

United States Trustee Program
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EXECUTIVE OFFICE FOR UNITED STATES TRUSTEES
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Nationstar Mortgage, LLC Bankruptcy Settlement
United States Trustee Program
Independent Review Results

Final Report
May 7, 2021

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I. Executive Summary

Nationstar Mortgage, LLC (“Nationstar”), a wholly owned subsidiary of Mr. Cooper Group, Inc. entered into a memorandum of understanding (“MOU”) with the Executive Office for United States Trustees together with the United States Trustee Program (“USTP”) on December 3, 2020 to resolve servicing practices related to Chapter 13 consumer bankruptcy cases. Nationstar conducted a comprehensive review of its bankruptcy processes and identified remediation plans to address historical bankruptcy servicing issues. During the relevant period between December 1, 2011 and June 30, 2016, Nationstar ran escrow analyses in connection with the preparation of a proof of claim, but, thereafter, did not consistently run an annual post-petition escrow analyses while the borrower's account was in an active bankruptcy case. Additionally, Nationstar made inadvertent errors regarding payment change notice (PCN) and post-petition fee notice (PPFN) transactions, resulting in inaccurate, untimely, and missed PCNs, and missed and untimely PPFNs. Finally, Nationstar did not consistently receive or properly process notices of final cure (NOFCs) and motions to deem current (MTDC), and, as a result, some borrowers' accounts were not adjusted to waive outstanding amounts at discharge.

This report addresses the validation of affected populations for accuracy; remediation efforts for applicable PCN, PPFN, delayed escrow and NOFC instances; and operational enhancements implemented to improve related processes. Each validation component is discussed below, including summarization of the mandate, and description of the testing protocol, observations, and conclusion.

In summary, the business identification of accounts for remediation is materially accurate, complete and can be relied upon. However, certain clerical differences between the loan counts and remediation amounts expressed in the MOU and accounts reviewed were noted, as well as unintentional exclusion of a small number of accounts in the review population. The sample items selected from the validation population files were tested for accuracy and a statistically insignificant number of accounts containing errors (less than 0.5%, which is below the statistical error threshold of 5%) were identified. The business has been notified of these accounts and is determining the amount of remediation needed, if any, per the MOU requirements. Further, the operational enhancements are deemed sustainable in the current environment and are structured to prevent future inconsistencies such as those identified in the MOU.

II. Introduction

This is the Independent Reviewer’s final report filed pursuant to the MOU between the United States Trustee Program (USTP) and Nationstar Mortgage, LLC (“Nationstar”). The MOU requires Nationstar to perform three primary undertakings: (1) to validate Nationstar identified substantially accurate populations, as defined in the MOU, for potential credits and refunds due to borrowers; (2) verify borrowers in Chapter 13 Bankruptcy Cases who were adversely affected by Nationstar’s PCN, PPFN, NOFC and escrow related practices were credited or refunded appropriately; and (3) evaluate Nationstar’s operational enhancements related to the PCN, PPFN, NOFC and escrow related process were implemented, as described in the MOU.

III. Nationstar Mortgage, LLC Identification of Bankruptcy Cases

A. Validating accuracy and completeness of identified bankruptcy cases

1. Statement of Facts

The MOU tasked Nationstar's Internal Audit function to independently validate whether all bankruptcy cases as described in Article I had been correctly identified for review and remediation. The identification included determining (a) all first lien accounts with an active Chapter 13 bankruptcy case in the system of record as of June 30, 2016; or (b) loans active after December 1, 2011 for which the bankruptcy case had been discharged as of June 20, 2016 and were still open on Nationstar's system of record, unless the account had been modified or refinanced as agreed upon in the MOU.

2. Testing Protocols

A validation process was completed to determine whether Nationstar identified all accounts with an active Chapter 13 bankruptcy during the relevant period per the MOU requirements. The business used a data query extract to produce a base report file that identified the population of accounts for review. That query language and resulting population were obtained, and a line-by-line walkthrough of the query logic was performed to determine whether the source of the data and query parameters were appropriate based on Article I in the MOU. Then, the query was run independently on February 5, 2021 and reconciled to the original output report file from 2016 to validate it was reasonable and accurate.

The query logic is designed to first identify all loans with a potentially applicable active Chapter 13 bankruptcy case during the period defined in the MOU. The query logic then applies thirteen exclusions to remove accounts that did not require review per the MOU parameters. The final population of bankruptcy cases requiring review was the starting point for validation of each of the individual populations (PCN, PPFN, NOFC, and delayed escrow) used in the testing described below.

Additional validation was completed to verify the accuracy of the individual PCN, PPFN, NOFC and delayed escrow populations by the same method as above. Specifically, the lists of applicable accounts from the query executed on February 5, 2021 were reconciled to the original population files for each of the remediation areas (PCN, PPFN, NOFC, and delayed escrow).

B. Conclusion – accuracy and completeness of identified bankruptcy cases

The business review of accounts for remediation is materially accurate, complete, and can be relied upon to ensure customers were remediated according to the MOU. However, certain clerical differences between the loan counts and remediation amounts expressed in the MOU and the accounts reviewed were noted, as well as the unintentional exclusion of a small number of accounts (less than 0.8%) from the review population. The business was notified of these accounts and has provided information regarding the loans impacted and has provided information on the review and if applicable, remediation. Additional details for the following observed inconsistencies are discussed below:

1. Loans excluded - Three exclusion criteria used to eliminate loans from the base population did not align with the MOU definition of bankruptcy cases from Article 1 resulting in 244 accounts identified that were not originally reviewed for potential remediation. The business was informed of the 244 accounts and have completed the review for appropriate remediation.
2. Delayed escrow misstatement - The total loan count and monetary remediation for delayed escrow errors exceeded the amounts reported in the MOU (i.e., the total amount of remediation provided, including USTP and additional remediation, was in excess of the amounts noted in the MOU).
3. PPFN and PCN misstatements - Dollar amounts and total transaction counts reported in the MOU for remediation of PPFN and PCN situations had minor misstatements with no customer impact.

