



## **Q2 2014 Earnings Presentation**

August 6, 2014

*Achieve More, Every Day*

# Disclaimers



## **Forward-Looking Statements**

*Any statements in this presentation that are not historical or current facts are forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding: estimates of Solutionstar’s segment growth and profitability; Servicing’s segment growth and profitability; and guidance for 2014 GAAP EPS. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Certain of these risks and uncertainties are described in the “Risk Factors” section of our most recent annual report and other required documents as filed with the SEC, which are available at the SEC’s website at <http://www.sec.gov>. Nationstar undertakes no obligation to publicly update or revise any forward-looking statements or any other information contained herein, and the statements made in this presentation are current as of the date of this presentation only.*

## **Non-GAAP measures**

*This presentation contains certain references to non-GAAP measures. Please refer to the Appendix and Endnotes for more information on non-GAAP measures.*

## Q2'14 Financial Highlights



- Strong sequential growth across all segments and key financial metrics
- Core EPS<sup>(1)</sup> of \$0.87; core pretax income<sup>(1)</sup> of \$125mm
- GAAP EPS of \$0.74; 174% improvement QoQ

	Q2'14	Q1'14	\$ QoQ	% QoQ
<i>\$ in mm</i>				
<b>Revenue</b>	\$550	\$470	+\$80	+17%
<b>Pretax Income</b>	\$106	\$39	+\$67	+172%
<b>One Time Expenses</b>	\$26	\$39	n/a	n/a
<b>MSR Mark</b>	(\$7)	\$11	n/a	n/a
<b>Core Pretax Income<sup>(1)</sup></b>	\$125	\$89	+\$36	+40%

1) Core EPS and core pretax income exclude one-time advance sale transaction expenses and MSR fair value adjustments. Please refer to appendix for information on non-GAAP numbers and reconciliations

# Segment Presentation



**Realignment increases transparency and reflects organizational structure; financial targets remain in place**

	Previous Disclosure	Current Disclosure
<b>Reporting Units</b>		
<i>Operating Segments</i>	<ul style="list-style-type: none"> <li>Two separate operating segments: Servicing and Originations</li> </ul>	<ul style="list-style-type: none"> <li>Three separate operating segments: Servicing, Solutionstar and Originations</li> </ul>
<i>Corporate &amp; Other</i>	<ul style="list-style-type: none"> <li>Legacy Portfolio and Other</li> </ul>	<ul style="list-style-type: none"> <li>Legacy Portfolio plus certain corporate costs and unsecured senior notes<sup>(1)</sup></li> </ul>
<b>Reclassifications</b>		
<i>Corporate Costs</i>	<ul style="list-style-type: none"> <li>Allocated to operating segments, with a portion allocated to Legacy</li> </ul>	<ul style="list-style-type: none"> <li>Allocating direct costs to operating segments; corporate costs to Corporate and Other</li> </ul>
<i>Unsecured Senior Notes<sup>(1)</sup></i>	<ul style="list-style-type: none"> <li>Allocated to Servicing and Originations</li> </ul>	<ul style="list-style-type: none"> <li>Allocating operating debt to operating segments; unsecured senior notes to Corporate and Other</li> </ul>
<i>Property Related Fees</i>	<ul style="list-style-type: none"> <li>All fees included in Solutionstar financials within Servicing</li> </ul>	<ul style="list-style-type: none"> <li>Referral fee included in Servicing; remaining property sale fees included as part of Solutionstar, consistent with market</li> </ul>

1) Interest expense related to operating debt (e.g., warehouse, advance facilities) allocated to operating segments. Interest expense related to unsecured senior notes allocated to Corporate & Other

# Servicing Financial Highlights



**Continued execution on profitability initiatives**

\$ in mm

Key Metrics	Q2'14	Q1'14	% QoQ
Fee Income	\$302	\$276	+9%
Pretax Income	\$67	\$50	+34%
One Time Expenses	\$26	\$18	n/a
MSR Mark	(\$7)	\$11	n/a
Core Pretax Income <sup>(2)</sup>	\$86	\$79	+9%
Core Pretax Income Margin	28%	29%	-3%
Average UPB (\$B)	\$381	\$388	-2%
Core Operating Profitability (bps) <sup>(3)</sup>	9.0	8.2	10%

