

FLAGSTAR BANCORP INC

Form 11-K

June 25, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 11-K  
FOR ANNUAL REPORTS OF EMPLOYEE STOCK  
PURCHASE, SAVINGS AND SIMILAR PLANS  
PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Mark One

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2006**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**Commission File No.: 001-16577**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**Flagstar Bank 401(k) Plan**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Flagstar Bancorp, Inc.**

5151 Corporate Drive

Troy, MI 48098

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Participants and Administrator of  
Flagstar Bank 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of Flagstar Bank 401(k) Plan (the Plan ) as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, Schedule H, line 4i Schedule of Assets (Held at End of Year), is presented for the purpose of additional analysis and is not a required part of the basic 2006 financial statements, but is supplementary information required by the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Virchow, Krause & Company, LLP  
Southfield, Michigan  
June 22, 2007

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**Flagstar Bank 401(k) Plan  
Statements of Net Assets Available for Benefits**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Investments at fair value		
Flagstar Bancorp, Inc. common stock	\$ 12,889,505	\$ 12,381,408
Mutual funds	65,638,131	55,748,380
Money market funds	7,857,193	6,973,753
Common/Collective trusts	38,753	20,936
Participant loans	2,829,076	2,723,215
 Total investments	 89,252,658	 77,847,692
Receivables:		
Company contributions		126,623
Participant contributions	6,552	300,864
Other	64,880	4,185
 Total receivables	 71,432	 431,672
 Total assets	 89,324,090	 78,279,364
<b>Liabilities</b>		
Refundable contributions	206,334	13,253
 Total liabilities	 206,334	 13,253
 Net assets available for benefits	 \$ 89,117,756	 \$ 78,266,111

**The accompanying notes are an integral part of these statements.**

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**Flagstar Bank 401(k) Plan**  
**Statement of Changes in Net Assets Available for Benefits**

	<b>For the Year Ended December 31, 2006</b>
<b>Additions</b>	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	\$ 8,519,350
Interest and dividends	1,054,342
 Total investment income	 9,573,692
 Contributions:	
Participant	8,593,508
Company	3,119,509
Rollovers	663,159
 Total contributions	 12,376,176
 Total additions	 21,949,868
 <b>Deductions</b>	
Deductions from net assets attributed to:	
Participant benefits paid /deemed distributions	11,027,812
Administrative fees	70,411
 Total deductions	 11,098,223
 Net increase	 10,851,645
Net assets available for benefits:	
Beginning of year	78,266,111
 End of year	 \$ 89,117,756

**The accompanying notes are an integral part of this statement.**

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**Flagstar Bank 401(k) Plan  
Notes to Financial Statements  
December 31, 2006 and 2005**

**Note A Description of Plan**

The following description of the Flagstar Bank 401(k) Plan (the Plan ) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

**General**

The Plan is a defined contribution plan covering all employees of Flagstar Bancorp, Inc. (the Company ) who have met the eligibility service requirements. An employee is eligible to participate in the Plan after three months of service and is age 21 or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ), as amended.

**Contributions**

Eligible employees may contribute up to 60% in 2006 and 2005 up to the statutory limits (\$15,000 in 2006 and \$14,000 in 2005) per annum, of their eligible compensation to the Plan. Participants that meet certain criteria may make additional catch-up contributions of up to \$5,000 in 2006 and \$4,000 in 2005. Participants may also contribute amounts representing rollover contributions from other qualified defined benefit or defined contribution plans. The Company matches employee contributions up to 3% per annum of the employee s compensation, up to a maximum contribution of \$6,600, excluding the catch-up contributions. The Company may make discretionary contributions to the Plan. No discretionary contributions were made in 2006 or 2005. All contributions are invested in accordance with the participant s directive.

**Vesting**

Participants are immediately vested in their voluntary contributions. Vesting in the Company contributions and related earnings is based on years of service. A participant becomes 100% vested in Company contributions after five years of credited service.

