FLAGSTAR BANCORP INC
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Prospectus supplement
(To Prospectus Dated December 30, 2009)

13,500,000 shares

Mandatorily convertible non-cumulative
Perpetual preferred stock, Series D

We are offering 13,500,000 shares of our Mandatorily Convertible Non-Cumulative Perpetual Preferred Stock, Series D, $0.01 par value and $20.00 liquidation preference per share, or the convertible preferred stock (and, subject to adjustments as described herein, 270,000,000 shares of common stock issuable upon conversion of the convertible preferred stock). The convertible preferred stock and the common stock together are referred to as the securities.

We have agreed to use our best efforts to hold a special meeting of our stockholders as soon as practicable, but not later than December 27, 2010, which is 60 days after the date of this prospectus supplement, or the approval deadline, at which we will seek to obtain the requisite stockholder approval of an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of our common stock to a number at least sufficient to permit the full conversion of the convertible preferred stock into shares of our common stock. If we fail to obtain such stockholder approval by the approval deadline, we have agreed that we will continue to seek to obtain such approval at least as frequently as every six months thereafter until approval has been obtained. On the first business day following stockholder approval (i) the convertible preferred stock will automatically convert into shares of our common stock at a conversion rate, subject to adjustment, of 20 shares of our common stock for each share of convertible preferred stock, or the conversion rate, and (ii) all shares of our convertible preferred stock will cease to exist.

Our board of directors may not declare or pay any dividend or make any distribution (including regular quarterly dividends) in respect of our common stock, unless it declares and pays to the holders of the convertible preferred stock, at the same time and on the same terms as holders of our common stock, a corresponding dividend based on the number of shares into which the convertible preferred stock is then convertible. If we fail to obtain stockholder approval for the amendment described above by the approval deadline, thereafter, non-cumulative cash dividends will be payable on the convertible preferred stock in an amount equal to the greater of (i) the annualized dividend yield based on our most recent quarterly common stock cash dividend and (ii) a per annum rate of 15%.

Holders of the convertible preferred stock will be entitled to vote on an as-converted basis, together with holders of our common stock, on all matters upon which the holders of common stock are entitled to vote, except on the amendment to increase the number of authorized shares of our common stock. Holders of the convertible preferred stock will have certain additional voting rights in the case of certain dividend arrearages and other corporate actions affecting the convertible preferred stock.

The convertible preferred stock is not redeemable. The convertible preferred stock will rank senior to our common stock and any other class or series of our capital stock the terms of which expressly provide that it ranks junior to our convertible preferred stock; equal with any class or series of our capital stock the terms of which do not expressly provide that such class or series will rank senior or junior to our convertible preferred stock; junior to our fixed rate cumulative non-convertible perpetual preferred stock, Series C, or the Series C preferred stock, and all of our existing and future debt obligations, including any secured debt obligations; and effectively junior to all existing and future debt obligations (including trade payables) of our subsidiaries.

Concurrently with this offering, we are offering 110,000,000 shares of our common stock (or a total of 115,655,000 shares if the underwriter in that offering exercises its option to purchase additional shares in full) in an underwritten offering pursuant to a separate prospectus supplement, or the concurrent common stock offering. Each of this offering and the concurrent common stock offering is contingent on completion of the other offering.

MP Thrift Investments, L.P., or MP Thrift, held approximately 69.1% of our voting common stock as of September 30, 2010 and is expected to continue to hold at least 50% of our common stock following this offering and our concurrent common stock offering.

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol FBC. On October 27, 2010, the last reported sale price of our common stock on the NYSE was $2.32 per share. Prior to this offering, there has been no public market for the convertible preferred stock. We have applied to list the convertible preferred stock on the NYSE under the symbol FBC PR. If the convertible preferred stock is approved for listing, trading on the NYSE is expected to begin within 30 days of the initial delivery of the convertible preferred stock.

Investing in our securities involves risks. You should carefully consider the risks described in Risk Factors on page S-17 of this prospectus supplement, page 1 of the accompanying prospectus, and the risks set forth under Item 1A. Risk Factors included in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, which are incorporated by reference into this prospectus supplement.

	Per preferred share	**Total**
Public offering price	$ 20.00	$ 270,000,000.00
Underwriting discounts and commissions(1)	$ 1.00	$ 8,169,217.80
Proceeds, before expenses, to Flagstar Bancorp, Inc.(1)	$ 19.00	$ 261,830,782.20

(1) The underwriting discounts and commissions will be $1.00 per share of convertible preferred stock. However, the underwriters have agreed that the underwriting discounts and commissions will be $0.40 per share of convertible preferred stock for sales to affiliates, including MP Thrift Investments, L.P. The total underwriting discounts and commissions and the total proceeds to us, before expenses, reflect the reduced discount for the shares of convertible preferred stock to be purchased by affiliates of ours.

