5151 Corporate Drive
Troy, MI 48098

(248) 312-2000
www.flagstar.com

March 14, 2009

VIA E-MAIL (SIGTARP.response@do.treas.gov)

Neil M. Barofsky, Esq.
Special Inspector General – TARP
1500 Pennsylvania Avenue
Suite 1064
Washington, D.C. 20220

Re: Flagstar Bancorp, Inc.

Dear Mr. Barofsky:

We are writing in response to your letter to us dated February 6, 2009 requesting information regarding our use of funds that we recently received through our participation in the TARP Capital Purchase Program, and our compliance with the EESA's executive compensation requirements.

Background.

Flagstar Bancorp, Inc. ("Flagstar" or the "Company") is a Michigan-based savings and loan holding company founded in 1993.

Flagstar Bank, FSB (the "Bank") is a federally-chartered stock savings bank headquartered in Troy, Michigan and a wholly-owned subsidiary of the Company.

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

Our primary business is (i) the origination of agency-conforming prime one-to-four family residential first mortgage loans, either for our own investment portfolio or for Fannie Mae / Freddie Mac / Ginnie Mae securitization and sale, and (ii) the operation of retail banking centers. We conduct our mortgage loan business in all 50 states, the District of Columbia and the U.S. Virgin Islands through the Bank, which also operates retail banking centers in Michigan, Indiana and Georgia. Currently, we do not have any non-U.S operations nor do we lend to parties that are located outside of the United States. At December 31, 2008, we had total assets of $14.2 billion, making us the largest publicly held savings bank in the Midwest and one of the top 10 largest savings banks in the United States

Our earnings arise primarily from sales of residential mortgage loans to the secondary market and also include net interest income from our retail banking activities and non-interest income from the servicing of loans for others, the sale of servicing rights related to mortgage loans serviced and fee-based services provided to our customers. Approximately 99.0% of our total loan production during 2008 represented residential mortgage loans.

At December 31, 2008, we operated 175 retail banking centers (of which 42 are located in retail stores such as Wal-Mart) located in Michigan, Indiana and Georgia, through which we obtained customer checking accounts, savings accounts and certificates of deposits. We also operated 104 home loan centers located in 27 states, and we maintained a nationwide network of mortgage brokers and correspondents, through which we originated residential mortgage loans.

Recent Capital Investment.

On January 30, 2009, we raised a total of $523 million in equity capital through the simultaneous sales of (i) convertible preferred stock to a private equity fund, (ii) non-convertible preferred stock to the U.S. Treasury through the TARP Capital Purchase Program, and (iii) common stock to members of management and the board of directors of the Company. We also entered into an agreement to raise a further $100 million in private capital. Each of the transactions is further described below.

*Investment of Private Capital***.** On January 30, 2009, Flagstar became a “controlled company,” as defined in the rules of the New York Stock Exchange (the “NYSE”), upon the purchase, for $250 million, of 250,000 shares of our newly authorized series of convertible participating voting preferred stock (the “Preferred Stock”) by MP Thrift Investments L.P. (“MatlinPatterson”) an entity formed by MP Thrift Global Partners III LLC, an affiliate of MatlinPatterson Global Advisors LLC, pursuant our investment agreement with MatlinPatterson dated as of December 17, 2008. On January 30, 2009, MatlinPatterson also agreed to purchase (i) an additional $50 million of convertible participating voting preferred stock substantially in the form of the Preferred Stock (the "Additional Preferred Stock”), in two equal installments of $25 million, and (ii) $50 million of trust preferred securities which are expected to close and fund in March 2009 (the “Trust Preferred Securities”).

The sales of the Additional Preferred Stock closed in February 2009, and the Additional Preferred Stock, together with the Preferred Stock, will automatically convert at $0.80 per share, into 375 million shares of our common stock upon receipt of stockholder approval authorizing additional shares of common stock.

The Trust Preferred Securities will have a coupon of 10% and will be convertible into common stock at the option of MatlinPatterson on April 1, 2010 at a conversion price of 90% of the volume weighted-average price per share of common stock during the period from February 1, 2009 to April 1, 2010, subject to a price per share minimum of $0.80 and maximum of $2.00. If the Trust Preferred Securities are not converted, they will remain outstanding perpetually unless redeemed by Flagstar at any time after January 30, 2011. We expect the sale of the Trust Preferred Securities to close in March 2009.

