FLAGSTAR BANCORP INC

FORM 10-Q

(Quarterly Report)

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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 March 31, 2022
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 May 9, 2022, 53,245,670 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	HELOAN	Home Equity Loan
AFS	Available-for-Sale	HFI	Held-for-Investment
Agencies	Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association, Collectively	HFS	Held-for-Sale
		HOLA	Home Owners' Loan Act
ALCO	Asset Liability Committee	Home equity	Second Mortgages, HELOANs, HELOCs
ALLL	Allowance for Loan Losses	HPI	Housing Price Index
AOCI	Accumulated Other Comprehensive Income (Loss)	HTM	Held-to-Maturity
ASU	Accounting Standards Update	LGG	Loans with Government Guarantees
Basel III	Basel Committee on Banking Supervision Third Basel Accord	LHFI	Loans Held-for-Investment
C&I	Commercial and Industrial	LHFS	Loans Held-for-Sale
CARES Act	Coronavirus Aid, Relief and Economic Security Act	LIBOR	London Interbank Offered Rate
CDARS	Certificates of Deposit Account Registry Service	LTV	Loan-to-Value Ratio
CD	Certificates of Deposit	Management	Flagstar Bancorp's Management
CECL	Current Expected Credit Losses	MBS	Mortgage-Backed Securities
CET1	Common Equity Tier 1	MD&A	Management's Discussion and Analysis
CLTV	Combined Loan-to-Value Ratio	MSR	Mortgage Servicing Rights
Common Stock	Common Shares	N/A	Not Applicable
CRE	Commercial Real Estate	N/M	Not Meaningful
Deposit Beta	The change in the annualized cost of our deposits, compared to the change in the Federal Reserve discount rate	NBV	Net Book Value
DOJ	United States Department of Justice	NPL	Nonperforming Loan
DOJ Liability	2012 Settlement Agreement with the Department of Justice	NYSE	New York Stock Exchange
		OCC	Office of the Comptroller of the Currency
DTA	Deferred Tax Asset	OCI	Other Comprehensive Income (Loss)
EVE	Economic Value of Equity	QTL	Qualified Thrift Lending
Fannie Mae	Federal National Mortgage Association		
FASB	Financial Accounting Standards Board	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
FBC	Flagstar Bancorp		
FDIC	Federal Deposit Insurance Corporation	REO	Real estate owned and other nonperforming assets, net
Federal Reserve	Board of Governors of the Federal Reserve System	RMBS	Residential Mortgage-Backed Securities
FHA	Federal Housing Administration	RWA	Risk Weighted Assets
FHLB	Federal Home Loan Bank	SEC	Securities and Exchange Commission
FICO	Fair Isaac Corporation	SNC	Shared National Credit Loans
FOAL	Fallout-Adjusted Locks	SOFR	Secured Oversight Financing Rate
FRB	Federal Reserve Bank	TDR	Troubled Debt Restructuring
Freddie Mac	Federal Home Loan Mortgage Corporation	TPO	Third Party Originator
FTE	Full Time Equivalent Employees	UPB	Unpaid Principal Balance
GAAP	United States Generally Accepted Accounting Principles	U.S. Treasury	United States Department of Treasury
GNMA	Government National Mortgage Association	VIE	Variable Interest Entities
HELOC	Home Equity Lines of Credit	XBRL	eXtensible Business Reporting Language

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 first quarter of 2022, 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 2021 Annual Report on Form 10-K for the year ended December 31, 2021.

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 41 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 2021 Annual Report on Form 10-K for the year ended December 31, 2021. 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 5th largest subservicer of mortgage loans nationwide. At March 31, 2022, we had 5,341 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 build financial solutions for our customers. At March 31, 2022, 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 82 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 combined company expects to have over $85 billion in assets and operate nearly 400 traditional branches in nine states and over 80 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.

On April 26, 2022, NYCB and Flagstar entered into Amendment No. 1 (the "Amendment") to the Merger Agreement. Under the Amendment, the parties have agreed to: extend the termination date of the Merger Agreement to October 31, 2022; Change the structure of the merger of the subsidiary banks, so that Flagstar Bank, FSB will initially convert to a national bank charter and New York Community Bank will merge with and into the national bank, with the national bank as the surviving entity; and clarify that approvals of the FDIC and the New York State Department of Financial Services are no longer required but that the approval of the OCC will be required. Other than as expressly modified by the Amendment, the Merger Agreement, remains in full force and effect.

Completion of the transaction is subject to customary closing conditions, including receipt of 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,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
	March 31, 2022	December 31, 2021	March 31, 2021	Change	Change
	(Dollars in millions, except share data)				
Net interest income	$ 165	$ 181	$ 189	$ (16)	$ (24)
(Benefit) provision for credit losses	(4)	(17)	(28)	13	24
Total noninterest income	160	202	324	(42)	(164)
Total noninterest expense	261	291	347	(30)	(86)
Provision for income taxes	15	24	45	(9)	(30)
Net income	$ 53	$ 85	$ 149	$ (32)	$ (96)
Income per share					
Basic	$ 0.99	$ 1.62	$ 2.83	$ (0.63)	$ (1.84)
Diluted	$ 0.99	$ 1.60	$ 2.80	$ (0.61)	$ (1.81)
Weighted average shares outstanding:					
Basic	53,219,866	52,867,138	52,675,562	352,728	544,304
Diluted	53,578,001	53,577,832	53,297,803	169	280,198

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

	Three Months Ended,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
	March 31, 2022	December 31, 2021	March 31, 2021	Change	Change
	(Dollars in millions, except share data)				
Net interest income	$ 165	$ 181	$ 189	$ (16)	$ (24)
(Benefit) provision for credit losses	(4)	(17)	(28)	13	24
Total noninterest income	160	202	324	(42)	(164)
Total noninterest expense	258	285	312	(27)	(54)
Provision for income taxes	16	25	53	(9)	(37)
Net income	$ 55	$ 90	$ 176	$ (35)	$ (121)
Income per share					
Basic	$ 1.03	$ 1.71	$ 3.34	$ (0.68)	$ (2.31)
Diluted	$ 1.02	$ 1.69	$ 3.31	$ (0.67)	$ (2.29)

(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,		
	March 31, 2022	December 31, 2021	March 31, 2021
Selected Ratios:			
Interest rate spread (1)	2.91 %	2.79 %	2.55 %
Net interest margin	3.11 %	2.96 %	2.82 %
Adjusted net interest margin (2)	3.12 %	2.98 %	3.02 %
Return on average assets	0.89 %	1.28 %	1.98 %
Adjusted return on average assets (2)	0.92 %	1.35 %	2.34 %
Return on average common equity	7.87 %	12.74 %	25.73 %
Return on average tangible common equity (2)	8.61 %	13.79 %	27.99 %
Adjusted return on average tangible common equity (2)	9.10 %	14.90 %	32.97 %
Common equity-to-assets ratio	11.75 %	10.67 %	8.01 %
Common equity-to-assets ratio (average for the period)	11.12 %	10.08 %	7.71 %
Efficiency ratio	80.4 %	75.9 %	67.7 %
Adjusted efficiency ratio (2)	79.6 %	74.4 %	60.8 %
Selected Statistics:			
Book value per common share	$ 51.33	$ 51.09	$ 44.71
Tangible book value per share (2)	$ 48.61	$ 48.33	$ 41.77
Number of common shares outstanding	53,236,067	53,197,650	52,752,600

(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.

Overview

Net income for the quarter-ended March 31, 2022 was $53 million, or $0.99 per diluted share compared to fourth quarter 2021 net income of $85 million, or $1.60 per diluted share. When adjusting for the pre-tax impact of merger related expenses, first quarter 2022 net income was $55 million, or $1.02 per diluted share as compared to $90 million, or $1.69 per diluted share in the fourth quarter of 2021.

Net interest income in the first quarter declined $16 million, or 9 percent as compared to the prior quarter driven by a $2.7 billion, or 11 percent, reduction in average interest-earning assets partially offset by a 15 basis points increase in net interest margin. In the first quarter, a smaller mortgage market and seasonality drove declines in our HFS and warehouse loan portfolios compared to the prior quarter, which were partially offset by a $360 million increase in our commercial and industrial loan portfolio. The margin expansion was largely attributable to the impact of income recognized from the payoff of loans with government guarantees in forbearance and higher rates on newly originated loans held-for-sale.

Net return on mortgage servicing rights increased $10 million, to $29 million for the first quarter 2022, compared to a $19 million net return for the fourth quarter 2021. The increase in interest rates during the quarter resulted in improved valuations and hedging results as we reduced our hedge ratio on this portfolio to help mitigate the impact of higher mortgage rates on our mortgage origination revenue.

Net gain on sales decreased $46 million, or 51 percent compared to the prior quarter driven by lower gain on loan sale margins which declined 44 basis points, to 58 basis points for the first quarter 2022, as compared to 102 basis points for the fourth quarter 2022. The decrease was largely the result of $21 million fewer re-securitization gains from cured LGG loans and secondary marketing, which were impacted by the speed of rate changes in the quarter and volatility. Fallout adjusted lock volume declined to $7.7 billion from $8.9 billion for the fourth quarter 2021, reflecting lower refinance volumes due to increasing interest rates.

Our benefit for credit losses for the quarter ended March 31, 2022 was $4 million, compared to a benefit of $17 million in the fourth quarter 2021. Our benefit for credit losses in the first quarter was driven by the reduction in our ACL reserve reflecting one non-accrual commercial loan, no commercial delinquencies and low levels of consumer delinquencies while forbearance loans continue to decrease as of March 31, 2022.

We subserviced 1.3 million accounts as of March 31, 2022, a 2 percent increase compared to December 31, 2021 as we continued to grow this business.

Net Interest Income

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

	Three Months Ended,								
	March 31, 2022			December 31, 2021			March 31, 2021		
	Average Balance	Interest	Annualized Yield/ Rate	Average Balance	Interest	Annualized Yield/ Rate	Average Balance	Interest	Annualized Yield/ Rate
	(Dollars in millions)								
Interest-Earning Assets									
Loans held-for-sale	$ 4,833	$ 40	3.31 %	$ 6,384	$ 49	3.10 %	$ 7,464	$ 53	2.83 %
Loans held-for-investment									
Residential first mortgage	1,500	13	3.35 %	1,569	13	3.22 %	2,132	17	3.20 %
Home equity	598	6	4.05 %	635	6	3.93 %	820	7	3.50 %
Other	1,253	15	4.86 %	1,229	16	4.80 %	1,040	12	4.79 %
Total consumer loans	3,351	34	4.04 %	3,433	35	3.92 %	3,992	36	3.68 %
Commercial real estate	3,226	29	3.60 %	3,260	29	3.45 %	3,042	26	3.36 %
Commercial and industrial	1,834	16	3.52 %	1,473	14	3.69 %	1,486	13	3.53 %
Warehouse lending	3,973	32	3.25 %	5,148	47	3.54 %	6,395	64	4.00 %
Total commercial loans	9,033	77	3.43 %	9,881	90	3.53 %	10,923	103	3.76 %
Total loans held-for-investment (1)	12,384	111	3.59 %	13,314	125	3.63 %	14,915	139	3.73 %
Loans with government guarantees	1,402	15	4.40 %	1,742	11	2.62 %	2,502	4	0.56 %
Investment securities	2,021	11	2.19 %	2,104	11	2.09 %	2,210	12	2.21 %
Interest-earning deposits	929	—	0.16 %	747	—	0.15 %	87	—	0.14 %
Total interest-earning assets	$ 21,569	$ 177	3.30 %	$ 24,291	$ 196	3.18 %	$ 27,178	$ 208	3.06 %
Other assets	2,592			2,408			2,887		
Total assets	$ 24,161			$ 26,699			$ 30,065		
Interest-Bearing Liabilities									
Retail deposits									
Demand deposits	$ 1,626	$ —	0.09 %	$ 1,692	$ —	0.05 %	$ 1,852	$ —	0.07 %
Savings deposits	4,253	2	0.14 %	4,211	2	0.14 %	3,945	1	0.14 %
Money market deposits	887	—	0.09 %	927	—	0.09 %	685	—	0.06 %
Certificates of deposit	929	1	0.35 %	973	1	0.44 %	1,293	4	0.96 %
Total retail deposits	7,695	3	0.15 %	7,803	3	0.15 %	7,775	5	0.25 %
Government deposits	1,879	1	0.17 %	1,998	1	0.17 %	1,773	1	0.22 %
Wholesale deposits and other	1,071	2	0.89 %	1,238	3	0.93 %	1,031	4	1.59 %
Total interest-bearing deposits	10,645	6	0.23 %	11,039	7	0.25 %	10,579	10	0.38 %
Short-term FHLB advances and other	658	—	0.22 %	1,258	1	0.19 %	2,779	1	0.17 %
Long-term FHLB advances	1,260	3	0.98 %	1,400	4	0.88 %	1,200	3	1.03 %
Other long-term debt	396	3	3.23 %	396	3	3.16 %	453	5	4.11 %
Total interest-bearing liabilities	$ 12,959	$ 12	0.39 %	$ 14,093	$ 15	0.39 %	$ 15,011	$ 19	0.51 %
Noninterest-bearing deposits									
Retail deposits and other	2,474			2,468			2,270		
Custodial deposits (2)	4,970			6,309			7,194		
Total noninterest bearing deposits	7,444			8,777			9,464		
Other liabilities	1,071			1,137			3,271		
Stockholders’ equity	2,687			2,692			2,319		
Total liabilities and stockholders' equity	$ 24,161			$ 26,699			$ 30,065		
Net interest-earning assets	$ 8,610			$ 10,198			$ 12,167		
Net interest income		$ 165			$ 181			$ 189	
Interest rate spread (3)			2.91 %			2.79 %			2.55 %
Net interest margin (4)			3.11 %			2.96 %			2.82 %
Ratio of average interest-earning assets to interest-bearing liabilities			166.4 %			172.4 %			181.1 %
Total average deposits	$ 18,089			$ 19,816			$ 20,043		

(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, March 31, 2022 versus December 31, 2021 Increase (Decrease) Due to:			Three Months Ended, March 31, 2022 versus March 31, 2021 Increase (Decrease) Due to:		
	Rate	Volume	Total	Rate	Volume	Total
	(Dollars in millions)					
Interest-Earning Assets						
Loans held-for-sale	$ 4	$ (13)	$ (9)	$ 6	$ (19)	$ (13)
Loans held-for-investment						
Residential first mortgage	1	(1)	—	1	(5)	(4)
Home equity	—	—	—	1	(2)	(1)
Other	(1)	—	(1)	—	3	3
Total consumer loans	—	(1)	(1)	4	(6)	(2)
Commercial real estate	—	—	—	1	2	3
Commercial and industrial	(1)	3	2	—	3	3
Warehouse lending	(5)	(10)	(15)	(8)	(24)	(32)
Total commercial loans	(6)	(7)	(13)	(8)	(18)	(26)
Total loans held-for-investment	(6)	(8)	(14)	(4)	(24)	(28)
Loans with government guarantees	8	(4)	4	13	(2)	11
Investment securities	—	—	—	—	(1)	(1)
Interest-earning deposits and other	—	—	—	—	—	—
Total interest-earning assets	$ 3	$ (22)	$ (19)	$ 12	$ (43)	$ (31)
Interest-Bearing Liabilities						
Interest-bearing deposits	$ (1)	$ —	$ (1)	$ (4)	$ —	$ (4)
Short-term FHLB advances and other borrowings	(1)	—	(1)	—	(1)	(1)
Long-term FHLB advances	(1)	—	(1)	—	—	—
Other long-term debt	—	—	—	(1)	(1)	(2)
Total interest-bearing liabilities	(2)	(1)	(3)	(4)	(3)	(7)
Change in net interest income	$ 5	$ (21)	$ (16)	$ 16	$ (40)	$ (24)

Comparison to Prior Quarter

Net interest income for the three months ended March 31, 2022 was $165 million, a decrease of $16 million, or 9 percent as compared to the fourth quarter 2021. The results primarily reflect a $2.7 billion, or 11 percent, net decrease in average earning assets primarily from lower mortgage loans held-for-sale and warehouse loans due to seasonality and a smaller mortgage origination market. These decreases were partially offset by $360 million higher balances in our commercial and industrial loan portfolio and a higher net interest margin.

