

**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 June 30, 2018
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)
5151 Corporate Drive, Troy, Michigan
(Address of principal executive offices)

38-3150651
(I.R.S. Employer
Identification No.)
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 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 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. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 7(a)(2)(B) of the Securities Act .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of August 2, 2018, 57,599,907 shares of the registrant's common stock, \$0.01 par value, were issued and outstanding.

FLAGSTAR BANCORP, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2018
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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
AFS	Available for Sale	HELOC	Home Equity Lines of Credit
Agencies	Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association, Collectively	HELOAN	Home Equity Loan
ALCO	Asset Liability Committee	HOLA	Home Owners Loan Act
ALLL	Allowance for Loan & Lease Losses	Home equity	Second Mortgages, HELOANs, HELOCs
AOCI	Accumulated Other Comprehensive Income (Loss)	HTM	Held to Maturity
ASU	Accounting Standards Update	LIBOR	London Interbank Offered Rate
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
CDARS	Certificates of Deposit Account Registry Service	LTV	Loan-to-Value Ratio
CET1	Common Equity Tier 1	Management	Flagstar Bancorp's Management
CFPB	Consumer Financial Protection Bureau	MBIA	MBIA Insurance Corporation
CLTV	Combined Loan to Value Ratio	MBS	Mortgage-Backed Securities
Common Stock	Common Shares	MD&A	Management's Discussion and Analysis
CRE	Commercial Real Estate	MSR	Mortgage Servicing Rights
DCB	Desert Community Bank	N/A	Not Applicable
DFAST	Dodd-Frank Stress Test	NYSE	New York Stock Exchange
DOJ	United States Department of Justice	OCC	Office of the Comptroller of the Currency
DTA	Deferred Tax Asset	OTTI	Other-Than-Temporary-Impairment
EVE	Economic Value of Equity	QTL	Qualified Thrift Lending
Fannie Mae	Federal National Mortgage Association	REO	Real estate and other nonperforming assets, net
FASB	Financial Accounting Standards Board	RWA	Risk Weighted Assets
FDIC	Federal Deposit Insurance Corporation	SEC	Securities and Exchange Commission
FHA	Federal Housing Administration	SFR	Single Family Residence
FHLB	Federal Home Loan Bank	TARP Preferred	Troubled Asset Relief Program Fixed Rate Cumulative Perpetual Preferred Stock, Series C
FICO	Fair Isaac Corporation	TDR	Trouble Debt Restructuring
FRB	Federal Reserve Bank	UPB	Unpaid Principal Balance
Freddie Mac	Federal Home Loan Mortgage Corporation	U.S. Treasury	United States Department of Treasury
FTE	Full Time Equivalent Employees	VIE	Variable Interest Entities
GAAP	United States Generally Accepted Accounting Principles	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 second quarter of 2018, 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 Exhibit 99.1 to our June 1, 2018 Form 8-K Report.

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. 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 35 of this Form 10-Q and Part I, Item 1A, Risk Factors of Flagstar Bancorp, Inc.'s 2017 Annual Report on Form 10-K for the year ended December 31, 2017. 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 5th largest bank mortgage originator in the nation. At June 30, 2018, we had 3,682 full-time equivalent employees. Our common stock is listed on the NYSE under the symbol "FBC." At June 30, 2018, we were no longer considered a "controlled company" for NYSE purposes, as on June 14, 2018, our former majority shareholder, MP Thrift Investments L.P., completed a secondary offering of eight million shares of common stock, reducing their common stock ownership from approximately 62 percent to 48 percent.

We have a relationship-based business model which leverages our full-service bank's capabilities with our national mortgage platform to create and build financial relationships with our customers. At June 30, 2018, we operated 107 full service banking branches that offer a full set of banking products to consumer, commercial, and government customers. Our banking footprint spans throughout Michigan and contiguous states as well as the high desert region of California.

We originate mortgages through a wholesale network of brokers and correspondents in all 50 states, and our own loan officers from 88 retail locations in 31 states and two call centers, which includes our direct-to-consumer lending team. Flagstar is also a leading national servicer of mortgage loans and provides complementary ancillary offerings including, MSR lending, servicing advance lending and recapture services. Servicing and subservicing of loans provides fee income and generates a stable long-term source of funding through custodial deposits.

In the second quarter 2018, we signed a definitive agreement to acquire 52 Wells Fargo branches in Indiana, Michigan, Wisconsin and Ohio. We expect to close this transaction late in the fourth quarter of 2018.

Operating Segments

Our operations are conducted through our three operating segments: Community Banking, Mortgage Originations, and Mortgage Servicing. For additional information, please see MD&A - Operating Segments and Note 18 - Segment Information.

Selected Financial Ratios
(Dollars in millions, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(In millions, except per share data and percentages)				
Selected Mortgage Statistics:				
Mortgage rate lock commitments (fallout-adjusted) (1)	\$ 9,011	\$ 9,002	\$ 16,734	\$ 14,998
Mortgage loans sold and securitized	9,260	8,989	16,506	13,473
Selected Ratios:				
Interest rate spread (2)	2.58%	2.59%	2.56%	2.55%
Net interest margin	2.86%	2.77%	2.81%	2.72%
Return on average assets	1.12%	1.04%	0.97%	0.91%
Return on average equity	13.45%	11.57%	11.73%	9.77%
Equity-to-assets ratio (average for the period)	8.29%	9.02%	8.28%	9.29%
Efficiency ratio	74.4%	72.0%	76.9%	74.2%
Effective tax provision rate	20.4%	31.8%	20.2%	32.3%
Average Balances:				
Average interest-earning assets	\$ 15,993	\$ 14,020	\$ 15,675	\$ 13,187
Average interest-paying liabilities	13,164	11,804	13,069	11,066
Average stockholders' equity	1,475	1,418	1,445	1,382

	June 30, 2018		December 31, 2017		June 30, 2017	
	(In millions, except per share data and percentages)					
Selected Statistics:						
Book value per common share	\$ 25.61	\$ 24.40	\$ 24.40	\$ 24.64	\$ 24.64	\$ 24.64
Tangible book value per share (3)	\$ 24.37	\$ 24.04	\$ 24.04	\$ 24.29	\$ 24.29	\$ 24.29
Number of common shares outstanding	57,598,406	57,321,228	57,321,228	57,161,431	57,161,431	57,161,431
Common equity-to-assets ratio	8.14%	8.14%	8.27%	8.82%	8.82%	8.82%
Capitalized value of mortgage servicing rights	1.34%	1.34%	1.16%	1.14%	1.14%	1.14%
Bancorp Tier 1 leverage (to adjusted avg. total assets) (4)	8.65%	8.65%	8.51%	9.10%	9.10%	9.10%
Bank Tier 1 leverage (to adjusted avg. total assets) (4)	9.04%	9.04%	9.04%	10.26%	10.26%	10.26%
Number of bank branches	107	107	99	99	99	99
Number of FTE employees	3,682	3,682	3,525	3,432	3,432	3,432

- (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 previous historical experience and the level of interest rates.
- (2) Interest rate spread is the difference between the annualized yield earned on average interest-earning assets for the period and the annualized rate of interest paid on average interest-bearing liabilities for the period.
- (3) Excludes goodwill and intangibles of \$71 million, \$21 million, and \$20 million at June 30, 2018, December 31, 2017, and June 30, 2017, respectively. See Non-GAAP Financial Measures for further information.
- (4) The Basel III transitional phase-in rules were applicable to December 31, 2017 and June 30, 2017.

Overview

The second quarter of 2018 resulted in net income of \$50 million, or \$0.85 per diluted share, up \$9 million or \$0.14 per diluted share compared to the second quarter of 2017. For the six months ended June 30, 2018 compared to the same period in 2017, net interest income increased \$41 million, or 23 percent, led by growth in average earning assets of \$2.5 billion and a 9 basis point increase in net interest margin.

The Community Banking segment continued to perform well, boosted by the acquisitions of the Desert Community Bank ("DCB") branches and the Santander warehouse business late in the first quarter. When comparing the six months ended June 30, 2018 to the same period last year, average commercial loans have increased \$1.4 billion, or 45 percent with growth across all portfolios and average deposits have increased \$1.1 billion, or 13 percent.

During the first half of 2018, we sold \$18.4 billion UPB of mortgage servicing rights with 100 percent of the sub-servicing retained, increasing the profitability of our servicing business. Since the beginning of 2018, we have increased the number of loans serviced by 93,000 or 21 percent and are well positioned to add more scale later this year.

Our fallout-adjusted lock volume for the first half of 2018 compared to the first half of 2017, increased 12 percent, or \$1.7 billion, while the gain on sale margin fell 2 basis points to 0.74 percent. This was driven by a challenging mortgage environment resulting in significant pricing competition.

Earnings Performance

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions, except share data)					
Net interest income	\$ 115	\$ 97	\$ 18	\$ 221	\$ 180	\$ 41
Provision (benefit) for loan losses	(1)	(1)	—	(1)	2	(3)
Total noninterest income	123	116	7	234	216	18
Total noninterest expense	177	154	23	350	294	56
Provision for income taxes	12	19	(7)	21	32	(11)
Net income	\$ 50	\$ 41	\$ 9	\$ 85	\$ 68	\$ 17
Income per share						
Basic	\$ 0.86	\$ 0.72	\$ 0.14	\$ 1.47	\$ 1.18	\$ 0.29
Diluted	\$ 0.85	\$ 0.71	\$ 0.14	\$ 1.45	\$ 1.16	\$ 0.29

Net income increased to \$50 million or \$0.85 per diluted share for the three months ended June 30, 2018, compared to \$41 million or \$0.71 per diluted share for the three months ended June 30, 2017. Net interest income increased \$18 million for the three months ended June 30, 2018, compared to the same period in 2017, primarily driven by a higher net interest margin and a \$2.0 billion increase in average interest-earnings assets, led by commercial loan growth. The \$7 million increase in noninterest income primarily resulted from higher loan fees and charges and returns on MSR's, partially offset by lower gains on loan sales. Growth from acquisitions resulted in higher compensation and benefits, commissions and occupancy and equipment expenses.

Net income increased to \$85 million or \$1.45 per diluted share for the six months ended June 30, 2018 as compared to \$68 million or \$1.16 per diluted share for the six months ended June 30, 2017. Net interest income increased \$41 million for the six months ended June 30, 2018, compared to the same period in 2017, primarily driven by a 19 percent increase in average interest-earning assets and an increase in net interest margin. The increase in noninterest income primarily resulted from higher gain on loan sales and loan fees and charges, partially offset by a lower return on MSR's. Our 2017 mortgage acquisitions drove an increase in originations resulting in higher volume driven expenses as well as an increase in compensation and benefits and occupancy and equipment expenses.

Additional details of each key driver have been further explained in Management's discussion below.

Net Interest Income

The following tables present, on a consolidated basis, interest income from average assets and liabilities, expressed in dollars and yields:

	Three Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Annualized Yield/Rate	Average Balance	Interest	Annualized Yield/Rate
(Dollars in millions)						
Interest-Earning Assets						
Loans held-for-sale	\$ 4,170	\$ 47	4.50%	\$ 4,269	\$ 42	4.00%
Loans held-for-investment						
Residential first mortgage	2,875	25	3.53%	2,495	21	3.38%
Home equity	679	8	5.05%	439	6	4.91%
Other	57	1	5.39%	27	—	4.54%
Total Consumer loans	3,611	34	3.85%	2,961	27	3.61%
Commercial Real Estate	2,017	26	5.09%	1,477	16	4.16%
Commercial and Industrial	1,257	17	5.30%	936	11	4.77%
Warehouse Lending	1,495	19	5.03%	850	10	4.71%
Total Commercial loans	4,769	62	5.13%	3,263	37	4.48%
Total loans held-for-investment (1)	8,380	96	4.58%	6,224	64	4.07%
Loans with government guarantees	280	2	3.66%	295	3	4.02%
Investment securities	3,049	21	2.72%	3,166	20	2.57%
Interest-earning deposits	114	1	1.72%	66	—	1.07%
Total interest-earning assets	15,993	167	4.17%	14,020	129	3.69%
Other assets	1,791			1,690		
Total assets	\$ 17,784			\$ 15,710		
Interest-Bearing Liabilities						
Retail deposits						
Demand deposits	\$ 704	\$ 1	0.60%	\$ 510	\$ —	0.15%
Savings deposits	3,412	8	0.86%	3,933	8	0.75%
Money market deposits	247	—	0.54%	239	—	0.42%
Certificates of deposit	2,006	8	1.63%	1,094	3	1.08%
Total retail deposits	6,369	17	1.06%	5,776	11	0.75%
Government deposits						
Demand deposits	243	—	0.47%	200	—	0.39%
Savings deposits	488	2	1.26%	411	1	0.56%
Certificates of deposit	380	1	1.35%	291	—	0.68%
Total government deposits	1,111	3	1.12%	902	1	0.56%
Wholesale deposits and other						
Total interest-bearing deposits	7,744	21	1.10%	6,682	12	0.72%
Short-term Federal Home Loan Bank advances	3,646	17	1.85%	3,429	8	0.98%
Long-term Federal Home Loan Bank advances	1,280	7	2.25%	1,200	6	1.91%
Other long-term debt	494	7	5.60%	493	6	5.06%
Total interest-bearing liabilities	13,164	52	1.58%	11,804	32	1.10%
Noninterest-bearing deposits (2)	2,670			2,057		
Other liabilities	475			431		
Stockholders' equity	1,475			1,418		
Total liabilities and stockholders' equity	\$ 17,784			\$ 15,710		
Net interest income		\$ 115			\$ 97	
Interest rate spread (3)			2.58%			2.59%
Net interest margin (4)			2.86%			2.77%
Ratio of average interest-earning assets to interest-bearing liabilities			121.5%			118.8%

(1) Includes nonaccrual loans, for further information relating to 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.

Six Months Ended June 30,

	2018			2017		
	Average Balance	Interest	Annualized Yield/Rate	Average Balance	Interest	Annualized Yield/Rate
(Dollars in millions)						
Interest-Earning Assets						
Loans held-for-sale	\$ 4,201	\$ 90	4.31%	\$ 3,780	\$ 74	3.94%
Loans held-for-investment						
Residential first mortgage	2,824	49	3.47%	2,447	41	3.35%
Home equity	674	17	5.13%	436	11	5.01%
Other	42	1	5.12%	26	—	4.52%
Total Consumer loans	3,540	67	3.80%	2,909	52	3.61%
Commercial Real Estate	1,986	50	4.98%	1,399	28	3.99%
Commercial and Industrial	1,237	33	5.25%	855	20	4.67%
Warehouse Lending	1,173	30	5.07%	770	18	4.62%
Total Commercial loans	4,396	113	5.08%	3,024	66	4.34%
Total loans held-for-investment (1)	7,936	180	4.51%	5,933	118	3.98%
Loans with government guarantees	285	5	3.69%	318	7	4.34%
Investment securities	3,140	43	2.71%	3,090	39	2.54%
Interest-earning deposits	113	1	1.69%	66	1	0.97%
Total interest-earning assets	15,675	319	4.06%	13,187	239	3.63%
Other assets	1,764			1,694		
Total assets	\$ 17,439			\$ 14,881		
Interest-Bearing Liabilities						
Retail deposits						
Demand deposits	\$ 626	\$ 1	0.46%	\$ 509	\$ —	0.17%
Savings deposits	3,451	14	0.83%	3,930	15	0.76%
Money market deposits	226	1	0.49%	258	1	0.44%
Certificates of deposit	1,814	14	1.55%	1,083	6	1.07%
Total retail deposits	6,117	30	0.99%	5,780	22	0.75%
Government deposits						
Demand deposits	242	1	0.51%	217	—	0.39%
Savings deposits	485	3	1.18%	435	1	0.54%
Certificates of deposit	391	2	1.27%	305	1	0.65%
Total government deposits	1,118	6	1.07%	957	2	0.54%
Wholesale deposits and other	217	2	1.94%	6	—	0.42%
Total interest-bearing deposits	7,452	38	1.03%	6,743	24	0.72%
Short-term Federal Home Loan Bank advances	3,838	32	1.68%	2,630	12	0.89%
Long-term Federal Home Loan Bank advances	1,285	14	2.17%	1,200	11	1.89%
Other long-term debt	494	14	5.49%	493	12	5.05%
Total interest-bearing liabilities	13,069	98	1.50%	11,066	59	1.08%
Noninterest-bearing deposits (2)	2,443			2,024		
Other liabilities	482			409		
Stockholders' equity	1,445			1,382		
Total liabilities and stockholders' equity	\$ 17,439			\$ 14,881		
Net interest income		\$ 221		\$ 180		
Interest rate spread (3)			2.56%			2.55%
Net interest margin (4)			2.81%			2.72%
Ratio of average interest-earning assets to interest-bearing liabilities			119.9%			119.2%

(1) Includes nonaccrual loans, for further information relating to 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.

Rate/Volume Analysis

The following tables present 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.

	Three Months Ended June 30,		
	2018 Versus 2017 Increase (Decrease)		
	Due to:		
	Rate	Volume	Total
	(Dollars in millions)		
Interest-Earning Assets			
Loans held-for-sale	\$ 5	\$ —	\$ 5
Loans held-for-investment			
Residential first mortgage	1	3	4
Home equity	—	2	2
Other	1	—	1
Total Consumer loans	2	5	7
Commercial Real Estate	5	5	10
Commercial and Industrial	2	4	6
Warehouse Lending	1	8	9
Total Commercial loans	8	17	25
Total loans held-for-investment	10	22	32
Loans with government guarantees	(1)	—	(1)
Investment securities	1	—	1
Interest-earning deposits and other	1	—	\$ 1
Total interest-earning assets	\$ 16	\$ 22	\$ 38
Interest-Bearing Liabilities			
Interest-bearing deposits	\$ 7	\$ 2	\$ 9
Short-term Federal Home Loan Bank advances	8	1	9
Long-term Federal Home Loan Bank advances	1	—	1
Other long-term debt	1	—	1
Total interest-bearing liabilities	17	3	20
Change in net interest income	\$ (1)	\$ 19	\$ 18

	Six Months Ended June 30,		
	2018 Versus 2017 Increase (Decrease)		
	Due to:		
	Rate	Volume	Total
	(Dollars in millions)		
Interest-Earning Assets			
Loans held-for-sale	\$ 8	\$ 8	\$ 16
Loans held-for-investment			
Residential first mortgage	2	6	8
Home equity	1	5	6
Other	—	1	1
Total Consumer loans	3	12	15
Commercial Real Estate	10	12	22
Commercial and Industrial	4	9	13
Warehouse Lending	3	9	12
Total Commercial loans	17	30	47
Total loans held-for-investment	20	42	62
Loans with government guarantees	(1)	(1)	(2)
Investment securities	3	1	4
Total interest-earning assets	<u>\$ 30</u>	<u>\$ 50</u>	<u>\$ 80</u>
Interest-Bearing Liabilities			
Interest-bearing deposits	\$ 11	\$ 3	\$ 14
Short-term Federal Home Loan Bank advances	15	5	20
Long-term Federal Home Loan Bank advances	2	1	3
Other long-term debt	2	—	2
Total interest-bearing liabilities	30	9	39
Change in net interest income	<u>\$ —</u>	<u>\$ 41</u>	<u>\$ 41</u>

Comparison to Prior Year Quarter

Net interest income increased \$18 million, or 19 percent, for the three months ended June 30, 2018, compared to the same period in 2017. This increase was primarily driven by growth in average interest-earning assets, led by continued growth in the commercial LHFI portfolio.

Our net interest margin for the three months ended June 30, 2018 was 2.86 percent, as compared to 2.77 percent for the three months ended June 30, 2017. The increase in net interest margin was primarily driven by the growth in our commercial loan portfolios, partially offset by higher average rates on deposits. Our deposit costs experienced modest growth despite the rising rate environment and slight extension of duration driven by holding a higher percentage of certificates of deposits.

Average interest-earning assets increased \$2.0 billion for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to an increase in LHFI average balances. The LHFI portfolio increase was primarily driven by growth in the commercial loan portfolios which increased \$1.5 billion, or 46 percent, as we executed on the acquisition of the Santander warehouse business and continued to build a diversified, higher yielding commercial loan portfolio.

Average interest-bearing liabilities increased \$1.4 billion for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. This increase was primarily due to average interest-bearing deposits increasing \$1.1 billion led by the recent DCB branch acquisition as well as organic growth in retail certificates of deposit and wholesale deposits, partially offset by a decline in retail savings deposits.

Comparison to Prior Year to Date

Net interest income increased \$41 million, or 23 percent, for the six months ended June 30, 2018, compared to the same period in 2017. This increase was primarily driven by growth in average interest-earning assets, led by continued growth in the commercial LHFI portfolio and higher average LHFS balances.

Our net interest margin for the six months ended June 30, 2018 was 2.81 percent, as compared to 2.72 percent for the six months ended June 30, 2017. The increase in net interest margin was primarily driven by rising yields on our LHFI portfolios, which increased 53 basis points, representing a loan beta of 71 percent, more than offsetting the 31 basis point increase in average costs of deposits, representing a deposit beta of 30 percent.

Average interest-earning assets increased \$2.5 billion for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to an increase in LHFI and LHFS average balances. The LHFI portfolio increase was primarily driven by \$1.4 billion of growth in CRE and C&I loans along with higher average warehouse balances driven by the acquisition of the Santander warehouse business.

Average interest-bearing liabilities increased \$2.0 billion for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to an increase in FHLB advances used to fund balance sheet growth. The recent DCB branch acquisition as well as higher retail and wholesale deposits drove a \$709 million increase in average interest-bearing deposits.

Provision for Loan Losses

Comparison to Prior Year Quarter

The provision for loan losses was a benefit of \$1 million during both the three months ended June 30, 2018 and June 30, 2017, which reflects our continued strong credit quality, including low delinquencies and charge-offs, along with growth of the portfolio in areas we believe to pose lower levels of credit risk.

Comparison to Prior Year to Date

The provision for loan losses was a benefit of \$1 million during the six months ended June 30, 2018, compared to a provision of \$2 million during the six months ended June 30, 2017. The improvement in the provision reflects our continued strong credit quality with lower levels of charge-offs along with growth of the portfolio in areas we believe to pose lower levels of credit risk.

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

Noninterest Income

The following tables provide information on our noninterest income along with additional details related to our net gain on loan sales and other mortgage metrics:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions)					
Net gain on loan sales	\$ 63	\$ 66	\$ (3)	\$ 123	\$ 114	\$ 9
Loan fees and charges	24	20	4	44	35	9
Deposit fees and charges	5	5	—	10	9	1
Loan administration income	5	6	(1)	10	11	(1)
Net return on mortgage servicing rights	9	6	3	13	20	(7)
Other noninterest income	17	13	4	34	27	7
Total noninterest income	\$ 123	\$ 116	\$ 7	\$ 234	\$ 216	\$ 18

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions)					
Mortgage rate lock commitments (fallout-adjusted) (1)	\$ 9,011	\$ 9,002	\$ 9	\$ 16,734	\$ 14,998	\$ 1,736
Net margin on mortgage rate lock commitments (fallout-adjusted) (1)(2)	0.71%	0.73%	(0.02)%	0.74%	0.76%	(0.02)%
Mortgage loans sold and securitized	9,260	8,989	271	16,506	13,473	3,033

- (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 level of interest rates.
- (2) Gain on loan sale volume is based on net gain on loan sales to fallout-adjusted mortgage rate lock commitments.

Comparison to Prior Year Quarter

Total noninterest income increased \$7 million during the three months ended June 30, 2018, compared to the same period in 2017.

Net gain on loan sales decreased \$3 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to a 2 basis point decrease in net gain on loan sale margin on relatively flat fallout-adjusted rate lock volume. The decrease in net gain on loan sale margin is being driven by overcapacity in the mortgage industry resulting in increased pricing competition.

Loan fees and charges increased \$4 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to a shift in channel mix from third party to retail originations which more than offset the decrease in total mortgage loan closings.

Net return on MSRs, including the impact of hedges, increased \$3 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase was primarily due to higher net return from the MSR asset and lower transaction costs related to less sales volume in the three months ended June 30, 2018 than the same period last year.

Other noninterest income increased \$4 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase was primarily due to higher FHLB stock dividend income attributable to an increase in FHLB stock holdings and higher rental income driven by growth within the equipment finance portfolio.

Comparison to Prior Year to Date

Total noninterest income increased \$18 million during the six months ended June 30, 2018, compared to the same period in 2017.

Net gain on loan sales increased \$9 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. Fallout-adjusted rate locks increased 12 percent, boosted by our 2017 mortgage business acquisitions. This volume increase was partially offset by a 2 basis point decrease in net gain on loan sale margin due to overcapacity in the market and increased pricing competition.

Loan fees and charges increased \$9 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to an increase in mortgage loan closings and shift in channel mix from third party originations to retail channels.

Net return on MSRs, including the impact of hedges, decreased \$7 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to lower net return from the MSR asset, along with a lower average MSR balance.

Other noninterest income increased \$7 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase was primarily due to higher FHLB stock dividend income attributable to an increase in FHLB stock holdings and a supplemental dividend received in the first quarter of 2018, higher rental income driven by growth within the equipment finance portfolio, and higher investment and insurance income.

Noninterest Expense

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions)					
Compensation and benefits	\$ 80	\$ 71	\$ 9	\$ 160	\$ 143	\$ 17
Commissions	25	16	9	43	26	17
Occupancy and equipment	30	25	5	60	47	13
Federal insurance premiums	6	4	2	12	7	5
Loan processing expense	15	14	1	29	26	3
Legal and professional expense	6	8	(2)	12	15	(3)
Other noninterest expense	15	16	(1)	34	30	4
Total noninterest expense	<u>\$ 177</u>	<u>\$ 154</u>	<u>\$ 23</u>	<u>\$ 350</u>	<u>\$ 294</u>	<u>\$ 56</u>
Efficiency ratio	74.4%	72.0%	2.4%	76.9%	74.2%	2.7%
Average number of FTE	3,664	3,263	401	3,641	3,100	541

Comparison to Prior Year Quarter

Noninterest expense increased \$23 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017.

Compensation and benefits increased \$9 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. This increase is primarily due to 12 percent higher average FTE due to acquisitions and growth in our business.

Commissions increased \$9 million, during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the acquisition of the Opes in 2017, which has increased our retail mortgage originations versus our predominately third party origination model.

Occupancy and equipment increased \$5 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase was primarily due to a higher average depreciable asset base and an increase in rent expense relating to acquisitions.

Comparison to Prior Year to Date

Noninterest expense increased \$56 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017.

Compensation and benefits increased \$17 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to 17 percent higher average FTE, driven by acquisitions and growth in our business.

Commissions increased \$17 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase is primarily due to the acquisition of Opes in 2017, which has increased our retail mortgage originations versus our predominately third party origination model, and \$1.7 billion higher loan originations in the six months ended June 30, 2018 compared to the same period a year ago.

Occupancy and equipment increased \$13 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase was primarily due to a higher average depreciable asset base and an increase in vendor services supporting business growth.

FDIC insurance premiums increased \$5 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to growth in our total assets.

Other noninterest expense increased \$4 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to an increase in advertising expenses to raise brand awareness.

Provision for Income Taxes

Our provision for income taxes for the three and six months ended June 30, 2018 was \$12 million and \$21 million, respectively, compared to a provision of \$19 million and \$32 million for the three and six months ended June 30, 2017, respectively. These decreases are primarily due to the reduction in the statutory corporate tax rate from 35 percent to 21 percent as a result of the Tax Cuts and Jobs Act.

Our effective tax provision rate for the three and six months ended June 30, 2018 was 20.4 percent and 20.2 percent, respectively, compared to 31.8 percent and 32.3 percent for the three and six months ended June 30, 2017, respectively. Our effective tax provision rate differs from the combined federal and state statutory tax rate primarily due to non-taxable bank owned life insurance and other tax-exempt earnings, partially offset by nondeductible expenses.

Operating Segments

For detail on each segment's objectives, strategies, and priorities, please read this section in conjunction with Note 18 - Segment Information.

Community Banking

Our Community Banking segment services consumer, governmental and commercial customers in our banking footprint which spans throughout Michigan and contiguous states as well as the high desert region of California. We also serve home builders, correspondents, and commercial customers on a national basis.

Our commercial customers are from 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 and financing of working capital needs, equipment purchases and other capital investments. Additionally, our commercial real estate business supports income producing real estate and home builder. These loans are made to finance properties such as owner-occupied, retail, multi-family apartment buildings, office, industrial buildings, and home builder.

Our Community Banking segment has seen continued growth and our transformation into a commercial bank continues to be a key component in our overall business model. Our commercial loan portfolio has grown to \$5.1 billion as of June 30, 2018, representing a 37 percent increase from June 30, 2017.

Mortgage Originations

We are a leading national originator of residential first mortgages. Our Mortgage Origination segment originates, acquires and sells one-to-four family residential mortgage loans. We utilize multiple channels to originate or acquire mortgage loans in all 50 states.

We continue to leverage technology to streamline the mortgage origination process, thereby bringing service and convenience to borrowers and correspondents. We also continue to make available to our customers various web-based tools that facilitate the mortgage loan process through each of our production channels.

Mortgage Servicing

The Mortgage Servicing segment services our own and subservices mortgage loans for others through a scalable servicing platform on a fee for service basis and may also collect ancillary fees and earn income through the use of noninterest bearing escrows. The loans we service generate custodial deposits which provide a stable funding source. Revenue for those serviced and subserved loans is earned on a contractual fee basis, with the fees varying based on our responsibilities and the delinquency status of the underlying 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.

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

	June 30, 2018		December 31, 2017	
	Unpaid Principal Balance (1)	Number of accounts	Unpaid Principal Balance (1)	Number of accounts
	(Dollars in millions)			
Residential loan servicing				
Serviced for own loan portfolio (2)	\$ 7,303	32,012	\$ 7,013	29,493
Serviced for others	19,249	78,898	25,073	103,137
Subserviced for others (3)	93,761	424,331	65,864	309,814
Total residential loans serviced	\$ 120,313	535,241	\$ 97,950	442,444

(1) UPB, net of write downs, does not include premiums or discounts.
(2) Includes LHF1 (residential first mortgage and home equity), LHFS (residential first mortgage), loans with government guarantees (residential first mortgage), and repossessed assets.
(3) Includes temporary short-term subservicing performed as a result of sales of servicing-released MSRs. Includes repossessed assets.

Other

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 not directly assigned or allocated to the Community Banking, Mortgage Originations or Mortgage Servicing segments.

OPERATING SEGMENT PERFORMANCE

Community Banking	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions)					
Summary of Operations						
Net interest income	\$ 80	\$ 57	\$ 23	\$ 150	\$ 108	\$ 42
(Provision) benefit for loan losses	—	—	—	(1)	(2)	1
Net interest income after (provision) benefit for loan losses	80	57	23	149	106	43
Net gain (loss) on loan sales	(5)	(1)	(4)	(7)	(3)	(4)
Other noninterest income	9	6	3	17	14	3
Total noninterest income	4	5	(1)	10	11	(1)
Compensation and benefits	(17)	(15)	(2)	(34)	(31)	(3)
Other noninterest expense and directly allocated overhead	(28)	(22)	(6)	(54)	(42)	(12)
Total noninterest expense	(45)	(37)	(8)	(88)	(73)	(15)
Income before indirect overhead allocations and income taxes	39	25	14	71	44	27
Overhead allocations	(9)	(10)	1	(20)	(20)	—
Provision for income taxes	7	5	2	11	8	3
Net income	\$ 23	\$ 10	\$ 13	\$ 40	\$ 16	\$ 24
Key Metrics						
Efficiency Ratio	53.1%	59.7%	(6.6)%	54.8%	61.3%	(6.5)%
Return on average assets	1.1%	0.6%	0.5 %	1.0%	0.5%	0.5 %
Average number of FTE employees	826	700	126	794	694	100

Community Banking

Comparison to Prior Year Quarter

The Community Banking segment reported net income of \$23 million for the three months ended June 30, 2018, compared to \$10 million for the three months ended June 30, 2017. The \$13 million increase in net income was primarily due to a \$23 million increase in net interest income driven by higher average commercial loans. Average commercial loans increased \$1.5 billion for the three months ended June 30, 2018 compared to the three months ended June 30, 2017, due to

organic growth and the acquisitions of Desert Community Bank branches and the Santander warehouse business in 2018. The increase in net interest income was partially offset by an \$8 million increase in noninterest expense driven by higher compensation and benefits and occupancy and equipment expense primarily due to acquisitions, and an increase in FDIC premiums primarily due to higher total assets.

Comparison to Prior Year to Date

The Community Banking segment reported net income of \$40 million for the six months ended June 30, 2018, compared to \$16 million for the six months ended June 30, 2017. The \$24 million increase in net income was primarily due to a \$42 million increase in net interest income driven by average commercial loan growth of \$1.4 billion for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This average commercial loan growth was due to organic growth and the acquisitions of Desert Community Bank branches and Santander warehouse business in 2018. The increase in net interest income was partially offset by a \$15 million increase in noninterest expense driven by growth initiatives, which include higher compensation and benefits, occupancy and equipment expense, and advertising costs along with an increase in community reinvestment programs and FDIC premiums primarily due to higher total assets.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Mortgage Originations						
(Dollars in millions)						
Summary of Operations						
Net interest income	\$ 33	\$ 32	\$ 1	\$ 64	\$ 62	\$ 2
(Provision) benefit for loan losses	(1)	—	(1)	(1)	(2)	1
Net interest income after (provision) benefit for loan losses	32	32	—	63	60	3
Net gain on loan sales	68	67	1	130	117	13
Other noninterest income	27	24	3	46	50	(4)
Total noninterest income	95	91	4	176	167	9
Compensation and benefits	(28)	(24)	(4)	(57)	(44)	(13)
Other noninterest expense and directly allocated overhead	(47)	(38)	(9)	(88)	(65)	(23)
Total noninterest expense	(75)	(62)	(13)	(145)	(109)	(36)
Income before indirect overhead allocations and income taxes	52	61	(9)	94	118	(24)
Overhead allocation	(17)	(14)	(3)	(35)	(31)	(4)
Provision for income taxes	7	17	(10)	12	31	(19)
Net income (loss)	\$ 28	\$ 30	\$ (2)	\$ 47	\$ 56	\$ (9)
Key Metrics						
Efficiency Ratio	59.3%	50.4%	8.9 %	60.5%	47.6%	12.9 %
Return on average assets	2.1%	2.2%	(0.1)%	1.7%	2.2%	(0.5)%
Mortgage rate lock commitments (fallout-adjusted) (1)	\$ 9,011	\$ 9,002	\$ 9	\$ 16,734	\$ 14,998	\$ 1,736
Average number of FTE employees	1,608	1,415	193	1,630	1,263	367

(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 level of interest rates.

Mortgage Originations

Comparison to Prior Year Quarter

The Mortgage Originations segment reported net income of \$28 million for the three months ended June 30, 2018, compared to \$30 million for the three months ended June 30, 2017. The decrease was primarily due to an increase in noninterest expense driven by an \$8 million increase in commissions resulting from an increased mix of retail production and a \$4 million increase in compensation and benefits related to increased headcount from acquisitions. These decreases were partially offset by higher noninterest income primarily resulting from higher net return from the MSR asset.

Comparison to Prior Year to Date

The Mortgage Originations segment reported net income of \$47 million for the six months ended June 30, 2018, compared to \$56 million for the six months ended June 30, 2017. Our 2017 acquisitions drove increased mortgage volumes resulting in \$1.7 billion higher fallout adjusted locks during the six months ended June 30, 2018 as compared to the six months

ended June 30, 2017. Consequently, net gain on loan sales and loan fees and charges, increased \$13 million and \$4 million, respectively. The increased mortgage volume led to higher variable costs, including \$15 million higher commissions and \$2 million higher loan processing expense. The acquisitions also primarily drove a \$13 million increase in compensation and benefits and a \$5 million increase in occupancy and equipment expense. The net return on MSR decreased \$7 million driven by a decrease in our average MSR asset resulting from MSR sales.

Mortgage Servicing	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions)					
Summary of Operations						
Net interest income	\$ 1	\$ 2	\$ (1)	\$ 3	\$ 5	\$ (2)
Provision for loan losses	—	—	—	—	—	—
Net interest income after provision for loan losses	1	2	(1)	3	5	(2)
Net gain on loan sales	—	—	—	—	—	—
Other noninterest income	22	17	5	41	33	8
Total noninterest income	22	17	5	41	33	8
Compensation and benefits	(5)	(4)	(1)	(9)	(8)	(1)
Other noninterest expense and directly allocated overhead	(15)	(16)	1	(31)	(32)	1
Total noninterest expense	(20)	(20)	—	(40)	(40)	—
Income (loss) before indirect overhead allocations and income taxes	3	(1)	4	4	(2)	6
Overhead allocations	(5)	(5)	—	(10)	(11)	1
Provision (benefit) for income taxes	(2)	(3)	1	(2)	(5)	3
Net income (loss)	\$ —	\$ (3)	\$ 3	\$ (4)	\$ (8)	\$ 4
Key Metrics						
Efficiency Ratio	84.4 %	105.3 %	(20.9)%	89.6 %	105.3 %	(15.7)%
Return on average assets	(13.0)%	(30.8)%	17.8 %	(29.2)%	(40.0)%	10.8 %
Average number of residential loans serviced	495,191	404,067	91,124	477,054	395,441	81,613
Average number of FTE employees	218	196	22	213	198	15

Mortgage Servicing

Comparison to Prior Year Quarter

The Mortgage Servicing segment reported net income of less than \$1 million for the three months ended June 30, 2018, compared to a net loss of \$3 million for the three months ended June 30, 2017. The increase was primarily due to an increase in loans serviced which drove higher volume related income, including a \$2 million increase in loan administration income and a \$3 million increase in late fees and other ancillary fees. Higher loan volume also drove an increase in noninterest expense and a decrease in net interest income resulting from higher interest expense on custodial balances.

Comparison to Prior Year to Date

The Mortgage Servicing segment reported a net loss of \$4 million for the six months ended June 30, 2018, compared to a net loss of \$8 million for the six months ended June 30, 2017, primarily due to the growth in the number of loans serviced, volume driven income resulting from late fees, ancillary fees and loan administration income has increased a total of \$9 million. This increase was partially offset by volume related costs increasing noninterest expense and a decrease in net interest income due to higher interest expense on custodial balances.

Other	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
	(Dollars in millions)					
Summary of Operations						
Net interest income (1)	\$ 1	\$ 6	\$ (5)	\$ 4	\$ 5	\$ (1)
(Provision) benefit for loan losses	2	1	1	3	2	1
Net interest income after (provision) benefit for loan losses	3	7	(4)	7	7	—
Net gain (loss) on loan sales	—	—	—	—	—	—
Other noninterest income (1)	2	3	(1)	7	5	2
Total noninterest income	2	3	(1)	7	5	2
Compensation and benefits	(30)	(28)	(2)	(60)	(60)	—
Other noninterest expense and directly allocated overhead (1)	(7)	(7)	—	(17)	(12)	(5)
Total noninterest expense	(37)	(35)	(2)	(77)	(72)	(5)
Income (loss) before indirect overhead allocations and income taxes	(32)	(25)	(7)	(63)	(60)	(3)
Overhead allocations	31	29	2	65	62	3
Provision (benefit) for income taxes	—	—	—	—	(2)	2
Net income (loss)	\$ (1)	\$ 4	\$ (5)	\$ 2	\$ 4	\$ (2)

Key Metrics

Average number of FTE employees	1,012	952	60	1,004	945	59
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(1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and custodial deposit income for subservicing clients.

Other

Comparison to Prior Year Quarter

The Other segment reported net loss of \$1 million, for the three months ended June 30, 2018, compared to net income of \$4 million for the three months ended June 30, 2017. The decrease in net income is due to higher interest rates driving an increase in unallocated intersegment funding costs, partially offset by higher dividend income on FHLB stock.