*Participation in TARP Capital Purchase Program***.** On January 30, 2009, we also entered into a Letter Agreement and a Securities Purchase Agreement with the United States Department of the Treasury (the "Treasury"), pursuant to which we sold to the Treasury 266,657 shares of our fixed rate cumulative non-convertible perpetual preferred stock for $266.7 million. This transaction was consummated pursuant to our participation in the TARP Capital Purchase Program.

*Management Purchases***.** On January 30, 2009, certain members of management and the board of directors purchased from the Company an aggregate of 6.65 million shares of common stock at a purchase price of $0.80 per share, for a total of $5.32 million.

Pro Forma Capital Ratios. At December 31, 2008, the Bank had regulatory capital ratios of 4.95% for Tier 1 capital and 9.10% for total risk-based capital. Upon the Company's receipt of the investments from MatlinPatterson, the Treasury, and management totaling $523 million, $475 million was immediately invested into the Bank to improve its capital level and to fund lending activity. Had the Bank received the $475 million at December 31, 2008, the Bank's regulatory capital ratios would have been 7.74% and 14.67%.

Use of TARP Funds.

As further discussed below, we have and expect to continue to use the funds we received through our participation in the TARP Capital Purchase Program to increase our originations of residential first mortgage loans directly through our existing lending channels, or indirectly through our residential warehouse lending business.[1]

At the time we filed our TARP application, we were already well-engaged in the Agency prime residential mortgage loan business. In the face of the economic challenges the nation faced in 2008 — and will likely continue to face through 2009 — Flagstar

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[1] We use the term "residential warehouse lending business" to refer to the lines of credit we provide to mortgage lenders for the purpose of originating residential first mortgage loans that are underwritten, in most cases, to the guidelines of Fannie Mae, Freddie Mac or Ginnie Mae and are subject to "take out" by banks and bank-affiliated mortgage companies.

responded by refocusing on the basic businesses that had built our success over the years — banking and residential mortgage lending — while reducing the size of our assets and raising additional capital to ensure continued viability. We had begun scaling back our offering of certain non-first mortgage loan products in 2007 and, by the second half of 2008, we had halted virtually all consumer, business, commercial real estate and home equity lending. However, we continued and increased our origination and sale of Fannie Mae, Freddie Mac and FHA-insured residential first mortgage loans, and we continued and increased, as a natural complement of our mortgage business, the residential warehouse lending business

Our loan production remained strong throughout 2008. Originations for residential first mortgages reached $28 billion for 2008 as compared to $25.7 billion in 2007 and $18.7 billion in 2006. December 2008 was our best month for new loan registrations in six years, and recent rankings show us as the 10th largest residential loan originator, the fourth largest FHA loan originator and the fourth largest residential wholesale lender in the country.

With the benefit of the capital investments by both Treasury and MatlinPatterson, we plan to continue to grow our loan production. (b) (4) [redacted]

Our actual use of the $266 million in TARP funds since its receipt by Flagstar on January 30, 2009 has allowed us to meet the growing demands of consumers for affordable single-family residential mortgage loans, either to lower their payments on existing loans or to purchase a home during this unusual period when both house values and interest rates are at historically low levels. It also allowed us to continue and expand our residential warehouse lending business.

During January 2009, which is usually a slow month in the mortgage business, we originated $2.9 billion in residential first mortgage loans, a significant increase from originations of $1.9 billion in December 2008 and also well above the $2.3 billion originated in January 2008. In February 2009, our loan originations increased even further, to $3.2 billion, a $300 million increase over January 2009 and a $600 million, or 23%, increase from February 2008.

Also during February 2009, the aggregate average daily balances of lines of credit drawn on our residential warehouse lending business increased to $646 million, a 47% increase from $438 million during January 2009. Warehouse loans, by their nature, are considered commercial loans and therefore require us to commit even more capital than if we were to originate the loans directly. They remain a critical source of funding for non-bank mortgage companies, but the exiting from this type of lending by numerous large banks over the past year (most recently by PNC Bank in an announcement on March 11, 2009) has led to a reportedly significant shortfall in availability nationwide. We view our residential warehouse lending as a key part of our business, and the $208 million increase in the average balance of our outstanding warehouse lines of credit in February was possible because the TARP funds were infused into the Bank and treated as regulatory capital.