The underwriter may also purchase from us up to 692,250 shares of convertible preferred stock within 30 days of the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities being offered are not savings accounts, deposits or obligations of any bank and are not insured by any insurance fund of the Federal Deposit Insurance Corporation or any other governmental organization.

The underwriter is offering the shares of our convertible preferred stock as described in Underwriting. Delivery of the convertible preferred stock is expected to be made through the book-entry delivery system of The Depository Trust Company and its participants on or about November 2, 2010.

The date of this prospectus supplement is October 28, 2010.

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About this prospectus supplement

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. In the event that the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference herein and any free writing prospectus we may authorize to be delivered to you. We have not, and the underwriter has not, authorized any other person to provide you with different information. We are not, and the underwriter is not, making an offer to sell our securities in any jurisdiction in which the offer or sale is not permitted. None of us, the underwriter or any of our officers, directors, agents or representatives make any representation to you about the legality of an investment in our securities. You should not interpret the contents of this prospectus supplement or the accompanying prospectus to be legal, business, investment or tax advice. You should consult with your own advisors for that type of advice and consult with them about the legal, tax, business, financial and other issues that you should consider before investing in our securities.

This prospectus supplement does not offer to sell, or ask for offers to buy, any of our securities in any state or jurisdiction where it would not be lawful or where the person making the offer is not qualified to do so.

No action is being taken in any jurisdictions outside the United States to permit a public offering of the securities or possession or distribution of this prospectus supplement in those jurisdictions. Persons who come into possession of this prospectus supplement in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions that apply in those jurisdictions to this offering or the distribution of this prospectus supplement.

Unless the context of this prospectus supplement indicates otherwise, the terms we, us, our, the Company and Fla refer to Flagstar Bancorp, Inc. and our consolidated subsidiaries. We also refer to our wholly-owned subsidiary, Flagstar Bank, FSB, and Flagstar Capital Markets Corporation, its wholly-owned subsidiary, as the Bank.

Cautionary statement regarding forward-looking statements

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in a forward-looking statement. Examples of forward-looking statements include statements regarding our expectations, beliefs, plans, goals, objectives and future financial or other performance. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and variations o words and similar expressions are intended to identify such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. Except to fulfill our obligations under the United States securities laws, we undertake no obligation to update any such statement to reflect events or circumstances after the date on which it is made.

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There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include:

General business and economic conditions, including unemployment rates, movements in interest rates, the slope of the yield curve, any increase in mortgage fraud and other criminal activity and the potential decline of housing prices in certain geographic markets, may significantly affect our business activities, loan losses, reserves and earnings;

Volatile interest rates that impact, amongst other things, (i) the mortgage banking business, (ii) our ability to originate loans and sell assets at a profit, (iii) prepayment speeds and (iv) our cost of funds, could adversely affect earnings, growth opportunities and our ability to pay dividends to stockholders;

Our ability to raise additional capital;

Competitive factors for loans could negatively impact gain on loan sale margins;

Competition from banking and non-banking companies for deposits and loans can affect our growth opportunities, earnings, gain on sale margins and our market share;

Changes in the regulation of financial services companies and government-sponsored housing enterprises, and in particular, declines in the liquidity of the mortgage loan secondary market, could adversely affect business;

Changes in regulatory capital requirements or an inability to achieve desired capital ratios could adversely affect our growth and earnings opportunities and our ability to originate certain types of loans, as well as our ability to sell certain types of assets for fair market value;

Factors concerning the implementation of proposed enhancements could result in slower implementation times than we anticipate and negate any competitive advantage that we may enjoy; and

Financial services reform legislation recently enacted into law by the President will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Bureau of Consumer Financial Protection and result in new laws and regulations that are expected to increase our costs of operations.

All of the above factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such factor on our business.

Please also refer to Risk Factors herein, in the accompanying prospectus, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which are incorporated by reference into this prospectus supplement, for further information on these and other factors affecting us.

Although we believe that the assumptions underlying the forward-looking statements contained herein, in the accompanying prospectus and in the documents incorporated by reference herein are reasonable, any of the assumptions could be inaccurate, and therefore any of these statements included in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein may prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, in the accompanying prospectus and in the documents incorporated by reference herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

Prospectus supplement summary

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. As a result, it does not contain all of the information that may be important to you or that you should consider before investing in our securities. You should read the prospectus supplement and the accompanying prospectus, including Risk Factors, and the documents incorporated by reference, which are described under Where You Can Find More Information in this prospectus supplement. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the underwriter does not exercise its option to purchase additional shares of our securities to cover over-allotments, if any.

Flagstar Bancorp, Inc.

We are a Michigan-based 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. At September 30, 2010, our total assets were $13.8 billion, making us the largest publicly held savings bank in the Midwest and one of the top 15 largest savings banks in the United States. We are considered a controlled company for NYSE purposes because MP Thrift Investments, L.P., or MP Thrift, held approximately 69.1% of our voting common stock as of September 30, 2010 and is expected to continue to hold at least 50% of our common stock following this offering and our concurrent common stock offering.