Details for 1. Loans excluded

The following three criteria were used to exclude accounts from review for potential remediation as of June 30, 2016: (1) loans delinquent on their bankruptcy plan by 90 days, (2) loans with motion for relief in process but not yet granted, and (3) bankruptcies terminated without disposition by the court. These represent account types that were either still in active bankruptcy as of June 30, 2016 or the court did not provide a disposition. (This can happen when the court closes the case without a discharge order on the docket.) To validate whether any of these accounts were eligible for remediation, the status was reviewed as of February 5, 2021. A significant and material majority of these accounts were not eligible for remediation because the bankruptcy case was dismissed, a motion for relief was granted, or Nationstar no longer serviced the account. However, 244 accounts (135 in active bankruptcy and 109 accounts with a discharged bankruptcy case) are still being serviced by Nationstar and should have been reviewed for remediation within at least one of the four areas identified in the MOU (PCN, PPFN, NOFC, and delayed escrow). The business conducted, at our request, a review of these loans to ensure appropriate remediation have been provided. The 244 loans were evaluated and addressed through BAU channels and if required, remediation was completed.

Details for 2. Delayed escrow misstatement

Various discrepancies in the MOU regarding the population and monetary amounts for delayed escrow were identified. The MOU included a clerical inconsistency regarding the total number of accounts, and the amount of remediation provided to customers pursuant to the MOU. Although the MOU stated 8,066 accounts received remediation totaling \$22.84M for delayed escrow, the actual number of accounts was higher.¹

Details for 3. PPFN and PCN misstatements

For PCNs, the MOU stated Nationstar provided remediation on approximately 6,664 PCN transactions. However, the review of the supporting file indicated 6,996 transactions received a remediation amount. This difference is a clerical accuracy issue within the MOU and not with the remediation efforts.

For PPFNs, the MOU also stated Nationstar provided remediation for 7,092 PPFN transactions in the amount of \$6.96M. However, testing indicated 8,296 transactions received a remediation amount totaling \$6.95M, a difference of \$10k from what was stated in the MOU. This difference is a clerical accuracy issue within the MOU and not with the completeness and accuracy of remediation.

IV. Nationstar Obligations

In performing this validation review, a statistically relevant sampling of the population and sub-populations of accounts was drawn, and transaction-based testing was conducted for all areas (PCN, PPFN, NOFC, and delayed escrow). The full population consisted of all active Chapter 13 bankruptcy loans in Nationstar's system of record during the period of December 1, 2011 through June 30, 2016. Per the MOU, this includes active loans as of June 30, 2016 and accounts that discharged prior to June 30, 2016. The number of sample items for each testing sub-population was determined using a confidence level of 95%, a margin of error of 5%, and a conservative population proportion of 0.5 for each of the four below areas. The sample items selected from the validated population files, which were tested for accuracy as noted above, consisted of accounts the business remediated and accounts reviewed for which remediation was not needed. Items were randomly selected from both categories to verify accuracy of the remediation amounts or lack thereof. In summary, a small number of accounts representing an error rate of less than 0.5% (below the statistical error threshold of 5%) were noted with inaccurate remediation. Remediation was considered to be inaccurate when the total amount of remediation was less than required according to the terms of the MOU. The business has been informed about these

¹ As a result of CFPB-required remediation and account adjustments made in the ordinary course of Mr. Cooper's business operations, the actual number of remediated accounts was slightly higher. In total, 9,230 accounts were remediated for delayed escrow in the amount of approximately \$25.9M.

specific accounts and is in process of providing remediation. Overall, the remediation performed by the business was accurate and acceptable.

A. Payment Change Notice (PCN)

1. Statement of Facts per the MOU

In summary, between December 1, 2011 and June 30, 2016, Nationstar missed or filed untimely Payment Change Notices (PCN) for some bankruptcy cases due to “its inability to timely review” business records. Additionally, Nationstar filed several inaccurate PCNs attributable to human error and the lack of a secondary level of review.

2. Legal Requirements per the Federal Rules of Bankruptcy Procedure

Bankruptcy Rule 3002.1(b)(1) *Notice*. The holder of the claim shall file and serve on the debtor, debtor’s counsel, and the trustee a notice of any change in the payment amount, including any change that results from an interest rate or escrow account adjustment, no later than 21 days before payment in the new amount is due.

3. Testing Protocol

Population and Sample:

Raw PCN data for the USTP population validated above was obtained, which included the \$9.98M in remediation as stated within the MOU. The total population of PCN accounts reviewed amounted to 10,497. The PCN remediation testing performed at loan level included a review of each relevant transaction for the sampled accounts to validate the total amount remediated. A statistical sample size was determined based on the account population (sample size 371) and sample selection was allocated by the status of the account, i.e., loans that were remediated (sample size 186) and loans that did not meet the criteria to be remediated (sample size 185).

Test Objective - Remediated Sample:

A sample of remediated loans from the PCN loan population was obtained and the remediation amount independently recalculated to verify the amount provided to the borrower was accurate. The recalculation for each sample item considered all Chapter 13 bankruptcy cases active on the account from December 1, 2011 to June 30, 2016, if applicable. For example, if the borrower had more than one active bankruptcy case during the relevant period, each case was included. All payment changes that occurred post-petition were reviewed against the court docket to verify the borrower was properly notified, in compliance with Bankruptcy Rule 3002.1(b). In cases where the payment increased from the amount last known and a PCN was not filed or not filed timely, the increased amount was included in the recalculation for the number of months the payment was in effect or up until the end of the remediation period. Additionally, verification was performed to confirm either the remediation amount was applied to the borrower's

account as a payment at the time of remediation, the amount was credited to the borrower's suspense account, or a check was disbursed for the remediated amount.