Comparison to Prior Year to Date

The Other segment reported net income of \$2 million for the six months ended June 30, 2018, compared to net income of \$4 million for the six months ended June 30, 2017. The decrease was primarily due to higher interest expense on FHLB borrowings, partially offset by higher dividend income on FHLB stock and a FHLB stock supplemental dividend which we received in the first quarter 2018.

RISK MANAGEMENT

Like all financial services companies, we engage in business activities and assume the related risks. The risks we are subject to in the normal course of business include, but are not limited to, credit, regulatory compliance, legal, reputation, liquidity, market, operational, and strategic. We have made significant investments 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 from unexpected loss arising from these risks.

A comprehensive discussion of risks affecting us can be found in the Risk Factors section included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. 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 maintain credit limits, in compliance with regulatory requirements. Under the Home Owners Loan Act ("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 and Tier 2 capital plus any portion of the allowance for loan losses not included in the Tier 2 capital. This limit was \$260 million as of June 30, 2018.

We maintain a more conservative maximum internal Bank limit than required by HOLA, of \$100 million (commitment level) to any one borrower/obligor relationship, with the exception of warehouse borrower/obligor relationships which have an internal Bank limit of \$125 million. We have a tracking and reporting process to monitor lending concentration levels and all credit exposures to a single borrower that exceed \$50 million must be approved by the Board of Directors. As part of the Santander warehouse acquisition in the first quarter of 2018, the Board of Directors approved a short term exception to the internal Bank limit on loans to an individual borrower/obligor for two warehouse borrowers while Flagstar completes a syndication process to reduce exposure down to the \$125 million limit.

Loan Originations

The following table presents loan originations by portfolio:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Consumer loans				
Residential first mortgage	\$ 9,040	\$ 9,184	\$ 16,926	\$ 15,087
Home equity (1)	77	73	140	127
Other	64	2	66	4
Total consumer loans	9,181	9,259	17,132	15,218
Commercial loans (2)	317	400	486	671
Total loan originations	\$ 9,498	\$ 9,659	\$ 17,618	\$ 15,889

(1) Includes second mortgage loans and HELOC loans.

(2) Includes CRE and C&I loans that were net funded within the period.

Loans held-for-investment

The following table summarizes loans held-for-investment by category:

	June 30, 2018	December 31, 2017	Change
	(Dollars in millions)		
Consumer loans			
Residential first mortgage	\$ 2,986	\$ 2,754	\$ 232
Home equity (1)	685	664	21
Other	88	25	63
Total consumer loans	3,759	3,443	316
Commercial loans			
Commercial real estate (2)	2,020	1,932	\$ 88
Commercial and industrial	1,324	1,196	128
Warehouse lending	1,801	1,142	659
Total commercial loans	5,145	4,270	875
Total loans held-for-investment	\$ 8,904	\$ 7,713	\$ 1,191

(1) Includes second mortgages and HELOC loans.

(2) Includes NBV of \$332 million and \$307 million of owner occupied commercial real estate loans at June 30, 2018 and December 31, 2017, respectively.

Loans held-for-investment increased \$1.2 billion from December 31, 2017 to June 30, 2018. This increase was due to growth in our Community Banking segment, combined with the acquisitions of Santander Bank’s warehouse lending business and Desert Community Bank branches from the first quarter of 2018.

We continue to strengthen our Community Banking segment by growing interest earning assets. The commercial loan portfolio grew \$875 million, or 20 percent, from December 31, 2017 to June 30, 2018, led by a \$659 million increase in warehouse loans.

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

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. The LTV requirements vary depending on occupancy, property type, loan amount, and FICO scores. Loans with LTVs exceeding 80 percent are required to obtain mortgage insurance.

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(Dollars in millions)	
Estimated LTVs (1)		
Less than 80% and refreshed FICO scores (2):		
Equal to or greater than 660	\$ 2,530	\$ 2,441
Less than 660	75	73
80% and greater and refreshed FICO scores (2):		
Equal to or greater than 660	308	168
Less than 660	25	12
U.S. government guaranteed	48	60
Total	\$ 2,986	\$ 2,754
Geographic region		
California	\$ 1,248	\$ 1,127
Michigan	301	275
Florida	201	201
Washington	199	169
Texas	198	182
Illinois	105	101
Arizona	75	76
New York	72	62
Colorado	67	69
Maryland	61	65
Others	459	427
Total	\$ 2,986	\$ 2,754

(1) LTVs reflect UPB at the date reported, as a percentage of property values as appraised at loan origination.

(2) FICO scores are updated at least on a quarterly basis or more frequently if available.

The following table presents our total residential first mortgage LHFI by year of origination:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014 and Prior</u>	<u>Total</u>
	(Dollars in millions)					
Residential first mortgage loans (UPB)	\$ 440	\$ 816	\$ 611	\$ 695	\$ 424	\$ 2,986
Percent of total	14.7%	27.3%	20.5%	23.3%	14.2%	100.0%

Home equity. Our home equity portfolio includes first and second lien positions for HELOANs and HELOCs. These loans require full documentation and are underwritten and priced in an effort to ensure credit quality and loan profitability. Our

debt-to-income ratio on HELOANS is capped at 43 percent and for HELOCs is capped at 45 percent. We currently limit the maximum CLTV to 89.99 percent and FICO scores to a minimum of 660. Current second mortgage loans/HELOANS are fixed rate loans and are available with terms up to 15 years. HELOC loans are variable-rate loans that contain a 10-year draw period followed by a 20-year amortizing period.

Commercial real estate loans. The commercial real estate 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 high-quality, single tenant locations, including many drug stores, with limited exposure to big box retail centers and malls. Generally, the maximum LTV is 80 percent, or 85 percent for owner-occupied real estate, and debt service coverage of 1.20 to 1.35 times. At June 30, 2018, our average LTV and average debt service coverage for our CRE portfolio was 53 percent and 2.00 times, respectively. This portfolio also includes owner occupied real estate loans and secured home builder loans.

We have built a national home builder finance program which has helped grow our balance sheet, increase commercial deposits and generate incremental revenue through our retail purchase mortgage channel. Through this program, we now finance and have active relationships with homebuilders nationwide. At June 30, 2018, loans committed to home builders totaled \$1.1 billion, of which \$667 million UPB was drawn or used. Of that, \$139 million UPB is unsecured which is included in our C&I portfolio and \$528 million UPB is collateralized and included in either the single family residence or land-residential categories of our CRE portfolio.

The following table presents our total CRE LHFIs by collateral location and collateral type:

	Michigan	Texas	Colorado	Florida	California	Other	Total	% by collateral type
	(Dollars in millions)							
June 30, 2018								
Single family residence (1)	\$ 17	\$ 80	\$ 122	\$ 82	\$ 25	\$ 69	\$ 395	19.5%
Owner occupied	239	4	—	2	28	59	332	16.4%
Retail (2)	180	2	6	4	7	85	284	14.1%
Multi family	97	35	15	29	8	88	272	13.5%
Office	179	—	—	3	16	14	212	10.5%
Land - Residential (3)	5	36	32	27	34	37	171	8.5%
Hotel/motel	95	17	—	—	1	28	141	7.0%
Senior Living facility	3	—	—	—	—	66	69	3.4%
Industrial	40	—	—	—	—	27	67	3.3%
Shopping Mall (4)	—	—	—	—	—	27	27	1.3%
All other (5)	27	2	1	8	2	10	50	2.5%
Total	\$ 882	\$ 176	\$ 176	\$ 155	\$ 121	\$ 510	\$ 2,020	100.0%
Percent by state	43.7%	8.7%	8.7%	7.7%	6.0%	25.2%	100.0%	
(1)	Includes home builder loans secured by SFR 1-4 properties whether under construction or completed.							
(2)	Includes multipurpose retail space, neighborhood centers, strip centers and single-use retail space.							
(3)	Includes home builder loans secured by land. Land residential includes development and unimproved vacant land.							
(4)	Comprised of one shopping mall.							
(5)	All other primarily includes: parking garage, non-profit, mini-storage facilities, data centers, movie theater, etc.							

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

The following table presents our total C&I LHFI by borrower's geographic location and industry type:

	Michigan	Texas	California	Virginia	Connecticut	Other	Total	% by industry
(Dollars in millions)								
June 30, 2018								
Industry Type								
Services	\$ 122	\$ —	\$ 50	\$ —	\$ 44	\$ 77	\$ 293	22.1%
Financial & Insurance	15	—	—	71	—	179	265	20.0%
Manufacturing	82	14	—	—	—	114	210	15.9%
Homebuilder	—	88	11	—	—	40	139	10.5%
Healthcare	24	10	10	—	—	71	115	8.7%
Rental & Leasing	77	—	—	—	—	26	103	7.8%
Distribution	80	—	20	—	—	—	100	7.5%
Government & Education	29	—	—	—	24	24	77	5.8%
Commodities	5	—	3	—	—	5	13	1.0%
Servicing advances	—	—	—	—	—	9	9	0.7%
Total	\$ 434	\$ 112	\$ 94	\$ 71	\$ 68	\$ 545	\$ 1,324	100.0%
Percent by state	32.8%	8.5%	7.1%	5.3%	5.1%	41.2%	100.0%	

Warehouse lending. 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.

The following table presents our warehouse advance amount of loans sold to the Bank:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
UPB of loans sold to the bank	\$ 2,422	\$ 2,844	\$ 4,669	\$ 5,112
Percentage of total advances	25%	41%	28%	40%

Underlying mortgage loans are predominantly originated using the Agencies' underwriting standards. The guideline for debt to tangible net worth is 15 to 1. We have a national platform with relationship managers across the country. The aggregate committed amount of adjustable-rate warehouse lines of credit granted to other mortgage lenders at June 30, 2018 was \$4.2 billion, of which \$1.8 billion was outstanding, compared to \$2.8 billion at December 31, 2017, of which \$1.1 billion was outstanding. This increase is primarily due to our acquisition of the warehouse business from Santander Bank.

Credit Quality

Trends in certain credit quality characteristics remain very strong. This is predominantly a result of our focus on effectively managing credit risk and our sales of legacy portfolios that included greater levels of nonperforming and TDR loans which have been replaced by new loans with strong credit characteristics. The credit quality of our loan portfolios is demonstrated by low delinquency levels, minimal charge-offs and low levels of nonperforming loans.

For all loan categories within the consumer and commercial loan portfolio, loans are placed on nonaccrual status when any portion of principal or interest is 90 days past due (or nonperforming), or earlier when we become aware of information indicating that collection of principal and interest is in doubt. While it is the goal of management to collect on loans, we attempt to work out a satisfactory repayment schedule or modification with past due borrowers and will undertake foreclosure proceedings if the delinquency is not satisfactorily resolved. Our practices regarding past due loans are designed to both assist borrowers in meeting their contractual obligations and minimize losses incurred by the Bank. When a loan is placed on nonaccrual status, the accrued interest income is reversed. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Nonperforming assets

The following table sets forth our nonperforming assets:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(Dollars in millions)	
LHFI		
Consumer loans		
Residential first mortgage	\$ 12	\$ 12
Home equity	1	1
Total nonperforming LHFI	<u>13</u>	<u>13</u>
TDRs		
Consumer loans		
Residential first mortgage	10	12
Home equity	4	4
Total nonperforming TDRs	<u>14</u>	<u>16</u>
Total nonperforming LHFI and TDRs (1)	<u>27</u>	<u>29</u>
Real estate and other nonperforming assets, net	7	8
LHFS	7	9
Total nonperforming assets	<u>\$ 41</u>	<u>\$ 46</u>
Nonperforming assets to total assets (2)	0.19%	0.22%
Nonperforming LHFI and TDRs to LHFI	0.30%	0.38%
Nonperforming assets to LHFI and repossessed assets (2)	0.38%	0.48%

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

(2) Ratio excludes LHFS.

At June 30, 2018, we had \$41 million of nonperforming assets compared to \$46 million of nonperforming assets at December 31, 2017. The consistent, low levels of nonperforming loans reflect our focus on growing our loan portfolios with strong credit quality loans.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(Dollars in millions)			
Beginning balance	\$ 29	\$ 28	\$ 29	\$ 40
Additions	4	5	8	13
Reductions				
Principal payments and loan sales (1)	(2)	(2)	(4)	(22)
Charge-offs	(1)	(1)	(1)	(1)
Returned to performing status	(2)	—	(3)	—
Transfers to REO	(1)	—	(2)	—
Total nonperforming LHFI and TDRs (2)	<u>\$ 27</u>	<u>\$ 30</u>	<u>\$ 27</u>	<u>\$ 30</u>

(1) Carrying value of loans as of sale date.

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

During the six months ended June 30, 2018, we did not sell any nonperforming loans. In an effort to improve the credit quality of our portfolio, during the six months ended June 30, 2017, we sold \$25 million UPB, of nonperforming consumer loans, of which \$4 million UPB, was nonperforming TDRs.

Delinquencies

The following table sets forth our 30-89 days past due performing LHFI:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(Dollars in millions)	
Performing loans past due 30-89:		
Consumer loans		
Residential first mortgage	\$ 2	\$ 4
Home equity	1	1
Total performing loans past due 30-89 days	\$ 3	\$ 5

As a result of our continued focus on growing our loan portfolio with high quality loans, early stage delinquencies remained low as loans 30 to 89 days past due were \$3 million at June 30, 2018 and \$5 million at December 31, 2017. There were no past due commercial loans at June 30, 2018 or December 31, 2017.

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

Troubled debt restructurings (held-for-investment)

Troubled debt restructurings ("TDRs") are modified loans in which a borrower demonstrates financial difficulties and for which a concession has been granted. Nonperforming TDRs are included in nonaccrual loans and remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms. Performing TDRs are excluded from nonaccrual loans, because based on our evaluation, it is reasonably assured that all contractual principal and interest due under the restructured terms will be collected.

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(Dollars in millions)	
Performing TDRs		
Residential first mortgage	\$ 21	\$ 19
Home equity	22	24
Total performing TDRs	43	43
Nonperforming TDRs		
Nonperforming TDRs	4	5
Nonperforming TDRs at inception but performing for less than six months	10	11
Total nonperforming TDRs	14	16
Total TDRs (1)	\$ 57	\$ 59

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

At June 30, 2018 our total TDR loans decreased \$2 million as compared to December 31, 2017 primarily due to pay-downs. Of our total TDR loans, 75.6 percent were in performing status at June 30, 2018, as compared to 73.7 percent at December 31, 2017.

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

Allowance for Loan Losses

The ALLL represents management's estimate of probable losses that are inherent in our LHFI portfolio but which have not yet been realized. For further information, see Note 4 - Loans Held-for-Investment.

The ALLL was \$137 million and \$140 million at June 30, 2018 and December 31, 2017, respectively. The decrease was primarily driven by continued strong credit quality, including sustained lower levels of net charge-offs and delinquencies, offset by growth in the LHFI portfolio.

The ALLL as a percentage of LHF1 decreased to 1.5 percent as of June 30, 2018 from 1.8 percent as of December 31, 2017, primarily attributable to growth of \$1.2 billion UPB consisting of both consumer and commercial loans, in addition to sustained levels of low charge-offs and delinquencies, and growth of the portfolio in areas we believe to pose lower levels of credit risk. At June 30, 2018, we had a 1.7 percent allowance coverage of our consumer loan portfolio and a 1.4 percent allowance coverage of our commercial loan portfolio.

The following table sets forth certain information regarding the allocation of our ALLL to each loan category:

	June 30, 2018			
	Investment Loan Portfolio	Percent of Portfolio	Allowance Amount	Allowance as a Percent of Loan Portfolio
	(Dollars in millions)			
Consumer loans				
Residential first mortgage	\$ 2,978	33.4%	\$ 45	1.5%
Home Equity	682	7.7%	19	2.8%
Other	88	1.0%	1	1.1%
Total consumer loans	3,748	42.1%	65	1.7%
Commercial loans				
Commercial real estate	2,020	22.7%	45	2.2%
Commercial and industrial	1,324	14.9%	21	1.6%
Warehouse lending	1,801	20.3%	6	0.3%
Total commercial loans	5,145	57.9%	72	1.4%
Total consumer and commercial loans (1)	\$ 8,893	100.0%	\$ 137	1.5%

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

The following table presents changes in ALLL:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Beginning balance	\$ 139	\$ 141	\$ 140	\$ 142
Provision for loan losses	(1)	(1)	(1)	2
Charge-offs				
Consumer loans				
Residential first mortgage	—	(1)	(1)	(5)
Home equity	(1)	(1)	(2)	(1)
Other consumer	(1)	—	(1)	(1)
Total consumer loans	(2)	(2)	(4)	(7)
Total charge-offs	(2)	(2)	(4)	(7)
Recoveries				
Consumer loans				
Residential first mortgage	—	1	—	1
Home equity	1	1	2	1
Other consumer	—	—	—	1
Total consumer loans	1	2	2	3
Total recoveries	1	2	2	3
Charge-offs, net of recoveries	(1)	—	(2)	(4)
Ending balance	\$ 137	\$ 140	\$ 137	\$ 140
Net charge-off to LHF1 ratio (1)	0.02%	0.04%	0.04%	0.15%

(1) Excludes loans carried at fair value.

Net charge-offs for the three and six months ended June 30, 2018 were \$1 million and \$2 million, respectively, compared to less than \$1 million and \$4 million for the three and six months ended June 30, 2017, respectively. Net charge-offs as a percentage of average LHF1 decreased to 0.02 percent and 0.04 percent, respectively, for the three and six months ended June 30, 2018 compared to 0.04 percent and 0.15 percent, respectively, for the three and six months ended June 30, 2017. The

low levels of net charge-offs and net charge-offs as a percentage of LHFI reflects the credit quality of our loan portfolio combined with sales of nonperforming loans during 2017.

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 origination 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

The Asset/Liability Committee ("ALCO"), which is composed of our executive officers and certain members of other management, monitors interest rate risk on an on-going basis in accordance with policies approved by our board of directors. The ALCO reviews interest rate positions and considers the impact projected interest rate scenarios have on earnings, capital, liquidity, business strategies, and other factors. However, management has the latitude to change interest rate positions within certain limits if, in management's judgment, the change will enhance profitability or minimize risk.

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

Net interest income sensitivity

Management uses a simulation model to analyze the sensitivity of net interest income to changes in interest rates across various interest rate scenarios which demonstrates the level of interest rate risk inherent in the existing balance sheet. The analysis holds the current balance sheet values constant and does not take into account management intervention. In addition, we assume certain correlation rates, often referred to as a "deposit beta," for interest-bearing deposits, wherein the rates paid to customers change relative to changes in benchmark interest rates. The effect on net interest income over a 12 month time horizon due to hypothetical changes in market interest rates is presented in the table below. In this interest rate shock simulation, as of the periods presented, interest rates have been adjusted by instantaneous parallel changes rather than in a ramp simulation which applies interest rate changes over time. All rates, short-term and long-term, are changed by the same amount (plus or minus 200 basis points) resulting in the shape of the yield curve remaining unchanged. For the scenarios simulated, our established internal policy limit on the change in net interest income, is 15 percent. At June 30, 2018 and December 31, 2017, the results of the simulation were within the internal policy limit.

June 30, 2018			
Scenario	Net interest income	\$ Change	% Change
(Dollars in millions)			
200	\$490	\$21	4.4%
Constant	469	—	—%
(200)	444	25	(5.5)%
December 31, 2017			
Scenario	Net interest income	\$ Change	% Change
(Dollars in millions)			
200	\$449	\$16	3.6%
Constant	433	—	—%
(200)	397	(37)	(8.5)%

In the net interest income simulations, our balance sheet exhibits slight asset sensitivity. When interest rates rise our net interest income increases. Conversely, when interest rates fall our net interest income decreases. At June 30, 2018, the \$36 million increase in the net interest income in the constant scenario as compared to December 31, 2017 was primarily driven by the increased size of the average balance sheet.

As of June 30, 2018, we have also projected the potential impact to net interest income in a hypothetical "bear flattener" interest rate scenario, in which short-term interest rates have been instantaneously increased by 100 basis points while holding the longer term interest rates constant. Over a 12-month and 24-month period, based on our existing balance sheet, the simulation resulted in a loss of \$35 million and \$97 million, respectively.

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. The direction of future interest rates not moving in a parallel manner across the yield curve, how the balance sheet will respond and shift based on a change in future interest rates and how the Company will respond are not included in this analysis and limit the predictive value of these scenarios.

Economic value of equity

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

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.

June 30, 2018					December 31, 2017					Policy Limits
Scenario	EVE	EVE%	\$ Change	% Change	Scenario	EVE	EVE%	\$ Change	% Change	
(Dollars in millions)										
300	\$ 1,468	8.2%	\$ (275)	(15.8)%	300	\$ 1,941	11.6%	\$ (172)	(8.1)%	22.5%
200	1,577	8.8%	(166)	(9.5)%	200	2,020	12.0%	(93)	(4.4)%	15.0%
100	1,673	9.3%	(70)	(4.1)%	100	2,089	12.4%	(24)	(1.2)%	7.5%
Current	1,743	9.7%	—	— %	Current	2,113	12.6%	—	— %	—%
(100)	1,765	9.9%	22	1.2 %	(100)	2,082	12.4%	(31)	(1.5)%	7.5%

Our balance sheet exhibits liability sensitivity in a rising interest rate scenario. The decrease in EVE is the result of the amount of liabilities that would be expected to reprice exceeding the amount of assets repriced in the +200 scenario. At June 30, 2018 and December 31, 2017, for each scenario shown, the percentage change in our EVE is within our internal policy limit.

Derivative financial instruments

As a part of our risk management strategy, we use derivative financial instruments to minimize fluctuation in earnings caused by interest rate risk. We use forward sales commitments to hedge our unclosed mortgage origination pipeline and funded mortgage LHFS. All of our derivatives and mortgage loan production originated for sale are accounted for at fair market value. Changes to mortgage commitments 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 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, the ability to fully

or partially hedge market risk, rely on various assumptions or projections, including a fallout factor, which is based on a statistical analysis of our actual rate lock fallout history. For further information, see Note 8 - Derivative Financial Instruments and Note 17 - Fair Value Measurements.

Mortgage Servicing Rights (MSRs)

Our MSRs are sensitive to interest rate volatility and are highly susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve. We utilize derivatives, including interest rate swaps and swaptions, as part of our overall hedging strategy to manage the impact of changes in the fair value of the MSRs, however these risk management strategies do not completely eliminate repricing risk. Our hedging strategies rely on assumptions and projections regarding assets and general market factors, many of which are outside of our control. If one or more of these assumptions or projections proves to be incorrect our hedging strategies may not adequately mitigate the impact of changes in interest rates or prepayment speeds, and as a result may negatively impact earnings. For further information, see Note 7 - Mortgage Servicing Rights, Note 8 - Derivative Financial Instruments and Note 17 - Fair Value Measurements.

Liquidity Risk

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

Parent Company Liquidity

The Company currently obtains its liquidity primarily from dividends from the Bank. The primary uses of the Company's liquidity are debt service and operating expenses, which includes compensation and benefits, legal and professional expense and general and administrative expenses. At June 30, 2018, the Company held \$216 million of cash at the Bank, or 6.0 years of expense and debt service coverage when excluding the redemption of \$250 million of senior notes which mature on July 15, 2021.

The OCC regulates all capital distributions made by the Bank, directly or indirectly, to the holding company, including dividend payments. A subsidiary of a savings and loan holding company, such as the Bank, is required to file a notice or application with the OCC at least 30 days prior to each proposed capital distribution. Whether an application is required is based on a number of factors including whether the institution qualifies as an eligible association 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. Additional restrictions on dividends apply if the Bank fails the QTL test. At June 30, 2018, as reported to the OCC, we passed the QTL test.

In addition, as a subsidiary of a savings and loan holding company a 30-day notice from the Bank must be provided to the Federal Reserve prior to declaring or paying dividends and under the Supervisory Agreement, the Company agreed to request prior non-objection of the Federal Reserve to pay any dividends or make any other capital distributions.

For further information and restrictions related to the Bank's payment of dividends, see MD&A - Capital.

Bank Liquidity

We primarily originate agency-eligible LHFS and therefore the majority of new residential first mortgage loan originations 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 of Indianapolis and borrowing against them. We use the FHLB of Indianapolis as a significant source for funding our residential mortgage banking 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.

As governed and defined by our internal liquidity 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 collateralized 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 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 originations, making changes to warehouse funding facilities, or borrowing from the discount window.

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 and LHFS may be funded with FHLB borrowings and custodial deposits.

Management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity.

Liquidity Table

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>Change</u>
	(Dollars in millions)		
Demand deposit accounts	\$ 1,689	\$ 1,219	\$ 470
Savings accounts	3,347	3,553	(206)
Money market demand accounts	257	193	64
Certificates of deposit/CDARS	2,100	1,493	607
Total retail deposits	<u>7,393</u>	<u>6,458</u>	<u>935</u>
Government deposits	1,102	1,073	29
Wholesale deposits	392	45	347
Custodial deposits	1,701	1,358	343
Total deposits	<u>\$ 10,588</u>	<u>\$ 8,934</u>	<u>\$ 1,654</u>
Federal Home Loan Bank advances	\$ 5,120	\$ 5,665	\$ (545)
Other long-term debt	494	494	—
Total borrowed funds	<u>\$ 5,614</u>	<u>\$ 6,159</u>	<u>\$ (545)</u>

Deposits

The following table presents a composition of our deposits:

	June 30, 2018		December 31, 2017		Change
	Balance	% of Deposits	Balance	% of Deposits	
(Dollars in millions)					
Retail deposits					
Branch retail deposits					
Demand deposit accounts	\$ 1,169	11.0%	\$ 931	10.4%	\$ 238
Savings accounts	3,251	30.7%	3,482	39.0%	(231)
Money market demand accounts	156	1.5%	124	1.4%	32
Certificates of deposit/CDARS (1)	2,080	19.6%	1,491	16.7%	589
Total branch retail deposits	6,656	62.8%	6,028	67.5%	628
Commercial retail deposits					
Demand deposit accounts	520	4.9%	288	3.2%	232
Savings accounts	96	0.9%	71	0.8%	25
Money market demand accounts	101	1.0%	69	0.8%	32
Certificates of deposit/CDARS (1)	20	0.2%	2	—%	18
Total commercial retail deposits	737	7.0%	430	4.8%	307
Total retail deposits	\$ 7,393	69.8%	\$ 6,458	72.3%	\$ 935
Government deposits					
Demand deposit accounts	\$ 282	2.7%	\$ 251	2.8%	\$ 31
Savings accounts	464	4.4%	446	5.0%	18
Certificates of deposit/CDARS (1)	356	3.3%	376	4.2%	(20)
Total government deposits (2)	1,102	10.4%	1,073	12.0%	29
Wholesale deposits	392	3.7%	45	0.5%	347
Custodial deposits (3)	1,701	16.1%	1,358	15.2%	343
Total deposits (4)	\$ 10,588	100.0%	\$ 8,934	100.0%	\$ 1,654

(1) The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was approximately \$1.8 billion and \$1.4 billion at June 30, 2018 and December 31, 2017, respectively.

(2) Government deposits include funds from municipalities and schools.

(3) These accounts represent a portion of the investor custodial accounts and escrows controlled by us in connection with loans serviced for others and that have been placed on deposit with the Bank.

(4) Total exposure related to uninsured deposits over \$250,000 was approximately \$2.7 billion and \$2.6 billion at June 30, 2018 and December 31, 2017, respectively.

Total deposits increased \$1.7 billion, or 19 percent at June 30, 2018, compared to December 31, 2017, primarily driven by the acquisition of eight Desert Community Bank branches, brokered CD's and an increase in our servicing portfolio. The number of loans serviced and sub-serviced increased by 93,000, or 21 percent, at June 30, 2018, compared to December 31, 2017.

We utilize local governmental agencies and other public units, as an additional source for deposit funding. We are not required to hold collateral against our government deposits from Michigan government entities as they are covered by the Michigan Business and Growth Fund. We are required to hold collateral on our government deposits in California that are in excess of \$250,000. Government deposit accounts include \$356 million of certificates of deposit with maturities typically less than one year and \$746 million in checking and savings accounts at June 30, 2018.

Custodial deposits arise due to our servicing or sub-servicing of loans for others and represent the portion of the investor custodial accounts on deposit with the Bank. Certain deposits require us to reimburse the owner for the spread on these funds. This cost is a component of net loan administration income. Custodial deposits and short term FHLB advances are used to fund our most liquid assets including LHFS and warehouse loans. 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 HFI loan-to-deposit ratio, which excludes warehouse loans and custodial deposits, was 78 percent at June 30, 2018.

We participate in the CDARS program, through which certain customer CDs are exchanged for CDs of similar amounts from other participating banks. This gives customers the potential to receive FDIC insurance up to \$50 million. At

June 30, 2018, we had \$165 million of total CDs enrolled in the CDARS program, a decrease of \$25 million from December 31, 2017.

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 rely upon advances from the FHLB as a source of funding for the origination 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, long-term LIBOR adjustable advances, and long-term fixed rate advances. Interest rates on the LIBOR index advances reset every three months and the advances may be prepaid without penalty, with notification, at scheduled three-month intervals.

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, home equity lines of credit, and commercial real estate loans. At June 30, 2018, our Board of Directors authorized and approved a line of credit with the FHLB of up to \$10.0 billion, which is further limited based on our total assets and qualified collateral, as determined by the FHLB. At June 30, 2018, we had \$5.1 billion of advances outstanding and an additional \$1.2 billion of collateralized borrowing capacity available at the FHLB. Further, as a result of the pending acquisition of 52 Wells Fargo branches, which includes \$2.3 billion in deposits, we will have increased flexibility in our liquidity position as we expect to use this funding to repay short-term FHLB advances.

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 June 30, 2018, we pledged collateral to the Federal Reserve Discount Window amounting to \$474 million with a lendable value of \$435 million. At December 31, 2017, we pledged collateral to the Federal Reserve Discount Window amounting to \$467 million with a lendable value of \$433 million. At June 30, 2018 and December 31, 2017, we had no borrowings outstanding against this line of credit.

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 June 30, 2018, we are current on all interest payments.

For further information, see Note 9 - Borrowings.

Operational Risk

Operational risk is the risk of loss due to human error; inadequate or failed internal systems and controls; violations of, or noncompliance with, laws, rules and regulations, prescribed practices, or ethical standards; and external influences such as market conditions, fraudulent activities, disasters, and security risks. We continuously strive to adapt our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk.

We evaluate internal systems, processes, and controls to mitigate loss from cyber-attacks and, to date, have not experienced any material losses. The goal of this framework is to implement effective operational risk techniques and strategies, minimize operational and fraud losses, and enhance our overall performance.

Loans with government guarantees

Substantially all of our loans with government guarantees continue to be insured or guaranteed by the FHA or the U.S. Department of Veterans Affairs. In the event of a government guaranteed loan borrower default, Flagstar has a unilateral option to repurchase loans sold to GNMA that are 90 days past due and recover losses through a claims process from the insurer. 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 delinquent, which is not paid by the FHA until claimed. Additionally, if the Bank cures the loan, it can be re-sold to GNMA. If not, the Bank can begin the process of collecting the government guarantee by filing a claim in accordance with established guidelines. Certain loans within our portfolio may be subject to indemnifications and insurance limits which expose us to limited credit risk.

In the three and six months ended June 30, 2018, we experienced net charge-offs of less than \$1 million and \$1 million, respectively, and have reserved for the remaining risks within other assets and as a component of our ALLL on residential first mortgages. These charge-offs arise due to insurance limits on VA insured loans and FHA property foreclosure and preservation requirements that may result in a loss, all or in part, of the guarantee.

Our loans with government guarantees portfolio totaled \$278 million at June 30, 2018, as compared to \$271 million at December 31, 2017. The increase is primarily due to new purchases out-pacing loans transferred to LHFS and resold to Ginnie Mae.

For further information, see Note 5 - Loans with Government Guarantees.

Representation and warranty reserve

When we sell mortgage loans, we make customary representations and warranties to the purchasers, including sponsored securitization trusts and their insurers (primarily Fannie Mae and Freddie Mac). An estimate of the fair value of the guarantee associated with the mortgage loans is recorded in other liabilities in the Consolidated Statements of Financial Condition, which was \$12 million at June 30, 2018, as compared to \$15 million at December 31, 2017.

Regulatory Risks

Consent Order

On September 29, 2014, the Bank entered into a Consent Order with the CFPB. The Consent Order relates to alleged violations of federal consumer financial laws arising from the Bank's residential first mortgage loan loss mitigation practices and default servicing operations dating back to 2011. Under the terms of the Consent Order, the Bank paid \$28 million for borrower remediation and \$10 million in civil money penalties. The settlement does not involve any admission of wrongdoing on the part of the Bank or our employees, directors, officers, or agents. For further information and a complete description of all of the terms of the Consent Order, please refer to the copy of the Supervisory Agreement filed with the SEC as an exhibit to our 2016 Form 10-K for the year ended December 31, 2016.

Supervisory Agreement

On January 28, 2010, we became subject to the Supervisory Agreement, which will remain in effect until terminated, modified, or suspended in writing by the Federal Reserve. The failure to comply with the Supervisory Agreement could result in the initiation of further enforcement action by the Federal Reserve, including the imposition of further operating restrictions, and could result in additional enforcement actions against us. We have taken actions which we believe are appropriate to comply with, and intend to maintain compliance with, all of the requirements of the Supervisory Agreement. For further information and a complete description of all of the terms of the Supervisory Agreement, please refer to the copy of the Supervisory Agreement filed with the SEC as an exhibit to our 2016 Form 10-K for the year ended December 31, 2016.

Department of Justice Settlement Agreement

On February 24, 2012, the Bank entered into a Settlement Agreement with the DOJ under which we made an initial payment of \$15 million and agreed to make future payments totaling \$118 million in annual increments of up to \$25 million upon meeting all of the following conditions which are evaluated quarterly and include: (a) the reversal of the DTA valuation allowance, which in 2013; (b) the repayment of the Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the "TARP Preferred"), which occurred in July 2016; and (c) the Bank having a Tier 1 Leverage Capital Ratio of 11 percent or greater as filed in the Call Report with the OCC. At June 30, 2018, the Company had a Tier 1 Leverage Capital Ratio of 9.04 percent.

No payment would be required until six months after the Bank files its Call Report first reporting that its Tier 1 Leverage Capital Ratio was 11 percent or greater. If all other conditions were then satisfied, an initial annual payment of \$25 million would be due at that time. The next annual payment is only made if all conditions continue to be satisfied otherwise payments are delayed until all such conditions are met. Further, making such a payment must not violate any material banking regulatory requirement, and the OCC must not object in writing.

The combination of (a) future dividends from the Bank to Bancorp and (b) continued growth in earning assets at the Bank are expected to continue to limit the growth rate of the Bank's Tier 1 Leverage Capital Ratio, which could have an impact on the timing of expected cash flows under the Settlement Agreement.

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

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

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

Capital

Management actively reviews and manages our capital position and strategy. 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 under 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 8.65 percent at June 30, 2018 providing a 365 basis point stress buffer above the minimum level needed to be considered "well-capitalized." Additionally, total risk-based capital to RWA was 14.04 percent at June 30, 2018 providing a 404 basis point stress buffer above the minimum level needed to be considered "well-capitalized". For additional information on our capital requirements, see Note 15 - Regulatory Capital.

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 while they are outstanding, unless we complete an acquisition of a depository institution holding company.

Additionally, we conduct quarterly capital stress tests and capital adequacy assessments. These quarterly capital stress tests utilize internally defined scenarios that 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.

Regulatory Capital Simplification

The Bank and Flagstar have been subject to the capital requirements of the Basel III rules since January 1, 2015. On October 27, 2017, the agencies issued a notice of proposed rulemaking (“NPR”) which would simplify certain aspects of the Basel III capital rules. The agencies expect that the capital treatment and transition provisions for items covered by this final rule will change once the simplification proposal is finalized and effective. Specifically, the proposal would increase the limit on MSRs to 25 percent of CET1 and eliminate the aggregate 15 percent CET1 deduction threshold for MSRs and temporary difference DTAs. In response to comments received from bankers and trade associations, the regulators may change these proposed rules prior to issuing them and it is uncertain when the rules will be issued in their final form.

In preparation for the NPR, the Basel III implementation phase-in has been halted for the treatment of MSRs and certain DTAs. The agencies issued a final rule that will maintain the capital rules’ 2017 transition provisions for several regulatory capital deductions and certain other requirements that are subject to multi-year phase-in schedules in the regulatory capital rules. Specifically, the final rule will maintain the capital rules’ 2017 transition provisions at 80 percent for the regulatory capital treatment of the following items: (i) MSRs, (ii) DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, (iii) investments in the capital of unconsolidated financial institutions, and (iv) minority interests. As of June 30, 2018, we had \$257 million in MSRs, \$54 million in DTAs arising from temporary differences and no material investments in unconsolidated financial institutions or minority interest. This final rule will maintain the 2017 transition provisions for certain items for non-advanced approach banks. For additional information on our capital requirements, see Note 15 - Regulatory Capital.

Use of Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this report includes non-GAAP financial measures such as tangible book value per share. 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. The Company believes that tangible book value per share provides a meaningful representation of its operating performance on an ongoing basis. Management uses this measure to assess performance of the Company against its peers and evaluate overall performance. The Company believes this non-GAAP financial measure provides useful information for investors, securities analysts and others because it provides a tool to evaluate the Company’s performance on an ongoing basis and compared to its peers.

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in millions, except share data)		
Total stockholders' equity	\$ 1,475	\$ 1,399	\$ 1,408
Less: Goodwill and intangibles	71	21	20
Tangible book value	\$ 1,404	\$ 1,378	\$ 1,388
Number of common shares outstanding	57,598,406	57,321,228	57,161,431
Tangible book value per share	\$ 24.37	\$ 24.04	\$ 24.29

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 ALLL; 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 the Critical Accounting Estimates section of Item 7 of Exhibit 99.1 to our June 1, 2018 Form 8-K Report, 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, Flagstar Bancorp, Inc. may make forward-looking statements in our other documents filed with or furnished to the SEC, and our management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

Generally, forward-looking statements are not based on historical facts but instead represent management's beliefs regarding future events. Such statements may be identified by words such as believe, expect, anticipate, intend, plan, estimate, may increase, may fluctuate, and similar expressions or future or conditional verbs such as will, should, would and could. Such statements are based on management's current expectations and are subject to risks, uncertainties and changes in circumstances. Actual results and capital and other financial conditions may differ materially from those included in these statements due to a variety of factors, including without limitation the precautionary statements included within each individual business' 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, 2017 and Item 1A. to Part II, of this Quarterly Report on Form 10-Q, which are incorporated by reference herein.

