350 Highland Drive
Lewisville, TX 75067

Unless you notify us within 30 days after receiving this notice that you dispute the validity of this debt or any portion thereof, we will assume this debt is valid. If you notify us in writing within 30 days from receiving this notice that you dispute the validity of this debt or any portion thereof, we will obtain verification of the debt or obtain a copy of a judgment and mail you a copy of such judgment or verification. Upon your written request within thirty days after the receipt of this notice, we will provide you with the name and address of the original creditor, if the original creditor is different from the current creditor.

7196 9006 9295 8655 0711

CIVIL COVER SHEET A-12-661179-C

Clark County, Nevada XXXI

Case No. ______

(Assigned by Clerk's Office)

I. Party Information

Plaintiff(s) (name/address/phone): THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT

Attorney (name/address/phone):
Kristin A. Schuler-Hintz, Esq., SBN 7171
Stephanie Richter, Esq., SBN 12075
McCarthy & Holthus, LLP
9510 W. Sahara Ave., Suite 110
Las Vegas, NV 89117
Phone (702) 685-0329
Email: NVJud@McCarthyHolthus.com

Defendant(s) (name/address/phone): Catherine Rodriguez / 6845 SWEET PECAN STREET, LAS VEGAS, NV 89149

Republic Services / C/O The Corporation Trust Company of Nevada / 311 S Division St, Carson City, NV 89703

City of Las Vegas / 200 Lewis Avenue, Las Vegas, NV 89101

Attorney (name/address/phone):

II. Nature of Controversy (Please check applicable bold category and applicable subcategory, if appropriate)

☐ **Arbitration Requested**

Civil Cases

Real Property

- ☐ **Landlord/Tenant**
  - ☐ Unlawful Detainer
- ☒ **Title to Property**
  - ☒ Foreclosure
  - ☐ Liens
  - ☐ Quiet Title
  - ☐ Specific Performance
- ☐ **Condemnation/Eminent Domain**
- ☐ **Other Real Property**
  - ☐ Partition
  - ☐ Planning/Zoning

Torts

Negligence

- ☐ **Negligence – Auto**
- ☐ **Negligence – Medical/Dental**
- ☐ **Negligence – Premises Liability** (Slip/Fall)
- ☐ **Negligence – Other**

- ☐ **Product Liability**
  - ☐ Product Liability/Motor Vehicle
  - ☐ Other Torts/Product Liability
- ☐ **Intentional Misconduct**
  - ☐ Torts/Defamation (Libel/Slander)
  - ☐ Interfere with Contract Rights
- ☐ **Employment Torts** (Wrongful termination)
- ☐ **Other Torts**
  - ☐ Anti-trust
  - ☐ Fraud/Misrepresentation
  - ☐ Insurance
  - ☐ Legal Tort
  - ☐ Unfair Competition

Probate

Estimated Estate Value: ____

- ☐ **Summary Administration**
- ☐ **General Administration**
- ☐ **Special Administration**
- ☐ **Set Aside Estates**
- ☐ **Trust/Conservatorships**
  - ☐ Individual Trustee
  - ☐ Corporate Trustee
- ☐ **Other Probate**

Other Civil Filing Types

- ☐ **Construction Defect**
  - ☐ Chapter 40
  - ☐ General
- ☐ **Breach of Contract**
  - ☐ Building & Construction
  - ☐ Insurance Carrier
  - ☐ Commercial Instrument
  - ☐ Other Contracts/Acct/Judgment
  - ☐ Collection of Actions
  - ☐ Employment Contract
  - ☐ Guarantee
  - ☐ Sale Contract
  - ☐ Uniform Commercial Code
- ☐ **Civil Petition for Judicial Review**
  - ☐ Foreclosure Mediation
  - ☐ Other Administrative Law
  - ☐ Department of Motor Vehicles
  - ☐ Worker's Compensation Appeal

- ☐ **Appeal from Lower Court** *(also check applicable civil case box)*
  - ☐ Transfer from Justice Court
  - ☐ Justice Court Civil Appeal
- ☐ **Civil Writ**
  - ☐ Other Special Proceeding
- ☐ **Other Civil Filing**
  - ☐ Compromise of Minor's Claim
  - ☐ Conversion of Property
  - ☐ Damage to Property
  - ☐ Employment Security
  - ☐ Enforcement of Judgment
  - ☐ Foreign Judgment – Civil
  - ☐ Other Personal Property
  - ☐ Recovery of Property
  - ☐ Stockholder Suit
  - ☐ Other Civil Matters

III. Business Court Requested (Please check applicable category; *for Clark or Washoe Counties only.*)

- ☐ NRS Chapters 78-88
- ☐ Commodities (NRS 90)
- ☐ Securities (NRS 90)
- ☐ Investments (NRS 104 Art. 8)
- ☐ Deceptive Trade Practices (NRS 598)
- ☐ Trademarks (NRS 600A)
- ☐ Enhanced Case Mgmt/Business
- ☐ Other Business Court Matters

5/2/12

Stephanie Richter

Fiscal Year 2012 Statistics (July 1, 2011 – June 30, 2012)

Election to Participate

The State of Nevada Foreclosure Mediation Program (FMP) permits homeowners (grantors) of owner-occupied residential property to seek foreclosure mediation after the filing of a Notice of Default (NOD) by a beneficiary (lender), or a trustee representative (trustee) of the beneficiary.

Homeowners must elect to participate in mediation within 30 days of receiving a Notice of Default. The FMP verifies owner-occupancy and property eligibility once a homeowner requests mediation, notifies the trustee of an eligible homeowner request, and then processes the election in preparation for mediation scheduling and assignment to a mediator.

The FMP received 3,310 requests for mediation (elections) between July 1, 2011, and June 30, 2012. A total of 340 grantor elections were found ineligible for the FMP for various reasons, for example: non-owner occupied, income property, vacant land, commercial property, or out-of-date NOD. The FMP scheduled mediations for 3,130 new elections, 1,353 elections carried over from Fiscal Year 2011, and 72 court-ordered mediations, for a total of 4,555 mediations scheduled in Fiscal Year 2012. More mediations were held than scheduled due to those that had been scheduled on or before June 2011 for July 2011 or later.

Chart 1

TOTAL ELECTIONS ACCEPTED INTO FMP (JULY 2011 – JUNE 2012)				
3,130 [1]				
DISTINCT CASE REQUEST OUTCOMES				
Mediation Scheduled [2]	Mediation Held	Mediation Not Held	Settled Prior To Mediation	Ineligible [3]
4,555	4,803	339	425	340

[1] Eligible and ineligible elections received from grantors (homeowners).
[2] Mediations Scheduled include new elections, elections from the previous Fiscal Year, and court-ordered mediations.
[3] Non-owner occupied, vacant land, out-of-date NOD, or no current NOD.

Mediation Results

Mediators record the outcomes and agreements of mediations on a Mediator Statement, which details compliance with FMP Rules and NRS 107.086, and memorializes any agreement made by the homeowner (grantor) and the beneficiary (lender) to either retain the home or relinquish the home. The FMP tracks the metrics collected on the Mediator Statement for trends, compliance improvement, and outcomes of mediation. This report is based on metrics reported on the Mediator Statement.

A mediation must be completed within 45 days of scheduling by the mediator and 193 mediations assigned to mediators prior to July 2012 were held or completed during this period. For Fiscal Year 2012, a total of 4,803 mediations were held, 339 mediations were not held, 425 were settled prior to mediation, and 55 mediations were scheduled for completion in Fiscal Year 2013 (July 1, 2012 – June 30, 2013).

Of the 4,803 mediations held in Fiscal Year 2012, a majority (79%) resulted in No Agreement between the homeowner and the beneficiary. For example, in 2,162 cases, the beneficiary failed to appear, had no authority to negotiate, failed to negotiate in good faith, or did not bring all the documentation required by statute. In 1,641 cases, the homeowner and beneficiary failed to reach an agreement in mediation to avoid foreclosure.

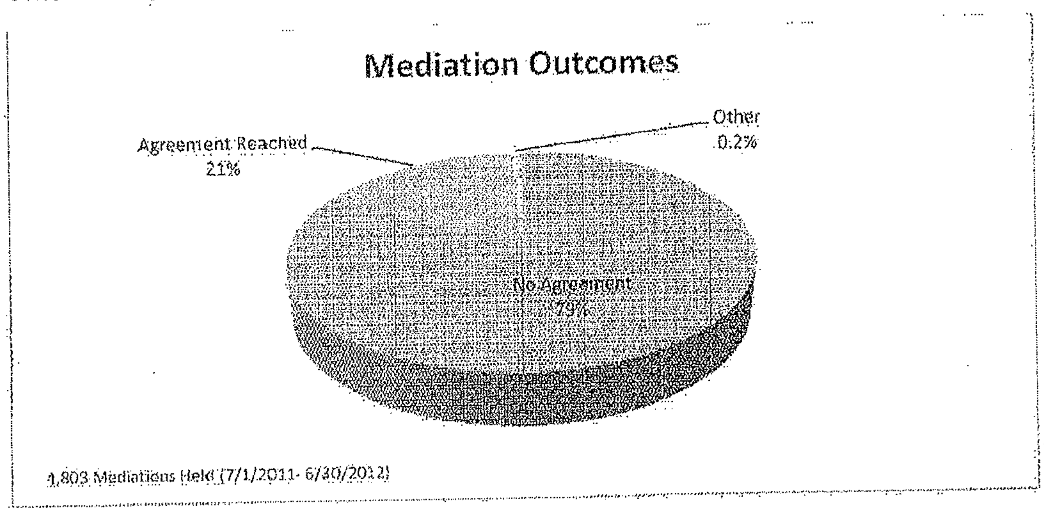
MEDIATIONS HELD (JULY 2011 – JUNE 2012)			
4,803			
MEDIATION OUTCOMES			
No Agreement		Agreement Reached	Other[3]
3,803 (79%)		989 (21%)	11 (<1%)
2,162[1] (57%)	1,641[2] (43%)		

MEDIATION AGREEMENT OUTCOMES	
Relinquish Property[4]	Retain Property[5]
442 (45%)	547 (55%)

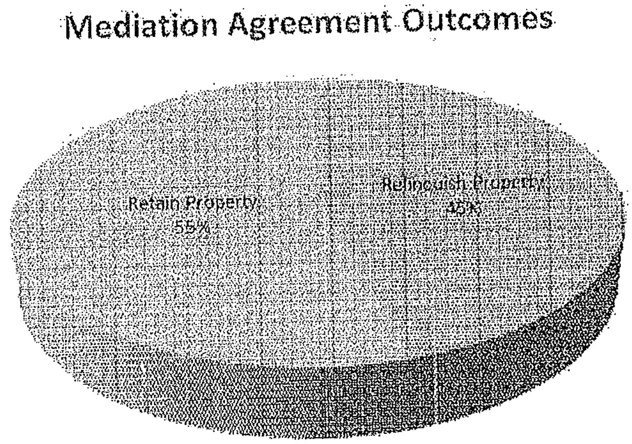
[1] In 2,162 mediations resulting in No Agreement, the beneficiary (Lender) did not appear, had no authority, failed to participate in good faith, or did not bring all documentation required.
[2] In 1,641 cases, the Grantor (Homeowner) and Beneficiary (Lender) were unable to reach an agreement.
[3] Cases with No Distinct Outcome reported in CMS totaling 0.2% of Mediation Outcomes.
[4] Homeowner (Grantor) agreed to relinquish the property as an outcome of mediation.
[5] Homeowner (Grantor) agreed to remain in the property as an outcome of mediation.

Mediation Outcomes

A total of 21% of mediations held resulted in an agreement between the homeowner (grantor) and the beneficiary (lender) either to retain the property, through loan modification or other methods, or to relinquish the property, through short sale, deed in lieu of foreclosure, or other methods. In 0.2% of cases, no distinct outcome was noted in the FMP case management system.



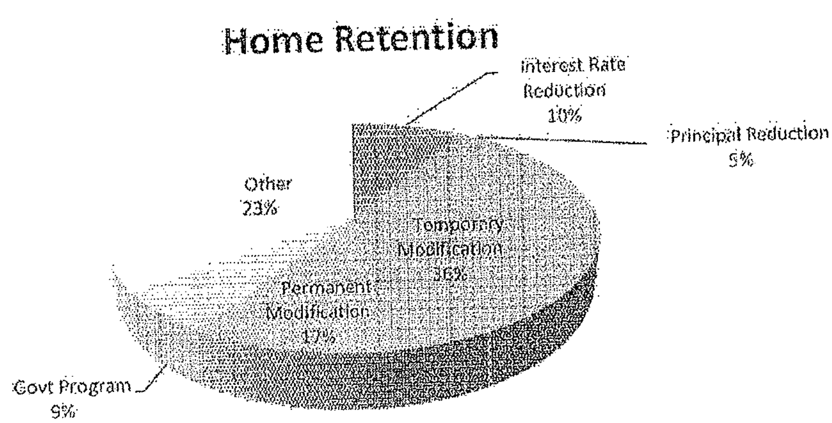
A total of 989 agreements were reached in mediation between homeowner and beneficiary. More than half of these agreements (55%) resulted in the homeowner retaining the property, while 45% of agreements resulted in the homeowner agreeing to relinquish the property and allowing the lender to proceed to foreclosure.



989 Mediation Agreements (7/1/2011 - 6/30/2012)

Home Retention

A total of 547 mediation agreements resulted in the homeowner (grantor) and the beneficiary (lender) finding an alternative to foreclosure, which allowed the homeowner to retain the property. A large number of home retentions resulted from temporary loan modification agreements, totaling 36% of agreements, while permanent loan modifications resulted in 17% of agreements. Interest rate reductions totaled 10% and participation in government programs totaled 9%. Lenders offered principal reductions in 5% of agreements.



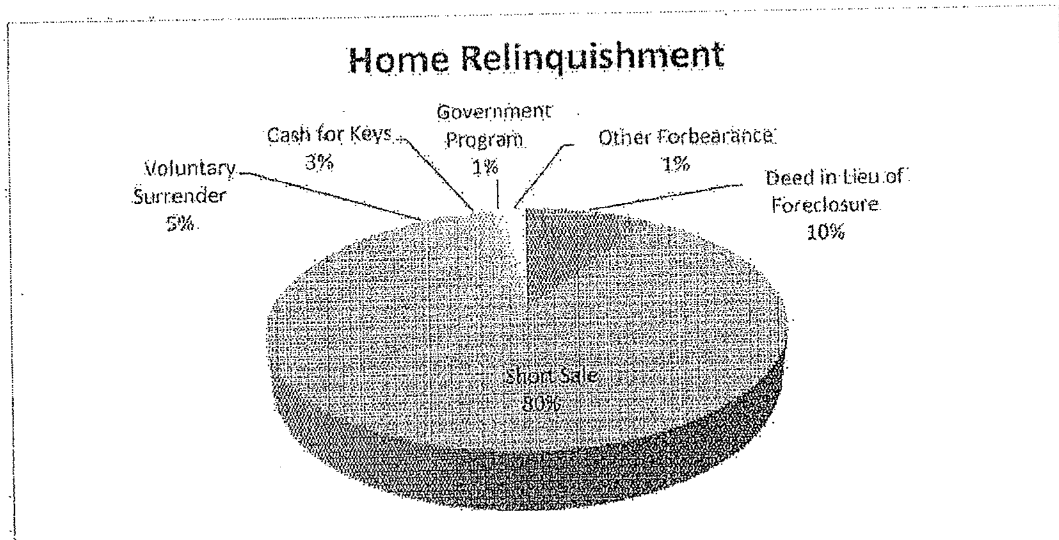
547 Home Retention Agreements (7/1/2011 – 6/30/2012)

The remaining 23% of home retention agreements consisted of various results including: amortization extended, refinance, principal forbearance, extensions, repayment plans, reinstatement of the loan, and interest rate modification (ARM to fixed rate).

Home Relinquishment

A total of 442 agreements resulted in the homeowner (grantor) and the beneficiary (lender) agreeing to allow the homeowner to relinquish the property to avoid foreclosure. The largest amount of relinquishments, a total of 80%, resulted in short sale agreements between the homeowner and the lender.

Agreements to relinquish the property as a result of a deed in lieu of foreclosure made up 10% of home relinquishment. In 5% of agreements, the homeowners agreed to surrender the property voluntarily and 3% of homeowners agreed to participate in cash for keys programs. A total of 1% of agreements resulted in other forbearance programs, while government programs made up 1% of home relinquishment agreements.



442 Home Relinquishment Agreements (7/1/2011 – 6/30/2012)

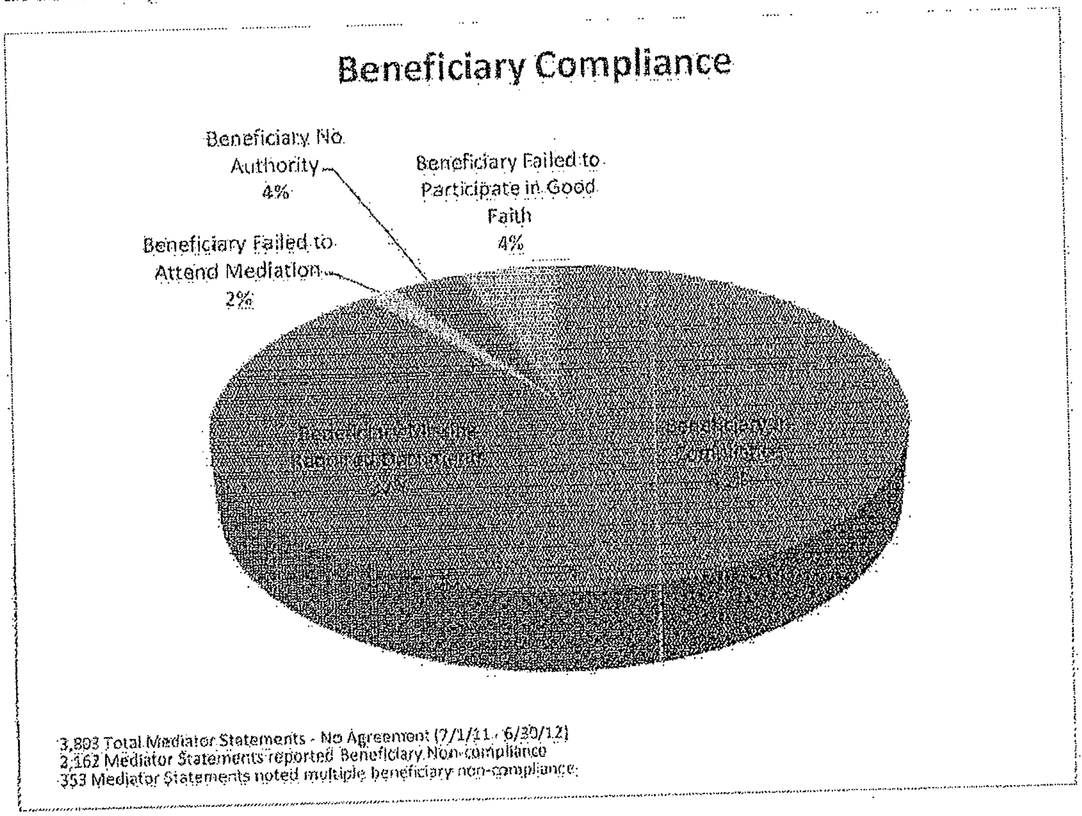
Beneficiary Compliance

NRS 107.086 and FMP rules require beneficiaries (lenders) to comply with four requirements during mediation. Beneficiaries must:

- Attend the mediation;
- Participate at mediation in good faith;
- Come to mediation with the authority to negotiate; and,
- Bring required documents, including a certified deed of trust, a certified mortgage note, a certification of each endorsement and/or note assignment, a certification of each assignment of the deed of trust, an appraisal or broker's price opinion, a confidential

proposal, and the evaluative methodology used to qualify grantors for loan modification programs.

Failure to comply with these requirements could result in sanctions by a District Court judge, upon a Petition for Judicial Review, and the inability of the lender to proceed to foreclosure.



From July 1, 2011, to June 30, 2012, mediators noted 37% of beneficiaries failed to provide the required documents as outlined by NRS 107.086 and FMP Rule 11.4. A total of 4% of beneficiaries failed to participate in good faith, 4% lacked authority to negotiate, and 2% of beneficiaries failed to attend a scheduled mediation.

Failure to comply with the requirements of the FMP resulted in 2,162 mediations resulting in no agreement, with 353 of those Mediator Statements noting multiple non-compliance by a beneficiary. For instance, a beneficiary may have failed to provide required documents and failed to participate in good faith.

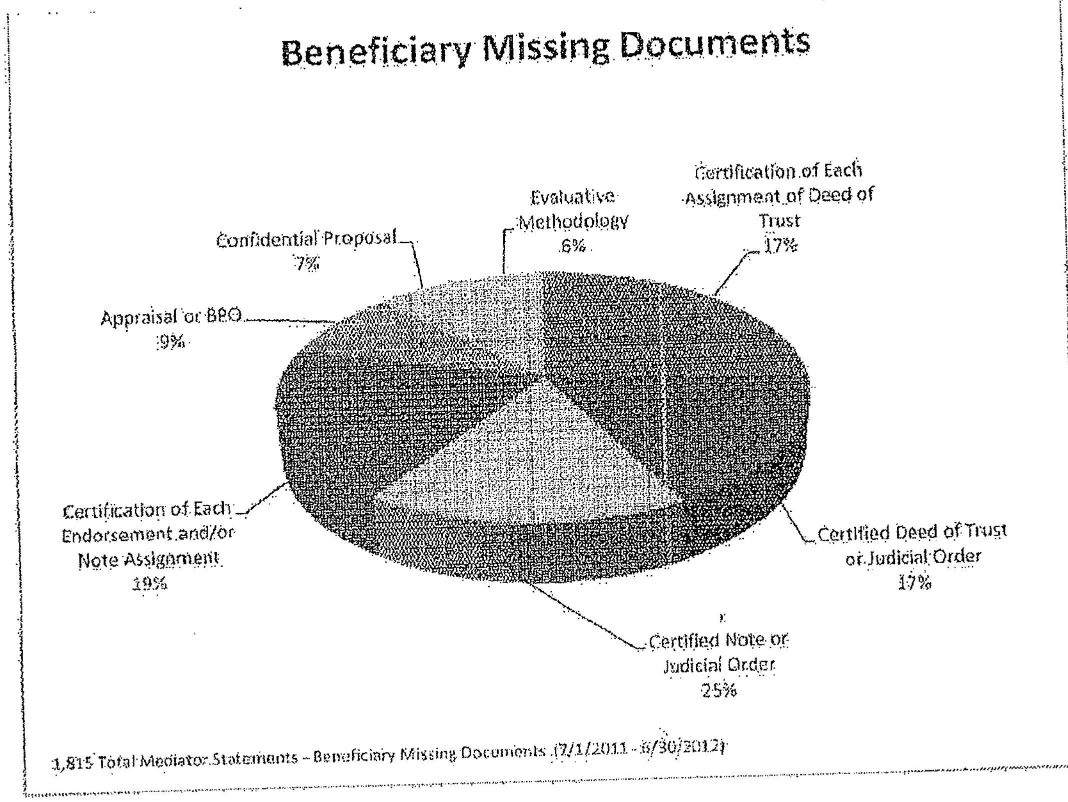
A total of 1,815 Mediator Statements indicated beneficiaries failed to comply with the requirement to provide seven specific mediation documents required by NRS 107.086. Multiple documents may have been identified as missing during mediation.

Beneficiaries must provide at mediation the original or a certified copy of the deed of trust, the mortgage note, and each assignment of the deed of trust and each endorsement of the mortgage note. In Fiscal Year 2012, beneficiaries failed to provide the certified deed of trust in 17% of 1,815 mediations and failed to provide the certified mortgage note in 25% of those mediations.

Mediators reported beneficiaries failed to provide the certification of each assignment of the deed of trust in 17% of the mediations missing documents and failed to provide certification of each endorsement and/or assignment of the mortgage note in 19% of the 1,815 mediations.

In addition, beneficiaries must provide at mediation an Appraisal and/or Brokers Price Opinion (BPO); an Evaluative Methodology used to determine eligibility or non-eligibility of the homeowner for a loan modification, and a Confidential Proposal outlining the beneficiaries offer to resolve the foreclosure.

Beneficiaries failed to provide an Appraisal or BPO in 9% of the mediations missing documents. A Confidential Proposal was not provided in 7% of the 1,815 mediations and beneficiaries failed to provide an Evaluative Methodology in 6% of the mediations missing documents.

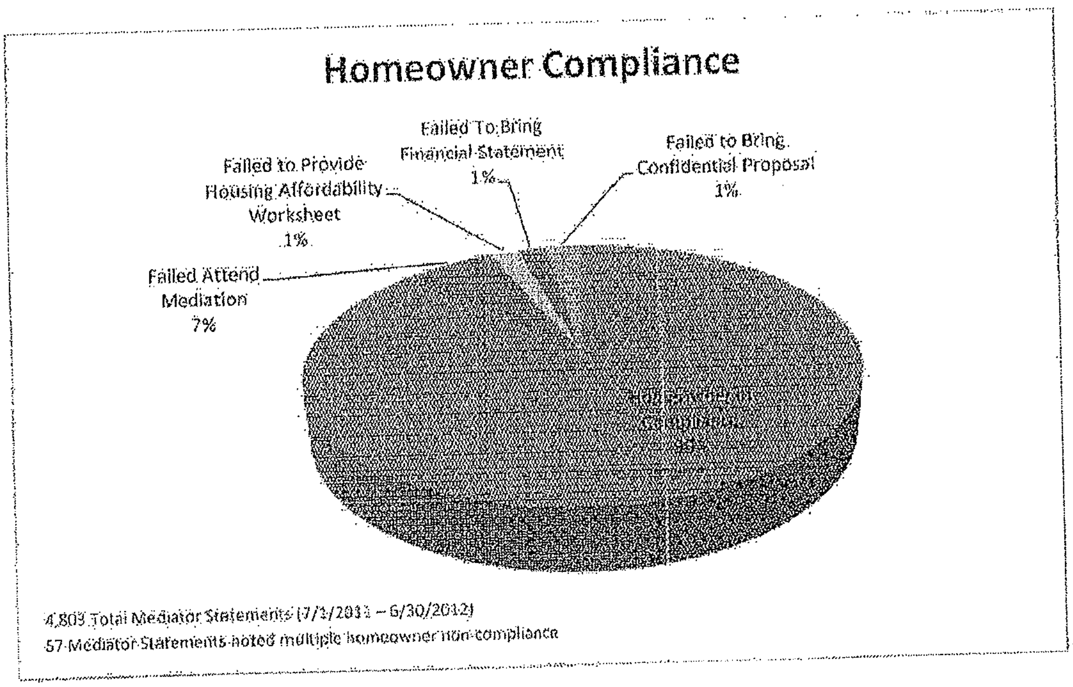


Homeowner Compliance

Homeowners (grantors) must attend mediation to be in compliance with NRS 107.086 and FMP rules. A total of 333 homeowners failed to attend mediation between July 1, 2011, and June 30, 2012, resulting in the issuance of a certificate by the FMP to allow the beneficiary to proceed to foreclosure.

FMP rules require homeowners to provide prior to mediation a Housing Affordability Worksheet, a Financial Statement, and a Confidential Proposal detailing the homeowner's wishes for resolving the default.

In 4,803 scheduled mediations, 1% of homeowners failed to provide the Housing Affordability Worksheet, 1% of homeowners failed to provide a Financial Statement, and 1% of homeowners failed to bring a Confidential Proposal. A failure to provide these documents, or bring them to mediation, is not a valid reason for issuance of a certificate by the FMP allowing a beneficiary to foreclose. Mediators noted on 57 Mediator Statements multiple non-compliance by a homeowner.



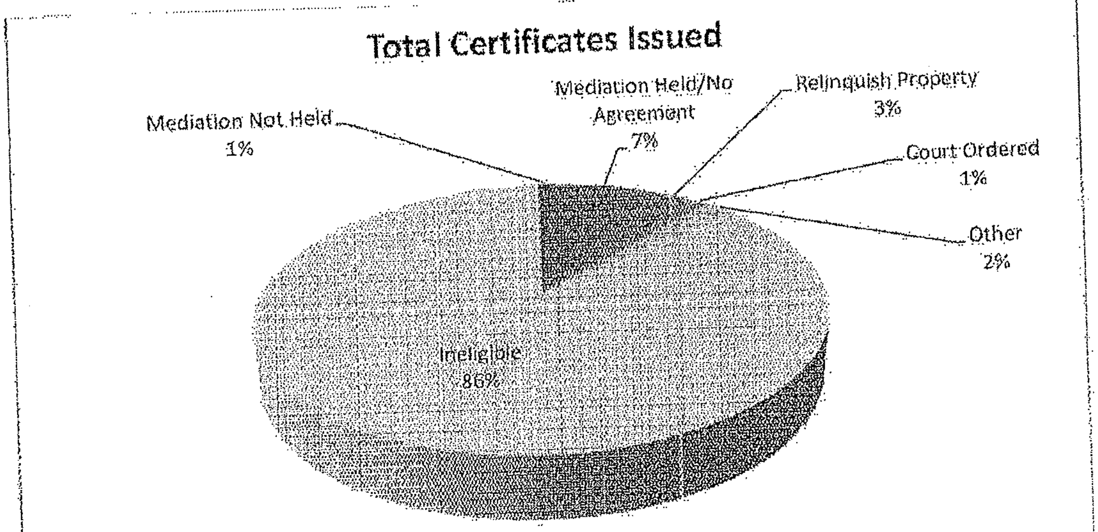
Certificates of Foreclosure

In Fiscal Year 2012, the Certificate Unit processed 22,219 Trustee Affidavit Requests from trustee representatives (trustee) on behalf of beneficiaries (lenders) for certificates allowing a beneficiary to proceed to foreclosure.

TOTAL CERTIFICATES REQUESTED (JULY 2011 – JUNE 2012)					
22,219					
DISTINCT TRUSTEE AFFIDAVIT REQUEST OUTCOMES[1]					
Mediation Not Held	Mediation Held/ No Agreement	Relinquish Property[2]	Court Ordered	Other[3]	Ineligible[4]
196	1,592	614	238	454	19,125

[1] Trustee Affidavit Request Outcomes do not necessarily reflect results of mediations held between July 1, 2011, and June 30, 2012.
[2] Grantor (Homeowner) agreed to relinquish the property during mediation.
[3] Certificate Reissuance, Grantor Waiver, Out of Date NOD.
[4] Residence Non-Owner Occupied.

The total number of certificate requests made by trustees on behalf of beneficiaries, and processed by the FMP between July 1, 2011, and June 30, 2012, does not reflect the Distinct Case Request Outcomes reported in the same period (see Chart 1). For example, trustees may request certificates held in prior quarters, may request duplicate certificates, or may seek certificates in compliance with a court order.



22,219 Trustee Affidavit Requests for Certificates (7/1/11 - 6/30/12)

The majority of certificates requests made by trustees on behalf of beneficiaries between January and March 2012 were for Ineligible Properties (86%), consisting of non-owner occupied residential properties. These included certificate requests where the property was determined to be a residential income property or vacation home.

A total of 7% of the certificate requests represented residential properties where the homeowner (grantor) and the beneficiary (lender) failed to reach an agreement (**No Agreement**) in a scheduled mediation, or a mediation was held (**Mediation Held**) and the homeowner later agreed to relinquish the property;

The remainder of the requested certificates consisted of various reasons. For example, a trustee representing a beneficiary could make a certificate request for any of the following reasons:

- **Mediation Not Held** - A mediation was not held because the homeowner failed to attend the mediation or requested to withdraw from mediation (1% of certificates issued);
- **Relinquish Property** - An agreement between the homeowner and lender was reached in mediation to relinquish the property (3% of certificates issued);
- **Court Ordered** - A court order required a certificate to be issued (1% of certificates issued);
- **Other** - The homeowner waived mediation, out of date notices of default (NOD) required a certificate to be issued, or the lender requested a certificate reissuance (2% of certificates issued).

Source:

State of Nevada Foreclosure Mediation Program Case Management System. The report reflects totals through June 30, 2012 and is subject to revision by the Quality Assurance Manager.

Contact:

Michael S. Sommermeyer
Quality Assurance Manager
200 Lewis Ave., 17th Floor
Las Vegas, NV 89101
(702) 486-9386

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CLERK OF THE COURT

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Attorneys for Defendant Catherine Rodriguez

DISTRICT COURT

CLARK COUNTY, NEVADA

THE BANK OF NEW YORK MELLON F/K/A/ THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT, Plaintiff, vs. CATHERINE RODRIGUEZ; REPUBLIC SERVICES; CITY OF LAS VEGAS; DOES I-X, and ROES I - X, inclusive. Defendants.	**CASE NO.: A-12-661179-C** **DEPT, NO.: XXXI** **<u>MOTION TO CANCEL LIS PENDENS AND DISMISS COMPLAINT</u>**

Defendant CATHERINE RODRIGUEZ, by and through her counsel of record, Venicia Considine, Esq., of the LEGAL AID CENTER OF SOUTHERN NEVADA, INC., and Tara D. Newberry of CONNAGHAN NEWBERRY LAW FIRM, pursuant to NRS 14.015 moves to cancel Lis Pendens and dismiss Plaintiff's Complaint.

NOTICE OF HEARING

You and each of you will please take notice that the undersigned will bring Motion to Dismiss Plaintiff's Complaint on hearing before the Court at the courtroom of the above-entitled Court on the 10 day of Jan 2013, at 9:00 a.m, in Department XXXI of said Court.

Dated this _____day of December, 2012.

/s/ Tara D. Newberry

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Attorneys for Defendant Catherine Rodriguez

MEMORANDUM AND POINTS OF AUTHTORITY

I. INTRODUCTION

Defendant moves the Court to dismiss Plaintiff's Complaint, as the Bank of New York Mellon (hereinafter "NY MELLON") lacks standing to foreclose in this matter. The Note fails to name NY MELLON as the beneficiary, and Mellon fails to provide evidence of any valid endorsement or allonge naming NY MELLON as the current beneficiary under the Note with the right to enforce. The original promissory note established First Horizon Home Loan Corporation (hereinafter "First Horizon") as the original owner, and NY MELLON fails to provide any evidence of valid endorsement or allonges of the Note. Therefore, the Plaintiff lacks standing to file the Lis Pendens and to file a Complaint for Judicial Foreclosure.

II. FACTUAL BACKGROUND

Defendant entered into an agreement for the purchase of a home located at 6845 Sweet Pecan St., Las Vegas, NV 89149, on April 21, 2005. See Compl. Ex. "1," Adjustable Rate Note, p. 1-2. The terms of the Adjustable Rate Note included $269,000.00 principal at 5.625 percent interest over a term of 30 years with a monthly payment of $1,260.94 with an increase in interest at the end of five years. Id. The Deed of Trust was originally in First Horizon's name with MERS as nominee. See Compl. Ex. "1," Deed of Trust, p. 1. The Note is in First Horizon's name. See Compl. Ex. "1," Adjustable Rate Note, p. 1. The Note attached to the Complaint is neither assigned nor endorsed. Id. The Assignment of Deed of Trust signed by Wanda Collier, whose title of Assistant Secretary is stamped on the document, purportedly grants, assigns and transfers "all beneficial interest" to NY MELLON. See Compl. Ex. "1," Assignment of Deed of Trust, p. 2. No further endorsements or assignment are in evidence. NY MELLON is now attempting to judicially foreclose without attaching evidence of standing to the Complaint by way of a proper endorsement or assignment of the Note. See Compl. Ex. "1," Adjustable Rate Note, p. 1.

III. LEGAL STANDARD

Matters concerning judicial foreclosures are governed by Nevada's statutes for pendency of actions and actions for recovery of real property, NRS 40.430-40.450. In any judicial foreclosure a Notice of Lis Pendens is required to be filed under NRS 14.015.

> NRS 14.015. Notice of pendency of actions affecting real property: Hearing; cancellation; bond
>
> . . .
>
> 2. Upon 15 days' notice, **the party who recorded the notice of pendency of the action must appear at the hearing and, through affidavits and other evidence which the court may permit, establish to the satisfaction of the court** that:
> (a) The action is for the foreclosure of a mortgage upon the real property described in the notice or affects the title or possession of the real property described in the notice;
> (b) The action was not brought in bad faith or for an improper motive;
> (c) The party who recorded the notice will be able to perform any conditions precedent to the relief sought in the action insofar as it affects the title or possession of the real property; and
> (d) The party who recorded the notice would be injured by any transfer of an interest in the property before the action is concluded.
> 3. **In addition to the matters enumerated in subsection 2, the party who recorded the notice must establish to the satisfaction of the court** either:
> (a) That the party who recorded the notice is likely to prevail in the action; or
> (b) That the party who recorded the notice has a fair chance of success on the merits in the action and the injury described in paragraph (d) of subsection 2 would be sufficiently serious that the hardship on him or her in the event of a transfer would be greater than the hardship on the defendant resulting from the notice of pendency, and that if the party who recorded the notice prevails he or she will be entitled to relief affecting the title or possession of the real property.
>
> . . .

> 5. If the court finds that the party who recorded the notice of pendency of the action has failed to establish any of the matters required by subsection 2, **the court shall order the cancellation of the notice of pendency** and shall order the party who recorded the notice to record with the recorder of the county a copy of the order of cancellation. The order must state that the cancellation has the same effect as an expungement of the original notice.
>
> Nev. Rev. Stat. Ann. § 14.015 (West) (emphasis added).

Nevada law requires that "every action shall be prosecuted in the name of the real party in interest." NRCP 17(a). A real party in interest "is one who possesses the right to enforce the claim and has a significant interest in the litigation." Szilagyi v. Testa, 99 Nev. 834, 838, 673 P.2d 495, 498 (1983). The analysis concerning "real party in interest overlaps with the question of standing." Arguello v. Sunset Station, Inc., 252 P.3d 206, 208 (Nev. 2011).

IV. ARGUMENT

A. Plaintiff Fails to Prove Standing to Foreclose

Leyva examines the right to foreclose in Nevada. The key for standing is to have the actual authority to foreclose.

> The proper method of transferring the right to payment under a mortgage note is governed by Article 3 of the Uniform Commercial Code—Negotiable Instruments, because a mortgage note is a negotiable instrument.[6] Birkland v. Silver State Financial Services, Inc., No. 2:10–CV–00035–KJD, 2010 WL 3419372, at 4 (D.Nev. Aug. 25, 2010). The obligor on the note has the right to know the identity of the entity that is "entitled to enforce" the mortgage note under Article 3, see NRS 104.3301, "[o]therwise, the [homeowner] may pay funds to a stranger in the case." In re Veal, 450 B.R. 897, 920, at *16 (B.A.P. 9th Cir. June 10, 2011) (holding, in a bankruptcy case, that AHMSI did not prove that it was the party entitled to enforce, and receive payments from, a mortgage note because it "presented no evidence as to who possessed the original Note. It also presented no evidence showing [e]ndorsement of the note either in its favor or in favor of Wells Fargo, for whom AHMSI allegedly was servicing the [bankrupt party's] Loan.").
>
> Leyva v. Nat'l Default Servicing Corp., 255 P.3d 1275, 1279-80 (Nev. 2011).

The Leyva case dealt with the mediation process but the Court determined standing in regards to the right to foreclose. Standing is mandatory in either the judicial or non-judicial foreclosure process.

B. The Note was Never Negotiated or Transferred to NY MELLON

In Leyva, "[f]or a note in order form to be enforceable by a party other than to whom the note is originally payable, the note must be either negotiated or transferred." Id. at 1280. Leyva and Article 3 of Nevada's Uniform Commercial Code make clear that "negotiation" and "transfer" are two similar, but nevertheless distinct concepts. Id. at 1280 (citing NRS 104.3201).

No proof has been offered regarding NY MELLON's ability to enforce the Note. The original Note names First Horizon as the lender. There is no endorsement in evidence of the Note. Furthermore, there is no allonge attached to the Note. Therefore, the Note is owned by First Horizon. Plaintiff's Complaint lacks any evidence demonstrating transfer of the First Horizon Note to NY MELLON, the Plaintiff in this action.

When the foreclosing party is not the named lender on the note, there must be evidence of a valid transfer or endorsement of the Mortgage Note to the foreclosing entity for that entity to have the right to foreclose. NRS 104.3309 or NRS 104.3418 as per NRS 104.3301.

NY MELLON has not complied with the UCC or Nevada case law in this matter. The UCC is not optional but necessary in order for paper to be soundly negotiated. Proper negotiation of commercial paper is required in order to ensure the proper entity has the right and power to foreclose and such right equals standing to foreclose. NY MELLON fails to demonstrate the right to foreclose in this matter and therefore the lis pendens must be cancelled and the complaint dismissed.

////

C. The Deed and Note are now Impermissibly Split

Furthermore, the deed and the note are now split as there is no chain of endorsements for the note and no chain of assignments for the Deed of Trust linking both to Bank of New York Mellon. The note is now unsecured, and therefore the deed of trust becomes worthless. Both must remain together. A deed of trust, like a mortgage, may be enforced only by, or in behalf of, a person who is entitled to enforce the obligation the mortgage secures. See Restatement (Third) of Prop.: Mortgages § 5.4(c) (1997). The 9th Circuit addresses this issue in Cervantes.

> The deed and note must be held together because the holder of the note is only entitled to repayment, and does not have the right under the deed to use the property as a means of satisfying repayment. Id. Conversely, the holder of the deed alone does not have a right to repayment and, thus, does not have an interest in foreclosing on the property to satisfy repayment. Id. One of the main premises of the plaintiffs' lawsuit here is that the MERS system impermissibly "splits" the note and deed by facilitating the transfer of the beneficial interest in the loan among lenders while maintaining MERS as the nominal holder of the deed.
>
> Cervantes v. Countrywide Home Loans, Inc., 656 F.3d 1034, 1039 (9th Cir. 2011)

Here the note has not been negotiated or transferred. The Deed of Trust was originally in First Horizon's name with MERS as nominee. Wanda Collier, whose title of Assistant Secretary is stamped on the document, signed the Assignment of Deed of Trust, purportedly granting, assigning and transferring "all beneficial interest" to NY MELLON. No further endorsements or assignment are in evidence. Based on this evidence, the Note and the Deed of Trust are impermissibly split. NY MELLON has no standing to foreclose.

D. Plaintiff Failed to Establish each of the Items Required by NRS 14.015 (2)-(3), and therefore The Notice of Pendency should be Cancelled and The Complaint Dismissed.

Plaintiff is not likely to prevail in this action because Plaintiff is not the real party in interest to bring this action. Plaintiff does not have the right to enforce a Note that lacks an endorsement to NY MELLON.

Furthermore, Plaintiff has not demonstrated an injury or greater hardship than Defendant if the Lis Pendens is removed. This is demonstrated by the fact that this is the Defendant's home. Failure to remove the lis pendens will hinder any attempts to modify the mortgage on the said property.

Defendant believes Plaintiff brought this action in bad faith or for an improper motive and Plaintiff will be unable to perform the conditions precedent to the relief sought in the action insofar as it affects the title or possession of the real property as based upon the arguments above.

V. CONCLUSION

Based upon the foregoing arguments, the Lis Pendens should be cancelled and the Complaint dismissed.

DATED this 6th day of December, 2012.

/s/ Tara D. Newberry
Venicia Considine, Esq.
Nevada Bar No: 11544
LEGAL AID CENTER OF SOUTHERN NEVADA, INC.
800 S. Eighth Street
Las Vegas, NV 89101
Telephone: (702) 386-1070 x 159
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tnewberry@cnlawlv.com
Attorneys for Defendant Catherine Rodriguez

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 7th day of December, 2012, I placed a true and correct copy of the foregoing **MOTION TO CANCEL LIS PENDENS AND DISMISS PLAINTIFF'S COMPLAINT** via United States Mail in Las Vegas, Nevada with first-class postage prepaid, addressed to the following:

McCARTHY & HOLTHUS, LLP
Kristin A. Schuler-Hintz, Esq.
9510 W. Sahara Ave., Suite 110
Las Vegas, NV 89117

/s/Geri Robinson
An employee of Connaghan Newberry Law Firm

Kristin A. Schuler-Hintz, Esq., SBN 7171
McCarthy & Holthus, LLP
9510 W. Sahara Ave., Suite 110
Las Vegas, NV 89117
Phone (702) 685-0329
Fax (866) 339-5691
Email NVJud@McCarthyHolthus.com

Attorneys for Plaintiff,
THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT

**IN THE EIGHTH JUDICIAL DISTRICT COURT FOR THE STATE OF NEVADA
IN AND FOR THE COUNTY OF CLARK**

THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT Plaintiff v. CATHERINE RODRIGUEZ; REPUBLIC SERVICES; DOES I–X; and ROES 1 -10 inclusive, Defendants.	Case No. A-12-661179-C Dept. No. XXXI **VERIFIED AMENDED COMPLAINT FOR JUDICIAL FORECLOSURE AND DEFICIENCY JUDGMENT OF DEED OF TRUST** **ARBITRATION EXCEPTION CLAIMED: TITLE TO REAL ESTATE**

COMES NOW Plaintiff, THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE

POOLING AND SERVICING AGREEMENT, filing this civil action against Defendants for (1) Judicial Foreclosure and (2) Deficiency Judgment on Deed of Trust.

INTRODUCTION

1. This action is a judicial foreclosure with money demand within the jurisdictional limits of this Court and this venue is appropriate because the property involved is within this Court's jurisdiction. Plaintiff is authorized to bring this action in the state of Nevada by NRS 40.430.

2. The real property on which Plaintiff seeks foreclosure consists of a single-family residence commonly known as 6845 Sweet Pecan Street, Las Vegas, Nevada 89149 and more specifically described in Exhibit "1" attached hereto and incorporation herein by this reference.

3. Plaintiff, THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT, is an Entity authorized to do business within the State of Nevada. Nationstar Mortgage LLC is the servicer of the loan.

4. Defendant, Catherine Rodriguez, is an individual believed to be residing in Clark County, Nevada who executed the subject Note and Deed of Trust relative to real property located in Clark County, Nevada of which this Amended Complaint arises, or claims an interest in the property, or both.

5. Defendant, Republic Services, is an entity that may claim an interest in the subject property pursuant to recorded liens as instrument numbers 0002691, 0001923, 0003893, and 0002984.

6. Plaintiff does not know the true names, capacities or bases of liability of Defendants sued as Does I-X and Roes 1-10 inclusive. Each fictitiously named defendant is in some way liable to Plaintiff or claims some right, title or interest in the subject property that is subsequent to and subject to the interest of Plaintiff, or both. Plaintiff will amend this Amended Complaint to reflect the true names of said Defendants when the same have been ascertained.

FACTUAL BACKGROUND

7. Plaintiffs incorporates and re-alleges the allegations of paragraphs 1 through 6 above, as if fully set forth herein.

8. The real property which is the subject matter of this action is commonly known as 6845 Sweet Pecan Street, Las Vegas, Nevada 89149 (hereinafter the "Property"). The Parcel ID Number of the Property is 125-20-212-037. The subject real property is more particularly described in Exhibit "1", attached hereto and incorporated herein by this reference.

9. The Property that is the subject matter of this action is in Clark County, Nevada.

10. On or about April 21, 2005, Catherine Rodriguez signed a Note in the principal amount of $269,000.00, which was secured by a Deed of Trust recorded on 4/27/2005 as document number 20050427-0003843 in the records of Clark County, Nevada. A copy of the Note (made at or near the time of loan origination), Deed of Trust, and Assignment are attached hereto collectively as Exhibit "1". The Note and Deed of Trust were subsequently assigned to THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT.

FIRST CAUSE OF ACTION

(Judicial Foreclosure)

11. Plaintiff incorporates and re-alleges the allegations of paragraphs 1 through 10 above, as if fully set forth herein.

12. Counsel is informed and believes and on that basis alleges that Defendant, Catherine Rodriguez, has defaulted under the terms of the Note and Deed of Trust by having failed and refused to make monthly payments of $1,547.17 (P&I) commencing with the payment due on December 1, 2009 and in subsequent months. Counsel is informed and believes that the delinquent monthly installments total $57,245.29 exclusive of associated fees, costs and advances.

13. The Deed of Trust provides that, if the Trustor defaults in paying any indebtedness secured by the Deed of Trust, or in the performance of any agreement in the subject agreement or Deed of Trust, the entire principal and interest secured by the Deed of Trust will, upon notice to the Borrower, become immediately due and payable.

14. Pursuant to the terms of the Note and Deed of Trust and the acceleration letter attached hereto as Exhibit "2", THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT, has declared all sums immediately due and payable and accelerated all sums due.

15. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to foreclose on its interest in the property.

16. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to an award of its attorney's fees and costs pursuant to the terms of the Note and Deed of Trust, including post-judgment attorney's fees and costs.

17. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON

HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT's lien is prior and paramount to the interest of any Defendants hereto, and all such subordinate interests should be eliminated by this foreclosure action. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to judgment foreclosing the interests of any Defendant hereto in the Property and forever barring that interest, and that of any successors, assigns or heirs.

18. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to decree or judgment of the court directing a sale of the encumbered property and application of the proceeds of sale as provided in NRS 40.462.

19. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to a judgment permitting it to bid all or part of its judgment at sale.

SECOND CAUSE OF ACTION

(Deficiency Judgment on Deed of Trust)

20. Plaintiff incorporates and re-alleges the allegations of paragraphs 1 through 19 above, as if fully set forth herein.

21. If a Borrower has obtained a bankruptcy discharge then no deficiency will be sought. If there has been no discharge and a deficiency remains after the application of proceeds from the sale, plaintiff is entitled to seek a deficiency judgment against the Borrower(s), pursuant to NRS 40.455.

A. Against Defendant, Catherine Rodriguez, for the minimum sum of $269,000.00, plus all post-filing advances, costs and attorney's fees, and interest from 12/1/2009 until paid in full, plus post-judgment interest on advances, costs and attorney's fees from the date each was due until paid in full, for its costs incurred herein, including post-judgment costs, for its attorney's fees, including post-judgment attorney's fees, pursuant to the terms of the Note and Deed of Trust, and for such other and further relief as the Court deems just and proper.

B. Against Defendants, Catherine Rodriguez, and Republic Services, Does I-X inclusive and Roes 1-10 inclusive, individually and collectively, jointly and severally as follows:

(1) That the sums prayed for and alleged to be secured by the Property are secured and that the Deed of Trust is a valid lien on the Property described in the Amended Complaint and on the whole thereof, and on the rents, issues, and profits of the Property, and all buildings and improvement thereon and fixtures attached thereto as used in connection with the Property;

(2) That the Deed of Trust be declared superior to any right, title, interest, lien, equity or estate of the Defendants;

(3) That it be adjudged and decreed that said Deed of Trust be foreclosed and a decree or judgment of the court directing a sale of the encumbered property and application of the proceeds of sale as provided in NRS 40.462 in satisfaction of the judgment herein;

(4) That the Defendants, and all persons claiming by, through or under them, or any of them, be foreclosed of and forever barred from any and all right, title, claim, interest, or lien in or to the Property or with respect thereto except such rights of redemption as they may have by law;

(5) That THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is granted any further relief in satisfaction of the judgment as may be permitted under Nevada law;

(6) That THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled at its discretion to the appointment of a receiver to protect the Property from neglect and waste during the pendency of this action and to collect any rents to which any Defendants would be entitled;

(7) That if the proceeds of the sale do not satisfy Plaintiffs' judgment in full, the Plaintiff may amend its Amended Complaint to seek a deficiency judgment against Defendants, Catherine Rodriguez for the deficiency; No deficiency judgment shall be sought against Defendants, Republic Services, or City of Las Vegas.

(8) For its costs incurred herein, including post-judgment costs;

(9) For its attorney's fees, including post-judgment fees, pursuant to the Note and Deed of Trust; and

(10) For any other further relief as this court deems just and proper.

Dated: December 14, 2012

Respectfully submitted,

MCCARTHY & HOLTHUS, LLP

By: [signature]
Kristin A. Schuler-Hintz (NSB# 7171)
Christopher M. Hunter (NSB# 8127)

CERTIFICATE OF MAILING

I hereby certify that on the 14th day of December, 2012, a true and correct copy of the foregoing AMENDED COMPLAINT was forwarded by United States Mail, postage prepaid to the addresses listed below.

Tara Newberry, Esq.
7854 W. Sahara Ave.
Las Vegas, NV 89117
Attorney for Catherine Rodriguez

Fennemore Craig Jones Vargas
300 South Fourth Street
Suite 1400
Las Vegas, NV 89101
Attorney for Republic Services

/s/Courtney Lonardo
An Employee of McCarthy & Holthus, LLP

EXHIBIT "1"

REDACTED

ADJUSTABLE RATE NOTE

(LIBOR Six-Month Index (As Published In *The Wall Street Journal*) - Rate Caps)

THIS NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN MY INTEREST RATE AND MY MONTHLY PAYMENT. THIS NOTE LIMITS THE AMOUNT MY INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MAXIMUM RATE I MUST PAY.

April 21st, 2005 [Date] HENDERSON [City] NEVADA [State]

6845 SWEET PECAN STREET, LAS VEGAS, Nevada 89149 [Property Address]

I hereby certify that this is a true and exact copy of the original. Old Republic Title by: CA

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received, I promise to pay U.S. $ 269,000.00 (this amount is called "Principal"), plus interest, to the order of Lender. Lender is FIRST HORIZON HOME LOAN CORPORATION.

I will make all payments under this Note in the form of cash, check or money order.

I understand that Lender may transfer this Note. Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

2. INTEREST

Interest will be charged on unpaid Principal until the full amount of Principal has been paid. I will pay interest at a yearly rate of 5.625 %. The interest rate I will pay may change in accordance with Section 4 of this Note.

The interest rate required by this Section 2 and Section 4 of this Note is the rate I will pay both before and after any default described in Section 7(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay Principal and interest by making a payment every month.

I will make my monthly payments on the first day of each month beginning on June 1st, 2005. I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. Each monthly payment will be applied as of its scheduled due date and will be applied to interest before Principal. If, on May 1st, 2035, I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date."

I will make my monthly payments at PO BOX 809 MEMPHIS, TN 38101

or at a different place if required by the Note Holder.

(B) Amount of My Initial Monthly Payments

Each of my initial monthly payments will be in the amount of U.S. $ 1,260.94. This amount may change.

(C) Monthly Payment Changes

Changes in my monthly payment will reflect changes in the unpaid Principal of my loan and in the interest rate that I must pay. The Note Holder will determine my new interest rate and the changed amount of my monthly payment in accordance with Section 4 of this Note.

REDACTED

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The interest rate I will pay may change on the first day of May, 2010, and on that day every 6th month thereafter. Each date on which my interest rate could change is called a "Change Date."

(B) The Index

Beginning with the first Change Date, my interest rate will be based on an Index. The "Index" is the average of interbank offered rates for six month U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in *The Wall Street Journal*. The most recent Index figure available as of the first business day of the month immediately preceding the month in which the Change Date occurs is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new Index that is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid Principal that I am expected to owe at the Change Date in full on the Maturity Date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Changes

The interest rate I am required to pay at the first Change Date will not be greater than 11.625 % or less than 2.250 %. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than TWO & 00/100 percentage point(s) (2.00 %) from the rate of interest I have been paying for the preceding 6 months. My interest rate will never be greater than 11.625 %.

(E) Effective Date of Changes

My new interest rate will become effective on each Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Change Date until the amount of my monthly payment changes again.

(F) Notice of Changes

The Note Holder will deliver or mail to me a notice of any changes in my interest rate and the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

5. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of Principal at any time before they are due. A payment of Principal only is known as a "Prepayment." When I make a Prepayment, I will tell the Note Holder in writing that I am doing so. I may not designate a payment as a Prepayment if I have not made all the monthly payments due under this Note.

I may make a full Prepayment or partial Prepayments without paying any Prepayment charge. The Note Holder will use my Prepayments to reduce the amount of Principal that I owe under this Note. However, the Note Holder may apply my Prepayment to the accrued and unpaid interest on the Prepayment amount before applying my Prepayment to reduce the Principal amount of this Note. If I make a partial Prepayment, there will be no changes in the due dates of my monthly payments unless the Note Holder agrees in writing to those changes. My partial Prepayment may reduce the amount of my monthly payments after the first Change Date following my partial Prepayment. However, any reduction due to my partial Prepayment may be offset by an interest rate increase.

6. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from me that exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the Principal I owe under this Note or by making a direct payment to me. If a refund reduces Principal, the reduction will be treated as a partial Prepayment.

REDACTED

7. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charges for Overdue Payments

If the Note Holder has not received the full amount of any monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 5.00 % of my overdue payment of principal and interest. I will pay this late charge promptly but only once on each late payment.

(B) Default

If I do not pay the full amount of each monthly payment on the date it is due, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of Principal that has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is mailed to me or delivered by other means.

(D) No Waiver By Note Holder

Even if, at a time when I am in default, the Note Holder does not require me to pay immediately in full as described above, the Note Holder will still have the right to do so if I am in default at a later time.

(E) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back by me for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

8. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Unless the Note Holder requires a different method, any notice that must be given to the Note Holder under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3(A) above or at a different address if I am given a notice of that different address.

9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of a guarantor, surety or endorser of this Note, is also obligated to keep all of the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

10. WAIVERS

I and any other person who has obligations under this Note waive the rights of Presentment and Notice of Dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of Dishonor" means the right to require the Note Holder to give notice to other persons that amounts due have not been paid.

11. UNIFORM SECURED NOTE

This Note is a uniform instrument with limited variations in some jurisdictions. In addition to the protections given to the Note Holder under this Note, a Mortgage, Deed of Trust, or Security Deed (the "Security Instrument"), dated the same date as this Note, protects the Note Holder from possible losses that might result if I do not keep the promises that I make in this Note. That Security Instrument describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions read as follows:

Form 3520 1/01

Initials ML

REDACTED

Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.

To the extent permitted by Applicable Law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender also may require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. Borrower will continue to be obligated under the Note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

WITNESS THE HAND(S) AND SEAL(S) OF THE UNDERSIGNED.

Catherine F. Rodriguez _____(Seal) CATHERINE RODRIGUEZ -Borrower	_____(Seal) -Borrower
_____(Seal) -Borrower	_____(Seal) -Borrower
_____(Seal) -Borrower	_____(Seal) -Borrower
_____(Seal) -Borrower	_____(Seal) -Borrower

[Sign Original Only]

Pay to the order of

Without recourse
First Horizon Home Loan Corporation

by ____________

B. J. Seeley, Vice President

REDACTED

INTEREST ONLY ADDENDUM
TO ADJUSTABLE RATE NOTE

THIS ADDENDUM is made this 21st day of April , 2005, and is incorporated into and intended to form a part of the Adjustable Rate Note (the "Note") dated the same date as this Addendum executed by the undersigned and payable to FIRST HORIZON HOME LOAN CORPORATION (the "Lender").

THIS ADDENDUM supercedes Section 3(A), 3(B), 4(C) and 7(A) of the Note. None of the other provisions of the Note are changed by this Addendum.

3. PAYMENTS

(A) Time and Place of Payments

I will pay interest by making payments every month for the first 120 payments (the "Interest Only Period") in the amount sufficient to pay interest as it accrues. I will pay principal and interest by making payments every month thereafter for the next 240 payments in an amount sufficient to fully amortize the outstanding principal balance of the Note at the end of the Interest Only Period over the remaining term of the Note in equal monthly payments.

I will make my monthly payments on the first day of each month beginning on June 1st, 2005 . I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. Each monthly payment will be applied as of its scheduled due date and will be applied to interest before principal. If, on May 1st, 2035 , I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date".

I will make my payments at PO BOX 809, MEMPHIS, TN 38101

, or at a different place if required by the Note Holder.

(B) Amount of My Initial Monthly Payments

Each of my initial monthly payments will be in the amount of U.S. $ 1,260.94. This payment amount is based on the original principal balance of the Note. This payment amount may change.

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250%) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D), this rounded amount will be my new interest rate until the next Change Date.

During this Interest Only Period, the Note Holder will then determine the amount of the monthly payment that would be sufficient to repay accrued interest. This will be the amount of my monthly payment until the earlier of the next Change Date or the end of the Interest Only Period unless I make a voluntary prepayment of principal during such period. If I make a voluntary prepayment of principal during the Interest Only Period, my payment amount for subsequent payments will be reduced to the amount necessary to pay interest on the lower principal balance. At the end of the Interest Only Period and on each Change Date thereafter, the Note Holder will determine the amount of the monthly payment that would be sufficient to repay in full the unpaid principal that I am expected to owe at the end of the Interest Only Period or Change Date, as applicable, in equal monthly payments over the remaining term of the Note. The result of this calculation will be the new amount of my monthly payment. After the end of the Interest Only Period, my payment amount will not be reduced due to voluntary prepayments.

REDACTED

7. **BORROWER'S FAILURE TO PAY AS REQUIRED**

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 5.00 % of my overdue payment of interest, during the period when my payment is interest only, and of principal and interest thereafter. I will pay this late charge promptly but only once on each late payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Addendum.

Catherine Rodriguez 04-22-05
CATHERINE RODRIGUEZ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

20050427-0003843

Fee: $36.00
N/C Fee: $0.00

04/27/2005 14:01:32
T20050077114
Requestor:
OLD REPUBLIC TITLE COMPANY OF NEVADA

Frances Deane ARO
Clark County Recorder Pgs: 23

Assessor's Parcel Number:
County: 125-20-212-037 City:
Return To:
FHHLC - POST CLOSING MAIL ROOM

23

1555 W. WALNUT HILL LN. #200 MC 6712
IRVING, TX 75038
Prepared By: FIRST HORIZON HOME LOAN CORPORATION

7375 PRAIRIE FALCON DR STE 120
LAS VEGAS, NV 89128
~~Recording Requested By:~~
FIRST HORIZON HOME LOAN CORPORATION
4000 HORIZON WAY
IRVING, TX 75063

44

5116003582GM [Space Above This Line For Recording Data] REDACTED

DEED OF TRUST

MIN 100085200533345205

DEFINITIONS

Words used in multiple sections of this document are defined below and other words are defined in Sections 3, 11, 13, 18, 20 and 21. Certain rules regarding the usage of words used in this document are also provided in Section 16.

(A) "Security Instrument" means this document, which is dated April 21st, 2005, together with all Riders to this document.

(B) "Borrower" is
CATHERINE RODRIGUEZ, An Unmarried Woman

Borrower is the trustor under this Security Instrument.

(C) "Lender" is FIRST HORIZON HOME LOAN CORPORATION.

Lender is a CORPORATION organized and existing under the laws of THE STATE OF KANSAS.

Lender's address is 4000 Horizon Way, Irving, Texas 75063 .

(D) "Trustee" is OLD REPUBLIC TITLE
140 N. STEPHANIE ST., HENDERSON, NV 89074 .

(E) "MERS" is Mortgage Electronic Registration Systems, Inc. MERS is a separate corporation that is acting solely as a nominee for Lender and Lender's successors and assigns. MERS is the beneficiary under this Security Instrument. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of P.O. Box 2026, Flint, MI 48501-2026, tel. (888) 679-MERS.

(F) "Note" means the promissory note signed by Borrower and dated April 21st, 2005 .
The Note states that Borrower owes Lender
TWO HUNDRED SIXTY NINE THOUSAND & 00/100 Dollars
(U.S. $ 269,000.00) plus interest. Borrower has promised to pay this debt in regular Periodic Payments and to pay the debt in full not later than MAY 1, 2035 .

(G) "Property" means the property that is described below under the heading "Transfer of Rights in the Property."

(H) "Loan" means the debt evidenced by the Note, plus interest, any prepayment charges and late charges due under the Note, and all sums due under this Security Instrument, plus interest.

(I) "Riders" means all Riders to this Security Instrument that are executed by Borrower. The following Riders are to be executed by Borrower [check box as applicable]:

[x] Adjustable Rate Rider	[ ] Condominium Rider	[ ] Second Home Rider
[ ] Balloon Rider	[x] Planned Unit Development Rider	[ ] 1-4 Family Rider
[ ] VA Rider	[ ] Biweekly Payment Rider	[ ] Other(s) [specify]

(J) "Applicable Law" means all controlling applicable federal, state and local statutes, regulations, ordinances and administrative rules and orders (that have the effect of law) as well as all applicable final, non-appealable judicial opinions.

(K) "Community Association Dues, Fees, and Assessments" means all dues, fees, assessments and other charges that are imposed on Borrower or the Property by a condominium association, homeowners association or similar organization.

(L) "Electronic Funds Transfer" means any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, computer, or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine transactions, transfers initiated by telephone, wire transfers, and automated clearinghouse transfers.

(M) "Escrow Items" means those items that are described in Section 3.

(N) "Miscellaneous Proceeds" means any compensation, settlement, award of damages, or proceeds paid by any third party (other than insurance proceeds paid under the coverages described in Section 5) for: (i) damage to, or destruction of, the Property; (ii) condemnation or other taking of all or any part of the Property; (iii) conveyance in lieu of condemnation; or (iv) misrepresentations of, or omissions as to, the value and/or condition of the Property.

(O) "Mortgage Insurance" means insurance protecting Lender against the nonpayment of, or default on, the Loan.

(P) "Periodic Payment" means the regularly scheduled amount due for (i) principal and interest under the Note, plus (ii) any amounts under Section 3 of this Security Instrument.

(Q) "RESPA" means the Real Estate Settlement Procedures Act (12 U.S.C. Section 2601 et seq.) and its implementing regulation, Regulation X (24 C.F.R. Part 3500), as they might be amended from time to time, or any additional or successor legislation or regulation that governs the same subject matter. As used in this Security Instrument, "RESPA" refers to all requirements and restrictions that are imposed in regard to a "federally related mortgage loan" even if the Loan does not qualify as a "federally related mortgage loan" under RESPA.

(R) "Successor in Interest of Borrower" means any party that has taken title to the Property, whether or not that party has assumed Borrower's obligations under the Note and/or this Security Instrument.

TRANSFER OF RIGHTS IN THE PROPERTY

The beneficiary of this Security Instrument is MERS (solely as nominee for Lender and Lender's successors and assigns) and the successors and assigns of MERS. This Security Instrument secures to Lender: (i) the repayment of the Loan, and all renewals, extensions and modifications of the Note; and (ii) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the County [Type of Recording Jurisdiction] of CLARK [Name of Recording Jurisdiction]:

All that tract or parcel of land as shown on Schedule "A" attached hereto which is incorporated herein and made a part hereof.

Parcel ID Number: County: 125-20-212-037 City: which currently has the address of 6845 SWEET PECAN STREET [Street]
LAS VEGAS [City], Nevada 89149 [Zip Code]
("Property Address"):

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property." Borrower understands and agrees that MERS holds only legal title to the interests granted by Borrower in this Security Instrument, but, if necessary to comply with law or custom, MERS (as nominee for Lender and Lender's successors and assigns) has the right: to exercise any or all of those interests, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of Lender including, but not limited to, releasing and canceling this Security Instrument.

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. **Payment of Principal, Interest, Escrow Items, Prepayment Charges, and Late Charges.** Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and any prepayment charges and late charges due under the Note. Borrower shall also pay funds for Escrow Items pursuant to Section 3. Payments due under the Note and this Security Instrument shall be made in U.S. currency. However, if any check or other instrument received by Lender as payment under the Note or this Security Instrument is returned to Lender unpaid, Lender may require that any or all subsequent payments due under the Note and this Security Instrument be made in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality, or entity; or (d) Electronic Funds Transfer.

Payments are deemed received by Lender when received at the location designated in the Note or at such other location as may be designated by Lender in accordance with the notice provisions in Section 15. Lender may return any payment or partial payment if the payment or partial payments are insufficient to bring the Loan current. Lender may accept any payment or partial payment insufficient to bring the Loan current, without waiver of any rights hereunder or prejudice to its rights to refuse such payment or partial payments in the future, but Lender is not obligated to apply such payments at the time such payments are accepted. If each Periodic Payment is applied as of its scheduled due date, then Lender need not pay interest on unapplied funds. Lender may hold such unapplied funds until Borrower makes payment to bring the Loan current. If Borrower does not do so within a reasonable period of time, Lender shall either apply such funds or return them to Borrower. If not applied earlier, such funds will be applied to the outstanding principal balance under the Note immediately prior to foreclosure. No offset or claim which Borrower might have now or in the future against Lender shall relieve Borrower from making payments due under the Note and this Security Instrument or performing the covenants and agreements secured by this Security Instrument.

2. **Application of Payments or Proceeds.** Except as otherwise described in this Section 2, all payments accepted and applied by Lender shall be applied in the following order of priority: (a) interest due under the Note; (b) principal due under the Note; (c) amounts due under Section 3. Such payments shall be applied to each Periodic Payment in the order in which it became due. Any remaining amounts shall be applied first to late charges, second to any other amounts due under this Security Instrument, and then to reduce the principal balance of the Note.

If Lender receives a payment from Borrower for a delinquent Periodic Payment which includes a sufficient amount to pay any late charge due, the payment may be applied to the delinquent payment and the late charge. If more than one Periodic Payment is outstanding, Lender may apply any payment received from Borrower to the repayment of the Periodic Payments if, and to the extent that, each payment can be paid in full. To the extent that any excess exists after the payment is applied to the full payment of one or more Periodic Payments, such excess may be applied to any late charges due. Voluntary prepayments shall be applied first to any prepayment charges and then as described in the Note.

Any application of payments, insurance proceeds, or Miscellaneous Proceeds to principal due under the Note shall not extend or postpone the due date, or change the amount, of the Periodic Payments.

3. **Funds for Escrow Items.** Borrower shall pay to Lender on the day Periodic Payments are due under the Note, until the Note is paid in full, a sum (the "Funds") to provide for payment of amounts due for: (a) taxes and assessments and other items which can attain priority over this Security Instrument as a lien or encumbrance on the Property; (b) leasehold payments or ground rents on the Property, if any; (c) premiums for any and all insurance required by Lender under Section 5; and (d) Mortgage Insurance premiums, if any, or any sums payable by Borrower to Lender in lieu of the payment of Mortgage Insurance premiums in accordance with the provisions of Section 10. These items are called "Escrow Items." At origination or at any time during the term of the Loan, Lender may require that Community Association Dues, Fees, and Assessments, if any, be escrowed by Borrower, and such dues, fees and assessments shall be an Escrow Item. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this Section. Borrower shall pay Lender the Funds for Escrow Items unless Lender waives Borrower's obligation to pay the Funds

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for any or all Escrow Items. Lender may waive Borrower's obligation to pay to Lender Funds for any or all Escrow Items at any time. Any such waiver may only be in writing. In the event of such waiver, Borrower shall pay directly, when and where payable, the amounts due for any Escrow Items for which payment of Funds has been waived by Lender and, if Lender requires, shall furnish to Lender receipts evidencing such payment within such time period as Lender may require. Borrower's obligation to make such payments and to provide receipts shall for all purposes be deemed to be a covenant and agreement contained in this Security Instrument, as the phrase "covenant and agreement" is used in Section 9. If Borrower is obligated to pay Escrow Items directly, pursuant to a waiver, and Borrower fails to pay the amount due for an Escrow Item, Lender may exercise its rights under Section 9 and pay such amount and Borrower shall then be obligated under Section 9 to repay to Lender any such amount. Lender may revoke the waiver as to any or all Escrow Items at any time by a notice given in accordance with Section 15 and, upon such revocation, Borrower shall pay to Lender all Funds, and in such amounts, that are then required under this Section 3.