Test Objective - Remediation Not Required Sample:

A sample of loans for which no remediation was needed was obtained from the PCN loan population to determine if the criteria used to exclude the loan from remediation was appropriate per the MOU. Loans that did not require remediation include those for which a PCN had been filed properly, no payment changes occurred after the bankruptcy filing date, or there was a “material status change”. If the exclusion criteria were not met, the amount was incorporated into the independent recalculation to determine required remediation.

4. Conclusion

The overall outcome of PCN remediation testing showed amounts provided to borrowers were equal to or over the required amounts, except for three accounts that did not receive the full remediation amount required through the remediation or BAU processes. Test results indicated an error rate of 0.81%.

Other observations were noted in the testing of sample items that were not deemed exceptions. For example, instances of over remediation were not noted as an exception. Some over remediations were the result of an over calculation. Others were due to an under calculation followed by subsequent business as usual (BAU) corrective processing that benefitted the borrower. In these cases, each customer received an accurate and complete remediation, in accordance with the MOU, albeit through separate processes.

Additionally, most remediation amounts for sampled items were due to principal and interest changes, but some sample items were identified in which payment changes due to escrow were included in the calculation. These inaccuracies always resulted in a more favorable outcome to the customer than required under the terms of the MOU, and thus these instances were not deemed exceptions in meeting MOU remediation requirements.

Further, for Home Equity Line of Credit (HELOC) loans sampled, which represent less than 0.5% of the population, inaccuracies were noted due to the number of months that should have been included in the calculations. Due to system restrictions, the monthly rate confirmations resulted in a system indication of additional changes even though the rate and payment did not always change. This created variances in the remediation recalculations. An additional five sample items were randomly selected for further review of the HELOC remediated population (25 loans), and these loans were ultimately remediated accurately and completely through existing BAU processes. The business was informed of the remediation calculation inconsistencies caused by the system restrictions

so that a review can be performed on the remaining 20 HELOC loans to determine if further remediation to those borrowers is needed.

The chart below summarizes the PCN remediation testing.

Settlement Population by Unique Loan ID	10,497
Sample Size	371
Threshold for Error Rate	5%
Combined Sample Items with Errors	3
Error Rate	0.81%
Result	Pass

B. **Notice of Post-Petition Mortgage Fees (PPFN)**

1. Statement of Facts per the MOU

In summary, between December 1, 2011 and June 30, 2016, Nationstar missed or filed untimely post-petition mortgage fee notices (PPFN) in some bankruptcy cases “due to its inability to timely review business records.”

2. Legal Requirements per the Federal Rules of Bankruptcy Procedure

Bankruptcy Rule 3002.1(c) NOTICE OF FEES, EXPENSES, AND CHARGES. The holder of the claim shall file and serve on the debtor, debtor’s counsel, and the trustee a notice itemizing all fees, expenses, or charges (1) that were incurred in connection with the claim after the bankruptcy case was filed, and (2) that the holder asserts are recoverable against the debtor or against the debtor’s principal residence. The notice shall be served within 180 days after the date on which the fees, expenses, or charges are incurred.

3. Testing Protocol

Population and Sample:

Raw PPFN data for the USTP population validated above was obtained, consisting of a total population of 9,754 accounts. PPFN remediation testing performed at loan level included an evaluation of each transaction on the sampled account to verify the total amount remediated. A statistical sample size was determined based on the loan-level population (sample size 370) and the sample selection was allocated between the statuses of the accounts; remediated accounts (sample size 233) and accounts where no remediation was needed (sample size 137).

Test Objective - Remediated Sample:

A sample of remediated loans from the PPFN population was obtained and the remediation amount independently recalculated to determine if what was provided to the borrower was accurate. For each sample item, the independent recalculation considered any Chapter 13 bankruptcy cases active on the account from December 1, 2011 to June 30, 2016. Specifically, if there was more than one bankruptcy case on the account, each was incorporated into the calculation. In cases where PPFNs were not filed within 180 days from the date of occurrence of fees/expenses or costs, it was confirmed that either the account was adjusted to reverse the corporate advance, or the amount was refunded to the borrower.

Test Objective - Remediation Not Required Sample:

A sample of loans for which no remediation was needed was obtained from the PPFN population to verify that the customer was not impacted, and no remediation was required. All Chapter 13 bankruptcy cases were considered if they were active during the period of December 1, 2011 through June 30, 2016 as stated within the MOU. In addition, loans that were subject to a material status change at any point during the scope period would not be eligible for remediation, and monies that were received prior to that change would be considered a remediation in excess of what was required per the MOU.

4. Conclusion

The overall outcome of PPFN remediation testing showed amounts provided to the borrowers were equal to or greater than the required amounts, with an error rate of 0%. However, an observation was made that the remediation process for PPFNs was conducted in an inconsistent manner, resulting in remediation in excess of the amount the customer was due. For some sampled accounts, remediation was calculated for every post-petition bankruptcy fee that the customer incurred during the scope period, even though PPFN was filed within 180 days from the cost incurred date for some of the fees. In other instances, remediation was calculated on fees that had already been credited in a BAU processes.

The chart below summarizes PPFN remediation testing.

