Mortgage Servicing Cash Flow

Peering Through the Noise Reveals Strong Cash Flow Stream

Highlights

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Companies Mentioned

Ticker	Price Target	Rating
NSM	$48.00	Buy
OCN	$44.00	Buy
WAC	$43.00	Buy

The special servicers have gone on a wild ride recently. We expected the stocks to be volatile as investors reset expectations following recent servicing portfolio acquisitions. This volatility is likely to continue through the first half of the year as the servicers give further details on their various servicing and platform acquisitions. We believe this volatility is due to a misunderstanding of the long-term value of the servicing cash flow stream these companies are likely to produce, especially if we see the housing market recover and interest rates rise.

In the following note, we outline our estimates for free cash flow and compare it to GAAP earnings. If the servicers were to start seeing the bulk servicing transfer slow, the free cash flow generated would be significant. We believe this scenario eventually will play out, but likely won't develop until late 2014. As such, investors need to consider the long-term value of the existing servicing portfolios in a flat to slightly declining environment. In this case, our analysis indicates the servicers could consistently grow EPS absent bulk portfolio acquisitions by re-deploying the large build-up of excess cash into buying back stock. Given this dynamic, we believe there remains significant intrinsic value in the stocks and even further upside if the companies can effectively deploy excess cash into new servicing portfolios or build-out their existing operations.

Raising earnings estimates. We are raising OCN's FY13E EPS from $4.25 to $4.60 and FY14E EPS from $5.00 to $5.40. We are maintaining our $44 price target, equal to 8x FY14E EPS. We are raising NSM's FY13E EPS from $3.80 to $3.90 and FY14E EPS remains at $6.00. Our price target remains at $48 per share or 8x FY14E EPS. We are raising WAC's FY13E GAAP EPS from $2.68 to $3.00 and FY14E EPS from $5.00 to $5.30 due to reduced depreciation and amortization expense. We are adjusting our price target from $42 to $43 to take into account higher earnings and cash generation.

Cash is king. We expect 2014 to be a very strong year for cash flow generation, absent any major acquisitions. If the servicers slow their portfolio acquisitions, we forecast free cash flow (FCF) per share to be 15% higher than GAAP EPS, while deployable free cash could be 30% higher. We estimate OCN will generate $6.13 per share of FCF in 2014, NSM will generate $6.30, and WAC will generate $6.45.

NationStar cash flow will be strong. In the next two years, NSM will be busy working through the recently acquired Bank of America servicing portfolio. In 2013, the company will be attempting to refinance as many loans as possible through HARP (strong cash GoS margins) while pushing to get delinquency and advance levels down (freeing up capital). We estimate deployable FCF of $4.97 in FY13 and $8.71 in FY14 after taking into account the recapture of advances.

Walter setting business up for long-term. Although WAC does not have as much deployable excess cash given its relatively large debt load and smaller level of advances, we believe the company is in the best position to sustain its servicing portfolio over the long-term.

See Important Disclosures on page 13 of this report.

Overview

Although there have been some questions about what the servicers will earn in 2013 and 2014, we believe there is significant earnings power in the existing businesses, without major MSR acquisitions. This becomes apparent when we look through some of the noise caused by GAAP accounting and a series of large acquisitions. We reconcile the cash flow statement for timing differences and advance financing pay-downs to arrive at a core free cash flow (FCF) per share for each company. We then forecast FCF out ten years assuming the servicers run their businesses as forecasted for originations, flow programs, and a small level of MSR acquisitions through 2014. No MSR acquisitions after 2014 were assumed.

This analysis gives us a view on what the businesses are worth right now given what the companies have acquired. The analysis does not take into account the opportunity of acquiring large portions of the $300B+ pipeline cited by management teams.

Buy back stock? If the servicing portfolio opportunities dry up and these companies theoretically become "melting ice cubes" (we don't foresee this happening till at least late 2014), the servicing portfolios would be producing significant cash flow that could be used to buy back stock. In this scenario, we estimate the portfolios will generate sufficient cash flow for each company to buy back enough stock to keep EPS growing while earnings decline. See each company breakout for further details.

Peak earnings still a couple of years away. We expect earnings to continue growing throughout 2013 and 2014 for all of the servicers. OCN will likely see peak earnings in late 2014/early 2015, NSM in 2015, and WAC in 2015 (absent further acquisitions, spin-offs, etc.).

NationStar. The negative operational cash flow in 2012 was not indicative of the company's cash flow situation given a series of timing issues with mortgage originations and reverse mortgage servicing. We estimate the company generated free cash flow of $218M in 2012 after adjusting for these differences. Going forward, the company should show very strong FCF as the Bank of America portfolio matures. In addition, there should be significant capital freed up in 2014 as the company recaptures a material past of the $5.8B in advances associated with this portfolio.

Ocwen. During 2012, the company's cash flow profile screened as being mature compared to NSM and WAC because most of its servicing portfolio was acquired in 2009-2011. Going forward, we expect cash flow to remain strong, but the recovery of advances will not be as prevalent and the company will start originating mortgages this year. Thus, the cash flow profile won't be as robust in 2013 compared to past years (in relation to earnings). As the portfolios mature, cash flow should continue to increase throughout 2014.

Walter. Free cash flow generation should peak for WAC in 2013 due to elevated gain on sale margins on HARP originations, but still remain well above GAAP EPS in 2014. We estimate FCF per share in 2013 of $8.89/share or $7.99/share after taking into account a $76M debt amortization payment.

Synopsis of 2014 Estimated EPS, FCF and Deployable CF per share

$M	OCN	NSM	WAC
AEBITDA	**1,292**	**1,269**	**665**
Non-cash Gain on Sale	(104)	(170)	(107)
Interest exp	(186)	(139)	(107)
Cash taxes	(85)	(290)	(136)
Operating CF	917	670	314
Changes in WC/Other	(20)	(36)	(34)
CF from Operations	897	634	280
Capex	(36)	(60)	(36)
FCF	**861**	**574**	**244**
Debt paydown	0	0	(76)
Net recovery of advances	128	220	41
Deployable CF	**989**	**794**	**209**
GAAP EPS	5.40	6.00	5.30
FCF per share	6.13	6.30	6.45
Deployable CF per share	7.04	8.71	5.53
shares	*140.5*	*91.2*	*37.8*

Source: Compass Point, Company reports

NationStar Mortgage

During 2012, the company reported negative cash flow from operations of ($1,958M), compared to operating earnings of $211M. This large disparity in earnings and cash flow from operations was due to (1) a ramp up in originations, especially in 4Q and (2) timing differences and financing transactions from reverse mortgages. Net of these items, we estimate free cash flow of $218M or $2.39 per share. In addition, the company doubled the size of its servicing portfolio through a series of acquisitions.

Reconciliation to 2012 Cash Flow Statement ($M)

$M	2012	
Adjusted EBITDA	**456**	
Non-cash gain on sale (75bp x Originations)	**59**	
Cash corp. int. exp.	**63**	
Cash taxes (normalized = 34%)*	**43**	Actual cash taxes paid
Operating Cash Flow	**292**	
Legacy/other costs	**20**	
Transaction expenses	**8**	
Other/Working Capital	**45**	
Cash flow from operations	**218**	Add back loans held for sale, reverse mortgage interests to CF from Ops
CF from ops. Post timing differences	***218***	
FCF per share	**2.39**	
Deployable FCF	**2.39**	
Operating EPS	**2.47**	
GAAP EPS	**2.40**	

Source: Compass Point, Company documents

Going forward, we expect cash flow to remain very strong, as the company takes advantage of high gain on sale margins from the HARP program. Also, the company should be recovering the bulk of the advances from the Bank of America servicing portfolio in the back half of 2014 and into 2015. Recall, the company will be boarding the private label portfolio in 2Q13 and 3Q13. This portfolio has roughly $4.4B of advances associated with the $113B portfolio.

