

The **WAC**kier Disconnect Between Price and Value



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BAKER STREET CAPITAL MANAGEMENT

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Overview

Why Is WAC Our Highest Conviction Idea?

We believe that Walter Investment Management Corp. (“WAC” or “Walter”) is a “compounder” business, with:

- ☐ **Imminent catalysts to transform the business from capital intensive to asset-light**
- ☐ **Significant near-term growth acceleration**
- ☐ **Valuation of ~1x pro forma EBITDA and ~3x EPS on growing, asset-light cash flows**
- **We estimate fair value of \$54 per share today by applying 12x to pro forma EPS**
- ☐ **Free “call options” on M&A synergies and return of private capital to mortgage lending**

Why Is WAC Our Highest Conviction Idea?

- ❑ **We think the market is missing an imminent inflection point at WAC**
 - Near-term events should transform WAC into a growing, capital-light, recurring sub-servicing and asset management fee business
- ❑ **Walter Capital Opportunity Corp. REIT (“WCO”) raising capital is a game changer for WAC’s growth, balance sheet, free cash flow, ROIC, and multiple**
 - Over the next 24 months we believe WAC can grow its servicing business by 40% without using any of its own balance sheet capital
- ❑ **Transformation to an asset-light model could generate \$2.5 billion of cash over the next two years, or 90% of WAC’s current Enterprise Value**
 - Creates opportunity to **buy today at less than 1x pro forma EV/EBITDA**
 - At a conservative 12x multiple of asset-light, recurring earnings per share of \$6.03 post-transformation, we **believe the stock is worth ~\$54 today**
- ❑ **Going forward WAC will require no capital to grow, a paradigm shift that will allow rapid de-leveraging and aggressive share repurchases (e.g. AutoZone)**

WAC’s imminent transformation creates a catalyst for the market to properly value it as a high multiple, asset light, growing fee stream

Walter Investment Management Corp. (“WAC”)

Ticker: “WAC”

Stock Price: \$18.64 ⁽¹⁾

Market Cap: \$703 mil

EV: \$2,715 mil



green tree

- ❑ Leading non-bank servicer specializing in credit-sensitive assets with \$238bn in serviced mortgages
- ❑ Collects and transfers payments from borrowers to mortgage holders (GSEs, banks, bondholders) for a recurring, contractual fee
- ❑ Performs indispensable payment collection function in the mortgage market
- ❑ Subscription-like, high margin, revenue stream for life of loan with no credit risk
- ❑ Fannie Mae’s highest “5 Star” servicer performance rating

ditech SM

- ❑ Top 20 mortgage originator in the U.S.
- ❑ \$18.5bn funded origination volume in 2014
- ❑ Full range of mortgage products through consumer and correspondent channels
- ❑ Ideally positioned to underwrite and originate higher margin, non-conforming (“subprime”) loans when market returns



- ❑ Leading originator and servicer of reverse mortgages
- ❑ Capital efficient, fee based, high margin product
- ❑ \$18bn servicing portfolio
- ❑ Market leading franchise position
- ❑ Favorable long term outlook due to demographic tailwind
- ❑ Significantly higher margin product than traditional forward mortgages

(1) Based on WAC closing stock price on July 22, 2015

Walter Green Tree Servicing History

Walter acquired the Green Tree high-touch mortgage servicing business in 2011 as an “asset-light” fee-based business services company

- ❑ **Walter acquired Green Tree in 2011 for ~\$1bn (at 5.75x 2011 projected adj. EBITDA), when Green Tree was subservicing just \$37bn in mortgages ⁽¹⁾**
- ❑ **Logic behind acquisition was to “transform Walter into a premier fee-based business service company providing high-touch third-party servicing of credit-sensitive consumer loans from an asset-light platform” ⁽¹⁾**
- ❑ **Combined company was to “focus its efforts on Green Tree’s asset-light, fee-based servicing opportunities and investment management business” ⁽¹⁾**
- ❑ **As large banks became highly motivated sellers of mortgage servicing rights (“MSR”), Walter/Green Tree took advantage of a unique opportunity to grow at very attractive IRR’s by leveraging its own balance sheet to buy MSR**
 - Since the 2011 acquisition of Green Tree, Walter grew its servicing business from ~\$38bn to ~\$238bn into a leading national mortgage servicing platform

Rapid growth since 2011 created significant scale and shareholder value, but has depressed valuation due to a number of perception issues

(1) Per WAC form 8-K filed with the SEC on March 28, 2011 and form 8-K filed with the SEC on May 19, 2011

Walter's Core Business Is Mortgage Servicing

Servicing credit-sensitive mortgages is a fundamentally good, recurring fee-for-service business with significant barriers to entry

- ❑ **Subscription-like business model similar to alarm monitoring companies**
 - Contractually recurring, high-margin fee stream with long life and low churn
 - One-time upfront investment in MSR equivalent to subscriber acquisition cost with minimal ongoing CapEx or credit risk
 - Opportunity to reinvest capital at high IRR → long runway to create value
- ❑ **Significant barriers to entry**
 - Regulatory and compliance costs require extraordinary scale and investment to drive down unit costs → competitive moat that widens over time
 - Multiple parties need to approve MSR sales and fear reputation risk, which rules out MSR buyers without long, successful track records of compliance
 - **Walter is one of two “high-touch” servicers with the scale, track record, and compliance reputation to support significant growth**

...and near-term catalysts are about to make it much better...

Transformation

“Subservicing, for us, is the core to a **capital-light, fee-for-service, high-multiple kind of business**” (1)

(1) Denmar Dixon, Walter Vice Chairman & Chief Investment Officer, Bank of America Merrill Lynch Investment Conference, November 2013

“Asset Light” Transformations Are Very Powerful

The separation of high-value fee streams from balance sheet intensive asset ownership has unlocked tremendous value in other industries



Restaurant Franchisors

- ❑ Real estate traditionally owned by restaurant companies
- ❑ Refranchising and sale-leasebacks separated real estate ownership from higher value, recurring franchise fee stream
- ❑ Asset-light franchise fees have highlighted value



Hotel Management Companies

- ❑ Higher value franchise and management fees separated from ownership of hotels, which were sold or spun off into REITs
- ❑ Hotel companies achieve faster fee growth and very high returns as real estate investors use their own capital to build hotels



GP/LP Structures (MLPs, Asset Managers)

- ❑ GP value enhanced via faster growing, recurring fees as asset ownership shifts to LP's with a lower cost of capital
- ❑ “Drop-down” transaction trend in MLP's created significant value
- ❑ Asset managers receive fees from lower cost of capital LP's

WAC Going Back To Asset-Light Model Is A Big Deal

WAC is about to return to its roots as a sub-servicing business, which should unlock substantial value and remove its valuation overhangs

Servicing Model

Balance Sheet

- ❑ Large MSR asset on balance sheet
- ❑ MSR asset financed with leverage

Cash Flow Dynamics

- ❑ Cash flow reinvested in new MSR

Growth

- ❑ Growth limited by balance sheet capacity
 - High cost of WAC equity limits options

Valuation

- ❑ Valued as a “book value” financial
 - Analysts focus on Tangible Book Value
 - ROE lowered by capital intensity
- ❑ Mark to market MSR fair value accounting
 - Volatility in reported GAAP EPS
- ❑ Valuation obscured by complicated GAAP P&L

Sub-servicing Model

- ❑ No MSR carried on balance sheet
- ❑ Rapid de-leveraging as MSR converts to cash