## Quarter Highlights

- Strong pretax margins
- Continued improvement in servicing profitability
  - ✓ Expect to exit FY'14 above 11bps<sup>(1)</sup>  
(excludes Solutionstar & Corporate / Other)
- Stable UPB

## Revenue and Margin Expansion Considerations

- Increase in portfolio transfers in 2H'14
- Non-performing loans servicing
- Scalable operations
- Continued productivity investments

1) Estimates of future profitability targets are forward looking and based on a number of factors outside our control. Results could differ materially

2) Core pretax income excludes one-time advance sale transaction expenses and MSR fair value adjustments

3) Servicing operating profitability was 8 bps in Q1'14 under current segment view and increased from 7 bps in Q1'14 to 9 bps in Q2'14 under previous segment view. Please refer to Appendix for bridge with previous and current segment reconciliation

# Solutionstar Financial Highlights



**Strong sequential growth; elevated investments in strategic objectives; third-party growth initiatives**

\$ in mm

Key Metrics	Q2'14	Q1'14	% QoQ
Revenue	\$83	\$65	+28%
Pretax Income	\$38	\$26	+46%
Pretax Income Margin	46%	40%	+15%
Property Sales <sup>(3)</sup>	5,663	4,538	+25%

## Quarter Highlights

- Continued strong sequential growth in revenue and pretax income in excess of 20%
- Expect at least \$160mm pretax income in FY'14<sup>(1)</sup>
- Acceleration of sales through HomeSearch.com
- Real Estate Digital integration on track<sup>(2)</sup>

## Revenue and Margin Expansion Considerations

- Continued focus on third-party business
- Execution of strategy
- Launch of HomeSearch.com 2.0

1) Reflects referral fee to servicing segment. Estimates of future pretax income are forward looking statements and based on a number of factors outside our control. Results could differ materially  
 2) Real Estate Digital transaction closed in Q2'14  
 3) Includes all property sales (e.g. REO, short and trustee sales). In previous presentations, only REO property sales were shown

# Originations Financial Highlights



**Execution leads to strong operating results**

\$ in mm

Key Metrics	Q2'14	Q1'14	% QoQ
Revenue	\$165	\$130	+27%
Pretax Income	\$69	\$24	+188%
One Time Expenses	n/a	\$16	n/a
Core Pretax Income <sup>(1)</sup>	\$69	\$40	+73%
Core Pretax Income Margin	42%	31%	+35%
Funded Volume (\$B)	\$4.4	\$4.7	-6%
Application Volume (\$B)	\$5.0	\$3.5	+43%

## Quarter Highlights

- Strong improvement in revenue, pretax income and margin
- Initiated platform consolidation efforts
- Closely monitoring capacity

## Revenue and Margin Expansion Considerations

- Increase in recapture
- Efficiency gains due to single platform / process
- Launch new marketing efforts
- New product offerings

1) Core pretax income excludes one-time expenses related to right-sizing the originations operations in Q1'14

# Strong Capital Position



## Significant Cash Generation

- Q2'14 ending cash balance of \$624mm<sup>(1)</sup>
- Redeployment into accretive servicing and fee-based acquisitions
  - ✓ Acquired ~\$6B of servicing in Q2'14
  - ✓ Servicing acquisition commitments exceed \$20B in Q3'14<sup>(2)</sup>

## Strong Balance Sheet

- Redeemed higher-coupon 10.875% Senior Notes (due 2015) at par
  - ✓ Eliminated over \$30mm of annual interest expense
- Moderate leverage and strong interest coverage
  - ✓ Proforma net leverage of 2.1x and proforma interest coverage of 5.6x
- 9% tangible net worth to asset ratio

1) Subsequent to quarter end, cash balance decreased by \$285mm to redeem 10.875% Senior Notes  
2) Quarter-to-date as of August 5, 2014



# Committed to Delivering Long-Term Shareholder Value



*Continue to execute on four initiatives to increase shareholder value*

## **I** *Strong cash generation*

- ✓ Smart cash utilization and balance sheet management

## **II** *Servicing: predictable, stable cash flows*

- ✓ Continued execution on profitability initiatives
- ✓ Portfolio replenishment maintains annuity stream
- ✓ Grow the servicing annuity through acquisitions that meet investment hurdles
- ✓ Improving economy should translate to increased profitability with longer earnings tail