The net interest margin increased 15 basis points to 3.11 percent for the quarter ended March 31, 2022, as compared to 2.96 percent for the quarter ended December 31, 2021. The increase in net interest margin was largely attributable to the impact from the Federal Reserve's March rate increase, income recognition resulting from the payoff of LGG in forbearance, and higher yields on newly originated LHFS.

Average total deposits were $18.1 billion in the first quarter 2022, decreasing $1.7 billion, or 9 percent, from the fourth quarter 2021. The decrease was primarily driven by a decrease of $1.3 billion, or 21 percent, in average custodial deposits due to a reduction in mortgage refinance activity driven by the higher rate environment.

Comparison to Prior Year Quarter

Net interest income for the three months ended March 31, 2022 was $165 million, a decrease of $24 million as compared to the three months ended March 31, 2021. The 13 percent decrease was driven by a decline in average earning assets, primarily from mortgage loans held-for-sale and warehouse loans due to a smaller mortgage origination market. In addition, average LGG decreased $1.1 billion driven by loans exiting forbearance and being resold.

Net interest margin increased 29 basis points to 3.11 percent for the three months ended March 31, 2022, as compared to 2.82 percent for the three months ended March 31, 2021 primarily due to higher interest rates, income recognition resulting from the payoff of LGG in forbearance as a majority of these loans were not earning interest in the first quarter of 2021 and higher rates on newly originated LHFS.

Average interest-bearing liabilities decreased $2.1 billion, primarily driven by a decrease of $2.1 billion in short term FHLB borrowings due to a reduction in our overall asset base.

Provision for Credit Losses

Comparison to Prior Quarter

The benefit for credit losses was $4 million for the three months ended March 31, 2022, as compared to a $17 million benefit for credit losses for the three months ended December 31, 2021. Our benefit for credit losses in the first quarter was driven by a reduction in our ACL reserve that reflects the credit quality of our outstanding portfolio with a low number of non-accrual loans and no commercial delinquencies as of March 31, 2022. During the first quarter 2022, we had $21 million of net charge-offs, primarily all from the $20 million charge-off of a commercial credit that had an $18 million specific reserve at December 31, 2021. The prior quarter benefit contained qualitative reserve reductions reflecting strong portfolio performance and asset quality.

Comparison to Prior Year Quarter

The benefit for credit losses was $4 million for the three months ended March 31, 2022, as compared to a benefit of $28 million for the three months ended March 31, 2021 which was driven by improved economic forecasts 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,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
	March 31, 2022	**December 31, 2021**	**March 31, 2021**	**Change**	**Change**
			(Dollars in millions)		
Net gain on loan sales	$ 45	$ 91	$ 227	$ (46)	$ (182)
Loan fees and charges	27	29	42	(2)	(15)
Net return on mortgage servicing rights	29	19	—	10	29
Loan administration income	33	36	27	(3)	6
Deposit fees and charges	9	8	8	1	1
Other noninterest income	17	19	20	(2)	(3)
Total noninterest income	$ 160	$ 202	$ 324	$ (42)	$ (164)

	Three Months Ended,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
	March 31, 2022	**December 31, 2021**	**March 31, 2021**	**Change**	**Change**
			(Dollars in millions)		
Mortgage rate lock commitments (fallout-adjusted) (1)(3)	$ 7,700	$ 8,900	$ 12,300	$ (1,200)	$ (4,600)
Mortgage loans closed (3)	$ 8,200	$ 10,700	$ 13,800	$ (2,500)	$ (5,600)
Mortgage loans sold and securitized (3)	$ 9,900	$ 12,100	$ 13,700	$ (2,200)	$ (3,800)
Net margin on mortgage rate lock commitments (fallout-adjusted) (1)(2)	0.58 %	1.02 %	1.84 %	(0.44)%	(1.26)%
Net margin on loans sold and securitized	0.45 %	0.75 %	1.65 %	(0.30)%	(1.20)%

(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 decreased $42 million for the quarter ended March 31, 2022, compared to the quarter ended December 31, 2021, primarily due to the following:

- Net gain on loan sales decreased $46 million as compared to the fourth quarter 2021. Gain on sale margins decreased 44 basis points, to 58 basis points for the first quarter 2022, as compared to 102 basis points for the fourth quarter 2021. The decrease was largely the result of $21 million fewer re-securitization gains from the LGG portfolio and secondary marketing performance, which was impacted by the speed of interest rate changes in the quarter. FOALs decreased $1.2 billion, or 13 percent, to $7.7 billion, reflecting lower refinance volumes due to increasing interest rates.

- Net return on mortgage servicing rights was $29 million in the first quarter of 2022, an increase of $10 million compared to the fourth quarter of 2021. The increase in interest rates during the quarter resulted in improved valuations and hedging results as we reduced our hedge ratio on this portfolio to help mitigate the impact of higher mortgage rates on our mortgage origination revenue.

- Loan administration income decreased $3 million, to $33 million for the first quarter 2022, compared to $36 million for the fourth quarter 2021, driven by a decline in the average number of subserviced loans in forbearance which earn a higher rate.

- Loan fees and charges decreased $2 million to $27 million for the first quarter of 2022, compared to $29 million for the fourth quarter 2021, primarily due to a 23 percent decrease in mortgage loans closed partially offset by higher ancillary fee income in our servicing business.

Comparison to Prior Year Quarter

Noninterest income decreased $164 million for the three months ended March 31, 2022, compared to the three months ended March 31, 2021, primarily due to the following:

- Net gain on loan sales decreased $182 million, primarily due to $4.6 billion lower FOALs and a 126 basis points decrease in our gain on sale margin driven by the reduction in mortgage origination market, reduced refinance activity due to higher mortgage rates and the resulting increased competition.

- Net return on mortgage servicing rights increased $29 million, primarily driven by the increase in interest rates which resulted in improved valuations and hedging results as we reduced our hedge ratio on this portfolio in the first quarter of 2022 to help mitigate the impact of higher mortgage rates on our mortgage origination revenue.

- Loan administration income increased $6 million, driven primarily by a decline in LIBOR-based credits paid to sub-servicing customers on custodial deposits controlled by them which declined $2.2 billion along with higher overall subservicing fee income due to an increase in the average number of loans being subserviced.

- Loan fees and charges decreased $15 million primarily driven by a 40 percent decrease in mortgage loans closed. This decrease was partially offset by higher ancillary fee income from our servicing business.

Noninterest Expense

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

	Three Months Ended,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
	March 31, 2022	December 31, 2021	March 31, 2021	Change	Change
			(Dollars in millions)		
Compensation and benefits	$ 127	$ 137	$ 144	$ (10)	$ (17)
Occupancy and equipment	45	47	46	(2)	(1)
Commissions	26	38	62	(12)	(36)
Loan processing expense	21	21	21	—	—
Legal and professional expense	11	13	8	(2)	3
Federal insurance premiums	4	4	6	—	(2)
Intangible asset amortization	2	3	3	(1)	(1)
General, administrative and other	25	28	57	(3)	(32)
Total noninterest expense	$ 261	$ 291	$ 347	$ (30)	$ (86)
Efficiency ratio	80.4 %	75.9 %	67.7 %	4.5 %	12.7 %
Number of FTE employees	5,341	5,395	5,418	(54)	(77)

Comparison to Prior Quarter

Noninterest expense decreased to $261 million for the quarter ended March 31, 2022, compared to $291 million for the quarter ended December 31, 2021. Excluding $3 million of merger costs in the first quarter of 2022 and $6 million of merger costs in the fourth quarter 2021, noninterest expense decreased $27 million, or 9 percent. The decrease in noninterest expense primarily reflects lower commissions as mortgage loan closings decreased 23 percent compared to the prior quarter and a decrease in incentive compensation partially offset by seasonally higher payroll taxes and benefits.

Comparison to Prior Year Quarter

Noninterest expense decreased $86 million for the three months ended March 31, 2022, compared to the three months ended March 31, 2021 primarily due to the following:

- Mortgage commissions decreased $36 million primarily driven by a 40 percent reduction in mortgage loan closings.

- Compensation and benefits decreased $17 million, primarily due to a decrease in incentive compensation and slightly lower average FTE.

- General, administrative and other noninterest expense decreased $32 million primarily driven by the $35 million DOJ final settlement expense recognized during the three months ended March 31, 2021. The quarter ended March 31, 2021 includes $3 million of merger expenses.

Provision for Income Taxes

The first quarter provision for income taxes totaled $15 million, as compared to a provision for income taxes of $24 million for the fourth quarter 2021, with an effective tax rate of 22 percent, in-line with the effective tax rate for the fourth quarter 2021.

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 general, administrative and 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.

Community Banking	Three Months Ended, March 31, 2022	December 31, 2021	March 31, 2021	1Q22 vs. 4Q21 Change	1Q22 vs. 1Q21 Change
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 122	$ 147	$ 156	$ (25)	$ (34)
(Benefit) provision for credit losses	22	9	(14)	13	36
Net interest income after (benefit) provision for credit losses	100	138	170	(38)	(70)
Other noninterest income	18	16	18	2	—
Total noninterest income	18	16	18	2	—
Compensation and benefits	28	26	31	2	(3)
Commissions	1	1	1	—	—
Loan processing expense	2	1	1	1	1
General, administrative and other	18	21	25	(3)	(7)
Total noninterest expense	49	49	58	—	(9)
Income before indirect overhead allocations and income taxes	69	105	130	(36)	(61)
Indirect overhead allocation	(10)	(9)	(10)	(1)	—
Provision for income taxes	12	20	25	(8)	(13)
Net income	$ 47	$ 76	$ 95	$ (29)	$ (48)
Key Metrics					
Number of FTE employees	1,173	1,123	1,273	50	(100)
Number of bank branches	158	158	158	—	—

Comparison to Prior Quarter

The Community Banking segment reported net income of $47 million for the quarter ended March 31, 2022, compared to net income of $76 million for the quarter ended December 31, 2021. The $29 million decrease was driven by the following:

- Net interest income decreased $25 million primarily due to a $1.2 billion decline in our warehouse portfolio as a result of the reduction in the mortgage origination market and a higher intercompany funding rate.

- General, administrative and other noninterest expense decreased $3 million due to lower intersegment expense allocations from the Other segment. This is primarily due to the decrease in ACL during the first quarter 2022 resulting in a provision benefit and higher net charge-offs which resulted in a benefit to the Other segment.

- The provision for credit losses was $22 million in the first quarter 2022, compared to a $9 million provision in the prior quarter. The increase was primarily all from the $20 million charge-off associated with one commercial credit.

Comparison to Prior Year Quarter

The Community Banking segment reported net income of $47 million for the three months ended March 31, 2022, compared to $95 million for the three months ended March 31, 2021. The decrease was driven by the following:

- Net interest income decreased $34 million primarily due to a $2.4 billion decline in our warehouse portfolio as a result of the reduction in the mortgage origination market and higher intercompany funding rate charges on our assets.

- The provision for credit losses of $22 million for the three months ended March 31, 2022 was primarily driven by a charge-off relating to one commercial borrower. The $14 million benefit for credit losses for the three months ended March 31, 2021 was primarily due to a $16 million recovery on a previously charged-off loan.

- General, administrative and other noninterest expense decreased $7 million due to lower intersegment expense allocations from the Other segment. This is primarily due to the decrease in ACL during the first quarter of 2022, resulting in a provision benefit and higher net charge-offs, which caused a benefit to the Other segment.

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,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
Mortgage Originations	**March 31, 2022**	**December 31, 2021**	**March 31, 2021**	**Change**	**Change**
			(Dollars in millions)		
Summary of Operations					
Net interest income	$ 56	$ 62	$ 56	$ (6)	$ —
Provision (benefit) for credit losses	3	(3)	(2)	6	5
Net interest income after provision (benefit) for credit losses	53	65	58	(12)	(5)
Net gain on loan sales	45	91	227	(46)	(182)
Loan fees and charges	6	10	24	(4)	(18)
Loan administration expense	(7)	(7)	(10)	—	3
Net return on mortgage servicing rights	29	19	—	10	29
Other noninterest income	1	5	3	(4)	(2)
Total noninterest income	74	118	244	(44)	(170)
Compensation and benefits	45	49	54	(4)	(9)
Commissions	25	37	61	(12)	(36)
Loan processing expense	9	11	11	(2)	(2)
General, administrative and other	11	23	22	(12)	(11)
Total noninterest expense	90	120	148	(30)	(58)
Income before indirect overhead allocations and income taxes	37	63	154	(26)	(117)
Indirect overhead allocation	(15)	(17)	(19)	2	4
Provision for income taxes	4	9	28	(5)	(24)
Net income	$ 18	$ 37	$ 107	$ (19)	$ (89)
Key Metrics					
Mortgage rate lock commitments (fallout-adjusted) (1)(2)	$ 7,700	$ 8,900	$ 12,300	$ (1,200)	$ (4,600)
Noninterest expense to closing volume	1.11 %	1.13 %	1.07 %	(0.02)%	0.04 %
Number of FTE employees	2,044	2,109	2,083	(100)	(39)

(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 $18 million for the quarter ended March 31, 2022 as compared to $37 million for the quarter ended December 31, 2021. The $19 million decrease was driven by the following:

- Net gain on loan sales decreased $46 million as compared to the fourth quarter 2021. Gain on sale margins decreased by 44 basis points to 58 basis points for the first quarter 2022, as compared to 102 basis points for the fourth quarter 2021. The decrease was largely the result of fewer re-securitization gains from the LGG portfolio and secondary marketing performance, which was impacted by the speed of interest rate changes in the quarter. Channel margins were down slightly due to competitive factors. FOALs decreased $1.2 billion, or 13 percent, to $7.7 billion.

- Net interest income decreased $6 million primarily due to a $1.6 billion, or 24 percent, decline in the LHFS portfolio driven by the reduction in the mortgage origination market, partially offset by higher interest rates.
- Net return on mortgage servicing rights increased $10 million, to $29 million for the first quarter 2022, compared to a $19 million net return for the fourth quarter 2021. The increase in interest rates during the quarter resulted in improved valuations and hedging results as we reduced our hedge ratio on this portfolio to help mitigate the impact of higher mortgage rates on our mortgage origination revenue.

- Commissions decreased $12 million, primarily due to a 23 percent reduction in mortgage loan closings.

- General, administrative and other noninterest expense decreased $12 million primarily due to lower intersegment expense allocations from the Other segment. This is primarily due to the decrease in ACL during the quarter resulting in a provision benefit and higher net charge-offs which resulted in a benefit to the Other segment.

Comparison to Prior Year Quarter

The Mortgage Originations segment reported net income of $18 million for the three months ended March 31, 2022 and $107 million for the three months ended March 31, 2021. The decrease was driven by the following:

- Net gain on loan sales decreased $182 million primarily due to $4.6 billion lower FOALs and a 126 basis points decrease in our gain on sale margin driven by the challenging mortgage market and competitive factors relative to the prior year.

- Commissions decreased $36 million and loan fees and charges decreased $18 million primarily due to reduction in mortgage closings.

