

GMAC-RFC Holdings Limited

Annual Report

For the year ended 31 December 2012

Registered Number: 03471082

WEDNESDAY



A23 "A2K2QB6B" #131
30/10/2013
COMPANIES HOUSE

Index

GMAC-RFC Holdings Limited

	<u>Page</u>
Directors and Advisers	3
Directors' Report	4
Statement of Directors' responsibilities	5
Independent Auditors' Report	6-7
Profit and Loss Account	8
Balance Sheet	9
Notes to the Financial Statements	10-14

Directors and Advisers

GMAC-RFC Holdings Limited

DIRECTORS

John Paul Nowacki	(appointed 19 February 2013)
Claudia Wallace	(appointed 19 February 2013)
Vinoy Nursiah	(appointed 19 February 2013)
James Whitlinger	(resigned 19 February 2013)
Mark Tweed	(resigned 14 September 2012)

COMPANY SECRETARY AND REGISTERED OFFICE

SFM Corporate Services Limited
35 Great St Helens
London
EC3A 6AP

COMPANY NUMBER

03471082
(England and Wales)

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Directors' Report

Year Ended 31 December 2012

GMAC-RFC Holdings Limited Registration No. 03471082

The directors present their report together with the audited financial statements of GMAC-RFC Holdings Limited (the Company) for the year ended 31 December 2012

REVIEW OF BUSINESS AND PRINCIPAL ACTIVITIES

The Company's principal activity is to act as a holding company. Historically, the Company's subsidiaries have operated within the mortgage related finance industry in the United Kingdom.

Over the last few years, the Company disposed of the majority of its subsidiaries. On 30 September 2010, the indirect shareholder Ally Financial Inc (Ally) (formerly GMAC Inc) completed the sale of the shares in GMAC-RFC Limited as part of a larger divestment of its mortgage activities, to an investment fund managed by Fortress Investment Group LLC. As a result, at year-end 2012, the Company only held shares in GMAC-RFC Property Finance Limited (GPF). The main activity of GPF in 2012 was management of commercial loans to residential property developers in the UK and management of litigation relating thereto.

These financial statements are being prepared on a break up basis as the parent expects to liquidate the entity within the next twelve months. In addition, the directors consider that for accounting purposes, the Company is consolidated by ResCap since the latter has effective control over its assets. On May 14, 2012, ResCap filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. The Company does not feel that the Bankruptcy filing will have an impact to these financials or the support ResCap has provided.

KEY PERFORMANCE INDICATORS

In light of the Company's principal activity of portfolio management, the directors' focus is the oversight of the servicing and asset management and litigation activities.

RESULTS AND DIVIDENDS

The profit for the year carried forward to reserves at 31 December 2012 was £254,623 (2011: loss £(169,082)). The directors do not recommend the payment of a dividend for year ended 2012 (2011: £nil). At 31 December 2012, the Company has a positive equity position of £9,198,000 (2011: £8,943,000).

DIRECTORS

The directors who served during the year and up to the date of signing were as follows:

John Paul Nowacki (appointed 19 February 2013)
Claudia Wallace (appointed 19 February 2013)
Vinoy Nursiah (appointed 19 February 2013)
James Whitlinger (resigned 19 February 2013)
Mark Tweed (resigned 14 September 2012)

None of the directors has any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest either during or at the end of the year in any material contract or arrangement with the Company.

THIRD PARTY INDEMNITIES

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remains in force as at the date of approval of the directors' report and financial statements.

SECRETARY

SFM Corporate Services Limited acted as the Company secretary during the year and subsequently.

PRINCIPAL RISKS, UNCERTAINTIES AND FINANCIAL INSTRUMENTS

The Company's policies towards liquidity, credit, currency and interest rate risk are set out in Note 2 to the financial statements.

Directors' Report

Year Ended 31 December 2012

GMAC-RFC Holdings Limited Registration No. 03471082

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- As noted in the Directors report, the Board has concluded that for this financial year the presentation of the accounts should be on a break up, rather than a going concern basis.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

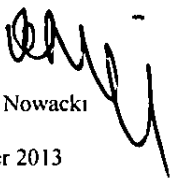
The directors who held office at the date of approval of this directors' report confirm that

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year. PricewaterhouseCoopers LLP, having expressed their willingness, will therefore continue in office.

On behalf of the board


John Paul Nowacki
Director
11 October 2013

Independent Auditors' Report

GMAC-RFC Holdings Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GMAC-RFC HOLDINGS LIMITED

We have audited the financial statements of GMAC-RFC Holdings Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of Matter – Basis of Preparation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the going concern basis of accounting. Following the year end the directors have decided that the company will be liquidated within the next twelve months. Accordingly, the going concern basis of accounting is no longer appropriate. Adjustments have been made in these financial statements to reduce assets to their realisable values and to provide for liabilities arising from the decision.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

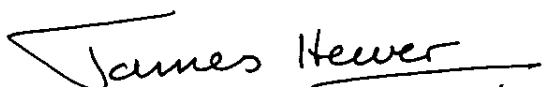
Independent Auditors' Report

GMAC-RFC Holdings Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



James Hewer (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 October 2013

Profit and Loss Account **Year Ended 31 December 2012** **GMAC-RFC Holdings Limited**

Year ended 31 December (£ in 000's)	Note	2012	2011
Release of provision held against investment in subsidiary	6	483	—
Loss taken on subsidiary		—	(31)
Fees receivable and other income		25	—
Operating income / (loss)		508	(31)
Administrative expenses	3	(139)	(139)
Currency translation (loss)		(114)	—
Profit / (loss) on ordinary activities before taxation		255	(170)
Taxation on profit / (loss) on ordinary activities	5	—	1
Profit / (loss) on ordinary activities after taxation		255	(169)

The Company had no acquisitions or discontinued operations and accordingly the above profit and loss account is in respect of continuing operations

The Company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

There is no difference between loss on ordinary activities before taxation and the loss for the years stated above, and their historical cost equivalents

The Notes on pages 10 to 14 form part of these financial statements

Balance Sheet

At 31 December 2012

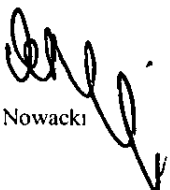
GMAC-RFC Holdings Limited

COMPANY NO 03471082

At 31 December (£ in 000's)	Note	2012	2011
Current assets			
Investments in subsidiaries	6	6,198	5,715
Debtors amounts falling due within one year	7	—	921
Cash at bank and in hand	8	4,193	3,511
Total Current Assets		10,391	10,147
Creditors amounts falling due within one year	9	(1,193)	(1,204)
Net assets		9,198	8,943
Capital and reserves			
Called up share capital		—	—
Profit and loss account	11	9,198	8,943
Total shareholder's funds	11	9,198	8,943

The financial statements on pages 8 to 14 were approved by the Board of Directors on 11 October 2013 and were signed on its behalf by

John Paul Nowacki
Director



Notes to the Financial Statements

Year Ended 31 December 2012

GMAC-RFC Holdings Limited

1 ACCOUNTING POLICIES

The Company's principal activity is to act as a holding company. The Company is a wholly owned subsidiary of Residential Capital LLC (ResCap), a company incorporated in the United States of America. The directors regard ResCap as the ultimate parent company.

As described in the Directors' Report on page 4, the directors intend to liquidate the Company within the next twelve months. Accordingly, the going concern basis of accounting is no longer appropriate. The financial statements have been prepared on a break-up basis of accounting and in accordance with the Companies Act 2006 and UK applicable Accounting Standards. This requires the Company assets to be stated at their net recoverable amounts and to provide for certain costs associated with liquidation of the Company.

BASIS OF PREPARATION

The profit and loss account and balance sheet have adapted the format laid down in Schedule 1 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) to the Companies Act 2006 to present its results and the state of the Company's affairs respectively. In the opinion of the directors, this is required due to the special nature of the Company's business.

The Company has decided to take advantage of the intermediate parent company exemption given in FRS 2 'Accounting for Subsidiary Undertakings' and section 401 of the Companies Act 2006 (the 'Act') as it is included in the consolidated financial statements of ResCap. Accordingly, these financial statements are for the Company only.

CASH FLOW STATEMENT AND RELATED PARTY DISCLOSURE

The Company is included in the consolidated financial statements of ResCap, which are publicly available. The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996) and is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of ResCap members group.

REVENUE AND COST RECOGNITION

Interest income and interest expense are recognised in the profit and loss account on an accruals basis.

FOREIGN CURRENCIES

The functional currency of the Company is British Pounds. Monetary assets and liabilities denominated in foreign currencies have been translated into British Pounds at the market rates of exchange ruling at the balance sheet date. Foreign exchange differences are taken to the profit and loss account in the year in which they arise. Income transactions denominated in foreign currencies are translated into British Pounds using average market rates of exchange for the period to which the income relates. Expense transactions denominated in foreign currencies are translated into British Pounds using market rates of exchange at the date of the transaction.

INVESTMENT IN SUBSIDIARIES

Investments in subsidiary undertakings are stated at cost less provision for impairment. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

PROVISION FOR IMPAIRMENT OF SUBSIDIARIES

A provision is recognised when it is more likely than not that a present obligation exists at the balance sheet date, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company considers that it has a present obligation to cover the losses incurred by its subsidiaries, and therefore a provision has been recognised where a subsidiary has overall net liabilities.

