FLAGSTAR BANCORP INC

FORM 10-Q

(Quarterly Report)

Filed 11/05/21 for the Period Ending 09/30/21

Address	5151 CORPORATE DRIVE, TROY, MI, 48098-2639
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021
OR

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

For the transition period from ________ to ________

Commission File Number: 001-16577

Flagstar Bancorp, Inc.
(Exact name of registrant as specified in its charter).

Michigan	**38-3150651**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
5151 Corporate Drive, Troy, Michigan	**48098-2639**
(Address of principal executive offices)	(Zip code)

(248) 312-2000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and formal fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock	**FBC**	**New York Stock Exchange**

As of November 4, 2021, 52,863,598 shares of the registrant's common stock, $0.01 par value, were issued and outstanding.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The following list of abbreviations and acronyms are provided as a tool for the reader and may be used throughout this Report, including the Consolidated Financial Statements and Notes:

Term	Definition	Term	Definition
ACL	Allowance for Credit Losses	HOLA	Home Owners' Loan Act
AFS	Available-for-Sale	Home equity	Second Mortgages, HELOANs, HELOCs
Agencies	Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association, Collectively	HPI	Housing Price Index
ALCO	Asset Liability Committee	HTM	Held-to-Maturity
ALLL	Allowance for Loan Losses	LGG	Loans with Government Guarantees
AOCI	Accumulated Other Comprehensive Income (Loss)	LHFI	Loans Held-for-Investment
ASU	Accounting Standards Update	LHFS	Loans Held-for-Sale
Basel III	Basel Committee on Banking Supervision Third Basel Accord	LIBOR	London Interbank Offered Rate
C&I	Commercial and Industrial	LTV	Loan-to-Value Ratio
CDARS	Certificates of Deposit Account Registry Service	Management	Flagstar Bancorp's Management
CD	Certificates of Deposit	MBS	Mortgage-Backed Securities
CECL	Current Expected Credit Losses	MD&A	Management's Discussion and Analysis
CET1	Common Equity Tier 1	MSR	Mortgage Servicing Rights
CLTV	Combined Loan-to-Value Ratio	N/A	Not Applicable
Common Stock	Common Shares	N/M	Not Meaningful
CRE	Commercial Real Estate	NBV	Net Book Value
Deposit Beta	The change in the annualized cost of our deposits, compared to the change in the Federal Reserve discount rate	NPL	Nonperforming Loan
DOJ	United States Department of Justice	NYSE	New York Stock Exchange
DOJ Liability	2012 Settlement Agreement with the Department of Justice	OCC	Office of the Comptroller of the Currency
		OCI	Other Comprehensive Income (Loss)
DTA	Deferred Tax Asset	QTL	Qualified Thrift Lending
EVE	Economic Value of Equity	Regulatory Agencies	Board of Governors of the Federal Reserve, Office of the Comptroller of the Currency, U.S. Department of the Treasury, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, Securities and Exchange Commission
Fannie Mae	Federal National Mortgage Association		
FASB	Financial Accounting Standards Board		
FBC	Flagstar Bancorp	REO	Real estate owned and other nonperforming assets, net
FDIC	Federal Deposit Insurance Corporation	RMBS	Residential Mortgage-Backed Securities
Federal Reserve	Board of Governors of the Federal Reserve System	RWA	Risk Weighted Assets
FHA	Federal Housing Administration	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SNC	Shared National Credit
FICO	Fair Isaac Corporation	SOFR	Secured Oversight Financing Rate
FOAL	Fallout-Adjusted Locks	TDR	Troubled Debt Restructuring
FRB	Federal Reserve Bank	TPO	Third Party Originator
Freddie Mac	Federal Home Loan Mortgage Corporation	UPB	Unpaid Principal Balance
FTE	Full Time Equivalent Employees	U.S. Treasury	United States Department of Treasury
GAAP	United States Generally Accepted Accounting Principles	VIE	Variable Interest Entities
GNMA	Government National Mortgage Association	XBRL	eXtensible Business Reporting Language
HELOC	Home Equity Lines of Credit		
HELOAN	Home Equity Loan		
HFI	Held-for-Investment		

PART I. FINANCIAL INFORMATION

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is Management's Discussion and Analysis of the financial condition and results of operations of Flagstar Bancorp, Inc. for the third quarter of 2021, which should be read in conjunction with the financial statements and related notes set forth in Part I, Item 1 of this Form 10-Q and Part II, Item 8 of Flagstar Bancorp, Inc.'s 2020 Annual Report on Form 10-K for the year ended December 31, 2020.

Certain statements in this Form 10-Q, including but not limited to statements included within Management’s Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements are based on the current beliefs and expectations of our Management. Actual results may differ from those set forth in forward-looking statements. See Forward-Looking Statements on page 42 of this Form 10-Q, Part II, Item 1A, Risk Factors of this Form 10-Q and Part I, Item 1A, Risk Factors of Flagstar Bancorp, Inc.'s 2020 Annual Report on Form 10-K for the year ended December 31, 2020. Additional information about Flagstar can be found on our website at www.flagstar.com.

Where we say "we," "us," "our," the "Company," "Bancorp" or "Flagstar," we usually mean Flagstar Bancorp, Inc. However, in some cases, a reference will include our wholly-owned subsidiary Flagstar Bank, FSB (the "Bank"). See the Glossary of Abbreviations and Acronyms on page 3 for definitions used throughout this Form 10-Q.

Introduction

We are a savings and loan holding company founded in 1993. Our business is primarily conducted through our principal subsidiary, the Bank, a federally chartered stock savings bank founded in 1987. We provide commercial and consumer banking services, and we are the 6th largest bank mortgage originator in the nation and the 6th largest subservicer of mortgage loans nationwide. At September 30, 2021, we had 5,461 full-time equivalent employees. Our common stock is listed on the NYSE under the symbol "FBC".

Our relationship-based business model leverages our full-service bank’s capabilities and our national mortgage platform to create and build financial solutions for our customers. At September 30, 2021, we operated 158 full-service banking branches that offer a full set of banking products to consumer, commercial, and government customers. Our banking footprint spans Michigan, Indiana, California, Wisconsin, Ohio and contiguous states.

We originate mortgages through a network of brokers and correspondents in all 50 states and our own loan officers, which includes our direct lending team, from 84 retail locations in 28 states and 3 call centers. We are also a leading national servicer of mortgage loans and provide complementary ancillary offerings including MSR lending, servicing advance lending and MSR recapture services.

Strategic Merger with New York Community Bancorp, Inc.

On April 26, 2021, it was announced that New York Community Bancorp, Inc. ("NYCB") and Flagstar had entered into a definitive merger agreement (the "Merger Agreement") under which the two companies will combine in an all stock merger. Under the terms of the Merger Agreement, Flagstar shareholders will receive 4.0151 shares of NYCB common stock for each Flagstar share they own. The new company expects to have over $87 billion in assets and operate nearly 400 traditional branches in nine states and 84 loan production offices across a 28 state footprint. On August 4, 2021, Flagstar's and NYCB's shareholders each voted in their respective special meetings of shareholders to approve the proposed business combination. The transaction is subject to customary closing conditions, including regulatory approvals.

Operating Segments

Our operations are conducted through our three operating segments: Community Banking, Mortgage Originations, and Mortgage Servicing. For further information, see MD&A - Operating Segments and Note 17 - Segment Information.

Results of Operations

The following table summarizes our results of operations for the periods indicated:

	Three Months Ended,			Nine Months Ended,		
	September 30, 2021	June 30, 2021	Change	September 30, 2021	September 30, 2020	Change
	(Dollars in millions, except share data)					
Net interest income	$ 195	$ 183	$ 12	$ 566	$ 496	$ 70
(Benefit) provision for credit losses	(23)	(44)	21	(95)	148	(243)
Total noninterest income	266	252	14	842	978	(136)
Total noninterest expense	286	289	(3)	922	827	95
Provision for income taxes	46	43	3	133	115	18
Net income	$ 152	$ 147	$ 5	$ 448	$ 384	$ 64
Income per share						
Basic	$ 2.87	$ 2.78	$ 0.09	$ 8.48	$ 6.76	$ 1.72
Diluted	$ 2.83	$ 2.74	$ 0.09	$ 8.37	$ 6.71	$ 1.66
Weighted average shares outstanding:						
Basic	52,862,288	52,763,868	98,420	52,767,923	56,827,171	(4,059,248)
Diluted	53,659,422	53,536,669	122,753	53,499,289	57,231,689	(3,732,400)

The following table summarizes our adjusted results of operations[(1)]:

	Three Months Ended,			Nine Months Ended,		
	September 30, 2021	June 30, 2021	Change	September 30, 2021	September 30, 2020	Change
	(Dollars in millions, except share data)					
Net interest income	$ 195	$ 183	$ 12	$ 566	$ 496	$ 70
(Benefit) provision for credit losses	(23)	(44)	21	(95)	148	(243)
Total noninterest income	266	252	14	842	978	(136)
Total noninterest expense	281	290	(9)	883	827	56
Provision for income taxes	47	43	4	142	115	27
Net income	$ 156	$ 146	$ 10	$ 478	$ 384	$ 94
Income per share						
Basic	$ 2.98	$ 2.78	$ 0.20	$ 9.04	$ 6.76	$ 2.28
Diluted	$ 2.94	$ 2.73	$ 0.21	$ 8.92	$ 6.71	$ 2.21

(1) See Use of Non-GAAP Financial Measures for further information.

The following table summarizes certain selected ratios and statistics for the periods indicated:

	Three Months Ended,		Nine Months Ended,	
	September 30, 2021	June 30, 2021	September 30, 2021	September 30, 2020
Selected Ratios:				
Interest rate spread (1)	2.84 %	2.70 %	2.70 %	2.41 %
Net interest margin	3.00 %	2.90 %	2.90 %	2.81 %
Adjusted net interest margin (2)	3.04 %	3.06 %	3.04 %	2.88 %
Return on average assets	2.16 %	2.09 %	2.08 %	1.97 %
Adjusted return on average assets (2)	2.21 %	2.08 %	2.22 %	1.97 %
Return on average common equity	23.40 %	23.97 %	24.32 %	25.71 %
Return on average tangible common equity (3)	25.18 %	25.92 %	24.65 %	28.58 %
Adjusted return on average tangible common equity (3)	26.16 %	25.67 %	27.23 %	28.58 %
Common equity-to-assets ratio	9.78 %	9.23 %	9.78 %	7.45 %
Common equity-to-assets ratio (average for the period)	9.24 %	8.74 %	8.55 %	7.66 %
Efficiency ratio	62.2 %	66.6 %	65.5 %	56.1 %
Adjusted efficiency ratio (2)	61.1 %	66.8 %	62.8 %	56.1 %
Selected Statistics:				
Book value per common share	$ 50.04	$ 47.26	$ 50.04	$ 38.41
Tangible book value per share (3)	$ 47.21	$ 44.38	$ 47.21	$ 35.60
Number of common shares outstanding	52,862,383	52,862,264	52,862,383	57,150,470

(1) Interest rate spread is the difference between the yield earned on average interest-earning assets for the period and the rate of interest paid on average interest-bearing liabilities.
(2) See Use of Non-GAAP Financial Measures for further information.
(3) Excludes goodwill, intangible assets and the associated amortization. See Non-GAAP Reconciliation for further information.

Overview

Net income was $152 million, or $2.83 per diluted share for the quarter ended September 30, 2021 compared to second quarter 2021 net income of $147 million, or $2.74 per diluted share. When adjusted for pre-tax merger related expenses of $5 million, net income was $156 million, or $2.94 per diluted share for the current quarter.

Our benefit for credit losses for the quarter ended September 30, 2021 was $23 million, compared to a benefit of $44 million in the second quarter 2021. Our benefit for credit losses in the third quarter reflects our estimate of the future performance of the LHFI portfolio as borrowers continue to recover from the economic stress caused by the pandemic.

Net interest income in the third quarter was $195 million, an increase of $12 million, or 7 percent as compared to the second quarter 2021. The results primarily reflect a favorable asset mix driven by growth and higher yields in our LHFS portfolio.

Noninterest income increased $14 million to $266 million in the third quarter, as compared to $252 million for the second quarter 2021, primarily due to higher mortgage revenues. Net return on mortgage servicing rights increased $14 million, to $9 million for the third quarter 2021, compared to a $5 million net loss for the second quarter 2021. Gain on loan sale margins increased 15 basis points, to 150 basis points for the third quarter 2021, as compared to 135 basis points for the second quarter 2021.

Noninterest expense decreased $3 million during the third quarter 2021 as compared to the second quarter 2021. The decrease was primarily due to lower commissions as mortgage loan closings decreased 2 percent compared to the prior quarter and seasonally lower benefit costs. The third quarter also included $5 million of merger expenses, compared to $9 million in the prior quarter.

Net Interest Income

The following table presents details on our net interest margin and net interest income on a consolidated basis:

	Three Months Ended,					
	September 30, 2021			June 30, 2021		
	Average Balance	Interest	Annualized Yield/ Rate	Average Balance	Interest	Annualized Yield/ Rate
	(Dollars in millions)					
Interest-Earning Assets						
Loans held-for-sale	$ 7,839	$ 63	3.22 %	$ 6,902	$ 53	3.05 %
Loans held-for-investment						
Residential first mortgage	1,706	14	3.14 %	1,887	15	3.27 %
Home equity	686	6	3.64 %	748	7	3.64 %
Other	1,177	14	4.76 %	1,101	13	4.80 %
Total consumer loans	3,569	34	3.77 %	3,736	35	3.79 %
Commercial real estate	3,238	28	3.43 %	3,093	26	3.37 %
Commercial and industrial	1,341	12	3.56 %	1,449	14	3.72 %
Warehouse lending	5,392	52	3.76 %	5,410	53	3.95 %
Total commercial loans	9,971	92	3.62 %	9,952	93	3.74 %
Total loans held-for-investment (1)	13,540	126	3.66 %	13,688	128	3.75 %
Loans with government guarantees	2,046	8	1.61 %	2,344	5	0.79 %
Investment securities	2,058	12	2.15 %	2,123	12	2.19 %
Interest-earning deposits	173	—	0.18 %	212	—	0.13 %
Total interest-earning assets	25,656	$ 209	3.22 %	25,269	$ 198	3.12 %
Other assets	2,391			2,742		
Total assets	$ 28,047			$ 28,011		
Interest-Bearing Liabilities						
Retail deposits						
Demand deposits	$ 1,603	$ —	0.05 %	$ 1,686	$ —	0.06 %
Savings deposits	4,144	2	0.14 %	4,084	1	0.14 %
Money market deposits	840	—	0.08 %	762	—	0.07 %
Certificates of deposit	1,038	1	0.50 %	1,126	2	0.62 %
Total retail deposits	7,625	3	0.16 %	7,658	3	0.18 %
Government deposits	2,148	1	0.17 %	1,795	1	0.19 %
Wholesale deposits and other	1,342	3	0.99 %	1,170	4	1.33 %
Total interest-bearing deposits	11,115	7	0.26 %	10,623	8	0.31 %
Short-term FHLB advances and other	2,736	1	0.18 %	2,422	1	0.17 %
Long-term FHLB advances	1,343	3	0.92 %	1,200	3	1.03 %
Other long-term debt	396	3	3.16 %	396	3	3.19 %
Total interest-bearing liabilities	$ 15,590	$ 14	0.38 %	$ 14,641	$ 15	0.43 %
Noninterest-bearing deposits						
Retail deposits and other	2,391			2,259		
Custodial deposits (2)	6,180			6,188		
Total noninterest bearing deposits	8,571			8,447		
Other liabilities	1,294			2,476		
Stockholders' equity	2,592			2,448		
Total liabilities and stockholders' equity	$ 28,047			$ 28,012		
Net interest-earning assets	$ 10,066			$ 10,628		
Net interest income		$ 195			$ 183	
Interest rate spread (3)			2.84 %			2.70 %
Net interest margin (4)			3.00 %			2.90 %
Ratio of average interest-earning assets to interest-bearing liabilities			164.6 %			172.6 %
Total average deposits	$ 19,686			$ 19,070		

(1) Includes nonaccrual loans. For further information on nonaccrual loans, see Note 4 - Loans Held-for-Investment.
(2) Includes noninterest-bearing custodial deposits that arise due to the servicing of loans for others.
(3) Interest rate spread is the difference between rates of interest earned on interest-earning assets and rates of interest paid on interest-bearing liabilities.
(4) Net interest margin is net interest income divided by average interest-earning assets.

	Nine Months Ended,					
	September 30, 2021			September 30, 2020		
	Average Balance	Interest	Annualized Yield/ Rate	Average Balance	Interest	Annualized Yield/ Rate
	(Dollars in millions)					
Interest-Earning Assets						
Loans held-for-sale	$ 7,403	$ 169	3.04 %	$ 5,499	$ 142	3.44
Loans held-for-investment						
Residential first mortgage	1,907	46	3.21 %	2,822	72	3.40
Home equity	751	20	3.59 %	990	30	4.10
Other	1,106	40	4.78 %	882	36	5.47
Total consumer loans	3,764	106	3.75 %	4,694	138	3.94
Commercial real estate	3,125	80	3.38 %	3,019	90	3.90
Commercial and industrial	1,425	39	3.60 %	1,774	50	3.68
Warehouse lending	5,729	170	3.91 %	3,937	119	3.98
Total commercial loans	10,279	289	3.71 %	8,730	259	3.89
Total loans held-for-investment (1)	14,043	395	3.72 %	13,424	397	3.91
Loans with government guarantees	2,295	15	0.95 %	1,267	12	1.23
Investment securities	2,130	35	2.19 %	3,094	56	2.40
Interest-earning deposits	158	—	0.15 %	251	1	0.56
Total interest-earning assets	26,029	$ 614	3.13 %	23,535	$ 608	3.42
Other assets	2,672			2,457		
Total assets	$ 28,701			$ 25,992		
Interest-Bearing Liabilities						
Retail deposits						
Demand deposits	$ 1,713	$ 1	0.06 %	$ 1,737	$ 4	0.33
Savings deposits	4,058	4	0.14 %	3,513	17	0.63
Money market deposits	763	—	0.07 %	712	1	0.17
Certificates of deposit	1,152	6	0.71 %	1,970	29	1.98
Total retail deposits	7,686	11	0.20 %	7,932	51	0.86
Government deposits	1,907	3	0.19 %	1,208	6	0.68
Wholesale deposits and other	1,182	11	1.27 %	758	12	2.03
Total interest-bearing deposits	10,775	25	0.32 %	9,898	69	0.93
Short-term FHLB advances and other	2,646	3	0.17 %	3,212	16	0.65
Long-term FHLB advances	1,248	9	0.99 %	1,021	9	1.13
Other long-term debt	414	11	3.50 %	494	18	4.94
Total interest-bearing liabilities	$ 15,083	$ 48	0.43 %	$ 14,625	$ 112	1.01
Noninterest-bearing deposits						
Retail deposits and other	2,307			1,680		
Custodial deposits (2)	6,517			6,120		
Total noninterest bearing deposits	8,824			7,800		
Other liabilities	2,340			1,576		
Stockholders’ equity	2,454			1,991		
Total liabilities and stockholders' equity	$ 28,701			$ 25,992		
Net interest-earning assets	$ 10,946			$ 8,910		
Net interest income		$ 566			$ 496	
Interest rate spread (3)			2.70 %			2.41
Net interest margin (4)			2.90 %			2.81
Ratio of average interest-earning assets to interest-bearing liabilities			172.6 %			160.9
Total average deposits	$ 19,598			$ 17,698		

(1) Includes nonaccrual loans. For further information on nonaccrual loans, see Note 4 - Loans Held-for-Investment.
(2) Includes noninterest-bearing custodial deposits that arise due to the servicing of loans for others.
(3) Interest rate spread is the difference between rates of interest earned on interest-earning assets and rates of interest paid on interest-bearing liabilities.
(4) Net interest margin is net interest income divided by average interest-earning assets.

The following table presents the dollar amount of changes in interest income and interest expense for the components of interest-earning assets and interest-bearing liabilities. The table distinguishes between the changes related to average outstanding balances (changes in volume while holding the initial rate constant) and the changes related to average interest rates (changes in average rates while holding the initial balance constant). The rate/volume variances are allocated to rate. Rate and volume variances are calculated on each line separate as an indication of the magnitude. Line items may not aggregate to the totals due to mix changes.

	Three Months Ended, September 30, 2021 versus June 30, 2021 Increase (Decrease) Due to:			Nine Months Ended, September 30, 2021 versus September 30, 2020 Increase (Decrease) Due to:		
	Rate	Volume	Total	Rate	Volume	Total
	(Dollars in millions)					
Interest-Earning Assets						
Loans held-for-sale	$ 2	$ 8	$ 10	$ (22)	$ 49	$ 27
Loans held-for-investment						
Residential first mortgage	—	(1)	(1)	(3)	(23)	(26)
Home equity	—	(1)	(1)	(3)	(7)	(10)
Other	—	1	1	(5)	9	4
Total consumer loans	1	(2)	(1)	(5)	(27)	(32)
Commercial real estate	1	1	2	(13)	3	(10)
Commercial and industrial	(1)	(1)	(2)	(1)	(10)	(11)
Warehouse lending	(1)	—	(1)	(2)	53	51
Total commercial loans	(1)	—	(1)	(15)	45	30
Total loans held-for-investment	(1)	(1)	(2)	(20)	18	(2)
Loans with government guarantees	4	(1)	3	(6)	9	3
Investment securities	—	—	—	(4)	(17)	(21)
Interest-earning deposits and other	—	—	—	(1)	—	(1)
Total interest-earning assets	$ 8	$ 3	$ 11	$ (58)	$ 64	$ 6
Interest-Bearing Liabilities						
Interest-bearing deposits	$ (1)	$ —	$ (1)	$ (50)	$ 6	$ (44)
Short-term FHLB advances and other borrowings	—	—	—	(10)	(3)	(13)
Long-term FHLB advances	—	—	—	(2)	2	—
Other long-term debt	—	—	—	(4)	(3)	(7)
Total interest-bearing liabilities	(2)	1	(1)	(67)	3	(64)
Change in net interest income	$ 10	$ 2	$ 12	$ 9	$ 61	$ 70

Comparison to Prior Quarter

Net interest income for the three months ended September 30, 2021 was $195 million, an increase of $12 million, or 7 percent as compared to the second quarter 2021. The results primarily reflect higher earning assets, the result of higher loans held-for-sale during the quarter. Average interest earning assets increased $0.4 billion, or 2 percent as a result of $0.9 billion, or 14 percent growth in the LHFS portfolio partially offset by lower average balances in our HFI consumer loan and LGG portfolios.

The net interest margin increased 10 basis points to 3 percent for the quarter ended September 30, 2021, as compared to 2.90 percent for the quarter ended June 30, 2021. Excluding the impact from LGG in forbearance that have not been repurchased and do not accrue interest, adjusted net interest margin decreased 2 basis points to 3.04 percent in the third quarter, compared to adjusted net interest margin of 3.06 percent in the prior quarter. The decrease in adjusted net interest margin was attributable to a higher mix of repurchased LGG loans and competitive pricing actions taken to maintain warehouse balances. Retail banking deposit rates decreased 2 basis points primarily driven by the maturity of higher cost wholesale deposits.

Average total deposits were $19.7 billion in the third quarter 2021, increasing $0.6 billion, or 3 percent, from the second quarter 2021. The increase was primarily driven by a $0.4 billion, or 20 percent, higher government deposits due to seasonal tax collections and higher average retail deposits.

Comparison to Prior Year to Date

Net interest income for the nine months ended September 30, 2021 was $566 million, an increase of $70 million as compared to the nine months ended September 30, 2020. The 14 percent increase was driven by growth in average interest-earning assets primarily from the warehouse and LHFS portfolios. In addition, net interest margin increased 9 basis points to 2.90 percent for the nine months ended September 30, 2021, as compared to 2.81 percent for the nine months ended September 30, 2020 primarily due to a lower cost of funds driven by higher noninterest bearing retail deposits, lower overall market rates and the continued maturity of higher rate CDs.

Average interest-earnings assets increased $2.5 billion primarily driven by growth in our warehouse and LHFS portfolios which both benefited from the favorable mortgage environment and improvements in market share. Average LGG increased $1.0 billion driven by an increase in loans that have been repurchased or are eligible to be repurchased from GNMA due to forbearance.

Average interest-bearing liabilities increased $0.5 billion, driven by increases of $0.7 billion and $0.5 billion in government deposits and savings deposits, respectively, partially offset by a decrease of $0.8 billion due to the maturity of time deposits. The increase in average government deposits was driven by an increase in municipal deposits stemming from stimulus related to COVID-19 that allowed for the easing of municipality deposit limits. The increase in average savings deposits was driven by the continued impact from government stimulus related to COVID-19, and the migration of maturing time deposits into savings accounts. The increase in total deposits was driven by higher average customer balances, which grew from the impact of COVID-19 on customer behavior and spending patterns and higher custodial deposits as a result of growth in our subservicing portfolio and higher refinance activity.

Provision for Credit Losses

Comparison to Prior Quarter

The benefit for credit losses was $23 million for the three months ended September 30, 2021, as compared to a $44 million benefit for credit losses for the three months ended June 30, 2021. Our benefit for credit losses in the third quarter reflects improvements in our economic forecasts and our evaluation of the performance of the LHFI portfolio as borrowers continue to recover from the economic stress caused by the pandemic. During the third quarter 2021, we had $6 million of net charge-offs, primarily from one commercial borrower.

Comparison to Prior Year to Date

The benefit for credit losses was $95 million for the nine months ended September 30, 2021, as compared to a provision for credit losses of $148 million for the nine months ended September 30, 2020. The decrease is reflective of improved economic forecasts and credit conditions in 2021 as the economy continues to recover from the conditions caused by the pandemic as compared to the forecasted weakening economic conditions caused by the pandemic in the prior year.

For further information on the provision for credit losses, see MD&A - Credit Quality.