Lender may, at any time, collect and hold Funds in an amount (a) sufficient to permit Lender to apply the Funds at the time specified under RESPA, and (b) not to exceed the maximum amount a lender can require under RESPA. Lender shall estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with Applicable Law.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentality, or entity (including Lender, if Lender is an institution whose deposits are so insured) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items no later than the time specified under RESPA. Lender shall not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and Applicable Law permits Lender to make such a charge. Unless an agreement is made in writing or Applicable Law requires interest to be paid on the Funds, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender can agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds as required by RESPA.

If there is a surplus of Funds held in escrow, as defined under RESPA, Lender shall account to Borrower for the excess funds in accordance with RESPA. If there is a shortage of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the shortage in accordance with RESPA, but in no more than 12 monthly payments. If there is a deficiency of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the deficiency in accordance with RESPA, but in no more than 12 monthly payments.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines, and impositions attributable to the Property which can attain priority over this Security Instrument, leasehold payments or ground rents on the Property, if any, and Community Association Dues, Fees, and Assessments, if any. To the extent that these items are Escrow Items, Borrower shall pay them in the manner provided in Section 3.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender, but only so long as Borrower is performing such agreement; (b) contests the lien in good faith by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of the lien while those proceedings are pending, but only until such proceedings are concluded; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which can attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Within 10

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days of the date on which that notice is given, Borrower shall satisfy the lien or take one or more of the actions set forth above in this Section 4.

Lender may require Borrower to pay a one-time charge for a real estate tax verification and/or reporting service used by Lender in connection with this Loan.

5. Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage," and any other hazards including, but not limited to, earthquakes and floods, for which Lender requires insurance. This insurance shall be maintained in the amounts (including deductible levels) and for the periods that Lender requires. What Lender requires pursuant to the preceding sentences can change during the term of the Loan. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's right to disapprove Borrower's choice, which right shall not be exercised unreasonably. Lender may require Borrower to pay, in connection with this Loan, either: (a) a one-time charge for flood zone determination, certification and tracking services; or (b) a one-time charge for flood zone determination and certification services and subsequent charges each time remappings or similar changes occur which reasonably might affect such determination or certification. Borrower shall also be responsible for the payment of any fees imposed by the Federal Emergency Management Agency in connection with the review of any flood zone determination resulting from an objection by Borrower.

If Borrower fails to maintain any of the coverages described above, Lender may obtain insurance coverage, at Lender's option and Borrower's expense. Lender is under no obligation to purchase any particular type or amount of coverage. Therefore, such coverage shall cover Lender, but might or might not protect Borrower, Borrower's equity in the Property, or the contents of the Property, against any risk, hazard or liability and might provide greater or lesser coverage than was previously in effect. Borrower acknowledges that the cost of the insurance coverage so obtained might significantly exceed the cost of insurance that Borrower could have obtained. Any amounts disbursed by Lender under this Section 5 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

All insurance policies required by Lender and renewals of such policies shall be subject to Lender's right to disapprove such policies, shall include a standard mortgage clause, and shall name Lender as mortgagee and/or as an additional loss payee. Lender shall have the right to hold the policies and renewal certificates. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. If Borrower obtains any form of insurance coverage, not otherwise required by Lender, for damage to, or destruction of, the Property, such policy shall include a standard mortgage clause and shall name Lender as mortgagee and/or as an additional loss payee.

In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower. Unless Lender and Borrower otherwise agree in writing, any insurance proceeds, whether or not the underlying insurance was required by Lender, shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such insurance proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such insurance proceeds, Lender shall not be required to pay Borrower any interest or earnings on such proceeds. Fees for public adjusters, or other third parties, retained by Borrower shall not be paid out of the insurance proceeds and shall be the sole obligation of Borrower. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to

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the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such insurance proceeds shall be applied in the order provided for in Section 2.

If Borrower abandons the Property, Lender may file, negotiate and settle any available insurance claim and related matters. If Borrower does not respond within 30 days to a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may negotiate and settle the claim. The 30-day period will begin when the notice is given. In either event, or if Lender acquires the Property under Section 22 or otherwise, Borrower hereby assigns to Lender (a) Borrower's rights to any insurance proceeds in an amount not to exceed the amounts unpaid under the Note or this Security Instrument, and (b) any other of Borrower's rights (other than the right to any refund of unearned premiums paid by Borrower) under all insurance policies covering the Property, insofar as such rights are applicable to the coverage of the Property. Lender may use the insurance proceeds either to repair or restore the Property or to pay amounts unpaid under the Note or this Security Instrument, whether or not then due.

6. Occupancy. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within 60 days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing, which consent shall not be unreasonably withheld, or unless extenuating circumstances exist which are beyond Borrower's control.

7. Preservation, Maintenance and Protection of the Property; Inspections. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate or commit waste on the Property. Whether or not Borrower is residing in the Property, Borrower shall maintain the Property in order to prevent the Property from deteriorating or decreasing in value due to its condition. Unless it is determined pursuant to Section 5 that repair or restoration is not economically feasible, Borrower shall promptly repair the Property if damaged to avoid further deterioration or damage. If insurance or condemnation proceeds are paid in connection with damage to, or the taking of, the Property, Borrower shall be responsible for repairing or restoring the Property only if Lender has released proceeds for such purposes. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. If the insurance or condemnation proceeds are not sufficient to repair or restore the Property, Borrower is not relieved of Borrower's obligation for the completion of such repair or restoration.

Lender or its agent may make reasonable entries upon and inspections of the Property. If it has reasonable cause, Lender may inspect the interior of the improvements on the Property. Lender shall give Borrower notice at the time of or prior to such an interior inspection specifying such reasonable cause.

8. Borrower's Loan Application. Borrower shall be in default if, during the Loan application process, Borrower or any persons or entities acting at the direction of Borrower or with Borrower's knowledge or consent gave materially false, misleading, or inaccurate information or statements to Lender (or failed to provide Lender with material information) in connection with the Loan. Material representations include, but are not limited to, representations concerning Borrower's occupancy of the Property as Borrower's principal residence.

9. Protection of Lender's Interest in the Property and Rights Under this Security Instrument. If (a) Borrower fails to perform the covenants and agreements contained in this Security Instrument, (b) there is a legal proceeding that might significantly affect Lender's interest in the Property and/or rights under this Security Instrument (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture, for enforcement of a lien which may attain priority over this Security Instrument or to enforce laws or regulations), or (c) Borrower has abandoned the Property, then Lender may do and pay for whatever is reasonable or appropriate to protect Lender's interest in the Property and rights under this Security Instrument, including protecting and/or assessing the value of the Property, and securing and/or repairing the Property. Lender's actions can include, but are not limited to: (a) paying any sums secured by a lien which has priority over this Security Instrument; (b) appearing in court; and (c) paying reasonable attorneys' fees to protect its interest in the Property and/or rights under this Security Instrument, including its secured position

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in a bankruptcy proceeding. Securing the Property includes, but is not limited to, entering the Property to make repairs, change locks, replace or board up doors and windows, drain water from pipes, eliminate building or other code violations or dangerous conditions, and have utilities turned on or off. Although Lender may take action under this Section 9, Lender does not have to do so and is not under any duty or obligation to do so. It is agreed that Lender incurs no liability for not taking any or all actions authorized under this Section 9.

Any amounts disbursed by Lender under this Section 9 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

10. Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan, Borrower shall pay the premiums required to maintain the Mortgage Insurance in effect. If, for any reason, the Mortgage Insurance coverage required by Lender ceases to be available from the mortgage insurer that previously provided such insurance and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the Mortgage Insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the Mortgage Insurance previously in effect, from an alternate mortgage insurer selected by Lender. If substantially equivalent Mortgage Insurance coverage is not available, Borrower shall continue to pay to Lender the amount of the separately designated payments that were due when the insurance coverage ceased to be in effect. Lender will accept, use and retain these payments as a non-refundable loss reserve in lieu of Mortgage Insurance. Such loss reserve shall be non-refundable, notwithstanding the fact that the Loan is ultimately paid in full, and Lender shall not be required to pay Borrower any interest or earnings on such loss reserve. Lender can no longer require loss reserve payments if Mortgage Insurance coverage (in the amount and for the period that Lender requires) provided by an insurer selected by Lender again becomes available, is obtained, and Lender requires separately designated payments toward the premiums for Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to maintain Mortgage Insurance in effect, or to provide a non-refundable loss reserve, until Lender's requirement for Mortgage Insurance ends in accordance with any written agreement between Borrower and Lender providing for such termination or until termination is required by Applicable Law. Nothing in this Section 10 affects Borrower's obligation to pay interest at the rate provided in the Note.

Mortgage Insurance reimburses Lender (or any entity that purchases the Note) for certain losses it may incur if Borrower does not repay the Loan as agreed. Borrower is not a party to the Mortgage Insurance.

Mortgage insurers evaluate their total risk on all such insurance in force from time to time, and may enter into agreements with other parties that share or modify their risk, or reduce losses. These agreements are on terms and conditions that are satisfactory to the mortgage insurer and the other party (or parties) to these agreements. These agreements may require the mortgage insurer to make payments using any source of funds that the mortgage insurer may have available (which may include funds obtained from Mortgage Insurance premiums).

As a result of these agreements, Lender, any purchaser of the Note, another insurer, any reinsurer, any other entity, or any affiliate of any of the foregoing, may receive (directly or indirectly) amounts that derive from (or might be characterized as) a portion of Borrower's payments for Mortgage Insurance, in exchange for sharing or modifying the mortgage insurer's risk, or reducing losses. If such agreement provides that an affiliate of Lender takes a share of the insurer's risk in exchange for a share of the premiums paid to the insurer, the arrangement is often termed "captive reinsurance." Further:

(a) Any such agreements will not affect the amounts that Borrower has agreed to pay for Mortgage Insurance, or any other terms of the Loan. Such agreements will not increase the amount Borrower will owe for Mortgage Insurance, and they will not entitle Borrower to any refund.

(b) Any such agreements will not affect the rights Borrower has - if any - with respect to the

Initials: AAL

Mortgage Insurance under the Homeowners Protection Act of 1998 or any other law. These rights may include the right to receive certain disclosures, to request and obtain cancellation of the Mortgage Insurance, to have the Mortgage Insurance terminated automatically, and/or to receive a refund of any Mortgage Insurance premiums that were unearned at the time of such cancellation or termination.

11. Assignment of Miscellaneous Proceeds; Forfeiture. All Miscellaneous Proceeds are hereby assigned to and shall be paid to Lender.

If the Property is damaged, such Miscellaneous Proceeds shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such Miscellaneous Proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may pay for the repairs and restoration in a single disbursement or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such Miscellaneous Proceeds, Lender shall not be required to pay Borrower any interest or earnings on such Miscellaneous Proceeds. If the restoration or repair is not economically feasible or Lender's security would be lessened, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such Miscellaneous Proceeds shall be applied in the order provided for in Section 2.

In the event of a total taking, destruction, or loss in value of the Property, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the Miscellaneous Proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the partial taking, destruction, or loss in value divided by (b) the fair market value of the Property immediately before the partial taking, destruction, or loss in value. Any balance shall be paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is less than the amount of the sums secured immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the Opposing Party (as defined in the next sentence) offers to make an award to settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the Miscellaneous Proceeds either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due. "Opposing Party" means the third party that owes Borrower Miscellaneous Proceeds or the party against whom Borrower has a right of action in regard to Miscellaneous Proceeds.

Borrower shall be in default if any action or proceeding, whether civil or criminal, is begun that, in Lender's judgment, could result in forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. Borrower can cure such a default and, if acceleration has occurred, reinstate as provided in Section 19, by causing the action or proceeding to be dismissed with a ruling that, in Lender's judgment, precludes forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. The proceeds of any award or claim for damages that are attributable to the impairment of Lender's interest in the Property are hereby assigned and shall be paid to Lender.

All Miscellaneous Proceeds that are not applied to restoration or repair of the Property shall be applied in the order provided for in Section 2.

12. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender

Initials: OAR

to Borrower or any Successor in Interest of Borrower shall not operate to release the liability of Borrower or any Successors in Interest of Borrower. Lender shall not be required to commence proceedings against any Successor in Interest of Borrower or to refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or any Successors in Interest of Borrower. Any forbearance by Lender in exercising any right or remedy including, without limitation, Lender's acceptance of payments from third persons, entities or Successors in Interest of Borrower or in amounts less than the amount then due, shall not be a waiver of or preclude the exercise of any right or remedy.

13. Joint and Several Liability; Co-signers; Successors and Assigns Bound. Borrower covenants and agrees that Borrower's obligations and liability shall be joint and several. However, any Borrower who co-signs this Security Instrument but does not execute the Note (a "co-signer"): (a) is co-signing this Security Instrument only to mortgage, grant and convey the co-signer's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower can agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without the co-signer's consent.

Subject to the provisions of Section 18, any Successor in Interest of Borrower who assumes Borrower's obligations under this Security Instrument in writing, and is approved by Lender, shall obtain all of Borrower's rights and benefits under this Security Instrument. Borrower shall not be released from Borrower's obligations and liability under this Security Instrument unless Lender agrees to such release in writing. The covenants and agreements of this Security Instrument shall bind (except as provided in Section 20) and benefit the successors and assigns of Lender.

14. Loan Charges. Lender may charge Borrower fees for services performed in connection with Borrower's default, for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument, including, but not limited to, attorneys' fees, property inspection and valuation fees. In regard to any other fees, the absence of express authority in this Security Instrument to charge a specific fee to Borrower shall not be construed as a prohibition on the charging of such fee. Lender may not charge fees that are expressly prohibited by this Security Instrument or by Applicable Law.

If the Loan is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the Loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge (whether or not a prepayment charge is provided for under the Note). Borrower's acceptance of any such refund made by direct payment to Borrower will constitute a waiver of any right of action Borrower might have arising out of such overcharge.

15. Notices. All notices given by Borrower or Lender in connection with this Security Instrument must be in writing. Any notice to Borrower in connection with this Security Instrument shall be deemed to have been given to Borrower when mailed by first class mail or when actually delivered to Borrower's notice address if sent by other means. Notice to any one Borrower shall constitute notice to all Borrowers unless Applicable Law expressly requires otherwise. The notice address shall be the Property Address unless Borrower has designated a substitute notice address by notice to Lender. Borrower shall promptly notify Lender of Borrower's change of address. If Lender specifies a procedure for reporting Borrower's change of address, then Borrower shall only report a change of address through that specified procedure. There may be only one designated notice address under this Security Instrument at any one time. Any notice to Lender shall be given by delivering it or by mailing it by first class mail to Lender's address stated herein unless Lender has designated another address by notice to Borrower. Any notice in connection with this Security Instrument shall not be deemed to have been given to Lender until actually received by Lender. If any notice required by this Security Instrument is also required under Applicable Law, the Applicable Law requirement will satisfy the corresponding requirement under this Security Instrument.

16. Governing Law; Severability; Rules of Construction. This Security Instrument shall be governed by federal law and the law of the jurisdiction in which the Property is located. All rights and obligations

Initials: CAR

contained in this Security Instrument are subject to any requirements and limitations of Applicable Law. Applicable Law might explicitly or implicitly allow the parties to agree by contract or it might be silent, but such silence shall not be construed as a prohibition against agreement by contract. In the event that any provision or clause of this Security Instrument or the Note conflicts with Applicable Law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision.

As used in this Security Instrument: (a) words of the masculine gender shall mean and include corresponding neuter words or words of the feminine gender; (b) words in the singular shall mean and include the plural and vice versa; and (c) the word "may" gives sole discretion without any obligation to take any action.

17. Borrower's Copy. Borrower shall be given one copy of the Note and of this Security Instrument.

18. Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

19. Borrower's Right to Reinstate After Acceleration. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earliest of: (a) five days before sale of the Property pursuant to any power of sale contained in this Security Instrument; (b) such other period as Applicable Law might specify for the termination of Borrower's right to reinstate; or (c) entry of a judgment enforcing this Security Instrument. Those conditions are that Borrower: (a) pays Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys' fees, property inspection and valuation fees, and other fees incurred for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument; and (d) takes such action as Lender may reasonably require to assure that Lender's interest in the Property and rights under this Security Instrument, and Borrower's obligation to pay the sums secured by this Security Instrument, shall continue unchanged. Lender may require that Borrower pay such reinstatement sums and expenses in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality or entity; or (d) Electronic Funds Transfer. Upon reinstatement by Borrower, this Security Instrument and obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under Section 18.

20. Sale of Note; Change of Loan Servicer; Notice of Grievance. The Note or a partial interest in the Note (together with this Security Instrument) can be sold one or more times without prior notice to Borrower. A sale might result in a change in the entity (known as the "Loan Servicer") that collects Periodic Payments due under the Note and this Security Instrument and performs other mortgage loan servicing obligations under the Note, this Security Instrument, and Applicable Law. There also might be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change which will state the name and address of the new Loan Servicer, the

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address to which payments should be made and any other information RESPA requires in connection with a notice of transfer of servicing. If the Note is sold and thereafter the Loan is serviced by a Loan Servicer other than the purchaser of the Note, the mortgage loan servicing obligations to Borrower will remain with the Loan Servicer or be transferred to a successor Loan Servicer and are not assumed by the Note purchaser unless otherwise provided by the Note purchaser.

Neither Borrower nor Lender may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from the other party's actions pursuant to this Security Instrument or that alleges that the other party has breached any provision of, or any duty owed by reason of, this Security Instrument, until such Borrower or Lender has notified the other party (with such notice given in compliance with the requirements of Section 15) of such alleged breach and afforded the other party hereto a reasonable period after the giving of such notice to take corrective action. If Applicable Law provides a time period which must elapse before certain action can be taken, that time period will be deemed to be reasonable for purposes of this paragraph. The notice of acceleration and opportunity to cure given to Borrower pursuant to Section 22 and the notice of acceleration given to Borrower pursuant to Section 18 shall be deemed to satisfy the notice and opportunity to take corrective action provisions of this Section 20.

21. Hazardous Substances. As used in this Section 21: (a) "Hazardous Substances" are those substances defined as toxic or hazardous substances, pollutants, or wastes by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials; (b) "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection; (c) "Environmental Cleanup" includes any response action, remedial action, or removal action, as defined in Environmental Law; and (d) an "Environmental Condition" means a condition that can cause, contribute to, or otherwise trigger an Environmental Cleanup.

Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances, or threaten to release any Hazardous Substances, on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property (a) that is in violation of any Environmental Law, (b) which creates an Environmental Condition, or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Property. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property (including, but not limited to, hazardous substances in consumer products).

Borrower shall promptly give Lender written notice of (a) any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge, (b) any Environmental Condition, including but not limited to, any spilling, leaking, discharge, release or threat of release of any Hazardous Substance, and (c) any condition caused by the presence, use or release of a Hazardous Substance which adversely affects the value of the Property. If Borrower learns, or is notified by any governmental or regulatory authority, or any private party, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law. Nothing herein shall create any obligation on Lender for an Environmental Cleanup.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

22. Acceleration; Remedies. Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under Section 18 unless Applicable Law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Security Instrument and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the default is not cured on or before the date specified in the notice, Lender at its option, and without further demand, may invoke the power of sale, including the right to accelerate full payment of the Note, and any other remedies permitted by Applicable Law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Section 22, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute written notice of the occurrence of an event of default and of Lender's election to cause the Property to be sold, and shall cause such notice to be recorded in each county in which any part of the Property is located. Lender shall mail copies of the notice as prescribed by Applicable Law to Borrower and to the persons prescribed by Applicable Law. Trustee shall give public notice of sale to the persons and in the manner prescribed by Applicable Law. After the time required by Applicable Law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more parcels and in any order Trustee determines. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or its designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable Trustee's and attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

23. Reconveyance. Upon payment of all sums secured by this Security Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Security Instrument and all notes evidencing debt secured by this Security Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled to it. Such person or persons shall pay any recordation costs. Lender may charge such person or persons a fee for reconveying the Property, but only if the fee is paid to a third party (such as the Trustee) for services rendered and the charging of the fee is permitted under Applicable Law.

24. Substitute Trustee. Lender at its option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon Trustee herein and by Applicable Law.

25. Assumption Fee. If there is an assumption of this loan, Lender may charge an assumption fee of U.S. $ Varies per investor

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any Rider executed by Borrower and recorded with it.

Witnesses:

_______________________ (Seal)
CATHERINE RODRIGUEZ -Borrower

____

_______________________ (Seal)
-Borrower

_______________________ (Seal)
-Borrower

_______________________ (Seal)
-Borrower

_______________________ (Seal)
-Borrower

_______________________ (Seal)
-Borrower

_______________________ (Seal)
-Borrower

_______________________ (Seal)
-Borrower

STATE OF NEVADA
COUNTY OF CLARK

This instrument was acknowledged before me on April 22, 2005 by

CATHERINE RODRIGUEZ

NOTARY PUBLIC
County of Clark-State of Nevada
GERI MUSLINER
No. 01-68593-1
My Appointment Expires April 26, 2005

Geri Musliner

Mail Tax Statements To: TOTAL MORTGAGE SOLUTIONS, LP
1555 W. WALNUT HILL LANE, SUITE 200A
IRVING, TX 75038

Order No. : 5116003582-GM

EXHIBIT "A"

The land referred to is situated in the State of Nevada, County of Clark, City of Las Vegas, and is described as follows:

Lot 37 in Block 3 of Concordia @ Deer Springs Unit 3, as shown by map thereof on file in Book 112 of Plats, Page 28, in the Office of the County Recorder, Clark County, Nevada.

PLANNED UNIT DEVELOPMENT RIDER

THIS PLANNED UNIT DEVELOPMENT RIDER is made this 21st day of April, 2005, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Security Deed (the "Security Instrument") of the same date, given by the undersigned (the "Borrower") to secure Borrower's Note to

FIRST HORIZON HOME LOAN CORPORATION

(the "Lender") of the same date and covering the Property described in the Security Instrument and located at:

6845 SWEET PECAN STREET, LAS VEGAS, Nevada 89149

[Property Address]

The Property includes, but is not limited to, a parcel of land improved with a dwelling, together with other such parcels and certain common areas and facilities, as described in

PER CC&R'S

(the "Declaration"). The Property is a part of a planned unit development known as

CONCORDIA @ DEER SPRINGS

[Name of Planned Unit Development]

(the "PUD"). The Property also includes Borrower's interest in the homeowners association or equivalent entity owning or managing the common areas and facilities of the PUD (the "Owners Association") and the uses, benefits and proceeds of Borrower's interest.

PUD COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. PUD Obligations. Borrower shall perform all of Borrower's obligations under the PUD's Constituent Documents. The "Constituent Documents" are the (i) Declaration; (ii) articles of incorporation, trust instrument or any equivalent document which creates the Owners Association; and (iii) any by-laws or other rules or regulations of the Owners Association. Borrower shall promptly pay, when due, all dues and assessments imposed pursuant to the Constituent Documents.

REDACTED

B. Property Insurance. So long as the Owners Association maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring the Property which is satisfactory to Lender and which provides insurance coverage in the amounts (including deductible levels), for the periods, and against loss by fire, hazards included within the term "extended coverage," and any other hazards, including, but not limited to, earthquakes and floods, for which Lender requires insurance, then: (i) Lender waives the provision in Section 3 for the Periodic Payment to Lender of the yearly premium installments for property insurance on the Property; and (ii) Borrower's obligation under Section 5 to maintain property insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy.

What Lender requires as a condition of this waiver can change during the term of the loan.

Borrower shall give Lender prompt notice of any lapse in required property insurance coverage provided by the master or blanket policy.

In the event of a distribution of property insurance proceeds in lieu of restoration or repair following a loss to the Property, or to common areas and facilities of the PUD, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender. Lender shall apply the proceeds to the sums secured by the Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

C. Public Liability Insurance. Borrower shall take such actions as may be reasonable to insure that the Owners Association maintains a public liability insurance policy acceptable in form, amount, and extent of coverage to Lender.

D. Condemnation. The proceeds of any award or claim for damages, direct or consequential, payable to Borrower in connection with any condemnation or other taking of all or any part of the Property or the common areas and facilities of the PUD, or for any conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender. Such proceeds shall be applied by Lender to the sums secured by the Security Instrument as provided in Section 11.

E. Lender's Prior Consent. Borrower shall not, except after notice to Lender and with Lender's prior written consent, either partition or subdivide the Property or consent to: (i) the abandonment or termination of the PUD, except for abandonment or termination required by law in the case of substantial destruction by fire or other casualty or in the case of a taking by condemnation or eminent domain; (ii) any amendment to any provision of the "Constituent Documents" if the provision is for the express benefit of Lender; (iii) termination of professional management and assumption of self-management of the Owners Association; or (iv) any action which would have the effect of rendering the public liability insurance coverage maintained by the Owners Association unacceptable to Lender.

F. Remedies. If Borrower does not pay PUD dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph F shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this PUD Rider.

_____ (Seal) -Borrower CATHERINE RODRIGUEZ	_____ (Seal) -Borrower
_____ (Seal) -Borrower	_____ (Seal) -Borrower
_____ (Seal) -Borrower	_____ (Seal) -Borrower
_____ (Seal) -Borrower	_____ (Seal) -Borrower

ADJUSTABLE RATE RIDER

REDACTED

(LIBOR Six-Month Index (As Published In *The Wall Street Journal*) - Rate Caps)

THIS ADJUSTABLE RATE RIDER is made this 21st day of April, 2005, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Security Deed (the "Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Adjustable Rate Note (the "Note") to FIRST HORIZON HOME LOAN CORPORATION

("Lender") of the same date and covering the property described in the Security Instrument and located at:

6845 SWEET PECAN STREET
LAS VEGAS, NV 89149

[Property Address]

THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN THE INTEREST RATE AND THE MONTHLY PAYMENT. THE NOTE LIMITS THE AMOUNT BORROWER'S INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MAXIMUM RATE BORROWER MUST PAY.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES

The Note provides for an initial interest rate of 5.625 %. The Note provides for changes in the interest rate and the monthly payments, as follows:

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The interest rate I will pay may change on the first day of May, 2010, and on that day every 6th month thereafter. Each date on which my interest rate could change is called a "Change Date."

(B) The Index

Beginning with the first Change Date, my interest rate will be based on an Index. The "Index" is the average of interbank offered rates for six month U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in The Wall Street Journal. The most recent Index figure available as of the first business day of the month immediately preceding the month in which the Change Date occurs is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new Index that is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid principal that I am expected to owe at the Change Date in full on the Maturity Date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Changes
The interest rate I am required to pay at the first Change Date will not be greater than 11.625 % or less than 2.250 %. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than TWO & 00/100 percentage points (2.00 %) from the rate of interest I have been paying for the preceding 6 months. My interest rate will never be greater than 11.625 %.

(E) Effective Date of Changes
My new interest rate will become effective on each Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Change Date until the amount of my monthly payment changes again.

(F) Notice of Changes
The Note Holder will deliver or mail to me a notice of any changes in my interest rate and the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

B. TRANSFER OF THE PROPERTY OR A BENEFICIAL INTEREST IN BORROWER
Uniform Covenant 18 of the Security Instrument is amended to read as follows:

> **Transfer of the Property or a Beneficial Interest in Borrower.** As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.
>
> If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.
>
> To the extent permitted by Applicable Law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender also may require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. Borrower will continue to be obligated under the Note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Adjustable Rate Rider.

_____________________ (Seal) -Borrower
CATHERINE RODRIGUEZ

_____________________ (Seal) -Borrower

_____________________ (Seal) -Borrower

_____________________ (Seal) -Borrower

_____________________ (Seal) -Borrower

_____________________ (Seal) -Borrower

_____________________ (Seal) -Borrower

_____________________ (Seal) -Borrower

REDACTED

INTEREST ONLY ADDENDUM
TO ADJUSTABLE RATE RIDER

THIS ADDENDUM is made this 21st day of April , 2005 , and is incorporated into and intended to form a part of the Adjustable Rate Rider (the "Rider") dated the same date as this Addendum executed by the undersigned and payable to FIRST HORIZON HOME LOAN CORPORATION

(the "Lender").

THIS ADDENDUM supercedes Section 4(C) of the Rider. None of the other provisions of the Rider are changed by this Addendum.

4. **INTEREST RATE AND MONTHLY PAYMENT CHANGES**

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D), this rounded amount will be my new interest rate until the next Change Date.

During this Interest Only Period, the Note Holder will then determine the amount of the monthly payment that would be sufficient to repay accrued interest. This will be the amount of my monthly payment until the earlier of the next Change Date or the end of the Interest Only Period unless I make a voluntary prepayment of principal during such period. If I make a voluntary prepayment of principal during the Interest Only Period, my payment amount for subsequent payments will be reduced to the amount necessary to pay interest on the lower principal balance. At the end of the Interest Only Period and on each Change Date thereafter, the Note Holder will determine the amount of the monthly payment that would be sufficient to repay in full the unpaid principal that I am expected to owe at the end of the Interest Only Period or Change Date, as applicable, in equal monthly payments over the remaining term of the Note. The result of this calculation will be the new amount of my monthly payment. After the end of the Interest Only Period, my payment amount will not be reduced due to voluntary prepayments.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Addendum.

CATHERINE RODRIGUEZ 04-22-05 Date ______________________ Date

______________________ Date ______________________ Date

______________________ Date ______________________ Date

______________________ Date ______________________ Date

Inst #: 201006160002631
Fees: $16.00
N/C Fee: $25.00
06/16/2010 12:24:11 PM
Receipt #: 390718
Requestor:
UTLS DEFAULT SERVICES
Recorded By: DXI Pgs: 2
DEBBIE CONWAY
CLARK COUNTY RECORDER

APN: 125-20-212-037

Recording requested by:

When recorded mail to:

MetLife Home Loans a division of MetLife
Bank NA
4000 Horizon Way
Foreclosure Dept. #6205
Irving, TX 75063

Space above this line for recorders use

APN: 125-20-212-037

TS # NV-10-351356-NF

Order # 30240344

Investor No. REDACTED

Assignment of Deed of Trust

For value received, the undersigned corporation hereby grants, assigns, and transfers to

The Bank of New York Mellon f/k/a The Bank of New York, as Trustee for the holders of the Certificates, First Horizon Mortgage Pass-Through Certificates Series FHAMS 2005-AA5, by First Horizon Home Loans, a division of First Tennessee Bank National Association, Master Servicer, in its capacity as agent for the Trustee under the Pooling and Servicing Agreement

All beneficial interest under that certain Deed of Trust dated **4/21/2005** executed by **CATHERINE RODRIGUEZ, AN UNMARRIED WOMAN,** as Trustor(s) to **OLD REPUBLIC TITLE**, as Trustee and recorded as Instrument No. **20050427-0003843**, on **4/27/2005**, in Book **XXX**, Page **XXX** of Official Records, in the office of the County Recorder of **CLARK** County, **NV** together with the Promissory Note secured by said Deed of Trust and also all rights accrued or to accrue under said Deed of Trust.

NV-10-351356-NF
Page 2

Dated: 5-24-2010

MORTGAGE ELECTRONIC REGISTRATION SYSTEMS, INC. AS NOMINEE FOR FIRST HORIZON HOME LOAN CORPORATION

By: ______________________
Wanda Collier
Assistant Secretary

State of Texas)
) ss
County of Dallas)

On 5-24-10 before me, Sherian Hopkins the undersigned Notary Public, personally appeared Wanda Collier personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

Signature ______________________ (Seal)

SHERIAN HOPKINS
Notary Public, State of Texas
My Commission Expires
July 06, 2013

EXHIBIT "2"

Nationstar MORTGAGE

03/20/2012

Sent Via Certified Mail
7196 9006 9295 8655 0711

CATHERINE RODRIGUEZ
6845 SWEET PECAN ST
LAS VEGAS, NV 89149-3040

Loan Number:
Property Address: 6845 SWEET PECAN STREET
LAS VEGAS, NV 89149

Dear CATHERINE RODRIGUEZ :

You are hereby provided formal notice by Nationstar Mortgage, LLC, the Servicer of the above-referenced loan, on behalf of First Tennessee Bank National Association, the Creditor to whom the debt is owed, that you are in default under the terms and conditions of the Note and Security Instrument (i.e. Deed of Trust, Mortgage, etc.), for failure to pay the required installments when due.

This letter serves as further notice that Nationstar Mortgage, LLC intends to enforce the provisions of the Note and Security Instrument. You must pay the full amount of the default on this loan by the thirty-fifth (35th) day from the date of this letter which is 04/24/2012 (or if said date falls on a Saturday, Sunday, or legal holiday, then on the first business day thereafter). If you do not pay the full amount of the default, we shall accelerate the entire sum of both principal and interest due and payable, and invoke any remedies provided for in the Note and Security Instrument, including but not limited to the foreclosure sale of the property. If you received a bankruptcy discharge which included this debt, this notice is not intended and does not constitute an attempt to collect a debt against you personally; notice provisions may be contained within your mortgage/deed of trust which notice may be required prior to foreclosure.

You are hereby informed that you have the right to "cure" or reinstate the loan after acceleration and the right to assert in the foreclosure proceeding the non-existence of a default or any other defense you may have to acceleration and sale.

As of **03/20/2012 the amount of the debt that we are seeking to collect is $36,242.41**, which includes the sum of payments that have come due on and after the date of default **12/01/2009**, any late charges, periodic adjustments to the payment amount (if applicable) and expenses of collection. Because of interest, late charges, and other charges or credits that may vary from day to day, or be assessed during the processing of this letter, the amount due on the day that you pay may be greater. Please contact Nationstar Mortgage, LLC at (888) 480-2432 on the day that you intend to pay for the full amount owed on your account. This letter is in no way intended as a payoff statement for your mortgage, it merely states an amount necessary to cure the current delinquency.

Please note, however, that your right to cure this default as referenced herein does not suspend your payment obligations. Pursuant to the terms of the Note, your **04/01/2012** installment is still due on **04/01/2012** (or if said date(s) falls on a Saturday, Sunday, or legal holiday, then on the first business day thereafter). In addition, any subsequent advances made by the Servicer to protect their lien position must be added to the total amount necessary to cure the default. Please disregard this notice if a payment sufficient to cure the default has already been sent.

A "CURE" or "Reinstatement Right" similar to that described in the prior paragraph may be available in many states. If, at any time, you make a written request to us not to be contacted by phone at your place of employment, we will not do so. If, at any time, you make a written request to us not to contact you, we will not do so, except to send statutorily and/or contractually required legal notice.

Nationstar Mortgage, LLC would like you to be aware that if you are unable to make payments or resume payments within a reasonable period of time due to a reduction in your income resulting from a loss or reduction in your employment, you may be eligible for Homeownership Counseling. To obtain a list of HUD approved counseling agencies, please call (800) 569-4287 or by visiting http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm. You may also contact the Homeownership Preservation Foundation's Hope hotline at (888) 995-HOPE (4673).

Attention Servicemembers and dependents: The Federal Servicemembers' Civil Relief Act ("SCRA") and certain state laws provide important protections for you, including prohibiting foreclosure under most circumstances. If you are currently in the military service, or have been within the last nine (9) months, **AND** joined after signing the Note and Security Instrument now in default, please notify Nationstar Mortgage, LLC immediately. When contacting Nationstar Mortgage, LLC as to your military service, you must provide positive proof as to your military status. If you do not provide this information, it will be assumed that you are not entitled to protection under the above-mentioned Act.

You are notified that this default and any other legal action that may occur as a result thereof may be reported to one or more local and national credit reporting agencies by Nationstar Mortgage, LLC. Nationstar Mortgage, LLC requests that all payments be made in **certified funds, cashier's check or money order(s)** payable to and mailed to **Nationstar Mortgage, LLC** at **PO Box 650783, Dallas TX 75265-0783**. You may contact Nationstar Mortgage, LLC at (888) 480-2432 should you have servicing questions regarding your account or by mail at 350 Highland Drive, Lewisville, TX 75067-4177. You may have options available to you to help you avoid foreclosure. Please contact Nationstar Mortgage, LLC's Loss Mitigation Department at (888) 480-2432 or by visiting www.nationstarmtg.com for additional information and to see what options are available to you.

The matters discussed herein are of extreme importance. We trust you will give them appropriate attention.

Sincerely,

Viviana Acosta
Assigned Foreclosure Prevention Specialist
Nationstar Mortgage, LLC
(800)766-7751 ext. 6874

350 Highland Drive
Lewisville, TX 75067

Unless you notify us within 30 days after receiving this notice that you dispute the validity of this debt or any portion thereof, we will assume this debt is valid. If you notify us in writing within 30 days from receiving this notice that you dispute the validity of this debt or any portion thereof, we will obtain verification of the debt or obtain a copy of a judgment and mail you a copy of such judgment or verification. Upon your written request within thirty days after the receipt of this notice, we will provide you with the name and address of the original creditor, if the original creditor is different from the current creditor.

agreements. Thus, the repurchase price differs based on the unit's series, as well as the reason for termination. Class A units granted to Messrs. Bray, Appel, Patel and Barone, may be repurchased (a) following a termination for cause at the lesser of fair market value on the date of (i) termination or (ii) grant, and (b) following a termination for any other reason, for fair market value on the date of termination. Class C and D units may be repurchased for an amount equal to the sum of (i) the purchase price of the units plus any additional capital contributions less any distribution paid with respect to the units and (ii) any accrued and preferred yield less any accrued unpaid pre-2010 preferred yield.

Long-Term Incentive Plan. Mr. Krueger participates in a long-term incentive plan which is designed to reward company and individual performance and serve as a retention device. Awards are determined at the conclusion of the plan year (calendar) based upon the Company's overall financial performance and Mr. Krueger's contribution to those results. The Company made no long-term incentive awards to NEOs in 2011. However, Messrs. Bray, Patel and Barone received awards in 2008 that vested in 2011 in the amounts of $200,000, $150,000 and $300,000, respectively. Following our public offering, we anticipate Mr. Krueger will continue to receive long-term incentive awards. However, the Compensation Committee has made no definitive decisions regarding future awards. Awards are approved by our Board of

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Managers with an award date of December 31 of the year just concluded. The award is generally subject to a three year cliff vesting requirement from the date of the award, which provides an important retention incentive as the executive must remain employed by the Company to receive the award. The award ordinarily is paid in a single installment in the first quarter of the third year following grant. Mr. Krueger must be employed by the Company on the date of payout to receive the award.

Severance Benefits

As noted above, we have entered into an employment agreement with Mr. Appel and we had entered into employment agreements with Messrs. Bray, Patel, Krueger and Barone that expired in 2011. While the employment agreements are in effect, the agreements provide severance benefits to such officers in the circumstances described in greater detail below in the section entitled *"Employment Agreements."*

Other Compensation Components

All of our executive officers are eligible to participate in our employee benefit plans, including medical, dental, life insurance and 401(k) plans. These plans are available to all employees and do not discriminate in favor of our NEOs. In addition, we reimburse Mr. Barone and Mr. Bray for the cost of life insurance premiums pursuant to our Executive Life Program. We do not view perquisites as a significant element of our comprehensive compensation structure; however, we believe some perquisites are necessary for the Company to attract and retain superior management talent for the benefit of all unitholders. The value of these benefits to the NEOs is set forth in the Summary Compensation Table under the column "*All Other Compensation*" and details about each benefit is set forth in a table following the Summary Compensation Table.

Summary Compensation Table

The following table sets forth the annual compensation for the NEOs serving at the end of fiscal year 2011.

Name	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Non-Stock Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Jay Bray	2011	320,000	–	–	1,598,569 (2)	11,048 (6)	1,929,617
	2010	320,000	–	9,918,148	809,434 (3)	11,048 (6)	11,058,630
	2009	289,800	–	–	630,235 (5)	11,069 (7)	931,104
Robert L. Appel	2011	275,000	–	–	867,560 (2)	6,875 (8)	1,149,435
	2010	275,000	–	6,467,985	439,288 (3)	5,500 (8)	7,187,773
	2009	275,000	–	–	342,035 (5)	5,500 (8)	622,535
Amar Patel	2011	255,000	–	–	780,914 (2)	6,231 (8)	1,042,145
	2010	255,000	–	4,147,863	395,415 (3)	6,231 (8)	4,804,509
	2009	255,000	–	–	307,875 (5)	6,231 (8)	569,106
Douglas Krueger	2011	257,500	–	–	350,000 (2)	7,725 (8)	615,225
	2010	250,000	–	–	425,000 (9)	3,125 (8)	678,125
	2009	215,064	100,000 (10)	–	350,000 (11)	41,239 (12)	706,303
Anthony H. Barone	2011	424,350	–	–	1,792,956 (2)	17,036 (13)	2,234,342
	2010	424,350	–	9,584,458	907,862 (3)	16,233 (4)	10,932,903
	2009	424,350	–	–	706,872 (5)	16,116 (4)	1,147,338

(1) Represents the aggregate grant date fair value, as computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation—Stock Compensation excluding the effect of estimated forfeitures during the applicable vesting periods, of units and RSUs granted to the NEOs. Information with respect to vesting of these awards is disclosed in the Grant of Plan Based Awards table and the accompanying notes.

(2) These amounts will be paid in the first quarter of fiscal year 2012 but represent awards with respect to the Company's and individual performance in fiscal year 2011.

(3) These amounts were paid in the first quarter of fiscal year 2011 but represent awards with respect to the Company's and individual performance in fiscal year 2010.

(4) Represents payment of a life insurance premium equal to $9,216 in 2009 and 2010, and a $6,900 and $7,017 in 2009 and 2010, respectively, contribution to Mr. Barone's 401(k) account.

(5) These amounts were paid in the first quarter of fiscal 2010 but represent awards with respect to the Company's and individual performance in fiscal year 2009.

(6) Represents payment of a life insurance premium equal to $5,998 and a $5,050 contribution to Mr. Bray's 401(k) account.

(7) Represents payment of a life insurance premium equal to $5,998 and a $5,071 contribution to Mr. Bray's 401(k) account.

(8) Represents a contribution to the NEO's 401(k) account.

(9) Of this amount, $300,000 was paid in the first quarter of fiscal year 2011, although it represents an award with respect to the Company's and Mr. Krueger's individual performance in fiscal year 2010. The remaining $125,000 is pursuant to the Long-Term Incentive Plan, described above, and is subject to three- year time-based cliff vesting; this amount will become vested on December 31, 2013 as long as Mr. Krueger remains employed with the Company.

(10) Represents a sign-on bonus Mr. Krueger received pursuant to his employment agreement when he joined the Company.

(11) Of this amount, $225,000 was paid in the first quarter of fiscal year 2010, although it represents an award with respect to the Company's and Mr. Krueger's individual performance in fiscal year 2009, as described in Annual Incentive Program for Mr. Krueger. The remaining $125,000 is pursuant to the Long-Term Incentive Plan, described above, and is subject to three-year time-based cliff vesting; this amount will become vested on December 31, 2012 as long as Mr. Krueger remains employed with the Company.

(12) Represents payment of a relocation expenses equal to $39,469 and a $1,770 contribution to Mr. Krueger's 401(k) account.

(13) Represents payment of a life insurance premium equal to $9,216 and a $7,820 contribution to Mr. Barone's 401(k) account.

Grants of Plan-Based Awards

The following table sets forth, for each of the Executive Officers, the grants of awards under any plan during the fiscal year ended December 31, 2011.

Name	**Estimated Future Payouts Under Non-Equity Incentive Plan Awards Target ($)**
Jay Bray	1,598,569 (1)
Robert L. Appel	867,560 (1)
Amar Patel	780,914 (1)
Douglas Krueger	350,000 (2)
Anthony H. Barone	1,792,956 (1)

(1)Represents amounts granted under the Incentive Plan as described in Incentive Plan for Messrs. Barone, Bray, Appel and Patel.

(2)Represents the amount granted under the Annual Incentive Program for Mr. Krueger, as described above.

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Outstanding Equity Awards at Fiscal Year End

The following table sets forth, for each of the NEOs the outstanding equity awards as of the end of the fiscal year ended December 31, 2011, as described in greater detail in *Long-Term Incentive Plan*. The unvested Series 1 Class A units may be exchanged for shares of our common stock pursuant to the Unit Exchange offered by Fortress Investment Group.

	Stock Awards					
	Number of Units That Have Not Vested (#)			Market Value of Units That Have Not Vested ($)		
Name	1A	2A	C&D	1A	2A	C&D
Jay Bray[1]	56,880	10,633	692,917	$ 4,492,347	$ 7,908	$ 961,338
Robert L. Appel[2]	34,128	6,379	415,750	2,695,408	4,744	576,803
Amar Patel[3]	22,752	4,254	277,167	1,796,939	3,164	384,535
Douglas Krueger	—	—	—	—	—	—
Anthony H. Barone[4]	68,256	12,758	831,500	5,390,816	9,488	1,153,606

(1) This award is subject to vesting. With respect to the Series 1 Class A, the award will vest with respect to 56,880 Series 1 Class A units on June 30, 2012. With respect to the Series 2 Class A, the award will vest with respect to 10,633 Series 2 Class A units on June 30, 2012. With respect to the Series 1 Class C and D preferred units, the award will vest with respect to 692,917 units on June 30, 2012.

(2) This award is subject to vesting. With respect to the Series 1 Class A, the award will vest with respect to 34,128 units on June 30, 2012. With respect to the Series 2 Class A, the award will vest with respect to 6,379 units on June 30, 2012. With respect to the Series 1 Class C and D preferred units, the award will vest with respect to 415,750 units on June 30, 2012.

(3) This award is subject to vesting. With respect to the Series 1 Class A, the award will vest with respect to 22,752 Series 1 Class A units on June 30, 2012. With respect to the Series 2 Class A, the award will vest with respect to 4,254 Series 2 Class A units on June 30, 2012. With respect to the Series 1 Class C and D preferred units, the award will vest with respect to 277,167 units on June 30, 2012.

(4) This award is subject to vesting. With respect to the Series 1 Class A, the award will vest with respect to 68,256 Series 1 Class A units on June 30, 2012. With respect to the Series 2 Class A, the award will vest with respect to 12,758 on June 30, 2012. With respect to the Series 1 Class C and D preferred units, the award will vest with respect to 831,500 units on June 30, 2012.

Stock Vested

The following table sets forth, for each of the NEOs, information with respect to the vesting of equity-based awards during the fiscal year ended December 31, 2011.

	Stock Awards					
	Number of Units Acquired on Vesting (#)			Value Realized on Vesting ($)		
Name	1A	2A	C&D	1A	2A	C&D
Jay Bray	56,880	10,631	692,917	$3,651,920	$8,079	$ 888,060
Robert L. Appel	34,128	6,379	415,750	2,191,152	4,847	532,836

Amar Patel	22,752	4,252	277,167	1,460,768	3,231	355,223
Douglas Krueger	—	—	—	—	—	—
Anthony H. Barone	68,256	12,758	831,500	4,382,303	9,695	1,065,672

Employment Agreements

The Company has entered into employment agreements with all of our NEOs.

Employment Agreements of Messrs. Barone and Bray

Mr. Barone and the Company entered into an amended and restated employment agreement pursuant to which Mr. Barone agreed to serve as our Chief Executive Officer on September 17, 2010. Mr. Bray and the Company entered into an amended and restated employment agreement pursuant to which Mr. Bray agreed to serve as our Chief Financial Officer on September 17, 2010. Pursuant to their terms, the agreements expired on September 17, 2011 and July 10, 2011, respectively. Pursuant to the employment agreements, upon a termination for any reason or no reason, Messrs. Barone and Bray are bound by one-year post-termination non-competition, non-solicitation, confidentiality and non-disparagement covenants. These covenants survive the termination or expiration of Messrs. Barone's and Bray's employment agreements.

Prior to expiration, the employment agreements provided, among other things, for payments to the executive following certain terminations of employment. If prior to the expiration, Mr. Barone's employment or Mr. Bray's employment had been terminated by the Company without "cause" or had been terminated by him for "good reason," subject to his execution of a release of claims, he would have been entitled to (1) 18 months of continued base salary, (2) an amount equal to 150% of the average of his annual cash bonus for the three most recently completed fiscal years and (3) continued coverage under the Company's medical plan until the earlier of (a) the time he becomes eligible for coverage from a new employer and (b) 12 months following the date of termination. If Mr. Barone's or Mr. Bray's employment would have terminated due to his resignation, subject to his execution of a release of claims, he would have been entitled to (1) six months of continued base salary and (2) 50% of the average of his annual cash bonus for the three most recently completed fiscal years. Following the expiration of the term, Mr. Barone and Mr. Bray continued as employees at-will and are not entitled to any severance payments under their respective employment agreements upon any subsequent termination.

Employment Agreement of Mr. Appel

Mr. Appel and the Company entered into an amended employment agreement pursuant to which Mr. Appel agreed to serve as our Executive Vice President, Servicing on September 17, 2010. The initial term of the employment agreement ends on February 3, 2011 and will be automatically renewed for two additional periods of one year commencing on each of February 4, 2011 and February 4, 2012 unless either party gives the other notice of intent not to renew by no later than January 4, 2011 and January 4, 2012, respectively. Failure by the Company to renew Mr. Appel's term of employment on February 4, 2011 and February 4, 2012, would entitle Mr. Appel to terminate his employment for "good reason" and receive the severance payments described below. Pursuant to the employment agreement, upon a termination for any reason or no reason, Mr. Appel is bound by one-year post-termination non-competition, non-solicitation, confidentiality and non-disparagement covenants. These covenants survive the termination or expiration of Mr. Appel's employment agreement.

The employment agreement provides for a one-time cash retention bonus of $400,000 if Mr. Appel is employed by the Company on February 4, 2013 (and has not given notice of his intent to resign). If Mr. Appel's employment is terminated by the Company without "cause" or is terminated by Mr. Appel for "good reason," subject to his execution of a release of claims, he would be entitled to (1) an amount equal to (a) 12 months of base salary plus (b) a lump sum severance payment of $175,000, (2) a prorated portion of the annual cash incentive bonus for the year of termination, (3) if such termination occurs prior to February 4, 2013, the retention bonus, and (4) continued coverage under the Company's medical plan until the earlier of (a) the time Mr. Appel becomes eligible for coverage from a new employer and (b) 12 months following the date of termination. Following February 3, 2013, absent an earlier termination of his employment agreement, Mr. Appel will continue as an employee at-will and will not be entitled to any severance payments under his employment agreement upon any subsequent termination.

Employment Agreement of Mr. Patel

Mr. Patel and the Company entered into an amended and restated employment agreement pursuant to which Mr. Patel agreed to serve as our Executive Vice President on September 17, 2010. Pursuant to its terms, the agreement expired on June 1, 2011. Pursuant to the employment agreement, upon a termination for any reason or no reason, Mr. Patel is bound by one-year post-termination non-competition, non-solicitation, confidentiality and non-disparagement covenants. These covenants survive the termination or expiration of Mr. Patel's employment agreement.

Prior to the expiration of the agreement, if Mr. Patel's employment had been terminated by the Company without "cause" or had been terminated by Mr. Patel for "good reason," subject to Mr. Patel's execution of a release of claims, he would have been entitled to (1) six months of continued base salary, (2) an amount equal to 50% of his annual cash bonus paid to him for the most recently completed fiscal year

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and (3) continued coverage under the Company's medical plan until the earlier of (a) the time he became eligible for coverage from a new employer and (b) six months following the date of termination. Following June 1, 2011, Mr. Patel continued as an employee at-will and will not be entitled to any severance payments under his employment agreement upon any subsequent termination.

Employment Agreement of Mr. Krueger

Mr. Krueger and the Company entered into an employment agreement pursuant to which Mr. Krueger agreed to serve as our Executive Vice President, Capital Markets on February 19, 2009. Pursuant to its terms, the agreement expired on February 18, 2011. Pursuant to the agreement, Mr. Krueger is bound by a six-month post-termination non-competition, a one-year post-termination non-solicitation, confidentiality and non-disparagement covenants. These covenants survive the termination or expiration of Mr. Krueger's employment agreement.

Prior to the expiration of the agreement, if Mr. Krueger's employment had been terminated by the Company without "cause" or had been terminated by Mr. Krueger for "good reason," subject to Mr. Krueger's execution of a release of claims, he would have been entitled to (1) accrued benefits, (2) an amount equal to Mr. Krueger's unpaid base salary and guaranteed bonus through February 18, 2011 and (3) continued coverage under the Company's medical plan until the earlier of (a) the time he becomes eligible for coverage from a new employer and (b) six months following the date of termination. Following February 18, 2011, Mr. Krueger continued as an employee at-will and will not be entitled to any severance payments under his employment agreement upon any subsequent termination.

Potential Payments upon Termination or Change in Control

The following table sets forth the value of benefits that would have been payable to the NEOs assuming a termination of employment or change of control on December 31, 2011.

Name	Death	Disability	Voluntary Termination	Termination without Cause Other than After A Change in Control or for Good Reason	After Change in Control, Termination without Cause
Jay Bray	$ 5,461,593(1)	$ 5,461,593(1)	$ –	$ 5,461,593(1)	$ 5,461,593(2)
Robert L. Appel	3,276,955(1)	3,276,955(1)	–	5,008,340(2)(3)	5,008,340(2)(3)
Amar Patel	2,184,638(1)	2,184,638(1)	–	2,184,638(1)	2,184,638(2)
Douglas Krueger	125,000(4)	125,000(4)	–	–	–
Anthony H. Barone	6,553,910(1)	6,553,910(1)	–	6,553,910(1)	6,553,910(2)

(1) Pursuant to the award agreements granting each of Messrs. Barone, Bray, Appel and Patel units and RSUs, in the event the NEO's employment terminates as a result of the NEO's death, disability or voluntary resignation for good reason or as a result of the Company terminating the NEO's employment without cause other than in connection with a change in control, an additional tranche of any outstanding and unvested equity awards will become vested.

(2) Pursuant to the award agreements granting each of Messrs. Barone, Bray, Appel and Patel units and RSUs, in the event the NEO's employment terminates as a result the Company terminating the NEO's employment without cause within 6 months following a change in control, all of the NEO's outstanding and unvested equity awards will become vested.

(3) Pursuant to his employment agreement upon a termination without cause, Mr. Appel will receive a severance payment of $1,731,385 ($275,000 of salary continuation, $400,000 retention bonus, $175,000 lump sum, $867,560 pro rated bonus (full year as of December 31, 2011) and $13,825 medical benefits). The remaining amount of $3,276,955 is pursuant to the unit and RSU award agreements described in Note (2) above.

(4) Pursuant to the Long-Term Incentive Plan, in the event of termination due to death or disability Mr. Krueger will receive a pro rata payout of his outstanding awards.

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Manager and Director Compensation
The Nationstar Mortgage LLC Board of Managers is currently comprised of three members elected by our unitholders: Anthony Barone (Chairman), Peter Smith and Jay Bray. Each of Messrs. Barone, Smith and Bray receives no payments in addition to what has been described as a result of his service on the Board of Managers (earned but unpaid salary, accrued but unpaid time off, reimbursable business expenses, vested benefits and benefit continuation pursuant to employee benefit plans).

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Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

None.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Under SEC rules, a related person is an officer, director, nominee for director or beneficial holder of more than 5% of any class of our voting securities since the beginning of the last fiscal year or an immediate family member of any of the foregoing. Our Nationstar Mortgage Holdings Inc. board of directors has approved a written related party transaction policy that will take effect prior to completion of the initial public offering. This policy is also effective for Nationstar Mortgage LLC as a subsidiary of Nationstar Mortgage Holdings Inc. Pursuant to this policy, directors (including director nominees), executive officers and employees are required to report to the General Counsel any transactions or circumstances that may create or appear to create a conflict between the personal interests of the individual and the interests of the Company, regardless of the amount involved. The General Counsel reports these transactions to the nominating and corporate governance committee of the board of directors, which is responsible for evaluating each related party transaction and making a recommendation to the disinterested members of the board of directors as to whether the transaction at issue is fair, reasonable and within Company policy and whether it should be ratified and approved. The nominating and corporate governance committee, in making its recommendation, considers various factors, including the benefit of the transaction to the Company, the terms of the transaction and whether they are at arm's-length and in the ordinary course of the Company's business, the direct or indirect nature of the related person's interest in the transaction, the size and expected term of the transaction, and other facts and circumstances that bear on the materiality of the related party transaction under applicable law and listing standards.

Prior to the adoption of the written policy, our board of directors used similar processes and controls to obtain information from our directors, executive officers and significant stockholders regarding related party transactions and then determined, based on the facts and circumstances, whether we or a related person had a direct or indirect material interest in these transactions. When considering potential transactions involving a related party, our officers notified our board of directors of the proposed transaction, provided a brief background of the transaction and scheduled a meeting with the board of directors to review the matter. At such meetings, our Chief Executive Officer, Chief Financial Officer and other members of management, as appropriate, provided information to the board of directors regarding the proposed transaction, after which the board of directors and management discussed the transaction and the implications of engaging a related party as opposed to an unrelated third party. If the board of directors (or specified directors as required by applicable legal requirements) determined that the transaction was in our best interests, it voted to approve entering into the transaction with the applicable related party.

Other than compensation agreements and other arrangements which are described under Item 11. Executive Compensation and the transactions described below, since January 1, 2011, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed $120,000 and in which any related person had or will have a direct or indirect material interest.

We currently serve as the loan servicer for two securitized loan portfolios managed by Newcastle Investment Corp. (Newcastle), which is managed by an affiliate of Fortress, for which we receive a monthly net servicing fee equal to 0.5% per annum on the UPB of the portfolios. For the years ended December 31, 2011, 2010 and 2009, we received servicing fees of $5.8 million, $6.5 million and $7.5 million, respectively. The outstanding UPB as of December 31, 2011 and 2010 was $1.1 billion, $1.2 billion, and $1.4 billion, respectively.

In December 2011, we entered into a sale and assignment agreement (the "Sale Agreement") with an indirect wholly owned subsidiary of Newcastle. We are an affiliate of Newcastle's manager, which is an affiliate of Fortress. We acquired MSRs on a pool of agency residential mortgage loans in September 2011 (the "Portfolio"). Pursuant to the Sale Agreement, we sold to Newcastle the right to receive 65% of the excess cash flow generated from the MSRs of the Portfolio after receipt of a fixed basic servicing fee per loan. The sale price was $43.7 million. We will retain all ancillary income associated with servicing the Portfolio and 35% of the excess cash flow after receipt of the fixed basic servicing fee. We will continue to be the servicer of the loans and provide all servicing and advancing functions for the Portfolio. Newcastle will not have prior or ongoing obligations associated with the Portfolio. Contemporaneous with the above, in December 2011, we entered into a refinanced loan agreement with Newcastle. Should we refinance any loan in the Portfolio, subject to certain limitations, we will be required to transfer the new loan or a replacement loan of similar economic characteristics into the Portfolio. The new or replacement loan will be governed by the same terms set forth in the Sale Agreement described above. This Sale Agreement will be accounted for as a financing arrangement by us. The fair value on the outstanding note related to this agreement was $44.6 million at December 31, 2011. Additionally, as a component of the underlying agreement, Newcastle will be required to remit a previous holdback amount of $3.3 million, pending certain conditions being satisfied by us. Such amount is recorded in accounts receivable.

We currently serve as the loan subservicer for three loan portfolios managed by FCDB FF1 LLC, FCDB 8020 REO LLC, FCDB FF1 2008-1 Trust, FCDB UB 8020 Residential LLC and FCDB GMPL 2008-1 Trust, which is managed by an affiliate of Fortress, for which we receive a monthly per loan subservicing fee and other performance incentive fees subject to our agreement with them. For the years ended December 31, 2011, 2010 and 2009, we received $2.3 million, $0.6 million and $1.0 million of subservicing fees, respectively. The outstanding UPB as of December 31, 2011 and 2010 was $2.1 million and $121.1 million, respectively.

In September 2010, we entered into a marketing agreement with Springleaf Home Equity, Inc., Springleaf Financial Services of Arkansas, Inc. and MorEquity, Inc. (collectively, the "Entities"), each of which is indirectly owned by investment funds managed by affiliates of Fortress. Pursuant to this agreement, we market our mortgage origination products to customers of the Entities, and are compensated by the origination fees of loans that we refinance. For the year ended December 31, 2011, and 2010, we recognized revenue of $3.2 million and $0.4 million, respectively. The marketing agreement is set to expire on December 31, 2012. Additionally, in January 2011, we entered into three agreements to act as the loan subservicer for the Entities for a whole loan portfolio and two securitized loan portfolios totaling $4.4 billion for which we receive a monthly per loan subservicing fee and other performance incentive fees subject to our agreement with the Entities. For the years ended December 31, 2011, we recognized revenue of $9.9 million in additional servicing and other performance incentive fees related to these portfolios.

In March 2011, we entered into a limited partnership agreement with ANC. ANC is the parent company of NREIS which through the ANC partnership we hold a non-controlling interest in NREIS, an ancillary real estate services and vendor management company that directly and indirectly provides title agency settlement or valuation services for loan originations and default management. We offer these adjacent services in connection with loans we currently service, as well as on a third party basis in exchange for base and/or incentive fees. In addition to enhancing our core businesses, these adjacent services present an opportunity to increase future earnings with minimal capital investment, including by expanding the services we provide to large banks and other financial institutions seeking to outsource these functions to a third party. As we are able to exercise significant influence, but not control, over the policies and procedures of the entity, and we own less than 50% of the voting interest, we apply the equity method of accounting. During the year ended December 31, 2011 we disbursed $4.9 million for servicing-related advances.

Family Relationships
There are no family relationships between any of our executive officers or directors.

Director Independence
Nationstar Mortgage LLC is privately owned. As a result, we are not required to have independent directors.

Item 14. ***Principal Accounting Fees and Services***

The fees incurred by Nationstar Mortgage LLC, including its majority-owned subsidiaries, for services provided by Ernst and Young LLP, the independent registered public accounting firm, in 2011 and 2010 are set forth below (in millions). Board of Managers pre-approves all fees and services provided by the independent registered public accounting firm, subject to the exceptions for non-audit services described in the Securities Exchange Act of 1934 and rules and regulations thereunder. During 2011 and 2010, all fees incurred were pre-approved.

	Year ended December 31,	
Fees by Type	**2011**	**2010**
Audit fees	$2.5	$1.8
Audit-related fees	0.4	0.2
Tax fees	–	–
All other fees	–	–
Total	$2.9	$2.0

Audit Fees. Audit fees primarily related to the annual audits of the Consolidated Financial Statements included in our Annual Reports on Form 10-K, and the reviews of the Condensed Consolidated Financial Statements included in our Quarterly Reports on Form 10-Q, comfort letters for registration statements, and services that are normally provided in connection with regulatory and statutory filings or engagements, including consent orders.

Audit-Related Fees. Audit-related fees primarily related to assurance and related services that are reasonably related to the performance of the audit or review of our financial statements including audits of our employee benefit plans, internal control (SSAE 16 Report), regulatory audits and agreed upon procedures.

Tax Fees. Tax fees consist of professional services for tax compliance, tax audit and tax planning for specific transactions or potential transactions of the Company.

All Other Fees. All other fees consist of professional services for other elective procedures.

Item 15. ***Exhibits, Financial Statement Schedules***

3.1	Certificate of Formation of Nationstar Mortgage LLC (incorporated by reference to Exhibit 3.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 22, 2010).
3.2	Operating Agreement of Nationstar Mortgage LLC (incorporated by reference to Exhibit 3.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 22, 2010).
4.1	Indenture, dated as of March 26, 2010, among Nationstar Mortgage LLC, Nationstar Capital Corporation, and Wells Fargo Bank, N.A., as trustee, including the form of 10.875% Senior Note due 2015 (incorporated by reference to Exhibit 4.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.2	Supplemental Indenture, dated as of August 31, 2010, among NSM Recovery Services Inc, a subsidiary of Nationstar Mortgage LLC, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.3	Supplemental Indenture, dated as of December 13, 2010, among NSM Foreclosure Services Inc, a subsidiary of Nationstar Mortgage LLC, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.4	Supplemental Indenture, dated as of December 19, 2011, among Nationstar Mortgage LLC, Nationstar Capital Corporation, Centex Land Vista Ridge Lewisville III General Partner, LLC, Centex Land Vista Ridge Lewisville III, L.P., Harwood Service Company LLC, Harwood Insurance Services, LLC, Harwood Service Company of Georgia, LLC, Harwood Service Company of New Jersey, LLC, Homeselect Settlement Solutions, LLC, Nationstar 2009 Equity Corporation, Nationstar Equity Corporation, Nationstar Industrial Loan Company, Nationstar Industrial Loan Corporation, NSM Recovery Services, Inc., NSM Foreclosure Services, Inc., and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Nationstar Mortgage LLC's Current Report on Form 8-K filed with the SEC on December 19, 2011).
4.5	Registration Rights Agreement, dated as of March 26, 2010, among Nationstar Mortgage LLC, Nationstar Capital Corporation, Barclays Capital Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc. and RBS Securities Inc. (incorporated by reference to Exhibit 4.4 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.6	Registration Rights Agreement, dated as of March 26, 2010, among Nationstar Mortgage LLC, Nationstar Capital Corporation, Barclays Capital Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc. and RBS Securities Inc. (incorporated by reference to Exhibit 10.1 to Nationstar Mortgage LLC's Current Report on Form 8-K filed with the SEC on December 19, 2011).
10.1	Amended and Restated Servicer Advance Early Reimbursement Addendum, dated as of August 16, 2010, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.2	Fifth Amended and Restated Master Repurchase Agreement, dated as of January 27, 2010, between The Royal Bank of Scotland plc, as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.2 to Nationstar Mortgage LLC's

Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.3	Amendment Number One to Fifth Amended and Restated Master Repurchase Agreement, and Amendment Number One to Fifth Amended and Restated Pricing Side Letter, both dated as of April 6, 2010, between The Royal Bank of Scotland plc and Nationstar Mortgage LLC. (incorporated by reference to Exhibit 10.3 to Amendment No. 3 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on April 27, 2011).
10.4	Amendment Number Two to Fifth Amended and Restated Master Repurchase Agreement, and Amendment Number Two to Fifth Amended and Restated Pricing Side Letter, both dated as of February 25, 2011, between The Royal Bank of Scotland plc and Nationstar Mortgage LLC. (incorporated by reference to Exhibit 10.4 to Amendment No. 3 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on April 27, 2011).
10.5	Subservicing Agreement, dated as of October 29, 2010, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on February 9, 2011).
10.6	Strategic Relationship Agreement, dated as of December 16, 2009, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.4 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.7	Subservicing Agreement, dated as of February 1, 2011, among MorEquity, Inc., American General Financial Services of Arkansas, Inc. and American General Home Equity, Inc. as owners and as servicers, and Nationstar Mortgage LLC, as subservicer. (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on March 28, 2011).
10.8	Subservicing Agreement (American General Mortgage Loan Trust 2006-1), dated as of February 1, 2011, between MorEquity, Inc., as servicer, and Nationstar Mortgage LLC, as subservicer (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on March 28, 2011).
10.9	Subservicing Agreement (American General Mortgage Loan Trust 2010-1), dated as of February 1, 2011, between MorEquity, Inc., as servicer, and Nationstar Mortgage LLC, as subservicer. (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on March 28, 2011).
10.10	Sale and Servicing Agreement, dated as of April 6, 2006, between The Financial Asset Securities Corp., as Depositor, Centex Home Equity Company, LLC, as Originator and Servicer, Newcastle Mortgage Securities Trust 2006-1, as Issuer, and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.10 to Amendment No. 5 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 10, 2011).
10.11	Sale and Servicing Agreement, dated as of July 12, 2007, between Bear Stearns Asset-Backed Securities I LLC, as Depositor, Nationstar Mortgage LLC, as Servicer, Newcastle Mortgage Securities Trust 2007-1, as Issuing Entity, Wells Fargo Bank, N.A., as Master Servicer, Securities Administrator and Custodian, and The Bank of New York, as Indenture Trustee. (incorporated by reference to Exhibit 10.11 to Amendment No. 5 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 10, 2011).
10.12	Subservicing Agreement, effective as of June 21, 2011, between First Tennessee Bank National Association, as Owner and Master Servicer, and Nationstar Mortgage LLC, as Servicer and Subservicer (incorporated by reference to Exhibit 10.12 to Amendment No. 6 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 30, 2011).
10.13	Employment Agreement, dated as of January 29, 2008, by and between Nationstar Mortgage LLC and Robert L. Appel (incorporated by reference to Exhibit 10.5 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.14	Amendment, dated as of September 17, 2010, to Employment Agreement dated January 29, 2008 by and between Nationstar Mortgage LLC and Robert L. Appel (incorporated by reference to Exhibit 10.6 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.15	Employment Agreement, dated as of February 19, 2009, by and between Nationstar Mortgage LLC and Douglas Krueger (incorporated by reference to Exhibit 10.7 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.16	Employment Agreement, dated as of September 17, 2010, by and between Nationstar Mortgage LLC and Anthony H. Barone (incorporated by reference to Exhibit 10.8 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.17	Employment Agreement, dated as of September 17, 2010, by and between the Company and Jesse K. Bray (incorporated by reference to Exhibit 10.9 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.18	Employment Agreement, dated as of September 17, 2010, by and between Nationstar Mortgage LLC and Amar Patel (incorporated by reference to Exhibit 10.10 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.19	Form of Restricted Series 1 Preferred Unit Award Agreement under FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company Agreement (incorporated by reference to Exhibit 10.11 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.20	Form of Series 1 Class A Unit Award Agreement under FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company (incorporated by reference to Exhibit 10.12 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.21	Form of Series 2 Class A Unit Award Agreement under FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company (incorporated by reference to Exhibit 10.13 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.22	Nationstar Mortgage LLC Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.14 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.23	Nationstar Mortgage LLC Incentive Program Summary (incorporated by reference to Exhibit 10.15 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.24	Nationstar Mortgage LLC Long-Term Incentive Plan for Mr. Krueger. (incorporated by reference to Exhibit 10.16 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.25	Fifth Amended and Restated Limited Liability Company Agreement of FIF HE HOLDINGS LLC (incorporated by reference to Exhibit 10.25 to Amendment No. 6 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 30, 2011).
10.26	Mortgage Servicing Rights Purchase and Sale Agreement, dated and effective as of September 30, 2011, between Bank of America, National Association, as seller, and Nationstar Mortgage LLC, as buyer (incorporated by reference to Exhibit 2.1 to Nationstar Mortgage LLC's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2011).
10.27	Servicer Rights Sale and Issuer Transfer Agreement, dated December 5, 2011, between Bank of America, National Association, as seller, and Nationstar Mortgage LLC, as buyer (incorporated by reference to Exhibit 10.27 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.28	Sale Agreement, dated December 8, 2011, between Newcastle Investment Corp., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.38 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.29	Replacement Agreement, dated December 8, 2011, between Newcastle Investment Corp. and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.29 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.30	As Soon As Pooled Plus Agreement, dated March 24, 2009, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.30 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.31	Amended and Restated Master Repurchase Agreement, dated October 21, 2010, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.31 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.32	Amended and Restated Transactions Terms Letter, dated October 21, 2010, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.32 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.33	Amendment Number One to the Amended and Restated Master Repurchase Agreement, dated November 24, 2010, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.33 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.34	Amendment Number Two to the Amended and Restated Master Repurchase Agreement, dated October 20, 2011, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.34 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.35	Amendment Number Three to the Amended and Restated Master Repurchase Agreement, dated January 17, 2012, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.35 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).

