. Management's estimate of future taxable income is based on internal projections which consider historical performance, various internal estimates and assumptions, as well as certain external data, all of which management believes to be reasonable although inherently subject to significant judgment. Factual results may differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, and if so, the valuation allowance may need to be increased for some or all of our deferred tax asset. Such an increase to the deferred tax asset valuation allowance could have a material adverse effect on our financial condition and results of operations. For a further discussion of the deferred tax asset, see Note 25 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

General Risk Factors

Our framework for managing risks may not be effective in mitigating risk and loss to us.

We have experienced significant issues relating to risk management, and our regulators, including the OCC, continue to focus on our risk management practices and deficiencies. We have recently faced issues with respect to continuity in our risk management practices following the departure of our chief risk officer in 2013. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. Although we have made, and continue to make, material changes to our risk management framework, in part due to guidance provided by our regulators and consultants, there are inherent limitations to our risk management strategies as there may exist, or develop in the future and risks that we have not appropriately anticipated or identified. Furthermore, as our business changes or grows in the future, our risk management framework may not keep pace with such changes and developments, and we may not be able to appropriately identify, monitor or manage new risks associated with our changing business. If our risk management framework proves ineffective, we could suffer unexpected losses which could have a materially adverse effect on our results of operations or financial condition.

Our network and computer systems on which we depend could fail, experience an interruption, or experience a cybersecurity attack which could adversely affect our business, financial conditional and results of operations.

Our businesses are dependent on our ability to process, record and monitor a large number of complex transactions. If our financial, accounting, or other data processing systems fail, experience and interruption or breach in security or have other significant shortcomings, we could be materially adversely affected. Our computer systems could be vulnerable to unforeseen problems. Because we conduct part of our business over the Internet and outsource several critical functions to third parties, our operations depend on our ability, as well as that of third-party service providers, to protect computer systems and network infrastructure against damage from fire, power loss, telecommunications failure, physical break-ins or similar catastrophic events. Any damage or failure that causes interruptions in operations could have a material adverse effect on our business, financial condition and results of operations.

In addition, a significant risk related to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations. In addition, if another provider of commercial services through the Internet were to suffer damage from physical break-in, security breach or other disruptive problems caused by the Internet or other users, the use and continued public acceptance of the Internet for commercial transactions, including Internet banking, could suffer. This type of event could deter our potential customers or cause customers to leave us and thereby materially and adversely affect our business, financial condition and results of operations.

To date we have not experienced any material incidents relating to cyber-security or other forms of information security breaches, although there can be no assurance that we will not suffer such losses in the future given the rapidly expanding and evolving cybersecurity threats that exists today. This is especially true because techniques used tend to change frequently or would not be recognized until launched, and attacks can originate from a wide array of sources, including unrelated third parties. These risks may increase in the future given our increased emphasis on Internet based products and services, including mobile banking and mobile payments. As cybersecurity threats continue to evolve, we may be required to expend additional resources to continue to modify or refine our protective measures against these threats, and we may be unable to anticipate or implement effective preventative measures against security breaches. There are no assurances that our security measures or efforts to upgrade and maintain our computer and network systems and processes will be adequate and any failures, interruptions or security breaches could adversely affect our business, financial condition and results of operations.

The collection, processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

In the processing of consumer transactions, our businesses receive, transmit and store a large volume of personally identifiable information and other user data. The collection, sharing, use, disclosure and protection of this information are governed by the privacy and data security policies maintained by us and our businesses. Moreover, there are federal, state and international laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. We could be adversely affected if legislation or regulations are expanded to require changes in business practices or privacy policies, or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, financial condition and results of operations.

Our businesses may also become exposed to potential liabilities as a result of differing views on the privacy of consumer and other user data collected by these businesses. Our failure, and/or the failure by the various third-party vendors and service providers with whom we do business, to comply with applicable privacy policies or federal, state or similar international laws and regulations or any compromise of security that results in the unauthorized release of personally identifiable information or other user data could damage the reputation of these businesses, discourage potential users from our products and services and/or result in fines and/or proceedings by governmental agencies and/or consumers, one or all of which could adversely affect our business, financial condition and results of operations.

Lack of system integrity or credit quality related to funds settlement could adversely affect our results of operations.