As a savings and loan holding company, we are subject to regulation, examination and supervision by the Office of Thrift Supervision, or the OTS, of the United States Department of the Treasury, or Treasury. The Bank is a member of the Federal Home Loan Bank of Indianapolis, or the FHLB, and is subject to regulation, examination and supervision by the OTS and the Federal Deposit Insurance Corporation, or the FDIC. The Bank s deposits are insured by the FDIC through the Deposit Insurance Fund, or the DIF.

We operate 162 banking centers (of which 27 are located in retail stores), including 113 located in Michigan, 22 located in Indiana and 27 located in Georgia. Through our banking centers, we gather deposits and offer a line of consumer and commercial financial products and services to individuals and small and middle market businesses. We also gather deposits on a nationwide basis through our website, www.FlagstarDirect.com, and provide deposit and cash management services to governmental units on a relationship basis throughout our markets. We leverage our banking centers and internet banking to cross sell other products to existing customers and increase our customer base. At September 30, 2010, we had a total of $8.6 billion in deposits, including $5.4 billion in retail deposits, $0.8 billion in government funds, $1.3 billion in wholesale deposits and $1.1 billion in company-controlled deposits.

We also operate 16 stand-alone home loan centers located in 13 states, which originate one-to-four family residential mortgage loans as part of our retail home lending business. These offices employ approximately 153 loan officers. We also originate retail loans through referrals from our 162 retail banking centers, consumer direct call center and our website, www.flagstar.com. Additionally, we have wholesale relationships with more than 2,400 mortgage brokers and nearly 1,000 correspondents, which are located in all 50 states and serviced by 132 account executives. The combination of our retail, broker and correspondent channels gives us broad access to customers across diverse geographies to originate, fulfill, sell and service our first mortgage loan products. Our servicing activities primarily include collecting

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cash for principal, interest and escrow payments from borrowers, and accounting for and remitting principal and interest payments to investors and escrow payments to third parties. We closed over $17.4 billion in mortgage originations in the first nine months of 2010. For the first six months of 2010, we were ranked by industry sources as the 12th largest mortgage originator with a market share of 1.5%.

Our earnings include net interest income from our retail banking activities, fee-based income from services we provide to our customers, and non-interest income from sales of residential mortgage loans to the secondary market, the servicing of loans for others and the sale of servicing rights related to mortgage loans serviced for others. Nearly all of our total loan production during the nine months ended September 30, 2010 represented mortgage loans that were collateralized by first or second mortgages on single-family residences and were eligible for sale through Fannie Mae, Freddie Mac and Ginnie Mae, or each an Agency or collectively the Agencies.

At September 30, 2010, we had 3,207 full-time equivalent salaried employees, of which 286 were account executives and loan officers.

Recent developments

Third quarter unaudited results

Results and significant items for third quarter 2010 were as follows:

Net loss applicable to holders of our common stock was $(22.6) million, or a loss of $(0.15) per share (diluted) based on average shares outstanding of 153,405,000, for the third quarter 2010, as compared to a net loss of $(97.0) million, or a loss of $(0.63) per share (diluted) based on average shares outstanding of 153,298,000, for the second quarter 2010. For the third quarter 2009, the net loss applicable to our common stock was $(298.2) million, or a loss of $(6.36) per share based on average shares outstanding of 46,853,000.

Net loss applicable to holders of our common stock was $(201.5) million, or $(1.57) per share (diluted) based on average shares outstanding of 128,411,000, for the nine months ended September 30, 2010, which equaled a 54% decrease as compared to a net loss of $(442.2) million, or $(16.58) per share (diluted) based on average shares outstanding of 26,678,000, during the nine months ended September 30, 2009.

Non-performing assets decreased to $1.1 billion at September 30, 2010, from $1.2 billion at both June 30, 2010 and September 30, 2009. This category of assets is comprised of non-performing loans (i.e., loans 90 days or more past due, and matured loans), real estate owned and net repurchased assets and excludes repurchased assets that are insured by the Federal Housing Agency, or FHA. The decline in non-performing assets reflects a reduction in the amount of non-performing loans.

Allowance for loan losses decreased to $474.0 million, which equaled 6.48% of loans held for investment and 52.0% of non-performing loans, at September 30, 2010, as compared to allowance for loan losses of $530.0 million, which equaled 7.20% of loans held for investment and 52.3% of non-performing loans, at June 30, 2010. At December 31, 2009, the allowance for loan loss was $524.0 million and equaled 6.79% of loans held for investment and 48.9% of non-performing loans. The decline in the allowance for loan losses resulted from the decline in the balance of delinquent loans in both residential first mortgage and commercial real estate loans during the third quarter 2010.

Non-performing commercial real estate mortgages decreased to $238.6 million at September 30, 2010, as compared to $324.9 million at June 30, 2010.