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

Item 1. Financial Statements

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(Unaudited)	
Assets		
Cash	\$ 139	\$ 122
Interest-earning deposits	220	82
Total cash and cash equivalents	359	204
Investment securities available-for-sale	1,871	1,853
Investment securities held-to-maturity	748	939
Loans held-for-sale (\$4,272 and \$4,300 measured at fair value, respectively)	4,291	4,321
Loans held-for-investment (\$11 and \$12 measured at fair value, respectively)	8,904	7,713
Loans with government guarantees	278	271
Less: allowance for loan losses	(137)	(140)
Total loans held-for-investment and loans with government guarantees, net	9,045	7,844
Mortgage servicing rights	257	291
Net deferred tax asset	119	136
Federal Home Loan Bank stock	303	303
Premises and equipment, net	355	330
Goodwill and intangible assets	71	21
Other assets	711	670
Total assets	<u>\$ 18,130</u>	<u>\$ 16,912</u>
Liabilities and Stockholders' Equity		
Noninterest bearing deposits	\$ 2,781	\$ 2,049
Interest bearing deposits	7,807	6,885
Total deposits	10,588	8,934
Short-term Federal Home Loan Bank advances	3,840	4,260
Long-term Federal Home Loan Bank advances	1,280	1,405
Other long-term debt	494	494
Other liabilities (\$60 and \$60 measured at fair value, respectively)	453	420
Total liabilities	16,655	15,513
Stockholders' Equity		
Common stock \$0.01 par value, 80,000,000 and 80,000,000 shares authorized; 57,598,406 and 57,321,228 shares issued and outstanding, respectively	1	1
Additional paid in capital	1,514	1,512
Accumulated other comprehensive loss	(32)	(16)
Accumulated deficit	(8)	(98)
Total stockholders' equity	1,475	1,399
Total liabilities and stockholders' equity	<u>\$ 18,130</u>	<u>\$ 16,912</u>

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
Interest Income				
Loans	\$ 145	\$ 108	\$ 275	\$ 199
Investment securities	21	20	43	39
Interest-earning deposits and other	1	1	1	1
Total interest income	167	129	319	239
Interest Expense				
Deposits	21	12	38	24
Short-term Federal Home Loan Bank advances	17	9	32	12
Long-term Federal Home Loan Bank advances	7	5	14	11
Other long-term debt	7	6	14	12
Total interest expense	52	32	98	59
Net interest income	115	97	221	180
Provision for loan losses	(1)	(1)	(1)	2
Net interest income after provision for loan losses	116	98	222	178
Noninterest Income				
Net gain on loan sales	63	66	123	114
Loan fees and charges	24	20	44	35
Deposit fees and charges	5	5	10	9
Loan administration income	5	6	10	11
Net return on mortgage servicing rights	9	6	13	20
Other noninterest income	17	13	34	27
Total noninterest income	123	116	234	216
Noninterest Expense				
Compensation and benefits	80	71	160	143
Commissions	25	16	43	26
Occupancy and equipment	30	25	60	47
Federal insurance premiums	6	4	12	7
Loan processing expense	15	14	29	26
Legal and professional expense	6	8	12	15
Other noninterest expense	15	16	34	30
Total noninterest expense	177	154	350	294
Income before income taxes	62	60	106	100
Provision for income taxes	12	19	21	32
Net income	\$ 50	\$ 41	\$ 85	\$ 68
Net income per share				
Basic	\$ 0.86	\$ 0.72	\$ 1.47	\$ 1.18
Diluted	\$ 0.85	\$ 0.71	\$ 1.45	\$ 1.16
Weighted average shares outstanding				
Basic	57,491,714	57,101,816	57,424,557	57,012,208
Diluted	58,258,577	58,138,938	58,286,327	58,106,070

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
Net income	\$ 50	\$ 41	\$ 85	\$ 68
Other comprehensive income (loss), net of tax				
Investment securities	(9)	2	(38)	2
Derivatives and hedging activities	7	(5)	22	(4)
Other comprehensive income (loss), net of tax	(2)	(3)	(16)	(2)
Comprehensive income	\$ 48	\$ 38	\$ 69	\$ 66

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			Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Number of Shares Outstanding	Amount of Common Stock	Additional Paid in Capital			
Balance at December 31, 2016	56,824,802	\$ 1	\$ 1,503	\$ (7)	\$ (161)	\$ 1,336
(Unaudited)						
Net income	—	—	—	—	68	68
Total other comprehensive income	—	—	—	(2)	—	(2)
Warrant exercise	154,313	—	4	—	—	4
Stock-based compensation	182,316	—	2	—	—	2
Balance at June 30, 2017	57,161,431	\$ 1	\$ 1,509	\$ (9)	\$ (93)	\$ 1,408
Balance at December 31, 2017	57,321,228	\$ 1	\$ 1,512	\$ (16)	\$ (98)	\$ 1,399
(Unaudited)						
Net income	—	—	—	—	85	85
Total other comprehensive income (loss)	—	—	—	(11)	—	(11)
Shares issued from Employee Stock Purchase Plan	64,943	—	—	—	—	—
Stock-based compensation	212,235	—	2	—	—	2
Reclassification of certain income tax effects (1)	—	—	—	(5)	5	—
Balance at June 30, 2018	57,598,406	\$ 1	\$ 1,514	\$ (32)	\$ (8)	\$ 1,475

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

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

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

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	
Operating Activities		
Net cash used in operating activities	\$ (11,849)	\$ (11,981)
Investing Activities		
Proceeds from sale of AFS securities including loans that have been securitized	\$ 11,794	\$ 10,853
Collection of principal on investment securities AFS	105	106
Purchase of investment securities AFS and other	(5)	(300)
Collection of principal on investment securities HTM	47	79
Proceeds received from the sale of LHFI	2	78
Net origination, purchase, and principal repayments of LHFI	(635)	(800)
Purchase of bank owned life insurance	—	(50)
Net purchase of FHLB stock	—	(80)
Acquisition of premises and equipment, net of proceeds	(33)	(48)
Proceeds from the sale of MSRs	218	217
Other, net	(10)	1
Net cash provided by investing activities	<u>\$ 11,483</u>	<u>\$ 10,056</u>
Financing Activities		
Net change in deposit accounts	\$ 1,039	\$ (105)
Net change in short-term FHLB borrowings and other short-term debt	(420)	1,890
Proceeds from increases in FHLB long-term advances and other debt	200	—
Repayment of FHLB long-term advances	(325)	—
Net receipt of payments of loans serviced for others	11	128
Net receipt of escrow payments	16	14
Other	(2)	—
Net cash provided by financing activities	<u>\$ 519</u>	<u>\$ 1,927</u>
Net increase in cash, cash equivalents and restricted cash (1)	<u>153</u>	<u>2</u>
Beginning cash, cash equivalents and restricted cash (1)	<u>223</u>	<u>208</u>
Ending cash, cash equivalents and restricted cash (1)	<u>\$ 376</u>	<u>\$ 210</u>
Supplemental disclosure of cash flow information		
Non-cash reclassification of investment securities HTM to AFS	\$ 144	\$ —
Non-cash reclassification of loans originated LHFI to LHFS	\$ 5	\$ 106
Non-cash reclassification of LHFS to AFS securities	\$ 11,794	\$ 10,789
MSRs resulting from sale or securitization of loans	\$ 183	\$ 103
Operating section supplemental disclosures		
Cash proceeds from sales of LHFS	\$ 4,967	\$ 3,174
Origination, premium paid and purchase of LHFS, net of principal repayments	<u>\$ (16,829)</u>	<u>\$ (14,974)</u>

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

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

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

Note 1 - Basis of Presentation

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

These consolidated financial statements do not include all of the information and footnotes required by GAAP for a full year presentation and certain disclosures have been condensed or omitted in accordance with rules and regulations of the SEC. These interim financial statements are unaudited and include, in our opinion, all adjustments necessary for a fair statement of the results for the periods indicated, which are not necessarily indicative of results which may be expected for the full year. These consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and footnotes thereto included in Part II, Item 8 of Exhibit 99.1 to our Current Report on Form 8-K dated June 1, 2018 ("June 1, 2018 Form 8-K Report"), which is available on our 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.

Acquisitions

On June 4, 2018, we signed a definitive agreement to acquire 52 Wells Fargo Bank branches in Indiana, Michigan, Wisconsin, and Ohio, with approximately \$2.3 billion in deposits and \$130 million in loans. The transaction is subject to regulatory approval and the satisfaction of other customary closing conditions and is expected to close late in the fourth quarter 2018.

On March 12, 2018, we closed the purchase of the mortgage loan warehouse business from Santander Bank, with \$499 million outstanding warehouse loans and \$1.7 billion in commitments. Additionally, on March 19, 2018, we completed the acquisition of eight Desert Community Bank branches in San Bernardino County, California, with \$614 million in deposits and \$59 million in loans. Together, these acquisitions increased goodwill and intangible assets by \$51 million.

Note 2 - Investment Securities

The following table presents our investment securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
June 30, 2018				
Available-for-sale securities				
Agency - Commercial	\$ 1,093	\$ —	\$ (42)	\$ 1,051
Agency - Residential	763	—	(34)	729
Municipal obligations	34	—	(1)	33
Corporate debt obligations	41	1	—	42
Other MBS	16	—	—	16
Total available-for-sale securities (1)	<u>\$ 1,947</u>	<u>\$ 1</u>	<u>\$ (77)</u>	<u>\$ 1,871</u>
Held-to-maturity securities				
Agency - Commercial	\$ 366	\$ —	\$ (16)	\$ 350
Agency - Residential	382	—	(13)	369
Total held-to-maturity securities (1)	<u>\$ 748</u>	<u>\$ —</u>	<u>\$ (29)</u>	<u>\$ 719</u>
December 31, 2017				
Available-for-sale securities				
Agency - Commercial	\$ 1,004	\$ —	\$ (17)	\$ 987
Agency - Residential	811	—	(17)	794
Municipal obligations	35	—	(1)	34
Corporate debt obligations	37	1	—	38
Total available-for-sale securities (1)	<u>\$ 1,887</u>	<u>\$ 1</u>	<u>\$ (35)</u>	<u>\$ 1,853</u>
Held-to-maturity securities				
Agency - Commercial	\$ 526	\$ —	\$ (9)	\$ 517
Agency - Residential	413	—	(6)	407
Total held-to-maturity securities (1)	<u>\$ 939</u>	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ 924</u>

(1) There were no securities of a single issuer, which are not governmental or government-sponsored, that exceeded 10 percent of stockholders' equity at June 30, 2018 or December 31, 2017.

We evaluate AFS and HTM investment securities for OTTI on a quarterly basis. An OTTI is considered to have occurred when the fair value of a debt security is below its amortized costs and we (1) have the intent to sell the security, (2) will more likely than not be required to sell the security before recovery of its amortized cost, or (3) do not expect to recover the entire amortized cost basis of the security. Investments that have an OTTI are written down through a charge to earnings for the amount representing the credit loss on the security. Gains and losses related to all other factors are recognized in other comprehensive income (loss). Agency securities, which are either explicitly or implicitly backed by the federal government, comprised 97 percent of our total securities at June 30, 2018. This factor is considered when evaluating our investment securities for OTTI. During the three and six months ended June 30, 2018 and June 30, 2017, we had no OTTI.

Available-for-sale securities

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

We purchased \$1 million and \$5 million of AFS securities, which were comprised of U.S. government sponsored agency MBS and corporate debt obligations during the three and six months ended June 30, 2018, respectively. In addition, we retained \$16 million of passive interests in our own private MBS during both the three and six months ended June 30, 2018. We purchased \$77 million and \$300 million of AFS securities, which included U.S. government sponsored agency MBS, corporate debt obligations, and municipal obligations during the three and six months ended June 30, 2017, respectively.

Gains on sales of AFS securities are reported in other noninterest income in the Consolidated Statements of Operations. There were less than \$1 million in sales of AFS securities during both the three and six months ended June 30, 2018, except those related to mortgage loans that had been securitized for sale in the normal course of business. We sold \$62 million of AFS securities during both the three and six ended June 30, 2017, which did not include those related to mortgage

loans that had been securitized for sale in the normal course of business. These sales resulted in a realized gain of \$1 million during both the three and six months ended June 30, 2017.

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.

In conjunction with adoption of ASU 2017-12 (Targeted Improvements to Accounting for Hedging Activities) the Company elected to transfer \$144 million of investment securities from HTM to AFS during the first quarter of 2018, as permitted by the standard, which resulted in a de minimis impact to OCI.

There were no purchases or sales of HTM securities during both the three and six months ended June 30, 2018 and June 30, 2017.

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
(Dollars in millions)						
June 30, 2018						
Available-for-sale securities						
Agency - Commercial	\$ 204	20	\$ (11)	\$ 863	56	\$ (31)
Agency - Residential	417	38	(25)	296	46	(9)
Municipal obligations	6	3	—	25	16	(1)
Corporate debt obligations	—	—	—	11	3	—
Held-to-maturity securities						
Agency - Commercial	\$ 294	22	\$ (14)	\$ 56	4	\$ (2)
Agency - Residential	144	21	(6)	225	39	(7)
December 31, 2017						
Available-for-sale securities						
Agency - Commercial	\$ 218	20	\$ (7)	\$ 744	41	\$ (11)
Agency - Residential	452	36	(14)	263	33	(3)
Municipal obligations	6	3	—	22	9	—
Corporate debt obligations	—	—	—	3	1	—
Held-to-maturity securities						
Agency - Commercial	\$ 348	25	\$ (8)	\$ 99	8	\$ (1)
Agency - Residential	111	16	(3)	293	43	(3)

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	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in millions)						
June 30, 2018						
Due after one year through five years	\$ 59	\$ 58	2.50%	\$ 10	\$ 10	2.45%
Due after five years through 10 years	47	48	4.94%	12	11	2.20%
Due after 10 years	1,841	1,765	2.41%	726	698	2.47%
Total	<u>\$ 1,947</u>	<u>\$ 1,871</u>		<u>\$ 748</u>	<u>\$ 719</u>	

We pledge investment securities, primarily agency collateralized and municipal taxable mortgage obligations, to collateralize lines of credit and/or borrowings. At both June 30, 2018 and December 31, 2017, we had pledged investment securities of \$2.0 billion.

Note 3 - Loans Held-for-Sale

The majority of our mortgage loans originated as LHFS are sold into the secondary market on a whole loan basis or by securitizing the loans into agency, government, or private label mortgage-backed securities. LHFS totaled \$4.3 billion at both June 30, 2018 and December 31, 2017. For the three and six months ended June 30, 2018 we had net gain on loan sales associated with LHFS of \$63 million and \$123 million, respectively as compared to \$66 million and \$114 million for the three and six months ended June 30, 2017, respectively.

At June 30, 2018 and December 31, 2017, \$19 million and \$21 million, respectively, of LHFS were recorded at lower of cost or fair value. The remainder of the loans in the portfolio are recorded at fair value as we have elected the fair value option.

Note 4 - Loans Held-for-Investment

The following table presents our loans held-for-investment:

	June 30, 2018	December 31, 2017
	(Dollars in millions)	
Consumer loans		
Residential first mortgage	\$ 2,986	\$ 2,754
Home equity	685	664
Other	88	25
Total consumer loans	<u>3,759</u>	<u>3,443</u>
Commercial loans		
Commercial real estate (1)	2,020	1,932
Commercial and industrial	1,324	1,196
Warehouse lending	1,801	1,142
Total commercial loans	<u>5,145</u>	<u>4,270</u>
Total loans held-for-investment	<u>\$ 8,904</u>	<u>\$ 7,713</u>

(1) Includes NBV of \$332 million and \$307 million of owner occupied commercial real estate loans at June 30, 2018 and December 31, 2017, respectively.

During the six months ended June 30, 2018, we sold performing consumer loans with UPB of \$2 million. Upon a change in our intent, the loans were transferred to LHFS and subsequently sold resulting in a net gain of less than \$1 million during the six months ended June 30, 2018, which is recorded in net gain on loan sales on the Consolidated Statements of Operations.

During the six months ended June 30, 2017, we sold performing and nonperforming loans with UPB totaling \$103 million, of which \$25 million were nonperforming. Upon a change in our intent, the loans were transferred to LHFS and subsequently sold resulting in a net gain of \$1 million during the six months ended June 30, 2017, which is recorded in net gain on loan sales on the Consolidated Statements of Operations.

We had no loan purchases during the six months ended June 30, 2018. During the six months ended June 30, 2017, we purchased HELOC loans with UPB of \$75 million.

We have pledged certain LHFI, LHFS, and loans with government guarantees to collateralize lines of credit and/or borrowings with the FHLB of Indianapolis and the FRB of Chicago. At both June 30, 2018 and December 31, 2017, we had pledged loans of \$7.1 billion.

Allowance for Loan Losses

We determine the estimate of the ALLL on at least a quarterly basis. Refer to Note 1 - Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies in Part II, Item 8 of Exhibit 99.1 to our June 1, 2018 Form 8-K Report for a description of the methodology. The ALLL, 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 common risk characteristics to determine our best estimate of incurred losses.

The following table presents changes in 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 June 30, 2018							
Beginning balance ALLL	\$ 47	\$ 21	\$ 1	\$ 44	\$ 20	\$ 6	\$ 139
Charge-offs	—	(1)	(1)	—	—	—	(2)
Recoveries	—	1	—	—	—	—	1
Provision (benefit)	(2)	(2)	1	1	1	—	(1)
Ending balance ALLL	<u>\$ 45</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>\$ 45</u>	<u>\$ 21</u>	<u>\$ 6</u>	<u>\$ 137</u>
Three Months Ended June 30, 2017							
Beginning balance ALLL	\$ 61	\$ 21	\$ 1	\$ 32	\$ 20	\$ 6	\$ 141
Charge-offs	(1)	(1)	—	—	—	—	(2)
Recoveries	1	1	—	—	—	—	2
Provision (benefit)	(5)	(2)	—	5	1	—	(1)
Ending balance ALLL	<u>\$ 56</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>\$ 37</u>	<u>\$ 21</u>	<u>\$ 6</u>	<u>\$ 140</u>
Six Months Ended June 30, 2018							
Beginning balance ALLL	\$ 47	\$ 22	\$ 1	\$ 45	\$ 19	\$ 6	\$ 140
Charge-offs	(1)	(2)	(1)	—	—	—	(4)
Recoveries	—	2	—	—	—	—	2
Provision (benefit)	(1)	(3)	1	—	2	—	(1)
Ending balance ALLL	<u>\$ 45</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>\$ 45</u>	<u>\$ 21</u>	<u>\$ 6</u>	<u>\$ 137</u>
Six Months Ended June 30, 2017							
Beginning balance ALLL	\$ 65	\$ 24	\$ 1	\$ 28	\$ 17	\$ 7	\$ 142
Charge-offs	(5)	(1)	(1)	—	—	—	(7)
Recoveries	1	1	1	—	—	—	3
Provision (benefit)	(5)	(5)	—	9	4	(1)	2
Ending balance ALLL	<u>\$ 56</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>\$ 37</u>	<u>\$ 21</u>	<u>\$ 6</u>	<u>\$ 140</u>

(1) Includes loans with government guarantees.

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

	Residential First Mortgage (1)	Home Equity	Other Consumer	Commercial Real Estate	Commercial and Industrial	Warehouse Lending	Total
(Dollars in millions)							
June 30, 2018							
Loans held-for-investment (2)							
Individually evaluated	\$ 34	\$ 25	\$ —	\$ —	\$ —	\$ —	\$ 59
Collectively evaluated	2,944	657	88	2,020	1,324	1,801	8,834
Total loans	\$ 2,978	\$ 682	\$ 88	\$ 2,020	\$ 1,324	\$ 1,801	\$ 8,893
Allowance for loan losses (2)							
Individually evaluated	\$ 5	\$ 9	\$ —	\$ —	\$ —	\$ —	\$ 14
Collectively evaluated	40	10	1	45	21	6	123
Total allowance for loan losses	\$ 45	\$ 19	\$ 1	\$ 45	\$ 21	\$ 6	\$ 137
December 31, 2017							
Loans held-for-investment (2)							
Individually evaluated	\$ 34	\$ 27	\$ —	\$ —	\$ —	\$ —	\$ 61
Collectively evaluated	2,712	633	25	1,932	1,196	1,142	7,640
Total loans	\$ 2,746	\$ 660	\$ 25	\$ 1,932	\$ 1,196	\$ 1,142	\$ 7,701
Allowance for loan losses (2)							
Individually evaluated	\$ 6	\$ 10	\$ —	\$ —	\$ —	\$ —	\$ 16
Collectively evaluated	41	12	1	45	19	6	124
Total allowance for loan losses	\$ 47	\$ 22	\$ 1	\$ 45	\$ 19	\$ 6	\$ 140

(1) Includes allowance related to loans with government guarantees.

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

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

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

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
(Dollars in millions)						
June 30, 2018						
Consumer loans						
Residential first mortgage	\$ 2	\$ —	\$ 22	\$ 24	\$ 2,962	\$ 2,986
Home equity	1	—	5	6	679	685
Other	—	—	—	—	88	88
Total consumer loans	<u>3</u>	<u>—</u>	<u>27</u>	<u>30</u>	<u>3,729</u>	<u>3,759</u>
Commercial loans						
Commercial real estate	—	—	—	—	2,020	2,020
Commercial and industrial	—	—	—	—	1,324	1,324
Warehouse lending	—	—	—	—	1,801	1,801
Total commercial loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,145</u>	<u>5,145</u>
Total loans (2)	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 27</u>	<u>\$ 30</u>	<u>\$ 8,874</u>	<u>\$ 8,904</u>
December 31, 2017						
Consumer loans						
Residential first mortgage	\$ 2	\$ 2	\$ 23	\$ 27	\$ 2,727	\$ 2,754
Home Equity	1	—	6	7	657	664
Other	—	—	—	—	25	25
Total consumer loans	<u>3</u>	<u>2</u>	<u>29</u>	<u>34</u>	<u>3,409</u>	<u>3,443</u>
Commercial loans						
Commercial real estate	—	—	—	—	1,932	1,932
Commercial and industrial	—	—	—	—	1,196	1,196
Warehouse lending	—	—	—	—	1,142	1,142
Total commercial loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,270</u>	<u>4,270</u>
Total loans (2)	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 29</u>	<u>\$ 34</u>	<u>\$ 7,679</u>	<u>\$ 7,713</u>

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

(2) Includes \$4 million of loans 90 days or greater past due, accounted for under the fair value option at both June 30, 2018 and December 31, 2017.

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

Troubled Debt Restructurings

We may modify certain loans in both our consumer and commercial loan portfolios to retain customers or to maximize collection of the outstanding loan balance. We have programs designed to assist borrowers by extending payment dates or reducing the borrower's contractual payments. All loan modifications are made on a case-by-case basis. Our standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. TDRs result in those instances in which a borrower demonstrates financial difficulty and for which a concession has been granted, which includes reductions of interest rate, extensions of amortization period, principal and/or interest forgiveness and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. These loans are classified as nonperforming TDRs if the loan was nonperforming prior to the restructuring, or based upon the results of a contemporaneous credit evaluation. Such loans will continue on nonaccrual status until the borrower has established a willingness and ability to make the restructured payments for at least six months, after which they will be classified as performing TDRs and begin to accrue interest. Performing and nonperforming TDRs remain impaired as interest and principal will not be received in accordance with the original contractual terms of the loan agreement.

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

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

	TDRs		
	Performing	Nonperforming	Total
(Dollars in millions)			
June 30, 2018			
Consumer loans			
Residential first mortgage	\$ 21	\$ 10	\$ 31
Home equity	22	4	26
Total TDRs (1)(2)	<u>\$ 43</u>	<u>\$ 14</u>	<u>\$ 57</u>
December 31, 2017			
Consumer loans			
Residential first mortgage	\$ 19	\$ 12	\$ 31
Home equity	24	4	28
Total TDRs (1)(2)	<u>\$ 43</u>	<u>\$ 16</u>	<u>\$ 59</u>

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

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

The following table provides a summary of newly modified TDRs:

	New TDRs			
	Number of Accounts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance (1)	Increase in Allowance at Modification
(Dollars in millions)				
Three Months Ended June 30, 2018				
Residential first mortgages	4	\$ 1	\$ 1	\$ —
Home equity (2)(3)	4	—	—	—
Total TDR loans	<u>8</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>
Three Months Ended June 30, 2017				
Residential first mortgages	6	\$ 1	\$ 1	\$ —
Home equity (2)(3)	21	1	1	—
Other consumer	1	—	—	—
Total TDR loans	<u>28</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ —</u>
Six Months Ended June 30, 2018				
Residential first mortgages	11	\$ 2	\$ 2	\$ —
Home equity (2)(3)	8	—	—	—
Total TDR loans	<u>19</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ —</u>
Six Months Ended June 30, 2017				
Residential first mortgages	8	\$ 1	\$ 1	\$ —
Home equity (2)(3)	34	2	2	—
Other consumer	1	—	—	—
Total TDR loans	<u>43</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ —</u>

(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 was one residential first mortgage loan with UPB of less than \$1 million modified in the previous 12 months, that subsequently defaulted during the three and six months ended June 30, 2018, compared to one residential first mortgage loan with UPB of less than \$1 million modified in the previous 12 months, that subsequently defaulted during the three and six months ended June 30, 2017. There was no change in the allowance associated with these TDRs at subsequent default. All TDR

classes within the consumer and commercial portfolios are considered subsequently defaulted when greater than 90 days past due within 12 months of the restructuring date.

Impaired Loans

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

	June 30, 2018			December 31, 2017		
	Recorded Investment	Net Unpaid Principal Balance	Related Allowance	Recorded Investment	Net Unpaid Principal Balance	Related Allowance
(Dollars in millions)						
With no related allowance recorded						
Consumer loans						
Residential first mortgage	\$ 11	\$ 12	\$ —	\$ 11	\$ 12	\$ —
Total loans with no related allowance recorded	\$ 11	\$ 12	\$ —	\$ 11	\$ 12	\$ —
With an allowance recorded						
Consumer loans						
Residential first mortgage	\$ 23	\$ 22	\$ 5	\$ 22	\$ 22	\$ 6
Home equity	25	25	9	24	27	10
Total loans with an allowance recorded	\$ 48	\$ 47	\$ 14	\$ 46	\$ 49	\$ 16
Total Impaired loans						
Consumer Loans						
Residential first mortgage	\$ 34	\$ 34	\$ 5	\$ 33	\$ 34	\$ 6
Home equity	25	25	9	24	27	10
Total impaired loans	\$ 59	\$ 59	\$ 14	\$ 57	\$ 61	\$ 16

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in millions)								
Consumer loans								
Residential first mortgage	\$ 34	\$ —	\$ 36	\$ —	\$ 34	\$ —	\$ 39	\$ —
Home equity	26	—	27	—	26	1	27	1
Commercial loans								
Commercial and industrial	3	—	—	—	3	—	—	—
Total impaired loans	\$ 63	\$ —	\$ 63	\$ —	\$ 63	\$ 1	\$ 66	\$ 1

Credit Quality

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

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

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

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

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

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

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

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

Consumer Loans

Consumer loans consist of open and closed end loans extended to individuals for household, family, and other personal expenditures, and include consumer loans, and loans to individuals secured by personal residence, including first mortgage, home equity, and home improvement loans. Because consumer loans are usually relatively small-balance, homogeneous exposures, consumer loans are rated primarily on payment performance. Payment performance is a proxy for the strength of repayment capacity and loans are generally classified based on their payment status rather than by an individual review of each loan.

In accordance with regulatory guidance, we assign risk ratings to consumer loans in the following manner:

- Consumer loans are classified as Watch once the loan becomes 60 days past due.
- Open and closed-end consumer loans 90 days or more past due are classified Substandard.

Commercial Loans

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

	June 30, 2018				
	Pass	Watch	Special Mention	Substandard	Total Loans
	(Dollars in millions)				
Consumer Loans					
Residential first mortgage	\$ 2,938	\$ 25	\$ —	\$ 23	\$ 2,986
Home equity	657	22	—	6	685
Other consumer	88	—	—	—	88
Total Consumer Loans	<u>\$ 3,683</u>	<u>\$ 47</u>	<u>\$ —</u>	<u>\$ 29</u>	<u>\$ 3,759</u>
Commercial Loans					
Commercial real estate	\$ 1,988	\$ 27	\$ —	\$ 5	\$ 2,020
Commercial and industrial	1,255	37	23	9	1,324
Warehouse	1,659	92	50	—	1,801
Total Commercial Loans	<u>\$ 4,902</u>	<u>\$ 156</u>	<u>\$ 73</u>	<u>\$ 14</u>	<u>\$ 5,145</u>
	December 31, 2017				
	Pass	Watch	Special Mention	Substandard	Total Loans
	(Dollars in millions)				
Consumer Loans					
Residential first mortgage	\$ 2,706	\$ 23	\$ —	\$ 25	\$ 2,754
Home equity	633	25	—	6	664
Other consumer	25	—	—	—	25
Total Consumer Loans	<u>\$ 3,364</u>	<u>\$ 48</u>	<u>\$ —</u>	<u>\$ 31</u>	<u>\$ 3,443</u>
Commercial Loans					
Commercial real estate	\$ 1,902	\$ 23	\$ 7	\$ —	\$ 1,932
Commercial and industrial	1,135	32	24	5	1,196
Warehouse	1,014	128	—	—	1,142
Total Commercial Loans	<u>\$ 4,051</u>	<u>\$ 183</u>	<u>\$ 31</u>	<u>\$ 5</u>	<u>\$ 4,270</u>

Note 5 - Loans with Government Guarantees

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

At June 30, 2018 and December 31, 2017, respectively, loans with government guarantees totaled \$278 million and \$271 million.

At June 30, 2018 and December 31, 2017, respectively, repossessed assets and the associated claims recorded in other assets totaled \$66 million and \$84 million.

Note 6 - Variable Interest Entities

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

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

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

In addition, we have a continuing involvement, but are not the primary beneficiary for an unconsolidated VIE related to the FSTAR 2007-1 mortgage securitization trust. In accordance with the settlement agreement with MBIA, there is no further recourse to us related to FSTAR 2007-1, unless MBIA fails to meet their obligations. At June 30, 2018 and December 31, 2017, the FSTAR 2007-1 mortgage securitization trust included 1,709 loans and 1,911 loans, respectively, with an aggregate principal balance of \$57 million and \$65 million, respectively.

Note 7 - Mortgage Servicing Rights

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Balance at beginning of period	\$ 239	\$ 295	\$ 291	\$ 335
Additions from loans sold with servicing retained	99	82	183	103
Reductions from sales	(81)	(191)	(222)	(256)
Changes in fair value due to (1):				
Decrease in MSR value due to pay-offs, pay-downs and run-off	(4)	(4)	(8)	(10)
Changes in estimates of fair value (2)	4	2	13	12
Fair value of MSRs at end of period	<u>\$ 257</u>	<u>\$ 184</u>	<u>\$ 257</u>	<u>\$ 184</u>

(1) Changes in fair value are included within net return on mortgage servicing rights on the Consolidated Statements of Operations.

(2) Represents estimated MSR value change resulting primarily from market-driven changes.

The following table summarizes the hypothetical effect on the fair value of servicing rights using adverse changes of 10 percent and 20 percent to the weighted average of certain significant assumptions used in valuing these assets. The significant unobservable inputs used in the fair value measurement of the MSRs are option adjusted spread, prepayment rate and cost to service. Significant increases (decreases) in all three assumptions in isolation would result in a significantly lower (higher) fair value measurement.

	June 30, 2018			December 31, 2017		
	Actual	Fair value impact due to		Actual	Fair value impact due to	
		10% adverse change	20% adverse change		10% adverse change	20% adverse change
	(Dollars in millions)					
Option adjusted spread	5.43%	\$ 253	\$ 250	6.29%	\$ 286	\$ 282
Constant prepayment rate	8.95%	249	242	9.93%	283	277
Weighted average cost to service per loan	\$ 79.72	255	252	\$ 73.00	288	286

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Net return on mortgage servicing rights				
Servicing fees, ancillary income and late fees (1)	\$ 15	\$ 9	\$ 29	\$ 29
Changes in fair value	—	(2)	5	2
Gain (loss) on MSR derivatives (2)	(5)	5	(16)	(3)
Net transaction costs	(1)	(6)	(5)	(8)
Total return included in net return on mortgage servicing rights	<u>\$ 9</u>	<u>\$ 6</u>	<u>\$ 13</u>	<u>\$ 20</u>

(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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Loan administration income on mortgage loans subserviced				
Servicing fees, ancillary income and late fees (1)	\$ 12	\$ 9	\$ 22	\$ 17
Other servicing charges	(7)	(3)	(12)	(6)
Total income on mortgage loans subserviced, included in loan administration	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 10</u>	<u>\$ 11</u>

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

Note 8 - Derivative Financial Instruments

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

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

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

During the second quarter of 2018, we de-designated all of our remaining cash flow hedge relationships. Historically, changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income (loss) on the Consolidated Statement of Financial Condition and reclassified into interest expense in the same period in which the hedged transaction is recognized in earnings. At June 30, 2018, we had \$24 million (net-of-tax) of accumulated unrealized gains on derivatives previously designated as cash flow hedges recorded in accumulated other comprehensive income, compared to \$2 million (net-of-tax) of accumulated unrealized gains on derivatives designated as cash flow hedges recorded in accumulated other comprehensive income at December 31, 2017. We evaluate the probability of hedged transactions occurring on at least a quarterly basis relating to amounts deferred in OCI. The estimated amount to be reclassified from other comprehensive income into earnings during the next 12 months represents \$3 million of gains (net-of-tax). For further information, see Note 11 - Accumulated Other Comprehensive Income.

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

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

	June 30, 2018 (1)		
	Notional Amount	Fair Value (2)	Expiration Dates
	(Dollars in millions)		
Derivatives in fair value hedge relationships:			
Liabilities			
Interest rate swaps on CDs	\$ 30	\$ —	2019
Derivatives not designated as hedging instruments:			
Assets			
Futures	\$ 1,567	\$ 1	2018-2023
Mortgage backed securities forwards	822	1	2018
Rate lock commitments	4,171	33	2018
Interest rate swaps and swaptions	1,416	14	2018-2028
Total derivative assets	<u>\$ 7,976</u>	<u>\$ 49</u>	
Liabilities			
Futures	\$ 1,323	\$ —	2018-2023
Mortgage backed securities forwards	5,382	21	2018
Rate lock commitments	257	1	2018
Interest rate swaps	881	11	2018-2048
Total derivative liabilities	<u>\$ 7,843</u>	<u>\$ 33</u>	
	December 31, 2017 (1)		
	Notional Amount	Fair Value (2)	Expiration Dates
	(Dollars in millions)		
Derivatives in cash flow hedge relationships:			
Liabilities			
Interest rate swaps on FHLB advances	\$ 830	\$ 1	2023-2026
Derivatives not designated as hedging instruments:			
Assets			
Futures	\$ 1,597	\$ —	2018-2022
Mortgage backed securities forwards	2,646	4	2018
Rate lock commitments	3,629	24	2018
Interest rate swaps and swaptions	1,441	11	2018-2048
Total derivative assets	<u>\$ 9,313</u>	<u>\$ 39</u>	
Liabilities			
Futures	\$ 209	\$ —	2018-2021
Mortgage backed securities forwards	3,197	6	2018
Rate lock commitments	214	—	2018
Interest rate swaps	617	4	2018-2027
Total derivative liabilities	<u>\$ 4,237</u>	<u>\$ 10</u>	

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

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

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

	Gross Amount	Gross Amounts Netted in the Statement of Financial Position	Net Amount Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	
				Financial Instruments	Cash Collateral
(Dollars in millions)					
June 30, 2018					
Derivatives not designated as hedging instruments:					
Assets					
Mortgage backed securities forwards	\$ 1	\$ —	\$ 1	\$ —	\$ —
Interest rate swaps and swaptions (1)	14	—	14	—	11
Futures	1	—	1	—	—
Total derivative assets	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ 11</u>
Liabilities					
Mortgage backed securities forwards	\$ 21	\$ —	\$ 21	\$ —	\$ 28
Interest rate swaps (1)	11	—	11	—	19
Total derivative liabilities	<u>\$ 32</u>	<u>\$ —</u>	<u>\$ 32</u>	<u>\$ —</u>	<u>\$ 47</u>
December 31, 2017					
Derivatives designated as hedging instruments:					
Liabilities					
Interest rate swaps on FHLB advances (1)	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 17</u>
Derivatives not designated as hedging instruments:					
Assets					
Mortgage-backed securities forwards	\$ 4	\$ —	\$ 4	\$ —	\$ 8
Interest rate swaps and swaptions (1)	11	—	11	—	10
Total derivative assets	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 18</u>
Liabilities					
Futures	\$ —	\$ —	\$ —	\$ —	\$ 2
Mortgage-backed securities forwards	6	—	6	—	2
Interest rate swaps (1)	4	—	4	—	5
Total derivative liabilities	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 9</u>

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

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

At June 30, 2018, we pledged a total of \$47 million related to derivative financial instruments, consisting of \$30 million of cash collateral on derivative liabilities and \$17 million of maintenance margin on centrally cleared derivatives and had an obligation to return cash of \$11 million on derivative assets. We pledged a total of \$26 million related to derivative financial instruments, consisting of \$7 million of cash collateral on derivatives and \$19 million of maintenance margin on centrally cleared derivatives and had an obligation to return cash of \$18 million on derivative assets at December 31, 2017. Within the Consolidated Statements of Financial Condition, the collateral related to derivative activity is included in other assets and other liabilities and the cash pledged as maintenance margin is restricted and included in in other assets.

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

	Amount Recorded in Net Interest Income (1)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Gain (loss) on cash flow hedging relationships in interest contracts				
Amount of gain (loss) reclassified from AOCI into income	\$ —	\$ 5	\$ (1)	\$ 5
Total gain (loss) on hedges	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ (1)</u>	<u>\$ 5</u>

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

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

		Three Months Ended		Six Months Ended June	
		June 30,		30,	
		2018	2017	2018	2017
		(Dollars in millions)			
Derivatives not designated as hedging instruments:		Location of Gain (Loss)			
Futures	Net return on mortgage servicing rights	\$ (1)	\$ —	\$ (3)	\$ —
Interest rate swaps and swaptions	Net return on mortgage servicing rights	(3)	3	(8)	(5)
Mortgage-backed securities forwards	Net return on mortgage servicing rights	—	3	(4)	3
Rate lock commitments and forward agency and loan sales	Net gain on loan sales	(1)	41	(9)	(8)
Interest rate swaps (1)	Other noninterest income	1	1	1	1
Total derivative gain (loss)		<u>\$ (4)</u>	<u>\$ 48</u>	<u>\$ (23)</u>	<u>\$ (9)</u>

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

Note 9 - Borrowings

Federal Home Loan Bank Advances

The following is a breakdown of our FHLB advances outstanding:

	June 30, 2018		December 31, 2017	
	Amount	Rate	Amount	Rate
	(Dollars in millions)			
Short-term fixed rate term advances	\$ 3,840	1.97%	\$ 4,260	1.40%
Total Short-term Federal Home Loan Bank advances	3,840		4,260	
Long-term LIBOR adjustable advances	1,130	2.53%	1,130	1.76%
Long-term fixed rate advances (1)	150	1.53%	275	1.41%
Total Long-term Federal Home Loan Bank advances	1,280		1,405	
Total Federal Home Loan Bank advances	<u>\$ 5,120</u>		<u>\$ 5,665</u>	

(1) Includes the current portion of fixed rate advances of \$0 million and \$125 million at June 30, 2018 and December 31, 2017, respectively.