Settlement Population by Unique Loan ID	19,961
Sample Size	370
Threshold for Error Rate	5%
Combined Sample Items with Errors	0
Error Rate	0%
Result	Pass

C. Notice of Final Cure (NOFC)

1. Statement of Facts per the MOU

In summary, between December 1, 2011 and June 30, 2016, Nationstar did not respond to or properly address NOFCs and Motions to Deem Current in some bankruptcy cases. As a result, certain outstanding amounts were not waived at discharge. Notwithstanding the missed Responses to NOFCs (RNOFC), “it was Nationstar's policy to file timely RNOFCs during the relevant period.” Nationstar determined that missed RNOFCs were generally caused by lack of automated processes, lack of consistency in practices across servicing teams, human error in manual data entry by staff with insufficient training, and/or lack of adequate quality controls.

2. Legal Requirements per the Federal Rules of Bankruptcy Procedure

Bankruptcy Rule 3002.1(g) RESPONSE TO NOTICE OF FINAL CURE PAYMENT. Within 21 days after service of the notice under subdivision (f) of this rule, the holder shall file and serve on the debtor, debtor’s counsel, and the trustee a statement indicating (1) whether it agrees that the debtor has paid in full the amount required to cure the default on the claim, and (2) whether the debtor is otherwise current on all payments consistent with § 1322(b)(5) of the Code. The statement shall itemize the required cure or post-petition amounts, if any, that the holder contends remain unpaid as of the date of the statement. The statement shall be filed as a supplement to the holder’s proof of claim and is not subject to Rule 3001(f).

3. Testing Protocol**Population and Sample:**

Raw RNOFC data from the USTP population validated above was obtained, which totaled approximately \$900k, as stated in the MOU. The total population of accounts amounted to 326. A statistical sample size was determined based on the total population (sample size 177) and sample selection was allocated proportionately between the statuses; remediated loans (sample size 39) and loans that did not meet criteria to be remediated (sample size 138).

Testing Objective - Remediated Sample:

A sample of remediated loans from the RNOFC population was selected and an independent calculation conducted to determine whether the remediation amount provided to the borrower was accurate. All Chapter 13 bankruptcy cases were considered if they were active from December 1, 2011 through June 30, 2016, as stated within the MOU. Any NOFC that did not receive a response within 21 days, as required by Bankruptcy Rule 3002.1(g), was reviewed to determine if remediation was required to clear out any remaining amounts owed throughout the bankruptcy. Additionally, a review was

conducted to validate the remediation amount was either applied to the borrower's current payment, applied to an escrow account shortage, or disbursed to the borrower in the form of a check.

Testing Objective - Remediation Not Required Sample:

A sample of loans for which no remediation was needed was obtained from the RNOFC population to validate that remediation was not needed or required for such accounts. In addition to verifying a “material status change” had occurred on the account, a review was conducted to ensure that a response was filed timely for the Notice of Final Cure, or if a response was not filed within 21 days as required by Bankruptcy Rule 3002.1(g), that there were no amounts owed through the Bankruptcy and a remediation was not required.

4. Conclusion

The overall outcome of the NOFC remediation testing resulted in confirmation that the amounts provided to borrowers met remediation requirements, with the exception of only one account. This represents an error rate of 0.6%, below the threshold error rate of 5%.

Due to the amount of time passed since some bankruptcies occurred, 14 trustee ledgers were not retained by the business nor were they available from the trustees for use in independent recalculations. The unavailable ledgers were no longer maintained as the accounts had passed the required retention period of 2 years from the order closing the case (11 U.S.C. § 322). In addition, some accounts that were acquired from a prior servicer during the bankruptcy did not have legible transaction histories. As such, there was no way to independently confirm the ledger for periods prior to boarding the loan at Nationstar for these accounts. In these cases, the pencil ledger completed by the business was confirmed against the system of record from boarding date to bankruptcy discharge, and no issues were noted.

Settlement Population by Unique Loan ID	326
Sample Size	177
Threshold for Error Rate	5%
Combined Samples with Errors	1
Error Rate	0.6%
Result	Pass

D. Delayed Escrow (DE)

1. Statement of Facts per the MOU

In summary, during the relevant period between December 1, 2011 and June 30, 2016, Nationstar did not always prepare annual, post-petition escrow analyses for loans of

“borrowers in certain bankruptcy cases.” Further, when borrowers received a discharge in a bankruptcy case, Nationstar did not always adjust escrow accounts to address unnoticed escrow shortages that may have accrued.

2. Legal Requirements per the Federal Rules of Bankruptcy Procedure

Bankruptcy Rule 3001(c)(2)(C) If a security interest is claimed in property that is the debtor’s principal residence, the attachment prescribed by the appropriate Official Form shall be filed with the proof of claim. If an escrow account has been established in connection with the claim, an escrow “account statement prepared as of the date the petition was filed and in a form consistent with applicable non-bankruptcy law shall be filed with the attachment to the proof of claim.”

Regulatory Requirements per the Consumer Financial Protection Bureau

RESPA 1024.17(b) Definitions, “Annual escrow account statement means a statement containing all of the information set forth in § 1024.17(i). As noted in § 1024.17(i), a servicer shall submit an annual escrow account statement to the borrower within 30 calendar days of the end of the escrow account computation year, after conducting an escrow account analysis.”

3. Testing Protocol

Population and Sample:

Raw delayed escrow data from the USTP population file validated above was obtained, which totaled approximately \$16.9M, per the population validation performed. The total population of bankruptcy loans was 19,543. A statistical sample size was determined based on the total population (sample size 377), and the sample selection was allocated amongst the status of the transaction; remediated (sample size 189) and remediation not needed (sample size 188) accounts.