**Participants Accounts**

Each participant s account is credited with the participant s contribution, the Company contribution made on the employee s behalf and an allocation of Plan earnings based on the employee s account balance. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

**Participant Loans**

Participant loans are permitted by the Plan. Participants may borrow a minimum of \$1,000 up to the lesser of \$50,000 or 50% of the participant s vested account balance, reduced by the highest outstanding loan balance in the preceding 12 months. All loans must be repaid in level payments through after-tax payroll deductions over a five-year period or up to 10 years for the purchase of a primary residence. The loans are collateralized by up to 50% of a participant s account balance and bear interest at rates ranging from 5.00% 9.25%, as determined by the Plan administrator.

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**Flagstar Bank 401(k) Plan  
Notes to Financial Statements Continued  
December 31, 2006 and 2005**

**Payment of Benefits**

Upon termination of services, retirement, attainment of age 59-1/2, death or disability, the participant or his or her beneficiaries are entitled to receive a distribution based on the vested amount of his or her account. A participant may also receive a distribution of his or her vested account balance in the case of financial hardship subject to the discretion of the Plan's administrator.

**Forfeitures**

If a participant terminates employment, any non-vested portion of the participant's account is forfeited. Forfeitures are applied to plan expenses and any amounts remaining are then used to reduce the contributions of the Company. Forfeited non-vested accounts totaled \$368,000 at December 31, 2006 and \$160,000 at December 31, 2005. In 2006, Company contributions were reduced by \$464,000 from forfeited non-vested accounts.

**Note B Summary of Accounting Policies**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Investment Valuation and Income Recognition**

Investments are stated at fair value based upon current quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year end. Participant's loans are valued at their outstanding balances, which approximates their fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Payment of Benefits**

Benefits are recorded when paid.



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**Flagstar Bank 401(k) Plan**  
**Notes to Financial Statements Continued**  
**December 31, 2006 and 2005**

**Note C Investments**

The following presents investments that represent 5% or more of the Plan's net assets.

December 31, 2006	Number of Shares	Fair Value
Flagstar Bancorp, Inc. Common Stock	868,565	\$ 12,889,505
Fidelity Retirement Government Money Market Fund	5,754,828	5,754,828
Mutual Funds		
Fidelity Growth Company Fund	124,051	8,647,616
Fidelity Dividend Growth Fund	255,708	8,100,816
Fidelity Mid-Cap Stock Fund	257,917	7,515,699
Fidelity Spartan U.S. Equity Index Fund	122,223	6,133,162
Fidelity Diversified International Fund	182,737	6,752,137

December 31, 2005	Number of Shares	Fair Value
Flagstar Bancorp, Inc. Common Stock	859,820	\$ 12,381,408
Fidelity Retirement Government Money Market Fund	5,207,792	5,207,792
Mutual Funds		
Fidelity Growth Company Fund	134,261	8,543,024
Fidelity Dividend Growth Fund	264,514	7,615,354
Fidelity Mid-Cap Stock Fund	245,456	6,521,767
Fidelity Spartan U.S. Equity Index Fund	122,668	5,417,011
Fidelity Diversified International Fund	163,592	5,323,271

During 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$8,519,350 as follows:

Flagstar Bancorp, Inc. Common Stock	\$ 420,610
Mutual funds	8,097,613
Common/Collective Trusts	1,127
Total	\$ 8,519,350

**Note D Parties-In-Interest**

Certain plan investments are shares of mutual funds managed by Fidelity Management Trust Company. Fidelity Management Trust Company is the trustee as defined by the Plan and, therefore, those transactions qualify as party-in-interest transactions. Pursuant to the Plan agreement, the Company may pay a portion of the administrative expenses of the Plan, at its discretion. Expenses paid to the trustee by the Company amounted to \$56,000 in 2006. In addition, the Plan trades in the common stock of the Company.

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**Flagstar Bank 401(k) Plan**  
**Notes to Financial Statements Continued**  
**December 31, 2006 and 2005**

**Note E Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan, subject to provisions of ERISA. In the event of termination of the Plan, the assets of the Plan shall be distributed to all participants to the extent of the value of each participant's account after adjustment for liquidation expenses, which were not paid by the Company. In the event of the Plan termination, participants would become 100% vested in their Company contributions.

