

# ResCap Liquidating Trust

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**Consolidated Financial Statements  
as of and for the Period Ended December 31, 2019  
(Unaudited)**

# ResCap Liquidating Trust

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# ResCap Liquidating Trust

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## Consolidated Statement of Net Assets in Liquidation

(Unaudited)

In thousands (except per unit)

<b>Assets:</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents	\$ 100,869	\$ 146,942
Restricted cash	3,496	12,907
Mortgage assets	2,416	13,532
Other receivables	-	26,804
Other assets	730	1,321
<b>Total assets</b>	<b>107,511</b>	<b>201,506</b>
<b>Liabilities:</b>		
DOJ/AG consent settlement	-	9,444
Estimated costs to operate Trust	78,246	110,282
Liability for undistributed funds	229	204
<b>Total liabilities</b>	<b>78,475</b>	<b>119,930</b>
<b>Net Assets in Liquidation</b>	<b>\$ 29,036</b>	<b>\$ 81,576</b>
Total units in the Trust	98,859,354	98,859,354
Net assets per authorized unit	\$ 0.29	\$ 0.83

The Notes to Consolidated Financial Statements are an integral part of these statements.

# ResCap Liquidating Trust

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## Consolidated Statement of Cash Receipts and Disbursements

(Unaudited)

In thousands

	Quarter ended December 31, 2019	Year to date ended December 31, 2019	Effective Date through December 31, 2019
<b>Receipts</b>			
Receipts on assets held for sale	\$ 1,086	\$ 9,393	\$ 641,609
Litigation / claim recoveries	2,801	79,659	1,258,087
Other receipts	572	6,527	165,561
Plan settlements	-	-	2,100,000
Total receipts	4,459	95,579	4,165,257
<b>Disbursements</b>			
Claims and settlement	-	-	(1,642,074)
DOJ / AG consent settlement	-	(65)	(88,211)
Costs to operate the Trust	(10,426)	(51,023)	(667,822)
Total disbursements	(10,426)	(51,088)	(2,398,107)
<b>Distributions</b>			
Declared distribution	-	(100,000)	(3,370,000)
Recaptured distribution	-	-	29,506
Change in undistributed funds	5	25	229
Total distributions	5	(99,975)	(3,340,265)
<b>Net cash flow</b>	(5,962)	(55,484)	(1,573,115)
<b>Cash and restricted cash, beginning of period</b>	110,327	159,849	1,677,480
<b>Cash and restricted cash, December 31, 2019</b>	\$ 104,365	\$ 104,365	\$ 104,365

The Notes to Consolidated Financial Statements are an integral part of these statements.

# ResCap Liquidating Trust

## Consolidated Statement of Changes in Net Assets in Liquidation

(Unaudited)

In thousands (except per unit)

	Quarter to date ended December 31, 2019	Year to date ended December 31, 2019	Effective Date through December 31, 2019
<b>Net cash flow</b>	\$ (5,962)	\$ (55,484)	\$ (1,573,115)
Other non-cash changes:			
Increase (decrease) in asset value assumptions	(344)	(2,411)	(55,030)
(Increase) decrease in costs to operate the Trust	(8,163)	(19,270)	(539,979)
(Increase) decrease in DOJ/AG consent settlement	-	9,379	(7,550)
Basis of assets/liabilities liquidated/resolved	6,969	15,271	(310,662)
(Increase) decrease in distributions held for Beneficiaries	(5)	(25)	(229)
<b>Total non-cash changes</b>	<b>(1,543)</b>	<b>2,944</b>	<b>(913,450)</b>
<b>Total increase (decrease) in net assets</b>	<b>(7,505)</b>	<b>(52,540)</b>	<b>(2,486,565)</b>
<b>Net assets in liquidation, beginning of period</b>	<b>36,541</b>	<b>81,576</b>	<b>2,515,601</b>
<b>Net assets in liquidation, December 31, 2019</b>	<b>\$ 29,036</b>	<b>\$ 29,036</b>	<b>\$ 29,036</b>
<b>Per unit information:</b>			
	<b>\$ per Unit</b>	<b>\$ per Unit</b>	<b>\$ per Unit</b>
<b>Net assets per unit, beginning of period</b>	\$ 0.37	\$ 0.83	\$ 25.16
Impact of cancelled units on beginning balance	-	-	0.29
<b>Revised beginning of period balance</b>	<b>0.37</b>	<b>0.83</b>	<b>25.45</b>
Recognition of cancelled unit prior period distributions	-	-	-
Increase in net assets per unit	(0.08)	0.47	8.63
Declared distributions per unit	-	(1.01)	(33.79)
<b>Net asset per unit, December 31, 2019</b>	<b>\$ 0.29</b>	<b>\$ 0.29</b>	<b>\$ 0.29</b>