Testing Objective - Remediated Sample:

A sample of remediated loans from the delayed escrow population was selected, and the calculated amounts and amounts credited to borrowers’ accounts were verified for accuracy. Support was obtained from the applicable escrow analysis or escrow analysis preview and, any escrow shortage amounts were verified through recalculation. Additionally, a review was conducted to verify that the remediation amount was either applied to the borrower's payment, credited to the borrower's suspense account, or disbursed via check to the borrower.

Testing Objective - Remediation Not Required Sample:

A sample of loans for which no remediation was needed was obtained from the delayed escrow population to verify that no remediation was required. Specifically, each loan’s

applicable escrow analysis or escrow analysis preview was reviewed to verify there was a surplus and no shortage. The remediation or corrective action also excluded the following situations, as outlined in the MOU, which were confirmed when applicable:

- bankruptcy cases where the subsequent escrow analysis or escrow preview has an escrow surplus or no change in the new escrow payment amount
- bankruptcy cases that (a) had no escrow line, (b) not secured by a first lien, or (c) had an escrow analysis performed after April 30, 2016
- bankruptcy cases filed after June 1, 2014 or discharged after March 31, 2016
- any mortgage account that was subject to a material status change

4. Conclusion

The overall outcome of the delayed escrow remediation testing showed amounts provided to the borrowers were equal to or greater than the required amounts, with an error rate of 0%. The required amounts were validated with applicable escrow analysis shortages per the MOU. All over-remediation noted was due to business as usual escrow adjustments on the accounts.

Settlement Population by Unique Loan ID	19,543
Sample Size	377
Threshold for Error Rate	5%
Combined Samples with Errors	0
Error Rate	0%
Result	Pass

V. Nationstar’s Operational Enhancements

Nationstar implemented a number of operational enhancements to address PCN, PPFN, NOFC, and delayed escrow practices as defined in the MOU. The settlement agreement required Internal Audit to independently evaluate whether the operational enhancements were effectively implemented by December 3, 2020 to ensure Nationstar resolved servicing practices related to Chapter 13 consumer bankruptcy cases. Evaluation of each area’s operational enhancements and conclusion as to their effectiveness are discussed below.

A. PCN

1. Evaluation

Interviews were conducted with members of Bankruptcy to understand details of the operational enhancements related to filing of PCNs, as outlined in the MOU. Evidence was obtained to substantiate the implementation of each enhancement, and then sustainability of the enhancements was assessed by verifying related controls were

properly established. Specifically, each operational enhancement was mapped to a control process and testing of the controls verified they were adequately designed and operating effectively to address the stated concerns. Details of the validation of each operational enhancement are discussed below, following description of the enhancement in the MOU:

(a) **“Implemented two levels of review for PCNs in order to ensure their accuracy prior to filing.”**

A walkthrough of the process to create, review, file PCNs, and read the written policies, procedures, and job aids to confirm sufficient guidance exists for the intended execution of the process was completed. The PCN filing process now requires an initial review of the PCN and a second review by a different individual before approval to file, all systematically managed via the servicing workflow application and was observed. The related control was tested during the 2020 Bankruptcy audit and issued March 31, 2021 and is assessed quarterly in a continuous control confirmation (“C3”) testing. Testing of the design and effectiveness of the control indicate the operational enhancement has been successfully implemented.

(b) **“Adopted a multi-point checklist for PCNs to ensure the accuracy of the notice by comparing and validating the notice information with Nationstar's system of record and the attachments to the notice.”**

A checklist for each of the reviews noted above is in place, where an eighteen-point checklist is required for the first PCN review and a twenty-point checklist for the second. The questions in the checklists require reviewers to validate data such as loan number, date of payment change, and new payment amount in the PCN filing with data in the system of record and applicable attachments to confirm their accuracy. The two additional questions on the second review capture and explain any errors that may have been overlooked in the first review. The related control for this enhancement is the same as noted above, and it was tested in the 2020 Bankruptcy audit, issued March 31, 2021, and was also assessed in three of the past four quarters in a C3 test. Testing of the design and effectiveness of the control indicates this Operational enhancement has been successfully implemented.

(c) **“Implemented technical upgrades, including a workflow with an interactive systemic control checklist that prompts the Bankruptcy employee to validate each task.”**

The technical upgrades were noted to be the addition of a specific PCN process flow tracker in the servicing workflow application. The functionality of the new 12-step PCN process within the workflow application was observed. The 12 steps include but are not limited to, various activities such as the attorney receipt of PCN supporting

documents, attorney drafting of the PCN filing, Nationstar's two level of reviews, and approval to file the PCN. Each step must be completed in the system before the PCN can progress to the next event, ultimately leading to the PCN being filed. The two review checklists are included in this workflow and the system automatically captures completion of each step, logging the reviewer name and date-time stamp, when executed. Due dates and completion dates for each stage are also captured. The control relevant to this enhancement was a separate control identified and tested in the 2020 Bankruptcy audit, issued March 31, 2021. Testing of the design and effectiveness of the control indicates this enhancement has been successfully implemented.

(d) "Improved exception reporting."

A walkthrough of the process used to identify PCNs for potential late filing was performed. A daily, automated job that pulls data from the servicing system and servicing workflow applications to create a comprehensive report of all unfiled PCNs and their status, is now in place. Each day's report is saved on a shared drive for current and historical reference. One feature of the report tracks PCNs by due date, and Bankruptcy management reviews this section at the end of each month to identify PCNs nearing their filing deadline. If needed, management will contact assigned staff or the responsible attorney to take action to progress the PCN filing. Such communications are maintained in the servicing workflow application. The control relevant to this enhancement was a separate control identified and tested in the 2020 Bankruptcy audit issued March 31, 2021. Testing of the design and effectiveness of the control indicate the enhancement has been successfully implemented.

(e) "Enhanced audit functions to validate PCNs for accuracy and compliance."