**Note F Tax Status**

The Internal Revenue Service has determined and informed the Company by a letter dated January 16, 2002, that the Plan and related trusts are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan was amended, subsequent to the application for favorable determination above, however, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with applicable requirements of the IRC.

**Note G Risks and Uncertainties**

The Plan provides for various investment options in any combination of equity securities, bonds, fixed income securities and other investments with market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

**Note H Amount Owned to Participants Withdrawing from the Plan**

The Plan had no liability to participants who had withdrawn from the Plan as of December 31, 2006 and 2005, respectively.

**Note I Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of statements of net assets available for benefits and the statement of changes in net assets available for benefits per the financial statements to the Form 5500.

	December 31,	
	2006	2005
Net assets per financial statements	\$ 89,117,756	\$ 78,266,111
Refundable contributions	206,334	13,253
Net assets per Form 5500	\$ 89,324,090	\$ 78,279,364
Contributions per financial statements	\$ 12,376,176	\$ 12,986,163
Refundable contributions	193,081	13,253
Contributions per Form 5500	\$ 12,569,257	\$ 12,999,416

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**Supplemental Information**

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**Flagstar Bank 401(k) Plan**  
**Schedule H, line 4i Schedule of Assets (Held at End of Year)**  
**December 31, 2006**

(a) lessor or similar party	(b) Identity of issue, borrower, rate of interest, collateral, par, or maturity value	(c) Description of investment including maturity date,	(d) Cost	(e) Current value
* Flagstar Bancorp, Inc	868,565 shares of Common Stock		**	\$ 12,889,505
FMTC	Institutional Cash Portfolio		**	1,006,624
ABF	Large Cap Value Portfolio		**	46,760
AIM	Small Cap Growth Is		**	145
AIM	Mid Cap Core Equity Fund Class A		**	8,726
AIM	Dynamics Investment Fund		**	67
AIM	Global Aggressive Growth Class A Fund		**	6,010
AIM	Basic Value A		**	114
ALL/BERN	Small/ Mid Cap Val A		**	4,075
ALLNZ	CCM Mid Cap Administrative Fund		**	6,486
ALLNZ	NFJ Small Cap Value Fund Administrative Class		**	147
AM	Central Ultra Investment Fund		**	4,910
Ariel	Appreciation Fund		**	34,357
Ariel	Fund		**	61,316
Artisan	International Fund		**	33,725
Artisan	Mid Cap Value Fund		**	31,972
Baron	Small Cap Fund		**	43,079
Baron	Asset Fund		**	33,435
Calvert	New Vision Small Cap Fund - Class A		**	144
Col/Acorn	Select Fund Class Z		**	143,393
Credit Suisse	Global Fixed Income Fund - Common Shares		**	16,177
Credit Suisse	Large Cap Growth Com		**	4,068
DWS	International S		**	19,543
DWS	Global Opps S		**	17,060
DWS	Dividend High Return Equity Class A		**	3,735
* Fidelity	Retirement Government Money Market		**	5,754,828
* Fidelity	Retirement Money Market Portfolio		**	1,095,741
* Fidelity	Managed Income Portfolio		**	38,750
* Fidelity	Spartan U.S. Equity Index Fund		**	6,133,162
* Fidelity	Spartan Total Market Index Fund		**	63,709
* Fidelity	Spartan Extended Market Index		**	1,445
* Fidelity	Aggressive International Fund		**	22,596
* Fidelity	Disciplined Equity Fund		**	71,202
* Fidelity	Real Estate Investment		**	391,950
* Fidelity	Large Cap Growth Fund		**	27,635
* Fidelity	Mid Cap Growth Fund		**	36,063
* Fidelity	Total Bond Fund		**	476,741
* Fidelity	Aggressive Growth Fund		**	38,520
* Fidelity	Balanced Fund		**	567,378
* Fidelity	Blue Chip Growth Fund		**	44,632
* Fidelity	Canada Fund		**	267,905

