



2001 ANNUAL REPORT



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NATIONAL HEADQUARTERS  
5151 CORPORATE DRIVE • TROY, MI 48098 • 800-945-7700

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[www.flagstar.com](http://www.flagstar.com)



*Flagstar Bancorp (NYSE: FBC) is the holding company for Flagstar Bank, FSB, a federally chartered stock savings bank. Since our founding in 1987 we have experienced exceptional growth, and today we are the largest savings*

# Flagstar Bancorp

## COMPANY PROFILE

*institution headquartered in Michigan. We are also one of the nation's leading mortgage lenders. As Flagstar has continuously expanded into new retail banking and mortgage markets, we have remained strongly committed to our local communities.*

*Our community banking centers in Michigan and Indiana and our internet banking serve the general public and local governmental units. We attract retail customer deposits through these channels, in addition to acquiring funds from the secondary market. We use these funds to invest in loans that we originate and acquire nationally.*

*We are one of the nation's leading mortgage lenders. We also manage a large volume of mortgages as a loan servicer and subservicer. In addition we provide warehousing lines of credit nationally and originate consumer and commercial loans in both Michigan and Indiana.*



### RAISING FLAGSTAR ON WALL STREET

*On July 13, 2001, Flagstar Bancorp made a major move to increase the market presence of the company's common stock and those of our subsidiaries, Flagstar Trust and Flagstar Capital: We moved our stocks' listings from the NASDAQ Stock Market to the New York Stock Exchange. The day was marked in traditional NYSE style. Chairman of the Board Thomas J. Hammond rang the opening bell for the trading day. Moving Flagstar's stocks to the NYSE improves the company's visibility on Wall Street and opens the stocks to a wider investor base. The stock symbol for the common stock is FBC.*

# *A Year of Exceptional Growth and Terrific Earnings.*

LETTER TO THE STOCKHOLDERS

*The year 2001 was an excellent year for Flagstar. We experienced exceptional growth, realized terrific earnings, and provided strong value for our stockholders. In July we split the stock, providing 3 shares for every 2, and raised the dividend as well. We also switched the listing of the stock from the NASDAQ Stock Market to the New York Stock Exchange in July. These actions resulted in an increased average daily trading volume of the stock. Our symbol is FBC. The stock price increased 20% from December 31, 2000 to December 31, 2001.*

*We earned \$82.9 million net income in 2001, achieving a 34.98% return on equity (ROE). Flagstar Bancorp had the highest ROE of any public savings institution in the nation, as well as the second highest ROE of any public banking institution in the nation. We extended our decade-long streak of achieving an annual ROE in excess of 15%.*

*The numbers tell an impressive story:*

- *During 2001, assets grew by 13.8% to \$6.6 billion.*
- *We opened 19 new banking centers and 27 new loan origination centers.*
- *We increased our retail deposits by 26.3% to \$2.4 billion.*
- *We added \$94.7 million to book equity, a 48.1% increase.*
- *We originated \$33 billion in residential mortgage loans, a 234% increase over 2000.*
- *We also grew our commercial lending portfolio 58.8%, consumer lending portfolio 8.3%, and warehouse lending portfolio 346.9%.*

*Loan delinquencies and net charge-offs were up last year as a result of the weakened economy, therefore, we added \$17 million to reserves.*

*The year 2002 looks to be very promising for a number of reasons:*

- We anticipate higher net interest income due to a larger balance sheet and continued improvements in net interest margins.*
- We will also continue to establish the Flagstar name in new markets by opening approximately 25 new retail banking centers and 24 new retail mortgage origination offices in 2002. Each office brings our unique service approach to a new community, grows our customer base, and provides more visibility in the market.*
- We have experienced minimal management turnover in recent years and the quality of our team has improved through the addition of significant new talent at key positions in management, sales, and information technology.*
- Our online technology, [wholesale.flagstar.com](http://wholesale.flagstar.com), enables business partners to execute transactions instantaneously. Our broker and correspondent networks are rapidly growing because of the speed, convenience, and efficiency of our technology.*
- As our web technology absorbs an ever-increasing share of the work historically conducted by phone and fax, our mortgage support team can now process higher loan volume and provide superior customer service.*
- We will continue our paperless electronic mortgage loan initiative. Our cutting-edge system dramatically reduces mortgage processing and closing time and improves the closing experience for the consumer.*
- We should have another excellent year originating refinance mortgages if interest rates are static or decline. On the other hand, if the economy were to recover and interest rates were to rise, we should originate more new purchase mortgages. In addition, revenue associated with our mortgage servicing rights will increase in a rising interest rate environment.*