- Compensation and benefits decreased $9 million primarily due to lower incentive compensation and lower FTE.

- General, administrative and other noninterest expense decreased $11 million primarily due to lower intersegment expense allocations from the Other segment. This is primarily due to the decrease in ACL during the quarter resulting in a provision benefit and higher net charge-offs which resulted in a benefit to the Other segment.
- Net return on mortgage servicing rights, including the impact of economic hedges, increased $29 million primarily driven by reduced hedge ratio in this portfolio and increased interest rates during quarter ended March 31, 2021.

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 noninterest-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, March 31, 2022	December 31, 2021	March 31, 2021	1Q22 vs. 4Q21 Change	1Q22 vs. 1Q21 Change
		(Dollars in millions)			
Summary of Operations					
Net interest income	$ 3	$ 4	$ 4	$ (1)	$ (1)
Loan fees and charges	21	18	18	3	3
Loan administration income	43	45	40	(2)	3
Total noninterest income	64	63	58	1	6
Compensation and benefits	16	16	16	—	—
Loan processing expense	9	8	8	1	1
General, administrative and other	21	22	22	(1)	(1)
Total noninterest expense	46	46	46	—	—
Income before indirect overhead allocations and income taxes	21	19	16	2	5
Indirect overhead allocation	(6)	(5)	(6)	(1)	—
Provision for income taxes	3	3	2	—	1
Net income	$ 12	$ 11	$ 8	$ 1	$ 4
Key Metrics					
Average number of residential loans serviced (1)	1,245,000	1,218,000	1,117,000	27,000	128,000
Number of FTE employees	736	729	721	7	15

(1) Rounded to nearest thousand.

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

	March 31, 2022		December 31, 2021		March 31, 2021	
	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)	$ 253,013	1,041,251	$ 246,858	1,032,923	$ 197,053	921,126
Serviced for others (3)	40,065	154,404	35,074	137,243	40,402	160,511
Serviced for own loan portfolio (4)	7,215	60,167	8,793	63,426	9,965	66,363
Total loans serviced	$ 300,293	1,255,822	$ 290,725	1,233,592	$ 247,420	1,148,000

(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 $12 million for the quarter ended March 31, 2022, compared to net income of $11 million for the quarter ended December 31, 2021 as a result of a slightly higher number of loans serviced and subserviced. Loan administration income declined $2 million driven by lower monthly subservicing fees due to a lower number of loans being in forbearance. LIBOR-based fees paid to sub-servicing customers on custodial deposits controlled by them were flat as a $1.3 billion decline in the average balance of custodial deposits was offset by a higher variable rate.

Comparison to Prior Year Quarter

The Mortgage Servicing segment reported net income of $12 million for the three months ended March 31, 2022, compared to net income of $8 million for the three months ended March 31, 2021. The $4 million increase in net income was driven by a $6 million increase in noninterest income primarily driven by a $2.2 billion decline in LIBOR-based fees paid to sub-servicing customers on custodial deposits controlled by them and higher ancillary fee income.

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,			1Q22 vs. 4Q21	1Q22 vs. 1Q21
Other	**March 31, 2022**	**December 31, 2021**	**March 31, 2021**	**Change**	**Change**
		(Dollars in millions)			
Summary of Operations					
Net interest income	$ (16)	$ (32)	$ (27)	$ 16	$ 11
(Benefit) provision for credit losses	(29)	(23)	(12)	(6)	(17)
Net interest income after (benefit) provision for credit losses	13	(9)	(15)	22	28
Net gain on loan sales	—	—	—	—	—
Loan fees and charges	—	1	—	(1)	—
Loan administration expense	(3)	(2)	(3)	(1)	—
Other noninterest income	7	6	7	1	—
Total noninterest income	4	5	4	(1)	—
Compensation and benefits	38	44	43	(6)	(5)
Commissions	—	—	—	—	—
Loan processing expense	1	1	1	—	—
General, administrative and other	37	29	51	8	(14)
Total noninterest expense	76	74	95	2	(19)
Income before indirect overhead allocations and income taxes	(59)	(78)	(106)	19	47
Indirect overhead allocation	31	31	35	—	(4)
Provision for income taxes	(4)	(8)	(10)	4	6
Net loss	$ (24)	$ (39)	$ (61)	$ 15	$ 37
Key Metrics					
Number of FTE employees	1,388	1,484	1,340	(96)	48

Comparison to Prior Quarter

The Other segment reported a net loss of $24 million, for the quarter ended March 31, 2022, compared to a net loss of $39 million for the quarter ended December 31, 2021. The $15 million improvement was primarily driven by a $16 million increase in net interest income as a result of the net impact that higher interest rates in the first quarter 2022 had on our overall asset sensitive position.

Comparison to Prior Year Quarter

The Other segment reported a net loss of $24 million for the three months ended March 31, 2022, compared to a net loss of $61 million for the three months ended March 31, 2021. The $37 million improvement was driven by an $11 million increase in net interest income as a result of the net impact that higher interest rates in the first quarter 2022 had on our overall asset sensitive position. Additionally, in the first quarter 2021 we recorded a $35 million final settlement expense for the DOJ Liability which did not reoccur.

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, 2021 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 Tier 2 capital. This limit was $466 million as of March 31, 2022. 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 $200 million. All warehouse advances are fully collateralized by residential mortgage loans and this asset class has had very low levels of historical loss. 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 are made to strong borrowers on a case by case basis, with the approval of the Board of Directors.

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 we 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 March 31, 2022, we had $9.9 billion UPB in our commercial loan portfolio with our warehouse lending and home builder finance businesses accounting for 59 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 considered to be SNCs. 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. Our consumer loan portfolio includes high credit quality residential first and second lien mortgage loans, non-auto boat and recreational vehicle indirect lending loans and other unsecured consumer loans.

Loans Held-for-Investment

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

	March 31, 2022	% of Total	December 31, 2021	% of Total	Change
			(Dollars in millions)		
Consumer loans					
Residential first mortgage	$ 1,499	11.3 %	$ 1,536	11.5 %	$ (37)
Home equity (1)	596	4.5 %	613	4.5 %	(17)
Other	1,267	9.6 %	1,236	9.2 %	31
Total consumer loans	3,362	25.4 %	3,385	25.2 %	(23)
Commercial loans					
Commercial real estate	3,254	24.6 %	3,223	24.0 %	31
Commercial and industrial	1,979	15.0 %	1,826	13.6 %	153
Warehouse lending	4,641	35.1 %	4,974	37.1 %	(333)
Total commercial loans	9,874	74.6 %	10,023	74.8 %	(149)
Total loans held-for-investment	$ 13,236	100.0 %	$ 13,408	100.0 %	$ (172)

(1) Includes second mortgages, HELOCs, and HELOANs.

The decrease in our commercial loan portfolio of $149 million, or 1 percent, is mainly due to warehouse repayments outpacing advances from December 31, 2021 to March 31, 2022, partially offset by $184 million higher balances in our commercial and industrial and commercial real estate loan portfolios. Our consumer loan portfolio decreased $23 million, or 1 percent, from December 31, 2021 to March 31, 2022 as a $31 million increase in other consumer loans was more than offset by a $37 million decrease in residential first mortgage loans and a $17 million decrease in home equity 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 March 31, 2022, loans in this portfolio had an average current FICO score of 731 and an average current LTV of 51 percent.

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

	March 31, 2022	December 31, 2021
	(Dollars in millions)	
Estimated LTVs (1)		
Less than 80% and current FICO scores (2):		
Equal to or greater than 660	$ 962	$ 988
Less than 660	55	50
80% and greater and current FICO scores (2):		
Equal to or greater than 660	369	385
Less than 660	113	113
Total	$ 1,499	$ 1,536
Geographic region		
California	$ 444	$ 441
Michigan	438	400
Florida	80	68
Texas	73	83
Washington	57	59
New York	42	38
Indiana	40	34
Colorado	31	30
Illinois	27	31
New Jersey	22	24
Other	245	328
Total	$ 1,499	$ 1,536

(1) LTVs reflect loan balance at the date reported, as a percentage of appraised property value at loan closing.
(2) FICO scores are updated at least on a quarterly basis or more frequently, if available.

The following table presents amortized cost of our total residential first mortgage LHFI as of March 31, 2022, by year of closing:

	2022	2021	2020	2019	2018 and Prior	Total
			(Dollars in millions)			
Residential first mortgage loans	$ 114	$ 352	$ 189	$ 257	$ 587	$ 1,499
Percent of total	7.6 %	23.5 %	12.6 %	17.1 %	39.2 %	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 March 31, 2022, loans in this portfolio had an average current FICO score of 753 and an average CLTV of 54 percent. At March 31, 2022, HELOCs and HELOANs in a first lien position totaled $63 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:

	March 31, 2022		December 31, 2021	
	Balance	% of Portfolio	Balance	% of Portfolio
	(Dollars in millions)			
Indirect lending	$ 935	74 %	$ 926	75 %
Point of sale	295	23 %	272	22 %
Other	37	3 %	38	3 %
Total other consumer loans	$ 1,267	100 %	$ 1,236	100 %

Other consumer loans totaled $1.3 billion as of March 31, 2022, compared to $1.2 billion at December 31, 2021. The increase in other consumer loans was primarily due to the ongoing growth in our non-auto, boat and recreational vehicle indirect lending businesses, which began in late 2018, of which 66 percent is secured by boats and 34 percent is secured by recreational vehicles and growth in our point of sale portfolio. As of March 31, 2022, loans in our indirect portfolio had an average current FICO score of 747. Point of sale loans consist of unsecured consumer installment loans originated primarily for home improvement purposes 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 $3.0 billion in commitments with $1.2 billion in outstanding loans as of March 31, 2022. Of these outstanding loans $861 million are collateralized and included in our CRE portfolio while $334 million are unsecured and included in our C&I portfolio.

As of March 31, 2022, our CRE portfolio included $158 million of SNCs and no leveraged lending loans compared to $186 million of SNCs and no leveraged lending loans as of December 31, 2021. As of March 31, 2022, the SNC portfolio had ten borrowers with an average amortized cost of $16 million and an average commitment of $19 million. There were no nonperforming SNC or leveraged loans as of March 31, 2022 and there was no SNC that was rated as substandard. There was one special mention SNC loan for $22 million as of March 31, 2022. There were no leveraged loans outstanding that were rated as special mention or substandard as of March 31, 2022.

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)							
March 31, 2022								
Home builder	$ 27	$ 169	$ 100	$ —	$ 186	$ 379	$ 861	26.6 %
Multi family	209	44	66	50	22	77	468	14.4 %
Owner occupied	300	4	24	8	—	59	395	12.1 %
Hotel	159	—	26	30	—	180	395	12.1 %
Retail (1)	203	—	2	55	3	33	296	9.1 %
Senior living facility	122	24	—	68	—	56	270	8.3 %
Office	173	—	20	4	—	55	252	7.7 %
Industrial	55	—	—	—	—	21	76	2.3 %
Parking garage/lot	46	—	—	—	—	20	66	2.0 %
Shopping Mall	—	—	16	—	—	—	16	0.5 %
Land-residential (2)	5	—	7	—	—	—	12	0.4 %
Single family residence (3)	6	—	—	—	—	1	7	0.2 %
All other (4)	15	48	—	5	—	72	140	4.3 %
Total	$ 1,320	$ 289	$ 261	$ 220	$ 211	$ 953	$ 3,254	100.0 %
Percent by state	40.6 %	8.9 %	8.0 %	6.8 %	6.5 %	29.2 %	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 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. Of our C&I loans, 96 percent earn interest at a variable rate.

As of March 31, 2022, our C&I portfolio included $1.0 billion of SNCs. The finance and insurance sector and the services sector comprised the majority of the portfolio's NBV with 39 and 28 percent of the balance, respectively. The SNC portfolio had forty-nine borrowers with an average amortized book value of $21 million and an average commitment of $37 million. 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 March 31, 2022.

As of March 31, 2022, our C&I portfolio included $327 million of leveraged lending, of which $232 million were SNCs, which were also included in the SNC portfolio discussed in the prior paragraph. The manufacturing sector comprised 50 percent of the leveraged lending portfolio, and the financial and insurance sector comprised 20 percent. There were $9 million in NPLs as of March 31, 2022, and loans totaling $25 million were rated substandard and loans totaling $9 million were rated as special mention. Included in the financial and insurance sector within our C&I portfolio are $342 million in loans outstanding to 8 borrowers that are collateralized by MSR assets with an average amortized cost of $43 million and an average commitment of $72 million. The ratio of the loan outstanding to the fair market value of the collateral ranges from 12 percent to 69 percent.

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

	MI	NY	FL	SC	CA	NJ	TX	OH	WI	IN	Other	Total	% by industry
						(Dollars in millions)							
March 31, 2022													
Financial & Insurance	$ 27	$ 232	$ 47	$ 103	$ 22	$ 98	$ 43	$ 41	$ 22	$ —	$ 82	$ 717	36.2 %
Services	131	1	16	—	10	11	—	1	—	3	99	272	13.7 %
Manufacturing	238	4	—	—	—	—	—	—	7	—	47	296	15.0 %
Home Builder Finance	—	—	122	39	82	—	52	—	—	—	39	334	16.9 %
Rental & Leasing	156	27	30	—	—	—	—	—	—	8	24	245	12.4 %
Distribution	35	—	—	—	13	—	—	1	—	1	3	53	2.7 %
Healthcare	3	—	—	—	—	—	—	18	—	—	12	33	1.7 %
Government & Education	2	—	—	—	2	—	—	—	—	—	12	16	0.8 %
Commodities	—	—	—	—	5	—	—	—	—	1	7	13	0.7 %
Total	$ 591	$ 263	$ 214	$ 141	$ 133	$ 108	$ 94	$ 61	$ 29	$ 13	$ 325	$ 1,979	100.0 %
Percent by state	30.0 %	13.0 %	11.0 %	7.0 %	7.0 %	6.0 %	5.0 %	3.0 %	1.0 %	1.0 %	16.0 %	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.

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 warehouse lines of credit granted to other mortgage lenders at March 31, 2022 was $12.0 billion, of which $4.6 billion was outstanding, compared to $12.0 billion at December 31, 2021, of which $5.0 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 under their original legal terms, 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:

	March 31, 2022	December 31, 2021
	(Dollars in millions)	
LHFI		
Residential first mortgage (1)	$ 76	$ 38
Home equity	7	7
Other consumer	3	4
Commercial and industrial (2)	9	32
Total nonperforming LHFI	95	81
TDRs		
Residential first mortgage	10	11
Home equity	2	2
Total nonperforming TDRs	12	13
Total nonperforming LHFI and TDRs (2)	107	94
Real estate and other nonperforming assets, net	4	6
LHFS	24	17
Total nonperforming assets	$ 135	$ 117
Nonperforming assets to total assets (3)	0.48 %	0.39 %
Nonperforming LHFI and TDRs to LHFI	0.80 %	0.70 %
Nonperforming assets to LHFI and repossessed assets (3)	0.84 %	0.74 %

(1) Includes $33 million of first residential mortgage loans that are current in accordance with their forbearance exit plan and have not yet returned to accrual status as of March 31, 2022.
(2) Includes one commercial loan less than 90 days past due in nonaccrual that is current in accordance with their forbearance plan.
(3) 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,	
	March 31, 2022	December 31, 2021
	(Dollars in millions)	
Beginning balance	$ 93	$ 94
Additions	54	10
Reductions	—	—
Principal payments	(10)	(9)
Charge-offs	(25)	(1)
Return to performing status	(5)	(1)
Transfers to REO	—	—
Total nonperforming LHFI and TDRs (1)	$ 107	$ 93

(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:

	March 31, 2022		December 31, 2021	
	Amount	% of LHFI	Amount	% of LHFI
	(Dollars in millions)			
Performing loans past due 30-89:				
Consumer loans				
Residential first mortgage	$ 15	0.11 %	$ 48	0.36 %
Home equity	3	0.02 %	9	0.07 %
Other consumer	4	0.03 %	5	0.04 %
Total consumer loans	22	0.17 %	62	0.46 %
CRE	—	— %	—	— %
C&I	—	— %	—	— %
Total commercial loans	—	— %	—	— %
Total performing loans past due 30-89 days	$ 22	0.17 %	$ 62	0.46 %

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 active forbearance or were granted a payment deferral:

	As of March 31, 2022			As of December 31, 2021		
	Number of Borrowers	UPB	Percent of Portfolio	Number of Borrowers	UPB	Percent of Portfolio
	(Dollars in millions, actual number of borrowers)					
Loans Held-For-Investment						
Consumer loans						
Residential first mortgage	178	$ 32	2.1 %	212	$ 35	2.3 %
Home equity	41	5	0.8 %	48	5	0.8 %
Other consumer	92	4	0.3 %	96	4	0.3 %
Total consumer loan deferrals/forbearance	311	$ 41	1.2 %	356	$ 44	1.3 %
Loans Held-For-Sale						
Residential first mortgage	24	$ 8	0.2 %	47	$ 13	0.3 %

There were no performing commercial borrowers in payment deferral as of March 31, 2022.

