

NEW YORK STATE DEPARTMENT  
OF FINANCIAL SERVICES

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In the Matter of

NATIONSTAR MORTGAGE LLC  
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**CONSENT ORDER PURSUANT  
TO NEW YORK BANKING LAW § 44**

The New York State Department of Financial Services (the “Department”), and Nationstar Mortgage LLC (“Nationstar,” and with the Department, the “Parties”) are willing to resolve the matters described herein without further proceedings:

**WHEREAS**, Nationstar, which operates in in the State of New York as a licensed mortgage banker and an exempt mortgage loan servicer, is subject to regulation and supervision by the Department;

**WHEREAS**, Nationstar implemented an aggressive growth strategy through the acquisition of large portfolios of mortgage-servicing rights (“MSRs”) from bank and non-bank servicers, becoming the largest non-bank residential mortgage-loan servicer in the United States;

**WHEREAS**, the Department engaged in the Multistate Mortgage Committee’s origination and servicing examinations (the “Origination Examination” and “Servicing Examination,” respectively, and, together, the “Examinations”) of Nationstar. Based on the Examinations and follow-up inquiry letters to Nationstar, the Department finds as follows:

**The Department’s Findings**

**Background**

1. Nationstar was founded in 1994 in the state of Nevada as Nova Credit Corporation. In 1997, the name of the company was changed to Centex Credit Corporation. In 2001, Centex Credit

Corporation merged into Centex Home Equity LLC. In 2006, this entity was acquired by an affiliate of Fortress Investment Group (“Fortress”), a global investment firm. In early 2012, Fortress formed Nationstar Mortgage Holdings, Inc. (“NMHI”) as the direct parent company of Nationstar Mortgage LLC.

2. By acquiring large portfolios of MSRs and subservicing rights from various financial institutions that were exiting the mortgage servicing business, Nationstar grew dramatically in the years leading up to the Examinations. In the nine-month period from year-end 2012 to the end of Q3 2013, the company’s assets increased by over 140 percent, from \$7 to \$17 billion. Further, at the end of 2012, Nationstar serviced approximately 18,000 residential mortgage loans in the State of New York with an unpaid principal balance (“UPB”) of over \$3.7 billion. By the end of 2015, these figures had ballooned to 91,000 loans with a UPB of over \$18.5 billion. Nationwide during this same period, its servicing volume went from 617,000 loans with a UPB of over \$85 billion to 2.1 million loans with a UPB of nearly \$330 billion by the end of 2015.

3. On the origination side of its business, Nationstar’s volume of operations increased dramatically between 2011 and 2013. For example, in 2011, the company closed 843 mortgage loans for New York borrowers with an aggregate UPB of approximately \$260 million. By the end of 2013, the company closed 3,169 loans in New York with a UPB of \$901.1 million. Nationwide, the increase in origination activity during this time period was even more dramatic. In 2011, the company originated 16,898 first-lien home loans, with a UPB of approximately \$3.41 billion. In 2013, nationwide origination figures climbed to 97,970 loans with a UPB of \$19.5 billion. This increase in origination volume resulted, in substantial part, from Nationstar’s acquisition of Greenlight Financial Services mortgage origination business.

4. Historically, Nationstar’s origination activities have focused primarily on conventional home loans, supplemented in lesser amounts by VA and FHA loans. In 2015, the company began to originate a relatively small volume of “Higher Cost Home Loans,” as defined by the Truth in Lending

Act.

5. Nationstar continues to focus on and prioritize its growth, which has enabled the company to continue to increase revenues despite amortization. In January 2017 the company announced that it would acquire 750,000 new customers by virtue of a subservicing arrangement with New Residential Investment Corp.

### **The Examinations**

6. In May 2014, the Department, along with examiners from other regulators, examined Nationstar's servicing and origination operations at the company's facilities in Lewisville, Texas.

7. The Servicing Examination focused, in substantial part, on Nationstar's servicing activities between January 1, 2011 and March 31, 2014, while the Origination Examination reviewed loans produced between March 1, 2012 and March 31, 2014. Each of the Examinations assessed the company's financial safety and soundness, the sufficiency of management's oversight over controls and operations, and regulatory compliance.

8. The company was not prepared for an examination of this scope and magnitude and experienced difficulties producing complete loan files and responding to examiners' questions and requests in a timely manner.