Noninterest Income

The following tables provide information on our noninterest income and other mortgage metrics:

	Three Months Ended,			Nine Months Ended,		
	September 30, 2021	June 30, 2021	Change	September 30, 2021	September 30, 2020	Change
	(Dollars in millions)					
Net gain on loan sales	$ 169	$ 168	$ 1	$ 564	$ 739	$ (175)
Loan fees and charges	33	37	(4)	112	102	$ 10
Net return on mortgage servicing rights	9	(5)	14	4	10	$ (6)
Loan administration income	31	28	3	85	59	$ 26
Deposit fees and charges	9	8	1	26	24	$ 2
Other noninterest income	15	16	(1)	51	44	$ 7
Total noninterest income	$ 266	$ 252	$ 14	$ 842	$ 978	$ (136)

	Three Months Ended,			Nine Months Ended,		
	September 30, 2021	June 30, 2021	Change	September 30, 2021	September 30, 2020	Change
	(Dollars in millions)					
Mortgage rate lock commitments (fallout-adjusted) (1)(3)	$ 11,300	$ 12,400	$ (1,100)	$ 36,000	$ 40,000	$ (4,000)
Mortgage loans closed (3)	$ 12,500	$ 12,800	$ (300)	$ 39,100	$ 35,200	$ 3,900
Mortgage loans sold and securitized (3)	$ 12,400	$ 14,000	$ (1,600)	$ 40,100	$ 34,900	$ 5,200
Net margin on mortgage rate lock commitments (fallout-adjusted) (1)(2)	1.50 %	1.35 %	0.15 %	1.57 %	1.85 %	(0.28)%
Net margin on loans sold and securitized	1.36 %	1.20 %	0.16 %	1.41 %	2.12 %	(0.71)%

(1) Fallout-adjusted refers to mortgage rate lock commitments which are adjusted by estimates of the percentage of mortgage loans in the pipeline that are not expected to close based on our historical experience and the impact of changes in interest rates.
(2) Gain on sale margin is based on net gain on loan sales to fallout-adjusted mortgage rate lock commitments.
(3) Rounded to nearest hundred million.

Comparison to Prior Quarter

Noninterest income increased $14 million for the quarter ended September 30, 2021, compared to the quarter ended June 30, 2021, primarily due to the following:

- Net return on mortgage servicing rights was $9 million in the third quarter of 2021, an increase of $14 million compared to the second quarter of 2021. This was driven by an increase in the fair value of our MSR portfolio at September 30, 2021.

- Net gain on loan sales increased $1 million to $169 million, as compared to $168 million in the second quarter 2021. Gain on sale margins increased 15 basis points, to 150 basis points for the third quarter 2021, as compared to 1.35 percent for the second quarter 2021. FOALs decreased $1.1 billion, or 9 percent, to $11.3 billion.

- Loan fees and charges decreased $4 million to $33 million for the third quarter of 2021, compared to $37 million for the second quarter 2021, primarily due to a 2 percent decrease in mortgage loans closed.

Comparison to Prior Year to Date

Noninterest income decreased $136 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to the following:

- Net gain on loan sales decreased $175 million, primarily due to $4.0 billion lower FOALs and a 28 basis points decrease in our gain on sale margin driven by competitive factors relative to the prior year.
- Loan administration income increased $26 million, driven primarily by a decline in LIBOR-based credits paid to sub-servicing customers on custodial deposits along with $7 million higher subservice fee income due to an increase in the average number of loans being subserviced.
- Loan fees and charges increased $10 million primarily driven by an increase in ancillary and boarding fees as the subservicing portfolio has grown and higher retail closings partially offset by more competitive pricing in mortgage.
- Other noninterest income increased $7 million primarily driven by higher income from non-marketable investments and gains on other asset sales.
- Net return on mortgage servicing rights decreased $6 million, primarily driven by higher runoff that included MSR write-offs of $17 million related to LGG that were repurchased during the current period and higher transaction costs. These decreases were partially offset by higher service fee income and an increase in the fair value of our MSR portfolio.

Noninterest Expense

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

	Three Months Ended,			Nine Months Ended,		
	September 30, 2021	June 30, 2021	Change	September 30, 2021	September 30, 2020	Change
	(Dollars in millions)					
Compensation and benefits	$ 130	$ 122	$ 8	$ 396	$ 341	$ 55
Occupancy and equipment	46	50	(4)	141	132	9
Commissions	44	51	(7)	156	162	(6)
Loan processing expense	22	22	—	65	59	6
Legal and professional expense	12	11	1	32	20	12
Federal insurance premiums	6	4	2	16	19	(3)
Intangible asset amortization	3	3	—	8	10	(2)
Other noninterest expense	23	26	(3)	108	84	24
Total noninterest expense	$ 286	$ 289	$ (3)	$ 922	$ 827	$ 95
Efficiency ratio	62.2 %	66.6 %	(4.4) %	65.5 %	56.1 %	9.4 %
Number of FTE employees	5,461	5,503	(42)	5,461	4,871	590

Comparison to Prior Quarter

Noninterest expense decreased to $286 million for the quarter ended September 30, 2021, compared to $289 million for the quarter ended June 30, 2021. Excluding $5 million of merger costs in the third quarter of 2021 and $9 million of merger expenses in the second quarter 2021, and adjusting for the $10 million benefit from an agreement to reduce the 2009 former CEO supplemental executive retirement plan liability recognized in the second quarter 2021, noninterest expense decreased $9 million, or 3 percent. The decrease in noninterest expense primarily reflects lower commissions as mortgage loan closings decreased 2 percent compared to the prior quarter and seasonally lower benefit costs.

Comparison to Prior Year to Date

Noninterest expense increased $95 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 primarily due to the following:

- Compensation and benefits increased $55 million, primarily due to a 12 percent increase in average FTE to support forbearance customers beginning in the second quarter of 2020 and adding variable mortgage closing capacity along with an increase in incentive compensation attributed to stronger financial results.

- Other noninterest expense increased $24 million primarily driven by the $35 million DOJ final settlement expense recognized during the nine months ended September 30, 2021. This expense was partially offset by certain performance-related earn out expenses related to our Opes Advisors acquisition recognized during the nine months ended September 30, 2020 which did not reoccur.

- Legal and professional fees increased $12 million primarily driven by $7 million of merger related expenses during the nine months ended September 30, 2021 and legal expenses associated with the DOJ and former CEO SERP settlements.

- Occupancy and equipment increased $9 million primarily related to higher software costs and $4 million of merger related expenses.

- Loan processing expense increased $6 million, primarily driven by $4.0 billion, or 11 percent, higher mortgage closings along with a shift in channel mix from TPO to retail which supports a higher gain on sale margin but also has higher commission rates and costs.

- Mortgage commissions decreased $6 million driven by profit-based commissions being impacted by lower TPO profitability and offsetting the increase due to higher closings.

Provision for Income Taxes

The third quarter provision for income taxes totaled $46 million, with an effective tax rate of 23.2 percent, compared to $43 million and an effective tax rate of 22.5 percent for the second quarter 2021. Our effective tax rate increased slightly compared to the prior quarter primarily due to lower stock-based compensation and a reduction to tax-exempt income.

Operating Segments

Our operations are conducted through three operating segments: Community Banking, Mortgage Originations, and Mortgage Servicing. The Other segment includes the remaining reported activities. 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 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.

We charge the lines of business for the net charge-offs that occur. In addition to this amount, we charge them for the change in loan balances during the period, applied at the budgeted credit loss factor. The difference between the consolidated provision (benefit) for credit losses and the sum of total net charge-offs and the change in loan balances is assigned to the "Other" segment, which includes the changes related to the economic forecasts, model changes, qualitative adjustments and credit downgrades. The amount assigned to "Other" is allocated back to the lines of business through other noninterest expense.

For detail on each segment's objectives, strategies, and priorities, please read this section in conjunction with Note 17 - Segment Information.

Community Banking

Our Community Banking segment serves commercial, governmental and consumer customers in our banking footprint which spans throughout Michigan, Indiana, California, Wisconsin, Ohio and contiguous states. We also serve home builders, correspondents, and commercial customers on a national basis. The Community Banking segment originates and purchases loans, while also providing deposit and fee based services to consumer, business, and mortgage lending customers.

Our commercial customers operate in a diversified range of industries including financial, insurance, service, manufacturing, and distribution. We offer financial products to these customers for use in their normal business operations, as well as provide financing of working capital, capital investments, and equipment. Additionally, our CRE business supports income producing real estate and home builders. The Community Banking segment also offers warehouse lines of credit to non-bank mortgage lenders.

Our Community Banking segment has experienced strong growth during the current cycle driven by our warehouse portfolio which has benefited from the robust mortgage market. In addition, we continue to maintain our disciplined underwriting in this business.

	Three Months Ended,			Nine Months Ended,		
Community Banking	**September 30, 2021**	**June 30, 2021**	**Change**	**September 30, 2021**	**September 30, 2020**	**Change**
			(Dollars in millions)			
Summary of Operations						
Net interest income	$ 149	$ 149	$ —	$ 454	$ 395	$ 59
(Benefit) provision for credit losses	8	1	7	(5)	3	(8)
Net interest income after (benefit) provision for credit losses	141	148	(7)	459	392	67
Net loss on loan sales	—	—	—	—	2	(2)
Loan fees and charges	—	—	—	1	1	—
Loan administration expense	—	—	—	(1)	(2)	1
Other noninterest income	16	15	1	49	43	6
Total noninterest income	16	15	1	49	44	5
Compensation and benefits	26	27	(1)	81	79	2
Commissions	1	1	—	2	2	—
Loan processing expense	1	2	(1)	4	4	—
Other noninterest expense	12	(1)	13	39	231	(192)
Total noninterest expense	40	29	11	126	316	(190)
Income before indirect overhead allocations and income taxes	117	134	(17)	382	120	262
Indirect overhead allocation	(7)	(9)	2	(26)	(31)	5
Provision for income taxes	23	26	(3)	75	19	56
Net income	$ 87	$ 99	$ (12)	$ 281	$ 70	$ 211
Key Metrics						
Number of FTE employees	1,140	1,155	(15)	1,140	1,282	(142)
Number of bank branches	158	158	—	158	160	(2)

Comparison to Prior Quarter

The Community Banking segment reported net income of $87 million for the quarter ended September 30, 2021, compared to net income of $99 million for the quarter ended June 30, 2021. The $12 million decrease was driven by the following:

- Other noninterest expense increased $13 million due to higher intersegment expense allocations as a result of a lower benefit for credit losses allocation in the third quarter vs. the second quarter.

- The provision for credit losses was $8 million in the third quarter 2021, compared to a $1 million provision in the prior quarter. The increase in the provision was primarily due to the charge-off relating to one commercial borrower.

Comparison to Prior Year to Date

The Community Banking segment reported net income of $281 million for the nine months ended September 30, 2021, compared to $70 million for the nine months ended September 30, 2020. The increase was driven by the following:

- Net interest income increased $59 million driven by higher average loan and deposit balances, led by our warehouse business partially offset by lower margins due to interest rates since the end of March 2020.

- The benefit from credit losses was $5 million for the nine months ended September 30, 2021 primarily due to the $16 million recovery on a previously charged-off loan partially offset by net charge-offs, primarily from one commercial borrower. The $3 million provision for credit losses for the nine months ended September 30, 2020 was primarily as a result of pre-pandemic loan growth.

- Other noninterest expense decreased $192 million driven by lower intersegment expense allocations which was the result of the benefit from credit losses in 2021 as economic conditions have improved for the nine months ended September 30, 2021 as compared to a significant provision for credit losses for the nine months ended September 30, 2020 due to worsening economic conditions brought about by the onset and continuation of the pandemic.
- Other noninterest income increased $6 million primarily driven by higher deposit fees and gains on other asset sales.

Mortgage Originations

We are a leading national originator of residential first mortgages. Our Mortgage Originations segment utilizes multiple distribution channels to originate or acquire one-to-four family residential mortgage loans on a national scale, primarily to sell. Subsequent to sale, we retain certain mortgage servicing rights which are reported at their fair value. The fair value includes service fee revenues, a cost to service which is an intercompany allocation paid to our servicing business, and other financial line impacts. We originate and retain certain mortgage loans in our LHFI portfolio which generate interest income in the Mortgage Originations segment.

	Three Months Ended,			Nine Months Ended,		
Mortgage Originations	**September 30, 2021**	**June 30, 2021**	**Change**	**September 30, 2021**	**September 30, 2020**	**Change**
			(Dollars in millions)			
Summary of Operations						
Net interest income	$ 72	$ 58	$ 14	$ 186	$ 147	$ 39
Benefit for credit losses	(2)	(2)	—	(7)	(8)	1
Net interest income after benefit for credit losses	74	60	14	193	155	38
Net gain on loan sales	169	168	1	564	737	(173)
Loan fees and charges	13	18	(5)	55	58	(3)
Loan administration expense	(7)	(9)	2	(26)	(25)	(1)
Net return on mortgage servicing rights	9	(5)	14	4	10	(6)
Other noninterest income	3	2	1	8	5	3
Total noninterest income	187	174	13	605	785	(180)
Compensation and benefits	48	49	(1)	151	111	40
Commissions	43	50	(7)	155	160	(5)
Loan processing expense	11	12	(1)	34	29	5
Other noninterest expense	23	20	3	65	114	(49)
Total noninterest expense	125	131	(6)	405	414	(9)
Income before indirect overhead allocations and income taxes	136	103	33	393	526	(133)
Indirect overhead allocation	(14)	(16)	2	(50)	(45)	(5)
Provision for income taxes	26	18	8	72	101	(29)
Net income	$ 96	$ 69	$ 27	$ 271	$ 380	$ (109)
Key Metrics						
Mortgage rate lock commitments (fallout-adjusted) (1)(2)	$ 11,300	$ 12,400	$ (1,100)	$ 36,000	$ 40,000	$ (4,000)
Noninterest expense to closing volume	1.00 %	1.02 %	(0.02)%	1.03 %	1.18 %	(0.15)%
Number of FTE employees	2,132	2,134	—	2,132	1,675	500

(1) Fallout-adjusted refers to mortgage rate lock commitments which are adjusted by a percentage of mortgage loans in the pipeline that are not expected to close based on our historical experience and the impact of changes in interest rates.
(2) Rounded to nearest hundred million.

Comparison to Prior Quarter

The Mortgage Originations segment reported net income of $96 million for the quarter ended September 30, 2021 as compared to $69 million for the quarter ended June 30, 2021. The increase was driven by the following:

- Net interest income increased $14 million primarily due to $0.9 billion, or 14 percent growth in the LHFS portfolio.
- Net return on mortgage servicing rights increased $14 million primarily driven by an increase in the fair value of our MSR portfolio at September 30, 2021.
- Net gain on loan sales increased $1 million to $169 million, as compared to $168 million in the second quarter 2021. Gain on sale margins increased by 15 basis points, to 150 basis points for the third quarter 2021, as compared to 135 basis points for the second quarter 2021. FOALs decreased $1.1 billion, or 9 percent, to $11.3 billion.

- Commissions decreased $7 million, primarily due to a 2 percent reduction in mortgage loan closings.

Comparison to Prior Year to Date

The Mortgage Originations segment reported net income of $271 million for the nine months ended September 30, 2021 and $380 million for the nine months ended September 30, 2020. The decrease was driven by the following:

- Net gain on loan sales decreased $173 million primarily due to $4.0 billion lower FOALs and a 28 basis points decrease in our gain on sale margin driven by competitive factors relative to the prior year.
- Compensation and benefits increased $40 million primarily due to higher average FTE to support business growth.
- Net interest income increased $39 million primarily due to $1.9 billion higher average LHFS balances driven by an 11 percent increase in mortgage closings.

- Other noninterest expense decreased $49 million primarily driven by lower intersegment expense allocations related to the benefit from credit losses in 2021 as compared to the provision in 2020.
- Net return on mortgage servicing rights, including the impact of economic hedges, decreased $6 million. The nine months ended September 30, 2021 included $17 million of MSR write-offs associated with LGG that were repurchased in 2021 compared to a de-minimis amount for the same period of 2020. In addition, mortgage refinance activity continued to be elevated compared to historical norms which impacted prepayment speeds and overall net return on mortgage servicing rights.

Mortgage Servicing

The Mortgage Servicing segment services loans when we hold the MSR asset, and subservices mortgage loans for others through a scalable servicing platform on a fee for service basis. The loans we service generate custodial deposits which provide a stable funding source supporting interest-earning asset generation in the Community Banking and Mortgage Originations segments. We earn income from other segments for the use of non-interest bearing escrows. Revenue for serviced and subserviced loans is earned on a contractual fee basis, with the fees varying based on our responsibilities and the delinquency or payment status of the underlying loans. Along with these contractual fees, we may also collect ancillary fees related to these loans. The Mortgage Servicing segment also services residential mortgages for our LHFI portfolio in the Community Banking segment and our own MSR portfolio in the Mortgage Originations segment for which it earns intersegment revenue on a fee per loan basis. Our continued growth in our subservicing business and the strength of our platform has made us the 6th largest subservicer in the nation.

Mortgage Servicing	Three Months Ended, September 30, 2021	June 30, 2021	Change	Nine Months Ended, September 30, 2021	September 30, 2020	Change
			(Dollars in millions)			
Summary of Operations						
Net interest income	$ 4	$ 3	$ 1	$ 11	$ 14	$ (3)
Loan fees and charges	20	19	$ 1	57	43	$ 14
Loan administration income	40	40	$ —	120	112	$ 8
Total noninterest income	60	59	1	177	155	22
Compensation and benefits	16	16	—	47	33	14
Loan processing expense	9	8	1	24	24	—
Other noninterest expense	22	21	1	66	57	9
Total noninterest expense	47	45	2	137	114	23
Income before indirect overhead allocations and income taxes	17	17	—	51	55	(4)
Indirect overhead allocation	(4)	(5)	1	(14)	(15)	1
Provision for income taxes	3	3	—	8	8	—
Net income	$ 10	$ 9	$ 1	$ 29	$ 32	$ (3)
Key Metrics						
Average number of residential loans serviced (1)	1,193,000	1,165,000	28,000	1,193,000	1,098,000	95,000
Number of FTE employees	727	730	(3)	727	541	186

(1) Rounded to nearest thousand.

The following table presents loans serviced and the number of accounts associated with those loans:

	September 30, 2021		June 30, 2021		March 31, 2021		December 31, 2020		September 30, 2020	
	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts
					(Dollars in millions)					
Loan Servicing										
Subserviced for others (2)	$ 230,045	1,007,557	$ 211,775	975,467	$ 197,053	921,126	$ 178,606	867,799	$ 180,981	893,559
Serviced for others (3)	31,354	124,665	34,263	139,029	40,402	160,511	38,026	151,081	37,908	148,868
Serviced for own loan portfolio (4)	10,410	70,738	9,685	67,988	9,965	66,363	10,079	66,519	8,469	62,486
Total loans serviced	$ 271,809	1,202,960	$ 255,723	1,182,484	$ 247,420	1,148,000	$ 226,711	1,085,399	$ 227,358	1,104,913

(1) UPB, net of write downs, does not include premiums or discounts.
(2) Loans subserviced for a fee for non-Flagstar owned loans or MSRs. Includes temporary short-term subservicing performed as a result of sales of servicing-released MSRs.
(3) Loans for which Flagstar owns the MSR.
(4) Includes LHFI (residential first mortgage, home equity and other consumer), LHFS (residential first mortgage), LGG (residential first mortgage), and repossessed assets.

Comparison to Prior Quarter

The Mortgage Servicing segment reported net income of $10 million for the quarter ended September 30, 2021, compared to net income of $9 million for the quarter ended June 30, 2021 as a result of a consistent number of loans serviced and subserviced and slightly higher ancillary fees.

Comparison to Prior Year to Date

The Mortgage Servicing segment reported net income of $29 million for the nine months ended September 30, 2021, compared to net income of $32 million for the nine months ended September 30, 2020. The $3 million decrease in net income was driven by a $22 million increase in noninterest income primarily driven by higher ancillary fee income and a decline in LIBOR-based fees paid to sub-servicing customers on custodial deposits. This was more than offset by a $23 million increase in noninterest expenses as a result of growth in FTE and the average number of loans serviced which drove compensation and benefits and other noninterest expense higher. FTE was also impacted by hiring in default servicing given a ramp up in loss mitigation efforts to assist forbearance customers which began in the second quarter of 2020.

Other

The Other segment includes the treasury functions, which include the impact of interest rate risk management, balance sheet funding activities and the investment securities portfolios, as well as other expenses of a corporate nature, including corporate staff, risk management, and legal expenses which are charged to the line of business segments. The Other segment charges each operating segment a daily funds transfer pricing rate on their average assets which resets more rapidly than the underlying borrowing costs resulting in an asset sensitive position. In addition, the Other segment includes revenue and expenses not directly assigned or allocated to the Community Banking, Mortgage Originations or Mortgage Servicing segments.

	Three Months Ended,			Nine Months Ended,		
Other	**September 30, 2021**	**June 30, 2021**	**Change**	**September 30, 2021**	**September 30, 2020**	**Change**
			(Dollars in millions)			
Summary of Operations						
Net interest income	$ (30)	$ (27)	$ (3)	$ (85)	$ (60)	$ (25)
(Benefit) provision for credit losses	(29)	(43)	14	(83)	153	(236)
Net interest income after (benefit) provision for credit losses	(1)	16	(17)	(2)	(213)	211
Loan fees and charges	—	—	—	(1)	—	(1)
Loan administration expense	(2)	(3)	1	(8)	(26)	18
Other noninterest income	5	7	(2)	20	20	—
Total noninterest income	3	4	(1)	11	(6)	17
Compensation and benefits	40	30	10	117	118	(1)
Commissions	—	—	—	(1)	—	(1)
Loan processing expense	1	—	1	3	2	1
Other noninterest expense	33	54	(21)	135	(137)	272
Total noninterest expense	74	84	(10)	254	(17)	271
Income before indirect overhead allocations and income taxes	(72)	(64)	(8)	(245)	(202)	(43)
Indirect overhead allocation	25	30	(5)	90	91	(1)
Provision for income taxes	(6)	(4)	(2)	(22)	(13)	(9)
Net loss	$ (41)	$ (30)	$ (11)	$ (133)	$ (98)	$ (35)
Key Metrics						
Number of FTE employees	1,460	1,484	(24)	1,484	1,163	321

Comparison to Prior Quarter

The Other segment reported a net loss of $41 million, for the quarter ended September 30, 2021, compared to a net loss of $30 million for the quarter ended June 30, 2021. The $11 million increase in loss was primarily driven by a $10 million benefit recorded in the second quarter of 2021 related to an agreement to reduce the 2009 former CEO supplemental executive retirement plan liability that did not reoccur. The majority of all other activity within the Other segment largely offsets and is allocated back to the operating segments, recorded as contra other noninterest expense in the other segment which includes the provision as discussed in the operating segments overview.

Comparison to Prior Year to Date

The Other segment reported a net loss of $133 million, for the nine months ended September 30, 2021, compared to a net loss of $98 million for the nine months ended September 30, 2020. The $35 million increase in losses was primarily due to a $25 million decrease in net interest income as a result of the Bank’s overall asset sensitive position and the lower average rates during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. The nine months ended September 30, 2021 also includes a $35 million final settlement expense for the DOJ Liability partially offset by a $10 million benefit related to the former CEO SERP. The majority of all other activity within the Other segment largely offsets and is allocated back to the operating segments, recorded as contra other noninterest expense in the other segment which includes the provision as discussed in the operating segments overview.

Risk Management

Certain risks are inherent in our business and include, but are not limited to, operational, strategic, credit, regulatory compliance, legal, reputational, liquidity, market and cybersecurity. We continuously invest in our risk management activities which are focused on ensuring we properly identify, measure and manage such risks across the entire enterprise to maintain safety and soundness and maximize profitability. We hold capital to protect us from unexpected loss arising from these risks.

A comprehensive discussion of risks affecting us can be found in the Risk Factors section included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 and in Part II, Item 1A of this Quarterly Report on Form 10-Q. Some of the more significant processes used to manage and control credit, market, liquidity and operational risks are described in the following paragraphs.

Credit Risk

Credit risk is the risk of loss to us arising from an obligor’s inability or failure to meet contractual payment or performance terms. We provide loans, extend credit, and enter into financial derivative contracts, all of which have related credit risk. We manage credit risk using a thorough process designed to ensure we make prudent and consistent credit decisions. The process was developed with a focus on utilizing risk-based limits and credit concentrations while emphasizing diversification on a geographic, industry and customer level. The process utilizes documented underwriting guidelines, comprehensive documentation standards, and ongoing portfolio monitoring including the timely review and resolution of credits experiencing deterioration. These activities, along with the management of credit policies and credit officers’ delegated authority, are centrally managed by our credit risk team.

We maintain credit limits in compliance with regulatory requirements. Under HOLA, the Bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15 percent of Tier 1 plus Tier 2 capital and any portion of the ACL not included in the Tier 2 capital. This limit was $451 million as of September 30, 2021. We maintain a more conservative maximum internal Bank credit limit than required by HOLA, generally not exceeding $100 million to any one borrower/obligor relationship, with the exception of warehouse borrower/obligor relationships, which have a higher internal Bank limit of $150 million. During 2020, the Board approved the extension of short-term “overlines” to certain warehouse borrowers as all advances are fully collateralized by residential mortgage loans and this asset class has had very low levels of historical loss, resulting in a temporary increase of the warehouse borrower limit to $200 million. We have a tracking and reporting process to monitor lending concentration levels, and all new commercial credit exposures to a single or related borrower that exceed $50 million and all new warehouse credit exposures to a single or related borrower that exceed $75 million must be approved by the Board of Directors. Exceptions to these levels to strong borrowers are made on a case by case basis, with none exceeding $150 million as of September 30, 2021 or $300 million for warehouse borrowers.

Our commercial loan portfolio has been built on our relationship-based lending strategy. We provide financing and banking products to our commercial customers in our core banking footprint and will follow those established customer relationships to meet their financing needs in areas outside of our footprint. We have also formed relationship lending on a national scale through our home builder finance and warehouse lending businesses. At September 30, 2021, we had $10.8 billion in our commercial loan portfolio with our warehouse lending and home builder finance businesses accounting for 66 percent of the total. Of the remaining commercial loans in our portfolio, the majority of CRE and C&I loans were with customers who have established relationships within our core banking footprint.

