M&T BANK CORP
Form 4
April 03, 2015

FORM 4

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

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
PEREIRA JORGE G
(Last) (First) (Middle)
350 PARK AVENUE, 6TH FLOOR
(Street)
NEW YORK, NY 10022-6022
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
M&T BANK CORP [MTB]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2015

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice Chairman

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/01/2015		A(1)		107	A	$ 127	5,300	D	
Common Stock								1,004,000	I	By One or More Controlled Corporations

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

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SEC 1474 (9-02)

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PEREIRA JORGE G 350 PARK AVENUE 6TH FLOOR NEW YORK, NY 10022-6022	X		Vice Chairman	

Signatures

By: Brian R. Yoshida, Esq. (Attorney-In-Fact)	04/03/2015
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

(1) This transaction represents stock received by the reporting person in lieu of cash fees pursuant to the M&T Bank Corporation 2008 Directors' Stock Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. bottom:1px solid #000000;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;">
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5

(2
)

—

2

Ending balance ALLL
$
52

$
20

$
1

$
42

$
19

$
6

$
140

Nine Months Ended September 30, 2018

Beginning balance ALLL
$
47

$
22

$
1

$
45

$
19

$
6

$
140

Charge-offs
(3
)

(2
)

(1
)

—

—

—

(6
)
Recoveries
1

2

—

—

—

—

3

Provision (benefit)
(5
)

(2
)

2

1

1

—

(3
)

Ending balance ALLL
$
40

$
20

$
2

$
46

$
20

$
6

$
134

Nine Months Ended September 30, 2017

Beginning balance ALLL
$
65

$
24

$
1

$
28

$
17

$
7

$
142

Charge-offs
(6
)

(3
)

(1
)

—

—

—

(10
)
Recoveries
1

2

1

—

—

—

4

Provision (benefit)
(8
)

(3
)

—

14

2

(1
)

4

Ending balance ALLL
$
52

$
20

$
1

$
42

$
19

$
6

$
140

(1) Includes loans with government guarantees.

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The following table sets forth the method of evaluation, by class of loan:

	Residential First Mortgage (1)	Home Equity	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total
	(Dollars in millions)						
September 30, 2018							
Loans held-for-investment (2)							
Individually evaluated	$33	$ 24	$ —	$ —	$ —	$ —	$57
Collectively evaluated	3,044	677	150	2,160	1,317	1,550	8,898
Total loans	$3,077	$ 701	$ 150	$ 2,160	$ 1,317	$ 1,550	$8,955
Allowance for loan losses (2)							
Individually evaluated	$5	$ 8	$ —	$ —	$ —	$ —	$13
Collectively evaluated	35	12	2	46	20	6	121
Total allowance for loan losses	$40	$ 20	$ 2	$ 46	$ 20	$ 6	$134
December 31, 2017							
Loans held-for-investment (2)							
Individually evaluated	$34	$ 27	$ —	$ —	$ —	$ —	$61
Collectively evaluated	2,712	633	25	1,932	1,196	1,142	7,640
Total loans	$2,746	$ 660	$ 25	$ 1,932	$ 1,196	$ 1,142	$7,701
Allowance for loan losses (2)							
Individually evaluated	$6	$ 10	$ —	$ —	$ —	$ —	$16
Collectively evaluated	41	12	1	45	19	6	124
Total allowance for loan losses	$47	$ 22	$ 1	$ 45	$ 19	$ 6	$140

(1) Includes allowance related to loans with government guarantees.
(2) Excludes loans carried under the fair value option.

Loans are considered to be past due when any payment of principal or interest is 30 days past the scheduled payment date. While it is the goal of management to collect on loans, we attempt to work out a satisfactory repayment schedule or modification with past due borrowers and will undertake foreclosure proceedings if the delinquency is not satisfactorily resolved. Our practices regarding past due loans are designed to both assist borrowers in meeting their contractual obligations and minimize losses incurred by the Bank.

We cease the accrual of interest on all classes of consumer and commercial loans upon the earlier of, becoming 90 days past due, or when doubt exists as to the ultimate collection of principal or interest (classified as nonaccrual or nonperforming loans). When a loan is placed on nonaccrual status, the accrued interest income is reversed and the loan may only return to accrual status when principal and interest become current and are anticipated to be fully collectible.

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The following table sets forth the LHFI aging analysis of past due and current loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due (1)(2)	Total Past Due	Current	Total LHFI
	(Dollars in millions)					
September 30, 2018						
Consumer loans						
Residential first mortgage	$1	$ 1	$ 20	$ 22	$3,063	$3,085
Home equity	1	—	5	6	698	704
Other	—	—	—	—	150	150
Total consumer loans	2	1	25	28	3,911	3,939
Commercial loans						
Commercial real estate	—	—	—	—	2,160	2,160
Commercial and industrial	—	—	—	—	1,317	1,317
Warehouse lending	—	—	—	—	1,550	1,550
Total commercial loans	—	—	—	—	5,027	5,027
Total loans	$2	$ 1	$ 25	$ 28	$8,938	$8,966
December 31, 2017						
Consumer loans						
Residential first mortgage	$2	$ 2	$ 23	$ 27	$2,727	$2,754
Home Equity	1	—	6	7	657	664
Other	—	—	—	—	25	25
Total consumer loans	3	2	29	34	3,409	3,443
Commercial loans						
Commercial real estate	—	—	—	—	1,932	1,932
Commercial and industrial	—	—	—	—	1,196	1,196
Warehouse lending	—	—	—	—	1,142	1,142
Total commercial loans	—	—	—	—	4,270	4,270
Total loans	$3	$ 2	$ 29	$ 34	$7,679	$7,713

(1) Includes less than 90 day past due performing loans which are deemed nonaccrual. Interest is not being accrued on these loans.

(2) Includes $4 million of loans accounted for under the fair value option at both September 30, 2018 and December 31, 2017.

Interest income is recognized on nonaccrual loans using a cash basis method. Interest that would have been accrued on impaired loans totaled less than $1 million and $1 million during the three and nine months ended September 30, 2018 and zero and $1 million during the three and nine months ended September 30, 2017, respectively. At September 30, 2018 and December 31, 2017, we had no loans 90 days past due and still accruing interest.

Troubled Debt Restructurings

We may modify certain loans in both our consumer and commercial loan portfolios to retain customers or to maximize collection of the outstanding loan balance. We have programs designed to assist borrowers by extending payment dates or reducing the borrower's contractual payments. All loan modifications are made on a case-by-case basis. Our standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. TDRs result in those instances in which a borrower demonstrates financial difficulty and for which a concession has been granted, which includes reductions of interest rate, extensions of amortization period, principal and/or interest forgiveness and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. These loans are classified as nonperforming

TDRs if the loan was nonperforming prior to the restructuring, or based upon the results of a contemporaneous credit evaluation. Such loans will continue on nonaccrual status until the borrower has established a willingness and ability to make the restructured payments for at least six months, after which they will be classified as performing TDRs and begin to accrue interest. Performing and nonperforming TDRs remain impaired as interest and principal will not be received in accordance with the original contractual terms of the loan agreement.

Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, but may give rise to potential incremental losses. We measure impairments using a discounted cash flow method for performing TDRs and measure impairment based on collateral values for nonperforming TDRs.

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The following table provides a summary of TDRs by type and performing status:

	TDRs		
	Performing	Nonperforming	Total
	(Dollars in millions)		
September 30, 2018			
Consumer loans			
Residential first mortgage	$22	$ 9	$ 31
Home equity	21	4	25
Total TDRs (1)(2)	$43	$ 13	$ 56
December 31, 2017			
Consumer loans			
Residential first mortgage	$19	$ 12	$ 31
Home Equity	24	4	28
Total TDRs (1)(2)	$43	$ 16	$ 59

(1) The ALLL on TDR loans totaled $11 million and $13 million at September 30, 2018 and December 31, 2017, respectively.

(2) Includes $3 million of TDR loans accounted for under the fair value option at both September 30, 2018 and December 31, 2017.

The following table provides a summary of newly modified TDRs:

	New TDRs			
	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase in Allowance at Modification
		(Dollars in millions)		
Three Months Ended September 30, 2018				
Residential first mortgages	2	$ —	$ —	$ —
Home equity (2)(3)	6	1	1	—
Total TDR loans	8	$ 1	$ 1	$ —
Three Months Ended September 30, 2017				
Residential first mortgages	9	$ 3	$ 3	$ —
Home equity (2)(3)	37	2	2	1
Total TDR loans	46	$ 5	$ 5	$ 1
Nine Months Ended September 30, 2018				
Residential first mortgages	13	$ 2	$ 2	$ —
Home equity (2)(3)	14	1	1	—
Total TDR loans	27	$ 3	$ 3	$ —
Nine Months Ended September 30, 2017				
Residential first mortgages	17	$ 4	$ 4	$ —
Home equity (2)(3)	71	5	5	2
Other consumer	1	—	—	—
Total TDR loans	89	$ 9	$ 9	$ 2

(1) Post-modification balances include past due amounts that are capitalized at modification date.

(2) Home equity post-modification UPB reflects write downs.

(3) Includes loans carried at the fair value option.

There were no residential first mortgage loans modified in the previous 12 months, that subsequently defaulted during the three and nine months ended September 30, 2018, compared to one residential first mortgage loan with UPB of less than $1 million modified in the previous 12 months, that subsequently defaulted during both the three and nine months ended September 30, 2017. There was no change in the allowance associated with these TDRs at subsequent default. All TDR classes within the consumer and commercial portfolios are considered subsequently defaulted when greater than 90 days past due within 12 months of the restructuring date.

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Impaired Loans

The following table presents individually evaluated impaired loans and the associated allowance:

	September 30, 2018			December 31, 2017		
	Recorded Investment	Net Unpaid Principal Balance	Related Allowance	Recorded Investment	Net Unpaid Principal Balance	Related Allowance
	(Dollars in millions)					
With no related allowance recorded						
Consumer loans						
Residential first mortgage	$13	$ 16	$ —	$11	$ 12	$ —
Home equity	1	4	—	—	—	—
Total loans with no related allowance recorded	$14	$ 20	$ —	$11	$ 12	$ —
With an allowance recorded						
Consumer loans						
Residential first mortgage	$20	$ 21	$ 5	$22	$ 22	$ 6
Home equity	23	24	8	24	27	10
Total loans with an allowance recorded	$43	$ 45	$ 13	$46	$ 49	$ 16
Total Impaired loans						
Consumer Loans						
Residential first mortgage	$33	$ 37	$ 5	$33	$ 34	$ 6
Home equity	24	28	8	24	27	10
Total impaired loans	$57	$ 65	$ 13	$57	$ 61	$ 16

The following table presents average impaired loans and the interest income recognized:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in millions)							
Consumer loans								
Residential first mortgage	$34	$ 1	$ 37	$ 1	$34	$ 1	$ 39	$ 1
Home equity	24	—	28	—	25	1	28	1
Commercial loans								
Commercial real estate	—	—	1	—	—	—	—	—
Commercial and industrial	—	—	—	—	2	—	—	—
Total impaired loans	$58	$ 1	$ 66	$ 1	$61	$ 2	$ 67	$ 2

Credit Quality

We utilize an internal risk rating system which is applied to all consumer and commercial loans. Descriptions of our internal risk ratings as they relate to credit quality follow the ratings used by the U.S. bank regulatory agencies as listed below.

