FLAGSTAR BANCORP INC
Form 10-Q
November 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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

(Exact name of registrant as specified in its charter).

Michigan (State or other jurisdiction of Incorporation or organization)	38-3150651 (I.R.S. Employer Identification No.)
5151 Corporate Drive, Troy, Michigan (Address of principal executive offices)	48098-2639 (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 ý No ¨.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	o (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý.
As of November 3, 2015, 56,441,157 shares of the registrant’s common stock, $0.01 par value, were issued and outstanding.

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PART II. – OTHER INFORMATION

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents		
Cash	$65	$47
Interest-earning deposits	130	89
Total cash and cash equivalents	195	136
Investment securities available-for-sale	1,150	1,672
Investment securities held-to-maturity	1,108	—
Loans held-for-sale ($2,164 and $1,196 measured at fair value, respectively)	2,408	1,244
Loans with government guarantees	509	1,128
Loans held-for-investment, net		
Loans held-for-investment ($132 and $211 measured at fair value, respectively)	5,514	4,448
Less: allowance for loan losses	(197)	(297)
Total loans held-for-investment, net	5,317	4,151
Mortgage servicing rights	294	258
Federal Home Loan Bank stock	113	155
Premises and equipment, net	243	238
Net deferred tax asset	372	442
Other assets	810	416
Total assets	$12,519	$9,840
Liabilities and Stockholders’ Equity		
Deposits		
Noninterest bearing	$1,749	$1,209
Interest bearing	6,388	5,860
Total deposits	8,137	7,069
Federal Home Loan Bank advances (includes both short-term and long-term)	2,024	514
Long-term debt ($32 and $84 measured at fair value, respectively)	279	331
Representation and warranty reserve	45	53
Other liabilities ($84 and $82 measured at fair value, respectively)	530	500
Total liabilities	11,015	8,467
Stockholders’ Equity		
Preferred stock $0.01 par value, liquidation value $1,000 per share, 25,000,000 shares authorized; 266,657 issued and outstanding, respectively	267	267
Common stock $0.01 par value, 70,000,000 shares authorized; 56,436,026 and 56,332,307 shares issued and outstanding, respectively	1	1
Additional paid in capital	1,484	1,482
Accumulated other comprehensive income	12	8
Accumulated deficit	(260)	(385)
Total stockholders’ equity	1,504	1,373
Total liabilities and stockholders’ equity	$12,519	$9,840

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest Income	(Unaudited)			
Loans	$77	$64	$216	$185
Investment securities	14	11	43	28
Interest-earning deposits and other	—	—	1	—
Total interest income	91	75	260	213
Interest Expense				
Deposits	10	8	30	21
Federal Home Loan Bank advances	6	1	13	2
Other	2	2	6	5
Total interest expense	18	11	49	28
Net interest income	73	64	211	185
(Benefit) provision for loan losses	(1)	8	(18)	127
Net interest income after provision for loan losses	74	56	229	58
Noninterest Income				
Net gain on loan sales	68	52	242	152
Loan fees and charges	17	19	53	56
Deposit fees and charges	7	6	19	16
Loan administration income	8	6	19	19
Net return on the mortgage servicing asset	12	1	19	22
Net gain (loss) on sale of assets	1	5	(1)	11
Representation and warranty benefit (provision)	6	(13)	13	(16)
Other noninterest income	9	9	9	3
Total noninterest income	128	85	373	263
Noninterest Expense				
Compensation and benefits	58	54	178	174
Commissions	10	10	31	26
Occupancy and equipment	20	20	60	60
Asset resolution	—	14	13	43
Federal insurance premiums	6	6	18	17
Loan processing expense	14	10	40	26
Legal and professional expense	10	15	27	40
Other noninterest expense	13	50	40	53
Total noninterest expense	131	179	407	439
Income (loss) before income taxes	71	(38)	195	(118)
Provision (benefit) for income taxes	24	(10)	70	(38)
Net income (loss)	47	(28)	125	(80)
Preferred stock accretion	—	—	—	(1)
Net income (loss) from continuing operations	$47	$(28)	$125	$(81)
Income (loss) per share				
Basic	$0.70	$(0.61)	$1.82	$(1.79)
Diluted	$0.69	$(0.61)	$1.80	$(1.79)
Weighted average shares outstanding				
Basic	56,436,026	56,249,300	56,419,354	56,224,850

