

The seamless solution to your trust tax preparation needs.

At Flagstar, New Capital Could Push Out Stubborn Loan Problems

American Banker | Friday, October 29, 2010

By [Robert Barba](#)

[Print](#) [Email](#) [Reprints](#) [Feedback](#) [RSS](#)

All that's standing between Flagstar Bancorp Inc.'s past as a troubled mortgage lender and a potential future as a full-service community bank is \$1.1 billion of problem loans.

So, the Troy, Mich., company is bringing in another \$370 million of capital to bridge the gap.

The \$13.8 billion-asset Flagstar announced Thursday that it expects to raise the capital in a deal that would batter its shareholders by increasing the number of shares outstanding by 40%. The deal of common and convertible preferred stock is expected to close early next week.

The capital would allow Flagstar to unload pools of its nonperforming assets. Although its stock tumbled 45.7% Thursday on the news, the strategy was viewed favorably by analysts who said this is a good way for Flagstar to get out from under the bad loans.

"This is another heavily dilutive capital raise for them that will essentially just plug a gap," said Eliot Stark, a managing director with Capital Insight Partners in Chicago. "But it could put them on the road to execute on their growth strategy and begin to put their past behind them."

While Flagstar has pervasive credit problems, they started to abate in the third quarter, dropping 8% from the previous quarter, according to data released Wednesday.

Yet Joseph Campanelli, who joined Flagstar last October as chief executive, has been aggressively trying to reshape the company by diversifying into more commercial businesses, so a faster disposition of problem assets makes sense.

"Our management believes that the proceeds of this offering and the concurrent common stock offering will provide us with sufficient additional capital to permit an acceleration of our loss mitigation strategies through efforts to aggressively reduce nonperforming assets," Flagstar said in the registration statement for the convertible preferred component of the offering filed Thursday.

Flagstar would not comment further, citing a quiet period.

Jon Winick, the president of Clark Street Capital, a bank advisory and loan sale firm, said loan sales are picking up as bank companies demonstrate skepticism about an economic rebound that would return problem assets to performing status. The bid-ask spread that has gridlocked loan sales is narrowing for those with enough capital to take the hit.

"Our advice is if you can materially reduce your nonperforming loans and still be well capitalized, you should do it," said Winick, who is marketing performing and nonperforming pools.

Helping Flagstar's capital-raising efforts is the fact that at least one buyer is interested in

RELATED ARTICLES

- [Reprieves from Delisting Could Aid Capital-Raising](#)
- [Ameris Unit Taps President and COO](#)
- [Heritage Completes Stock Conversion](#)
- [NCUA Reviewing Pay-Freeze Impact](#)
- [Iowa Bank Snags Big Mortgage Team](#)

Advertisement

RELATED LINKS

- [Flagstar Said to Be Seeking \\$600M](#) - September 16, 2010
- [Flagstar's 2Q Loss Widens by 26%](#) - July 29, 2010
- [Despite Big Loss, Flagstar on the Mend](#) - April 29, 2010
- [Flagstar Heads to Public Markets to Raise \\$250M](#) - March 16, 2010
- [Flagstar, Burned by Real Estate, Seeks to Diversify](#) - February 3, 2010

Most Popular [Viewed](#) [Emailed](#)

1. [WikiLeaks Speculation Hurts B of A and Other Bank Stocks](#)
2. [B of A Disowns Its Own Lawyer's Argument in Fumbled Mortgage Case](#)
3. [Virgin Money Closes Shop in the U.S., Victim of Bad Timing](#)
4. [ING Extends Its Online Offerings to Youth Market](#)
5. [Ties to Insurers Could Land Mortgage Servicers in More Trouble](#)
6. [Regulators Call for Foreclosure Standards](#)
7. [After Outcry Over Fees, Kardashian 'Kard' Is Kaput](#)
8. [FDIC Finalizes New Overdraft Guidelines Over Industry Objections](#)
9. [First Data, PayPal Report Black Friday Spending Increases](#)
10. [KeyCorp Promotes Koehler to Lead Community Banking Unit, Makes Other Changes](#)

