

## **Nationstar and the “New King of Subprime Lending”**

Like Ocwen, Nationstar is a non-bank mortgage servicer: it buys servicing rights to banks’ outstanding loans, then makes collections, negotiates modifications, and pursues foreclosures. It has a servicing portfolio over \$400 billion and more than 2.4 million customers, making it one of the largest players in the market and Ocwen’s main competitor.

Yale’s fund manager Fortress Investment Group owns more than half of Nationstar, and owned the company outright for six years before its IPO in 2012.

### **“Largest Penalty To Date” in the Industry**

The *New York Times* reports that Nationstar’s lost files and failure to detect errors have, in the view of regulators, put “borrowers at significant risk of servicing and foreclosure abuses.”<sup>1</sup>

In March 2017, the Consumer Finance Protection Bureau announced that it was imposing a \$1.75 million civil penalty on Nationstar for failure to accurately report on its transactions, despite being on notice since 2011 for compliance problems. The penalty is the largest imposed to date for violations of the Home Mortgage Disclosure Act, which is used to assess community housing needs; direct public funding and attract investment; and detect discriminatory lending practices.<sup>2</sup>

Previously, Nationstar refunded about \$16.2 million to borrowers because of delays in approving modifications transferred from prior loan servicers, and the New York Department of Financial Services made inquiries at the company after receiving “hundreds of consumer complaints about mortgage modifications, improper fees and lost paperwork.”<sup>3</sup>

A *Bloomberg* article in 2016 revealed that Nationstar, like Ocwen, is active in filing for foreclosures in New Haven, Yale’s hometown.<sup>4</sup> One family was locked out of their deceased father’s house when Nationstar foreclosed on the home, then received a call from a neighbor telling them that everything in the house was being thrown into dumpsters—before the legal documents required to remove possessions from the home had been filed. The Connecticut Fair Housing Center receives complaints about such “trashouts” about monthly.<sup>5</sup> Connecticut has joined the ranks of states with attorneys general investigating Nationstar’s home auction business, which some warn may create conflicts of interest.<sup>6</sup>

### **“The New King of Subprime Lending”**

That’s the moniker the *Wall Street Journal* assigned in 2015 to Wesley Edens, the co-founder, principal, and co-chairman of Fortress Investment Group, and the chairman of Nationstar’s board of directors until he retired from that position in July 2016.<sup>7</sup> Fortress is the hedge fund responsible for investing Yale’s money in Nationstar, and is the majority owner of the company. Under Edens’ leadership, Yale has invested in Fortress funds for at least twelve years.<sup>8</sup> In an article on “Very High-Earning Private Equity Executives,” the *New York Times* revealed that Edens’ “take-home pay” in 2016 was \$54 million.<sup>9</sup>

### **Yale’s Investment**

Fortress Investment Group bought Nationstar in 2006 and took it public in March 2012. As of September 20, 2015, Fortress owned just over 60% of the equity of Nationstar. The Yale endowment is a beneficial owner of a \$100 million investment in Fortress Fund III, which is one of the two funds through which Fortress owns its share in Nationstar.<sup>10</sup> Yale has also been an investor in Fortress since at least 2004.<sup>11</sup>

Funds managed by Kingstown also own 1,875,000 shares of Nationstar—just under 2 percent of the company's equity, at a total present value of \$30.8 million. This is too small a portion to trigger disclosure of possible ownership by Ktown, the Yale-owned entity managed by Kingstown, which means it is possible that Yale has invested in Nationstar through two fund managers.

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  - 3 Lorin, Janet. "Yale Finds Itself on Both Sides of Employee's Fight for a Home." Bloomberg. May 8 2016. <https://www.bloomberg.com/news/articles/2016-06-08/yale-finds-itself-on-both-sides-of-employee-s-fight-for-a-home>
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  - 5 Iverson, David. "Trashed House: How a Mortgage Mistake Cost A Family Everything." WTNH. Dec 11 2015. <http://wtnh.com/2015/12/11/trashed-house-how-a-mortgage-mistake-cost-a-family-everything/>
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  - 8 Siegel, Steven. "Hedge funds are a mixed bag." Yale Daily News. Nov 15 2006. <http://yaledailynews.com/blog/2006/11/15/hedge-funds-are-a-mixed-bag/>
  - 9 Protess, Ben and Michael Corkery. "Just How Much Do the Top Private Equity Earners Make?" New York Times. Dec 10 2016. <https://www.nytimes.com/2016/12/10/business/dealbook/just-how-much-do-the-top-private-equity-earners-make.html>
  - 10 Preqin report, accessed Dec 15 2015; Bloomberg.
  - 11 Fortress Investment Fund III, LP, SEC Form D, filed October 2014.