The Notes to Consolidated Financial Statements are an integral part of these statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1. Description of Business and Basis of Presentation

The ResCap Liquidating Trust (“Trust”) was formed in connection with the Plan of Reorganization under chapter 11 of the United States Bankruptcy Code (“Plan”) in the bankruptcy case of Residential Capital, LLC (“ResCap”). The Plan became effective on December 17, 2013 (“Effective Date”).

Units of beneficial interest (“Units”) were issued by the Trust. The Units entitle their holders (“Beneficiaries”) to receive a proportionate amount of cash distributions (“Declared Distributions”) made by the Trust.

#### Basis of Presentation

The unaudited Consolidated Financial Statements (the “Statements”) reflect the accounts of the Trust and subsidiaries after eliminating all significant intercompany balances and transactions. The Statements reflect all adjustments that are, in management's opinion, necessary for the fair presentation of the results for the periods presented. The Statements have not been prepared in accordance with generally accepted accounting principles; rather they have been prepared using a liquidation basis of accounting, which the Trust considers an appropriate basis of accounting at this time. The assets are stated at their estimated net realizable value, which is the amount of cash into which an asset is expected to be converted during the liquidation period. The Trust also accrues costs that it expects to incur through the end of its liquidation. The Trust will record and value affirmative settlements or judgments when realized and collectability is reasonably anticipated. The Trust does not accrue contingent costs.

#### Cash and Cash Equivalents, and Restricted Cash

Cash and cash equivalents include cash on hand and short term and governmental money market funds. Restricted cash consists of cash that is restricted for specific purposes and is not generally available to the Trust.

#### Mortgage Assets

Mortgage assets include mortgage loans, servicer advances, interest income, real estate owned, trading securities, and costs to sell assets.

##### Mortgage Loans

Mortgage loans consist primarily of mortgage insurance claims. As a result of borrower default or contractual delinquency triggers, certain mortgage loans ultimately become mortgage insurance claims for reimbursement from the Federal Housing Association (“FHA”) or Veterans Administration (“VA”) for eligible mortgage loan principal, interest, and servicing advances.

The value of mortgage loans is determined by modeling the net present value of the cash flows expected to be received over the life of the loan. The timing of the insurance reimbursement process and the reimbursement policies of the government agencies, as well as the delinquency, aging of the loans, non-accrual or foreclosure status of the loans, and disposition strategy all contribute to the underlying assumptions estimating cash flows. Assets targeted for sale are modeled to sales price.

##### Servicer Advances

The Trust is required, from time to time, to make certain servicer advances on loans that it owns. These servicer advances are for property taxes and insurance premiums (“Escrow”) and for default and

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property maintenance payments (“Corporate”). Servicer Advances are modeled based on the net present value of the expected recovery of the advance either through borrower repayment, collection from government agencies on insured loans or sale to a third party.

## Trading Securities

Trading securities include residual certificates from mortgage loan securitizations, and are valued based on the net present value of the modeled future cash flows of the security. Assets targeted for sale are modeled to sales price.

## Interest Receivables

Interest receivables generally arise from interest payments on mortgage loans. All future estimated interest income is capitalized and is valued based on the asset management strategies and net present value of the modeled cash flows of the underlying assets.