## **III** *Solutionstar: high margin, fee-for-service business*

- ✓ Transform the home purchase and ownership experience
- ✓ Diversify through penetration of existing and attainment of new 3<sup>rd</sup> party business

## **IV** *Originations: cost-effective and profitable creation of long-term servicing assets*

- ✓ Replenish servicing annuity
- ✓ Becoming more efficient; lowering operating costs
- ✓ Capitalize on new market opportunities as they arise utilizing a measured approach

# Big Market, Big Opportunity

**Huge opportunity for Nationstar in the U.S. housing market**

## Creating a customer for life...

- Highly fragmented market ripe for transformation
- Success requires scale, capital, high-level of compliance, strong reputation and track record of performance
- No clear leader today
- Low adoption of technology



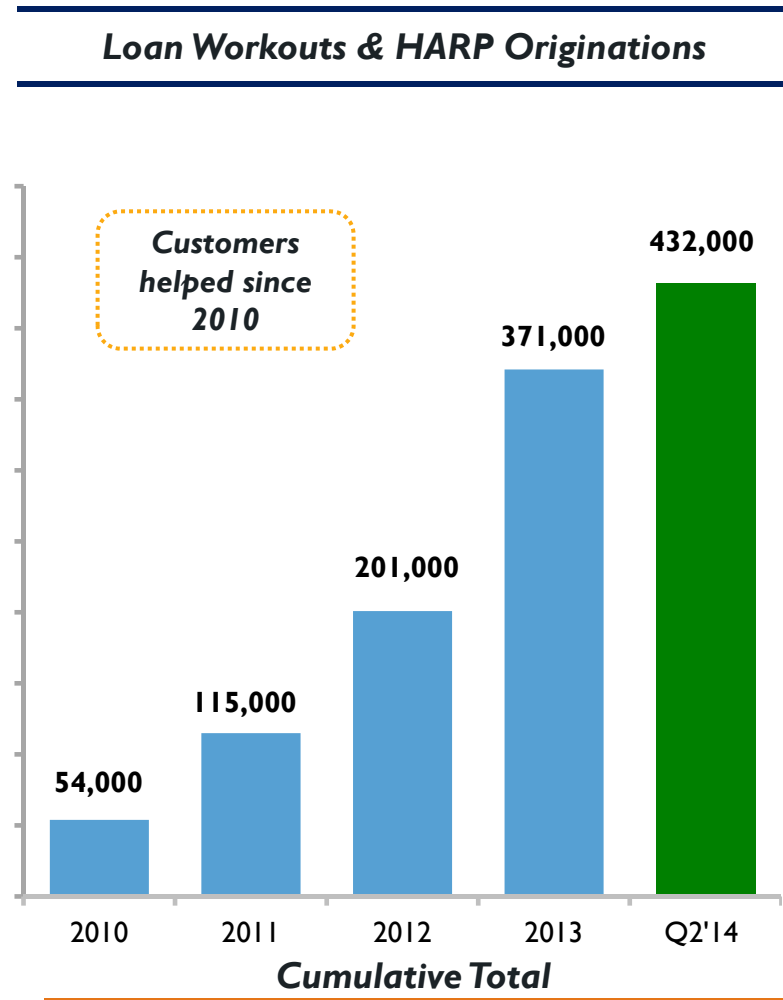
1) Sources: Inside Mortgage Finance, MBA Mortgage Finance Forecast July 2014

# Providing Solutions to Our Customers



**Preserving homeownership and increasing mortgage affordability for our 2.2mm customers**

- Emphasis on customer service and loan performance
- Very low complaint rate
  - ✓ Less than 3% of delinquent borrowers in 2014
- ~328,000 workouts since '10
  - ✓ ~23,000 in Q2
- ~104,000 HARP loans since '10
  - ✓ ~6,000 in Q2
- Process HAMP modifications 52% faster than peer group<sup>(1)</sup>



1) NSM processes HAMP modifications 52% faster than average for top 10 largest servicers (average excludes NSM), SigTARP Q2'14 Report to Congress