We settle funds on behalf of financial institutions, other businesses and consumers and receive funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by us include wire transfers, debit card, credit card and electronic bill payment transactions. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties and the facilitation of the payment. If the continuity of operations or integrity of our processing were compromised, it could result in a financial loss to us due to a failure in payment facilitation. In addition, we may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could adversely affect our results of operations.

We are a controlled company that is exempt from certain NYSE corporate governance requirements.

Our common stock is currently listed on the NYSE. The NYSE generally requires a majority of directors to be independent and requires audit, compensation and nominating committees to be composed solely of independent directors. However, under the applicable NYSE rules, if another company owns more than 50 percent of the voting power of a listed company, that company is considered a "controlled company" and exempt from rules relating to independence of the board of directors and the compensation and nominating committees. We are a controlled company because MP Thrift beneficially owns more than 50 percent of our outstanding voting stock. A majority of the directors on the compensation and nominating committees are affiliated with MP Thrift. MP Thrift has the right, if exercised, to designate a majority of the directors on the board of directors. Accordingly, our stockholders do not have, and may never have, the same protections afforded to stockholders of other companies subject to all of the corporate governance requirements of the NYSE. If we become unable to continue to be deemed a controlled company, we would be required to meet these independence requirements and, if we are not able to do so, our common stock could be delisted from the NYSE.

Our controlling stockholder has significant influence over us, including control over decisions that require the approval of stockholders, whether or not such decisions are in the best interests of other stockholders.

MP Thrift beneficially owns a substantial majority of our outstanding common stock and as a result, has control over our decisions to enter into any corporate transaction and also the ability to prevent any transaction that requires the approval of our board of directors or the stockholders regardless of whether or not other members of our board of directors or stockholders believe that any such transactions are in their own best interests. So long as MP Thrift continues to hold a majority of our outstanding common stock, it will have the ability to control the vote in any election of directors and other matters being voted on, and continue to exert significant influence over us. Furthermore, MP Thrift may have interests that could diverge from the interests of other stockholders.

We could, as a result of a stock offering or future trading activity in our common or preferred stock, experience an "ownership change" for tax purposes that could cause us to permanently lose a portion of U.S. federal deferred tax assets.

Our net deferred tax asset includes both federal and state operating losses. During the fourth quarter 2013, we reversed 100 percent of the valuation allowance on the federal DTA and a portion of the state DTA, which had been previously established as of September 30, 2009. Our ability to use our deferred tax assets to offset future taxable income will be significantly limited if we experience an "ownership change" as defined for U.S. federal income tax purposes. MP Thrift, our controlling stockholder held approximately 63.4 percent of common stock as of December 31, 2013. As a result of MP Thrift's ownership, issuances or sales of common stock or other securities in the future or certain other direct or indirect changes in ownership, could result in an "ownership change" under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). Section 382 of the Code imposes restrictions on the use of a corporation’s net operating losses, certain recognized built-in losses, and other carryovers after an "ownership change" occurs. An "ownership change" is generally a greater than 50 percentage point increase by certain "five percent shareholders" during the testing period, which is generally the three year-period ending on the transaction date. Upon an "ownership change," a corporation generally is subject to an annual limitation on its prechange losses and certain recognized built-in losses equal to the value of the corporation’s market capitalization immediately before the "ownership change" multiplied by the long-term tax-exempt rate (subject to certain adjustments). The annual limitation is increased each year to the extent that there is an unused limitation in a prior year. Since U.S. federal net operating losses generally may be carried forward for up to 20 years, the annual limitation also effectively provides a cap on the cumulative amount of prechange losses and certain recognized built-in losses that may be utilized. Prechange losses and certain recognized built-in losses in excess of the cap are effectively lost.

The relevant calculations under Section 382 of the Code are technical and highly complex. Any stock offering, combined with other ownership changes, could cause us to experience an "ownership change." If an "ownership change" were to occur, we believe it could cause us to permanently lose the ability to realize a portion of our deferred tax asset, resulting in reduction to total shareholders’ equity.

Even if there is an "ownership change," and part or all of our deferred tax assets would be limited, our obligations under the terms of the DOJ Agreement would not be relieved. Moreover, if we or the Bank are party to a business transaction so large that it causes the deferred tax asset to be completely eliminated, then 12 months following the transaction we, or our successor, are required to begin making the Additional Payments required under the DOJ Agreement, for more information see Item 1. Business.