Pass. Pass assets are not impaired nor do they have any known deficiencies that could impact the quality of the asset.

Watch. Watch assets are defined as pass rated assets that exhibit elevated risk characteristics or other factors that deserve management’s close attention and increased monitoring. However, the asset does not exhibit a potential or well-defined weakness that would warrant a downgrade to criticized or adverse classification.

Special mention. Assets identified as special mention possess credit deficiencies or potential weaknesses deserving management's close attention. Special mention assets have a potential weakness or pose an unwarranted financial risk that, if

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not corrected, could weaken the assets and increase risk in the future. Special mention assets are criticized, but do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Assets identified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the full collection or liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. For home equity loans and other consumer loans, we evaluate credit quality based on the aging and status of payment activity and any other known credit characteristics that call into question full repayment of the asset. Nonperforming loans are classified as either substandard, doubtful or loss.

Doubtful. An asset classified as doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. A doubtful asset has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information. Due to the high probability of loss, doubtful assets are placed on non-accrual.

Loss. An asset classified as loss is considered uncollectible and of such little value that the continuance as a bankable asset is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but, rather that it is not practical or desirable to defer writing off the asset even though partial recovery may occur in the future.

Consumer Loans

Consumer loans consist of open and closed end loans extended to individuals for household, family, and other personal expenditures, and include consumer loans, and loans to individuals secured by personal residence, including first mortgage, home equity, and home improvement loans. Because consumer loans are usually relatively small-balance, homogeneous exposures, consumer loans are rated primarily on payment performance. Payment performance is a proxy for the strength of repayment capacity and loans are generally classified based on their payment status rather than by an individual review of each loan.
In accordance with regulatory guidance, we assign risk ratings to consumer loans in the following manner:
•Consumer loans are classified as Watch once the loan becomes 60 days past due.
•Open and closed-end consumer loans 90 days or more past due are classified Substandard.

Commercial Loans

Management conducts periodic examinations which serve as an independent verification of the accuracy of the ratings assigned. Loan grades are based on different factors within the borrowing relationship: entity sales, debt service coverage, debt/total net worth, liquidity, balance sheet and income statement trends, management experience, business stability, financing structure, and financial reporting requirements. The underlying collateral is also rated based on the specific type of collateral and corresponding LTV. The combination of the borrower and collateral risk ratings results in the final rating for the borrowing relationship.

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	September 30, 2018				
	Pass	Watch	Special Mention	Substandard	Total Loans
	(Dollars in millions)				
Consumer Loans					
Residential first mortgage	$3,037	$ 27	$ —	$ 21	$3,085
Home equity	678	21	—	5	704
Other consumer	150	—	—	—	150
Total consumer loans	$3,865	$ 48	$ —	$ 26	$3,939
Commercial Loans					
Commercial real estate	$2,135	$ 23	$ —	$ 2	$2,160
Commercial and industrial	1,228	52	37	—	1,317
Warehouse	1,445	90	15	—	1,550
Total commercial loans	$4,808	$ 165	$ 52	$ 2	$5,027

	December 31, 2017				
	Pass	Watch	Special Mention	Substandard	Total Loans
	(Dollars in millions)				
Consumer Loans					
Residential first mortgage	$2,706	$ 23	$ —	$ 25	$2,754
Home equity	633	25	—	6	664
Other consumer	25	—	—	—	25
Total consumer loans	$3,364	$ 48	$ —	$ 31	$3,443
Commercial Loans					
Commercial real estate	$1,902	$ 23	$ 7	$ —	$1,932
Commercial and industrial	1,135	32	24	5	1,196
Warehouse	1,014	128	—	—	1,142
Total commercial loans	$4,051	$ 183	$ 31	$ 5	$4,270

Note 5 - Loans with Government Guarantees

Substantially all loans with government guarantees are insured or guaranteed by the FHA or the U.S. Department of Veterans Affairs. FHA loans earn interest at a rate based upon the 10-year U.S. Treasury note rate at the time the underlying loan becomes delinquent, which is not paid by the FHA or the U.S. Department of Veterans Affairs until claimed. Certain loans within our portfolio may be subject to indemnifications and insurance limits which expose us to limited credit risk. We have reserved for these risks within other assets and as a component of our ALLL on residential first mortgages.

At September 30, 2018 and December 31, 2017 loans with government guarantees totaled $305 million and $271 million, respectively.

At September 30, 2018 and December 31, 2017 repossessed assets and the associated claims recorded in other assets totaled $58 million and $84 million, respectively.

Note 6 - Variable Interest Entities

We have no consolidated VIEs as of September 30, 2018 and December 31, 2017.

In connection with our securitization activities, we have retained a five percent interest in the investment securities ("other MBS") of one trust and are contracted as the sub-servicer of the underlying loans, compensated based on market rates, which constitutes a continuing involvement in the trust. Although we have a variable interest in the securitization trust, we are not its primary beneficiary due to the relative size of our investment in comparison to the total amount of securities issued by the VIE and our inability to direct activities that most significantly impact the VIE’s economic performance. As a result, we have not consolidated the assets and liabilities of the VIE in our Statements of Financial Condition. The Bank’s maximum

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exposure to loss is limited to our investment in the VIE, as well as the standard representations and warranties made in conjunction with the loan transfer. See Note 2 - Investment Securities and Note 17 - Fair Value Measurements, for additional information.

In addition, we have a continuing involvement, but are not the primary beneficiary for an unconsolidated VIE related to the FSTAR 2007-1 mortgage securitization trust. In accordance with the settlement agreement with MBIA, there is no further recourse to us related to FSTAR 2007-1, unless MBIA fails to meet their obligations. At September 30, 2018 and December 31, 2017, the FSTAR 2007-1 mortgage securitization trust included 1,598 loans and 1,911 loans, respectively, with an aggregate principal balance of $53 million and $65 million, respectively.

Note 7 - Mortgage Servicing Rights

We have investments in MSRs that result from the sale of loans to the secondary market for which we retain the servicing. We account for MSRs at their fair value. A primary risk associated with MSRs is the potential reduction in fair value as a result of higher than anticipated prepayments due to loan refinancing prompted, in part, by declining interest rates or government intervention. Conversely, these assets generally increase in value in a rising interest rate environment to the extent that prepayments are slower than anticipated. We utilize derivatives as economic hedges to offset changes in the fair value of the MSRs resulting from the actual or anticipated changes in prepayments stemming from changing interest rate environments. There is also a risk of valuation decline due to higher than expected increases in default rates, which we do not believe can be effectively managed using derivatives. For further information regarding the derivative instruments utilized to manage our MSR risks, see Note 8 - Derivative Financial Instruments.

Changes in the fair value of residential first mortgage MSRs were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Balance at beginning of period	$257	$184	$291	$335
Additions from loans sold with servicing retained	100	75	283	178
Reductions from sales	(51)	(4)	(273)	(260)
Changes in fair value due to (1):				
Decrease in MSR value due to pay-offs, pay-downs and run-off	(3)	(5)	(11)	(15)
Changes in estimates of fair value (2)	10	(4)	23	8
Fair value of MSRs at end of period	$313	$246	$313	$246

(1) Changes in fair value are included within net return on mortgage servicing rights on the Consolidated Statements of Operations.
(2) Represents estimated MSR value change resulting primarily from market-driven changes.

The following table summarizes the hypothetical effect on the fair value of servicing rights using adverse changes of 10 percent and 20 percent to the weighted average of certain significant assumptions used in valuing these assets:

	September 30, 2018			December 31, 2017		
		Fair value impact due to			Fair value impact due to	
	Actual	10% adverse	20% adverse	Actual	10% adverse	20% adverse

			change	change			change	change
			(Dollars in millions)				(Dollars in millions)	
Option adjusted spread	5.03	%	$308	$ 304	6.29	%	$286	$ 282
Constant prepayment rate	8.98	%	303	294	9.93	%	283	277
Weighted average cost to service per loan	$80.79		310	307	$73.00		288	286

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. To isolate the effect of the specified change, the fair value shock analysis is consistent with the identified adverse change, while holding all other assumptions constant. In practice, a change in one assumption generally impacts other assumptions, which may either magnify or counteract the effect of the change. For further information on the fair value of MSRs, see Note 17 - Fair Value Measurements.

Contractual servicing and subservicing fees. Contractual servicing and subservicing fees, including late fees and other ancillary income are presented below. Contractual servicing fees are included within net return on mortgage servicing rights on
the Consolidated Statements of Operations. Contractual subservicing fees including late fees and other ancillary income are included within loan administration income on the Consolidated Statements of Operations. Subservicing fee income is recorded for fees earned on subserviced loans, net of third party subservicing costs.

The following table summarizes income and fees associated with owned mortgage servicing rights:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Net return on mortgage servicing rights				
Servicing fees, ancillary income and late fees (1)	$17	$14	$46	$43
Changes in fair value	7	(9)	12	(7)
Gain (loss) on MSR derivatives (2)	(11)	—	(27)	(3)
Net transaction costs	—	1	(5)	(7)
Total return included in net return on mortgage servicing rights	$13	$6	$26	$26

(1) Servicing fees are recorded on an accrual basis. Ancillary income and late fees are recorded on a cash basis.
(2) Changes in the derivatives utilized as economic hedges to offset changes in fair value of the MSRs.

The following table summarizes income and fees associated with our mortgage loans subserviced for others:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Loan administration income on mortgage loans subserviced				
Servicing fees, ancillary income and late fees (1)	$14	$ 9	$36	$26
Other servicing charges	(9)	(4)	(21)	(10)
Total income on mortgage loans subserviced, included in loan administration	$5	$ 5	$15	$16

(1) Servicing fees are recorded on an accrual basis. Ancillary income and late fees are recorded on cash basis.