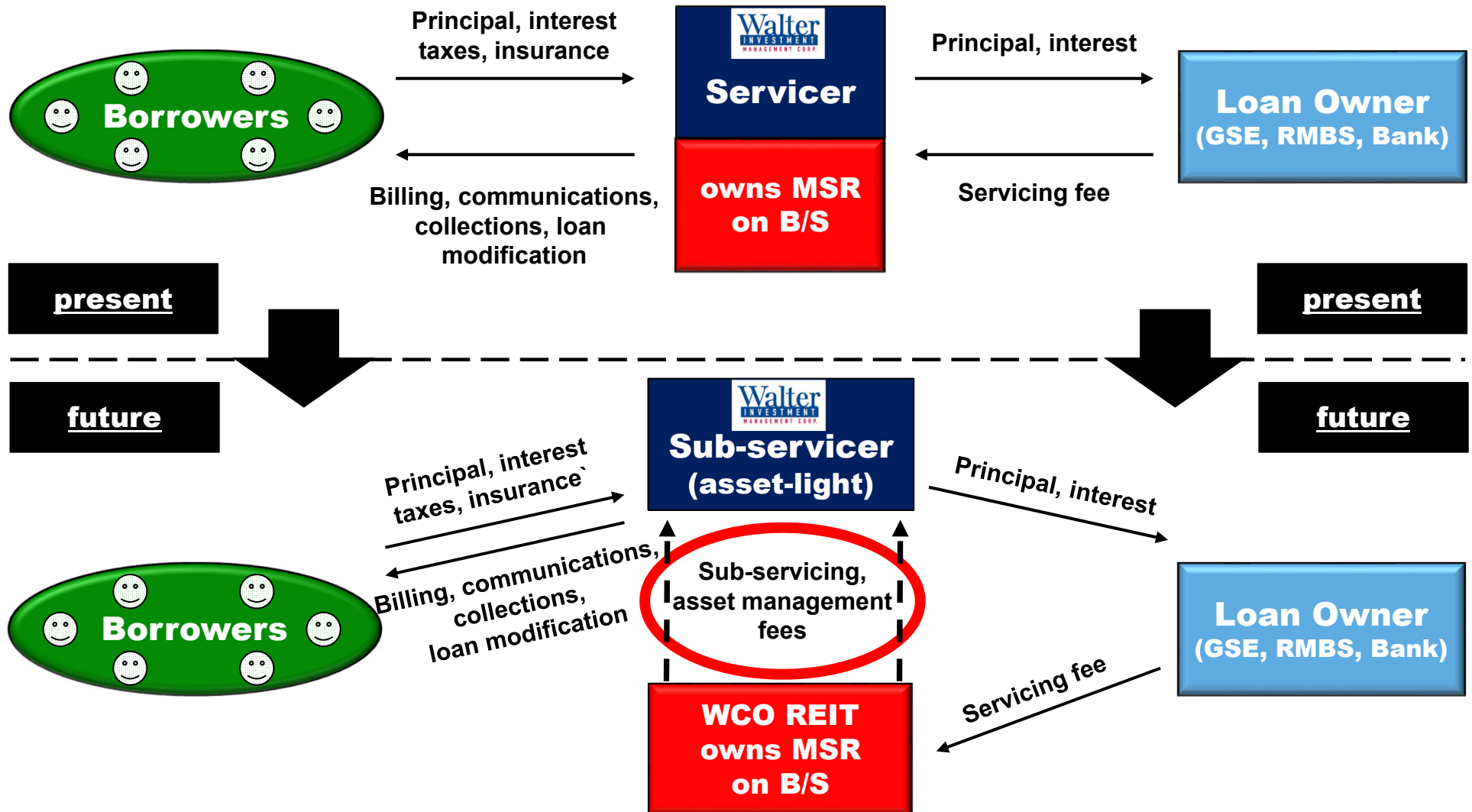
- ❑ Free cash flow unlocked for buybacks/dividend

- ❑ Growth accelerated by external capital
 - Leverages lower cost of external capital

- ❑ Valued like a growing, high ROE business
 - Tangible Book Value becomes irrelevant
 - ROE is very high with minimal capital used
- ❑ Much cleaner reported financials
 - More predictable, easy to model earnings
- ❑ High-value sub-servicing business highlighted

Servicing Vs. Sub-servicing

Shifting of MSR ownership to a low cost-of-capital REIT highlights the value of WAC's high ROIC sub-servicing and asset management business



Meet Walter Capital Opportunity Corp. (“WCO”) ...

WCO is a private REIT initially capitalized ~90% by York Capital and ~10% by Walter; WCO will own MSRs directly and hire WAC as a sub-servicer

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM D

Notice of Exempt Offering of Securities

1. Issuer's Identity

CIK (Filer ID Number)

0001632381

Previous Names

☒ None

Entity Type

☒ Corporation

☐ Limited Partnership

☐ Limited Liability Company

☐ General Partnership

☐ Business Trust

☐ Other (Specify)

Name of Issuer

Walter Capital Opportunity Corp.

Jurisdiction of Incorporation/Organization

MARYLAND

Year of Incorporation/Organization

☐ Over Five Years Ago

☒ Within Last Five Years (Specify Year) 2014

☐ Yet to Be Formed

2. Principal Place of Business and Contact Information

Name of Issuer

Walter Capital Opportunity Corp.

Street Address 1

345 ST PETER ST., SUITE 2050

City

ST PAUL

State/Province/Country

MINNESOTA

Street Address 2

ZIP/PostalCode

55121

Phone Number of Issuer

651-293-3573

3. Related Persons

Last Name

Dixon

Street Address 1

345 ST PETER ST., SUITE 2050

City

ST PAUL

First Name

Denmar

Street Address 2

State/Province/Country

MINNESOTA

Middle Name

J.

ZIP/PostalCode

55121

Relationship: ☒ Executive Officer ☒ Director ☐ Promoter

WCO Growth Is A Major Catalyst For WAC

Walter is about to transform from a capital-intensive servicer of mortgages to an asset-light sub-servicer with minimal capital needs

- ❑ Analogous to asset-light transformations in other industries (refranchising of restaurants, management of hotels, MLP GP/LP “drop-downs”)
- ❑ WAC holds ~\$2.0bn of mortgage servicing rights (“MSR”) and servicer working capital ⁽¹⁾ on its balance sheet as a result of rapid growth from 2011
 - Reinvestment of cash flows into growth of MSR has made WAC look like a balance sheet-intensive business and has depressed stock valuation
- ❑ We believe WCO may raise equity privately and then do an IPO, which will accelerate WAC’s growth and ultimately transform it into a pure sub-servicer
 - Recent comments suggest a WCO capital raise could happen soon
 - With WCO as a tax-advantaged, low cost capital provider, WAC becomes a capital light, recurring fee-for-service and asset management business
- ❑ **Game changer for WAC’s cash flow generation, ROE and valuation**
 - WAC no longer needs to reinvest cash into MSR to grow its business
 - Becomes a classic per-share “compounding machine” like AZO, NVR, PCP

(1) \$1.694bn of servicing rights and \$328mil of equity in servicer advances as of March 31, 2015

WCO Will Become The Main Source Of Capital For WAC

Denmar Dixon, Walter Vice Chairman & Chief Investment Officer

Morgan Stanley Financials Conference, March 9, 2015

“We’re actually looking to raise some capital for the Walter Capital entity... On a go-forward basis it will become increasingly more the primary source of capital for Walter. So there's going to be a transition as we move forward, of Walter Capital as the primary capital provider, Walter [WAC] more fee-for-service on the sub-servicing of that portfolio, which frees up capital at Walter...”

Q1 2015 Earnings Call, May 7, 2015

“As we move forward to take advantage of these opportunities, we will maintain focus on the transition to more of a sub-servicing model with Walter Capital Opportunity as the primary capital partner and a catalyst...”

“...sub-servicing business for the mortgage servicing platform is intuitive as it represents a higher ROE, less capital intensive growth opportunity.”

How We See The Walter Transformation Unfolding

The growth of WCO's capital base allows WAC to achieve a transformation of its financial model, improving returns while accelerating growth

Today

- ❑ WAC currently earns ~16bps in adjusted EBITDA on ~\$238bn of mortgages and owns a \$2bn asset in the form of MSR and servicing advances
- ❑ WCO has already raised \$220mil in equity and has funded WAC's purchase of MSR via excess spread financing



Next 6 Months

- ❑ WCO raises debt and equity in the private markets, increasing its asset base from \$220mil today to ~\$1bn, giving it capacity to own ~\$100bn of MSR
- ❑ WAC receives sub-servicing and asset management fees from WCO



Next 12-24 Months

- ❑ WCO acquires MSR from WAC's origination volume as well as in the market
- ❑ WCO raises additional capital via IPO and debt markets, grows asset base
- ❑ WCO acquires WAC's remaining owned MSR assets for cash at book value
 - Mgmt. comments indicate WAC is open to monetizing its entire MSR asset