Non-performing residential first mortgage loans decreased 1.7%, to $651.9 million at September 30, 2010, as compared to $663.5 million at June 30, 2010. The decrease reflected reductions of $1.1 million in the 90-120 day delinquent category and $10.5 million in the over 120 day and matured delinquent loan categories.

The secondary marketing reserve, which reflects the estimate of losses that we expect to incur on loans that we sold or securitized in the secondary market, was $77.5 million at September 30, 2010, as compared to $76.0 million at June 30, 2010 and $66.0 million at December 31, 2009. For the third quarter 2010, we incurred a secondary marketing reserve provision expense of $13.0 million, as compared to $11.4 million in the second quarter 2010.

The Bank remained well-capitalized for regulatory purposes at September 30, 2010, with regulatory capital ratios of 9.12% for Tier 1 capital and 16.87% for total risk-based capital.

Gain on loan sales increased to $103.2 million for the third quarter 2010, as compared to $64.3 million for the second quarter 2010 and $104.4 million for the third quarter 2009, which reflects the increase in volume, through the increase in both interest rate lock commitments and loan production, and the increase in margin.

Gain on loan sales margins increased to 1.35% for the third quarter 2010, as compared to 1.22% for the second quarter 2010 and 1.37% for the third quarter 2009.

Mortgage rate lock commitments increased to $11.0 billion for the third quarter 2010, as compared to $8.3 billion for the second quarter 2010 and $8.7 billion during the third quarter 2009. Loan production, substantially comprised of agency-eligible residential first mortgage loans, increased to $7.6 billion for the third quarter 2010, as compared to $5.5 billion for the second quarter 2010 and $6.6 million in the third quarter 2009. For the nine months ended September 30, 2010, loan production was $17.4 billion, which is comprised of $9.9 billion originated in the correspondent channel, $6.0 billion originated in the broker channel and $1.4 billion originated in the retail channel.

Loans serviced for others increased to $52.3 billion with a weighted average servicing fee of 31.5 basis points at September 30, 2010, which was an increase from $50.4 billion with a weighted average servicing fee of 32.4 basis points at June 30, 2010 and a decrease from the $56.5 billion at December 31, 2009, with a weighted average servicing fee of 32.1 basis points

Net interest margin increased to 1.55% for the third quarter 2010 as compared to 1.53% for the second quarter 2010 and decreased slightly from 1.58% in the third quarter 2009. The increase from the second quarter 2010 reflects a 9 bps decrease in earning asset yields with average interest earning assets declining $0.4 billion, which was partially offset by a 15 bps decline in funding costs, with average interest bearing liabilities decreasing only $0.3 billion. The decline in funding costs is due primarily to reduced costs of retail deposits and reduced borrowings and rates associated with FHLB advances and the absence of any repurchase agreements for the third quarter 2010 as they were repaid during the second quarter 2010. In addition, several FHLB advances were restructured to better match funding maturities with asset maturities, maintain an asset sensitive balance sheet structure and obtain the benefit of the current lower interest rate environment. In that regard, a single advance otherwise due in 2011 was prepaid and seven other advances totaling $1.9 billion were restructured to extend maturities during which time the now-current interest rates would apply. As a result, the annual advance cost on the $1.9 billion of restructured advances was decreased by 123 bps.

Net interest income decreased to $41.1 million during the third quarter 2010, as compared to $42.4 million during the second quarter 2010 and $47.6 million during the third quarter 2009. The decrease from the second quarter 2010 reflected the decline in the average balances of interest-earning assets, including higher-yielding trading securities and loans held for investment, offset in part by the reduction in funding costs due to lower balances and average rates for FHLB advances.

Loan loss provisions declined to $51.4 million for the third quarter 2010, which is a 40% decrease from $86.0 million for the second quarter 2010 and $125.5 million for the third quarter 2009. The reduced loan loss provision expense during the third quarter 2010 reflects the decline in 90 day and over delinquencies on first mortgage loans held for investment between June 30, 2010 and September 30, 2010. Delinquent first mortgage loans (90 days and over) held for investment declined to $651.9 million at September 30, 2010 from $663.5 million at June 30, 2010. The decline in the provision for the third quarter 2010 also reflects the lower balance of non-performing commercial real estate loans, following charge-offs of $57.6 million, of such loans which were previously reserved for during prior quarters.