Credit risk within the commercial loan portfolio is managed using concentration limits based on line of business, industry, geography and product type. This is managed through the use of strict underwriting guidelines detailed in credit policies, ongoing loan level reviews, monitoring of the concentration limits and continuous portfolio risk management reporting. The commercial credit policy outlines the risks and underwriting requirements and provides a framework for all credit and lending activities. Our commercial loan credit policies consider maturity and amortization terms, maximum LTVs, minimum debt service coverage ratios, construction loan monitoring procedures, appraisal requirements, pro-forma analysis requirements and thresholds for product specific advance rates.

We typically originate loans on a recourse basis with full or partial guarantees. On a limited basis, we may approve loans without recourse if sufficient consideration is provided in the loan structure. Non-recourse loans primarily have low LTVs, strong cash flow coverage or other mitigating factors supporting the lack of a guaranty. These guidelines also require an appraisal of pledged collateral prior to closing and on an as-needed basis when market conditions justify. We contract with a variety of independent licensed professional firms to conduct appraisals that are in compliance with our internal commercial credit and appraisal policies and regulatory requirements.

Our commercial loan portfolio includes leveraged lending. The Bank defines a transaction as leveraged when two or more of the following conditions exist: 1) proceeds from the loan are used for buyouts, acquisitions, recapitalization or capital distributions, 2) the borrower's total funded debt to EBITDA ratio is greater than four or Senior Funded Debt to EBITDA ratio is greater than three, 3) the borrower has a high debt to net worth ratio within its industry or sector as defined by internal limits, and 4) debt leverage significantly exceeds industry norms or historical levels for leverage as defined by internal limits. Leveraged lending transactions typically result in leverage ratios that are significantly above industry norms or historical levels. Our leveraged lending portfolio and other loan portfolios with above-average default probabilities tend to behave similarly during a downturn in the general economy or a downturn within a specific sector. Consequently, we take steps to avoid undue concentrations by setting limits consistent with our appetite for risk and our financial capacity. In addition, there are specific underwriting conditions set for our leveraged loan portfolio and there is additional emphasis on certain items beyond the standard underwriting process including synergies, collateral shortfall and projections.

Our commercial loan portfolio also includes loans that are part of the SNC Program. A SNC is defined as any loan or loan commitment totaling at least $100 million that is shared by three or more federally regulated institutions. On an annual basis, a joint regulatory task force performs a risk assessment of all SNCs. When completed, these risk ratings are shared and our risk rating must be no better than the risk rating listed in the SNC assessment. Exposure and credit quality for SNCs are carefully monitored and reported internally.

For our CRE portfolio, including owner and nonowner-occupied properties and home builder finance lending, we obtain independent appraisals as part of our underwriting and monitoring process. These appraisals are reviewed by an internal appraisal group that is independent from our sales and credit teams.

The home builder finance group is a national relationship-based lending platform that focuses on markets with strong housing fundamentals and higher population growth potential. The team primarily originates construction and development loans. We generally lend in metropolitan areas or counties where verifiable market statistics and data are readily available to support underwriting and ongoing monitoring. We also evaluate the jurisdictions and laws, demographic trends (age, population and income), housing characteristics and economic indicators (unemployment, economic growth, household income trends) for the geographies where our borrowers primarily operate. We engage independent licensed professionals to supply market studies and feasibility reports, environmental assessments and project site inspections to complement the procedures we perform internally. Further, we perform ongoing monitoring of the projects including periodic inspections of collateral and annual portfolio and individual credit reviews.

The consumer loan portfolio has been built on strong underwriting criteria and within concentration limits intended to diversify our risk profile. We have built our consumer loan portfolio by adding high quality first mortgage loans to our balance sheet making up 47 percent of our total consumer loan portfolio at September 30, 2021.

Loans Held-for-Investment

The following table summarizes the amortized cost of our LHFI by category:

	September 30, 2021	% of Total	December 31, 2020	% of Total	Change
			(Dollars in millions)		
Consumer loans					
Residential first mortgage	$ 1,626	11.4 %	$ 2,266	14.0 %	$ (640)
Home equity (1)	657	4.6 %	856	5.2 %	(199)
Other	1,203	8.4 %	1,004	6.2 %	199
Total consumer loans	3,486	24.4 %	4,126	25.4 %	(640)
Commercial loans					
Commercial real estate	3,216	22.5 %	3,061	18.9 %	155
Commercial and industrial	1,387	9.7 %	1,382	8.5 %	5
Warehouse lending	6,179	43.3 %	7,658	47.2 %	(1,479)
Total commercial loans	10,782	75.6 %	12,101	74.6 %	(1,319)
Total loans held-for-investment	$ 14,268	100.0 %	$ 16,227	100.0 %	$ (1,959)

(1) Includes second mortgages, HELOCs and HELOANs.

The decrease in our commercial loan portfolio of $1.3 billion, or 11 percent, is mainly due to warehouse repayments outpacing advances from December 31, 2020 to September 30, 2021. Our consumer loan portfolio decreased $640 million, or

16 percent, from December 31, 2020 to September 30, 2021 as a $199 million increase in other consumer loans was more than offset by a $640 million decrease in residential first mortgage loans due to higher prepayments due to refinance activity.

Residential first mortgage loans. We originate or purchase various types of conforming and non-conforming fixed and adjustable rate loans underwritten using Fannie Mae and Freddie Mac guidelines for the purpose of purchasing or refinancing owner occupied and second home properties. We typically hold certain mortgage loans in LHFI that do not qualify for sale to the Agencies and that have an acceptable yield and risk profile. The LTV requirements on our residential first mortgage loans vary depending on occupancy, property type, loan amount, and FICO scores. Loans with LTVs exceeding 80 percent are required to obtain mortgage insurance. As of September 30, 2021, loans in this portfolio had an average current FICO score of 735 and an average current LTV of 53 percent.

The following table presents amortized cost of our total residential first mortgage LHFI by major category:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Estimated LTVs (1)		
Less than 80% and current FICO scores (2):		
Equal to or greater than 660	$ 1,005	$ 1,408
Less than 660	60	65
80% and greater and current FICO scores (2):		
Equal to or greater than 660	444	685
Less than 660	117	108
Total	$ 1,626	$ 2,266
Geographic region		
California	$ 501	$ 806
Michigan	454	435
Texas	91	150
Florida	80	108
Washington	62	126
New York	44	55
Colorado	35	57
Illinois	33	51
Arizona	25	50
Indiana	32	34
Other	269	394
Total	$ 1,626	$ 2,266

(1) LTVs reflect loan balance at the date reported, as a percentage of appraised property value at loan closing.
(2) Based on latest updated FICO score.

The following table presents amortized cost of our total residential first mortgage LHFI as of September 30, 2021, by year of closing:

	2021	2020	2019	2018	2017 and Prior	Total
			(Dollars in millions)			
Residential first mortgage loans	$ 280	$ 235	$ 332	$ 148	$ 631	$ 1,626
Percent of total	17.2 %	14.5 %	20.4 %	9.1 %	38.8 %	100.0 %

Home equity. Our home equity portfolio includes HELOANs, second mortgage loans, and HELOCs. These loans are underwritten and priced in an effort to ensure credit quality and loan profitability. Our debt-to-income ratio on HELOANs and HELOCs is capped at 43 percent and 45 percent, respectively. We currently limit the maximum CLTV to 89.99 percent and FICO scores to a minimum of 700. Second mortgage loans and HELOANs are fixed rate loans and are available with terms up to 20 years. HELOC loans are variable-rate loans that contain a 10-year interest only draw period followed by a 20-year amortizing period. As of September 30, 2021, loans in this portfolio had an average current FICO score of 750 and an average CLTV of 53 percent. At September 30, 2021, HELOCs and HELOANs in a first lien position totaled $236 million.

Other consumer loans. Our other consumer loan portfolio consists of secured and unsecured loans originated through our indirect lending business, third party closings and our Community Banking segment.

The following table presents amortized cost of our other consumer loan portfolio by purchase type:

	September 30, 2021		December 31, 2020	
	Balance	% of Portfolio	Balance	% of Portfolio
	(Dollars in millions)			
Indirect lending	$ 916	76 %	$ 744	74 %
Point of sale	248	21 %	211	21 %
Other	39	3 %	49	5 %
Total other consumer loans	$ 1,203	100 %	$ 1,004	100 %

Other consumer loans were $1.2 billion and $1.0 billion at September 30, 2021 and December 31, 2020, respectively. Our non-auto, boat and recreational vehicle indirect lending businesses were consistent with the prior quarter; as of September 30, 2021, 67 percent were secured by boats and 33 percent are secured by recreational vehicles and our point of sale portfolio. As of September 30, 2021, loans in our indirect portfolio had an average current FICO score of 751. Point of sale loans consist of unsecured consumer installment loans through a third-party financial technology company who also provides us a level of credit loss protection.

Commercial real estate loans. The CRE portfolio contains loans collateralized by diversified property types which are primarily income producing in the normal course of business. The majority of our retail exposure is to neighborhood centers and single tenant locations, which include pharmacies and hardware stores. Generally, the maximum LTV is 80 percent, or 90 percent for owner-occupied real estate, and the minimum debt service coverage is 1.20. Our CRE loans primarily earn interest at a variable rate.

Our national home builder finance program within our commercial portfolio contained $2.41 billion in commitments with $951 million in outstanding loans as of September 30, 2021. Certain of these loans are collateralized and included in our CRE portfolio while the remaining loans are unsecured and included in our C&I portfolio.

As of September 30, 2021, our CRE portfolio included $211 million of SNCs and one leveraged lending loan of $3 million. The SNC portfolio had thirteen borrowers with an average amortized cost of $16 million and an average commitment of $18 million. There were no nonperforming SNC or leveraged loans as of September 30, 2021, and no SNC or leveraged loans outstanding were rated as special mention or substandard.

The following table presents amortized cost of our total CRE LHFI by collateral location and collateral type:

	MI	TX	CA	OH	FL	Other	Total	% by collateral type
	(Dollars in millions)							
September 30, 2021								
Home builder	$ 31	$ 222	$ 153	$ —	$ 52	$ 311	$ 769	24.0 %
Owner occupied	251	3	27	6	1	48	336	10.4 %
Multi family	218	90	67	72	31	99	577	17.9 %
Retail (1)	171	—	4	54	4	45	278	8.6 %
Office	189	14	—	4	1	40	248	7.7 %
Hotel	158	—	25	28	35	91	337	10.5 %
Senior living facility	109	25	—	57	12	41	244	7.6 %
Industrial	67	—	—	—	23	36	126	3.9 %
Parking garage/lot	79	9	1	—	1	32	122	3.8 %
Land-residential (2)	—	—	7	—	—	5	12	0.4 %
Shopping Mall	—	—	16	—	—	—	16	0.5 %
Single family residence (3)	2	—	—	—	—	3	5	0.2 %
All other (4)	10	46	32	—	25	33	146	4.5 %
Total	$ 1,285	$ 409	$ 332	$ 221	$ 185	$ 784	$ 3,216	100.0 %
Percent by state	40.0 %	12.7 %	10.3 %	6.9 %	5.8 %	24.3 %	100.0 %	

(1) Includes multipurpose retail space, neighborhood centers, shopping centers and single-use retail space.
(2) Loans secured by land. Land residential includes development and unimproved vacant land.
(3) Loans secured by 1-4 single family residence properties.
(4) All other primarily includes: mini-storage facilities, data centers, movie theaters, etc.

Commercial and industrial loans. C&I LHFI facilities typically include lines of credit and term loans and leases to businesses for use in normal business operations to finance working capital, equipment and capital purchases, acquisitions and expansion projects. We lend to customers with a history of profitability and a long-term business model. Generally, leverage conforms to industry standards and the minimum debt service coverage is 1.20 times. The majority of our C&I loans earn interest at a variable rate.

As of September 30, 2021, our C&I portfolio included $718 million of SNCs. We are the lead bank on 11 percent of the SNCs. The finance and insurance sector and the services sector comprised the majority of the portfolio's NBV with 41 and 29 percent of the balance, respectively. The SNC portfolio had forty-five borrowers with an average amortized cost of $16 million and an average commitment of $36 million. Within the SNC portfolio, there were no NPLs, no loans were rated as special mention, and loans totaling $23 million of amortized cost were rated as substandard as of September 30, 2021.

As of September 30, 2021, our C&I portfolio included $302 million of leveraged lending, of which $138 million were SNCs. The manufacturing sector comprised 60 percent of the leveraged lending portfolio, and the financial and insurance sector comprised 17 percent. There were $35 million in NPLs as of September 30, 2021, and loans totaling $50 million were rated substandard and no loans were rated as special mention. Included in the financial and insurance sector within our C&I portfolio are $95 million in loans outstanding to 5 borrowers that are collateralized by MSR assets. Our amounts outstanding to those borrowers range from $0 million to $43 million and the ratio of the loan outstanding to the fair market value of the collateral ranges from 15 percent to 47 percent.

The following table presents amortized cost of our total C&I LHFI by borrower's geographic location and industry type as defined by North American Industry Classification System:

	MI	CA	OH	WI	IN	FL	TX	SC	NY	CT	Other	Total	% by industry
	(Dollars in millions)												
September 30, 2021													
Financial & Insurance	$ 26	$ 20	$ 16	$ 37	$ —	$ 42	$ 30	$ 87	$ 71	$ 4	$ 80	$ 413	29.8 %
Services	115	11	1	—	3	—	—	—	—	41	98	269	19.4 %
Manufacturing	221	—	29	6	—	—	17	—	4	—	43	320	23.1 %
Home Builder Finance	—	20	—	—	—	88	55	—	—	—	—	163	11.8 %
Rental & Leasing	101	—	—	—	—	—	—	—	—	—	19	120	8.7 %
Distribution	44	7	1	—	1	—	—	—	—	—	3	56	4.0 %
Healthcare	2	1	1	—	—	—	—	—	—	—	11	15	1.1 %
Government & Education	2	2	—	—	—	—	—	—	—	12	—	16	1.2 %
Servicing Advances	—	—	—	—	—	—	—	—	—	—	—	—	— %
Commodities	1	5	—	—	1	—	—	—	—	—	8	15	1.1 %
Total	$ 511	$ 66	$ 48	$ 43	$ 5	$ 130	$ 102	$ 87	$ 75	$ 57	$ 262	$ 1,387	100.0 %
Percent by state	36.8 %	4.8 %	3.4 %	3.1 %	0.5 %	9.4 %	7.3 %	6.3 %	5.4 %	4.1 %	18.9 %	100.0 %	

Warehouse lending. We have a national platform with relationship managers across the country. We offer warehouse lines of credit to other mortgage lenders which allow the lender to fund the closing of residential mortgage loans. Each extension, advance, or draw-down on the line is fully collateralized by residential mortgage loans and is paid off when the lender sells the loan to an outside investor or, in some instances, to the Bank. In response to COVID-19, we have lowered the advance rate for loans that we believe have higher risk.

Underlying mortgage loans are predominantly originated using the Agencies' underwriting standards. The guideline for debt to tangible net worth is 15 to 1. The aggregate committed amount of adjustable-rate warehouse lines of credit granted to other mortgage lenders at September 30, 2021 was $11.0 billion, of which $6.2 billion was outstanding, compared to $10.0 billion at September 30, 2020, of which $7.6 billion was outstanding.

Credit Quality

Our focus on effectively managing credit risk through our careful underwriting standards and processes has resulted in strong trends in certain credit quality characteristics in our loan portfolios. The credit quality of our loan portfolios is demonstrated by low delinquency levels, minimal charge-offs and low levels of NPLs.

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

Nonperforming assets

The following table sets forth our nonperforming assets:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
LHFI		
Residential first mortgage	$ 38	$ 23
Home equity	6	3
Other consumer	3	2
Commercial real estate	—	3
Commercial and industrial	35	15
Total nonperforming LHFI	82	46
TDRs		
Residential first mortgage	9	8
Home equity	3	2
Total nonperforming TDRs	12	10
Total nonperforming LHFI and TDRs (1)	94	56
Real estate and other nonperforming assets, net	6	8
LHFS	10	9
Total nonperforming assets	$ 110	$ 73
Nonperforming assets to total assets (2)	0.37 %	0.21 %
Nonperforming LHFI and TDRs to LHFI	0.66 %	0.34 %
Nonperforming assets to LHFI and repossessed assets (2)	0.70 %	0.40 %

(1) Includes less than 90 days past due performing loans placed on nonaccrual. Interest is not being accrued on these loans.
(2) Ratio excludes LHFS, which are recorded at fair value.

The following table sets forth activity related to our total nonperforming LHFI and TDRs:

	Three Months Ended,		Nine Months Ended,	
	September 30, 2021	June 30, 2021	September 30, 2021	September 30, 2020
	(Dollars in millions)		(Dollars in millions)	
Beginning balance	$ 75	$ 60	$ 56	$ 26
Additions	42	23	75	39
Reductions	—	—	—	1
Principal payments	(15)	(7)	(25)	(11)
Charge-offs	(7)	(1)	(8)	(4)
Return to performing status	—	—	(2)	(6)
Transfers to REO	(1)	—	(2)	—
Total nonperforming LHFI and TDRs (1)	$ 94	$ 75	$ 94	$ 45

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

Delinquencies

The following table sets forth loans 30-89 days past due in our LHFI portfolio:

	September 30, 2021		December 31, 2020	
	Amount	% of LHFI	Amount	% of LHFI
	(Dollars in millions)			
Performing loans past due 30-89:				
Consumer loans				
Residential first mortgage	$ 7	0.05 %	$ 8	0.05 %
Home equity	3	0.02 %	2	0.01 %
Other consumer	4	0.03 %	5	0.03 %
Total consumer loans	14	0.10 %	15	0.09 %
CRE	—	— %	20	0.12 %
C&I	—	— %	2	0.01 %
Total commercial loans	—	— %	22	0.13 %
Total performing loans past due 30-89 days	$ 14	0.10 %	$ 37	0.22 %

For further information, see Note 4 - Loans Held-for-Investment.

Payment Deferrals

Beginning in March 2020, as a response to COVID-19, we offered our consumer borrowers principal and interest payment deferrals, forbearance and/or extensions up to a maximum period of 18 months. Consumer borrowers were not required to provide proof of hardship to be granted forbearance or payment deferral. Typically, payment history is the primary tool used to identify consumer borrowers who are experiencing financial difficulty. Forbearance or payment deferrals make this determination more challenging. In addition, consumer borrowers who have requested forbearance or payment deferrals are not being aged and remain in the aging category they were in prior to forbearance or payment deferral while they remain in a forbearance or payment deferral status.

The table below summarizes borrowers in our consumer loan portfolios that are in forbearance or were granted a payment deferral:

	As of September 30, 2021			As of June 30, 2021		
	Number of Borrowers	UPB	Percent of Portfolio	Number of Borrowers	UPB	Percent of Portfolio
	(Dollars in millions)					
Loans Held-For-Investment						
Consumer loans						
Residential first mortgage	447	$ 112	6.9 %	536	$ 143	8.1 %
Home equity	89	10	1.5 %	155	16	2.2 %
Other consumer	92	4	0.3 %	115	5	0.4 %
Total consumer loan deferrals/forbearance	628	$ 126	3.6 %	806	164	4.5 %
Loans Held-For-Sale						
Residential first mortgage	105	$ 37	0.6 %	88	$ 37	0.6 %

There were no performing commercial borrowers in payment deferral as of September 30, 2021.

The table below summarizes the percent of our residential loan servicing portfolio in forbearance as of September 30, 2021:

	Total Population		Loans in Forbearance: Borrowers making July, August and September Payments		Loans in Forbearance: Remaining Borrowers		Total Loans in Forbearance		
	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Total UPB	Percent of UPB	Percent of Accounts
	(Dollars in millions)								
Loan servicing									
Subserviced for others (2)	$ 229,746	1,006,406	$ 1,330	6,733	$ 8,141	37,915	$ 9,471	4.1 %	4.4 %
Serviced for others (3) (4)	31,397	124,801	249	1,160	673	2,469	922	2.9 %	2.9 %
Serviced for own loan portfolio (5)	10,898	72,733	66	359	1,384	6,016	1,450	13.3 %	8.8 %
Total loans serviced	$ 272,041	1,203,940	$ 1,645	8,252	$ 10,198	46,400	$ 11,843	4.4 %	4.5 %

(1) UPB, net of write downs, does not include premiums or discounts.
(2) Loans subserviced for a fee for non-Flagstar owned loans or MSRs. Includes temporary short-term subservicing performed as a result of sales of servicing-released MSRs.
(3) Loans for which Flagstar owns the MSR.
(4) Of the $0.2 billion of GNMA repurchase options on the balance sheet as of September 30, 2021, $133 million relates to loans in forbearance and are included in remaining borrowers.
(5) Includes LHFI (residential first mortgage, home equity and other consumer), LHFS (residential first mortgage), and LGG (residential first mortgage). Approximately $1.3 billion, or 91 percent, of the $1.4 billion of total loans in forbearance within the serviced for own loan portfolio relate to loans with government guarantees in forbearance that were repurchased and carry little credit risk.

The table below summarizes the percent of our residential loan servicing portfolio in forbearance as of June 30, 2021:

	Total Population		Loans in Forbearance: Borrowers making April, May, and June Payments		Loans in Forbearance: Remaining Borrowers		Total Loans in Forbearance		
	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Total UPB	Percent of UPB	Percent of Accounts
	(Dollars in millions)								
Loan servicing									
Subserviced for others (2)	$ 211,775	975,467	$ 1,150	6,025	$ 10,617	49,255	$ 11,767	5.6 %	5.7 %
Serviced for others (3) (4)	34,263	139,028	222	1,057	1,782	7,131	2,004	5.8 %	5.9 %
Serviced for own loan portfolio (5)	9,686	67,989	57	369	982	4,244	1,039	10.7 %	6.8 %
Total loans serviced	$ 255,724	1,182,484	$ 1,429	7,451	$ 13,381	60,630	$ 14,810	5.8 %	5.8 %

(1) UPB, net of write downs, does not include premiums or discounts.
(2) Loans subserviced for a fee for non-Flagstar owned loans or MSRs. Includes temporary short-term subservicing performed as a result of sales of servicing-released MSRs.
(3) Loans for which Flagstar owns the MSR.
(4) Of the $1.0 billion of GNMA repurchase options on the balance sheet as of June 30, 2021, $642 million relates to loans in forbearance and are included in remaining borrowers.
(5) Includes LHFI (residential first mortgage, home equity and other consumer), LHFS (residential first mortgage), and LGG (residential first mortgage). Approximately $840 million, or 81 percent, of the $1.0 billion of total loans in forbearance within the serviced for own loan portfolio relate to loans with government guarantees in forbearance that were repurchased and carry little credit risk.

As the MSR owner for loans serviced for others, the Agencies require us to advance payments on past due loans as follows:

	Principal and Interest	Taxes and Insurance
Fannie Mae and Freddie Mac	4 months	No time limit
GNMA	No time limit	No time limit

We believe that we have ample liquidity to handle servicing advances related to these loans. We initially provide advances on a short-term basis for loans we subservice and are reimbursed by the MSR owner. Our advance receivable for our subserviced loans is therefore insignificant.

Troubled debt restructurings (held-for-investment)

TDRs are modified loans in which a borrower demonstrates financial difficulties and for which a concession has been granted as a result. Nonperforming TDRs are included in nonaccrual loans. TDRs remain in nonperforming status until a borrower has made payments and is current for at least six consecutive months. Performing TDRs are not considered to be nonaccrual so long as we believe that all contractual principal and interest due under the restructured terms will be collected.

Since March 2020, as a response to COVID-19, we have offered our consumer and commercial customers principal and interest payment deferrals and extensions up to a maximum period of 18 months. We considered these programs in the context of whether or not the short-term modifications of these loans would constitute a TDR. We considered the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), interagency guidance and related guidance from the FASB, which provided that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not required to be accounted for as TDRs. As a result, we have determined that these loans are not TDRs. We believe our application of the referenced guidance and accounting for these programs is appropriate.

The following table sets forth a summary of TDRs by performing status:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Performing TDRs		
Consumer Loans		
Residential first mortgage	$ 25	$ 19
Home equity	9	12
Total consumer loans	34	31
Commercial Loans		
Commercial real estate	—	5
Commercial and industrial	—	—
Total commercial loans	—	5
Total performing TDRs	34	36
Nonperforming TDRs		
Nonperforming TDRs	5	4
Nonperforming TDRs, performing for less than six months	9	6
Total nonperforming TDRs	14	10
Total TDRs	$ 48	$ 46

At September 30, 2021 our total TDR loans were consistent with December 31, 2020, primarily due to principal payments and payoffs out pacing new additions. Of our total TDR loans, 71 percent and 77 percent were in performing status at September 30, 2021 and December 31, 2020, respectively. For further information, see Note 4 - Loans Held-for-Investment.

Allowance for Credit Losses

The ACL represents Management's estimate of lifetime losses in our LHFI portfolio which have not yet been realized. For further information see Note 1 - Basis of Presentation and Note 4 - Loans Held-for-Investment.

The following tables present the changes in the ACL balance for the three months ended September 30, 2021:

	Three Months Ended September 30, 2021								
	Residential First Mortgage (1)	Home Equity	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total LHFI Portfolio (2)	Unfunded Commitments	Total ACL
	(Dollars in millions)								
Beginning allowance balance	$ 48	$ 17	$ 38	$ 58	$ 38	$ 3	$ 202	$ 18	$ 220
Provision (benefit) for credit losses:									
Loan volume	(1)	(1)	2	1	—	—	1	1	2
Economic forecast (3)	(2)	(1)	—	(3)	(4)	—	(10)	—	(10)
Credit (4)	(1)	1	—	(11)	17	—	6	—	6
Qualitative factor adjustments (5)	(1)	(1)	(8)	(10)	(8)	—	(28)	—	(28)
Charge-offs	(1)	—	(1)	—	(6)	—	(8)	—	(8)
Recoveries	1	1	—	—	—	—	2	—	2
Provision for net charge-offs	$ —	$ (1)	$ 1	$ —	$ 6	$ —	6	$ —	6
Ending allowance balance	$ 43	$ 15	$ 32	$ 35	$ 43	$ 3	$ 171	$ 19	$ 190

(1) Includes loans with government guarantees where insurance limits may result in a loss in excess of all or part of the guarantee.
(2) Excludes loans carried under the fair value option.
(3) Includes changes in the lifetime loss rate based on current economic forecasts as compared to forecasts used in the prior quarter.
(4) Includes changes in the probability of default and severity of default based on current borrower and guarantor characteristics, as well as individually evaluated reserves.
(5) Includes $6 million of unallocated reserve attributed to various portfolios for presentation purposes.