Diluted	57,207,503	56,249,300	57,050,789	56,224,850

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

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

	Three Months Ended September 30,	
	2015	2014
	(Unaudited)	
Net income (loss)	$47	$(28)
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on investment securities available-for-sale		
Unrealized gain (loss) (net of ($5) and $4 tax effect, respectively)	9	(5)
Less: Reclassification of net loss on the sale (net of zero and zero tax effect, respectively)	—	(2)
Net change in unrealized gain (loss) on investment securities available-for-sale, net of tax	9	(7)
Unrealized (loss) on derivative instruments designated to cash flow hedges		
Unrealized (loss) (net of $2 tax effect and zero respectively)	(5)	—
Less: Reclassification of net loss on derivative instruments	—	—
Net change in unrealized (loss) on derivative instruments, net of tax	(5)	—
Other comprehensive income (loss), net of tax	4	(7)
Comprehensive income (loss)	$51	$(35)

	Nine Months Ended September 30,	
	2015	2014
	(Unaudited)	
Net income (loss)	$125	$(80)
Other comprehensive income (loss), net of tax		
Unrealized gain on investment securities available-for-sale		
Unrealized gain (net of ($5) and ($1) tax effect, respectively)	9	11
Less: Reclassification of net loss on the sale (net of zero and ($4) tax effect, respectively)	—	(7)
Net change in unrealized gain on investment securities available-for-sale, net of tax	9	4
Unrealized (loss) on derivative instruments designated to cash flow hedges		
Unrealized (loss) (net of $2 tax effect and zero respectively)	(5)	—
Less: Reclassification of net loss on derivative instruments	—	—
Net change in unrealized (loss) on derivative instruments, net of tax	(5)	—
Other comprehensive income, net of tax	4	4
Comprehensive income (loss)	$129	$(76)

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

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

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2013 (Unaudited)	$266	$1	$1,479	$ (5)	$ (315)	$1,426
Net loss	—	—	—	—	(80)	(80)
Total other comprehensive income	—	—	—	4	—	4
Accretion of preferred stock	1	—	—	—	(1)	—
Stock-based compensation	—	—	2	—	—	2
Balance at September 30, 2014	$267	$1	$1,481	$ (1)	$ (396)	$1,352
Balance at December 31, 2014 (Unaudited)	267	1	1,482	8	$ (385)	$1,373
Net income	—	—	—	—	125	125
Total other comprehensive income	—	—	—	4	—	4
Stock-based compensation	—	—	2	—	—	2
Balance at September 30, 2015	$267	$1	$1,484	$ 12	$ (260)	$1,504

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

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

	Nine Months Ended September 30,	
	2015 (Unaudited)	2014 (Unaudited) As Restated
Operating Activities		
Net income (loss)	$125	$(80)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
(Benefit) provision for loan losses	(18)	127
Representation and warranty (benefit) provision	(13)	16
Depreciation and amortization	17	18
Deferred income taxes	68	(35)
Net gain on loan and asset sales	(241)	(163)
Change in fair value and other non-cash changes	(231)	(150)
Other changes:		
Proceeds from sales of loans held-for-sale ("HFS")	15,247	12,610
Origination, premium paid and repurchase of loans, net of principal repayments	(22,180)	(18,225)
Increase in accrued interest receivable	(6)	(12)
Decrease (increase) in other assets, excludes purchase of other investments	155	(82)
Net charge-offs in representation and warranty reserve	(1)	(18)
Increase in other liabilities	11	35
Net cash used in operating activities	(7,067)	(5,959)
Investing Activities		
Proceeds from sale of available-for-sale securities, including loans that have been securitized	6,603	6,532
Collection of principal on investment securities available-for-sale ("AFS")	185	118
Purchase of investment securities available-for-sale and other	(783)	(756)
Collection of principal on investment securities held-to-maturity ("HTM")	38	—
Purchase of investment securities HTM	(10)	—
Proceeds received from the sale of held-for-investment loans ("HFI")	788	62
Origination and purchase of loans HFI, net of principal repayments	(2,249)	(623)
Purchase of bank owned life insurance	(175)	—
Proceeds from the disposition of repossessed assets	19	30
Redemption of Federal Home Loan Bank stock	42	—
Acquisitions of premises and equipment, net of proceeds	(28)	(26)
Proceeds from the sale of mortgage servicing rights	183	168
Net cash provided by investing activities	4,613	5,505
Financing Activities		
Net increase in deposit accounts	1,068	1,094
Proceeds from increases in Federal Home Loan Bank advances	22,235	13,633
Repayment of Federal Home Loan Bank advances	(20,725)	(14,471)
Repayment of long-term debt	(55)	(19)
Net (reduction) receipt of payments of loans serviced for others	(23)	39
Net receipt of escrow payments	13	4
Net cash provided by financing activities	2,513	280
Net increase (decrease) in cash and cash equivalents	59	(174)