Non interest income increased to $144.9 million for the third quarter 2010, as compared to $100.3 million for the second quarter of 2010 and $66.2 million for the third quarter 2009, and included the following components:

Gain on loan sales increased to $103.2 million for the third quarter 2010, which is a 61% increase from $64.3 million for the second quarter 2010, reflecting both a 33% increase in interest rate locks on mortgage loans, to $11.0 billion in the third quarter 2010 from $8.3 billion in the second quarter 2010, and a 43% increase in residential mortgage loan sales, to $7.6 billion in the third quarter 2010 from $5.3 billion in the second quarter 2010;

Loan fees, which arise from the origination of residential mortgage loans, increased to $24.4 million for the third quarter 2010, which is a 21% increase from $20.2 million for the second quarter 2010. The increase in loan fees reflected a 38% increase in originations to $7.6 billion during the third quarter 2010, as compared to $5.5 billion during the second quarter 2010;

Net servicing revenue, which is the combination of net loan administration income and the related hedging effect of gain (loss) on trading securities, increased to $23.2 million during the third quarter 2010, which is a 55% increase from $15.0 million during the second quarter 2010; and

Other fees and charges were $(7.7) million for the third quarter 2010, as compared to $(6.5) million for the second quarter 2010, principally as the result of a $1.6 million increase in secondary market reserve provisions accrued for expected losses on loans repurchased from the secondary market.

Non interest expense increased to $152.5 million in the third quarter 2010, as compared to $149.0 million in the second quarter 2010 and decreased from $166.9 million in the third quarter 2009, and included the following components:

Compensation and benefits expense increased $5.6 million and commissions expense increased $3.0 million, reflecting the overall build out of the organization, an increase in employees handling the increased loan production workload and an increase in incentive pay associated with the heightened underwriting activity;

Asset resolution expenses, which are expenses associated with foreclosed property and repurchased assets, decreased to $34.2 million in the third quarter 2010, which is a 25% decrease from $45.4 million in the second quarter of 2010. The decline was principally due to the reduced provisions for possible losses on foreclosed property, to gains recognized on sales of certain foreclosed properties, and to reduced provisions for costs associated with repurchased FHA-insured loans;

Loss on the early extinguishment of debt during the third quarter 2010 arose from the prepayment of a $250.0 million advance from the FHLB with a 4.825% interest rate and due in September 2011; and

The re-valuation of our outstanding warrants at the end of the third quarter 2010 resulted in income of $1.4 million, as compared to income of $3.5 million at the end of the second quarter 2010. The change in value results from reduced expense anticipated in future years based upon the decline in the market price of the common stock since the end of the second quarter 2010.

Total assets were $13.8 billion at September 30, 2010, as compared to $13.7 billion at June 30, 2010 and $14.0 billion at December 31, 2009. The increase from the second quarter 2010 reflected an increase in loans available for sale partially offset by sales of trading securities and securities available for sale and the continued run-off of the Bank s held-for-investment portfolio.

Retail deposits were $5.4 billion at September 30, 2010, as compared to $5.2 billion at June 30, 2010 and 5.5 billion at December 31, 2009. At September 30, 2010, the Bank had a collateralized $4.0 billion line of credit with the FHLB with $587.0 million of remaining capacity.

We have presented the financial information for the three and nine months ended September 30, 2010 based on our current financial statements, which have not been reviewed by Baker Tilly Virchow Krause LLP, our independent registered public accounting firm.

Potential dispositions of non-performing assets

We are committed to continuing to take actions to improve asset quality metrics. 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. Our management is evaluating the potential disposition of our nonperforming residential mortgage loans, our performing troubled debt restructurings (TDRs), our collateralized mortgage obligations and our real estate owned, all of which are believed to be saleable in the current environment. If the results of this evaluation affirm the saleability of these assets, management may initiate efforts to dispose of these assets in a series of transactions commencing within a reasonable time following this offering and the concurrent common stock offering. Based on

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the range of pricing which we understand to be currently available in the market for such assets, ranging from 44% to 45% of book value for non-insured residential mortgage non-performing loans, 65% to 75% of book value for performing residential mortgage TDRs, 99% to 101% of book value for collateralized mortgage obligations and 85% to 95% of book value for residential real estate owned, we believe, if pursued, we would be able to execute a series of disposition transactions on acceptable terms. We have received a firm offer on $473 million of non-insured residential mortgage non-performing loans with a price of 44% of book value, which we are currently evaluating. However, any such disposition of assets is subject to the completion of this offering and the concurrent common stock offering, Board approval authorizing us to proceed with dispositions and the continued availability of acceptable pricing and other transaction terms. Accordingly, there can be no assurance that we will enter into agreements for or consummate any such transactions, and it is possible that we may hold all such assets to their maturity or contemplate other dispositions in the normal course of business.

The illustrative ratios below assume the completion, as of September 30, 2010, of (i) this offering (assuming no exercise of the underwriter s over-allotment option), after deducting underwriter s discounts and commissions and estimated offering expenses, (ii) the concurrent common stock offering (assuming no exercise of the underwriter s over-allotment option), after deducting underwriter s discounts and commissions and estimated offering expenses and (iii) a sale of $560 million of non-insured residential mortgage non-performing loans, $417 million of residential performing TDRs, $348 million of collateralized mortgage obligations, and $94 million residential real estate owned at the midpoint of the indicative price ranges set forth above. As of September 30, 2010, we had reserves relating to non-insured residential mortgage non-performing loans of $160 million and reserves relating to residential performing TDRs of $32 million. The amounts listed above represent all of our non-insured residential mortgage non-performing loans, residential performing TDRs, collateralized mortgage obligations and residential real estate owned as of September 30, 2010, which amounts fluctuate over time in the ordinary course. The amounts assume proceeds from the sale of assets are applied to cash and the expected repayment of $450 million of certificates of deposit pursuant to short term contractual maturities.