9. Beyond the company's difficulties in handling examiners' real-time requests, the Examinations found that, in the years leading up to the Examinations, Nationstar failed to fully anticipate and plan for the risks associated with its growth, a failure which resulted in exposing its ever-growing base of borrowers to increased risk of harm. In particular, the company had failed to develop effective, scalable controls that could keep pace with Nationstar's rapid growth. At the time of the Examinations, the company had not established a comprehensive Risk Management Program to address and account for the diverse functions within the company's various business units. In addition, the company's compliance management system was undeveloped; it failed to implement measures to ensure timely review and updating of related company policies and procedures.

10. Controls related to the company's information technology systems ("IT") were underdeveloped. Though Nationstar outsourced its IT audit function to a third-party vendor, the company was unable to provide examiners with formal documentation detailing the nature and scope of the arrangement. In addition, at the time of the Examinations, the company was only able to provide examiners with draft information security policies, which raised serious concerns regarding the company's implementation of the policies and compliance with information security laws.

11. Nationstar's document retention and document management processes showed significant flaws. In many instances, servicing files lacked documentation showing the company's compliance with laws and regulations specifically designed to protect consumers, including, but not limited to, loss mitigation correspondence, single point of contact notices, and annual privacy notices. In several instances where loss mitigation files included loan modification denial letters, the letters failed to include specific reasons for the denial. Moreover, several loan files for New York borrowers facing foreclosure lacked documentation showing that Nationstar had filed a copy of the required 90-day pre-foreclosure notice with the Department, as required by the New York Real Property Action and Proceedings Law.

12. The Origination Examination revealed similar shortcomings in document retention practices. In many instances, origination files for New York borrowers lacked fundamental documents, including Truth in Lending Act disclosures, property appraisals, and borrower income documents.

13. The Origination Examination also revealed that in approximately 900 instances, Nationstar failed to fund mortgage loans for New York borrowers within the required timeframe. Such failures prevented Nationstar's borrowers in certain instances from meeting closing deadlines and exposed them to the possibility of incurring additional expenses (and potential liability to counterparties) as a result.

### **Consumer Complaints**

14. Between 2011 and 2014, the number of consumer complaints submitted to the

Department increased almost ten-fold. This disproportionate increase in complaints during a time of growth reflected, in significant part, the company's challenges in effectively onboarding and adapting its infrastructure to effectively service an ever-growing loan pool. These complaints covered a wide range of concerns, including, but not limited to, errors in payment processing and improperly ordering forced-place insurance for borrowers whose voluntary hazard insurance policy had not lapsed.

## **VIOLATIONS OF LAWS, REGULATIONS and APPLICABLE INDUSTRY GUIDANCE**

### **The Origination Examination**

15. Nationstar failed to obtain the authorization of the Department for the company's use of multiple domain names, in violation of Section 593 of the New York Banking Law (the "Banking Law") and the Department's June 1, 2000 Industry Letter regarding the use of domain names.

16. Nationstar failed to maintain books, records and customer files in a manner required to facilitate a comprehensive assessment of its compliance with article 12-D of the Banking Law, in violation of Part 410.7 of the Superintendent's Regulations.

17. Nationstar failed to fund over 900 mortgage loans within the timeframe set forth in various loan or other documents for individual borrowers, in violation of Section 595-a(1)(c) of the Banking Law and Part 38.7 of the General Regulations of the Superintendent.

### **The Servicing Examination**

18. Nationstar operated two branch locations without the Superintendent's authorization, in violation of Article 12-D, Section 593 of the Banking Law.

19. Nationstar failed to maintain required documentation in servicing files, including, but not limited to, loss mitigation correspondence, executed origination documents, welcome and good-bye letters, single-point-of-contact notices, and annual privacy notices, in violation of numerous servicing standards set forth in Section 419 of the Superintendent's Regulations.

20. Nationstar failed to maintain a schedule of fees on its website, in violation of Section 419.10 of the Superintendent's Regulations.

21. Nationstar's failed to submit quarterly reports in a timely manner, in violation of Section 419.12 of the Superintendent's Regulations.

22. Nationstar failed to file multiple 90-day pre-foreclosure notices with the Department, in violation of Section 1306 of the New York Real Property Action and Proceedings Law.