DEFERRED TAXATION

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise, based on current tax rates, law and the currently enacted regulation. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

Year Ended 31 December 2012

GMAC-RFC Holdings Limited

2. FINANCIAL RISKS AND INSTRUMENTS

The Company's financial instruments comprise of cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations

The main financial risks faced by the Company relate to liquidity, credit, interest rate risk and currency risk

LIQUIDITY RISK

The Company's policy is to manage liquidity risk by using available cash balances. The directors do not believe there is a significant liquidity risk in the Company

CREDIT RISK

The Company is exposed to credit risk on cash balances with banks. The cash in bank is held with a financial institution that has an A grade credit rating. The directors periodically assess the bank for credit worthiness

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will result in higher financing costs and / or reduced income from the Company's interest bearing financial assets and liabilities. At the end of 2012, the Company does not have any interest bearing liabilities. The cash balances of the Company are non-interest bearing

CURRENCY RISK

The Company has cash balances denominated in US dollars. The Company does not mitigate this risk

CAPITAL DISCLOSURE

The directors consider capital to comprise of issued share capital and reserves. During 2012, capital moved from £8,943,000 to £9,198,000. The Capital increase of £255,000 is due to a profit for the year

3 ADMINISTRATIVE EXPENSE

31 December (£ in '000's)	2012	2011
Legal and professional fees	106	61
Auditors' remuneration statutory audit fees	12	55
Other general expense	21	23
Total administrative expense	139	139

In prior years, the Company paid audit fees for its subsidiary investment. The company is no longer covering the audit fees for its subsidiary investment resulting in a reduction in audit fees for the current year

4. DIRECTORS' EMOLUMENTS

The Company has no employees and services required are contracted from third parties. The directors received no remuneration from the Company in respect of qualifying services rendered during the year

Notes to the Financial Statements

Year Ended 31 December 2012

GMAC-RFC Holdings Limited

5. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

Year ended 31 December (£ in 000's)	2012	2011
(a) Analysis of charge in period		
UK current year corporation tax at 24.5% (2011: 26.5%)	—	—
Adjustment in respect of prior year	—	(1)
Tax charge/(credit)	—	(1)
(b) Factors affecting current tax charge / (credit) for the year		
The tax assessed for the year is lower (2011: higher) than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)		
Profit / (loss) before tax	255	(170)
Tax charge/(credit) on profit/(loss) at 24.5% (2011: 26.5%)	62	(45)
Effects of		
Expenses not deductible	28	45
Release of provision non taxable	(118)	—
Adjustment in respect of prior year for losses carried back	—	(1)
Unutilised tax losses carried forward	28	—
Current tax charge/(credit) for the year	—	(1)

During the year, with effect from 1 April 2012, the rate of corporate tax was reduced from 26% to 24% hence the current tax rate applied in these financial statements is the blended rate for 2012 of 24.5%. The 2012 Finance Act further reduces the corporation tax rate to 23% effective from 1 April 2013 and the 2013 Finance Act, enacted on 17 July 2013, has introduced further reductions to 21% from 1 April 2014 and to 20% from 1 April 2015.

At 31 December 2012 and 2011, deferred tax assets of £4.1 million and £4.2 million respectively have not been recognised due to uncertainty surrounding the availability of suitable profits in the future. These unrecognised assets have been calculated at a tax rate of 23%, which had been enacted at 31 December 2012 (2011: 25%).

6. INVESTMENTS IN SUBSIDIARIES

(£ in 000's)	2012	2011
Cost		
At 1 January	51,719	51,750
Gain / (loss) from subsidiary	—	(31)
Sold / liquidated during the year (see Note below)	(1,719)	—
At 31 December	50,000	51,719
Provision		
At 1 January	46,004	46,004
Release of provision on liquidation of subsidiary during the year	(1,719)	—
Release of provision held against investment in subsidiary	(483)	—
At 31 December	43,802	46,004
Net book value		
At 31 December	6,198	5,715

During 2012, the Company liquidated all remaining investments with the exception of GMAC-RFC Property Finance Limited. The net book value change from investment in subsidiary in 2012 was £483,219 (2011: (£30,949)) representing gains / (losses) incurred from the Company's investment in GMAC-RFC Property Finance Limited.

	2012 £ '000	2011 £ '000
Cost:		
At 31 December	50,000	51,717

The Company's subsidiary undertaking includes all wholly owned subsidiaries. The subsidiary is set out below.

Company	Principal activity	Incorporated	2012 Company Ownership	2012 Proportion of voting rights
GMAC-RFC Property Finance Limited	Mortgage related intermediation	United Kingdom	100%	100%

The directors consider the value of the investment to be supported by the underlying assets.

Notes to the Financial Statements

Year Ended 31 December 2012

GMAC-RFC Holdings Limited

7. DEBTORS AMOUNTS FALLING DUE WITHIN ONE YEAR

31 December (£ in 000's)	2012	2011
Group relief receivable	—	921
Total	—	921

At 31 December 2012, the Company has settled all amounts owed by Group Relief from Motors Insurance Company Limited

8. CASH AT BANK AND IN HAND

31 December (£ in 000's)	2012	2011
Cash at bank	4,193	3,511
Total	4,193	3,511

9. CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR

31 December (£ in 000's)	2012	2011
Amounts due to fellow subsidiaries (Note 12)	1,182	1,182
Accruals	11	22
Total	1,193	1,204

Amount due to GMAC-RFC Property Finance Limited are unsecured, non-interest bearing and have no fixed repayment date

10. CALLED UP SHARE CAPITAL

31 December (£'000)	2012	2011
Authorised		
100 ordinary shares of £1 each (2011 100 shares)	—	—
Allotted, called up and fully paid		
1 ordinary shares of £1 each (2011 1 shares)	—	—

11. PROFIT AND LOSS ACCOUNT

(£ in 000's)	2012	2011
At 1 January	8,943	9,112
Profit/(loss) for the financial year	255	(169)
At 31 December	9,198	8,943

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

At December 31 (£ in 000's)	2012	2011
Profit/(loss) for the financial year	255	(169)
Shareholder's funds at 1 January	8,943	9,112
Shareholder's funds at 31 December	9,198	8,943

13. RELATED PARTY TRANSACTIONS

The directors regard Residential Capital, LLC as the ultimate controlling party. The Company has applied the exemption within Financial Reporting Standard 8, which permits the non-disclosure of transactions with related parties, which are included in the consolidated financial statements of Residential Capital, LLC.

At 31 December 2012, the Company was owed £nil (2011 £921,430) in Group Relief from Motors Insurance Company Limited a sister company of Residential Capital, LLC.

Notes to the Financial Statements

Year Ended 31 December 2012

GMAC-RFC Holdings Limited

At 31 December 2012 and 2011 the Company owes £1 181,797 to GMAC-RFC Property Finance Limited a subsidiary of the Company

Residential Capital, LLC is the parent undertaking of the largest and smallest group of undertakings for which financial statements are drawn up and of which the Company is a member

14 IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking is Residential Capital LLC which is incorporated in Delaware U S A

Copies of the Group financial statements may be obtained from the Company Secretary at the registered offices of Residential Capital, LLC, 8400 Normandale Lake Blvd, Minneapolis MN 55437 United States

RESIDENTIAL CAPITAL, LLC

(Debtors-in-Possession)

**Consolidated Financial Statements as of
December 31, 2012 and 2011 and each of the
Three Years in the Period Ended December 31, 2012**

**THESE ACCOUNTS
FORM PART OF THE
GROUP ACCOUNTS
OF COMPANY
No. 3471 082**



COMPANIES HOUSE

STANDARD
ENT 3
COUNTS
NA

Table of Contents

Residential Capital LLC
(Debtors-in-Possession)

	Page
Table of Contents	2
Independent Auditors' Report	3
Consolidated Balance Sheet	5
Consolidated Statement of Income	7
Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to Consolidated Financial Statements	12
1 Description of Business, Basis of Presentation and Changes in Significant Accounting Policies	12
2 Voluntary Reorganization Under Chapter 11	22
3 Combined Debtor-in-Possession Financial Information	27
4 Discontinued Operations and Assets and Liabilities Held-for-Sale	30
5 Mortgage Loans Held-for-Sale	34
6 Finance Receivables and Loans, Net	34
7 Securitizations and Variable Interest Entities	37
8 Servicing Activities	44
9 Accounts Receivable, Net	47
10 Other Assets	48
11 Borrowings	48
12 Liabilities Subject to Compromise	54
13 Other Liabilities	55
14 Other Revenue, Net	55
15 Other Noninterest Expense, Net	56
16 Reorganization Items	56
17 Other Comprehensive Income	56
18 Income Taxes	57
19 Employee Benefit Plans	59
20 Fair Value	61
21 Derivative Instruments and Hedging Activities	71
22 Nonperforming Assets	74
23 Commitments, Contingencies and Other Risks	76
24 Related Party Transactions	90
25 Regulatory Matters	94
26 Subsequent Events	94
Supplemental Schedule GMAC Mortgage Financial Statement Information	95



Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243
USA

Tel +1 313 396 3000
Fax +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of
Residential Capital LLC

We have audited the accompanying Consolidated Financial Statements of Residential Capital, LLC and its subsidiaries (the "Company") (Debtor-in-Possession) (a wholly owned subsidiary of Ally Financial Inc) which are comprised of the Consolidated Balance Sheets as of December 31, 2012 and 2011, and the related Consolidated Statements of Comprehensive Income, Changes in Equity and Cash Flows for the three years in the period ended December 31, 2012, and the related notes to the consolidated financial statements

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Residential Capital LLC and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Affiliate Transactions

As discussed in Note 24 to the consolidated financial statements, the Company has entered into a number of significant agreements and transactions with its affiliates. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Bankruptcy Proceedings

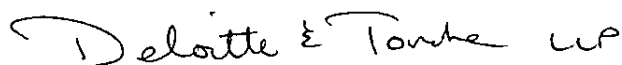
As discussed in Note 1 to the consolidated financial statements, the Company has filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The accompanying financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities, (2) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof, (3) as to member's interest accounts, the effect of any changes that may be made in the capitalization of the Company, or (4) as to operations, the effect of any changes that may be made in its business. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the magnitude of the Company's potential liabilities and its near term debt maturities combined with its liquidity and capital needs raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Report on Supplemental Consolidating Schedules

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Balance Sheet and the related Consolidating Statements of Comprehensive Income and of Cash Flows are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. These supplemental schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

 Deloitte & Touche LLP

April 19, 2013

Consolidated Balance Sheet

Residential Capital LLC
(Debtors-in-Possession)

December 31, (\$ in thousands)	2012	2011
Assets		
Cash and cash equivalents	\$1,630,213	\$618,699
Mortgage loans held-for-sale (\$13,156 and \$56,976 fair value elected)	344,120	4,249,625
Finance receivables and loans, net		
Consumer (\$469,923 and \$835,192 fair value elected)	594,794	1,022,730
Commercial	134	38,017
Allowance for loan losses	(7,453)	(28,616)
Total finance receivables and loans, net	587,475	1,032,131
Mortgage servicing rights	—	1,233,107
Accounts receivable, net	1,020,100	3,051,748
Other assets	271,518	6,628,152
Assets of held-for-sale operations	6,858,670	—
Total assets	\$10,712,096	\$16,813,462
Liabilities		
Liabilities not subject to compromise		
Borrowings		
Debtor-in-possession credit facilities	\$1,449,354	\$—
Borrowings from Affiliates	1,133,128	1,189,364
Collateralized borrowings in securitization trusts (\$447,723 and \$829,940 fair value elected)	447,723	830,318
Other borrowings	282,232	4,705,404
Total borrowings	3,312,437	6,725,086
Other liabilities	727,062	9,996,026
Liabilities of held-for-sale operations	2,780,426	—
Total liabilities not subject to compromise	6,819,925	16,721,112
Liabilities subject to compromise	4,215,215	—
Total liabilities	11,035,140	16,721,112
Equity		
Member's interest	11,755,962	11,433,776
Accumulated deficit	(12,038,036)	(11,279,560)
Accumulated other comprehensive loss	(40,970)	(61,866)
Total equity	(323,044)	92,350
Total liabilities and equity	\$10,712,096	\$16,813,462

Consolidated Balance Sheet

Residential Capital, LLC
(Debtors-in-Possession)

The table below includes the assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of the consolidated variable interest entities and the liabilities of these entities for which creditors (or beneficial interest holders) did not have recourse to our general credit at December 31, 2012 and December 31, 2011.