2013 and 2014 EPS and FCF Forecast ($M)

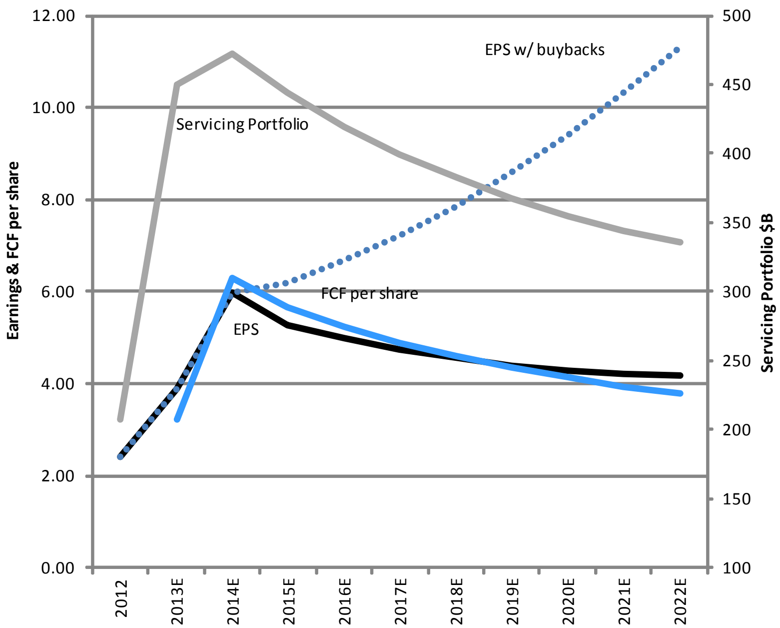
$M	2013E	2014E	
Adjusted EBITDA	**879**	**1269**	
Non-cash gain on sale (75bp x Orig	**154**	**170**	
Cash corp. int. exp.	**138**	**138**	
Cash taxes (normalized = 34%)	**189**	**290**	
Operating Cash Flow	**398**	**670**	
Legacy/other costs	**26**	**24**	
Transaction expenses	**0**	**0**	
Other/Working Capital	**40**	**12**	
Cash flow from operations	**332**	**634**	
Capex (let portfolio run-off)	-38	-60	Paying 30 bp for flow servicing
Free Cash Flow	**294**	**574**	
Debt amortization	**0**	**0**	
Net recovery of advances	**159**	**220**	Could be accelerated w/ advance securitization
Deployable Free Cash Flow	**453**	**794**	
FCF per share	**3.23**	**6.30**	
Deployable FCF	**4.97**	**8.71**	
Operating EPS	**3.90**	**6.00**	
GAAP EPS	**3.90**	**6.00**	

Source: Compass Point

Longer-term, we believe NSM is well positioned to continue growing EPS even if the company lets the servicing portfolio decline. Right now, we estimate NSM can organically offset ~60% of the run-off from a portfolio we estimate will reach $470B by YE14. If we assume 15% CPR, the company would need to replace $70B of servicing run-off in order to keep portfolio static. We expect OCN to organically acquire roughly $50B of MSRs per year through originations and flow programs, still well short of the $70B without further bulk acquisitions. Given this dynamic, we could see NSM making a hard push to expand its current platform or acquire an originator.

We make the following key assumptions in our long-term forecast:
(1) EBITDA margin of 25 bps in perpetuity (compared to 27 bp in 2014)
(2) 15% constant prepayment rate
(3) Advances decline 15% each year
(4) All free cash flow starting in 2015 is used to buy back stock at a price equal to 10x the previous year's EPS
(5) Origination and flow program volumes remain at 2014 levels

FCF per share and EPS Forecast ($)



Source: Compass Point, Company documents

Valuation

We value NSM at 8.0x FY14 EPS or $48 per share. We believe a 8.0x earnings multiple adequately discounts the stock for the inherent volatility associated with boarding large, distressed servicing portfolios, combined with the volatility associated with heavy origination volume. Considering, there will be significant noise surrounding the boarding of several portfolios in FY13, we believe FY14 earnings present the cleanest estimate for normalized earnings.

Ocwen Financial

During 2012, the company's cash flow profile screened as being mature compared to NSM and WAC. The majority of the portfolio that was generating servicing fees was acquired in 2010 and 2011. Also, the company has not started to originate mortgages, which can be a cash drain. Thus, the company generated strong free cash flow of $372M or $2.65 per share in FY12. If we take into account the equity capital released from recapture of advances and pay-down of advance facilities, the company generated deployable free cash flow of $718M or $5.14 per share. This compares to $1.31 per share in GAAP earnings during the year ($1.43 operating).

Reconciliation to 2012 Cash Flow Statement ($M)

$M	2012	
Adjusted EBITDA	**456**	
Non-cash gain on sale (70bp x Orig.)	**0**	
Cash corp. int. exp.	**101**	
Cash taxes (normalized = 10%)	**37**	
Operating Cash Flow	**318**	
Other one-time expenses	**5**	
Transaction expenses	**20**	
Change in WC/Other	**-79**	
Cash flow from operations	**372**	
CF from ops.reported (net of advances	***372***	$1.8B CF from Ops minus $1.4B advances recovered
Debt amortization/paydown	**0**	
Net recovery of advances	**346**	Advances recaptured after pay down of debt facility, stated in 3/13 presentation
Deployable Free Cash Flow	**718**	

FCF per share	**2.65**
Deployable FCF	**5.14**
GAAP EPS	**1.31**

Source: Compass Point, Company documents

Going forward, we expect cash flow to remain strong, but the recovery of advances will not be as fast. Also, some of the advances were sold to Home Loan Servicing Solutions (HLSS - Buy, $25 PT, Stewart), interest expense is higher and the company will be originating through the correspondent channel. Thus, the cash flow profile likely won't be as strong in 2013 as it was in 2012 relative to the earnings stream. We estimate the company will produce $4.86/share of free cash flow and $5.63/share of deployable excess cash.

