



1999 Annual Report

National Headquarters • 2600 Telegraph Road • Bloomfield Hills, MI 48302 • 800-945-7700

www.flagstar.com

www.flagstarbanking.com



Member FDIC

SEARCH:

[www.flagstar.com/1999 annual report](http://www.flagstar.com/1999%20annual%20report)

60



Table of Contents

Company Profile----- 1

Letter to the Stockholders ----- 2-3

Financial Highlights----- 4-5

Community Banking ----- 6-7

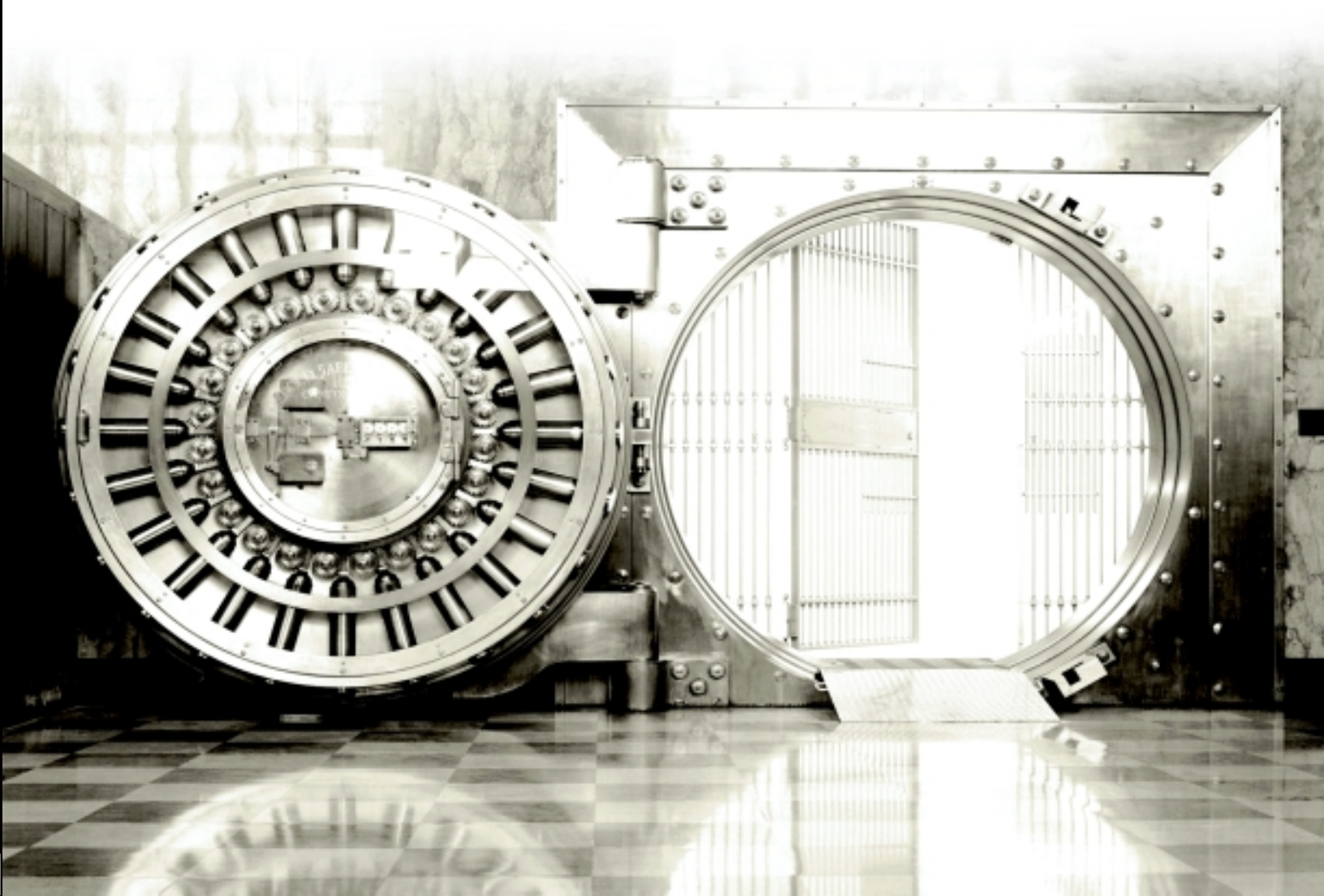
Community Lending----- 8-9

Mortgage Banking ----- 10-11

Technology ----- 12-13

Loan Servicing ----- 14

Directors and Senior Officers -----15



COMMUNITY BANK

We are a growth oriented community bank with 35 branches located in southern Michigan.