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

At June 30, 2018, our Board of Directors authorized and approved a line of credit with the FHLB of up to \$10.0 billion, which is further limited based on our total assets and qualified collateral, as determined by the FHLB. At June 30, 2018, we had \$5.1 billion of advances outstanding and an additional \$1.2 billion of collateralized borrowing capacity available at the FHLB.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Maximum outstanding at any month end	\$ 5,207	\$ 4,870	\$ 5,740	\$ 4,870
Average outstanding balance	4,926	4,629	5,123	3,830
Average remaining borrowing capacity	1,917	1,042	1,659	1,356
Weighted average interest rate	1.94%	1.22%	1.79%	1.20%

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

	June 30, 2018
	(Dollars in millions)
2018	\$ 3,840
2019	50
2020	—
2021	—
Thereafter	1,230
Total	<u>\$ 5,120</u>

Parent Company Senior Notes and Trust Preferred Securities

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

	June 30, 2018		December 31, 2017	
	Amount	Interest Rate	Amount	Interest Rate
	(Dollars in millions)			
Senior Notes				
Senior notes, matures 2021	\$ 247	6.125%	\$ 247	6.125%
Trust Preferred Securities				
Floating Three Month LIBOR Plus:				
3.25%, matures 2032	\$ 26	5.59%	\$ 26	4.92%
3.25%, matures 2033	26	5.60%	26	4.61%
3.25%, matures 2033	26	5.56%	26	4.94%
2.00%, matures 2035	26	4.35%	26	3.36%
2.00%, matures 2035	26	4.35%	26	3.36%
1.75%, matures 2035	51	4.09%	51	3.34%
1.50%, matures 2035	25	3.85%	25	2.86%
1.45%, matures 2037	25	3.79%	25	3.04%
2.50%, matures 2037	16	4.84%	16	4.09%
Total Trust Preferred Securities	<u>247</u>		<u>247</u>	
Total other long-term debt	<u>\$ 494</u>		<u>\$ 494</u>	

Senior Notes

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

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

Trust Preferred Securities

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

Note 10 - Warrants

May Investor Warrant

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

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

TARP Warrant

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

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

Note 11 - Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Investment securities				
Beginning balance	\$ (47)	\$ (8)	\$ (18)	\$ (8)
Unrealized gain (loss)	(12)	2	(44)	2
Less: Tax (benefit) provision	(3)	1	(11)	1
Net unrealized gain (loss)	(9)	1	(33)	1
Reclassifications out of AOCI (1)	—	2	—	2
Less: Tax provision	—	1	—	1
Net unrealized gain reclassified out of AOCI	—	1	—	1
Reclassification of certain income tax effects (2)	—	—	(5)	—
Other comprehensive income (loss), net of tax	(9)	2	(38)	2
Ending balance	\$ (56)	\$ (6)	\$ (56)	\$ (6)
Cash Flow Hedges				
Beginning balance	\$ 17	\$ 2	\$ 2	\$ 1
Unrealized gain (loss)	9	(4)	28	(2)
Less: Tax provision (benefit)	2	(2)	7	(1)
Net unrealized gain (loss)	7	(2)	21	(1)
Reclassifications out of AOCI (1)	—	(5)	1	(5)
Less: Tax provision (benefit)	—	(2)	—	(2)
Net unrealized gain (loss) reclassified out of AOCI	—	(3)	1	(3)
Other comprehensive income (loss), net of tax	7	(5)	22	(4)
Ending balance	\$ 24	\$ (3)	\$ 24	\$ (3)

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

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

Note 12 - Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions, except share data)			
Net income	\$ 50	\$ 41	\$ 85	\$ 68
Weighted Average Shares				
Weighted average common shares outstanding	57,491,714	57,101,816	57,424,557	57,012,208
Effect of dilutive securities				
May Investor Warrants	—	—	—	24,575
Stock-based awards	766,863	1,037,122	861,770	1,069,287
Weighted average diluted common shares	<u>58,258,577</u>	<u>58,138,938</u>	<u>58,286,327</u>	<u>58,106,070</u>
Earnings per common share				
Basic earnings per common share	\$ 0.86	\$ 0.72	\$ 1.47	\$ 1.18
Effect of dilutive securities				
May Investor Warrants	—	—	—	—
Stock-based awards	(0.01)	(0.01)	(0.02)	(0.02)
Diluted earnings per common share	<u>\$ 0.85</u>	<u>\$ 0.71</u>	<u>\$ 1.45</u>	<u>\$ 1.16</u>

Note 13 - Stock-Based Compensation

We had stock-based compensation expense of \$2 million and \$4 million for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2017 stock-based compensation expense was \$2 million and \$6 million, respectively.

Restricted Stock and Restricted Stock Units

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

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Shares	Weighted — Average Grant-Date Fair Value per Share	Shares	Weighted — Average Grant-Date Fair Value per Share
Restricted Stock and Restricted Stock Units				
Non-vested balance at beginning of period	1,830,132	\$ 24.87	1,290,450	\$ 20.52
Granted	254,068	34.70	863,342	34.36
Vested	(185,405)	17.76	(234,787)	19.53
Canceled and forfeited	(102,167)	18.99	(122,377)	20.01
Non-vested balance at end of period	<u>1,796,628</u>	<u>\$ 27.33</u>	<u>1,796,628</u>	<u>\$ 27.33</u>

2017 Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("2017 ESPP") was approved on March 20, 2017 by our Board of Directors ("the Board") and on May 23, 2017 by our shareholders. The 2017 ESPP became effective July 1, 2017 and will remain effective until terminated by the Board. A total of 800,000 shares of the Company's common stock are reserved and authorized for issuance for purchase under the 2017 ESPP. There were 28,748 and 64,943 shares issued under the 2017 ESPP during the three and six months ended June 30, 2018, respectively, and the associated compensation expense was de minimis for both periods.

Note 14 - Income Taxes

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Provision for income taxes	\$ 12	\$ 19	\$ 21	\$ 32
Effective tax provision rate	20.4%	31.8%	20.2%	32.3%

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

Note 15 - Regulatory Matters

Regulatory Capital

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

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

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

Flagstar Bancorp	Actual		For Capital Adequacy Purposes		Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in millions)					
June 30, 2018						
Tangible capital (to adjusted avg. total assets)	\$ 1,525	8.65%	N/A	N/A	N/A	N/A
Tier 1 leverage (to adjusted avg. total assets)	1,525	8.65%	\$ 705	4.00%	\$ 881	5.00%
Common equity Tier 1 capital (to RWA)	1,285	10.84%	533	4.50%	771	6.50%
Tier 1 capital (to RWA)	1,525	12.86%	711	6.00%	948	8.00%
Total capital (to RWA)	1,665	14.04%	948	8.00%	1,185	10.00%
December 31, 2017						
Tangible capital (to adjusted avg. total assets)	\$ 1,442	8.51%	N/A	N/A	N/A	N/A
Tier 1 leverage (to adjusted avg. total assets)	1,442	8.51%	\$ 678	4.0%	\$ 848	5.0%
Common equity Tier 1 capital (to RWA)	1,216	11.50%	476	4.5%	688	6.5%
Tier 1 capital (to RWA)	1,442	13.63%	635	6.0%	846	8.0%
Total capital (to RWA)	1,576	14.90%	846	8.0%	1,058	10.0%

N/A - Not applicable

Flagstar Bank	Actual		For Capital Adequacy Purposes		Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in millions)						
June 30, 2018						
Tangible capital (to adjusted avg. total assets)	\$ 1,594	9.04%	N/A	N/A	N/A	N/A
Tier 1 leverage (to adjusted avg. total assets)	1,594	9.04%	\$ 705	4.00%	\$ 882	5.00%
Common equity tier 1 capital (to RWA)	1,594	13.44%	534	4.50%	771	6.50%
Tier 1 capital (to RWA)	1,594	13.44%	712	6.00%	949	8.00%
Total capital (to RWA)	1,734	14.62%	949	8.00%	1,186	10.00%
December 31, 2017						
Tangible capital (to adjusted avg. total assets)	\$ 1,531	9.04%	N/A	N/A	N/A	N/A
Tier 1 leverage (to adjusted avg. total assets)	1,531	9.04%	\$ 677	4.0%	\$ 847	5.0%
Common equity tier 1 capital (to RWA)	1,531	14.46%	476	4.5%	688	6.5%
Tier 1 capital (to RWA)	1,531	14.46%	635	6.0%	847	8.0%
Total capital (to RWA)	1,664	15.72%	847	8.0%	1,059	10.0%

N/A - Not applicable

Note 16 - Legal Proceedings, Contingencies and Commitments

Legal Proceedings

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

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

DOJ litigation settlement

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

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

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

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

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

We elected to account for the DOJ Liability under the fair value option. To determine the fair value, we utilize a discounted cash flow model. Key assumptions for the discounted cash flow model include using a discount rate as of June 30, 2018 of 9.8 percent; probability weightings of multiple cash flow scenarios and possible outcomes which contemplate the above conditions and estimates of forecasted net income, size of the balance sheet, capital levels, dividends and their impact on the timing of cash payments and the assumptions we believe a market participant would make to transfer the liability. The fair value of the DOJ Liability was \$60 million at both June 30, 2018 and December 31, 2017.

Other litigation accruals

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

Commitments

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	(Dollars in millions)	
Commitments to extend credit		
Mortgage loans interest-rate lock commitments	\$ 4,439	\$ 3,667
Warehouse loan commitments	2,347	1,618
Commercial and industrial commitments	790	695
Other commercial commitments	1,010	1,021
HELOC commitments	360	283
Other consumer commitments	96	15
Standby and commercial letters of credit	59	50

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

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

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

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

Commercial and industrial and other commercial commitments. Conditional commitments issued under various terms to lend funds to business and other entities. These commitments include revolving credit agreements, term loan commitments

and short-term borrowing agreements. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

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

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

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

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

Note 17 - Fair Value Measurements

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

Valuation Hierarchy

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	June 30, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
	(Dollars in millions)			
Investment securities available-for-sale				
Agency - Commercial	\$ —	\$ 1,051	\$ —	\$ 1,051
Agency - Residential	—	729	—	729
Municipal obligations	—	33	—	33
Corporate debt obligations	—	42	—	42
Other MBS	—	16	—	16
Loans held-for-sale				
Residential first mortgage loans	—	4,272	—	4,272
Loans held-for-investment				
Residential first mortgage loans	—	8	—	8
Home equity	—	—	3	3
Mortgage servicing rights	—	—	257	257
Derivative assets				
Rate lock commitments (fallout-adjusted)	—	—	33	33
Futures	—	1	—	1
Mortgage-backed securities forwards	—	1	—	1
Interest rate swaps and swaptions	—	14	—	14
Total assets at fair value	<u>\$ —</u>	<u>\$ 6,167</u>	<u>\$ 293</u>	<u>\$ 6,460</u>
Derivative liabilities				
Rate lock commitments (fallout-adjusted)	\$ —	\$ —	\$ (1)	\$ (1)
Mortgage backed securities forwards	—	(21)	—	(21)
Interest rate swaps	—	(11)	—	(11)
DOJ litigation settlement	—	—	(60)	(60)
Contingent consideration	—	—	(18)	(18)
Total liabilities at fair value	<u>\$ —</u>	<u>\$ (32)</u>	<u>\$ (79)</u>	<u>\$ (111)</u>

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

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

Fair Value Measurements Using Significant Unobservable Inputs

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

	Balance at Beginning of Period	Total Gains (Losses) Recorded in Earnings (1)	Purchases / Originations	Sales	Settlements	Transfers In (Out)	Balance at End of Period
(Dollars in millions)							
Three Months Ended June 30, 2018							
Assets							
Loans held-for-investment							
Home equity	\$ 4	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ 3
Mortgage servicing rights (2)	239	—	99	(81)	—	—	257
Rate lock commitments (net) (2)(3)	30	2	69	—	—	(69)	32
Totals	<u>\$ 273</u>	<u>\$ 1</u>	<u>\$ 168</u>	<u>\$ (81)</u>	<u>\$ —</u>	<u>\$ (69)</u>	<u>\$ 292</u>
Liabilities							
DOJ litigation settlement	\$ (60)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (60)
Contingent consideration	(21)	3	—	—	—	—	(18)
Totals	<u>\$ (81)</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (78)</u>
Three Months Ended June 30, 2017							
Assets							
Loans held-for-sale							
Home equity	\$ 53	\$ —	\$ —	\$ (52)	\$ (1)	\$ —	\$ —
Loans held-for-investment							
Home equity	5	—	—	—	—	—	5
Mortgage servicing rights (2)	295	(2)	82	(191)	—	—	184
Rate lock commitments (net) (2)(3)	41	18	64	—	—	(97)	26
Totals	<u>\$ 394</u>	<u>\$ 16</u>	<u>\$ 146</u>	<u>\$ (243)</u>	<u>\$ (1)</u>	<u>\$ (97)</u>	<u>\$ 215</u>
Liabilities							
DOJ litigation settlement	\$ (60)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (60)
Contingent consideration	—	—	(23)	—	—	—	(23)
Totals	<u>\$ (60)</u>	<u>\$ —</u>	<u>\$ (23)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (83)</u>

- (1) There were no unrealized gains (losses) recorded in OCI during the three months ended June 30, 2018 and 2017.
- (2) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with mortgage servicing rights and rate lock commitments. Gains and losses for individual lines do not reflect the effect of our risk management activities related to such Level 3 instruments.
- (3) Rate lock commitments are reported on a fallout adjusted basis. Transfers out of Level 3 represent the settlement value of the commitments that are transferred to LHFS, which are classified as Level 2 assets.

	Balance at Beginning of Period	Total Gains / (Losses) Recorded in Earnings (1)	Purchases / Originations	Sales	Settlements	Transfers In (Out)	Balance at End of Period
(Dollars in millions)							
Six Months Ended June 30, 2018							
Assets							
Loans held-for-investment							
Home equity	\$ 4	\$ —	\$ —	\$ —	\$ (1)	\$ —	\$ 3
Mortgage servicing rights (2)	291	5	183	(222)	—	—	257
Rate lock commitments (net) (2)(3)	24	(32)	131	—	—	(91)	32
Totals	<u>\$ 319</u>	<u>\$ (27)</u>	<u>\$ 314</u>	<u>\$ (222)</u>	<u>\$ (1)</u>	<u>\$ (91)</u>	<u>\$ 292</u>
Liabilities							
DOJ litigation settlement	\$ (60)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (60)
Contingent consideration	(25)	5	—	—	2	—	(18)
Totals	<u>\$ (85)</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ (78)</u>
Six Months Ended June 30, 2017							
Assets							
Loans held-for-sale							
Home equity	\$ —	\$ 1	\$ —	\$ (52)	\$ (1)	\$ 52	\$ —
Loans held-for-investment							
Home equity	65	1	—	—	(6)	(55)	5
Mortgage servicing rights (2)	335	2	103	(256)	—	—	184
Rate lock commitments (net) (2)(3)	18	34	117	—	—	(143)	26
Totals	<u>\$ 418</u>	<u>\$ 38</u>	<u>\$ 220</u>	<u>\$ (308)</u>	<u>\$ (7)</u>	<u>\$ (146)</u>	<u>\$ 215</u>
Liabilities							
DOJ litigation settlement	\$ (60)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (60)
Contingent consideration	—	—	(23)	—	—	—	(23)
Totals	<u>\$ (60)</u>	<u>\$ —</u>	<u>\$ (23)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (83)</u>

- (1) There were no unrealized gains (losses) recorded in OCI during the six months ended June 30, 2018 and 2017.
- (2) We utilized swaptions, futures, forward agency and loan sales and interest rate swaps to manage the risk associated with mortgage servicing rights and rate lock commitments. Gains and losses for individual lines do not reflect the effect of our risk management activities related to such Level 3 instruments.
- (3) Rate lock commitments are reported on a fallout adjusted basis. Transfers out of Level 3 represent the settlement value of the commitments that are transferred to LHFS, which are classified as Level 2 assets.

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

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
			(Dollars in millions)	
June 30, 2018				
Assets				
Loans held-for-investment				
			Discount rate	7.2% - 10.8% (9.0%)
			Constant prepayment rate	22.9% - 34.3% (28.6%)
Home equity	\$ 3	Discounted cash flows	Constant default rate	3.0% - 4.5% (3.1%)
			Option adjusted spread	2.8% - 21.4% (5.4%)
Mortgage servicing rights	\$ 257	Discounted cash flows	Constant prepayment rate	0% - 10.7% (9.0%)
			Weighted average cost to service per loan	\$67 - \$95 (\$80)
Rate lock commitments (net)	\$ 32	Consensus pricing	Origination pull-through rate	78.9% - 87.2% (80.4%)
Liabilities				
			Discount rate	7.9% - 11.8% (9.8%)
DOJ litigation settlement	\$ (60)	Discounted cash flows	Asset growth rate	0% - 17.5% (6.0%)
			Beta	0.6 - 1.6 (1.1)
Contingent consideration	\$ (18)	Discounted cash flows	Equity volatility	26.6% - 58.9% (40.0%)
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
			(Dollars in millions)	
December 31, 2017				
Assets				
Loans held-for-investment				
			Discount rate	7.2% - 10.8% (9.0%)
			Constant prepayment rate	5.1% - 7.7% (6.4%)
Home equity	\$ 4	Discounted cash flows	Constant default rate	3.0% - 4.5% (3.6%)
			Option adjusted spread	5.0% - 7.5% (6.3%)
Mortgage servicing rights	\$ 291	Discounted cash flows	Constant prepayment rate	8.0% - 11.8% (9.9%)
			Weighted average cost to service per loan	\$58 - \$87 (\$73)
Rate lock commitments (net)	\$ 24	Consensus pricing	Origination pull-through rate	64.7% - 97.1% (82.0%)
Liabilities				
			Discount rate	7.8% - 11.7% (9.7%)
DOJ litigation settlement	\$ (60)	Discounted cash flows	Asset growth rate	5.6% - 17.4% (6.3%)
			Beta	0.6 - 1.6 (1.1)
Contingent consideration	\$ (25)	Discounted cash flows	Equity volatility	26.6% - 58.9% (40.0%)

Recurring Significant Unobservable Inputs

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

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

	<u>Total (1)</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Gains (Losses)</u>
	(Dollars in millions)			
June 30, 2018				
Loans held-for-sale (2)	\$ 7	\$ 7	\$ —	\$ (1)
Impaired loans held-for-investment (2)				
Residential first mortgage loans	15	—	15	(5)
Repossessed assets (3)	7	—	7	(2)
Totals	<u>\$ 29</u>	<u>\$ 7</u>	<u>\$ 22</u>	<u>\$ (8)</u>
December 31, 2017				
Loans held-for-sale (2)	\$ 6	\$ 6	\$ —	\$ (1)
Impaired loans held-for-investment (2)				
Residential first mortgage loans	21	—	21	(10)
Repossessed assets (3)	8	—	8	(4)
Totals	<u>\$ 35</u>	<u>\$ 6</u>	<u>\$ 29</u>	<u>\$ (15)</u>

(1) The fair values are determined at various dates during the three months ended June 30, 2018 and the year ended December 31, 2017, respectively.

(2) Gains (losses) reflect fair value adjustments on assets for which we did not elect the fair value option.

(3) Gains (losses) reflect write downs of repossessed assets based on the estimated fair value of the specific assets.

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

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(Dollars in millions)			
June 30, 2018				
Impaired loans held-for-investment				
Loans held-for-investment	\$ 15	Fair value of collateral	Loss severity discount	25% - 30% (27.6%)
Repossessed assets	\$ 7	Fair value of collateral	Loss severity discount	0% - 100% (22.0%)
December 31, 2017				
Impaired loans held-for-investment				
Loans held-for-investment	\$ 21	Fair value of collateral	Loss severity discount	25% - 30% (27.9%)
Repossessed assets	\$ 8	Fair value of collateral	Loss severity discount	0% - 100% (70.9%)

Nonrecurring Significant Unobservable Inputs

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

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:

	June 30, 2018				
	Carrying Value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
	(Dollars in millions)				
Assets					
Cash and cash equivalents	\$ 359	\$ 359	\$ 359	\$ —	\$ —
Investment securities available-for-sale	1,871	1,871	—	1,871	—
Investment securities held-to-maturity	748	719	—	719	—
Loans held-for-sale	4,291	4,292	—	4,292	—
Loans held-for-investment	8,904	8,800	—	8	8,792
Loans with government guarantees	278	265	—	265	—
Mortgage servicing rights	257	257	—	—	257
Federal Home Loan Bank stock	303	303	—	303	—
Bank owned life insurance	335	335	—	335	—
Repossessed assets	7	7	—	—	7
Other assets, foreclosure claims	66	66	—	66	—
Derivative financial instruments, assets	49	49	—	16	33
Liabilities					
Retail deposits					
Demand deposits and savings accounts	\$ (5,293)	\$ (4,775)	\$ —	\$ (4,775)	\$ —
Certificates of deposit	(2,100)	(2,092)	—	(2,092)	—
Wholesale deposits	(392)	(974)	—	(974)	—
Government deposits	(1,102)	(1,096)	—	(1,096)	—
Custodial deposits	(1,701)	(1,631)	—	(1,631)	—
Federal Home Loan Bank advances	(5,120)	(5,108)	—	(5,108)	—
Long-term debt	(494)	(458)	—	(458)	—
DOJ litigation settlement	(60)	(60)	—	—	(60)
Contingent consideration	(18)	(18)	—	—	(18)
Derivative financial instruments, liabilities	(33)	(33)	—	(32)	(1)

December 31, 2017

Carrying Value	Estimated Fair Value				
	Total	Level 1	Level 2	Level 3	
(Dollars in millions)					
Assets					
Cash and cash equivalents	\$ 204	\$ 204	\$ 204	\$ —	\$ —
Investment securities available-for-sale	1,853	1,853	—	1,853	—
Investment securities held-to-maturity	939	924	—	924	—
Loans held-for-sale	4,321	4,322	—	4,322	—
Loans held-for-investment	7,713	7,667	—	8	7,659
Loans with government guarantees	271	261	—	261	—
Mortgage servicing rights	291	291	—	—	291
Federal Home Loan Bank stock	303	303	—	303	—
Bank owned life insurance	330	330	—	330	—
Repossessed assets	8	8	—	—	8
Other assets, foreclosure claims	84	84	—	84	—
Derivative financial instruments, assets	39	39	—	15	24
Liabilities					
Retail deposits					
Demand deposits and savings accounts	\$ (4,965)	\$ (4,557)	\$ —	\$ (4,557)	\$ —
Certificates of deposit	(1,493)	(1,498)	—	(1,498)	—
Wholesale deposits	(45)	(43)	—	(43)	—
Government deposits	(1,073)	(1,048)	—	(1,048)	—
Custodial deposits	(1,358)	(1,311)	—	(1,311)	—
Federal Home Loan Bank advances	(5,665)	(5,662)	—	(5,662)	—
Long-term debt	(494)	(417)	—	(417)	—
DOJ litigation settlement	(60)	(60)	—	—	(60)
Contingent consideration	(25)	(25)	—	—	(25)
Derivative financial instruments, liabilities	(11)	(11)	—	(11)	—

Fair Value Option

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Assets				
Loans held-for-sale				
Net gain on loan sales	\$ 20	\$ 115	\$ (68)	\$ 168
Loans held-for-investment				
Other noninterest income	\$ —	\$ —	\$ —	\$ 1

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

	June 30, 2018			December 31, 2017		
	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) Unpaid Principal Balance	Unpaid Principal Balance	Fair Value	Fair Value Over / (Under) Unpaid Principal Balance
(Dollars in millions)						
Assets						
Nonaccrual loans						
Loans held-for-sale	\$ 7	\$ 7	\$ —	\$ 6	\$ 5	\$ (1)
Loans held-for-investment	5	4	(1)	5	4	(1)
Total nonaccrual loans	\$ 12	\$ 11	\$ (1)	\$ 11	\$ 9	\$ (2)
Other performing loans						
Loans held-for-sale	\$ 4,139	\$ 4,265	\$ 126	\$ 4,167	\$ 4,295	\$ 128
Loans held-for-investment	9	7	(2)	10	8	(2)
Total other performing loans	\$ 4,148	\$ 4,272	\$ 124	\$ 4,177	\$ 4,303	\$ 126
Total loans						
Loans held-for-sale	\$ 4,146	\$ 4,272	\$ 126	\$ 4,173	\$ 4,300	\$ 127
Loans held-for-investment	14	11	(3)	15	12	(3)
Total loans	\$ 4,160	\$ 4,283	\$ 123	\$ 4,188	\$ 4,312	\$ 124
Liabilities						
Litigation settlement (1)	\$ (118)	\$ (60)	\$ 58	\$ (118)	\$ (60)	\$ 58

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

Note 18 - Segment Information

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30, 2018				
	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
	(Dollars in millions)				
Summary of Operations					
Net interest income	\$ 80	\$ 33	\$ 1	\$ 1	\$ 115
Net gain (loss) on loan sales	(5)	68	—	—	63
Other noninterest income	9	27	22	2	60
Total net interest income and noninterest income	<u>84</u>	<u>128</u>	<u>23</u>	<u>3</u>	<u>238</u>
(Provision) benefit for loan losses	—	(1)	—	2	1
Compensation and benefits	(17)	(28)	(5)	(30)	(80)
Other noninterest expense and directly allocated overhead	(28)	(47)	(15)	(7)	(97)
Total noninterest expense	<u>(45)</u>	<u>(75)</u>	<u>(20)</u>	<u>(37)</u>	<u>(177)</u>
Income (loss) before indirect overhead allocations and income taxes	39	52	3	(32)	62
Provision (benefit) for income taxes	7	7	(2)	—	12
Overhead allocations	(9)	(17)	(5)	31	—
Net income (loss)	<u>\$ 23</u>	<u>\$ 28</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 50</u>
Intersegment (expense) revenue	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ (5)</u>	<u>\$ —</u>
Average balances					
Loans held-for-sale	\$ 12	\$ 4,158	\$ —	\$ —	\$ 4,170
Loans with government guarantees	—	280	—	—	280
Loans held-for-investment (2)	8,378	9	—	29	8,416
Total assets	8,593	5,225	26	3,940	17,784
Deposits	8,632	—	1,782	—	10,414

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

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

Three Months Ended June 30, 2017

	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
(Dollars in millions)					
Summary of Operations					
Net interest income	\$ 57	\$ 32	\$ 2	\$ 6	\$ 97
Net gain (loss) on loan sales	(1)	67	—	—	66
Other noninterest income	6	24	17	3	50
Total net interest income and noninterest income	62	123	19	9	213
(Provision) benefit for loan losses	—	—	—	1	1
Compensation and benefits	(15)	(24)	(4)	(28)	(71)
Other noninterest expense and directly allocated overhead	(22)	(38)	(16)	(7)	(83)
Total noninterest expense	(37)	(62)	(20)	(35)	(154)
Income (loss) before indirect overhead allocations and income taxes	25	61	(1)	(25)	60
Provision (benefit) for income taxes	5	17	(3)	—	19
Overhead allocations	(10)	(14)	(5)	29	—
Net income (loss)	\$ 10	\$ 30	\$ (3)	\$ 4	\$ 41
Intersegment (expense) revenue	\$ —	\$ 1	\$ 4	\$ (5)	\$ —

Average balances

Loans held-for-sale	\$ 15	\$ 4,254	\$ —	\$ —	\$ 4,269
Loans with government guarantees	—	295	—	—	295
Loans held-for-investment (2)	6,192	7	—	29	6,228
Total assets	6,255	5,562	39	3,854	15,710
Deposits	7,362	—	1,377	—	8,739

- (1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and CCD income for subservicing clients.
(2) Includes adjustment made to reclassify operating lease assets to loans held-for-investment.

Six Months Ended June 30, 2018

	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
(Dollars in millions)					
Summary of Operations					
Net interest income	\$ 150	\$ 64	\$ 3	\$ 4	\$ 221
Net gain (loss) on loan sales	(7)	130	—	—	123
Other noninterest income	17	46	41	7	111
Total net interest income and noninterest income	160	240	44	11	455
(Provision) benefit for loan losses	(1)	(1)	—	3	1
Compensation and benefits	(34)	(57)	(9)	(60)	(160)
Other noninterest expense and directly allocated overhead	(54)	(88)	(31)	(17)	(190)
Total noninterest expense	(88)	(145)	(40)	(77)	(350)
Income (loss) before indirect overhead allocations and income taxes	71	94	4	(63)	106
Provision (benefit) for income taxes	11	12	(2)	—	21
Overhead allocations	(20)	(35)	(10)	65	—
Net income (loss)	\$ 40	\$ 47	\$ (4)	\$ 2	\$ 85
Intersegment (expense) revenue	\$ (2)	\$ 2	\$ 9	\$ (9)	\$ —

Average balances

Loans held-for-sale	\$ 12	\$ 4,189	\$ —	\$ —	\$ 4,201
Loans with government guarantees	—	285	—	—	285
Loans held-for-investment (2)	7,936	8	—	29	7,973
Total assets	8,119	5,375	31	3,914	17,439
Deposits	8,233	—	1,662	—	9,895

- (1) Includes offsetting adjustments made to reclassify income and expenses relating to operating leases and CCD income for subservicing clients.
(2) Includes adjustment made to reclassify operating lease assets to loans held-for-investment.

Six Months Ended June 30, 2017

	Community Banking	Mortgage Originations	Mortgage Servicing	Other (1)	Total
(Dollars in millions)					
Summary of Operations					
Net interest income	\$ 108	\$ 62	\$ 5	\$ 5	\$ 180
Net gain (loss) on loan sales	(3)	117	—	—	114
Other noninterest income	14	50	33	5	102
Total net interest income and noninterest income	119	229	38	10	396
(Provision) benefit for loan losses	(2)	(2)	—	2	(2)
Compensation and benefits	(31)	(44)	(8)	(60)	(143)
Other noninterest expense and directly allocated overhead	(42)	(65)	(32)	(12)	(151)
Total noninterest expense	(73)	(109)	(40)	(72)	(294)
Income (loss) before indirect overhead allocations and income taxes	44	118	(2)	(60)	100
Provision (benefit) for income taxes	8	31	(5)	(2)	32
Overhead allocations	(20)	(31)	(11)	62	—
Net income (loss)	\$ 16	\$ 56	\$ (8)	\$ 4	\$ 68
Intersegment (expense) revenue	\$ (1)	\$ 1	\$ 9	\$ (9)	\$ —

Average balances

Loans held-for-sale	\$ 18	\$ 3,762	\$ —	\$ —	\$ 3,780
Loans with government guarantees	—	318	—	—	318
Loans held-for-investment (2)	5,902	6	—	29	5,937
Total assets	5,966	5,085	40	3,790	14,881
Deposits	7,408	—	1,359	—	8,767

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

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

Note 19 - Recently Issued Accounting Pronouncements
Adoption of New Accounting Standards

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

Standard	Description	Effective Date
ASU 2018-03	Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10) - Update to 2016-01	January 1, 2018
ASU 2018-02	Income Statement-Reporting Comprehensive Income (Topic 220); Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	January 1, 2019
ASU 2017-09	Update 2017-09—Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	January 1, 2018
ASU 2017-05	Other Income - Gains and Losses from the De-recognition of Non-financial Assets (Subtopic 610-20): Clarifying the Scope of Asset De-recognition Guidance and Accounting for Partial Sales of Non-financial Assets	January 1, 2018
ASU 2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business	January 1, 2018
ASU 2016-18	Statement of Cash Flows (Topic 230): Restricted Cash	January 1, 2018
ASU 2016-16	Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	January 1, 2018
ASU 2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	January 1, 2018
ASU 2016-01	Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018

Accounting Standards Adopted which had a Material Impact

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

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

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

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

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

Location of Revenue (1)		Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
(Dollars in millions)					
Deposit account and other banking income	Deposit fees and charges	\$ 4	\$ 4	\$ 8	\$ 7
Interchange fees	Deposit fees and charges	1	1	2	2
Interchange fees	Other noninterest income	1	—	1	—
Wealth management	Other noninterest income	2	2	4	3
Total		\$ 8	\$ 7	\$ 15	\$ 12

(1) Recognized within the Community Banking segment.

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

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

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

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

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

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

Accounting Standards Issued But Not Yet Adopted

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

Credit Losses - In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The ASU alters the current method for recognizing credit losses within the reserve account. Currently, we use the incurred loss method, whereas the new guidance requires financial assets to be presented at the net amount expected to be collected (i.e., net of expected credit losses). The measurement of expected credit losses should be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019. We have established an internal steering committee to lead the implementation efforts. The steering committee is in the process of evaluating control and process framework, data, model, and resource requirements and areas where modifications will be required. We are currently evaluating the impact the adoption of the guidance will have on our Consolidated Financial Statements, and highlight that any impact will be contingent upon the underlying characteristics of the affected portfolio and macroeconomic and internal forecasts at adoption date.

Leases - In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes Topic 840. The guidance requires lessees to recognize substantially all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting. ASU 2016-02 is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. Upon adoption and implementation, we expect to gross up assets and liabilities due to the recognition of lease liabilities and right of use assets associated with the underlying lease contracts. While we do not expect the adoption of the guidance to have a material impact on our Consolidated Statements of Operations given our current inventory of leases, review is ongoing and we will continue to evaluate the impact to the Consolidated Statements of Financial Condition and to capital. In January 2018, the FASB issued ASU 2018-01 Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842, as we do not currently have land easements, this update does not currently have a financial impact.

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

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

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 June 30, 2018, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), an evaluation was performed by the Company's management, including our principal executive and financial officers, regarding the design and effectiveness of our disclosure controls and procedures. Based upon that evaluation, the principal executive and financial officers have concluded that our current disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms as of June 30, 2018.
- (b) *Changes in Internal Controls.* There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(d) of the Exchange Act) during the three months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

We recently announced Flagstar Bank's agreement to acquire 52 branches from Well Fargo Bank, which we expect will close late in the fourth quarter of 2018, subject to regulatory approval and closing conditions. If regulatory approval is not obtained or closing conditions are not satisfied or waived, the acquisition will not be completed or may not be completed as planned. In addition, we may fail to realize all or any of the anticipated benefits of the acquisition, or those benefits may take longer to realize than expected. We may experience challenges related to the integration of the operations of the branches, including transition of data, integration of product offerings and the standardization of business practices. Complications associated with the acquisition could result in additional costs, loss of customers, damage to our reputation or other operational risks.

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

Sale of Unregistered Securities

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

Issuer Purchases of Equity Securities

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

Item 3. Defaults upon Senior Securities

The Company had no defaults on senior securities.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
2.1	Purchase and Assumption Agreement between Wells Fargo Bank, N.A., and Flagstar Bank, FSB
3.1	Second Amended and Restated Articles of Incorporation of Flagstar Bancorp, Inc. (previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, for the period ended June 30, 2017, and incorporated herein by reference).
3.2	Sixth Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, for the period ended September 30, 2016, and incorporated herein by reference).
4.1	Indenture, dated July 11, 2016, between Flagstar Bancorp, Inc. as Issuers and Wilmington Trust, National Association, as Trustee and Collateral Agent, including the form of 6.125% senior secured note due 2021 (previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated July 11, 2016, and incorporated herein by reference).
4.2	Registration Rights Agreement, dated as of July 11, 2016, among Flagstar Bancorp, Inc., J.P.Morgan Securities LLC and Sandler O'Neill & Partners, L.P. as representatives of the initial purchasers (previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, dated July 11, 2016, and incorporated herein by reference).
4.3	Form of 6.125% Global Note due 2021 (previously filed as Exhibit 4.3 to the Company's Registration Statement on Form S-4, dated October 7, 2016, and incorporated herein by reference).
10.1	2016 Stock Award and Incentive Plan Restricted Stock Unit Award Agreement
11	Statement regarding computation of per share earnings is incorporated by reference to Note 12 of the Notes to the Consolidated Financial Statements, in Item 1. Financial Statements.
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 June 30, 2018, formatted in XBRL: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

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: August 6, 2018

/s/ Alessandro DiNello

Alessandro DiNello

President and Chief Executive Officer
(Principal Executive Officer)

/s/ James K. Cirolì

James K. Cirolì

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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PURCHASE AND ASSUMPTION AGREEMENT

between

Wells Fargo Bank, N.A.,

and

Flagstar Bank, FSB

June 4, 2018

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- Exhibit 3.3 Form of Closing Statement
- Exhibit 4.2(a)(5) Form of Seller's Affidavit and GAP Undertaking
- Exhibit 4.2(a)(6) Form of Bill of Sale and Assignment and Assumption Agreement
- Exhibit 4.2(a)(7) Form of Retained ATM Lease
- Exhibit 7.12(b) Data Security Requirements

PURCHASE AND ASSUMPTION AGREEMENT, dated June 4, 2018, between Wells Fargo Bank, N.A. (“Seller”) and Flagstar Bank, FSB (“Purchaser”).

RECITALS

A. Seller desires to sell, and Purchaser desires to acquire, certain assets associated with the Branches in accordance with the terms and conditions of this Agreement.

B. Seller desires to transfer to Purchaser, and Purchaser desires to assume from Seller, certain liabilities associated with the Branches in accordance with the terms and conditions of this Agreement.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

DEFINITIONS; CONSTRUCTION

Section 1.1 Definitions. This Agreement uses the following definitions:

“Accrued Interest and Fees” means (1) with respect to the Assumed Deposits, the interest, fees and other charges (whether billed or unbilled) that have been accrued but not yet posted to the Assumed Deposits; and (2) with respect to the Purchased Loans and Purchased Overdrafts, the interest, fees and other charges (whether billed or unbilled) that have been accrued but not yet paid, credited or charged to the Purchased Loans and Purchased Overdrafts, as applicable, in each case of (1) and (2), as set forth in the general ledger of Seller.

“Affiliate” means, with respect to any person, any other person that directly, or through one or more intermediaries, Controls, is Controlled by or is under common Control with, such person.

“Agreement” means this Purchase and Assumption Agreement, including the Schedules, Exhibits and Disclosure Schedules hereto, as it may be amended and/or restated from time to time.

“Assumed Contracts” means all Contracts under which goods or services are provided in connection with the Transferred Business that are listed on the Assumed Contracts Schedule (as it may be updated pursuant to Section 3.4(b)), together with the Real Property Leases, ATM Real Property Leases, Third-Party Real Property Leases and Safe Deposit Agreements.

“Assumed Deposits” means the deposits (as defined in Section 3(l) of the FDI Act) in deposit accounts of Branch Customers booked by Seller at the Branches in the ordinary course of business and in a manner consistent with past practice (other than those deposits (1) due to be escheated in accordance with Seller’s policies and procedures, (2) associated with the Retained Businesses, (3) held as security for a Loan that is not a Purchased Loan or (4) of Retained Employees) in each case that are listed on the Assumed Deposits Schedule (as it may be updated pursuant to Section 3.4(b)).

“Assumed Liabilities” means (1) the Assumed Deposits (including any Accrued Interest and Fees thereon); (2) subject to the receipt of any Authorizations (if any) to transfer or assign Assumed Contracts, all of Seller’s obligations and liabilities to be discharged, performed, satisfied or paid on or after the Effective Time with respect to the Assumed Contracts (including any Security Deposits from a third party that are held by Seller with respect to such Assumed Contracts); (3) all liabilities and obligations relating to any Transferred Branch Employees to the extent arising after the applicable Hire Date, excluding all liabilities and obligations relating to, arising from, or in connection with the Employee Plans; (4) all liabilities and obligations expressly assumed by Purchaser with respect to Branch Employees pursuant to Article VIII; and (5) all other liabilities and obligations to the extent relating to or arising from the Transferred Business following the Closing, excluding for the avoidance of doubt, Excluded Taxes.

“ATM” means an automated teller machine.

“ATM Real Property Leases” means Seller’s rights as tenant under the real property leases, subleases, licenses or other Contracts listed on the ATM Real Property Leases Schedule.

“Authorization” means any third-party consent required to (1) assign, or permit assignment to Purchaser of, the Purchased Assets as contemplated by Section 2.1 or (2) permit or cause Purchaser to assume the Assumed Liabilities as contemplated by Section 2.2, in each case of (1) and (2), in accordance with any applicable Contract (including any ATM Real Property Lease and Real Property Lease) and/or applicable Law.

“Bill of Sale and Assignment and Assumption Agreement” has the meaning specified in Section 4.2(a)(6).

“Branch Customers” means, individually and collectively, (1) the persons named as the owners of the accounts relating to the Assumed Deposits, (2) the primary obligors under the Purchased Loans, and (3) the other persons who are customers of the Transferred Business (and solely in such capacity).

“Branch Employees” means, as of any particular date, the persons actively employed as of such date by Seller or any of its Subsidiaries who dedicate at least eighty percent (80%) of their working time providing services in connection with the Transferred Business and who are set forth on the Branch Employees Schedule (as it may be updated pursuant to Section 5.16(a)) and including such persons who are absent from work on account of vacation, jury duty, sickness, short- or long-term disability, workers’ compensation leave, military leave, leave under the Family Medical Leave Act or other approved leave of absence or for whom an obligation to recall, rehire or otherwise return to employment exists under a contractual obligation or Law (provided that, in accordance with Section 8.1(a), any such person who returns to active employment on a date later than six (6) months following the Closing Date will not be a Branch Employee for purposes of this Agreement). For the avoidance of doubt, no Branch Employees will be Retained Employees.

“Branches” means the branches, including any related drive-thru teller facilities, of Seller listed on the Branches Schedule.

“Business Day” means any day excluding Saturday, Sunday or a day on which the Federal Reserve Bank of New York is closed.

“Business Direct” means Seller’s business channel that provides streamlined banking services to smaller business entities with revenues of generally less than \$5,000,000 per year.

“Cash on Hand” means all U.S. and foreign cash on hand at the Branches and the Purchased ATMs at the local time that the Branches close to the public on the Closing Date, including vault cash, petty cash, tellers’ cash, prepaid postage and cash equivalents (exclusive of the contents of any safe deposit boxes) located at the Branches and the Purchased ATMs, as determined by a cash count to be mutually conducted by Seller and Purchaser.