Beginning cash and cash equivalents	136	281
Ending cash and cash equivalents	$195	$107
Supplemental disclosure of cash flow information		
Interest paid on deposits and other borrowings	$42	$23
Income tax payments (refund)	$3	$(1)
Non-cash reclassification of investments AFS to HTM	$1,136	$—
Non-cash reclassification of loans HFI to loans HFS	$1,113	$384
Non-cash reclassification of loans HFS to loans HFI	$30	$15
Non-cash reclassification of loans HFS to AFS securities	$6,617	$6,234
Mortgage servicing rights resulting from sale or securitization of loans	$220	$198
Non-cash reclassification of loans with government guarantee to other assets	$373	$—

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

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

Note 1 – Basis of Presentation

The accompanying financial statements of Flagstar Bancorp, Inc. ("Flagstar" or the "Company"), including its wholly owned principal subsidiary, Flagstar Bank, FSB (the "Bank"), have been prepared using U.S. generally accepted accounting principles ("GAAP") for interim financial statements.

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 Securities and Exchange Commission. These interim financial statements are unaudited and include, in the opinion of the Company, all adjustments necessary for a fair presentation 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which is available on the Company's website, at flagstar.com, and on the SEC website, at sec.gov. Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2 – Investment Securities

As of September 30, 2015 and December 31, 2014, investment securities were comprised of the following.

	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
	(Dollars in millions)				
September 30, 2015					
Available-for-sale securities					
Agency	$463	$7	$(1	)	$469
Agency-collateralized mortgage obligations	657	11	—		668
Municipal obligations	13	—	—		13
Total available-for-sale securities	$1,133	$18	$(1	)	$1,150
Held-to-maturity securities					
Agency	$445	$4	$—		$449
Agency-collateralized mortgage obligations	663	6	—		669
Total held-to-maturity securities	$1,108	$10	$—		$1,118
December 31, 2014 (2)					
Available-for-sale securities					
Agency	$925	$6	$(2	)	$929
Agency-collateralized mortgage obligations	734	8	(1	)	741
Municipal obligations	2	—	—		2
Total available-for-sale securities	$1,661	$14	$(3	)	$1,672

(1) Includes the investment securities that were transfered to held-to-maturity at fair value.
(2) The Company did not have any held-to-maturity securities at December 31, 2014.

Credit related declines in the available-for-sale and held-to-maturity securities are classified as other-than-temporary impairments ("OTTI") and are reported as a separate component of noninterest income within the Consolidated Statement of Operations. An impaired investment security is considered to be other than temporary if (1) the Company intends to sell the security; (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover all contractually required principal and interest payments.

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Available-for-sale securities

Securities available-for-sale are carried at fair value, with unrealized gains reported as a component of other comprehensive income and unrealized losses reported as a component of other comprehensive income to the extent they are temporary in nature.

The Company purchased $59 million and $783 million of available-for-sale securities, which included agency securities, comprised of mortgage-backed securities, collateralized mortgage and municipal obligations during the three and nine months ended September 30, 2015, respectively. During the third quarter the Company subsequently transferred $462 million of the securities purchased during 2015 to held-to-maturity investments. The Company purchased $86 million and $762 million of available-for-sale securities, which included agency securities, comprised of mortgage-backed securities and collateralized mortgage obligations during the three and nine months ended September 30, 2014, respectively.

Gains (losses) on sales of available-for-sale securities are reported in other noninterest income in the Consolidated Statements of Operations. During both the three and nine months ended September 30, 2015, there were no sales of available-for-sale securities except those related to loans that had been securitized for sale in the normal course of business, compared to $255 million and $314 million, respectively, in sales of available-for-sale securities, resulting in a gain of $2 million and $3 million during the three and nine months ended September 30, 2014, respectively.