MORTGAGE LENDER

We are one of the largest residential mortgage originators in the country.

MORTGAGE SERVICER

We service over 140,000 loans for consumers located throughout the country.

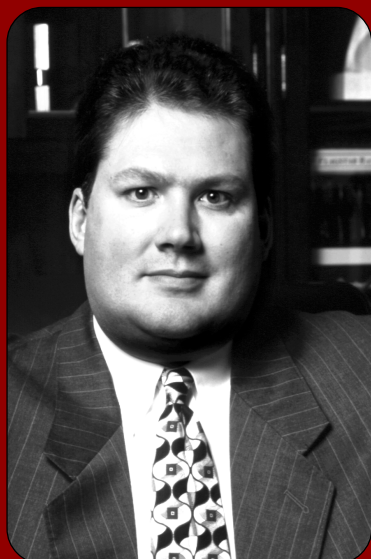
Flagstar Bancorp, Inc., is the holding company for Flagstar Bank, FSB, a federally chartered stock savings bank founded in 1987. We are the **largest independent savings institution** headquartered in Michigan. Our common stock is traded on the Nasdaq Stock Market under the symbol “**FLGS**”.

Through our bank branches and e-commerce distribution channels, we attract deposits from the general public. We utilize these deposits, along with other funds garnered from the secondary market, to originate or acquire residential mortgage loans on a nationwide basis. We are one of the largest home mortgage lenders in the United States. Additionally, but to a lesser extent, we provide warehousing lines of credit on a nationwide basis, and originate commercial real estate loans, consumer loans, and non-real estate commercial loans within our Michigan retail market area. We also service a significant volume of mortgage loans on homes located throughout the United States.

Letter to the STOCKHOLDERS



Thomas J. Hammond
Chairman of the Board
Chief Executive Officer



Mark T. Hammond
Vice Chairman of the Board
President

Dear Stockholder:

1999 was a ground breaking year filled with strong asset growth, geographic expansion, and an acceleration of our mission to become the leading full service community bank in Michigan. We accomplished a full 41% increase in our total assets and a 54% increase in our retail deposit base. We initiated our retail deposit branch expansion into the Metropolitan Detroit area. We began construction of our new national headquarters on a 25 acre site in Troy, Michigan. We further expanded our technology leadership with our full-scale entrance into the e-commerce marketplace with our three Internet web sites, "flagstarbanking.com", "flagstar.com" and "bankave.com". We also began to roll out our much anticipated new loan origination system.

During the year our assets increased from \$3.0 billion on December 31, 1998, to \$4.3 billion on December 31, 1999. Associated with this asset growth was an equally impressive increase in deposits from \$1.9 billion to \$2.3 billion. During the second quarter we issued 2.3 million shares of preferred stock securities through a trust subsidiary. This sale allowed us to increase regulatory capital to the Bank by \$75 million without diluting any common stock shareholders. We utilized this capital to support the increase in earning assets which has and will continue to increase our asset size and net interest revenue.

For the year 1999, we continued to post strong profitability ratios. We recorded net earnings for 1999 of \$2.75 per share-diluted, a decrease of 5.2% from the corporate record of \$2.90 per share-diluted reported in 1998. This was accomplished even though our mortgage origination volume fell 22.8% in 1999 from 1998 due to a less favorable interest rate environment. Under the circumstances, we still continued to outperform our industry peers with a 21.37% return on average equity and a 1.05% return on average assets.

Although we enjoyed a very profitable year, there was a sharp rise in interest rates after the second quarter. This rise in interest rates required us to abruptly adjust our mortgage banking origination staff to reflect the decline in residential mortgage originations particularly with regards to refinancing activity. The income decrease associated with mortgage activity was offset by an increase in earnings reported in our retail banking operation.