2013 and 2014 EPS and FCF Forecast ($M)

$M	2013E	2014E	
Adjusted EBITDA	**1164**	**1292**	
Non-cash gain on sale (70bp x Orig	**80**	**104**	Capitalization of MSR
Cash corp. int. exp.	**214**	**186**	
Cash taxes (normalized = 10%)	**99**	**85**	13% in 2013, 10% in 2014
Operating Cash Flow	**771**	**917**	
Other one-time expenses	**0**	**0**	
Transaction expenses	**0**	**0**	
Change in WC/Other	**40**	**20**	Reinvesting in platform, etc.
Cash flow from operations	**731**	**897**	
Debt amortization/paydown	**0**	**0**	
Net recovery of advances	**108**	**128**	Could accelerate with sales to HLSS
Deployable Free Cash Flow	**791**	**989**	

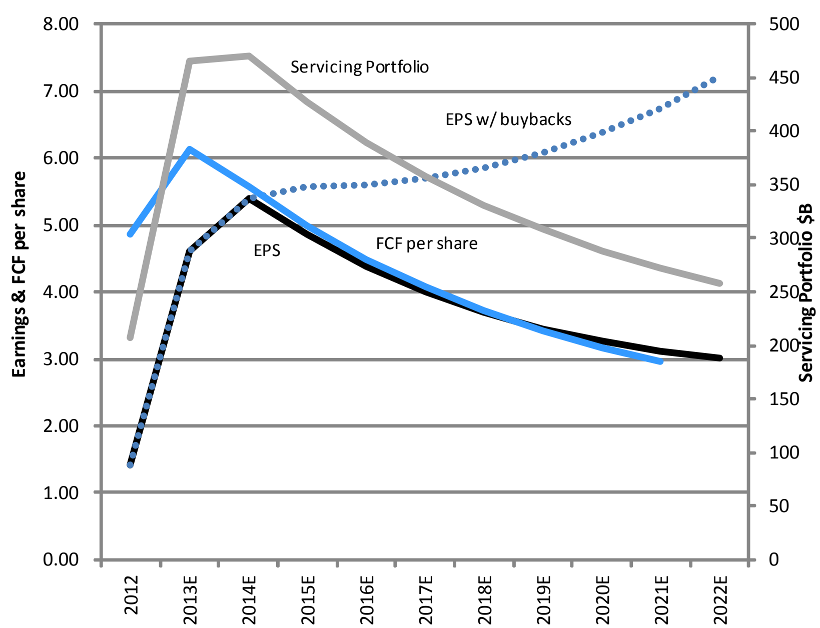
FCF per share	**4.86**	**6.13**
Deployable FCF	**5.63**	**7.04**
GAAP EPS	**4.60**	**5.40**

Source: Compass Point, Company documents

Longer-term, we believe OCN will have difficulty offsetting the heavy run-off expected from a servicing portfolio that could reach upwards of $470B in the near-term. If we assume 15% CPR, the company would need to replace $70B of servicing portfolio run-off in order to keep the portfolio static. We expect OCN to organically acquire roughly $30B of MSRs per year through originations and flow programs, still well short of the $70B without further bulk acquisitions. Given this dynamic, it is possible we could see OCN buying back stock in late 2014 if the company cannot deploy the excess cash flow elsewhere.

We make the following key assumptions in our long-term forecast:
(1) EBITDA margin on 26 bps in perpetuity (compared to 28 bp in 2014)
(2) 15% constant prepayment rate
(3) Advances decline 20% each year
(4) All free cash flow starting in 2015 is used to buy back stock at a price equal to 10x the previous year's EPS
(5) Origination and flow program volumes remain at 2014 levels

FCF per share and EPS Forecast ($)



Source: Compass Point, Company documents

Valuation

We apply a 8.0x P/E valuation multiple on OCN given the portfolio will experience a significant amount of run-off without an origination platform able to offset $70B in prepayments at 15% CPR rate on $470B servicing portfolio. Assuming OCN can earn $5.40, we assign an 8.0x P/E multiple to arrive at our $44 price target.

Walter Investment

We reconcile cash flow from operations by taking the reported adjusted EBITDA, adding back non-cash gain on sale (capitalization of MSR), corporate interest expense, and cash taxes paid to arrive at operating cash flow. We then adjust for other items such as debt restructuring, transaction expenses and changes in working capital to arrive at cash flow from operations, as reported.

Reconciliation to 2012 Cash Flow Statement ($M)

$M	2012	
Adjusted EBITDA	**242**	
Non-cash gain on sale (70bp x Orig.)	**0**	
Cash corp. int. exp.	**72**	
Cash taxes (normalized = 38%)	**33**	Actual taxes paid
Operating Cash Flow	**136**	
Debt restructuring	**49**	Restructuring of 2nd lien
Transaction expenses	**16**	
Change in WC/Other	**2**	
Cash flow from operations	**70**	
CF from ops. reported	***70***	
Debt amortization/paydown	**-66**	Required debt payments
Net recovery of advances		
Deployable Free Cash Flow	**3**	
FCF per share	**1.87**	
Deployable CF per share	**0.09**	
GAAP EPS	**(0.59)**	

Source: Compass Point, Company documents

Looking out into 2013 and 2014, it becomes apparent the company will generate significant free cash flow and deployable free cash above GAAP EPS. We believe this is due to elevated depreciation and amortization hurting GAAP earnings, while gain on sale margins are expected to be high for HARP originations in 2013.

2013 and 2014 EPS and FCF Forecast ($M)

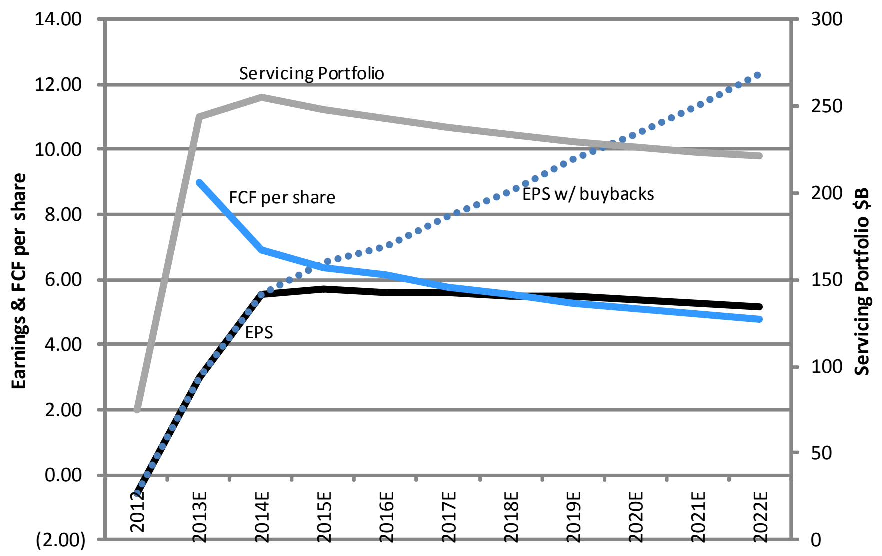
$M	2013E	2014E	
Guidance	**650-725**	**NA**	
Adjusted EBITDA	**686**	**665**	
Non-cash gain on sale (70bp x Orig.)	**82**	**107**	Capitalization of MSR
Cash corp. int. exp.	**113**	**107**	
Cash taxes (normalized = 38%)	**88**	**136**	25% in 2013, 30% in 2014
Operating Cash Flow	**404**	**314**	
Debt restructuring	**0**	**0**	
Transaction expenses	**9**	**0**	
Change in WC/Other	**32**	**34**	
Cash flow from operations	**363**	**280**	
Capex (let portfolio run-off)	**-27**	**-36**	Mainly the cost of acquiring serv. thru flow programs
Free Cash Flow	**336**	**243.8**	
Debt amortization/paydown	**-76**	**-76**	Required payment in 4Q
Net recovery of advances	**42**	**41**	Cash recovered after recapturing advances and paying down facility
Deployable Free Cash Flow	**302**	**209**	
FCF per share	**8.89**	**6.45**	
Deployable CF per share	**7.99**	**5.53**	
GAAP EPS	**3.00**	**5.30**	

Source: Compass Point, Company documents

Although WAC may seem expensive compared to NSM and OCN on GAAP EPS, the company has built (acquired) a platform that is very close to organically offsetting run-off in the portfolio. Also, the GAAP earnings over the next two years will be much lower than the free cash flow generation of the company. GAAP EPS in 2013 will be subdued by heavy amortization and depreciation expense, but abate as we get closer to 2015. This is a natural function of a company that is still growing and primarily using debt financing to do it. We expect the company to hit peak earnings from its recent acquisitions some time in 2015 as the portfolios mature, operating margins widen and financing expense declines.