The table below summarizes the percent of our residential loan servicing portfolio in forbearance as of March 31, 2022:

	Total Population		Loans in Forbearance			
	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Percent of UPB	Percent of Accounts
	(Dollars in millions)					
Loan servicing						
Subserviced for others (2)	$ 253,970	1,044,616	$ 2,512	11,338	1.0 %	1.1 %
Serviced for others (3)	39,107	151,035	350	1,366	0.9 %	0.9 %
Serviced for own loan portfolio (4)	7,217	60,171	157	901	2.2 %	1.5 %
Total loans serviced	$ 300,294	1,255,822	$ 3,019	13,605	1.0 %	1.1 %

(1) UPB, net of write downs, does not include premiums or discounts.
(2) Loans subserviced for non-Flagstar owned loans or MSRs, in each case subserviced for a fee. 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), and LGG (residential first mortgage).

The table below summarizes the percent of our residential loan servicing portfolio in forbearance as of December 31, 2021:

	Total Population		Loans in Forbearance			
	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts	Percent of UPB	Percent of Accounts
	(Dollars in millions)					
Loan servicing						
Subserviced for others (2)	$ 247,081	1,033,711	$ 3,946	18,313	1.6 %	1.8 %
Serviced for others (3)	35,097	137,315	514	2,158	1.5 %	1.6 %
Serviced for own loan portfolio (4)	8,645	63,039	220	1,158	2.5 %	1.8 %
Total loans serviced	$ 290,823	1,234,065	$ 4,680	21,629	1.6 %	1.8 %

(1) UPB, net of write downs, does not include premiums or discounts.
(2) Loans subserviced for non-Flagstar owned loans or MSRs, in each case subserviced for a fee. 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), and LGG (residential first mortgage).

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 and the programs offered to return to paying status 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 loans modified under these programs 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:

	March 31, 2022	December 31, 2021
	(Dollars in millions)	
Performing TDRs		
Consumer Loans		
Residential first mortgage	$ 16	$ 14
Home equity	7	8
Total consumer loans	23	22
Commercial Loans		
Commercial real estate	—	—
Commercial and industrial	—	2
Total commercial loans	—	2
Total performing TDRs	23	24
Nonperforming TDRs		
Nonperforming TDRs	7	8
Nonperforming TDRs, performing for less than six months	5	5
Total nonperforming TDRs	12	13
Total TDRs	$ 35	$ 37

At March 31, 2022 our total TDR loans decreased $2 million to $35 million compared to $37 million at December 31, 2021 primarily driven by principal payments and payoffs out-pacing new additions. Of our total TDR loans, 66 percent and 65 percent were in performing status at March 31, 2022 and December 31, 2021, 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 March 31, 2022:

	Three Months Ended March 31, 2022								
	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	$ 40	$ 14	$ 36	$ 28	$ 32	$ 4	$ 154	$ 16	$ 170
Provision (benefit) for credit losses:									
Loan volume	—	—	1	—	3	—	4	(2)	2
Economic forecast (3)	1	2	—	1	(2)	—	2	—	2
Credit (4)	2	—	(3)	(6)	2	(1)	(6)	—	(6)
Qualitative factor adjustments	—	—	—	(1)	(4)	—	(5)	—	(5)
Charge-offs	(1)	—	(2)	—	(20)	—	(23)	—	(23)
Recoveries	—	1	1	—	—	—	2	—	2
Provision for charge-offs	1	(1)	1	—	2	—	3	—	3
Ending allowance balance	$ 43	$ 16	$ 34	$ 22	$ 13	$ 3	$ 131	$ 14	$ 145

(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.

The ACL was $145 million at March 31, 2022, compared to $170 million at December 31, 2021. The decrease in the allowance is primarily reflective of the $20 million charge-off of a commercial credit which was specifically reserved at $18 million at December 31, 2021. The remaining decrease is due to decreases in our collectively evaluated portfolio including our consideration of the low levels of delinquency and the performance of our commercial portfolios. This was, partially offset by a slight deterioration in economic forecasts focused around consumer personal income and debt service ratios as pandemic-related stimulus comes to an end and inflation increases. We utilized the Moody's March 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. Within our composite forecast, unemployment ends 2022 at 4 percent, slightly increasing in 2023 with a full recovery by 2024. GDP continues to recover throughout 2022 and returns to pre-COVID levels in 2023. HPI decreases by 2 percent from the first quarter of 2022 through the fourth quarter of 2022 before increasing 3 percent by the fourth quarter of 2023.

The ACL as a percentage of LHFI was 1.1 percent as of March 31, 2022 compared to 1.3 percent as of December 31, 2021. Excluding warehouse loans, where we have not experienced charge-offs in several years, the allowance as a percentage of LHFI was 1.6 percent at March 31, 2022 compared to 2.0 percent at December 31, 2021. The decrease in the allowance as a percentage of LHFI is reflective of the credit performance of our portfolio with no delinquent commercial loans.

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:

	March 31, 2022				
	LHFI Portfolio (1)	Percent of Portfolio	Allowance Amount (2)	Allowance as a Percent of Loan Portfolio	Weighted Average Loan Life (in years)
	(Dollars in millions)				
Consumer loans					
Residential first mortgage	$ 1,479	11.2 %	$ 43	2.9 %	5
Home equity	595	4.5 %	16	2.7 %	3
Other consumer	1,267	9.6 %	35	2.8 %	3
Total consumer loans	3,341	25.3 %	94	2.8 %	
Commercial loans					
Commercial real estate	$ 3,254	24.6 %	$ 28	0.9 %	2
Commercial and industrial	1,979	15.0 %	19	1.0 %	2
Warehouse lending	4,641	35.1 %	4	0.1 %	—
Total commercial loans	9,874	74.7 %	51	0.5 %	
Total consumer and commercial loans	$ 13,215	100.0 %	$ 145	1.1 %	
Total consumer and commercial loans excluding warehouse	$ 8,574	64.9 %	$ 141	1.6 %	

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

	December 31, 2021				
	LHFI Portfolio (1)	Percent of Portfolio	Allowance Amount (2)	Allowance as a Percent of Loan Portfolio	Weighted Average Loan Life (in years)
	(Dollars in millions)				
Consumer loans					
Residential first mortgage	$ 1,521	11.4 %	$ 40	2.6 %	5
Home equity	611	4.6 %	14	2.3 %	3
Other consumer	1,236	9.2 %	37	3.0 %	3
Total consumer loans	3,368	25.2 %	91	2.7 %	
Commercial loans					
Commercial real estate	$ 3,223	24.1 %	$ 38	1.2 %	1
Commercial and industrial	1,826	13.6 %	36	2.0 %	2
Warehouse lending	4,974	37.1 %	5	0.1 %	—
Total commercial loans	10,023	74.8 %	79	0.8 %	
Total consumer and commercial loans	$ 13,391	100.0 %	$ 170	1.3 %	
Total consumer and commercial loans excluding warehouse	$ 8,417	62.9 %	$ 165	2.0 %	

(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 other members of 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 non-maturity 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.

	March 31, 2022		
Scenario	**Net interest income**	**$ Change**	**% Change**
	(Dollars in millions)		
100	$846	$40	5.1%
Constant	806	—	—%
(100)	738	(68)	(8.3)%

	December 31, 2021		
Scenario	**Net interest income**	**$ Change**	**% Change**
	(Dollars in millions)		
100	$882	$122	16.1%
Constant	760	—	—%
(100)	695	(65)	(8.5)%

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 reduction in our interest income sensitivity as of March 31, 2022 compared to December 31, 2021 is primarily driven by changes in our hedging activities as described in Note 8 - Derivative Financial Instruments.

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, the impact of interest rate floors on certain of our commercial loans 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.

March 31, 2022					December 31, 2021					
Scenario	EVE	EVE %	$ Change	% Change	Scenario	EVE	EVE %	$ Change	% Change	Policy Limits for % Change
(Dollars in millions)										
300	$ 4,878	21.5 %	$ 803	19.7 %	300	$ 4,579	18.2 %	$ 1,042	29.5 %	(22.5)%
200	4,678	20.6 %	603	14.8 %	200	4,232	16.8 %	695	19.6 %	(15.0)%
100	4,400	19.4 %	325	8.0 %	100	3,939	15.6 %	402	11.4 %	(7.5)%
Current	4,075	18.0 %	—	— %	Current	3,537	14.0 %	—	— %	— %
(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 repriced. The amount of the change in EVE decreased as of March 31, 2022 compared to December 31, 2021 primarily driven by changes in our hedging activities as described in Note 8 - Derivative Financial Instruments. 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 and we do not apply hedge accounting related to the management of these risks. 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.

We have designated certain interest rate swaps as fair value hedges of investment securities AFS using the last-of-layer method. Additionally, we designated certain interest rate swaps as cash flow hedges on LIBOR-based variable interest payments on certain commercial loans. For further information, see Note 8 - Derivative Financial Instruments and Note 16 - Fair Value Measurements.

Mortgage Servicing Rights (MSRs)

Our MSRs are sensitive to changes in interest rates 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 all 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 paid by the Bank. The primary uses of the Company's liquidity are debt service, operating expenses and the payment of cash dividends to shareholders, which remained at $0.06 per share in the first quarter 2022. The Company holds $150 million of subordinated debt which is scheduled to mature on November 1, 2030. The Bank did not pay any dividends to the Company in the first quarter of 2022 and at March 31, 2022, the Company held $205.4 million of cash on deposit at the Bank which is sufficient to cover the cash outflows needed to service the subordinated debt interest, pay dividends and cover the operating expenses of the Company in excess of 2 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 March 31, 2022, the Bank is in compliance with the QTL test, having qualified assets above the 65 percent requirement for twelve of the prior twelve months. At March 31, 2022, the Bank is able to pay dividends to the holding company of approximately $1 billion 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 March 31, 2022, we had $1.6 billion of advances outstanding and an additional $3.2 billion of collateralized borrowing capacity available at the FHLB.

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 March 31, 2022 was 169 percent and in compliance with our board policy limit of 90 percent.

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 68.5 percent for the three months ended March 31, 2022. 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 64.1 percent for the three months ended March 31, 2022.

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:

	March 31, 2022	December 31, 2021	Change
		(Dollars in millions)	
Retail deposits	$ 10,175	$ 10,264	$ (89)
Government deposits	1,886	2,000	(114)
Wholesale deposits	974	1,141	(167)
Custodial deposits	4,313	4,604	(291)
Total deposits	17,348	18,009	(661)
FHLB advances and other short-term debt	1,400	3,280	(1,880)
Other long-term debt	396	396	—
Total borrowed funds	1,796	3,676	(1,880)
Total funding	$ 19,144	$ 21,685	$ (2,541)

The following table presents our borrowing capacity as of the dates indicated:

	March 31, 2022	December 31, 2021	Change
	(Dollars in millions)		
FLHB Borrowing capacity			
Line of credit available	$ 30	$ 30	$ —
Collateralized borrowing capacity	3,182	3,792	(610)
Total unused borrowing capacity	$ 3,212	$ 3,822	$ (610)
FRB discount window			
Collateralized borrowing capacity	$ 1,724	$ 1,666	$ 58
Unencumbered investment securities			
Agency - Commercial (1)	$ 995	$ 123	$ 872
Agency - Residential (1)	543	55	488
Municipal obligations	17	18	(1)
Corporate debt obligations	53	54	(1)
Other	1	1	—
Total unencumbered investment securities	1,609	251	1,358
Total liquidity sources and borrowing capacity	$ 6,545	$ 5,739	$ 806

(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:

	March 31, 2022		December 31, 2021		
	Balance	% of Deposits	Balance	% of Deposits	Change
			(Dollars in millions)		
Retail deposits					
Branch retail deposits					
Savings accounts	$ 3,814	22.0 %	$ 3,751	20.8 %	$ 63
Certificates of deposit/CDARS (1)	898	5.2 %	951	5.3 %	(53)
Demand deposit accounts	1,962	11.3 %	1,946	10.8 %	16
Money market demand accounts	497	2.9 %	494	2.7 %	3
Total branch retail deposits	7,171	41.3 %	7,142	39.7 %	29
Commercial deposits (2)					
Demand deposit accounts	2,106	12.1 %	2,194	12.2 %	(88)
Savings accounts	496	2.9 %	520	2.9 %	(24)
Money market demand accounts	402	2.3 %	408	2.3 %	(6)
Total commercial retail deposits	3,004	17.3 %	3,122	17.3 %	(118)
Total retail deposits	$ 10,175	58.7 %	$ 10,264	57.0 %	$ (89)
Government deposits					
Savings accounts	$ 743	4.3 %	$ 721	4.0 %	$ 22
Demand deposit accounts	584	3.4 %	664	3.7 %	(80)
Certificates of deposit/CDARS (1)	554	3.2 %	609	3.4 %	(55)
Money market demand accounts	5	— %	6	— %	(1)
Total government deposits	1,886	10.9 %	2,000	11.1 %	(114)
Custodial deposits (3)	4,313	24.9 %	4,604	25.6 %	(291)
Wholesale deposits	974	5.6 %	1,141	6.3 %	(167)
Total deposits (4)	$ 17,348	100.0 %	$ 18,009	100.0 %	$ (661)

(1) The aggregate amount of CD with a minimum denomination of $100,000 was approximately $1.1 billion and $1.2 billion at March 31, 2022 and December 31, 2021, 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 $5.0 billion and $6.0 billion at March 31, 2022 and December 31, 2021, respectively.

Total deposits decreased $0.7 billion, or 4 percent, at March 31, 2022 compared to December 31, 2021, primarily driven by a decrease in custodial, wholesale, and government deposits.

We utilize local governmental agencies and other public units as an additional source for deposit funding. At March 31, 2022, 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 March 31, 2022, collateral held on government deposits was $179 million. At March 31, 2022, government deposit accounts included $554 million of CDs with maturities typically less than one year and $1.3 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, we give a LIBOR-based fee credit that reduces subservicing income from the MSR owners who controls the $3.6 billion custodial deposit 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 March 31, 2022, we had $110 million of total CDs enrolled in the CDARS program, a decrease of $5 million from December 31, 2021.