## Real Estate Owned

Real estate owned from loan foreclosures (“REO”) are classified as REO when physical possession of the collateral is taken. REOs are carried at their liquidation value and are held in a subsidiary whose stock is owned by the Trust.

## Costs to Sell Assets

Lifetime costs to sell assets are estimated based on the asset disposition strategy and are recorded as a contra asset within mortgage assets.

## Affirmative Recoveries

The Trust will record and value affirmative settlements or judgments when realized and collectability is reasonably anticipated.

## Estimated Costs to Operate the Trust

The Trust accrues for all costs it expects to incur during its lifetime based on approved strategic assumptions and the Trust’s current estimates. These costs are estimated based on asset resolution strategies and modeled wind-down expenses of the Trust’s operations and are recorded as liabilities.

The estimated future legal cost includes current pre-trial, trial, and potential appeal costs for the pending cases. Actual future costs could vary significantly depending upon a wide variety of factors due to the uncertainties inherent in complex litigation. On a periodic basis, the Trust evaluates such estimates to take into consideration the overall status of the litigation and any material changes in circumstances or factors affecting the litigation, including but not limited to updated scheduling of the cases, discovery, settlements, and other factors that may affect such estimates. The Trust will record and value affirmative settlements or judgments when realized and collectability is reasonably anticipated. See Note 6 Commitments and Contingencies for a discussion related to the HLC verdict. The Trust does not accrue contingent costs.

## Income Taxes

The Trust is a Grantor Trust, treated as a flow-through entity for U.S. federal and state income tax purposes. The Trust is not subject to U.S. federal or state income taxes; therefore, no accrual for these taxes is made. The Trust files a Federal return and multiple state returns and all tax periods since the Trust’s Effective Date remain open for examination.

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As a flow-through entity, all income and expense flows through to the Beneficiaries to be reported on their respective income tax returns. Certain income items, including the Trust's litigation and similar recoveries and certain miscellaneous other income may be treated as US Source Income for non-United States Beneficiaries subject to withholding at a 30% rate (or lower applicable treaty rate).

ResCap Securities Holdings Co, a wholly owned subsidiary which owns REO property, is subject to U.S. federal, state or foreign income taxes.

All estimated taxes to be paid are included in estimated costs to operate the Trust. Any tax filing interest and penalties incurred by the Trust's subsidiaries will be recognized as estimated costs to operate the Trust in the period incurred.

### 2. Restricted Cash

Restricted cash is comprised of the following (in \$000's):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
DOJ/AG consent settlement reserve	\$ -	\$ 9,444
Servicer Escrow	3,267	3,259
Distributions held for Beneficiaries	229	204
Total restricted cash	<u>\$ 3,496</u>	<u>\$ 12,907</u>

### 3. Mortgage Assets

Mortgage assets are comprised of the following (in \$000's):

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Gross Balance</u>	<u>Carry Value</u>	<u>Gross Balance</u>	<u>Carry Value</u>
Mortgage insurance claims (FHA/VA)	\$ 8,573	\$ 2,092	\$ 33,623	\$ 12,219
Non-insured mortgage loans	1,952	-	1,926	-
Real estate owned	1,499	324	1,854	1,313
Trading Securities	153	-	217	-
Total mortgage assets	<u>\$ 12,177</u>	<u>\$ 2,416</u>	<u>\$ 37,620</u>	<u>\$ 13,532</u>

Mortgage insurance claims gross balances are mainly comprised of \$2.2 million of mortgage principal and \$6.3 million of servicing advances. The Trust is actively marketing all real estate owned assets. The Trust carrying value reflects the net present value of the cash flows expected to be received over the lifetime of the mortgage assets. Because of the uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, actual results could differ from the Trust's estimates.

Mortgage Insurance Claims resolution timelines are subject to asset specific hurdles, including but not limited to eviction, litigation, property preservation work to place the property in conveyable condition, and HUD review and approval. During this period, the Trust will continue to advance property related expenses (e.g. legal, taxes, preservation) which are subject to curtailment by HUD.

