



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

March 27, 2014

Robert D. Klingler, Esq.  
Bryan Cave LLP  
One Atlantic Center  
14<sup>th</sup> Floor  
1201 West Peachtree St., NW  
Atlanta, Georgia 30309

Dear Mr. Klingler:

This letter responds to your request of November 22, 2013, on behalf of EJF Capital LLC (“EJF”), Arlington, Virginia, and to subsequent correspondence, including your letters dated December 13 and December 20, 2013, requesting modification of a commitment made to the Board in connection with its purchase of preferred shares (the “Flagstar CPP shares”) that were issued by Flagstar Bancorp, Inc. (“Flagstar”), Troy, Michigan, to the Department of the Treasury (“Treasury”) as part of the Troubled Asset Relief Program’s Capital Purchase Program (“CPP”).<sup>1</sup> The requested relief would permit an affiliate of EJF to purchase from Flagstar for approximately \$24.5 million certain mortgage servicing rights (“MSRs”) associated with approximately \$2.4 billion unpaid principal balance of mortgage loans owned by the Federal Home Loan Mortgage Corporation.

On March 27, 2013, EJF acquired Flagstar CPP shares from Treasury through an auction process. EJF provided commitments on which the Board relied in determining that EJF would not exercise a controlling influence over Flagstar (the “passivity commitments”). The passivity commitments, among other restrictions, limit EJF’s ability to enter into business relationships with Flagstar (“Business Relationship Commitment”).

EJF requests modification of the Business Relationship Commitment to allow the purchase of the MSRs from Flagstar. The transaction would represent the sale of 0.2 percent of Flagstar’s total assets. As of November 30, 2013, EJF had total assets under

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<sup>1</sup> Entities affiliated with EJF currently own approximately \$181 million of liquidation value of Flagstar CPP shares, \$15.5 million of Flagstar’s trust preferred securities, as well as underwater warrants to purchase a total of 243,996 shares of Flagstar’s common stock. Based on Flagstar’s total equity of approximately \$1.47 billion as of December 31, 2013, EJF owns or controls approximately 16.1 percent of Flagstar’s total equity. EJF’s ownership of Flagstar’s common stock through the underwater warrants represents 0.4 percent of the outstanding shares of Flagstar common stock.

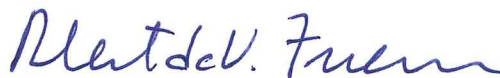
management of \$4.9 billion, and EJF's pro rata investment in the proposed Flagstar MSR portfolio would represent 0.24 percent of EJF's assets under management. EJF has represented that the transaction is on an arm's-length, negotiated basis; would be on market terms; and would not restrict Flagstar from entering into transactions of the same type with other parties.

In reviewing this request, the Federal Reserve has considered all the facts of record, including the size and structure of EJF's ownership interest in Flagstar; the size of the transaction relative to Flagstar's total assets and EJF's assets under management; and the terms of the transaction. In addition, the Federal Reserve has relied on EJF's commitment to abide by all other passivity commitments made by EJF in connection with the acquisition of Flagstar CPP shares, including the commitment not to exercise a controlling influence over Flagstar.

Based on all the facts of record, the Director of the Division of Banking Supervision and Regulation, acting pursuant to authority delegated by the Board under section 265.7(a)(2) of the Board's Rules Regarding Delegation of Authority (12 CFR 265.7(a)(2)), and after consulting with the General Counsel, has approved your request to modify EJF's Business Relationship Commitment to permit EJF and its subsidiaries to engage in the specified transaction to the extent described above, provided that EJF does not, through these activities or in any other way, attempt to exercise a controlling influence over the management or policies of Flagstar.

This action is based on the representations and commitments set forth in all of your communications and correspondence related to your request, including the representations discussed above. Any change in the facts presented could result in a different conclusion and should be reported to Board staff immediately. This determination should not be construed as granting relief from any other conditions or commitments to which EJF may be subject.

Very truly yours,



Robert deV. Frierson  
Secretary of the Board

cc: Colette Fried, Assistant Vice President  
Federal Reserve Bank of Chicago