The Board of Directors authorized dividends after each quarter which allowed our stockholders to share in our success. The current dividend rate is a 2.3% return on the year-end stock price and equaled 14.5% of 1999 earnings. Our stock price ended the year at \$17.25, down 34.9% during 1999, but still up 32.7% from the initial public offering in May 1997. Our stock price at the end of the year was disappointing; however, it was down less at the end of the year than that of most Detroit area publicly traded banks and thrifts. During 1999, we repurchased over 800,000 shares of our common stock under a board approved repurchase program. The shares were acquired at an average price of \$14.95 per share. This program was authorized to extend into the year 2000. Stockholders' equity grew from \$163.9 million on December 31, 1998, to \$185.7 million on December 31, 1999. The current book value of the common stock is \$14.41 per share.

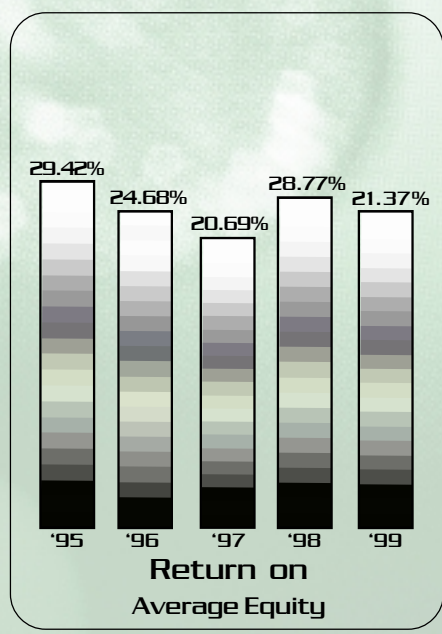
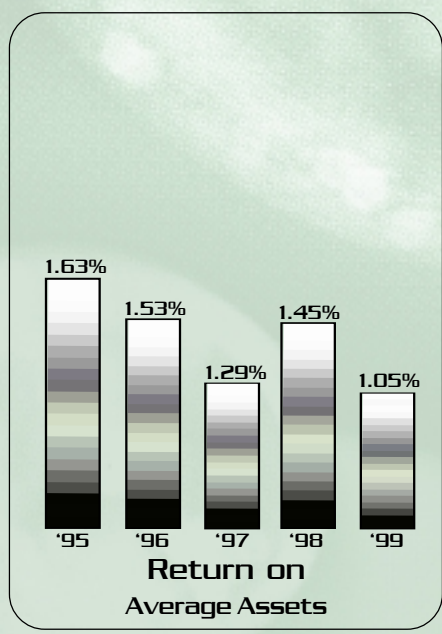
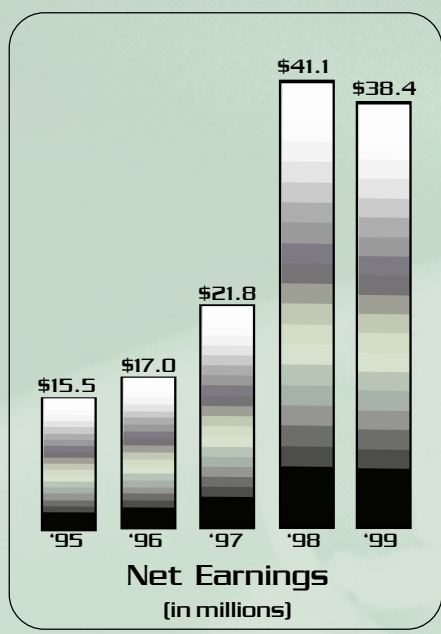
Our management team thanks you for the confidence you have placed in us. We will continue to implement our growth oriented business plan and to geographically expand our retail marketplace during the year 2000. We will continually strive to maintain high profitability levels and to deliver exemplary customer service. We will also continue to invest in emerging technologies and to expand our Internet presence.

Thank you for your continued support.