Held-to-maturity securities

Investment securities held-to-maturity are carried at amortized cost and adjusted for amortization of premiums and accretion of discounts using the interest method.

During the third quarter 2015, the Company transferred $1.1 billion of available-for-sale securities to held-to-maturity securities at a premium of $8 million, reflecting the Company's intent and ability to hold those securities to maturity. Transfers of investment securities into the held-to-maturity category from the available-for-sale category are accounted for at fair value at the date of transfer. The related $5 million of unrealized holding gain, net of tax, that was included in the transfer is retained in other comprehensive income (loss) and is being amortized as an adjustment to interest income over the remaining life of the securities. There were no gains or losses recognized as a result of this transfer. The Company did not classify investment securities as held-to-maturity at December 31, 2014.

The Company purchased $10 million of held-to-maturity securities, which included agency-collateralized mortgage obligations during both the three and nine months ended September 30, 2015, respectively. During both the three and nine months ended September 30, 2015, there were $25 million of maturities in held-to-maturity securities. The Company did not hold held-to-maturity securities for the three and nine months ended September 2014.

The following table summarizes by duration the unrealized loss positions on investment securities:

	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
Type of Security	(Dollars in millions)					
September 30, 2015						
Available-for-sale securities						
Agency	$8	2	$—	$87	7	$(1)
Agency-collateralized mortgage obligations	—	—	—	42	3	—

Held-to-maturity securities						
Agency	$—	—	$—	$10	1	$—
December 31, 2014						
Available-for-sale securities						
Agency	$53	6	$—	$305	21	$(2)
Agency-collateralized mortgage obligations	98	10	(1)	38	4	—

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The amortized cost and estimated fair value of securities at September 30, 2015, are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Investment Securities Available-for-Sale				Investment Securities Held-to-maturity			
	Amortized Cost	Fair Value	Weighted-Average Yield		Amortized Cost	Fair Value	Weighted-Average Yield	
September 30, 2015	(Dollars in millions)				(Dollars in millions)			
Due in one year or less	$—	$—	—	%	$—	$—	—	%
Due after one year through five years	—	—	—	%	—	—	—	%
Due after five years through 10 years	13	13	4.60	%	69	69	2.43	%
Due after 10 years	1,120	1,137	2.50	%	1,039	1,049	2.44	%
Total	$1,133	$1,150			$1,108	$1,118		

Management evaluates its securities portfolio each quarter to determine if any security is considered to be other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. The Company did not recognize any other than temporary impairment losses on its investment securities during the third quarter or nine months ended September 2015 and 2014.

Note 3 – Loans Held-for-Sale

The majority of our mortgage loans originated as loans held-for-sale are sold into the secondary market on a whole loan basis or by securitizing the loans into securities. At September 30, 2015 and December 31, 2014, loans held-for-sale totaled $2.4 billion and $1.2 billion, respectively. For the three and nine months ended September 30, 2015, the Company reported net gain on loan sales of $68 million and $242 million, respectively, compared to $52 million and $152 million net gain on loan sales during the three and nine months ended September 30, 2014, respectively.

At September 30, 2015 and December 31, 2014, $243 million and $48 million, respectively, of loans held-for-sale were recorded at lower of cost or fair value. The remainder of the loans in the portfolio are recorded at fair value as the Company elected the fair value option.

Note 4 – Loans with Government Guarantees

The majority of loans with government guarantees continue to be insured or guaranteed by the Federal Housing Administration. These loans earn interest at a rate based upon the 10-year U.S. Treasury note rate at the time the underlying loan becomes delinquent, which is not paid by the FHA until claimed.

At September 30, 2015, loans with government guarantees actually repurchased totaled $509 million and were classified as loans with government guarantees. At December 31, 2014, loans with government guarantees actually repurchased totaled $1.1 billion and were classified as loans with government guarantees.

The Company adopted ASU Update No. 2014-14, Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40) in the first quarter 2015 at which time repossessed assets and the associated claims were recorded separately from the associated loans. At September 30, 2015, repossessed assets and the associated claims recorded in other assets totaled $231 million and at December 31, 2014 repossessed assets and the associated claims were $373 million and included in loans with government guarantees.