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
Assets			
Mortgage loans held-for-sale	\$5,832	\$331,624	\$8,658
Finance receivables and loans, net			
Consumer (\$469,923, \$60,977 and \$835,192 fair value elected)	594,794	60,977	998,509
Allowance for loan losses	(7,453)	—	(10,126)
Total finance receivables and loans, net	587,341	60,977	988,383
Accounts receivable, net	47,960	887,088	1,027,411
Other assets	28,843	—	29,494
Total assets	\$669,976	\$1,279,689	\$2,053,946
Liabilities			
Borrowings			
Debtor-in-possession credit facility (a)	\$1,260,000	\$—	\$—
Collateralized borrowings in securitization trusts (\$447,723, \$51,184 and \$829,940 fair value elected)	447,723	51,184	830,318
Other borrowings	104,534	—	855,631
Total borrowings	1,812,257	51,184	1,685,949
Other liabilities	56,778	(39)	29,099
Total liabilities	\$1,869,035	\$51,145	\$1,715,048

a) The Debtor-in-possession credit facility is guaranteed by Residential Capital, LLC and certain of its subsidiaries.

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

Consolidated Statement of Income

Residential Capital LLC
(Debtors-in-Possession)

Year ended December 31, (\$ in thousands)	2012	2011	2010
Revenue			
Interest income	\$295,336	\$356,034	\$817,808
Interest expense	274,406	399,606	593,522
Net financing revenue	20,930	(43,572)	224,286
Other revenue			
Servicing fees	745,293	839,172	971,445
Servicing asset valuation and hedge activities, net	(327,074)	(355,715)	222,571
Total servicing income, net	418,219	483,457	1,194,016
Gain on mortgage loans, net	249,520	223,013	651,037
Gain on foreclosed real estate	8,949	(5,919)	34,353
Other revenue, net	184,219	29,792	(49,315)
Total other revenue	860,907	730,343	1,830,091
Total net revenue	881,837	686,771	2,054,377
Provision for loan losses	(1,293)	(3,972)	(14,252)
Noninterest expense			
Compensation and benefits	473,011	315,711	258,771
Professional fees	181,445	116,375	71,339
Data processing and telecommunications	67,766	78,875	112,963
Occupancy	20,420	24,288	19,530
Executory contract cure costs	231,452	—	—
Mortgage fines and penalties	86,722	204,000	—
Representation and warranty expense, net	(72,749)	324,070	670,452
Other noninterest expense, net	389,281	370,352	390,010
Total noninterest expense	1,377,348	1,433,671	1,523,065
Income (loss) from continuing operations before reorganization items and income taxes	(494,218)	(742,928)	545,564
Reorganization items	285,068	—	—
Income (loss) from continuing operations before income taxes	(779,286)	(742,928)	545,564
Income tax (benefit) expense	(4,122)	16,051	6,919
Net income (loss) from continuing operations	(775,164)	(758,979)	538,645
Income (loss) from discontinued operations, net of tax	16,688	(86,084)	36,430
Net income (loss)	(758,476)	(845,063)	575,075
Other comprehensive income (loss), net of tax	20,896	(18,156)	358
Comprehensive income (loss)	(\$737,580)	(\$863,219)	\$575,433

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

Consolidated Statement of Comprehensive Income

Residential Capital, LLC

Year ended December 31, (\$ in thousands)	2012	2011	2010
Net income (loss)	(\$758,476)	(\$845,063)	\$575,075
Other comprehensive income (loss), net of tax			
Unrealized gains on investment securities			
Net unrealized (losses) gains arising during the period	—	(666)	1,606
Net realized losses reclassified to net income (loss)	—	(676)	—
Net change	—	(1,342)	1,606
Translation adjustments			
Translation	(7,390)	53	21,729
Net change	(7,390)	53	21,729
Defined benefit pension plans			
Net loss and prior service costs and transition obligations arising during the period	(28,179)	(16,867)	(22,977)
Less: Net gain, prior service costs, and transition obligations reclassified to net income	56,465	—	—
Net change	28,286	(16,867)	(22,977)
Other comprehensive income (loss), net of tax	20,896	(18,156)	358
Comprehensive income (loss)	(\$737,580)	(\$863,219)	\$575,433

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

Consolidated Statement of Changes in Equity

Residential Capital LLC
(Debtors-in-Possession)

<i>(\$ in thousands)</i>	Member's interest	Accumulated deficit	Accumulated other comprehensive income (loss)	Total equity
Balance at January 1, 2010	\$11,324,371	(\$11,005,303)	(\$44,068)	\$275,000
Cumulative effect of change in accounting principles as of January 1, 2010, net of tax				
Adoption of ASU 2009-17	—	(4,269)	—	(4,269)
Net income	—	575,075	—	575,075
Other comprehensive income, net of tax	—	—	358	358
Balance at December 31, 2010	\$11,324,371	(\$10,434,497)	(\$43,710)	\$846,164
Balance at January 1, 2011	\$11,324,371	(\$10,434,497)	(\$43,710)	\$846,164
Net loss	—	(845,063)	—	(845,063)
Capital contribution	109,405	—	—	109,405
Other comprehensive loss, net of tax	—	—	(18,156)	(18,156)
Balance at December 31, 2011	\$11,433,776	(\$11,279,560)	(\$61,866)	\$92,350
Balance at January 1, 2012	\$11,433,776	(\$11,279,560)	(\$61,866)	\$92,350
Net loss	—	(758,476)	—	(758,476)
Capital contribution	322,186	—	—	322,186
Other comprehensive income, net of tax	—	—	20,896	20,896
Balance at December 31, 2012	\$11,755,962	(\$12,038,036)	(\$40,970)	(\$323,044)

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

Consolidated Statement of Cash Flows

Residential Capital LLC
(Debtors-in-Possession)

Year ended December 31, (\$ in thousands)	2012	2011	2010
Operating activities			
Net income (loss)	(\$758,476)	(\$845,063)	\$575,075
Reconciliation of net income (loss) to net cash provided by operating activities			
Depreciation and amortization	25,071	27,245	32,975
Accretion of deferred concession	(38,308)	(101,113)	(110,009)
Provision for loan losses	(1,400)	24,021	14,618
Gain on mortgage loans net	(249,520)	(222,159)	(482,187)
Reorganization items	81,579	—	—
Net (gain) loss on other assets	(9,674)	16,134	(36,385)
Originations and purchases of mortgage loans held-for-sale	(15,858,476)	(60,675,667)	(70,295,821)
Proceeds from sales and repayments of mortgage loans held-for-sale	15,224,079	59,613,292	70,342,416
Change in fair value of mortgage servicing rights	440,657	812,435	725,351
Impairment of held-for-sale operations	—	—	(973)
Equity in earnings of investees in excess of cash received	—	—	(54,649)
Net change in			
Accounts receivable	1,072,428	752,588	393,032
Other assets	3,037,706	(1,438,938)	(3,737,896)
Other liabilities	(2,932,136)	2,465,601	3,068,161
Net cash provided by operating activities	33,530	428,376	433,708
Investing activities			
Net decrease in consumer finance receivables and loans	2,073	546,135	2,493,434
Net decrease in commercial finance receivables and loans	381,010	46,432	214,989
Net decrease in investments in real estate and other	—	4,543	107,187
Proceeds from sales of foreclosed and owned real estate	57,085	108,349	404,019
Proceeds from sale of business unit, net	(80,896) (a)	—	(122,782) (b)
Net decrease in restricted cash	236,962	160,775	73,511
Other, net	62,482	12,335	833,151
Net cash provided by investing activities	658,716	878,569	4,003,509
Financing activities			
Net increase (decrease) in borrowings from Affiliates	140,264	(228,007)	(362,017)
Proceeds from issuance of collateralized borrowings in securitization trusts	—	—	232,754
Repayments of collateralized borrowings in securitization trusts	(305,927)	(466,636)	(2,178,383)
Proceeds from debtor-in-possession credit facilities	1,449,354	—	—
Proceeds from other borrowings	1,138,843	787,325	471,395
Repayments of other borrowings	(2,108,788)	(1,439,342)	(2,914,191)
Net cash provided by (used in) financing activities	313,746	(1,346,660)	(4,750,442)
Effect of changes in foreign exchange rates on cash and cash equivalents	5,522	(13,790)	64,695
Net increase (decrease) in cash and cash equivalents	1,011,514	(53,505)	(248,530)
Change in cash and cash equivalents of operations held-for-sale	—	—	155,473
Cash and cash equivalents at January 1,	618,699	672,204	765,261
Cash and cash equivalents at December 31,	\$1,630,213	\$618,699	\$672,204

(a) Proceeds include cash and cash equivalents of \$80.9 million related to the business unit at the time of disposition.

(b) Proceeds are net of cash and cash equivalents of \$452.1 million related to the business unit at the time of disposition.