National Headquarters • Troy • Michigan



Anticipated Occupancy Fall 2000

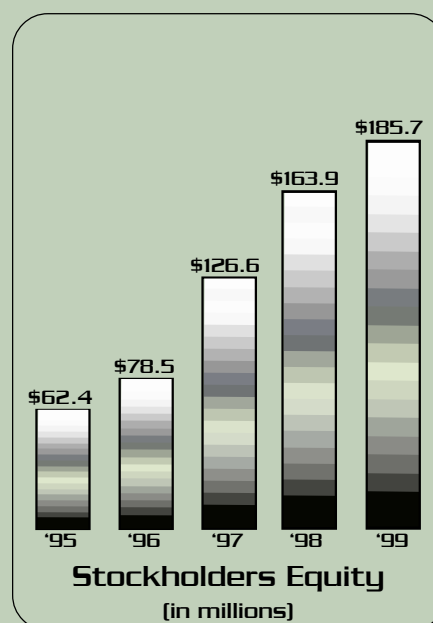
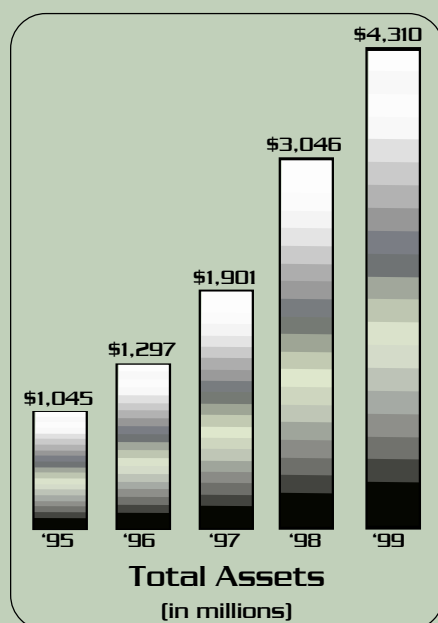


FINANCIAL HIGHLIGHTS

At or For the Year Ended December 31,
1999 1998 1997 1996* 1995
(In thousands, except share data)

Net earnings	\$38,421	\$41,063	\$21,772	\$17,023	\$15,476
Earnings per share - basic	\$2.83	\$3.00	\$1.70	\$1.51	\$1.37
Earnings per share - diluted	\$2.75	\$2.90	\$1.68	\$1.51	\$1.37
Total assets	\$4,310,039	\$3,046,445	\$1,901,084	\$1,297,226	\$1,045,094
Retail deposits	\$1,274,351	\$828,163	\$509,106	\$411,841	\$337,172
Stockholders' equity	\$185,714	\$163,852	\$126,617	\$78,468	\$62,445
Mortgage loan originations	\$14,550,258	\$18,852,885	\$7,873,099	\$6,791,665	\$5,195,605
Mortgage loans serviced for others	\$9,519,926	\$11,472,211	\$6,412,797	\$4,801,581	\$6,788,530
Return on assets	1.05%	1.45%	1.29%	1.53%	1.63%
Return on equity	21.37%	28.77%	20.69%	24.68%	29.42%

* The 1996 earnings reflect the one time SAIF assessment of \$3.4 million (\$2.2 million after tax) paid in September, 1996. Without this assessment, earnings would have been \$19.2 million and return on average equity, return on average assets would have been 27.87% and 1.73%, respectively.



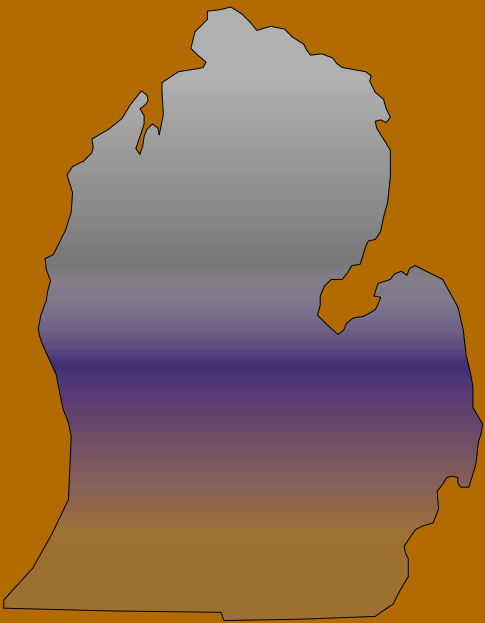
COMMUNITY BANKING

As the largest independent savings institution headquartered in Michigan, we are a growth oriented community bank with 35 branches located throughout southern lower Michigan. During 1999, we opened 7 new offices. During the fourth quarter, we entered the Detroit Metropolitan Area with two new full service branch facilities.