Changes in accounting standards may impact how we report our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the Financial Accounting Standards Board ("FASB") changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In addition, we may from time to time experience weaknesses or deficiencies in our internal control over financial reporting that can affect our recording and reporting of financial information. In some cases we could be required to apply a new or revised standard retroactively, resulting in a restatement of prior period financial statements.

We are subject to a number of legal or regulatory proceedings which can be complicated and slow moving, thus making them difficult to predict.

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

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

For a further discussion of the unpredictability of legal proceedings and description of certain of our pending legal proceedings, see Note 28 of the Notes to the Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein.

Other Risk Factors

The above description of risk factors is not exhaustive. Other risk factors are described elsewhere herein as well as in other reports and documents that we file with or furnish to the SEC. Other factors that could also cause results to differ from our expectations may not be described in any such report or document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2013, we operated through the headquarters and an annex center in Troy, Michigan, a regional office in Jackson, Michigan, 111 banking centers in Michigan and 39 home loan centers in 19 states. We also maintain nine wholesale lending offices. Our banking centers consist of 72 free-standing office buildings, 12 in-store banking centers and 27 centers in buildings in which there are other tenants, typically strip malls and similar retail centers.

We own the buildings and land for 72 of our offices, own the building, but lease the land for one office, and lease the remaining 86 offices. The offices that we lease have lease expiration dates ranging from 2014 to 2026.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is party to legal proceedings incident to its business. See Note 28 of the Notes to Consolidated Financial Statements, in Item 8. Financial Statements and Supplementary Data, herein, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the NYSE under the trading symbol FBC. At December 31, 2013, there were 56,138,074 shares of our common stock outstanding held by approximately 19,571 stockholders of record. The following table shows the high and low sale prices for our common stock during each calendar quarter during 2013 and 2012.

Quarter Ending	Highest Sale Price	Lowest Sale Price
December 31, 2013	$19.62	$14.25
September 30, 2013	16.96	13.75
June 30, 2013	14.94	12.41
March 31, 2013	20.25	13.03
December 31, 2012	$19.42	$10.40
September 30, 2012	12.00	8.00
June 30, 2012	9.70	6.90
March 31, 2012	10.40	5.70

Dividends

We have not paid dividends on our common stock since the fourth quarter of 2007. The amount and nature of any dividends declared on our common stock in the future will be determined by our board of directors in their sole discretion. Our board of directors has suspended any future dividend on our common stock until the capital markets normalize and residential real estate shows additional signs of improvement. We are generally prohibited from making any dividend payments on stock except pursuant to the prior non-objection of the Federal Reserve as set forth in the Supervisory Agreement. In addition, we are prohibited from paying dividends on our common stock so long as we have deferred and unpaid dividends on our preferred stock issues and deferred and unpaid interest on our trust preferred securities.

In addition, our principal sources of funds are cash dividends paid by the Bank and other subsidiaries, investment income and borrowings. Federal laws and regulations limit the amount of dividends or other capital distributions that the Bank may pay us. The Bank has an internal practice to remain "well-capitalized" under OCC capital adequacy regulations as discussed above. The Bank does not currently expect to pay dividends to us and, even if it determined to do so, would not make payments if the Bank was not well-capitalized at the time or if such payment would result in the Bank not being well-capitalized. In addition, the Bank must seek prior approval from the OCC at least 30 days before it may make a dividend payment or other capital distribution to us.

For information regarding restrictions on our payment of dividends, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity.

Equity Compensation Plan Information

The following table sets forth certain information with respect to securities to be issued under our equity compensation plans as of December 31, 2013.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders (1)	82,937	$104.26	987,920

(1) Consists of our 2006 Equity Incentive Plan (the “2006 Plan”), which provides for the granting of stock options, incentive stock options, cash-settled stock appreciation rights, restricted stock units, performance shares and performance units and other awards. The 2006 Plan consolidated, merged, amended and restated all other prior plans. Awards still outstanding under any of the prior plans will continue to be governed by their respective terms. Under the 2006 Plan, the exercise price of any option granted must be at least equal to the fair value of our common stock on the date of grant. Non-qualified stock options granted to directors expire five years from the date of grant. Grants other than non-qualified stock options have term limits set by the board of directors in the applicable agreement. All securities remaining for future issuance represent option and stock awards available for award under the 2006 Plan.