	Actual	**Pro forma(8)**
Core capital ratio(1)	9.1%	10.1%
Tier 1 risk-based capital ratio(2)	15.6%	18.8%
Tier 1 common ratio(3)	9.5%	12.0%
Tangible common equity-to-total assets(4) (consolidated)	5.9%	6.8%
Texas ratio (NPA)(5)	70.4%	32.2%
Texas ratio (SNL)(6)	123.6%	43.3%
Non-performing assets(7)-to-total assets	8.2%	3.6%

(1) Calculated as Tier 1 capital divided by adjusted total assets.

(2) Calculated as Tier 1 capital divided by risk weighted assets.

(3) Calculated as Tier 1 capital less perpetual preferred stock, qualifying minority interest in subsidiaries and qualifying trust preferred securities divided by risk weighted assets.

(4) Calculated as Tier 1 capital less perpetual preferred stock divided by total assets.

(5) Calculated as non-performing loans plus real estate owned and uninsured repurchased assets divided by Tier 1 capital and general reserves.

(6) Calculated as non-performing loans, including performing TDRs, plus real estate owned and uninsured repurchased assets divided by common equity and loan loss reserves.

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(7) Non-performing assets equals non-performing loans plus real estate owned and uninsured repurchased assets.

(8) Calculated using the midpoint of the range of pricing disclosed above.

Corporate information

Our principal executive office is located at 5151 Corporate Drive, Troy, Michigan 48098. Our telephone number is (248) 312-2000. Our website address is www.flagstar.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement or any other document we file with or furnish to the Securities and Exchange Commission, or the SEC.

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The offering

For a more complete description of the terms of the common stock issuable upon conversion of the convertible preferred stock being offered by this prospectus supplement and the accompanying prospectus, see Description of Our Capital Stock in the accompanying prospectus.

Issuer	Flagstar Bancorp, Inc., a Michigan corporation.
Securities offered	13,500,000 shares of convertible preferred stock. 270,000,000 shares of common stock issuable upon conversion of the convertible preferred stock.
Common stock outstanding after this offering and the concurrent common stock offering[1]	263,572,390 shares.
Convertible preferred stock outstanding after this offering	13,500,000 shares of convertible preferred stock.
Concurrent common stock offering	Concurrently with this offering, we are offering 110,000,000 shares of our common stock (or a total of 115,655,000 shares if the underwriter in that offering exercises its option to purchase additional shares in full) in an underwritten offering pursuant to a separate prospectus supplement. This offering is contingent on the completion of the concurrent common stock offering, and the concurrent common stock offering is contingent on the completion of this offering.
Purchase by our affiliate	MP Thrift, our controlling stockholder, may participate in the purchase of the convertible preferred stock and common stock. To the extent that it or any of our other affiliates elects to purchase convertible preferred stock in this offering or common stock in the concurrent common stock offering, such affiliates will not be permitted to participate in the pricing of the securities. MP Thrift held approximately 69.1% of our voting common stock as of September 30, 2010 and is expected to continue to hold at least 50% of our common stock following this offering and our concurrent common stock offering.

[1] Based on 153,572,390 shares outstanding on October 27, 2010. Unless otherwise indicated, the number of outstanding shares in this prospectus supplement excludes, as of October 27, 2010: 6,451,379 shares issuable upon exercise of a warrant to purchase common stock held by Treasury, or the Treasury Warrant, 1,377,814 shares issuable upon warrants to purchase common stock held by other investors, or the Investor Warrants, 2,209,236 shares underlying awards granted under our 2006 Equity Incentive Plan, 283,845,000 shares issuable upon conversion of the convertible preferred securities including 13,845,000 shares issuable upon conversion of the convertible preferred securities issued pursuant to the exercise of the underwriters over-allotment option and 5,655,000 shares issuable pursuant to the exercise of the underwriter s over-allotment option in respect of the concurrent common stock offering.