Note 8 - Derivative Financial Instruments

Derivative financial instruments are recorded at fair value in other assets and other liabilities on the Consolidated Statements of Financial Condition. The Company's policy is to present its derivative assets and derivative liabilities on the Consolidated Statement of Financial Condition on a gross basis, even when provisions allowing for set-off are in place. However, for derivative contracts cleared through certain central clearing parties, variation margin payments are recognized as settlements. We are exposed to non-performance risk by the counterparties to our various derivative financial instruments. A majority of our derivatives are centrally cleared through a Central Counterparty Clearing House or consist of residential mortgage interest rate lock commitments further limiting our exposure to non-performance risk. We believe that the non-performance risk inherent in our remaining derivative contracts is minimal based on credit standards and the collateral provisions of the derivative agreements.

Derivatives not designated as hedging instruments: We maintain a derivative portfolio of interest rate swaps, futures and forward commitments used to manage exposure to changes in interest rates, MSR asset values and to meet the needs of customers. We also enter into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Market risk on interest rate lock commitments and mortgage LHFS is managed using corresponding forward sale commitments. Changes in fair value of derivatives not designated as hedging instruments are recognized in the Consolidated Statements of Income.

Derivatives designated as hedging instruments: We have designated certain interest rate swaps as fair value hedges of fixed rate certificates of deposit.

During the second quarter of 2018, we de-designated all of our remaining cash flow hedge relationships. The fair value of our derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) on the Consolidated Statement of Financial Condition and reclassified into interest expense in the same period in which the hedged transaction is recognized in earnings. At September 30, 2018, we had $23 million (net-of-tax) of accumulated unrealized gains on derivatives previously designated as cash flow hedges recorded in accumulated other comprehensive income, compared to $2 million (net-of-tax) of accumulated unrealized gains on derivatives designated as cash flow hedges recorded in accumulated other comprehensive income at December 31, 2017. We evaluate the probability of hedged transactions occurring on at least a

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quarterly basis relating to amounts deferred in OCI. The estimated amount scheduled to be reclassified from other comprehensive income into earnings during the next 12 months represents $3 million of gains (net-of-tax). For further information, see Note 11 - Accumulated Other Comprehensive Income.

Derivatives that are designated in hedging relationships are assessed for effectiveness using regression analysis at inception. All hedge relationships were highly effective as of September 30, 2018. Cash flows and the income impact associated with designated hedges are reported in the same line item as the underlying hedged item.

The following table presents the notional amount, estimated fair value and maturity of our derivative financial instruments:

	September 30, 2018 (1)		
	Notional Amount	Fair Value (2)	Expiration Dates
	(Dollars in millions)		
Derivatives in fair value hedge relationships:			
Liabilities			
Interest rate swaps on CDs	$30	$ —	2019
Derivatives not designated as hedging instruments:			
Assets			
Futures	$2,494	$ —	2018-2023
Mortgage backed securities forwards	4,670	19	2018
Rate lock commitments	3,121	20	2018-2019
Interest rate swaps and swaptions	2,195	23	2018-2038
Total derivative assets	$12,480	$ 62	
Liabilities			
Futures	$309	$ —	2018-2023
Mortgage backed securities forwards	1,903	6	2018
Rate lock commitments	419	1	2018
Interest rate swaps	765	13	2018-2048
Total derivative liabilities	$3,396	$ 20	

	December 31, 2017 (1)		
	Notional Amount	Fair Value (2)	Expiration Dates
	(Dollars in millions)		
Derivatives in cash flow hedge relationships:			
Liabilities			
Interest rate swaps on FHLB advances	$830	$ 1	2023-2026
Derivatives not designated as hedging instruments:			
Assets			
Futures	$1,597	$ —	2018-2022
Mortgage backed securities forwards	2,646	4	2018
Rate lock commitments	3,629	24	2018
Interest rate swaps and swaptions	1,441	11	2018-2048
Total derivative assets	$9,313	$ 39	
Liabilities			
Futures	$209	$ —	2018-2021
Mortgage backed securities forwards	3,197	6	2018

Rate lock commitments	214	—	2018
Interest rate swaps	617	4	2018-2027
Total derivative liabilities	$4,237	$ 10	

(1) Variation margin pledged to or received from a Central Counterparty Clearing House to cover the prior day's fair value of open positions, is considered settlement of the derivative position for accounting purposes.

(2) Derivative assets and liabilities are included in other assets and other liabilities on the Consolidated Statements of Financial Condition, respectively.

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The following tables present the derivatives subject to a master netting arrangement, including the cash pledged as collateral:

	Gross Amount	Gross Amounts Netted in the Statement of Financial Position	Net Amount Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral
	(Dollars in millions)				
September 30, 2018					
Derivatives not designated as hedging instruments:					
Assets					
Mortgage backed securities forwards	$19	$ —	$ 19	$ —	$ 18
Interest rate swaps and swaptions (1)	23	—	23	—	26
Total derivative assets	$42	$ —	$ 42	$ —	$ 44
Liabilities					
Futures	$—	$ —	$ —	$ —	$ 2
Mortgage backed securities forwards	6	—	6	—	2
Interest rate swaps (1)	13	—	13	—	20
Total derivative liabilities	$19	$ —	$ 19	$ —	$ 24
December 31, 2017					
Derivatives designated as hedging instruments:					
Liabilities					
Interest rate swaps on FHLB advances (1)	$1	$ —	$ 1	$ —	$ 17
Derivatives not designated as hedging instruments:					
Assets					
Mortgage-backed securities forwards	$4	$ —	$ 4	$ —	$ 8
Interest rate swaps and swaptions (1)	11	—	11	—	10
Total derivative assets	$15	$ —	$ 15	$ —	$ 18
Liabilities					
Futures	$—	$ —	$ —	$ —	$ 2
Mortgage-backed securities forwards	6	—	6	—	2
Interest rate swaps (1)	4	—	4	—	5
Total derivative liabilities	$10	$ —	$ 10	$ —	$ 9

(1) Variation margin pledged to or received from a Central Counterparty Clearing House to cover the prior day's fair value of open positions, is considered settlement of the derivative position for accounting purposes.

The fair value basis adjustment on our hedged CDs is included in interest bearing deposits on our Consolidated Statements of Operations. The carrying amount of our hedged CDs was $30 million at September 30, 2018 and zero at December 31, 2017 and the cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged CDs was de minimis and zero at September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018, we pledged a total of $24 million related to derivative financial instruments, consisting of $4 million of cash collateral on derivative liabilities and $20 million of maintenance margin on centrally cleared derivatives and had an obligation to return cash of $44 million on derivative assets. We pledged a total of $26 million related to derivative financial instruments, consisting of $7 million of cash collateral on derivatives and $19 million of maintenance margin on centrally cleared derivatives and had an obligation to return cash of $18 million on derivative assets at December 31, 2017. Within the Consolidated Statements of Financial Condition, the collateral related to derivative activity is included in other assets and other liabilities and the cash pledged as maintenance margin is restricted and included in in other assets.

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The following table presents the net gain (loss) recognized on designated instruments, net of the impact of offsetting positions:

	Amount Recorded in Net Interest Income (1)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Gain on cash flow hedging relationships in interest contracts				
Amount of gain reclassified from AOCI into income	$ 1	$ —	$ —	$ 5
Total gain on hedges	$ 1	$ —	$ —	$ 5

(1) We had no gain/(loss) on fair value hedging relationships in interest contracts for the three and nine months ending September 30, 2018 and September 30, 2017.

The following table presents net gain (loss) recognized in income on derivative instruments, net of the impact of offsetting positions:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
		(Dollars in millions)			
Derivatives not designated as hedging instruments:	Location of Gain (Loss)				
Futures	Net return on mortgage servicing rights	$ (1)	$ (1)	$ (4)	$ (1)
Interest rate swaps and swaptions	Net return on mortgage servicing rights	(8)	(2)	(16)	(7)
Mortgage-backed securities forwards	Net return on mortgage servicing rights	(2)	2	(6)	5
Rate lock commitments and forward agency and loan sales	Net gain on loan sales	21	(8)	12	(16)
Interest rate swaps (1)	Other noninterest income	1	—	2	1
Total derivative gain (loss)		$ 11	$ (9)	$ (12)	$ (18)

(1) Includes customer-initiated commercial interest rate swaps.

Note 9 - Borrowings

Federal Home Loan Bank Advances

The following is a breakdown of our FHLB advances outstanding:

	September 30, 2018		December 31, 2017	
	Amount	Rate	Amount	Rate
	(Dollars in millions)			

Short-term fixed rate term advances	$3,194	2.18%	$4,260	1.40%
Short-term variable adjustable rate (1)	5	2.54%	—	— %
Total Short-term Federal Home Loan Bank advances	3,199		4,260	
Long-term LIBOR adjustable advances	1,130	2.55%	1,130	1.76%
Long-term fixed rate advances (2)	150	1.53%	275	1.41%
Total Long-term Federal Home Loan Bank advances	1,280		1,405	
Total Federal Home Loan Bank advances	$4,479		$5,665	

(1) Includes short-term variable adjustable rate federal funds line of credit.

(2) Includes the current portion of fixed rate advances of $50 million and $125 million at September 30, 2018 and December 31, 2017, respectively.

We are required to maintain a minimum amount of qualifying collateral securing FHLB advances. In the event of default, the FHLB advance is similar to a secured borrowing, whereby the FHLB has the right to sell the pledged collateral to settle the fair value of the outstanding advances.

At September 30, 2018, our Board of Directors authorized and approved a line of credit with the FHLB of up to $10.0 billion, which is further limited based on our total assets and qualified collateral, as determined by the FHLB. At September 30, 2018, we had $4.5 billion of advances outstanding and an additional $2.1 billion of collateralized borrowing capacity available at the FHLB.

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At September 30, 2018, $1.1 billion of the outstanding advances were long-term adjustable rate, with interest rates that reset every three months and are based on the three-month LIBOR index. The advances may be prepaid without penalty, with notification at scheduled three month intervals.