Outcome

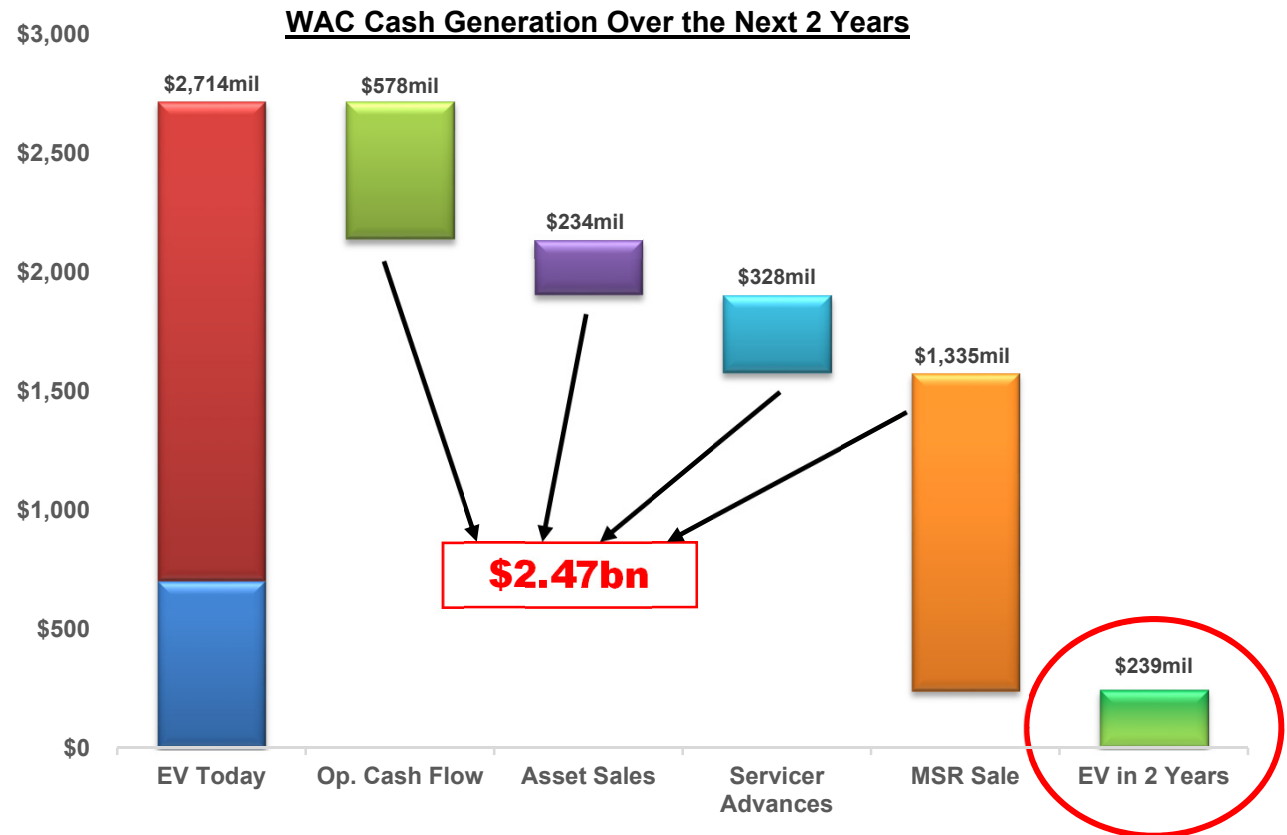
- ❑ WAC is left with no MSR asset on its B/S, becomes purely asset-light
 - Total servicing platform scale enhanced from \$250bn to over \$350bn
- ❑ WAC earns between 3.5bps and 5.5bps pretax between its sub-servicing fees and asset management (recurring + incentive) income
- ❑ WCO owns MSR and servicing advances, achieving ~12% ROE

WAC De-Leverages Rapidly As Capital Is Freed Up

*Growth of WCO should allow WAC to generate **~\$2.5bn** of cash from operations, asset sales, and a sale of MSR to WCO within 2 years*

Sources of Cash

- ☐ **Operating Cash Flow**
ongoing cash generation of the business, with no need for capital reinvestment
- ☐ **Asset Sales**
previously announced monetization of residual trusts
- ☐ **Servicer Advances**
equity in servicer advances turns to cash through run-off and sale to WCO
- ☐ **MSR Sale**
Remaining MSR sold from WAC to WCO at book value



*Cash generation could shrink WAC EV to just **~\$250mil**, leaving it with asset-light sub-servicing, originations, and reverse mortgage businesses*

Valuation

WAC Valuation Consideration Highlights

WAC's imminent transformation creates a catalyst for the market to properly value it as a higher multiple, growing, asset-light fee stream

- ❑ WCO growth will free up ~\$2.5bn of cash generation and capital flexibility at WAC, which can be used to pay down debt, repurchase shares, or pay dividends
- ❑ If cash is used to pay down debt, EV would shrink to just \$250mil while EBITDA goes to \$264mil and becomes entirely asset-light, resulting in **pro forma 1x EV/EBITDA**
- ❑ If WAC sells its owned MSR to WCO in two years, it can return cash proceeds via a large Dutch tender offer, resulting in **asset-light earnings of ~\$6 per share**
- ❑ Alternatively, cash proceeds can be returned via a **special dividend of ~\$38 per share**, leaving WAC with growing, **asset-light earnings of \$2.76 per share**
- ❑ Instead of selling its owned MSR to WCO, WAC could simply run off its MSR assets while leveraging WCO's capital base to grow its sub-servicing income
- ❑ In all scenarios, WAC transforms into an asset-light cash flow "machine" which creates an opportunity to compound free cash flow per share via share buybacks

In our view the market is missing transformation math and, as a result, WAC shares appear to be extremely undervalued on any relevant metric

WAC Sells For Under 1x Our Pro Forma EV/EBITDA

Pro forma for its ~\$2.5bn of cash generation over the next two years, WAC sells for under 1x our estimate of its post-transition EV/EBITDA

| | | |
|-------------------------------|--------|----------------|
| EV Today @ WAC \$18.64 | \$ mil | \$2,715 |
| Cash Generated Next 2 Years | \$ mil | \$2,466 |
| Pro Forma EV | \$ mil | \$249 |
| Consolidated EBITDA | \$ mil | \$264 |
| Pro Forma EV/EBITDA | | 0.94x |

| | | Year 1 | Year 2 | Year 3 | Comments |
|----------------------------|---------------|--------------|--------------|--------------|--|
| Owned MSR Serviced UPB | \$ bn | \$176 | \$155 | \$0 | Owned MSR is sold to WCO in Year 3, WAC transitions to pure subservicer over next 2 years |
| Legacy Subserviced UPB | \$ bn | \$47 | \$42 | \$38 | Existing subservicing book (not capitalized on balance sheet) in runoff |
| WCO Subserviced UPB | \$ bn | \$37 | \$107 | \$297 | WCO acquires MSR externally + WAC originations, then acquires WAC MSR in Year 3 |
| Total Serviced UPB | \$ bn | \$260 | \$305 | \$335 | |
| Consumer Originations | \$ bn | \$7.5 | \$7.9 | \$8.3 | Growing 5% from 2015 guidance midpoint - no upside from HARP or return of subprime |
| Correspondent Originations | \$ bn | \$16.5 | \$17.3 | \$18.2 | Growing 5% from 2015 guidance midpoint - no upside from HARP or return of subprime |
| Servicing EBITDA | \$ mil | \$326 | \$287 | \$0 | Servicing income goes to \$0 after Year 2 as MSR is sold to WCO, WAC become capital-light |
| Subservicing EBITDA | \$ mil | \$50 | \$78 | \$160 | Subservicing grows as WCO grows via external MSR purchases and purchase of WAC's MSR |
| Originations EBITDA | \$ mil | \$45 | \$47 | \$33 | 100-120bps margin on consumer, 15bps on correspondent, \$70mil fixed SG&A. Assume no subprime |
| Other EBITDA | \$ mil | \$63 | \$67 | \$71 | \$15-25mil EBITDA Reverse, \$8mil Residual NIM, \$40mil company cost savings (announced) |
| Consolidated EBITDA | \$ mil | \$483 | \$478 | \$264 | Consolidated EBITDA declines through Year 3 but becomes entirely capital light |

WAC Valuation Scenarios

Several base case scenarios demonstrate the impact of WAC's transition to "asset-light," as capital is freed up and can be returned to shareholders

Scenario 1: WAC sells MSR to WCO in Year 3, uses proceeds for Dutch tender

- ❑ WAC grows its sub-servicing and asset management income as WCO acquires MSR
- ❑ After two years WCO acquires remainder of WAC's owned MSR and servicing advances
- ❑ WAC uses cash proceeds to do a large Dutch tender offer, becomes entirely asset-light