This operational enhancement speaks to the implementation of independent reviews completed by a separate department, the Risk and Compliance Testing group. Tests completed by this group verify that different types of PCNs are filed accurately and at least 21 days prior to the effective date of the applicable payment change. The control tests have been running at least quarterly since before year-end 2016, and the 2020 control testing results show an average error rate of 4.4%. Testing of the design and effectiveness of the reviews was included in the 2020 Bankruptcy audit issued March 31, 2021, and no exceptions were identified verifying the enhancement was successfully implemented.

(f) **“Discontinued use of 4S Technologies and enhanced procedures by retaining counsel to review and file documents only upon approval from Nationstar.”**

After confirming the 4S Technologies application was no longer in use, it was noted the new method of retaining counsel for PCN filings occurs systematically via the servicing workflow application. Program logic selects an appropriate attorney from a pre-approved list based on factors such as loan type and location of the bankruptcy filing. Nightly, the application refers each newly identified PCN to an attorney, who prepares the filing and submits it to Nationstar for review, all tracked in the application. The list of attorneys was verified to be approved by members of Default Servicing management, and the automation behind systematic assignment of attorneys was validated in controls tested above. This enhancement was successfully implemented.

2. Conclusion

Based on evaluation of interviews, written documentation, and testing of the design and effectiveness of controls relating to each PCN operational enhancement, Nationstar properly resolved previous servicing practices defined in the MOU. Further, the enhancements are deemed sustainable in the current environment and are structured to prevent future inconsistencies such as those identified in the MOU.

B. PPFN

1. Evaluation

Multiple interviews with members of the Nationstar Bankruptcy team were conducted to understand details of the operational enhancements related to the filing of PPFNs, as outlined in the MOU. The enhancements include improved oversight of specific bankruptcy processes, automation of key bankruptcy processes, increased vendor efficiency, and improved quality assurance and quality control procedures. Evidence was obtained to substantiate the implementation of each enhancement, and then each was mapped to a current control activity. Sustainability of the operational enhancement was assessed by verifying proper design and effectiveness of the related controls. Details of this validation are discussed below, following description of the enhancement:

(a) **“Two levels of review for PPFNs in order to ensure their accuracy prior to filing.”**

A walkthrough of the process to create, review, and file PPFNs was performed, and the written policies, procedures, and job aids were reviewed to confirm sufficient guidance exists for the intended execution of the process. The PPFN filing process now requires an initial review of the PPFN and a second review by a different individual before approval to file, all systematically managed via the servicing workflow application. The related control was tested in the 2020 Bankruptcy audit, issued March 31, 2021, and is assessed quarterly in the continuous control conformation (“C3”) testing. In addition,

the related control is tested as part of Nationstar's Risk and Compliance testing program. Testing of the design and effectiveness of the control indicate the operational enhancement is operating effectively.

(b) **“Enhanced Nationstar's technology so that fees, expenses, and charges are systemically queued up for review and tracked by the number of days until the PPFN must be filed.”**

A walkthrough was performed of the process whereby the servicing workflow application automatically communicates nightly with the servicing system to ingest current PPFN data for review into the “PPFN 150 Day Report”. This report was observed to be refreshed daily and the listings within the report are updated based on number of days remaining until the PPFN must be filed for each respective case. The related control is assessed as part of the Risk and Compliance Testing team's program and no material exceptions were noted during 2020 testing. Testing of the design and effectiveness indicate the operational enhancement is operating effectively.

(c) **“Adopted a multi-point checklist for PPFNs to ensure the accuracy of the notice by comparing and validating the notice information with Nationstar's system of record and the attachments to the notice.”**

There is a checklist used for the first level review to validate accuracy of key data related to the loan and PPFN. A second review is completed and provides a quality assurance review to notate any previously unidentified errors. The related control for this enhancement is the same as noted in operational enhancement A.1.b above. It was tested in the 2020 Bankruptcy audit issued March 31, 2021 and is assessed quarterly in the continuous control conformation testing. In addition, the related control is tested as part of Risk and Compliance Testing's program. Testing of the design and effectiveness of the control noted no exceptions, indicating this operational enhancement has been successfully implemented.

(d) **“Implemented technical upgrades, including a workflow with an interactive systemic control checklist that prompts the Bankruptcy employee to validate each task.”**

The technical upgrades consisted of an integration of the servicing system of record into the servicing workflow application. This integration allows real time data to flow between the two systems via an automatic interface. The data that is transmitted is used to generate the “PPFN 150 Day report” utilized by Bankruptcy management to ensure the PPFN process is operating effectively and in a timely manner. The system interface is based on a series of business rules and related logic that identifies applicable loans for PPFN filings. The business rules are reviewed and updated by Nationstar management when needed due to changes of law, changes in procedures, etc. Adjustments to data in the interface tables require an Information Technology

ticket and documented approval prior to implementation. Testing of the design of the control noted no exceptions and its effectiveness was verified via testing of other controls in the 2020 Bankruptcy audit issued March 31, 2021, indicating this operational enhancement has been successfully implemented and is operating effectively.

(e) **“Enhanced audit functions to validate PPFNs for accuracy and compliance.”**

This operational enhancement speaks to the implementation of reviews completed by a separate department, the Risk and Compliance Testing group. There are multiple tests completed by this group that verify PPFNs are filed accurately and timely. Testing throughout 2020 indicated an immaterial error rate of 2.3%. Testing of the design and effectiveness of these reviews were included in the 2020 Bankruptcy audit issued March 31, 2021, and no exceptions were noted indicating the enhancement has been successfully implemented.