These new branches are located in Farmington Hills and Detroit. The overwhelming positive response we have received from our customers is displayed in the **53.9% increase in our retail deposit balances** during 1999.

Each of our new facilities have been a de novo branch opening in a strategic location in a desirable community. We have thoroughly researched the demographics of each community and the individual locations to insure our success.

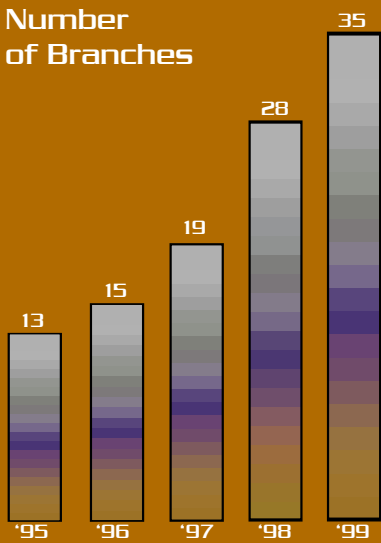


Banking Centers

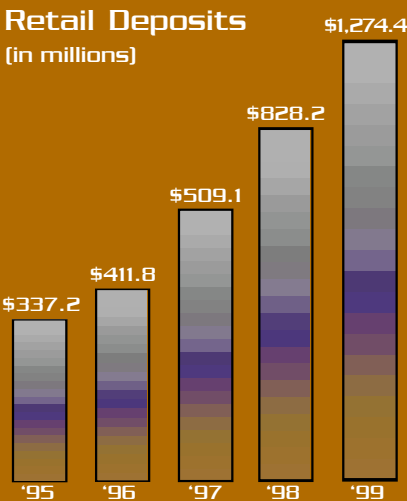
By County	
As of December 31,1999	
Branch	1
Calhoun	1
Eaton	2
Hillsdale	1
Ingham	3
Jackson	10
Kalamazoo	2
Kent	2
Livingston	1
Oakland	2
Ottawa	4
St. Joseph	1
Washtenaw	4
Wayne	1

During the year 2000, we have plans to continue our aggressive growth initiative and open 8 new branch facilities primarily located in the Detroit Metropolitan Area. These full-service facilities will allow us to reach out to the southeastern Michigan retail marketplace from a banking and consumer lending perspective in addition to mortgage lending where we have been a market leader since our founding.

Number of Branches



Retail Deposits
(in millions)



COMMUNITY LENDING

Flagstar Bank is proud of our commitment to lend in the communities in which we operate. We are a leading home mortgage, consumer and construction lender, and we are also a strongly emerging commercial lender.

Our retail loan portfolio is becoming more diversified and the loans are of exceptional quality. Our retail loan portfolio will continue to grow as we continue to expand and serve our customers within our Michigan market place.

Mortgage Lending

Flagstar Bank has provided consumers in our retail market with a **wide variety of mortgage financing options** since 1987. We continue to be one of the leading retail mortgage lenders in the state with residential loan originations in our retail market area totaling over \$1.0 billion in 1999.



Our staff of over 200 loan officers are willing to meet applicants virtually anywhere and at anytime, setting Flagstar apart from other Michigan financial institutions. In addition to convenience, our competitive prices and quick response origination technology are the reasons consumers look to Flagstar when shopping for a home mortgage.

Consumer Lending

As our community banking operation and retail market area have grown, our retail customer base has increased. We have been able to increase and diversify our loan portfolio, by offering a greater number of new loan products to these new customers. These financing instruments include the full spectrum of **consumer loan** products. During 1999, we provided consumer loans, home equity loans, and second mortgage loans which totaled over **\$75 million**.

Construction Lending

In conjunction with our position as a leader in the mortgage lending area, we have worked with a large number of the new home builders in our retail market area. During 1999, we provided the financing for over **\$81 million** to our retail customers for new homes constructed. Our lending programs are individually structured to provide our customer with the most satisfying building experience possible.

Commercial Lending

In late 1997, in order to fully service the business community in our retail market area, we opened our commercial lending department. Our group of commercial lenders service the small to mid-sized business professionals in southern lower Michigan. During 1999, we lent over **\$94 million** within our retail market area.