*In closing, we want to extend our appreciation to you, our stockholders, for the confidence you have placed in us. We will continue to pursue our growth-oriented business plan, while maintaining our focus on profitability, exemplary customer service, and the creation of value for our long-term stockholders.*



*Tom*

*Thomas J. Hammond  
Chairman of the Board,  
Chief Executive Officer*



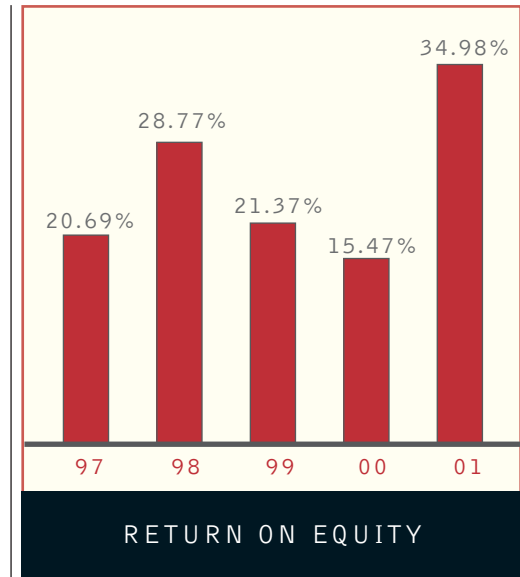
*Mark*

*Mark T. Hammond  
Vice Chairman of the Board,  
President*

# The Highest Return on Equity of Any

Our earnings performance in 2001 was stellar. Net earnings increased 186.9% over 2000, rising to \$82.9 million in 2001. Return on equity (ROE) was 34.98%—the highest return on equity of any public savings institution in the nation. For over a decade now, Flagstar’s annual ROE has exceeded 15%.

Per-share earnings and asset performance were also exceptional. Diluted earnings per share rose from \$1.57 in 2000 to \$4.17 in 2001, an increase of 165.6%. The dividend per share rose from \$0.27 to \$0.28. Assets grew 13.8% to \$6.6 billion, and stockholders’ equity increased \$94.7 million over December 31, 2000, to \$291.5 million at December 31, 2001, an increase of 48.1%.



Our primary business objective over the past 5 years as a public company has been to generate stockholder value by providing high returns on stated equity and by growing the market value of the company. Over the past 5 years, Flagstar Bancorp has averaged a 24% ROE and a return on average assets

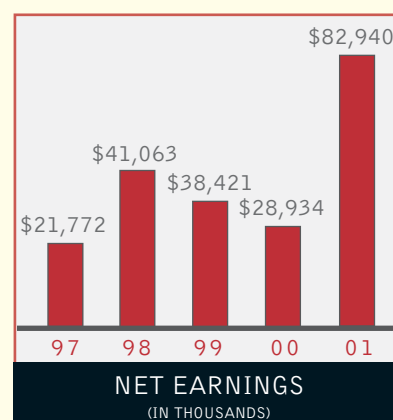
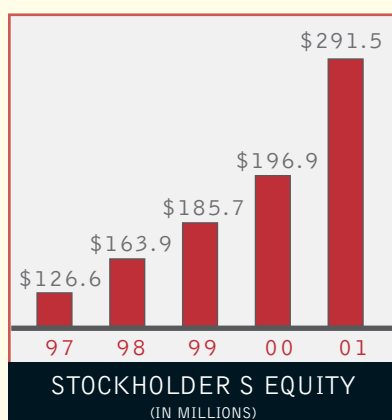
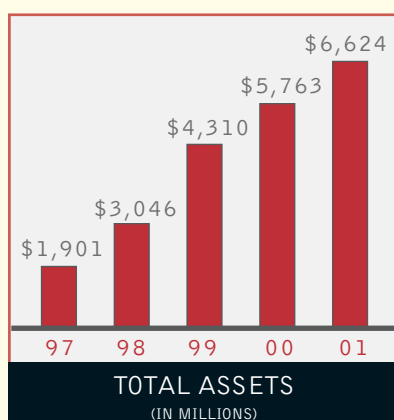
# Public Savings Institution in the U.S.