We make the following key assumptions in our long-term forecast:
(1) EBITDA margin on 25 bps in perpetuity (compared to 27 bp in 2014)
(2) 15% constant prepayment rate
(3) Advances decline 15% each year
(4) All free cash flow starting in 2015 is used to buy back stock at a price equal to 10x the previous year's EPS
(5) Origination and flow program volumes remain at 2014 levels

FCF per share and EPS Forecast ($)



Source: Compass Point, Company documents

Valuation

WAC is in a different part of its business cycle compared to OCN and NSM. It has tripled the size of the company in a series of acquisitions while financing most of the acquisitions via debt offerings. A company growing at this pace is bound to use significant cash as it takes on new business. We believe applying a 7x EPS multiple to FY14E EPS adequately discounts the inherent volatility of a rapidly growing company. This would imply a valuation of $37 per share (7.0 x $5.30 per share). However, this is giving no credit for the outsized cash flow expected in the next couple of years. Hence, we would give WAC credit for the excess cash flow it generates and discount it back one year, which gives us a price target of $43 per share. We have also started using GAAP EPS to value the stock rather than an operating number that backs out non-cash items and other expenses. We shifted our valuation methodology because we are now giving credit for excess free cash flow the company is generating.

Valuation ($)

FY14E GAAP EPS	5.30
EPS Multiple	7.0x
Value	37.10
Discounted excess cash flow	6.36
Net Valuation	43.46
Price Target	**43.00**

Source: Compass Point, Company documents

Risks

Competition. The companies currently have 2-3 main competitors in the special servicing market. It could be subject to additional competition from banks, private equity firms, and smaller special servicers.

Interest Rates. The companies holds mortgage servicing rights on its balance sheet at fair value. The fair value of this asset can be negatively and positively marked depending the direction of interest rates, thereby affecting earnings and equity levels.

Credit Risk. The companies' primary customers are "credit-sensitive" borrowers that tend to have higher delinquency levels. If the economy were to go into a downturn, these borrowers could have higher default rates, which would cause higher advances and interest expense for the company.

Shareholder dilution. The companies expect significant expansion in its core business operations, which may require equity or debt capital to fund. Shareholders could have their shares diluted if the company raised equity capital or reduced earnings with debt capital.

Regulation. The companies are subject to mortgage servicing rules from the CFPB and several other regulatory agencies. The companies could be subject to fines and litigation from these regulators.

Litigation. The special servicing business inherently deals with short sales, foreclosure and modifications. If proper procedures are not followed the company could be at risk of litigation from the borrower or regulators.

Representations and warrants. The companies originate loans for borrowers that are sold to third parties or the GSEs. The companies could be subject to put backs if proper procedures are not followed and a loan defaults.

NationStar (NSM)