MORTGAGE BANKING

The members of our management team have been active in the mortgage banking business since 1968. Flagstar Bank has been a major force in the mortgage marketplace since its incorporation in 1987. We have continued to grow this segment of our business operation every year. We have business relationships with over 4,000 mortgage companies, banks and credit unions across the United States. These relationships are serviced by our national sales force and supported by our 9 regional offices and 7 satellite offices strategically located across the country. Our wholesale operation consists of two production channels; broker lending and correspondent lending.



We can always be counted on to be amongst the largest mortgage lenders in the country. Our acknowledged success in the national mortgage banking scene is predicated upon our delivery of a high level of customer service, our position at the forefront of technological advances in the industry, our extensive product line we offer customers and our competitive pricing. These four key components have allowed us to continue our origination of mortgage loans in all 50 states during 1999.

Wholesale Lending

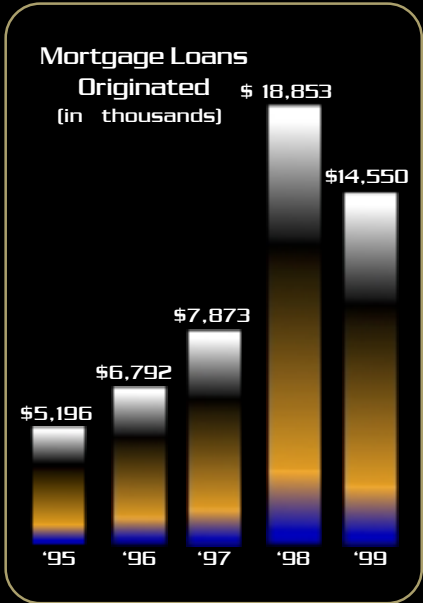
In 1999 we continued our leadership in this channel of business by providing over **\$7.4 billion** in funds for mortgage closings to our mortgage broker partners. We completed the year as the 11th largest wholesale lender in the United States.

Correspondent Lending

As a relatively new channel of business for us, we purchased nearly **\$6.0 billion** of mortgages from the many mortgage companies, other banks, and credit unions with whom we have a business relationship. We completed the year as the 15th largest correspondent lender in the United States.

Warehouse Lending

In order to close a mortgage transaction, a mortgage company will at times borrow the required funds from a warehouse bank or lender. We entered this business in 1994 and went national with this loan offering in 1996. Our ability to provide the transaction financing for our correspondent customers has further enhanced our relationship with them. At year end, we had extended credit lines to 119 correspondent lenders totaling **\$335.8 million** of which \$46.2 million was drawn and outstanding at year end.



TECHNOLOGY LEADER

Flagstar Bank has always prided itself as being on the **cutting edge of emerging technology**. We have been involved in many "pilot programs" offered by the various government agencies involved in the secondary mortgage market. We have opened an **ON-line Internet banking** site for our customers who have a deposit relationship with us. We provide **on-line mortgage applications** to consumers through our Internet web site. We have also developed a business to business website that in the future will allow our over 4000 mortgage brokers and bank customers to conduct business with us electronically, **eliminating virtually all paper** in what has historically been an extremely paper-intensive transaction. We also began to roll out our much anticipated new loan origination system. These are just a few of the instances where we have deployed current generation technology to improve a process and provide the extra step in customer service.

We believe the **Internet provides us an excellent opportunity** to reach our current customer base while generating new relationships along the way. With this in mind, we've developed three websites, **flagstar.com** and **flagstarbanking.com** and **bankave.com**.





www.flagstar.com

This site is offered to the public as an informational tool to provide the consumer with an **overview of our products and services**. This site has links to our banking site and also provides an interactive loan application section for potential retail mortgage customers. This site also provides access to our business-to-business applications.

www.flagstarbanking.com

This site offers our customers an **interactive on-line banking** program which provides checking account, certificate of deposit processing, account transferring, and bill paying capabilities.

bankave.com

This site offers an avenue under which consumers can acquire high rate certificate of deposits on-line. Participating member banks, including Flagstar Bank, bid for the consumers' deposits. This allows for the best execution for the consumer and enhanced access to funds for the member banks.