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, CRE loans and investment securities. As of March 31, 2022, 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 March 31, 2022, we had $1.2 billion of advances outstanding and an additional $3.2 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 March 31, 2022, we pledged collateral, which included commercial loans, municipal bonds, and agency bonds, to the FRB of Chicago amounting to $2.1 billion with a lendable value of $1.7 billion. At December 31, 2021, we pledged collateral to the FRB of Chicago amounting to $2.3 billion with a lendable value of $1.7 billion. We do not typically utilize this available funding source, and at March 31, 2022 and December 31, 2021, 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 March 31, 2022 we had $200 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 March 31, 2022, we are current on all interest payments. Additionally, we have $150 million of subordinated debt outstanding (the "Notes"), which mature 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 continuously 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 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, usually at a gain. 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 indemnification obligations and insurance limits which expose us to limited credit risk.

Additional expenses or charges may arise on LGG due to Veteran's Affairs loan insurance limits and FHA property foreclosure and preservation requirements that may result in a loss in excess of all, or part of, the guarantee. During the three months ended March 31, 2022, we had $3 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.

Our LGG portfolio totaled $1.3 billion at March 31, 2022, as compared to $1.7 billion at December 31, 2021. GNMA has granted borrowers with an option to seek forbearance on their mortgage repayments. $46 million of GNMA loans are in forbearance as of March 31, 2022. 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 other liabilities on the Consolidated Statements of Financial Condition.

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

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. Tier 1 leverage was 11.83 percent at March 31, 2022 providing a 683 basis point stress buffer above the minimum level needed to be considered “well-capitalized.” Additionally, total risk-based capital to RWA was 16.59 percent at March 31, 2022 providing a 659 basis point buffer above the minimum level needed to be considered "well-capitalized".

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.

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 added 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). Starting on January 1, 2022, the quarterly transitional amounts along with the initial adoption impact of CECL are phased out of CET1 capital over the three-year transition 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)		
March 31, 2022					
Tier 1 leverage capital (to adjusted avg. total assets)	2,843	11.83 %	1,201	5.0 %	$ 1,642
Common equity Tier 1 capital (to RWA)	2,603	13.89 %	1,218	6.5 %	1,385
Tier 1 capital (to RWA)	2,843	15.17 %	1,499	8.0 %	1,344
Total capital (to RWA)	3,110	16.59 %	1,874	10.0 %	1,236

As presented in the table above, our constraining capital ratio is our total capital to risk weighted assets at 16.59 percent. It would take a $1.2 billion 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".

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.

	March 31, 2022	December 31, 2021	March 31, 2021
		(Dollars in millions)	
Total stockholders' equity	$ 2,733	$ 2,718	$ 2,358
Less: Goodwill and intangible assets	145	147	155
Tangible book value/Tangible common equity	$ 2,588	$ 2,571	$ 2,203
Number of common shares outstanding	53,236,067	53,197,650	52,752,600
Tangible book value per share	$ 48.61	$ 48.33	$ 41.77

	Three Months Ended,		
	March 31, 2022	December 31, 2021	March 31, 2021
		(Dollars in millions, except share data)	
Net income	$ 53	$ 85	$ 149
Plus: Intangible asset amortization, net of tax	1	2	2
Tangible net income	$ 54	$ 87	$ 151
Total average equity	$ 2,687	$ 2,692	$ 2,319
Less: Average goodwill and intangible assets	146	148	156
Total average tangible equity	$ 2,541	$ 2,544	$ 2,163
Return on average tangible common equity	8.61 %	13.79 %	27.99 %
Adjustment to remove DOJ settlement expense	— %	— %	4.98 %
Adjustment for merger costs	0.49 %	1.11 %	— %
Adjusted return on average tangible common equity	9.10 %	14.90 %	32.97 %
Return on average assets	0.89 %	1.28 %	1.98 %
Adjustment to remove DOJ	— %	— %	0.36 %
Adjustment for merger costs	0.03 %	0.07 %	— %
Adjusted return on average assets	0.92 %	1.35 %	2.34 %

Adjusted HFI loan-to-deposit ratio.

	March 31, 2022	December 31, 2021	March 31, 2021
		(Dollars in millions)	
Average LHFI	$ 12,384	$ 13,314	$ 14,915
Less: Average warehouse loans	3,973	5,148	6,395
Adjusted average LHFI	$ 8,411	$ 8,166	$ 8,520
Average deposits	$ 18,089	$ 19,816	$ 20,043
Less: Average custodial deposits	4,970	6,309	7,194
Adjusted average deposits	$ 13,119	$ 13,507	$ 12,849
HFI loan-to-deposit ratio	68.5 %	67.2 %	74.4 %
Adjusted HFI loan-to-deposit ratio	64.1 %	60.5 %	66.3 %

	Three Months Ended,		
	March 31, 2022	December 31, 2021	March 31, 2021
		(Dollars in millions)	
Noninterest expense	$ 261	$ 291	$ 347
Adjustment to remove DOJ settlement expense	—	—	35
Adjustment for merger costs	3	6	—
Adjusted noninterest expense	$ 258	$ 285	$ 312
Income before income taxes	$ 68	$ 109	$ 194
Adjustment to remove DOJ settlement expense	—	—	35
Adjustment for merger costs	3	6	—
Adjusted income before income taxes	$ 71	$ 115	$ 229
Provision for income taxes	$ 15	$ 24	$ 45
Adjustment to remove DOJ settlement expense	—	—	(8)
Adjustment for merger costs	(1)	(1)	—
Adjusted provision for income taxes	$ 16	$ 25	$ 53
Net income	$ 53	$ 85	$ 149
Adjusted net income	$ 55	$ 90	$ 176
Weighted average common shares outstanding	53,219,866	52,867,138	52,675,562
Weighted average diluted common shares	53,578,001	53,577,832	53,297,803
Adjusted basic earnings per share	$ 1.03	$ 1.71	$ 3.34
Adjusted diluted earnings per share	$ 1.02	$ 1.69	$ 3.31
Average interest earning assets	$ 21,569	$ 24,291	$ 27,178
Net interest margin	3.11 %	2.96 %	2.82 %
Adjustment for LGG loans available for repurchase	0.01 %	0.02 %	0.20 %
Adjusted net interest margin	3.12 %	2.98 %	3.02 %
Efficiency Ratio	80.37 %	75.86 %	67.67 %
Adjustment to remove DOJ settlement expense	— %	— %	(6.83)%
Adjustment for merger costs	(0.79)%	(1.51)%	— %
Adjusted efficiency ratio	79.58 %	74.35 %	60.84 %

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, 2021, 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 and Results of Operations, 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 SEC, and 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. Such statements may be identified by words such as believe, expect, anticipate, intend, plan, estimate, 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 NYCB, 615 Corp. and Flagstar; the outcome of any legal proceedings that may be instituted against NYCB or Flagstar; 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 NYCB and Flagstar 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 NYCB or Flagstar; 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 NYCB and Flagstar 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; NYCB's and Flagstar'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, 2021, which are incorporated by reference herein.

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)

	March 31, 2022	December 31, 2021
	(Unaudited)	
Assets		
Cash	$ 174	$ 277
Interest-earning deposits	231	774
Total cash and cash equivalents	405	1,051
Investment securities available-for-sale	2,010	1,804
Investment securities held-to-maturity	190	205
Loans held-for-sale ($3,154 and $4,920 measured at fair value, respectively)	3,475	5,054
Loans held-for-investment ($21 and $16 measured at fair value, respectively)	13,236	13,408
Loans with government guarantees	1,256	1,650
Less: allowance for loan losses	(131)	(154)
Total loans held-for-investment and loans with government guarantees, net	14,361	14,904
Mortgage servicing rights	523	392
Federal Home Loan Bank stock	329	377
Premises and equipment, net	354	360
Goodwill and intangible assets	145	147
Bank-owned life insurance	367	365
Other assets	1,085	824
Total assets	$ 23,244	$ 25,483
Liabilities and Stockholders' Equity		
Noninterest bearing deposits	$ 6,827	$ 7,088
Interest bearing deposits	10,521	10,921
Total deposits	17,348	18,009
Short-term Federal Home Loan Bank advances and other	200	1,880
Long-term Federal Home Loan Bank advances	1,200	1,400
Other long-term debt	396	396
Other liabilities	1,367	1,080
Total liabilities	20,511	22,765
Stockholders' Equity		
Common stock $0.01 par value, 80,000,000 shares authorized; 53,236,067 and 53,197,650 shares issued and outstanding, respectively	1	1
Additional paid in capital	1,357	1,355
Accumulated other comprehensive income	(2)	35
Retained earnings	1,377	1,327
Total stockholders' equity	2,733	2,718
Total liabilities and stockholders' equity	$ 23,244	$ 25,483

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 March 31, 2022	2021
	(Unaudited)	
Interest Income		
Loans	$ 166	$ 196
Investment securities	11	12
Total interest income	177	208
Interest Expense		
Deposits	6	10
Short-term Federal Home Loan Bank advances and other	—	1
Long-term Federal Home Loan Bank advances	3	3
Other long-term debt	3	5
Total interest expense	12	19
Net interest income	165	189
Benefit for credit losses	(4)	(28)
Net interest income after provision for credit losses	169	217
Noninterest Income		
Net gain on loan sales	45	227
Loan fees and charges	27	42
Net return on mortgage servicing rights	29	—
Loan administration income	33	27
Deposit fees and charges	9	8
Other noninterest income	17	20
Total noninterest income	160	324
Noninterest Expense		
Compensation and benefits	127	144
Occupancy and equipment	45	46
Commissions	26	62
Loan processing expense	21	21
Legal and professional expense	11	8
Federal insurance premiums	4	6
Intangible asset amortization	2	3
General, administrative and other	25	57
Total noninterest expense	261	347
Income before income taxes	68	194
Provision for income taxes	15	45
Net income	$ 53	$ 149
Net income per share		
Basic	$ 0.99	$ 2.83
Diluted	$ 0.99	$ 2.80
Cash dividends declared	$ 0.06	$ 0.06
Weighted average shares outstanding		
Basic	53,219,866	52,675,562
Diluted	53,578,001	53,297,803

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 March 31,	
	2022	**2021**
	(Unaudited)	
Net income	$ 53	$ 149
Other comprehensive income, net of tax		
Investment securities	(58)	(15)
Derivatives and hedging activities	21	22
Other comprehensive income, net of tax	(37)	7
Comprehensive income	$ 16	$ 156

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 December 31, 2021	53,197,650	$ 1	$ 1,355	$ 35	$ 1,327	$ 2,718
(Unaudited)						
Net income	—	—	—	—	53	53
Total other comprehensive income	—	—	—	(37)	—	(37)
Stock-based compensation	38,245	—	2	—	—	2
Dividends declared and paid	172	—	—	—	(3)	(3)
Balance at March 31, 2022	53,236,067	$ 1	$ 1,357	$ (2)	$ 1,377	$ 2,733
Balance at December 31, 2020	52,656,067	$ 1	$ 1,346	$ 47	$ 807	$ 2,201
(Unaudited)						
Net income	—	—	—	—	149	149
Total other comprehensive income	—	—	—	7	—	7
Shares issued from the Employee Stock Purchase Plan	62,462	—	—	—	—	—
Stock-based compensation	33,957	—	4	—	—	4
Dividends declared and paid	114	—	—	—	(3)	(3)
Balance at March 31, 2021	52,752,600	$ 1	$ 1,350	$ 54	$ 953	$ 2,358

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

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

	Three Months Ended March 31,	
	2022	**2021**
	(Unaudited)	
Operating Activities		
Net cash provided by (used in) operating activities	$ 1,231	$ (320)
Investing Activities		
Proceeds from sale of AFS securities including loans that have been securitized	642	417
Collection of principal on investment securities AFS	97	239
Purchase of investment securities AFS and other	(233)	(86)
Collection of principal on investment securities HTM	15	58
Proceeds received from the sale of LHFI	—	35
Net closings, purchases, and principal repayments of LHFI	143	1,337
Acquisition of premises and equipment, net of proceeds	(12)	(11)
Net sale of FHLB stock	48	—
Net proceeds from the sale of MSRs	—	(2)
Purchase of MSRs	(13)	—
Other, net	(8)	(3)
Net cash provided by investing activities	679	1,984
Financing Activities		
Net change in deposit accounts	(661)	(553)
Net change in short-term FHLB borrowings and other short-term debt	(1,680)	(1,155)
Repayment of long-term FHLB advances	(200)	—
Repayment of long-term debt	—	(246)
Net receipt of payments of loans serviced for others	18	113
Dividends declared and paid	(3)	(3)
Other	1	6
Net cash used in financing activities	(2,525)	(1,838)
Net change in cash, cash equivalents and restricted cash (1)	(615)	(174)
Beginning cash, cash equivalents and restricted cash (1)	1,092	654
Ending cash, cash equivalents and restricted cash (1)	$ 477	$ 480
Supplemental disclosure of cash flow information		
Non-cash reclassification of LHFI to LHFS	$ 2	$ 14
Non-cash reclassification of LHFS to securitized LHFS	$ 642	$ 417
MSRs resulting from sale or securitization of loans	$ 79	$ 65
Operating section supplemental disclosures		
Proceeds from sales of LHFS	$ 9,232	$ 13,721
Closings, premium paid and purchase of LHFS, net of principal repayments	$ (8,344)	$ (14,109)

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

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

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, consisting of only normal recurring 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, 2021, 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 combined company expects to have over $85 billion in assets and operate nearly 400 traditional branches in nine states and over 80 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.

On April 26, 2022, NYCB and Flagstar entered into Amendment No. 1 (the "Amendment") to the Merger Agreement. Under the Amendment, the parties have agreed to: extend the termination date of the Merger Agreement to October 31, 2022; Change the structure of the merger of the subsidiary banks, so that Flagstar Bank, FSB will initially convert to a national bank charter and New York Community Bank will merge with and into the national bank, with the national bank as the surviving entity; and clarify that approvals of the FDIC and the New York State Department of Financial Services are no longer required but that the approval of the OCC will be required. Other than as expressly modified by the Amendment, the Merger Agreement, remains in full force and effect.

Completion of the transaction is subject to customary closing conditions, including receipt of 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)			
March 31, 2022				
Available-for-sale securities				
Agency - Commercial	$ 1,086	$ —	$ (28)	$ 1,058
Agency - Residential	649	—	(34)	615
Corporate debt obligations	71	1	—	72
Municipal obligations	19	—	—	19
Other MBS	258	—	(13)	245
Certificate of deposits	1	—	—	1
Total available-for-sale securities (1)	$ 2,084	$ 1	$ (75)	$ 2,010
Held-to-maturity securities				
Agency - Commercial	$ 93	$ —	$ (2)	$ 91
Agency - Residential	97	—	(2)	95
Total held-to-maturity securities (1)	$ 190	$ —	$ (4)	$ 186
December 31, 2021				
Available-for-sale securities				
Agency - Commercial	$ 739	$ 8	$ —	$ 747
Agency - Residential	690	9	(3)	696
Corporate debt obligations	70	3	—	73
Municipal obligations	20	—	—	20
Other MBS	268	—	(1)	267
Certificate of deposits	1	—	—	1
Total available-for-sale securities (1)	$ 1,788	$ 20	$ (4)	$ 1,804
Held-to-maturity securities				
Agency - Commercial	$ 99	$ 1	$ —	$ 100
Agency - Residential	106	3	—	109
Total held-to-maturity securities (1)	$ 205	$ 4	$ —	$ 209

(1) There were no securities of a single issuer, which are not governmental or government-sponsored, that exceeded 10 percent of stockholders' equity at March 31, 2022 or December 31, 2021.