Through the increase in loan originations in February and the increase in the average balances of warehouse lines in February, cash attributable to the TARP funds has already been fully invested into residential mortgage lending. However, we expect that this same cash will allow us to originate multiples of the amount of the TARP funds because of our business model, which is based on originating residential mortgage loans for sale into the secondary market and on originating residential warehouse lines. As loans are sold, we re-invest those funds into the loan origination process, and we fund warehouse lines that are repaid and then drawn down again several times each month. Based on the most recent balances, the loans that we originate for sale currently tend to be closed and then sold into the secondary market every 30 days. Assuming this trend continues, the $266 million of TARP funds we received on January 30, 2009 will allow us to originate a multiple (depending on our capital ratio) of that amount in residential mortgage loans during 2009.

Absent the capital investments by both Treasury and MatlinPatterson, we would have needed to limit our agency loan production and the scope and size of our residential warehouse lending business to better manage our required regulatory capital ratios. In addition, because our business model is largely dependent on originating, aggregating and selling pools of residential mortgage loans through the agencies, it is essential that the agencies (as well as other counterparties with whom we sell forward contracts, hedge interest rate risk, etc.) view Flagstar as being able to honor its obligations as a viable trading partner. Without the capital investments, it is likely that our ability to operate in the normal course with such counterparties could have been impaired.

Executive Compensation

We understand the limitations on executive compensation with respect to Flagstar arise from two principal sources: guidelines issued by Treasury through January 16, 2009 to implement EESA, and the statutory restrictions contained under the recently-enacted American Recovery and Reinvestment Act of 2009 (the "ARRA").

Under the Treasury guidelines, we are obliged to do the following, and have taken the following steps in that regard:

Requirement:	Status:
Ensure that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution	We have previously and continue to work with an experienced compensation consultant to explore alternatives for incentive compensation and the design of an appropriate plan that does not encourage such risks. Assessments of loan risks and their relationship to executive compensation will be made by the Bank's enterprise risk manager and by the compensation committee of the board of directors in consultation with the Bank's compensation consultants. This work is ongoing, will take into account Treasury guidance, when issued, of the compensation restrictions under ARRA, and must be approved by the board of directors prior to adoption of incentive compensation arrangements.
Require clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate.	No bonus or incentive compensation plan has yet been adopted but any new plan will contain the "clawback" provision. Additionally, in connection with our participation in the TARP Capital Purchase Program, our senior executive officers entered into agreements implementing "clawback" provisions relating to the repayment of any bonus or incentive compensation based on materially inaccurate financial statements or performance metrics.
Prohibit the financial institution from making any golden parachute payment (based on the Internal Revenue Code provision) to a senior executive.	We believe this Treasury provision has been superseded by the AARA, which prohibits the payment of any severance payment rather than just any golden parachute payment. Additionally, in

	connection with our participation in the TARP Capital Purchase Program, our senior executive officers entered into agreements implementing limitations on certain post-termination "parachute" payments.
Agree not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive.	We will not deduct compensation in excess of the allowable amount.
Provide for a "say on pay" stockholder proposal	We expect to include a "say on pay" proposal in the proxy statement for Flagstar's 2009 annual meeting of stockholders currently expected to be held in May 2009.

In light of the passage of ARRA and the need for regulatory guidance and interpretation of the executive compensation guidelines contained therein, we do not have any plans at this time for any other, longer-term or deferred forms of executive compensation that are intended as offsets to the limitations on executive compensation outlined in current Treasury guidelines.

CONFIDENTIAL TREATMENT REQUESTED

Information set forth in this letter, and various documents submitted herewith as identified in Schedule A, are intended to support the assertions made herein. This information and these documents contain sensitive bank information that are trade secrets and/or are not intended for public release, consistent with applicable bank regulations. We are concerned that the public release of the foregoing could have a material adverse impact on Flagstar Bancorp, Inc or Flagstar Bank, FSB, or both. Therefore, we respectfully request confidential treatment under the Freedom of Information Act ("FOIA") 12 U.S.C. § 552, and regulations thereunder, as well as under any other relevant statutes or regulations, for the attachments hereto as well as this letter.

We respectfully request that we be notified in writing prior to any public release of these documents and be provided with the opportunity to address any FOIA request and substantiate that these documents qualify for one or more FOIA exemptions. Moreover, if you are required by law to make public a portion of these documents, we respectfully request that the remainder of these documents be kept confidential.

Certification.

I, Mark T. Hammond, certify that I have reviewed this response and supporting documents and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Sincerely,

FLAGSTAR BANCORP, INC.

Mark T. Hammond
Vice Chairman and Chief Executive Officer

cc: Board of Directors
Paul D. Borja, Chief Financial Officer
Matthew I. Roslin, Chief Legal Officer

SCHEDULE A

(b) (4) [redacted]