LOAN SERVICING

Mortgage loan servicing involves the collection and distribution of customers' mortgage payments to investors on a fee basis. It also entails the collection and payment of property taxes and hazard insurance premiums on behalf of those same customers. We have always **managed and serviced** a large portfolio of mortgage loans for other investors and at year end 1999 we serviced a total of **\$9.5 billion**. The right to service a mortgage loan, in most circumstances, acts as a natural hedge against a rising interest rate environment, providing more net revenue to offset decreases in loan origination income caused by higher interest rates.



DIRECTORS & SENIOR OFFICERS

FLAGSTAR BANCORP, INC.

THOMAS J. HAMMOND	CHAIRMAN OF THE BOARD CHIEF EXECUTIVE OFFICER
MARK T. HAMMOND	VICE CHAIRMAN OF THE BOARD PRESIDENT
MICHAEL W. CARRIE	DIRECTOR EXECUTIVE VICE PRESIDENT CHIEF FINANCIAL OFFICER
JOAN H. ANDERSON	DIRECTOR EXECUTIVE VICE PRESIDENT
JOHN R. KERSTEN	DIRECTOR
JAMES D. ISBISTER	DIRECTOR
C. MICHAEL KOJAJIAN	DIRECTOR
RICHARD S. ELSEA	DIRECTOR
JAMES D. COLEMAN	DIRECTOR
MARY KAY MCGUIRE	SECRETARY SENIOR VICE PRESIDENT
MARIE A. RALKO	TREASURER SENIOR VICE PRESIDENT

FLAGSTAR BANK, FSB

THOMAS J. HAMMOND	CHAIRMAN OF THE BOARD CHIEF EXECUTIVE OFFICER
MARK T. HAMMOND	VICE CHAIRMAN OF THE BOARD PRESIDENT
MARY KAY MCGUIRE	DIRECTOR SECRETARY SENIOR VICE PRESIDENT
CHARLES BAZZY	DIRECTOR
WILLIAM B. BORTELS	DIRECTOR
HARRY S. ELLMAN	DIRECTOR
RONALD I. NICHOLS, SR.	DIRECTOR
MICHAEL W. CARRIE	EXECUTIVE VICE PRESIDENT CHIEF FINANCIAL OFFICER
JOAN H. ANDERSON	EXECUTIVE VICE PRESIDENT
KIRSTIN A. HAMMOND	EXECUTIVE VICE PRESIDENT
ROBERT O. RONDEAU, JR.	EXECUTIVE VICE PRESIDENT
MARIE A. RALKO	TREASURER SENIOR VICE PRESIDENT
ALBERT J. GLADNER	GENERAL COUNSEL SENIOR VICE PRESIDENT
JEAN R. GARRICK	SENIOR VICE PRESIDENT
KAREN F. SHREVE	SENIOR VICE PRESIDENT
LINDA R. TERRASI	SENIOR VICE PRESIDENT
M. DAVID BOWERS	SENIOR VICE PRESIDENT
WILLIAM M. ROBINSON	SENIOR VICE PRESIDENT
ALLESANDRO P. DINELLO	SENIOR VICE PRESIDENT
CATHERINE L. MCINTEE	SENIOR VICE PRESIDENT

FLAGSTAR CAPITAL CORPORATION

THOMAS J. HAMMOND	CHAIRMAN OF THE BOARD CHIEF EXECUTIVE OFFICER
MARK T. HAMMOND	VICE CHAIRMAN OF THE BOARD PRESIDENT
MICHAEL W. CARRIE	DIRECTOR EXECUTIVE VICE PRESIDENT CHIEF FINANCIAL OFFICER TREASURER
JOAN H. ANDERSON	DIRECTOR EXECUTIVE VICE PRESIDENT
JACK CHRISTENSON	DIRECTOR
ROBERT W. DeWITT	DIRECTOR
MARY KAY MCGUIRE	DIRECTOR SECRETARY

FLAGSTAR TRUST

THOMAS J. HAMMOND	ADMINISTRATIVE TRUSTEE
MARK T. HAMMOND	ADMINISTRATIVE TRUSTEE
MICHAEL W. CARRIE	ADMINISTRATIVE TRUSTEE
JOAN H. ANDERSON	ADMINISTRATIVE TRUSTEE



www.flagstar.com

www.flagstarbanking.com

Member FDIC