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

Consolidated Statement of Cash Flows

Residential Capital, LLC
(Debtors-in-Possession)

Year ended December 31, (\$ in thousands)	2012	2011	2010
Supplemental disclosures			
Cash paid for			
Interest	\$170,052	\$442,175	\$782,718
Income taxes	412	37,648	3,650
Reorganization items			
Professional fees	143,200	—	—
Debtor in possession credit facility issuance costs	59,492	—	—
Debtor in possession credit facility commitment fees	797	—	—
Non cash items			
Mortgage loans held-for-sale transferred to consumer finance receivables and loans	591	4,756	30,535
Consumer finance receivables and loans transferred to mortgage loans held-for-sale	41,146	72,876	326,939
Consumer finance receivables and loans transferred to other assets	12,698	16,098	199,011
Mortgage loans held-for-sale transferred to other assets	19,527	47,073	107,540
Mortgage loans held-for-sale transferred to accounts receivable	1,071,577	1,169,108	655,836
Mortgage servicing rights recognized upon the transfer of financial assets	16,556	54,426	184,494
Capital contributions through forgiveness of borrowings	196,500	109,405	—
Capital contribution through forgiveness of the MSR total return swap liability	125,686	—	—
Change upon initial adoption of new accounting standard (ASU 2009-17)			
Increase in assets of operations held-for-sale	—	—	10,242,675
Increase in liabilities of operations held-for-sale	—	—	10,079,011
Increase in consumer finance receivables and loans	—	—	1,210,769
Increase in collateralized borrowings in securitization trusts	—	—	1,143,766
Decrease in consumer finance receivables and loans upon deconsolidation	—	—	1,968,859
Decrease in collateralized borrowings upon deconsolidation	—	—	1,545,409
Other disclosures			
Proceeds from sales and repayments of consumer finance receivables and loans originally designated as mortgage loans held-for-sale	\$139,083	\$157,228	\$1,247,754
Reconciliation of mortgage loans held-for-sale			
Mortgage loans held-for-sale at January 1,	\$4,249,625	\$4,654,907	\$5,309,529
Originations and purchases of mortgage loans	15,858,476	60,675,667	70,295,821
Gain on sale of mortgage loans, net	249,520	222,159	448,721
Proceeds from sales and repayments of mortgage loans	(15,224,079)	(59,613,292)	(70,342,416)
Proceeds from sales and repayments of loans transferred from consumer finance receivables and loans	(131,194)	(225,421)	(906,238)
Originations of mortgage servicing rights	(16,556)	(54,426)	(184,494)
Transfers to consumer finance receivables and loans	(591)	(4,756)	(30,535)
Transfers from consumer finance receivables and loans	41,146	72,876	326,939
Transfers to accounts receivable	(1,071,577)	(1,169,108)	(655,836)
Transfers to other assets	(19,527)	(47,073)	(107,540)
Net change in delinquent loans subject to repurchase option	233,907	(102,247)	540,934
Transfer to assets of operations held-for-sale	(3,895,578)	—	—
Other, net	70,548	(159,661)	(39,978)
Mortgage loans held-for-sale at December 31	\$344,120	\$4,249,625	\$4,654,907

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

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

1. Description of Business, Basis of Presentation and Changes in Significant Accounting Policies

Residential Capital, LLC (ResCap, Company, we, our, or us) is a non-consolidated wholly owned subsidiary of GMAC Mortgage Group, LLC (GMAC Mortgage Group), which is a wholly owned subsidiary of Ally Financial Inc. (Ally Inc.)

Our operations are principally conducted through our subsidiaries GMAC Mortgage, LLC (GMAC Mortgage) and Residential Funding Company, LLC (RFC). Historically, we brokered, originated, purchased, sold, securitized and serviced residential mortgage loans in the United States. We brokered substantially all of our loan production from our origination channels to Ally Bank, a wholly owned subsidiary of Ally Inc. Substantially all of our loan purchases were from Ally Bank. Prior to May 1, 2012, we purchased primarily agency eligible and government insured or guaranteed loans from Ally Bank under the terms of a Master Mortgage Loan Purchase and Sale Agreement (MMLPSA). Effective May 1, 2012, we no longer purchase Federal National Mortgage Association (Fannie Mae) or Federal Home Loan Mortgage Corporation (Freddie Mac) eligible loans originated or purchased by Ally Bank. (Fannie Mae, Freddie Mac and Government National Mortgage Association (Ginnie Mae) are collectively referred to as the GSEs). Following our Chapter 11 filing, we have not originated loans directly with borrowers except in Nevada and Ohio. We did, however, commit to purchase, and purchased, from Ally Bank, mortgage loans insured by the Federal Housing Authority (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) pursuant to a mortgage loan purchase and sale agreement we entered into with Ally Bank in May 2012. Our commitment to purchase mortgage loans pursuant to that agreement terminated upon the closing of our servicing platform sale on February 15, 2013, except with respect to the remaining pipeline of mortgage loans that Ally Bank had committed to a borrower, prior to February 15, 2013 to originate, but which had not yet been originated as of such date. Loans originated or purchased in conformity with the underwriting guidelines of the FHA and VA are generally sold to securitizations guaranteed by Ginnie Mae. See Note 24 - Related Party Transactions for additional information.

Since the sales of our origination and servicing assets in January and February 2013, our primary business activities consist of the management and sale of our remaining assets and operations. We continue to purchase newly originated FHA/VA loans from Ally Bank that were interest locked prior to the sale or were in the pipeline at the date of the sale. We also modify FHA/VA insured loans on our balance sheet that meet certain eligibility requirements. These newly originated and modified loans are eligible to be pooled and sold into a Ginnie Mae securitization. Our remaining assets and operations consist of non-conforming domestic residential mortgage loans, our captive mortgage reinsurance portfolio, and limited assets (primarily cash) in our remaining international subsidiaries in Canada, the United Kingdom and Continental Europe. Our remaining assets are being run-off, sold or worked out to maximize our return.

Bankruptcy Proceedings

On May 14, 2012 (the Petition Date), ResCap and certain of its wholly owned subsidiaries (collectively, the Debtors) filed voluntary petitions (Chapter 11 Cases) for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (Bankruptcy Court). Our Chapter 11 Cases were consolidated for the purpose of joint administration. Factors contributing to our Chapter 11 Cases include (i) the magnitude of the Debtors' potential liability for breaches of representations and warranties made in connection with loan sales, as well as the significant time and defense costs in respect of litigation claims alleged with respect to such loan sales, irrespective of the Debtors' substantial defenses, (ii) the overwhelming debt burden combined with near-term maturities of credit facilities and (iii) continuing volatility in the interest rate markets, affecting the Debtors' ability to hedge the value of their mortgage servicing rights and to comply with their financial covenants. We have also been heavily dependent on Ally Inc. for capital and liquidity support. Ally Inc. had indicated that it would not continue any such support and would not extend the maturity dates of its various credit facilities with us. As a result, we do not expect to be able to satisfy all of our obligations as they come due. Accordingly, there is substantial doubt about our ability to continue as a going concern.

As a result of the Chapter 11 Cases, Ally Inc. has determined that it no longer has control or significant influence over the operating decisions of the Debtors, and it does not expect to regain control or significant influence over the Debtors under any reorganization plan. Therefore, effective May 14, 2012, we were deconsolidated from the Ally Inc. financial statements.

The filing of the Chapter 11 Cases constituted an event of default or otherwise triggered accelerated repayment obligations under all of our pre-petition debt obligations. Under Chapter 11, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect pre-petition indebtedness or to exercise control over the property of the debtor's estate. Absent an order of the Bankruptcy Court, certain of the Debtors' pre-petition liabilities are subject to settlement under a plan of reorganization.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The Bankruptcy Court approved the continuing operation of our primary business activities including originating, purchasing, selling, securitizing and servicing residential mortgage loans. The Bankruptcy Court also approved our payment of certain pre-petition liabilities, including taxes, employee related liabilities, and other obligations related to our continuing operations.

As part of the Chapter 11 Cases, the Debtors sought approval of the sale of substantially all of their operations and related assets (Section 363 Asset Sales). The Debtors also entered into an agreement with Ally Inc. and its subsidiaries, other than the Debtors (collectively, the Ally Group Settlement Agreement) and are actively engaged in working with creditor constituencies to provide for the terms of a Chapter 11 plan (Plan) which those parties would support. The Ally Group Settlement Agreement contemplated certain milestone requirements that the Debtors failed to satisfy, including the Bankruptcy Court's confirmation of the Plan on or before October 31, 2012. While the failure to meet this October 31 milestone would have resulted in the Ally Group Settlement Agreement's automatic termination, Ally Inc. and the Debtors agreed to monthly temporary waivers of this automatic termination through February 28, 2013. This waiver was not extended beyond this date, and the Ally Group Settlement Agreement has terminated. Any plan filed in connection with the Chapter 11 Cases, and all motions related to the Chapter 11 Cases, are subject to approval by the Bankruptcy Court. See Note 2 - Voluntary Reorganization Under Chapter 11 for additional information related to our Chapter 11 Cases.

On November 20, 2012, the Bankruptcy Court approved the Section 363 Asset Sales which include the Debtors' origination, capital markets and servicing platforms and related assets as well as a legacy loan portfolio. The Section 363 Asset Sales were completed on January 31, 2013, February 5, 2013 and February 15, 2013. See Note 2 - Voluntary Reorganization Under Chapter 11 and Note 4 - Discontinued Operations and Assets and Liabilities Held-for-Sale for additional information.

We expect that the Debtors' bankruptcy cases will continue to be administered under Chapter 11 of the Bankruptcy Code for a period of time, which will be dependent on the timing of the confirmation of a Plan. Since the proceeds of the Section 363 Asset Sales and the remaining assets of the Debtors are less than our pre-petition liabilities, holders of certain secured and unsecured debt will likely receive less than payment in full for their claims.

Consolidation and Basis of Presentation

While there continues to be substantial doubt for us to continue as a going concern we have prepared the accompanying Consolidated Financial Statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We believe this is appropriate due to the fact that a formal liquidation plan has not been committed to or filed and confirmed by the Bankruptcy Court. As discussed above, the Debtors expect to file a plan of reorganization with the Bankruptcy Court in 2013. These financial statements do not include any adjustments that might result from the eventual liquidation of the Company. The Consolidated Financial Statements include our accounts and accounts of our majority-owned subsidiaries after eliminating all significant intercompany balances and transactions and include all variable interest entities (VIEs) in which we are the primary beneficiary.

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and that affect income and expenses during the reporting period. In developing the estimates and assumptions, management uses all available evidence; however, actual results could differ because of uncertainties associated with estimating the amounts, timing, and likelihood of possible outcomes.

We operate our international subsidiaries in a similar manner as we operate in the United States of America (US or United States), subject to local laws or other circumstances that may cause us to modify our procedures. The financial statements of subsidiaries outside of the United States are measured using the local currency as the functional currency. All assets and liabilities of foreign subsidiaries are translated into US dollars using the period end exchange rates. The resulting translation adjustments are recorded in accumulated other comprehensive income, a component of equity. Income and expense items are translated at average exchange rates prevailing during the reporting period. Any foreign currency transaction gains or losses are recorded directly to the income statement regardless of whether they are realized or unrealized.