# Servicing Highlights



**Replenishing run-off creates a higher multiple annuity cash stream; additional growth from acquisitions**

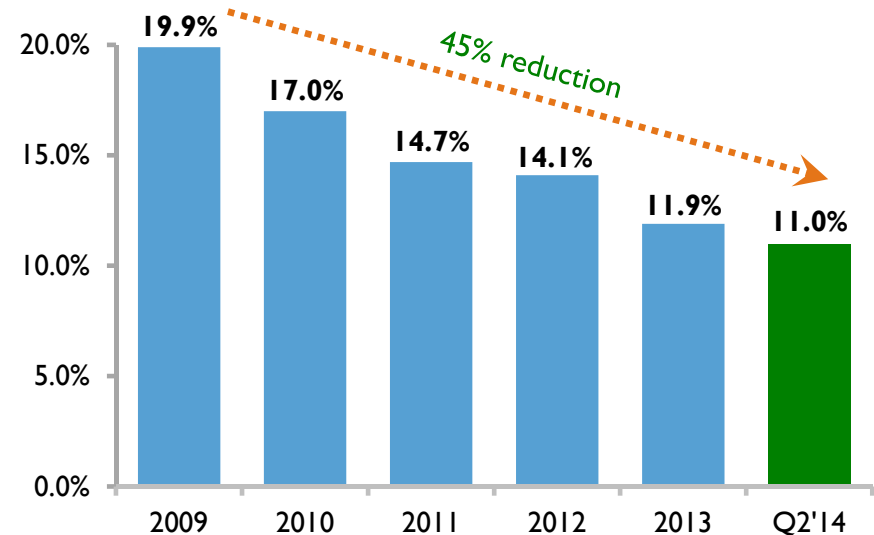
## Q2'14 Performance

- Predictable, growing cash flows over long-term
- Ending portfolio UPB of \$378B
- Generated \$10B in new servicing assets
  - ✓ \$6B through acquisitions
  - ✓ \$4B through originations
- Annualized CPR at 13.5%

## Pipeline Opportunities

- Pipeline in excess of \$300B
- Servicing acquisition commitments exceed \$20B in Q3'14<sup>(1)</sup>

## Portfolio Delinquency (60+ Day)



- 60+ day DQ rate at 11.0%
- Reduced DQ rate by 45% since 2009

1) Quarter-to-date as of August 5, 2014

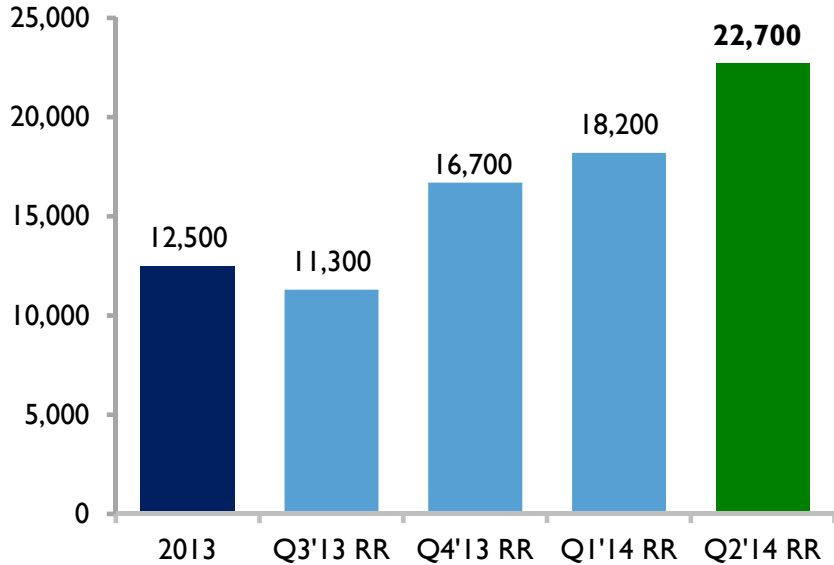
# Solutionstar: Diversified, Sustainable Fee-Based Business



## 2014 Focus Areas

- Capture and execute on opportunities with current customers
- Execute on long-term strategy
- Increase third-party business

### Property Sales<sup>(1)</sup>



### HomeSearch.com Outperformance

Key Metrics	HomeSearch.com v. Traditional Retail
Sales Price to Reserve	8% Higher
Days in Inventory	45 days fewer