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 that 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, and which comprised 85 percent of our AFS portfolio as of March 31, 2022. 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 during the three months ended March 31, 2022 and the year ended December 31, 2021.

We separately evaluate our HTM debt securities for any credit losses. As of March 31, 2022 and December 31, 2021, 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, is 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 March 31, 2022 and $4 million at December 31, 2021, 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 $393 million and $86 million of AFS securities, which were comprised of U.S. government sponsored agency MBS, CD, and corporate debt obligations during the three months ended March 31, 2022 and March 31, 2021, respectively. We did not retain any passive interests in our own private MBS during the three months ended March 31, 2022 and March 31, 2021.

There were no sales of AFS securities during both the three months ended March 31, 2022 and March 31, 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 months ended March 31, 2022 and March 31, 2021.

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)					
March 31, 2022						
Available-for-sale securities						
Agency - Commercial	$ 2	1	$ —	$ 895	91	$ (28)
Agency - Residential	—	—	—	609	87	(34)
Municipal obligations	—	—	—	12	5	—
Corporate debt obligations	—	—	—	11	4	—
Other mortgage-backed securities	—	1	—	157	7	(13)
Held-to-maturity securities						
Agency - Commercial	$ —	—	$ —	$ 86	24	$ (2)
Agency - Residential	—	—	—	90	43	(2)
December 31, 2021						
Available-for-sale securities						
Agency - Commercial	$ 4	2	$ —	$ 143	9	$ —
Agency - Residential	—	—	—	291	19	(3)
Municipal obligations	—	—	—	3	1	—
Corporate debt obligations	—	—	—	—	—	—
Other mortgage-backed securities	—	1	—	147	5	(1)
Held-to-maturity securities						
Agency - Commercial	$ —	—	$ —	$ —	1	$ —
Agency - Residential	—	—	—	—	—	—

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 municipal securities and corporate debt obligations, all of which are considered investment grade or are 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)					
March 31, 2022						
Due in one year or less	$ 6	$ 6	2.16 %	$ 5	$ 5	2.21 %
Due after one year through five years	9	9	4.65 %	3	3	2.86 %
Due after five years through 10 years	211	208	2.86 %	3	3	2.01 %
Due after 10 years	1,858	1,787	2.27 %	179	175	2.49 %
Total	$ 2,084	$ 2,010		$ 190	$ 186	

(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 March 31, 2022 and December 31, 2021, we had pledged investment securities of $228 million and $1.5 billion, respectively.

Note 3 - Loans Held-for-Sale

The majority of our mortgage loans originated 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. At March 31, 2022 and December 31, 2021, LHFS totaled $3.5 billion and $5.1 billion, respectively. For the three months ended March 31, 2022, we had net gains on loan sales associated with LHFS of $45 million as compared to $227 million for the three months ended March 31, 2021, respectively.

At March 31, 2022 residential LHFS of $293 million, commercial LHFS of $18 million and corporate advances of $10 million were recorded at the lower of cost or fair value. At December 31, 2021, we recorded $116 million residential LHFS and commercial LHFS of $18 million at the lower of cost or fair value. 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 $33 million at March 31, 2022 and $35 million at December 31, 2021 and was reported in other assets on the Consolidated Statements of Financial Condition.

The following table presents our LHFI:

	March 31, 2022	December 31, 2021
	(Dollars in millions)	
Consumer loans		
Residential first mortgage	$ 1,499	$ 1,536
Home equity	596	613
Other	1,267	1,236
Total consumer loans	3,362	3,385
Commercial loans		
Commercial real estate	3,254	3,223
Commercial and industrial	1,979	1,826
Warehouse lending	4,641	4,974
Total commercial loans	9,874	10,023
Total loans held-for-investment	$ 13,236	$ 13,408

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

	Three Months Ended March 31,	
	2022	2021
	(Dollars in millions)	
Loans Sold (1)		
Performing loans	$ —	$ 36
Total loans sold	$ —	$ 36

(1) Upon a change in our intent, the loans were transferred to LHFS and subsequently sold.

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 March 31, 2022 and December 31, 2021, we had pledged loans of $7.8 billion and $9.9 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 March 31, 2022, we utilized the Moody’s March 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. Within our composite forecast, unemployment ends 2022 at 4 percent, slightly increasing in 2023 with a full recovery by 2024. GDP continues to recover throughout 2022 and returns to pre-COVID levels in 2023. HPI decreases by 2 percent from the first quarter of 2022 through the fourth quarter of 2022 before increasing 3 percent by the fourth quarter of 2023.

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 March 31, 2022							
Beginning balance	$ 40	$ 14	$ 36	$ 28	$ 32	$ 4	$ 154
(Benefit) provision	4	1	(1)	(6)	1	(1)	(2)
Charge-offs	(1)	—	(2)	—	(20)	—	(23)
Recoveries	—	1	1	—	—	—	2
Ending allowance balance	$ 43	$ 16	$ 34	$ 22	$ 13	$ 3	$ 131
Three Months Ended March 31, 2021							
Beginning balance	$ 49	$ 25	$ 39	$ 84	$ 51	$ 4	$ 252
Benefit	(2)	(5)	(6)	—	(11)	—	(24)
Charge-offs	(2)	—	(1)	—	(1)	—	(4)
Recoveries	—	—	1	—	16	—	17
Ending allowance balance	$ 45	$ 20	$ 33	$ 84	$ 55	$ 4	$ 241

(1) Includes LGG.

The ALLL was $131 million at March 31, 2022 and $154 million at December 31, 2021. The decrease in the allowance is primarily reflective of changes in our economic forecast and judgment we applied related to those forecasts and underlying borrower credit as a result of the ongoing COVID-19 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)			
March 31, 2022						
Consumer loans						
Residential first mortgage	$ 7	$ 8	$ 86	$ 101	$ 1,398	$ 1,499
Home equity	2	1	9	12	584	596
Other	3	1	3	7	1,260	1,267
Total consumer loans	12	10	98	120	3,242	3,362
Commercial loans						
Commercial real estate	—	—	—	—	3,254	3,254
Commercial and industrial	—	—	—	—	1,979	1,979
Warehouse lending	—	—	—	—	4,641	4,641
Total commercial loans	—	—	—	—	9,874	9,874
Total loans (2)	$ 12	$ 10	$ 98	$ 120	$ 13,116	$ 13,236
December 31, 2021						
Consumer loans						
Residential first mortgage	$ 14	$ 34	$ 49	$ 97	$ 1,439	$ 1,536
Home equity	8	1	9	18	595	613
Other	4	1	4	9	1,227	1,236
Total consumer loans	26	36	62	124	3,261	3,385
Commercial loans						
Commercial real estate	—	—	—	—	3,223	3,223
Commercial and industrial	—	—	32	32	1,794	1,826
Warehouse lending	—	—	—	—	4,974	4,974
Total commercial loans	—	—	32	32	9,991	10,023
Total loans (2)	$ 26	$ 36	$ 94	$ 156	$ 13,252	$ 13,408

(1) Includes less than 90 days past due performing loans which are placed in nonaccrual. Interest is not being accrued on these loans.
(2) Includes $9 million of past due loans accounted for under the fair value option as of March 31, 2022 and December 31, 2021.
(3) Collateral dependent loans totaled $145 million and $108 million at March 31, 2022 and December 31, 2021, respectively. The majority of these loans are secured by real estate.
(4) The interest income recognized on impaired loans was less than $1 million for the three months ended March 31, 2022 and December 31, 2021.
(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. Interest that would have been accrued for the three months ended March 31, 2022 was $1 million. At March 31, 2022 and December 31, 2021, 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 $14 million as of March 31, 2022, compared to $16 million as of December 31, 2021. 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, 2021 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 and the programs offered to return to payment status 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 loans modified under these programs are not TDRs.

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

	TDRs		
	Performing	**Nonperforming**	**Total**
	(Dollars in millions)		
March 31, 2022			
Consumer loans			
Residential first mortgage	$ 16	$ 10	$ 26
Home equity	7	2	9
Total TDRs (1)(2)	$ 23	$ 12	$ 35
December 31, 2021			
Consumer loans			
Residential first mortgage	$ 14	$ 11	$ 25
Home equity	8	2	10
Total consumer TDR loans (1)(2)	22	13	35
Commercial loans			
Commercial and industrial	2	—	2
Total commercial TDR loans	2	—	2
Total TDRs (1)(2)	$ 24	$ 13	$ 37

(1) The ALLL on TDR loans totaled $4 million at both March 31, 2022 and December 31, 2021.
(2) Includes $3 million and $5 million of TDR loans accounted for under the fair value option at March 31, 2022 and December 31, 2021, respectively.

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 March 31, 2022			
Residential first mortgages	9	$ 2	$ 2
Home equity (2)(3)	1	—	—
Commercial Real Estate	—	—	—
Total TDR loans	10	$ 2	$ 2
Three Months Ended March 31, 2021			
Residential first mortgages	6	$ 3	$ 3
Total TDR loans	6	$ 3	$ 3

(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 March 31, 2022. 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 include 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:

	Term Loans Amortized Cost Basis by Closing Year									
As of March 31, 2022	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term Loans Amortized Cost Basis**	**Total**	**December 31, 2021**
Consumer Loans						(Dollars in millions)				
Residential First Mortgage										
Pass	$ 107	$ 340	$ 169	$ 204	$ 74	$ 408	$ 77	$ 10	$ 1,389	$ 1,444
Watch	—	—	1	1	3	4	—	—	9	34
Substandard	—	1	3	24	12	38	—	3	81	43
Home Equity										
Pass	1	4	3	12	5	15	490	57	587	604
Watch	—	—	—	—	—	—	—	1	1	1
Substandard	—	—	—	—	—	1	2	4	7	6
Other Consumer										
Pass	68	362	211	209	95	4	306	8	1,263	1,229
Watch	—	—	—	1	—	—	—	—	1	2
Substandard	—	—	1	1	1	—	—	—	3	5
Total Consumer Loans (1)(2)	$ 176	$ 707	$ 388	$ 452	$ 190	$ 470	$ 875	$ 83	$ 3,341	$ 3,368

(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, 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	$ 318	$ 197	$ 233	$ 89	$ 108	$ 407	$ 82	$ 10	$ 1,444	$ 2,205
Watch	—	1	12	3	4	11	—	3	34	21
Substandard	1	3	7	8	2	21	—	1	43	25
Home Equity										
Pass	4	4	15	6	3	15	508	49	604	838
Watch	—	—	—	—	—	—	—	1	1	13
Substandard	—	—	—	—	—	1	2	3	6	3
Other Consumer										
Pass	380	227	226	101	1	5	284	5	1,229	1,000
Watch	—	—	1	1	—	—	—	—	2	1
Substandard	1	1	2	1	—	—	—	—	5	3
Total Consumer Loans (1)(2)	$ 704	$ 433	$ 496	$ 209	$ 118	$ 460	$ 876	$ 72	$ 3,368	$ 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.

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

As of March 31, 2022	FICO Band Amortized Cost Basis by Closing Year 2022	2021	2020	2019	2018	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	$ 18	$ 155	$ 78	$ 95	$ 37	$ 246	$ 46	$ 4	$ 679
700-750	86	121	50	62	29	132	21	6	507
<700	3	65	45	72	23	72	10	3	293
Home Equity									
>750	—	2	1	3	2	4	234	16	262
700-750	1	2	1	5	2	6	205	26	248
<700	—	—	1	4	1	6	53	20	85
Other Consumer									
>750	68	362	212	211	96	4	203	5	1,161
700-750	—	—	—	—	—	—	84	2	86
<700	—	—	—	—	—	—	19	1	20
Total Consumer Loans (1)	$ 176	$ 707	$ 388	$ 452	$ 190	$ 470	$ 875	$ 83	$ 3,341

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

As of December 31, 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	$ 139	$ 94	$ 107	$ 40	$ 70	$ 212	$ 49	$ 5	$ 716
700-750	117	58	69	36	36	161	22	6	505
<700	63	49	76	24	8	66	11	3	300
Home Equity									
>750	2	2	4	2	1	4	238	13	266
700-750	2	1	6	2	1	6	210	22	250
<700	—	1	5	2	1	6	62	18	95
Other Consumer									
>750	251	162	142	56	1	4	273	3	892
700-750	128	62	79	39	—	1	7	—	316
<700	2	4	8	8	—	—	4	2	28
Total Consumer Loans (1)	$ 704	$ 433	$ 496	$ 209	$ 118	$ 460	$ 876	$ 72	$ 3,368

(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 loans based on loan-to-value ratios:

As of March 31, 2022	LTV Band Amortized Cost Basis by Closing Year 2022	2021	2020	2019	2018	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	$ 3	$ 88	$ 67	$ 129	$ 51	$ 28	$ —	$ —	$ 366
71-90	21	107	64	51	21	199	—	—	463
55-70	69	79	23	26	8	131	2	—	338
<55	14	67	19	23	9	92	75	13	312
Home Equity									
>90	—	1	—	—	—	6	—	1	8
71-90	1	2	2	9	4	7	355	41	421
<=70	—	1	1	3	1	3	137	20	166
Total (1)	$ 108	$ 345	$ 176	$ 241	$ 94	$ 466	$ 569	$ 75	$ 2,074

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

As of December 31, 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
	(Dollars in millions)								
Consumer Loans									
Residential first mortgage									
>90	$ 88	$ 74	$ 142	$ 53	$ 16	$ 16	$ —	$ —	$ 389
71-90	109	78	58	29	31	185	—	—	490
55-70	69	26	27	9	36	163	2	—	332
<55	53	23	25	9	31	75	80	14	310
Home Equity									
>90	—	—	—	—	1	7	—	—	8
71-90	3	3	11	4	1	6	369	35	432
<=70	1	1	4	2	1	3	141	18	171
Total (1)	$ 323	$ 205	$ 267	$ 106	$ 117	$ 455	$ 592	$ 67	$ 2,132

(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 March 31, 2022	Term Loans Amortized Cost Basis by Closing Year 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	December 31, 2021
Commercial Loans						(Dollars in million)				
Commercial real estate										
Pass	$ 63	$ 546	$ 256	$ 437	$ 290	$ 633	$ 869	$ —	$ 3,094	$ 3,071
Watch	—	—	7	1	13	83	32	—	136	128
Special mention	—	—	—	2	—	22	—	—	24	2
Substandard	—	—	—	—	—	—	—	—	—	22
Commercial and industrial										
Pass	7	265	75	163	26	93	1,254	—	1,883	1,685
Watch	—	4	12	—	9	—	14	—	39	71
Special mention	—	9	—	—	—	—	—	—	9	—
Substandard	—	—	—	—	18	2	28	—	48	70
Warehouse										
Pass	4,496	—	—	—	—	—	—	—	4,496	4,834
Watch	145	—	—	—	—	—	—	—	145	140
Special mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Total commercial loans	$ 4,711	$ 824	$ 350	$ 603	$ 356	$ 833	$ 2,197	$ —	$ 9,874	$ 10,023

As of December 31, 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	$ 518	$ 257	$ 558	$ 313	$ 238	$ 402	$ 785	$ —	$ 3,071	$ 2,805
Watch	2	5	1	13	64	35	8	—	128	166
Special mention	—	—	2	—	—	—	—	—	2	53
Substandard	—	—	—	—	22	—	—	—	22	37
Commercial and industrial										
Pass	257	81	156	30	95	7	1,059	—	1,685	1,200
Watch	4	4	10	9	—	—	44	—	71	106
Special mention	—	—	—	—	—	—	—	—	—	24
Substandard	—	—	17	18	2	—	33	—	70	52
Warehouse										
Pass	4,834	—	—	—	—	—	—	—	4,834	7,398
Watch	140	—	—	—	—	—	—	—	140	260
Special mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Total commercial loans	$ 5,755	$ 347	$ 744	$ 383	$ 421	$ 444	$ 1,929	$ —	$ 10,023	$ 12,101

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 in Other liabilities on the Consolidated Statements of Financial Condition. As of March 31, 2022 this liability was $63 million, as compared to a balance of $200 million as of December 31, 2021. 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 March 31, 2022 and December 31, 2021, LGG totaled $1.3 billion and $1.7 billion, respectively.