($M)	2010FY	2011FY	2012Q1	2012Q2	2012Q3	2012Q4	2012FY	2013Q1E	2013Q2E	2013Q3E	2013Q4E	2013FYE	2014FYE
Income Statement													
Servicing fee income	167.1	233.4	84.0	86.1	135.5	157.0	462.5	176.0	247.9	314.4	354.1	1,092.4	1,536.8
Other fee income	17.0	35.2	7.3	11.6	2.4	13.4	34.7	15.0	15.0	15.0	15.0	60.0	60.0
Total fee income	184.1	268.6	91.2	97.7	137.9	170.4	497.2	191.0	262.9	329.4	369.1	1,152.4	1,596.8
Gain (loss) on mortgage loans HFS	77.3	109.1	70.5	102.3	139.3	175.0	487.2	199.9	195.0	199.1	203.9	797.9	720.5
Total revenues	**261.4**	**377.7**	**161.7**	**200.0**	**277.2**	**345.4**	**984.3**	**390.8**	**457.9**	**528.5**	**573.0**	**1,950.3**	**2,317.3**
Salaries, wages, and benefits	149.1	202.3	61.7	78.7	98.1	119.9	358.5	137.4	157.2	178.2	188.2	661.1	753.1
General and administrative	58.9	82.2	29.1	42.3	47.7	74.5	193.6	68.7	82.7	88.6	93.0	333.1	364.1
Provision for loan losses	3.3	3.5	0.8	0.9	1.5	(0.8)	2.4	1.2	1.7	2.0	2.2	7.1	9.2
Loss on sale of foreclosed real estate	0.2	6.8	2.3	1.5	(2.1)	1.2	2.9	2.5	3.3	4.0	4.4	14.3	18.4
Occupancy	9.4	11.3	2.8	2.9	5.6	5.5	16.8	6.5	7.4	8.1	8.9	30.9	36.9
Loss on AFS securities - OTTI	-	-	-	-	-	-	-					-	-
Total operating expenses	**221.0**	**306.2**	**96.6**	**126.2**	**150.9**	**200.3**	**574.0**	**216.4**	**252.3**	**280.9**	**296.8**	**1,046.4**	**1,181.8**
non-operating items	-	-	-	4.1	3.9	-	8.0	-	-	-	-	-	-
Total expenses	221.0	306.2	96.6	130.4	154.8	200.3	582.0	216.4	252.3	280.9	296.8	1,046.4	1,181.8
Interest income	98.9	66.8	13.4	15.7	23.5	19.0	71.6	27.4	27.7	29.4	31.0	115.4	130.1
Interest expense	(116.2)	(105.4)	(25.0)	(35.9)	(65.0)	(71.4)	(197.3)	(109.7)	(117.8)	(132.5)	(126.7)	(486.7)	(437.0)
Gain (loss) on interest rate swaps and caps	(9.8)	0.3	(0.3)	(0.4)	(1.1)	0.7	(1.0)	-	-	-	-	-	-
Fair value change in ABS securitizations	(23.3)	(12.4)	-	-	-	-	-	-	-	-	-	-	-
Contract termination						15.6	15.6						
Loss on equity method investment						(14.6)	(14.6)						
Total other income (expense)	(50.4)	(50.7)	(11.8)	(20.6)	(42.6)	(50.7)	(125.7)	(82.4)	(90.1)	(103.1)	(95.7)	(371.3)	(307.0)
Pre-tax income	(9.9)	20.9	53.3	49.1	79.8	94.4	276.6	92.1	115.5	144.4	180.6	532.5	828.5
Tax expense	-	-	3.1	12.8	24.7	30.7	71.3	30.4	39.3	49.1	61.4	180.1	281.7
Tax rate	*0.0%*	*0.0%*	*5.9%*	*26.0%*	*31.0%*	*32.5%*	*25.8%*	*33.0%*	*34.0%*	*34.0%*	*34.0%*	*33.8%*	*34.0%*
Net Income	**(9.9)**	**20.9**	**50.2**	**36.3**	**55.1**	**63.7**	**205.3**	**61.7**	**76.2**	**95.3**	**119.2**	**352.4**	**546.8**
Interest expense from unsecured senior notes	(24.6)	(30.5)	(8.5)	(13.5)	(17.7)	(24.2)	(63.9)	(34.6)	(34.6)	(34.6)	(34.6)	(138.5)	(138.5)
Depreciation and amortization	(1.9)	(3.4)	(1.5)	(1.8)	(2.8)	(2.9)	(8.9)					-	-
MSR valuation adjustment	(6.0)	(39.0)	0.5	(20.9)	(22.4)	(25.4)	(68.2)	(22.3)	(39.2)	(54.8)	(68.0)	(184.2)	(277.6)
Amortization of mortgage servicing liabilities	-		0.6	(0.0)	2.7	1.9	5.1					-	-
Restructuring charges	-	(1.8)	-	-	-	-	-					-	-
FV adjustment for deriviatives	(8.9)	2.3	(0.3)	(2.3)	0.2	3.5	1.2					-	-
EBITDA	**31.5**	**93.3**	**62.5**	**87.5**	**119.7**	**141.5**	**411.2**	**148.9**	**189.3**	**233.8**	**283.1**	**855.2**	**1,244.6**
Stock-based comp	(9.0)	(14.8)	(2.4)	(6.4)	(2.6)	(2.7)	(14.0)	(3.0)	(3.0)	(3.0)	(3.0)	(12.0)	(12.0)
Excess spread adjustment	-	(3.1)	(4.9)		2.2	(8.0)	(10.7)	-	-	-	-	-	-
Legacy portfolio gains/(losses)	(24.8)	(24.9)	(7.5)	(7.4)	(2.9)	(2.8)	(20.5)	(3.0)	(3.0)	(3.0)	(3.0)	(12.0)	(12.0)
Adjusted EBITDA, ex-legacy costs	**65.3**	**136.0**	**77.2**	**101.2**	**123.0**	**155.0**	**456.4**	**154.9**	**195.3**	**239.8**	**289.1**	**879.2**	**1,268.6**
GAAP EPS	**(0.11)**	**0.24**	**0.58**	**0.41**	**0.61**	**0.71**	**2.40**	**0.68**	**0.84**	**1.05**	**1.31**	**3.90**	**6.00**
Operating EPS	**(0.11)**	**0.24**	**0.58**	**0.44**	**0.64**	**0.71**	**2.47**	**0.68**	**0.84**	**1.05**	**1.31**	**3.90**	**6.00**
EBITDA per share	**0.36**	**1.08**	**0.72**	**0.98**	**1.33**	**1.57**	**4.61**	**1.65**	**2.10**	**2.58**	**3.12**	**9.46**	**13.65**
Adjusted EBITDA per share	**0.75**	**1.57**	**0.89**	**1.13**	**1.37**	**1.72**	**5.34**	**1.72**	**2.16**	**2.65**	**3.19**	**9.73**	**13.91**
EBITDA margin		*25%*	*39%*	*44%*	*43%*	*41%*	*42%*	*38%*	*41%*	*44%*	*49%*	*44%*	*54%*
Pretax margin			*33%*	*27%*	*30%*	*27%*	*29%*	*24%*	*25%*	*27%*	*32%*	*27%*	*36%*
Operating margin		*6%*	*31%*	*18%*	*20%*	*18%*	*21%*	*16%*	*17%*	*18%*	*21%*	*18%*	*24%*
Sr. Debt/AEBITDA			*0.9x*	*2.4x*	*2.2x*	*1.7x*	*2.3x*	*2.7x*	*2.1x*	*1.7x*	*1.4x*	*1.9x*	*1.3x*
Wgtd avg diluted shares out	86.7	86.7	86.7	89.5	89.8	89.9	85.5	90.1	90.3	90.5	90.7	90.4	91.2
Common shares out	86.7	86.7	86.7	88.5	89.2	89.2	85.3	85.5	85.7	85.9	86.1	86.1	86.9
Servicing Owned ($M)		45,817	53,173	146,363	150,445	162,893	162,893	247,073	324,917	390,783	403,711	403,711	423,395
Subservicing Portfolio ($M)		52,988	50,113	46,712	47,127	44,921	44,921	44,921	44,921	44,921	46,407	46,407	48,670
Total Servicing Portfolio (UPB)	64,176	98,805	103,286	193,075	197,572	207,814	207,814	291,994	369,838	435,704	450,118	450,118	472,065
Average servicing owned fee (bp)		42	44	23	37	35	33	37	38	39	40	35	41
Average subservicing fee (bp)		27	25	27	27	44	31	27	27	27	27	27	28
Originations	2,792	3,412	1,190	1,806	1,818	3,082	7,896	4,703	4,814	5,310	5,664	20,491	22,656
Gain on Sale margin	2.78%	3.21%	5.92%	5.67%	7.66%	5.68%	6.2%	4.25%	4.05%	3.75%	3.60%	3.9%	3.2%
EBITDA (including warehouse lines)		93	56	80	99	114	350	100	131	164	218	613	1,047
Tangible Book Value	2.96	3.25	6.85	7.15	7.75	8.50	8.50	9.58	10.45	11.53	12.89	12.89	19.06
TROE		7.4%	34%	23%	32%	33%	28%	29%	32%	37%	41%	30%	31%