- Benefits**
- Better execution (price and speed)
  - Transparency for all participants
  - Reduced fraud risk

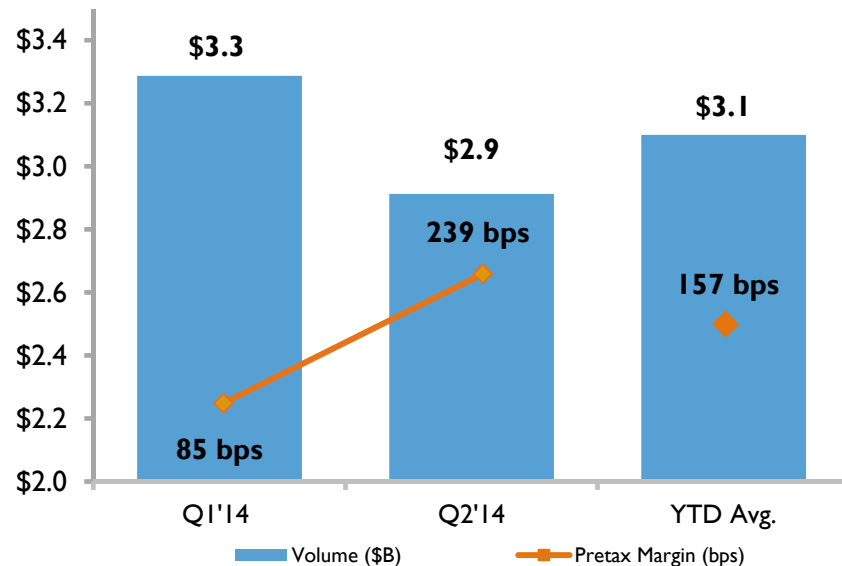
1) Includes all property sales (e.g. REO, short sales, trustee sales). In previous presentations, only REO property sales were shown

# Originations Highlights

## 2014 Focus Areas

- Right-size operations
- Reengineer to single platform and process
- Recapture
- Purchase strategy

### Consumer Direct: Volume & Pretax Margin<sup>(1)</sup>



### Highlights

- Average recapture rate year-to-date of 39%
- Consumer direct channel highly profitable
- Launching non-agency strategy
  - ✓ Established underwriting criteria; partnering with investors
  - ✓ Significant opportunity from existing PLS portfolio
- Purchase money strategy includes builder JV (KB Home), Greenlight and HomeSearch.com

1) Q1'14 total funded volume for all channels was \$4.7B; Q2'14 total funded volume was \$4.4B

# Appendix



# 2014 Guidance



- **Affirming 2014 GAAP EPS**
  - ✓ Ahead of year-to-date budget
  - ✓ Earnings expected to grow throughout remainder of year

	<u>Guidance</u>
2014 GAAP EPS	\$4.00 - \$5.00



# Earnings Growth Across the Business



<b>Core Pretax Income<sup>(1)</sup></b> \$ in mm	<b>Q2'14</b>	<b>Q1'14</b>	<b>% QoQ</b>	<b>Q2 Margin %</b>
<b>Servicing</b>	\$86	\$79	+9%	28%
<b>Solutionstar</b>	38	26	+46%	46%
<b>Originations</b>	69	40	+73%	42%
<b>Corporate / Other</b>	(68)	(55)	+24%	n/a
<b>Total</b>	\$125	\$89	+40%	23%

1) Please refer to this Appendix for bridge with previous and current segmentation and Core reconciliations

## Q2'14 Segmentation Bridge

\$mm	Previous Q2'14 Disclosure					\$mm	Current Q2'14 Disclosure				
	Servicing	Originations	Legacy	Total			Servicing	Solutionstar	Originations	Corporate / Other	Total
<b>Operating Expenses</b>	(237)	(97)	(12)	\$ (347)		<b>Operating Expenses</b>	(186)	(46)	(97)	(18)	\$ (347)
<b>Core Pretax Income<sup>(1)</sup></b>	\$85	\$54	\$ (14)	\$125		<b>Core Pretax Income<sup>(1)</sup></b>	\$86	\$38	\$69	\$ (68)	\$125