Repossessed assets and the associated claims related to government guaranteed loans are recorded in other assets and totaled $11 million and $7 million, at March 31, 2022 and December 31, 2021, respectively.

Note 6 - Variable Interest Entities

We have no consolidated VIEs as of March 31, 2022 and December 31, 2021.

In connection with our non-qualified mortgage 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 five percent retained interest in the investment securities that had a fair value of $245 million as of March 31, 2022 as well as the standard representations and warranties made in conjunction with the loan transfers. 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 March 31,	
	2022	**2021**
	(Dollars in millions)	
Balance at beginning of period	$ 392	$ 329
Additions from loans sold with servicing retained	79	65
Purchases	13	—
Reductions from sales	—	—
Decrease in MSR fair value due to pay-offs, pay-downs, run-off, model changes, and other (1)	(8)	(39)
Changes in estimates of fair value due to interest rate risk (1) (2)	47	73
Fair value of MSRs at end of period	$ 523	$ 428

(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:

	March 31, 2022			December 31, 2021		
		Fair value			Fair value	
	Actual	10% adverse change	20% adverse change	Actual	10% adverse change	20% adverse change
	(Dollars in millions)					
Option adjusted spread	6.59 %	$ 513	$ 503	7.12 %	$ 383	$ 374
Constant prepayment rate	8.69 %	506	490	9.24 %	373	355
Weighted average cost to service per loan	$ 79.25	518	512	$ 79.38	387	383

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 March 31,	
	2022	2021
	(Dollars in millions)	
Net return (loss) on mortgage servicing rights		
Servicing fees, ancillary income and late fees (1)	$ 30	$ 31
Decreases in MSR fair value due to pay-offs, pay-downs, run-off, model changes, and other	(8)	(39)
Changes in fair value due to interest rate risk	47	73
Loss on MSR derivatives (2)	(41)	(65)
Net transaction costs	1	—
Total return included in net return on mortgage servicing rights	$ 29	$ —

(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 March 31,	
	2022	2021
	(Dollars in millions)	
Loan administration income on mortgage loans subserviced		
Servicing fees, ancillary income and late fees (1)	$ 37	$ 32
Charges on subserviced custodial balances (2)	(2)	(3)
Other servicing charges	(2)	(3)
Total income on mortgage loans subserviced, included in loan administration	$ 33	$ 26

(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 and 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 and U.S. Treasury futures. 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 using the last-of-layer method. Cash flows and the income 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 commercial loans. Changes in the fair value of derivatives designated as cash flow hedges are recorded in OCI on the Consolidated Statements of Financial Condition and reclassified into interest income in the same period in which the hedge transaction is recognized in earnings.

During the first quarter of 2022, we de-designated all of our cash flow hedges of custodial deposits. We evaluate the probability of hedged forecasted transactions on at least a quarterly basis relating to amounts deferred in OCI. Amounts recorded in OCI related to de-designated cash flow hedges of forecasted transactions, which remain probable to occur, are reclassified into net loan administration income in the same period in which the hedged transaction is recognized into earnings.

We had 46 million (net-of-tax) of unrealized gains on de-designated cash flow hedges recorded in AOCI as of March 31, 2022. The estimated amount to be reclassified from OCI into earnings on de-designated hedging relationships during the next 12 months represents $10 million (net-of-tax) of gains. We had $5 million (net-of-tax) of unrealized losses on derivatives designated in a hedge relationship as of March 31, 2022. The estimated amount to be reclassified from OCI into earnings during the next 12 months beginning March 31, 2022 represents $9 million of gains (net-of-tax). At December 31, 2021, we had $20 million (net-of-tax) of unrealized gains on derivatives classified as cash flow hedges recorded in AOCI.

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 March 31, 2022.

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

	March 31, 2022 (1)		
	Notional Amount	**Fair Value (2)**	**Expiration Dates**
	(Dollars in millions)		
Derivatives in cash flow hedge relationships:			
Assets			
Interest rate swaps on commercial loans	$ 2,000	$ 2	2025
Derivatives in fair value hedge relationships:			
Assets			
Interest rate swaps on AFS securities	$ 100	$ —	2022
Interest rate swaps on subordinated debt	150	—	2025
Total	$ 250	$ —	
Derivatives not designated as hedging instruments:			
Assets			
Futures	$ 1,053	$ 2	2022-2023
Mortgage-backed securities forwards	11,684	200	2022
Rate lock commitments	3,259	23	2022
Interest rate swaps and swaptions	5,064	105	2022-2052
Total	$ 21,060	$ 330	
Liabilities			
Mortgage-backed securities forwards	$ 4,629	$ 45	2022
Rate lock commitments	2,112	27	2022
Interest rate swaps	1,771	22	2022-2032
Total	$ 8,512	$ 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 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, 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	—	2026-2027
Derivatives in fair value hedge relationships:			
Assets			
Interest rate swaps on AFS securities	$ 85	$ —	2022
Total derivative assets	$ 85	$ —	
Liabilities			
Interest rate swaps on HFI residential first mortgages	$ 100	$ —	2024
Interest rate swaps on AFS securities	350	—	2024-2025
Total derivative liabilities	$ 450	$ —	
Derivatives not designated as hedging instruments:			
Assets			
Futures	$ 1,117	$ —	2022-2023
Mortgage-backed securities forwards	4,008	11	2022
Rate lock commitments	5,169	54	2022
Interest rate swaps and swaptions	4,070	76	2022-2031
Total	$ 14,364	$ 141	
Liabilities			
Mortgage-backed securities forwards	$ 4,023	$ 14	2022
Rate lock commitments	370	1	2022
Interest rate swaps and swaptions	1,493	5	2022-2031
Total	$ 5,886	$ 20	

(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)		
March 31, 2022					
Derivatives designated as hedging instruments:					
Assets					
Interest rate swaps on AFS securities	$ —	$ —	$ —	$ —	$ 2
Interest rate swaps on subordinated debt	—	—	—	—	3
Interest rate swaps on commercial loans	2	—	2	—	31
Total derivative assets	$ 2	$ —	$ 2	$ —	$ 36
Derivatives not designated as hedging instruments:					
Assets					
Mortgage-backed securities forwards	$ 200	$ —	$ 200	$ —	$ 142
Interest rate swaps and swaptions (1)	105	—	105	—	52
Total derivative assets	$ 305	$ —	$ 305	$ —	$ 194
Liabilities					
Mortgage-backed securities forwards	$ 45	$ —	$ 45	$ —	$ 11
Interest rate swaps	22	—	22	—	30
Total derivative liabilities	$ 67	$ —	$ 67	$ —	$ 41
December 31, 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	$ —	$ —	$ —	$ —	$ 4
Interest rate swaps on HFI residential first mortgages	—	—	—	—	1
Interest rate swaps on custodial deposits	—	—	—	—	9
Total derivative liabilities	$ —	$ —	$ —	$ —	$ 14
Derivatives not designated as hedging instruments:					
Assets					
Mortgage-backed securities forwards	$ 10	$ —	$ 10	$ —	$ 12
Interest rate swaptions (1)	77	—	77	—	17
Total derivative assets	$ 87	$ —	$ 87	$ —	$ 29
Liabilities					
Mortgage-backed securities forwards	$ 14	$ —	$ 14	$ —	$ 9
Interest rate swaps	6	—	6	—	24
Total derivative liabilities	$ 20	$ —	$ 20	$ —	$ 33

(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 on fair value hedging relationships of AFS securities were recorded in interest income for the three months ended both March 31, 2022 and March 31, 2021.

Losses of $1 million on cash flow hedging relationships of custodial deposits were reclassified from AOCI into loan administration income during the three months ended March 31, 2022 and March 31, 2021.

Gains and losses on fair value hedging relationships of HFI residential first mortgages for the three months ended March 31, 2022 and March 31, 2021 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 $83 million at March 31, 2022 and $1.0 billion at December 31, 2021 of which a de-minimis amount and unrealized losses of $5 million, respectively, were due to the fair value hedge relationships. The closed portfolio of AFS securities designated in this last-of-layer method hedge was $86 million par (amortized cost of $85 million) at March 31, 2022 and $1.0 billion par (amortized cost of $1.0 billion) at December 31, 2021, of which $86 million and $435 million were designated in active hedge relationships at March 31, 2022 and December 31, 2021, respectively. The fair value basis adjustment associated with de-designated last-of-layer hedges of AFS securities is $17 million at March 31, 2022. The basis adjustment is allocated to individual securities recorded in available-for-sale securities within the Consolidated Statements of Financial Condition and will be accreted into interest income over the remaining life of those securities.

At March 31, 2022, we pledged a total of $99 million related to derivative financial instruments, consisting of $28 million of cash collateral on derivative liabilities and $71 million of maintenance margin on centrally cleared derivatives. We had an obligation to return a total of $173 million of cash collateral on derivative assets at March 31, 2022. We pledged a total of $66 million related to derivative financial instruments, consisting of $28 million of cash collateral on derivative liabilities and $38 million of maintenance margin on centrally cleared derivatives and had a $12 million obligation to return cash on derivative assets at December 31, 2021. 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 March 31, 2022	Three Months Ended March 31, 2021
		(Dollars in millions)	
Derivatives not designated as hedging instruments:	**Location of gain (loss)**		
Futures	Net return on mortgage servicing rights	$ 3	$ —
Interest rate swaps and swaptions	Net return on mortgage servicing rights	(13)	(47)
Mortgage-backed securities forwards	Net return on mortgage servicing rights	(31)	(18)
Rate lock commitments and MSR forwards	Net gain on loan sales	104	162
Interest rate swaps (1)	Other noninterest income	2	1
Total derivative gain (loss)		$ 65	$ 98

(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:

	March 31, 2022 Amount	March 31, 2022 Rate	December 31, 2021 Amount	December 31, 2021 Rate
	(Dollars in millions)			
Short-term fixed rate term advances	$ —	— %	$ 1,600	0.19 %
Other short-term borrowings	200	0.42 %	280	0.11 %
Total short-term Federal Home Loan Bank advances and other borrowings	200		1,880	
Long-term fixed rate advances	1,200	1.03 %	1,400	0.90 %
Total Federal Home Loan Bank advances and other borrowings	$ 1,400		$ 3,280	

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

	Three Months Ended March 31,	
	2022	2021
	(Dollars in millions)	
Maximum outstanding at any month end	$ 2,200	$ 4,737
Average outstanding balance	1,918	3,979
Average remaining borrowing capacity	4,451	5,484
Weighted average interest rate	0.72 %	0.43 %

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

	March 31, 2022
	(Dollars in millions)
2022	$ 400
2023	500
2024	100
2025	—
Thereafter	400
Total	$ 1,400

Parent Company Senior Notes, Subordinated Notes and Trust Preferred Securities

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

	March 31, 2022		December 31, 2021	
	Amount	Interest Rate	Amount	Interest Rate
	(Dollars in millions)			
Senior Notes				
Senior notes, settled 2021	$ —	— %	$ —	— %
Subordinated Notes				
Notes, matures 2030	149	4.125 %	149	4.125 %
Trust Preferred Securities				
Floating Three Month LIBOR Plus:				
3.25%, matures 2032	26	4.22 %	26	3.47 %
3.25%, matures 2033	26	3.49 %	26	3.37 %
3.25%, matures 2033	26	4.25 %	26	3.47 %
2.00%, matures 2035	26	2.24 %	26	2.12 %
2.00%, matures 2035	26	2.24 %	26	2.12 %
1.75%, matures 2035	51	2.58 %	51	1.95 %
1.50%, matures 2035	25	1.74 %	25	1.62 %
1.45%, matures 2037	25	2.28 %	25	1.65 %
2.50%, matures 2037	16	3.33 %	16	2.70 %
Total Trust Preferred Securities	247		247	
Total other long-term debt	$ 396		$ 396	

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 to20 quarters without default or penalty. As of March 31, 2022, we had no deferred interest.

Note 10 - Accumulated Other Comprehensive Income (Loss)

The following table sets forth the components in AOCI:

	Three Months Ended March 31,	
	2022	2021
	(Dollars in millions)	
Investment Securities		
Beginning balance	$ 15	$ 52
Unrealized loss	(77)	(20)
Less: Tax benefit	(19)	(5)
Net unrealized loss	(58)	(15)
Other comprehensive loss, net of tax	(58)	(15)
Ending balance	$ (43)	$ 37
Cash Flow Hedges		
Beginning balance	$ 20	$ (5)
Unrealized gain	29	26
Less: Tax provision	8	5
Net unrealized gain	21	21
Reclassifications out of AOCI (1)	—	1
Other comprehensive income, net of tax	21	22
Ending balance	$ 41	$ 17

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

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

	Three Months Ended March 31,	
	2022	2021
	(Dollars in millions, except share data)	
Net income applicable to common shareholders	$ 53	$ 149
Weighted Average Shares		
Weighted average common shares outstanding	53,219,866	52,675,562
Effect of dilutive securities		
Stock-based awards	358,135	622,241
Weighted average diluted common shares	$ 53,578,001	$ 53,297,803
Earnings per common share		
Basic earnings per common share	$ 0.99	$ 2.83
Effect of dilutive securities		
Stock-based awards	—	(0.03)
Diluted earnings per common share	**$ 0.99**	**$ 2.80**

Note 12 - Stock-Based Compensation

We had stock-based compensation expense of $2 million and $4 million for the three months ended March 31, 2022 and March 31, 2021, respectively.

Restricted Stock and Restricted Stock Units

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

	Three Months Ended March 31, 2022	
	Shares	Weighted — Average Grant-Date Fair Value per Share
Restricted Stock and Restricted Stock Units		
Non-vested balance at beginning of period	600,573	$ 36.61
Granted	134,066	36.62
Vested	(43,756)	40.46
Canceled and forfeited	(19,493)	33.16
Non-vested balance at end of period	671,390	$ 36.47

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 March 31,	
	2022	2021
	(Dollars in millions)	
Income before income taxes	$ 68	$ 194
Provision for income taxes	15	45
Effective tax provision rate	22.0 %	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 in 2020. 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 March 31, 2022 and December 31, 2021.

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)					
March 31, 2022						
Tier 1 capital (to adjusted avg. total assets)	$ 2,843	11.83 %	$ 961	4.0 %	$ 1,201	5.0 %
Common equity Tier 1 capital (to RWA)	2,603	13.89 %	843	4.5 %	1,218	6.5 %
Tier 1 capital (to RWA)	2,843	15.17 %	1,124	6.0 %	1,499	8.0 %
Total capital (to RWA)	3,110	16.59 %	1,499	8.0 %	1,874	10.0 %
December 31, 2021						
Tier 1 capital (to adjusted avg. total assets)	$ 2,798	10.54 %	$ 1,062	4.0 %	$ 1,327	5.0 %
Common equity Tier 1 capital (to RWA)	2,558	13.19 %	873	4.5 %	1,261	6.5 %
Tier 1 capital (to RWA)	2,798	14.43 %	1,164	6.0 %	1,552	8.0 %
Total capital (to RWA)	3,080	15.88 %	1,552	8.0 %	1,940	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)					
March 31, 2022						
Tier 1 capital (to adjusted avg. total assets)	$ 2,758	11.50 %	$ 959	4.0 %	$ 1,199	5.0 %
Common equity Tier 1 capital (to RWA)	2,758	14.73 %	843	4.5 %	1,217	6.5 %
Tier 1 capital (to RWA)	2,758	14.73 %	1,124	6.0 %	1,498	8.0 %
Total capital (to RWA)	2,875	15.35 %	1,498	8.0 %	1,873	10.0 %
December 31, 2021						
Tier 1 capital (to adjusted avg. total assets)	$ 2,706	10.21 %	$ 1,060	4.0 %	$ 1,325	5.0 %
Common equity Tier 1 capital (to RWA)	2,706	13.96 %	872	4.5 %	1,260	6.5 %
Tier 1 capital (to RWA)	2,706	13.96 %	1,163	6.0 %	1,551	8.0 %
Total capital (to RWA)	2,839	14.65 %	1,551	8.0 %	1,938	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 March 31, 2022, 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.