“Closing” has the meaning specified in Section 4.1.

“Closing Date” has the meaning specified in Section 4.1.

“Closing Payment” has the meaning specified in Section 3.3(b).

“Closing Statement” has the meaning specified in Section 3.3(a).

“Code” means the Internal Revenue Code of 1986.

“Comparable Job Offer” means an offer of employment with Purchaser or an Affiliate of Purchaser that provides for the following terms of employment: (1) a position with job duties substantially comparable to those applicable to the employee’s position immediately prior to the Closing Date, (2) an annual base salary rate (or in the case of an hourly Branch Employee, base hourly rate of pay), at least equal to such individual’s base salary or rate of pay as in effect immediately prior to the Closing Date, (3) substantially the same standard scheduled work hours as in effect for such Branch Employee immediately prior to the Closing Date, (4) eligibility for Purchaser’s employee benefit plans available to similarly situated employees of Purchaser (which benefits shall include, at a minimum, health insurance, a qualified retirement savings or capital accumulation plan, and paid time off for sick/medical reasons and personal reasons, including vacation), (5) an annual discretionary target percentage cash incentive opportunity and/or a modeled quarterly target cash incentive amount, in each case, that is no less favorable than the cash incentive opportunity provided by Seller to each Branch Employee immediately prior to the Closing Date, (6) a primary work location which, with respect to each Branch Employee, does not result in a Material Change of Work Location, and (7) prior service credit for each Branch Employee’s recognized service with Seller (or any of its Affiliates) prior to the Hire Date in accordance with Article VIII.

“Confidentiality Agreement” means the confidentiality agreement, dated March 29, 2018, between Purchaser and Seller.

“Contract” means any contract, agreement, mortgage, commitment or arrangement.

“Control” and the correlative terms “Controlling” and “Controlled” means, as used with respect to any person, possession of the power to direct or cause the direction of the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

“Conversion Plan” has the meaning specified in Section 7.12(a).

“de minimis loss” has the meaning specified in Section 12.2(b).

“Deductible” has the meaning specified in Section 12.2(b).

“Delayed Benefits” has the meaning specified in Section 8.1(c)(2).

“Disclosure Schedule” means, with respect to Purchaser or Seller, a schedule delivered by it to the other on or before the execution of this Agreement setting forth, among other things, items the disclosure of which is required under this Agreement, either in response to an express disclosure requirement contained in a provision of this Agreement or as an exception to one or more of the representations and warranties or covenants contained in this Agreement; provided that the mere inclusion of an item in a Disclosure Schedule as an exception to a representation, warranty or covenant will not be considered an admission by the disclosing party that such item (or any non-disclosed item or information of comparable or greater significance) is required to be disclosed, represents a material exception or fact, event or circumstance or that such item has had or is reasonably likely to have a Material Adverse Effect, as the case may be; provided further that an item disclosed by either party in such party’s Disclosure Schedule will be deemed to be a disclosure against any other representation, warranty or covenant of such party in this Agreement to the extent that the relevance of such disclosure is reasonably apparent. Without limiting the foregoing, no reference to, or disclosure of, a possible breach or violation of any Contract or Law shall be construed as an admission or indication that a breach or violation exists or has actually occurred. The Disclosure Schedules delivered pursuant to this Agreement are being delivered solely in connection with the Agreement, and no person may rely on any matters set forth in any Disclosure Schedule other than the parties hereto.

“Effective Time” means 11:59 PM New York City time on the Closing Date.

“Employee Plans” has the meaning specified in Section 5.16(b).

“Enforceability Exception” has the meaning specified in Section 5.2.

“Environment” means any soil, surface waters, wetlands, groundwaters, sediments, surface or subsurface strata, ambient air and any other environmental medium.

“Environmental Law” means any law, statute, regulation, rule, ordinance, by-law, order or other binding decision of any Governmental Entity regarding the protection of the Environment.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“Excluded Assets” means all assets, properties, rights, Contracts and claims of Seller and its Affiliates that are not Purchased Assets, including, for the avoidance of doubt, (1) assets related to the Retained Businesses; (2) all assets related to employee benefit arrangements of Seller or any of its Affiliates, including the Employee Plans; (3) all Intellectual Property; (4) all books, records and other data maintained by Seller and its Affiliates in connection with the Retained Businesses or related to other Excluded Assets, Excluded Liabilities or Retained Employees, and all personnel files and records regarding any employees (other than as otherwise contemplated by Section 8.1(j)); and (5) all licenses, charters and legal entities of Seller or its Affiliates.

“Excluded Liabilities” has the meaning specified in Section 2.2(b).

“Excluded Taxes” means Taxes relating to (i) the Transferred Business for any Pre-Closing Period, provided that the allocation of the amount of Taxes between the Pre-Closing Period and the Post-Closing Period for any taxable year or period not ending on the Closing Date shall be determined (1) with respect to income Taxes, on a closing-of-the-books method by assuming that the taxable year or period ended as of the Effective Time on the Closing Date and (2) with respect to real and personal property, use and other Taxes imposed on a time basis (other than any Transfer Taxes) by allocating pro rata on a time basis, and (ii) the Excluded Assets.

“Existing Work Location” means a Branch Employee’s work location immediately prior to the Closing Date.

“FDI Act” means the Federal Deposit Insurance Act.

“FDIC” means the Federal Deposit Insurance Corporation.

“Federal Funds Rate” means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that, if such day is not a Business Day or the Federal Funds Rate is not so published for any day, the Federal Funds Rate for such day shall be such rate on such transactions on the next Business Day as so published on the next succeeding Business Day.

“Final Closing Statement” has the meaning specified in Section 3.4(a).

“Final Schedules” has the meaning specified in Section 3.4(b).

“Full-Time Employee” (also referred to as a “Regular” employee) means Branch Employees who are scheduled to work 30 or more hours per week and identified as “Regular” on Seller’s HRMS.

“GAAP” means generally accepted accounting principles in the United States of America consistently applied.

“Governmental Entity” means any federal, state, local, domestic or foreign agency, court, tribunal, administrative body, arbitration panel, department or other legislative, judicial, governmental or quasi-governmental entity.

“Hazardous Material” means any pollutant, contaminant, hazardous substance, hazardous material or hazardous waste as defined under any Environmental Law, including any petroleum product, asbestos-containing material, polychlorinated biphenyl or radon.

“HIPAA” means the Health Insurance Portability and Accountability Act of 1996.

“Hire Date” has the meaning specified in Section 8.1(a).

“HRMS” has the meaning specified in Section 5.16(a).

“Indemnified Parties” means any party that is entitled to indemnification under Section 12.2 or Section 12.3.

“Indemnifying Party” has the meaning specified in Section 12.4(a).

“Intellectual Property” means any (1) Trademarks; (2) inventions and discoveries, whether patentable or not, and all patents and applications therefor, including provisional applications, divisions, continuations, continuations-in-part, extensions, reexaminations and reissues; (3) confidential information, trade secrets and know-how, including processes, schematics, business methods, formulae, drawings, prototypes, models, designs and computer and supplier lists; (4) copyrights (including copyrights in computer software, Internet websites and databases) and registrations and applications for registration of the foregoing, and all renewals, extensions, restorations and reversions thereof; and (5) all other intellectual property or proprietary rights.

“Knowledge” means (1) with respect to Purchaser, the actual knowledge of the officers of Purchaser as listed on the Purchaser Knowledge Schedule and (2) with respect to Seller, the actual knowledge of the officers of Seller as listed on the Seller Knowledge Schedule.

“Law” means any law, statute, ordinance, rule, regulation, code, order, judgment, injunction or decree enacted, issued, promulgated, enforced or entered by a Governmental Entity.

“Lien” means, with respect to any property, any lien, pledge, security interest, hypothecation, mortgage, deed of trust, easement, lease, sublease, option to purchase, or similar encumbrance or restriction relating to such property; provided, however, that no Lien shall be deemed to be created by this Agreement and the definition of Lien shall exclude any (1) Liens for Taxes, assessments or governmental charges or levies not yet due and payable or which although delinquent can be paid without penalty or are being contested in good faith by appropriate proceedings; (2) Liens imposed by Law, such as carriers’, warehousemen’s and mechanics’ Liens and other similar liens arising in the ordinary course which secure payment of obligations not more than ninety (90) days past due or which are being contested in good faith by appropriate proceedings; (3) defects or imperfections of title, easements, covenants, rights-of-way, restrictions and other similar charges or encumbrances that do not materially impair the value or materially interfere with the present use of the Purchased Real Property, Retained ATMs, Real Property Leases or ATM Real Property Leases; (4) with respect to any Real Property Leases or ATM Real Property Leases, the interests and rights of the respective lessors with respect thereto, including any statutory landlord liens thereon; and (5) with respect to any Purchased Real Property, Real Property Leases or ATM Real Property Leases, the interests and rights of the respective lessees or sublessees pursuant to the Third-Party Real Property Leases with respect thereto.

“Loans” means all loans or other extensions of credit, interests in loan participations and assignments, customer liabilities on bankers acceptances as well as legally binding commitments and obligations to extend credit (including any unfunded or partially funded revolving loans, lines of credit, overdraft lines of credit and courtesy extensions or similar arrangements, and including short-term municipal investments (such as bond anticipation notes and revenue anticipation notes)).

“Loan Documents” means the Loan files and Seller’s documents with respect to a Loan, including loan applications, security agreements, deeds of trust, collectors notes, appraisals, credit reports, disclosures, titles to collateral (titles to cars, boats, etc.), all verifications (including employment verification, deposit verification, etc.), financial statements of borrowers and guarantors, independently prepared financial statements, commitment letters, loan agreements including building and loan agreements, guarantees, pledge agreements, intercreditor agreements, security and collateral agreements, sureties and insurance policies (including title insurance policies) and all written modifications, waivers and consents relating to any of the foregoing.

“Losses” has the meaning specified in Section 12.2(a).

“Material Adverse Effect” means any fact, change, event, condition or effect that is, individually or in the aggregate, materially adverse to the Purchased Assets and the Assumed Liabilities, taken as a whole; provided, however, that “Material Adverse Effect” shall not include any fact, change, event, condition or effect to the extent relating to or arising out of, directly or indirectly, (1) changes in general economic, legal, regulatory or political conditions (including the outbreak or escalation of hostilities, war, act of war, acts of terrorism, sabotage, natural disasters, public health emergencies or other force majeure events, whether, as applicable, declared or undeclared and whether in or outside the United States); (2) general financial and capital market conditions, including interest rates, or changes therein; (3) general industry conditions affecting financial institutions; (4) changes in Law, GAAP or regulatory accounting principles, or authoritative interpretations thereof, after the date of this Agreement; (5) any action or omission required to be taken or omitted to be taken pursuant to the express terms of this Agreement; (6) any change or circumstance (including any loss of business, accounts, employees, clients, customers or other business relationships) to the extent resulting from the execution of this Agreement, the public announcement thereof, the identity of Purchaser as the intended purchaser of the Transferred Business; (7) the failure of the Transferred Business to meet any financial estimates or projections, but not any underlying causes thereof; or (8) any items that are Previously Disclosed; provided that in the case of clauses (1) through (4), only to the extent that such items do not have a disproportionate adverse effect on the Purchased Assets and Assumed Liabilities, taken as a whole, as compared with other businesses similar to the Transferred Business.

“Material Change of Work Location” means a change in a Branch Employee’s work location from the Branch Employee’s Existing Work Location, such that: (1) the distance between such Branch Employee’s new work location and the Existing Work Location exceeds 20 miles (one way); (2) the number of miles between such Branch Employee’s home and such Branch Employee’s new work location exceeds the number of miles between such Branch Employee’s home and the Existing Work Location; and (3) the number of miles between such Branch Employee’s home and such Branch Employee’s new work location exceeds 40 miles.

“Net Book Value” means with respect to an asset or liability, the book value of such asset or liability, as applicable, as reflected in Seller’s books and records. For the avoidance of doubt, no Tax assets or Tax liabilities shall be reflected.

“Nonperforming Loan” means, as of the Effective Time on the Closing Date, any Loan with respect to which (1) any principal or interest shall be due and unpaid by the obligor thereunder for more than sixty (60) days prior to the Closing Date; (2) an obligor has filed or has had filed against such obligor proceedings in bankruptcy, trusteeship or receivership and Seller has been notified of such filing; (3) the loans or receivables have been completely charged off; (4) the balance is no longer owed by the obligor as a result of a settlement agreement between the obligor and Seller or any of its Subsidiaries; (5) there are pending legal proceedings with respect to the obligor’s inability or refusal to pay principal or interest due on such Loan; or (6) Seller has Knowledge that such Loan will not be repaid in full.

“Outside Date” means December 31, 2018, provided, that if on the Outside Date all conditions to closing contained in Article X that are capable of being completed prior to the Closing Date, other than the receipt of the Regulatory Approvals, have been satisfied or waived, each of Seller and Purchaser may, upon written notice to the other, automatically extend the Outside Date to March 31, 2019. If Seller or Purchaser elects to extend the Outside Date, all references in this Agreement to the “Outside Date” will be to the Outside Date as extended.

“Part-Time Employee” means Branch Employees who are scheduled to work between 17.5 and 29 hours per week and are identified as “Part-Time” on Seller’s HRMS.

“Post-Closing Period” means any taxable period (or portion thereof) beginning at and after the Effective Time.

“Pre-Closing Period” means any taxable period (or portion thereof) ending prior to the Effective Time.

“Premium” has the meaning specified in Section 3.1(a).

“Prepaid Expenses” means all prepaid charges, rents and fees of Seller or its Affiliates to the extent relating to the Transferred Business, existing as of the Effective Time, the benefit of such prepaid charges to be transferred to or assumed by Purchaser in connection with the Closing, valued, in each case, as set forth on the general ledger of Seller.

“Previously Disclosed” means, as of any given date on or before the date of this Agreement, that the existence of a fact or condition was disclosed by one party to the other party, through a Schedule or the Disclosure Schedules.

“Purchase Price” has the meaning specified in Section 3.1.

“Purchased Assets” means: the (1) Purchased Real Property; (2) Real Property Leases; (3) Purchased Personal Property; (4) Purchased ATMs; (5) ATM Real Property Leases; (6) Purchased Loans; (7) Assumed Contracts; (8) Records; (9) Cash on Hand; (10) Prepaid Expenses; (11) Security Deposits; (12) Purchased Overdrafts; (13) the benefits, rights, rights of action and claims (express or implied) related to the foregoing and to the Assumed Liabilities; and (14) the amount of, and all rights to, any property insurance proceeds, if any, received by Seller after the date hereof in respect of the loss, destruction or condemnation of any Purchased Assets occurring prior to the Closing to the extent not previously applied to the repair or replacement of any such lost, destroyed or condemned Purchased Asset prior to the Closing.

“Purchased ATMs” means the ATM units that are owned by Seller or any of its Affiliates in connection with the Transferred Business, a list of which, as of the date hereof, is set forth on the Purchased ATM Schedule.

“Purchased Loans” means the Loans made or purchased by Seller or any of its Subsidiaries in connection with the Transferred Business that are listed on the Purchased Loan Schedule (as it may be updated pursuant to Section 3.4(b)), together with all Contracts evidencing or executed and delivered in connection with such Loans and including all obligations to make additional extensions of credit thereunder and all related collateral, excluding, in each case, Nonperforming Loans.

“Purchased Overdrafts” means overdrafts (whether specifically extended or as a courtesy) of the book balance of any Assumed Deposit accounts as reflected on the Assumed Deposits Schedule (as it may be updated pursuant to Section 3.4(b)).

“Purchased Personal Property” means the furniture, building equipment, materials and supplies owned by Seller and its Subsidiaries as of the Closing Date and located at the Branches, but excluding all Seller branded items, artwork, office equipment, computer equipment, any items of historical significance, proprietary systems, proprietary materials or other Intellectual Property located at the Branches.

“Purchased Real Property” means the real property listed on the Purchased Real Property Schedule and related improvements and fixtures (including any ATMs located on such real property), together with all assignable real property rights, benefits and appurtenances pertaining thereto.

“Purchaser” has the meaning specified in the Preamble.

“Real Property Leases” means Seller’s rights as tenant under the real property leases, subleases, licenses or other Contracts listed on the Real Property Lease Schedule.

“Records” means the books, records and data relating to the Transferred Business that are included in the conversion file (as contemplated by the Conversion Plan) delivered by Seller to Purchaser in connection with Closing, as well as, all real property files with respect to Purchased Real Property (including Third-Party Real Property Leases), Real Property Leases and ATM Real Property Leases, and Transferred Business Relationship Information, but excluding (for the avoidance of doubt): (1) corporate minute books and, except for Forms W-8 and W-9 and similar tax forms provided to Seller or any of its Subsidiaries by customers of the Transferred Business, Tax records of Seller or any of its Affiliates, (2) personnel files and records (other than as otherwise contemplated by Section 8.1(j)) and (3) books and records to the extent relating to accounts that have terminated prior to Closing or the Retained Businesses; provided, that Seller shall not unreasonably withhold any Records related to the Transferred Business or reasonably required to operate the Transferred Business, subject to the limitations set forth on the Records Schedule; provided further, that Seller and its Subsidiaries shall have the right to retain copies of all Records that are part of the Purchased Assets and to use such Records to the extent reasonably necessary for Tax, regulatory, litigation or other legitimate, non-competitive purposes.

“Regulatory Approvals” means the approvals of Governmental Entities set forth on the Regulatory Approvals Schedule.

“Release” shall mean any release, migration, seepage, discharge, or disposal into the Environment, including as any of the foregoing may be defined in or pursuant to any Environmental Laws.

“Retained ATMs” means those ATMs listed on the Retained ATMs Schedule.

“Retained ATM Leases” has the meaning specified in Section 4.2(a)(7).

“Retained Businesses” means any business or operations of (1) Seller not expressly included in the Transferred Business, including the business of mortgage lending, credit card lending, indirect automobile loans and leases, corporate and business banking, including any deposits associated with corporate and business banking (other than business banking conducted by Seller in its Business Direct channel) and providing wealth management, brokerage and financial advisory services and (2) any Affiliate of Seller.

“Retained Employees” means those employees of Seller or any of its Affiliates who are not Branch Employees.

“Safe Deposit Agreements” means all safe deposit Contracts and leases for safe deposit boxes located at the Branches.

“Security Deposits” means the aggregate amount of any funds remitted (1) by Seller or any of its Subsidiaries to a third party or (2) by a third party to Seller or any of its Subsidiaries and, in each case, held in escrow as security in connection with any Real Property Lease, ATM Real Property Lease, Third-Party Real Property Lease, Assumed Contract or other transaction listed on Security Deposit Schedule (as it may be updated pursuant to Section 3.4(b)).

“Seller” has the meaning specified in the Preamble.

“Seller Qualified Plan” has the meaning specified in Section 8.1(f).

“Seller’s Severance Plan” has the meaning specified in Section 8.1(e)(1).

“Sublease Agreement” has the meaning specified in Section 7.8(b).

“Subsidiary” of a person means any other person Controlled by such person.

“Tax” means any tax of any kind, including any federal, state, local and foreign income, profits, license, severance, occupation, windfall profits, capital gains, capital stock, transfer, registration, social security (or similar), production, franchise, gross receipts, payroll, sales, employment, use, property, excise, value added, estimated, stamp, alternative or add-on minimum, environmental, withholding and any other tax or like assessment, together with all interest, penalties and additions imposed with respect to such amounts and including any obligation to indemnify or otherwise assume or succeed to the liability of any other person for the foregoing.

“Tax Return” means any return, declaration, report, claim for refund or information return or statement filed or required to be filed with any Taxing Authority relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“Taxing Authority” means any Governmental Entity having or purporting to exercise jurisdiction with respect to any Tax.

“Third-Party Claim” has the meaning specified in Section 12.4(a).

“Third-Party Real Property Leases” means Seller’s rights as landlord under the real property leases, licenses or other Contracts listed on the Third-Party Real Property Leases Schedule.

“Trademarks” means trademarks, service marks, certification marks, collective marks, Internet domain names, e-mail addresses, logos, product names and slogans, symbols, trade dress, assumed names, fictitious names, trade names, d/b/a’s, brand names, business names, corporate names and any and every other form of trade identity and other indicia of origin, whether registered or unregistered, all applications and registrations for the foregoing, including all renewals of same, and all goodwill associated therewith and symbolized thereby.

“Transfer Taxes” means all U.S. federal, state and local excise, sales, use, value added, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar taxes and fees that may be imposed or assessed in connection with the transfer of the Transferred Business as contemplated under this Agreement, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties.

“Transferred Branch Employee” has the meaning specified in Section 8.1(a).

“Transferred Business” means the branch-based retail banking business currently conducted by Seller in and through the Branches, as represented by the Purchased Assets and Assumed Liabilities; provided, however, that the term “Transferred Business” shall not include any operations or businesses that are part of the Retained Businesses or related to any Excluded Assets and shall not include any Intellectual Property.

“Transferred Business Relationship Information” means, to the extent relating to the Transferred Business, (1) all personally identifiable and all other customer identifying information, (2) all account information and transaction information, relating to such relationships covering at least the last twelve (12) months; provided that all Loan Documents required to be provided pursuant to this Agreement shall not be subject to such twelve (12) month time restriction, (3) related online banking profile information (including payees and transferees, recurring payment information and ACH and wire transfer templates, but not including passwords) and (4) signature cards and account preferences. To the extent that a banking or other financial relationship with respect to the Transferred Business involves an individual or other person that is also a customer of Seller or its Affiliates with respect to the Retained Businesses, the foregoing definition is intended to encompass the personally identifiable and other personal or person-identifying information of such customer in connection with the banking or other financial relationships of the Transferred Business and does not include such personally identifiable and other personal or Person-identifying information of such customer solely related to the banking or other financial relationships of the Retained Businesses. Purchaser shall reimburse Seller for all reasonable, documented out-of-pocket costs and expenses of Seller relating to or arising from gathering and transferring the Transferred Business Relationship Information to Purchaser.

“UCC” means the Uniform Commercial Code, as in effect in, as applicable, Indiana, Michigan, Ohio, Wisconsin and any other applicable state.

“WARN Act” means the federal Worker Adjustment and Retraining Notification Act of 1988 or any similar state, local, or foreign Laws with respect to any event affecting Branch Employees.

Section 1.2 Interpretation.

(a) In this Agreement, except as context may otherwise require, references: (1) to the Preamble, Recitals, Articles, Sections or Schedules shall refer, respectively, to the Preamble, Recitals, Articles, or Sections of or Schedules to, this Agreement; (2) to this Agreement are to this Agreement, the Disclosure Schedules and the Schedules to it, taken as a whole; (3) to the “transactions contemplated hereby” include the transactions provided for in this Agreement; (4) to any agreement (including this Agreement) or Contract are to the agreement or Contract as amended, modified, supplemented, restated or replaced from time to time, to the extent permitted by the terms thereof; (5) to any applicable Law refer to such applicable Law as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under such statute) and references to any section of any applicable Law or other law include any successor to such section; (6) references to any Governmental Entity include any successor to that Governmental Entity; (7) using the words “hereof,” “herein,” and “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement; (8) to a “person” means an individual, a corporation, a partnership, an association, a limited liability company, a Governmental Entity, a trust or other entity or organization; (9) to the terms defined in the singular have a comparable meaning when used in the plural, and vice versa; (10) the terms “dollars”, “cents” and “\$” mean U.S. Dollars and Cents; (11) to any gender include the other gender; and (12) to the phrase “date hereof” or “date of this Agreement” refer to June 4, 2018.

(b) Wherever the word “include,” “includes,” or “including” is used in this Agreement, it shall be deemed to be followed by the words “without limitation”.

(c) The table of contents and headings contained in this Agreement are for reference purposes only and do not limit or otherwise affect any of the provisions of this Agreement.

(d) This Agreement is the product of negotiation by the parties, each having the assistance of counsel and other advisers. The parties intend that this Agreement not be construed more strictly with regard to one party than with regard to any other.

ARTICLE II

TRANSFER OF THE BUSINESS

Section 2.1 Purchase and Sale of Purchased Assets.

(a) On the terms and conditions of this Agreement, at the Closing (and effective as of the Effective Time), Seller will sell, assign, transfer, convey and deliver to Purchaser, free and clear of all Liens, and Purchaser will purchase, acquire and accept from Seller, the Purchased Assets.

(b) Notwithstanding anything to the contrary contained in Section 2.1(a), Purchaser will not purchase, assume or otherwise acquire, and Seller and its Affiliates will retain all the rights, title and interest in and to, the Excluded Assets and any Retained Business.

(c) Purchaser understands and agrees that it is purchasing only the Purchased Assets (and assuming only the Assumed Liabilities) specified in this Agreement and, except as may be expressly provided for in this Agreement, Purchaser has no interest in any other relationship that Seller or any of its Affiliates has or may have with any Branch Customer or any other customer of Seller or any of its Affiliates. Purchaser further understands and agrees that Seller and its Affiliates are retaining any and all rights and claims which any of them may have, including indemnification or reimbursement rights, with respect to the Purchased Assets and the Assumed Liabilities, to the extent that such rights or claims relate to the conduct of the Transferred Business prior to the Closing Date, unless such rights or claims relate to liabilities, duties, responsibilities and obligations that are included in the Assumed Liabilities.

Section 2.2 Assumption of Liabilities.

(a) *Assumed Liabilities.* From and after the Closing (and effective as of the Effective Time), Purchaser will assume, and will pay, perform and discharge as they become due, the Assumed Liabilities. Without prejudice to Purchaser's rights under Article XII, Purchaser's obligations under this Section 2.2(a) shall not be subject to offset or reduction by reason of any actual or alleged breach of any representation, warranty or covenant contained in this Agreement or any document delivered in connection herewith or any right or alleged right to indemnification hereunder or thereunder. All periodic fees or charges shall be shared on a proportionate basis as of the Closing Date in accordance with Section 3.4(c).

(b) *Excluded Liabilities.* Notwithstanding anything to the contrary set forth in Section 2.2(a), other than the Assumed Liabilities, neither Purchaser nor any of its Subsidiaries will assume any liability or obligation of Seller or any of its Affiliates, and Seller and its Affiliates shall retain all of their respective liabilities and obligations other than the Assumed Liabilities (collectively, the "Excluded Liabilities").

Section 3.1 Sale and Transfer of Servicing. The Purchased Loans will, as applicable, be sold on a servicing-released basis and any related escrow deposits will be transferred to Purchaser. As of the Effective Time, all rights, obligations, liabilities and responsibilities with respect to the servicing of the Loans after the Effective Time will be assumed by Purchaser. Seller will be discharged and indemnified by Purchaser from all liability with respect to servicing of the Loans after the Effective Time and Purchaser will not assume and will be discharged and indemnified by Seller from all liability with respect to servicing of the Loans on or prior to the Effective Time.

ARTICLE III

PURCHASE PRICE AND ADJUSTMENTS

Section 3.1 Purchase Price. On the terms and subject to the conditions set forth herein, in consideration of the sale and transfer of the Purchased Assets and the Assumed Liabilities, Purchaser will pay to Seller the purchase price calculated as the sum of the following (the "Purchase Price"):

- (a) an amount equal to the amount specified in the Premium Schedule (the "Premium"); PLUS:
- (b) the aggregate face amount of Cash on Hand; PLUS
- (c) the sum of the aggregate Net Book Values, as of the Effective Time, of each of the following: the Purchased Real Property; the Purchased ATMs; the Purchased Loans (including Accrued Interest and Fees); the Purchased Overdrafts (including Accrued Interest and Fees); and the Prepaid Expenses and Security Deposits (other than the Security Deposits forming part of the Assumed Liabilities).

Section 3.2 Interim Financial Information. Not later than the tenth (10th) day of each month, beginning in July, 2018, and continuing until the Closing Date, Seller shall deliver to Purchaser updated Branch financial information so that it is presented as of the most recently completed month end. The Branch financial information referred to in this Section 3.2 will be prepared by Seller using the same methodologies, criteria and practices used by Seller to prepare the Branch financial information Previously Disclosed to Purchaser.

Section 3.3 Closing Statement and Closing Payment.

(a) Not later than five (5) Business Days prior to the Closing Date, Seller shall deliver to Purchaser a statement substantially in the form of Exhibit 3.3 (the “Closing Statement”) showing the calculation of the Purchase Price as of the most recent available month end prior to the Closing Date.

(b) At the Closing, Seller shall pay to Purchaser an amount equal to the Net Book Value of the Assumed Liabilities (including Accrued Interest and Fees thereon) as of the most recent date reasonably available, but in no event as of a date earlier than the date of the most recent available month end, *less* the Purchase Price (as calculated pursuant to Section 3.3(a) (such amount, the “Closing Payment”).

(c) In connection with delivery of the Closing Statement, Seller shall deliver to Purchaser updated versions of the following schedules, so that they are presented as of the most recent available month end prior to the Closing Date: Assumed Contracts Schedule, Assumed Deposits Schedule, Security Deposits Schedule and Purchased Loans Schedule. The schedules referred to in this Section 3.3(c) will be prepared by Seller using the same methodologies, criteria and practices used by Seller to prepare the Schedules delivered in connection with this Agreement.

Section 3.4 Final Closing Statement, Allocation of Fees and Expenses, and Post-Closing Adjustment.

(a) Not later than thirty (30) Business Days after the Closing Date, Seller shall deliver to Purchaser a statement, substantially in the form of Exhibit 3.3, showing the calculation of the Purchase Price as of the Effective Time, and prepared using the same methodologies, criteria and practices used in the preparation of the Closing Statement, and reflecting the Purchased Assets and Assumed Liabilities, on the Final Schedules (the “Final Closing Statement”); provided that, (i) in relation to the Premium amount, the balances, inclusive of interest and fees, of the Assumed Deposits shall be reconciled with the balance of Assumed Deposits set forth in the final conversion file referenced in Section 7.12(a), and (ii) the amount of the Net Book Value of the Purchased Loans reflected on such Final Closing Statement shall include the Accrued Interest and Fees for each Purchased Loan as reconciled with the final conversion file referenced in Section 7.12(a). Seller shall afford Purchaser and its directors, officers, employees, accountants, attorneys and advisors reasonable access to all relevant work papers, books, records, facilities, personnel, schedules and any other documentation used by Seller, its Affiliates or its directors, officers, employees, accountants and advisors in preparing the updated Branch financial information, Schedules to be delivered pursuant to Section 3.3(c), Final Schedules, Closing Statement and Final Closing Statement, and to any other information which Purchaser reasonably requests in connection with its review thereof, and Seller shall, and shall cause its Subsidiaries to, cooperate reasonably with Purchaser and its Affiliates and their respective representatives in connection therewith.

(b) In connection with delivery of the Final Closing Statement, Seller shall deliver to Purchaser updated versions of the following schedules, so that they are presented as of the Effective Time (such schedules, collectively, the “Final Schedules”): Assumed Contracts Schedule, Assumed Deposits Schedule, Security Deposits Schedule and Purchased Loans Schedule. The Final Schedules will be prepared by Seller using the same methodologies, criteria and practices used by Seller to prepare the Schedules delivered in connection with this Agreement.

(c) Except as otherwise provided herein, to effect the intention of the parties that the revenue and fees and expenses associated with the Transferred Business will be for the account of Seller up to the Effective Time and thereafter will be for the account of Purchaser, all fees and expenses with respect to the Transferred Business that related to both the period before and the period after the Effective Time, will be prorated between Purchaser, on the one hand, and Seller, on the other hand, based on the full amount of the latest available bills or statements on the basis of a three hundred sixty-five (365)-day calendar year (except to the extent accrued on a three hundred sixty (360)-day calendar year, in which case proration shall be based on a three hundred sixty (360)-day calendar year) as of the Effective Time. Each of Seller and Purchaser will cooperate and provide supporting information to determine the amount and proration of such fees or expenses. Any necessary payments to reflect such proration shall be reflected in the Final Closing Statement. To the extent that any fees or expenses described in this Section 3.4(c) are not discovered or the actual amount thereof is not known prior to the final determination of the Final Closing Statement, the parties shall cooperate with one another so that Seller and Purchaser each pays its appropriate share of any such fee or expense, depending upon whether such fee or expense relates to the period before or after the Effective Time.

(d) Except as otherwise expressly provided herein, the determination of the Final Closing Statement will be final and binding on the parties hereto, unless, within thirty (30) Business Days after receipt by Purchaser of the Final Closing Statement, Purchaser notifies Seller in writing of its disagreement with any amount included therein or omitted therefrom, in which case, if the parties are unable to resolve the disputed items within ten (10) Business Days of the receipt by Seller of notice of such disagreement, such items shall be determined by a nationally recognized independent accounting firm selected by mutual agreement between Seller and Purchaser. Such accounting firm will be instructed to resolve the disputed items within ten (10) Business Days of engagement, to the extent reasonably practicable. The determination of such accounting firm will be final and binding on the parties hereto. The costs and expenses of the accounting firm shall be allocated between Purchaser and Seller based upon the percentage of the dollar value of the disputed amounts (as submitted to the accounting firm) determined in favor of the other party by the accounting firm bears to the dollar value contested by such party. For example, if Purchaser submits a disagreement to the Final Closing Statement to the accounting firm for \$1,000, and Seller contests only \$500 of the amount claimed by Purchaser, and if the accounting firm ultimately resolves the dispute by awarding Purchaser \$300 of the \$500 contested, then the costs and expenses of the accounting firm will be allocated 60% (i.e., 300/500) to Seller and 40% (i.e., 200/500) to Purchaser.

(e) Not later than the second (2nd) Business Day following the determination of the Final Closing Statement, Seller and Purchaser will effect the transfer of any funds as may be necessary to reflect differences between the Closing Statement and the Final Closing Statement and resulting adjustments to the calculation of the Closing Payment, together with interest thereon computed from the Closing Date up to, but not including, the date of such payment at the Federal Funds Rate; provided, however, that if Purchaser timely provides the disagreement notice referred to in Section 3.4(d), within two (2) Business Days of the date of such notice, Seller and Purchaser shall effect the transfer of any funds as may be necessary to reflect the undisputed portion of the Final Closing Statement and the resulting adjustments to the calculation of the Closing Payment, together with interest thereon computed from the Closing Date up to, but not including, the date of such payment at the Federal Funds Rate.

Section 3.5 Delivery of the Loan Documents. As soon as reasonably practicable after the Closing Date, Seller shall deliver to Purchaser or its designee the Loan Documents, actually in the possession or control of Seller or any of its Affiliates. Seller makes no representation or warranty to Purchaser regarding the condition of the Loan Documents or any single document included therein, or Seller's interest in any collateral securing any Loan, except as specifically set forth herein. If any Loan Documents are not in the possession or control of Seller on the Closing Date, Seller shall use reasonable best efforts to obtain those Loan Documents and deliver them to Purchaser as soon as practicable after the Closing Date.

Section 3.6 Allocation of Purchase Price. The parties hereto agree to report the allocation of the total consideration including any Assumed Liabilities as determined for U.S. federal income Tax purposes among the Purchased Assets in a manner consistent with Section 1060 of the Code and report such allocation on Form 8594 and any other forms or statements required by the Code, Treasury regulations, the Internal Revenue Service or any applicable state or local Taxing Authority. Within 45 days of the Closing Date, Purchaser will deliver to Seller its proposed allocation on Form 8594. The parties will discuss Purchaser's proposed allocation in good faith; provided, however, each party will be entitled to report the allocation it determines appropriate (pursuant to Section 1060 of the Code) to the Internal Revenue Service or any applicable state or local Taxing Authority.

ARTICLE IV

THE CLOSING

Section 4.1 Closing Time and Place. The closing with respect to the transactions contemplated by this Agreement (the “Closing”) will take place at 10:00 a.m., New York time at the offices of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York 10004, on (1) the date set forth in Schedule 4.1 or (2) such other time and date as Purchaser and Seller may agree in writing (in either case, the “Closing Date”). The Closing shall be deemed effective as of the Effective Time.

Section 4.2 Closing Documents.

(a) *Deliveries of Seller*.

(1) At the Closing, Seller shall deliver the following documents to Purchaser, all of which shall be in a form reasonably satisfactory to Purchaser:

(2) the updated Schedules contemplated by Section 3.3(c);

(3) the officers’ certificates contemplated by Section 10.3(c);

(4) a special warranty deed with a covenant against grantor’s acts (or its substantive local law equivalent) for each parcel of the Purchased Real Property together with any real property transfer tax declarations, if required under applicable law;

(5) a seller’s affidavit and GAP undertaking in substantially the form attached as Exhibit 4.2(a)(5) hereto, with such modifications, if any, and such supporting documentation (e.g., organizational documents and confirmation of corporate authority, but not including any modifications or documentation that would impose or require Seller to incur any additional expense or liability) as reasonably may be required by the Purchaser’s title insurance company to enable such company to issue title insurance in respect of each parcel of the Purchased Real Property;

(6) a duly executed bill of sale and assignment and assumption agreement, in substantially the form attached hereto as Exhibit 4.2(a)(6) (the “Bill of Sale and Assignment and Assumption Agreement”), evidencing the transfer to Purchaser of the Purchased Assets and Purchaser’s assumption of the Assumed Liabilities;

(7) duly executed leases with respect to each Retained ATM in the form substantially as set forth in Exhibit 4.2(a)(7) (the “Retained ATM Leases”);

(8) a certification of non-foreign status of Seller, in a form reasonably acceptable to Purchaser, satisfying the requirements of Treasury Regulations Section 1.1445-2(b)(2); provided that if Seller fails to provide such certification, Purchaser shall be permitted to withhold Tax from the consideration payable pursuant to this Agreement as required by Section 1445 of the Code;

(9) subject to the Conversion Plan, the Records (except to the extent that information contained in the Records relates to transactions or activity that occur prior to the Closing and it is not reasonably practicable to include such information in the Records as of the Closing, then Seller shall deliver such portion of the Records as promptly as practicable following the Closing); and

(10) subject to the Conversion Plan, the Loan Documents (except to the extent that information contained in the Loan Documents relates to transactions or activity that occur prior to the Closing and it is not reasonably practicable to include such information in the Loan Documents as of the Closing, then Seller shall deliver such portion of the Loan Documents as promptly as practicable following the Closing).

(b) *Deliveries of Purchaser.* At the Closing, Purchaser shall deliver the following documents to Seller, all of which shall be in form reasonably satisfactory to Seller:

- (1) the officer’s certificate contemplated by Section 10.2(c);
- (2) duly executed Retained ATM Leases; and
- (3) a duly executed Bill of Sale and Assignment and Assumption Agreement.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SELLER

Except as Previously Disclosed, Seller represents and warrants to Purchaser, as of the date hereof and as of the Closing Date (or as of such other date as may be expressly provided in any representation or warranty), as follows:

Section 5.1 Organization. Seller is a national banking association duly organized and validly existing under the laws of the United States. Seller has all requisite corporate power and authority to own the Purchased Assets and to carry on the Transferred Business as currently conducted by it and is duly qualified to do business as a foreign corporation or other entity in each jurisdiction where its ownership of the Purchased Assets and the conduct of the Transferred Business as currently conducted by it requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect.

Section 5.2 Authority; Capacity. Seller has the power and authority to enter into and perform this Agreement and any other documents executed pursuant hereto. This Agreement and any other documents executed pursuant hereto and the execution, delivery and performance hereof and thereof have been duly authorized and approved by (or when executed, will have been duly authorized and approved by) all necessary corporate action on the part of Seller, and this Agreement and the documents executed pursuant hereto constitute, or when executed will constitute, the valid and binding obligations of Seller (assuming due authorization and execution by Purchaser), enforceable against Seller in accordance with their terms, except as enforcement may be limited by receivership, conservatorship and the supervisory powers of bank regulatory agencies generally as well as by bankruptcy, insolvency, reorganization, moratorium or other laws of general applicability relating to or affecting creditors' rights, or the limiting effect of rules of Law governing specific performance, equitable relief and other equitable remedies or the waiver of rights or remedies (each of the foregoing, an "Enforceability Exception").