The following table contains detailed information on our FHLB advances and other borrowings:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Maximum outstanding at any month end	$5,085	$5,365	$5,740	$5,365
Average outstanding balance	4,745	5,043	4,996	4,239
Average remaining borrowing capacity	2,165	1,182	1,830	1,297
Weighted average interest rate	2.08 %	1.36 %	1.88 %	1.26 %

The following table outlines the maturity dates of our FHLB advances and other borrowings:

	September 30, 2018
	(Dollars in millions)
2018	$ 3,199
2019	50
2020	—
2021	—
Thereafter	1,230
Total	$ 4,479

Parent Company Senior Notes and Trust Preferred Securities

The following table presents long-term debt, net of debt issuance costs:

	September 30, 2018		December 31, 2017	
	Amount	Interest Rate	Amount	Interest Rate
	(Dollars in millions)			
Senior Notes				
Senior notes, matures 2021	$248	6.125 %	$247	6.125 %
Trust Preferred Securities				
Floating Three Month LIBOR Plus:				
3.25%, matures 2032	$26	5.62 %	$26	4.92 %
3.25%, matures 2033	26	5.59 %	26	4.61 %
3.25%, matures 2033	26	5.59 %	26	4.94 %
2.00%, matures 2035	26	4.34 %	26	3.36 %
2.00%, matures 2035	26	4.34 %	26	3.36 %
1.75%, matures 2035	51	4.08 %	51	3.34 %
1.50%, matures 2035	25	3.84 %	25	2.86 %
1.45%, matures 2037	25	3.78 %	25	3.04 %
2.50%, matures 2037	16	4.83 %	16	4.09 %
Total Trust Preferred Securities	247		247	
Total other long-term debt	$495		$494	

Senior Notes

On July 11, 2016, we issued $250 million of senior notes (“Senior Notes”) which mature on July 15, 2021. The notes are unsecured and rank equally and ratably with the unsecured senior indebtedness of Flagstar Bancorp, Inc.

Prior to June 15, 2021, we may redeem some or all of the Senior Notes at a redemption price equal to the greater of 100 percent of the aggregate principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments discounted to the redemption date on a semi-annual basis using a discount rate equal to the Treasury Rate plus 0.50 percent, plus, in each case accrued and unpaid interest.

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Trust Preferred Securities

We sponsor nine trust subsidiaries, which issued preferred stock to third party investors. We issued trust preferred securities to those trusts, which we include in long-term debt. The trust preferred securities are the sole assets of those trusts. The trust preferred securities are callable by us at any time. Interest is payable quarterly; however, we may defer interest payments for up to 20 quarters without default or penalty. As of September 30, 2018, we had no deferred interest.

Note 10 - Warrants

May Investor Warrant

We granted warrants (the "May Investor Warrants") on January 30, 2009 under anti-dilution provisions applicable to certain investors (the "May Investors") in our May 2008 private placement capital raise.

During the nine months ended September 30, 2017, a total of 237,627 May Investor Warrants were exercised, resulting in the issuance of 154,313 shares of Common Stock. As of September 30, 2018, there were no remaining May Investor Warrants outstanding and the related liability was reduced to zero.

TARP Warrant

On January 30, 2009, in conjunction with the sale of 266,657 shares of TARP Preferred, we issued a warrant to purchase up to approximately 645,138 shares of Common Stock at an exercise price of $62.00 per share (the "Warrant").

The Warrant is exercisable through January 30, 2019 and remains outstanding.

Note 11 - Accumulated Other Comprehensive Income (Loss)

The following table sets forth the components in accumulated other comprehensive income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Investment securities				
Beginning balance	$(56)	$(6)	$(18)	$(8)
Unrealized gain (loss)	(11)	—	(55)	2
Less: Tax provision (benefit)	(2)	—	(13)	1
Net unrealized gain (loss)	(9)	—	(42)	1
Reclassifications out of AOCI (1)	—	1	—	3
Less: Tax provision	—	—	—	1
Net unrealized gain reclassified out of AOCI	—	1	—	2
Reclassification of certain income tax effects (2)	—	—	(5)	—
Other comprehensive income (loss), net of tax	(9)	1	(47)	3
Ending balance	$(65)	$(5)	$(65)	$(5)

Cash Flow Hedges				
Beginning balance	$24	$(3)	$2	$1
Unrealized gain (loss)	—	—	28	(2)
Less: Tax provision (benefit)	—	—	7	(1)
Net unrealized gain (loss)	—	—	21	(1)
Reclassifications out of AOCI (1)	(1)	—	—	(5)
Less: Tax provision (benefit)	—	—	—	(2)
Net unrealized gain (loss) reclassified out of AOCI	(1)	—	—	(3)
Other comprehensive income (loss), net of tax	(1)	—	21	(4)
Ending balance	$23	$(3)	$23	$(3)

(1) Reclassifications are reported in interest expense on the Consolidated Statement of Operations.

(2) Income tax effects of the Tax Cuts and Jobs Act are reclassified from AOCI to retained earnings due to early adoption of ASU 2018-02.

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Note 12 - Earnings Per Share

Basic earnings per share, excluding dilution, is computed by dividing earnings applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock or resulted in the issuance of common stock that could then share in our earnings.

The following table sets forth the computation of basic and diluted earnings per share of common stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions, except share data)			
Net income	$48	$ 40	$133	$ 108
Weighted Average Shares				
Weighted average common shares outstanding	57,600,360	57,162,025	57,483,807	57,062,696
Effect of dilutive securities				
May Investor Warrants	—	—	—	16,383
Stock-based awards	732,238	1,024,568	818,118	1,054,217
Weighted average diluted common shares	58,332,598	58,186,593	58,301,925	58,133,296
Earnings per common share				
Basic earnings per common share	$0.84	$ 0.71	$2.32	$ 1.90
Effect of dilutive securities				
May Investor Warrants	—	—	—	—
Stock-based awards	(0.01)	(0.01)	(0.04)	(0.04)
Diluted earnings per common share	$0.83	$ 0.70	$2.28	$ 1.86

Note 13 - Stock-Based Compensation

We had stock-based compensation expense of $4 million and $8 million for the three and nine months ended September 30, 2018, respectively. For the three and nine months ended September 30, 2017 stock-based compensation expense was $2 million and $8 million, respectively.

Restricted Stock and Restricted Stock Units

The following table summarizes restricted stock and restricted stock units activity:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Shares	Weighted — Average Grant-Date Fair Value per Share	Shares	Weighted — Average Grant-Date Fair Value per Share
Restricted Stock and Restricted Stock Units				
Non-vested balance at beginning of period	1,796,628	$ 27.33	1,290,450	$ 20.52
Granted	—	—	863,342	34.36
Vested	(4,901)	26.73	(239,688)	19.68
Canceled and forfeited	(8,312)	31.23	(130,689)	20.72
Non-vested balance at end of period	1,783,415	$ 27.32	1,783,415	$ 27.32

2017 Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("2017 ESPP") was approved on March 20, 2017 by our Board of Directors ("the Board") and on May 23, 2017 by our shareholders. The 2017 ESPP became effective July 1, 2017 and will remain effective until terminated by the Board. A total of 800,000 shares of the Company’s common stock are reserved and authorized for issuance for purchase under the 2017 ESPP. There were 23,623 and 88,566 shares issued under the 2017 ESPP during the three and nine months ended September 30, 2018, respectively, and the associated compensation expense was de minimis for both periods.

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Note 14 - Income Taxes

The provision for income taxes in interim periods requires us to make a best estimate of the effective tax rate expected to be applicable for the full year, adjusted for any discreet items for the applicable period. This estimated effective tax rate is then applied to interim consolidated pre-tax operating income to determine the interim provision for income taxes. The 2018 effective tax rate includes our assessment of the impact of the Tax Cuts and Jobs Act.

The following table presents our provision for income tax and effective tax provision rate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Provision for income taxes	$12	$20	$33	$52
Effective tax provision rate	20.0%	32.4%	20.1%	32.3%

We believe that it is unlikely that our unrecognized tax benefits will change by a material amount during the next 12 months. We recognize interest and penalties related to unrecognized tax benefits in provision for income taxes.

Note 15 - Regulatory Matters

Regulatory Capital

We, along with the Bank, must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that could have a material effect on the Consolidated Financial Statements. On January 1, 2015, the Basel III rules became effective and included transition provisions through 2018. In preparation for the expected capital simplification rules, the Basel III implementation phase-in has been halted, as the agencies issued a final rule that will maintain the capital rules' 2017 transition provisions for several regulatory capital deductions and certain other requirements that are subject to multi-year phase-in schedules in the regulatory capital rules.

To be categorized as "well-capitalized," the Company and the Bank must maintain minimum tangible capital, Tier 1 capital, common equity Tier 1, and total capital ratios as set forth in the table below. We, along with the Bank, are considered "well-capitalized" at both September 30, 2018 and December 31, 2017.

The following tables present the regulatory capital ratios as of the dates indicated:

Flagstar Bancorp	Actual			For Capital Adequacy Purposes			Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in millions)								
September 30, 2018									
Tangible capital (to adjusted avg. total assets)	$1,540	8.36	%	N/A	N/A		N/A	N/A	
Tier 1 leverage (to adjusted avg. total assets)	1,540	8.36	%	$ 737	4.00	%	$ 921	5.00	%

Common equity Tier 1 capital (to RWA)	1,300	11.01%	532	4.50	%	768	6.50	%
Tier 1 capital (to RWA)	1,540	13.04%	709	6.00	%	945	8.00	%
Total capital (to RWA)	1,677	14.20%	945	8.00	%	1,181	10.00	%
December 31, 2017								
Tangible capital (to adjusted avg. total assets)	$1,442	8.51 %	N/A	N/A		N/A	N/A	
Tier 1 leverage (to adjusted avg. total assets)	1,442	8.51 %	$ 678	4.0	%	$ 848	5.0	%
Common equity Tier 1 capital (to RWA)	1,216	11.50%	476	4.5	%	688	6.5	%
Tier 1 capital (to RWA)	1,442	13.63%	635	6.0	%	846	8.0	%
Total capital (to RWA)	1,576	14.90%	846	8.0	%	1,058	10.0	%

N/A - Not applicable

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Flagstar Bank	Actual		For Capital Adequacy Purposes		Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in millions)					
September 30, 2018						
Tangible capital (to adjusted avg. total assets)	$1,617	8.77 %	N/A	N/A	N/A	N/A
Tier 1 leverage (to adjusted avg. total assets)	1,617	8.77 %	$ 737	4.00 %	$ 922	5.00 %
Common equity tier 1 capital (to RWA)	1,617	13.68 %	532	4.50 %	768	6.50 %
Tier 1 capital (to RWA)	1,617	13.68 %	709	6.00 %	945	8.00 %
Total capital (to RWA)	1,753	14.84 %	945	8.00 %	1,182	10.00 %
December 31, 2017						
Tangible capital (to adjusted avg. total assets)	$1,531	9.04 %	N/A	N/A	N/A	N/A
Tier 1 leverage (to adjusted avg. total assets)	1,531	9.04 %	$ 677	4.0 %	$ 847	5.0 %
Common equity tier 1 capital (to RWA)	1,531	14.46 %	476	4.5 %	688	6.5 %
Tier 1 capital (to RWA)	1,531	14.46 %	635	6.0 %	847	8.0 %
Total capital (to RWA)	1,664	15.72 %	847	8.0 %	1,059	10.0 %

N/A - Not applicable

Note 16 - Legal Proceedings, Contingencies and Commitments

Legal Proceedings

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

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

At September 30, 2018, we do not believe that the amount of any reasonably possible losses in excess of any amounts accrued with respect to ongoing proceedings or any other known claims will be material to our financial statements, or that the ultimate outcome of these actions will have a material adverse effect on our financial condition, results of operations or cash flows.