(f) **“Improved Exception Reporting.”**

A walkthrough of the process used to identify PPFNs for potential late filing was performed. To ensure timely processing, all fees are monitored by an automated daily report. The report provides information on multiple criteria including newly identified fees (provided via system notifications), data regarding quality control results, dates of work sent to the attorney, etc. The report’s main function is to track fees that are aged to day 150 and that are not recorded in the system of record as completed. Fees closest to day 150 are given priority to ensure adherence with the 180-day requirement. The report is generated daily and maintained in a dedicated Bankruptcy team website for current and historical reference. The related control is assessed quarterly in a C3 test and is tested as part of Risk and Compliance Testing’s review program. Testing of the design and effectiveness of the control indicate the enhancement is operating effectively.

(g) **“Discontinued use of 4S Technologies and enhanced procedures by retaining counsel to review and file documents only upon approval from Nationstar.”**

After confirming the 4S Technologies application was no longer in use, it was noted the new method of retaining counsel for PPFN filings occurs systematically via the servicing workflow application. The program logic selects an appropriate attorney from a pre-approved list based on factors such as loan type and location of the bankruptcy filing. The application refers a new PPFN to an attorney, who prepares the filing and submits it to Nationstar for review, all tracked in the application. The list of attorneys was verified to have been approved by members of Default Servicing management, and the

automation behind systematic assignment of attorneys was validated in controls tested above. This enhancement was successfully implemented.

2. Conclusion

Based on evaluation of interviews, written documentation, and testing of the design and effectiveness of controls relating to each PPFN operational enhancement, Nationstar properly resolved previous servicing practices defined in the MOU. Further, the enhancements are deemed sustainable in the current environment and are structured to prevent future inconsistencies such as those identified in the MOU.

C. NOFC

1. Evaluation

Members of Bankruptcy were interviewed to understand details of the four operational enhancements related to filing a response to a Notice of Final Cure (NOFC), as outlined in the MOU. Details of the validation of each operational enhancement are discussed below, following the description of the enhancement:

(a) **“Subscribed to an electronic docket monitoring service that monitors Nationstar's portfolio to ensure that it is timely notified of the filing of NOFCs and Motions to Deem Current.”**

Nationstar has subscribed to AACER's Bankruptcy Creditor Solutions, an electronic docket monitoring service, to track NOFCs filed by bankruptcy trustees for which a response is due. To comply with the U.S. Bankruptcy Rule 3002.1(g), Nationstar must respond to NOFCs within 21 days of being filed. The process to file a response for a Motion to Deem Current (MTDC) is similar to NOFC, though the general timeline to provide a response for MTDC is the specific due date mentioned in the MTDC, if less than 60 days. A detailed walkthrough of the NOFC/MTDC process was performed and the written policies, standards, procedures, and job aids were reviewed to confirm sufficient guidance exists for the intended execution of the NOFC process using AACER. This enhancement was deemed successfully implemented.

(b) **“Implemented exception reporting.”**

A walkthrough of the process used to identify RNOFCs for potential late filing was performed. Specifically, exceptions reports are generated on daily basis and stored in a dedicated site for the Bankruptcy team's reference. The report provides an aging analysis of all loans in different stages of the RNOFC process, from receipt of the notice, through the required reviews, to filing of the response. Bankruptcy associates review the report each day to identify NOFCs nearing their response due date so they can be worked timely. Bankruptcy management also reviews the report to oversee progress

in filing RNOFCs in a timely manner, following up on items that may or did exceed the expected due date. Tests of design and effectiveness were completed to verify timely and accurate completion of this exception reporting review. Testing verified that responses to all the NOFC/MTDC were filed within the due dates of filing. The tests of design and effectiveness of the control indicate the enhancement is operating effectively.

(c) **“Upgraded its technical processes and instituted new system controls to closely monitor the timeliness of its responses.”**

The technical upgrades involve use of the servicing workflow application to monitor quality and timeliness of Nationstar’s responses to NOFCs/MTDCs through a systematic process tracker. Required reviews, due dates, and supporting documents are tracked in the system. Independent samples of NOFCs were selected and testing completed to verify controls were effective to ensure responses to NOFCs/MTDCs were filed within the required timelines. Testing of the design and effectiveness of the control indicate this operational enhancement has been successfully implemented and is functioning effectively.

(d) **“Adopted enhanced quality control and quality analysis reviews, including a second level of review and post-audit quality review of closing process.”**

This enhancement speaks to the addition of a final cure review tracked in the servicing workflow application, which covers review of any adjustments, a quality control process, verification of adjustment requests in the servicing system of record, and finally sending the loan to an attorney for providing a response to the NOFC/MTDC. For all the samples tested, quality reviews were performed appropriately, and were sent timely to the attorney for filing a response. Further, applicable testing completed by Nationstar’s first and second lines of defense was identified and in the 2020 Bankruptcy audit issued March 31, 2021. Such testing provides additional assurance as to the proper functioning of this operational enhancement. Testing of the design and effectiveness of the controls indicate this operational enhancement has been successfully implemented and is operating effectively.

2. Conclusion

Based on evaluation of interviews, written documentation, and testing of the design and effectiveness of controls relating to each NOFC operational enhancement, Nationstar properly resolved previous servicing practices defined in the MOU. Further, the enhancements are deemed sustainable in the current environment and are structured to prevent future inconsistencies such as those identified in the MOU.