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* Fidelity	Capital & Income Fund	**	100,895
* Fidelity	Capital Appreciation Fund	**	129,100
* Fidelity	Dividend Growth Fund	**	8,100,816

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**Flagstar Bank 401(k) Plan**  
**Schedule H, line 4i Schedule of Assets (Held at End of Year) Continued**  
**December 31, 2006**

(a) lessor or similar party	(b) Identity of issue, borrower, (c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
* Fidelity	Diversified International Fund	**	6,752,137
* Fidelity	Equity-Income II Fund	**	4,682
* Fidelity	Equity-Income Fund	**	1,910,270
* Fidelity	Europe Fund	**	22,968
* Fidelity	Export and Multinational Fund	**	140,136
* Fidelity	Fifty Fund	**	2,270
* Fidelity	Freedom 2000 Fund	**	272,845
* Fidelity	Freedom 2010 Fund	**	1,374,565
* Fidelity	Freedom 2020 Fund	**	1,424,331
* Fidelity	Freedom 2030 Fund	**	1,687,618
* Fidelity	Freedom 2040 Fund	**	904,035
* Fidelity	Freedom Income Fund	**	301,063
* Fidelity	Ginnie Mae Fund	**	33,908
* Fidelity	Growth Company Fund	**	8,647,616
* Fidelity	Independence Fund	**	1,639,556
* Fidelity	International Discovery Fund	**	160,927
* Fidelity	Japan Fund	**	67,825
* Fidelity	Low-Priced Stock Fund	**	3,265,510
* Fidelity	Mid-Cap Stock Fund	**	7,515,699
* Fidelity	Mortgage Securities Fund	**	1,766
* Fidelity	New Markets Income Fund	**	210,770
* Fidelity	Puritan Fund	**	4,258
* Fidelity	Small Cap Stock Fund	**	68,328
* Fidelity	Small Capital Retirement Fund	**	1,215,778
* Fidelity	Trend Fund	**	963
* Fidelity	U.S. Bond Index Fund	**	2,971,695
* Fidelity	Value Fund	**	209,017
* Fidelity	Worldwide Fund	**	777
* Fidelity	Large Cap Stock Fund	**	13,331
* Fidelity	Fidelity Fund	**	870
* Fidelity	Contrafund	**	1,157,721
* Fidelity	Investment Growth Bond Fund	**	26,979
* Fidelity	Growth and Income Fund	**	14,823
* Fidelity	Government Income Fund	**	1,628
* Fidelity	Overseas Fund	**	27,331
* Fidelity	Leveraged Company Stock Fund	**	614,197
* Fidelity	Pacific Basin Fund	**	78,395
* Fidelity	OTC Portfolio	**	3,626
* Fidelity	Asset Mgr 50%	**	64,487
* Fidelity	Asset Mgr 70%	**	7,115

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* Fidelity	INTM Govt Income	**	553
* Fidelity	Ultrashort Bond	**	5
* Fidelity	NASDAQ Comp Index	**	28
* Fidelity	Intl Real Estate	**	157,426

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**Flagstar Bank 401(k) Plan**  
**Schedule H, line 4i Schedule of Assets (Held at End of Year) Continued**  
**December 31, 2006**