Scenario 2: WAC sells MSR to WCO in Year 3, uses proceeds for special dividend

- ❑ WAC grows its sub-servicing and asset management income as WCO acquires MSR
- ❑ After two years WCO acquires remainder of WAC's owned MSR and servicing advances
- ❑ WAC uses cash proceeds to pay a special dividend, becomes entirely asset-light

Scenario 3: WAC grows sub-servicing, runs off owned MSR, uses cash for buybacks

- ❑ WAC grows its sub-servicing and asset management income as WCO acquires MSR
- ❑ WAC's owned MSR and servicing advances are run off and convert to cash over time
- ❑ WAC uses all free cash flow to repurchase shares while maintaining constant leverage at 3.25x

WAC Valuation: Scenario 1 – Tender Offer

Cash generation allows WAC to do a \$1.4bn tender offer after two years, which would leave a growing annuity earnings stream of \$6.03 per share

Scenario 1 - Growth of WCO and Sale of WAC owned MSR to WCO in 2 Years, Tender Offer Using Sale Proceeds

| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Comments |
|---------------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| Owned MSR Serviced UPB | \$ bn | \$176 | \$155 | \$0 | \$0 | \$0 | \$0 | Owned MSR is sold to WCO in Year 3, WAC transitions to pure servicer over next 2 years |
| Legacy Subserviced UPB | \$ bn | \$47 | \$42 | \$38 | \$34 | \$31 | \$28 | Existing subservicing book (not capitalized on balance sheet) in runoff |
| WCO Subserviced UPB | \$ bn | \$37 | \$107 | \$297 | \$320 | \$343 | \$367 | WCO acquires MSR externally + WAC originations, then acquires WAC MSR in Year 3 |
| Total Serviced UPB | \$ bn | \$260 | \$305 | \$335 | \$354 | \$374 | \$395 | |
| Consumer Originations | \$ bn | \$7.5 | \$7.9 | \$8.3 | \$8.7 | \$9.1 | \$9.6 | Growing 5% from 2015 guidance midpoint - no upside from HARP or return of subprime |
| Correspondent Originations | \$ bn | \$16.5 | \$17.3 | \$18.2 | \$19.1 | \$20.1 | \$21.1 | Growing 5% from 2015 guidance midpoint - no upside from HARP or return of subprime |
| Servicing EBITDA | \$ mil | \$326 | \$287 | \$0 | \$0 | \$0 | \$0 | Servicing income goes to \$0 after Year 2 as MSR is sold to WCO, WAC become capital-light |
| Subservicing EBITDA | \$ mil | \$50 | \$78 | \$160 | \$168 | \$176 | \$185 | Subservicing grows as WCO grows via external MSR purchases and purchase of WAC's MSR |
| Originations EBITDA | \$ mil | \$45 | \$47 | \$33 | \$34 | \$36 | \$38 | 100bps margin on consumer, 15bps on correspondent, \$70mil fixed SG&A. Assume no subprime |
| Other EBITDA | \$ mil | \$63 | \$67 | \$71 | \$70 | \$68 | \$67 | \$15-25mil EBITDA Reverse, \$8mil Residual NIM, \$40mil company cost savings (announced) |
| Consolidated EBITDA | \$ mil | \$483 | \$478 | \$264 | \$272 | \$281 | \$290 | Consolidated EBITDA declines through Year 3 but becomes entirely capital light |
| D&A | \$ mil | (\$227) | (\$202) | (\$20) | (\$20) | (\$20) | (\$20) | Owned MSR amortization at 92bps of UPB, CPR of 12%, \$20mil corporate D&A |
| Interest Expense | \$ mil | (\$135) | (\$107) | (\$76) | (\$57) | (\$58) | (\$60) | Interest Expense decreases as WAC delevers to 3.25x Debt/EBITDA |
| Tax Expense | \$ mil | (\$46) | (\$65) | (\$64) | (\$74) | (\$77) | (\$80) | 38% Tax Rate |
| Net Income | \$ mil | \$75 | \$105 | \$104 | \$121 | \$125 | \$130 | Net Income grows with capital light transition as MSR D&A goes away, interest expense decreases |
| Shares O/S at Year End | mil | 37.7 | 37.7 | 17.3 | 15.8 | 14.6 | 13.5 | Tender in Year 3 @ \$70 with excess cash proceeds from MSR sale to WCO |
| EPS on Ending O/S Shares | \$ / share | \$1.99 | \$2.79 | \$6.03 | \$7.67 | \$8.60 | \$9.66 | |
| Beginning Net Debt | \$ mil | \$2,012 | \$1,470 | \$1,134 | \$858 | \$884 | \$912 | |
| Cash Generated | \$ mil | \$541 | \$336 | \$1,707 | \$135 | \$140 | \$144 | Cash generated from operations, asset sales, MSR sales, servicer advance working capital release |
| Cash Used for Debt Paydown | \$ mil | \$541 | \$336 | \$276 | (\$27) | (\$28) | (\$30) | Assumes paydown at par, debt increases Year 4 to maintain leverage at 3.25x Debt/EBITDA |
| Cash Used for Repurchase | \$ mil | \$0 | \$0 | \$1,431 | \$162 | \$168 | \$174 | Significant capacity for capital return (tender or special dividend) when WAC MSR sold to WCO |
| Repurchase Price | \$ / share | | | \$70 | \$108 | \$138 | \$155 | Tender in Year 3 at \$70, then repurchase shares at 18x prior year EPS |
| Cash Used for Special Dividend | \$ mil | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Ending Net Debt | \$ mil | \$1,470 | \$1,134 | \$858 | \$884 | \$912 | \$942 | Debt paid down to get to 3.25x Net Debt/EBITDA |

Transition unlocks \$2.6bn of cash generation over three years and leaves a growing, high quality earnings stream of \$6.03 per share

WAC Valuation: Scenario 2 – Special Dividend

Alternatively, WAC could pay a special dividend of \$38 per share in Year 3 and retain a growing earnings stream of \$2.76 per share

Scenario 2 - Growth of WCO and Sale of WAC-owned MSR to WCO in 2 Years, Special Dividend Using Sale Proceeds

| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Comments |
|---------------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| Owned MSR Servicing UPB | \$ bn | \$176 | \$155 | \$0 | \$0 | \$0 | \$0 | Owned MSR runs off at CPR of 12% for 2 years, then 10% |
| Legacy Subserviced UPB | \$ bn | \$47 | \$42 | \$38 | \$34 | \$31 | \$28 | Legacy subservicing book in runoff |
| WCO Subserviced UPB | \$ bn | \$37 | \$107 | \$297 | \$320 | \$343 | \$367 | WCO acquires MSR externally + WAC originations, then acquires WAC MSR in Year 3 |
| Total Serviced UPB | \$ bn | \$260 | \$305 | \$335 | \$354 | \$374 | \$395 | |
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| Servicing EBITDA | \$ mil | \$326 | \$287 | \$0 | \$0 | \$0 | \$0 | Servicing income declines as MSR runs off WAC balance sheet |
| Subservicing EBITDA | \$ mil | \$50 | \$78 | \$160 | \$168 | \$176 | \$185 | Subservicing grows as WCO grows via external MSR purchases and purchase of WAC's MSR |
| Originations EBITDA | \$ mil | \$45 | \$47 | \$33 | \$34 | \$36 | \$38 | 100bps margin on consumer, 15bps on correspondent, \$70mil fixed SG&A |
| Other EBITDA | \$ mil | \$63 | \$67 | \$71 | \$70 | \$68 | \$67 | \$15-25mil EBITDA Reverse, \$8mil Residual NIM, \$40mil company cost savings (announced) |
| Consolidated EBITDA | \$ mil | \$483 | \$478 | \$264 | \$272 | \$281 | \$290 | Consolidated EBITDA declines but becomes progressively more capital light |
| D&A | \$ mil | (\$227) | (\$202) | (\$20) | (\$20) | (\$20) | (\$20) | Owned MSR amortization at 92bps of UPB, CPR of 12%, \$20mil corporate D&A |
| Interest Expense | \$ mil | (\$135) | (\$107) | (\$76) | (\$57) | (\$58) | (\$60) | Interest Expense decreases as WAC delevers to 3.25x Debt/EBITDA |
| Tax Expense | \$ mil | (\$46) | (\$65) | (\$64) | (\$74) | (\$77) | (\$80) | 38% Tax Rate |
| Net Income | \$ mil | \$75 | \$105 | \$104 | \$121 | \$125 | \$130 | |
| Shares Outstanding at Year End | mil | 37.7 | 37.7 | 37.7 | 34.5 | 31.8 | 29.4 | Use all free cash flow to repurchase shares at target Net Debt/EBITDA of 3.25x |
| EPS on Ending Shares O/S | \$ / share | \$1.99 | \$2.79 | \$2.76 | \$3.52 | \$3.94 | \$4.43 | |
| Beginning Net Debt | \$ mil | \$2,012 | \$1,470 | \$1,134 | \$858 | \$884 | \$912 | |
| Cash Generated | \$ mil | \$541 | \$336 | \$1,707 | \$135 | \$140 | \$144 | Cash generated from operations, asset sales, MSR sales, servicer advance working capital |
| Cash Used for Debt Paydown | \$ mil | \$541 | \$336 | \$276 | (\$27) | (\$28) | (\$30) | Assumes paydown at par, maintain leverage at 3.25x Debt/EBITDA |
| Cash Used for Repurchase | \$ mil | \$0 | \$0 | \$0 | \$162 | \$168 | \$174 | Use generated cash to reduce net debt, then use all available FCF to repurchase shares |
| Repurchase Price | \$ / share | | | | \$50 | \$63 | \$71 | Repurchase shares at 18x prior year EPS |
| Cash Used for Special Dividend | \$ mil | \$0 | \$0 | \$1,431 | \$0 | \$0 | \$0 | |
| Ending Net Debt | \$ mil | \$1,470 | \$1,134 | \$858 | \$884 | \$912 | \$942 | Debt paid down to get to 3.25x Net Debt/EBITDA |