During 2011, we identified errors in periods prior to 2011 which were not material to those prior periods. As a result, we corrected those errors in 2011 resulting in additional expense of \$72.9 million, an increase in payables to affiliates of \$47.4 million and a net cash payment of \$25.5 million. The misstatement had no impact on our consolidated financial condition at December 31, 2011.

Debtor-in-Possession Accounting

As a result of the Chapter 11 Cases, we have applied the provisions of ASC 852, *Reorganizations*, which does not ordinarily change the application of GAAP with respect to the preparation of our financial statements. It does, however, require that financial

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

statements for periods including and subsequent to our Chapter 11 Cases distinguish between transactions and events that are directly associated with the reorganization proceedings and the ongoing operations of the business, as well as additional disclosures

Effective May 14, 2012, liabilities subject to compromise in our Chapter 11 Cases are distinguished from fully secured liabilities not expected to be compromised and from post-petition liabilities. Where there is uncertainty about whether a secured claim is undersecured or will be impaired under the Plan, we have classified the entire amount of the claim as a liability subject to compromise. We ceased accruing contractual interest and amortizing deferred issuance costs and deferred concessions related to pre-petition debt obligations that are subject to compromise. Such liabilities are reported at historic carrying value or the amount of the allowed claim, even if we expect them to settle for lesser amounts. These claims remain subject to future adjustments which may result from negotiations, actions of the Bankruptcy Court, disputed claims, rejection of executory contracts and unexpired leases, the determination as to the value of any collateral securing claims, proofs of claim or other events. Changes in the carrying value of liabilities subject to compromise in connection with actions of the Bankruptcy Court will be recorded as reorganization items on our Consolidated Statement of Comprehensive Income.

Revenues, expenses (including professional fees and Debtor-in-Possession facility fees), realized gains and losses, and provisions for losses resulting from the reorganization are reported separately on our Consolidated Statement of Comprehensive Income as reorganization items. We expensed as incurred the costs associated with our post-petition Debtor-in-possession credit facilities.

Use of Assumptions and Critical Accounting Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period and related disclosures and critical accounting estimates. In developing these estimates and assumptions, management uses available evidence at the time of the financial statements. Because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, actual results could differ from our estimates. An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and if different estimates reasonably could have been used or changes in the accounting estimate are reasonably likely to occur from period to period that would have a material impact on our financial condition, results of operations or cash flows. If actual results differ from our assumptions, it may have an adverse impact on the results of operations and cash flows.

Valuation of Held-for-sale Operations

We carry platform or other disposal groups as held-for-sale when all the following conditions are met: (a) management commits to a plan and has authority to sell, (b) the disposal group can be sold immediately in its current form and subject to normal and customary terms, (c) active program is in place to complete a sale of the assets, (d) at a price that is reasonable in relation to its current fair value, (e) subject to certain exceptions, the sale is probable and will be recognized within the next twelve months, and (f) actions required to complete the sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Disposal groups are carried at the lower of carrying amounts or fair value, less costs to sell. We estimated the fair value of the disposal group based upon the executed asset purchase agreement, adjusted as appropriate, for changes in the composition of the disposal group, and reduced for anticipated selling costs. Business transactions of this nature are infrequent and highly dependent on the facts and circumstances of the disposal group. The assets and liabilities of held-for-sale disposal groups are carried separately on our Consolidated Balance Sheet as assets and liabilities of held-for-sale operations.

Disposal groups that meet the discontinued operations criteria have current and prior period income and expense items (including any gain or loss related to any disposal group lower of cost or fair value adjustment) presented within discontinued operations in our Consolidated Statement of Comprehensive Income. Disposal groups that do not meet the discontinued operations criteria continue to be reflected in continuing operations in our Consolidated Statement of Comprehensive Income.

Valuation of Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are typically pooled together and sold into certain exit markets depending on the underlying attributes of the loan: product type, interest rate, and credit quality. To the extent observable market prices are not available, we will determine the fair value of mortgage loans held-for-sale using internally developed valuation models. These loans are valued on a discounted cash flow basis utilizing cash flow projections from internally developed models that require prepayment, default and discount rate assumptions. To the extent available, we will utilize market observable inputs such as interest rates and market spreads. If market observable inputs are not available, we are required to utilize internal inputs, such as prepayment speeds, credit losses and discount rates. While numerous controls exist to calibrate, corroborate and validate the internal inputs, they require the use of judgment by us and can have a significant impact on the determination of the loan's estimated fair value.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

Valuation of Mortgage Servicing Rights

Mortgage servicing rights (MSRs) represent the capitalized value of the right to receive future cash flows from the servicing of mortgage loans for others. MSRs are a significant source of value derived from originating or acquiring mortgage loans. Because residential mortgage loans typically contain a prepayment option, borrowers often elect to prepay their mortgage loans by refinancing at lower rates during declining interest rate environments. The borrower's ability to prepay is at times impacted by other factors in the current environment that may limit their eligibility to refinance (e.g., a high loan-to-value ratio). When this occurs, the stream of cash flows generated from servicing the original mortgage loan is terminated. As such, the market value of MSRs has historically been very sensitive to changes in interest rates and tends to decline as market interest rates decline and increase as interest rates rise. We capitalize MSRs on residential mortgage loans that we have originated and purchased based upon the fair value of the servicing rights associated with the underlying mortgage loans at the time the loans are sold or securitized. GAAP requires that the value of MSRs be determined based on market transactions for comparable servicing assets, if available. In the absence of representative market trade information, valuations should be based on other available market evidence and modeled market expectations of the present value of future estimated net cash flows that market participants would expect from servicing. When observable prices are not available, management uses internally developed discounted cash flow models to estimate the fair value.

These internal valuation models estimate net cash flows based on internal operating assumptions that we believe would be used by market participants combined with market-based assumptions for loan prepayment rates, interest rates, default rates, and discount rates that management believes approximate yields required by investors for these assets. Servicing cash flows primarily include servicing fees, ancillary income, and late fees less operating costs to service the loans. The estimated cash flows are discounted using an option-adjusted spread-derived discount rate. Management considers the best available information and exercises significant judgment in estimating and assuming values for key variables in the modeling and discounting process. All of our MSRs are carried at estimated fair value.

We use the following key assumptions in our valuation approach:

- **Prepayment speeds** — The most significant drivers of MSR value are actual and forecasted portfolio prepayment behavior. Prepayment speeds represent the rate at which borrowers repay their mortgage loans prior to scheduled maturity. The most significant factor influencing prepayment speeds is the interest rate environment. However, prepayment speeds are influenced by a number of factors such as the value of the collateral, government programs, and other market factors. As interest rates rise, prepayment speeds generally slow, and as interest rates decline, prepayment speeds generally accelerate. When mortgage loans are paid or expected to be paid earlier than originally estimated, the expected future cash flows associated with servicing such loans are reduced. We primarily use third-party models to project residential mortgage loan payoffs. In other cases, we estimate prepayment speeds based on historical and expected future prepayment rates. We measure model performance by comparing prepayment predictions against actual results at both the portfolio and product level.
- **Discount rate** — The cash flows of our MSRs are discounted utilizing appropriate risk-adjusted yield assumptions that, when applied to projected cash flows, produce benchmarked fair value.
- **Base mortgage rate** — The base mortgage rate represents the current market interest rate for newly originated mortgage loans. This rate is a key component in estimating prepayment speeds of our portfolio because the difference between the current base mortgage rate and the interest rates on existing loans in our portfolio is an indication of the borrower's likelihood to refinance.
- **Cost to service** — In general, servicing cost assumptions are based on actual expenses directly related to servicing. These servicing cost assumptions are compared to market-servicing costs when market information is available. Our servicing cost assumptions include expenses associated with our activities related to loans in default.
- **Volatility** — Volatility represents the expected rate of change of interest rates. The volatility assumption used in our valuation methodology is intended to estimate the range of expected outcomes for future interest rates. We use implied volatility assumptions in connection with the valuation of our MSRs. Implied volatility is defined as the expected rate of change in interest rates derived from the prices at which options on interest rate swaps or swaptions are trading.

We also periodically perform a series of reasonableness tests as we deem appropriate, including the following:

- **Review and compare data provided by an independent third-party broker** — We evaluate and compare our fair value price, multiples, and underlying assumptions to data, including prepayment speeds, discount rates, and cost to service provided by an independent third-party broker.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

- **Review and compare pricing of publicly traded interest-only securities** We evaluate and compare our fair value to publicly traded interest-only stripped mortgage-backed securities by age and coupon for reasonableness
- **Review and compare fair value price and multiples** We evaluate and compare our fair value price and multiples to market fair value price and multiples in external surveys produced by third-parties
- **Compare actual monthly cash flows to projections** We compare actual monthly cash flows to those projected in the MSR valuation. Based upon the results of this comparison, we assess the need to modify the individual assumptions used in the valuation. This process calibrates the model to actual servicing cash flow results
- **Review and compare recent bulk mortgage servicing right acquisition activity** We evaluate the reliability and relevancy of market trades including the valuation implied and the Section 363 Assets Sales. Until very recently, there was a lack of comparable transactions between willing buyers and sellers in the bulk acquisition market, which are the best indicators of fair value. However, we continue to monitor and track market activity on an ongoing basis.

We generally expect our valuation to be within a reasonable range of these comparisons. Changes in these assumptions could have a significant impact on the determination of fair value. In order to develop our best estimate of fair value, management reviews and analyzes the output from the models and makes adjustments to the valuation to take into consideration other factors that may not be captured. To the extent a valuation is deemed to be outside a reasonable range, it may be adjusted accordingly.

The assumptions used in modeling expected future cash flows of MSRs have a significant impact on the fair value of MSRs and potentially a corresponding impact to earnings. See Note 8 — Servicing Activities for sensitivity analysis. At December 31, 2012, based on the market information obtained, we determined that our MSR valuations and the assumptions used to value those servicing rights were reasonable and consistent with what an independent market participant would use to value the assets.

Liabilities Subject to Compromise

Liabilities subject to compromise relate to pre-petition liabilities that are not fully secured and have a possibility of not being fully paid as part of the bankruptcy process. Liabilities subject to compromise are initially recorded in the same manner as liabilities not subject to compromise. During the Chapter 11 Cases, claims will be filed and the Bankruptcy Court will determine the allowed claim values. At that time, the liabilities will be updated to the allowed claim values. These claims will ultimately be settled based on the final outcomes of the bankruptcy. Any change from current values to allowed values, or from allowed values to ultimate payouts, will be recorded as reorganizational items in the Consolidated Statement of Comprehensive Income.