## FINANCIAL HIGHLIGHTS



(IN THOUSANDS, EXCEPT PER SHARE DATA)

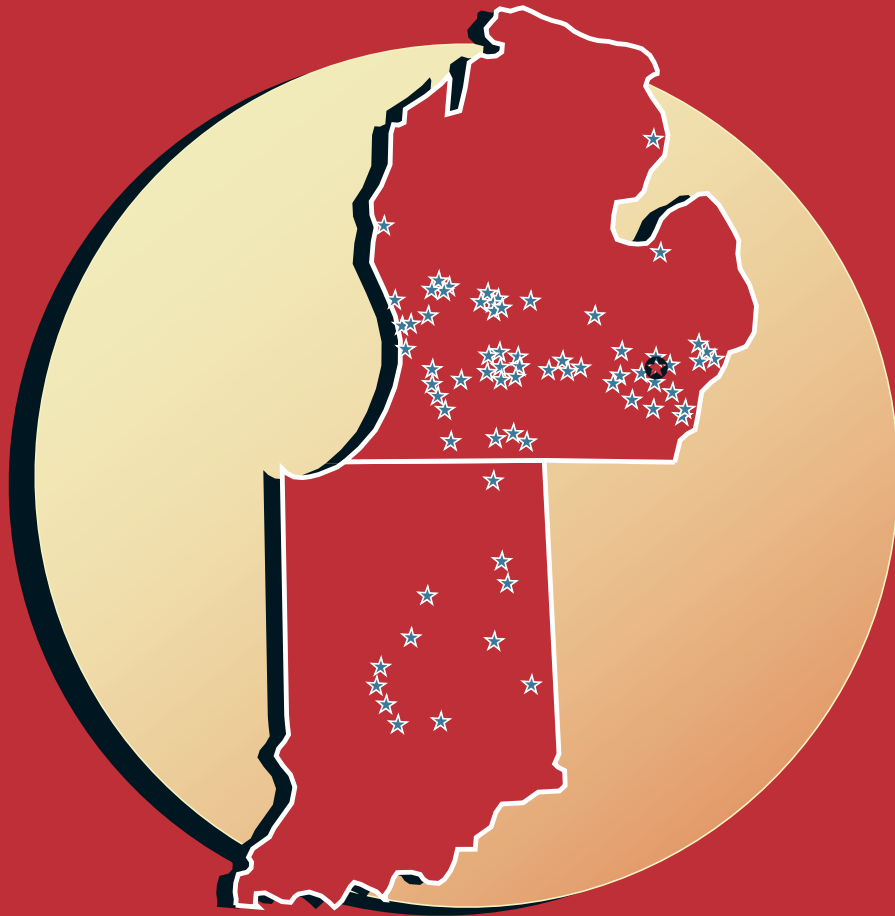
	2001	2000	1999	1998	1997
NET EARNINGS	\$82,940	\$28,934	\$38,421	\$41,063	\$21,772
EARNINGS PER SHARE- BASIC	\$4.49	\$1.59	\$1.88	\$2.00	\$1.13
EARNINGS PER SHARE- DILUTED	\$4.17	\$1.57	\$1.83	\$1.93	\$1.12
TOTAL ASSETS	\$6,623,824	\$5,763,224	\$4,310,039	\$3,046,445	\$1,901,084
RETAIL DEPOSITS	\$2,368,205	\$1,870,731	\$1,293,183	\$835,097	\$509,106
STOCKHOLDERS EQUITY	\$291,488	\$196,830	\$185,714	\$163,852	\$126,617
MORTGAGE LOAN ORIGINATIONS	\$32,996,998	\$9,865,152	\$14,550,258	\$18,852,885	\$7,873,099
MORTGAGE LOANS SERVICED FOR OTHERS	\$14,222,802	\$6,644,482	\$9,519,926	\$11,472,211	\$6,412,797
RETURN ON ASSETS	1.31%	0.56%	1.05%	1.45%	1.29%
RETURN ON EQUITY	34.98%	15.47%	21.37%	28.77%	20.69%