	Nine Months Ended September 30, 2021								
	Residential First Mortgage (1)	Home Equity	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total LHFI Portfolio (2)	Unfunded Commitments	Total ACL
	(Dollars in millions)								
Beginning allowance balance	$ 49	$ 25	$ 39	$ 84	$ 51	$ 4	$ 252	$ 28	$ 280
Provision (benefit) for credit losses:									
Loan volume	2	(3)	5	4	1	(1)	8	(9)	(1)
Economic forecast (3)	(6)	(4)	(1)	(5)	(13)	—	(29)	—	(29)
Credit (4)	5	3	1	(33)	16	—	(8)	—	(8)
Qualitative factor adjustments (5)	(7)	(6)	(12)	(15)	(12)	—	(52)	—	(52)
Charge-offs	(4)	(1)	(3)	—	(7)	—	(15)	—	(15)
Recoveries	2	1	2	—	16	—	21	—	21
Provision for net charge-offs	$ 2	$ —	$ 1	$ —	$ (9)	$ —	$ (6)	$ —	(6)
Ending allowance balance	$ 43	$ 15	$ 32	$ 35	$ 43	$ 3	$ 171	$ 19	$ 190

(1) Includes loans with government guarantees where insurance limits may result in a loss in excess of all or part of the guarantee.
(2) Excludes loans carried under the fair value option.
(3) Includes changes in the lifetime loss rate based on current economic forecasts as compared to forecasts used in the prior quarter.
(4) Includes changes in the probability of default and severity of default based on current borrower and guarantor characteristics, as well as individually evaluated reserves.
(5) Includes $6 million of unallocated reserve attributed to various portfolios for presentation purposes.

The ACL was $190 million at September 30, 2021, compared to $220 million at June 30, 2021. The decrease in the allowance is primarily reflective of improvements in our economic forecasts and our evaluation of the performance of the LHFI portfolio as borrowers continue to recover from the economic stress caused by the pandemic. We utilized the Moody's September scenarios in our forecast: a growth forecast, weighted at 30 percent; a baseline forecast, weighted at 40 percent; and an adverse forecast, weighted at 30 percent. The resulting composite forecast for the third quarter of 2021 was improved as compared to the scenario used in the second quarter 2021. Unemployment ends 2021 at 5 percent and will continue to recover in 2022. GDP continues to recover in the last quarter of 2021 and returns to pre-COVID levels in 2023. HPI decreases slightly through 2022, at a lower rate as compared to the scenario used in the second quarter of 2021. Qualitative adjustments reflect our best estimate of the COVID-19 impact on portfolios including estimated impact of government stimulus, forbearance/payment holidays and FRB programs. We judgmentally decreased the qualitative reserves by $28 million, driven by a decrease in the model output from Moody's adverse scenario, improvement in the financial performance and business conditions of previously identified industries and borrowers we previously believed could be more exposed to the stressful conditions in our forecast and a stabilizing portfolio of loans in forbearance.

The ACL as a percentage of LHFI was 1.3 percent as of September 30, 2021 compared to 1.7 percent as of December 31, 2020. Excluding warehouse, the allowance as a percentage of LHFI was 2.3 percent at September 30, 2021 compared to 3.2 percent at December 31, 2020. The decrease in the allowance, as a percentage of LHFI is reflective of the improvement in the economic and credit forecast used during the period and the performance of our portfolio. At September 30, 2021, we had a 2.6 percent and 0.9 percent allowance coverage on our consumer loan portfolio and our commercial loan portfolio, respectively.

The following tables set forth certain information regarding the allocation of our allowance to each loan category, including the allowance amount as a percentage of amortized cost and average loan life:

	September 30, 2021				
	LHFI Portfolio (1)	Percent of Portfolio	Allowance Amount (2)	Allowance as a Percent of Loan Portfolio	Weighted Average Loan Life (in years)
Consumer loans					
Residential first mortgage	$ 1,611	11.3 %	$ 43	2.7 %	5
Home equity	655	4.6 %	15	2.3 %	3
Other consumer	1,204	8.4 %	33	2.7 %	3
Total consumer loans	3,470	24.3 %	91	2.6 %	
Commercial loans					
Commercial real estate	$ 3,216	22.6 %	$ 47	1.5 %	1
Commercial and industrial	1,387	9.7 %	47	3.4 %	2
Warehouse lending	6,179	43.4 %	5	0.1 %	—
Total commercial loans	10,782	75.7 %	99	0.9 %	
Total consumer and commercial loans	$ 14,252	100.0 %	$ 190	1.3 %	
Total consumer and commercial loans excluding warehouse	$ 8,073	N/M	$ 185	2.3 %	

(1) Excludes loans carried under the fair value option.
(2) Includes ALLL and reserve for unfunded commitments.

	December 31, 2020				
	LHFI Portfolio (1)	Percent of Portfolio	Allowance Amount (2)	Allowance as a Percent of Loan Portfolio	Weighted Average Loan Life (in years)
Consumer loans					
Residential first mortgage	$ 2,251	13.9 %	$ 49	2.2 %	4
Home equity	854	5.3 %	25	2.9 %	3
Other consumer	1,004	6.2 %	40	4.0 %	3
Total consumer loans	4,109	25.4 %	114	2.8 %	
Commercial loans					
Commercial real estate	$ 3,060	18.9 %	$ 103	3.4 %	2
Commercial and industrial	1,382	8.5 %	57	4.1 %	2
Warehouse lending	7,658	47.2 %	6	0.1 %	—
Total commercial loans	12,100	74.6 %	166	1.4 %	
Total consumer and commercial loans	$ 16,209	100.0 %	$ 280	1.7 %	
Total consumer and commercial loans excluding warehouse	$ 8,551	N/M	$ 274	3.2 %	

(1) Excludes loans carried under the fair value option.
(2) Includes ALLL and reserve for unfunded commitments.

Market Risk

Market risk is the risk of reduced earnings and/or declines in the net market value of the balance sheet due to changes in market rates. Our primary market risk is interest rate risk which impacts our net interest income, fee income related to interest sensitive activities such as mortgage closing and servicing income, and loan and deposit demand.

We are subject to interest rate risk due to:

- The maturity or repricing of assets and liabilities at different times or for different amounts
- Differences in short-term and long-term market interest rate changes
- The remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change

Our ALCO, which is composed of our executive officers and certain members of other management, monitors interest rate risk on an ongoing basis in accordance with policies approved by our Board of Directors. The ALCO reviews interest rate positions and considers the impact projected interest rate scenarios have on earnings, capital, liquidity, business strategies, and other factors. However, Management has the latitude to change interest rate positions within certain limits if, in Management's judgment, the change will enhance profitability or minimize risk.

To assess and manage interest rate risk, sensitivity analysis is used to determine the impact on earnings and the net market value of the balance sheet across various interest rate scenarios, balance sheet trends, and strategies.

Net interest income sensitivity

Management uses a simulation model to analyze the sensitivity of net interest income to changes in interest rates across various interest rate scenarios which demonstrates the level of interest rate risk inherent in the existing balance sheet. The analysis holds the current balance sheet values constant and does not take into account management intervention. In addition, we assume certain correlation rates, often referred to as a “deposit beta”, for interest-bearing deposits, wherein the rates paid to customers change relative to changes in benchmark interest rates. The effect on net interest income over a 12-month time horizon due to hypothetical changes in market interest rates is presented in the table below. In this interest rate shock simulation, as of the periods presented, interest rates have been adjusted by instantaneous parallel changes rather than in a ramp simulation which applies interest rate changes over time. All rates, short-term and long-term, are changed by the same amount (e.g. plus 100 basis points) resulting in the shape of the yield curve remaining unchanged.

September 30, 2021			
Scenario	**Net interest income**	**$ Change**	**% Change**
	(Dollars in millions)		
100	$830	$111	15.4%
Constant	719	—	—%
(100)	N/M	N/M	N/M

December 31, 2020			
Scenario	**Net interest income**	**$ Change**	**% Change**
	(Dollars in millions)		
100	$791	$94	13.5%
Constant	697	—	—%
(100)	N/M	N/M	N/M

In the net interest income simulations, our balance sheet exhibits asset sensitivity. When interest rates rise our net interest income increases. Conversely, when interest rates fall our net interest income decreases.

The net interest income sensitivity analysis has certain limitations and makes various assumptions. Key elements of this interest rate risk exposure assessment include maintaining a static balance sheet and parallel rate shocks. Future interest rates not moving in a parallel manner across the yield curve, how the balance sheet will respond and shift based on a change in future interest rates and how the Company will respond are not included in this analysis and limit the predictive value of these scenarios.

Economic value of equity

Management also utilizes EVE, a point in time analysis of the economic value of our current balance sheet position, which measures interest rate risk over a longer term. The EVE calculation represents a hypothetical valuation of equity, and is defined as the market value of assets, less the market value of liabilities, adjusted for the market value of off-balance sheet instruments. The assessment of both the short-term earnings (Net Interest Income Sensitivity) and long-term valuation (EVE) approaches, rather than Net Interest Income Sensitivity alone provides a more comprehensive analysis of interest rate risk exposure.

There are assumptions and inherent limitations in any methodology used to estimate the exposure to changes in market interest rates and as such, sensitivity calculations used in this analysis are hypothetical and should not be considered to be predictive of future results. This analysis evaluates risks to the current balance sheet only and does not incorporate future growth assumptions. Additionally, the analysis assumes interest rate changes are instantaneous and the new rate environment is constant but does not include actions Management may undertake to manage risk in response to interest rate changes. Each rate scenario reflects unique prepayment and repricing assumptions. Management derives these assumptions by considering published market prepayment expectations, repricing characteristics, our historical experience, and our asset and liability management strategy. This analysis assumes that changes in interest rates may not affect or could partially affect certain instruments based on their characteristics.

The following table is a summary of the changes in our EVE that are projected to result from hypothetical changes in market interest rates as well as our internal policy limits for changes in our EVE based on the different scenarios. The interest rates, as of the dates presented, are adjusted by instantaneous parallel rate increases and decreases as indicated in the scenarios shown in the table below.

September 30, 2021					December 31, 2020					
Scenario	EVE	EVE %	$ Change	% Change	Scenario	EVE	EVE %	$ Change	% Change	Policy Limits for % Change
(Dollars in millions)										
300	$ 4,524	16.9 %	$ 984	27.8 %	300	$ 3,948	12.7 %	$ 890	29.1 %	(22.5)%
200	$ 4,273	16.0 %	$ 733	20.7 %	200	$ 3,755	12.1 %	$ 697	22.8 %	(15.0)%
100	$ 3,952	14.8 %	$ 412	11.6 %	100	$ 3,474	11.2 %	$ 416	13.6 %	(7.5)%
Current	$ 3,540	13.2 %	$ —	— %	Current	$ 3,058	9.9 %	$ —	— %	— %
(100)	N/M	N/M	N/M	N/M	(100)	N/M	N/M	N/M	N/M	7.5 %

Our balance sheet exhibits asset sensitivity in various interest rate scenarios. The increase in EVE as rates rise is the result of the amount of assets that would be expected to reprice exceeding the amount of liabilities expected to reprice. At September 30, 2021 and December 31, 2020, for each scenario shown, the percentage change in our EVE is within our Board policy limits.

Derivative financial instruments

As a part of our risk management strategy, we use derivative financial instruments to minimize fluctuation in earnings caused by market risk. We use forward sales commitments to hedge our unclosed mortgage closing pipeline and funded mortgage LHFS. All of our derivatives and mortgage loan production originated for sale are accounted for at fair market value. Changes to our unclosed mortgage closing pipeline are based on changes in fair value of the underlying loan, which is impacted most significantly by changes in interest rates and changes in the probability that the loan will not fund within the terms of the commitment, referred to as a fallout factor or, inversely, a pull-through rate. Market risk on interest rate lock commitments and mortgage LHFS is managed using corresponding forward sale commitments. The adequacy of these hedging strategies, and the ability to fully or partially hedge market risk, rely on various assumptions or projections, including a fallout factor, which is based on a statistical analysis of our actual rate lock fallout history. For further information, see Note 8 - Derivative Financial Instruments and Note 16 - Fair Value Measurements.

Mortgage Servicing Rights (MSRs)

Our MSRs are sensitive to interest rate volatility and are highly susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve. We utilize derivatives, including interest rate swaps and swaptions, as part of our overall hedging strategy to manage the impact of changes in the fair value of the MSRs, however these risk management strategies do not completely eliminate repricing risk. Our hedging strategies rely on assumptions and projections regarding assets and general market factors, many of which are outside of our control. For further information, see Note 7 - Mortgage Servicing Rights, Note 8 - Derivative Financial Instruments and Note 16 - Fair Value Measurements.

Liquidity Risk

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

Parent Company Liquidity

The Company currently obtains its liquidity primarily from dividends from the Bank. The primary uses of the Company's liquidity are debt service, operating expenses and the payment of cash dividends to shareholders, which were increased to $0.06 per share in the first quarter 2021. The Company holds $150 million of subordinated debt which is scheduled to mature on November 1, 2030. During June 2021, the Bank remitted a $200 million payment to the Company and at September 30, 2021, the Company held $223.5 million of cash on deposit at the Bank which is sufficient to cover the cash outflows needed to service the subordinated debt, pay dividends and cover the operating expenses of the Company for more than 10 years.

The OCC and the FRB regulate all capital distributions made by the Bank, directly or indirectly, to the holding company, including dividend payments. Whether an application or notice is required is based on a number of factors including whether the institution qualifies for expedited treatment under the OCC rules and regulations or if the total amount of all capital distributions (including each proposed capital distribution) for the applicable calendar year exceeds net income for that year to date plus the retained net income for the preceding two years, or the Bank would not be at least adequately capitalized following the dividend. Additional restrictions on dividends apply if the Bank fails the QTL test for more than three out of the prior twelve months. As of September 30, 2021, the Bank is in compliance with the QTL test, having qualified assets above the 65 percent requirement for eleven of the prior twelve months. At September 30, 2021, the Bank is able to pay dividends to the holding company of approximately $705 million without submitting an application to the OCC and remain well capitalized.

Bank Liquidity

Our primary sources of funding are deposits from retail and government customers, custodial deposits related to loans we service and FHLB borrowings. We use the FHLB of Indianapolis as a significant source for funding our residential mortgage origination business due to the flexibility in terms which allows us to borrow or repay borrowings as daily cash needs require. The amount we can borrow, or the value we receive for the assets pledged to our liquidity providers, varies based on the amount and type of pledged collateral, as well as the perceived market value of the assets and the "haircut" of the market value of the assets. That value is sensitive to the pricing and policies of our liquidity providers and can change with little or no notice.

Further, other sources of liquidity include our LHFS portfolio and unencumbered investment securities. We primarily originate agency-eligible LHFS and therefore the majority of new residential first mortgage loan closings are readily convertible to cash, either by selling them as part of our monthly agency sales, RMBS, private party whole loan sales, or by pledging them to the FHLB and borrowing against them. In addition, we have the ability to sell unencumbered investment securities or use them as collateral. At September 30, 2021, we had $1.6 billion available in unencumbered investment securities.

Our primary measure of liquidity is a ratio of ready liquidity to volatile funding, the volatile funds coverage ratio (“VFCR”). The VFCR is a liquidity coverage ratio that is customized to our business and ensures we have adequate coverage to meet our liquidity needs during times of liquidity stress. Volatile funds are the portion of the Bank’s funding identified as being at a higher risk of runoff in times of stress. Ready liquidity consists of cash on reserve at the Federal Reserve and unused borrowing capacity provided by the loan and investments portfolios. The VFCR is calculated, reported, and forecasted daily as part of our liquidity management framework and as of September 30, 2021 was 112 percent and in compliance with our internal policy limit.

Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. We balance the liquidity of our loan assets to our available funding sources. Our LHFI portfolio is funded with stable core deposits whereas our warehouse loans and LHFS may be funded with FHLB borrowings and custodial deposits. Warehouse loans are typically more liquid than other loan assets, as loans are paid within a short amount of time, when the lender sells the loan to an outside investor or, in some instances, to the Bank. As not all asset categories require the same level of liquidity, our loan-to-deposit ratio shows how we manage our liquidity position, how much liquidity we have and the agility of our balance sheet. The Company's average HFI loan-to-deposit ratio was 68.8 percent as of September 30, 2021. Excluding warehouse loans, which have draws that typically pay off within a few weeks, and custodial deposits, which represent mortgage escrow accounts on deposit with the Bank, the average HFI loan-to-deposit ratio was 60.3 percent as of September 30, 2021.

As governed and defined by our policy, we maintain adequate excess liquidity levels appropriate to cover unanticipated liquidity needs. In addition to this liquidity, we also maintain targeted minimum levels of unused borrowing capacity as another cushion against unexpected liquidity needs. Each business day, we forecast 90 days of daily cash needs. This allows us to determine our projected near term daily cash fluctuations and also to plan and adjust, if necessary, future activities. As a result, in an adverse environment, we believe we would be able to make adjustments to operations as required to meet the liquidity needs of our business, including adjusting deposit rates to increase deposits, planning for additional FHLB borrowings, accelerating sales of LHFS (agencies and/or private), selling LHFI or investment securities, borrowing through the use of repurchase agreements, reducing closings, making changes to warehouse funding facilities, or borrowing from the discount window.

The following table presents primary sources of funding as of the dates indicated:

	September 30, 2021	December 31, 2020	Change
	(Dollars in millions)		
Retail deposits	$ 9,897	$ 9,971	$ (74)
Government deposits	2,450	1,765	685
Wholesale deposits	1,301	1,031	270
Custodial deposits	5,688	7,206	(1,518)
Total deposits	19,336	19,973	(637)
FHLB advances and other short-term debt	3,270	5,100	(1,830)
Other long-term debt	396	641	(245)
Total borrowed funds	3,666	5,741	(2,075)
Total funding	$ 23,002	$ 25,714	$ (2,712)

The following table presents certain liquidity sources and borrowing capacity as of the dates indicated:

	September 30, 2021	December 31, 2020	Change
	(Dollars in millions)		
Federal Home Loan Bank advances			
Outstanding advances	$ 2,495	$ 4,615	$ (2,120)
Line of credit	—	—	—
Total used borrowing capacity	$ 2,495	$ 4,615	$ (2,120)
Borrowing capacity:			
Line of credit	$ 30	$ 30	$ —
Collateralized borrowing capacity	4,440	2,360	2,080
Total unused borrowing capacity	$ 4,470	$ 2,390	$ 2,080
FRB discount window			
Collateralized borrowing capacity	$ 1,719	$ 1,374	$ 345
Unencumbered investment securities			
Agency - Commercial (1)	$ 848	$ 1,263	$ (415)
Agency - Residential (1)	702	815	(113)
Municipal obligations	19	23	(4)
Corporate debt obligations	32	62	(30)
Other	1	1	—
Total unencumbered investment securities	1,602	2,164	(562)
Total liquidity sources and borrowing capacity	$ 10,286	$ 10,543	$ (257)

(1) These are not currently pledged to the FHLB but are eligible to be pledged, at our discretion.

Deposits

The following table presents the composition of our deposits:

	September 30, 2021		December 31, 2020		
	Balance	% of Deposits	Balance	% of Deposits	Change
			(Dollars in millions)		
Retail deposits					
Branch retail deposits					
Savings accounts	$ 3,686	19.1 %	$ 3,437	17.2 %	$ 249
Certificates of deposit/CDARS (1)	988	5.1 %	1,355	6.8 %	(367)
Demand deposit accounts	1,840	9.5 %	1,726	8.6 %	114
Money market demand accounts	493	2.5 %	490	2.5 %	3
Total branch retail deposits	7,007	36.2 %	7,008	35.1 %	(1)
Commercial deposits (2)					
Demand deposit accounts	2,043	10.6 %	2,294	11.5 %	(251)
Savings accounts	467	2.4 %	461	2.3 %	6
Money market demand accounts	380	2.0 %	208	1.0 %	172
Total commercial retail deposits	2,890	14.9 %	2,963	14.8 %	(73)
Total retail deposits	$ 9,897	51.2 %	$ 9,971	49.9 %	$ (74)
Government deposits					
Savings accounts	$ 1,096	5.7 %	$ 778	3.9 %	$ 318
Demand deposit accounts	707	3.7 %	529	2.6 %	178
Certificates of deposit/CDARS (1)	647	3.3 %	458	2.3 %	189
Total government deposits	2,450	12.7 %	1,765	8.8 %	685
Custodial deposits (3)	5,688	29.4 %	7,206	36.1 %	(1,518)
Wholesale deposits	1,301	6.7 %	1,031	5.2 %	270
Total deposits (4)	$ 19,336	100.0 %	$ 19,973	100.0 %	$ (637)

(1) The aggregate amount of CD with a minimum denomination of $100,000 was approximately $1.2 billion and $1.3 billion at September 30, 2021 and December 31, 2020, respectively.
(2) Contains deposits from commercial and business banking customers.
(3) Represents investor custodial accounts and escrows controlled by us in connection with loans serviced or subserviced for others that have been placed on deposit with the Bank.
(4) Total exposure related to uninsured deposits over $250,000 was approximately $6.0 billion and $5.9 billion at September 30, 2021 and December 31, 2020, respectively.

Total deposits decreased $0.6 billion, or 3 percent, at September 30, 2021 compared to December 31, 2020, primarily driven by a decrease in custodial deposits partially offset by an increase in government deposits.

We utilize local governmental agencies and other public units as an additional source for deposit funding. At September 30, 2021, we were required to hold collateral for certain Michigan, California, Indiana, Wisconsin and Ohio government deposits based on a variety of factors including, but not limited to, the size of individual deposits, FDIC limits and external bank ratings. At September 30, 2021, collateral held on government deposits was $214 million. At September 30, 2021, government deposit accounts included $647 million of CD with maturities typically less than one year and $1.8 billion of checking and savings accounts.

Custodial deposits arise due to our servicing or subservicing of loans for others and represent the portion of the investor custodial accounts on deposit with the Bank. For certain subservice agreements, these deposits require us to credit the MSR owner interest against subservicing income. This cost is a component of net loan administration income.

We participate in the CDARS program, through which certain customer CDs are exchanged for CDs of similar amounts from other participating banks and customers may receive FDIC insurance up to $50 million. This program helps the Bank secure larger deposits and attract and retain customers. At September 30, 2021, we had $107 million of total CDs enrolled in the CDARS program, a decrease of $17 million from December 31, 2020.

FHLB Advances

The FHLB provides loans, also referred to as advances, on a fully collateralized basis, to savings banks and other member financial institutions. 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.

We rely upon advances from the FHLB as a source of funding for the closing or purchase of loans for sale in the secondary market and for providing duration specific short-term and long-term financing. The outstanding balance of FHLB advances fluctuates from time to time depending on our current inventory of mortgage LHFS and the availability of lower cost funding sources. Our portfolio includes short-term fixed rate advances and long-term fixed rate advances.

We are currently authorized through a resolution of our Board of Directors to apply for advances from the FHLB using approved loan types as collateral, which includes residential first mortgage loans, HELOC, and CRE loans. As of September 30, 2021, our Board of Directors authorized and approved a line of credit with the FHLB of up to $10 billion, which is further limited based on our total assets and qualified collateral, as determined by the FHLB. At September 30, 2021, we had $2.5 billion of advances outstanding and an additional $4.4 billion of collateralized borrowing capacity available at the FHLB.

Federal Reserve Discount Window

We have arrangements with the FRB of Chicago to borrow from its discount window. The discount window is a borrowing facility that we may utilize for short-term liquidity needs arising from special or unusual circumstances. The amount we are allowed to borrow is based on the lendable value of the collateral that we provide. To collateralize the line, we pledge investment securities and loans that are eligible based on FRB of Chicago guidelines.

At September 30, 2021, we pledged collateral, which included commercial loans, municipal bonds, and agency bonds, to the FRB of Chicago amounting to $2.4 billion with a lendable value of $1.7 billion. At December 31, 2020, we pledged collateral to the FRB of Chicago amounting to $1.9 billion with a lendable value of $1.4 billion. We do not typically utilize this available funding source, and at September 30, 2021 and December 31, 2020, we had no borrowings outstanding against this line of credit.

Other Unsecured Borrowings

We have access to overnight federal funds purchased lines with other Federal Reserve member institutions. We utilize this source of funding for short-term liquidity needs, depending on the availability and cost of our other funding sources. At September 30, 2021 we had $775 million of borrowings outstanding under this source of funding. Additional borrowing capacity under this and other sources of funding can vary depending on market conditions.

Debt

As part of our overall capital strategy, we previously raised capital through the issuance of junior subordinated notes to our special purpose trusts formed for the offerings, which issued Tier 1 qualifying preferred stock ("trust preferred securities"). The trust preferred securities are callable by us at any time. Interest is payable on a quarterly basis; however, we may defer interest payments for up to 20 quarters without default or penalty. At September 30, 2021, we are current on all interest payments. Additionally, we have $150 million of subordinated debt outstanding (the "Notes"), which matures on November 1, 2030.

Operational Risk

Operational risk is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events which may include vendor failures, fraudulent activities, disasters, and security risks. We continuously strive to adapt our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk.

We evaluate internal systems, processes and controls to identify potential vulnerabilities and mitigate potential loss from cyber-attacks. The goal of this framework is to implement effective operational risk techniques and strategies, minimize operational and fraud losses, and enhance our overall performance.

Loans with Government Guarantees

Substantially all of our LGG continue to be insured or guaranteed by the FHA or the U.S. Department of Veterans Affairs ("VA"). In the event of a government guaranteed loan borrower default, the Bank has a unilateral option to repurchase loans sold to GNMA if the loan is due, but unpaid, for three consecutive months (typically referred to as 90 days past due) and can recover losses through a claims process from the guarantor. Nonperforming repurchased loans in this portfolio earn interest at a rate based upon the 10-year U.S. Treasury note rate from the time the underlying loan becomes 60 days delinquent until the loan is conveyed to HUD (if foreclosure timelines are met), which is not paid by the FHA until claimed. Additionally, if the Bank cures the loan, it can be resold to GNMA. If not, the Bank can begin the process of collecting the government guarantee by filing a claim in accordance with established guidelines. Certain loans within our portfolio may be subject to indemnifications and insurance limits which expose us to limited credit risk.