DOJ litigation settlement

In 2012, the Bank entered into a Settlement Agreement with the DOJ which meets the definition of a financial liability (the "DOJ Liability").

In accordance with the Settlement Agreement, we made an initial payment of $15 million and agreed to make future annual payments totaling $118 million in annual increments of up to $25 million upon meeting all conditions, which are evaluated quarterly and include: (a) the reversal of the DTA valuation allowance, which occurred at the end of 2013; (b) the repayment of the Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the "TARP Preferred"), which occurred in the third quarter of 2016; and (c) the Bank’s Tier 1 Leverage Capital Ratio equals 11 percent or greater as filed in the Call Report with the OCC.

No payment would be required until six months after the Bank files its Call Report with the OCC first reporting that its Tier 1 Leverage Capital Ratio was 11 percent or greater. If all other conditions were then satisfied, an initial annual payment would be due at that time. The next annual payment is only made if such other conditions continue to be satisfied, otherwise payments are delayed until all such conditions are met. Further, making such a payment must not violate any material banking regulatory requirement, and the OCC must not object in writing.

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Consistent with our business and regulatory requirements, Flagstar shall seek in good faith to fulfill the conditions, and will not undertake any conduct or fail to take any action the purpose of which is to frustrate or delay our ability to fulfill any of the above conditions.

Additionally, if the Bank and Bancorp become party to a business combination in which the Bank or Bancorp represent less than 33.3 percent of the resulting company's assets, annual payments must commence twelve months after the date of that business combination.

The Settlement Agreement meets the definition of a financial instrument for which we elected the fair value option. We consider the assumptions a market participant would make to transfer the liability and evaluate the potential ways we might satisfy the Settlement Agreement and our estimates of the likelihood of these outcomes, which may change over time. The fair value of the liability is subject to significant uncertainty and is impacted by forecasted estimates of the timing of potential payments, which are impacted by estimates of equity, earnings, timing and amount of dividends and growth of the balance sheet and their related impacts on forecasted Tier 1 Leverage Capital Ratio. For further information on the fair value of the liability, see Note 17 - Fair Value Measurements.

Other litigation accruals

At both September 30, 2018 and December 31, 2017, excluding the fair value liability relating to the DOJ litigation settlement, our total accrual for contingent liabilities and settled litigation was $1 million.

Commitments

The following table is a summary of the contractual amount of significant commitments:

	September 30, 2018	December 31, 2017
	(Dollars in millions)	
Commitments to extend credit		
Mortgage loans interest-rate lock commitments	$3,567	$ 3,667
Warehouse loan commitments	2,422	1,618
Commercial and industrial commitments	728	695
Other commercial commitments	1,063	1,021
HELOC commitments	395	283
Other consumer commitments	123	15
Standby and commercial letters of credit	66	50

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements. Commitments generally have fixed expiration dates or other termination clauses. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us, upon extension of credit is based on management's credit evaluation of the counterparties.

These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the Consolidated Statements of Financial Condition. Our exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. We utilize the same credit policies in making commitments and conditional obligations as we do for balance sheet instruments. The types of credit we extend are as follows:

Mortgage loan interest-rate lock commitments. We enter into mortgage interest-rate lock commitments with our customers. These commitments are considered to be derivative instruments and the fair value of these commitments is recorded in the Consolidated Statements of Financial Condition in other assets. For further information, see Note 8 - Derivative Financial Instruments.

Warehouse loan commitments. Lines of credit provided to mortgage originators to fund loans they originate and then sell. The proceeds of the sale of the loans are used to repay the draw on the line used to fund the loans. See Note 1 - Basis for Presentation, for further information on our mortgage loan warehouse business acquisition.

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Commercial and industrial and other commercial commitments. Conditional commitments issued under various terms to lend funds to business and other entities. These commitments include revolving credit agreements, term loan commitments and short-term borrowing agreements. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

HELOC commitments. Commitments to extend, originate or purchase credit are primarily lines of credit to consumers and have specified rates and maturity dates. Many of these commitments also have adverse change clauses, which allow us to cancel the commitment due to deterioration in the borrowers' creditworthiness or a decline in the collateral value.

Other consumer commitments. Conditional commitments issued to accommodate the financial needs of customers. The commitments are under various terms to lend funds to consumers, which include revolving credit agreements, term loan commitments and short-term borrowing agreements.

Standby and commercial letters of credit. Conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party. Financial standby letters of credit irrevocably obligate the bank to pay a third party beneficiary when a customer fails to repay an outstanding loan or debt instrument.

We maintain a reserve for the estimate of probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unfunded loans with available balances, new commitments to lend that are not yet funded, and standby and commercial letters of credit. A reserve balance of $3 million at both September 30, 2018 and December 31, 2017, is reflected in other liabilities on the Consolidated Statements of Financial Condition.

Note 17 - Fair Value Measurements

We utilize fair value measurements to record or disclose the fair value on certain assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, we use present value techniques and other valuation methods to estimate the fair values of our financial instruments. These valuation models rely on market-based parameters when available, such as interest rate yield curves or credit spreads. Unobservable inputs may be based on management's judgment, assumptions and estimates related to credit quality, our future earnings, interest rates and other relevant inputs. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. For further information see the Fair Value Measurements section of Item 7 of Exhibit 99.1 to our June 1, 2018 Form 8-K Report.

Valuation Hierarchy

U.S. GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The hierarchy is based on the transparency of the inputs used in the valuation process with the highest priority given to quoted prices available in active markets and the lowest priority to unobservable inputs where no active market exists, as discussed below.

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets in which we can participate as of the measurement date;

Level 2 - Quoted prices for similar instruments in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 - Unobservable inputs that reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the overall fair value measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the financial instruments carried at fair value by caption on the Consolidated Statement of Financial Condition and by level in the valuation hierarchy.

	September 30, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Investment securities available-for-sale				
Agency - Commercial	$ —	$ 1,094	$ —	$ 1,094
Agency - Residential	—	674	—	674
Municipal obligations	—	32	—	32
Corporate debt obligations	—	41	—	41
Other MBS	—	16	—	16
Loans held-for-sale				
Residential first mortgage loans	—	4,815	—	4,815
Loans held-for-investment				
Residential first mortgage loans	—	8	—	8
Home equity	—	—	3	3
Mortgage servicing rights	—	—	313	313
Derivative assets				
Rate lock commitments (fallout-adjusted)	—	—	20	20
Mortgage-backed securities forwards	—	19	—	19
Interest rate swaps and swaptions	—	23	—	23
Total assets at fair value	$ —	$ 6,722	$ 336	$ 7,058
Derivative liabilities				
Rate lock commitments (fallout-adjusted)	$ —	$ —	$ (1)	$ (1)
Mortgage backed securities forwards	—	(6)	—	(6)
Interest rate swaps	—	(13)	—	(13)
DOJ litigation settlement	—	—	(60)	(60)
Contingent consideration	—	—	(11)	(11)
Total liabilities at fair value	$ —	$ (19)	$ (72)	$ (91)

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	December 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Investment securities available-for-sale				
Agency - Commercial	$—	$987	$—	$987
Agency - Residential	—	794	—	794
Municipal obligations	—	34	—	34
Corporate debt obligations	—	38	—	38
Loans held-for-sale				
Residential first mortgage loans	—	4,300	—	4,300
Loans held-for-investment				
Residential first mortgage loans	—	8	—	8
Home equity	—	—	4	4
Mortgage servicing rights	—	—	291	291
Derivative assets				
Rate lock commitments (fallout-adjusted)	—	—	24	24
Mortgage-backed securities forwards	—	4	—	4
Interest rate swaps and swaptions	—	11	—	11
Total assets at fair value	$—	$6,176	$319	$6,495
Derivative liabilities				
Interest rate swap on FHLB advances	$—	$(1)	$—	$(1)
Mortgage-backed securities forwards	—	(6)	—	(6)
Interest rate swaps	—	(4)	—	(4)
DOJ litigation settlement	—	—	(60)	(60)
Contingent consideration	—	—	(25)	(25)
Total liabilities at fair value	$—	$(11)	$(85)	$(96)

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2018.

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Fair Value Measurements Using Significant Unobservable Inputs

The following tables include a roll forward of the Consolidated Statements of Financial Condition amounts (including the change in fair value) for financial instruments classified by us within Level 3 of the valuation hierarchy:

	Balance at Beginning of Period	Total Gains (Losses) Recorded in Earnings (1)	Purchases / Originations	Sales	Settlements	Transfers In (Out)	Balance at End of Period
	(Dollars in millions)						
Three Months Ended September 30, 2018							
Assets							
Loans held-for-investment							
Home equity	$3	$ —	$ —	$—	$ —	$ —	$ 3
Mortgage servicing rights (2)	257	7	100	(51)	—	—	313
Rate lock commitments (net) (2)(3)	32	(5)	60	—	—	(68)	19
Totals	$292	$ 2	$ 160	$(51)	$ —	$ (68)	$ 335
Liabilities							
DOJ litigation settlement	$(60)	$ —	$ —	$—	$ —	$ —	$ (60)
Contingent consideration	(18)	3	—	—	4	—	(11)
Totals	$(78)	$ 3	$ —	$—	$ 4	$ —	$ (71)
Three Months Ended September 30, 2017							
Assets							
Loans held-for-investment							
Home equity	$5	$ —	$ —	$—	$ (1)	$ —	$ 4
Mortgage servicing rights (2)	184	(9)	75	(4)	—	—	246
Rate lock commitments (net) (2)(3)	26	21	82	—	—	(97)	32
Totals	$215	$ 12	$ 157	$(4)	$ (1)	$ (97)	$ 282
Liabilities							
DOJ litigation settlement	$(60)	$ —	$ —	$—	$ —	$ —	$ (60)
Contingent consideration	(23)	(1)	(2)	—	—	—	(26)
Totals	$(83)	$ (1)	$ (2)	$—	$ —	$ —	$ (86)

(1) There were no unrealized gains (losses) recorded in OCI during the three months ended September 30, 2018 and 2017.

(2) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with mortgage servicing rights and rate lock commitments. Gains and losses for individual lines do not reflect the effect of our risk management activities related to such Level 3 instruments.