# Banking Center Locations

T H R O U G H O U T M I C H I G A N A N D I N D I A N A



MICHIGAN BANKING CENTERS		INDIANA BANKING CENTERS	
(BY COUNTY - AS OF DECEMBER 31, 2001)		(BY COUNTY - AS OF DECEMBER 31, 2001)	
ALLEGAN	1	KENT	4
ALPENA	1	LIVINGSTON	1
BRANCH	2	MACOMB	4
CALHOUN	1	MASON	1
EATON	4	OAKLAND	8
GENESEE	1	OTTAWA	4
HILLSDALE	1	ST. JOSEPH	2
INGHAM	3	TUSCOLA	1
INTERNET	1	WASHTENAW	5
JACKSON	8	WAYNE	5
KALAMAZOO	2		
		ALLEN	2
		DELWARE	1
		HANCOCK	1
		HOWARD	1
		KOSCIUSKO	1
		MARION	4
		STEUBEN	1
		WAYNE	1

# Wholesale Regional Map

LOCATIONS ACROSS THE COUNTRY



★	HEADQUARTERS
★	WHOLESALE LENDING OFFICES
★	BANKING CENTERS



*As we entered upon the 21st Century, Flagstar Bank was the largest savings institution headquartered in Michigan. We are proud to maintain that notable ranking into 2002. We are committed to growth based on a strong community banking presence. In 2001 we saw the most significant growth in our history by several measures, among them the number of new facilities, the number of new customers, and the amount of retail deposits.*

#### RETAIL BANKING

*In 2001 we opened 19 new Flagstar Bank retail banking centers, each a de novo office. This increased our total number of banking centers by 36.5%.*

*Through growth in both new and existing banking centers, we gained a net 12,000 new checking, savings, and consumer loan account customers in 2001. This brought our bank-wide retail customer total to over 148,000 at year's end, an 8.8% increase over 2000. Retail deposit balances grew by 26.3% in 2001.*

*15 of the new banking centers opened in 2001 are in Wal-Mart stores, extending the ambitious community banking expansion program we began with Wal-Mart in 2000. There are now 26 InStore Banking Centers, 23 of those are in Wal-Mart stores.*

# Opening Our Hands

## G R O W T H   A N D   E X P A N S I O N

#### OUR UNIQUE APPROACH TO PRIVATE BANKING

*One of our strongest advantages over more traditional money center and international bank competitors is our unique sit-down banking service. In our banking centers, customers meet Financial Service Representatives directly at desks rather than tellers behind thick security glass. In addition, our banking center offices open earlier and our drive-through facilities close later than our competitors.*

*Our strategic plan calls for continued aggressive growth in 2002. We anticipate opening 25 retail banking centers. Of those, most will be in the Metropolitan Detroit area, and the rest in Indiana. 8 of the new locations will be InStore Banking Centers in Michigan Wal-Mart stores and 1 in Indiana.*

#### A PARTNERSHIP FOR INVESTMENT CONVENIENCE

*In 2001 we inaugurated a partnership with Salomon Smith Barney to bring convenient investment services to Flagstar Bank customers. The Salomon Smith Barney Investment Centers will provide to Flagstar customers a full line of financial investment services, including personal investment and financial planning guidance, mutual fund investments, retirement planning and accounts, annuities, insurance, and stock and bond trading for individual investors.*

*We have worked hard to make Flagstar Bank a leading lender in all the communities we serve. In 2001 we achieved our goal of growing our lending in all of our established and new markets.*

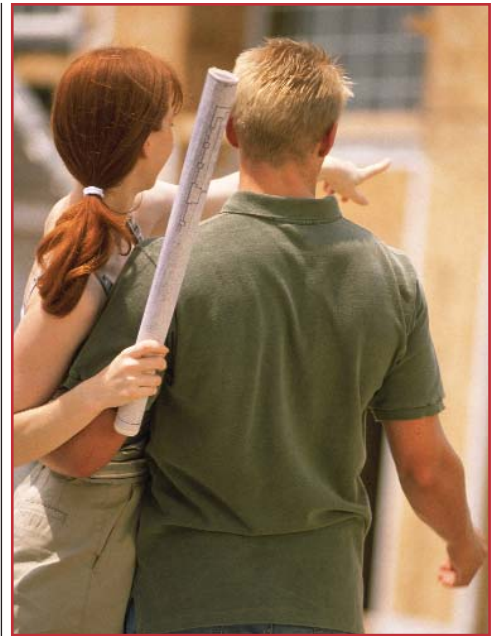
## C O M M U N I T Y L E N D I N G

### CONSUMER LENDING

*Growth in our customer base has enabled us to further expand and diversify our loan product line and to increase lending in the communities we serve. With a full spectrum of consumer loan products, we originated 8,300 new loans in 2001, totaling over \$244.4 million.*