During the nine months ended September 30, 2021, we had $2.6 million in net charge-offs related to LGG and have reserved for the remaining risks within other assets and as a component of our ALLL on residential first mortgages. These additional expenses or charges arise due to insurance limits on VA insured loans and FHA property foreclosure and preservation requirements that may result in a loss in excess of all, or part of, the guarantee.

Our LGG portfolio totaled $1.9 billion at September 30, 2021, as compared to $2.5 billion at December 31, 2020. GNMA has granted borrowers with an option to seek forbearance on their mortgage repayments. $144 million of GNMA loans were in forbearance as of September 30, 2021. When a GNMA loan is due, but unpaid, for three consecutive months (typically referred to as 90 days past due) the loan is required to be re-recognized on the balance sheet by the MSR owner. These loans are recorded in LGG, and a liability to repurchase the loans is recorded in loans with government guarantees repurchase options on the Consolidated Statements of Financial Condition. This resulted in $0.2 billion of repurchase options as of September 30, 2021, a $1.7 billion decrease from December 31, 2020 as we have repurchased a majority of these loans at the end of their forbearance period. We are working to utilize the partial claims process or modify and re-sell the loans when they become current for a period of six consecutive months which we believe will be accretive to net income. We may not be able to utilize the partial claims process or modify and re-sell all of the $1.7 billion of loans we have repurchased in our LGG portfolio. In this instance we would utilize the guarantee on these loans and incur certain administrative expenses.

For further information, see Note 5 - Loans with Government Guarantees and the Credit Risk - Payment Deferrals section of the MD&A.

Representation and Warranty Reserve

When we sell mortgage loans, we make customary representations and warranties to the purchasers, including sponsored securitization trusts and their insurers (primarily Fannie Mae and Freddie Mac). An estimate of the fair value of the guarantee associated with the mortgage loans is recorded in other liabilities in the Consolidated Statements of Financial Condition, which was $7 million at September 30, 2021 and December 31, 2020.

Capital

Management actively reviews and manages our capital position and strategy. We conduct quarterly capital stress tests and capital adequacy assessments which utilize internally defined scenarios. These analyses are designed to help Management and the Board better understand the integrated sensitivity of various risk exposures through quantifying the potential financial and capital impacts of hypothetical stressful events and scenarios. We make adjustments to our balance sheet composition taking into consideration potential business risks, regulatory requirements and the flexibility to support future growth. We prudently manage our capital position and work with our regulators to ensure that our capital levels are appropriate considering our risk profile.

The capital standards we are subject to include requirements contemplated by the Dodd-Frank Act as well as guidelines reached by Basel III. These risk-based capital adequacy guidelines are intended to measure capital adequacy with regard to a banking organization’s balance sheet, including off-balance sheet exposures such as unused portions of loan commitments, letters of credit, and recourse arrangements. Our capital ratios are maintained at levels in excess of those considered to be "well-capitalized" by regulators. Our Tier 1 leverage was 9.72 percent at September 30, 2021 providing a 472 basis point stress buffer above the minimum level needed to be considered “well-capitalized.” Additionally, total risk-based capital to RWA was 14.55 percent at September 30, 2021 providing a 455 basis point buffer above the minimum level needed to be considered "well-capitalized". This represents a 42 basis point improvement over the prior quarter primarily driven by our strong quarterly earnings.

Dodd-Frank Act Section 171, commonly known as the Collins Amendment, established minimum Tier 1 leverage and risk-based capital requirements for insured depository institutions, depository institution holding companies, and non-bank financial companies that are supervised under the Federal Reserve. Under the amendment, certain hybrid securities, such as trust preferred securities, may be included in Tier 1 capital for bank holding companies that had total assets below $15 billion as of December 31, 2009. As we were below $15 billion in assets as of December 31, 2009, the trust preferred securities classified as long-term debt on our balance sheet will be included as Tier 1 capital, unless we complete an acquisition of a depository institution holding company or a depository institution and we report total assets greater than $15 billion in the quarter in which the acquisition occurs. Should that event occur, our trust preferred securities would be included in Tier 2 capital.

Regulatory Capital

The Bank and Flagstar are subject to the Basel III-based U.S. rules, including capital simplification in 2020.

On March 27, 2020, in response to COVID-19, U.S. banking regulators issued an interim final rule that allows banking organizations the option to delay the initial adoption impact of CECL on regulatory capital for two years followed by a three-year transition period. During the two-year delay we will add back to CET1 capital 100 percent of the initial adoption impact of CECL plus 25 percent of the cumulative quarterly changes in the ACL (i.e., quarterly transitional amounts). After two years, starting on January 1, 2022, the quarterly transitional amounts along with the initial adoption impact of CECL will be phased out of CET1 capital over the three-year period.

For the period presented, the following table sets forth our capital ratios as well as our excess capital over well-capitalized minimums.

Flagstar Bancorp	**Actual**		**Well-Capitalized Under Prompt Corrective Action Provisions**		**Excess Capital Over Well-Capitalized Minimum**
	Amount	**Ratio**	**Amount**	**Ratio**	**Capital Simplification**
			(Dollars in millions)		
September 30, 2021					
Tier 1 leverage capital (to adjusted avg. total assets)	2,709	9.72 %	1,393	5.0 %	$ 1,316
Common equity Tier 1 capital (to RWA)	2,469	11.95 %	1,343	6.5 %	1,126
Tier 1 capital (to RWA)	2,709	13.11 %	1,653	8.0 %	1,056
Total capital (to RWA)	3,006	14.55 %	2,066	10.0 %	940

As presented in the table above, our constraining capital ratio is our total capital to risk weighted assets at 14.55 percent. It would take a $940 million after-tax loss, with the balance sheet remaining constant, for our total risk-based capital ratio to fall below the level considered to be "well-capitalized".

As of September 30, 2021, we had $340 million in MSRs, $78 million in DTAs arising from temporary differences and no material investments in unconsolidated financial institutions or minority interest which drive differences between our current capital ratios. For additional information on our capital requirements, see Note 14 - Regulatory Matters.

Use of Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this report includes certain non-GAAP financial measures. We believe these non-GAAP financial measures provide additional information that is useful to investors in helping to understand the underlying performance and trends of the Company.

Non-GAAP financial measures have inherent limitations, which are not required to be uniformly applied and are not audited. Readers should be aware of these limitations and should be cautious with respect to the use of such measures. To mitigate these limitations, we have practices in place to ensure that these measures are calculated using the appropriate GAAP or regulatory components in their entirety and to ensure that our performance is properly reflected to facilitate consistent period-to-period comparisons. Our method of calculating these non-GAAP measures may differ from methods used by other companies. Although we believe the non-GAAP financial measures disclosed in this report enhance investors' understanding of our business and performance, these non-GAAP measures should not be considered in isolation, or as a substitute for those financial measures prepared in accordance with GAAP. Where non-GAAP financial measures are used, the most directly comparable GAAP or regulatory financial measure, as well as the reconciliation to the most directly comparable GAAP or regulatory financial measure, can be found in this report.

Tangible book value per share, return on average tangible common equity, adjusted return on average tangible common equity, adjusted return on average assets, adjusted noninterest expense, adjusted provision for income taxes, adjusted net income, adjusted basic earnings per share, adjusted diluted earnings per share, adjusted net interest margin and adjusted efficiency ratio. The Company believes that these non-GAAP financial measures provide a meaningful representation of its operating performance on an ongoing basis for investors, securities analysts, and others. Management uses these measures to assess performance of the Company against its peers and evaluate overall performance.

The following tables provide a reconciliation of non-GAAP financial measures.

	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
			(Dollars in millions)		
Total stockholders' equity	$ 2,645	$ 2,498	$ 2,358	$ 2,201	$ 2,195
Less: Goodwill and intangible assets	149	152	155	157	160
Tangible book value/Tangible common equity	$ 2,496	$ 2,346	$ 2,203	$ 2,044	$ 2,035
Number of common shares outstanding	52,862,383	52,862,264	52,752,600	52,656,067	57,150,470
Tangible book value per share	$ 47.21	$ 44.38	$ 41.77	$ 38.80	$ 35.60
Total assets	$ 27,042	$ 27,065	$ 29,449	$ 31,038	$ 29,476
Tangible common equity to assets ratio	9.23 %	8.67 %	7.48 %	6.58 %	6.90 %

	Three Months Ended,		Nine Months Ended,	
	September 30, 2021	June 30, 2021	September 30, 2021	September 30, 2020
		(Dollars in millions, except share data)		
Net income	$ 152	$ 147	$ 448	$ 384
Plus: Intangible asset amortization, net of tax	2	2	6	7
Tangible net income	154	149	454	391
Total average equity	2,592	2,448	2,454	1,991
Less: Average goodwill and intangible assets	151	153	—	165
Total average tangible equity	2,441	2,295	2,454	1,826
Return on average tangible common equity	25.18 %	25.92 %	24.65 %	28.58 %
Adjustment to remove DOJ settlement expense	— %	— %	2.34 %	— %
Adjustment for former CEO SERP agreement	— %	(2.14)%	(0.67) %	— %
Adjustment for merger costs	0.98 %	1.89 %	0.91 %	— %
Adjusted Return on average tangible common equity	26.16 %	25.67 %	27.23 %	28.58 %
Return on average assets	2.16 %	2.09 %	2.08 %	1.97 %
Adjustment to remove DOJ	— %	— %	0.13 %	— %
Adjustment for former CEO SERP settlement agreement	— %	(0.11)%	(0.04) %	— %
Adjustment for merger costs	0.05 %	0.10 %	0.05 %	— %
Adjusted return on average assets	2.21 %	2.08 %	2.22 %	1.97 %

Adjusted HFI loan-to-deposit ratio.

	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
			(Dollars in millions)		
Average LHFI	$ 13,540	$ 13,688	$ 14,915	$ 15,703	$ 14,839
Less: Average warehouse loans	5,392	5,410	6,395	6,948	5,697
Adjusted average LHFI	$ 8,148	$ 8,278	$ 8,520	$ 8,755	$ 9,142
Average deposits	$ 19,686	$ 19,070	$ 20,043	$ 21,068	$ 19,561
Less: Average custodial deposits	6,180	6,188	7,194	8,527	7,347
Adjusted average deposits	$ 13,506	$ 12,882	$ 12,849	$ 12,541	$ 12,214
HFI loan-to-deposit ratio	68.8 %	71.8 %	74.4 %	74.5 %	75.9 %
Adjusted HFI loan-to-deposit ratio	60.3 %	64.3 %	66.3 %	69.8 %	74.8 %

	Three Months Ended,		Nine Months Ended,	
	September 30, 2021	June 30, 2021	September 30, 2021	September 30, 2020
		(Dollars in millions)		
Noninterest expense	$ 286	$ 289	$ 922	$ 827
Adjustment to remove DOJ settlement expense	$ —	$ —	$ 35	$ —
Adjustment for former CEO SERP agreement	$ —	$ (10)	$ (10)	$ —
Adjustment for merger costs	$ 5	$ 9	$ 14	$ —
Adjusted noninterest expense	$ 281	$ 290	$ 883	$ 827
Income before income taxes	$ 198	$ 190	$ 581	$ 499
Adjustment to remove DOJ settlement expense	$ —	$ —	$ 35	$ —
Adjustment for former CEO SERP agreement	$ —	$ (10)	$ (10)	$ —
Adjustment for merger costs	$ 5	$ 9	$ 14	$ —
Adjusted income before income taxes	$ 203	$ 189	$ 620	$ 499
Provision for income taxes	$ 46	$ 43	$ 133	$ 115
Adjustment to remove DOJ settlement expense	$ —	$ —	$ (8)	$ —
Adjustment for former CEO SERP agreement	$ —	$ 2	$ 2	$ —
Adjustment for merger costs	$ (1)	$ (2)	$ (3)	$ —
Adjusted provision for income taxes	$ 47	$ 43	$ 142	$ 115
Net income	$ 152	$ 147	$ 448	$ 384
Adjusted net income	$ 156	$ 146	$ 478	$ 384
Weighted average common shares outstanding	52,862,288	52,763,868	52,767,923	56,827,171
Weighted average diluted common shares	53,659,422	53,536,669	53,499,289	57,231,689
Adjusted basic earnings per share	$ 2.98	$ 2.78	$ 9.04	$ 6.76
Adjusted diluted earnings per share	$ 2.94	$ 2.73	$ 8.92	$ 6.71
Average interest earning assets	$ 25,656	$ 25,269	$ 26,029	$ 23,535
Net interest margin	3.00 %	2.90 %	2.90 %	2.81 %
Adjustment to LGG loans available for repurchase	0.04 %	0.16 %	0.14 %	0.07 %
Adjusted net interest margin	3.04 %	3.06 %	3.04 %	2.88 %
Efficiency Ratio	62 %	67 %	66 %	56 %
Adjustment to remove DOJ settlement expense	— %	— %	(3)%	— %
Adjustment for former CEO SERP agreement	— %	1 %	1 %	— %
Adjustment for merger costs	(1)%	(1)%	(1)%	— %
Adjusted efficiency ratio	61 %	67 %	63 %	56 %

Critical Accounting Estimates

Various elements of our accounting policies, by their nature, are subject to estimation techniques, valuation assumptions and other subjective assessments. Certain accounting policies that, due to the judgment, estimates and assumptions are critical to an understanding of our Consolidated Financial Statements and the Notes, are described in Item 1. These policies relate to: (a) the determination of our ACL and (b) fair value measurements. We believe the judgment, estimates and assumptions used in the preparation of our Consolidated Financial Statements and the Notes are appropriate given the factual circumstances at the time. However, given the sensitivity of our Consolidated Financial Statements and the Notes to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in our results of operations and/or financial condition.

For further information on our critical accounting policies, please refer to our Form 10-K for the year ended December 31, 2020, which is available on our website, flagstar.com, under the Investor Relations section, or on the website of the Securities and Exchange Commission, at sec.gov.

Forward – Looking Statements

Certain statements in this Form 10-Q, including but not limited to statements included within the Management's Discussion and Analysis of Financial Condition, Results of Operations, and certain statements with respect to the pending merger of Flagstar and New York Community Bancorp, Inc. ("NYCB") including without limitation the expected timing of consummation of the merger, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. In addition, we may make forward-looking statements in our other documents filed with or furnished to the Security and Exchange Commission, and our Management may make forward-looking statements orally to analysts, investors, representatives of the media, and others.

Generally, forward-looking statements are not based on historical facts but instead represent Management's current beliefs and expectations regarding future events and are subject to significant risks and uncertainties. The COVID-19 pandemic is adversely affecting us, our customers, counterparties, employees, and third-party service providers, and the ultimate extent of the impacts on our business, financial position, results of operations, liquidity, and prospects is uncertain. Other than as required under United States securities laws, Flagstar does not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements. Such statements may be identified by words such as believe, expect, anticipate, intend, plan, estimate, may increase, may fluctuate, and similar expressions or future or conditional verbs such as will, should, would, and could. Our actual results and capital and other financial conditions may differ materially from those described in the forward-looking statements depending upon a variety of factors, including without limitation: the occurrence of any event, change or other circumstances that could give rise to the right of one or both of the parties to terminate the definitive merger agreement among Flagstar, NYCB, and 615 Corp.; the outcome of any legal proceedings that may be instituted against Flagstar or NYCB; the possibility that the proposed transaction will not close when expected or at all because required regulatory or other approvals are not received or other conditions to the closing are not satisfied on a timely basis or at all, or are obtained subject to conditions that are not anticipated; the ability of Flagstar and NYCB to meet expectations regarding the timing, completion and accounting and tax treatments of the proposed transaction; the risk that any announcements relating to the proposed transaction could have adverse effects on the market price of the common stock of Flagstar and/or NYCB; the possibility that the anticipated benefits of the proposed transaction will not be realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in the areas where Flagstar and NYCB do business; certain restrictions during the pendency of the proposed transaction that may impact the parties' ability to pursue certain business opportunities or strategic transactions; the possibility that the proposed transaction may be more expensive to complete than anticipated, including as a result of unexpected factors or events; diversion of management's attention from ongoing business operations and opportunities; the possibility that the parties may be unable to achieve expected synergies and operating efficiencies in the proposed transaction within the expected timeframes or at all and to successfully integrate Flagstar's operations and those of NYCB; such integration may be more difficult, time consuming or costly than expected; revenues following the proposed transaction may be lower than expected; potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the proposed transaction; Flagstar's and NYCB's success in executing their respective business plans and strategies and managing the risks involved in the foregoing; and the precautionary statements included within the discussion and analysis of our results of operations and the risk factors listed and described in Item 1A to Part I, of our Annual Report on Form 10-K for the year ended December 31, 2020, which are incorporated by reference herein, and Item 1A. to Part II, of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2021.

Other than as required under United States securities laws, we do not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements.

Item 1. Financial Statements

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

	September 30, 2021	December 31, 2020
	(Unaudited)	
Assets		
Cash	$ 103	$ 251
Interest-earning deposits	46	372
Total cash and cash equivalents	149	623
Investment securities available-for-sale	1,802	1,944
Investment securities held-to-maturity	236	377
Loans held-for-sale ($5,996 and $7,009 measured at fair value, respectively)	6,378	7,098
Loans held-for-investment ($12 and $13 measured at fair value, respectively)	14,268	16,227
Loans with government guarantees	1,945	2,516
Less: allowance for loan losses	(171)	(252)
Total loans held-for-investment and loans with government guarantees, net	16,042	18,491
Mortgage servicing rights	340	329
Federal Home Loan Bank stock	377	377
Premises and equipment, net	370	392
Goodwill and intangible assets	149	157
Other assets	1,199	1,250
Total assets	$ 27,042	$ 31,038
Liabilities and Stockholders' Equity		
Noninterest bearing deposits	$ 8,108	$ 9,458
Interest bearing deposits	11,228	10,515
Total deposits	19,336	19,973
Short-term Federal Home Loan Bank advances and other	1,870	3,900
Long-term Federal Home Loan Bank advances	1,400	1,200
Other long-term debt	396	641
Loans with government guarantees repurchase options	163	1,851
Other liabilities ($0 and $35 measured at fair value, respectively)	1,232	1,272
Total liabilities	24,397	28,837
Stockholders' Equity		
Common stock $0.01 par value, 80,000,000 shares authorized; 52,862,383 and 52,656,067 shares issued and outstanding, respectively	1	1
Additional paid in capital	1,362	1,346
Accumulated other comprehensive income	38	47
Retained earnings	1,244	807
Total stockholders' equity	2,645	2,201
Total liabilities and stockholders' equity	$ 27,042	$ 31,038

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Unaudited)			
Interest Income				
Loans	$ 197	$ 190	$ 579	$ 551
Investment securities	12	16	35	56
Interest-earning deposits and other	—	—	—	1
Total interest income	209	206	614	608
Interest Expense				
Deposits	7	16	25	69
Short-term Federal Home Loan Bank advances and other	1	2	3	16
Long-term Federal Home Loan Bank advances	3	3	9	9
Other long-term debt	3	5	11	18
Total interest expense	14	26	48	112
Net interest income	195	180	566	496
(Benefit) provision for credit losses	(23)	32	(95)	148
Net interest income after provision for credit losses	218	148	661	348
Noninterest Income				
Net gain on loan sales	169	346	564	739
Loan fees and charges	33	41	112	102
Net return on mortgage servicing rights	9	12	4	10
Loan administration income	31	26	85	59
Deposit fees and charges	9	8	26	24
Other noninterest income	15	15	51	44
Total noninterest income	266	448	842	978
Noninterest Expense				
Compensation and benefits	130	123	396	341
Occupancy and equipment	46	47	141	132
Commissions	44	72	156	162
Loan processing expense	22	20	65	59
Legal and professional expense	12	9	32	20
Federal insurance premiums	6	6	16	19
Intangible asset amortization	3	3	8	10
Other noninterest expense	23	21	108	84
Total noninterest expense	286	301	922	827
Income before income taxes	198	295	581	$ 499
Provision for income taxes	46	73	133	115
Net income	$ 152	$ 222	$ 448	$ 384
Net income per share				
Basic	$ 2.87	$ 3.90	$ 8.48	$ 6.76
Diluted	$ 2.83	$ 3.88	$ 8.37	$ 6.71
Cash dividends declared	$ 0.06	$ 0.05	$ 0.18	$ 0.15
Weighted average shares outstanding				
Basic	52,862,288	57,032,746	52,767,923	56,827,171
Diluted	53,659,422	57,379,809	53,499,289	57,231,689

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
		(Unaudited)		
Net income	$ 152	$ 222	$ 448	$ 384
Other comprehensive income, net of tax				
Investment securities	(8)	—	(25)	55
Derivatives and hedging activities	1	—	16	(10)
Other comprehensive income, net of tax	(7)	—	(9)	45
Comprehensive income	$ 145	$ 222	$ 439	$ 429

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

Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
(In millions, except share data)

	Common Stock						
	Number of Shares	Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at June 30, 2021	52,862,264	$ 1	$ 1,356	$ 45	$ 1,096	$ 2,498
(Unaudited)						
Net income	—	—	—	—	152	152
Total other comprehensive income	—	—	—	(7)	—	(7)
Stock-based compensation	—	—	6	—	—	6
Dividends declared and paid	119	—	—	—	(4)	(4)
Balance at September 30, 2021	52,862,383	$ 1	$ 1,362	$ 38	$ 1,244	$ 2,645
Balance at December 31, 2020	52,656,067	$ 1	$ 1,346	$ 47	$ 807	$ 2,201
(Unaudited)						
Net income	—	—	—	—	448	448
Total other comprehensive income	—	—	—	(9)	—	(9)
Shares issued from the Employee Stock Purchase Plan	106,707	—	—	—	—	—
Stock-based compensation	99,255	—	16	—	—	16
Dividends declared and paid	354	—	—	—	(11)	(11)
Balance at September 30, 2021	52,862,383	$ 1	$ 1,362	$ 38	$ 1,244	$ 2,645
Balance at June 30, 2020	56,943,979	$ 1	$ 1,488	$ 46	$ 436	$ 1,971
(Unaudited)						
Net income	—	—	—	—	222	222
Total other comprehensive income	—	—	—	—	—	—
Shares issued from the Employee Stock Purchase Plan	43,946	—	—	—	—	—
Stock-based compensation	162,371	—	5	—	—	5
Dividends declared and paid	174	—	—	—	(3)	(3)
Balance at September 30, 2020	57,150,470	$ 1	$ 1,493	$ 46	$ 655	$ 2,195
Balance at December 31, 2019	56,631,236	$ 1	$ 1,483	$ 1	$ 303	$ 1,788
(Unaudited)						
Net income	—	—	—	—	384	384
Total other comprehensive income	—	—	—	45	—	45
Shares issued from the Employee Stock Purchase Plan	149,789	—	—	—	—	—
Stock-based compensation	368,862	—	10	—	—	10
Dividends declared and paid	583	—	—	—	(9)	(9)
CECL ASU Adjustment to RE	—	—	—	—	(23)	(23)
Balance at September 30, 2020	57,150,470	$ 1	$ 1,493	$ 46	$ 655	$ 2,195

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

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

	Nine Months Ended September 30,	
	2021	2020
	(Unaudited)	
Operating Activities		
Net cash used in operating activities	$ (1,585)	$ (5,991)
Investing Activities		
Proceeds from sale of AFS securities including loans that have been securitized	1,322	6,175
Collection of principal on investment securities AFS	572	395
Purchase of investment securities AFS and other	(283)	(359)
Collection of principal on investment securities HTM	141	158
Proceeds received from the sale of LHFI	79	433
Net closings, purchases, and principal repayments of LHFI	1,919	(4,794)
Acquisition of premises and equipment, net of proceeds	(27)	(44)
Net purchase of FHLB stock	—	(74)
Net proceeds from the sale of MSRs	147	42
Other, net	(13)	(11)
Net cash provided by investing activities	3,857	1,921
Financing Activities		
Net change in deposit accounts	(636)	4,799
Net change in short-term FHLB borrowings and other short-term debt	(2,030)	(1,939)
Proceeds from increases in FHLB long-term advances and other debt	200	550
Repayment of long-term debt	(246)	(3)
Net receipt of payments of loans serviced for others	(50)	531
Dividends declared and paid	(11)	(9)
Other	26	(8)
Net cash (used in) provided by financing activities	(2,747)	3,921
Net change in cash, cash equivalents and restricted cash (1)	(475)	(149)
Beginning cash, cash equivalents and restricted cash (1)	654	456
Ending cash, cash equivalents and restricted cash (1)	$ 179	$ 307
Supplemental disclosure of cash flow information		
Non-cash reclassification of LHFI to LHFS	$ 53	$ 445
Non-cash reclassification of LHFS to securitized LHFS	$ 1,517	$ 6,183
MSRs resulting from sale or securitization of loans	$ 196	$ 209
Beneficial interest in RMBS	$ 195	$ —
Operating section supplemental disclosures		
Proceeds from sales of LHFS	$ 39,929	$ 30,332
Closings, premium paid and purchase of LHFS, net of principal repayments	$ (41,112)	$ (35,603)

(1) For further information on restricted cash, see Note 8 - Derivatives.

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

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

Note 1 - Basis of Presentation

The accompanying financial statements of Flagstar Bancorp, Inc. ("Flagstar," or the "Company"), including its wholly owned principal subsidiary, Flagstar Bank, FSB (the "Bank"), have been prepared using GAAP for interim financial statements. Where we say "we," "us," "our," the "Company," "Bancorp" or "Flagstar," we usually mean Flagstar Bancorp, Inc. However, in some cases, a reference to "we," "us," "our," the "Company" or "Flagstar" will include the Bank.

These consolidated financial statements do not include all of the information and footnotes required by GAAP for a full year presentation and certain disclosures have been condensed or omitted in accordance with rules and regulations of the SEC. These interim financial statements are unaudited and include, in our opinion, all adjustments necessary for a fair statement of the results for the periods indicated, which are not necessarily indicative of results which may be expected for the full year. These consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020, which is available on our website, flagstar.com, and on the SEC website at sec.gov.