Section 5.3 Consents and Approvals. The execution, delivery and performance by Seller of this Agreement does not require, and will not require, any action by or in respect of, or filing with, any Governmental Entity by Seller, other than (a) in connection with the Regulatory Approvals that Purchaser will seek, (b) as applicable, the receipt of Authorizations described in Section 7.3 and (c) any filings or approvals required for the continued perfection or priority of any Lien under an Assumed Contract, except where the failure to take any such action or make any such filing would not reasonably be likely, individually or in the aggregate, to have a Material Adverse Effect.

Section 5.4 Non-Contravention. Subject to obtaining any necessary consents or approvals described in Section 5.3, the execution, delivery and performance of this Agreement by Seller does not and will not (1) breach or violate the governing documents of Seller, (2) breach or violate any applicable Law or (3) result in the creation or imposition of any Lien on any Purchased Asset, other than as a result of Purchaser's own circumstances, except, in the case of any of (1) - (3), as to any matters that are not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect.

Section 5.5 Compliance with Law. Seller conducts, and during the last three years has conducted, the Transferred Business in compliance with applicable Law, except as would not reasonably be likely, individually or in the aggregate, to have a Material Adverse Effect; provided that compliance with Law matters specifically addressed elsewhere in this Article V shall be governed by such specific representations and not this Section 5.5.

Section 5.6 Litigation and Related Matters. As of the date of this Agreement, there are no actions, suits, or proceedings (or, to the Knowledge of Seller, investigations), whether civil, criminal or administrative, against Seller or its Affiliates pending as of the date of this Agreement or, to the Knowledge of Seller, threatened as of the date of the Agreement specifically related to the Transferred Business, Purchased Assets or Assumed Liabilities, which would (1) reasonably be likely, individually or in the aggregate, to have a Material Adverse Effect or (2) prevent or materially delay Seller from being able to perform its material obligations under this Agreement.

Section 5.7 No Brokers or Finders. Except for Wells Fargo Securities LLC and Sandler O’Neill + Partners, L.P., whose fees will be paid by Seller or an Affiliate of Seller, there is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Seller or any of its Affiliates who might be entitled to any fee or commission from Seller or its Affiliates in connection with the transactions contemplated hereby.

Section 5.8 Operations. Since December 31, 2017 until the date of this Agreement, Seller has conducted the Transferred Business only in the ordinary course of business consistent with past practice in all material respects.

Section 5.9 Real Property Leases and ATM Real Property Leases.

(a) Seller has provided Purchaser with true and correct copies of all Real Property Leases and all ATM Real Property Leases. Each Real Property Lease and ATM Real Property Lease, as applicable, is in full force and effect in all material respects and Seller has a valid and subsisting leasehold interest in the leasehold estate under each of the Real Property Leases and ATM Real Property Leases, in each case free and clear of any Liens, and Seller is not in default in any material respect under the terms of any of the Real Property Leases or ATM Real Property Leases. To Seller’s Knowledge (1) there exists no default of any material nature by any landlord under any Real Property Lease or ATM Real Property Lease, as applicable, and (2) there exists no condition, state of facts or event that, with the passing of time or the giving of notice, or both, would constitute a default of any material nature by any landlord under a Real Property Lease or an ATM Real Property Lease (it being understood that when Seller remakes the foregoing representation as of the Closing Date, such representation will be subject to any changes in facts or circumstances that have been disclosed by Seller to Purchaser on or prior to the Closing Date). Each Real Property Lease and ATM Real Property Lease constitutes the legal, valid and binding obligation of Seller and, to the Knowledge of Seller, the landlord under such Real Property Lease or ATM Real Property Lease, and is enforceable in accordance with its terms subject, as to enforcement, to any applicable Enforceability Exceptions.

(b) To Seller’s Knowledge, Seller has not received any written notice of a condemnation proceeding relating to any real property that is subject to a Real Property Lease or ATM Real Property Lease, as applicable, that would materially affect a Real Property Lease or ATM Real Property Lease or Seller’s intended use of the property leased thereby.

Section 5.10 Purchased ATMs and Purchased Real Property.

(a) Seller owns each of the Purchased ATMs and the Retained ATMs and, on the Closing Date, Seller will convey title to the Purchased ATMs and lease to Purchaser the Retained ATMs pursuant to the Retained ATM Leases, in each case, free and clear of all Liens. Seller owns fee simple title to the Purchased Real Property, free and clear of all Liens, and on the Closing Date, Seller will convey fee simple title to the Purchased Real Property, free and clear of all Liens. Each Third-Party Real Property Lease is in full force and effect in all material respects and, to Seller's Knowledge, neither Seller nor the tenant or occupant under such Third-Party Real Property Lease is in default in any material respect under the terms thereof.

(b) To Seller's Knowledge, Seller has not received written notice from any Governmental Entity of any condemnation proceeding pending or presently threatened against any Purchased Real Property or any ATM real property or against the real property occupied by Seller pursuant to any Real Property Lease or any ATM Real Property Lease or against the real property occupied by the Retained ATMs, in each case which, if completed as commenced or threatened, would materially and adversely affect Seller's ability to utilize the subject real property for its intended use (it being understood that when Seller remakes the foregoing representation as of the Closing Date, such representation will be subject to any changes in facts or circumstances that have been disclosed by Seller to Purchaser on or prior to the Closing Date).

(c) Other than the rights of Purchaser pursuant to this Agreement, Seller has not granted, and, to Seller's Knowledge, there are no outstanding options, rights of first offer or first negotiation or rights of first refusal in favor of any other party to purchase any Purchased Real Property or any material portion thereof.

(d) The Branch buildings and facilities located within the Purchased Real Property (1) are in reasonably good condition and repair in all material respects, subject to reasonable wear and tear, (2) have access to public roads or valid easements for such ingress and egress, and (3) have access to water supply, storm and sanitary sewer facilities, telephone, gas and electrical connections and other basic utilities, in each case as sufficient to enable the Purchased Real Property to be used and operated in the manner currently being used by Seller, and (4) none of the Branches is dependent for its access, use or operation on any land, building, improvement or other property interest which is not included in the Purchased Real Property, including, without limitation, its appurtenances.

(e) Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, during the last three years Seller has not received any written notice, which remains outstanding, that any Purchased Real Property or Retained ATM, or Seller's use and operation thereof, is in violation in any material respect of any Laws.

Section 5.11 Assumed Deposits. The Assumed Deposits have been originated and administered in accordance with the terms of the respective governing documents and all applicable Laws, in each case, in all material respects. The Assumed Deposits are insured by the FDIC to the fullest extent permitted under Law and Seller has paid all deposit insurance assessments due with respect thereto.

Section 5.12 Purchased Loans.

- (a) Each Purchased Loan constitutes a legal, valid and binding obligation of the respective borrower(s) or obligor(s), enforceable, to the Knowledge of Seller, by the holder thereof in accordance with its terms subject, as to enforcement, to the Enforceability Exceptions. Each Purchased Loan is evidenced by legal, valid and binding instruments executed by the respective borrower(s) or obligor(s).
- (b) Each Purchased Loan is assignable to Purchaser, together with all collateral security therefor, without the consent of the respective borrower(s) or obligor(s). No Purchased Loan is subject to a participation, syndication or securitization.
- (c) Each Purchased Loan was originated by Seller or a Subsidiary of Seller: (1) in the ordinary course of business and consistent with Seller's policies and procedures for Loan origination and servicing in place at the time such Purchased Loan was made in all material respects and (2) in accordance with applicable Law, in all material respects. To the extent any Purchased Loan is secured, such Purchased Loan is secured by a valid, perfected and enforceable Lien on the secured property described in the applicable security agreement.
- (d) The Purchased Loan Schedule sets forth a list of each of the Purchased Loans, as of the date of such Schedule, including, for each Purchased Loan, the outstanding principal balance (including Accrued Interest and Fees) and maturity date. Each Purchased Loan has been serviced and administered in all material respects in accordance with (1) applicable Law; (2) Seller's loan servicing and operating procedures as in effect from time to time; and (3) the respective Contract governing each Purchased Loan.
- (e) Immediately following the sale of each Purchased Loan, Purchaser will own such Purchased Loan free and clear of any Liens other than any Lien created by virtue of Purchaser's purchase of such Purchased Loans.
- (f) None of the rights or remedies under the documentation relating to the Purchased Loans has been amended, modified, waived, subordinated or otherwise altered by Seller, except as evidenced by a written instrument which is a part of the file with respect to the Purchased Loans.
- (g) Except as set forth in this Section 5.12, Seller does not make any representation or warranty of any kind relating to the Purchased Loans and Seller shall not be responsible for: (1) any representation, warranty or statement made by an obligor or other party in or in connection with any Purchased Loan, (2) the financial condition or creditworthiness of any primary or secondary obligor under any Purchased Loan or any guarantor or surety or other obligor thereof, (3) the performance by the obligor or compliance with any of the terms or provisions of any of the documents, instruments and agreements relating to any Purchased Loan, or (4) inspecting any of the property, books or records of any obligor.

Section 5.13 Assumed Contracts. To the Knowledge of Seller, each party to any Assumed Contract (other than Real Property Leases and ATM Real Property Leases) to which Seller is a party has performed in all material respects its obligations thereunder to the extent that such obligations to perform have accrued, no party is in default under such Assumed Contracts and none of such Assumed Contracts was entered into outside the ordinary course of business of Seller (or its applicable predecessor in interest). Each such Assumed Contract constitutes the legal, valid and binding obligation of Seller and, to the Knowledge of Seller, the respective third party, and is enforceable in accordance with its terms subject, as to enforcement, to any applicable Enforceability Exceptions.

Section 5.14 Regulatory Matters. As of the date of this Agreement, there are no pending, or to the Knowledge of Seller, threatened disputes, controversies or other matters between or involving Seller and any Governmental Entity that (1) would reasonably be expected to prevent or materially delay Seller from being able to perform its obligations under this Agreement or (2) would reasonably be expected to impair the validity or consummation of this Agreement or the transactions contemplated hereby. As of the date hereof, Seller has not received any notice from any Governmental Entity indicating that such Governmental Entity would oppose or not promptly grant or issue its consent or approval, if requested, with respect to the transactions contemplated hereby and has no reason to believe that, if requested, any Governmental Entity required to approve the transactions contemplated hereby would oppose or not grant or issue its consent or approval promptly.

Section 5.15 Necessary Permits. Seller has all material permits, licenses, orders, ratings and approvals of all Governmental Entities necessary to operate the Transferred Business substantially as presently operated, and (1) all of such permits, licenses, orders, ratings and approval are in full force and effect in all material respects, and (2) to the Knowledge of Seller, no suspension or cancellation of any such permit, license, order, rating or approval has been threatened.

Section 5.16 Branch Employees and Benefits.

(a) The Branch Employees Schedule lists, as of the date set forth therein, to the extent permitted by Law, each Branch Employee's name, home address (including the zip code), job title, status (active or on approved leave and estimated return to work date if known), status as Full-Time or Part-Time Employee, annual base salary or hourly base pay rate, type of incentive plan, if applicable (i.e., discretionary or formulaic), the annual target percentage or modeled quarterly cash incentive bonus amount (if applicable), primary work location, exempt/non-exempt status under the Fair Labor Standards Act (as classified by Seller), recognized service with Seller or any of its Affiliates based on the Corporate Hire Date identified in Seller's Human Resources Management System ("HRMS"), and standard work hours identified in Seller's HRMS. No later than fifteen (15) Business Days prior to the Closing Date (and thereafter periodically from time to time prior to Closing to the extent necessary), Seller shall update the Branch Employees Schedule to reflect any newly hired Branch Employees, those Branch Employees whose employment has terminated, and any other change in the other information on the Branch Employees Schedule, in each case to the extent permitted by Section 7.1 of this Agreement.

(b) Schedule 5.16(b) sets forth an accurate and complete list of each material Employee Plan. “Employee Plan” shall mean each employee benefit or compensation plan, policy, program, agreement, arrangement or other obligation, including all pension, retirement, retiree medical, profit-sharing, thrift, savings, deferred compensation, compensation, employment, incentive, equity-based, change in control, severance, welfare, fringe benefit, perquisite and similar plan, policy, program, agreement or arrangement, whether or not in writing and whether or not funded, which is sponsored, maintained or contributed to by Seller or any of its Affiliates and, in each case, in which any Branch Employee is eligible to participate. Seller has made available to Purchaser copies of the summary plan descriptions with respect to each material Employee Plan subject to ERISA. Except as would not have a Material Adverse Effect, each Employee Plan is in compliance with applicable Laws, including, without limitation, ERISA and the Code.

(c) Each Employee Plan intended to be “qualified” within the meaning of Section 401(a) of the Code has been determined to be so qualified and, to the Knowledge of Seller, no event has occurred that could reasonably be expected to adversely affect the qualified status of any such Employee Plan.

(d) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (1) entitle any Branch Employee to any payment or (2) accelerate the time of payment or vesting, or increase the amount of compensation due to any such Branch Employee.

Section 5.17 Labor Contracts and Relations.

(a) With respect to the Branch Employees or the Transferred Business, (1) none of Seller or any of its Subsidiaries is a party to any collective bargaining agreement, contract, or other agreement or arrangement with a labor union, labor organization or other employee representative body and, to Seller’s Knowledge, there are no activities or proceedings by any individual or group of individuals, including representatives of any labor unions or labor organizations, to organize, or compel Seller or its Subsidiaries to bargain as to wages and conditions of employment of, any Branch Employees or any other employees at the Branches or of the Transferred Business, (2) except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of Seller or any of its Subsidiaries is the subject of a proceeding asserting it has committed an unfair labor practice nor, to the Knowledge of Seller, is any such proceeding threatened, and (3) there is no strike, lockout, slowdown, work stoppage or other labor dispute by the Branch Employees or otherwise impacting the Branches or the Transferred Business pending or, to Seller’s Knowledge, threatened.

(b) Each Branch Employee is authorized to work in the U.S. and is otherwise in compliance with all applicable visa requirements in all material respects.

(c) To Seller's Knowledge, Seller and its Subsidiaries are not delinquent in payments to any Branch Employees.

(d) To Seller's Knowledge, no Branch Employee is in violation of any term of (i) any employment contract, non-disclosure agreement, confidentiality agreement or consulting agreement with Seller or any of its Subsidiaries or (ii) any non-competition agreement, non-solicitation agreement or restrictive covenant with a former employer relating to the right of such employee to be employed by or provide services to the Transferred Business.

Section 5.18 Environmental Matters.

(a) To the Knowledge of Seller, each of Seller and its Subsidiaries is currently in compliance in all material respects with all Environmental Laws applicable to the Purchased Real Property and the property leased pursuant to the Real Property Leases and with respect to any operations or activities conducted by Seller or any of its Subsidiaries on such property, which compliance includes the possession of, and compliance with the terms of, any permits required under applicable Environmental Laws. To the Knowledge of Seller, neither Seller nor any of its Subsidiaries has received any written notice that there has been any failure of any material nature to comply with Environmental Laws applicable to the Purchased Real Property or the property leased pursuant to the Real Property Leases, and with any operations or activities conducted by Seller or any of its Subsidiaries on such property, except any such notice with respect to a failure to comply which has been fully resolved.

(b) As of the date of this Agreement, there is no suit, claim, demand, action, consent order, investigation or proceeding pending or, to the Knowledge of Seller, threatened in which Seller or any of its Subsidiaries or, with respect to threatened proceedings, could reasonably be expected to be named as a defendant, responsible party or potentially responsible party (1) for alleged noncompliance, with any Environmental Laws or (2) relating to the Release into or presence in the Environment of any Hazardous Materials, in either case at or on any Purchased Real Property or the property leased pursuant to the Real Property Leases.

(c) To the Knowledge of Seller there have been no Releases into the Environment of any Hazardous Materials in, on, from, under or affecting any Purchased Real Property or the property leased pursuant to the Real Property Leases which would reasonably be expected to have a material adverse impact on such property. During the last three years, neither Seller nor any of its Subsidiaries have received any requests for information under any Environmental Law from a Governmental Entity with respect to any Purchased Real Property or the property leased pursuant to the Real Property Leases.

(d) Notwithstanding any other representation and warranty in this Article V, the representations and warranties contained in this Section 5.18 constitute the sole representations and warranties of Seller relating to any Environmental Law or Hazardous Material (it being understood that when Seller remakes the foregoing representations in this Section 5.18 as of the Closing Date, such representations will be subject to any changes in facts or circumstances that have been disclosed by Seller to Purchaser on or prior to the Closing Date).

Section 5.19 Books and Records. The Records taken as a whole are, in the aggregate, accurate in all material respects and have been maintained in the ordinary course of business.

Section 5.20 Intellectual Property and Technology.

(a) To the Knowledge of Seller, the conduct of the Transferred Business as currently conducted does not infringe, misappropriate or otherwise violate the rights of any Person in any Intellectual Property. Seller has the right to transfer to Purchaser the Records and the contents thereof.

(b) The Transferred Business has during the last three years complied in all material respects with all applicable Seller rules, policies, and procedures then in effect, relating to privacy, data protection, and the collection, retention, protection, and use of personal information collected, used, or held for use in connection with the Transferred Business. To the Knowledge of Seller, in the last three (3) years, the Transferred Business has not experienced any material unauthorized access to any of the information or data included in the Records.

Section 5.21 Tax Matters. All material Tax Returns with respect to the Purchased Assets, the Assumed Liabilities, or the operation of the Transferred Business, that are required to be filed (taking into account any extension of time within which to file) before the Closing Date have been duly and timely filed, such Tax Returns are correct, true and complete in all material respects, and all Taxes shown to be due on such Tax Returns have been timely paid in full, withheld and/or timely remitted to the appropriate Taxing Authority, as applicable. There are no unpaid income Taxes with respect to the Transferred Business that, if remain unpaid after the Closing, would become payable by Purchaser. Seller has withheld and remitted to the appropriate Taxing Authority all material Taxes required to have been withheld and paid in connection with the Transferred Business. For all completed Tax years, Seller has sent to each account holder, to the extent required by applicable Tax Law, with respect to the Assumed Deposits all Internal Revenue Service forms required by Law (or a substitute form permitted by Law) relating to the interest, earnings, or dividends paid on the Assumed Deposits for those periods.

Section 5.22 No Other Representations and Warranties.

(a) Except as expressly set forth in this Article V, Seller, and no other person on behalf of Seller, has made or makes any express or implied representations or warranties. Purchaser represents, acknowledges and agrees that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby, it has relied solely upon the express representations and warranties of Seller set forth in this Article V.

(b) Except as specified in Section 5.9, Section 5.10 and Section 5.18, and without limiting the generality of Section 5.22(a), Seller makes no representations or warranties, express or implied, of any type or nature with respect to the physical condition of the Purchased Real Property or the property leased pursuant to the Real Property Leases, or the ATM Real Property Leases, and Seller's interests in the foregoing are being sold "AS IS," "WHERE IS" AND "WITH ALL FAULTS, LIABILITIES, AND DEFECTS, LATENT OR OTHERWISE, KNOWN OR UNKNOWN," with no rights of recourse against Seller or its Affiliates for same. Without limiting Purchaser's rights under Section 12.2(a)(1) with respect to the representations and warranties set forth in Section 5.9, Section 5.10 and Section 5.18, and without limiting the generality of Section 5.22(a), Purchaser hereby agrees that, by closing this transaction, Purchaser releases Seller and any of its Affiliates from, and waives, any claims which Purchaser may now or hereafter have against Seller or any of its Affiliates, directors, officers, employees, agents or representatives relating to the condition of the Purchased Real Property or the property leased pursuant to the Real Property Leases and the ATM Real Property Leases.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Except as Previously Disclosed, Purchaser represents and warrants to Seller, as of the date hereof and as of the Closing Date (or as of such other date as may be expressly provided in any representation or warranty) as follows:

Section 6.1 Organization. Purchaser is a federal savings bank duly organized, validly existing and in good standing under the Laws of the United States. Purchaser has all corporate power and authority to own the Purchased Assets and to carry on the Transferred Business and, subject to receipt of the Regulatory Approvals, is duly qualified to do business in and is in good standing as a foreign corporation or other entity in each jurisdiction where the ownership of the Purchased Assets and the conduct of the Transferred Business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect.

Section 6.2 Authority; Capacity. Purchaser has the power and authority to enter into and perform this Agreement and any other documents executed pursuant hereto. This Agreement and any other documents executed pursuant hereto, and the execution, delivery and performance hereof and thereof have been duly authorized and approved by (or when executed will have been duly authorized and approved by) all necessary corporate action on the part of Purchaser, and this Agreement and documents executed pursuant hereto constitutes, or when executed will constitute, the valid and binding obligations of Purchaser (assuming due authorization and execution by Seller), enforceable against Purchaser in accordance with their terms, except as enforcement may be limited by any applicable Enforceability Exceptions.

Section 6.3 Consents and Approvals.

(a) The execution, delivery and performance by Purchaser of this Agreement does not require, and will not require, any action by or in respect of, or filing with, any Governmental Entity by Purchaser, other than (1) compliance with the requirements of applicable Law, (2) in connection with the Regulatory Approvals or (3) as applicable, the receipt of Authorizations described in Section 7.3.

(b) As of the date of this Agreement, there are no pending, or to the Knowledge of Purchaser, threatened disputes or controversies between Purchaser or any of its Affiliates and any Governmental Entity, including, with respect to capital requirements, that (1) would reasonably be expected to prevent or delay Purchaser from being able to perform its obligations under this Agreement or (2) would reasonably be expected to impair the validity or consummation of this Agreement or the transactions contemplated hereby. As of the date of this Agreement, Purchaser has not received any indication from any Governmental Entity that such Governmental Entity would oppose or refuse to grant or issue its consent or approval, if required, with respect to the transactions contemplated hereby and has no reason to believe that, if requested, any Governmental Entity required to approve the transactions contemplated hereby would oppose or not promptly grant or issue its consent or approval.

(c) As of the date of this Agreement, both currently and after giving effect to the transactions contemplated hereby (on a pro forma basis) Purchaser meets, and will meet, upon consummation of the transaction contemplated by this Agreement, all capital requirements, standards and ratios required by each state, federal or foreign regulator with jurisdiction over Purchaser, including any such higher requirement, standard or ratio as applied to Purchaser by any state, federal or foreign regulator, and Purchaser has no reason to believe that any such regulator is likely to, or has indicated that it will, condition any of the Regulatory Approvals upon an increase in Purchaser's capital or compliance with any additional capital requirement, standard or ratio that is not already met by Purchaser (both currently and on a pro forma basis).

(d) The deposits of Purchaser and its Subsidiaries are insured by the FDIC to the fullest extent permitted under Law, and Purchaser has paid all deposit insurance assessments due with respect thereto.

(e) Purchaser was rated at least satisfactory following its most recent Community Reinvestment Act examination by the regulatory agency responsible for its supervision and has no reason to believe that its current Community Reinvestment Act examination rating will be downgraded following its next Community Reinvestment Act examination. As of the date of this Agreement, Purchaser has received no notice of and has no Knowledge of any planned or threatened objection by any community group to the transactions contemplated hereby.

Section 6.4 Non-Contravention. Subject to obtaining any necessary consents or approvals described in Section 7.3(a), the execution, delivery and performance of this Agreement by Purchaser does not and will not (1) breach or violate the governing documents of Purchaser or (2) breach or violate any applicable Law, except, in each case for any breach or violation that would not prevent or materially delay Purchaser from being able to perform its obligations under this Agreement in all material respects and to obtain promptly the Regulatory Approvals.

Section 6.5 Compliance with Laws. Each of Purchaser and its Subsidiaries: (1) is in compliance with Law applicable to its business and (2) has conducted and are conducting its business in all material respects in compliance with all applicable Laws, including, all regulations, orders, and opinions of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the FDIC; in each case, except as would not reasonably be expected, individually or in the aggregate, to prevent or materially delay receipt of the Regulatory Approvals or Purchaser from being able to perform its obligations under this Agreement.

Section 6.6 Litigation and Related Matters. As of the date of this Agreement, there are no actions, suits, or proceedings, whether civil, criminal or administrative, against Purchaser pending or, to the Knowledge of Purchaser, threatened against or affecting Purchaser which would (1) reasonably be likely, individually or in the aggregate, to have a Material Adverse Effect or (2) prevent or materially delay Purchaser from being able to perform its material obligations under this Agreement.

Section 6.7 No Brokers or Finders. There is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Purchaser or any of its Affiliates who might be entitled to any fee or commission from Purchaser or any of its Affiliates in connection with the transactions contemplated hereby.

Section 6.8 Financing. On the Closing Date, Purchaser will have sufficient cash to enable it to pay the Purchase Price to Seller and to promptly pay any other amounts to be paid by it under this Agreement.

Section 6.9 No Other Representations or Warranties. Except as expressly set forth in this Article VI, Purchaser, and no other person on behalf of Purchaser, has made or makes any express or implied representations or warranties. Seller represents, acknowledges and agrees that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby, it has relied solely upon the express representations and warranties of Purchaser set forth in this Article VI.

ARTICLE VII

GENERAL COVENANTS

Section 7.1 Conduct of the Transferred Business Prior to the Closing.

(a) From the date hereof until the earlier of the Closing Date or the termination of this Agreement in accordance with its terms, except as (i) otherwise contemplated by this Agreement, (ii) consented to in writing in advance by Purchaser (which consent shall not be unreasonably withheld, delayed or conditioned), (iii) required by applicable Law or with respect to Seller's actions taken in good faith furtherance of compliance with applicable Law, or (iv) required pursuant to a binding agreement, commitment or arrangement existing as of the date of this Agreement and Previously Disclosed, Seller shall not:

(1) fail to use its reasonable best efforts to conduct the Transferred Business in the ordinary course of business consistent with past practice;

(2) except as disclosed in the Seller Disclosure Schedule or required pursuant to the terms of any Employee Plan in effect as of the date hereof, (A) hire any Branch Employee except to fill an open position set forth on the Seller Disclosure Schedule or to replace a Branch Employee whose employment terminates after the date hereof, (B) terminate any Branch Employee (other than for cause in a manner consistent with past practice), (C) increase the compensation or benefits payable to the Branch Employees, other than increases in the base salary or base wage payable to any Branch Employee in the ordinary course of business consistent with past practice that do not exceed 3% of the Branch Employee's base salary or base wage as in effect on the date hereof; provided, that this Section 7.1(a)(2) shall not restrict Seller from providing retention or other stay incentive compensation to any Branch Employee so long as such compensation is at Seller's sole expense, or (D) adopt, modify, amend or terminate any Employee Plan (or any arrangement that would be an Employee Plan if in effect on the date hereof) other than with respect to any Employee Plan that applies generally to employees of Seller and its Affiliates or a subset thereof that is not specific to Branch Employees;

(3) except for employment transfers resulting from Seller's internal job postings (which postings are not specifically targeted to the Branch Employees), (A) transfer the employment of any Branch Employee to another branch, facility or office of Seller or any of its Affiliates which is not a Branch; (B) transfer any employee of Seller or any of its Affiliates who, as of the date hereof, is not a Branch Employee to any Branch; or (C) otherwise alter the position or duties of any employee or other worker in such a way as to change whether such employee or other worker is or is not considered a Branch Employee;

(4) other than in the ordinary course of business consistent with past practice, amend, modify or waive any provision of any Assumed Contract;

(5) other than in the ordinary course of business consistent with past practice, sell, transfer, assign, encumber with any Lien or otherwise dispose of any Purchased Assets;

(6) other than in the ordinary course of business consistent with past practice or as determined to be necessary or advisable by Seller in the reasonable bona fide exercise of its discretion based on changes in market conditions applicable to the Transferred Business, materially alter its interest rate, credit policies or fee pricing policies or practices with respect to the Assumed Deposits and the Purchased Loans; provided, however that Seller will be permitted (but not required) to take such actions with respect to the Assumed Deposits to the extent reasonably deemed necessary to preserve the mix, type and aggregate amount of the Assumed Deposits;

(7) other than in the ordinary course of business consistent with past practice, make or agree to make any material improvements to the Purchased Real Property or the leased property subject to a Real Property Lease;

(8) fail to maintain the Purchased Real Property, the leased property subject to a Real Property Lease, the real property comprising the Purchased ATMs and the leased property subject to an ATM Real Property Lease (including any related drive-thru teller facilities) in a condition substantially the same as on the date of this Agreement, ordinary wear and tear excepted;

(9) close, sell, consolidate, relocate or materially alter any Branch or otherwise file any application or give any notice to relocate or close any Branch;

(10) amend, terminate or extend in any material respect any Real Property Lease, ATM Real Property Lease or Third-Party Real Property Lease; provided, however, (x) Seller may extend any Real Property Lease or ATM Real Property Lease if, in its reasonable business judgment, Seller determines such extension is necessary to deliver the Branch on the Closing Date as a fully operative branch banking operation, to deliver the ATM on the Closing Date or to avoid the deemed waiver of any right to extend the term of a Real Property Lease or ATM Real Property Lease and (y) Seller shall be entitled to terminate any Third-Party Real Property Lease in connection with Seller's enforcement of its remedies under such Third-Party Real Property Lease following a default by the lessee thereunder;

(11) other than in the ordinary course of business consistent with past practice, fail to maintain all material insurance policies related to the Transferred Business; or

(12) agree to any of the foregoing actions.

(b) Notwithstanding anything to the contrary in this Agreement, (1) nothing contained in this Agreement shall be construed to give Purchaser, directly or indirectly, rights to control or direct the operations of the Transferred Business prior to the Closing; and (2) prior to the Closing, Seller shall exercise, consistent with the terms of this Agreement, complete control and supervision over the operations of the Transferred Business.

Section 7.2 Access to Properties and Records Relating to the Transferred Business.

(a) To the extent permitted by applicable Law, from the date hereof until the earlier of the Closing Date and the termination of this Agreement, Seller shall provide to Purchaser and to its officers, accountants, counsel, and other representatives reasonable access during Seller's normal business hours to the properties, books, contracts and records of Seller and its Subsidiaries to the extent related to the Transferred Business for purposes related to the consummation of the transactions contemplated by this Agreement; provided, however, that such access shall be at reasonable times and upon reasonable prior notice, shall not occur prior to Seller's initial communications with Branch Employees regarding the transactions contemplated by this Agreement, shall not disrupt the personnel and operations of Seller and its Subsidiaries and will require that Purchaser and its representatives be accompanied by a representative of Seller; provided further, that Purchaser's access to Tax Returns filed by or otherwise relating to Seller or any of its Subsidiaries shall be governed by Article IX; provided further that Seller shall not be required to provide access to any information to the extent that such access: (1) would violate applicable Law or would adversely impact any legal privilege; (2) would result in the disclosure of any confidential supervisory information, or any trade secrets or any competitively sensitive information of Seller or of a third party to whom Seller has confidentiality obligations; (3) would result in Purchaser gaining access to Seller's and its Affiliates' consolidated Tax Returns or (4) would result in Purchaser gaining access to any information relating to Seller's other branches, facilities or operations not subject to this Agreement; and provided further that all employee communications shall be governed by Section 8.1(i). All requests for access to such properties, books, and records shall be made to such representatives of Seller as Seller shall designate, who shall be solely responsible for coordinating all such requests and all access permitted hereunder. Seller will provide such additional information and access described in Schedule 7.2.

(b) Following the Closing, Purchaser will grant Seller and its representatives reasonable access during Purchaser's normal business hours to all books and records related to the Transferred Business and to the Transferred Branch Employees (including making such persons reasonably available to Seller for depositions, witness preparation, trial preparation and fact-gathering, but excluding any proceedings, or threatened proceedings, between Seller and Purchaser or an Affiliate of Purchaser or of Seller) upon reasonable prior notice if such access is reasonably deemed necessary or desirable by Seller or any of its Subsidiaries in connection with its tax, regulatory, litigation, contractual or other legitimate, non-competitive matters for which Transferred Branch Employees may have relevant information; provided, however, Purchaser shall not be required to provide access to any information to the extent that such access: (1) would violate applicable Law or would adversely impact any legal privilege; or (2) would result in the disclosure of any confidential supervisory information, or any trade secrets or any competitively sensitive information of Purchaser or of a third party to whom Purchaser has confidentiality obligations. All requests for access to such books and records shall be made to such representatives of Purchaser as Purchaser shall designate, who shall be solely responsible for coordinating all requests and all access permitted hereunder. Nothing in the foregoing will prevent Seller or any of its

Subsidiaries from seeking to make such persons available via subpoena or other legal or similar process, and Purchaser shall reasonably cooperate in making employees available for such purposes.

(c) Following the Closing, Seller will grant Purchaser and its representatives reasonable access during Seller's normal business hours to all books, records and other data included in or related to the Purchased Assets and Assumed Liabilities and retained by Seller pursuant to the terms of this Agreement. Seller shall retain such books and records in accordance with the policies and procedures, including with respect to safekeeping, security and destruction, as applied to the Retained Business generally.

Section 7.3 Efforts; Regulatory Filings and Other Actions.

(a) Each of the parties hereto agrees to use its reasonable best efforts to (1) obtain any required Authorizations; (2) fulfill all of the conditions to the obligations of the parties to consummate the transactions contemplated by this Agreement; and (3) take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated hereby and to cooperate with the other parties in connection with the foregoing.

(b) Without limiting this Section 7.3, but subject to Section 7.3(d), Purchaser shall use its reasonable best efforts to (1) take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to obtain the Regulatory Approvals as promptly as practicable, including, without limiting the generality of the foregoing, promptly agreeing to take and taking any actions required by any Governmental Entity with respect to any Regulatory Approval that are generally consistent with regulatory guidance or conditions or requirements imposed in similar transactions or otherwise reasonable in light of the circumstances of this transaction (i) to the extent necessary to consummate the transactions contemplated hereby as promptly as practicable and, where applicable, or (ii) to avoid a decision by a Governmental Entity to open an in-depth investigation or to cause a Governmental Entity to close its investigation as promptly as practicable; (2) effect all necessary registrations and filings, if any; and (3) lift or rescind as promptly as practicable any injunction or restraining order or other order adversely affecting the ability of the parties hereto to consummate the transactions contemplated hereby. The parties agree that they shall cooperate in preparing, submitting, filing, updating and publishing (as applicable), as expeditiously as possible, all applications, notifications and report forms as may be required by applicable Law with respect to the transactions contemplated by this Agreement, including those of any applicable state, federal or foreign regulatory agency. Purchaser will use its reasonable best efforts to obtain such approvals and accomplish such actions as expeditiously as possible; provided that, within twenty (20) days after the date hereof, each party will file any application, notice or report required to be filed by such party with any Governmental Entity with respect to any Regulatory Approval or otherwise required in connection with the transactions contemplated hereby. Purchaser will use its reasonable best efforts to obtain a waiver from, or reduction of, any applicable waiting period, and will make any further filings pursuant thereto that may be necessary in connection therewith. The parties further covenant and agree not to extend any waiting period associated with any Regulatory Approval or enter into any agreement with any Governmental Entity not to consummate the transactions contemplated by this Agreement, except with the prior written consent of the other party hereto.

(c) Each party shall, subject to applicable Law (including with respect to confidential supervisory information) (1) permit counsel for the other party to review in advance, and consider in good faith the views of the other party in connection with, any proposed material written communication to any Governmental Entity in connection with the transactions contemplated hereby, and (2) provide counsel for the other party with copies of all filings made by such party, and all material correspondence between such party (and its advisors) with any Governmental Entity and any other material information supplied by such party and such party's Affiliates to a Governmental Entity or received from such a Governmental Entity in connection with the transactions contemplated hereby; provided, in each case, that materials may be redacted (x) to remove information regarding valuation of the Transferred Business, (y) as necessary to comply with contractual arrangements and (z) as necessary to address reasonable privilege or confidentiality concerns. Each party agrees that it will use reasonable best efforts to keep the other party informed with respect to all applications and developments related thereto, and, where reasonably practicable under the circumstances, give the other party reasonable advance notice of, and whenever appropriate, invite the other party (and give due consideration in good faith to any reasonable request of the other party) to participate in, any material meetings or discussions held with any Governmental Entity; provided that such participation is not objected to by such Governmental Entity.

(d) Promptly upon the execution of this Agreement and subject to applicable Law, Purchaser and Seller will reasonably coordinate in good faith in respect of any communications by Seller with any person with respect to the Authorizations and use reasonable best efforts to obtain the Authorizations. Seller and Purchaser, in consultation with each other, shall as promptly as practicable following the date hereof develop a communications and action plan (which plan shall be designed to communicate promptly and follow up with all such persons with respect to, and to obtain, all such required Authorizations), and shall keep each other reasonably informed regarding the progress and status of such efforts.

Section 7.4 Further Assurances. Seller and Purchaser agree that, from time to time, whether before, on or after the Closing Date, each of them will execute and deliver and/or record and file any additional documents, agreements or instruments, and take such other actions as the other reasonably requests in order to fully implement the transactions contemplated hereby.

Section 7.5 Confidentiality.

(a) The parties agree that until the Closing Date, the confidentiality provisions of the Confidentiality Agreement shall survive the execution and delivery of this Agreement.

(b) Following the Closing Date, Purchaser shall hold, and shall cause its respective directors, officers, employees, agents, consultants and advisors to hold, in strict confidence, except to the extent compelled to disclose by judicial or administrative process or, based on the advice of its counsel, by other requirements of applicable Law or the applicable requirements of any Governmental Entity or relevant stock exchange, all non-public records, books, Contracts, instruments, computer data and other data and information relating to the Retained Business (or, if required under a Contract with a third party, such third party) furnished to it by Seller or its representatives pursuant to the Confidentiality Agreement or otherwise in connection with the transactions contemplated by this Agreement (except to the extent that such information can be shown to have been (1) previously known by Purchaser on a non-confidential basis, (2) in the public domain through no fault of Purchaser or (3) later lawfully acquired from other sources by the party to which it was furnished), and Purchaser shall not release or disclose such information to any other person, except its auditors, attorneys, financial advisors, bankers, other consultants and advisors with a duty of confidentiality and, to the extent permitted above, any Governmental Entity. To the extent permitted by applicable Law, Purchaser shall notify Seller promptly upon becoming aware that any of the information described above (x) has been requested by a Governmental Entity and shall work in good faith with Seller to seek confidential treatment for or other protective order to prevent the disclosure of any of the confidential information described above; or (y) has been disclosed to or obtained by a third party (otherwise than as permitted by this Section 7.5(b)). Purchaser shall use reasonable best efforts to minimize (e.g., through redaction) any such disclosure and, if applicable, shall make an appropriate request that such information be afforded confidential treatment under applicable Law.

(c) Following the Closing Date, Seller shall hold, and shall cause its respective directors, officers, employees, agents, consultants and advisors to hold, in strict confidence, except to the extent compelled to disclose by judicial or administrative process or, based on the advice of its counsel, by other requirements of applicable Law or the applicable requirements of any Governmental Entity or relevant stock exchange, all non-public records, books, Contracts, instruments, computer data and other data and information relating solely to the Transferred Business (or, if required under a Contract with a third party, such third party) in Seller's or its representatives' possession (except to the extent that such information may be required to be disclosed under applicable Law to a Governmental Entity or otherwise), and Seller shall not release or disclose such information to any other person, except its auditors, attorneys, financial advisors, bankers, other consultants and advisors with a duty of confidentiality and, to the extent permitted above, any Governmental Entity. To the extent permitted by applicable Law, Seller shall notify Purchaser promptly upon becoming aware that any of the information described above (x) has been requested by a Governmental Entity and shall work in good faith with Purchaser to seek confidential treatment for or other protective order to prevent the disclosure of any of the confidential information described above; or (y) has been disclosed to or obtained by a third party (otherwise than as permitted by this Section 7.5(c)). Seller shall use reasonable best efforts to minimize

(e.g., through redaction) any such disclosure and, if applicable, shall make an appropriate request that such information be afforded confidential treatment under applicable Law.