### COMMERCIAL LENDING

*We understand the importance of access to capital for small and medium-sized businesses. We lend to growing businesses in all the communities we serve. In 2001 we lent over \$195.6 million to small and mid-sized businesses our retail market area.*



### CONSTRUCTION LENDING

*Our leadership in the mortgage market has naturally led us to working and establishing strong relationships with many of the leading home builders in our retail markets. During 2001 we provided financing for 390 new homes, lending over \$70.0 million for construction.*





# Helping People Feel Right at Home.

Flagstar Bank has been a major force in the mortgage market since the company incorporated in 1987. We have grown consistently in every aspect of mortgage banking:

- Retail mortgage lending
- Wholesale lending
  - Broker lending
  - Correspondent lending
- Warehouse lending
- Loan servicing

## RETAIL MORTGAGE LENDING

Flagstar was founded with a strategic purpose of expanding home ownership opportunity through innovative mortgage products. Today, we operate 69 retail mortgage loan origination centers.

In 2001 our retail mortgage loan originations totaled \$3 billion—triple the \$1 billion originated in 2000.

In addition, we introduced an innovative new mortgage loan officer system that is expanding the bank's retail loan origination business nationally. Our Net Branch Division

allows top-producing loan originators to start their own lending centers within Flagstar Bank. In 2001, the program's kickoff year, 16 Net Branch offices, in 15 states, began originating mortgage loans through Flagstar Bank.

Thanks to our aggressive, service-oriented mortgage lending, we are one of the nation's top mortgage lenders. We have achieved this rank through service, convenience, and innovation. Our staff of over 500 mortgage loan officers is very customer-focused, and will meet mortgage applicants virtually anywhere and any time. Our exclusive quick-response origination technology also makes home mortgage borrowing from Flagstar more convenient for consumers.

We also established the foundation for a revolution in mortgage processing. Teaming with eOriginal, a Baltimore, Maryland-based software solution provider, Oakland County, ACS, Fidelity Title Corporation, and Fannie Mae, we began planning for the introduction of "paperless" mortgage loan processing and closing. This system will eliminate all paperwork from a mortgage loan, using all-digital documentation. Flagstar completed the first fully electronic mortgage loan closing in Michigan during early 2002. This kind of technological advancement is just one example of why we are at the forefront of the real estate finance industry.

## WHOLESALE LENDING

Our wholesale lending division

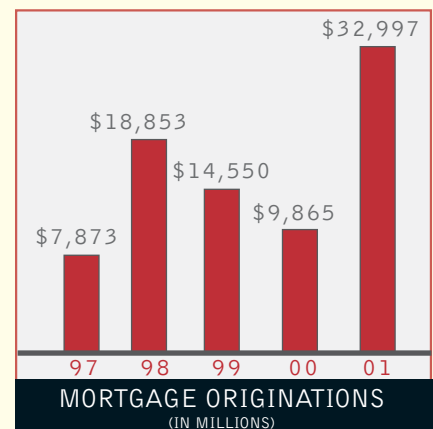
experienced a record year in 2001. We purchased over \$30.0 billion in mortgage loans from broker and correspondent business partners across the country, a 237.1% increase over 2000. Our online technology played a key role in helping us process record mortgage volume more efficiently than any year in our history. We service our broker and correspondent relationships with a national network of 9 regional and 6 satellite offices.

**Broker Lending** In 2001 we provided financing for 120,000 homeowners by providing nearly \$18.2 billion in funds for mortgage closings to over 5,000 brokers in all 50 states.

**Correspondent Lending** In 2001 we purchased \$11.8 billion in mortgage loans from over 1,500 mortgage companies, banks and credit unions across the country.

## WAREHOUSE LENDING

At the close of business on December 31, 2001, Flagstar Bank had \$298.5 million outstanding on warehouse lines of credit for 155 warehouse customers.







*We have managed and serviced a large portfolio of mortgage loans since our founding. We originate and purchase substantially more mortgage loans than we are able to invest in; therefore, we package the excess loans into mortgage-*

## *Exemplary*

### LOAN SERVICING

*backed securities, which we in turn sell to investors, while maintaining the right to service the loans. As a mortgage loan servicer and subservicer, we collect homeowners' mortgage payments, property taxes, and hazard insurance premiums monthly. We then distribute these mortgage payments to the investors and pay the property taxes and insurance premiums, all for a fee. The fee revenue derived from servicing loans acts, in most cases, as a natural hedge against interest rate risk, providing more net revenue in a rising interest rate environment, in which loan origination income may decline. At year's end, we collected house payments for over 195,000 homeowners, and our total mortgage servicing portfolio totaled \$25.8 billion.*

DIRECTORS AND SENIOR OFFICERS

FLAGSTAR BANCORP, INC.

