



**Conditional Approval #1158
August 2016**

July 26, 2016

Wendy M. Goldberg, Esq.
Sullivan & Cromwell, LLP
125 Broad Street
New York, New York 10004-2498

Re: Applications Pursuant to 12 CFR 5.38 to Establish Three Operating Subsidiaries filed on behalf of Flagstar Bank, FSB, Troy, Michigan
OCC Control Nos. 2016-HQ-Subs&Equities-146362, 146363, and 146364
Charter No. 708412

Dear Ms. Goldberg:

The Office of the Comptroller of the Currency (OCC) hereby conditionally approves the applications by Flagstar Bank, FSB (Bank) to establish three operating subsidiaries, pursuant to 12 CFR 5.38 (the Applications). This approval is granted after a thorough evaluation of the Applications, other materials you have supplied, and other information available to the OCC, including commitments and representations made in the Applications and by the Bank's representatives during the application process. The OCC's approval is subject to the condition set out herein.

The Proposed Operating Subsidiaries

The Bank proposes to establish three new operating subsidiaries: Flagstar Real Estate Holdings, Inc. (FREH), Long Lake REIT (Long Lake REIT) and Long Lake MSR, Inc. (Long Lake MSR) (collectively, Operating Subsidiaries). The Bank proposes to establish the three operating subsidiaries as the first step in the implementation of a plan to deconsolidate a significant portfolio of mortgage servicing rights (MSRs) from the Bank's balance sheet in order to improve the Bank's regulatory capital position.

The Bank will establish FREH as a first-tier operating subsidiary of the Bank. FREH will be organized under the laws of Michigan. The Bank will own all of FREH's issued and outstanding common stock. FREH will be the holding company for the lower-tier subsidiaries, Long Lake REIT and Long Lake MSR (collectively, the REIT entities).

The Bank will establish Long Lake REIT as a second-tier operating subsidiary of the Bank, and FREH will own all of Long Lake REIT's issued and outstanding common stock. Long

Lake REIT will be organized under the laws of Maryland.

The Bank will establish Long Lake MSR as a third-tier operating subsidiary of the Bank, and Long Lake REIT will own all of the issued and outstanding common stock of Long Lake MSR. Long Lake MSR will be organized under the laws of Maryland.

The REIT entities will acquire and hold MSR assets and engage in mortgage servicing. It is contemplated that the formation of the Operating Subsidiaries will enable the Bank to begin the implementation of a plan to deconsolidate a significant portfolio of MSRs from the Bank's consolidated balance sheet, while also retaining an income stream for the Bank through contracted services and subservicing arrangements. The Bank ultimately plans to deconsolidate the REIT entities by selling ownership interests.

Operating Subsidiary Applications

OCC regulations provide that a Federal savings association may conduct in an operating subsidiary activities that are permissible for a Federal savings association to engage in directly.¹ A Federal savings association may invest in an operating subsidiary provided that the savings association's ability to control the management and operations of the subsidiary, and the savings association's ownership of voting interests in the subsidiary meet the standards set forth in 12 CFR 5.38(e)(2)(i). In addition, for a subsidiary to be an operating subsidiary, the subsidiary must be consolidated with the federal savings association under generally accepted accounting principles (GAAP).² The OCC may, at any time, limit a Federal savings association's investment in an operating subsidiary or may limit or refuse to permit any activities in an operating subsidiary for supervisory, legal or safety and soundness reasons.³

The proposed activities of the Operating Subsidiaries are a continuation of the Bank's current activities with respect to servicing loans and mortgage servicing rights. These activities are permissible for the Bank.⁴

The Bank will directly or indirectly own all of the voting interests of the Operating Subsidiaries. The Bank will control the management and operations of the Operating Subsidiaries, and no other person or entity will exercise effective operating control over the Operating Subsidiaries or influence the Operating Subsidiaries' operations to an extent equal to or greater than that of the Bank. The Operating Subsidiaries will be consolidated with the Bank for purposes of GAAP unless and until the Bank sells interests in the REIT entities in an amount sufficient to allow deconsolidation of the REIT entities from the Bank.⁵

¹ 12 CFR 5.38(e)(1)(i).

² 12 CFR 5.38(e)(2)(i)(C).

³ 12 CFR 5.38(c).

⁴ See 12 USC 1464(c) and 12 CFR 160.30.

⁵ At such time, if not before, the REIT entities will no longer be operating subsidiaries of the Bank. The Bank must obtain any required approval before the REIT entities cease to be operating subsidiaries.

The OCC has reviewed the filings and concludes that there is no basis for objection to the Applications under the criteria set forth in 12 CFR 5.38. Accordingly, the Applications meet the applicable regulatory standards for approval.

The condition set forth below helps ensure that the Bank meets the appropriate standards under GAAP for deconsolidation of the REIT entities and de-recognition of the MSRs, and that the Bank calculates its regulatory capital appropriately in connection with the proposed deconsolidation.

Section 1818(b) Condition

The approval of the Applications is subject to the following condition:

Prior to the deconsolidation of the REIT entities and de-recognition of the mortgage servicing assets from the Bank's balance sheet, the Bank must submit an accounting analysis, with an acknowledgement of concurrence from the bank's external auditors, to the Supervisory Office that addresses whether the Bank has met the standards under GAAP for de-recognition of the REIT entities and the related mortgage servicing assets. Additionally, the Bank must receive a written non-objection from the Supervisory Office regarding the accounting treatment and the resulting impact on the regulatory capital of the Bank before it can deconsolidate the REIT entities or de-recognize the related mortgage servicing assets.

The condition of this approval is a condition "imposed in writing by a Federal banking agency in connection with any action on any application, notice, or other request" within the meaning of 12 USC 1818. As such, the condition is enforceable under 12 USC 1818.

Other Requirements and Conclusion

If the Operating Subsidiaries are not established within 12 months after the approval date, the approval shall automatically terminate, unless the OCC grants an extension of the time period for good cause.

This approval and the activities and communications by OCC employees in connection with the filings do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. Our approval is based on the Savings Association's representations, submissions, and information available to the OCC as of this date. The OCC may modify, suspend or rescind this decision if a material change in information on which the OCC relied occurs prior to the date of the transactions to which this decision pertains. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

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If you have any questions, you may contact Senior Licensing Analyst Patricia Roberts at (202) 649-6336 or at Patricia.Roberts@occ.treas.gov or Senior Licensing Analyst Patricia Goings at (202)649-6358 or Patricia.Goings@occ.treas.gov.

Sincerely,

/s/

Stephen A. Lybarger
Deputy Comptroller for Licensing