10.36	Amendment Number Three to the Amended and Restated Transactions Terms Letter, dated January 17, 2012, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.36 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.37	Mortgage Selling and Servicing Contract, dated July 31, 1997, between Fannie Mae and Centex Home Equity Corp (incorporated by reference to Exhibit 10.37 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.38	Addendum to Mortgage Selling and Servicing Contract, dated September 12, 2006, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.38 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.39	Consulting Agreement, dated as of February 20, 2012, between Anthony Barone, as consultant, and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.39 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.40	Letter Agreement, dated as of February 20, 2012, between Anthony Barone, Nationstar Mortgage LLC, and FIF HE Holdings LLC (incorporated by reference to Exhibit 10.40 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.41	Further Amended and Restated Servicer Advance Early Reimbursement Mechanics Addendum, dated as of May 1, 2011, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.49 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.42	Corrected and Restated Amendment to Amended and Restated Servicer Advance Early Reimbursement Mechanics Addendum, dated as of September 1, 2011, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.49 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.43	Third Amendment to Amended and Restated Servicer Advance Early Reimbursement Mechanics Addendum, dated as of December 20, 2011, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.43 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.44	Amendment Number Three to Fifth Amended and Restated Master Repurchase Agreement, dated as of December 5, 2011, between The Royal Bank of Scotland plc and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.44 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.45	Amendment to Strategic Relationship Agreement, dated as of November 17, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.45 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.46	First Amendment to Subservicing Agreement, dated as of September 30, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.46 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.47	Second Amendment to Subservicing Agreement, dated as of December 5, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.47 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.48	Third Amendment to Subservicing Agreement, dated as of December 20, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.48 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.49	Amendment to the Fifth Amended and Restated Master Repurchase Agreement, dated as of February 21, 2012, between Nationstar Mortgage LLC and The Royal Bank of Scotland plc (incorporated by reference to Exhibit 10.49 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.50	Amendment and Waiver to the Amended and Restated Master Repurchase Agreement and the Transition Subservicing Agreement, dated as of February 21, 2012 between Nationstar Mortgage LLC and Bank of America, N.A. (incorporated by reference to Exhibit 10.50 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.51	Receivables Purchase Agreement, dated as of November 15, 2010, among Nationstar Mortgage Advance Receivables Trust 2010-ADV1, Nationstar Advance Funding LLC, and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.51 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.52	Form of Indemnification Agreement with directors and officers (incorporated by reference to Exhibit 10.52 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.53	Lease Agreement, dated as of May 20, 2003, between Centex Office Vista Ridge Lewisville II L.P. and Centex Home Equity Company, LLC (incorporated by reference to Exhibit 10.53 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form

	S-1 filed with the SEC on February 24, 2012).
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that Jay Bray. whose signature appears below constitutes and appoints Anthony W. Villani his or her true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him or her and in his or her name, place and stead, in any and all capacities, to execute any or all current, quarterly or annual reports and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

NATIONSTAR MORTGAGE LLC.

/s/ Jay Bray
Jay Bray
Chief Executive Officer, President and Chief Financial Officer

Date: March 15, 2012

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Certificate of Formation of Nationstar Mortgage LLC (incorporated by reference to Exhibit 3.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 22, 2010).
3.2	Operating Agreement of Nationstar Mortgage LLC (incorporated by reference to Exhibit 3.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 22, 2010).
4.1	Indenture, dated as of March 26, 2010, among Nationstar Mortgage LLC, Nationstar Capital Corporation, and Wells Fargo Bank, N.A., as trustee, including the form of 10.875% Senior Note due 2015 (incorporated by reference to Exhibit 4.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.2	Supplemental Indenture, dated as of August 31, 2010, among NSM Recovery Services Inc, a subsidiary of Nationstar Mortgage LLC, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.3	Supplemental Indenture, dated as of December 13, 2010, among NSM Foreclosure Services Inc, a subsidiary of Nationstar Mortgage LLC, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.4	Supplemental Indenture, dated as of December 19, 2011, among Nationstar Mortgage LLC, Nationstar Capital Corporation, Centex Land Vista Ridge Lewisville III General Partner, LLC, Centex Land Vista Ridge Lewisville III, L.P., Harwood Service Company LLC, Harwood Insurance Services, LLC, Harwood Service Company of Georgia, LLC, Harwood Service Company of New Jersey, LLC, Homeselect Settlement Solutions, LLC, Nationstar 2009 Equity Corporation, Nationstar Equity Corporation, Nationstar Industrial Loan Company, Nationstar Industrial Loan Corporation, NSM Recovery Services, Inc.,

NSM Foreclosure Services, Inc., and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Nationstar Mortgage LLC's Current Report on Form 8-K filed with the SEC on December 19, 2011).

4.5	Registration Rights Agreement, dated as of March 26, 2010, among Nationstar Mortgage LLC, Nationstar Capital Corporation, Barclays Capital Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc. and RBS Securities Inc. (incorporated by reference to Exhibit 4.4 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
4.6	Registration Rights Agreement, dated as of March 26, 2010, among Nationstar Mortgage LLC, Nationstar Capital Corporation, Barclays Capital Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc. and RBS Securities Inc. (incorporated by reference to Exhibit 10.1 to Nationstar Mortgage LLC's Current Report on Form 8-K filed with the SEC on December 19, 2011).
10.1	Amended and Restated Servicer Advance Early Reimbursement Addendum, dated as of August 16, 2010, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.2	Fifth Amended and Restated Master Repurchase Agreement, dated as of January 27, 2010, between The Royal Bank of Scotland plc, as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.3	Amendment Number One to Fifth Amended and Restated Master Repurchase Agreement, and Amendment Number One to Fifth Amended and Restated Pricing Side Letter, both dated as of April 6, 2010, between The Royal Bank of Scotland plc and Nationstar Mortgage LLC. (incorporated by reference to Exhibit 10.3 to Amendment No. 3 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on April 27, 2011).
10.4	Amendment Number Two to Fifth Amended and Restated Master Repurchase Agreement, and Amendment Number Two to Fifth Amended and Restated Pricing Side Letter, both dated as of February 25, 2011, between The Royal Bank of Scotland plc and Nationstar Mortgage LLC. (incorporated by reference to Exhibit 10.4 to Amendment No. 3 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on April 27, 2011).
10.5	Subservicing Agreement, dated as of October 29, 2010, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on February 9, 2011).
10.6	Strategic Relationship Agreement, dated as of December 16, 2009, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.4 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).
10.7	Subservicing Agreement, dated as of February 1, 2011, among MorEquity, Inc., American General Financial Services of Arkansas, Inc. and American General Home Equity, Inc. as owners and as servicers, and Nationstar Mortgage LLC, as subservicer. (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on March 28, 2011).
10.8	Subservicing Agreement (American General Mortgage Loan Trust 2006-1), dated as of February 1, 2011, between MorEquity, Inc., as servicer, and Nationstar Mortgage LLC, as subservicer (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on March 28, 2011).
10.9	Subservicing Agreement (American General Mortgage Loan Trust 2010-1), dated as of February 1, 2011, between MorEquity, Inc., as servicer, and Nationstar Mortgage LLC, as subservicer. (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on March 28, 2011).
10.10	Sale and Servicing Agreement, dated as of April 6, 2006, between The Financial Asset Securities Corp., as Depositor, Centex Home Equity Company, LLC, as Originator and Servicer, Newcastle Mortgage Securities Trust 2006-1, as Issuer, and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.10 to Amendment No. 5 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 10, 2011).
10.11	Sale and Servicing Agreement, dated as of July 12, 2007, between Bear Stearns Asset-Backed Securities I LLC, as Depositor, Nationstar Mortgage LLC, as Servicer, Newcastle Mortgage Securities Trust 2007-1, as Issuing Entity, Wells Fargo Bank, N.A., as Master Servicer, Securities Administrator and Custodian, and The Bank of New York, as Indenture Trustee. (incorporated by reference to Exhibit 10.11 to Amendment No. 5 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 10, 2011).
10.12	Subservicing Agreement, effective as of June 21, 2011, between First Tennessee Bank National Association, as Owner and Master Servicer, and Nationstar Mortgage LLC, as Servicer and Subservicer (incorporated by reference to Exhibit 10.12 to Amendment No. 6 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 30, 2011).
10.13	Employment Agreement, dated as of January 29, 2008, by and between Nationstar Mortgage LLC and Robert L. Appel

(incorporated by reference to Exhibit 10.5 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.14 Amendment, dated as of September 17, 2010, to Employment Agreement dated January 29, 2008 by and between Nationstar Mortgage LLC and Robert L. Appel (incorporated by reference to Exhibit 10.6 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.15 Employment Agreement, dated as of February 19, 2009, by and between Nationstar Mortgage LLC and Douglas Krueger (incorporated by reference to Exhibit 10.7 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.16 Employment Agreement, dated as of September 17, 2010, by and between Nationstar Mortgage LLC and Anthony H. Barone (incorporated by reference to Exhibit 10.8 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.17 Employment Agreement, dated as of September 17, 2010, by and between the Company and Jesse K. Bray (incorporated by reference to Exhibit 10.9 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.18 Employment Agreement, dated as of September 17, 2010, by and between Nationstar Mortgage LLC and Amar Patel (incorporated by reference to Exhibit 10.10 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.19 Form of Restricted Series 1 Preferred Unit Award Agreement under FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company Agreement (incorporated by reference to Exhibit 10.11 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.20 Form of Series 1 Class A Unit Award Agreement under FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company (incorporated by reference to Exhibit 10.12 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.21 Form of Series 2 Class A Unit Award Agreement under FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company (incorporated by reference to Exhibit 10.13 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.22 Nationstar Mortgage LLC Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.14 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.23 Nationstar Mortgage LLC Incentive Program Summary (incorporated by reference to Exhibit 10.15 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.24 Nationstar Mortgage LLC Long-Term Incentive Plan for Mr. Krueger. (incorporated by reference to Exhibit 10.16 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on December 23, 2010).

10.25 Fifth Amended and Restated Limited Liability Company Agreement of FIF HE HOLDINGS LLC (incorporated by reference to Exhibit 10.25 to Amendment No. 6 to Nationstar Mortgage LLC's Registration Statement on Form S-4 filed with the SEC on June 30, 2011).

10.26 Mortgage Servicing Rights Purchase and Sale Agreement, dated and effective as of September 30, 2011, between Bank of America, National Association, as seller, and Nationstar Mortgage LLC, as buyer (incorporated by reference to Exhibit 2.1 to Nationstar Mortgage LLC's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2011).

10.27 Servicer Rights Sale and Issuer Transfer Agreement, dated December 5, 2011, between Bank of America, National Association, as seller, and Nationstar Mortgage LLC, as buyer (incorporated by reference to Exhibit 10.27 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on Jaunary 20, 2012).

10.28 Sale Agreement, dated December 8, 2011, between Newcastle Investment Corp., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.38 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).

10.29 Replacement Agreement, dated December 8, 2011, between Newcastle Investment Corp. and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.29 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).

10.30 As Soon As Pooled Plus Agreement, dated March 24, 2009, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.30 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).

10.31 Amended and Restated Master Repurchase Agreement, dated October 21, 2010, between Bank of America, N.A., as buyer, and

Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.31 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).

10.32	Amended and Restated Transactions Terms Letter, dated October 21, 2010, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.32 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.33	Amendment Number One to the Amended and Restated Master Repurchase Agreement, dated November 24, 2010, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.33 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.34	Amendment Number Two to the Amended and Restated Master Repurchase Agreement, dated October 20, 2011, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.34 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.35	Amendment Number Three to the Amended and Restated Master Repurchase Agreement, dated January 17, 2012, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.35 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.36	Amendment Number Three to the Amended and Restated Transactions Terms Letter, dated January 17, 2012, between Bank of America, N.A., as buyer, and Nationstar Mortgage LLC, as seller (incorporated by reference to Exhibit 10.36 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.37	Mortgage Selling and Servicing Contract, dated July 31, 1997, between Fannie Mae and Centex Home Equity Corp (incorporated by reference to Exhibit 10.37 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.38	Addendum to Mortgage Selling and Servicing Contract, dated September 12, 2006, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.38 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on January 20, 2012).
10.39	Consulting Agreement, dated as of February 20, 2012, between Anthony Barone, as consultant, and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.39 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.40	Letter Agreement, dated as of February 20, 2012, between Anthony Barone, Nationstar Mortgage LLC, and FIF HE Holdings LLC (incorporated by reference to Exhibit 10.40 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.41	Further Amended and Restated Servicer Advance Early Reimbursement Mechanics Addendum, dated as of May 1, 2011, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.49 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.42	Corrected and Restated Amendment to Amended and Restated Servicer Advance Early Reimbursement Mechanics Addendum, dated as of September 1, 2011, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.49 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.43	Third Amendment to Amended and Restated Servicer Advance Early Reimbursement Mechanics Addendum, dated as of December 20, 2011, between Nationstar Mortgage LLC and Fannie Mae (incorporated by reference to Exhibit 10.43 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.44	Amendment Number Three to Fifth Amended and Restated Master Repurchase Agreement, dated as of December 5, 2011, between The Royal Bank of Scotland plc and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.44 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.45	Amendment to Strategic Relationship Agreement, dated as of November 17, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.45 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.46	First Amendment to Subservicing Agreement, dated as of September 30, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.46 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.47	Second Amendment to Subservicing Agreement, dated as of December 5, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.47 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 8, 2012).
10.48	Third Amendment to Subservicing Agreement, dated as of December 20, 2011, between Fannie Mae and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.48 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1

filed with the SEC on February 8, 2012).

10.49	Amendment to the Fifth Amended and Restated Master Repurchase Agreement, dated as of February 21, 2012, between Nationstar Mortgage LLC and The Royal Bank of Scotland plc (incorporated by reference to Exhibit 10.49 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.50	Amendment and Waiver to the Amended and Restated Master Repurchase Agreement and the Transition Subservicing Agreement, dated as of February 21, 2012 between Nationstar Mortgage LLC and Bank of America, N.A. (incorporated by reference to Exhibit 10.50 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.51	Receivables Purchase Agreement, dated as of November 15, 2010, among Nationstar Mortgage Advance Receivables Trust 2010-ADV1, Nationstar Advance Funding LLC, and Nationstar Mortgage LLC (incorporated by reference to Exhibit 10.51 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
10.52	Form of Indemnification Agreement with directors and officers (incorporated by reference to Exhibit 10.52 to Nationstar Mortgage Holdings Inc.'s Registration Statement on Form S-1 filed with the SEC on February 24, 2012).
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Nationstar MORTGAGE

03/20/2012

CATHERINE RODRIGUEZ
6845 SWEET PECAN ST
LAS VEGAS, NV 89149-3040

Loan Number:	596845243
Property Address:	6845 SWEET PECAN STREET LAS VEGAS, NV 89149

Dear CATHERINE RODRIGUEZ :

You are hereby provided formal notice by Nationstar Mortgage, LLC, the Servicer of the above-referenced loan, on behalf of First Tennessee Bank National Association, the Creditor to whom the debt is owed, that you are in default under the terms and conditions of the Note and Security Instrument (i.e. Deed of Trust, Mortgage, etc.), for failure to pay the required installments when due.

This letter serves as further notice that Nationstar Mortgage, LLC intends to enforce the provisions of the Note and Security Instrument. You must pay the full amount of the default on this loan by the thirty-fifth (35th) day from the date of this letter which is 04/24/2012 (or if said date falls on a Saturday, Sunday, or legal holiday, then on the first business day thereafter). If you do not pay the full amount of the default, we shall accelerate the entire sum of both principal and interest due and payable, and invoke any remedies provided for in the Note and Security Instrument, including but not limited to the foreclosure sale of the property. If you received a bankruptcy discharge which included this debt, this notice is not intended and does not constitute an attempt to collect a debt against you personally; notice provisions may be contained within your mortgage/deed of trust which notice may be required prior to foreclosure.

You are hereby informed that you have the right to "cure" or reinstate the loan after acceleration and the right to assert in the foreclosure proceeding the non-existence of a default or any other defense you may have to acceleration and sale.

As of **03/20/2012 the amount of the debt that we are seeking to collect is $36,242.41**, which includes the sum of payments that have come due on and after the date of default **12/01/2009**, any late charges, periodic adjustments to the payment amount (if applicable) and expenses of collection. Because of interest, late charges, and other charges or credits that may vary from day to day, or be assessed during the processing of this letter, the amount due on the day that you pay may be greater. Please contact Nationstar Mortgage, LLC at (888) 480-2432 on the day that you intend to pay for the full amount owed on your account. This letter is in no way intended as a payoff statement for your mortgage, it merely states an amount necessary to cure the current delinquency.

Please note, however, that your right to cure this default as referenced herein does not suspend your payment obligations. Pursuant to the terms of the Note, your **04/01/2012** installment is still due on **04/01/2012** (or if said date(s) falls on a Saturday, Sunday, or legal holiday, then on the first business day thereafter). In addition, any subsequent advances made by the Servicer to protect their lien position must be added to the total amount necessary to cure the default. Please disregard this notice if a payment sufficient to cure the default has already been sent.

A "CURE" or "Reinstatement Right" similar to that described in the prior paragraph may be available in many states. If, at any time, you make a written request to us not to be contacted by phone at your place of employment, we will not do so. If, at any time, you make a written request to us not to contact you, we will not do so, except to send statutorily and/or contractually required legal notice.

Nationstar Mortgage, LLC would like you to be aware that if you are unable to make payments or resume payments within a reasonable period of time due to a reduction in your income resulting from a loss or reduction in your employment, you may be eligible for Homeownership Counseling. To obtain a list of HUD approved counseling agencies, please call (800) 569-4287 or by visiting http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm. You may also contact the Homeownership Preservation Foundation's Hope hotline at (888) 995-HOPE (4673).

Attention Servicemembers and dependents: The Federal Servicemembers' Civil Relief Act ("SCRA") and certain state laws provide important protections for you, including prohibiting foreclosure under most circumstances. If you are currently in the military service, or have been within the last nine (9) months, **AND** joined after signing the Note and Security Instrument now in default, please notify Nationstar Mortgage, LLC immediately. When contacting Nationstar Mortgage, LLC as to your military service, you must provide positive proof as to your military status. If you do not provide this information, it will be assumed that you are not entitled to protection under the above-mentioned Act.

You are notified that this default and any other legal action that may occur as a result thereof may be reported to one or more local and national credit reporting agencies by Nationstar Mortgage, LLC. Nationstar Mortgage, LLC requests that all payments be made in **certified funds, cashier's check or money order(s)** payable to and mailed to **Nationstar Mortgage, LLC** at **PO Box 650783, Dallas TX 75265-0783.** You may contact Nationstar Mortgage, LLC at (888) 480-2432 should you have servicing questions regarding your account or by mail at 350 Highland Drive, Lewisville, TX 75067-4177. You may have options available to you to help you avoid foreclosure. Please contact Nationstar Mortgage, LLC's Loss Mitigation Department at (888) 480-2432 or by visiting www.nationstarmtg.com for additional information and to see what options are available to you.

The matters discussed herein are of extreme importance. We trust you will give them appropriate attention.

Sincerely,

Viviana Acosta
Assigned Foreclosure Prevention Specialist
Nationstar Mortgage, LLC
(800)766-7751 ext. 6874

350 Highland Drive
Lewisville, TX 75067

Unless you notify us within 30 days after receiving this notice that you dispute the validity of this debt or any portion thereof, we will assume this debt is valid. If you notify us in writing within 30 days from receiving this notice that you dispute the validity of this debt or any portion thereof, we will obtain verification of the debt or obtain a copy of a judgment and mail you a copy of such judgment or verification. Upon your written request within thirty days after the receipt of this notice, we will provide you with the name and address of the original creditor, if the original creditor is different from the current creditor.

Nationstar Mortgage, LLC
PO Box 9095
Temecula, CA 92589-9095

PRESORT
First-Class Mail
U.S. Postage and
Fees Paid
WSO

2260620673

Send Payments to:
Nationstar Mortgage
PO Box 650783
Dallas, TX 75265-0783

20120320-160

CATHERINE RODRIGUEZ
6845 SWEET PECAN ST
LAS VEGAS, NV 89149-3040

GEN_NOI

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF LOUISIANA

IN RE:

MICHAEL L. JONES

DEBTOR

CASE NO.

03-16518

SECTION A

CHAPTER 13

MICHAEL L. JONES

PLAINTIFF

VERSUS

WELLS FARGO HOME MORTGAGE, INC.

DEFENDANT

ADVERSARY NO.

06-1093

MEMORANDUM OPINION

This matter is on remand from the United States Court of Appeals for the Fifth Circuit ("Fifth Circuit")[1] and the United States District Court for the Eastern District of Louisiana ("District Court").[2] The mandate required reconsideration of monetary sanctions in light of *In re Stewart.*[3] The parties were afforded time to file additional briefs, after which the matter was taken under advisement.[4] Wells Fargo Bank, N.A. ("Wells Fargo") also filed an *Ex Parte* Motion to Take Judicial Notice[5] which will be addressed in this Opinion.

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[1] 5th Cir. case no. 10-31005; *Wells Fargo Bank, N.A. v. Jones (In re Jones)*, 439 Fed.Appx. 330 (5th Cir. 2011).

[2] USDC, EDLA case no. 07-3599.

[3] *Wells Fargo Bank, N.A. v. Stewart (In re Stewart)*, 647 F.3d 553 (5th Cir. 2011).

[4] Docket no. 455. The parties indicated that the Court should use the briefs they previously filed in connection with the Motion for Sanctions rather than submitting entirely new briefs. Docket nos. 78, 96. The parties were allowed to supplement these initial briefs.

[5] Docket no. 459.

I. Jurisdiction

The bankruptcy court has jurisdiction over all property of the estate wherever located.[6] Upon filing of the case, all actions to collect, enforce, or possess property of the estate are automatically enjoined.[7] Proceedings to prosecute violations of the automatic stay are core proceedings.[8] A proceeding to enforce the automatic stay by means of civil contempt is a "core proceeding" within the meaning of 28 U.S.C. § 157 and within the scope of the bankruptcy court's powers.[9] A contempt order is purely civil "[i]f the purpose of the sanction is to coerce the contemnor into compliance with a court order, or to compensate another party for the contemnor's violation."[10] The Court finds that it has jurisdiction over this proceeding for civil contempt.

II. Procedural Background

This adversary proceeding was filed by Michael L. Jones, debtor, ("Jones" or "Debtor") in an effort to recoup overpayments made to Wells Fargo on his home mortgage loan. The complaint requested return of the overpayments, reimbursement of actual damages, and punitive damages for violation of the automatic stay. At trial, the parties severed Debtor's request for compensatory and

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[6] 28 U.S.C. §§ 157(a) and 1334(e) and 11 U.S.C. § 541.

[7] 11 U.S.C. § 362.

[8] *Budget Service Co. v. Better Homes of Virginia, Inc.*, 804 F.2d 289, 292 (4th Cir. 1986); *Milbank v. McGee (In re LATCL&F, Inc.)*, 2001 WL 984912, *3 (N.D.Tex. 2001).

[9] 11 U.S.C. § 105(a); *Matter of Terrebonne Fuel and Lube, Inc.*, 108 F.3d 609 (5th Cir. 1997); *In re Johnson*, 575 F.3d 1079, 1083 (10th Cir. 2009); *MBNA America Bank, N.A. v. Hill*, 436 F.3d 104, 108-109 (2nd Cir. 2006); *In re Nat. Century Financial Enterprises, Inc.*, 423 F.3d 567, 573-574 (6th Cir. 2005).

[10] *Lamar Financial Corp. v. Adams*, 918 F.2d 564, 566 (5th Cir. 1990).

punitive damages from the merits of Debtor's claim for return of overpayments. On April 13, 2007, the Court entered an Opinion[11] and Partial Judgment[12] awarding Jones $24,441.65, plus legal interest for amounts overcharged by Wells Fargo. In addition, the Opinion found Wells Fargo to be in violation of the automatic stay because it applied postpetition payments made by Jones and his trustee to undisclosed postpetition fees and costs not authorized by the Court, noticed to Debtor or his trustee, and in contravention of Debtor's confirmed plan of reorganization and the Confirmation Order.[13] Wells Fargo's conduct was found to be willful and egregious.[14]

A second hearing on sanctions, damages, and punitive relief was held on May 29, 2007.[15] At the hearing, Wells Fargo offered to implement several remedial measures designed to correct systemic problems with its accounting of home mortgage loans ("Accounting Procedures").[16] The new Accounting Procedures were negotiated between the Court and Wells Fargo's representative. They were embodied in a subsequent Supplemental Memorandum Opinion,[17] Amended Judgment,[18]

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[11] Docket no. 69; *In re Jones*, 366 B.R. 584 (Bankr.E.D.La. 2007).

[12] Docket no. 68.

[13] Docket no. 69.

[14] *Id.*

[15] Jones also filed a Motion for Sanctions, Including Punitive Damages. Docket no. 77.

[16] Tr.T. 5/29/01, 48:18-23; 63:2-21; 83:4-10; 92:24-93:4. Docket no. 126.

[17] Docket no. 153; *Jones v. Wells Fargo Home Mortgage, Inc., (In re Jones)*, 2007 WL 2480494 (Bankr.E.D.La. 2007).

[18] Docket no. 154.

and Administrative Order 2008-1. The Amended Judgment also awarded Jones $67,202.45 in compensatory sanctions for attorney's fees and costs.[19]

Following its agreement, Wells Fargo reversed its legal position and appealed the Amended Judgment to the District Court.

On appeal, the District Court affirmed the findings of this Court and increased the compensatory civil award to $170,824.96. However, because Wells Fargo withdrew its consent to the nonmonetary relief ordered, the issue of punitive damages was remanded for further findings and consideration.[20] Wells Fargo appealed the District Court remand, but the Fifth Circuit dismissed the appeal for lack of jurisdiction.[21]

For the reasons set forth in the Opinion dated October 1, 2009, this Court imposed the original sanctions ordered, the Accounting Procedures, *in lieu* of punitive damages ("Partial Judgment on Remand").[22] Based on the findings of the District Court, this Court also entertained Jones' request for an increase in compensatory sanctions. Wells Fargo opposed the request, but settled the matter for an undisclosed stipulated amount.[23] Jones appealed the denial of punitive damages.[24]

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[19] *Id.*

[20] USDC, EDLA case no. 07-3599, docket nos. 76, 77; *Wells Fargo Bank, N.A. v. Jones*, 391 B.R. 577 (E.D.La. 2008).

[21] 5th Cir. case no. 08-30735.

[22] Docket nos. 390, 392; *Jones v. Wells Fargo Home Mortgage, Inc., (In re Jones)*, 418 B.R. 687 (Bankr.E.D.La. 2009).

[23] Docket no. 417.

[24] Docket no. 424.

On August 24, 2010, the District Court affirmed the Partial Judgment on Remand.[25] Again, Jones appealed the denial of punitive relief to the Fifth Circuit.

On August 23, 2007, more than four (4) months after this Court entered its initial opinion in this case, Ms. Dorothy Stewart filed an Objection to the Proof of Claim of Wells Fargo in her bankruptcy case pending in this district. The Objection alleged in part that the amount claimed by Wells Fargo in its proof of claim was incorrect because prepetition payments had been improperly applied.[26]

The Memorandum Opinion issued in the *Dorothy Stewart* case found that Wells Fargo misapplied her payments in a fashion identical to *Jones*.[27] As with the *Jones* decision, Wells Fargo's actions resulted in an incorrect amortization of Ms. Stewart's debt and the imposition of unauthorized or unwarranted fees and costs. Because Wells Fargo's failure was a breach of its obligations under the Partial Judgment on Remand, it was ordered to audit every borrower with a case pending in this district for compliance with the Accounting Procedures ("*Stewart* Judgment").[28]

The *Stewart* Judgment was affirmed by the District Court after Wells Fargo appealed.[29] Wells Fargo then appealed the *Stewart* Judgment to the Fifth Circuit.

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[25] USDC, EDLA case no. 07-3599, docket no. 139; *Jones v. Wells Fargo Bank N.A.*, 2010 WL 3398849 (E.D.La. 2010). *See also* USDC, EDLA case no. 09-7635, docket no. 11.

[26] USBC, EDLA case no. 07-11113, docket no. 24.

[27] *Id.* at docket no. 61; *In re Stewart*, 391 B.R. 327 (Bankr.E.D.La. 2008).

[28] *Id.* at docket no. 62.

[29] *In re Stewart*, 2009 WL 2448054 (E.D.La. 2009).

The Fifth Circuit affirmed the findings and compensatory award contained in the *Stewart* Judgment.[30] However, the Fifth Circuit also found that the order requiring audits of debtor accounts was beyond this Court's jurisdiction. As a result, this portion of the relief was vacated . The *Stewart* appeal preceded hearing on the *Jones'* appeal. In light of *Stewart*, the Fifth Circuit remanded the Partial Judgment on Remand for consideration of alternative, punitive monetary sanctions.[31]

III. Facts

The facts of this case are well documented in previous Opinions. Those facts are incorporated by reference.[32] Only facts immediately relevant to remand will be restated. Wells Fargo willfully violated the automatic stay imposed by 11 U.S.C. § 362 when it:

> [C]harged Debtor's account with unreasonable fees and costs; failed to notify Debtor that any of these postpetition charges were being added to his account; failed to seek Court approval for same; and paid itself out of estate funds delivered to it for payment of other debt.[33]

Jones has already been awarded $24,441.65 for amounts overcharged on his loan; legal interest from March 30, 2006, until paid in full; and $170,824.96 in actual attorney's fees and costs. In addition, the to the amounts included in judgments rendered to date, Jones also incurred additional legal fees of $118,251.93 and $3,596.95 in costs. The additional fees and costs are

[30] *In re Stewart*, 647 F.3d 553 (5th Cir. 2011).

[31] *Id.*

[32] Docket nos. 69, 153, 390; USDC, EDLA case no. 07-3599, docket no. 76; USDC, EDLA case no. 09-7635, docket no. 11.

[33] *Jones*, 366 B.R. at 600.

supported by Jones' Application for Award Of Fees And Costs Related To Remand filed in the record of this case.[34]

IV. Motion to Take Judicial Notice

Both the Partial Judgment on Remand and Administrative Order 2008-1 contemplated an internal review by Wells Fargo of all loan files to ensure the proper application of payments on home mortgage loans. Wells Fargo did not comply as evidenced by the *Stewart* decision. Instead, Wells Fargo continued to seek payment on prepetition monetary defaults calculated through the improper amortization of home mortgage loans.

As a result, in *Stewart*, this Court ordered Wells Fargo "to audit all proofs of claim [] filed in this District in any case pending on or filed after April 13, 2007, and to provide a complete loan history on every account."[35] Wells Fargo was ordered to amend the proofs of claim to comport with the loan histories. Wells Fargo appealed *Stewart* arguing that the Court was without authority to enforce the Accounting Procedures. Wells Fargo did not argue to the Fifth Circuit that the relief it challenged had already been performed. Quite simply if it had, its appeal would have been rendered moot.

Wells Fargo now requests this Court take judicial notice of its compliance with Administrative Order 2008-1 as a mitigating factor in any assessment of punitive damages. To evaluate this claim, the problems found in this case and the remedies embodied in Administrative Order 2008-1 must be examined in detail.

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[34] Docket no. 396.

[35] *In re Stewart*, 391 B.R. 327, 357 (Bankr.E.D.La. 2008).

In this case, Wells Fargo testified that every home mortgage loan was administered by its proprietary computer software. The evidence established:

1. Wells Fargo applied payments first to fees and costs assessed on mortgage loans, then to outstanding principal, accrued interest, and escrowed costs. This application method was directly contrary to the terms of Jones' note and mortgage, as well as, Wells Fargo's standard form mortgages and notes. Those forms required the application of payments first to outstanding principal, accrued interest, and escrowed charges, then fees and costs. The improper application method resulted in an incorrect amortization of loans when fees or costs were assessed. The improper amortization resulted in the assessment of additional interest, default fees and costs against the loan. The evidence established the utilization of this application method for every mortgage loan in Wells Fargo's portfolio.

2. Wells Fargo applied payments received from a bankruptcy debtor or trustee to the oldest charges outstanding on the mortgage loan rather than as directed by confirmed plans and confirmation orders. This resulted in the incorrect amortization of mortgage loans postpetition. Again, the improper amortization resulted in additional interest, default fees and costs to the loan. The evidence established the utilization of this application method for every mortgage loan administered by Wells Fargo in bankruptcy.

3. When postpetition fees or costs were assessed on a loan in bankruptcy, Wells Fargo applied payments received from the bankruptcy debtor to those fees and charges without disclosing the assessments or requesting authority. The payments were property of the estate, they were applied contrary to the terms of plans and confirmation orders, and in violation of the automatic stay. This practice resulted in the incorrect amortization of mortgage loans postpetition. Again, the

improper amortization resulted in the addition of increased interest, default fees and costs to the loan balance. The evidence established the utilization of this application method for every Wells Fargo mortgage loan in bankruptcy.

Wells Fargo's practices led to the following conclusions:

1. Applications contrary to the contract terms of Wells Fargo's standard form notes and mortgages resulted in an incorrect amortization of the loan. As a result, monetary defaults claimed by Wells Fargo on the petition date were incorrect.

2. Misapplication of payments received postpetition resulted in incorrect amortization of Wells Fargo loans and threatened a debtor's fresh start, as well as, discharge.

3. Application of postpetition payments to new, undisclosed postpetition fees or costs also threatened a debtor's fresh start and discharge.

The Partial Judgment on Remand and Accounting Procedures were crafted to remedy the above problems. They were designed to protect debtors from incorrectly calculated proofs of claim, to verify that loans were properly amortized prepetition in accordance with the terms of notes and mortgages, and to ensure that postpetition amortizations were in compliance with the terms of confirmed plans and orders. Because the evidence established that the problems exposed with the *Jones'* loan were systemic, Administrative Order 2008-1 and the Partial Judgment on Remand required corrective action on existing loans in bankruptcy for past errors, as well as, ongoing future performance.

There is nothing in the record supporting Wells Fargo's assertion that it has corrected its past errors. There is nothing in the record to assure future compliance with the terms of notes, mortgages, confirmed plans or confirmation orders. Therefore, Wells Fargo's request for judicial notice of compliance is denied.

Wells Fargo has also requested judicial notice of the fact that after the completion of the first remand to this Court, it abandoned any challenge to the compensatory portions of the judgments in favor of Jones. This request has been granted. The overpayments on the loan and costs associated with recovery are limited to costs and legal fees incurred through the initial remand. Specifically, they are based on awards rendered prior to that remand and include additional fees and costs incurred by Jones through the remand, as set forth in the Application.

V. Law and Analysis

This Court previously found that Wells Fargo willfully violated the automatic stay imposed by 11 U.S.C. § 362.[36] That ruling is not at issue. The only issue before the Court is the appropriate relief available. In light of the Fifth Circuit's ruling in *Stewart*, the application of the Accounting Procedures to all debtors in the district would be an improper exercise of authority beyond the bounds of this case. Because this relief was ordered *in lieu* of punitive sanctions, the mandate on remand directs that monetary relief be considered.

Section 362(k) allows for the award of actual damages, including costs and attorneys' fees, as a result of a stay violation, and punitive damages "in appropriate circumstances." Punitive damages are warranted when the conduct in question is willful and egregious,[37] or when the defendant acted "with actual knowledge that he was violating the federally protected right or with

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[36] Docket nos. 153, 154; *In re Jones*, 2007 WL 2480494 (Bankr.E.D.La. 2007).

[37] *In re Ketelsen*, 880 F.2d 990, 993 (8th Cir. 1989).

reckless disregard of whether he was doing so."[38] There is no question that Wells Fargo's conduct was willful. As previously decided, Wells Fargo clearly knew of Debtor's pending bankruptcy and was represented by bankruptcy counsel in this case. Wells Fargo is a sophisticated lender with thousands of claims in bankruptcy cases pending throughout the country and is familiar with the provisions of the Bankruptcy Code, particularly those regarding the automatic stay.

Wells Fargo assessed postpetition charges on this loan while in bankruptcy. However, it was not the assessment of the charges, but the conduct which followed that this Court found sanctionable. Despite assessing postpetition charges, Wells Fargo withheld this fact from its borrower and diverted payments made by the trustee and Debtor to satisfy claims not authorized by the plan or Court. Wells Fargo admitted that these actions were part of its normal course of conduct, practiced in perhaps thousands of cases. As a result of the evidence presented, the Court also found Wells Fargo's actions to be egregious. There is also no question that Wells Fargo exhibited reckless disregard for the stay it violated.

The imposition of punitive awards are designed to discourage future misconduct and benefit society at large.[39] Sanctions are "not merely to penalize those whose conduct may be deemed to

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[38] *In re Sanchez*, 372 B.R. 289, 315 (Bankr. S.D.Tex. 2007) (citations omitted).

[39] *See City of Newport v. Fact Concerts, Inc.*, 453 U.S. 247, 266-267, 101 S.Ct. 2748, 2759 (1981) ("[punitive damages by definition are not intended to compensate the injured party, but rather to punish the tortfeasor whose wrongful action was intentional or malicious, and to deter him and others from similar extreme conduct."); Restatement (Second) of Torts § 908 (1979) (the purpose of punitive damages is not compensation of the plaintiff but punishment of the defendant and deterrence).

warrant such a sanction, but to deter those who might be tempted to such conduct in the absence of such a deterrent."[40]

The Supreme Court, in *Pacific Mutual Life Ins. Co. v. Haslip*, ruled that punitive damage awards must address both reasonableness and adequate guidance concerns to satisfy the Fourteenth Amendment's due process clause.[41] The Fifth Circuit developed a two part test to help courts determine whether the requirements set forth under *Haslip* are met: "(1) whether the circumstances of the case indicate that the award is reasonable; and (2) whether the procedure used in assessing and reviewing the award imposes a sufficiently definite and meaningful constraint on the discretion of the factfinder."[42]

In *BMW of North America, Inc. v. Gore*, the Supreme Court examined three (3) factors in determining the propriety of a punitive damage award:

1) "the degree of reprehensibility;"

2) the ratio between the punitive damages and the actual harm; and

3) "the difference between this remedy and the civil penalties authorized or imposed in comparable cases."[43]

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[40] *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 639, 643, 96 S. Ct. 2778, 2781, 49 L. Ed. 2d 747 (1976).

[41] *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1, 17, 111 S.Ct. 1032, 113 L.Ed.2d 1 (1991).

[42] *Eichenseer v. Reserve Life Ins. Co.*, 934 F.2d 1377, 1981 (5th Cir. 1991).

[43] *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 575, 116 S.Ct. 1589, 1598-1599 (1996).

A. Degree of Reprehensibility

"[I]nfliction of economic injury, especially when done intentionally through affirmative acts of misconduct, or when the target is financially vulnerable, can warrant a substantial penalty."[44] Wells Fargo did not adjust Jones' loan as current on the petition date and instead continued to carry the past due amounts contained in its proof of claim in Jones' loan balance. It also misapplied funds regardless of source or intended application, to pre and postpetition charges, interest and non-interest bearing debt in contravention of the note, mortgage, plan and confirmation order. Wells Fargo assessed and paid itself postpetition fees and charges without approval from the Court or notice to Jones.

The net effect of Wells Fargo's actions was an overcharge in excess of $24,000.00. When Jones questioned the amounts owed, Wells Fargo refused to explain its calculations or provide an amortization schedule. When Jones sued Wells Fargo, it again failed to properly account for its calculations. After judgment was awarded, Wells Fargo fought the compensatory portion of the award despite never challenging the calculations of the overpayment. In fact, Wells Fargo's initial legal position both before this Court[45] and in its first appeal[46] denied any responsibility to refund payments demanded in error! The cost to Jones was hundreds of thousands of dollars in legal fees and five (5) years of litigation.

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[44] *Id. at* 1599.

[45] Docket no. 50, pp. 11-17.

[46] Docket no. 97, p. 2.

While every litigant has a right to pursue appeal, Wells Fargo's style of litigation was particularly vexing. After agreeing at trial to the initial injunctive relief in order to escape a punitive damage award, Wells Fargo changed its position and appealed. This resulted in:

> 1. A total of seven (7) days spent in the original trial, status conferences, and hearings before this Court;
>
> 2. Eighteen (18) post-trial, pre-remand motions or responsive pleadings filed by Wells Fargo, requiring nine (9) memoranda and nine (9) objections or responsive pleadings;
>
> 3. Eight (8) appeals or notices of appeal to the District Court by Wells Fargo, with fifteen (15) assignments of error and fifty-seven (57) sub-assignments of error, requiring 261 pages in briefing, and resulting in a delay of 493 days from the date the Amended Judgment was entered to the date the Fifth Circuit dismissed Wells Fargo's appeal for lack of jurisdiction;[47] and
>
> 4. Twenty-two (22) issues raised by Wells Fargo for remand, requiring 161 pages of briefing from the parties in the District Court and 269 additional days since the Fifth Circuit dismissed Wells Fargo's appeal.

The above was only the first round of litigation contained in this case. After the District Court remanded based on Wells Fargo's change of heart, Wells Fargo appealed the decision to remand. When that was denied, it took the legal position that the remand did not afford this Court the right to impose punitive damages *in lieu* of the Accounting Procedures it had both proposed and consented to undertake. That position if valid, would have allowed Wells Fargo to propose alternative relief to escape punitive damages; when the offer was accepted, challenge the relief it proposed; and avoid any punitive award, a position as untenable as it was illogical.

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[47] *See Jones*, 391 B.R. at 582.

Following this Court's ruling on remand, Wells Fargo appealed to the District Court once again, unsuccessfully. Yet another appeal to the Fifth Circuit was abandoned, but the same issues were then challenged by litigating and appealing the *Stewart* case.[48]

Wells Fargo has taken the position that every debtor in the district should be made to challenge, by separate suit, the proofs of claim or motions for relief from the automatic stay it files. It has steadfastly refused to audit its pleadings or proofs of claim for errors and has refused to voluntarily correct any errors that come to light except through threat of litigation. Although its own representatives have admitted that it routinely misapplied payments on loans and improperly charged fees, they have refused to correct past errors. They stubbornly insist on limiting any change in their conduct prospectively, even as they seek to collect on loans in other cases for amounts owed in error.

Wells Fargo's conduct is clandestine. Rather than provide Jones with a complete history of his debt on an ongoing basis, Wells Fargo simply stopped communicating with Jones once it deemed him in default. At that point in time, fees and costs were assessed against his account and satisfied with postpetition payments intended for other debt without notice. Only through litigation was this practice discovered. Wells Fargo admitted to the same practices for all other loans in bankruptcy or default. As a result, it is unlikely that most debtors will be able to discern problems with their accounts without extensive discovery.

Unfortunately, the threat of future litigation is a poor motivator for honesty in practice. Because litigation with Wells Fargo has already cost this and other plaintiffs considerable time and

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[48] Wells Fargo was also sanctioned in two other cases for similar behavior since the Partial Judgment was entered on April 13, *2007. See In re Stewart*, 391 B.R. 327 (Bankr. E.D.La. 2008); *In re Fitch*, 390 B.R. 834 (Bankr. E.D.La. 2008).

expense, the Court can only assume that others who challenge Wells Fargo's claims will meet a similar fate.

Over eighty (80%) of the chapter 13 debtors in this district have incomes of less than $40,000.00 per year. The burden of extensive discovery and delay is particularly overwhelming. In this Court's experience, it takes four (4) to six (6) months for Wells Fargo to produce a simple accounting of a loan's history and over four (4) court hearings. Most debtors simply do not have the personal resources to demand the production of a simple accounting for their loans, much less verify its accuracy, through a litigation process.

Wells Fargo has taken advantage of borrowers who rely on it to accurately apply payments and calculate the amounts owed. But perhaps more disturbing is Wells Fargo's refusal to voluntarily correct its errors. It prefers to rely on the ignorance of borrowers or their inability to fund a challenge to its demands, rather than voluntarily relinquish gains obtained through improper accounting methods. Wells Fargo's conduct was a breach of its contractual obligations to its borrowers. More importantly, when exposed, it revealed its true corporate character by denying any obligation to correct its past transgressions and mounting a legal assault ensure it never had to. Society requires that those in business conduct themselves with honestly and fair dealing. Thus, there is a strong societal interest in deterring such future conduct through the imposition of punitive relief.

Both parties agree that a legal remedy to address stay violations exists under section 362(k)(1), which provides that "an individual injured by any willful violation of a stay provided by this section shall recover actual damages, including costs and attorneys' fees, and, in appropriate circumstances, may recover punitive damages."[49] Wells Fargo argues that the Court has already imposed an adequate legal remedy because Debtor has been reimbursed for his actual damages, *i.e.* his attorney fees. "Punitive damages may be recovered when the creditor acts with actual knowledge of the violation or with reckless disregard of the protected right."[50] It has also been held that "where an arrogant defiance of federal law is demonstrated, punitive damages are appropriate."[51] Either standard justifies the assessment of punitive damages in this case.[52] Due to the prevalence and seriousness of Wells Fargo's actions, punitive damages are warranted.

B. Ratio Between Punitive Damages and Actual Harm

"[E]xemplary damages must bear a 'reasonable relationship' to compensatory damages."[53] "[T]he proper inquiry 'whether there is a reasonable relationship between the punitive damages award and *the harm likely to result* from the defendant's conduct as well as the harm that actually has occurred.'"[54] The Supreme Court has stated that it "cannot, draw a mathematical bright line

[49] *See also In re Fisher*, 144 B.R. 237, n.1 (Bankr. D.RI 1992) (noting that the compensatory and punitive damages provided for a willful stay violation under section 362 is a legal remedy).

[50] *In re Dynamic Tours & Transportation, Inc.*, 359 B.R. 336, 343 (Bankr. M.D.Fla. 2006) (citation omitted).

[51] *Id.* at 344.

[52] Further, the District Court found that "[t]he Bankruptcy Court clearly had the authority to impose punitive damages against Wells Fargo pursuant to Section 362 because the Bankruptcy Court determined that Wells Fargo's conduct was egregious."

[53] *Id.* at 1601.

[54] *Id.* at 1602 (quoting *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443, 453, 113 S.Ct. 2711, 2717-2718 (1993) (emphasis in original)). In *TXO*, the Supreme Court compared the punitive damage award and the damages that would have ensued had the offending party succeeded.

between the constitutionally acceptable and the constitutionally unacceptable that would fit every case."[55] Instead, punitive damages must address both "reasonableness" and "adequate guidance" concerns to satisfy the Fourteenth Amendment's due process clause.[56]

In *Eichenseer v. Reserve Life Insurance Co.*,[57] the Fifth Circuit awarded $1,000.00 in compensatory damages and $500,000.00 in punitive damages for wrongful denial of an insurance claim. Specifically, the Fifth Circuit found that the insurance company acted with "reckless disregard ... for the rights of the insured," and that "[i]ts actions were far more offensive than mere incompetent record keeping or clerical error."[58] The Fifth Circuit also considered that this was not the first instance which a court assessed punitive damages against the insurance company, and if the previous award did not deter sanctionable conduct, a larger award was necessary.[59]

Norwest Mortgage, Inc., n/k/a Wells Fargo, was assessed $2,000,000 in exemplary damages in *Slick v. Norwest Mortgage, Inc.*[60] for charging postpetition attorneys fees to debtors' accounts without disclosing the fees to anyone.[61] Four years after the ruling in *Slick*, Jones found that Wells Fargo continued to charge undisclosed postpetition fees despite that multi-million dollar damage assessment. Following *Jones*, Wells Fargo was involved in at least two (2) additional challenges

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[55] *Haslip*, 111 S.Ct. at 1043.

[56] *Id.*

[57] *Eichenseer*, 934 at 1381.

[58] *Id.* at 1382-1383.

[59] *Id.* at 1384.

[60] *Slick v. Norwest Mortgage, Inc.*, 2002 Bankr.Lexis 772 (Bankr.S.D.Ala. 2002).

[61] *Id.* at 32.

to the calculation of its claims *in this Court*. In both cases the evidence revealed that Wells Fargo continued to improperly amortize loans by employing the same practices prohibited by *Jones*. [62] In short, Wells Fargo has shown no inclination to change its conduct.

When necessary to deter reprehensible conduct, courts often award punitive damages in an amount multiple times greater than actual damages. In *Haslip*, the Supreme Court upheld as reasonable punitive damages that were more than four (4) times the amount of compensatory damages and two hundred (200) times the amount of out-of-pocket expenses when the trial court found that the conduct was serious and deterrence was important.[63] The Supreme Court found, "While the monetary comparisons are wide and, indeed, may be close to the line, the award [] did not lack objective criteria."[64]

The Supreme Court found it proper for the underlying court to examine as a factor in determining the amount of punitive damages, the "financial position" of the defendant.[65] Wells Fargo is the second largest loan servicer in the United States. With over 7.7 million loans under its administration at the time this matter went to trial, it possesses significant resources. Previous sanctions in *Slick, Stewart, Fitch* and even this case have not deterred Wells Fargo. As recognized in *Eichenseer*, if previous awards do not deter sanctionable conduct, larger awards may be necessary.

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[62] *In re Stewart*, 391 B.R. 327 (Bankr. E.D.La. 2008); *In re Fitch*, 390 B.R. 834 (Bankr. E.D.La. 2008).

[63] *Haslip*, 111 S.Ct. at 1046.

[64] *Id.*

[65] *Id.* at 1045.

C. Comparison of Punitive Damages and Civil or Criminal Penalties

Fairness requires that a person receive "fair notice not only of the conduct that will subject him to punishment, but also the severity of the penalty."[66] In determining the appropriate punitive damage amount, "substantial deference" must be given to "legislative judgments concerning appropriate sanctions for the conduct at issue."[67] Other courts have recognized that this comparison may be difficult in bankruptcy cases:

> Obviously, this latter guidepost poses something of a problem as there is not a complex statutory scheme designed to respond to violations of the automatic stay other than the Bankruptcy Code itself. Significantly, § 362(h)[68] specifically provides for the award of punitive damages. Thus, creditors must be presumed to be on notice that if they violate the automatic stay they will be liable for punitive damages.[69]

As previously set forth, Wells Fargo is a sophisticated lender and a regular participant in bankruptcy proceedings throughout the country. It is represented by able counsel and it well versed in the Bankruptcy Code and the provisions of the automatic stay. Wells Fargo was on notice by the language of section 362(k) that it could be subject to punitive damages, and it was on notice through jurisprudence that those damages could be severe.

VI. Conclusion

Wells Fargo's actions were not only highly reprehensible, but its subsequent reaction on their exposure has been less than satisfactory. There is a strong societal interest in preventing such future

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[66] *BMW*, 116 S.Ct. at 1598.

[67] *Id.* at 1603.

[68] This provision is now section 362(k).

[69] *In re Johnson*, 2007 WL 2274715, *15 (Bankr.N.D.Ala. 2007) (quoting *In re Ocasio*, 272 B.R. 815, 826 (1st Cir.BAP 2002).

conduct through a punitive award. The total monetary judgment to date is $24,441.65, plus legal interest,$166,873.00 in legal fees and $3,951.96 in costs. Other fees and costs incurred by Jones through the first remand were also incurred and are not included in the foregoing amounts. Because the Court cannot reveal the sealed amount stipulated to by the parties when they settled Jones' Application for Award of Fees and Costs Related to Remand ("Application"),[70] the Court will use Jones' Application itself as evidence of fees and costs actually incurred up to the date of the Application. The Application and supporting documentation establish that an additional $118,251.93 in attorneys' fees and $3,596.95 in costs was also incurred by Jones.[71] The amounts previously awarded plus the additional amounts incurred establish that the cost to litigate the compensatory portion of this award was $292,673.84. After considering the compensatory damages of $24,441.65 awarded in this case, along with the litigation costs of $292,673.84; awards against Wells Fargo in other cases for the same behavior which did not deter its conduct; and the previous judgments in this case none of which deterred its actions; the Court finds that a punitive damage award of $3,171,154.00 is warranted to deter Wells Fargo from similar conduct in the future. This Court hopes that the relief granted will finally motivate Wells Fargo to rectify its practices and comply with the terms of court orders, plans and the automatic stay.

New Orleans, Louisiana, April 5, 2012.

Hon. Elizabeth W. Magner
U.S. Bankruptcy Judge

---

[70] Docket no. 396.

[71] Evidence of the fees and costs incurred is attached to the Application.

COPY

378-2838

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IN THE EIGHTH JUDICIAL DISTRICT COURT FOR THE STATE OF NEVADA

IN AND FOR THE COUNTY OF CLARK

THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT,	Case No. A-12-661179-C
Plaintiff	Dept. No. XXXI
v.	**SUMMONS – CIVIL**
CATHERINE RODRIGUEZ; REPUBLIC SERVICES; CITY OF LAS VEGAS; DOES I-X; and ROES 1 -10 inclusive,	**ARBITRATION EXCEPTION CLAIMED: TITLE TO REAL ESTATE**
Defendants.	

NOTICE! YOU HAVE BEEN SUED. THE COURT MAY DECIDE AGAINST YOU WITHOUT YOUR BEING HEARD UNLESS YOU RESPOND WITHIN 20 DAYS. READ THE INFORMATION BELOW.

TO THE DEFENDANTS: a Civil Complaint has been filed by the Plaintiff against you for the relief set for in this Complaint.

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1. If you intend to defend this lawsuit, within 20 days after this Summons is served on you, exclusive of the day of service, you must to the following:

   (a) File with the Clerk of This Court, whose address is shown below, a formal written response to the Complaint in accordance with the Rules of the Court, with the appropriate filing fee.

   (b) Serve a copy of your response upon the attorney whose name and address is shown below.

2. Unless you respond, your default will be entered upon application of the Plaintiff and failure to so respond will result in a judgment of default against you for the relief demanded in the Complaint, which could result in the taking of money or property or other relief requested by the Complaint.

3. If you intend to seek the advice of an attorney in this matter, you should do so promptly so that your response may be filed on time.

4. The State of Nevada, its political subdivisions, agencies, officers, employees, board members, commission members and legislators each have 45 days after service of this Summons within which to file an Answer or other responsive pleading to the Complaint.

Respectfully submitted,
MCCARTHY & HOLTHUS, LLP

By: Stephanie Richter
Kristin A. Schuler-Hintz (NSB# 7171)
Stephanie Richter (NSB# 12075)
9510 West Sahara Ave. Suite 110
Las Vegas, NV 89117

CLERK OF COURT

DISTRICT COURT SEAL

By: Kristin M. Gomez
Deputy Clerk

Date: MAY 04 2017

NV-11-478461-JUD

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CLERK OF THE COURT

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IN THE EIGHTH JUDICIAL DISTRICT COURT FOR THE STATE OF NEVADA
IN AND FOR THE COUNTY OF CLARK

THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT Plaintiff v. CATHERINE RODRIGUEZ; REPUBLIC SERVICES; CITY OF LAS VEGAS; DOES I-X; and ROES 1 -10 inclusive, Defendants.	Case No. A-12-661179-C Dept. No. XXXI **VERIFIED COMPLAINT FOR JUDICIAL FORECLOSURE AND DEFICIENCY JUDGMENT OF DEED OF TRUST** **ARBITRATION EXCEPTION CLAIMED: TITLE TO REAL ESTATE**

COMES NOW Plaintiff, THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL

MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT, filing this civil action against Defendants for (1) Judicial Foreclosure and (2) Deficiency Judgment on Deed of Trust.

INTRODUCTION

1. This action is a judicial foreclosure with money demand within the jurisdictional limits of this Court and this venue is appropriate because the property involved is within this Court's jurisdiction. Plaintiff is authorized to bring this action in the state of Nevada by NRS 40.430.

2. The real property on which Plaintiff seeks foreclosure consists of a single-family residence commonly known as 6845 Sweet Pecan Street, Las Vegas, Nevada 89149 and more specifically described in Exhibit "1" attached hereto and incorporation herein by this reference.

3. Plaintiff, THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT, is an Entity authorized to do business within the State of Nevada. Nationstar Mortgage LLC is the servicer of the loan.

4. Defendant, Catherine Rodriguez, is an individual believed to be residing in Clark County, Nevada who executed the subject Note and Deed of Trust relative to real property located in Clark County, Nevada of which this Complaint arises, or claims an interest in the property, or both.

5. Defendant, Republic Services, is an entity that may claim an interest in the subject property pursuant to a recorded lien.

6. Defendant, City of Las Vegas, is an entity that may claim an interest in the subject property pursuant to a recorded lien.

7. Plaintiff does not know the true names, capacities or bases of liability of Defendants sued as Does I-X and Roes 1-10 inclusive. Each fictitiously named defendant is in some way liable to Plaintiff or claims some right, title or interest in the subject property that is subsequent to

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and subject to the interest of Plaintiff, or both. Plaintiff will amend this Complaint to reflect the true names of said Defendants when the same have been ascertained.

FACTUAL BACKGROUND

8. Plaintiffs incorporates and re-alleges the allegations of paragraphs 1 through 7 above, as if fully set forth herein.

9. The real property which is the subject matter of this action is commonly known as 6845 Sweet Pecan Street, Las Vegas, Nevada 89149 (hereinafter the "Property"). The Parcel ID Number of the Property is 125-20-212-037. The subject real property is more particularly described in Exhibit "1", attached hereto and incorporated herein by this reference.

10. The Property that is the subject matter of this action is in Clark County, Nevada.

11. On or about 4/21/2005, Catherine Rodriguez signed a Note in the principal amount of $269,000.00, which was secured by a Deed of Trust recorded on 4/27/2005 as document number 20050427-0003843 in the records of Clark County, Nevada. A copy of the Note (made at or near the time of loan origination), Deed of Trust, and Assignment are attached hereto collectively as Exhibit "1". The Note and Deed of Trust were subsequently assigned to THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT.

FIRST CAUSE OF ACTION

(Judicial Foreclosure)

12. Plaintiff incorporates and re-alleges the allegations of paragraphs 1 through 11 above, as if fully set forth herein.

13. Counsel is informed and believes and on that basis alleges that Defendant, Catherine Rodriguez, has defaulted under the terms of the Note and Deed of Trust by having failed and refused to make monthly payments of $1,547.17 (P&I) commencing with the payment due on

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12/1/2009 and in subsequent months. Counsel is informed and believes that the delinquent monthly installments total $46,415.10 exclusive of associated fees, costs and advances.

14. The Deed of Trust provides that, if the Trustor defaults in paying any indebtedness secured by the Deed of Trust, or in the performance of any agreement in the subject agreement or Deed of Trust, the entire principal and interest secured by the Deed of Trust will, upon notice to the Borrower, become immediately due and payable.

15. Pursuant to the terms of the Note and Deed of Trust and the acceleration letter attached hereto as Exhibit "2", THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT, has declared all sums immediately due and payable and accelerated all sums due.

16. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to foreclose on its interest in the property.

17. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to an award of its attorney's fees and costs pursuant to the terms of the Note and Deed of Trust, including post-judgment attorney's fees and costs.

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18. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT's lien is prior and paramount to the interest of any Defendants hereto, and all such subordinate interests should be eliminated by this foreclosure action. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to judgment foreclosing the interests of any Defendant hereto in the Property and forever barring that interest, and that of any successors, assigns or heirs.

19. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to the appointment of a receiver to protect the Property from neglect and waste during the pendency of this action and to collect any rents to which any Defendants would be entitled.

20. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING

AND SERVICING AGREEMENT is entitled to decree or judgment of the court directing a sale of the encumbered property and application of the proceeds of sale as provided in NRS 40.462.

21. THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled to a judgment permitting it to bid all or part of its judgment at sale.

SECOND CAUSE OF ACTION

(Deficiency Judgment on Deed of Trust)

22. Plaintiff incorporates and re-alleges the allegations of paragraphs 1 through 21 above, as if fully set forth herein.

23. If a Borrower has obtained a bankruptcy discharge then no deficiency will be sought. If there has been no discharge and a deficiency remains after the application of proceeds from the sale, plaintiff is entitled to seek a deficiency judgment against the Borrower(s), pursuant to NRS 40.455.

A. Against Defendants, Catherine Rodriguez, for the minimum sum of $269,000.00, plus all post-filing advances, costs and attorney's fees, and interest from 12/1/2009 until paid in full, plus post-judgment interest on advances, costs and attorney's fees from the date each was due until paid in full, for its costs incurred herein, including post-judgment costs, for its attorney's fees, including post-judgment attorney's fees, pursuant to the terms of the Note and Deed of Trust, and for such other and further relief as the Court deems just and proper.

B. Against Defendants Catherine Rodriguez, Republic Services, City of Las Vegas Does I-X inclusive and Roes 1-10 inclusive, individually and collectively, jointly and severally as follows:

(1) That the sums prayed for and alleged to be secured by the Property are secured and that the Deed of Trust is a valid lien on the Property described in the Complaint and

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on the whole thereof, and on the rents, issues, and profits of the Property, and all buildings and improvement thereon and fixtures attached thereto as used in connection with the Property;

(2) That the Deed of Trust be declared superior to any right, title, interest, lien, equity or estate of the Defendants;

(3) That it be adjudged and decreed that said Deed of Trust be foreclosed and a decree or judgment of the court directing a sale of the encumbered property and application of the proceeds of sale as provided in NRS 40.462 in satisfaction of the judgment herein;

(4) That the Defendants, and all persons claiming by, through or under them, or any of them, be foreclosed of and forever barred from any and all right, title, claim, interest, or lien in or to the Property or with respect thereto except such rights of redemption as they may have by law;

(5) That THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is granted any further relief in satisfaction of the judgment as may be permitted under Nevada law;

(6) That THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT is entitled at its discretion to the appointment of a receiver to protect the Property from neglect and waste during the pendency of this action and to collect any rents to which any Defendants would be entitled;

(7) That if the proceeds of the sale do not satisfy Plaintiffs' judgment in full, the Plaintiff may amend its complaint to seek a deficiency judgment against Defendants,

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Catherine Rodriguez for the deficiency; No deficiency judgment shall be sought against Defendants, Republic Services, or City of Las Vegas.

(8) For its costs incurred herein, including post-judgment costs;

(9) For its attorney's fees, including post-judgment fees, pursuant to the Note and Deed of Trust; and

(10) For any other further relief as this court deems just and proper.

Dated: May 3rd, 2012

Respectfully submitted,
MCCARTHY & HOLTHUS, LLP

By: Stephanie Richter
Stephanie Richter (NSB# 12075)
Kristin A. Schuler-Hintz (NSB# 7171)

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VERIFICATION

I, Stephanie Richter, Esq., am one of the attorneys for Petitioner, THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES FHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT. Such party is absent from the county aforesaid where such attorneys have their office and I make the verification for and on behalf of that party for that reason. I have read the Complaint for Judicial Foreclosure and know its contents. I am informed, believe, and on that ground allege the matters stated are true.

I declare under penalty of perjury under the laws of the State of Nevada that the foregoing is true and correct.

Date: May 3, 2012

By: Stephanie Richter

Stephanie Richter (NSB #12075)
Kristin A. Schuler-Hintz (NSB# 7171)
9510 West Sahara, Suite 110
Las Vegas, NV 89117

EXHIBIT "1"

REDACTED

ADJUSTABLE RATE NOTE

(LIBOR Six-Month Index (As Published In *The Wall Street Journal*) - Rate Caps)

THIS NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN MY INTEREST RATE AND MY MONTHLY PAYMENT. THIS NOTE LIMITS THE AMOUNT MY INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MAXIMUM RATE I MUST PAY.

April 21st, 2005 [Date] HENDERSON [City] NEVADA [State]

6845 SWEET PECAN STREET, LAS VEGAS, Nevada 89149 [Property Address]

I hereby certify that this is a true and exact copy of the original. Old Republic Title

by: CA

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received, I promise to pay U.S. $ 269,000.00 (this amount is called "Principal"), plus interest, to the order of Lender. Lender is FIRST HORIZON HOME LOAN CORPORATION.

I will make all payments under this Note in the form of cash, check or money order.

I understand that Lender may transfer this Note. Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

2. INTEREST

Interest will be charged on unpaid Principal until the full amount of Principal has been paid. I will pay interest at a yearly rate of 5.625 %. The interest rate I will pay may change in accordance with Section 4 of this Note.

The interest rate required by this Section 2 and Section 4 of this Note is the rate I will pay both before and after any default described in Section 7(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay Principal and interest by making a payment every month.

I will make my monthly payments on the first day of each month beginning on June 1st, 2005.

I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. Each monthly payment will be applied as of its scheduled due date and will be applied to interest before Principal. If, on May 1st, 2035, I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date."

I will make my monthly payments at PO BOX 809 MEMPHIS, TN 38101 or at a different place if required by the Note Holder.

(B) Amount of My Initial Monthly Payments

Each of my initial monthly payments will be in the amount of U.S.$ 1,260.94. This amount may change.

(C) Monthly Payment Changes

Changes in my monthly payment will reflect changes in the unpaid Principal of my loan and in the interest rate that I must pay. The Note Holder will determine my new interest rate and the changed amount of my monthly payment in accordance with Section 4 of this Note.

REDACTED

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The interest rate I will pay may change on the first day of May, 2010, and on that day every 6th month thereafter. Each date on which my interest rate could change is called a "Change Date."

(B) The Index

Beginning with the first Change Date, my interest rate will be based on an Index. The "Index" is the average of interbank offered rates for six month U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in *The Wall Street Journal*. The most recent Index figure available as of the first business day of the month immediately preceding the month in which the Change Date occurs is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new index that is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid Principal that I am expected to owe at the Change Date in full on the Maturity Date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Changes

The interest rate I am required to pay at the first Change Date will not be greater than 11.625 % or less than 2.250 %. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than TWO & 00/100 percentage point(s) (2.00 %) from the rate of interest I have been paying for the preceding 6 months. My interest rate will never be greater than 11.625 %.

(E) Effective Date of Changes

My new interest rate will become effective on each Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Change Date until the amount of my monthly payment changes again.

(F) Notice of Changes

The Note Holder will deliver or mail to me a notice of any changes in my interest rate and the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

5. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of Principal at any time before they are due. A payment of Principal only is known as a "Prepayment." When I make a Prepayment, I will tell the Note Holder in writing that I am doing so. I may not designate a payment as a Prepayment if I have not made all the monthly payments due under this Note.

I may make a full Prepayment or partial Prepayments without paying any Prepayment charge. The Note Holder will use my Prepayments to reduce the amount of Principal that I owe under this Note. However, the Note Holder may apply my Prepayment to the accrued and unpaid interest on the Prepayment amount before applying my Prepayment to reduce the Principal amount of this Note. If I make a partial Prepayment, there will be no changes in the due dates of my monthly payments unless the Note Holder agrees in writing to those changes. My partial Prepayment may reduce the amount of my monthly payments after the first Change Date following my partial Prepayment. However, any reduction due to my partial Prepayment may be offset by an interest rate increase.

6. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from me that exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the Principal I owe under this Note or by making a direct payment to me. If a refund reduces Principal, the reduction will be treated as a partial Prepayment.

Form 3520 1/01
Initials: CH

REDACTED

7. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charges for Overdue Payments

If the Note Holder has not received the full amount of any monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 5.00 % of my overdue payment of principal and interest. I will pay this late charge promptly but only once on each late payment.

(B) Default

If I do not pay the full amount of each monthly payment on the date it is due, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of Principal that has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is mailed to me or delivered by other means.

(D) No Waiver By Note Holder

Even if, at a time when I am in default, the Note Holder does not require me to pay immediately in full as described above, the Note Holder will still have the right to do so if I am in default at a later time.

(E) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back by me for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

8. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Unless the Note Holder requires a different method, any notice that must be given to the Note Holder under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3(A) above or at a different address if I am given a notice of that different address.

9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of a guarantor, surety or endorser of this Note, is also obligated to keep all of the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

10. WAIVERS

I and any other person who has obligations under this Note waive the rights of Presentment and Notice of Dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of Dishonor" means the right to require the Note Holder to give notice to other persons that amounts due have not been paid.

11. UNIFORM SECURED NOTE

This Note is a uniform instrument with limited variations in some jurisdictions. In addition to the protections given to the Note Holder under this Note, a Mortgage, Deed of Trust, or Security Deed (the "Security Instrument"), dated the same date as this Note, protects the Note Holder from possible losses that might result if I do not keep the promises that I make in this Note. That Security Instrument describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions read as follows:

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Initials: AE

REDACTED

Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.

To the extent permitted by Applicable Law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender also may require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. Borrower will continue to be obligated under the Note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

WITNESS THE HAND(S) AND SEAL(S) OF THE UNDERSIGNED.

CATHERINE RODRIGUEZ (Seal) -Borrower | (Seal) -Borrower

(Seal) -Borrower | (Seal) -Borrower

(Seal) -Borrower | (Seal) -Borrower

(Seal) -Borrower | (Seal) -Borrower

[Sign Original Only]

REDACTED

INTEREST ONLY ADDENDUM TO ADJUSTABLE RATE NOTE

THIS ADDENDUM is made this 21st day of April, 2005, and is incorporated into and intended to form a part of the Adjustable Rate Note (the "Note") dated the same date as this Addendum executed by the undersigned and payable to FIRST HORIZON HOME LOAN CORPORATION (the "Lender").

THIS ADDENDUM supercedes Section 3(A), 3(B), 4(C) and 7(A) of the Note. None of the other provisions of the Note are changed by this Addendum.

3. PAYMENTS

(A) Time and Place of Payments

I will pay interest by making payments every month for the first 120 payments (the "Interest Only Period") in the amount sufficient to pay interest as it accrues. I will pay principal and interest by making payments every month thereafter for the next 240 payments in an amount sufficient to fully amortize the outstanding principal balance of the Note at the end of the Interest Only Period over the remaining term of the Note in equal monthly payments.

I will make my monthly payments on the first day of each month beginning on June 1st, 2005. I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. Each monthly payment will be applied as of its scheduled due date and will be applied to interest before principal. If, on May 1st, 2035, I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date".

I will make my payments at PO BOX 809, MEMPHIS, TN 38101, or at a different place if required by the Note Holder.

(B) Amount of My Initial Monthly Payments

Each of my initial monthly payments will be in the amount of U.S. $ 1,260.94. This payment amount is based on the original principal balance of the Note. This payment amount may change.

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250%) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D), this rounded amount will be my new interest rate until the next Change Date.

During this Interest Only Period, the Note Holder will then determine the amount of the monthly payment that would be sufficient to repay accrued interest. This will be the amount of my monthly payment until the earlier of the next Change Date or the end of the Interest Only Period unless I make a voluntary prepayment of principal during such period. If I make a voluntary prepayment of principal during the Interest Only Period, my payment amount for subsequent payments will be reduced to the amount necessary to pay interest on the lower principal balance. At the end of the Interest Only Period and on each Change Date thereafter, the Note Holder will determine the amount of the monthly payment that would be sufficient to repay in full the unpaid principal that I am expected to owe at the end of the Interest Only Period or Change Date, as applicable, in equal monthly payments over the remaining term of the Note. The result of this calculation will be the new amount of my monthly payment. After the end of the Interest Only Period, my payment amount will not be reduced due to voluntary prepayments.

REDACTED

7. **BORROWER'S FAILURE TO PAY AS REQUIRED**

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 5.00 % of my overdue payment of interest, during the period when my payment is interest only, and of principal and interest thereafter. I will pay this late charge promptly but only once on each late payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Addendum.