Sponsored Data

- Cards/Payments
- Community Banking
- Markets
- Mortgages
- National/Global
- Retail Delivery
- Technology
- Viewpoints
- Washington/Regulatory
- Wealth Management
- Mobile Banker
- News by State >
- Blogs & Scans >
- Special Reports
- Company Index
- Resources >
- Customer Service >
- Advertise/Media Kit
- Conferences
- CareerZone
- Marketplace
- White Papers
- Banker of the Year/Best in Banking
- Financial Services Executive Forum
- The FinTech 100
- 25 Most Powerful Women in Banking
- The Innovators

Advertisement

snapping up some of the problem loans. Flagstar said in the filing that it has received "a firm offer" for \$473 million of nonperforming residential mortgages, with the buyer offering 44 cents on the dollar for that portfolio.

The pricing is indicative of the current distressed asset market.

The new capital would be used to cover the difference between the price at which Flagstar is currently carrying the assets and the price at which they would be sold.

Terry McEvoy, an analyst with Oppenheimer & Co., said selling the \$473 million pool would not only reduce problem assets, it would eliminate other costs associated with carrying problem assets.

Flagstar has lost \$1.01 billion since 2007, as it has been besieged by a flood of problem mortgages and loans made in recession-weary Michigan. On Wednesday it reported a loss of \$22.6 million for the third quarter, narrowing its loss by 92% from a year earlier and 77% from the second quarter.

Its loan-loss provision totaled \$51 million, down 60% from a year earlier. The loss of 15 cents a share beat McEvoy's prediction for a loss of 20 cents a share.

The third-quarter results, however, included an \$11.9 million charge for extinguishing the debt. The new capital and potential reduction in nonperforming assets, McEvoy said, could send the tangible common equity ratio from a thin 5.7% as of Sept. 30 to about 9% in the fourth quarter.

Yet longtime shareholders have been stung, watching their stakes grow smaller as \$1.2 billion of capital has flowed into Flagstar since January 2009. MatlinPatterson Global Advisors LLC, a New York private-equity firm, has made several investments, including a \$250 million infusion that came alongside \$266.6 million from the Treasury Department's Troubled Asset Relief Program. The firm invested another \$100 million in capital throughout 2009.

Earlier this year, MatlinPatterson invested \$300 million in what was supposed to be Flagstar's \$500 million rights offering. Existing shareholders were largely unmoved, though, investing just \$600,000. MatlinPatterson has said that it supports Flagstar and would continue to maintain its majority ownership stake.

Stark said investors that paid \$5 a share in March are likely feeling some pain with the \$1 price of this offering. "The fresh money always gets the best prices," he said.

[More articles in Community Banking](#)

gomez U.S. Banking Benchmarks **Top 5** Website Performance Index

Rank	Site
1	Regions Bank
2	Wachovia
3	TD Bank
4	Wells Fargo
5	M&T Bank

SEE DETAILED RESULTS

Click here for more banks and more data.

Data range: Nov 14th - Nov 28th 2010

WHITE PAPERS

- [Analytics for Commercial Loan Origination: The Secret Weapon for Competitive Advantage](#)
- [Optimization Applications in Finance, Securities, Banking and Insurance](#)
- [The Impact Of Poor Web Site Performance In Financial Services](#)
- [Seven Reasons You Need Predictive Analytics](#)
- [Fit, Focused & Ready to Fight](#)

WEB SEMINARS

Advertisement

American Banker On-the-Go

Real Estate Consulting for Banks
Ron Cathcart, CEO

American Banker Mobile Edition

Given the spate of ominous industry news, what is your Financial Institution's mortgage strategy?

- Pursue existing relationships
- Team up with brokers
- Partner with investors
- Acquire mortgage companies

Powered by *Illavon Financial Institution Solutions*

The Exchange.
For Financial Institutions

Join the conversation >



[Privacy Policy](#) | [Subscriber Agreement & Terms of Use](#)

© 2010 American Banker and SourceMedia, Inc. All Rights Reserved.
SourceMedia is an Investcorp company. Use, duplication, or sale of this service, or data contained herein, except as described in the Subscription Agreement, is strictly prohibited.

Visit other SourceMedia sites:

[Select Site](#)