Source: Compass Point, Company Data

Ocwen Financial Corporation

OCN

($M)	2010FY	2011FY	2012Q1	2012Q2	2012Q3	2012Q4	2012FY	2013Q1E	2013Q2E	2013Q3E	2013Q4E	2013FYE	2014FYE
Income Statement													
Servicing and sub servicing fees	322	459	155	200	223	226	804	324	498	535	531	1,888	2,098
Process management fees	34	34	9	10	9	9	37	12	12	12	12	48	48
Gain on Sale		-					-	14	30	44	39	127	132
Other revenues	4	3	1	1	1	1	4	1	1	1	1	4	4
Total operating revenue	**360**	**496**	**165**	**211**	**233**	**236**	**845**	**351**	**541**	**592**	**583**	**2,067**	**2,281**
non-operating revenue	-	-	-	-	-	-	-						
Total revenue	**360**	**496**	**165**	**211**	**233**	**236**	**845**	**351**	**541**	**592**	**583**	**2,067**	**2,281**
Compensation and benefits	54	49	15	28	30	32	104	47	90	93	93	322	374
Amortization of mortgage servicing rights	31	43	14	19	20	19	73	25	46	64	65	201	257
Servicing and origination	7	8	3	6	10	7	26	11	21	23	23	78	94
Technology and communications	26	34	9	11	12	13	45	16	21	23	23	84	94
Professional services	16	21	9	6	5	7	27	10	16	16	15	57	61
Occupancy and equipment	15	24	15	10	11	11	47	19	34	37	37	127	150
Other operating expenses	9	11	5	4	5	3	17	11	21	23	23	78	94
Total operating expenses	159	190	70	84	93	92	339	139	248	280	281	948	1,122
Acquisition/integration expenses	53	51	16	2		2	20						
Non-operating items	25	(1)				5	5						
Total expenses	**236**	**240**	**86**	**86**	**93**	**99**	**364**	**139**	**248**	**280**	**281**	**948**	**1,122**
Income from operations	**124**	**256**	**78**	**125**	**140**	**137**	**481**	**212**	**292**	**312**	**303**	**1,118**	**1,159**
Interest income	11	9	2	2	2	2	8	2	2	2	2	8	8
Corp. interest exp	(86)	(133)	(25)	(22)	(26)	(28)	(101)	(54)	(56)	(53)	(51)	(214)	(186)
Other interest exp			(22)	(36)	(33)	(32)	(123)	(42)	(39)	(41)	(39)	(160)	(128)
Gain on trading securities	(8)	-	-	-			-						
Gain on loans held for resale, net	(6)	(5)	(0)	(1)	(2)	0	(3)	(1)	(1)	(1)	(1)	(4)	(4)
Equity in earnings of unconsolidated	1	(1)	0	(0)	0	(0)	0					-	-
Other, net	3	(4)	(4)	2	(1)	(3)	(5)					-	-
Other income (expense)	**(85)**	**(133)**	**(48)**	**(55)**	**(59)**	**(61)**	**(224)**	**(95)**	**(94)**	**(93)**	**(88)**	**(370)**	**(310)**
Pre-tax income	39	123	30	70	81	76	258	117	198	219	214	748	849
Income Tax	6	45	11	25	29	11	77	18	34	26	21	99	85
effective tax rate	*14%*	*36%*	*36%*	*36%*	*36%*	*15%*	*30%*	*15%*	*17%*	*12%*	*10%*	*13%*	*10%*
Net income	38	78	19	45	51	65	181	100	164	193	193	649	764
Preferred stock dividends	-	-				(0)	(0)	(2)	(2)	(2)	(2)	(6)	(6)
Net income attributable to OCN	38	78	19	45	51	65	181	98	163	191	191	643	758
Operating earnings	**87**	**107**	**30**	**46**	**51**	**71**	**198**	**98**	**163**	**191**	**191**	**643**	**758**
Diluted EPS attributable to OCN	$ 0.36	$ 0.71	$ 0.14	$ 0.32	$ 0.37	$ 0.47	$ 1.31	$ 0.70	$ 1.17	$ 1.37	$ 1.37	$ 4.60	$ 5.40
Operating EPS	**$ 0.82**	**$ 0.96**	**$ 0.22**	**$ 0.33**	**$ 0.37**	**$ 0.51**	**$ 1.43**	**$ 0.70**	**$ 1.17**	**$ 1.37**	**$ 1.37**	**$ 4.60**	**$ 5.40**
EBITDA	155	299	69	112	127	123	431	197	300	336	331	1,164	1,292
Adjusted EBITDA	**233**	**348**	**85**	**113**	**127**	**130**	**456**	**197**	**300**	**336**	**331**	**1,164**	**1,292**
EBITDA margin (adj.)	*65%*	*70%*	*52%*	*54%*	*54%*	*55%*	*54%*	*56%*	*56%*	*57%*	*57%*	*56%*	*57%*
Operating margin	*24%*	*22%*	*18%*	*22%*	*22%*	*30%*	*23%*	*28%*	*30%*	*32%*	*33%*	*31%*	*33%*
Pretax margins	*11%*	*25%*	*18%*	*33%*	*35%*	*32%*	*30%*	*33%*	*37%*	*37%*	*37%*	*36%*	*37%*
EBITDA/interest exp (adj.)	2.7x	2.6x	3.4x	5.1x	4.9x	4.7x	4.5x	3.6x	5.4x	6.3x	6.5x	5.4x	6.9x
Debt/EBITDA (adj.)													
Servicing Portfolio	73,886	102,199	98,440	127,873	130,667	207,266	207,266	379,993	462,718	464,223	465,746	465,746	470,633
Originations								1,500	2,500	3,700	3,770	11,470	14,800
Gain on Sale								0.90%	1.20%	1.19%	1.04%	1.08%	0.89%
Shares outstanding	101	130	131	135	135	136	136	136	136	136	136	136	137
Weighted average diluted shares	107	112	138	138	139	139	139	139	140	140	140	140	140
Tangible Book Value	$ 8.98	$ 10.34	$ 10.31	$ 10.31	$ 10.76	$ 10.28	$ 13.01	$ 10.98	$ 12.16	$ 13.55	$ 14.93	$ 17.65	$ 23.07
TROE		10%	8%	13%	14%	19%	14%	23%	40%	43%	38%	36%	29%

Source: Compass Point, Company Data

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Walter Investment Management Corp.
Pro Forma Income Statement
($ in millions)