Other litigation accruals

At March 31, 2022 and December 31, 2021, our total accrual for contingent liabilities and settled litigation was $9 million.

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:

	March 31, 2022	December 31, 2021
	(Dollars in millions)	
Commitments to extend credit		
Mortgage loan commitments including interest rate locks	$ 5,371	$ 5,539
Warehouse loan commitments	7,675	6,840
Commercial and industrial commitments	1,764	1,582
Other construction commitments	2,877	2,719
HELOC commitments	727	631
Other consumer commitments	349	273
Standby and commercial letters of credit	102	107

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 on 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 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 $14 million at March 31, 2022 and $16 million at December 31, 2021, 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. 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 March 31, 2022.

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.

	March 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Investment securities available-for-sale				
Agency - Commercial	$ —	$ 1,058	$ —	$ 1,058
Agency - Residential	—	615	—	615
Municipal obligations	—	19	—	19
Corporate debt obligations	—	72	—	72
Other MBS	—	245	—	245
Certificate of deposit	—	1	—	1
Loans held-for-sale				
Residential first mortgage loans	—	3,154	—	3,154
Loans held-for-investment				
Residential first mortgage loans	—	21	—	21
Mortgage servicing rights	—	—	523	523
Derivative assets				
Rate lock commitments (fallout-adjusted)	—	—	23	23
Futures	—	2	—	2
Mortgage-backed securities forwards	—	200	—	200
Interest rate swaps and swaptions	—	105	—	105
Total assets at fair value	$ —	$ 5,492	$ 546	$ 6,038
Derivative liabilities				
Rate lock commitments (fallout-adjusted)	$ —	$ —	$ (27)	$ (27)
Mortgage backed securities forwards	—	(45)	—	(45)
Interest rate swaps	—	(22)	—	(22)
Total liabilities at fair value	$ —	$ (67)	$ (27)	$ (94)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Loans held-for-sale				
Residential first mortgage loans	$ —	$ 4,920	$ —	$ 4,920
Investment securities available-for-sale				
Agency - Commercial	—	747	—	747
Agency - Residential	—	696	—	696
Other MBS	—	267	—	267
Corporate debt obligations	—	73	—	73
Municipal obligations	—	20	—	20
Certificate of deposit	—	1	—	1
Derivative assets				
Interest rate swaps and swaptions	—	77	—	77
Rate lock commitments (fallout-adjusted)	—	—	54	54
Mortgage-backed securities forwards	—	10	—	10
Loans held-for-investment				
Residential first mortgage loans	—	15	—	15
Home equity	—	—	1	1
Mortgage servicing rights	—	—	392	392
Total assets at fair value	$ —	$ 6,826	$ 447	$ 7,273
Derivative liabilities				
Mortgage-backed securities forwards	$ —	$ (14)	$ —	$ (14)
Interest rate swaps and swaptions	—	(5)	—	(5)
Rate lock commitments (fallout-adjusted)	—	—	(1)	(1)
DOJ Liability	—	—	—	—
Total liabilities at fair value	$ —	$ (19)	$ (1)	$ (20)

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	Purchases / Closings	Sales	Settlement	Transfers Out	Balance at End of Period
				(Dollars in millions)			
Three Months Ended March 31, 2022							
Assets							
Mortgage servicing rights (1)	$ 392	$ 39	$ 92	$ —	$ —	$ —	$ 523
Rate lock commitments (net) (1)(2)	53	(174)	101	—	—	16	(4)
Totals	$ 445	$ (135)	$ 193	$ —	$ —	$ 16	$ 519
Three Months Ended March 31, 2021							
Assets							
Loans held-for-investment							
Home equity	$ 2	$ —	$ —	$ —	$ —	$ —	$ 2
Mortgage servicing rights (1)	329	34	65	—	—	—	428
Rate lock commitments (net) (1)(2)	208	(169)	205	—	—	(170)	74
Totals	$ 539	$ (135)	$ 270	$ —	$ —	$ (170)	$ 504
Liabilities							
DOJ Liability	$ (35)	$ (35)	$ —	$ —	$ —	$ —	$ (70)
Totals	$ (35)	$ (35)	$ —	$ —	$ —	$ —	$ (70)

(1) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with mortgage servicing rights and rate lock commitments. Gains and losses for individual lines do not reflect the effect of our risk management activities related to such Level 3 instruments.
(2) 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)		
March 31, 2022						
Assets						
Loans held-for-investment						
Mortgage servicing rights	$	523	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	3.8% - 21.6% (6.6%) 0% - 10.3% (8.7%) $67 - $90 ($80)	(1)
Rate lock commitments (net)	$	(4)	Consensus pricing	Origination pull-through rate	77.2%	(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, 2021						
Assets						
Loans held-for-investment						
Mortgage servicing rights	$	392	Discounted cash flows	Option adjusted spread Constant prepayment rate Weighted average cost to service per loan	3.9% - 21.6% (7.1%) 0% - 11.1% (9.2%) $67 - $90 ($80)	(1)
Rate lock commitments (net)	$	53	Consensus pricing	Origination pull-through rate	72.8%	(1)

(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 March 31, 2022 and December 31, 2021, the weighted average life (in years) for the entire MSR portfolio was 6.7 and 5.8, 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 March 31, 2022. 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)			
March 31, 2022				
Loans held-for-sale (2)	$ 293	$ 293	$ —	$ (1)
Commercial loans	18	—	18	—
Impaired loans held-for-investment (2)				
Residential first mortgage loans	72	—	72	(8)
Repossessed assets (3)	4	—	4	(1)
Totals	$ 387	$ 293	$ 94	$ (10)
December 31, 2021				
Loans held-for-sale (2)	$ 116	$ 116	$ —	$ (1)
Commercial loans	18	—	18	—
Impaired loans held-for-investment (2)				
Residential first mortgage loans	36	—	36	(5)
Repossessed assets (3)	6	—	6	(1)
Totals	$ 176	$ 116	$ 60	$ (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)	
March 31, 2022				
Commercial loans	$ 18	Fair value of collateral	Market price	N/A
Impaired loans held-for-investment				
Residential first mortgage loans (1)	$ 72	Fair value of collateral	Loss severity discount	0% - 100% (9.8%)
Repossessed assets (1)	$ 4	Fair value of collateral	Loss severity discount	0% - 98.0% (25.4%)
December 31, 2021				
Impaired loans-held-for sale				
Commercial loans HFS	$ 18	Fair value of collateral	Market price	N/A
Impaired loans held-for-investment				
Residential first mortgage loans (1)	$ 36	Fair value of collateral	Loss severity discount	0% - 100% (12.7%)
Repossessed assets (1)	$ 6	Fair value of collateral	Loss severity discount	0% - 96.3% (19.8%)

(1) 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:

	March 31, 2022				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	$ 405	$ 405	$ 405	$ —	$ —
Investment securities available-for-sale	2,010	2,010	—	2,010	—
Investment securities held-to-maturity	190	186	—	186	—
Loans held-for-sale	3,475	3,475	—	3,475	—
Loans held-for-investment	13,236	13,197	—	21	13,176
Loans with government guarantees	1,256	1,256	—	1,256	—
Mortgage servicing rights	523	523	—	—	523
Federal Home Loan Bank stock	329	329	—	329	—
Bank owned life insurance	367	367	—	367	—
Repossessed assets	4	4	—	—	4
Other assets, foreclosure claims	11	11	—	11	—
Derivative financial instruments, assets	330	330	—	307	23
Liabilities					
Retail deposits					
Demand deposits and savings accounts	$ (9,277)	$ (7,972)	$ —	$ (7,972)	$ —
Certificates of deposit	(898)	(901)	—	(901)	—
Wholesale deposits	(974)	(952)	—	(952)	—
Government deposits	(1,886)	(1,748)	—	(1,748)	—
Company controlled deposits	(4,313)	(4,264)	—	(4,264)	—
Federal Home Loan Bank advances	(1,400)	(1,395)	—	(1,395)	—
Long-term debt	(396)	(346)	—	(346)	—
Derivative financial instruments, liabilities	(94)	(94)	—	(67)	(27)

	December 31, 2021				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	$ 1,051	$ 1,051	$ 1,051	$ —	$ —
Investment securities available-for-sale	1,804	1,804	—	1,804	—
Investment securities held-to-maturity	205	209	—	209	—
Loans held-for-sale	5,054	5,054	—	5,054	—
Loans held-for-investment	13,408	13,453	—	14	13,439
Loans with government guarantees	1,650	1,650	—	1,650	—
Mortgage servicing rights	392	392	—	—	392
Federal Home Loan Bank stock	377	377	—	377	—
Bank owned life insurance	365	365	—	365	—
Repossessed assets	6	6	—	—	6
Other assets, foreclosure claims	7	7	—	7	—
Derivative financial instruments, assets	141	141	—	87	54
Liabilities					
Retail deposits					
Demand deposits and savings accounts	$ (9,313)	$ (8,469)	$ —	$ (8,469)	$ —
Certificates of deposit	(951)	(952)	—	(952)	—
Wholesale deposits	(1,141)	(1,137)	—	(1,137)	—
Government deposits	(2,000)	(1,904)	—	(1,904)	—
Company controlled deposits	(4,604)	(4,580)	—	(4,580)	—
Federal Home Loan Bank advances and other	(3,280)	(3,288)	—	(3,288)	—
Long-term debt	(396)	(340)	—	(340)	—
Derivative financial instruments, liabilities	(20)	(20)	—	(19)	(1)

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 March 31,	
	2022	2021
	(Dollars in millions)	
Assets		
Loans held-for-sale		
Net gain on loan sales	$ (294)	$ 87
Liabilities		
DOJ Liability		
Other noninterest expense	$ —	$ 35

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:

	March 31, 2022			December 31, 2021		
	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	$ 25	$ 23	$ (2)	$ 18	$ 16	$ (2)
Loans held-for-investment	14	11	(3)	15	13	(2)
Total nonaccrual loans	$ 39	$ 34	$ (5)	$ 33	$ 29	$ (4)
Other performing loans						
Loans held-for-sale	$ 3,188	$ 3,131	$ (57)	$ 4,790	$ 4,904	$ 114
Loans held-for-investment	12	10	(2)	5	3	(2)
Total other performing loans	$ 3,200	$ 3,141	$ (59)	$ 4,795	$ 4,907	$ 112
Total loans						
Loans held-for-sale	$ 3,213	$ 3,154	$ (59)	$ 4,808	$ 4,920	$ 112
Loans held-for-investment	26	21	(5)	20	16	(4)
Total loans	$ 3,239	$ 3,175	$ (64)	$ 4,828	$ 4,936	$ 108

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 March 31, 2022				
	Community Banking	**Mortgage Originations**	**Mortgage Servicing**	**Other (1)**	**Total**
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 122	$ 56	$ 3	$ (16)	$ 165
Provision (benefit) for credit losses	22	3	—	(29)	(4)
Net interest income after benefit for credit losses	100	53	3	13	169
Net gain on loan sales	—	45	—	—	45
Loan fees and charges	—	6	21	—	27
Net return on mortgage servicing rights	—	29	—	—	29
Loan administrative (expense) income	—	(7)	43	(3)	33
Other noninterest income	18	1	—	7	26
Total noninterest income	18	74	64	4	160
Compensation and benefits	28	45	16	38	127
Commissions	1	25	—	—	26
Loan processing expense	2	9	9	1	21
General, administrative and other	18	11	21	37	87
Total noninterest expense	49	90	46	76	261
Income (loss) before indirect overhead allocations and income taxes	69	37	21	(59)	68
Indirect overhead allocation (expense) income	(10)	(15)	(6)	31	—
Provision (benefit) for income taxes	12	4	3	(4)	15
Net income (loss)	$ 47	$ 18	$ 12	$ (24)	$ 53
Intersegment revenue (expense)	$ 22	$ 9	$ 9	$ (40)	$ —
Average balances					
Loans held-for-sale	$ 18	$ 4,815	$ —	$ —	$ 4,833
Loans with government guarantees	—	1,404	(2)	—	1,402
Loans held-for-investment (2)	10,942	1,442	—	—	12,384
Total assets	11,326	8,695	167	3,973	24,161
Deposits	12,006	42	5,016	1,025	18,089

(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 March 31, 2021				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	$ 156	$ 56	$ 4	$ (27)	$ 189
Benefit for credit losses	(14)	(2)	—	(12)	(28)
Net interest income after benefit for credit losses	170	58	4	(15)	217
Net gain on loan sales	—	227	—	—	227
Loan fees and charges	—	24	18	—	42
Net return on mortgage servicing rights	—	—	—	—	—
Loan administrative (expense) income	—	(10)	40	(3)	27
Other noninterest income	18	3	—	7	28
Total noninterest income	18	244	58	4	324
Compensation and benefits	31	54	16	43	144
Commissions	1	61	—	—	62
Loan processing expense	1	11	8	1	21
General, administrative and other	25	22	22	51	120
Total noninterest expense	58	148	46	95	347
Income (loss) before indirect overhead allocations and income taxes	130	154	16	(106)	194
Indirect overhead allocation (expense) income	(10)	(19)	(6)	35	—
Provision (benefit) for income taxes	25	28	2	(10)	45
Net income (loss)	$ 95	$ 107	$ 8	$ (61)	$ 149
Intersegment revenue (expense)	$ 14	$ (2)	$ 12	$ (24)	$ —
Average balances					
Loans held-for-sale	$ —	$ 7,464	$ —	$ —	$ 7,464
Loans with government guarantees	—	2,502	—	—	2,502
Loans held-for-investment (2)	12,806	2,079	—	30	14,915
Total assets	13,168	13,015	390	3,492	30,065
Deposits	11,804	15	7,157	1,067	20,043

(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 March 31, 2022. This ASU did not have a material impact to our financial statements:

Standard	Description	Effective Date
ASU 2022-01	Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method	December 15, 2022

Accounting Standards Issued But Not Yet Adopted

The expected impact of applicable material accounting pronouncements recently issued or proposed but not yet required to be adopted are discussed in the table below.

Standard	Description	Effective Date
ASU 2022-02 Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures	ASU 2022-02 eliminates prior accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The standard also requires that an entity disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. Early adoption is permitted in any interim period.	Adoption of this amendment is not expected to have a material impact on our results of operations or financial position, but is expected to result in additional disclosure requirements.

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 March 31, 2022, 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 March 31, 2022.

(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 March 31, 2022, 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, 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 March 31, 2022.

Issuer Purchases of Equity Securities

The Company made no purchases of its equity securities during the quarter ended March 31, 2022.

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).
2.2*	Amendment No. 1 to Agreement and Plan of Merger, dated April 26, 2022, 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, 2022, 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 March 31, 2022, 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: May 10, 2022

/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)