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Note 5 – Loans Held-for-Investment

Loans held-for-investment are summarized as follows.

	September 30, 2015	December 31, 2014
	(Dollars in millions)	
Consumer loans		
Residential first mortgage	$2,726	$2,193
Second mortgage	140	149
HELOC	405	257
Other	32	31
Total consumer loans	3,303	2,630
Commercial loans		
Commercial real estate	707	620
Commercial and industrial	493	429
Warehouse lending	1,011	769
Total commercial loans	2,211	1,818
Total loans held-for-investment	5,514	4,448
Less allowance for loan losses	(197)	(297)
Loans held-for-investment, net	$5,317	$4,151

During the third quarter 2015, the Company transferred interest-only residential first mortgage loans with unpaid principal balances totaling $214 million to held-for-sale, which were subsequently sold in October 2015. In addition the Company transferred $19 million of nonperforming first mortgage loans to held-for-sale, which were subsequently sold at a gain on sale of $1 million during the third quarter 2015. A portion of the general allowance for loan losses associated with both of these loan sales was reduced, resulting in a $16 million reduction in the general allowance.

During the second quarter 2015, the Company sold interest-only residential first mortgage loans with unpaid principal balances totaling $386 million, along with $70 million of nonperforming and troubled debt restructured first mortgage loans. A portion of the allowance for loan losses associated with these loans was reduced, resulting in a $15 million reduction in allowance. Upon a change in the Company’s intent, the loans were transferred to held-for-sale and subsequently sold resulting in a loss on sale of $1 million during the three months ended June 30, 2015.

During the first quarter 2015, the Company re-measured the specifically identified reserve relating to the troubled debt restructured loans, resulting in a $36 million reduction in reserve based on a change in expected future cash flows. During the first quarter 2015, the Company changed its intent to hold these loans for investment and instead decided to hold these loans for sale. The loans for which the intent changed had an approximate unpaid principal balance of $331 million, including approximately $291 million of troubled debt restructured residential first mortgage loans, and $30 million in specifically identified reserves at the time this intent was changed. These loans were transferred to loans held-for-sale and subsequently sold resulting in a loss on sale of less than $1 million during the first quarter 2015.

During the first quarter 2014, the Company sold nonperforming, troubled debt restructured residential first mortgage and residential first mortgage jumbo loans with unpaid principal balances totaling $313 million. A portion of the allowance for loan losses associated with these loans was reduced, resulting in a $2 million reduction in allowance. Upon a change in the Company’s intent, the loans were transferred to held-for-sale and subsequently sold resulting in a gain on sale of $1 million.

During the second quarter 2014, the Company sold nonperforming, troubled debt restructured residential first mortgage and residential first mortgage jumbo loans with unpaid principal balances totaling $234 million. Upon a change in the Company’s intent, the loans were transferred to held-for-sale and subsequently sold resulting in a gain on sale of $4 million.

During the third quarter 2014, the Company sold nonperforming, troubled debt restructured residential first mortgage and residential first mortgage jumbo loans with unpaid principal balances totaling $81 million. A portion of the allowance for loan losses associated with these loans was reduced, resulting in a $5 million reduction in allowance. Upon a change in the Company’s intent, the loans were transferred to held-for-sale and subsequently sold resulting in a gain on sale of $5 million.

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During the first and second quarter of 2015, the Company purchased $197 million of HELOC loans with a premium of $7 million.

The Company has pledged certain loans held-for-investment, loans held-for-sale, and loans with government guarantees to collateralize lines of credit and/or borrowings with the Federal Reserve Bank of Chicago and the Federal Home Loan Bank of Indianapolis. At September 30, 2015 and December 31, 2014, the Company pledged $5.2 billion and $4.1 billion, respectively.

The allowance for loan losses by class of loan are summarized in the following table.