Sale of Unregistered Securities

We made no unregistered sales of our equity securities during the fiscal year ended December 31, 2013.

Issuer Purchases of Equity Securities

We made no purchases of equity securities during the fiscal year ended December 31, 2013.

Performance Graph

CUMULATIVE TOTAL STOCKHOLDER RETURN
COMPARED WITH PERFORMANCE OF SELECTED INDICES
DECEMBER 31, 2008 THROUGH DECEMBER 31, 2013

	Nasdaq Financial	Nasdaq Bank	S&P Small Cap 600	Russell 2000	Flagstar Bancorp
December 31, 2008	100	100	100	100	100
December 31, 2009	101	81	124	125	85
December 31, 2010	134	91	155	157	23
December 31, 2011	99	80	154	148	7
December 31, 2012	112	92	177	170	27
December 31, 2013	155	128	248	233	28

ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share data and percentages)				
Summary of Consolidated Statements of Operations					
Interest income	$330,687	$480,970	$465,409	$532,781	$696,865
Interest expense	144,036	183,739	220,036	322,118	477,798
Net interest income	186,651	297,231	245,373	210,663	219,067
Provision for loan losses	(70,142)	(276,047)	(176,931)	(426,353)	(504,370)
Net interest income (loss) after provision for loan losses	116,509	21,184	68,442	(215,690)	(285,303)
Noninterest income	652,343	1,021,242	385,516	453,680	523,286
Noninterest expense	918,115	989,695	634,680	610,699	679,653
(Loss) income before federal income taxes provision	(149,263)	52,731	(180,722)	(372,709)	(441,670)
(Benefit) provision for federal income taxes	(416,250)	(15,645)	1,056	2,104	55,008
Net income (loss)	266,987	68,376	(181,778)	(374,813)	(496,678)
Preferred stock dividends/accretion	(5,784)	(5,658)	(17,165)	(18,748)	(17,124)
Net income (loss) attributable to common stock	$261,203	$62,718	$(198,943)	$(393,561)	$(513,802)
Income (loss) per share:					
Basic (1)	$4.40	$0.88	$(3.62)	$(24.36)	$(161.75)
Diluted (1)	$4.37	$0.87	$(3.62)	$(24.36)	$(161.75)

(1) Restated for one-for-ten stock split announced September 27, 2012 and began trading on October 11, 2012.

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share data and percentages)				
Mortgage loans originated (1)	$37,481,877	$53,586,856	$26,612,800	$26,560,810	$32,330,658
Other loans originated	$300,823	$754,155	$700,969	$40,420	$44,443
Mortgage loans sold and securitized	$39,074,649	$53,094,326	$27,451,362	$26,506,672	$32,326,643
Interest rate spread-bank only (2)	1.53 %	1.98 %	1.86 %	1.45 %	1.55 %
Net interest margin-bank only (3)	1.78 %	2.31 %	2.13 %	1.75 %	1.68 %
Interest rate spread-consolidated (2)	1.50 %	1.96 %	1.85 %	1.43 %	1.51 %
Net interest margin-consolidated (3)	1.72 %	2.26 %	2.07 %	1.67 %	1.58 %
Average common shares outstanding (4)	56,063	55,762	55,434	16,157	3,177
Average fully diluted shares outstanding (4)	56,518	56,194	55,434	16,157	3,177
Average interest earning assets	$10,881,618	$13,104,401	$11,803,670	$12,522,639	$13,799,361
Average interest paying liabilities	$9,337,936	$10,786,252	$10,539,369	$11,437,410	$13,542,712
Average stockholders’ equity	$1,238,550	$1,192,281	$1,185,731	$1,074,571	$817,248
Return on average assets	2.08 %	0.43 %	(1.49)%	(2.81)%	(3.24)%
Return on average equity	21.09 %	5.26 %	(16.78)%	(36.63)%	(62.87)%
Efficiency ratio	109.4 %	75.1 %	100.6 %	91.9 %	91.6 %
Efficiency ratio (credit-adjusted) (5)	99.0 %	57.0 %	64.8 %	61.9 %	70.4 %
Equity/assets ratio (average for the period)	9.87 %	8.10 %	8.88 %	7.66 %	5.15 %
Net charge-offs to average LHFI	4.00 %	4.43 %	2.14 %	9.34 %	4.20 %
Net charge-offs to average LHFI, adjusted (6)	2.45 %	4.43 %	2.14 %	4.82 %	4.20 %

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

(2) Interest rate spread is the difference between the annualized average yield earned on average interest-earning assets for the period and the annualized average rate of interest paid on average interest-bearing liabilities for the period.