Catherine Rodriguez 04-22-05

CATHERINE RODRIGUEZ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

20050427-0003843

Fee: $36.00
N/C Fee: $0.00

04/27/2005 14:01:32
T20050077114
Requestor:
OLD REPUBLIC TITLE COMPANY OF NEVADA

Frances Deane ARO
Clark County Recorder Pgs: 23

Assessor's Parcel Number:
County: 125-20-212-037 City:
Return To:
FHHLC - POST CLOSING MAIL ROOM

(23)

1555 W. WALNUT HILL LN. #200 MC 6712
IRVING, TX 75038
Prepared By: FIRST HORIZON HOME LOAN CORPORATION

7375 PRAIRIE FALCON DR STE 120
LAS VEGAS, NV 89128
~~Recording Requested By:~~
FIRST HORIZON HOME LOAN CORPORATION
4000 HORIZON WAY
IRVING, TX 75063

44

5116035822GM [Space Above This Line For Recording Data] REDACTED

DEED OF TRUST

MIN 100085200533345205

DEFINITIONS

Words used in multiple sections of this document are defined below and other words are defined in Sections 3, 11, 13, 18, 20 and 21. Certain rules regarding the usage of words used in this document are also provided in Section 16.

(A) "Security Instrument" means this document, which is dated April 21st, 2005, together with all Riders to this document.

(B) "Borrower" is
CATHERINE RODRIGUEZ , An Unmarried Woman

Borrower is the trustor under this Security Instrument.

(C) "Lender" is FIRST HORIZON HOME LOAN CORPORATION

Lender is a CORPORATION
organized and existing under the laws of THE STATE OF KANSAS

Lender's address is 4000 Horizon Way, Irving, Texas 75063

(D) "Trustee" is OLD REPUBLIC TITLE
140 N. STEPHANIE ST., HENDERSON, NV 89074

(E) "MERS" is Mortgage Electronic Registration Systems, Inc. MERS is a separate corporation that is acting solely as a nominee for Lender and Lender's successors and assigns. MERS is the beneficiary under this Security Instrument. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of P.O. Box 2026, Flint, MI 48501-2026, tel. (888) 679-MERS.

(F) "Note" means the promissory note signed by Borrower and dated April 21st, 2005. The Note states that Borrower owes Lender TWO HUNDRED SIXTY NINE THOUSAND & 00/100 Dollars (U.S. $ 269,000.00) plus interest. Borrower has promised to pay this debt in regular Periodic Payments and to pay the debt in full not later than MAY 1, 2035.

(G) "Property" means the property that is described below under the heading "Transfer of Rights in the Property."

(H) "Loan" means the debt evidenced by the Note, plus interest, any prepayment charges and late charges due under the Note, and all sums due under this Security Instrument, plus interest.

(I) "Riders" means all Riders to this Security Instrument that are executed by Borrower. The following Riders are to be executed by Borrower [check box as applicable]:

[X] Adjustable Rate Rider	[ ] Condominium Rider	[ ] Second Home Rider
[ ] Balloon Rider	[X] Planned Unit Development Rider	[ ] 1-4 Family Rider
[ ] VA Rider	[ ] Biweekly Payment Rider	[ ] Other(s) [specify]

(J) "Applicable Law" means all controlling applicable federal, state and local statutes, regulations, ordinances and administrative rules and orders (that have the effect of law) as well as all applicable final, non-appealable judicial opinions.

(K) "Community Association Dues, Fees, and Assessments" means all dues, fees, assessments and other charges that are imposed on Borrower or the Property by a condominium association, homeowners association or similar organization.

(L) "Electronic Funds Transfer" means any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, computer, or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine transactions, transfers initiated by telephone, wire transfers, and automated clearinghouse transfers.

(M) "Escrow Items" means those items that are described in Section 3.

(N) "Miscellaneous Proceeds" means any compensation, settlement, award of damages, or proceeds paid by any third party (other than insurance proceeds paid under the coverages described in Section 5) for: (i) damage to, or destruction of, the Property; (ii) condemnation or other taking of all or any part of the Property; (iii) conveyance in lieu of condemnation; or (iv) misrepresentations of, or omissions as to, the value and/or condition of the Property.

(O) "Mortgage Insurance" means insurance protecting Lender against the nonpayment of, or default on, the Loan.

(P) "Periodic Payment" means the regularly scheduled amount due for (i) principal and interest under the Note, plus (ii) any amounts under Section 3 of this Security Instrument.

(Q) "RESPA" means the Real Estate Settlement Procedures Act (12 U.S.C. Section 2601 et seq.) and its implementing regulation, Regulation X (24 C.F.R. Part 3500), as they might be amended from time to time, or any additional or successor legislation or regulation that governs the same subject matter. As used in this Security Instrument, "RESPA" refers to all requirements and restrictions that are imposed in regard to a "federally related mortgage loan" even if the Loan does not qualify as a "federally related mortgage loan" under RESPA.

(R) "Successor in Interest of Borrower" means any party that has taken title to the Property, whether or not that party has assumed Borrower's obligations under the Note and/or this Security Instrument.

TRANSFER OF RIGHTS IN THE PROPERTY

The beneficiary of this Security Instrument is MERS (solely as nominee for Lender and Lender's successors and assigns) and the successors and assigns of MERS. This Security Instrument secures to Lender: (i) the repayment of the Loan, and all renewals, extensions and modifications of the Note; and (ii) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the County [Type of Recording Jurisdiction] of CLARK [Name of Recording Jurisdiction]:

All that tract or parcel of land as shown on Schedule "A" attached hereto which is incorporated herein and made a part hereof.

Parcel ID Number: County: 125-20-212-037 City: which currently has the address of 6845 SWEET PECAN STREET [Street] LAS VEGAS [City], Nevada 89149 [Zip Code] ("Property Address"):

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property." Borrower understands and agrees that MERS holds only legal title to the interests granted by Borrower in this Security Instrument, but, if necessary to comply with law or custom, MERS (as nominee for Lender and Lender's successors and assigns) has the right: to exercise any or all of those interests, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of Lender including, but not limited to, releasing and canceling this Security Instrument.

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal, Interest, Escrow Items, Prepayment Charges, and Late Charges. Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and any prepayment charges and late charges due under the Note. Borrower shall also pay funds for Escrow Items pursuant to Section 3. Payments due under the Note and this Security Instrument shall be made in U.S. currency. However, if any check or other instrument received by Lender as payment under the Note or this Security Instrument is returned to Lender unpaid, Lender may require that any or all subsequent payments due under the Note and this Security Instrument be made in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality, or entity; or (d) Electronic Funds Transfer.

Payments are deemed received by Lender when received at the location designated in the Note or at such other location as may be designated by Lender in accordance with the notice provisions in Section 15. Lender may return any payment or partial payment if the payment or partial payments are insufficient to bring the Loan current. Lender may accept any payment or partial payment insufficient to bring the Loan current, without waiver of any rights hereunder or prejudice to its rights to refuse such payment or partial payments in the future, but Lender is not obligated to apply such payments at the time such payments are accepted. If each Periodic Payment is applied as of its scheduled due date, then Lender need not pay interest on unapplied funds. Lender may hold such unapplied funds until Borrower makes payment to bring the Loan current. If Borrower does not do so within a reasonable period of time, Lender shall either apply such funds or return them to Borrower. If not applied earlier, such funds will be applied to the outstanding principal balance under the Note immediately prior to foreclosure. No offset or claim which Borrower might have now or in the future against Lender shall relieve Borrower from making payments due under the Note and this Security Instrument or performing the covenants and agreements secured by this Security Instrument.

2. Application of Payments or Proceeds. Except as otherwise described in this Section 2, all payments accepted and applied by Lender shall be applied in the following order of priority: (a) interest due under the Note; (b) principal due under the Note; (c) amounts due under Section 3. Such payments shall be applied to each Periodic Payment in the order in which it became due. Any remaining amounts shall be applied first to late charges, second to any other amounts due under this Security Instrument, and then to reduce the principal balance of the Note.

If Lender receives a payment from Borrower for a delinquent Periodic Payment which includes a sufficient amount to pay any late charge due, the payment may be applied to the delinquent payment and the late charge. If more than one Periodic Payment is outstanding, Lender may apply any payment received from Borrower to the repayment of the Periodic Payments if, and to the extent that, each payment can be paid in full. To the extent that any excess exists after the payment is applied to the full payment of one or more Periodic Payments, such excess may be applied to any late charges due. Voluntary prepayments shall be applied first to any prepayment charges and then as described in the Note.

Any application of payments, insurance proceeds, or Miscellaneous Proceeds to principal due under the Note shall not extend or postpone the due date, or change the amount, of the Periodic Payments.

3. Funds for Escrow Items. Borrower shall pay to Lender on the day Periodic Payments are due under the Note, until the Note is paid in full, a sum (the "Funds") to provide for payment of amounts due for: (a) taxes and assessments and other items which can attain priority over this Security Instrument as a lien or encumbrance on the Property; (b) leasehold payments or ground rents on the Property, if any; (c) premiums for any and all insurance required by Lender under Section 5; and (d) Mortgage Insurance premiums, if any, or any sums payable by Borrower to Lender in lieu of the payment of Mortgage Insurance premiums in accordance with the provisions of Section 10. These items are called "Escrow Items." At origination or at any time during the term of the Loan, Lender may require that Community Association Dues, Fees, and Assessments, if any, be escrowed by Borrower, and such dues, fees and assessments shall be an Escrow Item. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this Section. Borrower shall pay Lender the Funds for Escrow Items unless Lender waives Borrower's obligation to pay the Funds

Initials: OAR

for any or all Escrow Items. Lender may waive Borrower's obligation to pay to Lender Funds for any or all Escrow Items at any time. Any such waiver may only be in writing. In the event of such waiver, Borrower shall pay directly, when and where payable, the amounts due for any Escrow Items for which payment of Funds has been waived by Lender and, if Lender requires, shall furnish to Lender receipts evidencing such payment within such time period as Lender may require. Borrower's obligation to make such payments and to provide receipts shall for all purposes be deemed to be a covenant and agreement contained in this Security Instrument, as the phrase "covenant and agreement" is used in Section 9. If Borrower is obligated to pay Escrow Items directly, pursuant to a waiver, and Borrower fails to pay the amount due for an Escrow Item, Lender may exercise its rights under Section 9 and pay such amount and Borrower shall then be obligated under Section 9 to repay to Lender any such amount. Lender may revoke the waiver as to any or all Escrow Items at any time by a notice given in accordance with Section 15 and, upon such revocation, Borrower shall pay to Lender all Funds, and in such amounts, that are then required under this Section 3.

Lender may, at any time, collect and hold Funds in an amount (a) sufficient to permit Lender to apply the Funds at the time specified under RESPA, and (b) not to exceed the maximum amount a lender can require under RESPA. Lender shall estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with Applicable Law.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentality, or entity (including Lender, if Lender is an institution whose deposits are so insured) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items no later than the time specified under RESPA. Lender shall not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and Applicable Law permits Lender to make such a charge. Unless an agreement is made in writing or Applicable Law requires interest to be paid on the Funds, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender can agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds as required by RESPA.

If there is a surplus of Funds held in escrow, as defined under RESPA, Lender shall account to Borrower for the excess funds in accordance with RESPA. If there is a shortage of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the shortage in accordance with RESPA, but in no more than 12 monthly payments. If there is a deficiency of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the deficiency in accordance with RESPA, but in no more than 12 monthly payments.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines, and impositions attributable to the Property which can attain priority over this Security Instrument, leasehold payments or ground rents on the Property, if any, and Community Association Dues, Fees, and Assessments, if any. To the extent that these items are Escrow Items, Borrower shall pay them in the manner provided in Section 3.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender, but only so long as Borrower is performing such agreement; (b) contests the lien in good faith by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of the lien while those proceedings are pending, but only until such proceedings are concluded; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which can attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Within 10 days of the date on which that notice is given, Borrower shall satisfy the lien or take one or more of the actions set forth above in this Section 4.

Lender may require Borrower to pay a one-time charge for a real estate tax verification and/or reporting service used by Lender in connection with this Loan.

5. **Property Insurance.** Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage," and any other hazards including, but not limited to, earthquakes and floods, for which Lender requires insurance. This insurance shall be maintained in the amounts (including deductible levels) and for the periods that Lender requires. What Lender requires pursuant to the preceding sentences can change during the term of the Loan. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's right to disapprove Borrower's choice, which right shall not be exercised unreasonably. Lender may require Borrower to pay, in connection with this Loan, either: (a) a one-time charge for flood zone determination, certification and tracking services; or (b) a one-time charge for flood zone determination and certification services and subsequent charges each time remappings or similar changes occur which reasonably might affect such determination or certification. Borrower shall also be responsible for the payment of any fees imposed by the Federal Emergency Management Agency in connection with the review of any flood zone determination resulting from an objection by Borrower.

If Borrower fails to maintain any of the coverages described above, Lender may obtain insurance coverage, at Lender's option and Borrower's expense. Lender is under no obligation to purchase any particular type or amount of coverage. Therefore, such coverage shall cover Lender, but might or might not protect Borrower, Borrower's equity in the Property, or the contents of the Property, against any risk, hazard or liability and might provide greater or lesser coverage than was previously in effect. Borrower acknowledges that the cost of the insurance coverage so obtained might significantly exceed the cost of insurance that Borrower could have obtained. Any amounts disbursed by Lender under this Section 5 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

All insurance policies required by Lender and renewals of such policies shall be subject to Lender's right to disapprove such policies, shall include a standard mortgage clause, and shall name Lender as mortgagee and/or as an additional loss payee. Lender shall have the right to hold the policies and renewal certificates. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. If Borrower obtains any form of insurance coverage, not otherwise required by Lender, for damage to, or destruction of, the Property, such policy shall include a standard mortgage clause and shall name Lender as mortgagee and/or as an additional loss payee.

In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower. Unless Lender and Borrower otherwise agree in writing, any insurance proceeds, whether or not the underlying insurance was required by Lender, shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such insurance proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such insurance proceeds, Lender shall not be required to pay Borrower any interest or earnings on such proceeds. Fees for public adjusters, or other third parties, retained by Borrower shall not be paid out of the insurance proceeds and shall be the sole obligation of Borrower. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such insurance proceeds shall be applied in the order provided for in Section 2.

If Borrower abandons the Property, Lender may file, negotiate and settle any available insurance claim and related matters. If Borrower does not respond within 30 days to a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may negotiate and settle the claim. The 30-day period will begin when the notice is given. In either event, or if Lender acquires the Property under Section 22 or otherwise, Borrower hereby assigns to Lender (a) Borrower's rights to any insurance proceeds in an amount not to exceed the amounts unpaid under the Note or this Security Instrument, and (b) any other of Borrower's rights (other than the right to any refund of unearned premiums paid by Borrower) under all insurance policies covering the Property, insofar as such rights are applicable to the coverage of the Property. Lender may use the insurance proceeds either to repair or restore the Property or to pay amounts unpaid under the Note or this Security Instrument, whether or not then due.

6. Occupancy. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within 60 days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing, which consent shall not be unreasonably withheld, or unless extenuating circumstances exist which are beyond Borrower's control.

7. Preservation, Maintenance and Protection of the Property; Inspections. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate or commit waste on the Property. Whether or not Borrower is residing in the Property, Borrower shall maintain the Property in order to prevent the Property from deteriorating or decreasing in value due to its condition. Unless it is determined pursuant to Section 5 that repair or restoration is not economically feasible, Borrower shall promptly repair the Property if damaged to avoid further deterioration or damage. If insurance or condemnation proceeds are paid in connection with damage to, or the taking of, the Property, Borrower shall be responsible for repairing or restoring the Property only if Lender has released proceeds for such purposes. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. If the insurance or condemnation proceeds are not sufficient to repair or restore the Property, Borrower is not relieved of Borrower's obligation for the completion of such repair or restoration.

Lender or its agent may make reasonable entries upon and inspections of the Property. If it has reasonable cause, Lender may inspect the interior of the improvements on the Property. Lender shall give Borrower notice at the time of or prior to such an interior inspection specifying such reasonable cause.

8. Borrower's Loan Application. Borrower shall be in default if, during the Loan application process, Borrower or any persons or entities acting at the direction of Borrower or with Borrower's knowledge or consent gave materially false, misleading, or inaccurate information or statements to Lender (or failed to provide Lender with material information) in connection with the Loan. Material representations include, but are not limited to, representations concerning Borrower's occupancy of the Property as Borrower's principal residence.

9. Protection of Lender's Interest in the Property and Rights Under this Security Instrument. If (a) Borrower fails to perform the covenants and agreements contained in this Security Instrument, (b) there is a legal proceeding that might significantly affect Lender's interest in the Property and/or rights under this Security Instrument (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture, for enforcement of a lien which may attain priority over this Security Instrument or to enforce laws or regulations), or (c) Borrower has abandoned the Property, then Lender may do and pay for whatever is reasonable or appropriate to protect Lender's interest in the Property and rights under this Security Instrument, including protecting and/or assessing the value of the Property, and securing and/or repairing the Property. Lender's actions can include, but are not limited to: (a) paying any sums secured by a lien which has priority over this Security Instrument; (b) appearing in court; and (c) paying reasonable attorneys' fees to protect its interest in the Property and/or rights under this Security Instrument, including its secured position in a bankruptcy proceeding. Securing the Property includes, but is not limited to, entering the Property to make repairs, change locks, replace or board up doors and windows, drain water from pipes, eliminate building or other code violations or dangerous conditions, and have utilities turned on or off. Although Lender may take action under this Section 9, Lender does not have to do so and is not under any duty or obligation to do so. It is agreed that Lender incurs no liability for not taking any or all actions authorized under this Section 9.

Any amounts disbursed by Lender under this Section 9 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

10. Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan, Borrower shall pay the premiums required to maintain the Mortgage Insurance in effect. If, for any reason, the Mortgage Insurance coverage required by Lender ceases to be available from the mortgage insurer that previously provided such insurance and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the Mortgage Insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the Mortgage Insurance previously in effect, from an alternate mortgage insurer selected by Lender. If substantially equivalent Mortgage Insurance coverage is not available, Borrower shall continue to pay to Lender the amount of the separately designated payments that were due when the insurance coverage ceased to be in effect. Lender will accept, use and retain these payments as a non-refundable loss reserve in lieu of Mortgage Insurance. Such loss reserve shall be non-refundable, notwithstanding the fact that the Loan is ultimately paid in full, and Lender shall not be required to pay Borrower any interest or earnings on such loss reserve. Lender can no longer require loss reserve payments if Mortgage Insurance coverage (in the amount and for the period that Lender requires) provided by an insurer selected by Lender again becomes available, is obtained, and Lender requires separately designated payments toward the premiums for Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to maintain Mortgage Insurance in effect, or to provide a non-refundable loss reserve, until Lender's requirement for Mortgage Insurance ends in accordance with any written agreement between Borrower and Lender providing for such termination or until termination is required by Applicable Law. Nothing in this Section 10 affects Borrower's obligation to pay interest at the rate provided in the Note.

Mortgage Insurance reimburses Lender (or any entity that purchases the Note) for certain losses it may incur if Borrower does not repay the Loan as agreed. Borrower is not a party to the Mortgage Insurance.

Mortgage insurers evaluate their total risk on all such insurance in force from time to time, and may enter into agreements with other parties that share or modify their risk, or reduce losses. These agreements are on terms and conditions that are satisfactory to the mortgage insurer and the other party (or parties) to these agreements. These agreements may require the mortgage insurer to make payments using any source of funds that the mortgage insurer may have available (which may include funds obtained from Mortgage Insurance premiums).

As a result of these agreements, Lender, any purchaser of the Note, another insurer, any reinsurer, any other entity, or any affiliate of any of the foregoing, may receive (directly or indirectly) amounts that derive from (or might be characterized as) a portion of Borrower's payments for Mortgage Insurance, in exchange for sharing or modifying the mortgage insurer's risk, or reducing losses. If such agreement provides that an affiliate of Lender takes a share of the insurer's risk in exchange for a share of the premiums paid to the insurer, the arrangement is often termed "captive reinsurance." Further:

(a) Any such agreements will not affect the amounts that Borrower has agreed to pay for Mortgage Insurance, or any other terms of the Loan. Such agreements will not increase the amount Borrower will owe for Mortgage Insurance, and they will not entitle Borrower to any refund.

(b) Any such agreements will not affect the rights Borrower has - if any - with respect to the

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Mortgage Insurance under the Homeowners Protection Act of 1998 or any other law. These rights may include the right to receive certain disclosures, to request and obtain cancellation of the Mortgage Insurance, to have the Mortgage Insurance terminated automatically, and/or to receive a refund of any Mortgage Insurance premiums that were unearned at the time of such cancellation or termination.

11. Assignment of Miscellaneous Proceeds; Forfeiture. All Miscellaneous Proceeds are hereby assigned to and shall be paid to Lender.

If the Property is damaged, such Miscellaneous Proceeds shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such Miscellaneous Proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may pay for the repairs and restoration in a single disbursement or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such Miscellaneous Proceeds, Lender shall not be required to pay Borrower any interest or earnings on such Miscellaneous Proceeds. If the restoration or repair is not economically feasible or Lender's security would be lessened, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such Miscellaneous Proceeds shall be applied in the order provided for in Section 2.

In the event of a total taking, destruction, or loss in value of the Property, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the Miscellaneous Proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the partial taking, destruction, or loss in value divided by (b) the fair market value of the Property immediately before the partial taking, destruction, or loss in value. Any balance shall be paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is less than the amount of the sums secured immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the Opposing Party (as defined in the next sentence) offers to make an award to settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the Miscellaneous Proceeds either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due. "Opposing Party" means the third party that owes Borrower Miscellaneous Proceeds or the party against whom Borrower has a right of action in regard to Miscellaneous Proceeds.

Borrower shall be in default if any action or proceeding, whether civil or criminal, is begun that, in Lender's judgment, could result in forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. Borrower can cure such a default and, if acceleration has occurred, reinstate as provided in Section 19, by causing the action or proceeding to be dismissed with a ruling that, in Lender's judgment, precludes forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. The proceeds of any award or claim for damages that are attributable to the impairment of Lender's interest in the Property are hereby assigned and shall be paid to Lender.

All Miscellaneous Proceeds that are not applied to restoration or repair of the Property shall be applied in the order provided for in Section 2.

12. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to Borrower or any Successor in Interest of Borrower shall not operate to release the liability of Borrower or any Successors in Interest of Borrower. Lender shall not be required to commence proceedings against any Successor in Interest of Borrower or to refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or any Successors in Interest of Borrower. Any forbearance by Lender in exercising any right or remedy including, without limitation, Lender's acceptance of payments from third persons, entities or Successors in Interest of Borrower or in amounts less than the amount then due, shall not be a waiver of or preclude the exercise of any right or remedy.

13. Joint and Several Liability; Co-signers; Successors and Assigns Bound. Borrower covenants and agrees that Borrower's obligations and liability shall be joint and several. However, any Borrower who co-signs this Security Instrument but does not execute the Note (a "co-signer"): (a) is co-signing this Security Instrument only to mortgage, grant and convey the co-signer's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower can agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without the co-signer's consent.

Subject to the provisions of Section 18, any Successor in Interest of Borrower who assumes Borrower's obligations under this Security Instrument in writing, and is approved by Lender, shall obtain all of Borrower's rights and benefits under this Security Instrument. Borrower shall not be released from Borrower's obligations and liability under this Security Instrument unless Lender agrees to such release in writing. The covenants and agreements of this Security Instrument shall bind (except as provided in Section 20) and benefit the successors and assigns of Lender.

14. Loan Charges. Lender may charge Borrower fees for services performed in connection with Borrower's default, for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument, including, but not limited to, attorneys' fees, property inspection and valuation fees. In regard to any other fees, the absence of express authority in this Security Instrument to charge a specific fee to Borrower shall not be construed as a prohibition on the charging of such fee. Lender may not charge fees that are expressly prohibited by this Security Instrument or by Applicable Law.

If the Loan is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the Loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge (whether or not a prepayment charge is provided for under the Note). Borrower's acceptance of any such refund made by direct payment to Borrower will constitute a waiver of any right of action Borrower might have arising out of such overcharge.

15. Notices. All notices given by Borrower or Lender in connection with this Security Instrument must be in writing. Any notice to Borrower in connection with this Security Instrument shall be deemed to have been given to Borrower when mailed by first class mail or when actually delivered to Borrower's notice address if sent by other means. Notice to any one Borrower shall constitute notice to all Borrowers unless Applicable Law expressly requires otherwise. The notice address shall be the Property Address unless Borrower has designated a substitute notice address by notice to Lender. Borrower shall promptly notify Lender of Borrower's change of address. If Lender specifies a procedure for reporting Borrower's change of address, then Borrower shall only report a change of address through that specified procedure. There may be only one designated notice address under this Security Instrument at any one time. Any notice to Lender shall be given by delivering it or by mailing it by first class mail to Lender's address stated herein unless Lender has designated another address by notice to Borrower. Any notice in connection with this Security Instrument shall not be deemed to have been given to Lender until actually received by Lender. If any notice required by this Security Instrument is also required under Applicable Law, the Applicable Law requirement will satisfy the corresponding requirement under this Security Instrument.

16. Governing Law; Severability; Rules of Construction. This Security Instrument shall be governed by federal law and the law of the jurisdiction in which the Property is located. All rights and obligations

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contained in this Security Instrument are subject to any requirements and limitations of Applicable Law. Applicable Law might explicitly or implicitly allow the parties to agree by contract or it might be silent, but such silence shall not be construed as a prohibition against agreement by contract. In the event that any provision or clause of this Security Instrument or the Note conflicts with Applicable Law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision.

As used in this Security Instrument: (a) words of the masculine gender shall mean and include corresponding neuter words or words of the feminine gender; (b) words in the singular shall mean and include the plural and vice versa; and (c) the word "may" gives sole discretion without any obligation to take any action.

17. Borrower's Copy. Borrower shall be given one copy of the Note and of this Security Instrument.

18. Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

19. Borrower's Right to Reinstate After Acceleration. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earliest of: (a) five days before sale of the Property pursuant to any power of sale contained in this Security Instrument; (b) such other period as Applicable Law might specify for the termination of Borrower's right to reinstate; or (c) entry of a judgment enforcing this Security Instrument. Those conditions are that Borrower: (a) pays Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys' fees, property inspection and valuation fees, and other fees incurred for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument; and (d) takes such action as Lender may reasonably require to assure that Lender's interest in the Property and rights under this Security Instrument, and Borrower's obligation to pay the sums secured by this Security Instrument, shall continue unchanged. Lender may require that Borrower pay such reinstatement sums and expenses in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality or entity; or (d) Electronic Funds Transfer. Upon reinstatement by Borrower, this Security Instrument and obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under Section 18.

20. Sale of Note; Change of Loan Servicer; Notice of Grievance. The Note or a partial interest in the Note (together with this Security Instrument) can be sold one or more times without prior notice to Borrower. A sale might result in a change in the entity (known as the "Loan Servicer") that collects Periodic Payments due under the Note and this Security Instrument and performs other mortgage loan servicing obligations under the Note, this Security Instrument, and Applicable Law. There also might be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change which will state the name and address of the new Loan Servicer, the

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address to which payments should be made and any other information RESPA requires in connection with a notice of transfer of servicing. If the Note is sold and thereafter the Loan is serviced by a Loan Servicer other than the purchaser of the Note, the mortgage loan servicing obligations to Borrower will remain with the Loan Servicer or be transferred to a successor Loan Servicer and are not assumed by the Note purchaser unless otherwise provided by the Note purchaser.

Neither Borrower nor Lender may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from the other party's actions pursuant to this Security Instrument or that alleges that the other party has breached any provision of, or any duty owed by reason of, this Security Instrument, until such Borrower or Lender has notified the other party (with such notice given in compliance with the requirements of Section 15) of such alleged breach and afforded the other party hereto a reasonable period after the giving of such notice to take corrective action. If Applicable Law provides a time period which must elapse before certain action can be taken, that time period will be deemed to be reasonable for purposes of this paragraph. The notice of acceleration and opportunity to cure given to Borrower pursuant to Section 22 and the notice of acceleration given to Borrower pursuant to Section 18 shall be deemed to satisfy the notice and opportunity to take corrective action provisions of this Section 20.

21. **Hazardous Substances.** As used in this Section 21: (a) "Hazardous Substances" are those substances defined as toxic or hazardous substances, pollutants, or wastes by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials; (b) "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection; (c) "Environmental Cleanup" includes any response action, remedial action, or removal action, as defined in Environmental Law; and (d) an "Environmental Condition" means a condition that can cause, contribute to, or otherwise trigger an Environmental Cleanup.

Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances, or threaten to release any Hazardous Substances, on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property (a) that is in violation of any Environmental Law, (b) which creates an Environmental Condition, or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Property. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property (including, but not limited to, hazardous substances in consumer products).

Borrower shall promptly give Lender written notice of (a) any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge, (b) any Environmental Condition, including but not limited to, any spilling, leaking, discharge, release or threat of release of any Hazardous Substance, and (c) any condition caused by the presence, use or release of a Hazardous Substance which adversely affects the value of the Property. If Borrower learns, or is notified by any governmental or regulatory authority, or any private party, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law. Nothing herein shall create any obligation on Lender for an Environmental Cleanup.

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NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

22. Acceleration; Remedies. Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under Section 18 unless Applicable Law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Security Instrument and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the default is not cured on or before the date specified in the notice, Lender at its option, and without further demand, may invoke the power of sale, including the right to accelerate full payment of the Note, and any other remedies permitted by Applicable Law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Section 22, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute written notice of the occurrence of an event of default and of Lender's election to cause the Property to be sold, and shall cause such notice to be recorded in each county in which any part of the Property is located. Lender shall mail copies of the notice as prescribed by Applicable Law to Borrower and to the persons prescribed by Applicable Law. Trustee shall give public notice of sale to the persons and in the manner prescribed by Applicable Law. After the time required by Applicable Law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more parcels and in any order Trustee determines. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or its designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable Trustee's and attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

23. Reconveyance. Upon payment of all sums secured by this Security Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Security Instrument and all notes evidencing debt secured by this Security Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled to it. Such person or persons shall pay any recordation costs. Lender may charge such person or persons a fee for reconveying the Property, but only if the fee is paid to a third party (such as the Trustee) for services rendered and the charging of the fee is permitted under Applicable Law.

24. Substitute Trustee. Lender at its option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon Trustee herein and by Applicable Law.

25. Assumption Fee. If there is an assumption of this loan, Lender may charge an assumption fee of U.S. $ Varies per investor

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any Rider executed by Borrower and recorded with it.

Witnesses:

_______________________________ (Seal)
CATHERINE RODRIGUEZ -Borrower

_______________________________ (Seal)
-Borrower

_______________________________ (Seal)
-Borrower

_______________________________ (Seal)
-Borrower

_______________________________ (Seal)
-Borrower

_______________________________ (Seal)
-Borrower

_______________________________ (Seal)
-Borrower

_______________________________ (Seal)
-Borrower

STATE OF NEVADA
COUNTY OF CLARK

This instrument was acknowledged before me on April 22. 2005 by

CATHERINE RODRIGUEZ

NOTARY PUBLIC
County of Clark-State of Nevada
GERI MUSLINER
No. 01-68593-1
My Appointment Expires April 26, 2005

Geri Musliner

Mail Tax Statements To: TOTAL MORTGAGE SOLUTIONS, LP
1555 W. WALNUT HILL LANE, SUITE 200A
IRVING, TX 75038

Order No. : 5116003582-GM

EXHIBIT "A"

The land referred to is situated in the State of Nevada, County of Clark, City of Las Vegas, and is described as follows:

Lot 37 in Block 3 of Concordia @ Deer Springs Unit 3, as shown by map thereof on file in Book 112 of Plats, Page 28, in the Office of the County Recorder, Clark County, Nevada.

PLANNED UNIT DEVELOPMENT RIDER

THIS PLANNED UNIT DEVELOPMENT RIDER is made this 21st day of April, 2005, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Security Deed (the "Security Instrument") of the same date, given by the undersigned (the "Borrower") to secure Borrower's Note to

FIRST HORIZON HOME LOAN CORPORATION

(the "Lender") of the same date and covering the Property described in the Security Instrument and located at:

6845 SWEET PECAN STREET, LAS VEGAS, Nevada 89149

[Property Address]

The Property includes, but is not limited to, a parcel of land improved with a dwelling, together with other such parcels and certain common areas and facilities, as described in

PER CC&R'S

(the "Declaration"). The Property is a part of a planned unit development known as

CONCORDIA @ DEER SPRINGS

[Name of Planned Unit Development]

(the "PUD"). The Property also includes Borrower's interest in the homeowners association or equivalent entity owning or managing the common areas and facilities of the PUD (the "Owners Association") and the uses, benefits and proceeds of Borrower's interest.

PUD COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. PUD Obligations. Borrower shall perform all of Borrower's obligations under the PUD's Constituent Documents. The "Constituent Documents" are the (i) Declaration; (ii) articles of incorporation, trust instrument or any equivalent document which creates the Owners Association; and (iii) any by-laws or other rules or regulations of the Owners Association. Borrower shall promptly pay, when due, all dues and assessments imposed pursuant to the Constituent Documents.

REDACTED

B. Property Insurance. So long as the Owners Association maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring the Property which is satisfactory to Lender and which provides insurance coverage in the amounts (including deductible levels), for the periods, and against loss by fire, hazards included within the term "extended coverage," and any other hazards, including, but not limited to, earthquakes and floods, for which Lender requires insurance, then: (i) Lender waives the provision in Section 3 for the Periodic Payment to Lender of the yearly premium installments for property insurance on the Property; and (ii) Borrower's obligation under Section 5 to maintain property insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy.

What Lender requires as a condition of this waiver can change during the term of the loan.

Borrower shall give Lender prompt notice of any lapse in required property insurance coverage provided by the master or blanket policy.

In the event of a distribution of property insurance proceeds in lieu of restoration or repair following a loss to the Property, or to common areas and facilities of the PUD, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender. Lender shall apply the proceeds to the sums secured by the Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

C. Public Liability Insurance. Borrower shall take such actions as may be reasonable to insure that the Owners Association maintains a public liability insurance policy acceptable in form, amount, and extent of coverage to Lender.

D. Condemnation. The proceeds of any award or claim for damages, direct or consequential, payable to Borrower in connection with any condemnation or other taking of all or any part of the Property or the common areas and facilities of the PUD, or for any conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender. Such proceeds shall be applied by Lender to the sums secured by the Security Instrument as provided in Section 11.

E. Lender's Prior Consent. Borrower shall not, except after notice to Lender and with Lender's prior written consent, either partition or subdivide the Property or consent to: (i) the abandonment or termination of the PUD, except for abandonment or termination required by law in the case of substantial destruction by fire or other casualty or in the case of a taking by condemnation or eminent domain; (ii) any amendment to any provision of the "Constituent Documents" if the provision is for the express benefit of Lender; (iii) termination of professional management and assumption of self-management of the Owners Association; or (iv) any action which would have the effect of rendering the public liability insurance coverage maintained by the Owners Association unacceptable to Lender.

F. Remedies. If Borrower does not pay PUD dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph F shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this PUD Rider.

_______________ (Seal) -Borrower CATHERINE RODRIGUEZ	_______________ (Seal) -Borrower
_______________ (Seal) -Borrower	_______________ (Seal) -Borrower
_______________ (Seal) -Borrower	_______________ (Seal) -Borrower
_______________ (Seal) -Borrower	_______________ (Seal) -Borrower

ADJUSTABLE RATE RIDER REDACTED

(LIBOR Six-Month Index (As Published In *The Wall Street Journal*) - Rate Caps)

THIS ADJUSTABLE RATE RIDER is made this 21st day of April, 2005, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Security Deed (the "Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Adjustable Rate Note (the "Note") to FIRST HORIZON HOME LOAN CORPORATION

("Lender") of the same date and covering the property described in the Security Instrument and located at:

6845 SWEET PECAN STREET
LAS VEGAS, NV 89149

[Property Address]

THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN THE INTEREST RATE AND THE MONTHLY PAYMENT. THE NOTE LIMITS THE AMOUNT BORROWER'S INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MAXIMUM RATE BORROWER MUST PAY.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES

The Note provides for an initial interest rate of 5.625 %. The Note provides for changes in the interest rate and the monthly payments, as follows:

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The interest rate I will pay may change on the first day of May, 2010, and on that day every 6th month thereafter. Each date on which my interest rate could change is called a "Change Date."

(B) The Index

Beginning with the first Change Date, my interest rate will be based on an Index. The "Index" is the average of interbank offered rates for six month U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in The Wall Street Journal. The most recent Index figure available as of the first business day of the month immediately preceding the month in which the Change Date occurs is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new index that is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid principal that I am expected to owe at the Change Date in full on the Maturity Date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Changes

The interest rate I am required to pay at the first Change Date will not be greater than 11.625 % or less than 2.250 %. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than TWO & 00/100 percentage points (2.00 %) from the rate of interest I have been paying for the preceding 6 months. My interest rate will never be greater than 11.625 %.

(E) Effective Date of Changes

My new interest rate will become effective on each Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Change Date until the amount of my monthly payment changes again.

(F) Notice of Changes

The Note Holder will deliver or mail to me a notice of any changes in my interest rate and the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

B. TRANSFER OF THE PROPERTY OR A BENEFICIAL INTEREST IN BORROWER

Uniform Covenant 18 of the Security Instrument is amended to read as follows:

> **Transfer of the Property or a Beneficial Interest in Borrower.** As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.
>
> If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.
>
> To the extent permitted by Applicable Law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender also may require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. Borrower will continue to be obligated under the Note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Adjustable Rate Rider.

_______________ (Seal) CATHERINE RODRIGUEZ -Borrower	_______________ (Seal) -Borrower
_______________ (Seal) -Borrower	_______________ (Seal) -Borrower
_______________ (Seal) -Borrower	_______________ (Seal) -Borrower
_______________ (Seal) -Borrower	_______________ (Seal) -Borrower

INTEREST ONLY ADDENDUM
TO ADJUSTABLE RATE RIDER

THIS ADDENDUM is made this 21st day of April , 2005 , and is incorporated into and intended to form a part of the Adjustable Rate Rider (the "Rider") dated the same date as this Addendum executed by the undersigned and payable to FIRST HORIZON HOME LOAN CORPORATION (the "Lender").

THIS ADDENDUM supercedes Section 4(C) of the Rider. None of the other provisions of the Rider are changed by this Addendum.

4. **INTEREST RATE AND MONTHLY PAYMENT CHANGES**

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding TWO AND ONE-QUARTER percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D), this rounded amount will be my new interest rate until the next Change Date.

During this Interest Only Period, the Note Holder will then determine the amount of the monthly payment that would be sufficient to repay accrued interest. This will be the amount of my monthly payment until the earlier of the next Change Date or the end of the Interest Only Period unless I make a voluntary prepayment of principal during such period. If I make a voluntary prepayment of principal during the Interest Only Period, my payment amount for subsequent payments will be reduced to the amount necessary to pay interest on the lower principal balance. At the end of the Interest Only Period and on each Change Date thereafter, the Note Holder will determine the amount of the monthly payment that would be sufficient to repay in full the unpaid principal that I am expected to owe at the end of the Interest Only Period or Change Date, as applicable, in equal monthly payments over the remaining term of the Note. The result of this calculation will be the new amount of my monthly payment. After the end of the Interest Only Period, my payment amount will not be reduced due to voluntary prepayments.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Addendum.

[signature] 04-22-05
CATHERINE RODRIGUEZ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

_______________ Date

REDACTED

Inst #: 201006160002631
Fees: $15.00
N/C Fee: $25.00
06/16/2010 12:24:11 PM
Receipt #: 390718
Requestor:
UTLS DEFAULT SERVICES
Recorded By: DXI Pgs: 2
DEBBIE CONWAY
CLARK COUNTY RECORDER

APN: 125-20-212-037
Recording requested by:

When recorded mail to:

MetLife Home Loans a division of MetLife
Bank NA
4000 Horizon Way
Foreclosure Dept. #8205
Irving, TX 75063

Space above this line for recorders use

APN: 125-20-212-037

TS # NV-10-351356-NF Order # 30240344 Investor No. REDACTED

Assignment of Deed of Trust

For value received, the undersigned corporation hereby grants, assigns, and transfers to

The Bank of New York Mellon fka The Bank of New York, as Trustee for the holders of the Certificates, First Horizon Mortgage Pass-Through Certificates Series FHAMS 2005-AA5, by First Horizon Home Loans, a division of First Tennessee Bank National Association, Master Servicer, in its capacity as agent for the Trustee under the Pooling and Servicing Agreement

All beneficial interest under that certain Deed of Trust dated **4/21/2005** executed by **CATHERINE RODRIGUEZ, AN UNMARRIED WOMAN**, as Trustor(s) to **OLD REPUBLIC TITLE**, as Trustee and recorded as Instrument No. **20050427-0003843**, on **4/27/2005**, in Book XXX, Page XXX of Official Records, in the office of the County Recorder of **CLARK** County, **NV** together with the Promissory Note secured by said Deed of Trust and also all rights accrued or to accrue under said Deed of Trust.

NV-10-351356-NF
Page 2

Dated: 5-24-2010

MORTGAGE ELECTRONIC REGISTRATION SYSTEMS, INC. AS NOMINEE FOR FIRST HORIZON HOME LOAN CORPORATION

By: ______________________
Wanda Collier
Assistant Secretary

State of Texas)
) ss
County of Dallas)

On 5-24-10 before me, Sherian Hopkins the undersigned Notary Public, personally appeared Wanda Collier personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

Signature ______________________ (Seal)

SHERIAN HOPKINS
Notary Public, State of Texas
My Commission Expires
July 06, 2013

EXHIBIT "2"

Nationstar MORTGAGE

03/20/2012

Sent Via Certified Mail
7196 9006 9295 8655 0711

CATHERINE RODRIGUEZ
6845 SWEET PECAN ST
LAS VEGAS, NV 89149-3040

Loan Number:
Property Address: 6845 SWEET PECAN STREET
LAS VEGAS, NV 89149

Dear CATHERINE RODRIGUEZ :

You are hereby provided formal notice by Nationstar Mortgage, LLC, the Servicer of the above-referenced loan, on behalf of First Tennessee Bank National Association, the Creditor to whom the debt is owed, that you are in default under the terms and conditions of the Note and Security Instrument (i.e. Deed of Trust, Mortgage, etc.), for failure to pay the required installments when due.

This letter serves as further notice that Nationstar Mortgage, LLC intends to enforce the provisions of the Note and Security Instrument. You must pay the full amount of the default on this loan by the thirty-fifth (35th) day from the date of this letter which is 04/24/2012 (or if said date falls on a Saturday, Sunday, or legal holiday, then on the first business day thereafter). If you do not pay the full amount of the default, we shall accelerate the entire sum of both principal and interest due and payable, and invoke any remedies provided for in the Note and Security Instrument, including but not limited to the foreclosure sale of the property. If you received a bankruptcy discharge which included this debt, this notice is not intended and does not constitute an attempt to collect a debt against you personally; notice provisions may be contained within your mortgage/deed of trust which notice may be required prior to foreclosure.

You are hereby informed that you have the right to "cure" or reinstate the loan after acceleration and the right to assert in the foreclosure proceeding the non-existence of a default or any other defense you may have to acceleration and sale.

As of **03/20/2012 the amount of the debt that we are seeking to collect is $36,242.41,** which includes the sum of payments that have come due on and after the date of default **12/01/2009**, any late charges, periodic adjustments to the payment amount (if applicable) and expenses of collection. Because of interest, late charges, and other charges or credits that may vary from day to day, or be assessed during the processing of this letter, the amount due on the day that you pay may be greater. Please contact Nationstar Mortgage, LLC at (888) 480-2432 on the day that you intend to pay for the full amount owed on your account. This letter is in no way intended as a payoff statement for your mortgage, it merely states an amount necessary to cure the current delinquency.

Please note, however, that your right to cure this default as referenced herein does not suspend your payment obligations. Pursuant to the terms of the Note, your 04/01/2012 installment is still due on **04/01/2012** (or if

December 31, 2011	Securitization Trusts (1)	Accounted for as Secured Borrowings	Total
ASSETS			
Restricted cash	$ –	$ 22,316	$ 22,316
Accounts receivable	–	279,414	279,414
Mortgage loans held for investment, subject to nonrecourse debt	–	237,496	237,496
Mortgage loans held for investment, subject to ABS nonrecourse debt	–	–	–
REO	–	3,668	3,668
Total Assets	$ –	$ 542,894	$ 542,894
LIABILITIES			
Notes payable	$ –	$ 244,574	$ 244,574
Payables and accrued liabilities	–	977	977
Outstanding servicer advances	–	–	–
Derivative financial instruments, subject to ABS nonrecourse debt	–	–	–
Nonrecourse debt–Legacy Assets	–	112,490	112,490
ABS nonrecourse debt (at fair value)	–	–	–
Total Liabilities	$ –	$ 358,041	$ 358,041

(1) In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the related assets and liabilities.

December 31, 2010	Securitization Trusts	Transfers Accounted for as Secured Borrowings	Total
ASSETS			
Restricted cash	$ 1,472	$ 32,075	$ 33,547
Accounts receivable	2,392	286,808	289,200
Mortgage loans held for investment, subject to nonrecourse debt	–	261,305	261,305
Mortgage loans held for investment, subject to ABS nonrecourse debt	538,440	–	538,440
REO	17,509	9,505	27,014
Total Assets	$ 559,813	$ 589,693	$ 1,149,506
LIABILITIES			
Notes payable	$ –	$ 236,808	$ 236,808
Payables and accrued liabilities	95	1,173	1,268
Outstanding servicer advances(1)	32,284	–	32,284
Derivative financial instruments	–	7,801	7,801
Derivative financial instruments, subject to ABS nonrecourse debt	18,781	–	18,781
Nonrecourse debt–Legacy Assets	–	138,662	138,662
ABS nonrecourse debt (at fair value)	497,289	–	497,289
Total Liabilities	$ 548,449	$ 384,444	$ 932,893

(1) Outstanding servicer advances consists of principal and interest advances paid by Nationstar to cover scheduled payments and interest that have not been timely paid by borrowers. These outstanding servicer advances are eliminated upon the consolidation of the securitization trusts.

A summary of the outstanding collateral and certificate balances for securitization trusts, including any retained beneficial interests and MSRs, that were not consolidated by Nationstar for the periods ending December 31, 2011 and 2010 is presented in the following table (in thousands):

	December 31, 2011	December 31, 2010
Total collateral balances	$ 4,579,142	$ 4,038,978
Total certificate balances	4,582,598	4,026,844

RFJN_EX 28_0000061

Total mortgage servicing rights at fair value	28,635	26,419

Nationstar has not retained any variable interests in the unconsolidated securitization trusts that were outstanding as of December 31, 2011 or 2010, and therefore does not have a significant maximum exposure to loss related to these unconsolidated VIEs. A summary of mortgage loans transferred to unconsolidated securitization trusts that are 60 days or more past due and the credit losses incurred in the unconsolidated securitization trusts are presented below (in thousands):

For the year ended,	December 31, 2011		December 31, 2010		December 31, 2009	
	Principal Amount of Loans 60 Days or More Past Due	Credit Losses	Principal Amount of Loans 60 Days or More Past Due	Credit Losses	Principal Amount of Loans 60 Days or More Past Due	Credit Losses
Total securitization trusts	$ 1,066,130	$ 335,221	$ 830,953	$ 242,905	$ 1,286,234	$ 871,995

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Certain cash flows received from securitization trusts accounted for as sales for the dates indicated were as follows (in thousands):

For the year ended,	December 31, 2011		December 31, 2010		December 31, 2009	
	Servicing Fees Received	Loan Repurchases	Servicing Fees Received	Loan Repurchases	Servicing Fees Received	Loan Repurchases
Total securitization trusts	$ 28,569	$ —	$ 29,129	$ —	$ 32,593	$ —

4. Consolidated Statement of Cash Flows-Supplemental Disclosure

Total interest paid for the years ended December 31, 2011, 2010, and 2009, was approximately $90.8 million, $91.8 million, and $47.6 million, respectively.

5. Accounts Receivable

Accounts receivable consist primarily of accrued interest receivable on mortgage loans and securitizations, collateral deposits on surety bonds, and advances made to unconsolidated securitization trusts, as required under various servicing agreements related to delinquent loans, which are ultimately paid back to Nationstar from such trusts.

Accounts receivable consist of the following (in thousands):

	December 31, 2011	December 31, 2010
Delinquent interest advances	$ 213,737	$ 148,751
Corporate and escrow advances	299,946	256,921
Insurance deposits	1,750	6,390
Accrued interest (includes $– and $2,392, respectively, subject to ABS nonrecourse debt)	1,512	4,302
Receivables from trusts	4,664	6,607
Accrued servicing fees	20,865	12,789
Other	19,826	5,515
Total accounts receivable	$ 562,300	$ 441,275

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RFJN_EX 28_0000062

6. Mortgage Loans Held for Sale and Investment

Mortgage loans held for sale

Mortgage loans held for sale consist of the following (in thousands):

December 31,	2011	2010
Mortgage loans held for sale – unpaid principal balance	$ 442,596	$ 365,337
Mark-to-market adjustment	16,030	4,280
Total mortgage loans held for sale	$ 458,626	$ 369,617

Mortgage loans held for sale on a nonaccrual status are presented in the following table for the periods indicated (in thousands):

December 31,	2011	2010	2009
Mortgage loans held for sale – Non-performing	$ –	$ 371	$ 252

A reconciliation of the changes in mortgage loans held for sale to the amounts presented in the consolidated statements of cash flows for the dates indicated is presented in the following table (in thousands):

For the year ended December 31,	2011	2010
Mortgage loans held for sale – beginning balance	$ 369,617	$ 201,429
Mortgage loans originated and purchased, net of fees	3,412,185	2,791,639
Cost of loans sold, net of fees	(3,339,859)	(2,621,275)
Principal payments received on mortgage loans held for sale and other changes	19,668	(1,349)
Transfer of mortgage loans held for sale to held for investment due to bankruptcy and foreclosures	(2,697)	–
Transfer of mortgage loans held for sale to REO	(288)	(827)
Mortgage loans held for sale – ending balance	$ 458,626	$ 369,617

Mortgage loans held for investment, subject to nonrecourse debt- Legacy Assets, net

Mortgage loans held for investment, subject to nonrecourse debt- Legacy Assets, net as of the dates indicated include (in thousands):

December 31,	2011	2010
Mortgage loans held for investment, subject to nonrecourse debt- Legacy Assets, net – unpaid principal balance	$ 375,720	$ 411,878
Transfer discount		
Accretable	(22,392)	(25,219)
Non-accretable	(104,024)	(117,041)
Allowance for loan losses	(5,824)	(3,298)
Total mortgage loans held for investment, subject to nonrecourse debt-legacy assets, net	$ 243,480	$ 266,320

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The changes in accretable yield on loans transferred to mortgage loans held for investment, subject to nonrecourse debt- Legacy Assets were as follows (in thousands):

Accretable Yield	Year ended December 31, 2011	Year ended December 31, 2010
Balance at the beginning of the period	$ 25,219	$ 22,040
Additions	—	—
Accretion	(4,131)	(4,082)
Reclassifications from (to) nonaccretable discount	1,304	7,261

Disposals	–	–
Balance at the end of the period	$ 22,392	$ 25,219

Nationstar may periodically modify the terms of any outstanding mortgage loans held for investment, subject to nonrecourse debt-legacy assets, net for loans that are either in default or in imminent default. Modifications often involve reduced payments by borrowers, modification of the original terms of the mortgage loans, forgiveness of debt and/or increased servicing advances. As a result of the volume of modification agreements entered into, the estimated average outstanding life in this pool of mortgage loans has been extended. Nationstar records interest income on the transferred loans on a level-yield method. To maintain a level-yield on these transferred loans over the estimated extended life, Nationstar reclassified approximately $1.3 million and $7.3 million for the years ended December 31, 2011 and 2010, respectively, from nonaccretable difference. Furthermore, the Company considers the decrease in principal, interest, and other cash flows expected to be collected arising from the transferred loans as an impairment, and Nationstar recorded provisions of $3.5 million and $3.3 million for loan losses for the years ended December 31, 2011 and 2010, respectively, on the transferred loans to reflect this impairment.

Nationstar collectively evaluates all mortgage loans held for investment, subject to nonrecourse debt-legacy assets for impairment. The changes in the allowance for loan losses on mortgage loans held for investment, subject to nonrecourse debt-legacy assets, net were as follows (in thousands) for the dates indicated:

	Year ended December 31, 2011		
	Performing	**Non-Performing**	**Total**
Balance at the beginning of the period	$ 829	$ 2,469	$ 3,298
Provision for loan losses	1,346	2,191	3,537
Recoveries on loans previously charged-off	–	–	–
Charge-offs	(534)	(477)	(1,011)
Balance at the end of the period	$ 1,641	$ 4,183	$ 5,824
Ending balance – Collectively evaluated for impairment	$ 283,770	$ 91,950	$ 375,720

	Year ended December 31, 2010		
	Performing	**Non-Performing**	**Total**
Balance at the beginning of the period	$ –	$ –	$ –
Provision for loan losses	829	2,469	3,298
Recoveries on loans previously charged-off	–	–	–
Charge-offs	–	–	–
Balance at the end of the period	$ 829	$ 2,469	$ 3,298
Ending balance – Collectively evaluated for impairment	$ 310,730	$ 101,148	$ 411,878

Loan delinquency and Loan-to-Value Ratio (LTV) are common credit quality indicators that Nationstar monitors and utilizes in its evaluation of the adequacy of the allowance for loan losses, of which the primary indicator of credit quality is loan delinquency. LTV refers to the ratio of comparing the loan's unpaid principal balance to the property's collateral value. Loan delinquencies and unpaid principal balances are updated monthly based upon collection activity. Collateral values are updated from third party providers on a periodic basis. The collateral values used to derive the LTV's shown below were obtained at various dates, but the majority were within the last twenty-four months. For an event requiring a decision based at least in part on the collateral value, the Company takes its last known value provided by a third party and then adjusts the value based on the applicable home price index.

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The following tables provide the outstanding unpaid principal balance of Nationstar's mortgage loans held for investment by credit quality indicators as of December 31, 2011 and 2010.

	December 31, 2011	December 31, 2010
	(in thousands)	
Credit Quality by Delinquency Status		
Performing	$ 283,770	$ 310,730
Non-Performing	91,950	101,148
Total	$ 375,720	$ 411,878

Credit Quality by Loan-to-Value Ratio		
Less than 60	$ 42,438	$ 47,568
Less than 70 and more than 60	15,968	17,476
Less than 80 and more than 70	25,190	26,771
Less than 90 and more than 80	32,620	36,079
Less than 100 and more than 90	33,708	37,551
Greater than 100	225,796	246,433
Total	$ 375,720	$ 411,878

Performing loans refer to loans that are less than 90 days delinquent. Non-performing loans refer to loans that are greater than 90 days delinquent.

Mortgage loans held for investment, subject to ABS nonrecourse debt

In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt, the related ABS nonrecourse debt, as well as certain other assets and liabilities of the securitization trust, and recognized any mortgage servicing rights on the consolidated balance sheet.

Mortgage loans held for investment, subject to ABS nonrecourse debt as of December 31, 2010 includes (in thousands):

	December 31, 2010
Mortgage loans held for investment, subject to ABS nonrecourse debt – unpaid principal balance	$ 983,106
Fair value adjustment	(444,666)
Mortgage loans held for investment, subject to ABS nonrecourse debt, net	$ 538,440

As of December 31, 2010 approximately $223.5 million of the unpaid principal balance of mortgage loans held for investment, subject to ABS nonrecourse debt were over 90 days past due. The fair value of such loans was approximately $117.6 million.

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7. Investment in Debt Securities

Nationstar held bonds retained from securitization trusts as of December 31, 2009 that were classified as available-for-sale securities and were carried at fair value (in thousands). Effective January 1, 2010 all existing securitization trusts are considered VIEs and upon consolidation of these VIEs, Nationstar derecognized all previously recognized beneficial interests, including retained investment in debt securities, obtained as part of the securitization (see Note 3 – Variable Interest Entities & Securitizations).

The following table presents a summary of other-than-temporary losses recognized on outstanding debt securities for the period before the consolidation (in thousands):

Year Ended December 31, 2009	Other-than-Temporary
Retained bonds security rating	
BBs	$ (5,505)
Bs	(1,214)
Total retained bonds	(6,719)
Retained net interest margin securities	(90)
Loss on available-for-sale securities – other-than-temporary	$ (6,809)

8. Mortgage Servicing Rights (MSRs)

MSRs at fair value

MSRs arise from contractual agreements between Nationstar and investors in mortgage securities and mortgage loans. Nationstar records MSR assets when it sells loans on a servicing-retained basis, at the time of securitization or through the acquisition or assumption of the right to service a financial asset. Under these contracts, Nationstar performs loan servicing functions in exchange for fees and other remuneration.

The fair value of the MSRs is based upon the present value of the expected future cash flows related to servicing these loans. Nationstar receives a base servicing fee ranging from 0.25% to 0.50% annually on the remaining outstanding principal balances of the loans. The servicing fees are collected from investors. Nationstar determines the fair value of the MSRs by the use of a cash flow model that incorporates prepayment speeds, discount rate, and other assumptions (including servicing costs) that management believes are consistent with the assumptions other major market participants use in valuing the MSRs. Certain of the forward loans underlying the MSRs are prime agency and government conforming residential forward mortgage loans and as such are more interest rate sensitive whereas the remaining MSRs are more credit sensitive. The nature of the forward loans underlying the MSRs affects the assumptions that management believes other major market participants use in the valuing the MSRs. During 2010, Nationstar began obtaining third party valuations of a portion of its MSRs to assess the reasonableness of the fair value calculated by the cash flow model.

Certain of the forward loans underlying the mortgage servicing rights carried at fair value that are owned by Nationstar are credit sensitive in nature and the value of these mortgage servicing rights is more likely to be affected from changes in credit losses than from interest rate movement. The remaining forward loans underlying Nationstar's MSRs held at fair value are prime agency and government conforming residential mortgage loans for which the value of these MSRs is more likely to be affected from interest rate movement than changes in credit losses.

Nationstar used the following weighted average assumptions in estimating the fair value of MSRs for the dates indicated:

Credit Sensitive MSRs	**December 31, 2011**	**December 31, 2010**
Discount rate	**25.71%**	24.96%
Total prepayment speeds	**15.80%**	18.13%
Expected weighted-average life	**5.15 years**	4.90 years
Credit losses	**35.42%**	36.71%

Interest Rate Sensitive MSRs	**December 31, 2011**	**December 31, 2010**
Discount rate	**10.46%**	13.57%
Total prepayment speeds	**19.02%**	17.19%
Expected weighted-average life	**5.04 years**	5.12 years
Credit losses	**9.73%**	8.80%

The activity of MSRs carried at fair value is as follows for the year ended December 31, 2011 and 2010 (in thousands):

Year ended December 31,	**2011**	**2010**
Fair value at the beginning of the period	**$ 145,062**	$ 114,605
Additions:		
Servicing resulting from transfers of financial assets	**36,474**	26,253
Recognition of servicing assets from derecognition of variable interest entities	**5,714**	2,866
Purchases of servicing assets	**102,800**	17,812
Deductions:		
Derecognition of servicing assets due to new accounting guidance on consolidation of variable interest entities	**—**	(10,431)
Changes in fair value:		
Due to changes in valuation inputs or assumptions used in the valuation model	**(14,207)**	9,455
Other changes in fair value	**(24,793)**	(15,498)
Fair value at the end of the period	**$ 251,050**	$ 145,062

Unpaid principal balance of forward loans serviced for others		
Originated or purchased mortgage loans		
Credit sensitive loans	**$ 32,408,623**	$ 24,964,329
Interest sensitive loans	**11,844,831**	6,722,312
Total owned loans	**$ 44,253,454**	$ 31,686,641

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The following table shows the hypothetical effect on the fair value of the MSRs using various unfavorable variations of the expected levels of certain key assumptions used in valuing these assets at December 31, 2011 and 2010 (in thousands):

	Discount Rate		Total Prepayment Speeds		Credit Losses	
	100 bps Adverse Change	200 bps Adverse Change	10% Adverse Change	20% Adverse Change	10% Adverse Change	20% Adverse Change
December 31, 2011						
Mortgage servicing rights	**$ (6,640)**	**$ (12,929)**	**$ (13,281)**	**$ (25,215)**	**$ (5,081)**	**$ (10,944)**
December 31, 2010						
Mortgage servicing rights	$ (3,828)	$ (7,458)	$ (8,175)	$ (16,042)	$ (4,310)	$ (9,326)

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These sensitivities are hypothetical and should be evaluated with care. The effect on fair value of a 10% variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors (e.g., a decrease in total prepayment speeds may result in an increase in credit losses), which could impact the above hypothetical effects.

In November 2008, Nationstar acquired MSRs on a portfolio of residential mortgage loans with an aggregate unpaid principal balance of $12.7 billion from a third-party servicer. Nationstar's share of the acquisition price was $35.4 million. An additional amount was paid by a third-party investor in the underlying loans to the previous servicer. Contemporaneously, Nationstar and the third-party investor entered into a supplemental servicing agreement, which, among other matters, established that any sale by Nationstar of these servicing rights had to be approved by the investor and that if Nationstar were to sell the MSRs in the five-year period following the acquisition transaction, Nationstar would be entitled to the proceeds from the sale of up to a specified amount of the then existing aggregate unpaid principal balance of the underlying mortgage loans, the investor would be entitled to a specified amount, and the remaining excess proceeds, if any, over and above these allocations would be retained by Nationstar. In October 2009, Nationstar acquired MSRs on a portfolio of residential mortgage loans with an aggregate unpaid principal balance of $12.3 billion from another third party servicer. Nationstar's share of the acquisition price of these servicing rights was $23.4 million. An additional amount was paid by a third-party investor in the underlying loans to the previous servicer. Contemporaneously, Nationstar and the third-party investor entered into a supplemental servicing agreement, which, among other matters, established that any sale by Nationstar of these servicing rights had to be approved by the investor and that if Nationstar were to sell the MSRs following the acquisition transaction, Nationstar would be entitled to the proceeds from the sale of up to a specified amount of the then existing aggregate unpaid principal balance of the underlying mortgage loans, the investor would be entitled to a specified amount, and the remaining excess proceeds, if any, over and above these allocations would be retained by Nationstar. Nationstar carries these MSRs at their estimated fair value, which includes consideration of the effect of the restriction on any sale by Nationstar due to the investor's right to approve such sale. Under the supplemental servicing agreement, Nationstar is entitled to all of the contractually specified servicing fees, ancillary fees and also certain incentive fees, if certain performance conditions are met, and does not share these servicing revenues with the investor.

MSRs at amortized cost

In December 2011 Nationstar entered into a contract to acquire certain reverse mortgage MSRs with an unpaid principal balance of $7.8 billion. These MSR assets or liabilities will initially be recorded at their fair value and subsequently accounted for using the amortization method. The acquisition was completed in January 2012.

Subserviced loans

In addition to the two classes of MSRs that the Company services for others, Nationstar also subservices loans on behalf of owners of MSRs or loans for a fee. The Company has no recorded value for its subservicing arrangements. At December 31, 2011 and 2010, the unpaid principal balances under subservicing arrangements were $53.7 billion and $30.6 billion, respectively.

Total servicing and ancillary fees from Nationstar's servicing portfolio of residential mortgage loans are presented in the following table for the periods indicated (in thousands):

	For the years ended December 31,		
	2011	2010	2009

Servicing fees	$ 191,652	$ 103,690	$ 89,893
Ancillary fees	82,099	70,130	28,642
Total servicing and ancillary fees	$ 273,751	$ 173,820	$ 118,535

9. Property and Equipment, Net

Property and equipment, net (in thousands), and the corresponding ranges of estimated useful lives were as follows. Software in development will be substantially deployed in 2012.

	December 31, 2011	December 31, 2010	Range of Estimated Useful Life
Furniture, fixtures and equipment	$ 33,334	$ 26,733	3 - 5 years
Capitalized software costs	14,356	10,272	5 years
Building and leasehold improvements	7,887	5,507	1 - 5 years
Software in development and other	6,862	393	
	62,439	42,905	
Less: Accumulated depreciation and amortization	(39,201)	(35,346)	
Plus: Land	835	835	
Total property and equipment, net	$ 24,073	$ 8,394	

10. Other Assets

Other assets consisted of the following (in thousands):

December 31,	2011	2010
Derivative financial instruments	$ 11,302	$ 8,666
Deferred financing costs	12,059	14,396
Deposits pending on servicing rights acquisitions	28,904	–
Loans subject to repurchase right from Ginnie Mae	35,735	–
Equity method investment	6,493	–
Margin call deposits	4,518	–
Prepaid expenses	4,286	3,379
Unsecured loans	1,827	2,064
Other	1,057	890
Total other assets	$ 106,181	$ 29,395

Deposits pending on servicing rights acquisitions primarily consist of amounts transferred to third parties for the future acquisition of mortgage servicing. In December 2011, the Company entered into an agreement with a financial institution to acquire the rights to service reverse mortgages with an unpaid principal balance of approximately $9.5 billion, of which the underlying reserve mortgages are currently owned by an unaffiliated GSE. The purchase of these acquired servicing rights will be executed pending the approval of the GSE. Upon execution of the purchase, Nationstar will assume responsibility for advance obligations on the underlying reverse mortgage loans. At December 31, 2011, the maximum unfunded advance obligation was approximately $1.9 billion. Nationstar deposited $9.0 million with the financial institution for the purchase of these servicing rights. As of December 31, 2011, Nationstar has placed in escrow $17.9 million relating to the purchase of the mortgage servicing rights and related outstanding advance balances with the same financial institution. Such purchase was completed in January 2012. In addition, the Company has entered into separate agreements to purchase forward mortgage servicing rights. These amounts are carried as deposits on acquired servicing rights acquisitions until the underlying forward residential mortgage loan balances are transferred to Nationstar. As of December 31, 2011, Nationstar has deposited $2.0 million with a counterparty for servicing rights on forward mortgages that are expected to be originated and transferred to Nationstar during the first quarter of 2012.

For certain loans sold to GNMA (Ginnie Mae), Nationstar as the servicer has the unilateral right to repurchase without Ginnie Mae's prior authorization any individual loan in a Ginnie Mae securitization pool if that loan meets certain criteria, including being delinquent greater than 90 days. Once Nationstar has the unilateral right to repurchase the delinquent loan, Nationstar has effectively regained control over the loan and under GAAP, must re-recognize the loan on its balance sheet and establish a corresponding repurchase liability as well regardless of Nationstar's intention to repurchase the loan. At December 31, 2011 the Company's re-recognized loans included in other assets and the corresponding liability in payables and accrued liabilities was $35.7 million.

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In March 2011, Nationstar acquired a 22% interest in ANC Acquisition LLC (ANC) for an initial investment of $6.6 million. ANC is the parent company of National Real Estate Information Services, LP (NREIS) a real estate services company. As Nationstar is able to exercise significant influence, but not control, over the policies and procedures of the entity, and Nationstar owns less than 50% of the voting interests, Nationstar applies the equity method of accounting.

NREIS, an ancillary real estate services and vendor management company, offers comprehensive settlement and property valuation services for both originations and default management channels. Direct or indirect product offerings include title insurance agency, tax searches, flood certification, default valuations, full appraisals and broker price opinions.

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A summary of the assets, liabilities, and operations of ANC as of December 31, 2011 are presented in the following tables (in thousands):

		December 31, 2011
ASSETS		
Cash	$	2,486
Accounts receivable		5,296
Receivables from affiliates		92
Equity method investments		2,788
Property and equipment, net		1,995
Goodwill and other intangible assets		33,876
Other assets		590
Total assets	$	47,123
LIABILITIES		
Notes payable	$	4,724
Payables and accrued liabilities		13,236
Total liabilities	$	17,960

		From Acquisition through December 31, 2011
REVENUES		
Sales	$	40,479
Cost of sales		(34,047)
Net sales revenues		6,432
OTHER INCOME/(EXPENSE)		
Operating costs		(12,805)
Income from equity method investments		1,810
Depreciation and amortization		(1,105)
Gain due to reversal of contingent consideration		5,000
Other income		244
Loss from discontinued operations		(60)
Total other income/(expense)		(6,916)
Net loss	$	(484)

Nationstar recorded a net charge to earnings of $0.1 million for the year ended December 31, 2011, related to loss on equity method investments, which is included as a component of other fee income in Nationstar's consolidated statement of operations.

11. Derivative Financial Instruments

The following table shows the effect of derivative financial instruments that were designated as accounting hedges for the years ended December 31, 2011 and 2010, respectively.

The Effect of Derivative Instruments on the Statement of Operations (in thousands)

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
For the year ended December 31, 2011					
Interest Rate Swap	**$ (1,071)**	**Interest Expense**	**$ 165**	**Interest Expense**	**$ 2,032**
For the year ended December 31, 2010					
Interest Rate Swap	$ 1,071	Interest Expense	$ –	Interest Expense	$ 930

The following tables provide the outstanding notional balances and fair values of outstanding positions for the dates indicated, and recorded gains/(losses) during the periods indicated (in thousands):

	Expiration Dates	Outstanding Notional	Fair Value	Recorded Gains / (Losses)
Year ended December 31, 2011				
MORTGAGE LOANS HELD FOR SALE				
Loan sale commitments	**2012**	**$ 28,047**	**$ 634**	**$ 592**
OTHER ASSETS				
IRLCs	**2012**	**736,377**	**11,302**	**6,598**
LIABILITIES				
Interest rate swaps and caps	**2012-2015**	**193,500**	**6,540**	**1,261**
Forward MBS trades	**2012**	**691,725**	**5,830**	**(9,792)**
Interest rate swap, subject to ABS nonrecourse debt(1)	**–**	**–**	**–**	**(8,058)**
Year ended December 31, 2010				
MORTGAGE LOANS HELD FOR SALE				
Loan sale commitments	2011	$ 28,641	$ 42	$ (1,397)
OTHER ASSETS				
IRLCs	2011	391,990	4,703	2,289
Forward MBS trades	2011	546,500	3,963	580
LIABILITIES				
Interest rate swaps and caps	2011-2013	429,000	7,801	8,872
Interest rate swap, subject to ABS nonrecourse debt	2013	245,119	18,781	2,049

(1) In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the related ABS nonrecourse debt and therefore the underlying interest rate swap, subject to ABS nonrecourse debt.

12. Indebtedness

Notes Payable

A summary of the balances of notes payable for the dates indicated is presented below (in thousands).

	December 31, 2011		December 31, 2010	
	Outstanding	Collateral Pledged	Outstanding	Collateral Pledged
$50 million warehouse facility	$ 7,310	$ 7,672	$ –	$ –
$100 million warehouse facility	16,047	16,715	39,014	40,640
$175 million warehouse facility	46,810	51,040	43,059	45,429
$300 million warehouse facility	251,722	265,083	209,477	223,119
Securities repurchase facility (2011)	11,774	55,603	–	–
2009-ABS advance financing facility	–	–	236,808	285,226
2010-ABS advance financing facility	219,563	249,499	–	–
2011-Agency advance financing facility	25,011	28,811	–	–
MSR note	10,180	16,230	15,733	18,951
ASAP+ facility	104,858	104,006	51,105	53,230
MBS advance financing facility	179,904	182,096	114,562	142,327
Total notes payable	$ 873,179	$ 976,755	$ 709,758	$ 808,922

In March 2011, Nationstar executed a Master Repurchase Agreement (MRA) with a financial institution, under which Nationstar may enter into transactions, for an aggregate amount of $50 million, in which Nationstar agrees to transfer to the same financial institution certain mortgage loans and certain securities against the transfer of funds by the same financial institution, with a simultaneous agreement by the same financial institution to transfer such mortgage loans and securities to Nationstar at a date certain, or on demand by Nationstar, against the transfer of funds from Nationstar. The interest rate is based on LIBOR plus a spread of 1.45% to 3.95%, which varies based on the underlying transferred collateral. The maturity date of this MRA is March 2012.