Average UPB: \$381B

Average UPB: \$381B

### Servicing Profitability:

Previous Q2'14 Disclosure		Current Q2'14 Disclosure		
Servicing / Solutionstar Total	9 bps	Servicing	9 bps	
		Solutionstar	4 bps	
		<b>Servicing / Solutionstar Total</b>	<b>13 bps</b>	
		Corporate Debt / Allocations	(4) bps	Previous Disclosure Methodology
		Servicing / Solutionstar Total	9 bps	Previous Disclosure Methodology

1) Reconciliations to core pretax income are contained in this appendix

# Q1'14 Segmentation Bridge

\$mm	Previous Q1'14 Disclosure					Current Q1'14 Disclosure				
	Servicing	Originations	Legacy	Total		Servicing	Solutionstar	Originations	Corporate / Other	Total
<b>Operating Expenses</b>	(206)	(108)	(7)	\$ (321)	<b>Operating Expenses</b>	(165)	(39)	(105)	(12)	\$ (321)
<b>Core Pretax Income<sup>(1)</sup></b>	\$69	\$23	\$(3)	\$89	<b>Core Pretax Income<sup>(1)</sup></b>	\$79	\$26	\$40	\$(55)	\$89

Average UPB: \$388B

Average UPB: \$388B

## Servicing Profitability:

Previous Q1'14 Disclosure		Current Q1'14 Disclosure		
Servicing		Servicing	8 bps	
Solutionstar		Solutionstar	3 bps	
<b>Servicing / Solutionstar Total</b>	<b>7 bps</b>	<b>Servicing / Solutionstar Total</b>	<b>11 bps</b>	
		Corporate Debt / Allocation	(4) bps	Previous Q1'14 Disclosure
		<b>Servicing / Solutionstar Total</b>	<b>7 bps</b>	Previous Q1'14 Disclosure

1) Reconciliations to core pretax income are contained in this appendix

## Core Earnings Per Share Reconciliations

(\$ in millions)	Q2'14	Q1'14
Net Income attributable to Nationstar	\$66.5	\$24.0
Less: net gain (loss) attributable to noncontrolling interest	0.2	(0.4)
<b>Net Income</b>	<b>66.6</b>	<b>23.7</b>
Income Tax	38.9	15.0
Pretax Income	105.6	38.7
One-time expenses	25.7	39.3
MSR Mark	(6.7)	11.1
<b>Core Pretax Income</b>	<b>\$124.6</b>	<b>\$89.1</b>
Income Tax	(46.0)	(34.5)
<b>Core Earnings</b>	<b>\$78.7</b>	<b>\$54.5</b>
<b>Core Earnings Per Share:</b>	<b>\$0.87</b>	<b>\$0.61</b>
Average shares outstanding	90.2	90.1

# Endnotes



**2014 GAAP EPS (“2014 GAAP EPS”)** is based on our expectations of continued growth, current market conditions and increased operating efficiencies in our business in addition to our financial targets for 2014. Our actual GAAP EPS for 2014 on an annualized basis may differ from our 2014(E) EPS.

**Core Pretax Income (“Core Pretax Income”)** This disclaimer applies to every usage of Core Pretax Income in this presentation. Core Pretax Income is a metric that is used by management to exclude certain non-recurring items in an attempt to provide a better earnings per share comparison to prior periods. Q2’14 Core Pretax Income excludes certain one-time expenses related to the write-off of advance financing facility fees related to the advance sale to NRZ and MSR fair value adjustments.

**Core Earnings Per Share (“Core EPS”)** This disclaimer applies to every usage of Core EPS in this presentation. Core EPS is a metric that is used by management to exclude certain non-recurring items in an attempt to provide a better earnings per share comparison to prior periods. Core Q2’14 EPS excludes certain one-time expenses related to the write-off of advance financing facility fees related to the advance sale to NRZ and MSR fair value adjustments.

**NOTE:** 2014 GAAP EPS is forward-looking and subject to significant business, economic, regulatory and competitive uncertainties, many of which are beyond control of Nationstar and its management, and are based upon assumptions with respect to future decisions, which are subject to change. Actual results will vary and those variations may be material. Nothing in this presentation should be regarded as a representation by any person that this target will be achieved and Nationstar undertakes no duty to update this target.