On April 26, 2021, it was announced that New York Community Bancorp, Inc. ("NYCB") and Flagstar had entered into a definitive merger agreement (the "Merger Agreement") under which the two companies will combine in an all stock merger. Under the terms of the Merger Agreement, Flagstar shareholders will receive 4.0151 shares of NYCB common stock for each Flagstar share they own. The new company expects to have over $87 billion in assets and operate nearly 400 traditional branches in nine states and 84 loan production offices across a 28 state footprint. On August 4, 2021, Flagstar's and NYCB's shareholders each voted in their respective special meetings of shareholders to approve the proposed business combination. The transaction is subject to customary closing conditions, including regulatory approvals.

Note 2 - Investment Securities

The following table presents our investment securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
September 30, 2021				
Available-for-sale securities				
Agency - Commercial	$ 708	$ 18	$ —	$ 726
Agency - Residential	749	14	(2)	761
Corporate debt obligations	70	3	—	73
Municipal obligations	22	—	—	22
Other MBS	219	—	—	219
Certificate of deposits	1	—	—	1
Total available-for-sale securities (1)	$ 1,769	$ 35	$ (2)	$ 1,802
Held-to-maturity securities				
Agency - Commercial	$ 117	$ 3	$ —	$ 120
Agency - Residential	119	5	—	124
Total held-to-maturity securities (1)	$ 236	$ 8	$ —	$ 244
December 31, 2020				
Available-for-sale securities				
Agency - Commercial	$ 1,018	$ 43	$ —	$ 1,061
Agency - Residential	707	28	—	735
Corporate debt obligations	75	2	—	77
Municipal obligations	27	1	—	28
Other MBS	42	—	—	42
Certificate of deposits	1	—	—	1
Total available-for-sale securities (1)	$ 1,870	$ 74	$ —	$ 1,944
Held-to-maturity securities				
Agency - Commercial	$ 193	$ 7	$ —	$ 200
Agency - Residential	184	9	—	193
Total held-to-maturity securities (1)	$ 377	$ 16	$ —	$ 393

(1) There were no securities of a single issuer, which are not governmental or government-sponsored, that exceeded 10 percent of stockholders' equity at September 30, 2021 or December 31, 2020.

We evaluate AFS debt securities where the value has declined below amortized cost for impairment. If we intend to sell or believe it is more likely than not that we will be required to sell the debt security, it is written down to fair value through earnings. For AFS debt securities we intend to hold, we evaluate the debt securities for expected credit losses, except for debt securities that are guaranteed by the U.S. Treasury, U.S. government agencies or sovereign entities of high credit quality for which we apply a zero loss assumption, comprised 85 percent of our AFS portfolio as of September 30, 2021. For the remaining AFS securities, credit losses are recognized as an increase to the ACL through the credit loss provision. If any of the decline in fair value is related to market factors, that amount is recognized in OCI. We had no unrealized credit losses as of September 30, 2021 and December 31, 2020.

We separately evaluate our HTM debt securities for any credit losses. As of September 30, 2021 and December 31, 2020, our entire HTM portfolio qualified for the zero loss assumption as all securities are guaranteed by the U.S. Treasury or U.S. government agencies.

Investment securities transactions are recorded on the trade date for purchases and sales. Interest earned on investment securities, including the amortization of premiums and the accretion of discounts, are determined using the effective interest method over the period of maturity and recorded in interest income in the Consolidated Statements of Operations. Accrued interest receivable on investment securities totaled $5 million at both September 30, 2021 and December 31, 2020, and was reported in other assets on the Consolidated Statements of Financial Condition.

Available-for-sale securities

Securities AFS are carried at fair value. Unrealized gains and losses on AFS securities are reported as a component of other comprehensive income.

We purchased $0 million and $283 million of AFS securities, which were comprised of U.S. government sponsored agency MBS, CD, and corporate debt obligations during the three and nine months ended September 30, 2021. In addition, we retained $137 million and $195 million of passive interests in our own private MBS during the three and nine months ended September 30, 2021. We retained $0 million and $18 million of passive interests in our own private MBS during the three and nine months ended September 30, 2020, respectively.

There were no sales of AFS securities during both the three and nine months ended September 30, 2021 other than those related to mortgage loans that had been securitized for sale in the normal course of business.

Held-to-maturity securities

Investment securities HTM are carried at amortized cost and adjusted for amortization of premiums and accretion of discounts using the interest method. Unrealized losses are not recorded to the extent they are temporary in nature.

There were no purchases or sales of HTM securities during both the three and nine months ended September 30, 2021 and September 30, 2020.

The following table summarizes the unrealized loss positions on AFS and HTM investment securities, by duration of the unrealized loss:

	Unrealized Loss Position with Duration 12 Months and Over			Unrealized Loss Position with Duration Under 12 Months		
	Fair Value	Number of Securities	Unrealized Loss	Fair Value	Number of Securities	Unrealized Loss
	(Dollars in millions)					
September 30, 2021						
Available-for-sale securities						
Agency - Commercial	$ 4	2	$ —	$ 11	4	$ —
Agency - Residential	—	—	—	274	13	(2)
Corporate debt obligations	—	—	—	3	1	—
Other mortgage-backed securities	—	1	—	32	3	—
Held-to-maturity securities						
Agency - Residential	$ —	—	$ —	$ —	1	$ —
December 31, 2020						
Available-for-sale securities						
Agency - Commercial	$ 3	1	$ —	$ 7	2	$ —
Agency - Residential	—	—	—	—	1	—
Corporate debt obligations	—	—	—	10	3	—
Other mortgage-backed securities	—	—	—	—	1	—
Held-to-maturity securities						
Agency - Residential	$ —	—	$ —	$ 2	3	$ —

Unrealized losses on AFS securities have not been recognized into income because almost all of the portfolio held by us are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. The remaining unrealized losses on AFS securities are private securitizations, all of which are considered de minimis. The fair value is expected to recover as the bonds approach maturity.

The following table shows the amortized cost and estimated fair value of securities by contractual maturity:

	Investment Securities Available-for-Sale			Investment Securities Held-to-Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield (1)	Amortized Cost	Fair Value	Weighted Average Yield (1)
	(Dollars in millions)					
September 30, 2021						
Due in one year or less	$ 6	$ 6	2.24 %	$ —	$ —	— %
Due after one year through five years	9	9	3.91 %	10	10	2.51 %
Due after five years through 10 years	119	125	3.65 %	3	3	1.99 %
Due after 10 years	1,635	1,662	2.23 %	223	231	2.52 %
Total	$ 1,769	$ 1,802		$ 236	$ 244	

(1) Weighted-average yields are based on amortized cost weighted for the contractual maturity of each security.

We pledge investment securities, primarily agency collateralized and municipal taxable mortgage obligations, to collateralize lines of credit and/or borrowings. At September 30, 2021 and December 31, 2020, we had pledged investment securities of $268 million and $202 million, respectively.

Note 3 - Loans Held-for-Sale

The majority of our mortgage loans closed as LHFS are ultimately sold into the secondary market on a whole loan basis or by securitizing the loans into agency, government, or private label MBS. LHFS totaled $6.4 billion and $7.1 billion at September 30, 2021 and December 31, 2020, respectively. For the three and nine months ended September 30, 2021 we had net gains on loan sales associated with LHFS of $169 million and $564 million as compared to $344 million and $737 million for the three and nine months ended September 30, 2020, respectively.

At September 30, 2021 and December 31, 2020, $364 million and $31 million, respectively, of LHFS were recorded at lower of cost or fair value, primarily comprised of LGG loans waiting to be resold. We elected the fair value option for the remainder of the loans in the portfolio.

Note 4 - Loans Held-for-Investment

We classify loans that we have the intent and ability to hold for the foreseeable future or until maturity as LHFI. We report LHFI at their amortized cost, which includes the outstanding principal balance adjusted for any unamortized premiums, discounts, deferred fees and costs. The accrued interest receivable on LHFI totaled $38 million at September 30, 2021 and $43 million at December 31, 2020 and was reported in other assets on the Consolidated Statements of Financial Condition.

The following table presents our LHFI:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Consumer loans		
Residential first mortgage	$ 1,626	$ 2,266
Home equity	657	856
Other	1,203	1,004
Total consumer loans	3,486	4,126
Commercial loans		
Commercial real estate	3,216	3,061
Commercial and industrial	1,387	1,382
Warehouse lending	6,179	7,658
Total commercial loans	10,782	12,101
Total loans held-for-investment	$ 14,268	$ 16,227

The following table presents the UPB of our loan sales and purchases in the LHFI portfolio:

	Nine Months Ended September 30,	
	2021	2020
	(Dollars in millions)	
Loans Sold (1)		
Performing loans	$ 92	$ 436
Total loans sold	$ 92	$ 436
Net gain associated with loan sales (2)		$ 3
Loans Purchased		
Home equity	$ —	$ —
Other consumer	—	63
Total loans purchased	$ —	$ 63

(1) Upon a change in our intent, the loans were transferred to LHFS and subsequently sold.
(2) Recorded in net gain on loan sales on Consolidated Statements of Operations.

We have pledged certain LHFI, LHFS, and LGG to collateralize lines of credit and/or borrowings with the FRB of Chicago and the FHLB of Indianapolis. At September 30, 2021 and December 31, 2020, we had pledged loans of $4.3 billion and $11.6 billion, respectively.

Allowance for Credit Losses on Loans

We determine the estimate of the ACL on at least a quarterly basis. The ACL represents Management's estimate of expected lifetime losses in our LHFI portfolio, excluding loans carried under the fair value option. In addition, we record a reserve for expected lifetime losses on our unfunded commitments - see Reserve for Unfunded Commitments section below. Therefore, we record ALLL on relevant financial assets and a reserve for unfunded commitments on our Consolidated Statements of Financial Condition, collectively referred to as the ACL.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual terms exclude expected extensions, renewals, and modifications unless the following applies: Management has a reasonable expectation at the reporting date that a TDR will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by us.

The ACL is impacted by changes in asset quality of the portfolio, including but not limited to increases in risk rating changes in our commercial portfolio, borrower delinquencies, changes in FICO scores or changes in LTVs in our consumer portfolio. In addition, while we have incorporated our forecasted impact of COVID-19 into our ACL, the ultimate impact of COVID-19 is still uncertain, including how long economic activity will be impacted by the pandemic and what effect the unprecedented levels of government fiscal and monetary actions will have on the economy and our credit losses.

Specifically identified component. The specifically identified component of ACL related to performing TDR loans is generally measured as the difference between the recorded investment in the specific loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Estimating the timing and amounts of future cash flow projections is highly judgmental and based upon assumptions including default rates, prepayment probability and loss severities. All of these estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

Specifically identified collateral dependent NPL loans are generally measured as the difference between the recorded investment in the impaired loan and the underlying collateral value less estimated costs to sell. These estimates are dependent on third-party property valuations which may be influenced by factors such as the current and future level of home prices, the duration of current overall economic conditions, and other macroeconomic and portfolio-specific factors.

Model-based component. A general allowance is established for lifetime losses inherent on non-impaired loans by segmenting the portfolio based upon common risk characteristics. Our consumer loan portfolio is segmented into Residential First Mortgage, Home Equity and Other Consumer. Loan characteristics impacting these segments include lien position, credit quality, and loan structure. At a high-level, our commercial loans are segmented into Commercial Real Estate, Commercial and Industrial, and Warehouse Lending. Loan characteristics impacting these segments include credit quality and loan structure.

We measure the allowance using the applicable dual risk rating model which measures probability of default, loss given default and exposure at default. As of September 30, 2021, we utilized the Moody’s September scenarios in our forecast: a growth forecast, weighted at 30 percent; a baseline forecast, weighted at 40 percent; and an adverse forecast, weighted at 30 percent. The resulting composite forecast for the third quarter of 2021 was improved as compared to the scenario used in the second quarter 2021. Unemployment ends 2021 at 5 percent and will continue to recover in 2022. GDP continues to recover in the last quarter of 2021 and returns to pre-COVID levels in 2023. HPI decreases slightly through 2022, at a lower rate as compared to the scenario used in the second quarter of 2021.

Qualitative adjustments. The specifically identified component analysis and the output of the model provide a reasonable starting point for our analysis, but do not, by themselves, form a sufficient basis to determine the appropriate level for the ACL. We therefore consider the qualitative factors that are likely to cause the ACL associated with our existing portfolio to differ from the output of the model. The most significant qualitative factors considered include changes in economic and business conditions, changes in nature and volume of portfolio and changes in the volume and severity of past due loans. The application of different inputs into the model calculation and the assumptions used by Management to adjust the model calculation are subject to significant management judgment and may result in actual credit losses that differ from the originally estimated amounts.

The following table presents changes in the ALLL, by class of loan:

	Residential First Mortgage (1)	Home Equity	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total
			(Dollars in millions)				
Three Months Ended September 30, 2021							
Beginning balance	$ 48	$ 17	$ 38	$ 58	$ 38	$ 3	$ 202
(Benefit) provision	(5)	(3)	(5)	(23)	11	—	(25)
Charge-offs	(1)	—	(1)	—	(6)	—	(8)
Recoveries	1	1	—	—	—	—	2
Ending allowance balance	$ 43	$ 15	$ 32	$ 35	$ 43	$ 3	$ 171
Three Months Ended September 30, 2020							
Beginning balance	$ 60	$ 28	$ 34	$ 83	$ 23	$ 1	$ 229
Provision	(6)	1	4	6	19	4	28
Charge-offs	(2)	(1)	(1)	—	—	—	(4)
Recoveries	—	1	1	—	—	—	2
Ending allowance balance	$ 52	$ 29	$ 38	$ 89	$ 42	$ 5	$ 255
Nine Months Ended September 30, 2021							
Beginning balance	$ 49	$ 25	$ 39	$ 84	$ 51	$ 4	$ 252
(Benefit) provision	(4)	(10)	(6)	(49)	(17)	(1)	$ (87)
Charge-offs	(4)	(1)	(3)	—	(7)	—	$ (15)
Recoveries	2	1	2	—	16	—	$ 21
Ending allowance balance	$ 43	$ 15	$ 32	$ 35	$ 43	$ 3	$ 171
Nine Months Ended September 30, 2020							
Beginning balance, prior to adoption of ASC 326	$ 22	$ 14	$ 6	$ 38	$ 22	$ 5	$ 107
Impact of adopting ASC 326	25	12	10	(14)	(6)	(4)	$ 23
Provision	10	3	24	65	26	4	$ 132
Charge-offs	(5)	(3)	(4)	—	—	—	$ (12)
Recoveries	—	3	2	—	—	—	$ 5
Ending allowance balance	$ 52	$ 29	$ 38	$ 89	$ 42	$ 5	$ 255

(1) Includes LGG.

The ALLL was $171 million at September 30, 2021 and $252 million at December 31, 2020. The decrease in the allowance is primarily reflective of improvements in our economic forecasts and our evaluation of the performance and stable credit quality of the LHFI portfolio as borrowers continue to recover from the economic stress caused by the pandemic.

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.

Beginning in March 2020, as a response to COVID-19, customers facing COVID-19 related difficulties were offered forbearance in an effort to help our borrowers get to the other side of the health crisis. As these loans reach the end of their forbearance period, we have been working with each customer to modify or refinance the outstanding loan to fit their new circumstances. Refer to payment deferral information in the Credit Risk Section of the MD&A for additional details.

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 NPLs). 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. We do not consider accrued interest receivable in our measurement of the ACL as accrued interest is written-off in a timely manner when the loan is placed on nonaccrual. We are not aging receivables for customers who have been granted a payment deferral in response to COVID-19 which remain in the aging category they were in at the time of payment deferral. We continue to accrue interest on these loans, consistent with our forbearance programs.

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)	Total Past Due	Current	Total LHFI (3) (4) (5)
	(Dollars in millions)					
September 30, 2021						
Consumer loans						
Residential first mortgage	$ 6	$ 1	$ 47	$ 54	$ 1,572	$ 1,626
Home equity	3	—	8	11	646	657
Other	3	1	3	7	1,196	1,203
Total consumer loans	12	2	58	72	3,414	3,486
Commercial loans						
Commercial real estate	—	—	—	—	3,216	3,216
Commercial and industrial	—	—	35	35	1,352	1,387
Warehouse lending	—	—	—	—	6,179	6,179
Total commercial loans	—	—	35	35	10,747	10,782
Total loans (2)	$ 12	$ 2	$ 93	$ 107	$ 14,161	$ 14,268
December 31, 2020						
Consumer loans						
Residential first mortgage	$ 4	$ 4	$ 31	$ 39	$ 2,227	$ 2,266
Home equity	1	1	5	7	849	856
Other	4	1	2	7	997	1,004
Total consumer loans	9	6	38	53	4,073	4,126
Commercial loans						
Commercial real estate	20	—	3	23	3,038	3,061
Commercial and industrial	1	—	15	16	1,366	1,382
Warehouse lending	—	—	—	—	7,658	7,658
Total commercial loans	21	—	18	39	12,062	12,101
Total loans (2)	$ 30	$ 6	$ 56	$ 92	$ 16,135	$ 16,227

(1) Includes less than 90 days past due performing loans which are deemed nonaccrual. Interest is not being accrued on these loans.
(2) Includes $9 million and $8 million of past due loans accounted for under the fair value option as of September 30, 2021 and December 31, 2020, respectively.
(3) Collateral dependent loans totaled $120 million and $80 million at September 30, 2021 and December 31, 2020, respectively. The majority of these loans are secured by real estate.
(4) The interest income recognized on impaired loans was less than a million and $2 million for the three months ended September 30, 2021 and December 31, 2020, respectively.
(5) The delinquency status for loans in forbearance is frozen for loans at inception of the forbearance period and will resume when the borrower's forbearance period ends.

Interest income is recognized on nonaccrual loans using a cash basis method. The interest on nonaccrual loans that would have been accrued for the three months ended September 30, 2021 was $1 million. At September 30, 2021 and December 31, 2020, we had no loans 90 days or greater past due and still accruing interest.

Reserve for Unfunded Commitments

We estimated expected credit losses over the contractual period in which we are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by us. The reserve for unfunded commitments is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

The reserve for unfunded commitments is reflected in other liabilities on the Consolidated Statements of Financial Condition and was $19 million as of September 30, 2021, compared to $28 million as of December 31, 2020. The decrease in the reserve is due to improvements in the economic forecasts as a result of the continued vaccine rollout and the lifting of most COVID-19 restrictions.

The following categories of off-balance sheet credit exposures have been identified: unfunded loans with available balances, new commitments to lend that are not yet funded, and standby and commercial letters of credit. For further information, see Note 15 - Legal Proceedings, Contingencies and Commitments.

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. TDRs are modified loans in which a borrower demonstrates financial difficulties and for which a concession has been granted as a result. Nonperforming TDRs are included in nonaccrual loans. TDRs remain in nonperforming status until a borrower has made payments and is current for at least six consecutive months. Performing TDRs are not considered to be nonaccrual so long as we believe that all contractual principal and interest due under the restructured terms will be collected. 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. Refer to Note 1- Description of Business, Basis of Presentation, and Summary of Significant Accounting Standards to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2020 for a description of the methodology used to determine TDRs.

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.

Beginning in March 2020, as a response to COVID-19, we offered our consumer borrowers principal and interest payment deferrals, forbearance and/or extensions up to a maximum period of 18 months. We considered these programs in the context of whether or not the short-term modifications of these loans would constitute a TDR. We considered the CARES Act, interagency guidance and related guidance from the FASB, which provided that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not required to be accounted for as TDRs. As a result, we have determined that loan forbearance, modifications, deferrals and extensions made under these COVID-19 programs are not TDRs.

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

	TDRs		
	Performing	Nonperforming	Total
	(Dollars in millions)		
September 30, 2021			
Consumer loans			
Residential first mortgage	$ 25	$ 9	$ 34
Home equity	9	3	12
Total consumer TDR loans	34	12	46
Commercial loans			
Commercial real estate	—	—	—
Commercial and industrial	$ —	$ 2	2
Total TDRs (1)(2)	$ 34	$ 14	$ 48
December 31, 2020			
Consumer loans			
Residential first mortgage	$ 19	$ 8	$ 27
Home equity	12	2	14
Total consumer TDR loans	31	10	41
Commercial loans			
Commercial real estate	5	—	5
Total TDRs (1)(2)	$ 36	$ 10	$ 46

(1) ALLL on TDR loans totaled $4 million and $5 million at September 30, 2021 and December 31, 2020.
(2) Includes $1 million and $3 million of TDR loans accounted for under the fair value option at September 30, 2021 and December 31, 2020.

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)
	(Dollars in millions)		
Three Months Ended September 30, 2021			
Residential first mortgages	21	$ 8	$ 8
Home equity(2)(3)	1	$ —	$ —
Commercial Real Estate	—	$ —	$ —
Total TDR loans	22	$ 8	$ 8
Three Months Ended September 30, 2020			
Residential first mortgages	1	$ —	$ —
Home equity(2)(3)	1	—	—
Consumer	1	$ —	$ —
Total TDR loans	3	$ —	$ —
Nine Months Ended September 30, 2021			
Residential first mortgages	32	$ 14	$ 14
Home equity(2)(3)	2	$ —	$ —
Consumer	—	$ —	$ —
Commercial Real Estate	1	$ 2	$ 2
Total TDR loans	35	$ 16	$ 16
Nine Months Ended September 30, 2020			
Residential first mortgages	6	$ 1	$ 1
Home equity(2)(3)	3	$ —	$ —
Consumer	2	$ —	$ —
Commercial Real Estate	1	$ 5	$ 5
Total TDR loans	12	$ 6	$ 6

(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 loans modified in the previous 12 months that subsequently defaulted during the three months ended September 30, 2021. All TDR classes within the consumer and commercial loan portfolios are considered subsequently defaulted when they are greater than 90 days past due within 12 months of the restructuring date.

Credit Quality

We utilize a combination of internal and external risk rating systems which are applied to all consumer and commercial loans which are used as loan-level inputs to our ACL models. Descriptions of our 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 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. Substandard assets are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. For HELOANs 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. Substandard loans may be placed on either accrual or nonaccrual status.

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 nonaccrual.

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, rather that it is not practical or desirable to defer writing off the asset even though partial recovery may be affected in the future.

Consumer Loans

Consumer loans consist of open and closed-end loans extended to individuals for household, family, and other personal expenditures. Consumer loans includes other consumer product loans and loans to individuals secured by their 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 based 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 as Substandard.

Payment activity, credit rating and LTVs have the most significant impact on the ACL for consumer loans.The following table presents the amortized cost in residential and consumer loans based on payment activity:

As of September 30, 2021	Term Loans Amortized Cost Basis by Closing Year 2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	December 31, 2020
Consumer Loans	(Dollars in millions)									
Residential First Mortgage										
Pass	$ 272	$ 218	$ 291	$ 123	$ 147	$ 419	$ 82	$ 15	$ 1,567	$ 2,205
Watch	—	—	—	—	1	2	—	—	3	21
Substandard	—	1	7	7	2	23	—	1	41	25
Home Equity										
Pass	3	5	18	7	4	15	544	52	648	838
Watch	—	—	—	—	—	—	—	—	—	13
Substandard	—	—	—	—	—	2	2	3	7	3
Other Consumer										
Pass	326	244	246	111	2	4	261	6	1,200	1,000
Watch	—	—	1	—	—	—	—	—	1	1
Substandard	—	1	1	1	—	—	—	—	3	3
Total Consumer Loans (1)(2)	$ 601	$ 469	$ 564	$ 249	$ 156	$ 465	$ 889	$ 77	$ 3,470	$ 4,109

(1) Excludes loans carried under the fair value option.
(2) The delinquency status for loans in forbearance are frozen for loans at inception of the forbearance period and will resume when the borrower's forbearance period ends.

As of December 31, 2020	Term Loans Amortized Cost Basis by Closing Year 2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	December 31, 2019
Consumer Loans	(Dollars in millions)									
Residential First Mortgage										
Pass	$ 362	$ 544	$ 231	$ 289	$ 252	$ 420	$ 92	$ 15	$ 2,205	$ 3,107
Watch	—	1	1	1	—	17	1	—	21	23
Substandard	—	3	5	2	—	15	—	—	25	15
Home Equity										
Pass	7	31	13	6	2	11	720	48	838	1,002
Watch	—	—	—	—	—	11	2	—	13	16
Substandard	—	—	—	—	—	1	1	1	3	3
Other Consumer										
Pass	292	321	145	3	1	6	227	5	1,000	727
Watch	—	—	—	—	—	—	—	1	1	1
Substandard	1	1	1	—	—	—	—	—	3	1
Total Consumer Loans (1)(2)	$ 662	$ 901	$ 396	$ 301	$ 255	$ 481	$ 1,043	$ 70	$ 4,109	$ 4,895

(1) Excludes loans carried under the fair value option.
(2) The delinquency status for loans in forbearance are frozen for loans at inception of the forbearance period and will resume when the borrower's forbearance period ends.