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## 4. Other Receivables

Other receivables is comprised of the following (in \$000's):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Affirmative Matters, net	\$ -	\$ 25,157
Other Receivables	-	1,647
Total other receivables	<u>\$ -</u>	<u>\$ 26,804</u>

## 5. Estimated Costs to Operate the Trust

Estimated costs to operate the Trust are comprised of the following (in \$000's):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Professional fees (legal, expert, other professional costs)	\$ 57,572	\$ 76,161
Compensation	8,844	12,223
Document management	5,134	11,719
Information technology	2,887	4,089
Other operating costs	3,809	6,090
Total costs to operate the Trust	<u>\$ 78,246</u>	<u>\$ 110,282</u>

The estimated cost to operate the Trust is \$78.2 million reflecting a net decrease of \$2.6 million from the prior quarter. Of the total \$78.2 million, there is \$16.3 million of expenses that have been incurred but not yet paid (\$8.1 million professional fees, \$2.4 million compensation and \$5.8 million other operating costs) and \$61.9 million of expected future costs for January 2020 through December 2021. Of the future \$61.9 million cost, \$38.2 million supports the on-going RMBS litigation and insurance recovery case pending in Bankruptcy Court, SDNY and \$23.7 million represents contractual obligations and the future costs for the operations and winddown of the Trust.

## 6. Commitments and Contingencies

### *Litigation*

From time to time claims may be asserted against the Trust. At this time, the Trust cannot estimate the possible financial effect of these claims.

### *Affirmative Matters*

The Trust is pursuing various affirmative matters. These include:

- Indemnity claims (the "Correspondent Litigation") against correspondent lenders that sold loans to Residential Funding Company LLC ("RFC") (a subsidiary of ResCap) have been brought in various court jurisdictions, seeking recovery of liabilities and losses that RFC incurred by virtue of its purchase from the defendants of residential mortgage loans that breached the defendants' representations and warranties through litigation and non-litigation processes.

On June 21, 2019, The Court issued an order awarding the Trust a total of \$68.5 million dollars against Home Loan Center Inc. ("HLC"). On July 19, 2019, HLC filed an appeal of the order to the 8<sup>th</sup> circuit Court of Appeals. On July 21, 2019, HLC filed Chapter 11 in the Northern District of California (Case 19-51455). On July 31, 2019, the Trust filed a motion to convert the case to a Chapter 7. The jury verdict is now stayed with the filing of HLC bankruptcy. The Trust has filed a case against LendingTree LLC alleging,

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among other allegations, that LendingTree assumed the HLC liability. Per the Trust's accounting policy the Trust has not recorded the judgment in these Consolidated Financial Statements.

The Trust's trial against Primary Residential Mortgage, Inc. began February 10, 2020 and is currently underway as of the date of this letter.

- Insurance Recovery Action. The Trust has an adversary proceeding case pending in the U.S. Bankruptcy Court for the Southern District of New York, Drennen, et al., and ResCap Liquidating Trust v. Certain Underwriters at Lloyd's, London, et al., Adv. Case No. 15-01025-shl. In December 2019, the Bankruptcy Court issued a partial Summary judgement in favor of the Trust.
- Reservation of rights. The Trust has reserved its rights with respect to other affirmative claims it may bring in the future.

At this time, the Trust cannot predict the outcome of these matters or estimate the possible financial effect of these matters on the Consolidated Financial Statements, and as such, neither contingent gains nor any contingent costs to pursue these matters are currently recorded.

Since the Effective Date, through December 31, 2019 and excluding subsequent events, the Trust settled a total of \$1,257.9 million in affirmative matters including \$1,205.3 million in Correspondent Litigation, \$9.7 million in International, and \$42.9 million in other matters.

### **7. Subsequent Events**

Events subsequent to December 31, 2019 were evaluated through February 26, 2020, the date on which these Consolidated Financial Statements were issued.