	2010	2011	2012Q1	2012Q2	2012Q3	2012Q4	2012	2013Q1E	2013Q2E	2013Q3E	2013Q4E	2013E	2014E
Servicing fee	273.6	337.7	102.6	101.9	101.0	113.4	419.0	112.7	216.9	253.2	258.3	841.0	1,076.8
Interest income	176.5	164.8	39.3	40.5	38.0	36.7	154.4	36.3	35.6	34.9	34.2	140.9	119.0
Insurance agency	71.9	77.5	20.0	16.8	17.3	19.1	73.2	17.1	22.0	18.4	13.4	70.9	54.2
Gain on Sale							0.0	102.0	141.1	147.5	130.0	520.6	407.0
Other businesses	47.0	14.5	3.9	5.0	4.4	7.2	20.4	10.0	10.0	10.0	10.0	40.0	48.0
Total operating revenue	569.0	594.5	165.8	164.1	160.8	176.4	667.0	278.0	425.5	464.0	445.8	1,613.4	1,705.0
non-operating revenue	78.6	0.0											
Total revenue	647.6	594.5	165.8	164.1	160.8	176.4	667.0	278.0	425.5	464.0	445.8	1,613.4	1,705.0
Interest Expense:													
Residual	81.7	91.1	24.0	23.4	23.1	25.9	96.3	22.2	21.6	21.2	20.7	85.6	70.5
Corporate	42.6	60.5	20.4	19.9	19.8	18.4	78.5	31.4	31.4	31.4	31.4	125.7	120.4
Servicing			1.5	1.2	1.1	1.1	4.9	1.8	2.0	2.2	2.4	8.4	11.9
Depreciation & Amortization	19.6	63.7	24.9	25.0	23.8	26.0	99.7	74.3	86.6	99.0	82.5	342.4	200.0
Salaries and benefits	175.3	203.1	57.4	55.5	52.6	64.6	230.1	81.1	124.1	135.2	134.3	474.7	529.1
General and Administrative	90.0	97.6	27.6	31.7	24.7	45.7	129.6	58.4	86.3	98.3	97.7	340.7	398.5
Other expenses, net	26.8	58.7	3.5	3.2	0.7	1.9	9.3	4.9	8.1	9.2	9.2	31.3	37.4
Provision for loan losses	6.5	6.0	1.6	2.0	4.6	5.2	13.4	1.8	1.8	1.8	1.8	7.2	7.2
Total operating expenses	442.5	583.8	160.9	161.9	150.3	188.7	661.8	275.9	362.0	398.3	380.0	1,416.1	1,374.9
Merger-related costs		7.9	1.4	2.2	3.0	0.0	6.6	6.0	1.0	1.0	1.0	9.0	0.0
Non-operating expenses		1.3					0.0	2.0	2.0	2.0	2.0	8.0	8.0
Impact from residual trusts	95.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	537.5	593.2	162.3	164.1	153.3	188.7	668.4	283.9	365.0	401.3	383.0	1,433.1	1,382.9
Other gains (losses)	0.0	7.1	4.8	0.8	3.1	(42.8)	(34.1)					0.0	0.0
Income before taxes	31.5	8.4	8.3	0.8	10.6	(55.1)	(35.5)	(5.8)	60.5	62.7	62.9	180.3	322.1
Tax Expense	12.7	69.4	3.1	0.3	4.2	(21.0)	(13.3)	(2.2)	23.0	23.8	23.9	68.5	122.4
tax rate	*40%*	*NM*	*38%*	*45%*	*39%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*
Net income (loss)	18.8	(61.0)	5.1	0.4	6.4	(34.1)	(22.1)	(3.6)	37.5	38.9	39.0	111.8	199.7
Depreciation & Amortization	19.6	63.7	24.9	25.0	23.8	26.0	99.7	74.3	86.6	99.0	82.5	342.4	200.0
Interest expense on debt	42.6	60.5	20.4	19.9	19.8	17.2	77.3	31.4	31.4	31.4	31.4	125.7	120.4
EBITDA	93.7	132.6	53.6	45.7	54.2	(11.9)	141.5	99.9	178.6	193.1	176.8	648.4	642.5
Adjusted EBITDA		107.9	59.0	58.1	60.3	64.1	241.6	113.1	186.9	201.3	185.1	686.4	664.8
Reported Core EPS*	*2.78*	*0.40*	*0.71*	*0.62*	*0.75*	*0.64*	*2.73*	*0.41*	*1.47*	*1.53*	*1.50*	*4.91*	*6.99*
GAAP EPS	0.67	(2.30)	0.17	0.01	0.21	(0.98)	(0.59)	(0.10)	1.01	1.04	1.04	3.00	5.30
FCF per share							1.84					8.89	6.45
Diluted shares outstanding	*28.2*	*27.6*	*29.0*	*29.1*	*29.4*	*34.9*	*30.4*	*37.1*	*37.2*	*37.3*	*37.4*	*37.4*	*37.8*
Adj. EBITDA margin		*18%*	*36%*	*35%*	*37%*	*36%*	*36%*	*41%*	*44%*	*43%*	*42%*	*43%*	*39%*
Pretax Operating Margin		*1%*	*5%*	*0%*	*7%*	*-31%*	*-5%*	*-2%*	*14%*	*14%*	*14%*	*11%*	*19%*
Servicing Portfolio		83,284	82,985	79,160	75,956	74,659	74,659	184,993	246,631	244,950	243,477	243,477	255,237
CPR		16%	12%	22%	21%	49%	26%	25%	25%	23%	22%	23%	16%
Bulk servicing added			2,187	657	1,040	8,037	11,920	111,000	67,000	5,000	5,000	188,000	20,000
Flow Programs			0	0	0	0	0	1,000	2,000	3,000	3,000	9,000	12,000
Forward Originations			0	0	0	0	0	2,000	3,200	3,500	3,000	11,700	15,350
Reverse Originations								1,000	1,000	1,000	1,000	4,000	4,000
Book Value		18.55	18.61	18.77	30.30	25.68	25.68	24.00	24.95	25.92	26.89	26.89	31.89
Tangible Book Value		(2.70)	(2.11)	(1.74)	5.85	4.38	4.38	4.21	5.42	6.64	7.85	7.85	13.70
RTOE								-9%	84%	69%	58%	50%	47%
Debt/EBITDA			3.1x	3.0x	2.9x	2.7x	2.7x	4.2x	2.5x	2.3x	2.5x	2.5x	2.6x
EBITDA/Interest Exp			2.9x	2.9x	3.0x	3.5x	3.1x	3.6x	5.9x	6.4x	5.9x	5.5x	5.5x

**Reported Core EPS excludes merger-related costs and other gains (losses); includes step-up depreciation/amortization, non-residual trusts, comp exp and non-cash int expense*

Source: Compass Point, Company data

Important Disclosures

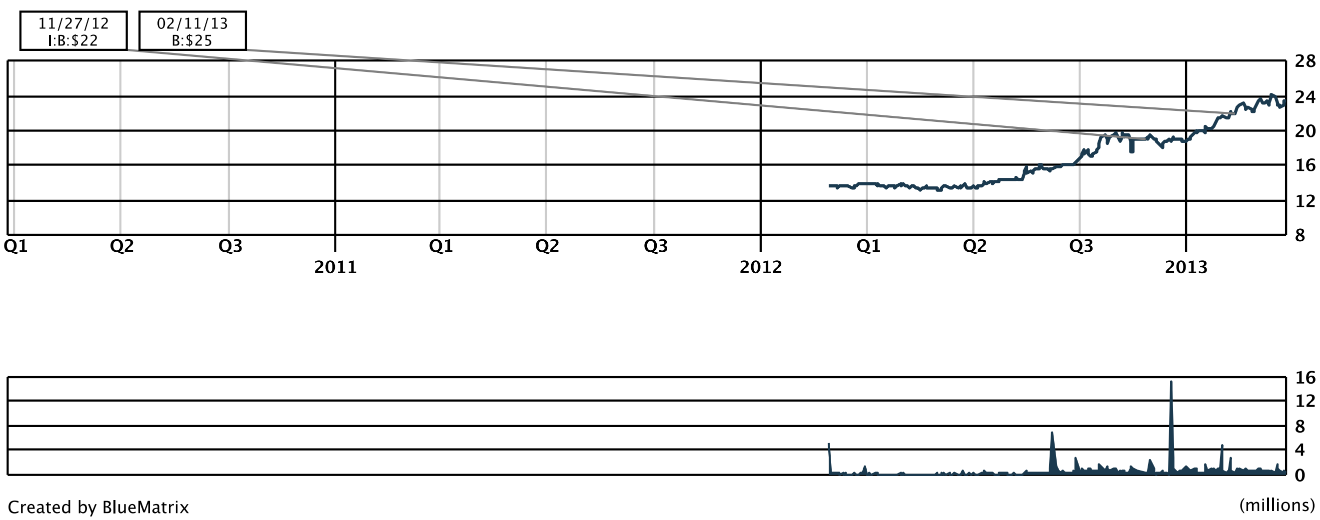
Analyst Certification

I, Kevin Barker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issues. I further certify that I have not received direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