(3) Rate lock commitments are reported on a fallout adjusted basis. Transfers out of Level 3 represent the settlement value of the commitments that are transferred to LHFS, which are classified as Level 2 assets.

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	Balance at Beginning of Period	Total Gains (Losses) Recorded in Earnings (1)	Purchases / Originations	Sales	Settlements	Transfers In (Out)	Balance at End of Period
	(Dollars in millions)						
Nine Months Ended September 30, 2018							
Assets							
Loans held-for-investment							
Home equity	$4	$ —	$ —	$—	$ (1)	$ —	$ 3
Mortgage servicing rights (2)	291	12	283	(273)	—	—	313
Rate lock commitments (net) (2)(3)	24	(37)	191	—	—	(159)	19
Totals	$319	$ (25)	$ 474	$(273)	$ (1)	$ (159)	$ 335
Liabilities							
DOJ litigation settlement	$(60)	$ —	$ —	$—	$ —	$ —	$ (60)
Contingent consideration	(25)	8	—	—	6	—	(11)
Totals	$(85)	$ 8	$ —	$—	$ 6	$ —	$ (71)
Nine Months Ended September 30, 2017							
Assets							
Loans held-for-sale							
Home equity	$—	$ 1	$ —	$(52)	$ (1)	$ 52	$ —
Loans held-for-investment							
Home equity	65	1	—	—	(7)	(55)	4
Mortgage servicing rights (2)	335	(7)	178	(260)	—	—	246
Rate lock commitments (net) (2)(3)	18	55	199	—	—	(240)	32
Totals	$418	$ 50	$ 377	$(312)	$ (8)	$ (243)	$ 282
Liabilities							
DOJ litigation settlement	$(60)	$ —	$ —	$—	$ —	$ —	$ (60)
Contingent consideration	—	(1)	(25)	—	—	—	(26)
Totals	$(60)	$ (1)	$ (25)	$—	$ —	$ —	$ (86)

(1) There were no unrealized gains (losses) recorded in OCI during the nine months ended September 30, 2018 and 2017.

(2) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with mortgage servicing rights and rate lock commitments. Gains and losses for individual lines do not reflect the effect of our risk management activities related to such Level 3 instruments.

(3) Rate lock commitments are reported on a fallout adjusted basis. Transfers out of Level 3 represent the settlement value of the commitments that are transferred to LHFS, which are classified as Level 2 assets.

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The following tables present the quantitative information about recurring Level 3 fair value financial instruments and the fair value measurements as of:

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(Dollars in millions)			
September 30, 2018				
Assets				
Loans held-for-investment				
Home equity	$3	Discounted cash flows	Discount rate Constant prepayment rate Constant default rate	7.2% - 10.8% (9.0%) 15.3% - 22.9% (19.1%) 3.0% - 4.5% (3.6%)
Mortgage servicing rights	$313	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	2.1% -25.3% (5.0%) 0% - 10.6% (9.0%) $67 - $95 ($81)
Rate lock commitments (net)	$19	Consensus pricing	Origination pull-through rate	79.8% - 87.2% (81.3%)
Liabilities				
DOJ litigation settlement	$(60)	Discounted cash flows	Discount rate Asset growth rate	7.2% - 10.8% (9.0%) 4.2% - 17.5% (6.3%)
Contingent consideration	$(11)	Discounted cash flows	Beta Equity volatility	0.6 - 1.6 (1.1) 26.6% - 58.9% (40.0%)

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(Dollars in millions)			
December 31, 2017				
Assets				
Loans held-for-investment				
Home equity	$4	Discounted cash flows	Discount rate Constant prepayment rate Constant default rate	7.2% - 10.8% (9.0%) 5.1% - 7.7% (6.4%) 3.0% - 4.5% (3.6%)
Mortgage servicing rights	$291	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	5.0% - 7.5% (6.3%) 8.0% - 11.8% (9.9%) $58 - $87 ($73)
Rate lock commitments (net)	$24	Consensus pricing	Origination pull-through rate	64.7% - 97.1% (82.0%)
Liabilities				
DOJ litigation settlement	$(60)	Discounted cash flows	Discount rate Asset growth rate	7.8% - 11.7% (9.7%) 5.6% - 17.4% (6.3%)
Contingent consideration	$(25)	Discounted cash flows	Beta Equity volatility	0.6 - 1.6 (1.1) 26.6% - 58.9% (40.0%)

Recurring Significant Unobservable Inputs

Home equity. The significant unobservable inputs used in the fair value measurement of the home equity loans are discount rates, constant prepayment rates, and default rates. The constant prepayment and default rates are based on a 12 month historical average. Significant increases (decreases) in the discount rate in isolation would result in a significantly lower (higher) fair value measurement. Increases (decreases) in prepayment rates in isolation result in a higher (lower) fair value and increases (decreases) in default rates in isolation result in a lower (higher) fair value.

MSRs. The significant unobservable inputs used in the fair value measurement of the MSRs are option adjusted spreads, prepayment rates, and cost to service. Significant increases (decreases) in all three assumptions in isolation would result in a significantly lower (higher) fair value measurement. Weighted average life (in years) is used to determine the change in fair value of MSRs. For September 30, 2018 and December 31, 2017 the weighted average life (in years) for the entire MSR portfolio was 6.1 and 6.0, respectively.

DOJ litigation settlement. The significant unobservable input used in the fair value measurement of the DOJ litigation settlement are the discount rate and asset growth rate, in addition to those assumptions discussed in Note 16 - Legal Proceedings, Contingencies and Commitments. Significant increases (decreases) in the discount rate or asset growth rate in isolation may result in a marginally lower (higher) fair value measurement. For further information on the fair value inputs related to the DOJ litigation settlement, see Note 16 - Legal Proceedings, Contingencies, and Commitments.

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Rate lock commitments. The significant unobservable input used in the fair value measurement of the rate lock commitments is the pull-through rate. The pull-through rate is a statistical analysis of our actual rate lock fallout history to determine the sensitivity of the residential mortgage loan pipeline compared to interest rate changes and other deterministic values. New market prices are applied based on updated loan characteristics and new fallout ratios (i.e., the inverse of the pull-through rate) are applied accordingly. Significant increases (decreases) in the pull-through rate in isolation would result in a significantly higher (lower) fair value measurement.

Contingent consideration. The significant unobservable input used in the fair value of the contingent consideration is future forecasted target production volumes and profitability of the division. An increase or decrease to these inputs results in an increase or decrease of the liability. Other unobservable inputs include Beta and volatility which drive the risk adjusted discount rate utilized in a Monte Carlo simulation. Increases (decreases) in these inputs results in a lower (higher) to the liability.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We also have assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis.

The following table presents assets measured at fair value on a nonrecurring basis:

	Total (1)	Level 2	Level 3	Gains (Losses)
	(Dollars in millions)			
September 30, 2018				
Loans held-for-sale (2)	$6	$ 6	$ —	$ (1)
Impaired loans held-for-investment (2)				
Residential first mortgage loans	12	—	12	(5)
Repossessed assets (3)	7	—	7	(3)
Totals	$25	$ 6	$ 19	$ (9)
December 31, 2017				
Loans held-for-sale (2)	$6	$ 6	$ —	$ (1)
Impaired loans held-for-investment (2)				
Residential first mortgage loans	21	—	21	(10)
Repossessed assets (3)	8	—	8	(4)
Totals	$35	$ 6	$ 29	$ (15)

(1) The fair values are determined at various dates during the three months ended September 30, 2018 and the year ended December 31, 2017, respectively.
(2) Gains (losses) reflect fair value adjustments on assets for which we did not elect the fair value option.
(3) Gains (losses) reflect write downs of repossessed assets based on the estimated fair value of the specific assets.

The following tables present the quantitative information about nonrecurring Level 3 fair value financial instruments and the fair value measurements:

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(Dollars in millions)			
September 30, 2018				
Impaired loans held-for-investment				
Loans held-for-investment	$12	Fair value of collateral	Loss severity discount	25% - 30% (28.3%)
Repossessed assets	$7	Fair value of collateral	Loss severity discount	0% - 100% (26.4%)
December 31, 2017				
Impaired loans held-for-investment				

Loans held-for-investment	$21	Fair value of collateral	Loss severity discount	25% - 30% (27.9%)
Repossessed assets	$8	Fair value of collateral	Loss severity discount	0% - 100% (70.9%)

Nonrecurring Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the impaired loans and repossessed assets are appraisals or other third-party price evaluations which incorporate measures such as recent sales prices for comparable properties.

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Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of financial instruments that are carried either at fair value, cost, or amortized cost:

	September 30, 2018				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	$264	$264	$264	$—	$ —
Investment securities available-for-sale	1,857	1,857	—	1,857	—
Investment securities held-to-maturity	724	690	—	690	—
Loans held-for-sale	4,835	4,836	—	4,836	—
Loans held-for-investment	8,966	8,839	—	8	8,831
Loans with government guarantees	305	274	—	274	—
Mortgage servicing rights	313	313	—	—	313
Federal Home Loan Bank stock	303	303	—	303	—
Bank owned life insurance	338	338	—	338	—
Repossessed assets	7	7	—	—	7
Other assets, foreclosure claims	58	58	—	58	—
Derivative financial instruments, assets	62	62	—	42	20
Liabilities					
Retail deposits					
Demand deposits and savings accounts	$(5,469)	$(4,891)	$—	$(4,891)	$ —
Certificates of deposit	(2,208)	(2,199)	—	(2,199)	—
Wholesale deposits	(653)	(651)	—	(651)	—
Government deposits	(1,466)	(1,421)	—	(1,421)	—
Custodial deposits	(1,793)	(1,709)	—	(1,709)	—
Federal Home Loan Bank advances	(4,479)	(4,463)	—	(4,463)	—
Long-term debt	(495)	(459)	—	(459)	—
DOJ litigation settlement	(60)	(60)	—	—	(60)
Contingent consideration	(11)	(11)	—	—	(11)
Derivative financial instruments, liabilities	(20)	(20)	—	(19)	(1)

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	December 31, 2017				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	$204	$204	$204	$—	$ —
Investment securities available-for-sale	1,853	1,853	—	1,853	—
Investment securities held-to-maturity	939	924	—	924	—
Loans held-for-sale	4,321	4,322	—	4,322	—
Loans held-for-investment	7,713	7,667	—	8	7,659
Loans with government guarantees	271	261	—	261	—
Mortgage servicing rights	291	291	—	—	291
Federal Home Loan Bank stock	303	303	—	303	—
Bank owned life insurance	330	330	—	330	—
Repossessed assets	8	8	—	—	8
Other assets, foreclosure claims	84	84	—	84	—
Derivative financial instruments, assets	39	39	—	15	24
Liabilities					
Retail deposits					
Demand deposits and savings accounts	$(5,003)	$(4,557)	$—	$(4,557)	$ —
Certificates of deposit	(1,494)	(1,498)	—	(1,498)	—
Wholesale deposits	(43)	(43)	—	(43)	—
Government deposits	(1,073)	(1,048)	—	(1,048)	—
Custodial deposits	(1,321)	(1,311)	—	(1,311)	—
Federal Home Loan Bank advances	(5,665)	(5,662)	—	(5,662)	—
Long-term debt	(494)	(417)	—	(417)	—
DOJ litigation settlement	(60)	(60)	—	—	(60)
Contingent consideration	(25)	(25)	—	—	(25)
Derivative financial instruments, liabilities	(11)	(11)	—	(11)	—

Fair Value Option

We elected the fair value option for certain items as discussed throughout the Notes to the Consolidated Financial Statements to more closely align the accounting method with the underlying economic exposure. Interest income on LHFS is accrued on the principal outstanding primarily using the "simple-interest" method.