Sale of owned MSR to WCO in Year 3 allows for \$38 per share special dividend

WAC Valuation: Scenario 3 – WAC Runoff & Buybacks

If WAC runs off its owned MSR over time and uses generated cash flow to repurchase shares, earnings compound to \$8.47 per share in 6 years

Scenario 3 - Growth of WCO and Runoff of WAC-owned MSR, Buyback Using FCF

| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Comments |
|---------------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| Owned MSR Servicing UPB | \$ bn | \$187 | \$165 | \$145 | \$131 | \$118 | \$106 | Owned MSR runs off at CPR of 12% for 2 years, then 10% |
| Legacy Subserviced UPB | \$ bn | \$50 | \$45 | \$40 | \$36 | \$33 | \$29 | Legacy subservicing book in runoff |
| WCO Subserviced UPB | \$ bn | \$0 | \$74 | \$140 | \$178 | \$214 | \$249 | WCO acquires MSR externally, \$150 bn for the first 2 years, then ~\$50 bn per year |
| Total Serviced UPB | \$ bn | \$237 | \$284 | \$326 | \$345 | \$364 | \$384 | |
| Consumer Originations | \$ bn | \$7.5 | \$7.9 | \$8.3 | \$8.7 | \$9.1 | \$9.6 | Growing 5% from 2015 guidance midpoint - no upside from HARP or return of subprime |
| Correspondent Originations | \$ bn | \$16.5 | \$17.3 | \$18.2 | \$19.1 | \$20.1 | \$21.1 | Growing 5% from 2015 guidance midpoint - no upside from HARP or return of subprime |
| Servicing EBITDA | \$ mil | \$326 | \$287 | \$255 | \$229 | \$207 | \$186 | Servicing income declines as MSR runs off WAC balance sheet |
| Subservicing EBITDA | \$ mil | \$50 | \$78 | \$98 | \$112 | \$126 | \$140 | Subservicing grows as WCO grows via external MSR purchases and purchase of WAC's MSR |
| Originations EBITDA | \$ mil | \$45 | \$47 | \$33 | \$34 | \$36 | \$38 | 100bps margin on consumer, 15bps on correspondent, \$70mil fixed SG&A |
| Other EBITDA | \$ mil | \$63 | \$67 | \$71 | \$70 | \$68 | \$67 | \$15-25mil EBITDA Reverse, \$8mil Residual NIM, \$40mil company cost savings (announced) |
| Consolidated EBITDA | \$ mil | \$483 | \$478 | \$457 | \$446 | \$437 | \$431 | Consolidated EBITDA declines but becomes progressively more capital light |
| D&A | \$ mil | (\$227) | (\$202) | (\$153) | (\$140) | (\$128) | (\$117) | Owned MSR amortization at 92bps of UPB, CPR of 12%, \$20mil corporate D&A |
| Interest Expense | \$ mil | (\$138) | (\$124) | (\$110) | (\$95) | (\$93) | (\$92) | Interest Expense decreases as WAC delevers to 3.25x Debt/EBITDA |
| Tax Expense | \$ mil | (\$45) | (\$58) | (\$74) | (\$80) | (\$82) | (\$84) | 38% Tax Rate |
| Net Income | \$ mil | \$73 | \$95 | \$120 | \$130 | \$134 | \$137 | |
| Shares Outstanding at Year End | mil | 34.5 | 26.3 | 22.9 | 20.2 | 18.1 | 16.2 | Use all free cash flow to repurchase shares when reach target Net Debt/EBITDA of 3.25x |
| EPS on Ending Shares O/S | \$ / share | \$2.12 | \$3.60 | \$5.24 | \$6.44 | \$7.39 | \$8.47 | |
| Beginning Net Debt | \$ mil | \$2,012 | \$1,570 | \$1,555 | \$1,485 | \$1,449 | \$1,420 | |
| Cash Generated | \$ mil | \$539 | \$326 | \$293 | \$288 | \$277 | \$268 | Cash generated from operations, asset sales, MSR sales, servicer advance working capital |
| Cash Used for Debt Paydown | \$ mil | \$441 | \$15 | \$70 | \$36 | \$28 | \$21 | Maintain leverage at 3.25x Debt/EBITDA |
| Cash Used for Repurchase | \$ mil | \$98 | \$310 | \$223 | \$252 | \$249 | \$247 | Free cash flow goes toward share repurchases |
| Repurchase Price | \$ / share | \$30 | \$38 | \$65 | \$94 | \$116 | \$133 | Repurchase shares at 18x prior year EPS |
| Ending Net Debt | \$ mil | \$1,570 | \$1,555 | \$1,485 | \$1,449 | \$1,420 | \$1,400 | Debt paid down to get to 3.25x the lowest Debt/EBITDA |

\$2.0bn of cash generation, coupled with buybacks, results in \$8.47 of EPS in 6 years

WAC's MSR Asset Creates Downside Protection

WAC could choose to sell its \$2bn MSR and servicer advance asset to WCO and pay off its \$2bn of net debt, while retaining asset-light income

Denmar Dixon, Walter Vice Chairman & Chief Investment Officer

KBW Investment Conference, June 2, 2015

*“What’s important **when you think about our balance sheet** is, if you just took—and you know we’ve had this conversation with several other investors—the fair market value of our main asset, the MSR and the equity that we’ve got in advances, if sold, that **we could, basically, at today’s mark, retire all our debt.**”*

We believe that even in a “runoff” or asset monetization scenario, WAC is worth more than its current stock price, creating a margin of safety

Free Optionality: Return Of Subprime Credit

Not included in our numbers is an embedded “call option” on the eventual loosening of credit and return of subprime mortgage origination

- ❑ **Subprime origination has been virtually nonexistent since the ‘07-’08 crash despite strong consumer demand and higher profitability for originators**
 - Dodd-Frank created uncertainty for originators around “ability to repay” rules and put-back risk, limiting the availability of credit to millions of consumers
 - Despite this, underwriting standards have been loosening, and industry participants expect the return of subprime to be a matter of “when,” not “if”
- ❑ **Given past experience, large banks are unlikely to get involved in the subprime market, leaving the business to nonbank originators and servicers**

*“If I had a choice, I would never be in default servicing again. I would tell anyone which got a mortgage with us, “You’re 60 days late. We’re selling the mortgage, and we don’t want to do any business with you anymore.” **It’s just far too painful.** And so, that’s our plan and we’re going to stick to that.”*

– Jamie Dimon, 2014 J.P. Morgan Analyst Day

- ❑ **Walter is ideally positioned to be a leading player in subprime origination and servicing when private credit returns to the mortgage market**

- WAC has a very good track record and reputation with owners of credit risk and regulators, and a history of achieving superior outcomes by working proactively with consumers