In October 2009, Nationstar executed an MRA with a financial institution. This MRA states that from time to time Nationstar may enter into transactions, for an aggregate amount of $100 million, in which Nationstar agrees to transfer to the financial institution certain mortgage loans against the transfer of funds by the financial institution, with a simultaneous agreement by the financial institution to transfer such mortgage loans to Nationstar at a certain date, or on demand by Nationstar, against the transfer of funds from Nationstar. The interest rate is based on LIBOR plus a spread of 3.50%. The maturity date of this MRA with the financial institution is January 2013.

In February 2010, Nationstar executed an MRA with a financial institution, which was set to expire in October 2011, but was extended through January 2013. The amended MRA states that from time to time Nationstar may enter into transactions, for an aggregate amount of $175 million, in which Nationstar agrees to transfer to the same financial institution certain mortgage loans against the transfer of funds by the same financial institution, with a simultaneous agreement by the same financial institution to transfer such mortgage loans to Nationstar at a date certain, or on demand by Nationstar, against the transfer of funds from Nationstar. The amended interest rate is based on LIBOR plus a spread ranging from 1.75% to 2.50%.

Nationstar has an MRA with a financial services company, which was amended in February 2012 to expire in February 2013 and reduce the committed amount to $150 million. The MRA states that from time to time Nationstar may enter into transactions, for an aggregate amount of $300 million, in which Nationstar agrees to transfer to the financial services company certain mortgage loans or MBS against the transfer of funds by the financial services company, with a simultaneous agreement by the financial services company to transfer such mortgage loans or MBS to Nationstar at a certain date, or on demand by Nationstar, against the transfer of funds from Nationstar. The interest rate is based on LIBOR plus a margin of 3.25%.

In December 2011, Nationstar entered into a securities repurchase facility with a financial services company that expires in March 2012. The MRA states that Nationstar may from time to time transfer to the financial services company eligible securities against the transfer of funds by the financial services company, with a simultaneous agreement by the financial services company to transfer such securities to Nationstar at a certain date, or on demand by Nationstar, against the transfer of funds from Nationstar. Additionally, the financial services company may elect to extend the transfer date for an additional 90 days at mutually agreed upon terms. The interest rate is based on LIBOR plus a margin of 3.50%. As of December 31, 2011, Nationstar has pledged the Company's $55.6 million outstanding retained interest in the outstanding Nonrecourse debt - Legacy Assets securitization which was structured as a financing.

Nationstar maintains its 2009-ABS Advance Financing Facility with a financial services company. This facility has the capacity to purchase up to $350 million of advance receivables. The interest rate is based on LIBOR plus a spread ranging from 3.00% to 12.00%. The maturity date of this facility with the financial services company is December 2011. This debt is nonrecourse to Nationstar. In October 2011 this facility was repaid and replaced with the 2010-ABS Advance Financing Facility described below.

In December 2010, Nationstar executed the 2010-ABS Advance Financing Facility with a financial institution. This facility has the capacity to purchase up to $300 million of advance receivables. The interest rate is based on LIBOR plus a spread of 3.00%. This facility was amended in October 2011, and matures in May 2014. In conjunction with this amendment Nationstar paid off the 2009-ABS Advance Financing Facility and transferred the related collateral to the amended 2010-ABS Advance Financing Facility. This debt is nonrecourse to Nationstar.

In October 2011, Nationstar executed the 2011-Agency Advance Facility with a financial institution. This facility has the capacity to borrow up to $75 million and the interest rate is based on LIBOR plus a spread of 2.50%. The maturity date of this facility is October 2012. This facility is secured by servicing advance receivables and is nonrecourse to Nationstar.

In connection with the October 2009 MSR acquisition, Nationstar executed a four-year note agreement with a GSE. As collateral for this note, Nationstar has pledged Nationstar's rights, title, and interest in the acquired servicing portfolio. The interest rate is based on LIBOR plus 2.50%. The maturity date of this facility is October 2013.

During 2009, Nationstar began executing As Soon As Pooled Plus agreements with a GSE, under which Nationstar transfers to the GSE eligible mortgage loans that are to be pooled into the GSE MBS against the transfer of funds by the GSE. The interest rate is based on LIBOR plus a spread of 1.50%. These agreements typically have a maturity of up to 45 days.

In September 2009, Nationstar executed a one-year committed facility agreement with a GSE, under which Nationstar agrees to transfer to the GSE certain servicing advance receivables against the transfer of funds by the GSE. This facility has the capacity to purchase up to $275 million in eligible servicing advance receivables. The interest rate is based on LIBOR plus a spread of 2.50%. The maturity date of this facility was amended in December 2011 to extend the maturity through December 2012.

Unsecured Senior Notes

In March 2010, Nationstar completed the offering of $250 million of unsecured senior notes, which were issued with an issue discount of $7.0 million for net cash proceeds of $243.0 million, with a maturity date of April 2015. These unsecured senior notes pay interest semi-annually at an interest rate of 10.875%. In September 2011, Nationstar completed an exchange offer of the $250.0 million in 10.875% unsecured senior notes for new notes that have been registered under the Securities Act of 1933. The exchange notes are identical in all material respects to the privately issued notes, except for the transfer restrictions and registrations rights that do not apply to the exchanged notes, and different administrative terms.

The indenture for the unsecured senior notes contains various covenants and restrictions that limit Nationstar's, or certain of its subsidiaries', ability to incur additional indebtedness, pay dividends, make certain investments, create liens, consolidate, merge or sell substantially all of their assets, or enter into certain transactions with affiliates.

In December 2011, Nationstar completed an additional offering of $35 million of unsecured senior notes. The additional offering was issued with an issue discount of $0.3 million for net cash proceeds of $34.7 million, with a maturity date of April 2015.

The additional notes will rank equally in right of payment with all of our existing and future senior debt and will rank senior in right of payment to all of our existing and future subordinated debt. The additional notes will be effectively junior in right of payment to all of our existing and future senior secured debt to the extent of the assets securing such debt and to any existing and future liabilities of our non-guarantor subsidiaries.

Nonrecourse Debt–Legacy Assets

In November 2009, Nationstar completed the securitization of approximately $222 million of ABS, which was structured as a secured borrowing. This structure resulted in Nationstar carrying the securitized loans as mortgages on Nationstar's consolidated balance sheet and recognizing the asset-backed certificates acquired by third parties as nonrecourse debt, totaling approximately $112.5 million and $138.7 million at December 31, 2011 and 2010, respectively. The principal and interest on these notes are paid using the cash flows from the

underlying mortgage loans, which serve as collateral for the debt. The interest rate paid on the outstanding securities is 7.50%, which is subject to an available funds cap. The total outstanding principal balance on the underlying mortgage loans serving as collateral for the debt was approximately $373.1 million and $430.0 million at December 31, 2011 and 2010, respectively. Accordingly, the timing of the principal payments on this nonrecourse debt is dependent on the payments received on the underlying mortgage loans. The unpaid principal balance on the outstanding notes was $130.8 million and $161.2 million at December 31, 2011 and 2010, respectively.

ABS Nonrecourse Debt at Fair Value

Effective January 1, 2010, new accounting guidance eliminated the concept of a QSPE, and all existing securitization trusts are considered VIEs and are subject to new consolidation guidance provided in ASC 810. Upon consolidation of these VIEs, Nationstar derecognized all previously recognized beneficial interests obtained as part of the securitization. In addition, Nationstar recognized the securitized mortgage loans as mortgage loans held for investment, subject to ABS nonrecourse debt, and the related asset-backed certificates acquired by third parties as ABS nonrecourse debt on Nationstar's consolidated balance sheet (see Note 3, Variable Interest Entities and Securitizations). Additionally, Nationstar elected the fair value option provided for by ASC 825-10. The principal and interest on these notes are paid using the cash flows from the underlying mortgage loans, which serve as collateral for the debt. The interest rate paid on the outstanding securities is based on LIBOR plus a spread ranging from 0.13% to 2.00%, which is subject to an interest rate cap.

In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt, the related ABS nonrecourse debt, as well as certain other assets and liabilities of the securitization trust, and recognized any mortgage servicing rights on the consolidated balance sheet. The total outstanding principal balance on the underlying mortgage loans and REO serving as collateral for the debt was approximately $1,025.3 million at December 31, 2010. The timing of the principal payments on this ABS nonrecourse debt is dependent on the payments received on the underlying mortgage loans. The outstanding principal balance on the outstanding notes related to these consolidated securitization trusts was $1,037.9 million at December 31, 2010.

Excess Spread Financing Debt at Fair Value

Nationstar acquired mortgage servicing rights on a pool of agency residential mortgage loans (the Portfolio) on September 30, 2011. In December 2011, Nationstar entered into a sale and assignment agreement which is treated as a financing with an indirect wholly owned subsidiary of Newcastle Investment Corp. (Newcastle). Nationstar is an affiliate of Newcastle's manager. Nationstar, in a transaction accounted for as a financing arrangement, sold to Newcastle the right to receive 65% of the excess cash flow generated from the Portfolio after receipt of a fixed basic servicing fee per loan. The sale price was $43.7 million. Nationstar will retain all ancillary income associated with servicing the Portfolio and 35% of the excess cash flow after receipt of the fixed basic servicing fee. Nationstar will continue to be the servicer of the Portfolio and will provide all servicing and advancing functions. Newcastle will not have prior or ongoing obligations associated with the Portfolio.

Contemporaneous with the above, Nationstar entered into a refinanced loan agreement with Newcastle. Should Nationstar refinance any loan in the Portfolio, subject to certain limitations, Nationstar will be required to transfer the new loan or a replacement loan of similar economic characteristics into the Portfolio. The new or replacement loan will be governed by the same terms set forth in the sale and assignment agreement described above.

Nationstar records acquired servicing rights on forward residential mortgages at fair value, with all subsequent changes in fair value recorded as a charge or credit to servicing fee income in the consolidated statement of operations. Nationstar estimates the fair value of its forward mortgage servicing rights and the excess servicing spread financing using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. Nationstar elected to measure this financing arrangement at fair value, as permitted under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments* to more accurately represent the future economic performance of the acquired MSRs and related excess servicing financing. The fair value of the agreement was $44.6 million at December 31, 2011. This financing is nonrecourse to Nationstar.

Financial Covenants

As of December 31, 2011, Nationstar was in compliance with its covenants on Nationstar's borrowing arrangements and credit facilities. These covenants generally relate to Nationstar's tangible net worth, liquidity reserves, and leverage requirements.

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13. Repurchase Reserves

Certain whole loan sale contracts include provisions requiring Nationstar to repurchase a loan if a borrower fails to make certain initial loan payments due to the acquirer or if the accompanying mortgage loan fails to meet customary representations and warranties. These representations and warranties are made to the loan purchasers about various characteristics of the loans, such as manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided and typically are in place for the life of the loan. In the event of a breach of the representations and warranties, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. In addition, an investor may request that Nationstar refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. Nationstar records a provision for estimated repurchases and premium recapture on loans sold, which is charged to gain (loss) on mortgage loans held for sale. The reserve for repurchases is included as a component of payables and accrued liabilities. The current unpaid principal balance of loans sold by Nationstar represents the maximum potential exposure to repurchases related to representations and warranties. Reserve levels are a function of expected losses based on actual pending and expected claims, repurchase requests, historical experience, and loan volume. While the amount of repurchases and premium recapture is uncertain, Nationstar considers the liability to be adequate.

The activity of the outstanding repurchase reserves were as follows (in thousands):

	December 31,		
	2011	2010	2009
Repurchase reserves, beginning of period	$ 7,321	$ 3,648	$ 3,965
Additions	5,534	4,649	820
Charge-offs	(2,829)	(976)	(1,137)
Repurchase reserves, end of period	$ 10,026	$ 7,321	$ 3,648

14. General and Administrative Expenses

General and administrative expense consists of the following for the dates indicated (in thousands):

	For the year ended December 31,		
	2011	2010	2009
Depreciation and amortization	$ 4,063	$ 2,117	$ 1,767
Advertising	4,723	4,559	3,882
Equipment	4,605	3,862	3,300
Servicing	21,014	14,122	1,951
Telecommunications	3,832	2,347	1,590
Legal and professional fees	16,130	14,736	9,610
Postage	5,978	4,220	2,315
Stationary and supplies	3,964	2,594	1,500
Travel	3,491	2,231	827
Dues and fees	5,404	4,114	2,264
Insurance, Taxes, and Other	8,979	4,011	1,488
Total general and administrative expense	$ 82,183	$ 58,913	$ 30,494

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15. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures,* provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value and, therefore, does not expand the use of fair value in any new circumstance.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tiered fair value hierarchy based on the level of observable inputs used in the measurement of fair value (e.g., Level 1 representing quoted prices for identical assets or liabilities in an active market; Level 2 representing values using observable inputs other than quoted prices included within Level 1; and Level 3 representing estimated values based on significant unobservable inputs). In addition, ASC 820 requires an entity to consider all aspects of nonperformance risk, including its own credit standing, when measuring the fair value of a liability. Under ASC 820, related disclosures are segregated for assets and liabilities measured at fair value based on the level used within the hierarchy to determine their fair values.

The following describes the methods and assumptions used by Nationstar in estimating fair values:

Cash and Cash Equivalents, Restricted Cash, Notes Payable – The carrying amount reported in the consolidated balance sheets approximates fair value.

Mortgage Loans Held for Sale – Nationstar originates mortgage loans in the U.S. that it intends to sell to Fannie Mae, Freddie Mac, and Ginnie Mae (collectively, the Agencies). Additionally, Nationstar holds mortgage loans that it intends to sell into the secondary markets via whole loan sales or securitizations. Nationstar measures newly originated prime residential mortgage loans held for sale at fair value.

Mortgage loans held for sale are typically pooled together and sold into certain exit markets, depending upon underlying attributes of the loan, such as agency eligibility, product type, interest rate, and credit quality.

Mortgage loans held for sale are valued using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. As these prices are derived from quoted market prices, Nationstar classifies these valuations as Level 2 in the fair value disclosures.

Mortgage Loans Held for Investment, subject to nonrecourse debt – Legacy Assets – Nationstar determines the fair value of loans held for investment, subject to nonrecourse debt – Legacy Assets using internally developed valuation models. These valuation models estimate the exit price Nationstar expects to receive in the loan's principal market. Although Nationstar utilizes and gives priority to observable market inputs such as interest rates and market spreads within these models, Nationstar typically is required to utilize internal inputs, such as prepayment speeds, credit losses, and discount rates. These internal inputs require the use of judgment by Nationstar and can have a significant impact on the determination of the loan's fair value. As these prices are derived from a combination of internally developed valuation models and quoted market prices, Nationstar classifies these valuations as Level 3 in the fair value disclosures.

Mortgage Loans Held for Investment, subject to ABS nonrecourse debt – Nationstar determines the fair value of loans held for investment, subject to ABS nonrecourse debt using internally developed valuation models. These valuation models estimate the exit price Nationstar expects to receive in the loan's principal market. Although Nationstar utilizes and gives priority to observable market inputs such as interest rates and market spreads within these models, Nationstar typically is required to utilize internal inputs, such as prepayment speeds, credit losses, and discount rates. These internal inputs require the use of judgment by Nationstar and can have a significant impact on the determination of the loan's fair value. As these prices are derived from a combination of internally developed valuation models and quoted market prices, Nationstar classifies these valuations as Level 3 in the fair value disclosures. In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt.

Mortgage Servicing Rights – Fair Value – Nationstar will typically retain the servicing rights when it sells forward loans into the secondary market. Nationstar estimates the fair value of its forward MSRs using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being mortgage prepayment speeds and discount rates. These assumptions are generated and applied based on collateral stratifications including product type, remittance type, geography, delinquency and coupon dispersion. These

assumptions require the use of judgment by Nationstar and can have a significant impact on the determination of the MSR's fair value. Periodically, management obtains third party valuations of a portion of the portfolio to assess the reasonableness of the fair value calculations provided by the cash flow model. Because of the nature of the valuation inputs, Nationstar classifies these valuations as Level 3 in the fair value disclosures.

REO – Nationstar determines the fair value of REO properties through the use of third party appraisals and broker price opinions, adjusted for estimated selling costs. Such estimated selling costs include realtor fees and other anticipated closing costs. These values are adjusted to take into account factors that could cause the actual liquidation value of foreclosed properties to be different than the appraised values. This valuation adjustment is based upon Nationstar's historical experience with REO. REO is classified as Level 3 in the fair value disclosures.

Derivative Instruments – Nationstar enters into a variety of derivative financial instruments as part of its hedging strategy. The majority of these derivatives are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, Nationstar utilizes the exchange price or dealer market price for the particular derivative contract; therefore, these contracts are classified as Level 2. In addition, Nationstar enters into IRLCs with prospective borrowers. These commitments are carried at fair value based on fair value of related mortgage loans which is based on observable market data. Nationstar adjusts the outstanding IRLCs with prospective borrowers based on an expectation that it will be exercised and the loan will be funded. IRLCs are recorded in other assets in the consolidated balance sheets. These IRLCs are classified as Level 2 in the fair value disclosures.

Unsecured Senior Notes – The fair value of unsecured senior notes is based on quoted market prices and is considered Level 1 from the market observable inputs used to determine fair value.

Nonrecourse Debt – Legacy Assets – Nationstar estimates fair value based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. These prices are derived from a combination of internally developed valuation models and quoted market prices.

Excess Spread Financing – Nationstar estimates fair value based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. As these prices are derived from a combination of internally developed valuation models and quoted market prices based on the value of the underlying MSRs, Nationstar classifies these valuations as Level 3 in the fair value disclosures.

ABS Nonrecourse Debt – Nationstar estimates fair value based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. As these prices are derived from a combination of internally developed valuation models and quoted market prices, Nationstar classifies these valuations as Level 3 in the fair value disclosures. Effective December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the related ABS nonrecourse debt.

The estimated carrying amount and fair value of Nationstar's financial instruments and other assets and liabilities measured at fair value on a recurring basis is as follows for the dates indicated (in thousands):

		December 31, 2011		
		Recurring Fair Value Measurements		
	Total Fair Value	**Level 1**	**Level 2**	**Level 3**
ASSETS				
Mortgage loans held for sale(1)	$ 458,626	$ –	$ 458,626	$ –
Mortgage servicing rights – fair value(1)	251,050	–	–	251,050
Other assets:				
IRLCs	11,302	–	11,302	–
Total assets	$ 720,978	$ –	$ 469,928	$ 251,050
LIABILITIES				
Derivative financial instruments				
Interest rate swaps and caps	$ 6,540	$ –	$ 6,540	$ –
Forward MBS trades	5,830	–	5,830	–
Excess spread financing (at fair value)	44,595	–	–	44,595
Total liabilities	$ 56,965	$ –	$ 12,370	$ 44,595

(1) *Based on the nature and risks of these assets and liabilities, the Company has determined that presenting them as a single class is appropriate.*

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		December 31, 2010		
		Recurring Fair Value Measurements		
	Total Fair Value	**Level 1**	**Level 2**	**Level 3**
ASSETS				
Mortgage loans held for sale(1)	$ 369,617	$ –	$ 369,617	$ –
Mortgage loans held for investment, subject to ABS nonrecourse debt(1)	538,440	–	–	538,440
Mortgage servicing rights(1)	145,062	–	–	145,062
Other assets:				
IRLCs	4,703	–	4,703	–
Forward MBS trades	3,963	–	3,963	–
Total assets	$ 1,061,785	$ –	$ 378,283	$ 683,502
LIABILITIES				
Derivative financial instruments				
Interest rate swaps and caps	$ 7,801	$ –	$ 7,801	$ –
Derivative financial instruments, subject to ABS nonrecourse debt	18,781	–	18,781	–
ABS nonrecourse debt (at fair value)(1)	496,692	–	–	496,692
Total liabilities	$ 523,274	$ –	$ 26,582	$ 496,692

(1) *Based on the nature and risks of these assets and liabilities, the Company has determined that presenting them as a single class is appropriate.*

The table below presents a reconciliation for all of Nationstar's Level 3 assets and liabilities measured at fair value on a recurring basis for the dates indicated (in thousands):

	ASSETS	LIABILITIES
	Mortgage servicing rights	Excess spread financing
Year ended December 31, 2011		
Beginning balance	$ 145,062	$ –
Transfers into Level 3	–	–
Transfers out of Level 3	–	–
Total gains or losses		
Included in earnings	(39,000)	3,060
Included in other comprehensive income	–	–
Purchases, issuances, sales and settlements		
Purchases	102,800	–
Issuances	36,474	43,742
Sales	–	–
Settlements	5,714	(2,207)
Ending balance	$ 251,050	$ 44,595

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	ASSETS			LIABILITIES
	Mortgage loans held for investment, subject to ABS nonrecourse debt	Mortgage servicing rights	Total assets	ABS non-recourse debt
Year ended December 31, 2010				
Beginning balance (1)	$ 928,891	$ 104,174	$ 1,033,065	$ 884,846
Transfers into Level 3	–	–	–	–
Transfers out of Level 3	–	–	–	–
Total gains or losses				
Included in earnings	71,239	(6,043)	65,196	16,938
Included in other comprehensive income	–	–	–	–
Purchases, issuances, sales and settlements				
Purchases	–	17,812	17,812	–
Issuances	–	26,253	26,253	–
Sales	–	–	–	–
Settlements	(461,690)	2,866	(458,824)	(405,092)
Ending balance	$ 538,440	$ 145,062	$ 683,502	$ 496,692

(1) *Amounts include derecognition of previously retained beneficial interests and mortgage servicing rights upon adoption of ASC 810 related to consolidation of certain VIEs.*

The table below presents the items which Nationstar measures at fair value on a nonrecurring basis (in thousands).

	Nonrecurring Fair Value Measurements			Total Estimated Fair Value	Total Gains (Losses) Included in Earnings
	Level 1	Level 2	Level 3		
Year ended December 31, 2011					
Assets					
REO(1)	$ –	$ –	$ 3,668	$ 3,668	$ (6,833)
Total assets	$ –	$ –	$ 3,668	$ 3,668	$ (6,833)
Year ended December 31, 2010					

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Assets					
REO[1]	$ –	$ –	$ 27,337	$ 27,337	$ –
Total assets	$ –	$ –	$ 27,337	$ 27,337	$ –

(1) *Based on the nature and risks of these assets and liabilities, the Company has determined that presenting them as a single class is appropriate.*

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The table below presents a summary of the estimated carrying amount and fair value of Nationstar's financial instruments (in thousands).

	December 31, 2011		December 31, 2010	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	**$ 62,445**	**$ 62,445**	$ 21,223	$ 21,223
Restricted cash	**71,499**	**71,499**	91,125	91,125
Mortgage loans held for sale	**458,626**	**458,626**	369,617	369,617
Mortgage loans held for investment, subject to nonrecourse debt – Legacy assets	**243,480**	**226,890**	266,320	238,515
Mortgage loans held for investment, subject to ABS nonrecourse debt	**–**	**–**	538,440	538,440
Derivative instruments	**11,302**	**11,302**	8,666	8,666
Financial liabilities:				
Notes payable	**873,179**	**873,179**	709,758	709,758
Unsecured senior notes	**280,199**	**282,150**	244,061	244,375
Derivative financial instruments	**12,370**	**12,370**	7,801	7,801
Derivative instruments, subject to ABS nonrecourse debt	**–**	**–**	18,781	18,781
Nonrecourse debt - Legacy assets	**112,490**	**114,037**	138,662	140,197
Excess spread financing (at fair value)	**44,595**	**44,595**	–	–
ABS nonrecourse debt (at fair value)	**–**	**–**	496,692	496,692

16. Employee Benefits

Nationstar holds a contributory defined contribution plan (401(k) plan) that covers substantially all full-time employees. Nationstar matches 50% of participant contributions, up to 6% of each participant's total eligible annual base compensation. Matching contributions totaled approximately $2.3 million, $1.5 million, and $1.0 million for the years ended December 31, 2011, 2010, and 2009, respectively.

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17. Member's Equity

The limited liability company interests in FIF HE Holdings LLC are represented by four separate classes of units, Class A Units, Class B Units, Class C Preferred Units and Class D Preferred Units, as defined in the FIF HE Holdings LLC Amended and Restated Limited Liability Company Agreement dated December 31, 2008 (the Agreement). Class A Units have voting rights and Class B Units, Class C Preferred Units and Class D Preferred Units have no voting rights. Distributions and allocations of profits and losses to members are made in accordance with the Agreement. Class C Preferred Units and Class D Preferred Units represent preferred priority return units, accruing distribution preference on any contributions at an annual rate of 15% and 20%, respectively.

A total of 100,887 Class A Units were granted to certain management members on the date of Nationstar's acquisition by FIF. No consideration was paid for the Class A Units, and these units vest in accordance with the Vesting Schedule per the Agreement, generally in years three through five after grant date. All of these outstanding units were completely vested as of July 11, 2011.

Effective September 17, 2010, FIF HE Holdings LLC executed the FIF HE Holdings LLC Fifth Amended and Restated Limited Liability Company Agreement (the Fifth Agreement). This Fifth Agreement provided for a total of 457,526 Class A Units to be granted to certain management members. No consideration was paid for the granted units, and the units vest in accordance with the Vesting Schedule per the Fifth Agreement.

Simultaneously with the execution of the Fifth Agreement, FIF HE Holdings LLC executed several Restricted Series I Preferred Stock Unit Award Agreements (PRSU Agreements). These Agreements provided for a total of 3,304,000 Class C Units and 3,348,000 Class D Units to be granted to certain management members. No consideration was paid for the granted units, and the units vest in accordance with the Vesting Schedule per the PRSU Agreements.

These awards were valued using a sum of the parts analysis in computing the fair value of the Company's equity. The analysis adds the value of the servicing and originations businesses to the value of the assets and securities that Nationstar owns. The value of the servicing and originations businesses is derived using both a market approach and an income approach. The market approach considers market multiples from public company examples in the industry. The income approach employs a discounted cash flow analysis that utilizes several factors to capture the ongoing cash flows of the business and then is discounted with an assumed equity cost of capital. The valuation of the assets applies a net asset value method utilizing a variety of assumptions, including assumptions for prepayments, cumulative losses and other variables. Recent market transactions, experience with similar assets and securities, current business combinations, and analysis of the underlying collateral, as available, are considered in the valuation.

The Class A, Class C and Class D Units were scheduled to vest over 1.8 years. The vesting schedule of these Units is as follows:

	September 17, 2010	June 30, 2011	June 30, 2012	Total
Class A Units	93,494	182,016	182,016	457,526
Class C Units	1,101,332	1,101,334	1,101,334	3,304,000
Class D Units	1,116,000	1,116,000	1,116,000	3,348,000

The weighted average grant date fair value of the Units was $4.23. Effective during 2011, the Company filed an offering document with the Securities and Exchange Commission. As a result, the Company revalued the preferred unit awards based on the fair value of the repurchase option at the balance sheet date. Subsequent to December 31, 2011, Nationstar expects to recognize $3.9 million of compensation expense in the first six months of 2012 for employee and non-employee awards.

Total share-based compensation expense, net of forfeitures, recognized for the years ended, December 31, 2011, 2010 and 2009 is provided in the table below (in thousands).

For the year ended December 31,		
2011	2010	2009
$ 14,815	$ 12,856	$ 827

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18. Capital Requirements

Certain of Nationstar's secondary market investors require various capital adequacy requirements, as specified in the respective selling and servicing agreements. To the extent that these mandatory, imposed capital requirements are not met, Nationstar's secondary market investors may ultimately terminate Nationstar's selling and servicing agreements, which would prohibit Nationstar from further originating or securitizing these specific types of mortgage loans. In addition, these secondary market investors may impose additional net worth or financial condition requirements based on an assessment of market conditions or other relevant factors.

Among Nationstar's various capital requirements related to its outstanding selling and servicing agreements, the most restrictive of these requires Nationstar to maintain a minimum adjusted net worth balance of $132.3 million. As of December 31, 2011, Nationstar was in compliance with all of its selling and servicing capital requirements.

Additionally, Nationstar is required to maintain a minimum tangible net worth of at least $175 million as of each quarter-end related to its outstanding Master Repurchase Agreements on its outstanding repurchase facilities. As of December 31, 2011, Nationstar was in compliance with these minimum tangible net worth requirements.

19. Commitments and Contingencies

Litigation and Regulatory Matters

In the ordinary course of business, Nationstar and its subsidiaries and current and former officers and employees (for the purposes of this section, sometimes collectively referred to as the Company and Related Parties) are routinely named as defendants in various legal actions, including class actions and other litigation, arising in connection with activities related to a national mortgage servicer and lender. Certain of the actual or threatened legal actions include claims for substantial compensatory, punitive and/or, statutory damages or claims for an indeterminate amount of damages. Further, in the ordinary course of business the Company and Related Parties can be or are involved in governmental and regulatory examinations, information gathering requests, investigations and proceedings (both formal and informal), regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interest of the Company and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal and regulatory proceedings utilizing the latest information available. Where available information indicates that it is probable a liability has been incurred and the Company can reasonably estimate the amount of that loss an accrued liability is established. The actual costs of resolving these proceedings may be substantially higher or lower than the amounts accrued.

A 50 state task force of attorneys general as well as certain federal agencies are investigating issues related to the conduct of certain mortgage servicing companies and related service providers, in connection with mortgage foreclosures. While the Company is not involved in the investigation or negotiations regarding a settlement, the ultimate outcome could have a material impact on other mortgage servicers, including the Company.

When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. As a litigation or regulatory matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. If, at the time of evaluation, the loss contingency is not both probable and estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and estimable. Once the matter is deemed to be both probable and estimable, the Company will establish an accrued liability and record a corresponding amount to litigation related expense. The Company will continue to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established. Litigation related expense, which includes the fees paid to external legal providers, of $9.3 million, $9.4 million and $4.9 million were included in general and administrative expense on the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, respectively.

For a number of matters for which a loss is probable or reasonably possible in future periods, whether in excess of a related accrued liability or where there is no accrued liability, the Company may be able to estimate a range of possible loss. In determining whether it is possible to provide an estimate of loss or range of possible loss, the Company reviews and evaluates its material litigation and regulatory matters on an ongoing basis, in conjunction with any outside counsel handling the matter. For those matters for which an estimate is possible, management

currently believes the aggregate range of reasonably possible loss is $0.5 million to $3.2 million in excess of the accrued liability (if any) related to those matters. This estimated range of possible loss is based upon currently available information and is subject to significant judgment, numerous assumptions and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary substantially from the current estimate. Those matters for which an estimate is not possible are not included within this estimated range. Therefore, this estimated range of possible loss represents what management believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure.

Based on current knowledge, and after consultation with counsel, management believes that the current legal accrued liability is appropriate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse affect on the consolidated financial condition of the Company, although the outcome of such proceedings could be material to the Company's operating results and cash flows for a particular period depending on among other things, the level of the Company's revenues or income for such period. However, in the event of significant developments on existing cases, it is possible that the ultimate resolution, if unfavorable, may be material to the Company's consolidated financial statements.

Lease Commitments

Nationstar leases various office facilities under non-cancelable lease agreements with primary terms extending through 2017. These lease agreements generally provide for market-rate renewal options, and may provide for escalations in minimum rentals over the lease term (see Note 22, Restructuring Charges). Minimum annual rental commitments for office leases with unrelated parties and with initial or remaining terms of one year or more, net of sublease payments, are presented below (in thousands).

2012	$ 9,756
2013	9,922
2014	7,351
2015	4,854
2016	3,255

Thereafter	727
Total	$ 35,865

Loan and Other Commitments

Nationstar enters into IRLCs with prospective borrowers whereby the Company commits to lend a certain loan amount under specific terms and interest rates to the borrower. These IRLCs are treated as derivatives and are carried at fair value (See Note 15, Fair Value Measures).

In January 2012, the Company completed its acquisition of certain MSRs related to approximately $7.8 billion of unpaid principal balance of reverse mortgage loans from a financial services company. As servicer for these reverse mortgage loans, among other things, the Company is obligated to make advances to the loan customers as required. At January 1, 2012, the Company's maximum unfunded advance obligation related to these MSRs was approximately $1.5 billion. Upon funding any portion of these advances, the Company expects to securitize and sell the advances in transactions that will be accounted for as financing arrangements.

Other Contingencies

In June 2011, the Company entered into an agreement to subservice loans for a financial services company. The Company began to subservice these loans in July and August 2011. This subservicing agreement included, among other things, a loss incentive and sharing arrangement. Under this arrangement, the Company can earn incentive fees of up to $2.5 million for successfully mitigating losses within a specific subserviced population of loans. This incentive fee would be recognized when earned. For this same population of loans, the Company is subject to loss sharing under certain conditions. Should losses in this population of loans exceed a specified level, the Company would be required to share a portion of the losses on such loans up to a maximum of $10.0 million. Losses under this arrangement would be recognized at the point at which the Company determines that a liability is expected to be incurred. At December 31, 2011, the Company has estimated no liability under this agreement.

During December 2009, Nationstar entered into a strategic relationship with a major mortgage market participant, which contemplates, among other things, significant mortgage servicing rights and subservicing transfers to Nationstar upon terms to be determined. Under this arrangement, if certain delivery thresholds have been met, the market participant may require Nationstar to establish an operating division or newly created subsidiary with separate, dedicated employees within a specified timeline to service such mortgage servicing rights and subservicing. After a specified time period, this market participant may purchase the subsidiary at an agreed upon price. Since December 2010, all of the required delivery thresholds with this market participant have been met, but the market participant has not required the Company to establish an operating division or newly created subsidiary with separate, dedicated employees.

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20. Termination of Company

The duration of Nationstar's existence is indefinite per the Agreement and shall continue until dissolved in accordance with the terms of the Agreement and the Delaware Limited Liability Company Act (DLLCA).

21. Limited Liability of Members

The members of a Delaware limited liability company are generally not liable for the acts and omissions of the company, much in the same manner as the shareholders, officers and directors of a corporation are generally limited by the provisions of the DLLCA and by applicable case law.

22. Restructuring Charges

To respond to the decreased demand in the home equity mortgage market and other market conditions, Nationstar initiated a program to reduce costs and improve operating effectiveness in 2007. This program included the closing of several offices and the termination of a large portion of Nationstar's workforce. As part of this plan, Nationstar expected to incur lease and other contract termination costs.

Nationstar recorded restructuring charges totaling $1.1 million, $2.3 million, and $2.2 million for the years ended December 31, 2011, 2010, and 2009, respectively, related to cancelled lease expenses that are reflected in general and administrative expenses. The following table summarizes, by category, the Company's restructuring charge activity for the periods noted below.

	Liability Balance at January 1	Restructuring Adjustments	Restructuring Settlements	Liability Balance at December 31
Year ended December 31, 2009				
Restructuring charges:				
Lease terminations	$ 10,903	$ 2,222	$ (3,660)	$ 9,465
Total	$ 10,903	$ 2,222	$ (3,660)	$ 9,465

Year ended December 31, 2010				
Restructuring charges:				
Lease terminations	$ 9,465	$ 2,287	$ (2,569)	$ 9,183
Total	$ 9,465	$ 2,287	$ (2,569)	$ 9,183
Year ended December 31, 2011				
Restructuring charges:				
Lease terminations	**$ 9,183**	**$ 1,084**	**$ (1,807)**	**$ 8,460**
Total	**$ 9,183**	**$ 1,084**	**$ (1,807)**	**$ 8,460**

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23. Concentrations of Credit Risk

Properties collateralizing mortgage loans held for investment and REO were geographically disbursed throughout the United States (measured by principal balance and expressed as a percent of the total outstanding mortgage loans held for investment and REO).

The following table details the geographical concentration of mortgage loans held for investment and REO by state for the dates indicated (in thousands).

	December 31, 2011		December 31, 2010	
State	Unpaid Principal Balance	% of Total Outstanding	Unpaid Principal Balance	% of Total Outstanding
Florida	**$ 54,199**	**14.2%**	$ 62,775	14.4%
Texas	**52,620**	**13.7%**	58,815	13.4%
California	**32,684**	**8.5%**	41,019	9.4%
All other states (1)	**243,377**	**63.6%**	274,235	62.8%
	$ 382,880	**100.0%**	$ 436,844	100.0%

(1) *No other state contains more than 5.0% of the total outstanding.*

Additionally, certain loan products' contractual terms may give rise to a concentration of credit risk and increase Nationstar's exposure to risk of nonpayment or realization.

December 31,	2011	2010
Amortizing ARMs:		
2/28	**$68,993**	$118,815
3/27	**6,402**	8,952
All other ARMs	**14,343**	10,221
	$89,738	$137,988

24. Business Segment Reporting

Nationstar currently conducts business in two separate operating segments: Servicing and Originations. The Servicing segment provides loan servicing on Nationstar's total servicing portfolio, including the collection of principal and interest payments and the assessment of ancillary fees related to the servicing of mortgage loans. The Originations segment involves the origination, packaging, and sale of agency mortgage loans into the secondary markets via whole loan sales or securitizations. Nationstar reports the activity not related to either operating segment in the Legacy Portfolio and Other column. The Legacy Portfolio and Other column includes primarily all subprime mortgage loans originated in the latter portion of 2006 and during 2007 or acquired from Nationstar's predecessor and consolidated VIEs which were consolidated pursuant to the adoption of new consolidation guidance related to VIEs adopted on January 1, 2010.

Nationstar's segments are based upon Nationstar's organizational structure which focuses primarily on the services offered. The accounting policies of each reportable segment are the same as those of Nationstar except for 1) expenses for consolidated back-office operations and general overhead-type expenses such as executive administration and accounting and 2) revenues generated on inter-segment services performed. Expenses are allocated to individual segments based on the estimated value of services performed, including estimated utilization of square footage and corporate personnel as well as the equity invested in each segment. Revenues generated or inter-segment services performed are valued based on similar services provided to external parties.

To reconcile to Nationstar's consolidated results, certain inter-segment revenues and expenses are eliminated in the "Elimination" column in the following tables.

The following tables are a presentation of financial information by segment for the periods indicated (in thousands):

	Year ended December 31, 2011					
	Servicing	**Originations**	**Operating Segments**	**Legacy Portfolio and Other**	**Eliminations**	**Consolidated**
REVENUES:						
Servicing fee income	$ 238,394	$ —	$ 238,394	$ 1,972	$ (6,955)	$ 233,411
Other fee income	17,082	14,109	31,191	3,996	–	35,187
Total fee income	255,476	14,109	269,585	5,968	(6,955)	268,598
Gain/(loss) on mortgage loans held for sale	–	109,431	109,431	–	(295)	109,136
Total revenues	255,476	123,540	379,016	5,968	(7,250)	377,734
Total expenses and impairments	177,930	101,607	279,537	26,941	(295)	306,183
Other income (expense):						
Interest income	2,263	12,718	14,981	44,866	6,955	66,802
Interest expense	(58,024)	(10,955)	(68,979)	(36,396)	–	(105,375)
Loss on interest rate swaps and caps	298	–	298	–	–	298
Fair value changes - ABS securitizations	–	–	–	(12,389)	–	(12,389)
Total other income (expense)	(55,463)	1,763	(53,700)	(3,919)	6,955	(50,664)
NET INCOME (LOSS)	$ 22,083	$ 23,696	$ 45,779	$ (24,892)	$ –	$ 20,887
Depreciation and amortization	$ 2,089	$ 1,306	$ 3,395	$ 668	$ –	$ 4,063
Total assets	909,992	600,105	1,510,097	277,834	–	1,787,931

	Year ended December 31, 2010					
	Servicing	**Originations**	**Operating Segments**	**Legacy Portfolio and Other**	**Eliminations**	**Consolidated**
REVENUES:						
Servicing fee income	$ 175,569	$ –	$ 175,569	$ 820	$ (9,263)	$ 167,126
Other fee income	7,273	7,042	14,315	2,643	–	16,958
Total fee income	182,842	7,042	189,884	3,463	(9,263)	184,084
Gain (loss) on mortgage loans held for sale	–	77,498	77,498	–	(154)	77,344
Total revenues	182,842	84,540	267,382	3,463	(9,417)	261,428
Total expenses and impairments	107,283	86,920	194,203	26,927	(154)	220,976
Other income (expense):						
Interest income	263	11,848	12,111	77,521	9,263	98,895
Interest expense	(51,791)	(8,806)	(60,597)	(55,566)	–	(116,163)
Loss on interest rate swaps	(9,801)	–	(9,801)	–	–	(9,801)
Fair value changes - ABS securitizations	–	–	–	(23,297)	–	(23,297)
Total other income (expense)	(61,329)	3,042	(58,287)	(1,342)	9,263	(50,366)
NET INCOME (LOSS)	$ 14,230	$ 662	$ 14,892	$ (24,806)	$ –	$ (9,914)
Depreciation and amortization	$ 1,092	$ 781	$ 1,873	$ 244	$ –	$ 2,117
Total assets	689,923	402,627	1,092,550	854,631	–	1,947,181

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	Year ended December 31, 2009					
	Servicing	Originations	Operating Segments	Legacy Portfolio and Other	Eliminations	Consolidated
REVENUES:						
Servicing fee income	$ 91,266	$ –	$ 91,266	$ –	$(1,071)	$ 90,195
Other fee income	8,867	1,156	10,023	–	–	10,023
Total fee income	100,133	1,156	101,289	–	(1,071)	100,218
Gain (loss) on mortgage loans held for sale	–	54,437	54,437	(75,786)	–	(21,349)
Total revenues	100,133	55,593	155,726	(75,786)	(1,071)	78,869
Total expenses and impairments	70,897	47,532	118,429	25,009	(1,071)	142,367
Other income (expense):						
Interest income	4,143	4,261	8,404	44,114	–	52,518
Interest expense	(25,877)	(3,438)	(29,315)	(40,568)	–	(69,883)
Loss on interest rate swaps	–	–	–	(14)	–	(14)
Fair value changes - ABS securitizations	–	–	–	–	–	–
Total other income (expense)	(21,734)	823	(20,911)	3,532	–	(17,379)
NET INCOME (LOSS)	$ 7,502	$ 8,884	$ 16,386	$ (97,263)	$ –	$ (80,877)
Depreciation and amortization	$ 1,004	$ 538	$ 1,542	$ 225	$ –	$ 1,767
Total assets	681,543	239,202	920,745	359,440	–	1,280,185

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25. Guarantor Financial Statement Information

Nationstar has $285.0 million aggregate principal amount of 10.875% unsecured senior notes which mature on April 1, 2015. The notes are jointly and severally guaranteed on an unsecured senior basis by all of Nationstar's existing and future wholly-owned domestic restricted subsidiaries, with certain exceptions. All guarantor subsidiaries are 100% owned by Nationstar. Presented below are consolidating financial statements of Nationstar and the guarantor subsidiaries for the periods indicated.

NATIONSTAR MORTGAGE LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 62,201	$ 244	$ –	$ –	$ 62,445
Restricted cash	49,180	3	22,316	–	71,499
Accounts receivable, net	281,782	7	280,511	–	562,300
Mortgage loans held for sale	458,626	–	–	–	458,626
Mortgage loans held for investment, subject to nonrecourse debt–Legacy Asset, net	5,984	–	237,496	–	243,480
Mortgage loans held for investment, subject to ABS nonrecourse debt (at fair value)	–	–	–	–	–
Receivables from affiliates	41,961	70,541	–	(107,893)	4,609
Mortgage servicing rights – fair value	251,050	–	–	–	251,050
Investment in subsidiaries	140,880	–	–	(140,880)	–
Property and equipment, net	23,238	835	–	–	24,073

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	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
REO, net	–	–	3,668	–	3,668
Other assets	106,181	–	–	–	106,181
Total Assets	$ 1,421,083	$ 71,630	$ 543,991	$ (248,773)	$ 1,787,931
Liabilities and members' equity					
Notes payable	$ 628,605	$ –	$ 244,574	$ –	$ 873,179
Unsecured senior notes	280,199	–	–	–	280,199
Payables and accrued liabilities	180,545	–	3,244	–	183,789
Payables to affiliates	–	–	107,893	(107,893)	–
Derivative financial instruments	5,830	–	6,540	–	12,370
Derivative financial instruments, subject to ABS nonrecourse debt	–	–	–	–	–
Nonrecourse debt–Legacy Assets	–	–	112,490	–	112,490
Excess spread financing (at fair value)	44,595	–	–	–	44,595
ABS nonrecourse debt (at fair value)	–	–	–	–	–
Total liabilities	1,139,774	–	474,741	(107,893)	1,506,622
Total members' equity	281,309	71,630	69,250	(140,880)	281,309
Total liabilities and members' equity	$ 1,421,083	$ 71,630	$ 543,991	$ (248,773)	$ 1,787,931

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NATIONSTAR MORTGAGE LLC
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Revenues:					
Servicing fee income	$ 234,135	$ –	$ 6,231	$ (6,955)	$ 233,411
Other fee income	17,782	15,313	2,092	–	35,187
Total fee income	251,917	15,313	8,323	(6,955)	268,598
Gain on mortgage loans held for sale	109,136	–	–	–	109,136
Total Revenues	361,053	15,313	8,323	(6,955)	377,734
Expenses and impairments:					
Salaries, wages and benefits	198,703	3,587	–	–	202,290
General and administrative	72,654	3,207	6,322	–	82,183
Provision for loan losses	1,346	–	2,191	–	3,537
Loss on foreclosed real estate and other	2,613	–	4,220	–	6,833
Occupancy	11,163	177	–	–	11,340
Total expenses and impairments	286,479	6,971	12,733	–	306,183
Other income (expense):					
Interest income	14,880	–	44,967	6,955	66,802
Interest expense	(58,452)	–	(46,923)	–	(105,375)
Gain/(Loss) on interest rate swaps and caps	–	–	298	–	298
Fair value changes in ABS securitizations	7,695	–	(20,084)	–	(12,389)
Gain/(loss) from subsidiaries	(17,810)	–	–	17,810	–
Total other income (expense)	(53,687)	–	(21,742)	24,765	(50,664)
Net income/(loss)	$ 20,887	$ 8,342	$ (26,152)	$ 17,810	$ 20,887

NATIONSTAR MORTGAGE LLC
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Operating activities:					
Net income/(loss)	$ 20,887	$ 8,342	$ (26,152)	$ 17,810	$ 20,887
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:					
Loss from subsidiaries	17,810	–	–	(17,810)	–
Share-based compensation	14,815	–	–	–	14,815
(Gain)/loss on mortgage loans held for sale	(109,136)	–	–	–	(109,136)
Provision for loan losses	1,346	–	2,191	–	3,537
Loss on foreclosed real estate and other	2,613	–	4,220	–	6,833
Loss on equity method investments	107	–	–	–	107
(Gain)/loss on ineffectiveness on interest rate swaps and cap	–	–	(2,331)	–	(2,331)
Fair value changes in ABS securitizations	(7,695)	–	20,084	–	12,389
Fair value changes in excess spread financing	3,060	–	–	–	3,060
Depreciation and amortization	4,063	–	–	–	4,063
Change in fair value of mortgage servicing rights	39,000	–	–	–	39,000
Amortization of debt discount	9,070	–	4,261	–	13,331
Amortization of premiums/(discounts)	–	–	(5,042)	–	(5,042)
Mortgage loans originated and purchased, net of fees	(3,412,185)	–	–	–	(3,412,185)
Cost of loans sold, net of fees	3,339,859	–	–	–	3,339,859
Principal payments/prepayments received and other changes in mortgage loans originated as held for sale	36,919	–	26,659	–	63,578
Changes in assets and liabilities:					
Accounts receivable	162,980	(7)	(246,106)	–	(83,133)
Receivables from/(payables to) affiliates	(227,455)	(8,407)	240,246	–	4,384
Other assets	(44,576)	–	–	–	(44,576)
Accounts payable and accrued liabilities	99,602	–	2,055	–	101,657
Net cash provided by/(used in) operating activities	(48,916)	(72)	20,085	–	(28,903)

Statement of Cash Flows continued	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Investing activities:					
Principal payments received and other changes on mortgage loans held for investment, subject to ABS nonrecourse debt	–	–	40,000	–	40,000
Property and equipment additions, net of disposals	(19,742)	–	–	–	(19,742)
Acquisition of equity method investment	(6,600)	–	–	–	(6,600)
Deposit on reverse mortgage servicing rights	(26,893)	–	–	–	(26,893)
Deposit on / purchase of mortgage servicing rights	(96,467)	–	–	–	(96,467)
Proceeds from sales of REO	15,566	–	12,257	–	27,823
Net cash provided by/(used in) investing activities	(134,136)	–	52,257	–	(81,879)

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Financing activities					
Transfers to/from restricted cash	8,399	(3)	8,416	–	16,812
Issuance of unsecured senior notes	35,166	–	–	–	35,166
Issuance of excess spread financing	40,492	–	–	–	40,492
Decrease in notes payable, net	155,655	–	7,766	–	163,421
Repayment of nonrecourse debt–Legacy assets	–	–	(30,433)	–	(30,433)
Repayment of ABS nonrecourse debt	–	–	(58,091)	–	(58,091)
Repayment of excess servicing spread financing	(2,207)	–	–	–	(2,207)
Distribution to parent	(4,348)	–	–	–	(4,348)
Debt financing costs	(3,462)	–	–	–	(3,462)
Tax related share-based settlement of units by members	(5,346)	–	–	–	(5,346)
Net cash provided by/(used in) financing activities	224,349	(3)	(72,342)	–	152,004
Net increase/(decrease) in cash	41,297	(75)	–	–	41,222
Cash and cash equivalents at beginning of period	20,904	319	–	–	21,223
Cash and cash equivalents at end of period	$ 62,201	$ 244	$ –	$ –	$ 62,445

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NATIONSTAR MORTGAGE LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2010
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 20,904	$ 319	$ –	$ –	$ 21,223
Restricted cash	57,579	–	33,546	–	91,125
Accounts receivable, net	437,300	–	3,975	–	441,275
Mortgage loans held for sale	369,617	–	–	–	369,617
Mortgage loans held for investment, subject to nonrecourse debt, Legacy Assets, net	5,016	–	261,304	–	266,320
Mortgage loans held for investment, subject to ABS nonrecourse debt (at fair value)	–	–	538,440	–	538,440
Investment in debt securities–available-for-sale	597	–	–	(597)	–
Investment in subsidiaries	158,276	–	–	(158,276)	–
Receivables from affiliates	–	62,171	132,353	(185,531)	8,993
Mortgage servicing rights	145,062	–	–	–	145,062
Property and equipment, net	7,559	835	–	–	8,394
REO, net	323	–	27,014	–	27,337
Other assets	29,395	–	–	–	29,395
Total Assets	$ 1,231,628	$ 63,325	$ 996,632	$ (344,404)	$ 1,947,181
Liabilities and members' equity					
Notes payable	$ 472,950	$ –	$ 236,808	$ –	$ 709,758
Unsecured senior notes	244,061	–	–	–	244,061
Payables and accrued liabilities	73,785	–	1,269	–	75,054
Payables to affiliates	185,531	–	–	(185,531)	–
Derivative financial instruments	–	–	7,801	–	7,801
Derivative financial instruments, subject to ABS nonrecourse debt	–	–	18,781	–	18,781
Nonrecourse debt–Legacy Assets	–	–	138,662	–	138,662
ABS nonrecourse debt (at fair value)	–	–	497,289	(597)	496,692
Total liabilities	976,327	–	900,610	(186,128)	1,690,809

Total members' equity	255,301	63,325	96,022	(158,276)	256,372
Total liabilities and members' equity	$ 1,231,628	$ 63,325	$ 996,632	$ (344,404)	$ 1,947,181

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NATIONSTAR MORTGAGE LLC
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Revenues:					
Servicing fee income	$ 174,660	$ 1,730	$ –	$ (9,264)	$ 167,126
Other fee income	8,259	7,551	1,148	–	16,958
Total fee income	182,919	9,281	1,148	(9,264)	184,084
Gain on mortgage loans held for sale	77,344	–	–	–	77,344
Total Revenues	260,263	9,281	1,148	(9,264)	261,428
Expenses and impairments:					
Salaries, wages and benefits	146,746	2,369	–	–	149,115
General and administrative	57,329	1,642	(58)	–	58,913
Loss on mortgage loans held for investment and foreclosed real estate	1,558	–	1,945	–	3,503
Occupancy	9,289	156	–	–	9,445
Total expenses and impairments	214,922	4,167	1,887	–	220,976
Other income / (expense):					
Interest income	17,019	6	72,606	9,264	98,895
Interest expense	(54,075)	–	(62,088)	–	(116,163)
Loss on interest rate swaps and caps	–	–	(9,801)	–	(9,801)
Fair value changes in ABS securitizations	–	–	(23,748)	451	(23,297)
Gain / (loss) from subsidiaries	(18,650)	–	–	18,650	–
Total other income / (expense)	(55,706)	6	(23,031)	28,365	(50,366)
Net income / (loss)	$ (10,365)	$ 5,120	$ (23,770)	$ 19,101	$ (9,914)

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NATIONSTAR MORTGAGE LLC
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Operating activities:					
Net income/(loss)	$ (10,365)	$ 5,120	$ (23,770)	$ 19,101	$ (9,914)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:					
Share-based compensation	12,856	–	–	–	12,856
Gain on mortgage loans held for sale	(77,344)	–	–	–	(77,344)

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	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Provision for loan losses	1,558	–	1,740	–	3,298
Loss on foreclosed real estate and other	–	–	205	–	205
(Gain)/loss on ineffectiveness on interest rate swaps and cap	–	–	8,872	–	8,872
Fair value changes in ABS securitizations	–	–	23,297	–	23,297
Loss from subsidiaries	18,650	–	–	(18,650)	–
Depreciation and amortization	2,104	13	–	–	2,117
Change in fair value of mortgage servicing rights	6,043	–	–	–	6,043
Amortization of debt discount	12,380	–	6,351	–	18,731
Amortization of premiums/(discounts)	–	–	(4,526)	–	(4,526)
Mortgage loans originated and purchased, net of fees	(2,791,639)	–	–	–	(2,791,639)
Cost of loans sold, net of fees	2,621,275	–	–	–	2,621,275
Principal payments/prepayments received and other changes in mortgage loans originated as held for sale	49,302	–	(16,634)	–	32,668
Changes in assets and liabilities:					
Accounts receivable	73,124	3	(31,979)	–	41,148
Receivables from/(payables to) affiliates	(52,594)	(5,110)	61,662	–	3,958
Other assets	(861)	–	–	–	(861)
Accounts payable and accrued liabilities	8,444	(96)	(185)	–	8,163
Net cash provided by/(used) in operating activities	(127,067)	(70)	25,033	451	(101,653)
Investing activities:					
Principal payments received and other changes on mortgage loans held for investment, subject to ABS nonrecourse debt	–	–	48,838	–	48,838
Property and equipment additions, net of disposals	(3,923)	(13)	–	–	(3,936)
Purchase of mortgage servicing rights	(17,812)	–	–	–	(17,812)
Proceeds from sales of REO	504	–	73,603	–	74,107
Net cash provided by/(used) in investing activities	(21,231)	(13)	122,441	–	101,197
Financing activities:					
Transfers to/from restricted cash	(38,617)	–	4,886	–	(33,731)
Issuance of unsecured notes, net of issue discount	243,013	–	–	–	243,013
Decrease in notes payable, net	(57,972)	–	(4,127)	–	(62,099)
Repayment of nonrecourse debt–Legacy assets	–	–	(45,364)	–	(45,364)
Repayment of ABS nonrecourse debt	(146)	–	(102,869)	(451)	(103,466)
Debt financing costs	(14,923)	–	–	–	(14,923)
Tax related share-based settlement of units by members	(3,396)	–	–	–	(3,396)
Net cash provided by/(used) in financing activities	127,959	–	(147,474)	(451)	(19,966)
Net increase/(decrease) in cash	(20,339)	(83)	–	–	(20,422)
Cash and cash equivalents at beginning of period	41,243	402	–	–	41,645
Cash and cash equivalents at end of period	$ 20,904	$ 319	$ –	$ –	$ 21,223

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NATIONSTAR MORTGAGE LLC
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Revenues:					

Servicing fee income	$ 89,151	$ 1,044	$ –	$ –	$ 90,195
Other fee income	4,823	5,200	–	–	10,023
Total fee income	93,974	6,244	–	–	100,218
Loss on mortgage loans held for sale	(21,349)	–	–	–	(21,349)
Total Revenues	72,625	6,244	–	–	78,869
Expenses and impairments:					
Salaries, wages and benefits	88,075	2,614	–	–	90,689
General and administrative	30,111	379	4	–	30,494
Loss on mortgage loans held for investment and foreclosed real estate	(1,352)	(10,925)	19,789	–	7,512
Occupancy	6,621	242	–	–	6,863
Loss on available-for-sale-securities-other-than-temporary	6,809	–	–	–	6,809
Total expenses and impairments	130,264	(7,690)	19,793	–	142,367
Other income / (expense):					
Interest income	42,160	233	10,125	–	52,518
Interest expense	(52,810)	(2,694)	(14,379)	–	(69,883)
Loss on interest rate swaps and caps	(14)	–	–	–	(14)
Gain / (loss) from subsidiaries	(12,574)	–	–	12,574	–
Total other income / (expense)	(23,238)	(2,461)	(4,254)	12,574	(17,379)
Net income / (loss)	$ (80,877)	$ 11,473	$ (24,047)	$ 12,574	$ (80,877)

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NATIONSTAR MORTGAGE LLC
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)

	Issuer (Parent)	Guarantor (Subsidiaries)	Non-Guarantor (Subsidiaries)	Eliminations	Consolidated
Operating activities:					
Net income/(loss)	$ (80,877)	$ 11,473	$ (24,047)	$ 12,574	$ (80,877)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:					
Share-based compensation	827	–	–	–	827
(Gain)/loss on mortgage loans held for sale	21,349	–	–	–	21,349
Loss on foreclosed real estate and other	(1,352)	(10,925)	19,789	–	7,512
(Gain)/loss on ineffectiveness on interest rate swaps and cap	14	–	–	–	14
Loss from subsidiaries	12,574	–	–	(12,574)	–
Unrealized gain on derivative financial instruments	(2,436)	–	–	–	(2,436)
Impairment of investments in debt securities	6,809	–	–	–	6,809
Depreciation and amortization	1,728	39	–	–	1,767
Change in fair value of mortgage servicing rights	27,915	–	–	–	27,915
Amortization of debt discount	19,075	–	2,212	–	21,287
Amortization of premiums/(discounts)	(1,394)	–	–	–	(1,394)
Mortgage loans originated and purchased, net of fees	(1,480,549)	–	–	–	(1,480,549)
Cost of loans sold, net of fees	1,007,369	–	–	–	1,007,369
Principal payments/prepayments received and other changes in mortgage loans originated as held for sale	405,066	–	66,816	–	471,882
Changes in assets and liabilities:					
Accounts receivable	(155,566)	1,113	(3,511)	–	(157,964)
Receivables from/(payables to) affiliates	247,676	(47,397)	(133,339)	–	66,940

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Other assets	(6,961)	–	–	–	(6,961)
Accounts payable and accrued liabilities	11,550	(12)	1,331	–	12,869
Net cash provided by/(used) in operating activities	32,817	(45,709)	(70,749)	–	(83,641)
Investing activities:					
Property and equipment additions, net of disposals	(2,990)	(39)	–	–	(3,029)
Purchase of mortgage servicing rights	(1,169)	–	–	–	(1,169)
Proceeds from sales of REO	1,896	32,202	83	–	34,181
Net cash provided by/(used) in investing activities	(2,263)	32,163	83	–	29,983
Financing activities:					
Transfers to/from restricted cash	(18,444)	13,737	(27,056)	–	(31,763)
Issuance of nonrecourse debt	–	–	191,272	–	191,272
Decrease in notes payable, net	17,346	–	(77,741)	–	(60,395)
Repayment of nonrecourse debt–Legacy assets	–	–	(15,809)	–	(15,809)
Debt financing costs	(18,059)	–	–	–	(18,059)
Capital contributions from members	20,700	–	–	–	20,700
Net cash provided by/(used) in financing activities	1,543	13,737	70,666	–	85,946
Net increase/(decrease) in cash	32,097	191	–	–	32,288
Cash and cash equivalents at beginning of period	9,146	211	–	–	9,357
Cash and cash equivalents at end of period	$ 41,243	$ 402	$ –	$ –	$ 41,645

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26. Related Party Disclosures

In September 2010, Nationstar entered into a marketing agreement with Springleaf Home Equity, Inc., formerly known as American General Home Equity, Inc., Springleaf General Financial Services of Arkansas, Inc., formerly known as American General Financial Services of Arkansas, Inc. and MorEquity, Inc. (collectively "Springleaf"), each of which are indirectly owned by investment funds managed by affiliates of Fortress Investment Group LLC. Pursuant to this agreement, Nationstar markets mortgage originations products to customers of Springleaf, and is compensated by the originations fees of loans that Nationstar refinances.

Additionally, in January 2011, Nationstar entered into three agreements to act as the loan subservicer for Springleaf for a whole loan portfolio and two securitized loan portfolios totaling $4.4 billion for which Nationstar receives a monthly per loan subservicing fee and other performance incentive fees subject to the agreements with Springleaf. For the year ended December 31, 2011, Nationstar recognized revenue of $9.9 million in additional servicing and other performance incentive fees related to these portfolios. At December 31, 2011, Nationstar had an outstanding receivable from Springleaf of $0.6 million which was included as a component of accounts receivable.

Nationstar is the loan servicer for two securitized loan portfolios managed by Newcastle Investment Corp. (Newcastle), which is managed by an affiliate of Fortress Investment Group LLC, for which Nationstar receives a monthly net servicing fee equal to 0.50% per annum on the unpaid principal balance of the portfolios, which was $1.1 billion, $1.2 billion, and $1.4 billion for the years ended December 31, 2011, 2010, and 2009, respectively. For the year ended December 31, 2011, 2010, and 2009 Nationstar received servicing fees and other performance incentive fees of $5.8 million, $6.5 million, and $7.5 million, respectively.

Additionally, in December 2011, Nationstar entered into another agreement with Newcastle, where Nationstar sold to Newcastle the right to receive 65% of the excess cash flow generated from certain MSRs acquired on September 30, 2011 after receipt of a fixed basic servicing fee per loan. The sale price was $43.7 million. Nationstar will retain all ancillary income associated with servicing such MSRs and 35% of the excess cash flow after receipt of the fixed basic servicing fee. Nationstar will continue to be the servicer of the loans and provide all servicing and advancing functions for the portfolio. Newcastle will not have prior or ongoing obligations associated with this MSR portfolio. Furthermore, should Nationstar refinance any loan in such portfolio, subject to certain limitations, Nationstar will be required to transfer the new loan or a replacement loan of similar economic characteristics into the portfolio. The new or replacement loan will be governed by the same terms set forth in the agreement described above. The fair value on the outstanding liability related to this agreement was $44.6 million at December 31, 2011. Additionally, as a component of the underlying agreement, Newcastle held back a portion of the sales price, amounting to $3.3 million, pending certain conditions being satisfied by Nationstar. Such amount is recorded in accounts receivable.

In March 2011, Nationstar entered into a limited partnership agreement with ANC. ANC is the parent company of NREIS, which through the ANC partnership we hold a non-controlling interest in NREIS, an ancillary real estate services and vendor management company that directly and indirectly provides title agency settlement or valuation services for loan originations and default management. As Nationstar is able to exercise significant influence, but not control, over the policies and procedures of the entity, and Nationstar owns less than 50% of the voting interests, Nationstar applies the equity method of accounting. During the year ending December 31, 2011 Nationstar disbursed $4.9 million for servicing-related advances.

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27. Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly consolidated results of operations for the fiscal years ended December 31, 2011 and 2010 (dollars in thousands):

	2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total fee income	$ 64,686	$ 59,377	$ 60,691	$ 83,844
Gain on mortgage loans held for sale	20,506	22,822	30,232	35,576
Total revenues	85,192	82,199	90,923	119,420
Total expenses and impairments	68,121	68,402	83,194	86,466
Total other income/(expense)	(9,702)	(12,071)	(10,829)	(18,062)
Net Income/(Loss)	$ 7,369	$ 1,726	$ (3,100)	$ 14,892

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total fee income	$ 38,750	$ 44,878	$ 39,142	$ 61,314
Gain on mortgage loans held for sale	12,429	13,489	25,836	25,590
Total revenues	51,179	58,367	64,978	86,904
Total expenses and impairments	40,110	45,999	59,513	75,354
Total other income/(expense)	(10,337)	(14,694)	(11,280)	(14,055)
Net Income/(Loss)	$ 732	$ (2,326)	$ (5,815)	$ (2,505)

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28. Subsequent Events (Unaudited)

On February 24, 2012, Nationstar Mortgage Holdings Inc. filed a registration statement on Form S-1, for the offering $19,166,667 shares of its common stock. The registration statement became effective on March 7, 2012. Under the terms of the offering, all of the equity interests in the Company transferred from FIF HE Holdings LLC to two direct, wholly-owned subsidiaries of our Parent, and our Parent issued 19,166,667 shares of our $0.01 par value common stock at an initial offering price of $14.00 per share. The intent of this offering was to transform our Parent into a publicly traded company and use the proceeds from this offering for working capital and other general corporate purposes, including servicing acquisitions.

On February 29, 2012, Nationstar amended the $50 Million Warehouse Facility with a financial institution. This amendment increased the facility to $100 million, extended the maturity to February 2013, changed the interest rate to LIBOR plus a range of 2.25% to 3.00%, and increased the tangible net worth requirement to $175 million.

On March 6, 2012, Nationstar entered into an asset purchase agreement (the "Asset Purchase Agreement") with Aurora Bank FSB, a federal savings bank organized under the laws of the United States, and Aurora Loan Services LLC, a Delaware limited liability company (collectively with Aurora Bank FSB, the "Sellers"). Each of the Sellers is a subsidiary of Lehman Brothers Bancorp Inc. Under the Asset Purchase Agreement, Nationstar agreed to purchase the MSRs to approximately 300,000 residential mortgage loans with a total UPB of approximately $63 billion, $1.75 billion of servicing advance receivables, and certain other assets. The composition of the total portfolio is expected to be approximately 75% non-conforming loans in private label securitizations and approximately 25% conforming loans in GSE pools. Nationstar has also agreed to assume certain liabilities. The transaction is expected to close in the second quarter of 2012, subject to customary closing conditions, including certain regulatory approvals and third party consents, and customary termination rights.

The cash purchase price of the MSRs is approximately $268 million, subject to certain adjustments. The equity portion of the purchase price of the servicing advance receivables is approximately $210 million and the balance will be financed with advance financing facilities that we expect to enter into in connection with this transaction. The servicing advance receivables represent amounts that the sellers have previously advanced as mortgage servicers in respect of the underlying mortgage loans that would be recovered if the loan is liquidated, modified or otherwise become current.

In addition, Nationstar will fund up to approximately $170 million of the MSR purchase price with the proceeds of a co-investment (the "Excess MSR Agreement") by Newcastle Investment Corp. ("Newcastle"), which is an affiliate of Nationstar. Pursuant to the Excess MSR Agreement, Nationstar will sell to Newcastle the right to receive approximately 65% of the excess cash flow generated from the MSRs after receipt of a fixed basic servicing fee per loan. Excess cash flow is equal to the servicing fee collected minus the basic servicing fee and excludes late fees, incentive fees and other ancillary income earned by the servicer. Nationstar will retain all ancillary income associated with servicing the loans and approximately 35% of the excess cash flow after receipt of the fixed basic servicing fee. Nationstar will continue to be the servicer of the loans and provide all servicing and advancing functions for the loans. Under the terms of this investment, if Nationstar refinances any loan in the portfolio, subject to certain limitations, it will be required to transfer the new loan or a replacement loan into the portfolio. The new or replacement loan will be governed by the same terms set forth in the Excess MSR Agreement.

Nationstar and the Sellers have agreed to indemnify each other against certain losses (subject to certain limitations), including certain losses from claims up to an aggregate amount of 50% of the aggregate purchase price of the MSRs, after which Nationstar will bear the entirety of such losses.

In March 2012, Nationstar extended the maturity of the Securities Repurchase Facility to June 2012.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (Exchange Act), as of December 31, 2011.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2011, our disclosure controls and procedures are effective. Disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal control over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly reporting companies.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

MANAGEMENT AND BOARD OF MANAGERS OF NATIONSTAR MORTGAGE LLC

Executive Officers

The following table sets forth the name, age and position of individuals who currently serve as the directors and executive officers of our Company. The following also includes certain information regarding our directors' and officers' individual experience qualifications, attributes and skills, and brief statements of those aspects of our directors' that led us to conclude that they should serve as directors.

Name	Age	Position
Jay Bray	45	President, Chief Executive Officer, Chief Financial Officer and Manager
Robert Appel	51	Executive Vice President of Servicing
Douglas Krueger	43	Executive Vice President of Capital Markets
Amar Patel	40	Executive Vice President of Portfolio Investments
Lisa Rogers	48	Executive Vice President of Originations
Anthony W. Villani	55	Executive Vice President and General Counsel

Jay Bray is the President, Chief Executive Officer and Chief Financial Officer of Nationstar Mortgage LLC. Mr. Bray has served as the President of Nationstar Mortgage LLC since July 2011, as the Chief Executive Officer of Nationstar Mortgage LLC since October 2011 as the Chief Financial Officer of Nationstar Mortgage LLC since he joined Nationstar in May 2000, as a Manager of Nationstar Mortgage LLC since October 2011, and as a Director of Nationstar Capital Corporation since March 2010. Mr. Bray has over 22 years of experience in the mortgage servicing and originations industry. From 1988 to 1994, Mr. Bray worked with Arthur Andersen in Atlanta, Georgia, where he served as an audit manager from 1992 to 1994. From 1994 to 2000, Mr. Bray held a variety of leadership roles at Bank of America and predecessor entities, where he managed the Asset Backed Securitization process for mortgage-related products, developed and implemented a secondary execution strategy and profitability plan and managed investment banking relationships, secondary marketing operations and investor relations. Additionally, Mr. Bray led the portfolio acquisition, pricing and modeling group. Mr. Bray holds a B.A.A. in Accounting from Auburn University and is a Certified Public Accountant in the State of Georgia. As a result of his service as Nationstar Mortgage LLC's Chief Financial Officer for over 11 years, as well as his over 22 years of experience in the mortgage industry, we believe Mr. Bray possesses a deep understanding of our business and the mortgage industry and we believe he is qualified to serve on our board.

Robert Appel is our Executive Vice President of Servicing and has served in this capacity since joining Nationstar in February 2008. Mr. Appel has over 21 years of experience in the mortgage industry and five years of public accounting experience. From 1985 to 1990, he served as an audit manager with Ernst and Young LLP. From 1990 to 1992, he held a position as Vice President of Control for Tyler Cabot Mortgage Securities Fund, a NYSE listed bond fund. From 1992 to 1999, Mr. Appel held a position at Capstead Mortgage where he started a master servicing organization and later became Senior Vice President of Default Management for Capstead's primary servicer. From 1999 to 2003, he was Managing Director of GMAC's Master Servicing operation. From 2003 to 2005, Mr. Appel was Chief Executive Officer of GMAC's United Kingdom mortgage lending business. From 2005 to 2008, he served as Servicing Manager of GMAC's $100 billion non-prime residential servicing platform. Mr. Appel holds a B.S., cum laude, in Business Control Systems from the University of North Texas and was formerly a Certified Public Accountant, Certified Financial Planner and a former member of the Freddie Mac Default Advisory Group.

