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Bloomberg

Berkshire to Lead Bidding for ResCap's Loan Portfolio

October 25, 2012

By David McLaughlin and Dakin Campbell - Oct 24, 2012 9:00 PM PT (Click to read on Bloomberg)

Berkshire Hathaway Inc. (BRK/A) is the opening bidder today for a portfolio of Residential Capital LLC's whole loans, a day after ResCap auctioned its mortgage servicing business to Ocwen Financial Corp. (OCN) for \$3 billion.

Berkshire will start the auction for the loan portfolio, competing against a consortium of financial investors, according to a person familiar with the matter.

Yesterday Ocwen beat Nationstar Mortgage Holdings Inc. (NSM) in an auction that would create at least the fifth-largest U.S. mortgage servicer. It's a business that profits from making sales beyond servicing, said Rick Sharga, an executive vice president at Carrington Mortgage Holdings, in a phone interview.

incremental revenue, it starts to make a lot more sense."

Servicing a loan pool the size of ResCap's can feed other related businesses such as asset management, real-estate brokerage or loan originations, Sharga said. "A pool this size can feed all those businesses," he said.

Banks Retreat

The bidders were betting they can profit as banks retreat from the \$9.6 trillion mortgage servicing industry, a business that can generate monthly revenue of 0.25 percent to 0.4 percent of loan balances. Federal and state probes of foreclosure practices led to new regulations that are driving up costs, and a pending change in bank capital requirements also made the business less desirable.

The acquisition serves to "add high return servicing assets to our portfolio," Ocwen's Chairman William Erbey said in a joint statement. The firm plans to keep much of ResCap's servicing infrastructure, according to the statement.

Under the agreement, Ocwen's partner in the bidding, Walter Investment Management Corp. (WAC), will add the servicing rights on more than \$50 billion in unpaid balance on loans owned, insured or guaranteed by Fannie Mae, as well as ResCap's origination and capital-markets businesses, according to the statement. Neither Ocwen nor Walter will have to raise capital to complete the transaction, they said.

Auto Lender

Ally Financial Inc. (ALLY), a Detroit-based auto lender majority owned by U.S. taxpayers, allowed ResCap to file for bankruptcy in May to distance itself from the mortgage lenders' losses and help repay its 2008 bailout following the U.S. housing crash and subsequent credit crisis. Ally was previously owned by General Motors Corp.

ResCap, coupled with Ally's much smaller business, was the fifth-largest mortgage servicer in the U.S. in the second quarter, handling the billing and collections on about \$329 billion of mortgages, according to Inside Mortgage Finance, a trade journal. ResCap, once among the largest originators, reduced its assets to \$15.7 billion in the first quarter from more than \$130 billion in 2006.

Mortgage liabilities at ResCap from faulty home loans made before the housing bubble burst helped derail Ally's initial public offering. A successful sale of the unit would allow Ally Chief Executive Officer Michael Carpenter to separate the auto lender from its money-losing unit.

loans it originated.

New York-based ResCap and Ocwen will have until Nov. 19 to resolve the dispute with the mortgage owners, which are demanding at least \$394 million in payments in addition to the liability guarantees. Should they fail, the fight would be decided by U.S. Bankruptcy Judge Martin Glenn in Manhattan, who is overseeing ResCap's case.

Morrison & Foerster LLP is the law firm handling the bankruptcy case. Centerview Partners LLC and FTI Consulting Inc. are ResCap's financial advisers.

The case is In re Residential Capital LLC, 12-12020, U.S. Bankruptcy Court, Southern District of New York (Manhattan).

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