Free Optionality: Return Of Subprime Credit

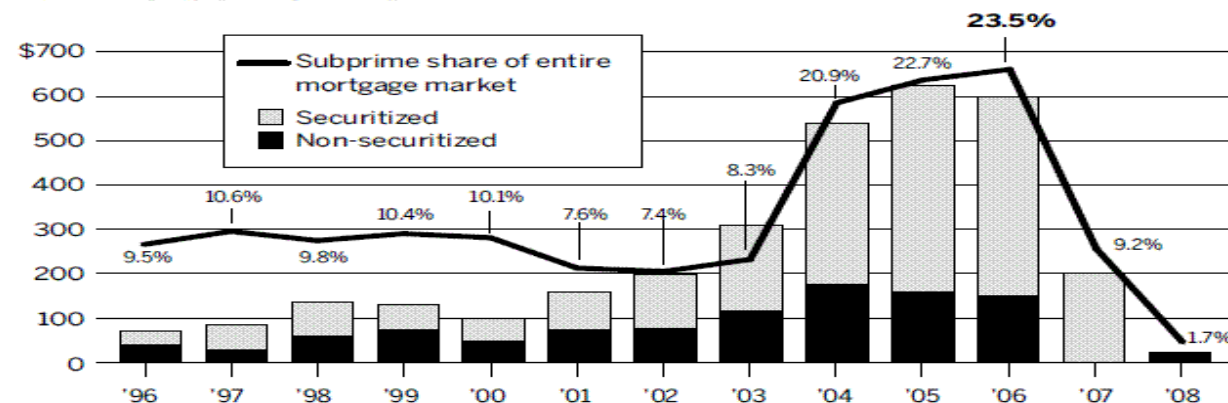
Although the subprime market is de minimis today, it was large even before the housing bubble, and its return creates a very big opportunity

- Subprime mortgages accounted for between \$100 and \$200 billion of total mortgage origination prior to 2003

Subprime Mortgage Originations

In 2006, \$600 billion of subprime loans were originated, most of which were securitized. That year, subprime lending accounted for 23.5% of all mortgage originations.

IN BILLIONS OF DOLLARS



NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.

SOURCE: Inside Mortgage Finance

- Capturing even 5% of a \$150 billion subprime origination market, at 250bps of profitability, creates an incremental **~\$3 per share after tax earnings opportunity** for Walter, on today's share count

Free Optionality: M&A Synergies And Platform Value

A combination of Walter with another large servicing platform could unlock enormous value through basic platform and SG&A cost synergies

- ❑ Servicing is a scale business, with significant investments made in technology, compliance, legal, SG&A, and corporate
- ❑ Consolidation creates opportunity to drive meaningful cost savings in a combination of servicing platforms
- ❑ Nationstar Mortgage Holdings (“NSM”), Walter’s main competitor, seems to share the view that significant M&A is coming and makes industrial sense

Jay Bray, Nationstar Chief Executive Officer

Wells Fargo Specialty Finance Conference, May 19, 2015

*“Well, I think **there's going to be consolidation**, right? So I think over the next 1 year, 2, 3, I think there'll be less non-bank servicers than there are today...*

*...And so **the business may evolve into more of a fee-for-service business over time**. And if we can continue to improve our capabilities, kind of go to the market with the compliance seal of approval, I think there's plenty of financial institutions that would say, hey, here's the keys....*

*...And so I think **3 or 5 years from now, you'll see a few, maybe 1, 2 large non-banks, there will be consolidation**. And I think the growth may evolve into more fee-for-service as opposed to just acquiring servicers.”*

Free Optionality: M&A Synergies And Platform Value

Walter and Nationstar's combined labor and G&A cost base in servicing and originations is ~\$2bn, which creates enormous synergy potential

- ❑ We estimate that a combination of WAC and NSM could yield very significant savings based on 2014 costs in the servicing and originations segments
- ❑ This excludes the potential for revenue synergies and other cost opportunities
- ❑ Potential WAC buyer or merger partner should find synergies highly compelling

| Illustrative WAC/NSM Merger Synergies | | | | | | |
|---------------------------------------|--------|-------|-------|----------------|-----------|--------------|
| | | WAC | NSM | Total | Synergy % | Synergy |
| Servicing: Labor | \$ mil | \$226 | \$287 | \$513 | 5% | \$26 |
| Servicing: G&A | \$ mil | \$400 | \$386 | \$786 | 20% | \$157 |
| Originations: Labor | \$ mil | \$162 | \$249 | \$411 | 5% | \$21 |
| Originations: G&A | \$ mil | \$134 | \$126 | \$260 | 20% | \$52 |
| Total | | | | \$1,969 | | \$255 |

A merger between Walter and Nationstar has the potential to take advantage of \$250mil of synergies pretax, or **over \$4 EPS per WAC share**

What Is WAC Worth?

*With a much higher quality business post-transformation, WAC should trade at least 12x EPS, implying fair value today for WAC shares of **~\$54***

- ❑ **As a result of its transformation to asset-light, WAC will have:**
 - Very high ROE and ROIC, with almost no capital deployed
 - Annuity-like, recurring sub-servicing and asset management income
 - Ability to grow EPS organically, with incremental capital coming from WCO
 - No need to reinvest cash flow in order to grow its business
 - Opportunity to accretively repurchase shares over a long period of time
- ❑ **Although businesses with similar characteristics (asset managers, REIT GP's, alarm monitors) trade at much higher multiples, we assume just **12x earnings****

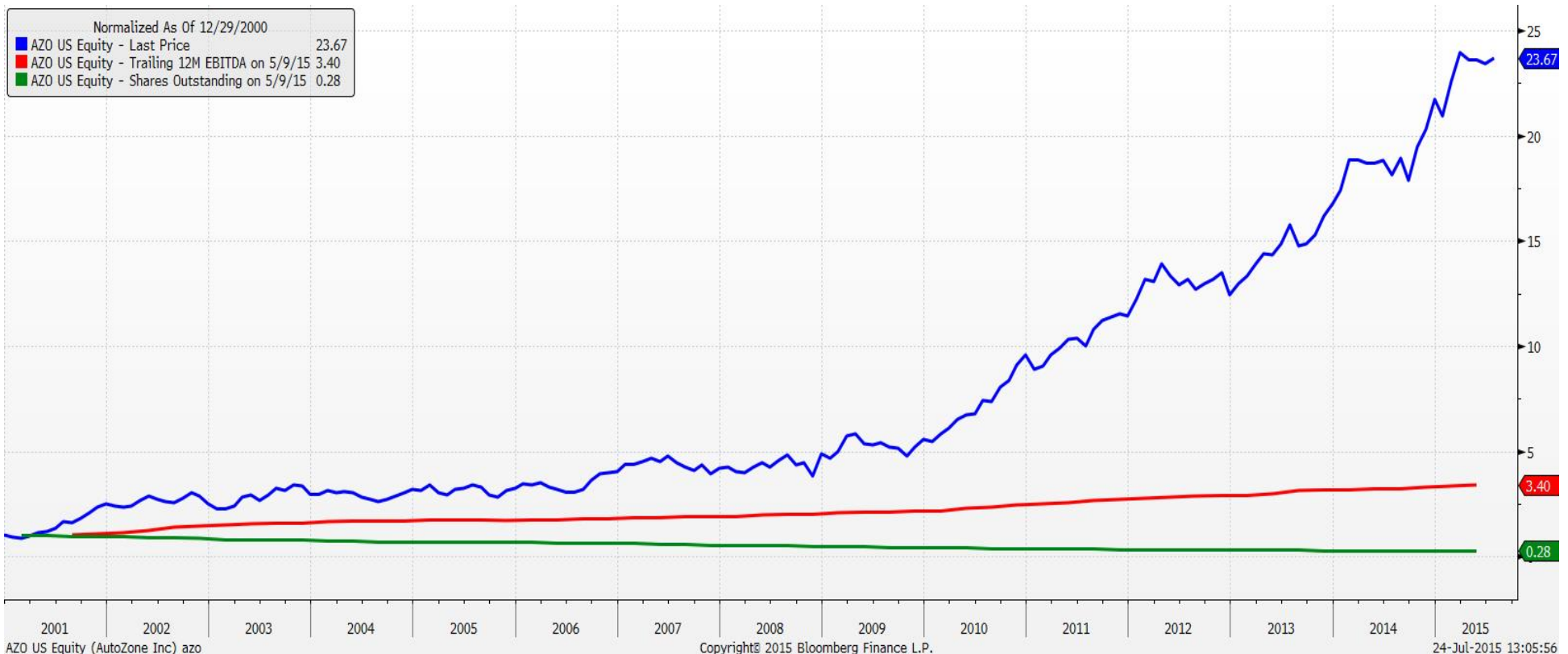
| | Low | Mid | High |
|-----------------------------|---------|---------|---------|
| Sub-servicing Profit Margin | 3.5bp | 4.5bp | 5.5bp |
| EPS in Year 3 | \$4.60 | \$6.03 | \$7.78 |
| Mutiple | 12.0x | 12.0x | 12.0x |
| WAC Shares in Year 3 | \$55.20 | \$72.33 | \$93.31 |
| Discount Rate | 10.0% | 10.0% | 10.0% |
| WAC Fair Value Today | \$41.48 | \$54.34 | \$70.11 |

AutoZone Is A Great Compounding Template For WAC

AutoZone Compounding History

- Largest DIY auto parts retailer, with very high incremental ROIC and minimal cash reinvestment needs
- From 2001 to 2015, **EBITDA has only grown 3.4x, while the stock price appreciated ~24x**
- Share count shrank 72% by consistently returning free cash flow to shareholders via buybacks
- With Lampert's influence, majority of value creation has come from serial share repurchases

WAC has an opportunity to achieve similar compounding over time, as its business should also effectively require no capital to grow and will generate significant FCF



Walter's Shareholder Base Is Highly Concentrated

Walter's ownership is highly concentrated between a handful of value investors with a long term perspective

| Largest Holders of WAC Shares | | |
|---|--------------|--------------|
| | Shares (mil) | % of O/S |
| Baker Street Capital Management | 8.68 | 23.0% |
| Birch Run Capital LLC | 7.10 | 18.8% |
| Select Equity Group LP | 4.93 | 13.1% |
| New South Capital Management | 3.87 | 10.3% |
| Southernsun Asset Management | 3.01 | 8.0% |
| Rubric Capital Management | 2.71 | 7.2% |
| Goodhaven Capital Management | 2.69 | 7.1% |
| <i>Mark O'Brien - Chairman & CEO</i> | <i>0.55</i> | <i>1.4%</i> |
| <i>Denmar Dixon - Vice Chairman & CIO</i> | <i>0.32</i> | <i>0.8%</i> |
| Total | 33.8 | 89.7% |

Source: Bloomberg, SEC Filings

- ❑ **Concentration of value-oriented shareholders, as well as ownership by insiders, make smart capital allocation highly probable**
 - First share repurchase authorization was announced on May 7, 2015

Why Opportunity Exists

Why Do We Think WAC Is A Very Timely Investment?

Since 2013, sentiment in WAC has gone from enthusiasm about growth to universal pessimism and very high short interest

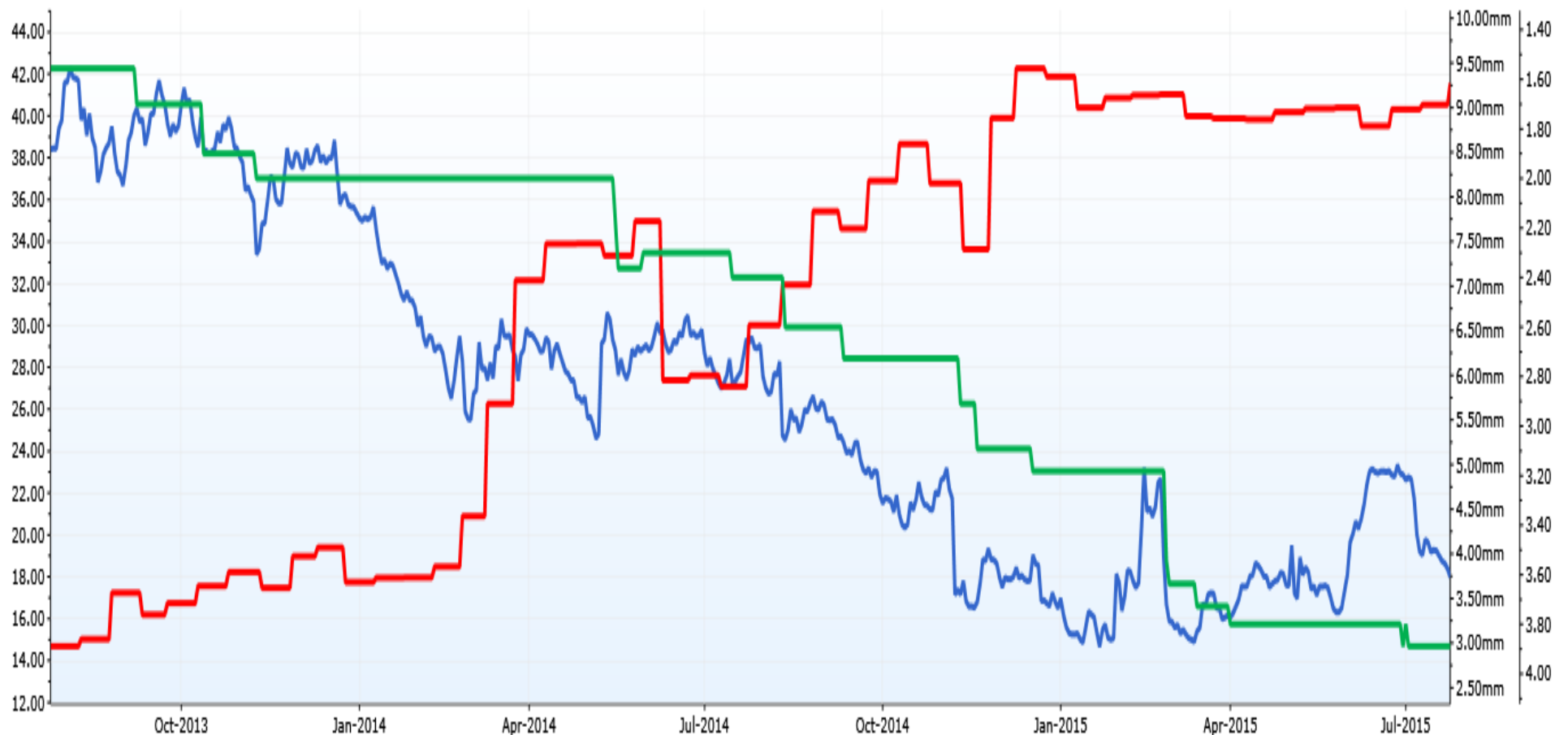
- ❑ **Sentiment has gone from enthusiasm to apathy in the last two years**
 - WAC was perceived as a “growth stock” and now trades at a discount to runoff and book value despite having grown its business substantially
 - Analysts unanimously dislike the stock, with a consensus “Sell” rating
- ❑ **Regulatory scrutiny and Ocwen’s unique issues have scared investors**
 - In reality, Ocwen’s issues are completely unrelated to Walter and have actually created a large growth opportunity for WAC and Nationstar
 - Regulatory oversight, compliance costs, and the need for scale players with proven track record creates enormous barriers to entry
- ❑ **Complexity of Walter story has kept investors from doing the work**
 - Cash dynamics should be much more understandable on an asset-light basis

Walter is a heavily shorted and misunderstood business, with imminent catalysts that should quickly change perception and trigger a re-rating

Sentiment In WAC Shares Is Unduly Negative Today

WAC shares have fallen from the high \$40s, while short interest exceeds 50% of the float, and the sell-side has completely given up on the stock

Walter Investment Management Corp. (NYSE:WAC) - Share Pricing Open: 38.41 High: 42.27 Low: 14.68 Close: 17.99 Avg: 26.53
Walter Investment Management Corp. (NYSE:WAC) - Shares Sold Short Open: 2.96mm High: 9.44mm Low: 2.96mm Close: 9.27mm Avg: 6.69mm
Walter Investment Management Corp. (NYSE:WAC) - Daily Avg Broker Recommendation (#) (CIQ) Open: 1.56 High: 3.89 Low: 1.56 Close: 3.89 Avg: 2.61



Why Opportunity Exists To Buy WAC Cheaply

Analysts have become very negative on the entire servicing space, making commentary that should be music to a value investor's ears

Barclays Equity Research

“Initiating Coverage: Special Servicers Look Like a Value Trap” September 11, 2014

*“If we were to consider only valuation, the special servicers would look attractive with **minimal downside risk in a run-off scenario** and upside under both a sum-of-the-parts and forward P/E valuation framework.”*

*“First and foremost, **we struggle to identify an incremental buyer of any of the servicer stocks**. While deeper value oriented investors are likely attracted to the stocks, the complex nature of the story (and the model) will likely make it a hard sell to a portfolio manager or investment committee. Furthermore, **sentiment on the servicers is poor in the hedge fund community**, as evidenced by the significant short interest in servicer shares, **removing another incremental buyer** and indicating a potential source of increased short activity should the servicer stocks rally from current levels.”*

Sterne Agee CRT Equity Research

“Walter Investment Management Corp: Lowering Estimates and Price Target” July 7, 2015



*“future acquisitions of new servicing beyond that already announced will be limited or **funded with additional share issuance**”*

In other words, “the stocks are very cheap but it doesn’t matter,” with no mention of the upcoming transition to asset-light via WCO

Why Opportunity Exists To Buy WAC Cheaply

Despite very negative stock market sentiment, WAC's business has grown significantly and is in the best position it has ever been

□ Since January 2013:

- ✓ WAC share price is  from \$44 to \$18.64
- ✓ Scale of servicing platform  from \$90bn of UPB to \$238bn
- ✓ WAC has acquired and grown a significant origination business
- ✓ WAC's largest competitor, Ocwen, has been effectively eliminated by regulators
- ✓ WCO has gotten set up, funded, and is about to raise capital that will accelerate WAC's growth and transformation to asset-light
- ✓ WCO growth should reshape WAC's balance sheet, unlocking cash generation of ~\$2.5bn, or ~90% of WAC's enterprise value

WAC can be bought today for less than half the price it traded for just two years ago, even though the business is significantly better today

Walter is Not Ocwen

Ocwen's troubles have made for scary headlines, but have little to do with Walter's business and have, in fact, widened the company's moat

- ❑ Ocwen has been severely hurt by regulatory scrutiny, which has created the perception that servicing stocks are too hard to underwrite
- ❑ In reality, Walter's business model and approach to servicing are radically different from Ocwen's
 - WAC's high-touch, higher-cost, highly-compliant model aims to achieve better outcomes, while Ocwen prided itself on having the lowest costs in the industry
- ❑ Ocwen was pursued by regulators mainly as a result of conflicts of interest between various Ocwen entities, which led to overcharging of borrowers
 - Settlement between Ocwen and NYDFS makes for interesting reading:
<http://www.dfs.ny.gov/about/ea/ea141222.pdf>
- ❑ Our primary due diligence revealed that Walter's culture of compliance and attitude of working cooperatively with regulators are real differentiators
- ❑ WAC's highest [5 Star servicer rating](#) from Fannie Mae, full compliance with Office of Mortgage Settlement metrics, as well as continued servicing transfer approvals are hard evidence of how regulators perceive Walter

Regulatory Oversight Creates Opportunity

Large banks view “high touch” servicing of credit sensitive mortgages to be a non-core activity, which creates a long runway for WAC

Jamie Dimon, J.P. Morgan 2014 Investor Day, February 25 2014

*“If I had a choice, I would never be in default servicing again. I would tell anyone which got a mortgage with us, “You’re 60 days late. We’re selling the mortgage, and we don’t want to do any business with you anymore.” **It’s just far too painful.** And so, that’s our plan and we’re going to stick to that.”*

- ❑ As a result of crisis-era scandals (e.g. robo-signing) and subsequent reputational damage, large banks view delinquent servicing as non-core
- ❑ Banks pulling out of servicing creates significant opportunity for Walter, which has the compliance culture and track record that can support growth

Walter Should Benefit From Its Superior Platform

As a result of its high-touch, proactive approach to loss mitigation, WAC has been able to achieve the lowest complaint ratios among peers

- ❑ Non-bank servicers have lower complaint ratios than big bank servicers
- ❑ Walter/Green Tree has the lowest ratio of complaints in the industry
- ❑ Walter's core competency is servicing high touch customers via a preventative approach to mitigating foreclosure and avoiding foreclosure

No. of Complaints as % of No. of Delinquent Loans*

| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | Total Complaints per Avg. DQ Loans |
|----------|------|------|------|------|------|------|------|------|------|------|------|---------------------------------------|
| BAC | 0.3% | 0.6% | 0.7% | 0.6% | 1.1% | 1.2% | 1.0% | 0.7% | 0.8% | 0.9% | 1.1% | 7.6% |
| WFC | 0.5% | 0.6% | 0.5% | 0.5% | 0.9% | 0.9% | 0.6% | 0.4% | 0.4% | 0.5% | 0.5% | 6.3% |
| OCN | 0.6% | 0.7% | 0.7% | 0.4% | 0.3% | 0.3% | 0.3% | 0.3% | 0.5% | 0.6% | 0.5% | 5.0% |
| JPM | 0.4% | 0.7% | 0.6% | 0.5% | 0.9% | 0.9% | 0.8% | 0.6% | 0.6% | 0.7% | 0.7% | 7.1% |
| C | 0.4% | 0.5% | 0.5% | 0.4% | 0.7% | 0.8% | 0.7% | 0.5% | 0.6% | 0.7% | 0.9% | 6.5% |
| NSM | 0.1% | 0.1% | 0.2% | 0.2% | 0.2% | 0.3% | 0.4% | 0.3% | 0.4% | 0.4% | 0.4% | 3.6% |
| WAC | 0.2% | 0.2% | 0.2% | 0.2% | 0.1% | 0.2% | 0.3% | 0.2% | 0.2% | 0.3% | 0.3% | 2.5% |
| USB | 0.8% | 1.3% | 0.9% | 1.0% | 2.0% | 1.8% | 1.6% | 3.3% | 3.4% | 6.5% | 1.8% | 18.2% |
| PNC | 0.7% | 1.0% | 0.8% | 1.0% | 1.4% | 1.6% | 1.5% | 1.1% | 2.6% | 3.4% | 2.8% | 14.8% |
| STI | 0.9% | 0.8% | 0.9% | 0.8% | 1.3% | 1.2% | 1.1% | 1.0% | 1.2% | 1.2% | 1.7% | 11.3% |
| PHH | 0.3% | 0.5% | 0.8% | 0.6% | 0.9% | 0.5% | 0.5% | 0.4% | 0.3% | 0.5% | 0.5% | 5.6% |
| Industry | 0.5% | 0.8% | 0.8% | 0.7% | 1.2% | 1.5% | 1.1% | 0.9% | 1.1% | 1.3% | 1.2% | 10.4% |

* Assumes average loan size of \$180,000

Source: CFPB, Inside Mortgage Finance, Company Reports, Compass Point

Summary

We Believe Reality Is Very Different From Consensus

| | Consensus View | Our View |
|---------------|--|---|
| Balance Sheet | <ul style="list-style-type: none"> ❑ WAC has a leveraged balance sheet ❑ Capital standards could require WAC to issue equity | <ul style="list-style-type: none"> ▶ Imminent growth of WCO unlocks \$2.5bn of cash generation that will be used to de-leverage quickly ▶ WAC's servicer is already over-capitalized, and will generate significantly more capital as WCO funds incremental MSR |
| Growth | <ul style="list-style-type: none"> ❑ Regulators will hinder growth of servicing ❑ The era of large servicing transfers is over and growth will be hard to achieve otherwise ❑ Mortgage servicing is a "melting ice cube" business | <ul style="list-style-type: none"> ▶ Regulatory scrutiny makes it almost impossible for small players to compete with WAC on MSR purchases ▶ Servicing is now a "buyer's market" with a lot of supply of MSR for sale ▶ WAC and WCO are best positioned to capitalize on growth opportunity |
| Valuation | <ul style="list-style-type: none"> ❑ WAC trades over 2x Tangible Book ❑ Origination segment drives earnings and will hurt WAC when rates rise | <ul style="list-style-type: none"> ▶ Tangible Book is not the relevant metric for a fee business and should actually become <u>negative</u> as capital is returned to shareholders ▶ Sub-servicing will be the main driver of asset-light earnings ▶ Originations segment creates MSR cheaply, and gives WAC a free call option on return of subprime credit |

Summary

WAC's high business quality, imminent catalysts, and very cheap valuation make it a very asymmetric risk/reward at today's prices

- ☐ **Despite negative stock sentiment, WAC is in the best strategic position it has ever been**
 - ☐ **Recurring fee-for-service business in the first inning of a major transformation**
 - ☐ **Cash flow creates long runway to compound value through smart capital allocation**
 - ☐ **Balance sheet and runoff create a margin of safety in the investment**
 - ☐ **Significant embedded “free optionality”**
- ☐ **Valuation of ~1x pro forma EBITDA post-transformation is too cheap to ignore**