Section 7.6 Publicity; Notices. Prior to the Closing Date, neither Purchaser nor Seller shall make or cause to be made any external communication, including any communication intended for dissemination or to reach, or reasonably expected to be disseminated or to reach, members of the public or Branch Customers regarding the transactions contemplated by this Agreement without the prior written consent of the other party (which consent shall not be unreasonably withheld, conditioned or delayed). Purchaser and Seller each agree that, without the other party's prior written consent, it shall not release or disclose any of the terms or conditions of the transactions contemplated herein to any other person. Notwithstanding the foregoing, each party may make such a communication as, based on the advice of its counsel, may be required by applicable Law or as necessary to obtain the Regulatory Approvals. Except with respect to a communication issued by Purchaser or any of its Affiliates in compliance with the terms of this Section 7.6 that announces the execution of this Agreement or the consummation of the transactions contemplated hereby, no communication, whether verbal or written, issued by Purchaser or any of its Affiliates shall reference the name of Seller or any of its Affiliates without the prior written consent of Seller (which consent may not be unreasonably withheld, conditioned or delayed).

Section 7.7 Non-Competition and Non-Solicitation.

(a) For an eighteen (18) month period following the Closing Date, Seller shall not (1) solicit Branch Customers for financial products or services of the type included in the Purchased Assets or the Assumed Liabilities on the basis of their being or having been a Branch Customer (e.g., through use of a list of Branch Customers), or (2) establish or maintain any retail branch banking office or ATM in the areas listed in Schedule 7.7(a) serving the mass retail banking market and the small business banking market currently served by Seller through Business Direct; provided, however, that, for the avoidance of doubt, this Section 7.7(a) shall not prohibit or in any way limit Seller or any of its Affiliates, after the Closing Date, from offering products and services to customers as part of the businesses of Seller and its Affiliates that are not being sold pursuant to this Agreement, including the conduct of the Retained Business, the Excluded Assets or the Excluded Liabilities and any business of Seller conducted on a national or regional basis so long as such activities do not involve the solicitation of customers described in the preceding clause (1); provided further that this Section 7.7(a) shall not restrict Seller or any of its Affiliates from making any acquisition (through merger, stock purchase or purchase of all or substantially all of another banking institution's assets) of any then existing retail branch banking office or ATM from another banking institution located in the areas listed in Schedule 7.7(a), provided that the value of the newly acquired retail branch banking offices or ATMs within the areas listed in Schedule 7.7(a) would not constitute more than 40% of such acquired entity's consolidated total revenues in the last completed fiscal quarter immediately preceding the consummation of the purchase transaction.

(b) Without limiting the Confidentiality Agreement, for an eighteen (18) month period following the Closing Date:

(1) Purchaser and its Affiliates shall not, directly or indirectly, solicit for employment or hire any Retained Employee; provided that this Section 7.7(b)(1) shall not prohibit Purchaser or any of its Affiliates from (i) engaging in solicitation by means of a general purpose advertisement not specifically targeted at the Retained Employees or hiring any Retained Employee as a result of such general purpose advertisement or (ii) hiring any Retained Employee who was terminated by Seller after the Closing Date; and

(2) Seller shall not, directly or indirectly, solicit for employment any Transferred Branch Employee; provided that this Section 7.7(b)(2) shall not prohibit Seller from (i) engaging in solicitation by means of a general purpose advertisement not specifically targeted at the Transferred Branch Employees or hiring any Transferred Branch Employee as a result of such general purpose advertisement or (ii) hiring any Transferred Branch Employee who was terminated by Purchaser or any of its Affiliates after the Closing Date.

(c) For an eighteen (18) month period following the Closing Date, and without limiting any confidentiality obligation otherwise applicable to it or them, Purchaser and its Affiliates shall not, directly or indirectly, use any information regarding the Retained Businesses in their possession as a result of the transactions contemplated by this Agreement, including as part of the books and records that are Purchased Assets, to solicit customers of the Retained Business for products or services; provided that nothing in this Section 7.7(c) shall be construed as limiting the ability of Purchaser to (1) engage in general solicitation, advertising or marketing not specifically targeted at such customers; or (2) service customers of the Retained Businesses who also are customers of Purchaser or its Affiliates.

(d) From the date hereof until the Closing Date, Purchaser will not use the existence of the transactions contemplated by this Agreement (or its status as Purchaser) to attempt to (1) solicit Branch Customers through specifically targeted advertising or marketing or (2) induce such Branch Customers to close any account and open accounts directly with Purchaser.

(e) Each of Purchaser and Seller understands and acknowledges that (1) it would be difficult to calculate damages to Seller or Purchaser, as applicable, from any breach of the obligations of Purchaser or Seller, as applicable, under this Section 7.7, (2) injury to Purchaser or Seller, as applicable, from any such breach would be irreparable and impossible to measure and (3) the remedy at law for any breach or threatened breach of this Section 7.7 would therefore be an inadequate remedy and, accordingly, Purchaser and Seller shall, in addition to all other available remedies (including, without limitation, seeking such damages as either can show it has sustained by reason of such breach and/or the exercise of all other rights either has under this Agreement), be entitled to seek injunctive relief, specific performance and other equitable remedies without the necessity of showing actual damages or posting of a bond.

(f) Purchaser and Seller understand and acknowledge that the restrictive covenants and other agreements contained in this Section 7.7 are an essential part of this Agreement and the transactions contemplated hereby and thereby. It is the intention of the parties that, if any of the restrictions or covenants contained herein are held to cover a geographic area or to be for a length of time that is not permitted by applicable Law, or is in any way construed to be too broad or to any extent invalid, such provision shall not be construed to be null, void and of no effect, but to the extent that such provision would then be valid or enforceable under applicable Law, such provision shall be construed and interpreted or reformed to provide for a restriction or covenant having the maximum enforceable geographic area, time period and other provisions as shall be valid and enforceable under applicable Law.

(g) For the avoidance of doubt, none of the restrictions imposed by applicable subsections of this Section 7.7 that is applicable to a person that is an Affiliate of a party shall apply to such person if such person ceases to be an Affiliate of such party.

Section 7.8 Real Property Leases and ATM Leases.

(a) Seller shall use its reasonable best efforts (which shall not require Seller to pay any money or other consideration, other than customary administrative charges and expense reimbursements, to any person or to initiate any claim or proceeding against any person) to cause every landlord of a Real Property Lease or ATM Real Property Lease, to the extent such landlord's consent to the assignment of Seller's rights and obligations as tenant in such Real Property Lease or ATM Real Property Lease to Purchaser is required under the terms of the applicable Real Property Lease or ATM Real Property Lease, to execute in favor of Purchaser (1) an Authorization and (2) a prospective release of Seller with respect to its obligations thereunder. To the extent that, despite Seller's reasonable best efforts, such Authorization is executed but such a prospective release cannot be obtained with respect to a particular Real Property Lease or ATM Real Property Lease, or cannot be obtained without the payment of an assignment fee or similar lump sum or rent increase (other than customary administrative charges and expense reimbursements, which shall be borne by Seller), the assignee of such Real Property Lease or ATM Real Property Lease, as applicable, will indemnify Seller for any claim arising under such Real Property Lease or ATM Real Property Lease, as applicable, from and after the Closing (and, if Purchaser is not the assignee, then Purchaser will guaranty such indemnification obligations of the assignee).

(b) If, despite Seller's reasonable best efforts, an Authorization of the type described in Section 7.8(a) to the assignment of the rights and obligations of Seller as tenant under a Real Property Lease or ATM Real Property Lease cannot be obtained, or cannot be obtained without the payment of an assignment fee or similar lump sum or rent increase (other than customary administrative charges and expense reimbursements, which shall be borne by Seller), Seller shall, if permitted without the consent of the landlord under such Real Property Lease or ATM Real Property Lease, or, if such consent is required, after such consent has been obtained (which shall not require Seller to pay any money or other consideration, other than customary administrative charges and expense reimbursements, to any person or to initiate any claim or proceeding against any person), sublease the Branch or ATM location to Purchaser pursuant to a sublease agreement which shall be, to the extent permitted, for the remainder of the existing term of the Real Property Lease or ATM Real Property Lease, as applicable, and which shall provide for Purchaser to perform all of the obligations of Seller under such Real Property Lease or ATM Real Property Lease and which otherwise shall contain such terms as may be mutually agreeable between Seller and Purchaser but shall specifically (1) provide that the rent payable by Purchaser thereunder shall not be higher than the rent payable by Seller under such Real Property Lease or ATM Real Property Lease, and (2) permit Purchaser to exercise any renewal or extension options under such Real Property Lease or ATM Real Property Lease, at Purchaser's election (each, a "Sublease Agreement"). The subtenant under such Sublease Agreement will indemnify Seller for any claim arising under the applicable Real Property Lease or ATM Real Property Lease from and after the Closing (and, if Purchaser is not the subtenant, then Purchaser will guaranty such indemnification obligations of the subtenant).

(c) Purchaser shall use its reasonable best efforts to cooperate with Seller's attempts to obtain each landlord's Authorization and prospective release or its approval of a Sublease Agreement, but shall not be obligated to pay any consideration, grant any concession or material lease amendment in connection therewith.

(d) Notwithstanding anything to the contrary contained in this Agreement, if Seller is unable to obtain for Purchaser the right to occupy any leased Branch or ATM location, whether pursuant to an Authorization or a Sublease Agreement or otherwise, Purchaser will not be entitled to terminate this Agreement and Purchaser will remain obligated to perform all of its obligations hereunder, including, without limitation, the assumption of the Assumed Deposits without any reduction or adjustment to the consideration to be paid by Purchaser as provided in this Agreement.

Section 7.9 UCC-1 Assignment and Other Documents.

(a) Seller shall use its reasonable best efforts to deliver to Purchaser at the Closing all UCC-1 financing statements and UCC-3 assignments of such financing statements, mortgage assignments and endorsed notes, and all other documentation necessary to effect the assignment of record of the Purchased Loans to Purchaser. The out-of-pocket costs and expenses of preparing and filing any such documentation shall be paid by Purchaser.

(b) In accordance with Article 9 of the UCC, from the date hereof until the Closing Date, Seller shall make, at Seller's expense, all filings of continuation statements necessary to maintain perfection of any security interests related to the Purchased Loans that are scheduled to lapse before and within sixty (60) days after the later of the Closing or the date all documentation relating to the Purchased Loans have been delivered to Purchaser. Upon Closing, any out-of-pocket costs and the reasonable expenses of preparing and filing any such documentation for any such security interests that were scheduled to lapse after the Closing that are paid by Seller, shall be reimbursed promptly by Purchaser (without adjustment to the Purchase Price).

Section 7.10 Change of Name, Etc. Promptly after the local time that the Branches close to the public on the Closing Date (and in any event, prior to the opening of the Branches on the next Business Day), Purchaser will (1) change the name and logo on all Branches (including internal Branch signage) and on all other facilities relating solely to the Purchased Assets and the Assumed Liabilities to Purchaser's name and logo; and (2) discontinue use of all documents, signage, marketing materials, brochures and forms of Seller or such item bearing Seller's Trademark. All removals and all installations required pursuant to the foregoing shall be at the expense of Purchaser. Without limiting the foregoing, Seller may, in anticipation of the Closing and in its discretion, remove its signage and other materials from the Branches and other facilities prior to the Closing.

Section 7.11 Insurance Matters. Effective as of the Effective Time, (1) Seller will be entitled to terminate all insurance coverage relating to the Transferred Business and its current or former officers and employees under the general corporate policies of insurance, cancellable surety bonds and hold harmless agreements and (2) Purchaser shall become solely responsible for all insurance coverage with respect to the Transferred Business and its current officers and employees.

Section 7.12 Conversion.

(a) Subject to applicable Law, from the date hereof until the earlier of the Closing Date and the termination of this Agreement, Purchaser and Seller shall use reasonable best efforts to cooperate to effect the orderly transition of the Transferred Business from Seller to Purchaser. Purchaser shall deliver to Seller a proposed transition and conversion plan (the "Conversion Plan"), which shall also detail the data to be included in the conversion file as reasonably agreed by the parties, no later than fifteen (15) calendar days after the date hereof, and Purchaser and Seller shall use reasonable best efforts to finalize the Conversion Plan within sixty (60) calendar days after the date hereof; provided that, for the avoidance of doubt, the conversion file, including the interim conversion files provided by Seller between the date hereof and the Closing Date as well as the final conversion file provided by Seller on the Closing Date, shall include the Accrued Interest and Fees for each Purchased Loan and each Assumed Deposit shall reflect posted interest and fees. Following completion of the Conversion Plan, each of Purchaser and Seller shall perform their respective responsibilities set forth therein. In connection therewith, Seller and Purchaser shall each as promptly as practicable after the execution of this Agreement designate certain of

their respective employees as “transition coordinators”, who will lead the development of the Conversion Plan and will oversee the implementation of such plan. The Conversion Plan shall include an agreed number of copies of the information in the Records, as well as the intervals at which such copies shall be provided.

(b) With respect to any data, including Transferred Business Relationship Information or other non-public personal information of any Branch Customer, transferred to Purchaser’s systems for conversion purposes (and without limiting the provisions of this Agreement or the Confidentiality Agreement), prior to Closing: (1) Purchaser shall not use those data for any purposes other than for the conversion and in accordance with the Conversion Plan, shall transfer those data only to personnel involved in the conversion with a need to know such information (and, for the avoidance of doubt, not to front office/customer-facing personnel) and shall implement any “clean team” protocols reasonably requested by Seller and comply with the data security requirements as set forth in Exhibit 7.12(b); (2) Purchaser shall retain and use such data in accordance with applicable Law; (3) except as may be required by applicable Law, Purchaser shall not disclose those data to any person (including any of its Affiliates) without Seller’s prior written consent; (4) if this Agreement is terminated pursuant to Article XI, Purchaser shall immediately, as requested by Seller, destroy or transfer to Seller all those data, except for any such data Purchaser is required to retain under applicable Law, and certify to Seller that it has not retained or has destroyed (as applicable) all those data; and (5) except for any such data Purchaser is required to retain pursuant to a court order or judgment, data in respect of customers that are not, or cease to be, Branch Customers shall, immediately on Seller’s request, be destroyed or transferred to Seller and Purchaser shall certify to Seller that it has not retained or has destroyed (as applicable) all such data. Before providing any Transferred Business Relationship Information or other Branch Customer identifying data to Purchaser, Seller will have the right to either (x) conduct an inspection during Purchaser’s normal business hours of Purchaser’s or its vendors’ information security principles and controls, as applicable, or (y) request Purchaser or its vendors to furnish a certificate from a third party information security provider of Purchaser’s choice, reasonably acceptable to Seller, certifying that Purchaser’s or its vendors’ information security principles and controls are consistent with Seller’s applicable security standards. Purchaser may only provide Transferred Business Relationship Information or other Branch Customer identifying data to its vendors if such vendors have executed a confidentiality agreement with Purchaser and Seller containing terms no less favorable to Seller than the terms of the Confidentiality Agreement (without regard to any modification thereof pursuant hereto or lapse of time). Upon Purchaser’s discovery of a data breach experienced by Purchaser or its vendors involving Transferred Business Relationship Information or other Branch Customer identifying data received by Purchaser or its vendors pursuant to this Agreement, Purchaser shall notify Seller of such breach as promptly as practicable following discovery, but in no event later than five (5) Business Days thereafter and keep Seller reasonably informed regarding such breach. In the event of such a data breach, Purchaser and Seller shall cooperate in good faith to take any necessary action, including customer notifications.

ARTICLE VIII

EMPLOYMENT AND BENEFIT MATTERS

Section 8.1 Transferred Branch Employees.

(a) *Offers of Employment.* No later than thirty (30) calendar days prior to the expected Closing Date, Purchaser or an Affiliate of Purchaser shall make a Comparable Job Offer to all Branch Employees effective as of the Closing Date, or, for Branch Employees who are absent from work on account of sickness, leave under the Family Medical Leave Act or other approved leave of absence or for whom an obligation to recall, rehire or otherwise return to employment exists under a contractual obligation or Law, as of the date that such Branch Employee returns to active employment if such date is within six (6) months following the Closing Date (the Closing Date or such later date, as applicable, the “Hire Date”). At least five (5) Business Days prior to the date on which the Comparable Job Offers are provided to the Branch Employees, Purchaser shall provide to Seller, for Seller’s review and comment (which comments Purchaser shall consider in good faith), acting reasonably, each template offer of employment to be used for purposes of the Comparable Job Offers and a schedule setting forth compensation being offered to each Branch Employee as of the Hire Date. Each Branch Employee who accepts Purchaser’s, or an Affiliate of Purchaser’s, Comparable Job Offer shall be a “Transferred Branch Employee” as of the Hire Date. Purchaser agrees that each Transferred Branch Employee who continues to remain employed with Purchaser or any of its Affiliates shall be provided terms of employment that would constitute a Comparable Job Offer for no less than one year following the Closing Date. Those Branch Employees who do not accept a Comparable Job Offer from Purchaser or an Affiliate of Purchaser shall not be considered Transferred Branch Employees for any purpose of this Agreement.

(b) *Termination of Employment with Seller.* As of the Hire Date, the Transferred Branch Employees shall have a “separation from service” as that term is defined by Section 409A of the Code and the regulations promulgated thereunder. The Transferred Branch Employees shall cease active participation in each Employee Plan at or following the Hire Date pursuant to the terms of the applicable Employee Plan. Solely to the extent required by applicable Law, Seller and its Affiliates shall pay each Transferred Branch Employee for all paid time off that is accrued but unused by such Transferred Branch Employees immediately prior to the Hire Date. Except as required by applicable Law, Purchaser shall, or shall cause an Affiliate of Purchaser to, assume, recognize and honor any time off that is accrued but unused by each Transferred Branch Employee as of immediately prior to the Hire Date, and such accrued but unused time off, other than time off paid in accordance with the preceding sentence, shall be deemed to be an Assumed Liability for purposes of this Agreement. Except as otherwise expressly provided in this Section 8.1, Seller and its Affiliates shall retain all assets and liabilities relating to the Branch Employees under the Employee Plans. Seller and its Affiliates shall be liable for all eligible claims for benefits under the Employee Plans that provide health, disability, workers’ compensation or life insurance benefits that are incurred by the Branch Employees prior to the Hire Date or as otherwise provided by the terms of the applicable Employee Plan. Following the Hire Date, Seller or its Affiliate shall pay each Transferred Branch Employee all earned but unpaid incentive compensation (or prorated portion thereof) attributable to periods of service with Seller and its Affiliates prior to the Hire Date. The amount of such incentive compensation payments shall be determined, and such payments shall be made, in accordance with the terms of the applicable Employee Plans in the same manner as Seller makes such determinations for similarly situated active Seller employees generally, and shall be paid at the same time that incentive compensation payments under such Employee Plans are paid to active Seller employees, but in no event later than two and one-half (2-1/2) months following the calendar year in which the Closing Date occurs.

(c) *Employee Benefits Participation Effective Dates.*

(1) If the Hire Date is on the first day of a calendar month, each Transferred Branch Employee shall be immediately eligible to commence participation in the employee benefit plans and other employment programs of Purchaser or its Affiliates

(2) If the Hire Date is on a day other than the first day of a calendar month, each Transferred Branch Employee shall be immediately eligible to commence participation in the employee benefit plans and employment programs of Purchaser or its Affiliates, except for health benefits (medical, dental, vision and prescription drug), healthcare spending accounts, life insurance and legal services benefits (“Delayed Benefits”). Transferred Branch Employees’ participation in the employee benefit plans of Purchaser or an Affiliate of Purchaser providing Delayed Benefits coverage shall begin on the first day of the calendar month following the Hire Date.

(d) *Credit for Service; Pre-existing Conditions.* For purposes of determining (1) eligibility to participate in and vesting under any employee benefit plan of Purchaser or its Affiliates and (2) retirement eligibility under any Purchaser plan, and for benefit determination purposes for vacation, paid time off, severance benefits and level of pay credits under a cash balance plan, in each case, as applicable, each Transferred Branch Employee shall be credited with the years of service he or she has been credited with under the comparable Employee Plans; provided that such service shall not be recognized for purposes of (1) grandfathering and/or benefit accruals under any Purchaser defined benefit retirement plan and (2) retiree medical benefits (but it shall be recognized for access only retiree medical, if applicable). Purchaser or any Affiliate of Purchaser, as applicable, shall (1) waive any preexisting conditions, actively at work requirements and waiting periods under the welfare benefit plans of Purchaser or an Affiliate of Purchaser that provide healthcare and disability benefits in which the Transferred Branch Employees are eligible to participate to the same extent that such conditions and waiting periods were waived or previously satisfied under the comparable Employee Plan immediately prior to the applicable employee benefit plans participation effective date described in Section 8.1(c) above, and (2) subject to Seller providing Purchaser with the applicable information with respect to each Transferred Branch Employee in a form that Purchaser determines is administratively feasible to take into account under its (or its Affiliates’) plans, cause such plans to honor any expenses incurred by such Transferred Branch Employees and their eligible dependents under Employee Plans that are medical and pharmacy benefit plans during the portion of the calendar year in which they become Transferred Branch Employees for purposes of satisfying applicable deductible, co-insurance, maximum out-of-pocket, and similar expenses, to the same extent that such expenses were recognized under the comparable Employee Plan. Purchaser and its Affiliates, as applicable, shall timely execute and deliver to Seller a HIPAA non-disclosure agreement in the form reasonably determined by Seller and Purchaser to be necessary to comply with HIPAA. Subject to Purchaser’s and its Affiliates’ compliance with the previous sentence, Seller will provide, or will cause the applicable Employee Plan provider(s) to provide, to Purchaser, its Affiliates or the applicable plan provider(s) the information reasonably required by Purchaser to ensure healthcare benefit plan administration in compliance with this Section 8.1(d) as promptly as practicable on or after the Hire Date. Purchaser shall not provide any payment or incentive to any Transferred Branch Employee to induce such employee to elect continued participation in any healthcare benefit plan of Seller.

(e) *Severance.*

(1) With respect to Branch Employees who do not become Transferred Branch Employees because they did not receive a Comparable Job Offer from Purchaser to whom Seller provides notice of termination within thirty (30) days following the Closing Date, Purchaser shall, within thirty (30) days of receipt of an invoice from Seller, reimburse Seller or its Affiliates for the costs of any severance or other benefits payable, and actually paid, to such Branch Employees under the terms of the Wells Fargo & Company Salary Continuation Pay Plan (as in effect on the date hereof) ("Seller's Severance Plan").

(2) With respect to Transferred Branch Employees whose employment with Purchaser or an Affiliate of Purchaser is terminated under circumstances that would entitle the Transferred Branch Employee to receive severance benefits under Seller's Severance Plan during the twelve (12) month period commencing on the Hire Date, Purchaser shall provide, or cause to be provided, severance benefits that are no less favorable than the severance benefits that would have been provided to such Transferred Branch Employee pursuant to Seller's Severance Plan, taking into account such Transferred Branch Employee's service pursuant to Section 8.1(d), service with Purchaser or an Affiliate of Purchaser after the Hire Date and any increase (but not decrease) in compensation applicable to such Transferred Branch Employee.

(f) *Rollover of 401(k) Plan Accounts.* Purchaser shall take any and all commercially reasonable actions as may be required to permit each Transferred Branch Employee who participates in a tax-qualified defined contribution retirement plan maintained by Seller or its Affiliate (“Seller Qualified Plan”) to make rollover contributions of “eligible rollover distributions” (within the meaning of Section 401(a)(31) of the Code), in the form of cash, notes or a combination thereof, in an amount equal to the eligible rollover distribution portion of the account balance distributed to or distributable to such Transferred Branch Employee from the Seller Qualified Plan to the tax-qualified defined contribution retirement plan maintained by Purchaser or an Affiliate of Purchaser in which the Transferred Branch Employees are eligible to participate.

(g) *WARN Act.* The parties hereto agree to cooperate in good faith, including by sharing information about terminations of employment in a timely manner, to determine whether any notification may be required under the WARN Act as a result of the transactions contemplated by this Agreement. Purchaser shall be responsible for any obligation with respect to the Transferred Branch Employees under the WARN Act arising or accruing after the Closing Date. Seller and its Affiliates shall be responsible for any such obligation arising or accruing on or before the Closing Date.

(h) *Workers’ Compensation.* With respect to any Transferred Branch Employee, (1) Seller shall be solely responsible for workers’ compensation claims by or with respect to any Transferred Branch Employee that occurred prior to the Closing and (2) Purchaser or its Affiliates shall be solely responsible for workers’ compensation claims by or with respect to any Transferred Branch Employee that occur after the Closing. For purposes of this Section 8.1(h), the date an injury or illness resulting in a workers’ compensation claim occurred shall be determined in accordance with the terms of applicable state law in respect of workers’ compensation. Purchaser and Seller agree that they will cooperate fully (except as prohibited by applicable Law) with each other and with the applicable insurers and/or third-party claims administrators by providing needed information to determine the date of the injury or illness.

(i) *Employee Communications.* Any communications by Purchaser with the Branch Employees prior to the Closing Date shall be subject to and in compliance with the terms of this Agreement. Communications from Purchaser to Branch Employees following the date hereof must be scheduled in advance with Seller. Written communications from Purchaser to Branch Employees prior to the Closing Date shall be subject to Seller’s prior review and comment (which comments Purchaser shall consider in good faith).

(j) *Transferred Branch Employee Records.* Prior to the Closing Date, Seller and its Affiliates shall use commercially reasonable efforts to obtain consent from the Transferred Branch Employees to transfer such Transferred Branch Employees' official personnel files to Purchaser. At or promptly following the Closing Date, Seller and its Affiliates shall cooperate in good faith to grant access to or transfer copies of all Transferred Branch Employees' personnel files to Purchaser; provided, however, that neither Seller nor any Affiliate of Seller will grant access to or transfer a copy of any Transferred Branch Employee's official personnel file to Purchaser or any of their respective Affiliates prior to the receipt by Seller of such Transferred Branch Employee's consent to such access or transfer.

(k) *No Third-Party Rights.* Nothing contained in this Agreement is intended to (1) be treated as an amendment of any particular Employee Plan, (2) prevent Seller, Purchaser or any of their respective Affiliates from amending or terminating any of their benefit plans in accordance with their terms, (3) prevent Purchaser or any of its Affiliates, after the Closing Date, from terminating the employment of any Transferred Branch Employee, or (4) create any third-party beneficiary rights in any Branch Employee, or any beneficiary or dependents thereof, or any collective bargaining representative thereof, with respect to the compensation, terms and conditions of employment and/or benefits that may be provided to any Branch Employee by Seller, Purchaser or any of their respective Affiliates or under any benefit plan which Seller, Purchaser or any of their respective Affiliates may maintain.

ARTICLE IX

TAX MATTERS

Section 9.1 Indemnification.

(a) Seller shall pay or cause to be paid, shall be liable for, and shall indemnify, defend and hold Purchaser and its Affiliates harmless from and against any and all Excluded Taxes, other than any liability for Excluded Taxes relating to the Transferred Business resulting from transactions or actions taken by Purchaser on the Closing Date that are properly attributable to the portion of the Closing Date after the Closing, and any interest and penalties related thereto. Purchaser shall pay or cause to be paid, shall be liable for, and shall indemnify, defend and hold Seller and its Affiliates harmless from and against any and all Taxes relating to the Transferred Business for any Post-Closing Period and any and all Taxes relating to the Transferred Business for any Pre-Closing Period that are carved out from Seller's indemnification obligations pursuant to the immediately preceding sentence.

(b) Payment in full of any amount due from Purchaser or Seller under this Section 9.1 shall be made to the affected party in immediately available funds at least two (2) Business Days before the date payment of the Taxes to which such payment relates is due, or, if such Tax has already been paid or if no cash payment is due, within fifteen (15) days after written demand is made for such payment.

Section 9.2 Refunds, Credits and Carrybacks.

(a) Seller shall be entitled to any refunds or credits of or against any Excluded Taxes that are the responsibility of Seller under Section 9.1(a). Purchaser shall be entitled to any refunds or credits of or against any Taxes relating to the Transferred Business, other than to the extent Seller is entitled to such refunds or credits pursuant to the immediately preceding sentence.

(b) If Purchaser or Seller, as the case may be, is in receipt of refunds or credits that the other party is entitled to pursuant to Section 9.2(a), it shall promptly forward to, or reimburse, the other party for such refunds or credits.

Section 9.3 Cooperation. Each party hereto shall, and shall cause its Affiliates to, provide to the other party hereto such cooperation, documentation and information relating to the Transferred Business as either of them reasonably may request in: (1) filing any Tax Return, amended Tax Return or claim for refund, (2) determining a liability for Taxes or an indemnity obligation under this Article IX or a right to refund of Taxes, (3) conducting any audit, examination, contest, litigation or other proceeding by or against any Taxing Authority or (4) determining an allocation of Taxes between a Pre-Closing Period and a Post-Closing Period. Each party shall retain all Tax Returns, schedules and work papers, and all material records and other documents relating to Taxes relating to the Transferred Business for Pre-Closing Periods and Transfer Taxes until the later of (x) the expiration of the statute of limitations for the Tax periods to which the Tax Returns or other documents relate or (y) eight (8) years following the due date (without extension) for such Tax Returns. Each party shall make its employees reasonably available on a mutually convenient basis at its cost to provide explanation of any documents or information so provided. Notwithstanding anything in this Agreement to the contrary, none of the parties shall be entitled to any manner of access to income Tax Returns or income Tax workpapers of the other party.

Section 9.4 Contest Provisions. Each of Purchaser and Seller shall promptly notify the other in writing upon receipt of notice of any pending or threatened audits or assessments with respect to Taxes for which such other party (or such other party's Affiliates) may be liable hereunder. Seller shall be entitled to participate at its expense in the defense of and, at its option, take control of the complete defense of, any Tax audit or administrative or court proceeding ("Tax Claim") relating to Excluded Taxes for which it may be liable, and to employ counsel and other advisors of its choice at its expense; provided that, if Seller takes control of the complete defense of such Tax Claim that would otherwise be in the control of Purchaser, (1) Seller shall keep Purchaser apprised of the status of such Tax Claim, (2) Seller shall consult in good faith with Purchaser regarding the defense of such Tax Claim, and (3) Purchaser shall be entitled to observe the defense of such Tax Claim, employing counsel and other advisors of its choice at its expense. Neither party may agree to settle any Tax Claim for which the other party may be liable, or which may result in increasing the Tax liability of the other party or its Affiliates, without the prior written consent of such other party, which consent shall not be unreasonably withheld, conditioned or delayed.

Section 9.5 Transfer Taxes. All Transfer Taxes that are payable or that arise as a result of the consummation of the purchase and sale of the Purchased Assets contemplated by this Agreement shall be entirely the responsibility of Purchaser. Purchaser shall pay or cause to be paid, shall be liable for, and shall indemnify, defend and hold Seller and its Affiliates harmless from and against any and all Transfer Taxes. The party primarily or customarily responsible under applicable Law for filing any Tax Returns that must be filed in connection with Transfer Taxes shall (1) prepare and timely file such Tax Returns, (2) promptly pay all Transfer Taxes due with respect to such Tax Returns, and (3) use its reasonable best efforts to provide a copy of such Tax Returns to the other party at least ten (10) Business Days prior to the date such Tax Returns are due to be filed, and, if and to the extent the party customarily responsible for preparing, filing and paying the Transfer Taxes pursuant to clauses (1) and (2) is Seller, Purchaser shall reimburse Seller for such Transfer Taxes at least two (2) Business Days prior to the due date for the filing of such Tax Returns. Purchaser and Seller shall cooperate in good faith to determine the consideration properly allocable to any real property if required in connection with the determination of the amount of Transfer Taxes, if any, that are payable or that arise as a result of the consummation of the purchase and sale of the Purchased Assets contemplated by this Agreement, and in the event of any disagreement between Purchaser and Seller as to such allocation, a nationally-recognized appraisal firm will be retained to resolve solely any issue in dispute as promptly as possible and the determination of such firm shall be final with respect to such dispute. The costs and expenses of such firm shall be allocated between Purchaser and Seller in accordance with the procedures set forth in Section 3.4(d). Purchaser and Seller shall cooperate in the timely completion and filing of all such Tax Returns and in the execution of any certificates or forms as may be necessary or appropriate to establish an exemption from (or otherwise reduce) such Transfer Taxes. Any Transfer Taxes resulting from any subsequent increase in consideration shall be borne in accordance with the provisions of this Section 9.5 and any Tax Returns required to be filed in connection therewith shall be prepared and filed in accordance with the provisions of this Section 9.5. For the avoidance of doubt, any Transfer Taxes resulting from any transfer after the Closing Date of any Purchased Asset or Assumed Liability, or any other property owned after the Closing Date by Purchaser or any of its Affiliates shall be borne by Purchaser and any Tax Returns relating thereto shall be prepared and filed by Purchaser.

Section 9.6 Information Returns. At the Closing or promptly thereafter, Seller shall provide Purchaser with a list of all Assumed Deposits on which Seller is back-up withholding as of the Closing Date.

Section 9.7 Coordination. Notwithstanding anything in this Agreement to the contrary, in the event there is a conflict between Article IX and any provision contained in any other article of this Agreement, Article IX shall control.

Section 9.8 Tax Treatment of Payments. Purchaser, Seller and their respective Affiliates shall treat any and all payments under this Article IX or Article XII as an adjustment to the Purchase Price for Tax purposes, unless they are required to treat such payments otherwise by applicable Tax Laws.

Section 9.9 Limitations and Survival. Notwithstanding anything in this Agreement to the contrary, the indemnification provisions of Section 9.1 are not subject to the limitations of Article XII and shall survive the Closing until ninety (90) days following the expiration of the applicable statutes of limitation.

Section 9.10 No Double Recovery. For the avoidance of doubt, neither Purchaser nor Seller shall be entitled to receive indemnification from the other in respect of all or any portion of any Loss more than once, in each case, whether proceeding under this Article IX or Article XII.

ARTICLE X

CLOSING CONDITIONS

Section 10.1 Conditions to Obligations of Each Party to Close. The respective obligations of each party to effect the transactions contemplated by this Agreement are subject to the satisfaction or, where legally permitted, waiver by such party, prior to or at the Closing, of each of the following conditions:

(a) No statute, rule, regulation, executive order, decree, ruling, permanent injunction or other permanent order shall have become effective (and final and nonappealable) permanently restraining, enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated hereby.

(b) All Regulatory Approvals shall have been obtained, and any applicable waiting periods relating thereto shall have expired or been terminated early.

(c) The Bill of Sale and Assignment and Assumption Agreement shall have been duly executed by the parties.

Section 10.2 Conditions to Obligation of Seller to Close. The obligation of Seller to effect the transactions contemplated by this Agreement is subject to the satisfaction or waiver (in the sole discretion of Seller), prior to or at the Closing, of each of the following conditions:

(a) All of the covenants and other agreements required by this Agreement to be complied with and performed by Purchaser on or before the Closing Date shall have been duly complied with and performed in all material respects.

(b) The representations and warranties of Purchaser set forth in Section 6.1 and Section 6.2 shall be true and correct as written (in each case after giving effect to the lead in to Article VI) as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date, except to the extent such representations and warranties speak of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date, (other than such failures to be true and correct as are de minimis). All other representations and warranties of Purchaser contained in Article VI shall be true and correct as of the Closing Date as though made on and as of the Closing Date,

except (1) that those representations and warranties which address matters only as of a particular date shall be true and correct as of such particular date; and (2) where the failure of such representations and warranties in the aggregate to be so true and correct has not had, and would not reasonably be likely to have, a material adverse effect on Purchaser's ability to consummate the transactions contemplated by this Agreement (disregarding for purposes of this clause (2) any qualification in the text of the relevant representation or warranty as to materiality or material adverse effect).

(c) Seller shall have received at the Closing a certificate dated the Closing Date and validly executed on behalf of Purchaser by an appropriate officer certifying that the conditions specified in Section 10.2(a) and Section 10.2(b) have been satisfied.

Section 10.3 Conditions to Obligation of Purchaser to Close. Purchaser's obligation to effect the transactions contemplated by this Agreement is subject to the satisfaction or waiver (in Purchaser's sole discretion), prior to or at the Closing, of each of the following conditions:

(a) All of the covenants and agreements required by this Agreement to be complied with and performed by Seller on or before the Closing Date shall have been duly complied with and performed in all material respects.

(b) The representations and warranties of Seller set forth in Section 5.1 and Section 5.2 shall be true and correct as written (in each case after giving effect to the lead in to Article V) as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date, except to the extent such representations and warranties speak of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date, (other than such failures to be true and correct as are de minimis). Each of the representations and warranties of Seller contained in Article V shall be true and correct as of the Closing Date as though made on and as of the Closing Date, except (1) that those representations and warranties which address matters only as of a particular date shall be true and correct as of such particular date; and (2) where the failure of such representations and warranties in the aggregate to be so true and correct has not had, and would not reasonably be likely to have, a Material Adverse Effect (disregarding for purposes of this clause (2) any qualification in the text of the relevant representation or warranty as to materiality or Material Adverse Effect).

(c) Purchaser shall have received at the Closing a certificate dated the Closing Date and validly executed on behalf of Seller by an appropriate officer of Seller certifying that the conditions specified in Section 10.3(a) and Section 10.3(b), to the extent applicable to Seller, have been satisfied.

ARTICLE XI

TERMINATION

Section 11.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) by mutual written consent of Purchaser and Seller;

(b) by Purchaser or Seller if (1) any Governmental Entity that must grant a Regulatory Approval has denied such Regulatory Approval, and such denial has become final and nonappealable or (2) any Governmental Entity of competent jurisdiction shall have issued a final nonappealable order enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, unless, in either case, such denial of approval or issuance of such order arises out of, or results from, a material breach by the party seeking to terminate this Agreement of any representation, warranty, covenant or agreement of such party in this Agreement;

(c) by Purchaser or by Seller, if the Closing shall not have occurred on or before the Outside Date; unless the failure of the Closing to occur by such date arises out of, or results from, a material breach by the parties (or by their Affiliates) seeking to terminate this Agreement of any representation, warranty, covenant or agreement of such parties in this Agreement; and

(d) (1) by Purchaser, if Seller has breached any of its covenants or agreements or any of its representations or warranties contained in this Agreement, which breach, individually or in the aggregate, would cause the conditions set forth in Section 10.3(a) or Section 10.3(b) to be not satisfied, and such breach is not cured within forty-five (45) days following written notice to Seller or cannot, by its nature, be cured prior to the Outside Date; provided that Purchaser is not then in material breach of any representation, warranty, covenant or other agreement contained in this Agreement, or (2) by Seller, if Purchaser has breached any of its covenants or agreements or any of its representations or warranties contained in this Agreement, which breach, individually or in the aggregate, would cause the conditions set forth in Section 10.2(a) or Section 10.2(b) to not be satisfied, and such breach is not cured within forty-five (45) days following written notice to Purchaser, or cannot, by its nature, be cured prior to the Outside Date; provided that Seller is not then in material breach of any representation, warranty, covenant or other agreement contained in this Agreement.

Section 11.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 11.1, this Agreement shall forthwith become void and have no effect, and no party shall have any liability or further obligation hereunder, except that (1) Section 5.7, Section 6.7, this Section 11.2 and Article XIII and any relevant definitions shall survive; (2) the Confidentiality Agreement shall survive in accordance with its terms; and (3) notwithstanding anything to the contrary contained in this Agreement, neither Purchaser nor Seller shall be relieved or released from any liabilities or damages arising out of its intentional breach of any provision of this Agreement.

ARTICLE XII

SURVIVAL; INDEMNIFICATION

Section 12.1 Survival of Representations and Warranties. The representations and warranties contained in this Agreement will survive the Closing for the period set forth in this Section 12.1. All representations and warranties contained in this Agreement and all claims with respect thereto will terminate upon the expiration of one (1) year after the Closing Date, except that the representations and warranties contained in Sections 5.1, 5.2, 5.7, 6.1, 6.2 and 6.7 will survive until the expiration of the applicable statute of limitations (including any extensions thereof); it being understood that in the event notice of any claim for indemnification under this Article XII has been given (within the meaning of Section 12.4) within the applicable survival period, the representations and warranties that are the subject of such indemnification claim will survive with respect to such claim until such time as such claim is finally resolved. The agreements and covenants contained in this Agreement that by their terms contemplate performance after the Closing Date will survive the Closing in accordance with their terms; however, any other covenants or agreements will terminate upon the Closing.