D. Delayed Escrow

1. Evaluation

Interviews with members of Bankruptcy and Escrow were conducted to understand details of the operational enhancements related to preventing delayed escrow analysis situations, as outlined in the MOU. Evidence was obtained to substantiate the implementation of each enhancement, and sustainability of the enhancements were assessed by verifying related controls were properly established. Specifically, each operational enhancement was mapped to a control process and the controls were tested to verify they were adequately designed and operating effectively to address the stated concerns. Details of the validation of each operational enhancement are discussed below, following the description of the enhancement:

(a) **“Instituted a new automated process to run annual, post-petition escrow analyses.”**

New programming specific to bankruptcy escrow was launched in the servicing system. The program logic requires an initial escrow analysis on new bankruptcy filings, annual analysis every year after that, and an option for on-demand analysis if requested by the borrower. The annual post-petition escrow analysis is similar to the existing process for non-bankruptcy annual escrow requirements, and thus has a similar but separate control process. Specifically, a daily automated report is ran listing all bankruptcy loans for which the next scheduled escrow analysis date is greater than 12 months from the current month end. This enables the Escrow team to identify and run an analysis for the loans requiring it before they become non-compliant. During the last week of the month, management also reviews the report, following up on and escalating any loans that need immediate attention. Testing of the design and effectiveness of the control was performed during this evaluation. An independent query of the servicing application for escrowed loans in bankruptcy noted that all requiring an escrow analysis had received one in the past twelve months. There is also a test of compliance performed quarterly by the Risk and Compliance Testing team, which did not identify any missed analyses in 2020. As no control exceptions were identified in the performance of testing completed for this evaluation, the enhancement has been deemed successfully implemented.

(b) **“Began waiving escrow shortages identified in response to the filing of a NOFC.”**

The business unit’s daily process used to submit for review any bankruptcy loans that went through the RNOFC process and require an escrow shortage review was observed. The Bankruptcy team sends a list of such loans to the Escrow department each day to review for shortages needing to be waived. There are several business unit controls and one Risk and Compliance Testing review related to this enhancement that

were tested in the 2020 Bankruptcy audit issued March 31, 2021, which resulted in no reportable exceptions. Also, a specific control was identified which detects loans at the end of the bankruptcy closing process that did not have expected shortage review indicators, and such loans are assessed by the business to see if an escrow shortage review was missed. Testing of the design and effectiveness of applicable controls indicate this operational enhancement was successfully implemented.

(c) **“Enhanced the review of draft escrow-related PCNs prior to giving counsel approval to file.”**

This enhancement is in reference to processes implemented in the PCN Operational enhancements section. The adequate design and effectiveness of the controls around PCN filings directly assist in addressing concerns that may lead to delayed escrow analysis. As such, this enhancement also is deemed successfully implemented.

2. Conclusion

Based on evaluation of interviews, written documentation, and testing of the design and effectiveness of controls relating to each delayed escrow operational enhancement, Nationstar properly resolved previous servicing practices defined in the MOU. Further, the operational enhancements are deemed sustainable in the current environment and are structured to prevent future inconsistencies such as those identified in the MOU.

VI. Conclusion

As detailed above, Nationstar Mortgage, LLC has complied with its objectives and obligations under the Memorandum of Understanding dated December 3, 2020. The business identification of accounts for remediation is materially accurate, complete, and can be relied upon. The sample items selected from the validation population files were tested for accuracy and a small number of accounts containing errors (less than 0.5%, which is below the statistical error threshold of 5%) were identified. In addition, the operational enhancements are deemed sustainable in the current environment and are structured to prevent future inconsistencies such as those identified in the MOU.

Addendum

Internal Audit provides the following responses to the questions posed by the Executive Office for the U.S. Trustees:

Question 1: In light of the In re Rodriguez litigation (D. Mass.), is Mr. Cooper aware of any instances where litigation hold status adversely impacted accounts within the remediation population?

Not to our knowledge. Mr. Cooper management has attested that they have reviewed our pending litigation, and it did not identify any instances where litigation hold status adversely impacted accounts within its MOU remediation population.

Question 2: Have all accounts identified in the Independent Reviewer's report as needing additional remediation since been remediated?

Mr. Cooper management has attested that the 244 accounts identified at pages 6-7 of the report have been remediated where applicable and that they have remediated the 4 accounts identified at pages 10-15.

Question 3: What did Internal Audit mean when it referred in the report to "clerical inaccuracies and inconsistencies"?

The term "clerical inaccuracies and inconsistencies" refers to a non-material discrepancy in reporting. Specifically, in some instances, the numbers referenced in the MOU included accounts that were ineligible for remediation under the terms of the MOU, or otherwise fell outside the scope of the MOU at the time of Internal Audit's review, but these accounts nonetheless received remediation in whole or in part and were therefore "counted" in the calculation of some of the MOU numbers. These reporting discrepancies should not be interpreted as any failure on Mr. Cooper's part to abide by its remediation obligations. Except as it relates to the accounts referenced in response to question #2 above, Internal Audit did not identify any instance in which Mr. Cooper under-remediated, or failed to remediate, an account that was entitled to remediation per the MOU.

Question 4: Why did some accounts not receive remediation, notwithstanding Mr. Cooper's two levels of review (targeted remediation and BAU remediation)?

When Internal Audit conducted a statistically relevant sampling of 1,295 accounts (collectively), only 4 accounts were identified as not having received accurate remediation. Internal Audit assessed the sample populations using a 95% confidence interval and a 5% level of precision. The observed error rates were well below the 5% level of precision. For PCNs, the error rate was 0.81%; for PPFNs and delayed escrow, the error rates were 0; and for NOFCs, the error percentage was 0.6%. Mr. Cooper's remediation was largely manual, and required a focused, account-level review. For this reason, it is not surprising that there

were a very small number of errors found amongst the hundreds of accounts sampled; however, the error rates fell on the very low end of the error tolerances (less than 1%).

Question 5: Why was the HELOC population remediated through BAU processes?

Because of the frequent payment changes that occur on HELOC accounts, frequent BAU remediation reviews also occur. By the time the HELOC accounts were queued to receive targeted remediation, the BAU remediation process had already corrected the errors in the ordinary course.