	Residential First Mortgage	Second Mortgage	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total
	(Dollars in millions)							
Three Months Ended September 30, 2015								
Beginning balance allowance for loan losses	$151	$14	$25	$1	$ 15	$ 12	$4	$222
Charge-offs (1)	(21)	(1)	(1)	(1)	—	(3)	—	(27)
Recoveries	1	1	—	1	—	—	—	3
Provision (benefit)	(2)	(1)	(1)	—	(2)	5	—	(1)
Ending balance allowance for loan losses	$129	$13	$23	$1	$ 13	$ 14	$4	$197
Three Months Ended September 30, 2014								
Beginning balance allowance for loan losses	$249	$14	$14	$2	$ 19	$ 5	$3	$306
Charge-offs (1)	(12)	(1)	(1)	(1)	—	—	—	(15)
Recoveries	1	—	—	1	—	—	—	2
Provision (benefit)	2	(1)	6	—	2	—	(1)	8
Ending balance allowance for loan losses	$240	$12	$19	$2	$ 21	$ 5	$2	$301
Nine Months Ended September 30, 2015								
Beginning balance allowance for loan losses	$234	$12	$19	$1	$ 17	$ 11	$3	$297
Charge-offs (1)	(80)	(2)	(2)	(3)	—	(3)	—	(90)
Recoveries	3	1	—	2	2	—	—	8
Provision (benefit)	(28)	2	6	1	(6)	6	1	(18)
Ending balance allowance for loan losses	$129	$13	$23	$1	$ 13	$ 14	$4	$197

Nine Months Ended September 30, 2014								
Beginning balance allowance for loan losses	$162	$12	$8	$2	$ 19	$ 3	$ 1	$207
Charge-offs (1)	(29)	(3)	(5)	(2)	(2)	—	—	(41)
Recoveries	3	—	—	2	3	—	—	8
Provision (benefit)	104	3	16	—	1	2	1	127
Ending balance allowance for loan losses	$240	$12	$19	$2	$ 21	$ 5	$ 2	$301

(1) Includes charge-offs of $16 million and $6 million related to the sale or transfer of loans during the three months ended September 30, 2015 and September 30, 2014, respectively, and $67 million and $8 million related to the sale or transfer of loans during the nine months ended September 30, 2015 and September 30, 2014, respectively.

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The loans held-for-investment and allowance for loan losses by class of loan is summarized in the following table.

	Residential First Mortgage	Second Mortgage	HELOC	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total
	(Dollars in millions)							
September 30, 2015								
Loans held-for-investment								
Individually evaluated	$77	$29	$3	$—	$ —	$ 3	$—	$112
Collectively evaluated (1)	2,642	66	322	32	707	490	1,011	5,270
Total loans	$2,719	$95	$325	$32	$ 707	$ 493	$1,011	$5,382
Allowance for loan losses								
Individually evaluated	$21	$7	$1	$—	$ —	$ —	$—	$29
Collectively evaluated (1)	108	6	22	1	13	14	4	168
Total allowance for loan losses	$129	$13	$23	$1	$ 13	$ 14	$4	$197
December 31, 2014								
Loans held-for-investment								
Individually evaluated	$385	$31	$1	$—	$ —	$ —	$—	$417
Collectively evaluated (1)	1,782	65	124	31	620	429	769	3,820
Total loans	$2,167	$96	$125	$31	$ 620	$ 429	$769	$4,237
Allowance for loan losses								
Individually evaluated	$82	$5	$1	$—	$ —	$ —	$—	$88
Collectively evaluated (1)	152	7	18	1	17	11	3	209
Total allowance for loan losses	$234	$12	$19	$1	$ 17	$ 11	$3	$297

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

The allowance for loan losses, other than for loans that have been identified for individual evaluation for impairment, is determined on a loan pool basis by grouping loan types with similar risk characteristics to determine the Company's best estimate of incurred losses. Management evaluates the results of the allowance for loan losses model and makes qualitative adjustments to the results of the model when it is determined that model results do not reflect all losses inherent in the loan portfolios due to changes in recent economic trends and conditions, or other relevant factors.

For those loans not individually evaluated for impairment, management has categorized the commercial and consumer loans into portfolios with common risk characteristics.