The following table presents the amortized cost in residential and consumer loans based on credit scores:

As of September 30, 2021	FICO Band Amortized Cost Basis by Closing Year 2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Consumer Loans	(Dollars in millions)								
Residential First Mortgage									
>750	$ 118	$ 109	$ 126	$ 54	$ 95	$ 238	$ 50	$ 7	$ 797
700-750	97	60	91	50	45	132	22	6	503
<700	57	50	81	26	10	74	10	3	311
Home Equity									
>750	1	2	5	2	2	5	257	15	289
700-750	2	2	7	3	1	6	218	22	261
<700	—	1	6	2	1	6	71	18	105
Other Consumer									
>750	326	245	248	98	2	4	250	4	1,177
700-750	—	—	—	12	—	—	7	—	19
<700	—	—	—	2	—	—	4	2	8
Total Consumer Loans (1)	$ 601	$ 469	$ 564	$ 249	$ 156	$ 465	$ 889	$ 77	$ 3,470

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

As of December 31, 2020	FICO Band Amortized Cost Basis by Closing Year 2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Consumer Loans	(Dollars in millions)								
Residential First Mortgage									
>750	$ 195	$ 272	$ 118	$ 193	$ 181	$ 231	$ 55	$ 6	$ 1,251
700-750	119	180	90	85	64	130	25	7	700
<700	48	96	29	14	7	91	13	2	300
Home Equity									
>750	2	9	6	2	1	7	324	13	364
700-750	3	12	4	3	1	8	289	20	340
<700	2	10	3	1	—	8	110	16	150
Other Consumer									
>750	209	205	80	2	1	5	213	6	721
700-750	79	107	55	1	—	1	9	—	252
<700	5	10	11	—	—	—	5	—	31
Total Consumer Loans (1)	$ 662	$ 901	$ 396	$ 301	$ 255	$ 481	$ 1,043	$ 70	$ 4,109

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

Loan-to-value ratios primarily impact the allowance on mortgages within the consumer loan portfolio. The following table presents the amortized cost in residential first mortgages and home equity based on loan-to-value ratios:

As of September 30, 2021	LTV Band Amortized Cost Basis by Closing Year 2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Consumer Loans						(Dollars in millions)			
Residential First Mortgage									
>90	$ 82	$ 76	$ 160	$ 67	$ 19	$ 19	$ —	$ —	$ 423
71-90	104	89	76	32	44	207	—	—	552
55-70	56	32	33	14	48	135	—	—	318
<55	30	22	29	17	39	83	82	16	318
Home Equity									
>90	—	—	—	—	1	7	—	—	8
71-90	2	3	14	5	2	7	395	37	465
<=70	1	2	4	2	1	3	151	18	182
Total (1)	$ 275	$ 224	$ 316	$ 137	$ 154	$ 461	$ 628	$ 71	$ 2,266

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

As of December 31, 2020	LTV Band Amortized Cost Basis by Closing Year 2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Consumer Loans						(Dollars in millions)			
Residential first mortgage									
>90	$ 84	$ 260	$ 123	$ 35	$ 3	$ 19	$ —	$ —	$ 524
71-90	169	180	66	99	72	238	—	—	824
55-70	83	60	22	82	96	122	—	—	465
<55	26	48	26	76	81	73	93	15	438
Home Equity									
>90	—	—	—	1	1	10	—	—	12
71-90	5	24	10	4	1	9	548	33	634
<=70	2	7	3	1	—	4	175	16	208
Total (1)	$ 369	$ 579	$ 250	$ 298	$ 254	$ 475	$ 816	$ 64	$ 3,105

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

Commercial Loans

Risk rating and the average loan duration have the most significant impact on the ACL for commercial loans. Additional factors which impact the ACL are debt-service-coverage ratio, loan-to-value ratio, interest-coverage ratio and leverage ratio.

Internal audit conducts periodic examinations which serve as an independent verification of the accuracy of the ratings assigned. All loans are examined on at least an annual basis. 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 risk rating for the borrowing relationship.

Based on the most recent credit analysis performed, the amortized cost basis, by risk category for each class of loans within the commercial portfolio, is as follows:

As of September 30, 2021	Term Loans Amortized Cost Basis by Closing Year 2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	December 31, 2020
Commercial Loans	(Dollars in million)									
Commercial real estate										
Pass	$ 330	$ 294	$ 621	$ 335	$ 252	$ 372	$ 826	$ —	$ 3,030	$ 2,805
Watch	—	5	8	23	72	52	—	—	160	166
Special mention	—	—	3	—	—	—	1	—	4	53
Substandard	—	—	—	—	22	—	—	—	22	37
Commercial and industrial										
Pass	122	87	176	77	96	14	682	—	1,254	1,200
Watch	—	2	11	5	—	—	43	—	61	106
Special mention	—	—	—	—	—	—	—	—	—	24
Substandard	—	—	17	19	4	—	32	—	72	52
Warehouse										
Pass	6,039	—	—	—	—	—	—	—	6,039	7,398
Watch	140	—	—	—	—	—	—	—	140	260
Special mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Total commercial loans	$ 6,631	$ 388	$ 836	$ 459	$ 446	$ 438	$ 1,584	$ —	$ 10,782	$ 12,101

As of December 31, 2020	Term Loans Amortized Cost Basis by Closing Year 2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	December 31, 2019
Commercial Loans	(Dollars in million)									
Commercial real estate										
Pass	$ 347	$ 993	$ 439	$ 438	$ 308	$ 280	$ —	$ —	$ 2,805	$ 2,794
Watch	21	19	35	51	21	19	—	—	166	24
Special mention	5	1	16	—	17	14	—	—	53	5
Substandard	—	11	1	25	—	—	—	—	37	5
Commercial and industrial										
Pass	319	425	163	149	54	71	19	—	1,200	1,533
Watch	3	48	28	25	—	2	—	—	106	72
Special mention	1	—	14	9	—	—	—	—	24	24
Substandard	22	11	15	4	—	—	—	—	52	5
Warehouse										
Pass	7,398	—	—	—	—	—	—	—	7,398	2,556
Watch	260	—	—	—	—	—	—	—	260	189
Special mention	—	—	—	—	—	—	—	—	—	15
Substandard	—	—	—	—	—	—	—	—	—	—
Total commercial loans	$ 8,376	$ 1,508	$ 711	$ 701	$ 400	$ 386	$ 19	$ —	$ 12,101	$ 7,222

Note 5 - Loans with Government Guarantees

Substantially all LGG are insured or guaranteed by the FHA or the U.S. Department of Veterans Affairs. Nonperforming repurchased loans in this portfolio earn interest at a rate based upon the 10-year U.S. Treasury note rate from the time the underlying loan becomes 60 days delinquent until the loan is conveyed to HUD (if foreclosure timelines are met), which is not paid by the FHA until claimed. The Bank has a unilateral option to repurchase loans sold to GNMA if the loan is due, but unpaid, for three consecutive months (typically referred to as 90 days past due) and can recover losses through a claims process from the guarantor. These loans are recorded in LGG and the liability to repurchase the loans is recorded as loans with government guarantees repurchase options on the Consolidated Statements of Financial Condition. This resulted in $0.2 billion of repurchase options as of September 30, 2021, a $1.7 billion decrease compared to a balance of $1.9 billion as of December 31, 2020. 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 ACL on residential first mortgages.

At September 30, 2021 and December 31, 2020, LGG totaled $1.9 billion and $2.5 billion, respectively.

Repossessed assets and the associated claims related to government guaranteed loans are recorded in other assets and totaled $7 million and $17 million, at September 30, 2021 and December 31, 2020, respectively.

Note 6 - Variable Interest Entities

We have no consolidated VIEs as of September 30, 2021 and December 31, 2020.

In connection with our non-QM securitization activities, we have retained a five percent interest in the investment securities of certain trusts ("other MBS") and are contracted as the servicer of the underlying loans, compensated based on market rates, which constitutes a continuing involvement in these trusts. Although we have a variable interest in these securitization trusts, we are not their 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 Consolidated Statements of Financial Condition. The Bank’s maximum 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 16 - Fair Value Measurements, for additional information.

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 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, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(Dollars in millions)			
Balance at beginning of period	$ 342	$ 261	$ 329	$ 291
Additions from loans sold with servicing retained	67	85	196	209
Reductions from sales	(62)	—	(158)	(46)
Decrease in MSR fair value due to pay-offs, pay-downs, run-off, model changes, and other (1)	(14)	(25)	(85)	(74)
Changes in estimates of fair value due to interest rate risk (1) (2)	7	2	58	(57)
Fair value of MSRs at end of period	$ 340	$ 323	$ 340	$ 323

(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 which we manage through the use of derivatives.

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, 2021			December 31, 2020		
		Fair value			Fair value	
	Actual	10% adverse change	20% adverse change	Actual	10% adverse change	20% adverse change
	(Dollars in millions)					
Option adjusted spread	8.38 %	$ 331	$ 322	7.98 %	$ 321	$ 313
Constant prepayment rate	9.07 %	323	307	10.53 %	305	283
Weighted average cost to service per loan	$ 79.61	336	332	$ 81.24	325	321

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 16 - 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 MSRs:

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(Dollars in millions)			
Net return (loss) on mortgage servicing rights				
Servicing fees, ancillary income and late fees (1)	$ 27	$ 30	$ 87	$ 75
Decreases in MSR fair value due to pay-offs, pay-downs, run-off, model changes, and other	(14)	(25)	(85)	(74)
Changes in fair value due to interest rate risk	7	2	58	(57)
Gain (loss) on MSR derivatives (2)	(5)	4	(43)	68
Net transaction costs	(6)	1	(13)	(2)
Total return included in net return on mortgage servicing rights	$ 9	$ 12	$ 4	$ 10

(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,	
	2021	2020	2021	2020
	(Dollars in millions)			
Loan administration income on mortgage loans subserviced				
Servicing fees, ancillary income and late fees (1)	$ 36	$ 33	$ 101	$ 94
Charges on subserviced custodial balances (2)	(3)	(3)	(8)	(26)
Other servicing charges	(3)	(4)	(8)	(9)
Total income on mortgage loans subserviced, included in loan administration	$ 30	$ 26	$ 85	$ 59

(1) Servicing fees are recorded on an accrual basis. Ancillary income and late fees are recorded on cash basis.
(2) Charges on subserviced custodial balances represent interest due to the MSR owner.

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. Our policy is to present our derivative assets and derivative liabilities on the Consolidated Statements 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 the fair value of derivatives not designated as hedging instruments are recognized on the Consolidated Statements of Operations.

Derivatives designated as hedging instruments: We have designated certain interest rate swaps as fair value hedges of investment securities AFS and residential first mortgage LHFI using the last-of-layer method. Cash flows and the profit impact associated with designated hedges are reported in the same category as the underlying hedged item.

We have also designated certain interest rate swaps as cash flow hedges on LIBOR based variable interest payments on certain custodial deposits. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income on the Consolidated Statements of Financial Condition and reclassified into interest expense in the same period in which the hedge transaction is recognized in earnings. We had $11 million (net-of-tax) of unrealized gains and $5 million (net-of-tax) of unrealized losses on derivatives classified as cash flow hedges recorded in AOCI as of September 30, 2021 and December 31, 2020, respectively. The estimated amount to be reclassified from other comprehensive income into earnings during the next 12 months represents $3 million of losses (net-of-tax).

Derivatives that are designated in hedging relationships are assessed for effectiveness using regression analysis at inception and qualitatively thereafter, unless regression analysis is deemed necessary. All designated hedge relationships were and are expected to be highly effective as of September 30, 2021.

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

	September 30, 2021 (1)		
	Notional Amount	Fair Value (2)	Expiration Dates
	(Dollars in millions)		
Derivatives in cash flow hedge relationships:			
Liabilities			
Interest rate swaps on custodial deposits	$ 800	$ 1	2026-2027
Derivatives in fair value hedge relationships:			
Assets			
Interest rate swaps on AFS securities	$ 100	$ —	2022
Liabilities			
Interest rate swaps on AFS securities	$ 350	$ —	2024-2025
Interest rate swaps on HFI residential first mortgages	100	—	2024
Total	$ 450	$ —	
Derivatives not designated as hedging instruments:			
Assets			
Futures	$ 1,042	$ —	2021-2023
Mortgage-backed securities forwards	7,097	51	2021
Rate lock commitments	7,192	86	2021-2022
Interest rate swaps and swaptions	3,238	67	2021-2051
Total	$ 18,569	$ 204	
Liabilities			
Mortgage-backed securities forwards	$ 3,242	$ 24	2021
Rate lock commitments	444	1	2021-2022
Interest rate swaps	1,482	5	2020-2050
Total	$ 5,168	$ 30	

(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 a 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.

	December 31, 2020 (1)		
	Notional Amount	Fair Value (2)	Expiration Dates
		(Dollars in millions)	
Derivatives in cash flow hedge relationships:			
Liabilities			
Interest rate swaps on custodial deposits	$ 800	1	2026-2027
Derivatives in fair value hedge relationships:			
Liabilities			
Interest rate swaps on HFI residential first mortgages	$ 100	$ —	2024
Interest rate swaps on AFS securities	450	—	2022-2025
Total	$ 1,350	$ 1	
Derivatives not designated as hedging instruments:			
Assets			
Futures	$ 1,346	$ —	2021-2023
Mortgage-backed securities forwards	749	14	2021
Rate lock commitments	10,587	208	2021
Interest rate swaps and swaptions	1,481	59	2021-2051
Total	$ 14,163	$ 281	
Liabilities			
Mortgage-backed securities forwards	$ 11,194	$ 98	2021
Rate lock commitments	115	—	2021
Interest rate swaps and swaptions	1,305	4	2021-2030
Total	$ 12,614	$ 102	

(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 a 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.

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 Statements of Financial Condition	Net Amount Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statements of Financial Condition	
				Financial Instruments	Cash Collateral
			(Dollars in millions)		
September 30, 2021					
Derivatives designated as hedging instruments:					
Assets					
Interest rate swaps on AFS securities	$ —	$ —	$ —	$ —	$ 1
Total derivative assets	$ —	$ —	$ —	$ —	$ 1
Liabilities					
Interest rate swaps on AFS securities	$ —	$ —	$ —	$ —	$ 3
Interest rate swaps on custodial deposits	1	—	1	—	7
Interest rate swaps on HFI residential first mortgages	—	—	—	—	1
Total derivative liabilities	$ 1	$ —	$ 1	$ —	$ 11
Derivatives not designated as hedging instruments:					
Assets					
Mortgage-backed securities forwards	$ 51	$ —	$ 51	$ —	$ 45
Interest rate swaps and swaptions (1)	67	—	67	—	6
Total derivative assets	$ 118	$ —	$ 118	$ —	$ 51
Liabilities					
Mortgage-backed securities forwards	$ 24	$ —	$ 24	$ —	$ 10
Interest rate swaps	5	—	5	—	31
Total derivative liabilities	$ 29	$ —	$ 29	$ —	$ 41
December 31, 2020					
Derivatives designated as hedging instruments:					
Liabilities					
Interest rate swaps on AFS securities	$ —	$ —	$ —	$ —	$ 5
Interest rate swaps on HFI residential first mortgages	—	—	—	—	1
Interest rate swaps on custodial deposits	1	—	1	—	8
Total derivative liabilities	$ 1	$ —	$ 1	$ —	$ 14
Derivatives not designated as hedging instruments:					
Assets					
Mortgage-backed securities forwards	$ 14	$ —	$ 14	$ —	$ —
Interest rate swaps	59	—	59	—	6
Total derivative assets	$ 73	$ —	$ 73	$ —	$ 6
Liabilities					
Mortgage-backed securities forwards	$ 98	$ —	$ 98	$ —	$ 68
Interest rate swaps and swaptions (1)	4	—	4	—	26
Total derivative liabilities	$ 102	$ —	$ 102	$ —	$ 94

(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.

Losses of $1 million and $3 million on fair value hedging relationships of AFS securities were recorded in interest income for the three and nine months ended September 30, 2021. Losses of $1 million on fair value hedging relationships of AFS securities were recorded in interest income for the three and nine months ended September 30, 2020.

Losses of $1 million and $3 million on cash flow hedging relationships of custodial deposits were reclassified from AOCI into loan administration income during the three and nine months ended September 30, 2021, respectively. Losses of $1 million and $2 million on cash flow hedging relationships of custodial deposits were reclassified from AOCI into loan administration income during the three and nine months ended September 30, 2020, respectively.

Gains and losses on fair value hedging relationships of HFI residential first mortgages for the three and nine months ended September 30, 2021 and September 30, 2020 were de-minimis.

The fair value basis adjustment on our hedged AFS securities is included in investment securities available-for-sale on our Consolidated Statements of Financial Condition. The carrying amount of our hedged securities was $1.1 billion at September 30, 2021 and $1.7 billion at December 31, 2020 of which $0.2 million and $6 million, respectively, were due to the fair value hedge relationship. The closed portfolio of AFS securities designated in this last layer method hedge was $1.1 billion par (amortized cost of $1.1 billion) at September 30, 2021 and $1.6 billion par (amortized cost of $1.6 billion) at December 31, 2020 of which we have designated $450 million at both September 30, 2021 and December 31, 2020.

The fair value basis adjustment on our hedged fair HFI residential first mortgages is included in LHFI on our Consolidated Statements of Financial Condition. The carrying amount of our hedged loans was $191 million at September 30, 2021 of which a de-minimis amount is due to the fair value hedge relationship. We have designated $100 million of this closed portfolio of loans in a hedging relationship as of September 30, 2021. The carrying amount of our hedged loans was $240 million at December 31, 2020 of which $1 million was due to the fair value hedge relationship. We designated $100 million of this closed portfolio of loans in a hedging relationship at December 31, 2020.

At September 30, 2021, we pledged a total of $58 million related to derivative financial instruments, consisting of $29 million of cash collateral on derivative liabilities and $29 million of maintenance margin on centrally cleared derivatives. We had an obligation to return a total of $45 million of cash collateral on derivative assets at September 30, 2021. We pledged a total of $114 million related to derivative financial instruments, consisting of $84 million of cash collateral on derivatives and $30 million of maintenance margin on centrally cleared derivatives and had a de-minimis obligation to return cash on derivative assets at December 31, 2020. 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 other assets.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
		(Dollars in millions)			
Derivatives not designated as hedging instruments:	**Location of gain (loss)**				
Futures	Net return on mortgage servicing rights	$ —	$ —	$ —	$ 1
Interest rate swaps and swaptions	Net return on mortgage servicing rights	(3)	(2)	(30)	39
Mortgage-backed securities forwards	Net return on mortgage servicing rights	(1)	5	(12)	28
Rate lock commitments and MSR forwards	Net gain on loan sales	23	70	8	190
Interest rate swaps (1)	Other noninterest income	—	—	2	1
Total derivative gain (loss)		$ 19	$ 73	$ (32)	$ 259

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

Note 9 - Borrowings

Federal Home Loan Bank Advances and Other Borrowings

The following is a breakdown of our FHLB advances and other borrowings outstanding:

	September 30, 2021		December 31, 2020	
	Amount	Rate	Amount	Rate
	(Dollars in millions)			
Short-term fixed rate term advances	$ 1,095	0.18 %	$ 3,415	0.20 %
Short-term variable rate term advances	0	— %	—	— %
Other short-term borrowings (1)	775	0.13 %	485	0.08 %
Total short-term Federal Home Loan Bank advances and other borrowings	1,870		3,900	
Long-term fixed rate advances (2)	1,400	0.90 %	1,200	1.03 %
Total Federal Home Loan Bank advances and other borrowings	$ 3,270		$ 5,100	

(1) Includes borrowings under overnight federal funds purchased lines with other Federal Reserve member institutions.
(2) Includes the current portion of fixed rate advances of $200 million and $0 at September 30, 2021 and December 31, 2020, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
Maximum outstanding at any month end	$ 5,595	$ 4,388	$ 5,595	$ 6,841
Average outstanding balance	$ 4,080	$ 3,528	$ 3,894	$ 4,234
Average remaining borrowing capacity	$ 5,705	$ 5,494	$ 5,495	$ 5,249
Weighted average interest rate	0.42 %	0.48 %	0.43 %	0.76 %

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

	September 30, 2021
	(Dollars in millions)
2021	$ 1,870
2022	200
2023	500
2024	100
Thereafter	600
Total	$ 3,270

Parent Company Senior Notes, Subordinated Notes and Trust Preferred Securities

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

	September 30, 2021		December 31, 2020	
	Amount	Interest Rate	Amount	Interest Rate
	(Dollars in millions)			
Senior Notes				
Senior notes, settled 2021	$ —	— %	$ 246	6.125 %
Subordinated Notes				
Notes, matures 2030	149	4.125 %	148	4.125 %
Trust Preferred Securities				
Floating Three Month LIBOR Plus:				
3.25%, matures 2032	26	3.38 %	26	3.50 %
3.25%, matures 2033	26	3.38 %	26	3.49 %
3.25%, matures 2033	26	3.38 %	26	3.49 %
2.00%, matures 2035	26	2.13 %	26	2.24 %
2.00%, matures 2035	26	2.13 %	26	2.24 %
1.75%, matures 2035	51	1.87 %	51	1.97 %
1.50%, matures 2035	25	1.63 %	25	1.74 %
1.45%, matures 2037	25	1.57 %	25	1.67 %
2.50%, matures 2037	16	2.62 %	16	2.72 %
Total Trust Preferred Securities	247		247	
Total other long-term debt	$ 396		$ 641	

Senior Notes

We settled the Senior Notes on January 22, 2021 and as of September 30, 2021 we have no Senior Notes outstanding.

Subordinated Notes

On October 28, 2020, we issued $150 million of Subordinated Debt (the "Notes") with a maturity date of November 1, 2030. The Notes bear interest at a fixed rate of 4.125 percent through October 31, 2025, and a variable rate tied to SOFR thereafter until maturity. We have the option to redeem all or a part of the Notes beginning on November 1, 2025, and on any subsequent interest payment date. The Notes qualify as Tier 2 capital for regulatory purposes.

Trust Preferred Securities

We sponsor nine trust subsidiaries, which issued preferred stock to third party investors. We issued junior subordinated debt securities to those trusts, which we have included in long-term debt. The junior subordinated debt 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, 2021, we had no deferred interest.

Note 10 - Accumulated Other Comprehensive Income (Loss)

The following table sets forth the components in AOCI:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
Investment Securities				
Beginning balance	$ 35	$ 56	$ 52	$ 1
Unrealized gain (loss)	(11)	—	(33)	72
Less: Tax provision (benefit)	(3)	—	(8)	17
Net unrealized gain (loss)	(8)	—	(25)	55
Other comprehensive income (loss), net of tax	(8)	—	(25)	55
Ending balance	$ 27	$ 56	$ 27	$ 56
Cash Flow Hedges				
Beginning balance	$ 10	$ (10)	$ (5)	$ —
Unrealized gain (loss)	2	—	19	(13)
Less: Tax provision (benefit)	1	—	5	(3)
Net unrealized gain (loss)	1	—	14	(10)
Reclassifications out of AOCI (1)	1	—	3	—
Less: Tax provision (benefit)	1	—	1	—
Other comprehensive income (loss), net of tax	1	—	16	(10)
Ending balance	$ 11	$ (10)	$ 11	$ (10)

(1) Reclassifications are reported in noninterest income on the Consolidated Statements of Operations.

Note 11 - Earnings Per Share

Basic earnings per share, excluding dilution, is computed by dividing earnings applicable to common shareholders 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,	
	2021	2020	2021	2020
	(Dollars in millions, except share data)			
Net income applicable to common shareholders	$ 152	$ 222	$ 448	$ 384
Weighted Average Shares				
Weighted average common shares outstanding	52,862,288	57,032,746	52,767,923	56,827,171
Effect of dilutive securities				
Stock-based awards	797,134	347,063	731,366	404,518
Weighted average diluted common shares	$ 53,659,422	$ 57,379,809	$ 53,499,289	$ 57,231,689
Earnings per common share				
Basic earnings per common share	$ 2.87	$ 3.90	$ 8.48	$ 6.76
Effect of dilutive securities				
Stock-based awards	(0.04)	(0.02)	(0.11)	(0.05)
Diluted earnings per common share	$ 2.83	$ 3.88	$ 8.37	$ 6.71

Note 12 - Stock-Based Compensation

We had stock-based compensation expense of $3 million and $10 million for the three and nine months ended September 30, 2021, and $6 million and $14 million for the three and nine months ended September 30, 2020.

Restricted Stock and Restricted Stock Units

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

	Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	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	1,142,981	$ 34.23	974,186	$ 30.88
Granted	2,458	45.15	347,788	42.82
Vested	—	—	(135,662)	33.05
Canceled and forfeited	(16,239)	33.81	(57,112)	31.69
Non-vested balance at end of period	1,129,200	$ 34.26	$ 1,129,200	$ 34.26

2017 Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("2017 ESPP") was approved on March 20, 2017, by our Board and on May 23, 2017, by our shareholders. The 2017 ESPP became effective July 1, 2017, and was terminated on June 30, 2021 pursuant to the Merger Agreement with NYCB as approved by the Board on April 24, 2021. There were 106,707 shares issued under the ESPP during the nine months ended September 30, 2021 and the associated compensation expense was de minimis.

Note 13 - 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 discrete 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 following table presents our provision for income tax and effective tax provision rate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
Income before income taxes	198	295	$ 581	$ 499
Provision for income taxes	46	73	133	115
Effective tax provision rate	23.2 %	24.7 %	22.9 %	23.0 %

We believe that it is unlikely that our unrecognized tax benefits will change by a material amount during the next12 months. We recognize interest and penalties related to unrecognized tax benefits in provision for income taxes.

Note 14 - Regulatory Matters

Regulatory Capital

We, along with the Bank, are subject to the Basel III based U.S. capital rules, including capital simplification. Under these requirements, we 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.

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, 2021 and December 31, 2020.

The following tables present the regulatory capital requirements under the applicable Basel III based U.S. capital rules:

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, 2021						
Tier 1 capital (to adjusted avg. total assets)	$ 2,709	9.72 %	$ 1,115	4.0 %	$ 1,393	5.0 %
Common equity Tier 1 capital (to RWA)	$ 2,469	11.95 %	$ 930	4.5 %	$ 1,343	6.5 %
Tier 1 capital (to RWA)	$ 2,709	13.11 %	$ 1,240	6.0 %	$ 1,653	8.0 %
Total capital (to RWA)	$ 3,006	14.55 %	$ 1,653	8.0 %	$ 2,066	10.0 %
December 31, 2020						
Tier 1 capital (to adjusted avg. total assets)	$ 2,270	7.71 %	$ 1,178	4.0 %	$ 1,472	5.0 %
Common equity Tier 1 capital (to RWA)	$ 2,030	9.15 %	$ 999	4.5 %	$ 1,442	6.5 %
Tier 1 capital (to RWA)	$ 2,270	10.23 %	$ 1,331	6.0 %	$ 1,775	8.0 %
Total capital (to RWA)	$ 2,638	11.89 %	$ 1,775	8.0 %	$ 2,219	10.0 %

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, 2021						
Tier 1 capital (to adjusted avg. total assets)	$ 2,619	9.40 %	$ 1,114	4.0 %	$ 1,393	5.0 %
Common equity Tier 1 capital (to RWA)	$ 2,619	12.71 %	$ 927	4.5 %	$ 1,340	6.5 %
Tier 1 capital (to RWA)	$ 2,619	12.71 %	$ 1,237	6.0 %	$ 1,649	8.0 %
Total capital (to RWA)	$ 2,766	13.42 %	$ 1,649	8.0 %	$ 2,061	10.0 %
December 31, 2020						
Tier 1 capital (to adjusted avg. total assets)	$ 2,390	8.12 %	$ 1,177	4.0 %	$ 1,472	5.0 %
Common equity Tier 1 capital (to RWA)	$ 2,390	10.77 %	$ 999	4.5 %	$ 1,443	6.5 %
Tier 1 capital (to RWA)	$ 2,390	10.77 %	$ 1,332	6.0 %	$ 1,775	8.0 %
Total capital (to RWA)	$ 2,608	11.75 %	$ 1,775	8.0 %	$ 2,219	10.0 %

Note 15 - 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 closing, purchase, sale, and servicing of mortgage loans. From time to time, governmental agencies also conduct investigations or examinations of various practices of the Bank. In the course of such investigations or examinations, the Bank cooperates with such agencies and provides information as requested.