<i>Thomas J. Hammond</i>	<i>Chairman of the Board, Chief Executive Officer</i>
<i>Mark T. Hammond</i>	<i>Vice Chairman of the Board, President</i>
<i>Michael W. Carrie</i>	<i>Director, Executive Vice President, Chief Financial Officer</i>
<i>Joan H. Anderson</i>	<i>Director, Executive Vice President</i>
<i>John R. Kersten</i>	<i>Director</i>
<i>James D. Isbister</i>	<i>Director</i>
<i>C. Michael Kojaiian</i>	<i>Director</i>
<i>Richard S. Elsea</i>	<i>Director</i>
<i>James D. Coleman</i>	<i>Director</i>
<i>Kirstin A. Hammond</i>	<i>Executive Vice President</i>
<i>Robert O. Rondeau, Jr.</i>	<i>Executive Vice President</i>
<i>Mary Kay McGuire</i>	<i>Secretary, Senior Vice President</i>
<i>Marie A. Ralko</i>	<i>Senior Vice President, Treasurer</i>

FLAGSTAR CAPITAL CORPORATION

<i>Thomas J. Hammond</i>	<i>Chairman of the Board, Chief Executive Officer</i>
<i>Mark T. Hammond</i>	<i>Vice Chairman of the Board, President</i>
<i>Michael W. Carrie</i>	<i>Director, Executive Vice President, Chief Financial Officer</i>
<i>Joan H. Anderson</i>	<i>Director, Executive Vice President</i>
<i>Jack Christenson</i>	<i>Director</i>
<i>Robert W. DeWitt</i>	<i>Director</i>
<i>Mary Kay McGuire</i>	<i>Director, Secretary</i>

FLAGSTAR BANK, FSB

<i>Thomas J. Hammond</i>	<i>Chairman of the Board, Chief Executive Officer</i>
<i>Mark T. Hammond</i>	<i>Vice Chairman of the Board, President</i>
<i>Mary Kay McGuire</i>	<i>Director, Secretary, Senior Vice President</i>
<i>Charles Bazy</i>	<i>Director</i>
<i>William B. Bortels</i>	<i>Director</i>
<i>Harry S. Ellman</i>	<i>Director</i>
<i>Ronald I. Nichols, Sr.</i>	<i>Director</i>
<i>Michael W. Carrie</i>	<i>Executive Vice President, Chief Financial Officer</i>
<i>Joan H. Anderson</i>	<i>Executive Vice President</i>
<i>Kirstin A. Hammond</i>	<i>Executive Vice President</i>
<i>Robert O. Rondeau, Jr.</i>	<i>Executive Vice President</i>
<i>Marie A. Ralko</i>	<i>Senior Vice President, Treasurer</i>
<i>Albert J. Gladner</i>	<i>Senior Vice President, General Counsel</i>
<i>Charles C. Kirkpatrick</i>	<i>Senior Vice President, Chief Information Officer</i>
<i>Jean R. Garrick</i>	<i>Senior Vice President</i>
<i>Karen F. Shreve</i>	<i>Senior Vice President</i>
<i>Linda R. Terrasi</i>	<i>Senior Vice President</i>
<i>M. David Bowers</i>	<i>Senior Vice President</i>
<i>William M. Robinson</i>	<i>Senior Vice President</i>
<i>Alessandro P. Dinello</i>	<i>Senior Vice President</i>
<i>Catherine L. McIntee</i>	<i>Senior Vice President</i>
<i>Mark C. Stevens</i>	<i>Senior Vice President</i>
<i>W. Steven Brooks</i>	<i>Senior Vice President</i>
<i>Andrea L. Bushong</i>	<i>Senior Vice President</i>

FLAGSTAR TRUST

<i>Thomas J. Hammond</i>	<i>Administrative Trustee</i>
<i>Mark T. Hammond</i>	<i>Administrative Trustee</i>
<i>Michael W. Carrie</i>	<i>Administrative Trustee</i>
<i>Joan H. Anderson</i>	<i>Administrative Trustee</i>



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