The following table reflects the change in fair value included in earnings of financial instruments for which the fair value option has been elected:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Assets				
Loans held-for-sale				
Net gain on loan sales	$7	$ 92	$(61)	$260

Loans held-for-investment
Other noninterest income $—$ — $— $1

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The following table reflects the difference between the aggregate fair value and aggregate remaining contractual principal balance outstanding for assets and liabilities for which the fair value option has been elected:

	September 30, 2018			December 31, 2017		
	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) Unpaid Principal Balance	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) Unpaid Principal Balance
	(Dollars in millions)					
Assets						
Nonaccrual loans						
Loans held-for-sale	$7	$7	$ —	$6	$5	$ (1)
Loans held-for-investment	5	4	(1)	5	4	(1)
Total nonaccrual loans	$12	$11	$ (1)	$11	$9	$ (2)
Other performing loans						
Loans held-for-sale	$4,692	$4,808	$ 116	$4,167	$4,295	$ 128
Loans held-for-investment	8	7	(1)	10	8	(2)
Total other performing loans	$4,700	$4,815	$ 115	$4,177	$4,303	$ 126
Total loans						
Loans held-for-sale	$4,699	$4,815	$ 116	$4,173	$4,300	$ 127
Loans held-for-investment	13	11	(2)	15	12	(3)
Total loans	$4,712	$4,826	$ 114	$4,188	$4,312	$ 124
Liabilities						
Litigation settlement (1)	$(118)	$(60)	$ 58	$(118)	$(60)	$ 58

(1) We are obligated to pay $118 million in installment payments upon meeting certain performance conditions, as described in Note 16 - Legal Proceedings, Contingencies and Commitments.

Note 18 - Segment Information

Our operations are conducted through three operating segments: Community Banking, Mortgage Originations, and Mortgage Servicing. The Other segment includes the remaining reported activities. Operating segments are defined as components of an enterprise that engage in business activity from which revenues are earned and expenses incurred for which discrete financial information is available that is evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The operating segments have been determined based on the products and services offered and reflect the manner in which financial information is currently evaluated by management. Each segment operates under the same banking charter, but is reported on a segmented basis for this report. Each of the operating segments is complementary to each other and because of the interrelationships of the segments, the information presented is not indicative of how the segments would perform if they operated as independent entities.

Effective January 1, 2018, the following changes were made with offsetting adjustments included in the Other segment to reconcile to the Consolidated Statements of Operations: 1) operating leases in Community Banking are reflected as loans by reclassifying rental income and depreciation expense to net interest income, and 2) the interest expense on custodial deposits on third party sub-servicing contracts, recognized in the Mortgage Servicing segment as loan administration income, is now reflected as a component of net interest income. Prior period segment financial information, related to these changes, has been recast to conform to the current presentation.

The Community Banking segment originates loans, provides deposits and fee based services to consumer, business, and mortgage lending customers through its Branch Banking, Business Banking and Commercial Banking, Government Banking, Warehouse Lending and LHFI Portfolio groups. Products offered through these groups include checking accounts, savings accounts, money market accounts, certificates of deposit, consumer loans, commercial loans, commercial real estate loans, equipment finance and leasing, home builder finance loans and warehouse lines of credit. Other financial services available include consumer and corporate card services, customized treasury management solutions, merchant services and capital markets services such as loan syndications, and wealth management products and services.

The Mortgage Originations segment originates and acquires one-to-four family residential mortgage loans to sell or hold on our balance sheet. Loans originated-to-sell, comprise the majority of the lending activity. These loans are originated through mortgage branches, call centers, the Internet and third party counterparties. The resulting gains from sales associated

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with these loans are recognized in the Mortgage Originations segment whereas the interest income on LHFI is recognized in the Community Banking segment.

The Mortgage Servicing segment services and subservices mortgage loans for others on a fee for service basis and may also collect ancillary fees and earn income through the use of noninterest-bearing escrows. Revenue for those serviced and subserviced loans is earned on a contractual fee basis, with the fees varying based on our responsibilities and the status of the underlying loans. The Mortgage Servicing segment also provides servicing of residential mortgages for our own LHFI portfolio in the Community Banking segment and our own LHFS portfolio in the Mortgage Originations segment, for which it earns revenue via an intercompany service fee allocation.

The Other segment includes the treasury functions, which include, the impact of interest rate risk management, balance sheet funding activities and the administration of the investment securities portfolios, as well as miscellaneous other expenses of a corporate nature. In addition, the Other segment includes revenue and expenses related to treasury and corporate assets and liabilities and equity not directly assigned or allocated to the Mortgage Originations, Mortgage Servicing or Community Banking operating segments.

Revenues are comprised of net interest income (before the provision (benefit) for loan losses) and noninterest income. Noninterest expenses and provision (benefit) for income taxes are fully allocated to each operating segment. Allocation methodologies may be subject to periodic adjustment as the internal management accounting system is revised and the business or product lines within the segments change.

The following tables present financial information by business segment for the periods indicated:

	Three Months Ended September 30, 2018				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$81	$ 36	$ 2	$5	$124
Net gain (loss) on loan sales	(3)	46	—	—	43
Other noninterest income	10	30	24	—	64
Total net interest income and noninterest income	88	112	26	5	231
(Provision) benefit for loan losses	(1)	—	—	3	2
Compensation and benefits	(17)	(26)	(4)	(29)	(76)
Other noninterest expense and directly allocated overhead	(27)	(41)	(18)	(11)	(97)
Total noninterest expense	(44)	(67)	(22)	(40)	(173)
Income (loss) before indirect overhead allocations and income taxes	43	45	4	(32)	60
Provision (benefit) for income taxes	7	6	—	(1)	12
Overhead allocations	(9)	(16)	(5)	30	—
Net income (loss)	$27	$ 23	$ (1)	$(1)	$48
Intersegment (expense) revenue	$1	$ 4	$ 5	$(10)	$—
Average balances					
Loans held-for-sale	$10	$ 4,383	$ —	$—	$4,393
Loans with government guarantees	—	292	—	—	292
Loans held-for-investment (2)	8,868	11	—	29	8,908
Total assets	9,028	5,676	29	3,878	18,611
Deposits	9,170	—	2,072	94	11,336

(1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and custodial deposits for subservicing clients.

(2) Includes adjustment made to reclassify operating lease assets to loans held-for-investment.

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	Three Months Ended September 30, 2017				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$63	$ 34	$ 4	$ 2	$103
Net gain (loss) on loan sales	(4)	79	—	—	75
Other noninterest income	8	27	14	6	55
Total net interest income and noninterest income	67	140	18	8	233
(Provision) benefit for loan losses	(1)	(1)	—	—	(2)
Compensation and benefits	(15)	(28)	(4)	(29)	(76)
Other noninterest expense and directly allocated overhead	(25)	(49)	(13)	(8)	(95)
Total noninterest expense	(40)	(77)	(17)	(37)	(171)
Income (loss) before indirect overhead allocations and income taxes	26	62	1	(29)	60
Provision (benefit) for income taxes	6	16	(1)	(1)	20
Overhead allocations	(10)	(15)	(6)	31	—
Net income (loss)	$10	$ 31	$ (4)	$ 3	$40
Intersegment (expense) revenue	$(4)	$ 2	$ 5	$ (3)	$—
Average balances					
Loans held-for-sale	$14	$ 4,462	$ —	$ —	$4,476
Loans with government guarantees	—	264	—	—	264
Loans held-for-investment (2)	6,789	10	—	29	6,828
Total assets	6,843	5,743	30	3,823	16,439
Deposits	7,498	—	1,507	—	9,005

(1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and custodial deposits for subservicing clients.

(2) Includes adjustment made to reclassify operating lease assets to loans held-for-investment.

	Nine Months Ended September 30, 2018				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$231	$ 100	$ 5	$9	$345
Net gain (loss) on loan sales	(10)	176	—	—	166
Other noninterest income	27	76	65	7	175
Total net interest income and noninterest income	248	352	70	16	686
(Provision) benefit for loan losses	(2)	(1)	—	6	3
Compensation and benefits	(51)	(83)	(13)	(89)	(236)
Other noninterest expense and directly allocated overhead	(81)	(129)	(49)	(28)	(287)
Total noninterest expense	(132)	(212)	(62)	(117)	(523)
Income (loss) before indirect overhead allocations and income taxes	114	139	8	(95)	166
Provision (benefit) for income taxes	18	18	(2)	(1)	33
Overhead allocations	(29)	(51)	(15)	95	—
Net income (loss)	$67	$ 70	$ (5)	$1	$133
Intersegment (expense) revenue	$(1)	$ 6	$ 14	$(19)	$—
Average balances					
Loans held-for-sale	$11	$ 4,254	$ —	$—	$4,265

Loans with government guarantees	—	288	—	—	288
Loans held-for-investment (2)	8,250	9	—	29	8,288
Total assets	8,425	5,477	30	3,902	17,834
Deposits	8,581	—	1,800	—	10,381

(1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and custodial deposits for subservicing clients.

(2) Includes adjustment made to reclassify operating lease assets to loans held-for-investment.