Liability for Representation and Warranty Obligations

The liability for representation and warranty obligations reflects management's best estimate of probable lifetime loss. We consider historical and recent demand trends in establishing the reserve. The methodology used to estimate the reserve considers a variety of assumptions including borrower performance (both actual and estimated future defaults), repurchase demand behavior, historical loan defect experience, historical and estimated future loss experience, which includes projections of future home price changes as well as other qualitative factors including investor behavior. In cases where we have limited or no current or historical demand experience with an investor, because of the inherent difficulty in predicting the level and timing of future demands, if any, losses cannot be reasonably estimated, and a liability is not recognized. Management monitors the adequacy of the overall reserve and makes adjustments to the level of reserve, as necessary, after consideration of other qualitative factors including ongoing dialogue with counterparties. This reserve does not consider impacts of any litigation or settlements that may occur as part of the Chapter 11 Cases.

Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and certain highly liquid investment securities with maturities of three months or less from the date of purchase. Cash and cash equivalents that have restrictions as to our ability to withdraw the funds are included in other assets. The fair value of cash equivalents approximates book value because of the short maturities of these instruments.

Mortgage Loans Held-for-sale

Loans held-for-sale are carried at lower of cost or fair value or at estimated fair value. The majority of held-for-sale loans are pooled together for purposes of determining the lower of cost or fair value based on loan characteristics. Loan origination fees, as well as discount points and incremental direct origination cost, are initially recorded as an adjustment of the cost of the loan and are reflected in the gain or loss on sale of loans when sold. Fair value is determined by type of loan and is generally based on contractually established commitments from investors, current investor yield requirements, current secondary market pricing, or cash flow models.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

using market-based yield requirements. Our fair value option election loans primarily consist of conforming and government-insured mortgage loans. See Note 20 — Fair Value for details on fair value measurement.

We hold conditional repurchase options in off-balance sheet securitizations as a result of our ownership of mortgage servicing rights that allow us to repurchase a loan at par if it exceeds a certain pre-specified delinquency level (e.g., 90 days). We have discretion regarding when or if we will exercise these options, but generally we will do so only when it is in our best interest. We recognize those assets that can be repurchased under the conditional repurchase option (and any related liability to pay the trust) once the condition has been satisfied, but only in those situations where we have determined that we would have a more than trivial benefit. We do not record an asset (or related liability to pay the trust) when delinquent loan repurchase options are both quantitatively and qualitatively deep out of the money, because we would not have a more than trivial benefit from the options.

Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability. Additionally, entities are required to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

A three-level hierarchy is used when measuring and disclosing fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

Level 1	Inputs are quoted prices in active markets for identical assets or liabilities at the measurement date. Additionally, we must have the ability to access the active market, and the quoted prices cannot be adjusted by us.
Level 2	Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities, quoted prices in inactive markets for identical or similar assets or liabilities, or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.
Transfers	Transfers into or out of any hierarchy level are recognized at the end of the reporting period in which the transfer occurred. There were no material transfers between any levels during the year ended December 31, 2012.

Securitizations and Variable Interest Entities

We securitize, sell, and service consumer mortgage loans. Securitization transactions typically involve the use of variable interest entities and are accounted for either as sales or secured financings. Economic interests in the securitized and sold assets are generally retained in the form of residual interests, and servicing rights.

In order to conclude whether or not a variable interest entity is required to be consolidated, careful consideration and judgment must be given to our continuing involvement with the variable interest entity. In circumstances where we have both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity that could be significant, we consolidate the entity, which would also preclude us from recording an accounting sale on the transaction. In the case of a consolidated variable interest entity, the accounting is consistent with a secured financing; that is, we continue to carry the loans and we record the securitized debt on our balance sheet. Further, there is no specific accounting record of our economic interests; rather, they are captured as the difference between the recognized assets and liabilities.

In transactions where either one or both of the power or economic criteria mentioned above are not met, we determine whether or not we achieve a sale for accounting purposes. In order to achieve sale for accounting purposes, the assets being transferred must be legally isolated, not be constrained by restrictions from further transfer, and be deemed to be beyond our control. If we were to fail any of the three criteria for sale accounting, the accounting would be consistent with the preceding paragraph (i.e., a secured borrowing). However, if we meet the criteria, the transaction would be recorded as a sale, and the variable interest entity would not be consolidated. See Note 7 — Securitizations and Variable Interest Entities for discussion on variable interest entities.

Gains or losses on off-balance sheet securitizations take into consideration the fair value of the retained interests including the value of certain servicing assets or liabilities, which are initially recorded at fair value at the date of sale. The estimate of the fair

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

value of the retained interests and servicing requires us to exercise significant judgment about the timing and amount of future cash flows from the interests. See Note 20 — Fair Value for a discussion of fair value estimates.

Gains or losses on off-balance sheet securitizations are reported in gain on mortgage loans, net. Changes in the fair value of retained interests are reflected in other revenue, net. Retained interests, as well as any purchased securities, are included in other assets. Securities that are noncertificated and cash reserve accounts related to securitizations are included in other assets.

In the past we have also retained the right to service the consumer mortgage loans sold in securitization transactions involving Ginnie Mae, Fannie Mae, Freddie Mac, and private investors. We received servicing fees based on the securitized loan balances and certain ancillary fees, all of which are reported in servicing fees.

Whether on or off balance sheet, the investors in the securitization trusts generally have no recourse to our assets outside of customary market representation and warranty provisions.

Finance Receivables and Loans

We classify finance receivables and loans either as held-for-sale or held-for-investment based on management's assessment of its intent and ability to hold for the foreseeable future or until maturity. Management's intent and ability may change from time to time depending on a number of factors including economic liquidity and capital conditions. Management's view of the foreseeable future is generally a twelve-month period based on the longest reasonably reliable net income, liquidity and capital forecast period.

We elected the fair value option for consumer mortgage finance receivables and loans related to certain of our on-balance sheet securitizations, including those securitization trusts that were consolidated upon the adoption of ASU 2009-17. These securitized mortgage loans are legally isolated from us and are beyond the reach of our creditors. They are measured at fair value using a portfolio approach. The values for loans that with other assets and liabilities constitute a securitization trust may differ considerably from loans held-for-sale that can be sold in the whole-loan market. This difference arises primarily due to the liquidity of the asset-backed (ABS) or mortgage-backed (MBS) security market and is evident in the fact that spreads applied to lower rated ABS/MBS are considerably wider than spreads observed on senior bond classes and in the whole-loan market. The objective in linking the fair value of these loans to the fair value of the related securitization debt is to properly account for our retained economic interest in the securitizations. See Note 20 - Fair Value for details on fair value measurement.

The balance of our consumer finance receivables and loans are reported at the principal amount outstanding, net of unearned income, premiums and discounts and allowances. Unearned income, which includes deferred origination fees reduced by origination costs, is amortized over the contractual life of the related finance receivable or loan using the interest method.

Our portfolio segments are based on the level at which we develop and document our methodology for determining the allowance for loan losses. Additionally, the classes of finance receivables are based on several factors including the method for monitoring and assessing credit risk, the method of measuring carrying value, and the risk characteristics of the finance receivable. Based on an evaluation of our process for developing the allowance for loan losses including the nature and extent of exposure to credit risk arising from our finance receivables, we have determined our portfolio segments to be consumer and commercial.

- **Consumer mortgage** — Consists of the following classes of finance receivables:
 - **1st Mortgage** — Consists of residential mortgage loans that are secured in a first-lien position and have priority over all other liens or claims on the respective collateral.
 - **Home equity** — Consists of residential home equity loans or mortgages with a subordinate-lien position.
- **Commercial** — Consists of the following classes of finance receivables:
 - **Commercial and Industrial Mortgage** — Consists primarily of warehouse lending.
 - **Commercial Real Estate Mortgage** — Related primarily to activities within our international operations which provided financing to residential land developers and homebuilders.

Charge-offs

Consumer first-lien mortgage loans, which consist of our entire 1st mortgage class and a subset of our home equity class that are secured by real estate, are written down to the estimated fair value of the collateral, less costs to sell, once a mortgage loan becomes 180 days past due. Second-lien consumer mortgage loans within our consumer home equity class are charged off at 180 days past due. First and second-lien consumer mortgage loans in bankruptcy that are 60 days past due are written down to the estimated fair value of the collateral, less costs to sell, within 60 days of receipt of notification of filing from the bankruptcy court. Loans are

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

considered collateral dependent at the time foreclosure proceedings begin and are charged off to the estimated fair value of the collateral, less costs to sell

Commercial loans are individually evaluated and where collectability of the recorded balance is in doubt are written down to estimated fair value of the collateral less costs to sell. Generally, all commercial loans, both collateral and noncollateral dependent, are charged off when they are 360 days or more past due

Allowance for Loan Losses

The allowance for loan losses (the allowance) is management's estimate of incurred losses on the consumer and commercial finance receivable and loan portfolios. We determine the amount of the allowance required for each of our portfolio segments based on its relative risk characteristics. The evaluation of these factors for both consumer and commercial finance receivables and loans involves complex, subjective judgments. Additions to the allowance are charged to current period earnings through the provision for loan losses, amounts determined to be uncollectible are charged directly against the allowance, net of amounts recovered on previously charged-off accounts

The allowance is comprised of two components: reserves established for specific loans evaluated as impaired and portfolio-level reserves established for large groups of typically smaller balance homogenous loans that are collectively evaluated for impairment. We evaluate the adequacy of the allowance based on the combined total of these two components. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions

Measurement of impairment for specific reserves is generally determined on a loan-by-loan basis. An individual loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the agreement. Loans determined to be specifically impaired are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, an observable market price, or the estimated fair value of the collateral less estimated costs to sell, whichever is determined to be the most appropriate. When these measurement values are lower than the carrying value of that loan, impairment is recognized. Consumer loans that are deemed not to be individually impaired are pooled with other loans with similar risk characteristics for evaluation of impairment for the portfolio-level allowance

For the purpose of calculating portfolio-level reserves, we have determined logical grouping of loans into two portfolio segments: consumer mortgage and commercial. The allowance consists of the combination of a quantitative assessment component based on statistical models, a retrospective evaluation of actual loss information to loss forecasts, and may include a qualitative component based on management judgment. Management takes into consideration relevant qualitative factors, including external and internal trends such as the impacts of changes in underwriting standards, collections and account management effectiveness, geographic concentrations, and economic events among other factors that have occurred but are not yet reflected in the quantitative assessment component. All qualitative adjustments are adequately documented, reviewed and approved through our established risk governance processes