(a) lessor or similar party	(b) Identity of issue, borrower, (c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
* Fidelity	Convertible Securities Fund	**	2,180
* Fidelity	Utilities Fund	**	221,854
* Fidelity	Emerging Markets Fund	**	763,767
* Fidelity	Focused Stock Fund	**	2,039
* Fidelity	Global Balanced Fund	**	48,699
* Fidelity	Small Cap Independent Fund	**	31,609
* Fidelity	Latin America Fund	**	1,435,879
* Fidelity	Southeast Asia Fund	**	304,339
* Fidelity	Strategic Income Fund	**	99,392
* Fidelity	Short Term Bond Fund	**	1,059
* Fidelity	Large Cap Value Fund	**	73,809
* Fidelity	Inflation Prot Bond Fund	**	38,379
* Fidelity	Real Estate Income Fund	**	29,055
* Fidelity	Blue Chip Value Fund	**	21,400
* Fidelity	Mid Cap Value Fund	**	4,652
* Fidelity	Freedom 2005 Fund	**	5,752
* Fidelity	Freedom 2015 Fund	**	160,989
* Fidelity	Freedom 2025 Fund	**	111,603
* Fidelity	Freedom 2035 Fund	**	178,392
* Fidelity	Europe Cap Appreciation Fund	**	62,818
* Fidelity	Growth and Income Fund II	**	2,351
* Fidelity	Strategic Dividend and Income Fund	**	8,089
* Fidelity	Small Cap Growth Fund	**	15,816
* Fidelity	Small Cap Value Fund	**	19,576
* Fidelity	Value Strategies Fund	**	23,319
* Fidelity	Intermediate Bond Fund	**	6,488
FMA	Small Company IS	**	6,527
Franklin	Small-Mid Cap Growth Fund Class A	**	808
Hartford	Growth Y Fund	**	7,116
Hartford	Small Cap Growth Y	**	417
LD Abbett	Small Cap Build - Class A	**	6,231
LD Abbett	Affiliated A	**	23,424
LM	Value Trust Fidelity Class	**	42,610
LMP	Aggressive Growth A	**	745
LMP	Large Cap Growth A	**	1,671
Loomis	Small Cap Value R	**	975
Managers	Bond Fund	**	5,010
Managers	Special Equity	**	31
Managers	Value Fund	**	15,295
MSI	Emerging Markets Fund Class B	**	39,905



MSIFT	High Yield Advance Fund	**	1,098
MSIFT	MidCap Gth Adv.	**	2,291

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**Flagstar Bank 401(k) Plan**  
**Schedule H, line 4i Schedule of Assets (Held at End of Year) Continued**  
**December 31, 2006**

(b) Identity of issue, borrower, (c) Description of investment including maturity date,	(a) lessor or similar party	rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
Mutual		Discovery Fund - Class A	**	119,905
Mutual		Shares Class A	**	13,309
NB		Partners Trust Fund	**	31,038
NB		International Fund Trust	**	13,816
The Oakmark		Equity and Income Fund	**	94,859
The Oakmark		Select I	**	842,142
The Oakmark		Fund I	**	25,758
PIM		Global Band AD Unhedged Fund	**	10,451
PIMCO		High Yield - Administration Class	**	28,134
PIMCO		Long Term Government - Administrative Class	**	10,605
PIMCO		Real Return Bond Admin.	**	1,516
PIMCO		Total Return Fund - Administrative Class	**	115,064
Rainier		Small Mid Cap Fund	**	57,819
Royce		Value Plus Ser	**	92,541
Royce		Opportunity S Fund	**	12,652
RS		Partners Fund	**	51,311
RS		Value Fund	**	10,862
TCW		Select Equity N Fund	**	16,656
Templeton		Foreign Fund - Class A	**	61,449
Templeton		Foreign Small Company - Class A	**	21,620
Templeton		Dev Markets Fund - Class A	**	43,351
Templeton		Growth Fund - Class A	**	36,662
Templeton		World Fund - Class A	**	9,037
Templeton		Global Bond Fund - Class A	**	26,800
Touchstn		SC SEL GR Z	**	487
Van Kampen		Growth and Income Fund - Class A	**	10,783
Van Kampen		Equity Income Class A	**	35,675
WA		Core Plus Bond FI	**	5,500
West		Asset Core Fidelity Fund	**	1,716
WFA		Small Cap Value - Class Z	**	29,680
WFA		C&B Mid Cap Value Fund D	**	6,456
* Participant Loans		Interest rates ranging from 5% to 9.25% with various maturity dates	-0-	2,829,076
				\$ 89,252,658

\* Party-in-interest to the Plan

\*\*

Participant  
Directed

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FLAGSTAR BANK 401(k) PLAN

June 25, 2007

By: /s/Rebecca A. Lucci  
Plan Administrator

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EXHIBIT INDEX

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