### **SETTLEMENT PROVISIONS**

#### **Monetary Payment**

23. Nationstar shall pay a penalty pursuant to Banking Law § 44 to the Department in the amount of \$5,000,000 for the above-stated violations. Nationstar shall pay the entire amount within ten (10) days of executing this Consent Order. Nationstar agrees that it will not claim, assert, or apply for a tax deduction or tax credit with regard to any U.S. federal, state or local tax, directly or indirectly, for any portion of the penalty paid pursuant to this Consent Order.

24. In addition, Nationstar will donate, within 12 months of the date of this Consent Order, subject to an extension to be granted upon a showing of good cause and in the Department's sole discretion, \$5,000,000 in residential real property or first-lien mortgages to one or more non-profit organizations, for the purposes of the rehabilitation of vacant and abandoned properties in the State of New York. The \$5,000,000 total donation shall consist of the fair market value of the donated properties plus any monetary payment(s) made to the donee for maintenance or rehabilitation of the properties. The fair market value of the donated properties shall be determined by an independent BPO at the time of the donation. In making these donations, Nationstar shall:

- a. Prioritize, when and where available, donations of properties for which the fair market value is between \$50,000 and \$100,000;
- b. For any property for which the fair market value is \$20,000 or less, use only the value of the unimproved land in calculating the credit it will receive towards the \$5,000,000 donation it is required to make;
- c. Donate no more than \$20,000 per property towards the rehabilitation of such property;

and

d. Receive no credit for a donation unless a non-profit is willing to accept the donation.

25. Every six months, or whenever required by the Department, Nationstar shall provide a report to the Department identifying every property that it has offered to donate pursuant to this Consent Order, the BPO assigned to each property, the identity of any non-profit that has accepted that property and the amount of any monetary payment Nationstar has made in connection with the donation.

#### **Borrower Restitution**

26. Nationstar has stated that it has provided New York borrowers over \$7 million in monetary payments or waived fees related to issues uncovered in the Examinations. Nationstar shall provide an accounting to the Department of such restitution for review and analysis. In so doing, Nationstar shall provide the Department with evidence that, in all cases where Nationstar failed to fund loans within the time frame required by law, Nationstar has provided borrowers with appropriate restitution to the extent the borrower suffered actual harm or loss. Nationstar acknowledges that failure to provide evidence of the foregoing may result in the imposition of additional penalty and restitution payments.

#### **Independent Consultant**

27. Within forty-five (45) days of the execution of this Consent Order, Nationstar will identify an independent, third-party consultant (the "Consultant") to assess the sufficiency of measures the company has taken to address the deficiencies described herein, including but not limited to the violations of laws, regulations and industry guidance set forth above. The Consultant's review shall, among other things, focus on policies and procedures regarding the following state and federal laws and regulations:

- a. Articles 12-D and 12-E of the Banking Law;
- b. Part 38 of the General Regulations of the Superintendent;
- c. Part 419 of the Superintendent's Regulations;

- d. The Truth in Lending Act – Real Estate Settlement Procedures Act Integrated Disclosure; and
- e. The Gramm Leach Bliley Act and its implementing regulations.

28. The Consultant shall also conduct an analysis of all default or foreclosure-related servicing fees assessed by Nationstar and paid by New York borrowers since January 1, 2012, to determine whether: (i) such fees were charged pursuant to the provision of necessary services; and (ii) the amount of such fees were reasonable and customary within the mortgage servicing industry. This analysis shall consist of a sampling of accounts of New York borrowers and shall focus on, but not be limited to, fees for default services, if any, provided by Solutionstar. The sampling methodology used must be acceptable to the Department.

29. The Consultant shall provide a written report to the Department on its findings no later than 180 days after the start of its engagement. Within 45 days of receiving the report, the Consultant shall prepare a proposal for the Department's consideration detailing its proposal for any additional sampling or review and how Nationstar should provide restitution if New York borrowers paid improperly assessed fees during default or foreclosure.

30. The Consultant shall also assess both the sufficiency of infrastructural and physical controls developed by the company to guard or otherwise mitigate against potential conflicts of interest in its business arrangements with affiliates engaged to perform servicing-related functions, whether ancillary or otherwise, on the company's behalf. This assessment shall include an evaluation of the efficacy of the company's Intracompany Transaction Control Subcommittee, Related Party Transaction Policy and Related-Person Transaction Procedures. Based on its analysis, the Consultant shall make recommendations for improvements to Nationstar's existing controls.