There were no changes to our accounting policy or our allowance methodology during the period ended December 31, 2012

Mortgage Servicing Rights

Primary servicing rights represent our right to service consumer residential mortgage loans. Primary servicing involves the collection of payments from individual borrowers and the distribution of these payments to the master servicer. Master servicing rights represent our right to service mortgage- and asset-backed securities and whole-loan packages issued for investors. Master servicing involves the collection of borrower payments from primary servicers and the distribution of those funds to investors. We may at times purchase and sell primary and master servicing rights through transactions with other market participants

We capitalize the value expected to be realized from performing specified mortgage servicing activities for others as MSRs when the expected future cash flows from servicing are projected to be more than adequate compensation for such activities. These capitalized servicing rights are purchased or retained upon sale or securitization of mortgage loans. MSRs are not recorded on securitizations accounted for as secured financings

We measure all mortgage servicing assets at fair value. We define our servicing rights based on the availability of market inputs and the manner in which we manage the risks of our servicing assets. We leverage available relevant market data to determine the fair value of our recognized servicing assets

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Accounts Receivable

Accounts receivable are recorded net, at their expected realizable value and include servicer advances and receivables. Servicer advances are generally made to maintain scheduled investor cash flows in the event of borrower default or delinquency and may reflect payments of property taxes and insurance premiums in advance of collection from borrowers. Principal and interest payments to investors prior to their collection from borrowers and amounts advanced for mortgages in foreclosure. Servicer advances receive priority cash flows, including contractual interest in the event of foreclosure or liquidation. As a result, the collection of the advances is reasonably assured. We establish a reserve for any servicing advances where collectability is in doubt.

Loan insurance guarantee receivables arise because of mortgage loans acquired from off-balance sheet securitizations guaranteed by GNMA as a result of borrower default or contractual delinquency triggers ultimately become claims for reimbursement from the FHA or VA. Mortgage loans are reclassified to receivable when the loan is deemed impaired. An insurance claim is filed with the appropriate government guarantor agency (FHA or VA) for eligible mortgage loan principal, interest and foreclosure related expenses. Claims receivable are evaluated for impairment based upon the reimbursement policies of the FHA and VA.

Derivative Instruments and Hedging Activities

We use derivative instruments for risk management purposes. Certain of our derivative instruments were designated as qualifying hedge accounting relationships. Other derivative instruments do not qualify for hedge accounting or have not been elected to be designated as a qualifying hedging relationship. All derivative financial instruments, whether designated for hedge accounting or not, are recorded as other assets or other liabilities and are measured at fair value. Additionally, we report derivative financial instruments on a gross basis. Changes in the fair value of derivative financial instruments held for risk management purposes that are not designated as hedges under GAAP are reported in current period earnings.

Foreclosed Assets

Assets are classified as foreclosed and included in other assets when physical possession of the collateral is taken regardless of whether foreclosure proceedings have taken place. Foreclosed assets are carried at the lower of the outstanding balance at the time of foreclosure or the fair value of the asset less estimated costs to sell. Losses on the revaluation of foreclosed assets are charged to gain on mortgage loans, net at the time of foreclosure. Declines in value after foreclosure are charged to other noninterest expense.

Property and Equipment

Property and equipment, stated at cost, net of accumulated depreciation and amortization, are reported in other assets. Included in property and equipment are certain buildings, furniture and fixtures, leasehold improvements, IT hardware and software and capitalized software costs. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which generally ranges from 3 to 30 years. Capitalized software is generally amortized on a straight-line basis over its useful life, which generally ranges from three to five years. Capitalized software that is not expected to provide substantive service potential, or for which development costs significantly exceed the amount originally expected, is considered impaired and written down to fair value. Software expenditures that are considered general administrative or of a maintenance nature are expensed as incurred.

Legal and Regulatory Reserves

Our legal and regulatory reserves reflect management's best estimate of probable losses in connection with legal and regulatory matters. As a legal or regulatory matter develops, management, in conjunction with internal and external counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is both probable and estimable. If, at the time of evaluation, the loss contingency related to a legal or regulatory matter is not both probable and estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and estimable. When the loss contingency related to a legal or regulatory matter is deemed to be both probable and estimable, we will establish a liability with respect to such loss contingency and record a corresponding amount to other noninterest expense, net. To estimate the probable loss, we evaluate the individual facts and circumstances of the case including information learned through the discovery process, rulings on dispositive motions, settlement discussions, our prior history with similar matters and other rulings by courts, arbitrators or others. The reserves are continuously monitored and updated to reflect the most recent information related to each matter.

Additionally, in matters for which a loss contingency is not deemed probable, but rather reasonably possible to occur, we would attempt to estimate a loss or range of loss related to that event, if possible. For these matters, we do not record a liability. However, if we are able to estimate a loss or range of loss, we would disclose this loss if it is material to our consolidated financial statements. To estimate a range of probable or reasonably possible loss, we evaluate each individual case in the manner described above. We do not accrue for matters for which a loss event is deemed remote. The Debtors' Chapter 11 Cases automatically stay most litigation unless otherwise subject to an order of the Bankruptcy Court.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Liability for Representation and Warranty Obligations

We sold loans that were included in securitizations guaranteed by the GSEs and to whole-loan purchasers. In addition, subsequent to 2007 we infrequently sold loans to investors through private-label securitizations. Prior to 2007 our volume of private label securitization issuance was considerably larger and included securitized loans where monolines insured the related bonds. In connection with these activities we provide to the GSEs, investors, monoline, and whole-loan purchasers various representations and warranties related to the loans sold. These representations and warranties generally relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, ability to deliver required documentation, and compliance with applicable laws. Generally, these representations and warranties may be enforced at any time over the life of the loan.

Upon a breach of a representation, we correct the breach in a manner conforming to the provisions of the sale agreement. This may require us either to repurchase the loan, to indemnify (make-whole) a party for incurred losses, or provide other recourse to a GSE, monoline, or investor. Repurchase demands and claims for indemnification payments are generally reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase or a make-whole payment. We actively contest claims to the extent we do not consider them valid. In cases where we repurchase loans, we bear the subsequent credit loss on the loans. Repurchased loans are classified as held-for-sale and initially recorded at fair value. Any initial impairment is charged to the liability for representation and warranty obligations.

At the time a loan is sold, an estimate of the fair value of the liability is recorded and classified in other liabilities and recorded as a component of gain on mortgage loans, net. We recognize changes in the liability throughout the life of the sold loans, as necessary when additional relevant information becomes available. Changes in the liability are recorded as representation and warranty expense.

Reinsurance Arrangements

We have entered into excess layer reinsurance agreements with non-affiliated private mortgage insurance (PMI) companies that provide PMI for certain of our mortgage loan servicing portfolio. We assume the risk of loss over a specified first loss percentage for covered loans and in return earn a portion of the PMI premium associated with those mortgage loans. We reserve for loss and loss adjustment expenses when notices of default on insured mortgage loans are received and the specified first loss percentage covered by the ceding company is exhausted.

Income Taxes

We are a division of Ally Inc., a corporation, for income tax purposes. This status was neither impacted by the bankruptcy filing in May 2012 nor by any changes in how Ally Inc. accounts for its interest in us. Our status as a division of Ally Inc. is expected to continue until such time as Ally Inc. no longer holds its ownership interest in us. We are subject to corporate U.S. Federal, state and local taxes and are included in the consolidated Ally Inc. U.S. Federal and unitary and/or consolidated state income tax returns. We provide for our U.S. Federal and state taxes on a stand alone basis, which is consistent with the applicable tax sharing agreements with direct and indirect parent companies through Ally Inc. These agreements require the Company to calculate taxes based on the income tax liability that would be determined as if we were a separate affiliated group of corporations filing consolidated U.S. Federal and state income tax returns. Our foreign businesses have been and continue to operate as corporations and are subject to, and provide for, U.S. Federal, state, and/or foreign income tax.

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

Recently Adopted Accounting Standards

Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04)

As of January 1, 2012, we adopted Accounting Standards Update (ASU) 2011-04, which amends ASC 820, *Fair Value Measurements*. The amendments in this ASU clarify how to measure fair value and contain new disclosure requirements to provide more transparency into Level 3 fair value measurements. ASU 2011-04 is intended to improve the comparability of fair value

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The ASU must be applied prospectively. The adoption did not have a material impact to our consolidated financial condition or results of operations.

Recently Issued Accounting Standards

Balance Sheet - Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-11, which amends ASC 210, *Balance Sheet*. This ASU contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. In addition, in January 2013, the FASB issued ASU 2013-01, which simply clarified the scope of ASU 2011-11. The new disclosures will give financial statement users information about both gross and net exposures. ASU 2011-11 and ASU 2013-01 are effective for us on January 1, 2013, and retrospective application is required. Since the guidance relates only to disclosures, adoption is not expected to have a material effect on our consolidated financial condition or results of operations.

Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)

In February 2013, the FASB issued ASU 2013-02, which amends ASC 220, *Comprehensive Income*. The ASU contains new requirements related to the presentation and disclosure of items that are reclassified out of other comprehensive income. The new requirements will give financial statement users a more comprehensive view of items that are reclassified out of other comprehensive income. ASU 2013-02 is effective for us on January 1, 2013, and is to be applied prospectively. Since the guidance relates only to presentation and disclosure of information, adoption is not expected to have a material effect on our consolidated financial condition or results of operations.

2. Voluntary Reorganization Under Chapter 11

Operation and Implication of the Chapter 11 Cases

Under section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect indebtedness incurred prior to the petition date or to exercise control over property of the debtor. Accordingly, although commencement of the Chapter 11 Cases triggered defaults on all of our pre-petition debt obligations, creditors are stayed from taking any actions as a result of such defaults. As a result of the Chapter 11 Cases, the realization of assets and the satisfaction of liabilities are subject to uncertainty. As debtors-in-possession under the Bankruptcy Code we may, subject to approval of the Bankruptcy Court, sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in our Consolidated Financial Statements.