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The following table sets forth the loans held-for-investment aging analysis as of September 30, 2015 and December 31, 2014, 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 Investment Loans
	(Dollars in millions)					
September 30, 2015						
Consumer loans						
Residential first mortgage	$8	$5	$51	$64	$2,662	$2,726
Second mortgage	1	—	1	2	138	140
HELOC	4	3	7	14	391	405
Other	—	—	1	1	31	32
Total consumer loans	13	8	60	81	3,222	3,303
Commercial loans						
Commercial real estate	—	—	—	—	707	707
Commercial and industrial	—	—	3	3	490	493
Warehouse lending	—	—	—	—	1,011	1,011
Total commercial loans	—	—	3	3	2,208	2,211
Total loans (2)	$13	$8	$63	$84	$5,430	$5,514
December 31, 2014						
Consumer loans						
Residential first mortgage	$29	$8	$115	$152	$2,041	$2,193
Second mortgage	1	1	2	4	145	149
HELOC	4	1	3	8	249	257
Other	—	—	—	—	31	31
Total consumer loans	34	10	120	164	2,466	2,630
Commercial loans						
Commercial real estate	—	—	—	—	620	620
Commercial and industrial	—	—	—	—	429	429
Warehouse lending	—	—	—	—	769	769
Total commercial loans	—	—	—	—	1,818	1,818
Total loans (2)	$34	$10	$120	$164	$4,284	$4,448

(1) Includes performing nonaccrual loans that are less than 90 days delinquent and for which interest can not be accrued.

(2) Includes $9 million and $5 million of loans 90 days or greater past due accounted for under the fair value option at September 30, 2015 and December 31, 2014, respectively.

For all classes 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 the Company becomes aware of information indicating that collection of principal and interest is in doubt. 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.

Loans held-for-investment and loans held-for-sale on which interest accruals have been discontinued totaled approximately $77 million and $135 million at September 30, 2015 and December 31, 2014, respectively, and $122 million at September 30, 2014. Interest income is recognized on impaired loans using a modified cost recovery method. Interest that would have been accrued on impaired loans totaled approximately $1 million and $4 million during the three and nine months ended September 30, 2015, respectively, and $2 million and $4 million during the three and nine months ended September 30, 2014, respectively. At September 30, 2015 and December 31, 2014, the

Company had no loans 90 days past due and still accruing.

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Troubled Debt Restructuring

The Company may modify certain loans in both consumer and commercial loan portfolios to retain customers or to maximize collection of the outstanding loan balance. The Company has programs designed to assist borrowers by extending payment dates or reducing the borrower's contractual payments. All loan modifications are made on a case-by-case basis. The Company's standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. TDRs result in those instances in which a borrower demonstrates financial difficulty and for which a concession has been granted, which includes reductions of interest rate, extensions of amortization period, principal and/or interest forgiveness and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. These loans are classified as nonperforming TDRs if the loan was nonperforming prior to the restructuring, or based upon the results of a collateral credit evaluation. Such loans will continue on nonaccrual status until the borrower has established a willingness and ability to make the restructured payments for at least six months, after which they will begin to accrue interest.

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

	TDRs		
	Performing	Nonperforming	Total
September 30, 2015	(Dollars in millions)		
Consumer loans			
Residential first mortgage	$41	$20	$61
Second mortgage	34	1	35
HELOC	22	5	27
Total consumer loans	97	26	123
Commercial loans			
Commercial real estate	—	—	—
Commercial and industrial	—	—	—
Total commercial loans	—	—	—
Total TDRs (1)(2)	$97	$26	$123
December 31, 2014			
Consumer loans			
Residential first mortgage	$306	$44	$350
Second mortgage	35	1	36
HELOC	20	1	21
Total consumer loans	361	46	407
Commercial loans			
Commercial real estate	1	—	1
Total TDRs (1)(2)	$362	$46	$408

(1) The allowance for loan losses on consumer TDR loans totaled $16 million and $81 million at September 30, 2015 and December 31, 2014, respectively.

(2) Includes $31 million and $30 million of TDR loans accounted for under the fair value option at September 30, 2015 and December 31, 2014, respectively.

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. The Company measures impairment using the discounted cash flow method for performing TDRs and measures impairment based on collateral values for re-defaulted TDRs.

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The following table provides a summary of newly modified TDRs and TDR loans that subsequently defaulted in the previous 12 months during the three and nine months ended September 30, 2015 and 2014. All TDR classes within consumer and commercial loan portfolios are considered subsequently defaulted when they are greater than 90 days past due.

	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase (Decrease) in Allowance at Modification
Three Months Ended September 30, 2015		(Dollars in millions)		
Residential first mortgages	48	$13	$ 14	$—
Second mortgages	15	1	1	—
HELOC (2)	46	4	4	—
Total TDR loans	109	$18	$ 19	$—