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. Payments made to settle our liabilities may differ from the contingency or fair value recorded due to factors that differ from our assumptions.

At September 30, 2021, 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 materially adverse effect on our financial condition, results of operations or cash flows.

DOJ Liability

On February 24, 2012, the Bank entered into a Settlement Agreement with the DOJ under which we agreed to make future payments totaling $118 million in annual increments of up to $25 million upon meeting certain conditions. On March 30, 2021, the Bank signed a $70 million final Settlement and Dismissal Amendment (the "Amendment") with the DOJ. The Amendment required us to make a $70 million one-time restitution cash payment and removed any further obligations related to the original Settlement Agreement. We recorded a $35 million expense to adjust the fair value of the DOJ Liability through other noninterest expense in the first quarter of 2021. The payment was made on April 8, 2021, fully satisfying the Amendment and reducing the liability to $0. See Note 16 - Fair Value Measurements.

Other litigation accruals

At September 30, 2021 and December 31, 2020, excluding the fair value liability relating to the DOJ Liability, our total accrual for contingent liabilities and settled litigation was $8 million and $7 million, respectively.

Commitments

In the normal course of business, we have various commitments outstanding which are not included on our Consolidated Statements of Financial Condition. The following table is a summary of the contractual amount of significant commitments:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Commitments to extend credit		
Mortgage loan commitments including interest rate locks	$ 7,636	$ 10,702
Warehouse loan commitments	4,697	2,849
Commercial and industrial commitments	1,452	1,271
Other construction commitments	2,429	1,934
HELOC commitments	603	544
Other consumer commitments	151	121
Standby and commercial letters of credit	107	95

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. Because 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 commitments including interest-rate locks. We enter into mortgage loan commitments, including interest-rate locks with our customers. These interest-rate lock 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.

Commercial and industrial and other construction commitments. Conditional commitments issued under various terms to lend funds to businesses 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. Because 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 made 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. These 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 estimated lifetime credit losses 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 $19 million at September 30, 2021 and $28 million at December 31, 2020, respectively, is reflected in other liabilities on the Consolidated Statements of Financial Condition. See Note 4 - Loans Held-for-Investment for additional information.

Supplemental executive retirement plan with former CEO. The Company entered into a supplemental executive retirement plan ("SERP") with a former CEO in 2009. Under the plan, the former CEO was to receive a $16 million payment in August 2018. The Company fully accrued for the SERP liability during that time period and no SERP payments have been made to the former CEO. In the second quarter of 2021, we entered into a settlement agreement with the former CEO that terminates the SERP and all other prior employment agreements in exchange for a maximum payment of $6 million which remains subject to regulatory approval as of September 30, 2021.

Note 16 - 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.

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 given 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.

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 Statements of Financial Condition and by level in the valuation hierarchy.

	September 30, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Investment securities available-for-sale				
Agency - Commercial	$ —	$ 726	$ —	$ 726
Agency - Residential	—	761	—	761
Municipal obligations	—	22	—	22
Corporate debt obligations	—	73	—	73
Other MBS	—	219	—	219
Certificate of deposit	—	1	—	1
Loans held-for-sale				
Residential first mortgage loans	—	5,996	—	5,996
Loans held-for-investment				
Residential first mortgage loans	—	11	—	11
Home equity	—	—	1	1
Mortgage servicing rights	—	—	340	340
Derivative assets				
Rate lock commitments (fallout-adjusted)	—	—	86	86
Mortgage-backed securities forwards	—	51	—	51
Interest rate swaps and swaptions	—	67	—	67
Total assets at fair value	$ —	$ 7,927	$ 427	$ 8,354
Derivative liabilities				
Rate lock commitments (fallout-adjusted)	$ —	$ —	$ (1)	$ (1)
Mortgage backed securities forwards	—	(24)	—	(24)
Interest rate swaps	—	(5)	—	(5)
Total liabilities at fair value	$ —	$ (29)	$ (1)	$ (30)

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Investment securities available-for-sale				
Agency - Commercial	$ —	$ 1,061	$ —	$ 1,061
Agency - Residential	—	735	—	735
Municipal obligations	—	28	—	28
Corporate debt obligations	—	77	—	77
Other MBS	—	42	—	42
Certificate of deposit	—	1	—	1
Loans held-for-sale				
Residential first mortgage loans	—	7,009	—	7,009
Loans held-for-investment				
Residential first mortgage loans	—	11	—	11
Home equity	—	—	2	2
Mortgage servicing rights	—	—	329	329
Derivative assets				
Rate lock commitments (fallout-adjusted)	—	—	208	208
Mortgage-backed securities forwards	—	14	—	14
Interest rate swaps and swaptions	—	59	—	59
Total assets at fair value	$ —	$ 9,037	$ 539	$ 9,576
Derivative liabilities				
Mortgage-backed securities forwards	$ —	$ (98)	$ —	$ (98)
Interest rate swaps	—	(4)	—	(4)
DOJ Liability	—	—	(35)	(35)
Total liabilities at fair value	$ —	$ (102)	$ (35)	$ (137)

Fair Value Measurements Using Significant Unobservable Inputs

The following table includes 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 / Closings	Sales	Settlement	Transfers Out	Balance at End of Period
				(Dollars in millions)			
Three Months Ended September 30, 2021							
Assets							
Loans held-for-investment							
Home equity	$ 2	$ —	$ —	$ —	$ (1)	$ —	$ 1
Mortgage servicing rights (2)	342	(7)	67	(62)	—	—	340
Rate lock commitments (net) (2)(3)	114	38	135	—	—	(202)	85
Totals	$ 458	$ 31	$ 202	$ (62)	$ (1)	$ (202)	$ 426
Three Months Ended September 30, 2020							
Assets							
Loans held-for-investment							
Home equity	$ 2	$ —	$ —	$ —	$ —	$ —	$ 2
Mortgage servicing rights (2)	261	(23)	85	—	—	—	323
Rate lock commitments (net) (2)(3)	205	90	333	—	—	(371)	257
Totals	$ 468	$ 67	$ 418	$ —	$ —	$ (371)	$ 582
Liabilities							
DOJ Liability	$ (35)	$ —	$ —	$ —	$ —	$ —	$ (35)
Contingent consideration	(27)	—	—	—	27	—	—
Totals	$ (62)	$ —	$ —	$ —	$ 27	$ —	$ (35)

(1) There were no unrealized gains (losses) recorded in OCI during the three months ended September 30, 2021 and 2020.
(2) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with MSRs 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.

	Balance at Beginning of Period	Total Gains (Losses) Recorded in Earnings (1)	Purchases / Closings	Sales	Settlement	Transfers Out	Balance at End of Period
				(Dollars in millions)			
Nine Months Ended September 30, 2021							
Assets							
Loans held-for-investment							
Home equity	$ 2	$ —	$ —	$ —	$ (1)	$ —	$ 1
Mortgage servicing rights (2)	329	(27)	196	(158)	—	—	$ 340
Rate lock commitments (net) (2)(3)	208	(84)	519	—	—	(558)	$ 85
Totals	$ 539	$ (111)	$ 715	$ (158)	$ (1)	$ (558)	$ 426
Liabilities							
DOJ Liability	$ (35)	$ (35)	$ —	$ —	$ 70	$ —	$ —
Nine Months Ended September 30, 2020							
Assets							
Loans held-for-investment							
Home equity	$ 2	$ —	$ —	$ —	$ —	$ —	$ 2
Mortgage servicing rights (2)	291	(131)	209	(46)	—	—	323
Rate lock commitments (net) (2)(3)	34	274	805	—	—	(856)	257
Totals	$ 327	$ 143	$ 1,014	$ (46)	$ —	$ (856)	$ 582
Liabilities							
DOJ Liability	$ (35)	$ —	$ —	$ —	$ —	$ —	$ (35)
Contingent consideration	(10)	(17)	—	—	27	—	—
Totals	$ (45)	$ (17)	$ —	$ —	$ 27	$ —	$ (35)

(1) There were no unrealized gains (losses) recorded in OCI during the nine months ended September 30, 2021 and 2020.
(2) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with MSRs 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.

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, 2021						
Assets						
Loans held-for-investment						
Home equity	$	1	Discounted cash flows	Discount rate Constant prepayment rate Constant default rate	7.2% -10.8% (9.0%) 12.6% - 18.9% (15.8%) 1.5%-2.3% (1.9%)	(1)
Mortgage servicing rights	$	340	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	3.9% - 21.6% (8.4%) 0 % - 11.0% (9.1%) $67 - $90 ($80)	(1)
Rate lock commitments (net)	$	85	Consensus pricing	Origination pull-through rate	73.8%	(1)

(1) Unobservable inputs were weighted by their relative fair value of the instruments.

	Fair Value		Valuation Technique	Unobservable Input	Range (Weighted Average)	
				(Dollars in millions)		
December 31, 2020						
Assets						
Loans held-for-investment						
Home equity	$	2	Discounted cash flows	Discount rate Constant prepayment rate Constant default rate	7.2% -10.8% (9.0%) 12.6% - 18.9% (15.8%) 1.5%-2.3% (1.9%)	(1)
Mortgage servicing rights	$	329	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	3.4% - 21.2% (8.0%) 0% - 13.3% (10.5%) $67 - $95 ($81)	(1)
Rate lock commitments (net)	$	208	Consensus pricing	Closing pull-through rate	75.7% - 87.2% (77.5%)	(1)
Liabilities						
DOJ Liability	$	(35)	Discounted cash flows	See description below	See description below	

(1) Unobservable inputs were weighted by their relative fair value of the instruments.

Recurring Significant Unobservable Inputs

Home equity. The most significant unobservable inputs used in the fair value measurement of the HELOANs 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 result in a significantly lower (higher) fair value measurement. Increases (decreases) in prepay 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 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, 2021 and December 31, 2020, the weighted average life (in years) for the entire MSR portfolio was 5.8 and 4.2, respectively.

DOJ Liability. The DOJ liability was settled for $70 million in the second quarter of 2021, fully satisfying the Amendment and reducing the liability to $0 at September 30, 2021. Prior to settlement, the significant unobservable inputs used in the fair value measurement of the DOJ Liability were the discount rate, asset growth rate, return on assets, dividend rate and potential ways we might be required to begin making DOJ Liability payments and our estimates of the likelihood of these outcomes, as further discussed in Note 15 - Legal Proceedings, Contingencies and Commitments.

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 result in a significantly higher (lower) fair value measurement.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We also have assets that are subject to measurement at fair value on a nonrecurring basis under certain conditions.The following table presents assets measured at fair value on a nonrecurring basis:

	Total (1)	Level 2	Level 3	Losses
		(Dollars in millions)		
September 30, 2021				
Loans held-for-sale (2)	$ 363	$ 363	$ —	$ (1)
Commercial loans	19	—	19	—
Impaired loans held-for-investment (2)				
Residential first mortgage loans	27	—	27	(12)
Repossessed assets (3)	6	—	6	(1)
Totals	$ 415	$ 363	$ 52	$ (14)
December 31, 2020				
Residential first mortgage loans	$ 30	$ 30	$ —	$ (1)
Commercial loans	57	—	57	—
Impaired loans held-for-investment (2)				
Residential first mortgage loans	24	—	24	(3)
Repossessed assets (3)	8	—	8	(3)
Totals	$ 119	$ 30	$ 89	$ (7)

(1) The fair values are determined at various dates dependent upon when certain conditions were met requiring fair value measurement.
(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 table presents 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, 2021					
Commercial loans	$ 19	Fair value of collateral	Market price	N/A	
Impaired loans held-for-investment					
Residential first mortgage loans	$ 27	Fair value of collateral	Loss severity discount	0% - 100% (30%)	(2)
Repossessed assets	$ 6	Fair value of collateral	Loss severity discount	0% - 96.3% (21.6%)	(2)
December 31, 2020					
Commercial loans	57	Fair value of collateral	Market price	N/A	(1)
Impaired loans held-for-investment					
Residential first mortgage loans	$ 24	Fair value of collateral	Loss severity discount	0% - 100% (12.8%)	(2)
Repossessed assets	$ 8	Fair value of collateral	Loss severity discount	0% - 96.3% (24.5%)	(2)

(1) Fair value has been determined based on an unobservable market price.
(2) Unobservable inputs were weighted by their relative fair value of the instruments.

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.

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, 2021				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	$ 149	$ 149	$ 149	$ —	$ —
Investment securities available-for-sale	1,802	1,802	—	1,802	
Investment securities held-to-maturity	236	244	—	244	
Loans held-for-sale	6,378	6,379	—	6,379	
Loans held-for-investment	14,268	14,276	—	11	14,265
Loans with government guarantees	1,945	1,895	—	1,895	
Mortgage servicing rights	340	340	—	—	340
Federal Home Loan Bank stock	377	377	—	377	
Bank owned life insurance	363	363	—	363	
Repossessed assets	6	6	—	—	6
Other assets, foreclosure claims	7	7	—	7	
Derivative financial instruments, assets	204	204	—	118	86
Liabilities					
Retail deposits					
Demand deposits and savings accounts	$ (8,908)	$ (8,121)	$ —	$ (8,121)	$ —
Certificates of deposit	(988)	(992)	—	(992)	—
Wholesale deposits	(1,301)	(1,306)	—	(1,306)	—
Government deposits	(2,450)	(2,340)	—	(2,340)	—
Company controlled deposits	(5,688)	(5,665)	—	(5,665)	—
Federal Home Loan Bank advances and other	(3,270)	(3,286)	—	(3,286)	—
Long-term debt	(396)	(344)	—	(344)	—
Derivative financial instruments, liabilities	(30)	(30)	—	(29)	(1)

	December 31, 2020				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	$ 623	$ 623	$ 623	$ —	$ —
Investment securities available-for-sale	1,944	1,944	—	1,944	—
Investment securities held-to-maturity	377	393	—	393	—
Loans held-for-sale	7,098	7,098	—	7,098	—
Loans held-for-investment	16,227	16,188	—	11	16,177
Loans with government guarantees	2,516	2,498	—	2,498	—
Mortgage servicing rights	329	329	—	—	329
Federal Home Loan Bank stock	377	377	—	377	—
Bank owned life insurance	356	358	—	358	—
Repossessed assets	8	8	—	—	8
Other assets, foreclosure claims	17	17	—	17	—
Derivative financial instruments	281	281	—	73	208
Liabilities					
Retail deposits					
Demand deposits and savings accounts	$ (8,616)	$ (7,864)	$ —	$ (7,864)	$ —
Certificates of deposit	(1,355)	(1,365)	—	(1,365)	—
Wholesale deposits	(1,031)	(1,047)	—	(1,047)	—
Government deposits	(1,765)	(1,706)	—	(1,706)	—
Custodial deposits	(7,206)	(7,133)	—	(7,133)	—
Federal Home Loan Bank advances	(5,100)	(5,124)	—	(5,124)	—
Long-term debt	(641)	(596)	—	(596)	—
DOJ Liability	(35)	(35)	—	—	(35)
Derivative financial instruments	(102)	(102)	—	(102)	—

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,	
	2021	2020	2021	2020
	(Dollars in millions)			
Assets				
Loans held-for-sale				
Net gain on loan sales	$ 212	$ 340	$ 339	$ 899
Loans held-for-investment				
Other noninterest income	$ 1	$ —	$ 1	$ —

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, 2021			December 31, 2020		
	UPB	Fair Value	Fair Value Over / (Under) UPB	UPB	Fair Value	Fair Value Over / (Under) UPB
	(Dollars in millions)					
Assets						
Nonaccrual loans						
Loans held-for-sale	$ 11	$ 9	$ (2)	$ 9	$ 7	$ (2)
Loans held-for-investment	12	9	(3)	9	8	(1)
Total nonaccrual loans	$ 23	$ 18	$ (5)	$ 18	$ 15	$ (3)
Other performing loans						
Loans held-for-sale	$ 5,897	$ 5,987	$ 90	$ 6,704	$ 7,002	$ 298
Loans held-for-investment	2	2	—	5	4	(1)
Total other performing loans	$ 5,899	$ 5,989	$ 90	$ 6,709	$ 7,006	$ 297
Total loans						
Loans held-for-sale	$ 5,908	$ 5,996	$ 88	$ 6,713	$ 7,009	$ 296
Loans held-for-investment	14	11	(3)	14	12	(2)
Total loans	$ 5,922	$ 6,007	$ 85	$ 6,727	$ 7,021	$ 294
Liabilities						
DOJ Liability (1)	$ —	$ —	$ —	$ (118)	$ (35)	$ 83

(1) As of March 31, 2021, the UPB and fair value of this liability has been reported per the terms of the final Settlement and Dismissal Amendment signed on March 29, 2021. See Note 15 - Legal Proceedings, Contingencies and Commitments for further details.

Note 17 - 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 are 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.

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 and Warehouse Lending. Products offered through these groups include checking accounts, savings accounts, money market accounts, CD, consumer loans, commercial loans, CRE loans, 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 investment and insurance products and services. The interest income on LHFI is recognized in the Community Banking segment, excluding residential first mortgages and newly originated home equity products within the Mortgage Originations segment.

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 Mortgage Originations segment recognizes interest income on loans that are held-for-sale and the gains from sales associated with these loans, along with the interest income on residential mortgages and newly originated home equity products within LHFI.

The Mortgage Servicing segment services and subservices mortgage and other consumer 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 services loans for our LHFI portfolio 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 Community Banking, Mortgage Originations or Mortgage Servicing operating segments.

Revenues are comprised of net interest income (before the provision (benefit) for credit losses) and noninterest income. Noninterest expenses and a majority of provision (benefit) for income taxes, are allocated to each operating segment. Provision for credit losses is allocated to segments based on net charge-offs and changes in outstanding balances. In contrast, the level of the consolidated provision for credit losses is determined based on an allowance model using the methodologies described in Item 2 – MD&A. The net effect of the credit provision is recorded in the Other 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, 2021				
	Community Banking	**Mortgage Originations**	**Mortgage Servicing**	**Other (1)**	**Total**
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 149	$ 72	$ 4	$ (30)	$ 195
Provision (benefit) for credit losses	8	(2)	—	(29)	(23)
Net interest income after benefit for credit losses	141	74	4	(1)	218
Net gain on loan sales	—	169	—	—	169
Loan fees and charges	—	13	20	—	33
Net return on mortgage servicing rights	—	9	—	—	9
Loan administrative (expense) income	—	(7)	40	(2)	31
Other noninterest income	16	3	—	5	24
Total noninterest income	16	187	60	3	266
Compensation and benefits	26	48	16	40	130
Commissions	1	43	—	—	44
Loan processing expense	1	11	9	1	22
Other noninterest expense	12	23	22	33	90
Total noninterest expense	40	125	47	74	286
Income (loss) before indirect overhead allocations and income taxes	117	136	17	(72)	198
Indirect overhead allocation (expense) income	(7)	(14)	(4)	25	—
Provision (benefit) for income taxes	23	26	3	(6)	46
Net income (loss)	$ 87	$ 96	$ 10	$ (41)	$ 152
Intersegment revenue (expense)	$ 34	$ —	$ 10	$ (44)	$ —
Average balances					
Loans held-for-sale	$ 20	$ 7,819	$ —	$ —	$ 7,839
Loans with government guarantees	—	2,046	—	—	2,046
Loans held-for-investment (2)	11,846	1,683	—	11	13,540
Total assets	12,224	12,356	83	3,384	28,047
Deposits	12,116	40	6,249	1,281	19,686

(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 LHFI.

	Three Months Ended September 30, 2020				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 158	$ 49	$ 5	$ (32)	$ 180
Provision (benefit) for credit losses	(2)	(3)	—	37	32
Net interest income after provision (benefit) for credit losses	160	52	5	(69)	148
Net gain on loan sales	2	344	—	—	346
Loan fees and charges	—	25	16	—	41
Net return on mortgage servicing rights	—	12	—	—	12
Loan administrative (expense) income	(1)	(10)	40	(3)	26
Other noninterest income	15	3	—	5	23
Total noninterest income	16	374	56	2	448
Compensation and benefits	28	42	12	41	123
Commissions	1	71	—	—	72
Loan processing expense	1	11	8	—	20
Other noninterest expense	63	32	21	(30)	86
Total noninterest expense	93	156	41	11	301
Income (loss) before indirect overhead allocations and income taxes	83	270	20	(78)	295
Indirect overhead allocation (expense) income	(11)	(18)	(4)	33	—
Provision (benefit) for income taxes	15	53	3	2	73
Net income (loss)	$ 57	$ 199	$ 13	$ (47)	$ 222
Intersegment (expense) revenue	$ (22)	$ (12)	$ 10	$ 24	$ —
Average balances					
Loans held-for-sale	$ —	$ 5,602	$ —	$ —	$ 5,602
Loans with government guarantees	—	2,122	—	—	2,122
Loans held-for-investment (2)	12,311	2,498	—	30	14,839
Total assets	12,603	11,195	78	4,401	28,277
Deposits	11,265	—	7,329	967	19,561

(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 LHFI.

	Nine Months Ended September 30, 2021				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 454	$ 186	$ 11	$ (85)	$ 566
Provision (benefit) for credit losses	(5)	(7)	—	(83)	(95)
Net interest income after benefit for credit losses	459	193	11	(2)	661
Net gain on loan sales	—	564	—	—	564
Loan fees and charges	1	55	57	(1)	112
Net return on mortgage servicing rights	—	4	—	—	4
Loan administrative (expense) income	(1)	(26)	120	(8)	85
Other noninterest income	49	8	—	20	77
Total noninterest income	49	605	177	11	842
Compensation and benefits	81	151	47	117	396
Commissions	2	155	—	(1)	156
Loan processing expense	4	34	24	3	65
Other noninterest expense	39	65	66	135	305
Total noninterest expense	126	405	137	254	922
Income (loss) before indirect overhead allocations and income taxes	382	393	51	(245)	581
Indirect overhead allocation (expense) income	(26)	(50)	(14)	90	—
Provision (benefit) for income taxes	75	72	8	(22)	133
Net income (loss)	$ 281	$ 271	$ 29	$ (133)	$ 448
Intersegment revenue (expense)	$ 93	$ (3)	$ 33	$ (123)	$ —
Average balances					
Loans held-for-sale	$ 14	$ 7,389	$ —	$ —	$ 7,403
Loans with government guarantees	—	2,296	—	(1)	2,295
Loans held-for-investment (2)	12,156	1,865	—	22	14,043
Total assets	12,518	12,462	246	3,475	28,701
Deposits	11,872	26	6,525	1,175	19,598

(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 LHFI.

	Nine Months Ended September 30, 2020				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 395	$ 147	$ 14	$ (60)	$ 496
Provision (benefit) for credit losses	3	(8)	—	153	148
Net interest income after benefit for credit losses	392	155	14	(213)	348
Net gain on loan sales	2	737	—	—	739
Loan fees and charges	1	58	43	—	102
Net return on mortgage servicing rights	—	10	—	—	10
Loan administrative (expense) income	(2)	(25)	112	(26)	59
Other noninterest income	43	5	—	20	68
Total noninterest income	44	785	155	(6)	978
Compensation and benefits	79	111	33	118	341
Commissions	2	160	—	—	162
Loan processing expense	4	29	24	2	59
Other noninterest expense	231	114	57	(137)	265
Total noninterest expense	316	414	114	(17)	827
Income (loss) before indirect overhead allocations and income taxes	120	526	55	(202)	499
Indirect overhead allocation (expense) income	(31)	(45)	(15)	91	—
Provision (benefit) for income taxes	19	101	8	(13)	115
Net income (loss)	$ 70	$ 380	$ 32	$ (98)	$ 384
Intersegment revenue (expense)	$ (97)	$ (46)	$ 27	$ 116	$ —
Average balances					
Loans held-for-sale	$ —	$ 5,499	$ —	$ —	$ 5,499
Loans with government guarantees	—	1,267	—	—	1,267
Loans held-for-investment (2)	10,702	2,693	—	29	13,424
Total assets	11,100	10,539	65	4,288	25,992
Deposits	10,817	—	6,114	767	17,698

(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 LHFI.

Note 18 - Recently Issued Accounting Pronouncements

Adoption of New Accounting Standards

We adopted the following ASU during the quarter ended September 30, 2021. This ASU did not have a material impact to our financial statements:

Standard	Description	Effective Date
ASU 2021-06	Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC Update)	July 1, 2021

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, 2021, 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, 2021.

(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, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

See Legal Proceedings in Note 15 - Legal Proceedings, Contingencies and Commitments to the Consolidated Financial Statements, which is incorporated herein by reference.

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, 2020 and updated per Item 1A. to Part II, of our Quarterly Report on Form 10-Q for the three and six month periods ended June 30, 2021.

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, 2021.

Issuer Purchases of Equity Securities

The Company made no purchases of its equity securities during the quarter ended September 30, 2021.

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.

Item 6. Exhibits

Exhibit No.	Description
2.1*	Agreement and Plan of Merger, dated April 24, 2021, among New York Community Bancorp, Inc., 615 Corp., and Flagstar Bancorp, Inc. (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated April 26, 2021, 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 October 28, 2020, between Flagstar Bancorp, Inc. and Wilmington Trust, National Association, as Trustee (previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated October 28, 2020, and incorporated herein by reference).
4.2*	First Supplemental Indenture, dated October 28, 2020, between Flagstar Bancorp, Inc. and Wilmington Trust, National Association, as Trustee (previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, dated October 28, 2020, and incorporated herein by reference).
4.3*	Form of 4.125% Fixed-to-Floating Rate Subordinated Note due 2030 (included in Exhibit 4.2).
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, 2021, 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.

* Incorporated herein by reference

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, 2021

/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)