31. **Loan Onboarding.** The Consultant will assess the controls in place to ensure orderly onboarding of loans for which Nationstar has acquired the servicing or sub-servicing rights. Such assessment shall include a review of policies, procedures and practices in place to:



- a. Ensure the accuracy of data transferred during onboarding;
- b. Ensure the completeness of transferred loan files; and
- c. Ensure appropriate attending to and tracking of in-flight loan modifications.

30. **Risk Management.** The Consultant will assess the sufficiency of Nationstar's Enterprise Risk Management Program.

31. Nationstar agrees to cooperate fully with the Consultant by, among other measures, providing the Consultant access to all relevant personnel and records.

32. Within forty-five (45) days of executing of the Consent Order, Nationstar will submit the proposed terms of the Consultant's engagement (the "Engagement Letter") to the Department for its approval. Nationstar will pay all reasonable and necessary costs of the Consultant.

33. The Consultant will also submit written action progress reports ("Progress Reports") to the Parties on a quarterly basis commencing 120 days after the start of the engagement, detailing the company's progress in meeting the objectives set forth herein. The Consultant shall complete its work within one year from the date that the Department approves the Engagement Letter.

34. Nationstar agrees that it will not claim, assert, or apply for a tax deduction or tax credit with regard to any U.S. federal, state, or local tax, directly or indirectly, for any portion of the amount paid pursuant to paragraph 23 of this Consent Order.

#### **MISCELLANEOUS TERMS AND CONDITIONS**

35. In the event that the Department believes Nationstar to be in material breach of the Consent Order, the Department will provide written notice to Nationstar and Nationstar must, within ten (10) business days of receiving such notice, or on a later date if so determined in the Department's sole regulatory discretion, appear before the Department to demonstrate that no material breach has occurred or, to the extent pertinent, that the breach is not material or that Nationstar has cured the breach.

36. The Parties understand and agree that Nationstar's failure to make the required showing within the designated time period shall be presumptive evidence of Nationstar's breach. Upon a finding that Nationstar has breached this Consent Order, the Department retains all the remedies available to it under New York Banking and Financial Services Law including and may use any evidence available to the Department in any ensuing hearings, notices, or orders.

37. This Consent Order may not be altered, modified or changed unless in writing signed by the parties hereto.

38. This Consent Order shall be enforceable and remain in effect unless stayed or terminated in writing by the Superintendent or her designee.

39. Provided that Nationstar complies fully with the terms of the Consent Order, no further action will be taken by the Department against Nationstar for the conduct and time period set forth in this Consent Order.

40. By executing this Consent Order, Nationstar represents and warrants to the Department that it is authorized to enter into this Consent Order and has authorized and has directed its President, Mr. Jesse Bray, to enter into this Consent Order on behalf of Nationstar, waiving any and all rights to judicial review of this Consent Order or to challenge or contest the issuance, validity, effectiveness, terms, or enforceability of the provisions of this Consent Order.

41. The Parties agree that this Consent Order does not create any private rights or remedies against Nationstar, create any liability for Nationstar, constitute evidence of any wrongdoing by Nationstar for purposes of any third-party proceeding, or limit defenses of Nationstar against any person or entity not a party to this Consent Order.

42. All written communications to the Department regarding this Consent Order should be sent as follows.

Attention:

Rholda L. Ricketts

Deputy Superintendent of Banks  
New York State Department of Financial Services  
One State Street,  
New York, New York 10004

43. All written communications to Nationstar regarding this Consent Order must be sent as follows.

Attention:

Mr. Jesse Bray  
President  
Nationstar Mortgage LLC D/B/A  
Champion Mortgage Company  
8950 Cypress Waters Boulevard  
Dallas, Texas 75019

44. This Consent Order is not confidential; therefore, it shall be made available to the public.

WHEREFORE, the Parties hereto have caused this Order to be executed.

By:  \_\_\_\_\_

Jesse Bray  
President, Nationstar Mortgage Holdings Inc.  
President, Nationstar Mortgage LLC

Dated: March 29, 2018

By:  \_\_\_\_\_

Maria T. Vullo  
Superintendent of Financial Services  
New York State Department of Finance Services

Dated: April 11, 2018