Closing conditions	This offering is contingent upon a number of closing conditions, including, but not limited to, the completion of the concurrent common stock offering.
Use of proceeds	Our net proceeds from this offering and the concurrent common stock offering will be approximately $367.3 million, or approximately $385.8 million if the underwriter exercises its overallotment option in full, in each case after deducting underwriter s discounts and commissions and estimated offering expenses payable by us.
	We expect to use the net proceeds of this offering and the concurrent common stock offering for general corporate purposes, including potential disposition of non-performing assets or potential restructuring of the balance sheet.
Dividend payment dates	February 15 and August 15 of each year.
	Notwithstanding the foregoing and for the avoidance of doubt, prior to the approval deadline described below, on the same date that we pay any dividend or distribution on shares of our common stock (irrespective of whether such date is a dividend payment date as defined above), we will pay a corresponding dividend or distribution, on an as-converted basis, to holders of the convertible preferred stock, which date will be considered a dividend payment date.
Dividend period	The period from and including any dividend payment date (or, if a dividend payment date has not occurred, the date of original issuance of the convertible preferred stock) to, but excluding, the immediately succeeding dividend payment date.
Liquidation preference	$20.00 per share of convertible preferred stock.
	In the event of our liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, holders of convertible preferred stock will be entitled to receive for each share of convertible preferred stock, out of our assets or proceeds thereof (whether capital or surplus) available for distribution to our stockholders, subject to the rights of any of our creditors and the rights of the holders of our Series C preferred stock, before any distribution of such assets or proceeds is made to or set aside for the holders of our common stock or other stock of ours ranking junior to the convertible preferred stock as to such distribution, payment in full in an amount equal to the sum of (x) the liquidation amount per share of convertible preferred stock and (y) the amount of any unpaid dividends, whether or not declared, accrued from, and including, the immediately preceding dividend payment date to, but excluding, the date of payment, or such amounts collectively, the liquidation preference.
	If in any distribution described in the immediately preceding paragraph, our assets or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of convertible preferred stock and the corresponding amounts payable with respect to any other of our stock ranking equally with the convertible preferred

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	stock as to such distribution, then holders of convertible preferred stock and the holders of such other stock will share ratably (based on the relative liquidation preference of the convertible preferred stock and such other stock) in any such distribution in proportion to the full respective distributions to which they are entitled.
	If the liquidation preference has been paid in full to all holders of convertible preferred stock and the corresponding amounts payable with respect to any other stock of ours ranking equally with the convertible preferred stock as to such distribution have been paid in full, the holders of our other stock will be entitled to receive all remaining of our assets (or proceeds thereof) according to their respective rights and preferences; *provided that* if the amount of such assets or proceeds to be distributed with respect to a number of shares of our common stock equal to the then-current conversion rate, which we refer to as the as-converted liquidation amount, exceeds the liquidation preference, then holders of convertible preferred stock will be entitled to receive, for each share of convertible preferred stock, an additional amount, which we refer to as the liquidation participation amount, out of such assets or proceeds such that the as-converted liquidation amount equals the sum of the liquidation preference plus the liquidation participation amount, after making appropriate adjustment such that the holders of convertible preferred stock receive the same amount on an as-converted basis as the holders of a number of shares of our common stock equal to the then-current conversion rate.
	See Description of the Capital Stock Convertible Preferred Stock Liquidation preference in this prospectus supplement.
Ranking of convertible preferred stock	With respect to the payment of any dividends and the distribution of assets in the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the convertible preferred stock will rank:
	senior to junior stock, meaning our common stock and any other class or series of our stock now existing or hereafter authorized over which the convertible preferred stock has preference or priority in the payment of dividends or in the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of our affairs;
	equally with parity stock, if any, meaning any other class or series of our stock hereafter authorized that ranks on par with the convertible preferred stock in the payment of dividends and in the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of our affairs; and
	junior to senior stock, meaning any class or series of our stock, including our Series C preferred stock, now existing or hereafter authorized which has preference or priority over the convertible preferred stock as to the payment of dividends or in the distribution of assets on any voluntary or involuntary dissolution or winding up of our affairs. The convertible preferred stock will rank junior in

	payment to our junior subordinated notes issued in connection with the issuance of trust preferred securities issued by certain of our affiliates, the related trust preferred securities and our existing and future debt obligations. On October 27, 2010, $240,000,000 aggregate liquidation preference of trust preferred securities and 266,657 shares (or $266,657,000 aggregate liquidation preference) of the Series C preferred stock were outstanding.
Stockholder approval	We have agreed to use our best efforts to hold a special meeting of our stockholders as soon as practicable, but not later than December 27, 2010, which is 60 days after the date of this prospectus supplement, or the approval deadline, at which we will seek to obtain the requisite stockholder approval by holders of more than a majority of our common stock of an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of our common stock to a number at least sufficient to permit the full conversion of the convertible preferred stock into shares of our common stock. We intend to ask our stockholders to authorize the issuance of 300,000,000 additional shares of common stock for purposes of the conversion of the convertible preferred stock, as well as an additional 100,000,000 additional shares of common stock to provide future flexibility. If we fail to obtain such stockholder approval by the approval deadline, we have agreed that we will continue to seek to obtain such approval at least as frequently as every six months thereafter until approval has been obtained. MP Thrift currently owns approximately 69.1% of our outstanding common stock and has indicated that it intends to vote in favor of the proposal. We refer to the amendment to our amended and restated articles of incorporation to increase our authorized common stock as provided above as the common stock amendment, and the first stockholders meeting following the completion of this offering at which we seek to obtain approval of the common stock amendment as the initial stockholder meeting.
Mandatory Conversion	On the first business day following the date on which shareholder approval has been obtained: the convertible preferred stock will automatically convert into shares of our common stock at a conversion rate, subject to adjustment, of 20 shares of our common stock for each share of convertible preferred stock, or the conversion rate, with cash being paid for fractional shares; and all shares of our convertible preferred stock will cease to exist and will resume the status of authorized and unissued shares of our preferred stock, and all other rights of the holders of such shares of convertible preferred stock will terminate.
Dividends	Dividends payable on the convertible preferred stock are non-cumulative. If neither our board of directors nor any duly authorized committee thereof declares a dividend on our convertible preferred stock in respect of a dividend period, no dividend will accrue, and we