Douglas Krueger is our Executive Vice President of Capital Markets and has served in this capacity since joining Nationstar in February 2009. Mr. Krueger has over 20 years of experience in the mortgage industry. For five years, Mr. Krueger held various senior leadership roles with CitiMortgage managing the secondary marketing and master servicing areas. Mr. Krueger also served as Senior Vice President with Principal Residential Mortgage for 13 years. Mr. Krueger holds a B.B.A. from the University of Iowa and has earned the Chartered Financial Analyst designation.

Amar Patel is our Executive Vice President of Portfolio Investments of Nationstar Mortgage LLC and has served in this capacity since joining us in June 2006. Mr. Patel has over 19 years of experience in the mortgage industry. From 1993 to 2006, Mr. Patel held various management roles at Capstead Mortgage Corporation, last serving as Senior Vice President of Asset and Liability Management. Mr. Patel holds a B.B.A. in Finance and

Mathematics from Baylor University and an M.B.A. from Southern Methodist University.

Lisa A. Rogers is our Executive Vice President of originations and has served in such capacity since 2012. Ms. Rogers has over 18 years of leadership experience in the mortgage industry. Prior to joining Nationstar in September 2011, Ms. Rogers was Senior Vice President, National Wholesale Operations and Support Manager for Wells Fargo Home Mortgage. Ms. Rogers had been with Wells Fargo since 1993 in a variety of roles including production risk management and strategic development. Ms. Rogers is a Master Certified Mortgage Banker and a graduate of both the School of Mortgage Banking and the Mortgage Bankers Association Future Leaders Program. Ms. Rogers is a past instructor of the School of Mortgage Banking.

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Anthony W. Villani is our Executive Vice President and General Counsel and has served in such capacity since 2012, pending regulatory approval. Mr. Villani joined in October 2011 as an Executive Vice President. Prior to joining Nationstar, he was Vice President and Associate General Counsel of Goldman, Sachs & Co. where he served as the managing attorney for Litton Loan Servicing LP, a Goldman Sachs company, from June 2008 until September 2011. He has also served as Executive Vice President and General Counsel of EMC Mortgage Corporation, a wholly-owned subsidiary of The Bear Stearns Companies Inc. Mr. Villani holds a J.D. from Oklahoma City University School of Law and a B.S. in Political Science from Arizona State University. Mr. Villani was admitted to the Oklahoma Bar in 1983 and the Texas Bar in 1989.

Board of Managers

The Board of Managers of Nationstar LLC consists of three managers. Our ability to expand our Board of Managers is subject to complying with applicable notice, background check and other state licensing requirements. No board committees have been designated at this time. Managers hold office until a successor is elected and qualifies or until the Manager's death, resignation or removal. The following table sets forth the name, age and position of the current managers of Nationstar Mortgage LLC.

Name	Age	Position
Anthony H. Barone	54	Chairman and Manager
Peter Smith	44	Manager
Jay Bray	45	Manager

Anthony H. Barone is the Chairman of the Board of Managers of Nationstar Mortgage LLC and has served as a Manager since 2006. Mr. Barone also served as President and Chief Executive Officer of Nationstar Mortgage LLC from 1997 to 2011. Mr. Barone has over 30 years of experience in the mortgage industry. From 1980 to 1986, Mr. Barone held management positions in loan servicing, originations, secondary marketing and credit administration at General Electric Capital Corporation. From 1987 to 1989, Mr. Barone held management positions in loan servicing, originations, secondary marketing and credit administration at Meritor Credit Corporation. From 1990 to 1997, Mr. Barone served as Executive Vice President of Ford Consumer Finance, a former mortgage lending and servicing subsidiary of Ford Motor Credit Corporation. Mr. Barone holds a B.A. in Economics from the University of Connecticut. As a result of his service as Nationstar Mortgage LLC's President and Chief Executive Officer for over 14 years and Nationstar Mortgage LLC's Manager for over five years, as well as his over 30 years of experience in the mortgage industry, we believe Mr. Barone brings a deep understanding of our business and the mortgage industry, and therefore should serve on the board.

Peter M. Smith has served as a Manager of Nationstar Mortgage LLC since 2007. Mr. Smith is a managing director in the Private Equity business at Fortress Investment Group LLC and is also a member of the firm's Management Committee. In addition Mr. Smith is a member of the board of directors of Springleaf Finance, Inc., Springleaf Finance Corporation, ANC Acquisition Sub Manager LLC and Eurocastle Investment Limited. Mr. Smith joined Fortress in May 1998, prior to which he worked at UBS and before that at BlackRock Financial Management Inc. from 1996 to 1998. Mr. Smith worked at CRIIMI MAE Inc. from 1991 to 1996. Mr. Smith received a BBA in Finance from Radford University and an MBA in Finance from George Washington University.

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Item 11. ***Executive Compensation***

This Compensation Discussion and Analysis is designed to provide an understanding of the compensation program for our President, Chief Executive Officer and Chief Financial Officer, Jay Bray, our Executive Vice President, Servicing, Robert L. Appel, our Executive Vice President, Portfolio Investments, Amar Patel, our Executive Vice President, Capital Markets, Douglas Krueger and our former Chairman and Chief Executive

Officer, Anthony H. Barone, (collectively, our named executive officers or "NEOs"), with respect to our 2011 fiscal year. Effective October 7, 2011, Mr. Bray became our Chief Executive Officer and Mr. Barone became the Chairman of the Board of Managers of Nationstar Mortgage LLC.

Compensation Philosophy and Objectives

Our primary executive compensation goals are to attract, motivate and retain the most talented and dedicated executives and to align annual and long-term incentives while enhancing unitholder value. To achieve these goals we maintain compensation plans that:

- Deliver a mix of fixed and at-risk compensation, including through the grants of restricted units and restricted preferred units.
- Through dividend equivalents on grants of restricted units and restricted preferred units, tie a portion of the overall compensation of executive officers to the dividends we pay to our unitholders.
- Encourage the achievement of our short- and long-term goals on both the individual and company levels.

Process for Setting Executive Officer Compensation

Peter Smith, the designated manager (the "Manager") of FIF HE Holdings LLC, which was the sole member of the Company (our "Parent"), and its unitholders evaluate our performance, including the achievement of key investment and capital raising goals, and the individual performance of each NEO, with a goal of setting overall compensation at levels that our Parent and its unitholders believe are appropriate.

Participation of Management. Our NEOs are not directly responsible for determining our Chief Executive Officer's compensation, although they regularly provide information to our Parent and its unitholders that is relevant to its evaluation of the NEOs' compensation (for instance, in terms of our performance against established compensation goals and otherwise). By contrast, the Chief Executive Officer plays a more active role in determining the compensation of the other NEOs, who are his subordinates. He regularly advises our Parent and its unitholders of his own evaluation of their job performance and offers for consideration his own recommendations for their compensation levels. Final compensation decisions are executed by the Manager.

Compensation Consultant. We have not retained a compensation consultant to review our policies and procedures with respect to executive compensation, although the Company or Parent may elect in the future to retain a compensation consultant if they determine that doing so would assist it in implementing and maintaining compensation plans.

Risk Considerations. In developing and reviewing the executive incentive programs, our Parent and unitholders consider the business risks inherent in program designs to ensure they do not induce executives to take unacceptable levels of business risk for the purpose of increasing their incentive plan awards. Our Parent and unitholders believe that the mix of compensation components used in the determination of our NEOs' compensation reflects the performance of our Company and the performance of the individual employee and does not encourage our NEOs to take unreasonable risks relating to the business. Our NEOs' ownership interest in the Company aligns our NEOs' interests with our long-term performance and discourages excessive risk taking.

Elements of Compensation

Our executive compensation consists of the elements set forth below. Determinations regarding any one element of compensation affect determinations regarding each other element of compensation, because the goal of our Parent and unitholders is to set overall compensation at an appropriate level. Our Parent and unitholders take into account in this regard the extent to which different compensation elements are at-risk. Accordingly, for example, the amount of salary paid to an NEO is considered by our Parent and unitholders in determining the amount of any cash bonus or restricted unit or restricted preferred unit award, but the relationship among the elements is not formulaic because of the need to balance the likelihood that the at-risk components of compensation will actually be paid at any particular level. We further base overall

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compensation packages of our executive officers on their experience, current market conditions, business trends, and overall Company performance. As a result, the total compensation of our NEOs in 2011 consisted of the following elements: (i) base salary, (ii) non-equity incentive plan awards, (iii) equity awards, and (iv) participation in employee benefit plans.

Base Salary

We utilize base salary as the foundation of our compensation program. Base salaries for our NEOs are established based upon the scope of their responsibilities and what is necessary to recruit and retain skilled executives. We believe that our executives' base salaries are comparable with salaries paid to executives at companies of a similar size and with a similar performance to us. Base salaries are reviewed annually in accordance with the NEO's annual performance evaluation and increased from time to time in view of each NEO's individual responsibilities, individual and company performance, and experience.

Messrs. Bray, Patel, Krueger and Barone had entered into employment agreements with the Company that set a minimum salary upon execution of the agreement; however, their employment agreements expired in 2011 and they are currently employees at will. Mr. Appel has entered into an employment agreement with the Company that set a minimum salary upon execution of the agreement. These base salaries are intended to complement the at-risk components of the Company's compensation program by assuring that our NEOs will receive an appropriate minimum level of compensation.

Annual Bonus Plans

Annual bonus incentives keyed to short-term objectives form an important part of our compensation program. Our annual bonus plans are designed to provide incentives to achieve certain financial goals of the Company, as well as personal objectives.

The Incentive Plan for Messrs. Barone, Bray, Appel and Patel. Messrs. Barone, Bray, Appel, and Patel participate in our Annual Incentive Compensation Plan (the "Incentive Plan"). The Incentive Plan provides for payment of annual cash incentive bonuses from a pool equal to 5% of the Company's Operating Cash Flow. Operating Cash Flow is generally equal to Adjusted EBITDA from the Operating Segments less servicing resulting from transfers of financial assets. In calculating Operating Cash Flow, non-cash components affecting Adjusted EBITDA both positively and negatively, if any, are excluded. This measure of Operating Cash Flow is intended to represent the Company's cash revenues less all fully allocated cash and accrued expenses. Tying bonus payments to Operating Cash Flow puts a significant portion of these executives' salary at risk and ties their compensation to our operational and financial results. The Incentive Plan is maintained by Nationstar Mortgage LLC and is administered by our Parent. Our Parent chose the Company's Operating Cash Flow as an incentive metric believing that it reflects the efficiency with which our management team manages the Company on a short- and long-term basis.

Our Parent may not decrease the amount of the bonus pool. Each fiscal year, our Parent determines each applicable NEO's allocable portion of the bonus pool for that fiscal year, provided, however, that our Parent may not reduce any executive's allocable percentage to less than 75% of the executive's percentage for the prior fiscal year. To receive the actual award, the NEO must be employed by the Company (and not have given notice of intent to resign) on the last day of the fiscal year to which the bonus relates.

The following are our NEO's target bonus percentages for 2011:

Name	**Allocable Percentage of the Bonus Pool**
Jay Bray	31.7%
Robert L. Appel	17.2%
Amar Patel	15.5%
Anthony H. Barone	35.6%

Annual Incentive Program for Mr. Krueger. Mr. Krueger participates in our annual cash incentive program, which includes Company and individual performance measures. Mr. Krueger's key objectives for 2011 were Operating Cash Flow (20% weight factor in final payout), secondary marketing profit/loss (30% weight) and other deliverables (50% weight). In 2011, Mr. Krueger's other responsibilities were associated with managing hedging risks, execution of loan sales, GSE and investor relations and frequency of repurchase requests. Under the

annual incentive program, Company and individual performance measures are established at the beginning of the fiscal year by the Company's Board of Managers. At year end, the Board of Managers rates the results for each key objective on a scale of one to five. The rating is multiplied by the weight of each key objective to result in a weighted score, with five being the highest possible score. The weighted score is converted into a percentage and multiplied by Mr. Krueger's bonus opportunity to result in the annual cash incentive awarded. The annual cash incentive is generally paid in a single installment in the first quarter following completion of the plan year. Mr. Krueger must be employed by the Company on December 31 of the award year and not have given notice of termination by the time that the award is paid to receive the bonus. As a condition of participation in the annual incentive plan, Mr. Krueger is subject to a non-solicitation covenant. Following our public offering, we anticipate Mr. Krueger will continue to receive annual incentive awards but the Compensation Committee has made no definitive decisions regarding future awards.

Equity Plan Adopted in Connection with our Initial Public Offering of Nationstar Mortgage Holdings Inc.

We have adopted the 2012 Incentive Compensation Plan (the "Plan"), which will enable us to offer certain key employees of Nationstar Mortgage LLC, consultants and non-employee directors equity-based awards. In connection with the initial public offering, we made grants of restricted stock to management in the total amount of 1,191,117 shares and to members of the Board in the total amount of 85,716 shares. Of this amount, we granted our NEOs, Mr. Bray and Mr. Krueger, 428,572 shares and 21,429 shares, respectively. There is no current understanding or agreement with respect to any awards to be made to our other NEOs. The purpose of the Plan is to enhance our profitability and value for the benefit of stockholders by enabling us to offer equity-based incentives in order to attract, retain and reward such individuals, while strengthening the mutuality of interests between those individuals and our stockholders. Up to 5,200,000 shares of our common stock may be issued under the plan with annual increases of 150,000 shares of common stock per year (subject to adjustment to reflect certain transactions and events specified in the Plan, as described below). The maximum aggregate awards that may be granted during any fiscal year will be 3,000,000 shares, or $20 million with respect to a cash-based award. We intend to file with the SEC a registration statement on Form S-8 covering the shares issuable under the Plan.

The following is a summary of the material terms and provisions of the Plan and certain tax effects of participation in the Plan. This summary is qualified in its entirety by reference to the complete text of the. To the extent that there is a conflict between this summary and the Plan, the terms of the Plan will govern. Capitalized terms that are used but not defined in this summary have the meanings given to them in the Plan.

Description of the Plan

Plan Administration. The Plan will be administered by the compensation committee (the "Committee"), which will have discretion and authority to interpret the Plan, prescribe, amend and rescind rules and regulations regarding the Plan, select Participants to receive Awards, determine the form, terms and conditions of Awards, and take other actions it deems necessary or advisable for the proper operation or administration of the Plan.

Stock Options and Stock Appreciation Rights. All Stock Options granted under the Plan are intended to be non-qualified share options and are not intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code. Stock Appreciation Rights may be awarded either alone or in tandem with Nonqualified Stock Options. Stock Options and Stock Appreciation Rights will have maximum terms of ten years. Stock Options and Stock Appreciation Rights will be subject to the following terms and conditions:

- The Exercise Price for each Share subject to a Stock Option or Stock Appreciation Right will be not less than the Fair Market Value of a Share on the date of grant.

Restricted Units, Restricted Stock, Deferred Shares and Performance Shares. Restricted Units, Restricted Stock, Deferred Shares and Performance Shares are subject to the following terms and conditions:

- The Committee will determine the purchase price, the vesting schedule and performance objectives, if any, with respect to the grant of Restricted Shares, Restricted Units, Deferred Shares and Performance Shares.

Other Stock-Based Awards. The Committee may, from time to time, grant Awards other than those referred to above that consist of, are denominated in, or are otherwise related to Shares. These Awards may include, among other things, stock units or phantom or hypothetical shares. The Committee has broad discretion to determine any terms and conditions that will apply to Other Stock-Based Awards under the Plan.

Cash-Based Awards. The Committee may grant Cash-Based Awards that may be settled in cash or other property, including shares of Common Stock. The Committee has broad discretion to determine any terms and conditions that will apply to Cash-Based Awards under the Plan.

Transfer. Awards may not be transferred by a Participant other than by will or the laws of descent and distribution, except that Restricted Stock may be freely transferred after the restrictions lapse or are satisfied and the Shares are delivered.

Adjustments. The maximum number of Shares available for issuance under the Plan, the individual and aggregate limits described above, the number of Shares underlying outstanding Awards and the Exercise Price applicable to outstanding Awards shall be equitably adjusted upon certain events effecting the capitalization of Nationstar Mortgage Holdings Inc. such as a recapitalization or stock split. Upon the occurrence of certain extraordinary corporate transactions, such as a dissolution, sale, or merger of Nationstar Mortgage Holdings Inc., the Committee has discretion to cancel each Award in exchange for an amount in cash or to provide for the exchange of each Award for an Award with respect to some or all of the property which a holder of the number of shares of Common Stock subject to such Award would have received in the transaction.

Change in Control. The Committee has discretion to provide for acceleration of vesting and/or payment of Awards upon a Change in Control, as defined in the Plan.

Amendment and Termination. The Committee has authority at any time to amend or terminate the Plan, provided that such amendment may not be prejudicial to any Participant. No material revision to the Plan may become effective without stockholder approval. For this purpose, a revision will be deemed to be material based on the rules adopted by the NYSE from time to time or if it materially increases the number of Shares that may be issued under the Plan (other than as a result of an adjustment described above or automatic increases). NYSE rules currently provide that material revisions which require stockholder approval include a material increase in the number of shares available under the Plan, a material expansion of the types of awards available under the plan, a material expansion of the class of employees, directors, or other service providers eligible under the Plan, a material extension of the term of the Plan, a material change in the method of determining the strike price of options under the Plan and an amendment to permit option repricing. The Plan will terminate, if not sooner as a result of Committee action, on the 10th anniversary of the date the Plan is adopted.

Summary of Federal Income Tax Consequences of Awards

The following is a brief summary of the principal U.S. federal income tax consequences of Awards and transactions under the Plan. This summary is not intended to be exhaustive and, among other things, does not describe state, local or foreign tax consequences.

Nonqualified Stock Options and Stock Appreciation Rights. A Participant will not recognize any income at the time a Nonqualified Stock Option or Stock Appreciation Right is granted, nor will we be entitled to a deduction at that time. When a Nonqualified Stock Option is exercised, the Participant will recognize ordinary income in an amount equal to the excess of the Fair Market Value of the Shares received as of the date of exercise over the Exercise Price. When a Stock Appreciation Right is exercised, the Participant will recognize ordinary income in an amount equal to the cash received or, if the Stock Appreciation Right is paid in Shares, the Fair Market Value of the Shares received as of the date of exercise. Payroll taxes are required to be withheld from the Participant on the amount of ordinary income recognized by the Participant. We will be entitled to a tax deduction with respect to a Nonqualified Stock Option or Stock Appreciation Right in the same amount as the Participant recognizes income.

Restricted Units, Restricted Stock and Performance Awards. A Participant will not recognize any income at the time a Restricted Unit, Share of Restricted Stock or Performance Award is granted, nor will we be entitled to a deduction at that time. When a Restricted Unit is redeemed, the Participant will recognize ordinary income in an amount equal to the Fair Market Value of the Shares received or, if the Restricted Unit is paid in cash, the amount payable. In the year in which Shares of Restricted Stock or the Performance Award are no longer subject to a substantial risk of forfeiture (i.e., in the year that the Shares vest), the Participant will recognize ordinary income in an amount equal to the excess of the Fair Market Value of the Shares on the date of vesting over the amount, if any, the Participant paid for the Shares. A Participant may, however, elect within 30 days after receiving Restricted Stock to recognize ordinary income in the year of receipt instead of the year of vesting. If an election is made, the amount of income recognized by the Participant will be equal to the excess of the Fair Market Value of the Shares on the date of receipt over the amount, if any, the Participant paid for the Shares. Payroll taxes are required to be withheld from the Participant on the amount of ordinary income recognized by the Participant. We will be entitled to a tax deduction in the same amount as the Participant recognizes income.

Deferred Shares. In general, the grant of Deferred Shares will not result in income for the Participant or in a tax deduction for us. Upon the settlement of such an award, the Participant will recognize ordinary income equal to the aggregate value of the payment received, and we generally will be entitled to a tax deduction in the same amount.

Cash-Based Awards. A Participant will not recognize any income at the time of the grant to the Participant of a Cash-Based Award. The Participant will recognize income at the time that cash is paid to the participant pursuant to a Cash-Based Award, in the amount paid. Payroll taxes will be required to be withheld at that time. We will be entitled to a tax deduction in the same amount as the amount the Participant recognizes income.

Long-Term Incentive Plans

Equity Incentive Plan. We have provided long-term incentives in the form of grants of Series 1 and Series 2 Class A units (Units) and restricted preferred units relating to Series 1 Class C and Class D preferred units (RSUs) of FIF HE Holdings LLC to our NEOs to promote sustained high performance. Units and RSUs are granted pursuant to the limited liability company agreement of FIF HE Holdings LLC and individual award agreements. No Units or RSUs were granted to NEOs in 2011. In 2010, substantial one-time grants of Units and RSUs, subject to three-year vesting, were granted to each of Messrs. Bray, Appel, Patel and Barone based on a review of our existing compensation arrangements with our most highly valued executives and the business environment. Specifically, the grants were intended to both serve as a long-term incentive device, a retention device and to further align the interests of Messrs. Bray, Appel, Patel and Barone with the Company in the future.

The Units and RSUs vest over a three year period. Each RSU represents the right to receive one Series 1 Class C preferred unit or one Series 1 Class D preferred unit, as applicable, upon vesting and settlement of the RSU. If the Company pays a dividend to Class C or Class D unitholders (other than with respect to any pre-2010 preferred yield), the executive will be entitled to receive a proportionate payment based on the number of RSUs he holds, whether or not they have vested.

Our equity arrangements provide for accelerated vesting of the number of Units and RSUs scheduled to vest on the next scheduled vesting date, if any, where the employment of an applicable NEO is terminated without "cause" (other than within six months after a "change in control"), by such NEO for "good reason" or upon death or disability, subject to the NEO executing a general release of claims in favor of the Company. If the employment of an applicable NEO is terminated without cause within six months following a change in control, subject to the NEO executing a general release of claims in favor of the Company, all unvested Units and RSUs will vest. We believe that such a provision benefits the Company and its unitholders by giving our NEOs some protection so they may make decisions about the Company and any potential transaction free from concerns about the impact to their unvested equity awards. On any other termination of employment, all unvested Units and RSUs will be forfeited.

Following termination of employment, the applicable series will have certain repurchase rights with respect to the Series 1 and Series 2 Class A units and the Series 1 Class C and Class D preferred units. The applicable series, and if the series elects not to exercise its right, the Fortress Funds, which own FIF HE Holdings LLC may repurchase the applicable units for 30 days following the executive's termination of employment. The repurchase price per unit is calculated as set forth in the limited liability company agreement of FIF HE Holdings LLC and the applicable award

IN THE SUPREME COURT OF THE STATE OF NEVADA

NATIONSTAR MORTGAGE, LLC; AND THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES PHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT,

Appellants,

vs.

CATHERINE RODRIGUEZ,

Respondent.

Supreme Court Case No. 66761

District Court Case No. A685616

Electronically Filed
May 14 2015 02:45 p.m.
Tracie K. Lindeman
Clerk of Supreme Court

Appeal from the Eighth Judicial District Court of the State of Nevada, in and for the County of Clark, The Honorable Kathleen Delaney, District Judge District Court Case No. A-13-685616-J

APPELLANTS APPENDIX – VOLUME VIII

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DATED: May 13, 2015

KRAVITZ, SCHNITZER
& JOHNSON, CHTD.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number: 333-171370

Nationstar Mortgage LLC
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**75-2921540** (I.R.S. Employer Identification No.)
350 Highland Drive **Lewisville, TX** (Address of principal executive offices)	**75067** (Zip Code)

Registrant's telephone number, including area code:
(469) 549-2000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12(b)-2 of the Exchange Act (check one)

Large Accelerated Filer ☐ Accelerated Filer ☐

Non-Accelerated Filer ☒ (Do not check if a smaller reporting company.) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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NATIONSTAR MORTGAGE LLC
ANNUAL REPORT ON FORM 10-K
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CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. Forward-looking statements include, without limitation, statements concerning plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions and other statements, which are not statements of historical facts. When used in this discussion, the words "anticipate," "appears," "foresee," "intend," "should," "expect," "estimate," "project," "plan," "may," "could," "will," "are likely" and similar expressions are intended to identify forward-looking statements. These statements involve predictions of our future financial condition, performance, plans and strategies, and are thus dependent on a number of factors including, without limitation, assumptions and data that may be imprecise or incorrect. Specific factors that may impact performance or other predictions of future actions have, in many but not all cases, been identified in connection with specific forward-looking statements.

All of the factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such new factor on our business. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore any of these statements included herein may prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved. Please refer to Item 1A. Risk Factors to Part II of this report for further information on these and other factors affecting us.

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PART I.

Item 1. *Business*

General

Nationstar Mortgage LLC is a Delaware limited liability company. We were formed in 1994 in Denver, Colorado as Nova Credit Corporation, a Nevada corporation. In 1997, we moved our executive offices and primary operations to Dallas, Texas and changed our name to Centex Credit Corporation. In 2001, Centex Credit Corporation was merged into Centex Home Equity Company, LLC, (CHEC) a Delaware limited liability company. In 2006, FIF HE Holdings LLC (FIF), acquired all of our outstanding membership interests, and we changed our name to Nationstar Mortgage LLC. FIF HE Holdings LLC is a subsidiary of Fortress Private Equity Funds III and IV (Fortress).

In March 2012, our parent, Nationstar Mortgage Holdings Inc. ("Parent") completed an initial public offering and related reorganization transactions pursuant to which all of the equity interests in Nationstar Mortgage LLC were transferred from FIF to two direct, wholly-owned subsidiaries of our Parent. Trading in our common stock on the New York Stock Exchange commenced on March 8, 2012 under the symbol "NSM." On March 13, 2012, our Parent closed the initial public offering. Including 2,500,000 shares issued following the exercise of the underwriters' overallotment option, the aggregate shares issued in connection with the initial public offering amounted to 19,166,667 shares. Following the initial public offering, related reorganization transactions, and the exercise of the underwriters' over-allotment option, FIF owns approximately 78.5% of our common stock.

On March 6, 2012, Nationstar entered into an asset purchase agreement (the "Asset Purchase Agreement") with Aurora Bank FSB, a federal savings bank organized under the laws of the United States, and Aurora Loan Services LLC, a Delaware limited liability company (collectively with Aurora Bank FSB, the "Sellers"). Each of the Sellers is a subsidiary of Lehman Brothers Bancorp Inc. Under the Asset Purchase Agreement, Nationstar agreed to purchase the MSRs to approximately 300,000 residential mortgage loans with a total UPB of approximately $63 billion, $1.75 billion of servicing advance receivables, and certain other assets. The composition of the total portfolio is expected to be approximately 75% non-conforming loans in private label securitizations and approximately 25% conforming loans in GSE pools. Nationstar has also agreed to assume certain liabilities. The transaction is expected to close in the second quarter of 2012, subject to customary closing conditions, including certain regulatory approvals and third party consents, and customary termination rights.

Overview

We are a leading residential mortgage loan servicer and one of the top five non-bank servicers in the United States as measured by aggregate unpaid principal balance of loans serviced. Our servicing portfolio consists of over 645,000 loans with an aggregate unpaid principal balance of $106.6 billion as of December 31, 2011. Our total servicing portfolio as of December 31, 2011 includes approximately $7.8 billion of servicing rights on reverse residential mortgage loans for which we entered into an agreement to acquire in December 2011 and closed the transaction in January 2012. We service mortgage loans in all 50 states, and we are licensed as a residential mortgage loan servicer/originator and debt collector in all states that require such licensing. In addition to our core servicing business, we currently originate primarily conventional agency (Fannie Mae and Freddie Mac, collectively the "government-sponsored enterprises" or the "GSEs") and government (Federal Housing Administration and Department of Veterans Affairs) residential mortgage loans, and we are licensed to originate residential mortgage loans in 49 states and the District of Columbia.

Our headquarters and operations are based in Lewisville, Texas. As of December 31, 2011, we had a total of 2,599 employees. Our business primarily consists of our core Servicing platform and adjacent businesses, and is complemented by our Originations segment.

For financial information concerning our reportable segments see Note 24 to the Consolidated Financial Statements.

Loan Servicing

Servicing: We are currently ranked in the top five among non-bank servicers (based on total aggregate unpaid principal balance), and we have established significant relationships with leading mortgage investors. These investors include the GSEs, regulatory agencies, major banks, private investment funds and other financial institutions and investors that expect to benefit from lower delinquencies and losses on portfolios that we service on their behalf. We believe that our demonstrated performance in servicing loans facilitated our acquisitions and transfers of approximately $104 billion in mortgage servicing rights since November 2008. These portfolios were previously serviced by other servicers. These acquisitions helped us grow our servicing portfolio from $12.7 billion as of December 31, 2007, to $106.6 billion as of December 31, 2011 (including $7.8 billion of servicing under contract), representing a compound annual growth rate of 70.2%. We have diversified our portfolio as a result of these acquisitions and transfers. Additionally, our growth is the result of multiple transfers from our client base, which evidences our ability to exceed client performance expectations. We expect to continue to grow our Servicing portfolio and are currently pursuing opportunities to acquire mortgage servicing rights or enter into subservicing agreements.

Loan servicing primarily involves the calculation, collection and remittance of principal and interest payments, the administration of mortgage escrow accounts, the collection of insurance claims, the administration of foreclosure procedures, the management of real estate owned (REO), and the disbursement of required protective advances. Loan servicers service on behalf of the owners of the loans and are therefore exposed to minimal credit risk. We utilize a flexible, customer-centric mortgage servicing model that focuses on asset performance through increased personal contact with borrowers and loss mitigation tools designed to decrease borrower delinquencies and defaults and to increase borrower repayment performance with a goal of home ownership preservation. Our operating culture emphasizes individual default specialist accountability (what we refer to as credit loss ownership) for improved asset performance and cash flow and reduced credit losses. Our servicing model and operating culture have proven even more valuable in the current challenging residential mortgage market, and we have established an excellent track record servicing credit-sensitive loans.

Our Servicing segment produces recurring, fee-based revenues based upon contractually established servicing fees. Servicing fees consist of an amount based on either the unpaid principal balance of the loans serviced or a per-loan fee amount and also include ancillary fees such as late fees. In addition, we earn interest income on amounts deposited in collection accounts and amounts held in escrow to pay property taxes and insurance, which we refer to as float income. We also generate incentive fees from owners of the loans that we service for meeting certain delinquency and loss goals and for arranging successful loss mitigation programs. Moreover, we earn incentive fees from the U.S. Treasury for loans that we successfully modify within the parameters of the HAMP and other assistance programs it sponsors.

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We service loans as the owner of mortgage servicing rights ("MSRs"), which we refer to as "primary servicing," and we also service loans on behalf of other MSR or mortgage owners, which we refer to as "subservicing." As of December 31, 2011, our primary servicing and subservicing portfolios represented 46.4% and 53.6%, respectively, of our total servicing portfolio (excluding $7.8 billion of servicing under contract).

Primary servicers act as servicers on behalf of mortgage owners and directly own the MSRs, which represent the contractual right to a stream of cash flows (expressed as a percentage of UPB) in exchange for performing specified mortgage servicing functions and temporarily advancing funds to cover payments on delinquent and defaulted mortgages.

We have grown our primary servicing portfolio to $45.8 billion in UPB as of December 31, 2011 (excluding $7.8 billion of servicing under contract) from $12.7 billion in UPB as of December 31, 2007, representing a compound annual growth rate of 37.8%. We plan to continue growing our primary servicing portfolio principally by acquiring MSRs from banks and other financial institutions under pressure to exit or reduce their exposure to the mortgage servicing business. As the servicing industry paradigm continues to shift from bank to non-bank servicers at an increasing pace, we believe there will be a significant opportunity to increase our market share of the servicing business.

We acquire MSRs on a standalone basis and have also developed an innovative model for investing on a capital light basis by co-investing with financial partners in "excess MSRs." Excess MSRs are the servicing fee cash flows ("excess fees") on a portfolio of mortgage loans after payment of a basic servicing fee. In these transactions, we provide all servicing functions in exchange for the basic servicing fee, then share the excess fee with our co-investment partner on a pro rata basis. Through December 31, 2011, we added $10 billion of loan servicing through excess MSRs and expect to continue to deploy this co-investment strategy in the future.

Subservicers act on behalf of MSR or mortgage owners that choose to outsource the loan servicing function. In our subservicing portfolio, we earn a contractual fee per loan we service. The loans we subservice often include pools of underperforming mortgage loans requiring high touch servicing capabilities. Many of our recent subservicing transfers have been facilitated by GSEs and other large mortgage owners that are seeking to improve loan performance through servicer upgrades. Subservicing represents another capital light means of growing our servicing business, as subservicing contracts are typically awarded on a no-cost basis and do not require substantial capital.

We have grown our subservicing portfolio to $53.0 billion in UPB as of December 31, 2011 by completing 290 transfers with 26 counterparties since we entered the subservicing business in August 2008. We expect to enter into additional subservicing arrangements as mortgage owners seek to transfer credit stressed loans to high touch subservicers with proven track records and the infrastructure and expertise to improve loan performance.

We operate or have investments in several adjacent businesses which provide mortgage-related services that are complementary to our servicing and originations businesses. These businesses offer an array of ancillary services, including providing services for delinquent loans, managing loans in the foreclosure/real estate owned (REO) process and providing title insurance agency, loan settlement and valuation services on newly originated and re-originated loans. We offer these adjacent services in connection with loans we currently service, as well as on a third party basis in exchange for base and/or incentive fees. In addition to enhancing our core businesses, these adjacent services present an opportunity to increase future earnings with minimal capital investment, including by expanding the services we provide to large banks and other financial institutions seeking to outsource these functions to a third party.

Loan Originations

In addition to our core servicing business, we are one of only a few non-bank servicers with a fully integrated loan originations platform and suite of adjacent businesses designed to meet the changing needs of the mortgage industry. Our originations platform complements and enhances our servicing business by allowing us to replenish our servicing portfolio as loans pay off over time, while our adjacent businesses broaden our product offerings by providing mortgage-related services spanning the life cycle of a mortgage loan. We believe our integrated approach, together with the strength and diversity of our servicing operations and our strategies for growing substantial portions of our business with minimal capital outlays (which we refer to as our "capital light" approach), position us to take advantage of the major structural changes currently occurring across the mortgage industry. Our originations business provides (i) a servicing portfolio retention source by providing refinancing services to our existing servicing customers; (ii) an organic source of servicing assets at attractive pricing; and (iii) a loss mitigation solution for our Servicing clients and customers by offering refinancing options to borrowers allowing them to lower monthly payments and therefore lowering the risk of their defaulting.

We primarily originate conventional agency and government mortgage loans, and we are licensed to originate residential mortgage loans in 49 states and the District of Columbia. In the years ending December 31, 2011 and 2010, we originated conventional loans in aggregate principal balance of $3.4 billion and $2.8 billion, respectively, consisting primarily of residential mortgage loans.

Our originations strategy is predicated on creating loans that are readily sold into a liquid market either through securitizations backed by the GSEs on a servicing retained basis, or through servicing released whole loans sales to major conduit investors. Loans are typically securitized or sold within 30 days of originations and not intended to be held on our balance sheet on a long-term basis. The interest rate risk inherent in the originations process is mitigated through a disciplined hedging program intended to minimize exposure to changes in underlying interest rates.

Legacy Assets and Other

We also have a legacy asset portfolio, which consists primarily of non-prime and nonconforming residential mortgage loans, most of which we originated from April to July 2007. In November 2009, we term- financed our legacy assets with nonrecourse debt that requires no additional capital or equity contributions. In conjunction with the transaction, we reclassified our legacy assets to "held for investment" on our consolidated balance sheet, which allowed us to eliminate further mark-to-market accounting exposure on these assets. We continue to service these loans using our high-touch servicing model. Additionally, we consolidated certain securitization trusts where it was determined that we had both the power to direct the activities that most significantly impact the Variable Interest Entity (VIE)'s economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE pursuant to new consolidation accounting guidance related to VIEs adopted on January 1, 2010.

In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the variable interest. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt, the related ABS nonrecourse debt, as well as certain other assets and liabilities of the securitization trust, and recognized any mortgage servicing rights on the consolidated balance sheet.

The analysis of our financial condition and results of operations as discussed herein is primarily focused on the combined results of our two Operating Segments: the Servicing Segment and the Originations Segment.

Competition

In our Servicing Segment, we compete with large financial institutions and with other independent servicers. Our ability to differentiate ourselves from other loan servicers through our high touch servicing model and culture of credit loss ownership largely determines our competitive position within the mortgage loan servicing industry.

In our Originations Segment, we compete with large financial institutions and local and regional mortgage bankers and lenders. Our ability to differentiate the value of our financial products primarily through our mortgage loan offerings, rates, fees and customer service determines our competitive position within the mortgage loan originations industry.

Additional Information

Our executive offices are located at 350 Highland Drive, Lewisville, Texas 75067, and our telephone number is (469) 549-2000 .

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available without charge on the SEC website at www.sec.gov.

Item 1A. ***Risk Factors***

The following discussion sets forth some of the most important risk factors that could materially affect our financial condition and operations. However, factors besides those discussed below, in MD&A or elsewhere in this or other reports that we filed or furnished with the SEC, also could adversely affect us. Readers should not consider any descriptions of such factors to be a complete set of all potential risks that could affect us.

Our foreclosure proceedings in certain states have been delayed due to inquiries by certain state Attorneys General, court administrators and state and federal government agencies, the outcome of which could have a negative effect on our operations, earnings or liquidity.

Allegations of irregularities in foreclosure processes, including so-called "robo-signing" by mortgage loan servicers, have gained the attention of the Department of Justice, regulatory agencies, state Attorneys General and the media, among other parties. On December 1, 2011, the Massachusetts Attorney General filed a lawsuit against five large mortgage providers alleging unfair and deceptive business practices, including the use of so-called "robo-signers." In response, one of the mortgage providers has halted most lending in Massachusetts. Certain state Attorneys General, court administrators and government agencies, as well as representatives of the federal government, have issued letters of inquiry to mortgage servicers, including us, requesting written responses to questions regarding policies and procedures, especially with respect to notarization and affidavit procedures. These requests or any subsequent administrative, judicial or legislative actions taken by these regulators, court administrators or other government entities may subject us to fines and other sanctions, including a foreclosure moratorium or suspension. Additionally, because we do business in all fifty states, our operations may be affected by regulatory actions or court decisions that are taken at the individual state level.

In addition to these inquiries, several state Attorneys General have requested that certain mortgage servicers, including us, suspend foreclosure proceedings pending internal review to ensure compliance with applicable law, and we have received requests from four such state Attorneys General. Pursuant to these requests and in light of industry-wide press coverage regarding mortgage foreclosure documentation practices, we, as a precaution, had already delayed foreclosure proceedings in 23 states, so that we may evaluate our foreclosure practices and underlying documentation. Upon completion of our internal review and after responding to such inquiries, we resumed these previously delayed proceedings. Such inquiries, however, as well as continued court backlog and emerging court processes may cause an extended delay in the foreclosure process in certain states.

Even in states where we have not suspended foreclosure proceedings or where we have lifted or will soon lift any such delayed foreclosures, we have faced, and may continue to face, increased delays and costs in the foreclosure process. For example, we have incurred, and may continue to incur, additional costs related to the re-execution and re-filing of certain documents. We may also be required to take other action in our capacity as a mortgage servicer in connection with pending foreclosures. In addition, the current legislative and regulatory climate could lead borrowers to contest foreclosures that they would not otherwise have contested under ordinary circumstances, and we may incur increased litigation costs if the validity of a foreclosure action is challenged by a borrower. Delays in foreclosure proceedings could also require us to make additional servicing advances by drawing on our servicing advance facilities, or delay the recovery of advances, all or any of which could materially affect our earnings and liquidity and increase our need for capital.

The Dodd-Frank Act could increase our regulatory compliance burden and associated costs, limit our future capital raising strategies, and place restrictions on certain originations and servicing operations all of which could adversely affect our business, financial condition and results of operations.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) into law. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry in the United States. The Dodd-Frank Act includes, among other things: (i) the creation of a Financial Stability Oversight Council to identify emerging systemic risks posed by financial firms, activities and practices, and to improve cooperation among federal agencies; (ii) the creation of a Bureau of Consumer Financial Protection (CFPB) authorized to promulgate and enforce consumer protection regulations relating to financial products; (iii) the establishment of strengthened capital and prudential standards for banks and bank holding companies; (iv) enhanced regulation of financial markets, including the derivatives and securitization markets; and (v) amendments to the Truth in Lending Act aimed at improving consumer protections with respect to mortgage originations, including originator compensation, minimum repayment standards and prepayment

considerations. On July 21, 2011, the CFPB obtained enforcement authority pursuant to the Dodd-Frank Act and began official operations. On October 13, 2011, the CFPB issued guidelines governing how it supervises mortgage transactions, which involves sending examiners to banks and other institutions that service mortgages to assess whether consumers' interests are protected. On January 11, 2012, the CFPB issued guidelines governing examination procedures for bank and non-bank mortgage originators. The exact scope and applicability of many of these requirements to us are currently unknown as the regulations to implement the Dodd-Frank Act generally have not yet been finalized. These provisions of the Dodd-Frank Act and actions by the CFPB could increase our regulatory compliance burden and associated costs and place restrictions on certain originations and servicing operations, all of which could in turn adversely affect our business, financial condition and results of operations.

The enforcement consent orders by, agreements with, and settlements of, certain federal and state agencies against the largest mortgage servicers related to foreclosure practices could impose additional compliance costs on our servicing business, which could materially and adversely affect our financial condition and results of operations.

On April 13, 2011, the federal agencies overseeing certain aspects of the mortgage market, the Federal Reserve, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) entered into enforcement consent orders with 14 of the largest mortgage servicers in the United States regarding foreclosure practices. The enforcement consent orders require the servicers, among other things to: (i) promptly correct deficiencies in residential mortgage loan servicing and foreclosure practices; (ii) make significant modifications in practices for residential mortgage loan servicing and foreclosure processing, including communications with borrowers and limitations on dual-tracking, which occurs when servicers continue to pursue foreclosure during the loan modification process; (iii) ensure that foreclosures are not pursued once a mortgage has been approved for modification and establish a single point of contact for borrowers throughout the loan modification and foreclosure processes; and (iv) establish robust oversight and controls pertaining to their third party vendors, including outside legal counsel, that provide default management or foreclosure services. While these enforcement consent orders are considered not to be preemptive of the state actions, it is currently unclear how state actions and proceedings will be affected by the federal consents.

On February 9, 2012, federal and state agencies announced a $25 billion settlement with five large banks that resulted from investigations of foreclosure practices. As part of the settlement, the banks have agreed to comply with various servicing standards relating to foreclosure and bankruptcy proceedings, documentation of borrowers' account balances, chain of title, and evaluation of borrowers for loan modifications and short sales as well as servicing fees and the use of force-placed insurance. The settlement also provides for certain financial relief to homeowners.

Although we are not a party to the above enforcement consent orders and settlements, we could become subject to the terms of the consent orders and settlements if (i) we subservice loans for the mortgage servicers that are parties to the enforcement consent orders and settlements; (ii) the agencies begin to enforce the consent orders and settlements by looking downstream to our arrangement with certain mortgage servicers; (iii) the mortgage servicers for which we subservice loans request that we comply with certain aspects of the consent orders and settlements, or (iv) we otherwise find it prudent to comply with certain aspects of the consent orders and settlements. In addition, the practices set forth in such consent orders and settlements may be adopted by the industry as a whole, forcing us to comply with them in order to follow standard industry practices, or may become required by our servicing agreements. While we have made and continue to make changes to our operating policies and procedures in light of the consent orders and settlements, further changes could be required and changes to our servicing practices will increase compliance costs for our servicing business, which could materially and adversely affect our financial condition or results of operations.

On September 1, 2011 and November 10, 2011, the New York State Department of Financial Services entered into agreements regarding mortgage servicing practices with seven financial institutions. The additional requirements provided for in these agreements will increase operational complexity and the cost of servicing loans in New York. Other servicers, including us, could be required to enter into similar agreements. In addition, other states may also require mortgage servicers to enter into similar agreements. These additional costs could also materially and adversely affect our financial condition and results of operations.

Legal proceedings, state or federal governmental examinations or enforcement actions and related costs could have a material adverse effect on our liquidity, financial position and results of operations.

We are routinely and currently involved in legal proceedings concerning matters that arise in the ordinary course of our business. These legal proceedings range from actions involving a single plaintiff to class action lawsuits with potentially tens of thousands of class members. An adverse result in governmental investigations or examinations or private lawsuits, including purported class action lawsuits, may adversely affect our financial results. In addition, a number of participants in our industry, including us, have been the subject of purported class action lawsuits and regulatory actions by state regulators, and other industry participants have been the subject of actions by state Attorneys General. Although we believe we have meritorious legal and factual defenses to the lawsuits in which we are currently involved, the ultimate outcomes with respect to these matters remain uncertain. Litigation and other proceedings may require that we pay settlement costs, legal fees, damages, penalties or other charges, any or all of which could adversely affect our financial results. In particular, ongoing and other legal proceedings brought under state consumer protection statutes may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts we earned from the underlying activities and that could have a material adverse effect on our liquidity, financial position and results of operations.

Governmental investigations, both state and federal, can be either formal or informal. The costs of responding to the investigations can be substantial. In addition, government-mandated changes to servicing practices could lead to higher costs and additional administrative burdens, in particular regarding record retention and informational obligations.

The continued deterioration of the residential mortgage market may adversely affect our business, financial condition and results of operations.

Since mid-2007, adverse economic conditions, including high unemployment, have impacted the residential mortgage market, resulting in unprecedented delinquency, default and foreclosure rates, all of which have led to increased loss severities on all types of residential mortgage loans due to sharp declines in residential real estate values. Falling home prices have resulted in higher loan-to-value ratios (LTVs), lower recoveries in foreclosure and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. As LTVs increase, borrowers are left with equity in their homes that is not sufficient to permit them to refinance their existing loans. This may also provide borrowers an incentive to default on their mortgage loan even if they have the ability to make principal and interest payments, which we refer to as strategic defaults. Increased mortgage defaults negatively impact our Servicing Segment because they increase the costs to service the underlying loans and may ultimately reduce the number of mortgages we service.

Adverse economic conditions may also impact our Originations Segment. Declining home prices and increasing LTVs may preclude many potential borrowers, including borrowers whose existing loans we service, from refinancing their existing loans. An increase in prevailing interest rates could decrease our originations volume through our Consumer Direct Retail originations channel, our largest originations channel by volume from December 31, 2006 to December 31, 2011, because this channel focuses predominantly on refinancing existing mortgage loans.

A continued deterioration or a delay in any recovery in the residential mortgage market may reduce the number of mortgages we service or new mortgages we originate, reduce the profitability of mortgages currently serviced by us, adversely affect our ability to sell mortgage loans originated by us or increase delinquency rates. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may experience serious financial difficulties as some mortgage servicers and originators have experienced, which could adversely affect our business, financial condition and results of operations.

Since late 2006, a number of mortgage servicers and originators of residential mortgage loans have experienced serious financial difficulties and, in some cases, have gone out of business. These difficulties have resulted, in part, from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions requiring repurchase in the event of early payment defaults or breaches of representations and warranties regarding loan quality and certain other loan characteristics. Higher delinquencies and defaults may contribute to these difficulties by reducing the value of mortgage loan portfolios and requiring originators to sell their portfolios at greater discounts to par. In addition, the cost of servicing an increasingly delinquent mortgage loan portfolio may rise without a corresponding increase in servicing compensation. The value of many residual interests retained by sellers of mortgage loans in the securitization market has also been declining. Overall originations volumes are down significantly in the current economic environment. According to Inside Mortgage Finance, total U.S. residential mortgage originations volume decreased from $3.0 trillion in 2006 to $1.4 trillion in 2011. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We service reverse mortgages, which subjects us to additional risks and could have a material adverse effect on our business, liquidity, financial condition and results of operations.

In December 2011, we signed an agreement to purchase the servicing rights to certain reverse mortgages (the "Reverse Mortgage Acquisition") from Bank of America, N.A. ("BANA"), an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the underwriters of the Company's recent IPO. The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputational and legal risks. A reverse mortgage is a loan available to seniors aged 62 or older that allows homeowners to borrow money against the value of their home. No repayment of the mortgage is required until the borrower dies or the home is sold. A deterioration of the market for reverse mortgages may reduce the number of reverse mortgages we service, reduce the profitability of reverse mortgages currently serviced by us and adversely affect our ability to sell reverse mortgages in the market. Although foreclosures involving reverse mortgages generally occur less frequently than forward mortgages, loan defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to meet maintenance obligations, such as payment of taxes or home insurance premiums. An increase in foreclosure rates may increase our cost of servicing. As a reverse mortgage servicer, we will also be responsible for funding any payments due to borrowers in a timely manner, remitting to investors interest accrued, and paying for interest shortfalls. Advances on reverse mortgages are typically greater than advances on forward residential mortgages. They are typically recovered upon weekly or monthly reimbursement or from sale in the market. In the event we receive requests for advances in excess of amounts we are able to fund, we may not be able to fund these advance requests, which could materially and adversely affect our liquidity. Finally, we are subject to negative headline risk in the event that loan defaults on reverse mortgages lead to foreclosures or even evictions of elderly homeowners. All of the above factors could have a material adverse effect on our business, liquidity, financial condition and results of operations.

Borrowers with adjustable rate mortgage loans are especially exposed to increases in monthly payments and they may not be able to refinance their loans, which could cause delinquency, default and foreclosure and therefore adversely affect our business.

Borrowers with adjustable rate mortgage loans are exposed to increased monthly payments when the related mortgage loan's interest rate adjusts upward from an initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. Borrowers with adjustable rate mortgage loans seeking to refinance their mortgage loans to avoid increased monthly payments as a result of an upwards adjustment of the mortgage loan's interest rate may no longer be able to find available replacement loans at comparably low interest rates. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable rate mortgage loans, which may cause delinquency, default and foreclosure. Increased mortgage defaults and foreclosures may adversely affect our business as they reduce the number of mortgages we service.

We principally service higher risk loans, which exposes us to a number of different risks.

A significant percentage of the mortgage loans we service are higher risk loans, meaning that the loans are to less creditworthy borrowers or for properties the value of which has decreased. These loans are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. As a result, these loans tend to have higher delinquency and default rates, which can have a significant impact on our revenues, expenses and the valuation of our mortgage servicing rights (MSRs). It may also be more difficult for us to recover advances we are required to make with respect to higher risk loans. In connection with the ongoing mortgage market reform and regulatory developments, servicers of higher risk loans may be subject to increased scrutiny by state and federal regulators or may experience higher compliance costs, which could result in higher servicing costs. We may not be able to pass along any incremental costs we incur to our servicing clients. All of the foregoing factors could therefore adversely affect our business, financial condition and results of operations.

A significant change in delinquencies for the loans we service could adversely affect our business, financial condition and results of operations.

Delinquency rates have a significant impact on our revenues, our expenses and on the valuation of our MSRs as follows:

- Revenue. An increase in delinquencies will result in lower revenue for loans we service for GSEs because we only collect servicing fees from GSEs for performing loans. Additionally, while increased delinquencies generate higher ancillary fees, including late fees, these fees are not likely to be recoverable in the event that the related loan is liquidated. In addition, an increase in delinquencies lowers the interest income we receive on cash held in collection and other accounts.

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- Expenses. An increase in delinquencies will result in a higher cost to service due to the increased time and effort required to collect payments from delinquent borrowers. It may also result in an increase in interest expense as a result of an increase in our advancing obligations.
- Liquidity. An increase in delinquencies could also negatively impact our liquidity because of an increase in borrowing under our advance facilities.
- Valuation of MSRs. We base the price we pay for MSRs on, among other things, our projections of the cash flows from the related pool of mortgage loans. Our expectation of delinquencies is a significant assumption underlying those cash flow projections. If delinquencies were significantly greater than expected, the estimated fair value of our MSRs could be diminished. If the estimated fair value of MSRs is reduced, we could suffer a loss, which has a negative impact on our financial results.

A further increase in delinquency rates could therefore adversely affect our business, financial condition and results of operations.

Decreasing property values have caused an increase in LTVs, resulting in borrowers having little or negative equity in their property, which may reduce new loan originations and provide incentive to borrowers to strategically default on their loans.

According to CoreLogic, the percentage of borrowers who owe more on a related mortgage loan than the property is worth, or have negative equity in their property, reached approximately 23% in December 2011. We believe that borrowers with negative equity in their properties are more likely to strategically default on mortgage loans, which could materially affect our business. Also, with the exception of loans modified under the Making Home Affordable plan (MHA), we are unable to refinance loans with high LTVs. Increased LTVs could reduce our ability to originate loans for borrowers with low or negative equity and could adversely affect our business, financial condition and results of operations.

The industry in which we operate is highly competitive and our inability to compete successfully could adversely affect our business, financial condition and results of operations.

We operate in a highly competitive industry that could become even more competitive as a result of economic, legislative, regulatory and technological changes. In the servicing industry, we face competition in areas such as fees and performance in reducing delinquencies and entering successful modifications. Competition to service mortgage loans comes primarily from large commercial banks and savings institutions. These financial institutions generally have significantly greater resources and access to capital than we do, which gives them the benefit of a lower cost of funds. Additionally, our servicing competitors may decide to modify their servicing model to compete more directly with our servicing model, or our servicing model may generate lower margins as a result of competition or as overall economic conditions improve.

In the mortgage loan originations industry, we face competition in such areas as mortgage loan offerings, rates, fees and customer service. Competition to originate mortgage loans comes primarily from large commercial banks and savings institutions. These financial institutions generally have significantly greater resources and access to capital than we do, which gives them the benefit of a lower cost of funds.

In addition, technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services. This has intensified competition among banks and non-banks in offering mortgage loans and loan servicing. We may be unable to compete successfully in our industries and this could adversely affect our business, financial condition and results of operations.

We may not be able to maintain or grow our business if we cannot identify and acquire MSRs or enter into additional subservicing agreements on favorable terms.

Our servicing portfolio is subject to "run off," meaning that mortgage loans serviced by us may be prepaid prior to maturity, refinanced with a mortgage not serviced by us or liquidated through foreclosure, deed-in-lieu of foreclosure or other liquidation process or repaid through

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standard amortization of principal. As a result, our ability to maintain the size of our servicing portfolio depends on our ability to originate additional mortgages or to acquire the right to service additional pools of residential mortgages. We may not be able to acquire MSRs or enter into additional subservicing agreements on terms favorable to us or at all, which could adversely affect our business, financial condition and results of operations. In determining the purchase price for MSRs and subservicing agreements, management makes certain assumptions, many of which are beyond our control, including, among other things:

- the rates of prepayment and repayment within the underlying pools of mortgage loans;
- projected rates of delinquencies, defaults and liquidations;
- future interest rates;
- our cost to service the loans;
- ancillary fee income; and
- amounts of future servicing advances.

We may not be able to recover our significant investments in personnel and our technology platform if we cannot identify and acquire MSRs or enter into additional subservicing agreements on favorable terms, which could adversely affect our business, financial condition and results of operations.

We have made, and expect to continue to make, significant investments in personnel and our technology platform to allow us to service additional loans. In particular, prior to acquiring a large portfolio of MSRs or entering into a large subservicing contract, we invest significant resources in recruiting, training, technology and systems. We may not realize the expected benefits of these investments to the extent we are unable to increase the pool of residential mortgages serviced, we are delayed in obtaining the right to service such loans or we do not appropriately value the MSRs that we do purchase or the subservicing agreements we enter into. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may not realize all of the anticipated benefits of potential future acquisitions, which could adversely affect our business, financial condition and results of operations.

Our ability to realize the anticipated benefits of potential future acquisitions of servicing portfolios, originations platforms or companies will depend, in part, on our ability to scale-up to appropriately service any such assets, and integrate the businesses of such acquired companies with our business. The process of acquiring assets or companies may disrupt our business and may not result in the full benefits expected. The risks associated with acquisitions include, among others:

- uncoordinated market functions;
- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility of purchasing, logistics, marketing and administration methods;
- not retaining key employees; and
- the diversion of management's attention from ongoing business concerns.

Moreover, the success of any acquisition will depend upon our ability to effectively integrate the acquired servicing portfolios, originations platforms or businesses. The acquired servicing portfolios, originations platforms or businesses may not contribute to our revenues or earnings to any material extent, and cost savings and synergies we expect at the time of an acquisition may not be realized once the acquisition has been completed. If we inappropriately value the assets we acquire or the value of the assets we acquire declines after we acquire them, the resulting charges may negatively affect the carrying value of the assets on our balance sheet and our earnings. See "—We use financial models and estimates in determining the fair value of certain assets, such as MSRs and investments in debt securities. If our estimates or assumptions prove to be incorrect, we may be required to record impairment charges, which could adversely affect our earnings." Furthermore, if we incur additional indebtedness to finance an acquisition, the acquired business may not be able to generate sufficient cash flow to service that additional indebtedness. Unsuitable or unsuccessful acquisitions could adversely affect our business, financial condition and results of operations.

We may be unable to obtain sufficient capital to meet the financing requirements of our business.

Our financing strategy includes the use of significant leverage. Accordingly, our ability to finance our operations and repay maturing obligations rests in large part on our ability to borrow money. We are generally required to renew our financing arrangements each year, which exposes us to refinancing and interest rate risks. See Note 12, Indebtedness, to Consolidated Financial Statements. Our ability to refinance existing debt and borrow additional funds is affected by a variety of factors including:

- limitations imposed on us under the indenture governing our unsecured senior notes and other financing agreements that contain restrictive covenants and borrowing conditions that may limit our ability to raise additional debt;
- the decrease in liquidity in the credit markets;
- prevailing interest rates;
- the strength of the lenders from which we borrow;
- limitations on borrowings on advance facilities imposed by the amount of eligible collateral pledged, which may be less than the borrowing capacity of the advance facility; and
- accounting changes that may impact calculations of covenants in our debt agreements.

In the ordinary course of our business, we periodically borrow money or sell newly-originated loans to fund our servicing and originations operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources." Our ability to fund current operations and meet our service advance obligations depends on our ability to secure these types of financings on acceptable terms and to renew or replace existing financings as they expire. Such financings may not be available with the GSEs or other counterparties on acceptable terms or at all.

An event of default, a negative ratings action by a rating agency, an adverse action by a regulatory authority or a general deterioration in the economy that constricts the availability of credit–similar to the market conditions that we have experienced during the last three years–may increase our cost of funds and make it difficult for us to renew existing credit facilities or obtain new lines of credit. We intend to continue to seek opportunities to acquire loan servicing portfolios and/or businesses that engage in loan servicing and/or loan originations. Our liquidity and capital resources may be diminished by any such transactions. Additionally, we believe that a significant acquisition may require us to raise additional capital to facilitate such a transaction, which may not be available on acceptable terms or at all.

In June 2011, the Basel Committee on Banking Supervision of the Bank of International Settlements announced the final framework for strengthening capital requirements, known as Basel III, which if implemented by U.S. bank regulatory agencies, will increase the cost of funding on banking institutions that we rely on for financing. Such Basel III requirements on banking institutions could reduce our sources of funding and increase the costs of originating and servicing mortgage loans. If we are unable to obtain sufficient capital on acceptable terms for any of the foregoing reasons, this could adversely affect our business, financial condition and results of operations.

We may not be able to continue to grow our loan originations volume, which could adversely affect our business, financial condition and results of operations.

Our loan originations business consists primarily of refinancing existing loans. While we intend to use sales lead aggregators and Internet marketing to reach new borrowers, our Consumer Direct Retail originations platform may not succeed because of the referral-driven nature of our industry. Further, our largest customer base consists of borrowers whose existing loans we service. Because we primarily service credit-sensitive loans, many of our existing servicing customers may not be able to qualify for conventional mortgage loans with us or may pose a higher credit risk than other consumers. Furthermore, our Consumer Direct Retail originations platform focuses predominantly on refinancing existing mortgage loans. This type of originations activity is sensitive to increases in interest rates.

Our loan originations business also consists of providing purchase money loans to homebuyers. The origination of purchase money mortgage loans is greatly influenced by traditional business clients in the home buying process such as realtors and builders. As a result, our ability to secure relationships with such traditional business clients will influence our ability to grow our purchase money mortgage loan volume and, thus, our loan originations business.

Our wholesale originations business operates largely through third party mortgage brokers who are not contractually obligated to do business with us. Further, our competitors also have relationships with our brokers and actively compete with us in our efforts to expand our broker networks.

Accordingly, we may not be successful in maintaining our existing relationships or expanding our broker networks. If we are unable to continue to grow our loan originations business, this could adversely affect our business, financial condition and results of operations.

Our counterparties may terminate our servicing rights and subservicing contracts, which could adversely affect our business, financial condition and results of operations.

The owners of the loans we service and the primary servicers of the loans we subservice, may, under certain circumstances, terminate our MSRs or subservicing contracts, respectively.

As is standard in the industry, under the terms of our master servicing agreement with GSEs, GSEs have the right to terminate us as servicer of the loans we service on their behalf at any time and also have the right to cause us to sell the MSRs to a third party. In addition, failure to comply with servicing standards could result in termination of our agreements with GSEs. See "-Because we are required to follow the guidelines of the GSEs with which we do business and are not able to negotiate our fees with these entities for the purchase of our loans, our competitors may be able to sell their loans on more favorable terms." Some GSEs may also have the right to require us to assign the MSRs to a subsidiary and sell our equity interest in the subsidiary to a third party. Under our subservicing contracts, the primary servicers for which we conduct subservicing activities have the right to terminate our subservicing rights with or without cause, with little notice and little to no compensation. We expect to continue to acquire subservicing rights, which could exacerbate these risks.

If we were to have our servicing or subservicing rights terminated on a material portion of our servicing portfolio, this could adversely affect our business, financial condition and results of operations.

Federal, state and local laws and regulations could materially adversely affect our business, financial condition and results of operations.

Federal, state and local governments have recently proposed or enacted numerous laws, regulations and rules related to mortgage loans generally and foreclosure actions in particular. These laws, regulations and rules may result in delays in the foreclosure process, reduced payments by borrowers, modification of the original terms of mortgage loans, permanent forgiveness of debt and increased servicing advances. In some cases, local governments have ordered moratoriums on foreclosure activity, which prevent a servicer or trustee, as applicable, from exercising any remedies they might have in respect of liquidating a severely delinquent mortgage loan. Several courts also have taken unprecedented steps to slow the foreclosure process or prevent foreclosure altogether.

In addition, the Federal Housing Finance Agency (the "FHFA") recently proposed changes to mortgage servicing compensation structures, including cutting servicing fees and channeling funds toward reserve accounts for delinquent loans.

Due to the highly regulated nature of the residential mortgage industry, we are required to comply with a wide array of federal, state and local laws and regulations that regulate, among other things, the manner in which we conduct our servicing and originations business and the fees we may charge. These regulations directly impact our business and require constant compliance, monitoring and internal and external audits. A material failure to comply with any of these laws or regulations could subject us to lawsuits or governmental actions, which could materially adversely affect our business, financial condition and results of operations.

In addition, there continue to be changes in legislation and licensing in an effort to simplify the consumer mortgage experience, which require technology changes and additional implementation costs for loan originators. We expect legislative changes will continue in the foreseeable future, which may increase our operating expenses.

Any of these changes in the law could adversely affect our business, financial condition and results of operations.

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Unlike competitors that are banks, we are subject to state licensing and operational requirements that result in substantial compliance costs.

Because we are not a depository institution, we do not benefit from a federal exemption to state mortgage banking, loan servicing or debt collection licensing and regulatory requirements. We must comply with state licensing requirements and varying compliance requirements in all fifty states and the District of Columbia, and we are sensitive to regulatory changes that may increase our costs through stricter licensing laws, disclosure laws or increased fees or that may impose conditions to licensing that we or our personnel are unable to meet. In addition, we are subject to periodic examinations by state regulators, which can result in refunds to borrowers of certain fees earned by us, and we may be required to pay substantial penalties imposed by state regulators due to compliance errors. Future state legislation and changes in existing regulation may significantly increase our compliance costs or reduce the amount of ancillary fees, including late fees, that we may charge to borrowers. This could make our business cost-prohibitive in the affected state or states and could materially affect our business.

Federal and state legislative and agency initiatives in mortgage-backed securities (MBS) and securitization may adversely affect our financial condition and results of operations.

There are federal and state legislative and agency initiatives that could, once fully implemented, adversely affect our business. For instance, the risk retention requirement under the Dodd-Frank Act requires securitizers to retain a minimum beneficial interest in MBS they sell through a securitization, absent certain qualified residential mortgage (QRM) exemptions. Once implemented, the risk retention requirement may result in higher costs of certain originations operations and impose on us additional compliance requirements to meet servicing and originations criteria for QRMs. Additionally, the amendments to Regulation AB relating to the registration statement required to be filed by asset-backed securities (ABS) issuers recently adopted by the SEC pursuant to the Dodd-Frank Act would increase compliance costs for ABS issuers, which could in turn increase our cost of funding and operations. Lastly, certain proposed federal legislation would permit borrowers in bankruptcy to restructure mortgage loans secured by primary residences. Bankruptcy courts could, if this legislation is enacted, reduce the principal balance of a mortgage loan that is secured by a lien on mortgaged property, reduce the mortgage interest rate, extend the term to maturity or otherwise modify the terms of a bankrupt borrower's mortgage loan. Any of the foregoing could materially affect our financial condition and results of operations.

Our business would be adversely affected if we lose our licenses.

Our operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. In most states in which we operate, a regulatory agency regulates and enforces laws relating to mortgage servicing companies and mortgage originations companies such as us. These rules and regulations generally provide for licensing as a mortgage servicing company, mortgage originations company or third party debt default specialist, requirements as to the form and content of contracts and other documentation, licensing of our employees and employee hiring background checks, licensing of independent contractors with which we contract, restrictions on collection practices, disclosure and record-keeping requirements and enforcement of borrowers' rights. In certain states, we are subject to periodic examination by state regulatory authorities. Some states in which we operate require special licensing or provide extensive regulation of our business.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable federal, state and local regulations. We may not be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could result in a default under our servicing agreements and have a material adverse effect on our operations. The states that currently do not provide extensive regulation of our business may later choose to do so, and if such states so act, we may not be able to obtain or maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements could result in a default under our servicing agreements and have a material adverse effect on our operations. Furthermore, the adoption of additional, or the revision of existing, rules and regulations could adversely affect our business, financial condition and results of operations.

We may be required to indemnify or repurchase loans we originated, or will originate, if our loans fail to meet certain criteria or characteristics or under other circumstances.

The indentures governing our securitized pools of loans and our contracts with purchasers of our whole loans contain provisions that require us to indemnify or repurchase the related loans under certain circumstances. While our contracts vary, they contain provisions that require us to repurchase loans if:

- our representations and warranties concerning loan quality and loan circumstances are inaccurate, including representations concerning the licensing of a mortgage broker;
- we fail to secure adequate mortgage insurance within a certain period after closing;
- a mortgage insurance provider denies coverage; or
- we fail to comply, at the individual loan level or otherwise, with regulatory requirements in the current dynamic regulatory environment.

We believe that, as a result of the current market environment, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and would benefit from enforcing any repurchase remedies they may have. We believe that our exposure to repurchases under our representations and warranties includes the current unpaid balance of all loans we have sold. In the years ended December 31, 2008, 2009, 2010 and 2011, we sold an aggregate of $7.4 billion of loans. To recognize the potential loan repurchase or indemnification losses, we have recorded a reserve of $10.0 million as of December 31, 2011. Because of the increase in our loan originations since 2008, we expect that repurchase requests are likely to increase. Should home values continue to decrease, our realized loan losses from loan repurchases and indemnifications may increase as well. As such, our reserve for repurchases may increase beyond our current expectations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Analysis of Items on Consolidated Balance Sheet--Liabilities and Members' Equity". If we are required to indemnify or repurchase loans that we originate and sell or securitize that result in losses that exceed our reserve, this could adversely affect our business, financial condition and results of operations.

We may incur increased litigation costs and related losses if a borrower challenges the validity of a foreclosure action or if a court overturns a foreclosure, which could adversely affect our liquidity, business, financial condition and results of operations.

We may incur costs if we are required to, or if we elect to, execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. We may incur litigation costs if the validity of a foreclosure action is challenged by a borrower. If a court overturns a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to a title insurer or the purchaser of the property sold in foreclosure. These costs and liabilities may not be legally or otherwise reimbursable to us, particularly to the extent they relate to securitized mortgage loans. In addition, if certain documents required for a foreclosure action are missing or defective, we could be obligated to cure the defect or repurchase the loan. A significant increase in litigation costs could adversely affect our liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations.

Because we are required to follow the guidelines of the GSEs with which we do business and are not able to negotiate our fees with these entities for the purchase of our loans, our competitors may be able to sell their loans to GSEs on more favorable terms.

Even though we currently originate conventional agency and government conforming loans, because we previously originated non-prime mortgage loans, we believe we are required to pay a higher fee to access the secondary market for selling our loans to GSEs. We believe that because many of our competitors have always originated conventional loans, they are able to sell newly originated loans on more favorable terms than us. As a result, these competitors are able to earn higher margins than we earn on originated loans, which could materially impact our business.

In our transactions with the GSEs, we are required to follow specific guidelines that impact the way we service and originate mortgage loans including:

- our staffing levels and other servicing practices;

- the servicing and ancillary fees that we may charge;
- our modification standards and procedures; and
- the amount of non-reimbursable advances.

In particular, the FHFA has directed GSEs to align their guidelines for servicing delinquent mortgages they own or guarantee, which can result in monetary incentives for servicers that perform well and penalties for those that do not. In addition, FHFA has directed Fannie Mae to assess compensatory fees against servicers in connection with delinquent loans, foreclosure delays, and other breaches of servicing obligations.

We cannot negotiate these terms with the GSEs and they are subject to change at any time. A significant change in these guidelines that has the effect of decreasing our fees or requires us to expend additional resources in providing mortgage services could decrease our revenues or increase our costs, which could adversely affect our business, financial condition and results of operations.

We are required to make servicing advances that can be subject to delays in recovery or may not be recoverable in certain circumstances, which could adversely affect our liquidity, business, financial condition and results of operations.

During any period in which a borrower is not making payments, we are required under most of our servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums, legal expenses and other protective advances. We also advance funds to maintain, repair and market real estate properties on behalf of investors. As home values change, we may have to reconsider certain of the assumptions underlying our decisions to make advances and, in certain situations, our contractual obligations may require us to make certain advances for which we may not be reimbursed. In addition, in the event a mortgage loan serviced by us defaults or becomes delinquent, the repayment to us of the advance may be delayed until the mortgage loan is repaid or refinanced or a liquidation occurs. As a reverse mortgage servicer, we will also be responsible for funding any payments due to borrowers in a timely manner, remitting to investors interest accrued and paying for interest shortfalls. Advances on reverse mortgages are typically greater than advances on forward residential mortgages. They are typically recovered upon weekly or monthly reimbursement or from sale in the market. In the event we receive requests for advances in excess of amounts we are able to fund, we may not be able to fund these advance requests, which could materially and adversely affect our liquidity. A delay in our ability to collect an advance may adversely affect our liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations.