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	Nine Months Ended September 30, 2017				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$171	$ 96	$ 9	$7	$283
Net gain (loss) on loan sales	(7)	196	—	—	189
Other noninterest income	22	77	47	11	157
Total net interest income and noninterest income	186	369	56	18	629
(Provision) benefit for loan losses	(3)	(3)	—	2	(4)
Compensation and benefits	(46)	(72)	(12)	(89)	(219)
Other noninterest expense and directly allocated overhead	(67)	(114)	(45)	(20)	(246)
Total noninterest expense	(113)	(186)	(57)	(109)	(465)
Income (loss) before indirect overhead allocations and income taxes	70	180	(1)	(89)	160
Provision (benefit) for income taxes	14	47	(6)	(3)	52
Overhead allocations	(30)	(46)	(17)	93	—
Net income (loss)	$26	$ 87	$ (12)	$7	$108
Intersegment (expense) revenue	$(5)	$ 3	$ 14	$(12)	$—
Average balances					
Loans held-for-sale	$16	$ 3,998	$ —	$—	$4,014
Loans with government guarantees	—	300	—	—	300
Loans held-for-investment (2)	6,201	7	—	29	6,237
Total assets	6,262	5,307	36	3,801	15,406
Deposits	7,438	—	1,409	—	8,847

(1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and custodial deposits for subservicing clients.

(2) Includes adjustment made to reclassify operating lease assets to loans held-for-investment.

Note 19 - Recently Issued Accounting Pronouncements

Adoption of New Accounting Standards

We adopted the following accounting standard updates (ASU) during 2018, none of which had a material impact to our financial statements:

Standard	Description	Effective Date
ASU 2018-03	Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Update to 2016-01	January 1, 2018
ASU 2018-02	Income Statement-Reporting Comprehensive Income (Topic 220); Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	January 1, 2019
ASU 2017-09	Update 2017-09—Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	January 1, 2018
ASU 2017-05	Other Income - Gains and Losses from the De-recognition of Non-financial Assets (Subtopic 610-20): Clarifying the Scope of Asset De-recognition Guidance and Accounting for Partial Sales of Non-financial Assets	January 1, 2018
ASU 2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business	January 1, 2018
	Statement of Cash Flows (Topic 230): Restricted Cash	

ASU 2016-18		January 1, 2018
ASU 2016-16	Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	January 1, 2018
ASU 2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	January 1, 2018
ASU 2016-01	Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018

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Accounting Standards Adopted which had a Material Impact

The following ASUs have been adopted which impact our significant accounting policies and/or have a significant financial impact:

Revenue from Contracts with Customers - In May 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under the amended guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration in exchange for those goods or services.

Effective January 1, 2018, we have adopted the requirements of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all related amendments. We have implemented the guidance utilizing the modified retrospective approach which did not have a material impact on the Company's financial position or results of operations. As lease contracts and financial instruments, which include loans and securities, are excluded from the scope of this standard, the majority our revenue falls outside of the scope of Topic 606.

The adoption of this guidance does not result in changes to how revenue is recognized or the timing of recognition from our method prior to adoption. Revenue is recognized when obligations, under the terms of a contract with our customer, are satisfied, which generally occurs when services are performed. Revenue is measured as the amount of consideration we expect to receive in exchange for providing services.

The disaggregation of our revenue from contracts with customers is provided below.

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location of Revenue (1)	2018	2017	2018	2017
		(Dollars in millions)			
Deposit account and other banking income	Deposit fees and charges	$4	$ 4	$ 12	$ 11
Interchange fees	Deposit fees and charges	1	1	3	3
Interchange fees	Other noninterest income	—	1	1	1
Wealth management	Other noninterest income	3	2	7	5
Total		$8	$ 8	$ 23	$ 20

(1) Recognized within the Community Banking segment.

Deposit account and other banking income - We charge depositors various deposit account service fees including those for outgoing wires, overdrafts, stop payments, and ATM fees. These fees are generated from a depositor’s option to purchase services offered under the contract and are only considered a contract when the depositor exercises their option to purchase these account services. Therefore we deem the term of our contracts with depositors to be day-to-day and do not extend beyond the services already provided. Deposit account and other banking fees are recorded at the point in time we perform the requested service.

Interchange income - We collect interchange fee income when debit cards that we have issued to our customers, are used in merchant transactions. Our performance obligation is satisfied and revenue is recognized at the point we initiate the payment of funds from a customer’s account to a merchant account.

Merchant fee income - We receive a percentage of merchant fees based upon card transactions processed through point of sale terminals at referred merchant locations. Our performance obligation is satisfied when our referral of a merchant to a payment processing vendor results in an executed agreement between the merchant and the vendor. Merchant fee revenue is recognized as received. Merchant fee income was less than $1 million for the three and nine months ended September 30, 2018 and September 30, 2017.

Wealth management revenue - We earn commission income through a revenue share program based on a tiered percentage of total gross commissions generated from the sales of investment and insurance services to Flagstar customers. Commissions are earned and our performance obligation has been satisfied at the point of sale or trade execution. Our portion of earned commissions is calculated, paid and recognized as revenue on a monthly basis.

We also receive revenue from portfolio management services. We receive payment for portfolio management services in advance at beginning of each quarter for services to be performed over the quarter which results an insignificant revenue liability. We recognize this revenue over the quarter on a straight-line basis, as we believe this is the most appropriate method to measure progress towards satisfaction of the performance obligation.

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Derivatives and Hedging - In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments were designed to more closely align hedge accounting requirements with users' risk management strategies. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Company has early adopted this ASU during the first quarter of 2018. The guidance provides a broader range of hedge accounting opportunities and simplifies documentation requirements for our existing cash flow hedge relationships. In conjunction with adoption of this ASU, the Company elected to transfer $144 million of investment securities from HTM to AFS during the first quarter of 2018, as permitted by the standard, which resulted in a de minimis impact to AOCI.

Accounting Standards Issued But Not Yet Adopted

The following ASUs have been issued and are expected to result in a significant change to our significant accounting policies and/or have a significant financial impact:

Credit Losses - In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The ASU alters the current method for recognizing credit losses within the reserve account. Currently, we use the incurred loss method, whereas the new guidance requires financial assets to be presented at the net amount expected to be collected (i.e., net of expected credit losses). The measurement of expected credit losses should be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019.

Our cross-functional implementation team has developed a project plan that results in running a CECL parallel production in the second half of 2019 and the adoption of the standard in the first quarter of 2020. We are currently evaluating the impact the adoption of the guidance will have on our Consolidated Financial Statements, and highlight that any impact will be contingent upon the underlying characteristics of the affected portfolio and macroeconomic and internal forecasts at adoption date. We do not expect any material allowance on held to maturity securities since the majority of this portfolio consists of agency-backed securities that inherently have an immaterial risk of loss.

Leases - In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes Topic 840. The guidance requires lessees to recognize substantially all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting. ASU 2016-02 is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. Additional guidance per ASU 2018-11 provides the practical expedient of forgoing the restatement of comparative periods and we intend on exercising this option. Upon adoption and implementation, we expect to gross up assets and liabilities due to the recognition of lease liabilities and right-of-use assets associated with the underlying lease contracts. We do not expect the adoption of the guidance to have a material impact on our Consolidated Statements of Operations given our current inventory of leases.

The following ASUs have been issued and are not expected to have a material impact on our Consolidated Financial Statements and/or significant accounting policies:

Standard	Description	Effective Date
ASU 2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)	January 1, 2020
ASU 2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	January 1, 2020

ASU 2018-11	Leases (Topic 842): Targeted Improvements	January 1, 2019
ASU 2018-10	Codification Improvements to Topic 842, Leases	January 1, 2019
ASU 2018-07	Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting	January 1, 2019
ASU 2017-11	Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope.	January 1, 2019
ASU 2017-08	Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	January 1, 2019
ASU 2017-06	Plan Accounting - Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting	January 1, 2019
ASU 2017-04	Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	January 1, 2020

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

A discussion regarding our management of market risk is included in "Market Risk" in this report in "Management's Discussion and Analysis of Financial Condition and Results of Operations" which is incorporated herein by reference.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. As of September 30, 2018, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), an evaluation was performed by the Company's management, including our principal executive and financial officers, regarding the design and effectiveness of our disclosure controls and procedures. Based upon that evaluation, the principal executive and financial officers have concluded that our current disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms as of September 30, 2018.

(b) Changes in Internal Controls. There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(d) of the Exchange Act) during the three months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II
Item 1. Legal Proceedings

From time to time, the Company is party to legal proceedings incidental to its business. For further information, see Note 16 - Legal Proceedings, Contingencies and Commitments.

Item 1A. Risk Factors

The Company believes that there have been no material changes to the risk factors previously disclosed in response to Item 1A. to Part I, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, with the exception of the following:

Our recently announced branch acquisition may fail to achieve the benefits currently anticipated.

We recently announced Flagstar Bank's agreement to acquire 52 branches from Wells Fargo Bank, which we expect will close at the beginning of December 2018. We may fail to realize all or any of the anticipated benefits of the acquisition, or those benefits may take longer to realize than expected. We may experience challenges related to the integration of the operations of the branches, including transition of data, integration of product offerings and the standardization of business practices. Complications associated with the acquisition could result in additional costs, loss of customers, damage to our reputation or other operational risks.

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

Sale of Unregistered Securities

The Company made no sales of unregistered securities during the quarter ended September 30, 2018.

Issuer Purchases of Equity Securities

The Company made no purchases of its equity securities during the quarter ended September 30, 2018.

Item 3. Defaults upon Senior Securities

The Company had no defaults on senior securities.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
2.1	Purchase and Assumption Agreement between Wells Fargo Bank, N.A., and Flagstar Bank, FSB (previously filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q, for the period ended June 30, 2018, and incorporated herein by reference).
3.1	Second Amended and Restated Articles of Incorporation of Flagstar Bancorp, Inc. (previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, for the period ended June 30, 2017, and incorporated herein by reference).
3.2	Sixth Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, for the period ended September 30, 2016, and incorporated herein by reference).
4.1	Indenture, dated July 11, 2016, between Flagstar Bancorp, Inc. as Issuers and Wilmington Trust, National Association, as Trustee and Collateral Agent, including the form of 6.125% senior secured note due 2021 (previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated July 11, 2016, and incorporated herein by reference).
4.2	Registration Rights Agreement, dated as of July 11, 2016, among Flagstar Bancorp, Inc., J.P.Morgan Securities LLC and Sandler O'Neill & Partners, L.P. as representatives of the initial purchasers (previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, dated July 11, 2016, and incorporated herein by reference).
4.3	Form of 6.125% Global Note due 2021 (previously filed as Exhibit 4.3 to the Company's Registration Statement on Form S-4, dated October 7, 2016, and incorporated herein by reference).
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification, as furnished by the Chief Executive Officer
32.2	Section 906 Certification, as furnished by the Chief Financial Officer
101	Financial statements from Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2018, formatted in XBRL: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	FLAGSTAR BANCORP, INC. Registrant
Date: November 5, 2018	/s/ Alessandro DiNello Alessandro DiNello President and Chief Executive Officer (Principal Executive Officer)
	/s/ James K. Ciroli James K. Ciroli Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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