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	will have no obligation to pay, and holders will have no right to receive, a dividend for such dividend period.
	From, and including, the first original issuance date of the convertible preferred stock to, but excluding, the approval deadline, our board of directors (or a duly authorized committee thereof) may not declare or pay any dividend or make any distribution (including, but not limited to, regular quarterly dividends) in respect of our common stock, whether payable in cash, securities or any other form of property or assets, unless our board of directors (or a duly authorized committee thereof) declares and pays to the holders of the convertible preferred stock, at the same time (irrespective of whether or not such time is a dividend payment date) and on the same terms as holders of our common stock, a dividend per share of convertible preferred stock equal to the product of (i) any dividend or distribution, as applicable, declared and paid or made in respect of each share of our common stock and (ii) the then-current conversion rate of the convertible preferred stock.
	For each dividend period from, and including, the approval deadline, non-cumulative cash dividends will be payable on the convertible preferred stock in an amount equal to the greater of (i) the as-converted dividend amount and (ii) the alternate dividend amount (each as defined below).
	The as-converted dividend amount means, with respect to any dividend period, the product of (i) the pro forma per share quarterly common stock dividend derived by (x) annualizing the last quarterly cash dividend declared during such dividend period on our common stock and (y) dividing such annualized dividend by four and (ii) the then-current conversion rate; *provided that* for any such dividend period during which no quarterly cash dividend has been declared on our common stock, the as-converted dividend amount will be deemed to be $0.00.
	The alternate dividend amount means an amount equal to the product of (i) the liquidation amount of the convertible preferred stock and (ii) a per annum rate of 15%.
Dividend stopper	Subject to certain exceptions as described under Description of capital stock Convertible Preferred Stock Dividends Dividend stopper in this prospectus supplement, so long as the convertible preferred stock remains outstanding:
	no dividend or distribution will be declared or paid on our common stock or any other shares of junior stock (as defined below) (other than dividends payable on junior stock other than our common stock solely in shares of our common stock) or parity stock (as defined below); and
	no common stock, junior stock or parity stock will be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by us or any of our subsidiaries;

unless, in each case, full dividends on all outstanding shares of the convertible preferred stock have been paid or declared and set aside for payment in respect of the most recently completed dividend period.

Voting rights	Each share of convertible preferred stock will entitle the holder thereof to a number of votes equal to the number of shares of our common stock into which such share of preferred stock is then convertible as of the record date for the vote or consent on all matters submitted to a vote of our stockholders, except for the common stock amendment, unless required by applicable law.

Except as otherwise provided in the certificate of designations for the convertible preferred stock, in our amended and restated articles of incorporation or by applicable law, the holders of shares of convertible preferred stock and the holders of shares of our common stock will vote together as one class on all matters submitted to a stockholder vote, except the common stock amendment.

Subject to certain conditions, whenever, at any time or times, from and including the approval deadline, dividends payable on the convertible preferred stock have not been paid for an aggregate of three semi-annual dividend periods (or their equivalent) or more, whether or not consecutive, or a nonpayment, the authorized number of directors of our board of directors will automatically be increased by two and the holders of the convertible preferred stock will have the right, with holders of shares of any one or more other classes or series of voting parity stock (as defined below) outstanding at the time, voting together as a class (and with voting rights allocated pro rata based on the liquidation amount of each such class or series), to elect two directors to fill such newly created directorships at our next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of our stockholders until full dividends have been paid on the convertible preferred stock following a nonpayment for at least two semi-annual consecutive dividend periods, at which time such right will terminate, subject to revesting in the event of each and every subsequent nonpayment.

Voting parity stock means, with regard to any matter on which the holders of convertible preferred stock are entitled to vote as specified in the certificate of designations, any and all series of parity stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

The vote or consent of the holders of at least 662/3% of the shares of convertible preferred stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, will be necessary for effecting or validating certain corporate actions, including, but not limited to, the issuance of securities ranking senior to the convertible preferred stock, any adverse amendment to the certificate of designations for the convertible preferred stock, certain share exchanges, reclassifications, mergers and consolidations, and

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