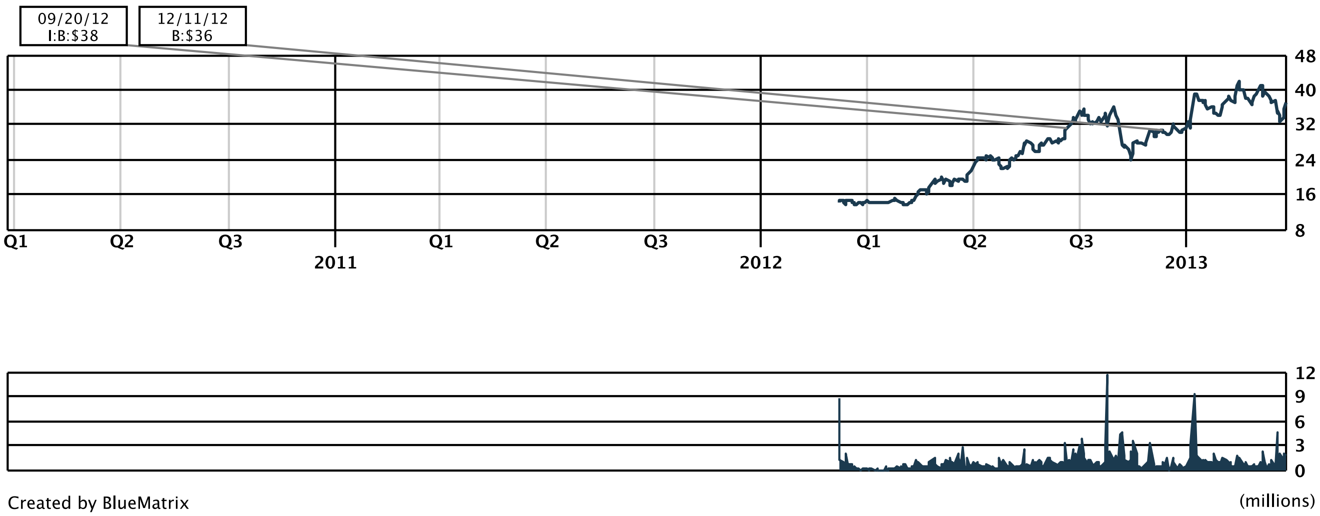
Coverage Universe			Investment Banking Relationships		
Rating	**Number**	**Percent**	**Rating**	**Number**	**Percent**
Buy	48	40	Buy	11	23
Neutral	67	56	Neutral	1	1
Sell	5	4	Sell	0	0
Total	120	100%	Total	12	100%

*Percentage of Investment Banking Clients in Coverage Universe by Rating

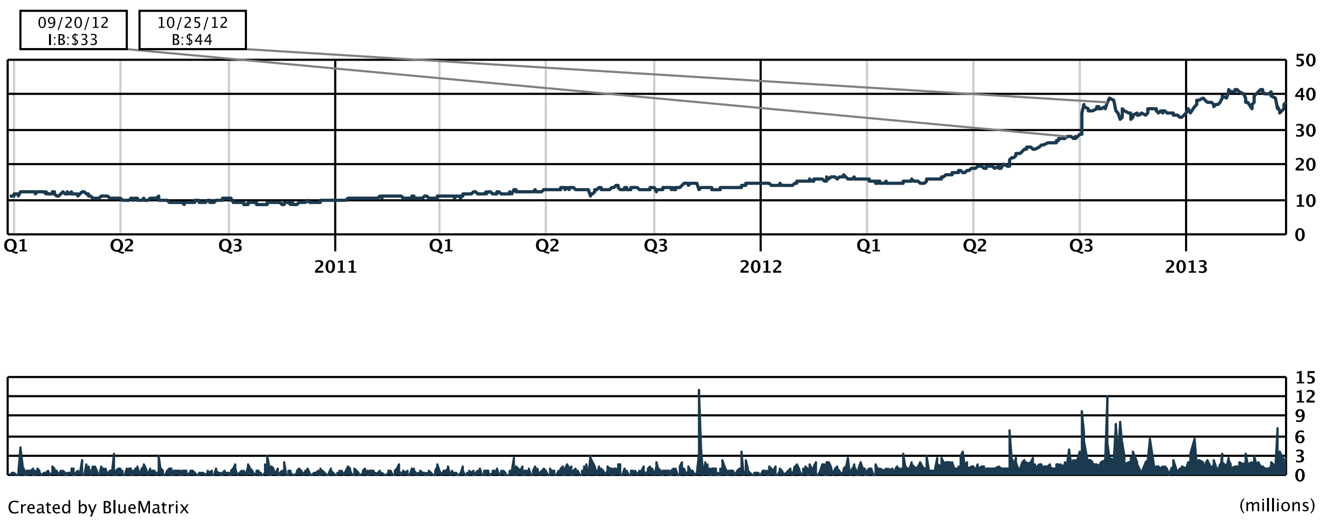
Rating and Price Target History for: Home Loan Servicing Solutions Ltd (HLSS) as of 03-27-2013

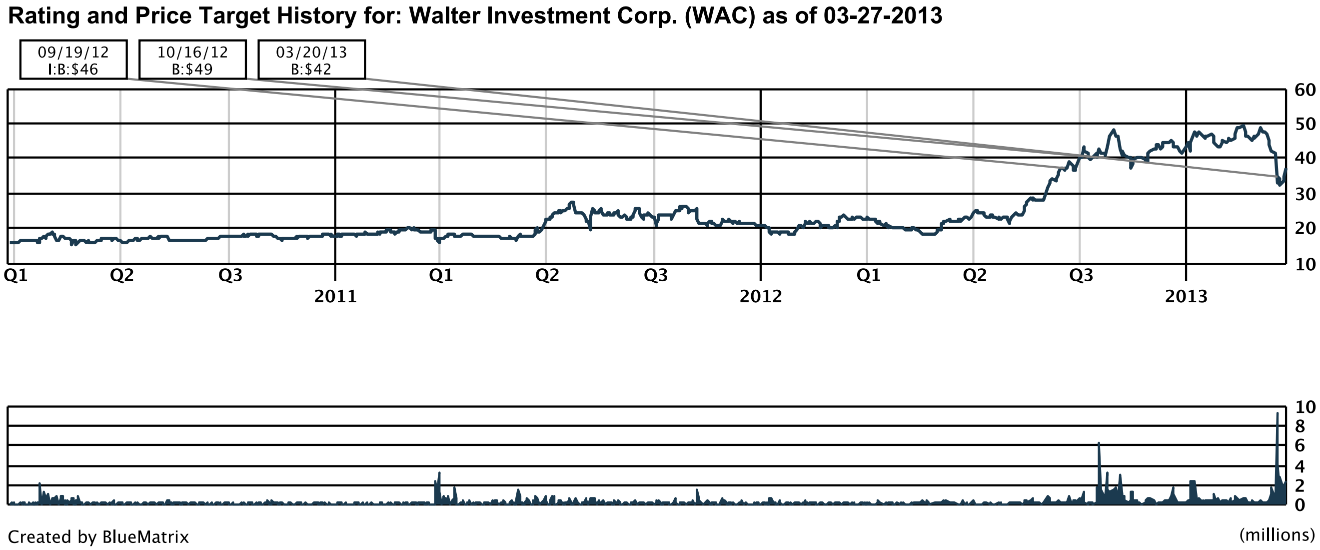


Rating and Price Target History for: Nationstar Mortgage Holdings Inc (NSM) as of 03-27-2013



Rating and Price Target History for: Ocwen Financial Corporation (OCN) as of 03-27-2013





Ownership and Material Conflicts of Interest

Within the previous 12 months, Compass Point has received compensation for investment banking services from the following companies: Home Loan Servicing Solutions Ltd and Walter Investment Corp..

During the 12-month period preceding the date of distribution of this research report, the following companies was (were) a client (clients) of Compass Point: Home Loan Servicing Solutions Ltd and Walter Investment Corp.. The type of services provided were investment banking.

Ratings, Coverage Groups, and Views and Related Definitions

The information and rating included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating, options on such stocks, and/or other securities or financial instruments issued by the subject company(ies). Our brokers and analysts may make recommendations to their clients that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions are based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, Compass Point and its respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

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Return potential represents potential and projected dividends and the price differential between the current share price and the price target expected on a 12-month time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Recommended List membership.

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