Section 12.2 Indemnification by Seller.

(a) Seller hereby agrees that from and after the Closing it will indemnify, defend and hold harmless Purchaser, its Affiliates and their respective directors, officers, employees (other than Transferred Branch Employees), and their successors and permitted assigns, each in their capacity as such from, against and in respect of any damages, losses, charges, suits, proceedings, payments, judgments, settlements, interest, penalties, and costs and expenses (collectively, “Losses”) imposed on, sustained, incurred or suffered by Purchaser or its Affiliates and their respective directors, officers, employees (other than Transferred Branch Employees), and their successors and permitted assigns, each in their capacity as such, whether in respect of third-party claims, claims between the parties hereto, or otherwise, directly or indirectly relating to, or arising out of:

(1) any breach of any representation or warranty made by Seller under Article V for the period such representation or warranty survives, it being understood that for purposes of this Section 12.2 any reference in the text of any such representation or warranty to “material” (other than in the following representations and warranties: Section 5.16(b)) or “Material Adverse Effect” shall be disregarded for purposes of determining whether such representation or warranty was breached or whether any Loss was incurred;

(2) any breach of any covenant or agreement to be performed by Seller pursuant to this Agreement for the period such covenant or agreement survives; and

(3) any of the Excluded Liabilities.

(b) Seller shall not have any liability under Section 12.2(a)(1) for (1) Losses for any individual claim (or group of directly related claims) less than twenty thousand dollars (\$20,000) (each a “de minimis loss”) or (2) unless and until the aggregate amount of the indemnifiable Losses (including all Losses attributable to any Seller and excluding any de minimis loss) exceeds one million dollars (\$1,000,000), and then only for Losses in excess of that amount (the “Deductible”); provided that in no event shall the aggregate indemnification to be paid by Seller pursuant to (x) Section 12.2(a)(1) exceeds fifteen million dollars (\$15,000,000) or (y) pursuant to Section 12.2(a) exceed the Purchase Price.

Section 12.3 Indemnification by Purchaser.

(a) Purchaser hereby agrees that from and after the Closing it shall indemnify, defend and hold harmless Seller, its Affiliates and their respective directors, officers, and their successors and permitted assigns, each in their capacity as such from, against and in respect of any Losses imposed on, sustained, incurred or suffered by Seller, its Affiliates and their respective directors, officers, and their successors and permitted assigns, each in their capacity as such, whether in respect of third-party claims, claims between the parties hereto, or otherwise, directly or indirectly, relating to, arising out of or resulting from:

(1) any breach of any representation or warranty made by Purchaser under Article VI for the period such representation or warranty survives, it being understood that for purposes of this Section 12.3 any reference in the text of any such representation or warranty to “material” or “material adverse effect” shall be disregarded for purposes of determining whether such representation or warranty was breached or whether any Loss was incurred;

(2) any breach of any covenant or agreement to be performed by Purchaser pursuant to this Agreement for the period such covenant or agreement survives; and

(3) any of the Assumed Liabilities.

(b) Purchaser shall not have any liability under Section 12.3(a)(1) for (1) any de minimis loss or (2) unless and until the aggregate amount of the indemnifiable Losses exceeds the Deductible, provided that in no event shall the aggregate indemnification to be paid by Purchaser pursuant to Section 12.3(a) exceed the Purchase Price.

Section 12.4 Indemnification Procedures; Third-Party Claim.

(a) An Indemnified Party must give prompt written notice to the party from whom indemnification is sought (an “Indemnifying Party”), which notice shall describe the issue in reasonable detail that has or may result in indemnification pursuant to Section 9.1, Section 12.2 or Section 12.3 as well as the amount or an estimate of the amount of damages sought to the extent then ascertainable, after reasonable inquiry, by the Indemnified Party; provided that the omission to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability that the Indemnifying Party may have to the Indemnified Party except to the extent that the Indemnifying Party was actually prejudiced by such failure to notify. In the event that any written claim or demand for which an Indemnifying Party may have liability to any Indemnified Party hereunder, other than those relating to Taxes (which are the exclusive subject of Article IX), is asserted against or sought to be collected from any Indemnified Party by a third party (a “Third-Party Claim”), such Indemnified Party shall promptly, but in no event more than ten (10) days following such Indemnified Party’s receipt of a Third-Party Claim, notify the Indemnifying Party in writing of such Third-Party Claim, the amount or the estimated amount of damages sought thereunder to the extent then ascertainable, any other remedy sought thereunder, any relevant time constraints relating thereto and, to the extent practicable, any other material details pertaining thereto; it being understood that the failure to give such notice within the period specified above shall terminate the Indemnified Party’s right to seek indemnification with respect to such Third-Party Claim and the Indemnifying Party shall have no liability or obligations with respect to any such Third-Party Claim. The Indemnifying Party shall have thirty (30) days after receipt of such notice to notify the Indemnified Party that it desires to assume the defense of the Indemnified Party against such Third-Party Claim.

(b) In the event that the Indemnifying Party notifies the Indemnified Party within the period specified above that it desires to defend the Indemnified Party against a Third-Party Claim, the Indemnifying Party shall have the right to defend the Indemnified Party by appropriate proceedings and shall have the sole power to direct and control such defense at its expense. Once the Indemnifying Party has duly assumed the defense of a Third-Party Claim, the Indemnified Party shall have the right, but not the obligation, to participate in any such defense and to employ separate counsel of its choosing. The Indemnified Party shall participate in any such defense at its expense (which expense shall not be an indemnifiable Loss) unless the Indemnifying Party and the Indemnified Party are both named parties to the proceedings and the Indemnified Party shall have reasonably concluded, based on the written advice of counsel, that representation of both parties by the same counsel would be inappropriate due to an actual material conflict of interests between them. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party (such consent not to be unreasonably withheld, delayed or conditioned), settle, compromise or offer to settle or compromise any Third-Party Claim; provided, however, that no such prior written consent of the Indemnified Party shall be required to any proposed settlement that involves only the payment of money damages (or de minimis equitable relief) by the Indemnifying Party.

(c) If the Indemnifying Party elects not to defend the Indemnified Party against a Third-Party Claim, the Indemnified Party shall assume its own defense; it being understood that the Indemnified Party's right to indemnification for a Third-Party Claim shall not be adversely affected by assuming the defense of such Third-Party Claim. The Indemnified Party shall not settle a Third-Party Claim without the consent of the Indemnifying Party (such consent not to be unreasonably withheld, delayed or conditioned) and/or its respective insurer.

(d) The Indemnified Party and the Indemnifying Party shall cooperate in order to ensure the proper and adequate defense of a Third-Party Claim, including by providing access to each other's relevant business records, other documents and employees as may be reasonably necessary or desirable in connection with the defense of such Third-Party Claims.

(e) The Indemnified Party and the Indemnifying Party shall use reasonable best efforts to avoid production of confidential information (consistent with applicable Law), and to cause all communications among employees, counsel and others representing any party to a Third-Party Claim to be made so as to preserve any applicable attorney-client or work-product privileges.

(f) No Indemnified Party shall be entitled to recover from an Indemnifying Party more than once in respect of the same Losses. No Indemnified Party shall have the right to indemnification pursuant to Section 9.1, Section 12.2 or Section 12.3 with respect to any Loss or alleged Loss to the extent such Loss or alleged Loss is reflected in the calculation of the Purchase Price as reflected in the Final Closing Statement (whether as agreed by the parties or as any disputed item is resolved pursuant to Section 3.4(d)) or otherwise paid to Purchaser.

Section 12.5 Damages. No person shall be liable under this Article XII for any consequential, punitive, special, incidental or indirect damages, nor for any lost profits or diminution in value, except to the extent awarded by a court of competent jurisdiction in connection with a Third-Party Claim.

Section 12.6 Adjustments to Losses.

(a) In calculating the amount of any Loss, the proceeds actually received by the Indemnified Party or any of its Affiliates under any insurance policy or pursuant to any claim, recovery, settlement or payment by or against any other person in each case relating to the Third-Party Claim, net of any actual costs, expenses or premiums incurred in connection with securing or obtaining such proceeds, shall be deducted. Without limiting the generality or effect of any other provision hereof, each Indemnified Party and Indemnifying Party shall duly execute upon request all instruments reasonably necessary to evidence and perfect the subrogation and subordination rights detailed herein, and otherwise cooperate in the prosecution of such claims.

(b) *Reimbursement.* If an Indemnified Party recovers an amount from a third party in respect of a Loss that is the subject of indemnification hereunder after all or a portion of such Loss has been paid by an Indemnifying Party pursuant to this Article XII, the Indemnified Party shall promptly remit to the Indemnifying Party the excess (if any) of (1) the amount paid by the Indemnifying Party in respect of such Loss, plus the amount received from the third party in respect thereof, less (2) the full amount of Loss.

Section 12.7 Payments. The Indemnifying Party shall pay all amounts payable pursuant to this Article XII, by wire transfer of immediately available funds, promptly following receipt from an Indemnified Party of a claim, together with all accompanying reasonably detailed back-up documentation, for a Loss that is the subject of indemnification hereunder, unless the Indemnifying Party in good faith disputes the Loss, in which event it shall so notify the Indemnified Party. In any event, the Indemnifying Party shall pay to the Indemnified Party, by wire transfer of immediately available funds, the amount of any Loss for which it is liable hereunder no later than three (3) Business Days following any final determination of such Loss and the Indemnifying Party's liability therefor. A "final determination" shall exist when (1) the parties to the dispute have reached an agreement in writing, (2) a court of competent jurisdiction shall have entered a final and non-appealable order or judgment, or (3) an arbitration or like panel shall have rendered a final non-appealable determination with respect to disputes the parties have agreed to submit thereto.

Section 12.8 Mitigation; No Double Recovery. Each Indemnified Party shall use its reasonable best efforts to mitigate any indemnifiable Loss. In the event an Indemnified Party fails to so mitigate an indemnifiable Loss, the Indemnifying Party shall have no liability for any portion of such Loss that reasonably could have been avoided had the Indemnified Party made such efforts. Neither Purchaser nor Seller shall be entitled to receive indemnification from the other in respect of all or any portion of any Loss more than once, in each case, whether proceeding under this Article XII or Article IX.

Section 12.9 Survival of Indemnity. The obligation of Purchaser and Seller to indemnify under this Article XII as to claims covered by Section 12.2(a)(1) and Section 12.3(a)(1), as applicable, shall expire eighteen (18) months after the Closing Date, and shall not apply to any claims made after such date, except that the obligation of Purchaser and Seller, as applicable, to indemnify with respect to bona fide claims for indemnity made in writing by an Indemnified Party within such eighteen (18) month period shall continue until final resolution of such claims. The obligation of Purchaser and Seller to indemnify under this Article XII as to claims covered by Section 12.2(a)(2) and Section 12.3(a)(2) as applicable, shall expire three (3) years after the Closing Date, and shall not apply to any claims made after such date, except that the obligation of Purchaser and Seller, as applicable, to indemnify with respect to bona fide claims for indemnity made in writing by an Indemnified Party within such three (3) year period shall continue until final resolution of such claims. The obligation of Seller under this Article XII as to claims covered by Section 12.2(a)(3) shall expire three (3) years after the Closing Date, and shall not apply to any claims made after such date, except that the obligation of Seller to indemnify with respect to bona fide claims for indemnity made in writing by Purchaser within such three (3) year period shall continue until final resolution of such claims.

Section 12.10 Remedies Exclusive. Except as otherwise specifically provided herein or in the case of fraud, the remedies provided in this Article XII shall be the exclusive remedies of the parties hereto under this Agreement from and after the Closing, including in connection with any breach of a representation or warranty, or non-performance, partial or total, of any covenant or agreement contained herein, except with respect to Taxes, as to which the provisions of Article IX shall control exclusively and except as to calculation and final determination of the Final Closing Statement, as to which Section 3.4 shall control exclusively.

ARTICLE XIII

MISCELLANEOUS

Section 13.1 Entire Agreement; Amendment. All Exhibits (attached hereto and as executed), Schedules and the Disclosure Schedules hereto shall be deemed to be incorporated into and made part of this Agreement. This Agreement, together with the Exhibits, Schedules and the Disclosure Schedules hereto, and the Confidentiality Agreement, contain the entire agreement and understanding among the parties with respect to the subject matter hereof (and supersede any prior agreements, arrangements or understandings among the parties with respect to the subject matter hereof) and there are no agreements, representations, or warranties which are not set forth herein. This Agreement may not be amended or revised except by a writing signed by Seller and Purchaser.

Section 13.2 Binding Effect; Assignment; No Third-Party Beneficiaries. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Except as expressly provided herein, this Agreement and all rights hereunder may not be assigned by any party hereto except by prior written consent of the other party hereto. The parties intend that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person other than parties hereto.

Section 13.3 Specific Performance. The parties hereto acknowledge and agree that (1) monetary damages could not adequately compensate any party hereto in the event of a breach of the material terms of this Agreement by any other party; (2) the non-breaching party would suffer irreparable harm in the event of such a breach; and (3) the non-breaching party may seek, in addition to any other rights or remedies it may have at law or in equity, specific performance and injunctive relief as a remedy for the enforcement and to prevent breaches hereof. The parties agree to not seek, and agree to waive, any requirement for the securing or posting of a bond in connection with a party seeking or obtaining any relief pursuant to this Section 13.3.

Section 13.4 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when two or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. The execution and delivery of this Agreement may be effected by facsimile or any other electronic means such as “.pdf” or “.jpg” files.

Section 13.5 Notices. All notices, requests, demands and other communications required hereunder shall be in writing and shall be deemed to have been duly given or made if delivered personally, sent by e-mail (if confirmed by telephone) or telex (confirmed in writing within two (2) Business Days), or sent by registered or certified mail, postage prepaid, as follows:

If to Seller:

Wells Fargo Legal Department
Attention: Robert Lee, Senior Vice President, Assistant Secretary & Senior Company Counsel
Wells Fargo Center
90 S 7th Street, Floor 17
MAC N9305-173
Minneapolis, MN 55402-3903
E-mail: Robert.L.Lee@wellsfargo.com

with a copy (which shall not constitute notice) to:

Mitchell S. Eitel, Esq. and Stephen M. Salley, Esq.
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004
E-mail: eitelm@sullcrom.com / salleys@sullcrom.com

and if to Purchaser addressed to:

Lee M. Smith
Chief Operating Officer
Flagstar Bank, FSB
5151 Corporate Drive
Troy, Michigan 48098
E-mail: lee.smith@flagstar.com

with copies (which shall not constitute notice) to:

Patrick McGuirk
General Counsel
Flagstar Bank, FSB
5151 Corporate Drive
Troy, Michigan 48098
E-mail: patrick.mcguirk@flagstar.com

and

Sven G. Mickisch
Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
E-mail: Sven.Mickisch@skadden.com

Any party may change the address or fax number to which such communications are to be sent to it by giving written notice of change of address to the other party in the manner provided above for giving notice.

Section 13.6 Provisions Separable. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

Section 13.7 Expenses. Except as otherwise expressly set forth herein, all fees and expenses payable in connection with the consummation of the transactions contemplated by this Agreement shall be the sole liability of the party incurring such expense.

Section 13.8 Deadlines. Except as otherwise set forth herein, if the last day of the time period for the giving of any notice or the taking of any action required under this Agreement falls on a day other than a Business Day, the time period for giving such notice or taking such action shall be extended through the next Business Day.

Section 13.9 Delays or Omissions. Any waiver, permit, consent or approval of any kind or character of any breach or default under this Agreement, or any waiver of any provision or condition of this Agreement shall be effective only to the extent specifically set forth in writing. Notwithstanding any provision set forth herein, no party hereto shall be required to take any action or refrain from taking any action that would cause it to violate any applicable Law, statute, legal restriction, regulation, rule or order or any Governmental Entity.

Section 13.10 Waiver of Jury Trial. EACH PARTY HERETO HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY OF THEM AGAINST THE OTHER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, OR ANY OTHER AGREEMENTS EXECUTED IN CONNECTION HEREWITH, OR THE ADMINISTRATION THEREOF OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THEREIN. NO PARTY TO THIS AGREEMENT SHALL SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM, OR ANY OTHER LITIGATION PROCEDURE

BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY RELATED INSTRUMENTS OR THE RELATIONSHIP BETWEEN THE PARTIES. NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION, IN WHICH A JURY TRIAL HAS BEEN WAIVED, WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCUSSED BY THE PARTIES HERETO, AND THESE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTIONS. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

Section 13.11 Governing Law; Consent to Jurisdiction. The execution, interpretation, and performance of this Agreement shall be governed by the laws of the State of New York without giving effect to any conflict of laws provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the Law of any other jurisdiction other than the State of New York. EACH PARTY HERETO, TO THE EXTENT IT MAY LAWFULLY DO SO, HEREBY SUBMITS TO THE JURISDICTION OF ANY COURT OF THE STATE OF NEW YORK LOCATED IN THE BOROUGH OF MANHATTAN IN NEW YORK CITY AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, AS WELL AS TO THE JURISDICTION OF ALL COURTS FROM WHICH AN APPEAL MAY BE TAKEN OR OTHER REVIEW SOUGHT FROM THE AFORESAID COURTS, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF SUCH PARTY'S OBLIGATIONS UNDER OR WITH RESPECT TO THIS AGREEMENT OR ANY OF THE AGREEMENTS, INSTRUMENTS OR DOCUMENTS CONTEMPLATED HEREBY (OTHER THAN THE CONFIDENTIALITY AGREEMENT), AND EXPRESSLY WAIVES ANY AND ALL OBJECTIONS IT MAY HAVE AS TO VENUE IN ANY OF SUCH COURTS.

[Remainder of page left intentionally blank]

IN WITNESS WHEREOF, each of the parties hereto has caused this Purchase and Assumption Agreement to be duly executed as an instrument under seal by its officer thereunto duly authorized as of the date first above written.

WELLS FARGO BANK, N.A.

By: /s/ Julie Caperton

Name: Julie Caperton

Title: Executive Vice President

Flagstar Bank, FSB

By: /s/ Lee M. Smith

Name: Lee M. Smith

Title: Chief Operating Officer



Grantee Name: ###PARTICIPANT_NAME### (“Grantee”)

Grant Name: ###GRANT_NAME###

Grant Date: ###GRANT_DATE### (“Grant Date”)

Grant Price: ###GRANT_PRICE###

Total ###DICTIONARY_AWARD_NAME###: ###TOTAL_AWARDS### (subject to adjustment)

FLAGSTAR BANCORP, INC.
2016 STOCK AWARD AND INCENTIVE PLAN
RESTRICTED STOCK UNIT
AWARD AGREEMENT

This Award Agreement (this “**Agreement**”) is made effective at the Grant Date set forth above by and between Flagstar Bancorp, Inc., a Michigan corporation (the “**Company**”), and the Grantee named above.

WHEREAS, the Company sponsors and maintains the Flagstar Bancorp, Inc. 2016 Stock Award and Incentive Plan (the “**Plan**”); and

WHEREAS, the Grantee has been selected by the Board to receive a grant of Restricted Stock Units (the “**Units**”) under the Plan.

NOW, THEREFORE, the Company and the Grantee hereby agree as follows:

Section 1. Grant of Restricted Stock Units. The Company hereby grants to the Grantee, as of the Grant Date, an award of ###TOTAL_AWARDS### Restricted Stock Units (the “**Restricted Stock Units**”) on the terms and conditions set forth in this Agreement and the Plan. Each Restricted Stock Unit is granted under Section 6(e) of the Plan and represents the right to receive one share of Common Stock at the times and subject to the conditions set forth herein. Capitalized terms that are used but not defined herein have the meaning given to them in the Plan.

(a) **Vesting.** The Restricted Stock Units granted by the Company hereunder shall vest in three (3) installments in accordance with the following schedule: (a) one third (1/3) shall vest on the first anniversary of grant date, (b) one third (1/3) shall vest on the second anniversary of grant date, and (c) the remaining one third (1/3) shall vest on the third anniversary of grant date (each such date, an “**RSU Vesting Date**”), in each case, subject to the Grantee’s continued employment through the applicable RSU Vesting Date.

(b) **Change in Control.** In the event of a Change in Control, the Restricted Stock Units will be governed by the provisions of Section 9 of the Plan, which describes the conditions for accelerated vesting of the Restricted Stock Units.

(c) **Termination due to Retirement.** If Grantee’s employment with the Company is terminated due to Retirement prior to an applicable RSU Vesting Date, then the Restricted Stock Units shall vest on a pro-rata basis on the Grantee’s termination of employment. The pro rata calculation will be determined by multiplying (x) the number of unvested Restricted Stock Units, by (y) a fraction, with the numerator equal to the number of full months from the Grant Date through the date of the Grantee’s termination of employment, and denominator equal to 36 months. Such vested Restricted Stock Units to be settled in accordance with Section 3. For purposes of this Agreement, Retirement shall mean the Grantee’s separation from service at or after attainment of both age 60 and 10 years of completed service with the Company or its affiliates.

(d) **Termination for Death or Disability.** The Restricted Stock Units shall vest immediately and fully upon the Grantee’s termination of employment due to death or Disability and be settled in accordance with Section 3.

(e) **Termination for other reason than for Retirement, Death or Disability.** If the Grantee's employment is voluntarily or involuntarily terminated (other than due to Retirement death or Disability) prior to the vesting of any Restricted Stock Units, any such unvested Restricted Stock Unit shall be forfeited.

(f) **Account.** The Restricted Stock Units shall be credited to a separate account maintained for the Grantee on the books and records of the Company. All amounts credited to this account shall continue for all purposes to be part of the general assets of the Company.

Section 2. Transfer Restrictions. Until such time as the Units vest and the shares of Common Stock underlying the vested Units have been issued, the Grantee may not assign or otherwise transfer the Units or the rights relating thereto except as provided in the Plan. Any attempt to sell, pledge, assign or otherwise transfer the Units or the rights relating thereto shall be wholly ineffective and, if any such attempt is made, the Units or the rights relating thereto will be forfeited by the Grantee and all of the Grantee's rights to such units or related shares of Common Stock shall immediately terminate without any payment or consideration by the Company. Once the Units vest and the shares of Common Stock underlying the Units have been issued, the Grantee may not be able to sell immediately the shares of Common Stock depending on securities laws and under applicable insider trading policies of the Company. Any inability to sell or transfer the shares of Common Stock underlying the Units will not relieve the Grantee of the obligation to pay any required withholding taxes at the time of vesting (see discussion below under "Tax Withholding").

Section 3. Settlement of Vested Units.

(a) Within thirty (30) calendar days following the vesting of any Unit, the Company shall distribute to the Grantee the number of shares of Common Stock (either in book-entry form or in any other commercially reasonable manner implemented by the Company) equal to the number of vested Units.

(b) All distributions in shares of Common Stock shall be in the form of whole shares of Common Stock, and any fractional share shall be distributed in cash in an amount equal to the value of such fractional share determined based on the Fair Market Value of a share of Common Stock on the applicable vesting date.

(c) This Agreement is subject to compliance with applicable laws, statutes, rules, regulations and policies of, and any agreements with, any regulatory authority, body or agency having jurisdiction over the Company or any of its subsidiaries, including, but not limited to, compliance with any notice, non-objection or approvals requirements set forth in any of the foregoing.

Section 4. Tax Withholding. The Grantee shall be required to pay to the Company, and the Company shall have the right to deduct from any compensation paid to the Grantee pursuant to the Plan, the minimum amount required to be withheld for federal, state and local taxes, domestic or foreign, including payroll taxes, in respect of the Units and to take all such other action as the Committee deems necessary to satisfy all obligations for the payment of such withholding taxes. The Company shall determine the amount of such withholding. The Committee, in its sole discretion, may require or permit the Grantee to satisfy any such tax withholding obligation by any one or a combination of the following means:

(a) the Grantee tendering a cash payment or check payable to the Company; and/or

(b) the Company withholding shares of Common Stock from the shares of Common Stock otherwise issuable to the Grantee as a result of the vesting of the Restricted Stock Units; provided, however, that shares of Common Stock may be withheld with a value exceeding the minimum statutory amount of tax required to be withheld by law only in accordance with a procedure or policy adopted by the Committee and in effect at the time of vesting.

Section 5. Rights as Stockholder. Except as otherwise provided in the Agreement, the Grantee shall not have any of the rights or privileges of a stockholder with respect to the shares of Common Stock underlying the Units, including but not limited to rights to vote the shares of Common Stock or to receive dividends on the shares of Common Stock, unless and until the Units vest and certificates or other evidence of ownership representing such shares of Common Stock (which may be in book-entry form) have been issued and recorded on the records of the Company, and delivered to the Grantee. After such issuance, recordation and delivery, Grantee will have the rights of a stockholder of the Company with respect to such shares of Common Stock, subject to any restrictions on the shares of Common Stock and the terms and conditions of the Stockholder's Agreement.

Section 6. No Right to Continued Service. Neither the Plan nor this Agreement shall confer upon the Grantee any right to continue as an employee of the Company. Further, nothing in the Plan or this Agreement shall be construed to limit the right of the Company to terminate Grantee's employment at any time, with or without cause.

Section 7. Adjustments. The number of Units subject to this Award and related terms will be subject to adjustment in accordance with Section 11(c) of the Plan under a variety of circumstances, including but not limited to splits or other corporate events. Any adjustment made by the Committee shall be conclusive, final and binding. For clarity, no dividend equivalents will be paid or credited on the Units relating to ordinary dividends paid by the Company.

Section 8. Restrictive Covenants. The Grantee acknowledges and agrees that the services provided by the Grantee to the Company and its Affiliates including, but not limited to, Flagstar Bank, FSB (the “Bank”), are of a special, unique and extraordinary nature, and that the restrictions contained in this Section are necessary to prevent the use and disclosure of Confidential Information and to protect other legitimate business interests of the Company and its Affiliates. The Grantee acknowledges that all of the restrictions in this Section are reasonable in all respects, including duration, territory and scope of activity. In the event a court of competent jurisdiction determines as a matter of law that any of the terms of this Section are unreasonable or overbroad, the Company and the Grantee expressly allow such court to reform this Agreement to the extent necessary to make it reasonable as a matter of law and to enforce it as so reformed. The Grantee agrees that the restrictions contained in this Section shall be construed as separate agreements independent of any other provision of this Agreement or any other agreement between the Grantee and the Company or its Affiliates.

(a) **Confidentiality.** In the course of the Grantee’s performing Grantee’s duties for the Company and its Affiliates, the Company expects to provide Grantee with various proprietary, confidential and trade secret information of the Company and its Affiliates. Such proprietary, confidential and trade secret information may include, but not be limited to, any database of customer accounts; any customer, supplier and distributor list; customer profiles; information regarding sales and marketing activities and strategies; trade secrets; data regarding technology, products and services; information regarding pricing, pricing techniques and procurement; financial data and forecasts regarding the Company and customers, suppliers and distributors of the Company; software programs and intellectual property (collectively, “Confidential Information”). All Confidential Information shall be and remain the sole property of the Company and its assigns, and the Company shall be and remain the sole owner of all patents, copyrights, trademarks, names and other rights in connection therewith and without regard to whether the Company is at any particular time developing or marketing the same. The Grantee acknowledges that the Confidential Information is a valuable, special and unique asset of the Company and its Affiliates and that Grantee’s access to and knowledge of the Confidential Information is essential to the performance of Grantee’s duties as an employee of the Company and its Affiliates. In light of the competitive nature of the business in which the Company and its Affiliates are engaged, the Grantee agrees, subject to Section 8(f) below, that Grantee will, both during Grantee’s employment or service with the Company and its Affiliates and thereafter, maintain the strict confidentiality of all Confidential Information known or obtained by him or to which Grantee has access in connection with Grantee’s employment by or service with the Company and that Grantee will not, (i) disclose any Confidential Information to any person or entity (other than in proper performance of Grantee’s duties hereunder) or (ii) make any use of any Confidential Information for Grantee’s own purposes or for the direct or indirect benefit of any person or entity other than the Company or its Affiliates. Confidential Information shall not be deemed to include information that (w) becomes generally available to the public through no fault of Grantee, (x) is previously known by the Grantee prior to Grantee’s receipt of such information from the Company, (y) becomes available to Grantee on a non-confidential basis from a source which, to Grantee’s knowledge, is not prohibited from disclosing such information by legal, contractual or fiduciary obligation to the Company or (z) is required to be disclosed in order to comply with any applicable law or court order. Immediately upon termination of the Grantee’s employment or at any other time upon the Company’s request, the Grantee will return to the Company all memoranda, notes and data, computer software and hardware, records or other documents compiled by Grantee or made available to the Grantee during the Grantee’s employment with the Company concerning the Business of the Company (including without limitation, all files, records, documents, lists, equipment, supplies, promotional materials, keys, phone or credit cards and similar items and all copies thereof or extracts therefrom), provided that nothing in this sentence limits any provision of Section 8(f), below. Notwithstanding the foregoing, in certain limited circumstances described in the Company’s Confidentiality Guidelines, Grantee may disclose Confidential Information that consists of materials that would otherwise be subject to trade secret protection.

(b) **No Competition.** For a period of one (1) year following the Grantee’s voluntary termination of employment with the Company or its Affiliates, but only if the Grantee has vested in some portion of the Units, the Grantee agrees that the Grantee shall not, on behalf of the Grantee or for others, directly or indirectly (whether as employee, consultant, investor, partner, sole proprietor or otherwise), be employed by, have an ownership interest in, or perform any services for a financial institution engaged in the same lines of business as the Company or its Affiliates (“Business of the Company”) in any state of the United States where the Company is doing business. The parties agree that this provision shall not prohibit the ownership by the Grantee, solely as an investment, of securities of a person engaged in the Business of the Company if (i) the Grantee is not an “affiliate” (as such term is defined in Rule 12b-2 of the regulations promulgated under the Exchange Act) of the issuer of such securities, (ii) such securities are publicly traded on a national securities exchange and (iii) the Grantee does not, directly or indirectly, beneficially own more than two percent (2%) of the class of which such securities are a part.

(c) **No Solicitation of Employees.** The Grantee agrees that, both during the Grantee's employment with the Company and for a period of one (1) year following termination of the Grantee's employment with the Company or its Affiliates for any reason, the Grantee will not, directly or indirectly, on behalf of the Grantee or any other person or entity, hire, engage or solicit to hire for employment or consulting or other provision of services, any person who is actively employed (or in the six (6) months preceding the Grantee's termination of employment with the Company was actively employed) by the Company or its Affiliates, except for rehire by the Company or its Affiliates. This includes, but is not limited to, inducing or attempting to induce, or influence or attempting to influence, any person employed by the Company to terminate his or her employment with the Company.

(d) **No Solicitation of Customers.** The Grantee agrees that, both during the Grantee's employment with the Company and for a period of one (1) year following termination of the Grantee's employment with the Company and its Affiliates for any reason, the Grantee will not directly, on behalf of any competitor of the Company or its Affiliates in the Business of the Company, solicit the business of any entity within the United States who is known by the Grantee to be a customer of the Company or its Affiliates.

(e) **Survival.** The obligations and provisions contained in this Section shall survive the Grantee's separation from service and this Agreement and shall be fully enforceable thereafter.

(f) **Protected Rights.** Nothing in this Confidentiality provision prohibits Grantee from reporting possible violations of federal law or regulation to, or filing a charge or complaint with, any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, "Government Agencies"), or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. Grantee is not limited by this Confidentiality provision from communicating with any Government Agencies, or otherwise participating in any investigation or proceeding that may be conducted by any Government Agencies, including providing documents or other information. Grantee is not required to notify the Company that any such reports, disclosures or information have been made or provided and does not require prior authorization from the Company before doing so. Nothing in this Agreement shall limit Grantee's ability under applicable United States federal law to (i) disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law or (ii) disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure.

Section 9. Company Policies; Forfeiture.

(a) The Grantee agrees that the grant of Restricted Stock Units and Performance Share Units and the shares of Common Stock issued upon vesting of the Units will be subject to any applicable clawback or recoupment policies, insider trading policies, policies related to confidential information and assignment of intellectual property, stock ownership guidelines and other policies that may be implemented or updated by the Company, from time to time.

(b) Notwithstanding anything to the contrary in this Agreement or the Plan, the Grantee agrees that if either (i) Grantee is terminated by the Company with Cause or (ii), during the Grantee's employment or other service with the Company or an Affiliate and thereafter, Grantee violates any of the restrictive covenants under Section 9 above, irrespective of whether the restrictive covenant is enforceable under applicable law, then immediately upon demand by the Company made within 90 days of the Company's receipt of actual notice of the violation, any unvested Units shall be cancelled and the Grantee shall return to the Company all shares of Common Stock delivered in settlement of the Units, or the cash value received by the Grantee upon the sale of such shares, to the extent the foregoing were realized or received in the twenty-four months prior to Grantee's termination.

Section 10. Notices. Any notice required by the terms of this Agreement shall be given in writing and shall be deemed effective upon personal delivery, upon deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid or upon deposit with a reputable overnight courier. Notice shall be addressed to the Company at its principal executive office and to the Grantee at the address most recently provided by the Grantee to the Company.

Section 11. Incorporation of Plan Terms. The provisions of the Plan are incorporated by reference into these terms and conditions. To the extent any provision of this Agreement conflicts with the Plan, the terms of the Plan shall govern. The Grantee acknowledges receipt of a copy of the Plan and represents that the Grantee has reviewed the Plan and is familiar with the terms and provisions thereof. The Grantee hereby accepts this Agreement and the terms of the Plan.

Section 12. Successors and Assigns. This Agreement is personal to the Grantee and shall not be assignable by the Grantee other than by will or the laws of descent and distribution, without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by the Grantee's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors. It shall not be assignable by the Company except in connection with the sale or other disposition of all or substantially all the assets or business of the Company.

Section 13. No Impact on Other Benefits. The value of the Grantee's Units is not part of the Grantee's compensation for purposes of calculating any severance, retirement, welfare, insurance or similar employee benefit.

Section 14. Discretionary Nature of Plan. The Plan is discretionary and may be amended, cancelled or terminated by the Company at any time, in its discretion. The grant of the Units in this Agreement does not create any contractual right or other right to receive any Units or other awards or grants in the future. Future awards, if any, will be at the sole discretion of the Committee. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of the Grantee's employment with the Company or its Affiliates.

Section 15. Amendment. The Committee shall have authority, subject to the express provisions of the Plan, to interpret this Agreement and the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, to modify the terms and provisions of this Agreement, and to make all other determinations in the judgment of the Committee necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in this Agreement in the manner and to the extent it shall deem necessary or desirable to carry it into effect. All action by the Committee under the provisions of this Section shall be final, conclusive and binding for all purposes. Any amendment to this Agreement shall be in writing signed by the Company and, if the amendment materially impairs the rights of the Grantee, by the Grantee.

Section 16. Code Section 409A. This Agreement and the award of Units hereunder are intended to comply with the requirements of Code Section 409A, and shall at all times be interpreted, operated and administered in accordance with such intent. If payment of any amount subject to Code Section 409A is triggered by a separation from service that occurs while the Grantee is a "specified employee" (as defined by Code Section 409A) with, and if such amount is scheduled to be paid within six (6) months after such separation from service, the amount shall accrue without interest and shall be paid the first business day after the end of such six-month period, or, if earlier, within 15 days after the appointment of the personal representative or executor of the Grantee's estate following the Grantee's death. "Termination of employment," "resignation," "retirement" or words of similar import, as used in this Agreement shall mean, with respect to any payments subject to Code Section 409A, the Grantee's "separation from service" as defined by Code Section 409A. Notwithstanding anything in the Plan or this Agreement to the contrary, the Grantee shall be solely responsible for the tax consequences of the Units, and in no event shall the Company have any responsibility or liability if an award under the Plan is subject to and/or fails to comply with the requirements of Code Section 409A.

Section 17. Code Section 280G. If a Change in Control occurs and payments are made under this Agreement, and the aggregate of the RSUs and PSUs awarded to Grantee that vest under this Agreement, and all payments under any other agreement, plan, program or policy of the Company in connection with such Change in Control ("Total Payments") will be subject to an excise tax under the provisions of Code Section 4999 ("Excise Tax"), the Total Payments shall be reduced so that the maximum amount of the Total Payments (after reduction) will be one dollar (\$1.00) less than the amount that would cause the Total Payments to be subject to the Excise Tax; provided, however, that the Total Payments shall only be reduced to the extent the after-tax value of amounts received by Grantee after application of the above reduction would exceed the after-tax value of the Total Payments received by Grantee without application of such reduction. In making any determination as to whether the Total Payments would be subject to an Excise Tax, consideration shall be given to whether any portion of the Total Payments could reasonably be considered, based on the relevant facts and circumstances, to be reasonable compensation for services rendered (whether before or after the consummation of the applicable Change in Control).

Section 18. Entire Agreement. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement supersedes any other agreements, representations or understandings (whether oral or written and whether express or implied) which relate to the subject matter hereof.

Section 19. Severability. If any provision of this Agreement for any reason should be found by any court of competent jurisdiction to be invalid, illegal or unenforceable, in whole or in part, such declaration shall not affect the validity, legality or enforceability of any remaining provision or portion hereof, which remaining provision or portion hereof shall remain in full force and effect as if this Agreement had been adopted with the invalid, illegal or unenforceable provision or portion hereof eliminated.

Section 20. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Michigan, as such laws are applied to contracts entered into and performed in such State, without giving effect to the choice of law provisions thereof. The jurisdiction and venue for any disputes arising under, or any action brought to enforce the terms of, this Agreement shall be resolved exclusively in the courts of the State of Michigan, including the Federal Courts located therein (should Federal jurisdiction exist).

Section 21. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

Section 22. Acceptance. As a condition of receiving this Award, the Grantee agrees that the Committee, and to the extent that authority is afforded to the Board, the Board, shall have full and final authority to construe and interpret the Plan and this Agreement, and to make all other decisions and determinations as may be required under the Plan or this Agreement as they may deem necessary or advisable for administration of the Plan or this Agreement, and that all such interpretations, decisions and determinations shall be final and binding on the Grantee, the Company and all other interested persons. Any dispute regarding the interpretation of this Agreement shall be submitted by the Grantee or the Company to the Committee for review. The resolution of such dispute by the Committee shall be final and binding on the Grantee and the Company.

This Agreement is executed by the Company and the Grantee as of the date and year first written above.

GRANTEE

FLAGSTAR BANCORP, INC.

By: Christine M. Reid

Its: Corporate Secretary

ACKNOWLEDGEMENT OF INSIDER TRADING LAWS AND POLICY

NOTE: OUR INSIDER TRADING POLICY ADDRESSES VERY SERIOUS MATTERS. IF YOU HAVE ANY QUESTION OR DOUBT ABOUT THE APPLICABILITY OR INTERPRETATION OF THIS POLICY, PLEASE SEEK CLARIFICATION FROM OUR GENERAL COUNSEL.

The undersigned acknowledges that he/she has reviewed the Company's Insider Trading Policy (the "Policy"), and will review any amendments to the Policy. The current Policy and any amendments will be maintained and available on the My Flagstar intranet. The undersigned agrees to comply with the restrictions and procedures contained in the Policy, as it may be amended from time to time.

Signature

Name

Date

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Alessandro P. DiNello, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Flagstar Bancorp, Inc. (the "registrant");
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 6, 2018

/s/ Alessandro P. DiNello

Alessandro P. DiNello
President and Chief Executive Officer (Principal
Executive Officer)

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, James K. Cirolì, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Flagstar Bancorp, Inc. (the "registrant");
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 6, 2018

/s/ James K. Cirolì

James K. Cirolì
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.2

SECTION 906 CERTIFICATION

In connection with the annual report of Flagstar Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James K. Cirolì, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2018

/s/ James K. Cirolì

James K. Cirolì
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

SECTION 906 CERTIFICATION

In connection with the annual report of Flagstar Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alessandro P. DiNello, President and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2018

/s/ Alessandro P. DiNello

Alessandro P. DiNello
President and Chief Executive Officer (Principal
Executive Officer)