Changes to government mortgage modification programs could adversely affect future incremental revenues.

Under HAMP and similar government programs, a participating servicer may be entitled to receive financial incentives in connection with any modification plans it enters into with eligible borrowers and subsequent success fees to the extent that a borrower remains current in any agreed upon loan modification. While we participate in and dedicate numerous resources to HAMP, we may not continue to participate in or realize future revenues from HAMP or any other government mortgage modification program. Changes in legislation or regulation regarding HAMP that result in the modification of outstanding mortgage loans and changes in the requirements necessary to qualify for refinancing mortgage loans may impact the extent to which we participate in and receive financial benefits from such programs, or may increase the expense of our participation in such programs. Changes in government loan modification programs could also result in an increase to our costs.

HAMP is currently scheduled to expire on December 31, 2013. If HAMP is not extended, this could decrease our revenues, which would adversely affect our business, financial condition and results of operations.

Under the MHA, a participating servicer may receive a financial incentive to modify qualifying loans, in accordance with the plan's guidelines and requirements. The MHA also allows us to refinance loans with a high LTV of up to 125%. This allows us to refinance loans to existing borrowers who have little or negative equity in their homes. Changes in legislation or regulations regarding the MHA could reduce our volume of refinancing originations to borrowers with little or negative equity in their homes. Changes to HAMP, the MHA and other similar programs could adversely affect future incremental revenues.

We are highly dependent upon programs administered by GSEs such as Fannie Mae and Freddie Mac to generate revenues through mortgage loan sales to institutional investors. Any changes in existing U.S. government-sponsored mortgage programs could materially and adversely affect our business, liquidity, financial position and results of operations.

In February 2011, the Obama Administration delivered a report to Congress regarding a proposal to reform the housing finance markets in the United States. The report, among other things, outlined various potential proposals to wind down the GSEs and reduce or eliminate over time the role of the GSEs in guaranteeing mortgages and providing funding for mortgage loans, as well as proposals to implement reforms relating to borrowers, lenders and investors in the mortgage market, including reducing the maximum size of loans that the GSEs can guarantee, phasing in a minimum down payment requirement for borrowers, improving underwriting standards and increasing accountability and transparency in the securitization process.

Our ability to generate revenues through mortgage loan sales to institutional investors depends to a significant degree on programs administered by the GSEs, such as Fannie Mae and Freddie Mac, a government agency, Ginnie Mae, and others that facilitate the issuance of MBS in the secondary market. These GSEs play a critical role in the residential mortgage industry and we have significant business relationships with many of them. Almost all of the conforming loans we originate qualify under existing standards for inclusion in guaranteed mortgage securities backed by GSEs. We also derive other material financial benefits from these relationships, including the assumption of credit risk by these GSEs on loans included in such mortgage securities in exchange for our payment of guarantee fees and the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures.

Any discontinuation of, or significant reduction in, the operation of these GSEs or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of these GSEs could materially and adversely affect our business, liquidity, financial position and results of operations.

The conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government, could adversely affect our business and prospects.

Due to increased market concerns about the ability of Fannie Mae and Freddie Mac to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees without the direct support of the U.S. federal government, on July 30, 2008, the U.S. government passed the Housing and Economic Recovery Act of 2008. On September 7, 2008, the FHFA, placed Fannie Mae and Freddie Mac into conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in their respective debt and MBS. As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs the operations of Fannie Mae and Freddie Mac and may (i) take over the assets and operations of Fannie Mae and Freddie Mac with all the powers of the shareholders, the directors and the officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (ii) collect all obligations and money due to Fannie Mae and Freddie Mac; (iii) perform all functions of Fannie Mae and Freddie Mac which are consistent with the conservator's appointment; (iv) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (v) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Treasury and the FHFA have entered into preferred stock purchase agreements among the U.S. Treasury, Fannie Mae and Freddie Mac pursuant to which the U.S. Treasury will ensure that each of Fannie Mae and Freddie Mac maintains a positive net worth.

Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac, these actions may not be adequate for their needs. If these actions are inadequate, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitute agency and government conforming MBS and could have broad adverse market implications. Such market implications could adversely affect our business and prospects.

The geographic concentration of our servicing portfolio may result in a higher rate of delinquencies, which could adversely affect our business, financial condition and results of operations.

As of December 31, 2011, approximately 9%, 14% and 14% of the aggregate outstanding loan balance in our servicing portfolio was secured by properties located in California, Florida and Texas, respectively. Some of these states have experienced severe declines in property values and are experiencing a disproportionately high rate of delinquencies and foreclosures relative to other states. To the extent these states continue to experience weaker economic conditions or greater rates of decline in real estate values than the United States generally, the concentration of

loans we service in those regions may increase the effect of the risks listed in this "Risk Factors" section. The impact of property value declines may increase in magnitude and it may continue for a long period of time. Additionally, if states in which we have greater concentrations of business were to change their licensing or other regulatory requirements to make our business cost-prohibitive, we may be required to stop doing business in those states or may be subject to higher cost of doing business in those states, which could adversely affect our business, financial condition and results of operations.

We use financial models and estimates in determining the fair value of certain assets, such as MSRs and investments in debt securities. If our estimates or assumptions prove to be incorrect, we may be required to record impairment charges, which could adversely affect our earnings.

We use internal financial models that utilize, wherever possible, market participant data to value certain of our assets, including our MSRs, newly originated loans held for sale and investments in debt securities for purposes of financial reporting. These models are complex and use asset-specific collateral data and market inputs for interest and discount rates. In addition, the modeling requirements of MSRs are complex because of the high number of variables that drive cash flows associated with MSRs. Even if the general accuracy of our valuation models is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the models. If loan loss levels are higher than anticipated, due to an increase in delinquencies or prepayment speeds, or financial market illiquidity continues beyond our estimate, the value of certain of our assets may decrease. We may be required to record impairment charges, which could impact our ability to satisfy minimum net worth covenants of $175.0 million and borrowing conditions in our debt agreements and adversely affect our business, financial condition or results of operations. Errors in our financial models or changes in assumptions could adversely affect our earnings. See "We may not realize all of the anticipated benefits of potential future acquisitions, which could adversely affect our business, financial condition and results of operations."

Our earnings may decrease because of changes in prevailing interest rates.

Our profitability is directly affected by changes in prevailing interest rates. The following are the material risks we face related to changes in prevailing interest rates:

- an increase in prevailing interest rates could generate an increase in delinquency, default and foreclosure rates resulting in an increase in both operating expenses and interest expense and could cause a reduction in the value of our assets;
- an increase in prevailing interest rates could adversely affect our loan originations volume because refinancing an existing loan would be less attractive for homeowners and qualifying for a loan may be more difficult for consumers;
- an increase in prevailing interest rates would increase the cost of servicing our outstanding debt, including our ability to finance servicing advances and loan originations;

- a decrease in prevailing interest rates may require us to record a decrease in the value of our MSRs; and
- a decrease in prevailing interest rates could reduce our earnings from our custodial deposit accounts.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates.

From time to time, we have used various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. The derivative financial instruments that we select may not have the effect of reducing our interest rate risks. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and documented transactions or inaccurate assumptions could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategies and the derivatives that we use may not be able to adequately offset the risks of interest rate volatility and our hedging transactions may result in or magnify losses. Furthermore, interest rate derivatives may not be available on favorable terms or at all, particularly during economic downturns. Any of the foregoing risks could adversely affect our business, financial condition and results of operations.

A downgrade in our servicer ratings could have an adverse effect on our business, financial condition and results of operations.

Standard & Poor's and Fitch rate us as a residential loan servicer. Our current favorable ratings from the rating agencies are important to the conduct of our loan servicing business. These ratings may be downgraded in the future. Any such downgrade could adversely affect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about borrowers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to extend credit or to enter into other transactions with borrowers and counterparties, we may rely on information furnished to us by or on behalf of borrowers and counterparties, including financial statements and other financial information. We also may rely on representations of borrowers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. We additionally rely on representations from public officials concerning the licensing and good standing of the third party mortgage brokers through which we do business. While we have a practice of independently verifying the borrower information that we use in deciding whether to extend credit or to agree to a loan modification, including employment, assets, income and credit score, if any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. We have controls and processes designed to help us identify misrepresented information in our loan originations operations. We, however, may not have detected or may not detect all misrepresented information in our loan originations or from our business clients. Any such misrepresented information could adversely affect our business, financial condition and results of operations.

Technology failures could damage our business operations and increase our costs, which could adversely affect our business, financial condition and results of operations.

The financial services industry as a whole is characterized by rapidly changing technologies, and system disruptions and failures caused by fire, power loss, telecommunications failures, unauthorized intrusion, computer viruses and disabling devices, natural disasters and other similar events may interrupt or delay our ability to provide services to our borrowers. Security breaches, acts of vandalism and developments in computer capabilities could result in a compromise or breach of the technology that we use to protect our borrowers' personal information and transaction data.

Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or implement effective preventive measures against all security breaches, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including third parties such as persons involved with organized crime or associated with external service providers. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. These risks may increase in the future as we continue to increase our reliance on the internet and use of web-based product offerings and on the use of cybersecurity.

A successful penetration or circumvention of the security of our systems or a defect in the integrity of our systems or cybersecurity could cause serious negative consequences for our business, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or operating systems and to those of our customers and counterparties. Any of the foregoing events could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and harm to our reputation, all of which could adversely affect our business, financial condition and results of operations.

The success and growth of our business will depend upon our ability to adapt to and implement technological changes.

Our mortgage loan originations business is currently dependent upon our ability to effectively interface with our brokers, borrowers and other third parties and to efficiently process loan applications and closings. The originations process is becoming more dependent upon technological advancement, such as our continued ability to process applications over the Internet, accept electronic signatures, provide process status updates instantly and other borrower-expected conveniences. Maintaining and improving this new technology and becoming proficient with it may also require significant capital expenditures. As these requirements increase in the future, we will have to fully develop these technological capabilities to remain competitive and any failure to do so could adversely affect our business, financial condition and results of operations.

Any failure of our internal security measures or breach of our privacy protections could cause harm to our reputation and subject us to liability, any of which could adversely affect our business, financial condition and results of operations.

In the ordinary course of our business, we receive and store certain confidential information concerning borrowers. Additionally, we enter into third party relationships to assist with various aspects of our business, some of which require the exchange of confidential borrower information. If a third party were to compromise or breach our security measures or those of the vendors, through electronic, physical or other means, and misappropriate such information, it could cause interruptions in our operations and expose us to significant liabilities, reporting obligations, remediation costs and damage to our reputation. Any of the foregoing risks could adversely affect our business, financial condition and results of operations. See also "—Technology failures could damage our business operations and increase our costs, which could adversely affect our business, financial condition and results of operations."

Our vendor relationships subject us to a variety of risks.

We have significant vendors that, among other things, provide us with financial, technology and other services to support our servicing and originations businesses. With respect to vendors engaged to perform activities required by servicing criteria, we have elected to take responsibility for assessing compliance with the applicable servicing criteria for the applicable vendor and are required to have procedures in place to provide reasonable assurance that the vendor's activities comply in all material respects with servicing criteria applicable to the vendor. In the event that a vendor's activities do not comply with the servicing criteria, it could negatively impact our servicing agreements. In addition, if our current vendors were to stop providing services to us on acceptable terms, including as a result of one or more vendor bankruptcies due to poor economic conditions, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms, or at all. Further, we may incur significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations.

The loss of the services of our senior managers could adversely affect our business.

The experience of our senior managers is a valuable asset to us. Our management team has significant experience in the residential mortgage originations and servicing industry. We do not maintain key life insurance policies relating to our senior managers. The loss of the services of our senior managers could adversely affect our business.

Our business could suffer if we fail to attract and retain a highly skilled workforce.

Our future success will depend on our ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of our organization, in particular skilled managers, loan servicers, debt default specialists, loan officers and underwriters. Trained and experienced personnel are in high demand and may be in short supply in some areas. Many of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. We may not be able to attract, develop and maintain an adequate skilled workforce necessary to operate our businesses and labor expenses may increase as a result of a shortage in the supply of qualified personnel. If we are unable to attract and retain such personnel, we may not be able to take advantage of acquisitions and other growth opportunities that may be presented to us and this could materially affect our business, financial condition and results of operations.

Negative public opinion could damage our reputation and adversely affect our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending and debt collection practices, corporate governance, and actions taken by government regulators and community organizations in response to those activities. Negative public opinion can also result from media coverage, whether accurate or not. Negative public opinion can adversely affect our ability to attract and retain customers, trading counterparties and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our customers and communities, this risk will always be present in our organization.

If the ownership of our Parent's common stock continues to be highly concentrated, it may prevent new investors from influencing significant corporate decisions and may result in conflicts of interest.

Following the completion of the initial public offering, FIF, which is primarily owned by certain private equity funds managed by an affiliate of Fortress, owns approximately 78.5% of the outstanding common stock of our Parent. As a result, FIF will own shares sufficient for the majority vote over all matters requiring a stockholder vote, including: the election of directors; mergers, consolidations and acquisitions; the sale of all or substantially all of our assets and other decisions affecting our Parent's capital structure; the amendment of its certificate of incorporation and our bylaws; and its winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by other stockholders. The interests of FIF may not always coincide with our interests or the interests of other stockholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of us. Also, FIF may seek to cause us to take courses of action that, in its judgment, could enhance its investment in us, but which might involve risks to other stockholders or adversely affect us or other stockholders.

Other risk factors.

The above description of risk factors is not exhaustive. Other risk factors are described elsewhere herein as well as in other reports and documents that we file with or furnish to the SEC. Other factors that could also cause results to differ from our expectations may not be described in any such report or document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/of financial condition.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

The following table sets forth information relating to our primary facilities at December 31, 2011. In addition to the facilities listed in the table below, we also lease small offices throughout the United States.

Location	Owned / Leased	Square Footage
Principal executive office:		
Lewisville, Texas – Corporate Headquarters	Leased	160,910
Business operations and support offices:		
Lewisville, Texas	Leased	244,886
Houston, Texas	Leased	53,258

Item 3. *Legal Proceedings*

From time to time, we are party to various legal proceedings that have arisen in the normal course of conducting business. Although the outcome of these proceedings cannot be predicted with certainty, management does not currently expect any of the proceedings pending against us, individually or in the aggregate, to have a material effect on our business, financial condition and results of operations (see Note 19, Commitments and Contingencies).

Item 4. *Mine Safety Disclosures*

Not applicable.

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PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

None.

Item 6. *Selected Financial Data*

The following financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data." The table below presents, as of and for the dates indicated, selected historical financial information for us (in thousands). Note that the selected consolidated statement of operations data for the years ended December 31, 2009, 2010 and 2011 and the selected consolidated balance sheet data at December 31, 2010 and 2011 have been derived from our audited financial statements included elsewhere in this annual report. The selected consolidated statement of operations data and other data for the years ended December 31, 2007 and 2008 and the selected consolidated balance sheet data at December 31, 2008 and 2009 have been derived from our audited consolidated financial statements that are not included in this annual report. The selected consolidated balance sheet data at December 31, 2007 has been derived from our unaudited financial statements, which are not included in this annual report.

Year ended December 31,	2011	2010	2009	2008	2007
Consolidated Balance Sheets Data:					
Cash and cash equivalents	**$ 62,445**	$ 21,223	$ 41,645	$ 9,357	$ 41,251
Account Receivable	**562,300**	441,275	513,939	355,975	190,408
Mortgage servicing rights – fair value	**251,050**	145,062	114,605	110,808	82,634
Total assets	**1,787,931**	1,947,181	1,280,185	1,122,001	1,303,221
Notes payable	**873,179**	709,758	771,857	810,041	967,307
Unsecured senior notes	**280,199**	244,061	–	–	–
Nonrecourse debt-legacy assets	**112,490**	138,662	177,675	–	–
Excess spread financing (at fair value)	**44,595**	–	–	–	–
ABS nonrecourse debt (at fair value)	**–**	496,692	–	–	–
Total liabilities	**1,506,622**	1,690,809	1,016,362	866,079	1,041,525
Total members' equity	**281,309**	256,372	263,823	255,922	261,696
Consolidated Statements of Operations Data:					
Total revenues	**$ 377,734**	$ 261,428	$ 78,869	$ (12,656)	$ (48,372)
Total expenses and impairments	**306,183**	220,976	142,367	147,777	259,222
Total other income (expense)	**(50,664)**	(50,366)	(17,379)	2,823	23,116
Net income (loss)	**$ 20,887**	$ (9,914)	$ (80,877)	$ (157,610)	$ (284,478)
Other Financial Data:					
Net cash provided by / (used in):					
Operating activities	**$ (28,903)**	$ (101,653)	$ (83,641)	$ 40,212	$ 723,236
Investing activities	**(81,879)**	101,197	29,983	(34,643)	(86,317)
Financing activities	**152,004**	(19,966)	85,946	(37,463)	(606,003)

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Adjusted EBITDA

Adjusted EBITDA is a key performance measure used by management in evaluating the performance of our segments. Adjusted EBITDA represents our Operating Segments' income (loss) and excludes income and expenses that relate to the financing of the unsecured senior notes, depreciable (or amortizable) asset base of the business, income taxes (if any), exit costs from our restructuring and certain non-cash items. Adjusted EBITDA also excludes results from our legacy asset portfolio and certain securitization trusts that were consolidated upon adoption of the new accounting guidance eliminating the concept of a Qualifying Special Purpose Entity (QSPE).

Adjusted EBITDA provides us with a key measure of our Operating Segments' performance as it assists us in comparing our Operating Segments' performance on a consistent basis. Management believes Adjusted EBITDA is useful in assessing the profitability of our core business and uses Adjusted EBITDA in evaluating our operating performance as follows:

— Financing arrangements for our Operating Segments are secured by assets that are allocated to these segments. Interest expense that relates to the financing of our unsecured senior notes is not considered in evaluating our operating performance because this obligation is serviced by the excess earnings from our Operating Segments after the debt obligations that are secured by their assets.

— To monitor operating costs of each Operating Segment excluding the impact from depreciation, amortization and fair value change of the asset base, exit costs from our restructuring and non-cash operating expense, such as share-based compensation. Operating costs are analyzed to manage costs per our operating plan and to assess staffing levels, implementation of technology based solutions, rent and other general and administrative costs.

Management does not assess the growth prospects and the profitability of our legacy asset portfolio and certain securitization trusts that were consolidated upon adoption of the new accounting guidance, except to the extent necessary to assess whether cash flows from the assets in the legacy asset portfolio are sufficient to service its debt obligations.

We also use Adjusted EBITDA (with additional adjustments) to measure our compliance with covenants such as leverage coverage ratios for our unsecured senior notes.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

— Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

— Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

— Adjusted EBITDA does not reflect the cash requirements necessary to service principal payments related to the financing of the business;

— Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our corporate debt;

— although depreciation and amortization and changes in fair value of MSRs are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; and

— other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these and other limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. Adjusted EBITDA is presented to provide additional information about our operations. Adjusted EBITDA is a

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non-GAAP measure and should be considered in addition to, but not as a substitute for or superior to, operating income, net income, operating cash flow and other measures of financial performance prepared in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally.

	For the year ended December 31,		
Net Income/(Loss) from Operating Segments to Adjusted EBITDA Reconciliation (dollars in thousands):	**2011**	**2010**	**2009**

Net income/(loss)	$ **20,887**	$ (9,914)	$ (80,877)
Plus:			
Net (income)/loss from Legacy Portfolio and Other	**24,892**	24,806	97,263
Net income/(loss) from Operating Segments	**45,779**	14,892	16,386
Adjust for:			
Interest expense from unsecured senior notes	**30,464**	24,628	–
Depreciation and amortization	**3,395**	1,873	1,542
Change in fair value of mortgage servicing rights	**39,000**	6,043	27,915
Exit costs (2)	**1,836**	–	–
Share-based compensation	**14,764**	8,999	579
Fair value changes on excess spread financing	**3,060**	–	–
Fair value changes on interest rate swap (1)	**(298)**	9,801	–
Ineffective portion of cash flow hedge	**(2,032)**	(930)	–
Adjusted EBITDA	$ **135,968**	$ 65,306	$ 46,422

(1) Relates to an interest rate swap agreement which was treated as an economic hedge under ASC 815.

(2) Restructuring charges for the year ended December 31, 2011, are primarily due to reserves on future lease payments related to restructuring program initiated in November 2011, which included closing several offices and the termination of a portion of our workforce.

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Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

General

Our Business

We are a leading high touch non-bank residential mortgage servicer with a broad array of servicing capabilities across the residential mortgage product spectrum. We have been the fastest growing mortgage servicer since 2007 as measured by annual percentage growth in UPB, having grown 70.2% annually on a compounded basis. As of December 31, 2011, we serviced over 645,000 residential mortgage loans with an aggregate UPB of $106.6 billion, making us the largest high touch non-bank servicer in the United States. Our total servicing portfolio as of December 31, 2011 includes approximately $7.8 billion of reverse residential mortgage loans for which we entered into an agreement to acquire the MSRs in December 2011 and closed the transaction in January 2012.

We service loans as the owner of the MSRs, which we refer to as "primary servicing," and we also service loans on behalf of other MSR or mortgage owners, which we refer to as "subservicing." We acquire MSRs on a standalone basis and have also developed an innovative model for investing on a capital light basis by co-investing with financial partners in "excess MSRs." Subservicing represents another capital light means of growing our servicing business, as subservicing contracts are typically awarded on a no-cost basis and do not require substantial capital. As of December 31, 2011, our primary servicing and subservicing portfolios represented 46.4% and 53.6%, respectively, of our total servicing portfolio, excluding approximately $7.8 billion of reverse residential mortgage loans for which we entered into an agreement to acquire the MSRs in December 2011 and closed the transaction in January 2012. In addition, we operate or have investments in several adjacent businesses designed to meet the changing needs of the mortgage industry. These businesses offer an array of ancillary services, including providing services for delinquent loans, managing loans in the foreclosure/REO process and providing title insurance agency, loan settlement and valuation services on newly originated and re-originated loans.

We are one of only a few non-bank servicers with a fully integrated loan originations platform to complement and enhance our servicing business. We originate primarily conventional agency (GSE) and government-insured residential mortgage loans and, to mitigate risk, typically sell these loans within 30 days while retaining the associated servicing rights. Our originations efforts are primarily focused on "re-origination," which involves actively working with existing borrowers to refinance their mortgage loans. By re-originating loans for existing borrowers, we retain the servicing rights, thereby extending the longevity of the servicing cash flows, which we refer to as "recapture."

We also have a legacy asset portfolio, which consists primarily of non-prime and nonconforming residential mortgage loans, most of which we originated from April to July 2007. In November 2009, we engaged in a transaction through which we term-financed our legacy assets with a nonrecourse loan that requires no additional capital or equity contributions. Additionally, we consolidated certain securitization trusts where it was determined that we had both the power to direct the activities that most significantly impact the variable interest entities' (VIE) economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE pursuant to new consolidation accounting guidance related to VIEs adopted on January 1, 2010.

The analysis of our financial condition and results of operations as discussed herein is primarily focused on the combined results of our two Operating Segments: the Servicing Segment and the Originations Segment.

Critical Accounting Policies

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified three policies that, due to the judgment, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to: (a) fair value measurements (b) sale of mortgage loans and (c) accounting for mortgage loans held for investment, subject to nonrecourse debt. We believe that the judgment, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our consolidated financial statements to these critical accounting policies, the use of other

judgments, estimates and assumptions could result in material differences in our results of operations or financial condition. Management currently views its fair value measurements, which include (i) the valuation of mortgage loans held for sale, (ii) the valuation of mortgage loans held for investment, subject to ABS nonrecourse debt, (iii) the valuation of MSRs, (iv) the valuation of derivative instruments, (v) the valuation of ABS nonrecourse debt, (vi) the valuation of excess spread financing, sale of mortgage loans, and accounting for mortgage loans held for investment, subject to nonrecourse debt, to be our critical accounting policies.

Fair Value Measurements

Mortgage Loans Held for Sale – Through September 30, 2009, we recorded mortgage loans held for sale at the lower of amortized cost or fair value on an aggregate basis grouped by delinquency status. Effective October 1, 2009, we elected to measure newly originated conventional residential mortgage loans held for sale at fair value, as permitted under current accounting guidance. We estimate fair value by evaluating a variety of market indicators including recent trades and outstanding commitments, calculated on an aggregate basis.

Mortgage Loans Held for Investment, Subject to ABS Nonrecourse Debt – We determine the fair value on loans held for investment, subject to ABS nonrecourse debt using internally developed valuation models. These valuation models estimate the exit price we expect to receive in the loan's principal market. Although we utilize and give priority to observable market inputs, such as interest rates and market spreads within these models, we typically are required to utilize internal inputs, such as prepayment speeds, credit losses and discount rates. These internal inputs require the use of our judgment and can have a significant impact on the determination of the loan's fair value. In December 2011, we sold our remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, we derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt.

MSRs at Fair Value – We recognize MSRs related to all existing forward residential mortgage loans transferred to a third party in a transfer that meets the requirements for sale accounting. Additionally, we may acquire the rights to service forward residential mortgage loans through the purchase of these rights from third parties. We apply fair value accounting to this class of MSRs, with all changes in fair value recorded as a charge or credit to servicing fee income in the consolidated statement of operations. We estimate the fair value of these MSRs using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being mortgage prepayment speeds, discount rates and credit losses.

We use internal financial models that use, wherever possible, market participant data to value these MSRs. These models are complex and use asset-specific collateral data and market inputs for interest and discount rates. In addition, the modeling requirements of MSRs are complex because of the high number of variables that drive cash flows associated with MSRs. Even if the general accuracy of our valuation models is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the models. On a periodic basis, a large portion of these MSRs are reviewed by an outside valuation expert.

Derivative Financial Instruments – We utilize certain derivative instruments in the ordinary course of our business to manage our exposure to changes in interest rates. These derivative instruments include forward sales of MBS, forward loan sale commitments and interest rate swaps and caps. We also issue interest rate lock commitments (IRLCs) to borrowers in connection with single family mortgage loan originations. We recognize all derivative instruments on our consolidated statement of financial position at fair value. The estimated fair values of forward sales of MBS and interest rate swaps and caps are based on quoted market values and are recorded as other assets or derivative financial instruments liabilities in the consolidated balance sheet. The initial and subsequent changes in value on forward sales of MBS are a component of gain/(loss) on mortgage loans held for sale in the consolidated statement of operations. The estimated fair values of IRLCs and forward sale commitments are based on quoted market values. Fair value amounts of IRLCs are adjusted for expected execution of outstanding loan commitments. IRLCs and forward sale commitments are recorded as a component of mortgage loans held for sale in the consolidated balance sheet. The initial and subsequent changes in value of IRLCs and forward sale commitments are a component of gain on mortgage loans held for sale in the consolidated statement of operations.

ABS Nonrecourse Debt – Effective January 1, 2010, new accounting guidance related to VIEs eliminated the concept of a QSPE, and all existing special purpose entities (SPEs) are subject to the new consolidation guidance. Upon adoption of this new accounting guidance, we identified certain securitization trusts where we, through our affiliates, continued to hold beneficial interests in these trusts. These retained beneficial interests obligate us to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant. In addition, as master servicer on the related mortgage loans, we retain the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE. When it is determined that we have both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, the assets and liabilities of these VIEs are included in our consolidated financial statements. Upon consolidation of these VIEs, we derecognized all previously recognized beneficial interests obtained as part of the securitization, including any retained investment in debt securities, and any remaining residual interests. In addition, we recognized the securitized mortgage loans as mortgage loans held for investment, subject to ABS nonrecourse debt, and the related asset-backed certificates acquired by third parties as ABS nonrecourse debt on our consolidated balance sheet.

We estimate the fair value of ABS nonrecourse debt based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. In December 2011, we sold our remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the variable interest. Upon deconsolidation of this VIE in 2011, we derecognized the related ABS nonrecourse debt.

Excess Spread Financing - In December 2011, we entered into a sale and assignment agreement, which we treated as a financing with an affiliated entity, whereby we sold the right to receive 65% of the excess cash flow generated from a certain underlying MSR portfolio after receipt of a fixed basic servicing fee per loan. We will retain all ancillary income associated with servicing the portfolio and 35% of the excess cash flow after receipt of the fixed basic servicing fee. We measure this financing arrangement at fair value to more accurately represent the future economic performance of the acquired MSRs and related excess servicing financing. We estimate the fair value of this financing using a process that combines the use of a discounted cash flow model and analysis of quoted market prices based on the value of the underlying MSRs.

Sale of Mortgage Loans - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered by us. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from us, (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) we do not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates us to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets. Loan securitizations structured as sales as well as whole loan sales are accounted for as sales of mortgage loans and the resulting gains or losses on such sales, net of any accrual for standard representations and warranties, are reported in operating results as a component of gain/(loss) on mortgage loans held for sale in the consolidated statement of operations during the period in which the securitization closes or the sale occurs.

Mortgage Loans Held for Investment, Subject to Nonrecourse Debt - We account for the loans that were transferred to held for investment from held for sale during October 2009 in a manner similar to ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the date of transfer, we evaluated such loans to determine whether there was evidence of deterioration of credit quality since acquisition and if it was probable that we would be unable to collect all amounts due according to the loan's contractual terms. The transferred loans were aggregated into separate pools of loans based on common risk characteristics (loan delinquency). We consider expected prepayments, and estimate the amount and timing of undiscounted expected principal, interest, and other cash flows for each aggregated pool of loans. The determination of expected cash flows utilizes internal inputs such as prepayment speeds and credit losses. These internal inputs require the use of judgment and can have a significant impact on the accretion of income and/or valuation allowance. We determine the excess of the pool's scheduled contractual principal and contractual interest payments over all cash flows expected as of the transfer date as an amount that should not be accreted (nonaccretable difference). The remaining amount is accreted into interest income over the remaining life of the pool of loans (accretable yield). The difference between the undiscounted cash flows expected and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan. Increases in expected cash flows subsequent to the transfer are recognized prospectively through an adjustment of the yield on the loans over the remaining life. Decreases in expected cash flows subsequent to transfer are recognized as a valuation allowance.

Recent Developments

Updated Loan Agreements

In January 2012, Nationstar extended the maturity date of the $75 million warehouse facility with a financial institution, to January 2013 and increased the committed amount under this warehouse facility to $175 million. Nationstar herein refers to this facility as the $175 Million Warehouse Facility.

In February 2012, Nationstar extended the maturity date of the $100 Million Warehouse Facility to January 2013. Also in February 2012, Nationstar extended the maturity date of the $300 Million Warehouse Facility to February 2013 and decreased the committed amount under this warehouse facility to $150 million.

On February 29, 2012, Nationstar amended the $50 Million Warehouse Facility with a financial institution. This amendment increased the facility to $100 million, extended the maturity to February 2013, changed the interest rate to LIBOR plus a range of 2.25% to 3.00%, and increased the tangible net worth requirement to $175 million.

In March 2012, Nationstar extended the maturity date of the Securities Repurchase Facility to June 2012.

MSR Purchase

In December 2011, Nationstar entered into a servicing rights sale and issuer transfer agreement (the "Servicing Rights Sale and Issuer Transfer Agreement") with a financial institution. Under the Servicing Rights Sale and Issuer Transfer Agreement, Nationstar agreed to purchase certain servicing rights relating to reverse mortgage loans with an aggregate UPB as of December 31, 2011 of approximately $18 billion and assume certain liabilities associated with such MSRs. On December 22, 2011, Nationstar deposited in escrow the purchase price of the MSRs relating to reverse mortgage loans with an aggregate UPB as of December 31, 2011 of approximately $7.8 billion, and the related advances. The acquisition was completed on January 3, 2012. Nationstar's acquisition of MSRs related to an additional $9.5 billion of UPB as of December 31, 2011 is expected to close during 2012 upon receipt of certain specified third party approvals. On December 23, 2011, Nationstar paid a deposit of $9.0 million related to such servicing. Additionally, Nationstar expects to subservice on behalf of the bank certain reverse mortgage loans with a UPB as of December 31, 2011 of approximately $1.4 billion beginning in the latter half of 2012. These reverse mortgage loan servicing rights represent a new class of servicing rights for Nationstar and will be accounted for under the amortization method.

Recently Appointed Executive Officers

In February 2012, Nationstar appointed David C. Hisey as Chief Financial Officer of our Parent. Mr. Hisey assumed this position on February 27, 2012. Subject to regulatory approval, Mr. Hisey will hold the same position at Nationstar Mortgage LLC. Mr. Hisey was previously the Executive Vice President and Deputy Chief Financial Officer for Fannie Mae, a role he held since 2008. From 2005 to 2008, he served as Senior Vice President and Controller for Fannie Mae. Prior to his most recent assignment at Fannie Mae, he also briefly served as executive Vice President and Chief Financial Officer. Prior to joining Fannie Mae, Mr. Hisey was Corporate Vice President of Financial Services Consulting, Managing Director and practice leader of the Lending and Leasing Group of BearingPoint, Inc., a management consulting and systems integration company. Prior to joining BearingPoint in 2001, Mr. Hisey was an audit partner with KPMG, LLP; his tenure at KPMG spanned 19 years from 1982 to 2001. He received a Bachelor of Business Administration degree in Accounting from James Madison University and is a certified public accountant.

In February 2012, Nationstar appointed Harold Lewis as President and Chief Operating Officer of Nationstar Mortgage Holdings, Inc. Mr. Lewis assumed these positions on February 27, 2012. Subject to regulatory approval, Mr. Lewis will hold the same positions at Nationstar Mortgage LLC. Mr. Lewis was previously the Chief Operating Officer at CitiMortgage, responsible for Operations, Technology and key CitiMortgage functions. In this role, Mr. Lewis oversaw more than 9,000 employees and was also responsible for Customer Experience, Services, Agency Relations and Re-engineering. Mr. Lewis joined CitiMortgage in April 2009 as head of the Citi Homeowner Assistance Program. Prior to CitiMortgage, Mr. Lewis held executive positions at Fannie Mae for seven years, most recently as Senior Vice President of National Servicing where he was responsible for the management of 1,400 mortgage servicers. Mr. Lewis has also held senior management roles with Resource Bancshares Mortgage Group, Nations Credit, Bank of America/Barnett Bank, Cardinal Bank Shares and Union Planter National Bank. Mr. Lewis received his Bachelor of Science degree in Business from Memphis State University.

MSR Acquisition

On March 6, 2012, Nationstar entered into an asset purchase agreement (the "Asset Purchase Agreement") with Aurora Bank FSB, a federal savings bank organized under the laws of the United States, and Aurora Loan Services LLC, a Delaware limited liability company (collectively with Aurora Bank FSB, the "Sellers"). Each of the Sellers is a subsidiary of Lehman Brothers Bancorp Inc. Under the Asset Purchase Agreement, Nationstar agreed to purchase the MSRs to approximately 300,000 residential mortgage loans with a total UPB of approximately $63 billion, $1.75 billion of servicing advance receivables, and certain other assets. The composition of the total portfolio is expected to be approximately 75% non-conforming loans in private label securitizations and approximately 25% conforming loans in GSE pools. Nationstar has also agreed to assume certain liabilities. The transaction is expected to close in the second quarter of 2012, subject to customary closing conditions, including certain regulatory approvals and third party consents, and customary termination rights.

The cash purchase price of the MSRs is approximately $268 million, subject to certain adjustments. The equity portion of the purchase price of the servicing advance receivables is approximately $210 million and the balance will be financed with advance financing facilities that we expect to enter into in connection with this transaction. The servicing advance receivables represent amounts that the sellers have previously advanced as mortgage servicers in respect of the underlying mortgage loans that would be recovered if the loan is liquidated, modified or otherwise become current.

In addition, Nationstar will fund up to approximately $170 million of the MSR purchase price with the proceeds of a co-investment (the "Excess MSR Agreement") by Newcastle Investment Corp. ("Newcastle"), which is an affiliate of Nationstar. Pursuant to the Excess MSR Agreement, Nationstar will sell to Newcastle the right to receive approximately 65% of the excess cash flow generated from the MSRs after receipt of a fixed basic servicing fee per loan. Excess cash flow is equal to the servicing fee collected minus the basic servicing fee and excludes late fees, incentive fees and other ancillary income earned by the servicer. Nationstar will retain all ancillary income associated with servicing the loans and approximately 35% of the excess cash flow after receipt of the fixed basic servicing fee. Nationstar will continue to be the servicer of the loans and provide all servicing and advancing functions for the loans. Under the terms of this investment, if Nationstar refinances any loan in the portfolio, subject to certain limitations, it will be required to transfer the new loan or a replacement loan into the portfolio. The new or replacement loan will be governed by the same terms set forth in the Excess MSR Agreement.

Nationstar and the Sellers have agreed to indemnify each other against certain losses (subject to certain limitations), including certain losses from claims up to an aggregate amount of 50% of the aggregate purchase price of the MSRs, after which Nationstar will bear the entirety of such losses.

Registration Statement

On February 24, 2012, our Parent filed a registration statement on Form S-1, for the offering of 19,166,667 shares of its common stock. The registration statement became effective on March 7, 2012. Under the terms of the offering, all of the equity interests in the Company transferred from FIF HE Holdings LLC to two direct, wholly-owned subsidiaries of our Parent, and our Parent issued 19,166,667 shares of $0.01 par value common stock at an initial offering price of $14.00 per share. The intent of this offering was to transform our Parent into a publicly traded company and use the proceeds from this offering for working capital and other general corporate purposes, including servicing acquisitions.

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Results of Operations

Below is a summarization of our consolidated operating results for the periods indicated. We provide further discussion of our results of operations for each of our reportable segments under "Segment Results" below. Certain income and expenses not allocated to our reportable segments are presented under "Legacy Portfolio and Other" below and discussed in "Note 24- Business Segment Reporting", in the accompanying Notes to Consolidated Financial Statements.

Comparison of Consolidated Results for the Years Ended December 31, 2011 and 2010

Revenues increased $116.3 million from $261.4 million for the year ended December 31, 2010 to $377.7 million for the year ended December 31, 2011, due to increases in both our total fee income and our gain on mortgage loans held for sale offset by MSR fair value adjustments amounting to $39.0 million. The increase in our total fee income was primarily the result of our higher average servicing portfolio balance of $81.5 billion for the year ended December 31, 2011, compared to $38.7 billion for the year ended December 31, 2010, and an increase in modification fees earned from HAMP and other non-HAMP modifications. The increase in the gain on loans held for sale was a result of the $620.6 million, or 22.2%, increase in the amount of loans originated during the 2011 period compared to the 2010 period and higher margins earned on the sale of residential mortgage loans during the period.

Expenses and impairments increased $85.2 million from $221.0 million for the year ended December 31, 2010 to $306.2 million for the year ended December 31, 2011, primarily due to the increase in compensation expenses related to increased staffing levels in order to accommodate our larger servicing portfolio and originations volumes as well as other related increases in general and administrative expenses.

Other expense increased $0.3 million from $50.4 million for the year ended December 31, 2010 to $50.7 million for the year ended December 31, 2011, primarily due to a decrease in our net interest margin resulting from higher average outstanding balances on our outstanding warehouse and advance facilities. This amount was partially offset by the impact of our fair value mark-to-market charges that were realized on our 2009-ABS interest rate swap for $9.8 million for the year ended December 31, 2010, compared to a $0.3 million gain recognized for the year ended December 31, 2011.

Comparison of Consolidated Results for the Years Ended December 31, 2010 and 2009

Revenues increased $182.5 million from $78.9 million for the year ended December 31, 2009 to $261.4 million for the year ended December 31, 2010, primarily due to the significant increase in our total fee income and an increase in our gain on mortgage loans held for sale. The increase in our total fee income was primarily a result of (i) our higher average servicing portfolio balance of $38.7 billion for the year ended December 31, 2010, compared to $25.8 billion for the year ended December 31, 2009, and (ii) an increase in portfolio level performance-based fees and fees earned for loss mitigation activities. The increase in the gain on loans held for sale was a result of the $1.3 billion, or 88.7%, increase in the amount of loans originated during 2010 as well as the elimination of lower of cost or market adjustments related to our legacy asset portfolio.

Expenses and impairments increased $78.6 million from $142.4 million for the year ended December 31, 2009 to $221.0 million for the year ended December 31, 2010, primarily due to the increase in compensation expenses related to increased staffing levels in order to accommodate our larger servicing portfolio and originations as well as other related increases in general and administrative expenses. Our 2010 operating results include an additional $12.1 million in share-based compensation expense from revised compensation arrangements executed with certain members of our executive team. Additionally, expenses and impairments increased from the consolidation of certain VIEs from January 1, 2010, and from expenses associated with the settlement of certain claims.

Other expense increased $33.0 million from $17.4 million for the year ended December 31, 2009 to $50.4 million for the year ended December 31, 2010, primarily due to the effects of the consolidation of certain VIEs and the losses on our outstanding interest rate swap positions during 2010.

Segment Results

Our primary business strategy is to generate recurring, stable income from managing and growing our servicing portfolio. We operate through two business segments: the Servicing Segment and the Originations Segment, which we refer to collectively as our Operating Segments. We

report the activity not related to either operating segment in Legacy Portfolio and Other. Legacy Portfolio and Other includes primarily all subprime mortgage loans (i) originated mostly from April to July 2007 or (ii) acquired from CHEC, and VIEs which were consolidated pursuant to the January 1, 2010 adoption of new consolidation guidance related to VIEs. As of December 31, 2011, we had no consolidated VIEs.

The accounting policies of each reportable segment are the same as those of the consolidated financial statements except for (i) expenses for consolidated back-office operations and general overhead expenses such as executive administration and accounting and (ii) revenues generated on inter-segment services performed. Expenses are allocated to individual segments based on the estimated value of the services performed, including estimated utilization of square footage and corporate personnel, as well as the equity invested in each segment. Revenues generated or inter-segment services performed are valued based on similar services provided to external parties.

Servicing Segment

The Servicing Segment provides loan servicing on our primary and subservicing portfolios, including the collection of principal and interest payments and the generation of ancillary fees related to the servicing of mortgage loans.

Increase in aggregate UPB of our servicing portfolio primarily governs the increase in revenues, expenses and other income (expense) of our Servicing Segment.

The table below provides detail of the characteristics of our servicing portfolio at the periods indicated.

Year ended December 31,	2011	2010	2009
Servicing Portfolio (in millions)			
Unpaid principal balance (by investor):			
Special Servicing	$ 10,165	$ 4,893	$ 1,554
Government-sponsored enterprises	69,772	52,194	24,235
Non-Agency Securitizations	18,868	7,089	7,875
Total boarded unpaid principal balance	98,805	64,176	33,664
Servicing under contract	7,781	—	—
Total servicing portfolio unpaid principal balance	$ 106,586	$ 64,176	$ 33,664

The table below provides detail of the characteristics and key performance metrics for the years ended December 31, 2011, 2010, and 2009.

Year ended December 31,	2011 (1)	2010	2009
	($ in millions, except for average loan amount)		
Loan count-servicing	596,011	389,172	230,615
Ending unpaid principal balance	$ 98,805	$ 64,176	$ 33,664
Average unpaid principal balance	$ 81,491	$ 38,653	$ 25,799
Average loan amount	$ 165,778	$ 164,904	$ 145,977
Average coupon	5.43%	5.74%	6.76%
Average FICO	627	631	644
60+ delinquent (% of loans) (2)	14.7%	17.0%	19.9%
Total prepayment speed (12 month constant pre-payment rate)	13.4%	13.3%	16.3%

(1) 2011 characteristics and key performance metrics of our servicing portfolio exclude approximately $7.8 billion of reverse residential mortgage loans for which we entered into an agreement to acquire the MSRs in December 2011 and closed in January 2012.

(2) Loan delinquency is based on the current contractual due date of the loan. In the case of a completed loan modification, delinquency is based on the modified due date of the loan.

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Servicing Segment for the Years Ended December 31, 2011 and 2010

Servicing fee income consists of the following for the periods indicated (in thousands).

Year ended December 31,	2011	2010
Servicing fee income	$ 207,102	$ 118,443
Loss mitigation and performance-based incentive fees	15,671	16,621
Modification fees	32,552	21,792
Late fees and other ancillary charges	23,728	22,828
Other servicing fee related revenues	1,401	1,928
Total servicing fee income before MSR fair value adjustments	280,454	181,612
Fair value adjustments on excess spread financing	(3,060)	—
MSR fair value adjustments	(39,000)	(6,043)
Total servicing fee income	$ 238,394	$ 175,569

The following tables provide servicing fee income and UPB by primary servicing and subservicing for and at the periods indicated (in thousands).

Servicing Fee Income Year ended December 31,	2011	2010
Primary servicing	$ 164,096	$ 161,312

	2011	2010
Subservicing	116,358	20,300
Total servicing fee income before MSR fair value adjustments	$ 280,454	$ 181,612

UPB (in millions) Year ended December 31,	2011	2010
Primary servicing	$ 45,817	$ 34,404
Subservicing	52,988	29,772
Total unpaid principal balance	$ 98,805	$ 64,176

Servicing fee income was $238.4 million for the year ended December 31, 2011 compared to $175.6 million for the year ended December 31, 2010, an increase of $62.8 million, or 35.8%, primarily due to the net effect of the following:

- Increase of $88.7 million due to higher average UPB of $81.5 billion in the 2011 period compared to $38.7 billion in the comparable 2010 period. The increase in our servicing portfolio was primarily driven by an increase in average UPB for loans serviced for GSEs and other subservicing contracts for third party investors of $61.0 billion in the 2011 period compared to $28.0 billion in the comparable 2010 period. In addition, we also experienced an increase in average UPB for our private asset-backed securitizations portfolio, which increased to $13.0 billion in the year ended December 31, 2011 compared to $7.4 billion in the comparable 2010 period.

- Increase of $10.8 million due to higher modification fees earned from HAMP and non-HAMP modifications.

- Decrease of $0.9 million due to decreased loss mitigation and performance-based incentive fees earned from a GSE.

- Decrease of $33.0 million from change in fair value on MSRs which was recognized in servicing fee income. The fair value of our MSRs is based upon the present value of the expected future cash flows related to servicing these loans. The revenue components of the cash flows are servicing fees, interest earned on custodial accounts, and other ancillary income. The expense components include operating costs related to servicing the loans (including delinquency and foreclosure costs) and interest

expenses on servicing advances. The expected future cash flows are primarily impacted by prepayment estimates, delinquencies, and market discount rates. Generally, the value of MSRs increases when interest rates increase and decreases when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Other factors affecting the MSR value includes the estimated effects of loan modifications on expected cash flows. Such modifications tend to positively impact cash flows by extending the expected life of the affected MSR and potentially producing additional revenue opportunities depending on the type of modification. In valuing the MSRs, we believe our assumptions are consistent with the assumptions other major market participants use. These assumptions include a level of future modification activity that we believe major market participants would use in their valuation of MSRs. Internally, we have modification goals that exceed the assumptions utilized in our valuation model. Nevertheless, were we to apply an assumption of a level of future modifications consistent with our internal goals to our MSR valuation, we do not believe the resulting increase in value would be material. Additionally, several state Attorneys General have requested that certain mortgage servicers, including us, suspend foreclosure proceedings pending internal review to ensure compliance with applicable law, and we received requests from four such state Attorneys General. Although we have resumed those previously delayed proceedings, changes in the foreclosure process that may be required by government or regulatory bodies could increase the cost of servicing and diminish the value of our MSRs. We utilize assumptions of servicing costs that include delinquency and foreclosure costs that we believe major market participants would use to value their MSRs. We periodically compare our internal MSR valuation to third party valuation of our MSRs to help substantiate our market assumptions. We have considered the costs related to the delayed proceedings in our assumptions and we do not believe that any resulting decrease in the MSR was material given the expected short-term nature of the issue.

Other fee income was $17.1 million for the year ended December 31, 2011 compared to $7.3 million for the year ended December 31, 2010, an increase of $9.8 million, or 134.2%, due to higher commissions earned on lender placed insurance and higher REO sales commissions.

The following table provides other fee income by primary servicing, subservicing and adjacent businesses for the periods indicated (in thousands).

Other Fee Income

Year ended December 31,	2011	2010
Primary servicing	$ 5,520	$ 6,865
Subservicing	3,038	408
Adjacent businesses	8,524	—
Total other fee income	$ 17,082	$ 7,273

Expenses and impairments were $177.9 million for the year ended December 31, 2011 compared to $107.3 million for the year ended December 31, 2010, an increase of $70.6 million, or 65.8%, primarily due to the increase of $45.4 million in salaries, wages and benefits expense resulting primarily from an increase in average headcount from 1,178 in 2010 to 1,966 in 2011 and an increase of $25.2 million in general and administrative and occupancy-related expenses associated with increased headcount and growth in the servicing portfolio. Our 2011 operating results include an $8.2 million increase in share-based compensation expense from revised compensation arrangements executed with certain members of our executive team during the third quarter of 2010.

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The following table provides primary servicing, subservicing, adjacent businesses and other Servicing Segment expenses for the periods indicated (in thousands).

Expenses and impairments Year ended December 31,	2011	2010
Primary servicing	$ 70,549	$ 82,772
Subservicing	82,938	18,276
Adjacent businesses	9,100	—
Other Servicing Segment expenses	15,343	6,235
Total expenses and impairments	$ 177,930	$ 107,283

Other Servicing Segment expenses primarily include share-based compensation expenses.

Total other income (expense) was $(55.5) million for the year ended December 31, 2011 compared to $(61.3) million for the year ended December 31, 2010, a decrease in expense, net of income, of $5.8 million, or 9.5%, primarily due to the net effect of the following:

— Interest income was $2.3 million for the year ended December 31, 2011 compared to $0.3 million for the year ended December 31, 2010, an increase of $2.0 million, due to higher average outstanding custodial cash deposit balances on custodial cash accounts as a result of the growth in our servicing portfolio.

— Interest expense was $58.0 million for the year ended December 31, 2011 compared to $51.8 million for the year ended December 31, 2010, an increase of $6.2 million, or 12.0%, primarily due to higher average outstanding debt of $642.9 million in the year ended December 31, 2011 compared to $638.6 million in the comparable 2010 period. The impact of the higher debt balances is partially offset by lower interest rates due to declines in the base LIBOR and decreases in the overall index margin on outstanding servicer advance facilities. Interest expense from the senior notes was $30.3 million and $22.1 million, respectively, for the years ended December 31, 2011 and 2010. Interest expense also includes gains for the ineffective portion of cash flow hedge of $2.0 million and $0.9 million, respectively, for the years ended December 31, 2011 and 2010.

— Loss on interest rate swaps and caps was $9.8 million for the year ended December 31, 2010 compared to a $0.3 million gain for the year ended December 31, 2011. Effective October 1, 2010, we designated an existing interest rate swap as a cash flow hedge against outstanding floating rate financing associated with one of our outstanding servicer advance facilities. This interest rate swap is recorded at fair value, with any changes in fair value related to the effective portion of the hedge being recorded as an adjustment to other comprehensive income. Prior to this designation, any changes in fair value were recorded as a loss on interest rate swaps and caps on our statement of operations. In conjunction with our October 2011 amendment to our 2010-ABS Advance Financing Facility, we paid off our 2009-ABS Advance Financing Facility and transferred the related collateral to the 2010-ABS Advance Financing Facility. Concurrently with the repayment of the 2009-ABS Advance Financing Facility, we de-designated the underlying interest rate swap on our 2009-ABS Advance Financing Facility. Our outstanding 2010-ABS interest rate swap served as an economic hedge during the period it was outstanding for the year ended December 31, 2011.

Servicing Segment for the Years Ended December 31, 2010 and 2009

Servicing fee income consists of the following for the periods indicated (in thousands).

Year ended December 31,	2010	2009
Servicing fee income	$ 118,443	$ 83,659
Loss mitigation and performance-based incentive fees	16,621	7,658
Modification fees	21,792	3,868
Late fees and other ancillary charges	22,828	21,901
Other servicing fee related revenues	1,928	2,095
Total servicing fee income before MSR fair value adjustments	181,612	119,181
MSR fair value adjustments	(6,043)	(27,915)
Total servicing fee income	$ 175,569	$ 91,266

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The following tables provide servicing fee income and UPB by primary servicing and subservicing for and at the periods indicated.

Servicing Fee Income (in thousands) Year ended December 31,	2010	2009
Primary servicing	$ 161,312	$ 116,966
Subservicing	20,300	2,215
Total servicing fee income before MSR fair value adjustments	$ 181,612	$ 119,181

UPB (in millions) Year ended December 31,	2010	2009
Primary servicing	$ 34,404	$ 32,871
Subservicing	29,772	793
Total unpaid principal balance	$ 64,176	$ 33,664

Servicing fee income was $175.6 million for the year ended December 31, 2010 compared to $91.3 million for the year ended December 31, 2009, an increase of $84.3 million, or 92.3%, primarily due to the net effect of the following:

(a) Increase of $34.8 million due to higher average UPB of $38.7 billion in 2010 compared to $25.8 billion in 2009. The increase in our servicing portfolio was primarily driven by an increase in average UPB for loans serviced for GSEs and other subservicing contracts for third party investors of $31.2 billion in 2010 compared to $17.2 billion in 2009. This increase was partially offset by a decrease in average UPB for our asset-backed securitizations portfolio, which decreased to $7.4 billion in 2010 compared to $8.6 billion in 2009.

(b) Increase of $8.9 million due to increased loss mitigation and performance-based incentive fees earned from a GSE.

(c) Increase of $17.9 million due to higher fees earned from HAMP and from modification fees earned on non-HAMP modifications. As a high touch servicer, we use modifications as a key loss mitigation tool. Under HAMP, subject to a program participation cap, we, as a servicer, will receive an initial incentive payment of up to $1,500 for each loan modified in accordance with HAMP subject to the condition that the borrower successfully completes a trial modification period. With this program, the servicer must forego any late fees and may not charge any other fees. In addition, provided that a HAMP modification does not become 90 days or more delinquent, we will receive an additional incentive fee of up to $1,000. Initial redefault rates have been favorable, averaging 10% to 20%. The HAMP program has an expiration date of December 31, 2012 and is only applicable to first lien mortgages that were originated on or before January 1, 2009. For non-HAMP modifications, we generally do not waive late fees, and we charge a modification fee. These amounts are collected at the time of the modification.

(d) Increase of $21.9 million from change in fair value on MSRs which was recognized in servicing fee income. The fair value of our MSRs is based upon the present value of the expected future cash flows related to servicing these loans. The revenue components of the cash flows are servicing fees, interest earned on custodial accounts, and other ancillary income. The expense components include operating costs related to servicing the loans (including delinquency and foreclosure costs) and interest expenses on servicing advances. The expected future cash flows are primarily impacted by prepayment estimates, delinquencies, and market discount rates. Generally, the value of MSRs increases when interest rates increase and decreases when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Other factors affecting the MSR value includes the estimated effects of loan modifications on expected cash flows. Such modifications tend to positively impact cash flows by extending the expected life of the affected MSR and potentially producing additional revenue opportunities depending on the type of modification. In valuing the MSRs, we believe our assumptions are consistent with the assumptions other major market participants use. These assumptions include a level of future modification activity that we believe major market participants would use in their valuation of MSRs. Internally, we have modification goals that exceed the assumptions utilized in our valuation model. Nevertheless, were we to utilize an assumption of a level of future modifications consistent with our internal goals to our MSR valuation, we do not believe the resulting increase in value would be material.

(e) Increase of $0.9 million due to an increase in ancillary and late fees arising from growth in the servicing portfolio. Late fees are recognized as revenue at collection.

Other fee income was $7.3 million for the year ended December 31, 2010 compared to $8.9 million for the year ended December 31, 2009, a decrease of $1.6 million, or 18.0%, due to lower lender-placed insurance commissions and lower REO sales commissions resulting from a decline in REO sales managed by our internal REO sales group.

The following table provides other fee income by primary servicing and subservicing for the periods indicated (in thousands).

Other Fee Income Year ended December 31,	2010	2009
Primary servicing	$ 6,865	$ 8,867
Subservicing	408	–
Total other fee income	$ 7,273	$ 8,867

Expenses and impairments were $107.3 million for the year ended December 31, 2010 compared to $70.9 million for the year ended December 31, 2009, an increase of $36.4 million, or 51.3%, primarily due to an increase of $21.6 million in salaries, wages and benefits expense resulting from an increase in headcount from 910 in 2009 to 1,178 in 2010 and $4.9 million in additional share-based compensation from revised compensation arrangements with certain of our executives. Additionally, we recognized an increase of $14.8 million in general and administrative and occupancy expenses associated with increased headcount, growth in the servicing portfolio and increases in reserves for non-recoverable advances.

The following table provides key primary servicing, subservicing and other Servicing Segment expenses for the periods indicated (in thousands).

Expenses and impairments Year ended December 31,	2010	2009
Primary servicing	$ 82,772	$ 67,330
Subservicing	18,276	2,232
Other Servicing Segment expenses	6,235	1,335
Total expenses and impairments	$ 107,283	$ 70,897

Other Servicing Segment expenses primarily include share-based compensation expenses.

Total other income (expense) was $(61.3) million for the year ended December 31, 2010 compared to $(21.7) million for the year ended December 31, 2009, an increase in expense, net of income, of $39.6 million, or 182.5%, primarily due to the net effect of the following:

- Interest income decreased $3.8 million due to lower average index rates received on custodial cash deposits associated with mortgage loans serviced combined with lower average outstanding custodial cash deposit balances.
- Interest expense increased $25.9 million primarily due to higher average outstanding debt of $638.6 million in 2010 compared to $313.3 million in 2009, offset by lower interest rates due to declines in the base LIBOR and decreases in the overall index margin on outstanding servicer advance facilities. Additionally, in 2010, we have included the balances related to our outstanding corporate note and unsecured senior debt balances, and the related interest expense thereon, as a component of our Servicing Segment. As a result of the weakening housing market, we continued to carry approximately $530.9 million in residential mortgage loans that we were unable to securitize as mortgage loans held for sale on our balance sheet throughout most of 2009. During this time period, we allocated a portion of our outstanding corporate note balance to Legacy Portfolio and Other to account for the increased capacity and financing costs we incurred while these loans were retained on our balance sheet. For the year ended December 31, 2010, we recorded $22.1 million in interest expense related to our

outstanding corporate and unsecured senior notes.

- Loss on interest rate swaps and caps was $9.8 million for the year ended December 31, 2010, with no corresponding gain or loss recognized for the year ended December 31, 2009. The loss for the period was a result of a decline in fair value recognized during the period on outstanding interest rate swaps designed to economically hedge the interest rate risk associated with our 2009-ABS Advance Financing Facility. This facility was not executed until the end of the fourth quarter of 2009, so we did not recognize any corresponding fair value adjustments during the year ended December 31, 2009.

Originations Segment

The Originations Segment involves the origination, packaging, and sale of GSE mortgage loans into the secondary markets via whole loan sales or securitizations.

Increase in originations volume primarily governs the increase in revenues, expenses and other income (expense) of our Originations Segment. The table below provides detail of the loan characteristics of loans originated for the periods indicated.

	Year ended December 31,		
Originations Volume (in millions):	**2011**	**2010**	**2009**
Retail	$ 2,200	$ 1,608	$ 1,093
Wholesale	1,212	1,184	386
Total Originations	$ 3,412	$ 2,792	$ 1,479

<u>*Originations Segment for the Years Ended December 31, 2011 and 2010*</u>

Total revenues were $123.5 million for the year ended December 31, 2011 compared to $84.5 million for the year ended December 31, 2010, an increase of $39.0 million, or 46.2%, primarily due to the net effect of the following:

— Other fee income was $14.1 million for the year ended December 31, 2011 compared to $7.0 million for the year ended December 31, 2010, an increase of $7.1 million, or 101.4%, primarily due to higher points and fees collected as a result of the $620.6 million increase in loan originations volume, combined with a decrease in fees paid to third party mortgage brokers.

Gain on mortgage loans held for sale consists of the following for the periods indicated (in thousands).

Year ended December 31,	**2011**	**2010**
Gain on sale	$ 68,567	$ 51,839
Provision for repurchases	(5,534)	(4,649)
Capitalized servicing rights	36,474	26,253
Fair value mark-to-market adjustments	11,159	2,301
Mark-to-market on derivatives/hedges	(1,235)	1,754
Total gain on mortgage loans held for sale	$ 109,431	$ 77,498

— Gain on mortgage loans held for sale was $109.4 million for the year ended December 31, 2011, compared to $77.5 million for the year ended December 31, 2010, an increase of $31.9 million, or 41.2%, primarily due to the net effect of the following:

- Increase of $16.8 million from larger volume of originations, which increased from $2.8 billion in 2010 to $3.4 billion in 2011, and higher margins earned on the sale of residential mortgage loans during the period.
- Increase of $10.2 million from capitalized MSRs due to the larger volume of originations and subsequent retention of MSRs.
- Increase of $8.9 million resulting from the change in fair value on newly-originated loans.
- Decrease of $3.0 million from change in unrealized gains/losses on derivative financial instruments. These include IRLCs and forward sales of MBS.

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- Decrease of $0.9 million from an increase in our provision for repurchases as a result of the increase in our loan sale volume.

Expenses and impairments were $101.6 million for the year ended December 31, 2011 compared to $86.9 million for the year ended December 31, 2010, an increase of $14.7 million, or 16.9%, primarily due to the net effect of the following:

— Increase of $13.8 million in salaries, wages and benefits expense from increase in average headcount of 688 in 2010 to 988 in 2011 and increases in performance-based compensation due to increases in originations volume.

— Increase of $0.8 million in general and administrative and occupancy expense primarily due to an increase in our overhead expenses from the higher originations volume in the 2011 period. Additionally we recorded total charges in November 2011 of $1.8 million related to our strategic decision to refocus our strategy with respect to our originations platform.

Total other income (expense) was $1.8 million for the year ended December 31, 2011 compared to $3.0 million for the year ended December 31, 2010, a decrease in income, net of expense, of $1.2 million, or 40.0% primarily due to the net effect of the following:

— Interest income was $12.7 million for the year ended December 31, 2011 compared to $11.8 million for the year ended December 31, 2010, an increase of $0.9 million, or 7.6%, representing interest earned from originated loans prior to sale or securitization. The increase is primarily due to the increase in the volume of originations. Loans are typically sold within 30 days of origination.

— Interest expense was $11.0 million for the year ended December 31, 2011 compared to $8.8 million for the year ended December 31, 2010, an increase of $2.2 million, or 25.0%, primarily due to an increase in originations volume in 2011 and associated financing required to originate these loans, combined with a slight increase in outstanding average days in warehouse on newly originated loans.

Originations Segment for the Years Ended December 31, 2010 and 2009

Total revenues were $84.5 million for the year ended December 31, 2010 compared to $55.6 million for the year ended December 31, 2009, an increase of $28.9 million, or 52.0%, primarily due to the net effect of the following:

- Other fee income was $7.0 million for the year ended December 31, 2010 compared to $1.2 million for the year ended December 31, 2009, an increase of $5.8 million or 483.3%, primarily due to our election to measure newly originated conventional residential mortgage loans held for sale at fair value, effective October 1, 2009. Subsequent to this election, any collected points and fees related to originated mortgage loans held for sale are included in other fee income. Prior to this election, points and fees were recorded as deferred originations income and recognized over the life of the mortgage loan as an adjustment to our interest income yield or, when the related loan was sold to a third party purchaser, included as a component of gain on mortgage loans held for sale.

- Gain on mortgage loans held for sale was $77.5 million for the year ended December 31, 2010 compared to $54.4 million for the year ended December 31, 2009, an increase of $23.1 million, or 42.5%, primarily due to the net effect of the following:

  (a) Increase of $22.4 million from improved margins and larger volume of originations, which increased from $1.5 billion for the year ended December 31, 2009 to $2.8 billion for the year ended December 31, 2010.

  (b) Increase of $17.9 million from capitalized MSRs due to the larger volume of originations and subsequent retention of servicing rights.

  (c) Decrease of $0.7 million from change in unrealized gains/(losses) on derivative financial instruments. These include IRLCs and forward sales of MBS.

  (d) Decrease of $20.2 million from recognition of points and fees earned on mortgage loans held for sale for the year ended December 31, 2009. Effective October 1, 2009, all points and fees are recognized at origination upon the election to apply fair value accounting to newly-originated loans and are recognized as a component of other fee income.

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Expenses and impairments were $86.9 million for the year ended December 31, 2010 compared to $47.5 million for the year ended December 31, 2009, an increase of $39.4 million, or 82.9%, primarily due to the net effect of the following:

- Increase of $26.4 million in salaries, wages and benefits expense from increase in headcount of 452 in 2009 to 688 in 2010 and increases in performance-based compensation. Additionally, we recognized $3.6 million in share-based compensation expense from revised compensation arrangements with certain of our executives.

- Increase of $13.1 million in general and administrative and occupancy expense primarily due to increase in overhead expenses from the larger volume of originations in 2010 and expenses associated with certain claims.

Total other income (expense) was $3.0 million for the year ended December 31, 2010 compared to $0.8 million for the year ended December 31, 2009, an increase in income, net of expense, of $2.2 million, or 275.0%, primarily due to the net effect of the following:

- Interest income increased $7.5 million from interest earned from originated loans prior to sale or securitization. The increase is primarily due to the increase in the volume of originations. Loans are typically sold within 30 days of origination.

- Interest expense increased $5.4 million primarily due to an increase in originations volume in 2010 and associated financing required to originate these loans combined with a slight increase in outstanding average days in warehouse on newly originated loans.

Legacy Portfolio and Other

Through December 2009, our Legacy Portfolio and Other consisted primarily of non-prime and nonconforming residential mortgage loans that we primarily originated from April to July 2007. Revenues and expenses are primarily a result of mortgage loans transferred to securitization trusts that were structured as secured borrowings, resulting in carrying the securitized loans as mortgage loans on our consolidated balance sheets and recognizing the asset-backed certificates as nonrecourse debt. Prior to September 2009, these residential mortgage loans were classified as mortgage loans held for sale on our consolidated balance sheet and carried at the lower of cost or fair value and financed through a combination of our existing warehouse facilities and our corporate note. These loans were transferred on October 1, 2009, from mortgage loans held for sale to a held-for-investment classification at fair value on the transfer date. Subsequent to the transfer date, we completed the securitization of the mortgage loans, which was structured as a secured borrowing. This structure resulted in carrying the securitized loans as mortgages on our consolidated balance sheet and recognizing the asset-backed certificates acquired by third parties as nonrecourse debt.

Effective January 1, 2010, new accounting guidance eliminated the concept of a QSPE. Consequently, all existing securitization trusts are considered VIEs and are now subject to the new consolidation guidance. Upon consolidation of certain of these VIEs, we recognized the securitized mortgage loans related to these securitization trusts as mortgage loans held for investment, subject to ABS nonrecourse debt. See "Note 3 – Variable Interest Entities and Securitizations" to our Consolidated Financial Statements. Additionally, we elected the fair value option provided for by ASC 825-10, *Financial Instruments-Overall*. Assets and liabilities related to these VIEs are included in Legacy Assets and Other in our segmented results.

In December 2011, we sold our remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the variable interest. Upon deconsolidation of this VIE, we derecognized the related mortgage loans held for investment, subject to ABS nonrecourse debt and the ABS nonrecourse debt.

The table below provides detail of the characteristics of our securitization trusts included in Legacy Portfolio and other for the periods indicated (in thousands).

Year ended December 31,	**2011**	**2010** *(1)*	**2009**
Performing – UPB	$ **279,730**	$ 1,037,201	$ 345,516
Nonperforming (90+ Delinquency) - UPB	**90,641**	337,779	141,602
REO - Estimated Fair Value	**3,668**	27,337	10,262
Total Legacy Portfolio and Other – UPB	$ **374,039**	$ 1,402,317	$ 497,380

(1) Amounts include one previously off-balance sheet securitization which was consolidated upon adoption of ASC 810, *Consolidation*, related to consolidation of certain VIEs.

Legacy Portfolio and Other Segment for the Years Ended December 31, 2011 and 2010

Total revenues were $6.0 million for the year ended December 31, 2011 compared to $3.5 million for the year ended December 31, 2010, an increase of $2.5 million. This increase was primarily a result of higher ancillary income on our legacy portfolio.

Interest income, net of interest expense, decreased to $8.5 million for the year ended December 31, 2011 as compared to $21.9 million for the year ended December 31, 2010. The decrease in net interest income was primarily due to the effects of the derecognition of a previously consolidated VIE as of July 1, 2010.

Fair value changes in ABS securitizations were $12.4 million for the year ended December 31, 2011 as compared to a $23.3 million decrease for the year ended December 31, 2010. Fair value changes in ABS securitizations is the net result of the reductions in the fair value of the assets (Mortgage loans held for investment and REO) and the reductions in the fair value of the liabilities (ABS nonrecourse debt).

Legacy Portfolio and Other Segment for the Years Ended December 31, 2010 and 2009

Total revenues were $3.5 million for the year ended December 31, 2010, compared to $(75.8) million for the year ended December 31, 2009. This increase was primarily a result of a change in classification on mortgage loans held for sale discussed above, with no gain on mortgage loans held for sale recorded for the year ended December 31, 2010, compared to a loss of $75.8 million recorded for the year ended December 31, 2009.

Expenses and impairments were $26.9 million for the year ended December 31, 2010 compared to $25.0 million for the year ended December 31, 2009, an increase of $1.9 million, or 7.6%, primarily due to an increase in headcount and allocated expenses for corporate support functions and executive oversight. Additionally, we recognized $3.6 million in additional share-based compensation expense from revised compensation arrangements with certain of our executives, as well as a $3.3 million provision for loan losses. These expense increases were offset by the net impact of the adoption of new accounting guidance on the consolidation of certain securitization trusts which resulted in a $7.3 million reduction in charges from losses realized on foreclosed real estate and a decrease of $6.8 million in other-than-temporary impairments recognized on our investment in debt securities available-for-sale.

Total other income (expense) was $(1.3) million for the year ended December 31, 2010 compared to $3.5 million for the year ended December 31, 2009, a decrease of $4.8 million, or 137.1%. The decrease was primarily due to an increase in our net interest income, offset by fair value changes in our ABS securitizations. Interest income, net of interest expense, increased to $21.9 million for the year ended December 31, 2010 as compared to $3.5 million for the year ended December 31, 2009.

The increase in interest income, net was due to the consolidation of certain securitization trusts upon the adoption of new accounting guidance related to VIEs. Fair value changes in ABS securitizations included a loss of $23.3 million for the year ended December 31, 2010, with no corresponding amount for the year ended December 31, 2009, due to the election of the fair value option on consolidated VIEs.

Analysis of Items on Consolidated Balance Sheet

Assets

Restricted cash consists of certain custodial accounts related to collections on certain mortgage loans and mortgage loan advances that have been pledged to debt counterparties under various master repurchase agreements (MRAs). Restricted cash was $71.5 million at December 31, 2011, a decrease of $19.6 million from December 31, 2010, primarily a result of decreased servicer advance reimbursement amounts.

Accounts receivable consists primarily of accrued interest receivable on mortgage loans and securitizations, collateral deposits on surety bonds and advances made to nonconsolidated securitization trusts, as required under various servicing agreements related to delinquent loans, which are ultimately paid back to us from the securitization trusts. Accounts receivable increased $121.0 million to $562.3 million at December 31, 2011, primarily due to our larger outstanding servicing portfolio, which resulted in a $43.0 million increase in corporate and escrow advances and a $64.9 million increase in outstanding delinquency advances.