(3) Net interest margin is the annualized effect of the net interest income divided by that period's average interest-earning assets.

(4) Restated for one-for-ten reverse stock splits effective on October 10, 2012 and May 27, 2010.

(5) Based on efficiency ratios as calculated, less representation and warranty reserve change in estimate and asset resolution expense, see Non-GAAP reconciliation.

(6) Excludes charge-offs of $65.1 million and $327.3 million related to the sale of nonperforming loans and TDRs, during the years ended December 31, 2013 and 2010, respectively.

	December 31, 2013	2012	2011	2010	2009
	(In thousands, except per share data and percentages)				
Summary of Consolidated Statements of Financial Condition					
Total assets	$9,407,301	$14,082,012	$13,637,473	$13,643,504	$14,013,331
Loans receivable, net	$6,602,864	$10,914,163	$10,420,739	$10,291,435	$9,964,908
Mortgage servicing rights	$284,678	$710,791	$510,475	$580,299	$652,374
Total deposits	$6,140,326	$8,294,295	$7,689,988	$7,998,099	$8,778,469
Federal Home Loan Bank advances	$988,000	$3,180,000	$3,953,000	$3,725,083	$3,900,000
Long-term debt	$353,248	$247,435	$248,585	$248,610	$300,182
Stockholders' equity (1)	$1,425,874	$1,159,362	$1,079,716	$1,259,663	$596,724
Book value per common share (2)	$20.66	$16.12	$14.80	$18.30	$75.30
Number of common shares outstanding (2)	56,138	55,863	55,578	55,331	4,688
Mortgage loans serviced for others	$25,743,396	$76,821,222	$63,770,676	$56,040,063	$56,521,902
Mortgage loans subserviced for others	$40,431,865	$—	$—	$—	$—
Weighted average service fee (basis points)	28.7	29.2	30.8	30.8	32.1
Capitalized value of mortgage servicing rights	1.11 %	0.93 %	0.80 %	1.04 %	1.15 %
Mortgage servicing rights to Tier 1 capital (3)	22.6 %	54.9 %	42.0 %	44.5 %	75.3 %
Ratio of allowance for loan losses to nonperforming LHFI (4) (5)	145.9 %	76.3 %	65.1 %	86.1 %	48.9 %
Ratio of allowance for loan losses to LHFI (4) (5)	5.42 %	5.61 %	4.52 %	4.35 %	6.79 %
Ratio of nonperforming assets to total assets (4)	1.95 %	3.70 %	4.43 %	4.35 %	9.24 %
Equity-to-assets ratio	15.16 %	8.23 %	7.92 %	9.23 %	4.26 %
Tier 1 capital ratio (to adjusted total assets) (6)	13.97 %	9.26 %	8.95 %	9.61 %	6.19 %
Total risk-based capital ratio (to risk-weighted assets) (6)	28.11 %	17.18 %	16.64 %	18.55 %	11.68 %
Number of banking centers	111	111	111	162	165
Number of loan origination centers	39	31	27	27	32
Number of employees (excluding loan officers and account executives)	2,894	3,328	2,839	3,001	3,075
Number of loans officers and account executives	359	334	297	278	336

(1)

Includes preferred stock totaling $266.2 million, $260.4 million, $254.7 million, $249.2 million and $243.8 million at December 31, 2013 through 2009, respectively.
(2) Restated for one-for-ten reverse stock splits effective on October 10, 2012 and May 27, 2010.
(3) See Non-GAAP reconciliation.
(4) Bank only and does not include nonperforming loans held-for-sale.
(5) Excludes loans carried under the fair value option
(6) Based on adjusted total assets for purposes of tangible capital and core capital, and risk-weighted assets for purposes of risk-based capital and total risk-based capital. These ratios are applicable to the Bank only.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS