

STABILIZING A HOUSE OF CARDS

(RESIDENTIAL CAPITAL)

WHEN YOU COMBINE A BANKRUPT MORTGAGE SERVICING AND ORIGINATION BUSINESS with an owner that was majority owned by the U.S. Treasury, add Fannie Mae, Freddie Mac and Ginnie Mae, plus Nationstar Mortgage as a stalking horse bidder, and finally Ocwen Financial, Walter Management Corp and Berkshire Hathaway, it is safe to assume that a deeply complex challenge is at hand. We acted as counsel to Residential Capital, LLC and its subsidiaries (collectively, “ResCap”), as it sought purchasers, in anticipation of a possible bankruptcy.

The circumstances presented multifaceted challenges. Ally Financial, Inc., previously known as GMAC, the financing arm of General Motors, received substantial funding from the Troubled Asset Relief Program (TARP) during the financial crisis. It, therefore, was majority owned by the U.S. Treasury. It also happened to be the owner of ResCap, making our client indirectly owned by the government too.

ResCap owned \$374 billion of Freddie Mac, Fannie Mae and Ginnie Mae mortgage servicing rights. In selling ResCap’s assets we had to manage, negotiate and cooperate closely with those government-sponsored constituencies in addition to the U.S. Treasury. In May 2012, just prior to filing for Chapter 11 bankruptcy, ResCap entered into “stalking horse” acquisition agreements. ResCap then immediately began a formal auction process to sell its assets. No one had ever sold an operating mortgage origination and servicing company out of bankruptcy.

It required extensive planning in order to obtain approximately \$1.6 billion in debtor-in-possession financing. This was essential to ensure ResCap could continue operating during the bankruptcy auction process. We ran two auction processes simultaneously – one for the whole loans and one for the operating assets. It was particularly challenging negotiating distinct, complex asset purchase agreements on parallel tracks with multiple bidders. The successful bidders were Ocwen, Walter Management and Berkshire Hathaway. The transaction was an important part of the

bankruptcy plan that we devised. It allowed ResCap to continue originating and servicing its two million mortgage loans throughout the bankruptcy proceedings.

The three sale transactions generated more than \$4 billion in proceeds for ResCap's creditors and preserved more than 3,800 jobs. Ultimately, the plan protected thousands of U.S. homeowners and jobs. We played a part in preventing the house of cards from collapsing.