Mortgage loans held for sale are carried at fair value. We estimate fair value by evaluating a variety of market indicators including recent trades and outstanding commitments. Mortgage loans held for sale were $458.6 million at December 31, 2011, an increase of $89.0 million from December 31, 2010, primarily due to $3.3 billion in mortgage loan sales offset by $3.4 billion loan originations during the year ended

December 31, 2011.

Mortgage loans held for investment, subject to nonrecourse debt – Legacy Assets consist of nonconforming or subprime mortgage loans securitized which serve as collateral for the nonrecourse debt. Mortgage loans held for investment, subject to nonrecourse debt – Legacy Assets was $243.5 million at December 31, 2011, a decrease of $22.8 million from December 31, 2010, as $19.7 million UPB was transferred to REO during the year ended December 31, 2011.

Mortgage loans held for investment, subject to ABS nonrecourse debt consist of mortgage loans that were recognized upon the adoption of accounting guidance related to VIEs effective January 1, 2010. To more accurately represent the future economic performance of the securitization collateral and related debt balances, we elected the fair value option provided for by ASC 825-10. Effective December 2011, we met the requirements under applicable accounting guidance to deconsolidate the VIE. As such, mortgage loans held for investment, subject to ABS nonrecourse debt were eliminated.

Receivables from affiliates consist of periodic transactions with Nationstar Regular Holdings, Ltd., a subsidiary of FIF HE Holdings LLC. These transactions typically involve the monthly payment of principal and interest advances that are required to be remitted to securitization trusts as required under various Pooling and Servicing Agreements. These amounts are later repaid to us when principal and interest advances are recovered from the respective borrowers. Receivables from affiliates were $4.6 million at December 31, 2011, a decrease of $4.4 million from December 31, 2010, as a result of increased recoveries on outstanding principal and interest advances.

MSRs at fair value consist of servicing assets related to all existing forward residential mortgage loans transferred to a third party in a transfer that meets the requirements for sale accounting or through the acquisition of the right to service residential mortgage loans that do not relate to our assets. MSRs were $251.1 million at December 31, 2011, an increase of $106.0 million over December 31, 2010, primarily a result of the purchase of two significant servicing portfolios for $102.5 million combined with capitalization of $36.5 million newly created MSRs, partially offset by a $39.0 million decrease in the fair value of our MSRs.

Property and equipment, net is comprised of land, furniture, fixtures, leasehold improvements, computer software, computer hardware, and software in development and other. These assets are stated at cost less accumulated depreciation. Property and equipment, net increased $15.7 million from December 31, 2010 to $24.1 million at December 31, 2011, as we invested in information technology systems to support volume growth in both our Servicing and Originations Segments.

REO, net represents property we acquired as a result of foreclosures on delinquent mortgage loans. REO, net is recorded at estimated fair value, less costs to sell, at the date of foreclosure. Any subsequent operating activity and declines in value are charged to earnings. REO, net was $3.7 million at December 31, 2011, a decrease of $23.6 million from December 31, 2010. This decrease was primarily a result of derecognition of our VIE in December 2011.

Other assets include deferred financing costs, derivative financial instruments, prepaid expenses, loans subject to repurchase rights from Ginnie Mae and equity method investments. Other assets increased $76.8 million from December 31, 2010 to $106.2 million, due to $28.9 million in deposits on pending servicing rights acquisitions that are expected to close in 2012, $35.7 million in loans subject to repurchase rights from Ginnie Mae, $4.5 million in margin call deposits and an acquisition of a 22% investment in ANC Acquisition LLC (ANC) for an initial investment of $6.6 million (see Note 10, Other Assets.)

Liabilities and Members' Equity

At December 31, 2011, total liabilities were $1,506.6 million, a $184.2 million decrease from December 31, 2010. The decrease in total liabilities was primarily a result of derecognition of our VIE in December 2011. Upon derecognition of this VIE, we derecognized the related

ABS nonrecourse debt, a $496.7 million decrease since December 31, 2010. This decrease was partially offset by an increase in notes payable of $163.4 million since December 31, 2010 related to the financing of our increased servicing and loan origination activities and the issuance of $34.7 million of additional unsecured senior debt in December 2011, as well as the addition of $44.6 million of excess spread financing also in December 2011.

Included in our payables and accrued liabilities caption on our balance sheet is our reserve for repurchases and indemnifications of $10.0 million and $7.3 million at December 31, 2011 and 2010, respectively. This liability represents our (i) estimate of losses to be incurred on the repurchase of certain loans that we previously sold and (ii) estimate of losses to be incurred for indemnification of losses incurred by purchasers or insurers with respect to loans that we sold. Certain sale contracts include provisions requiring us to repurchase a loan or indemnify the purchaser or insurer for losses if a borrower fails to make certain initial loan payments due to the acquirer or if the accompanying mortgage loan fails to meet certain customary representations and warranties. These representations and warranties are made to the loan purchasers or insurers about various characteristics of the loans, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided and typically are in place for the life of the loan. Although the representations and warranties are in place for the life of the loan, we believe that most repurchase requests occur within the first five years of the loan. In the event of a breach of the representations and warranties, we may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. In addition, an investor may request that we refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. We record a provision for estimated repurchases, loss indemnification and premium recapture on loans sold, which is charged to gain (loss) on mortgage loans held for sale.

The activity of our outstanding repurchase reserves were as follows for the periods indicated (in thousands).

Year ended December 31,	**2011**	**2010**	**2009**
Repurchase reserves, beginning of period	$ 7,321	$ 3,648	$ 3,965
Additions	5,534	4,649	820
Charge-offs	(2,829)	(976)	(1,137)
Repurchase reserves, end of period	$ 10,026	$ 7,321	$ 3,648

The following table summarizes the changes in UPB and loan count related to unresolved repurchase and indemnification requests for the periods indicated (in millions):

Year ended December 31,	**2011**		**2010**		**2009**	
	UPB	**Count**	**UPB**	**Count**	**UPB**	**Count**
Beginning balance	$ 4.3	21	$ 1.3	8	$ 0.3	3
Repurchases & indemnifications	(6.9)	(37)	(1.9)	(8)	(2.7)	(17)
Claims initiated	32.4	154	10.8	53	4.6	28
Rescinded	(16.9)	(77)	(5.9)	(32)	(0.9)	(6)
Ending balance	$ 12.9	61	$ 4.3	21	$ 1.3	8

The following table details our loan sales by period (dollars in billions):

Year ended December 31,	**2011**		**2010**		**2009**		**2008**		**Total**	
	$	**Count**	**$**	**Count**	**$**	**Count**	**$**	**Count**	**$**	**Count**
Loan sales	$3.3	16,629	$2.6	13,090	$1.0	5,344	$0.5	3,412	$7.4	38,475

We increase the reserve by applying an estimated loss factor to the principal balance of loan sales. Secondarily, the reserve may be increased based on outstanding claims received. We have observed an increase in repurchase requests in each of the last three years. We believe that because of the increase in our loan originations since 2008, repurchase requests are likely to increase. Should home values continue to decrease, our realized loan losses from loan repurchases and indemnifications may increase as well. As such, our reserve for repurchases may increase beyond our current expectations. While the ultimate amount of repurchases and premium recapture is an estimate, we consider the liability to be adequate at each balance sheet date.

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At December 31, 2011, outstanding members' equity was $281.3 million, a $24.9 million increase from December 31, 2010, which is primarily attributable to our net income of $20.9 million in 2011 and $14.8 million in share-based compensation, partially offset by $4.3 million distributions to parent and $5.3 million in tax related share based settlements of units by members.

Impact of Inflation and Changing Prices

Our consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflations. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Recent Accounting Developments

See Note 2, Significant Accounting Policies, of the notes to the consolidated financial statements, and Item 8 Financial Statements and Supplementary Data, herein for details of recently issued accounting pronouncements and their expected impact on our consolidated financial statements.

Liquidity and Capital Resources

Liquidity measures our ability to meet potential cash requirements, including the funding of servicing advances, the payment of operating expenses, the originations of loans and the repayment of borrowings. Our cash balance increased from $21.2 million as of December 31, 2010 to $62.4 million as of December 31, 2011, primarily due to cash inflows in our financing activities, partially offset by cash outflows from operating and investing activities. Our cash balance decreased from $41.6 million as of December 31, 2009 to $21.2 million as of December 31, 2010, primarily due to greater cash outflows from our financing activities to repay our outstanding debt facilities.

We grew our servicing portfolio from $33.7 billion in UPB as of December 31, 2009 to $106.6 billion in UPB as of December 31, 2011 (including $7.8 billion of servicing under contract). We shifted our strategy after 2007 to leverage our industry-leading servicing capabilities and capitalize on the opportunities to grow our originations platform which has led to the strengthening of our liquidity position. As a part of our shift in strategy, we ceased originating non-prime loans in 2007, and new originations have been focused on loans that are eligible to be sold to GSEs. Since 2008, substantially all originated loans have either been sold or are pending sale.

As part of the normal course of our business, we borrow money periodically to fund servicing advances and loan originations. The loans we originate are financed through several warehouse lines on a short-term basis. We typically hold the loans for approximately 30 days and then sell the loans or place them in government securitizations and repay the borrowings under the warehouse lines. We rely upon several counterparties to provide us with financing facilities to fund a portion of our servicing advances and to fund our loan originations on a short-term basis. Our ability to fund current operations depends upon our ability to secure these types of short-term financings on acceptable terms and to renew or replace the financings as they expire.

In March 2010, we completed the offering of $250.0 million of unsecured senior notes, which were issued with an issue discount of $7.0 million for net cash proceeds of $243.0 million, with a maturity date of April 2015. In December 2011, we completed an additional offering of $35.0 million of unsecured senior notes. The additional offering was issued with an issue discount of $0.3 million for net cash proceeds of $34.7 million, with a maturity date of April 2015. Under the terms of these unsecured senior notes, we pay interest semi-annually to the note holders at an interest rate of 10.875%.

In March 2012, our Parent completed an initial public offering. The net proceeds after the underwriting discounts and commission and fees and expenses amounted to approximately $247.1 million. We intend to use the net proceeds from the initial public offering for working capital and other general corporate purposes, including servicing acquisitions.

At this time, we see no material negative trends that we believe would affect our access to long-term borrowings, short-term borrowings or bank credit lines sufficient to maintain our current operations, or would likely cause us to cease to be in compliance with any applicable covenants in our indebtedness or that would inhibit our ability to fund operations and capital commitments for the next 12 months.

Our primary sources of funds for liquidity include: (i) lines of credit, other secured borrowings and the unsecured senior notes; (ii) servicing fees and ancillary fees; (iii) payments received from sale or securitization of loans; and (iv) payments received from mortgage loans held for sale.

Our primary uses of funds for liquidity include: (i) funding of servicing advances; (ii) originations of loans; (iii) payment of interest expenses; (iv) payment of operating expenses; (v) repayment of borrowings; and (vi) payments for acquisitions of MSRs.

Our servicing agreements impose on us various rights and obligations that affect our liquidity. Among the most significant of these obligations is the requirement that we advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance, foreclosure costs and various other items that are required to preserve the assets being serviced. Delinquency rates and prepayment speed affect the size of servicing advance balances. As a result of the agreement we entered into to purchase the servicing rights to certain reverse mortgages from a financial institution, we will be required to fund payments due to borrowers, which advances are typically greater than advances on forward residential mortgages. These advances are typically recovered upon weekly or monthly reimbursement or from sale in the market.

We intend to continue to seek opportunities to acquire loan servicing portfolios and/or businesses that engage in loan servicing and/or loan originations. Future acquisitions could require substantial additional capital in excess of cash from operations. We would expect to finance the capital required for acquisitions through a combination of additional issuances of equity, corporate indebtedness, asset-backed acquisition financing and/or cash from operations.

Operating Activities

Our operating activities used ($28.9) million of cash flow for the year ended December 31, 2011 compared to ($101.7) million of cash flow for the same period in the prior year. The decrease in cash used in operating activities of $72.8 million during the 2011 period was primarily due to higher volume sales of residential mortgage loans offset by higher cash outflows for working capital. The improvement was primarily due to the net effect of the following:

- $718.6 million improvement in proceeds received from sale of originated loans, which provided $3,339.9 million and $2,621.3 million for the years ending December 31, 2011 and 2010, respectively, partially offset by a $620.6 million increase in cash used to originate loans. Mortgage loans originated and purchased, net of fees, used $3,412.2 million and $2,791.6 million in the years ending December 31, 2011 and 2010, respectively.

- $74.0 million decrease in cash outflows used for working capital, which used ($21.6) million cash for the year ended December 31, 2011 and provided $52.4 million during the same period in the prior year.

Our operating activities used ($101.7) million and ($83.6) million of cash flow for the years ended December 31, 2010 and 2009, respectively. The decrease of $18.1 million was primarily due to the net effect of the following:

- Increase of $1,613.9 million attributable to increased proceeds received from sale of loans, offset by decrease in cash attributable to $1,311.1 million increase in originations volume.

- Decrease in principal payments/prepayments received and other changes in mortgages loans held for sale of $439.2 million.

- Increase of $136.2 million primarily due to decreased delinquency advances to investors to cover scheduled payments of principal and interest that are required to be remitted to securitization trusts.

- Increase of $71.0 million attributable to a decrease in net loss period over period, primarily as a result of increased revenues from our higher servicing portfolio and increased volume in loan originations.

Investing Activities

Our investing activities used ($81.9) million and provided $101.2 million and $30.0 million of cash flow for the years ended December 31, 2011, 2010, and 2009, respectively. The $183.1 million decrease in cash flows used by investing activities from the 2010 period to the 2011

period was primarily a result of a $78.7 million increase in total purchases and deposits on MSRs, a $26.9 million cash outflow for the purchase of reverse mortgage servicing rights, combined with a $46.3 million decrease in cash proceeds from sales of REO. Also, in March 2011, we acquired a 22% interest in ANC for an initial investment of $6.6 million. ANC is the parent company of National Real Estate Information Services, LP (NREIS) a real estate services company.

The increase in cash flows from investing activities from 2009 to 2010 was primarily a result of an increase in cash proceeds from sales of REO and principal payments received and other changes on mortgage loans held for investment, subject to ABS nonrecourse debt.

Financing Activities

Our financing activities provided $152.0 million of cash flow during the year ended December 31, 2011 and used $(20.0) million and provided $85.9 million of cash flow for the years ended December 31, 2010 and 2009, respectively. During the year ended December 31, 2011, we provided $172.0 million more cash as a result of additional borrowings to finance the growth in our servicing and originations business compared to the 2010 period. During the year ended December 31, 2011, we used $58.1 million to repay ABS nonrecourse debt, used $3.5 million for debt financing costs and borrowed an additional $163.4 million from our existing warehouse and debt facilities as we expanded both our servicing and originations platforms. The primary source of financing cash flow during the year ended December 31, 2010 was $243.0 million proceeds from offering the unsecured senior notes. During the year ended December 31, 2010, we used $103.5 million to repay ABS nonrecourse debt, used $14.9

million for debt financing costs and used $62.1 million to repay the outstanding notes payable. The increase in cash outflow from financing activities from 2009 to 2010 was primarily a result of repayment of ABS and Legacy Asset nonrecourse debt. We also did not receive any capital contributions from our existing members in 2010, compared to $20.7 million in capital contributions received in 2009. In 2009, we issued nonrecourse debt, which provided $191.3 million in cash.

Contractual Obligations

The table below sets forth our contractual obligations, excluding our legacy asset securitized debt and our excess spread financing, at December 31, 2011 (in thousands):

	2012	2013 to 2014	2015 to 2016	After 2016	Total
Unsecured Senior Notes	$ –	$ –	$ 285,000	$ –	$ 285,000
Interest expense from Unsecured Senior Notes	31,510	62,848	7,748	–	102,106
MBS Advance Financing Facility	179,904	–	–	–	179,904
Securities Repurchase Facility (2011)	11,774	–	–	–	11,774
2010-ABS Advance Financing Facility	–	219,563	–	–	219,563
2011-Agency Advance Financing Facility	25,011	–	–	–	25,011
MSR Note	5,553	4,627	–	–	10,180
$300 Million Warehouse Facility	–	251,722	–	–	251,722
$175 Million Warehouse Facility	–	46,810	–	–	46,810
$100 Million Warehouse Facility	–	16,047	–	–	16,047
$50 Million Warehouse Facility	7,310	–	–	–	7,310
ASAP+ Short-Term Financing Facility	104,858	–	–	–	104,858
Operating Leases	9,837	17,299	8,109	727	35,972
Total	$ 375,757	$ 618,916	$ 300,857	$ 727	$ 1,296,257

In addition to the above contractual obligations, we have also been involved with several securitizations of ABS, which were structured as secured borrowings. These structures resulted in us carrying the securitized loans as mortgages on our consolidated balance sheet and recognizing the asset-backed certificates acquired by third parties as nonrecourse debt. The timing of the principal payments on this nonrecourse debt is dependent on the payments received on the underlying mortgage loans and liquidation of REO. The outstanding principal balance on our Nonrecourse Debt–Legacy Assets and was $112.5 million, at December 31, 2011. The repayment of our excess spread financing is based on amounts received on the underlying mortgage loans. As such, we have excluded the financing from the table above. The fair value of our excess spread financing was $44.6 million at December 31, 2011.

Description of Certain Indebtedness

Unsecured Senior Notes

In March 2010, we completed the offering of $250.0 million of unsecured senior notes, which were issued with an issue discount of $7.0 million for net cash proceeds of $243.0 million, with a maturity date of April 2015. In December 2011, Nationstar completed an additional offering of $35.0 million of unsecured senior notes. The additional offering was issued with an issue discount of $0.3 million for net cash proceeds of $34.7 million, with a maturity date of April 2015. These unsecured senior notes pay interest semi-annually at an interest rate of 10.875%.

The indenture contains certain events of default, including (subject, in some cases, to customary cure periods and materiality thresholds) defaults based on (i) the failure to make payments under the indenture when due, (ii) breach of covenants, (iii) cross-defaults to certain other indebtedness, (iv) certain bankruptcy or insolvency events, (v) material judgments and (vi) invalidity of material guarantees.

Consolidated EBITDA, as defined in the indenture governing the senior notes, is the key financial covenant measure that monitors our ability to undertake investing and financing functions, such as making investments/acquisitions, paying dividends, and incurring additional indebtedness.

The ratios included in the indenture for the senior notes are incurrence based compared to the customary ratio covenants that are often found in credit agreements that require a company to maintain a certain ratio.

The consolidated leverage ratio as defined in the indenture is equal to Corporate Indebtedness, as defined in the indenture, divided by Consolidated EBITDA, and limits our activities as discussed above, if the ratio is equal to or greater than 4.5. Consolidated EBITDA is computed as follows (in thousands):

	Year ended December 31, 2011
Net income	$ 20,887
Adjusted for:	
Impact from consolidation of securitization trusts (1)	1,178
Interest expense from Corporate Indebtedness	30,464
Depreciation and amortization	4,063
Change in fair value of excess spread financing	3,060
Change in fair value of mortgage servicing rights (2)	40,016
Exit costs	3,604
Share-based compensation	14,815
Fair value changes on interest rate swap	(298)
Ineffective portion of cash flow hedge	(2,032)
(Gain) loss from asset sales and other than temporary impairment of assets	10,371
Amortization/write-off of deferred financing cost for debt obligations in existence prior to issuance of unsecured senior notes	4,098
Servicing resulting from transfers of financial assets	(36,474)
Other	264
Consolidated EBITDA	$ 94,016

(1) Represents impact to net income from the consolidation of certain securitization trusts. Net income, as defined in the Indenture, is based on GAAP in effect as of December 31, 2009, and does not include the impact of the consolidation of identified VIEs where we have both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

(2) Represents change in fair value of MSRs after deconsolidation of the securitization trusts as discussed in note *(1)* above.

Servicing

Our Servicing Segment's debt consists of unsecured senior notes, advance financing facilities, MSR Note and excess spread financing at fair value.

Advance Financing Facilities

Our advance financing facilities are used to finance our obligations to pay advances as required by our servicing agreements. These servicing agreements may require us to advance certain payments to the owners of the mortgage loans we service, including P&I advances, T&I advances, or legal fees, maintenance and preservation costs, or corporate advances. We draw on one or more of our advance financing facilities periodically throughout the month, as necessary, and we repay any facilities on which we have drawn when advances are recovered through liquidations, prepayments and reimbursement of advances from modifications.

MBS Advance Financing Facility

In September 2009, we entered into our MBS Advance Financing Facility. This facility is maintained with a GSE and currently has a total size of \$275.0 million. The interest rate on this facility is based on LIBOR plus a margin of 2.50%, and its stated maturity date is December 2012.

Our MBS Advance Financing Facility is secured by certain servicing advance receivables and is subject to margin calls in the event that the value of our collateral decreases. The facility requires us to comply with various customary operating covenants and performance tests on the underlying receivables related to payment rates and minimum balance. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and had an aggregate principal amount of \$179.9 million outstanding.

Securities Repurchase Facility (2011)

In December 2011, we entered into an MRA with a financial services company, which expires in March 2012. The MRA states that we may from time to time transfer to the financial services company eligible securities against the transfer of funds by the financial services company, with a simultaneous agreement by the financial services company to transfer such securities to us at a certain date, or on demand by us, against the transfer of funds from us. Additionally, the financial services company may elect to extend the transfer date for an additional 90 days at mutually agreed upon terms. The interest rate is based on LIBOR plus a margin of 3.50%. As of December 31, 2011, we have pledged our \$55.6 million outstanding retained interest in the outstanding nonrecourse debt - legacy assets securitization which was structured as a financing to secure obligations under the MRA. The outstanding balance of this facility at December 31, 2011 was $11.8 million.

2009-ABS Advance Financing Facility

Our 2009-ABS Advance Financing Facility was maintained with a financial services company and, before repayment, had a total size of $350.0 million, comprised of $174.0 million in term notes the balance of which stayed constant and $176.0 million in variable funding notes the balance of which fluctuated with our financing needs. The interest rate on this facility was based on LIBOR, subject to an interest rate swap, and had a weighted average cost of 4.82% during the year ended December 31, 2010. The stated maturity date of this facility was December 2013, twenty-four months after the stated repayment date of December 2011.

Our 2009-ABS Advance Financing Facility was secured by certain servicing advance receivables and was a nonrecourse obligation. The facility required us to comply with various customary operating covenants and performance tests on the underlying receivables related to payment rates and minimum balance. This facility was repaid in October 2011.

2010-ABS Advance Financing Facility

In December 2010, we entered into our 2010-ABS Advance Financing Facility. This facility is maintained with a financial institution and currently has a total size of $300 million. The interest rate on this facility is based on LIBOR plus a margin of 3.00%, and its stated maturity date is May 2014.

Our 2010-ABS Advance Financing Facility is secured by certain servicing advance receivables and is a nonrecourse obligation. The facility requires us to comply with various customary operating covenants and performance tests on the underlying receivables related to payment rates and minimum balance. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and had an aggregate principal amount of $219.6 million outstanding.

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2011-Agency Advance Financing Facility

In October 2011, we entered into our 2011-Agency Advance Financing Facility. This facility is maintained with a financial institution and currently has a total size of $75 million. The interest rate on this facility is based on LIBOR plus 2.50%, and its stated maturity date is October 2012.

Our 2011-Agency Advance Financing Facility is secured by certain servicing advance receivables and is a nonrecourse obligation. The facility requires us to comply with various customary operating covenants and performance tests on the underlying receivables related to payment rates and minimum balance. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and had an aggregate principal amount of $25.0 million outstanding.

MSR Note

In October 2009, we entered into our MSR Note. This note is maintained with a GSE and had an original aggregate principal amount of $22.2 million. The interest rate on this note is based on LIBOR plus a margin of 2.50%, and its stated maturity date is October 2013.

Our MSR Note was used to finance our acquisition of certain MSRs and is secured by all of our rights, title and interest in the acquired MSRs. The MSR Note requires us to comply with various customary operating covenants, specific covenants, including maintaining a disaster recovery plan and maintaining priority of the lender's lien, and certain covenants related to the collateral and limitations on the creation of liens on the collateral or assigned servicing compensation. As of December 31, 2011, we were in compliance with all covenants and had an aggregate principal amount of $10.2 million outstanding under the MSR Note.

Excess Spread Financing at Fair Value

We acquired MSRs on a pool of agency residential mortgage loans (the Portfolio) on September 30, 2011. In December 2011, we entered into a sale and assignment agreement which is treated as a financing with an indirect wholly owned subsidiary of Newcastle Investment Corp. (Newcastle). We are an affiliate of Newcastle's manager, Fortress Investment Group. We accounted for this transaction as a financing arrangement, in which we sold to Newcastle the right to receive 65% of the excess cash flow generated from the Portfolio after receipt of a fixed basic servicing fee per loan. The sale price was $43.7 million. We will retain all ancillary income associated with servicing the Portfolio and 35% of the excess cash flow after receipt of the fixed basic servicing fee. Nationstar will continue to be the servicer of the Portfolio and will provide all servicing and advancing functions. Newcastle will not have prior or ongoing obligations associated with the Portfolio.

Contemporaneous with the above, we entered into a refinanced loan agreement with Newcastle. Should we refinance any loan in the Portfolio, subject to certain limitations, we will be required to transfer the new loan or a replacement loan of similar economic characteristics into the Portfolio. The new or replacement loan will be governed by the same terms set forth in the sale and assignment agreement described above.

We record acquired servicing rights on forward residential mortgages at fair value, with all subsequent changes in fair value recorded as a charge or credit to servicing fee income in the consolidated statement of operations. We estimate the fair value of our forward MSRs and the excess servicing spread financing using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. We elected to measure this financing arrangement at fair value, as permitted under ASC 825, *Financial Instruments* to more accurately represent the future economic performance of the acquired MSRs and related excess servicing financing. The fair value of the agreement was $44.6 million at December 31, 2011. This financing is nonrecourse to us.

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Originations

Our Originations Segment's debt consists of warehouse facilities and our ASAP+ Short-Term Financing Facility.

Warehouse Facilities
Our warehouse facilities are used to finance our loan originations on a short-term basis. In the ordinary course, we originate mortgage loans on a near-daily basis, and we use a combination of our four warehouse facilities and cash to fund the loans. We agree to transfer to our counterparty certain mortgage loans against the transfer of funds by the counterparty, with a simultaneous agreement by the counterparty to transfer the loans back to us at a date certain, or on demand by us, against the transfer of funds from us. We typically renegotiate our warehouse facilities on an annual basis. We sell our newly originated mortgage loans to our counterparty to finance the originations of our mortgage loans and typically repurchase the loans within 30 days of origination when we sell the loans to a GSE or into a government securitization.

$300 Million Warehouse Facility
In July 2006, we entered into our $300 Million Warehouse Facility, which is maintained with a financial services company. The interest rate on this facility is based on LIBOR plus a margin of 3.25%.

Our $300 Million Warehouse Facility requires us to comply with various customary operating covenants and specific covenants, including maintaining a minimum tangible net worth of $175.0 million, limitations on transactions with affiliates, maintenance of liquidity of $20 million and the maintenance of additional funding through warehouse loans. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and had an aggregate principal amount of $251.7 million outstanding.

In February 2012, we negotiated an extension of the $300 Million Warehouse Facility with the financial services company. We extended the maturity date to February 2013 and decreased the committed amount to $150 million.

$175 Million Warehouse Facility
In February 2010, we entered into a $75 million warehouse facility and in January 2012, we extended the maturity date of this warehouse facility to January 2013 and increased the committed amount under this warehouse facility to $175 million. We herein refer to this facility as our $175 Million Warehouse Facility. The interest rate on this facility is based on LIBOR plus a spread ranging from 1.75% to 2.50%.

Our $175 Million Warehouse Facility requires us to comply with various customary operating covenants and specific covenants, including financial covenants regarding our liquidity ratio of liabilities and warehouse credit to net worth, maintenance of a minimum tangible net worth of $150.0 million, maintenance of additional warehouse facilities and limitations on entering into warehouse facilities with more favorable terms (with respect to the lender) than this facility without also applying those more favorable terms to this facility. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and had an aggregate principal amount of $46.8 million outstanding.

$100 Million Warehouse Facility
In October 2009, we entered into our $100 Million Warehouse Facility, which is maintained with a financial services company. The interest rate on this facility is based on LIBOR plus a margin of 3.50%, and its stated maturity date is January 2013.

Our $100 Million Warehouse Facility requires us to comply with various customary operating covenants and specific covenants, including maintaining additional warehouse facilities, restrictions on the assignment of purchased loans, limits on transactions with affiliates and certain financial covenants, including maintaining a minimum tangible net worth of $150.0 million. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and had an aggregate principal amount of $16.0 million outstanding.

$50 Million Warehouse Facility
In March 2011, we entered into our $50 Million Warehouse Facility, which is maintained with a financial institution. The interest rate on this facility is based on LIBOR plus a spread of 1.45% to 3.95%, which varies based on the underlying transferred collateral, and its stated maturity date is March 2012. As of December 31, 2011, we were in compliance with all covenants and performance tests under this facility and the outstanding balance was $7.3 million.

ASAP+ Short-Term Financing Facility
In March 2009, we entered into our ASAP+ Short-Term Financing Facility. This facility is maintained with a GSE and currently has a total facility size of $200 million. The interest rate on this facility is based on LIBOR plus a margin of 1.50%, and the agreements executed pursuant to this facility typically have a maturity of up to 45 days.

Our ASAP+ Short-Term Financing Facility is used to finance our loan originations on a short-term basis. Pursuant to these agreements, we agree to transfer to the GSE certain mortgage loans against the transfer of funds by the GSE, with a simultaneous agreement by the counterparty to transfer the loans back to us at a date certain, or on demand by us, against the transfer of funds from us. As of December 31, 2011, we had an aggregate principal amount of $104.9 million outstanding.

Legacy Assets and Other

Legacy Asset Term-Funded Notes
In November 2009, we completed the securitization of mortgage assets and issued approximately $222.4 million of our Legacy Asset Term-Funded Notes. The interest rate is 7.50%, subject to an available funds cap. In conjunction with the securitization, we reclassified our legacy assets as "held for investment" on our consolidated balance sheet and recognize the Legacy Asset Term-Funded Notes as nonrecourse debt. We pay the principal and interest on these notes using the cash flows from the underlying legacy assets, which serve as collateral for the debt. As of December 31, 2011, the aggregate UPB of the legacy assets that secure our Legacy Asset Term-Funded Notes was $373.1 million. Monthly cash flows generated from the legacy assets are used to service the debt, which has a final legal maturity of October 2039. As of December 31, 2011, our Legacy Asset Term-Funded Notes had a par amount and carrying value, net of financing costs and unamortized discount of $130.8 million and $112.5 million, respectively.

Variable Interest Entities and Off Balance Sheet Arrangements

See Note 3, Variable Interest Entities and Securitizations, of the notes of the consolidated financial statements for a summary of Nationstar's transactions with VIEs and unconsolidated balances details of their impact on our consolidated financial statements.

Derivatives

See Note 11, Derivative Financial Instruments, of the notes of the consolidated financial statements for a summary of Nationstar's derivative transactions.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to a variety of market risks which include interest rate risk, consumer credit risk and counterparty credit risk.

Interest Rate Risk

Changes in interest rates affect our operations primarily as follows:

Servicing Segment

- an increase in interest rates would increase our costs of servicing our outstanding debt, including our ability to finance servicing advances;
- a decrease (increase) in interest rates would generally increase (decrease) prepayment rates and may require us to report a decrease (increase) in the value of our MSRs;
- a change in prevailing interest rates could impact our earnings from our custodial deposit accounts; and
- an increase in interest rates could generate an increase in delinquency, default and foreclosure rates resulting in an increase in both operating expenses and interest expense and could cause a reduction in the value of our assets.

Originations Segment

- a substantial and sustained increase in prevailing interest rates could adversely affect our loan originations volume because refinancing an existing loan would be less attractive and qualifying for a loan may be more difficult; and
- an increase in interest rates would increase our costs of servicing our outstanding debt, including our ability to finance loan originations;

We actively manage the risk profiles of IRLCs and mortgage loans held for sale on a daily basis and enter into forward sales of MBS in an amount equal to the portion of the IRLC expected to close, assuming no change in mortgage interest rates. In addition, to manage the interest rate risk associated with mortgage loans held for sale, we enter into forward sales of MBS to deliver mortgage loan inventory to investors.

Consumer Credit Risk

We sell our loans on a nonrecourse basis. We also provide representations and warranties to purchasers and insurers of the loans sold that typically are in place for the life of the loan. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by us. If there is no breach of a representation and warranty provision, we have no obligation to repurchase the loan or indemnify the investor against loss. The outstanding UPB of loans sold by us represents the maximum potential exposure related to representation and warranty provisions.

We maintain a reserve for losses on loans repurchased or indemnified as a result of breaches of representations and warranties on our sold loans. Our estimate is based on our most recent data regarding loan repurchases and indemnity payments, actual credit losses on repurchased loans, recovery history, among other factors. Our assumptions are affected by factors both internal and external in nature. Internal factors include, among other things, level of loan sales, as well as to whom the loans are sold, the expectation of credit loss on repurchases and indemnifications, our success rate at appealing repurchase demands and our ability to recover any losses from third parties. External factors that may affect our estimate includes, among other things, the overall economic condition in the housing market, the economic condition of borrowers, the political environment at investor agencies and the overall U.S. and world economy. Many of the factors are beyond our control and may lead to judgments that are susceptible to change.

Counterparty Credit Risk

We are exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements. We monitor the credit ratings of our counterparties and do not anticipate losses due to counterparty non-performance.

Sensitivity Analysis

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates.

We use a duration-based model in determining the impact of interest rate shifts on our loan portfolio, certain other interest-bearing liabilities measured at fair value and interest rate derivatives portfolios. The primary assumption used in these models is that an increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We utilize a discounted cash flow analysis to determine the fair value of MSRs and the impact of parallel interest rate shifts on MSRs. The primary assumptions in this model are prepayment speeds, market discount rates and cost to service. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between MBS, swaps and U.S. Treasury rates and changes in primary and secondary mortgage market spreads. For mortgage loans, IRLCs and forward delivery commitments on MBS, we rely on a model in determining the impact of interest rate shifts. In addition, for IRLCs, the borrower's propensity to close their mortgage loans under the commitment is used as a primary assumption.

Our total market risk is influenced by a wide variety of factors including market volatility and the liquidity of the markets. There are certain limitations inherent in the sensitivity analysis presented, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We used December 31, 2011 market rates on our instruments to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.

The following table summarizes the estimated change in the fair value of our assets and liabilities sensitive to interest rates as of December 31, 2011 given hypothetical instantaneous parallel shifts in the yield curve:

Change in Fair Value *(in thousands)*	**December 31, 2011** Down 25 bps	Up 25 bps
Increase (decrease) in assets		
Mortgage loans held for sale	$ 3,442	$ (4,213)
Mortgage servicing rights – fair value	(5,512)	6,202
Other assets (derivatives)		
IRLCs	1,584	(2,592)
Total change in assets	(486)	(603)
Increase (decrease) in liabilities		
Derivative financial instruments		
Interest rate swaps and caps	1,562	(942)
Forward MBS trades	5,416	(6,669)
Excess spread financing (at fair value)	(253)	330
Total change in liabilities	6,725	(7,281)
Total, net change	$ (7,211)	$ 6,678

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Item 8. *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements:

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Management's Report

Nationstar's management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States of America are used.

In discharging this responsibility, management maintains a comprehensive system of internal controls and supports an extensive program of internal audits, has made organizational arrangements providing appropriate divisions of responsibility and has established communication programs aimed at assuring that its policies, procedures and principles of business conduct are understood and practiced by its employees.

The consolidated statements of operations, members' equity, and cash flow for the years ending December 31, 2011, 2010, and 2009, as well as the related balance sheets as of December 31, 2011 and 2010 included in this document have been audited by Ernst and Young LLP, an independent registered public accounting firm. All audits were conducted using standards of the Public Company Accounting Oversight Board (United States) and the independent registered public accounting firms' reports are included herein.

/s/ Jay Bray

Chief Executive Officer, President and Chief Financial Officer

February 23, 2012

Report of Independent Registered Public Accounting Firm

The Members of Nationstar Mortgage LLC

We have audited the accompanying consolidated balance sheets of Nationstar Mortgage LLC and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, members' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's 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 Company'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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nationstar Mortgage LLC and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for transfers of financial assets and consolidation of variable interest entities, effective January 1, 2010.

/s/ Ernst & Young LLP

Dallas, Texas
February 23, 2012

Consolidated Financial Statements

NATIONSTAR MORTGAGE LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31, 2011	December 31, 2010
Assets		

Cash and cash equivalents	$ 62,445	$ 21,223
Restricted cash (includes $– and $1,472, respectively, of restricted cash, subject to ABS nonrecourse debt)	71,499	91,125
Accounts receivable (includes $– and $2,392, respectively, of accrued interest, subject to ABS nonrecourse debt)	562,300	441,275
Mortgage loans held for sale	458,626	369,617
Mortgage loans held for investment, subject to nonrecourse debt - Legacy Assets, net of allowance for loan losses of $5,824 and $3,298, respectively	243,480	266,320
Mortgage loans held for investment, subject to ABS nonrecourse debt (at fair value)	–	538,440
Receivables from affiliates	4,609	8,993
Mortgage servicing rights – fair value	251,050	145,062
Property and equipment, net of accumulated depreciation of $39,201 and $35,346, respectively	24,073	8,394
REO, net (includes $– and $17,509, respectively, of REO, subject to ABS nonrecourse debt)	3,668	27,337
Other assets	106,181	29,395
Total assets	$ 1,787,931	$ 1,947,181
Liabilities and members' equity		
Notes payable	$ 873,179	$ 709,758
Unsecured senior notes	280,199	244,061
Payables and accrued liabilities (includes $– and $95, respectively, of accrued interest payable, subject to ABS nonrecourse debt)	183,789	75,054
Derivative financial instruments	12,370	7,801
Derivative financial instruments, subject to ABS nonrecourse debt	–	18,781
Nonrecourse debt - Legacy Assets	112,490	138,662
Excess spread financing (at fair value)	44,595	–
ABS nonrecourse debt (at fair value)	–	496,692
Total liabilities	1,506,622	1,690,809
Commitments and contingencies – See Note 19		
Total members' equity	281,309	256,372
Total liabilities and members' equity	$ 1,787,931	$ 1,947,181

See accompanying notes to the consolidated financial statements.

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NATIONSTAR MORTGAGE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands)

	For the year ended December 31, 2011	2010	2009
Revenues			
Servicing fee income	$ 233,411	$ 167,126	$ 90,195
Other fee income	35,187	16,958	10,023
Total fee income	268,598	184,084	100,218
Gain/(loss) on mortgage loans held for sale	109,136	77,344	(21,349)
Total revenues	377,734	261,428	78,869
Expenses and impairments:			
Salaries, wages and benefits	202,290	149,115	90,689
General and administrative	82,183	58,913	30,494
Provision for loan losses	3,537	3,298	–
Loss on foreclosed real estate	6,833	205	7,512
Occupancy	11,340	9,445	6,863
Loss on available for sale securities – other-than-temporary	–	–	6,809

Total expenses and impairments	**306,183**	220,976	142,367
Other income (expense):			
Interest income	**66,802**	98,895	52,518
Interest expense	**(105,375)**	(116,163)	(69,883)
Gain/(loss) on interest rate swaps and caps	**298**	(9,801)	(14)
Fair value changes in ABS securitizations	**(12,389)**	(23,297)	–
Total other income (expense)	**(50,664)**	(50,366)	(17,379)
Net income / (loss)	**$ 20,887**	$ (9,914)	$ (80,877)

See accompanying notes to the consolidated financial statements.

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NATIONSTAR MORTGAGE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY AND COMPREHENSIVE INCOME
(dollars in thousands)

	Members' Units	Accumulated Other Comprehensive Income	Total Members' Units and Members' Equity
Balance at December 31, 2008	$ 255,922	$ –	$ 255,922
Capital contributions	87,951	–	87,951
Share-based compensation	827	–	827
Net loss and comprehensive loss	(80,877)	–	(80,877)
Balance at December 31, 2009	263,823	–	263,823
Cumulative effect of change in accounting principles as of January 1, 2010 related to adoption of new accounting guidance on consolidation of variable interest entities	(8,068)	–	(8,068)
Share-based compensation	12,856	–	12,856
Tax related share-based settlement of units by members	(3,396)	–	(3,396)
Comprehensive loss:			
Net loss	(9,914)	–	(9,914)
Change in value of cash flow hedge	–	1,071	1,071
Total comprehensive loss			(8,843)
Balance at December 31, 2010	**255,301**	**1,071**	**256,372**
Share-based compensation	**14,815**	**–**	**14,815**
Distributions to parent	**(4,348)**	**–**	**(4,348)**
Tax related share-based settlement of units by members	**(5,346)**	**–**	**(5,346)**
Comprehensive income:			
Net income	**20,887**	**–**	**20,887**
Change in value of cash flow hedge	**–**	**(1,071)**	**(1,071)**
Total comprehensive income			**19,816**
Balance at December 31, 2011	**$ 281,309**	**$ –**	**$ 281,309**

See accompanying notes to the consolidated financial statements.

NATIONSTAR MORTGAGE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended 2011	2010	2009
Operating activities			
Net income / (loss)	$ **20,887**	$ (9,914)	$ (80,877)
Adjustments to reconcile net income / (loss) to net cash provided by operating activities			
Share-based compensation	**14,815**	12,856	827
(Gain) / loss on mortgage loans held for sale	**(109,136)**	(77,344)	21,349
Provision for loan losses	**3,537**	3,298	–
Loss on foreclosed real estate	**6,833**	205	7,512
Loss on equity method investments	**107**	–	–
(Gain) / loss on derivatives including ineffectiveness on interest rate swaps and caps	**(2,331)**	8,872	(2,422)
Impairment of investments in debt securities	**–**	–	6,809
Fair value changes in ABS securitizations	**12,389**	23,297	
Fair value changes in excess spread financing	**3,060**	–	–
Depreciation and amortization	**4,063**	2,117	1,767
Change in fair value on mortgage servicing rights	**39,000**	6,043	27,915
Amortization of debt discount	**13,331**	18,731	21,287
Amortization of discounts	**(5,042)**	(4,526)	(1,394)
Mortgage loans originated and purchased, net of fees	**(3,412,185)**	(2,791,639)	(1,480,549)
Cost of loans sold, net of fees	**3,339,859**	2,621,275	1,007,369
Principal payments/prepayments received and other changes in mortgage loans originated as held for sale	**63,578**	32,668	471,882
Changes in assets and liabilities:			
Accounts receivable, net	**(83,133)**	41,148	(157,964)
Receivables from affiliates	**4,384**	3,958	66,940
Other assets	**(44,576)**	(861)	(6,961)
Payables and accrued liabilities	**101,657**	8,163	12,869
Net cash used in operating activities	**(28,903)**	(101,653)	(83,641)

Continued on following page.

NATIONSTAR MORTGAGE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
(dollars in thousands)

	Year Ended 2011	2010	2009
Investing activities			
Principal payments received and other changes on mortgage loans held for investment, subject to ABS nonrecourse debt	**40,000**	48,838	–
Property and equipment additions, net of disposals	**(19,742)**	(3,936)	(3,029)

Acquisition of equity method investee	**(6,600)**	–	–
Deposits on reverse mortgage servicing rights, net	**(26,893)**	–	–
Deposits on / purchase of forward mortgage servicing rights, net of liabilities incurred	**(96,467)**	(17,812)	(1,169)
Proceeds from sales of REO	**27,823**	74,107	34,181
Net cash (used in) / provided by investing activities	**(81,879)**	101,197	29,983
Financing activities			
Transfers from restricted cash, net	**16,812**	(33,731)	(31,763)
Issuance of nonrecourse debt, net	**–**	–	191,272
Issuance of unsecured senior notes, net	**35,166**	243,013	–
Issuance of excess spread financing	**40,492**	–	–
Increase / (decrease) in notes payable	**163,421**	(62,099)	(60,395)
Repayment of nonrecourse debt – Legacy assets	**(30,433)**	(45,364)	(15,809)
Repayment of ABS nonrecourse debt	**(58,091)**	(103,466)	–
Repayment of excess servicing spread financing	**(2,207)**	–	–
Capital contributions from members	**–**	–	20,700
Distributions to parent	**(4,348)**	–	–
Debt financing costs	**(3,462)**	(14,923)	(18,059)
Tax related share-based settlement of units by members	**(5,346)**	(3,396)	–
Net cash provided by / (used in) financing activities	**152,004**	(19,966)	85,946
Net increase in cash and cash equivalents	**41,222**	(20,422)	32,288
Cash and cash equivalents at beginning of period	**21,223**	41,645	9,357
Cash and cash equivalents at end of period	**$ 62,445**	$ 21,223	$ 41,645
Supplemental disclosures of non-cash activities			
Transfer of mortgage loans held for sale to REO at fair value	**$ 90**	$ 352	$ 36,164
Transfer of mortgage loans held for investment to REO at fair value	**6,291**	18,928	5,561
Transfer of mortgage loans held for sale to held for investment at fair value	**–**	–	319,183
Transfer of mortgage loans held for investment, subject to ABS nonrecourse debt to REO at fair value	**17,528**	37,127	–
Contribution of intercompany payable from parent	**–**	–	67,251
Change in value of cash flow hedge–accumulated other comprehensive income	**(1,071)**	1,071	–
Mortgage servicing rights resulting from sale or securitization of mortgage loans	**36,474**	26,253	8,332
Liabilities incurred from purchase of forward mortgage servicing rights	**6,333**	–	22,211

See accompanying notes to the consolidated financial statements.

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NATIONSTAR MORTGAGE LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, unless otherwise stated)

1. Nature of Business and Basis of Presentation

Nature of Business

Nationstar Mortgage LLC's (Nationstar or the Company) principal business is the servicing of residential mortgage loans for others and the origination and selling or securitization of single-family conforming mortgage loans to government-sponsored entities (GSE) or other third party investors in the secondary market.

The sale or securitization of mortgage loans typically involves Nationstar retaining the right to service the mortgage loans that it sells. The servicing of mortgage loans includes the collection of principal and interest payments and the assessment of ancillary fees related to the servicing of mortgage loans. Additionally, Nationstar periodically obtains servicing rights through the acquisition of servicing portfolios from third parties and entering into subservicing arrangements.

Basis of Presentation

The consolidated financial statements include the accounts of Nationstar, a Delaware limited liability company, and its wholly owned subsidiaries and those variable interest entities (VIEs) where Nationstar is the primary beneficiary. Nationstar applies the equity method of accounting to investments when the entity is not a VIE and Nationstar is able to exercise significant influence, but not control, over the policies and procedures of the entity but owns less than 50% of the voting interests. Intercompany balances and transactions have been eliminated. Results of operations, assets and liabilities of VIEs are included from the date that the Company became the primary beneficiary through the date the Company ceases to be the primary beneficiary. Nationstar is a subsidiary of FIF HE Holdings LLC (FIF), a subsidiary of Fortress Private Equity Funds III and IV (Fortress). Nationstar evaluated subsequent events through the date these consolidated financial statements were issued.

Corporate Reorganization (Unaudited)

In conjunction with the filing and effectiveness of a Form S-1 Registration Statement under the Securities Act of 1933, Nationstar will become a wholly owned indirect subsidiary of Nationstar Mortgage Holdings Inc. Nationstar Mortgage Holdings Inc. was formed solely for the purpose of reorganizing the structure of FIF HE Holdings LLC (FIF) and Nationstar so that the common stock issuer is a corporation rather than a limited liability company. As such, the existing investors will own common stock rather than equity interests in a limited liability company. Because Nationstar Mortgage Holdings Inc. upon formation and prior to the reorganization, will have had no operations, Nationstar will be the predecessor company. The reorganization will be accounted for as a reorganization under common control and, accordingly, there will be no change in the basis of the assets and liabilities.

2. Significant Accounting Policies

Use of Estimates in Preparation of Consolidated Financial Statements
The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States (GAAP). The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates due to factors such as adverse changes in the economy, increases in interest rates, changes in prepayment assumptions, declines in home prices or discrete events adversely affecting specific borrowers, and such differences could be material.

Reclassification Adjustments
Certain prior-period amounts have been reclassified to conform to the current-period presentation.

Cash and Cash Equivalents
Cash and cash equivalents include unrestricted cash on hand and other highly liquid investments having an original maturity of less than three months.

Restricted Cash
Restricted cash consists of certain custodial accounts related to Nationstar's portfolio securitizations or to collections on certain mortgage loans and mortgage loan advances that have been pledged to various Advance Financing Facilities under Master Repurchase Agreements. Restricted cash also includes certain fees collected on mortgage loan payments that are required to be remitted to a GSE to settle outstanding guarantee fee requirements.

Mortgage Loans Held for Sale
Nationstar maintains a strategy of originating mortgage loan products primarily for the purpose of selling to GSEs or other third party investors in the secondary market. Generally, all newly originated mortgage loans held for sale are delivered to third party purchasers or securitized within three months after origination.

Through September 30, 2009, mortgage loans held for sale were carried at the lower of amortized cost or fair value on an aggregate basis grouped by delinquency status. Effective October 1, 2009, Nationstar elected to measure newly originated prime residential mortgage loans held for sale at fair value, as permitted under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*. Nationstar estimates fair value by evaluating a variety of market indicators, including recent trades and outstanding commitments, calculated on an aggregate basis (see Note 15 – Fair Value Measurements).

In connection with Nationstar's election to measure mortgage loans held for sale at fair value, Nationstar is no longer permitted to defer the loan originations fees, net of direct loan originations costs associated with these loans. Prior to October 1, 2009, Nationstar deferred all nonrefundable fees and costs as required under ASC 310, *Receivables*. In accordance with this guidance, loan originations fees, net of direct loan originations costs were capitalized and added as an adjustment to the basis of the individual loans originated. These fees are accreted into income as an adjustment to the loan yield over the life of the loan or recognized when the loan is sold to a third party purchaser.

Mortgage Loans Held for Investment, Subject to Nonrecourse Debt – Legacy Assets, Net
Mortgage loans held for investment, subject to nonrecourse debt – Legacy Assets principally consist of nonconforming or subprime mortgage loans securitized which serve as collateral for the issued debt. These loans were transferred on October 1, 2009 from mortgage loans held for sale at fair value on the transfer date, as determined by the present value of expected future cash flows, with no valuation allowance recorded. The difference between the undiscounted cash flows expected and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at transfer are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the transfer are recognized prospectively through adjustment of the yield on the loans over the remaining life. Decreases in expected cash flows subsequent to transfer are recognized as a valuation allowance.

Allowance for Loan Losses on Mortgage Loans Held for Investment
An allowance for loan losses is established by recording a provision for loan losses in the consolidated statement of operations when management believes a loss has occurred on a loan held for investment. When management determines that a loan held for investment is partially or fully uncollectible, the estimated loss is charged against the allowance for loan losses. Recoveries on losses previously charged to the allowance are credited to the allowance at the time the recovery is collected.

Nationstar accounts for the loans that were transferred to held for investment from held for sale during October 2009 in a manner similar to ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the date of transfer, management evaluated such loans to determine whether there was evidence of deterioration of credit quality since acquisition and if it was probable that Nationstar would be unable to collect all amounts due according to the loan's contractual terms. The transferred loans were aggregated into separate pools of loans based on common risk characteristics (loan delinquency). Nationstar considers expected prepayments, and estimates the amount and timing of undiscounted expected principal, interest, and other cash flows for each aggregated pool of loans. The determination of expected cash flows utilizes internal inputs such as prepayment speeds and credit losses. These internal inputs require the use of judgment and can have a significant impact on the accretion of income and/or valuation allowance. Nationstar determines the excess of the

pool's scheduled contractual principal and contractual interest payments over all cash flows expected as of the transfer date as an amount that should not be accreted (nonaccretable difference). The remaining amount is accreted into interest income over the remaining life of the pool of loans (accretable yield).

Over the life of the transferred loans, management continues to estimate cash flows expected to be collected. Nationstar evaluates at the balance sheet date whether the present value of the loans determined using the effective interest rates has decreased, and if so, records an allowance for loan loss. The present value of any subsequent increase in the transferred loans cash flows expected to be collected is used first to reverse any existing allowance for loan loss related to such loans. Any remaining increase in cash flows expected to be collected are used to adjust the amount of accretable yield recognized on a prospective basis over the remaining life of the loans.

Nationstar accounts for its allowance for loan losses for all other mortgage loans held for investment in accordance with ASC 450-20, *Loss Contingencies*. The allowance for loan losses represents management's best estimate of probable losses inherent in the loans held for investment portfolio. Mortgage loans held for investment portfolio is comprised primarily of large groups of homogeneous residential mortgage loans. These loans are evaluated based on the loan's present delinquency status. The estimate of probable losses on these loans considers the rate of default of the loans and the amount of loss in the event of default. The rate of default is based on historical experience related to the migration of these from each delinquency category to default over a twelve month period. The entire allowance is available to absorb probable credit losses from the entire held for investment portfolio.

Substantially, all mortgage loans held for investment were transferred from mortgage loans held for sale at fair value in October 2009.

Mortgage Loans Held for Investment, Subject to ABS Nonrecourse Debt, Net
Effective January 1, 2010, new accounting guidance eliminated the concept of a Qualifying Special Purpose Entity (QSPE) and all existing securitization trusts are considered VIEs and are subject to new consolidation guidance provided in ASC 810. Upon consolidation of any VIEs, Nationstar recognized the securitized mortgage loans related to these securitization trusts as mortgage loans held for investment, subject to ABS nonrecourse debt (see Note 3, Variable Interest Entities and Securitizations). Additionally, Nationstar elected the fair value option provided for by ASC 825-10.

In December 2011, Nationstar sold its remaining variable interest in a securitization trust that has been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt, the related ABS nonrecourse debt, as well as certain other assets and liabilities of the securitization trust, and recognized any mortgage servicing rights on the consolidated balance sheet.

Receivables from Affiliates
Nationstar engages in periodic transactions with Nationstar Regular Holdings, Ltd., a subsidiary of FIF. These transactions typically involve the monthly payment of principal and interest advances that are required to be remitted to the securitization trusts as required under various Pooling and Servicing Agreements. These amounts are later repaid to Nationstar when principal and interest advances are recovered from the respective borrowers. In addition, receivables from affiliates include amounts due to FIF from settlements on interest rate swap agreements between FIF and various financial institutions. These settled amounts are collected by Nationstar and are ultimately due to FIF.

Mortgage Servicing Rights (MSRs)
Nationstar recognizes MSRs related to all existing residential mortgage loans transferred to a third party in a transfer that meets the requirements for sale accounting and for which the servicing rights are retained. Additionally, Nationstar may acquire the rights to service residential mortgage loans that do not relate to assets transferred by Nationstar through the purchase of these rights from third parties.

Nationstar identifies MSRs related to all existing forward residential mortgage loans transferred to a third party in a transfer that meets the requirements for sale accounting or through the acquisition of rights to service forward residential mortgage loans that do not relate to assets transferred by Nationstar through the purchase of these rights from third parties as a class of MSR. Nationstar applies fair value accounting to this class of MSRs, with all changes in fair value recorded as charges or credits to servicing fee income in accordance with ASC 860-50, *Servicing Assets and Liabilities*.

Additionally, Nationstar has entered into a contract to acquire and hold servicing rights for reverse mortgage loans. For this class of servicing rights, Nationstar will apply the amortization method (i.e., lower of cost or market) with the capitalized cost of the MSRs amortized in proportion and over the period of the estimated net future servicing income and recognized as an adjustment to servicing fee income. The expected period of the estimated net servicing income is based, in part, on the expected prepayment period of the underlying reverse mortgages. This class of MSRs will be periodically evaluated for impairment. For purposes of measuring impairment, MSRs will be stratified based on predominant risk characteristics of the underlying serviced loans. These risk characteristics include loan type (fixed or adjustable rate), term and interest rate. Impairment, if any, will represent the excess of amortized cost of an individual stratum over its estimated fair value and will be recognized through a valuation allowance.

Property and Equipment, Net
Property and equipment, net is comprised of land, furniture, fixtures, leasehold improvements, computer software, and computer hardware. These assets are stated at cost less accumulated depreciation. Repairs and maintenance are expensed as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets. Cost and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts, and any resulting gains or losses are recognized at such time through a charge or credit to general and administrative expenses.

Real Estate Owned (REO), Net
Nationstar holds REO as a result of foreclosures on delinquent mortgage loans. REO is recorded at estimated fair value less costs to sell at the date of foreclosure. Any subsequent declines in fair value are credited to a valuation allowance and charged to operations as incurred.

Variable Interest Entities
Nationstar has been the transferor in connection with a number of securitizations or asset-backed financing arrangements, from which Nationstar has continuing involvement with the underlying transferred financial assets. Nationstar aggregates these securitizations or asset-backed financing arrangements into two groups: 1) securitizations of residential mortgage loans that were accounted for as sales and 2) financings accounted for as secured borrowings.

On securitizations of residential mortgage loans, Nationstar's continuing involvement typically includes acting as servicer for the mortgage loans held by the trust and holding beneficial interests in the trust. Nationstar's responsibilities as servicer include, among other things, collecting monthly payments, maintaining escrow accounts, providing periodic reports and managing insurance in exchange for a contractually specified servicing fee. The beneficial interests held consist of both subordinate and residual securities that were retained at the time of the securitization. Prior to January 1, 2010, each of these securitization trusts was considered QSPEs, and these trusts were excluded from Nationstar's consolidated financial statements.

Nationstar also maintains various agreements with special purpose entities (SPEs), under which Nationstar transfers mortgage loans and/or advances on residential mortgage loans in exchange for cash. These SPEs issue debt supported by collections on the transferred mortgage loans and/or advances. These transfers do not qualify for sale treatment because Nationstar continues to retain control over the transferred assets. As a result, Nationstar accounts for these transfers as financings and continues to carry the transferred assets and recognizes the related liabilities on Nationstar's consolidated balance sheets. Collections on the mortgage loans and/or advances pledged to the SPEs are used to repay principal and interest and to pay the expenses of the entity. The holders of these beneficial interests issued by these SPEs do not have recourse to Nationstar and can only look to the assets of the SPEs themselves for satisfaction of the debt.

Prior to January 1, 2010, Nationstar evaluated each special purpose entity (SPE) for classification as a QSPE. QSPEs were not consolidated in Nationstar's consolidated financial statements. When an SPE was determined to not be a QSPE, Nationstar further evaluated it for classification as a VIE. When an SPE met the definition of a VIE, and when it was determined that Nationstar was the primary beneficiary, Nationstar included the SPE in its consolidated financial statements.

Effective January 1, 2010, new accounting guidance eliminated the concept of a QSPE and all existing SPEs are subject to new consolidation guidance. Upon adoption of this new accounting guidance, Nationstar identified certain securitization trusts where Nationstar, or through its affiliates, continued to hold beneficial interests in these trusts. These retained beneficial interests obligate Nationstar to absorb losses of the VIE

that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant. In addition, Nationstar as Master Servicer on the related mortgage loans, retains the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE. When it is determined that Nationstar has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, the assets and liabilities of these VIEs are included in Nationstar's consolidated financial statements. Upon consolidation of these VIEs, Nationstar derecognized all previously recognized beneficial interests obtained as part of the securitization, including any retained investment in debt securities, mortgage servicing rights, and any remaining residual interests. In addition, Nationstar recognized the securitized mortgage loans as mortgage loans held for investment, subject to ABS nonrecourse debt, and the related asset-backed certificates (ABS nonrecourse debt) acquired by third parties as ABS nonrecourse debt on Nationstar's consolidated balance sheet.

As a result of market conditions and deteriorating credit performance on these consolidated VIEs, Nationstar expects minimal to no future cash flows on the economic residual. Under existing GAAP, Nationstar would be required to provide for additional allowances for loan losses on the securitization collateral as credit performance deteriorated, with no offsetting reduction in the securitization's debt balances, even though any nonperformance of the assets will ultimately pass through as a reduction of amounts owed to the debt holders, once they are extinguished. Therefore, Nationstar would be required to record accounting losses beyond its economic exposure.

To more accurately represent the future economic performance of the securitization collateral and related debt balances, Nationstar elected the fair value option provided for by ASC 825-10, *Financial Instruments-Overall*. This option was applied to all eligible items within the VIE, including mortgage loans held for investment, subject to ABS nonrecourse debt, and the related ABS nonrecourse debt.

Subsequent to this fair value election, Nationstar no longer records an allowance for loan loss on mortgage loans held for investment, subject to ABS nonrecourse debt. Nationstar continues to record interest income in Nationstar's consolidated statement of operations on these fair value elected loans until they are placed on a nonaccrual status when they are 90 days or more past due. The fair value adjustment recorded for the mortgage loans held for investment is classified within fair value changes of ABS securitizations in Nationstar's consolidated statement of operations.

Subsequent to the fair value election for ABS nonrecourse debt, Nationstar continues to record interest expense in Nationstar's consolidated statement of operations on the fair value elected ABS nonrecourse debt. The fair value adjustment recorded for the ABS nonrecourse debt is classified within fair value changes of ABS securitizations in Nationstar's consolidated statement of operations.

Under the existing pooling and servicing agreements of these securitization trusts, the principal and interest cash flows on the underlying securitized loans are used to service the asset-backed certificates. Accordingly, the timing of the principal payments on this nonrecourse debt is dependent on the payments received on the underlying mortgage loans and liquidation of REO.

Nationstar consolidates the SPEs created for the purpose of issuing debt supported by collections on loans and advances that have been transferred to it as VIEs, and Nationstar is the primary beneficiary of these VIEs. Nationstar consolidates the assets and liabilities of the VIEs onto its consolidated financial statements.

In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. In accordance with ASC 810, *Consolidation*, Nationstar evaluated this securitization trust and determined that Nationstar no longer has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Consequently, this securitization trust was derecognized as of December 31, 2011. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt, the related ABS nonrecourse debt, as well as certain other assets and liabilities of the securitization trust, and recognized any mortgage servicing rights on the consolidated balance sheet. The impact of this derecognition on Nationstar's consolidated statement of operations was recognized in 2011 in the fair value changes in ABS securitizations line item.

Derivative Financial Instruments
Nationstar enters into interest rate lock commitments (IRLCs) with prospective borrowers. These commitments are carried at fair value in accordance with ASC 815, *Derivatives and Hedging*. ASC 815 clarifies that the expected net future cash flows related to the associated

servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The estimated fair values of IRLCs are based on quoted market values and are recorded in other assets in the consolidated balance sheets. The initial and subsequent changes in the value of IRLCs are a component of gain (loss) on mortgage loans held for sale.

Nationstar actively manages the risk profiles of its IRLCs and mortgage loans held for sale on a daily basis. To manage the price risk associated with IRLCs, Nationstar enters into forward sales of MBS in an amount equal to the portion of the IRLC expected to close, assuming no change in mortgage interest rates. In addition, to manage the interest rate risk associated with mortgage loans held for sale, Nationstar enters into forward sales of MBS to deliver mortgage loan inventory to investors. The estimated fair values of forward sales of MBS and forward sale commitments are based on quoted market values and are recorded as a component of other assets and mortgage loans held for sale, respectively, in the consolidated balance sheets. The initial and subsequent changes in value on forward sales of MBS and forward sale commitments are a component of gain (loss) on mortgage loans held for sale.

Periodically, Nationstar has entered into interest rate swap agreements to hedge the interest payment on the warehouse debt and securitization of its mortgage loans held for sale. These interest rate swap agreements generally require Nationstar to pay a fixed interest rate and receive a variable interest rate based on LIBOR. Unless designated as an accounting hedge, Nationstar records losses on interest rate swaps as a component of gain/(loss) on interest rate swaps and caps in Nationstar's consolidated statements of operations. Unrealized losses on undesignated interest rate derivatives are separately disclosed under operating activities in the consolidated statements of cash flows.

On October 1, 2010, the Company designated an existing interest rate swap as a cash flow hedge against outstanding floating rate financing associated with the Nationstar Mortgage Advance Receivables Trust 2009-ABS financing. This interest rate swap was a cash flow hedge under ASC 815 and was recorded at fair value on the Company's consolidated balance sheet, with any changes in fair value being recorded as an adjustment to other comprehensive income. To qualify as a cash flow hedge, the hedge must be highly effective at reducing the risk associated with the exposure being hedged and must be formally designated at hedge inception. Nationstar considers a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80% to 125% of the opposite change in the fair value of the hedged item attributable to the hedged risk. Ineffective portions of the cash flow hedge are reflected in earnings as they occur as a component of interest expense. In conjunction with the October 2011 amendment to the 2010-ABS Advance Financing Facility, Nationstar paid off its 2009-ABS Advance Financing Facility and transferred the related collateral to the 2010-ABS Advance Financing Facility. Concurrently with the repayment of 2009-ABS Advance Financing Facility Nationstar de-designated the underlying interest rate swap on the 2009-ABS Advance Financing Facility. The interest rate swap associated with the 2010-ABS Advance Financing Facility was served an economic hedge for the remainder of 2011.

During 2008, Nationstar entered into interest rate cap agreements to hedge the interest payment on the servicing advance facility. These interest rate cap agreements generally require an upfront payment and receive cash flow only when a variable rate based on LIBOR exceeds a defined interest rate. These interest rate cap agreements are not designated as hedging instruments, and unrealized gains and losses are recorded in loss on interest rate swaps and caps in Nationstar's consolidated statements of operations.

Interest Income
Interest income is recognized using the interest method. Revenue accruals for individual loans are suspended and accrued amounts reversed when the mortgage loan becomes contractually delinquent for 90 days or more. Delinquency payment status is based on the most recently received payment from the borrower. The accrual is resumed when the individual mortgage loan becomes less than 90 days contractually delinquent. For individual loans that have been modified, a period of six timely payments is required before the loan is returned to an accrual basis. Interest income also includes (1) interest earned on custodial cash deposits associated with the mortgage loans serviced and (2) deferred originations income, net of deferred originations costs and other revenues derived from the originations of mortgage loans, which is deferred and recognized over the life of a mortgage loan or recognized when the related loan is sold to a third party purchaser.

Servicing Fee Income
Servicing fees include contractually specified servicing fees, late charges, prepayment penalties and other ancillary charges. Servicing encompasses, among other activities, the following processes: billing, collection of payments, movement of cash to the payment clearing bank accounts, investor reporting, customer service, recovery of delinquent payments, instituting foreclosure, and liquidation of the underlying collateral.

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Nationstar recognizes servicing and ancillary fees as they are earned, which is generally upon collection of the payments from the borrower. In addition, Nationstar also receives various fees in the course of providing servicing on its various portfolios. These fees include modification fees for modifications performed outside of government programs, modification fees for modifications pursuant to various government programs, and incentive fees for servicing performance on specific GSE portfolios.

Fees recorded on modifications of mortgage loans held for investment performed outside of government programs are deferred and recognized as an adjustment to the loans held for investment. These fees are accreted into interest income as an adjustment to the loan yield over the life of the loan. Fees recorded on modifications of mortgage loans serviced by Nationstar for others are recognized on collection and are recorded as a component of service fee income. Fees recorded on modifications pursuant to various government programs are recognized when Nationstar has completed all necessary steps and the loans have performed for the minimum required time frame to establish eligibility for the fee. Revenue earned on modifications pursuant to various government programs is included as a component of service fee income. Incentive fees for servicing performance on specific GSE portfolios are recognized as various incentive standards are achieved and are recorded as a component of service fee income.

Sale of Mortgage Loans
Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from Nationstar, (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) Nationstar does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates Nationstar to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets.

Loan securitizations structured as sales, as well as whole loan sales, are accounted for in accordance with ASC 860, *Transfers and Servicing*, and the resulting gains on such sales, net of any accrual for recourse obligations, and are reported in operating results during the period in which the securitization closes or the sale occurs.

Share-Based Compensation Expense
Share-based compensation is recognized in accordance with ASC 718, *Compensation–Stock Compensation*. This guidance requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the consolidated statements of operations, based on their fair values. The amount of compensation is measured at the fair value of the awards when granted and this cost is expensed over the required service period, which is normally the vesting period of the award.

Advertising Costs
Advertising costs are expensed as incurred and are included as part of general and administrative expenses.

Income Taxes
For federal income tax purposes, Nationstar has elected to be a disregarded entity and is treated as a branch of its parent, FIF HE Holdings LLC. FIF HE Holdings LLC is taxed as a partnership, whereby all income is taxed at the member level. Certain states impose income taxes on LLC's. However, Nationstar does not believe it is subject to material state or local income tax in any of the jurisdictions in which it does business.

Recent Accounting Developments
Accounting Standards Update No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements* (Update No. 2011-03). Update No. 2011-03 is intended to improve the accounting and reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This amendment removes the criterion pertaining to an exchange of collateral such that it should not be a determining factor in assessing effective control, including (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in the update. The amendments in this update will be effective for interim and annual periods beginning after December 15, 2011. The adoption of Update No. 2011-03 will not have a material impact on Nationstar's financial condition, liquidity or results of operations.

Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (Update No. 2011-04). Update No. 2011-04 is intended to provide common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRS). The changes required in this update include changing the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this update are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of Update No. 2011-04 will not have a material impact on Nationstar's financial condition, liquidity or results of operations.

Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (Update No. 2011-05). Update No. 2011-05 is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Update No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and now requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update are to be applied retrospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of Update No. 2011-05 will not have a material impact on Nationstar's financial condition, liquidity or results of operations.

Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No 2011-05* (Update No. 2011-12). Update 2011-12 is intended to temporarily defer the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income as required by Update No. 2011-05. All other requirements in Update 2011-05 are not affected by this update. This update does not change the requirement to present reclassifications adjustments within other comprehensive income either on the face of the statement that reports other comprehensive income or in the notes to the financial statements (Update 2011-05). The amendments in this update are effective for interim and annual periods beginning after December 15, 2011. The adoption of Update No. 2011-12 will not have a material impact on our financial condition, liquidity or results of operations.

3. Variable Interest Entities and Securitizations

A VIE is an entity that has either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary, which is the entity that, through its variable interests has both the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Effective January 1, 2010, new accounting guidance eliminated the concept of a QSPE and all existing SPEs are subject to new consolidation guidance. Upon adoption of this new accounting guidance, Nationstar identified certain securitization trusts where Nationstar had both the power to direct the activities that most significantly impacted the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, the assets and liabilities of these VIEs were included in Nationstar's consolidated financial statements. The net effect of the accounting change on January 1, 2010 members' equity was an $8.1 million charge to members' equity.

In December 2011, Nationstar sold its remaining variable interest in a securitization trust that had been a consolidated VIE since January 1, 2010 and deconsolidated the VIE. In accordance with ASC 810 Nationstar has evaluated this securitization trust and determined that Nationstar no longer has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, and this securitization trust was derecognized as of December 31, 2011. Upon deconsolidation of this VIE, Nationstar derecognized the securitized mortgage loans held for investment, subject to ABS nonrecourse debt, the related ABS nonrecourse debt, as well as certain other assets and liabilities of the securitization trust, and recognized any MSRs on the consolidated balance sheet. The impact of this derecognition on Nationstar's consolidated statement of operations was recognized in the fourth quarter of 2011 in the fair value changes in ABS securitizations line item.

A summary of the assets and liabilities of Nationstar's transactions with VIEs included in Nationstar's consolidated financial statements as of December 31, 2011 and 2010 is presented in the following table (in thousands):

Transfers

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