As part of our first day motions, filed on the Petition Date and subsequently approved by the Bankruptcy Court, the Debtors received approval to pay or otherwise honor certain pre-petition obligations generally designed to stabilize the Debtors' operations, including certain employee wages and benefit obligations, cash management, tax matters, loan originations and servicing and payment of pre-petition claims of certain vendors deemed critical to the Debtors' ongoing business. Amounts incurred for goods and services after the Petition Date are paid in the ordinary course of business. We have retained, with Bankruptcy Court approval, legal and financial professionals to advise us on our Chapter 11 Cases and certain other professionals to provide services and advice to the Debtors in the ordinary course of business. From time to time, the Debtors may seek Bankruptcy Court approval to retain additional professionals. The Debtors may also be required to pay for costs incurred by other parties with an interest in the Debtors' Chapter 11 Cases. We have incurred significant costs associated with the Chapter 11 Cases and will continue to incur costs until such time as all assets sales are completed, proceeds are distributed to our creditors and other requirements for wind down and liquidation are completed.

The US Trustee for the Southern District of New York has appointed an official committee of unsecured creditors (UCC). The UCC and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court affecting the Debtors.

On June 20, 2012, the Bankruptcy Court approved the appointment of an independent examiner and, subsequently, the United States Trustee for the Southern District of New York appointed former bankruptcy judge Arthur J. Gonzalez, Esq. as the examiner (the Examiner). On July 27, 2012, the Bankruptcy Court entered an order approving the scope of the Examiner's investigation, which includes, among other things, an analysis of: (a) all material pre-petition transactions between or among the Debtors and Ally Inc., Cerberus Capital Management, L.P. and its subsidiaries and affiliates, and/or Ally Bank; (b) certain post-petition negotiations and transactions with the Debtors, including with respect to plan sponsor, plan support, and settlement agreements; the debtor-in-possession financing with Ally Inc.; the stalking horse asset purchase agreement with Ally Inc.; and the servicing agreement with Ally Bank; (c) all state and federal law claims or causes of action the Debtors proposed to be released as part of the Plan; and (d) the release of all existing or potential ResCap-related causes of action against Ally Inc. held by third parties. On February 7, 2013,

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

the Examiner informed the Bankruptcy Court that the investigation and related report will not be completed until early May 2013, although there is no assurance that the Examiner will not need additional time

Employee Matters

On August 15, 2012 the Bankruptcy Court entered an order approving the Debtors' key employee retention plan (KERP) for certain non-insiders and the payment of amounts thereunder as administrative expenses. The KERP provides for vesting and payment linked to the closing of the Section 363 Asset Sales. The KERP is required, in all respects, to conform to the requirements and restrictions of the Troubled Asset Relief Program (TARP). All post-petition accruals under the KERP have been recorded on our Consolidated Statement of Comprehensive Income as reorganization items.

Following a hearing on October 17, 2012, the Bankruptcy Court entered an order approving the Debtors' key employee incentive plan (KEIP) for certain insiders, comprised of senior management of the Debtors and the payment of amounts thereunder as administrative expenses. The KEIP provides for incentive awards to certain insiders that are closely aligned to the negotiation and closing of the Section 363 Asset Sales as well as seamless transition to the purchaser(s) without interrupting customer service. The goal of the KEIP is to preserve and maximize the value of the estate for the benefit of its creditors. The KEIP provides for vesting and payment linked to the closing of the Section 363 Asset Sales and to plan confirmation.

On December 20, 2012, the Court approved the Debtors' motion with respect to certain compensation matters related to payments of deferred cash issued on or after the Petition Date to certain of the Debtors' employees for postpetition services. In accordance with the motion, the Debtors are authorized to reimburse Ally Inc. for payments expected to be made in connection with such deferred cash and directed the Debtors to establish and fund an escrow account for the benefit of Ally Inc. Payments from the escrow account will be made on the earlier of the effective date of a Plan or the remittance of the deferred cash to employees. On January 3, 2013, the Debtors funded the escrow account.

On January 29, 2013, the Court approved the Debtors' motion with respect to payments under the Company's annual incentive plan to eligible employees, whereby the Debtors were authorized, but not directed, to distribute payments so long as such payments met certain criteria and were consistent with any TARP restrictions. The Debtors made payments under the annual incentive plan to eligible employees on March 1, 2013.

Debtor-in-Possession Credit Agreements

On May 15, 2012, the Debtors obtained Bankruptcy Court interim approval of a fully committed \$1.45 billion superpriority senior secured debtor-in-possession credit facility (DIP) arranged by Barclays Bank PLC between and among GMAC Mortgage Borrower LLC and RFC Borrower LLC (collectively, the DIP Borrowers), and ResCap, GMAC Mortgage, RFC and certain other subsidiaries of ResCap (collectively, the DIP Guarantors), Barclays Bank PLC, as administrative agent, and other lenders that from time to time may become party thereto. The DIP Borrowers and DIP Guarantors are all Debtors. Pursuant to the terms of the DIP, the \$1.45 billion facility consists of three tranches: \$1.06 billion of A-1 term notes, \$200.0 million of A-2 term notes and a \$190.0 million revolver. The DIP was approved by the Bankruptcy Court on June 25, 2012. The \$190.0 million revolver was terminated effective January 31, 2013. See Note 11 - Borrowings for additional information.

The DIP termination date was the earliest of 18 months from May 16, 2012 (the DIP closing date), the substantial consummation of a reorganization plan for any Debtor that is confirmed pursuant to an order entered by the Bankruptcy Court, or in the event of acceleration and termination of the commitment. The DIP was repaid on February 15, 2013 and terminated.

On October 19, 2012, we amended the DIP Agreement and paid fees of \$2.0 million. The amendments to the DIP Agreement permitted (i) a one-time sale of whole loans if the proceeds were used to pay down debt and (ii) up to \$200.0 million in sales of FHA insurance backed mortgage loans and VA guaranteed mortgage loans that were currently pledged as collateral for the Amended and Restated Ally Inc. Line of Credit (LOC).

We were required to maintain consolidated liquidity of (i) not less than \$250.0 million in the aggregate for four consecutive days and (ii) not less than \$75.0 million in the aggregate at any time. We were also required to maintain a minimum of \$50.0 million in certain bank accounts that are maintained as collateral for the DIP. For the period ended December 31, 2012, we were in compliance with these requirements.

The DIP proceeds could be used, in each case in accordance with the approved DIP budget, to repay in full certain indebtedness outstanding as of the Petition Date (the Pre-Petition Refinanced Facilities), to pay the fees, costs and expenses incurred in connection with the DIP and for general corporate purposes. There were limitations on the use of DIP proceeds, including restrictions in connection with investigations, initiation or prosecution of any claims against any party to the DIP or holder of obligations of the Pre-Petition Refinanced Facilities, making any pre-petition payments, except as authorized by the Bankruptcy Court and in accordance

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

with the approved DIP budget, or for any purpose that could materially or adversely modify or compromise the rights of any party to the DIP or which would result in the occurrence of an event of default. In addition to certain customary obligations, the DIP required us to provide certain reports including periodic budget reports, periodic cash sources and uses of funds reports, periodic cash flow forecasts and borrowing base and collateral reports.

On May 25, 2012, ResCap, GMAC Mortgage and RFC along with certain other guarantor affiliates, completed an amendment to the LOC to provide up to \$220.0 million of post-petition debtor-in-possession financing (Ally DIP), provided that the aggregate amount of the pre- and post-petition draws under the LOC and Ally DIP (plus any unpaid interest, expenses or other costs payable thereunder) may not exceed \$600.0 million, and provided further, any borrowings in excess of \$200.0 million shall be made at Ally Inc.'s sole discretion. The Debtors could use \$150.0 million of the proceeds from the Ally DIP solely for the post-petition purpose of repurchasing FHA and VA loans from GNMA securitizations in connection with delinquency triggers applicable to GMAC Mortgage under Chapter 18 of the Ginnie Mae Guide, to effect foreclosures, conveyances or other normal course loss mitigation activities and to allow for trial loan modifications under programs implemented by the Debtors. The Debtors could use \$50.0 million of the proceeds from the Ally DIP subject to the limitations noted above for general corporate purposes. The Ally DIP was repaid on February 5, 2013.

Cash Collateral Requirements

In connection with our Chapter 11 Cases, we are required to manage cash in accordance with various orders of the Bankruptcy Court. As such, certain cash received by the Debtors must now be segregated and held as cash collateral in bank accounts (islands) specific to certain secured creditors. The segregation of cash receipts among the islands is determined by the origin of the cash receipt, i.e., cash is allocated to islands based upon the facility to which the related asset is pledged. Cash collateral for each island can be used only in accordance with the terms of the cash collateral orders with each of our respective secured creditors. The Debtors may also use additional unencumbered cash (including any proceeds of certain unencumbered assets) to fund their operations. Ongoing expenses incurred by the Debtors not specifically allocated to a particular island are funded pro-rata with cash from the islands based on each island's respective asset collateral base.

Pursuant to the terms of the Bankruptcy Court order authorizing the Debtors to use the cash collateral of Ally Inc. and the holders of the Junior Secured Notes ("the Junior Secured Noteholders"), the Debtors' ability to continue using cash collateral was set to expire upon the closing of the Section 363 Asset Sales. The parties entered into several stipulations consensually extending the Debtors' use thereof, however, in April 2013, Ally Inc. and the Junior Secured Noteholders determined not to allow the Debtors to continue using cash collateral beyond April 18, 2013. As a result, on April 8, 2013, the Debtors filed a motion requesting authority to continue using cash collateral without the consent of Ally Inc. and the Junior Secured Noteholders. The motion currently is scheduled to be heard by the Bankruptcy Court on April 30, 2013. Following the Debtors' filing of the motion, Ally Inc. and the Junior Secured Noteholders agreed to allow the Debtors to continue using cash collateral to April 30, 2013 so that the motion can be heard at the April 30, 2013 hearing.

Section 363 Asset Sales

As part of our Chapter 11 Cases the Debtors filed a motion with the Bankruptcy Court, for, among other things, authority to sell substantially all of their assets pursuant to Section 363 of the Bankruptcy Code, to establish bidding procedures to permit higher and better bids, setting a date for an auction should such bids be received, and setting a hearing date for the approval of the sale of the assets to the winning bidder(s).

On May 13, 2012, as amended and restated on June 28, 2012, ResCap, together with certain of its subsidiaries, entered into an Asset Purchase Agreement with Nationstar Mortgage LLC (Nationstar) (the Platform Stalking Horse Bid). The assets being sold in the Platform Stalking Horse Bid consisted of the Debtors' mortgage origination and servicing business and certain other mortgage-related assets (the Platform Assets); Nationstar was also assuming certain specified liabilities.

On June 28, 2012, ResCap, together with certain of its subsidiaries, entered into an Asset Purchase Agreement with Berkshire Hathaway Inc. (Berkshire) (the Legacy Portfolio Stalking Horse Bid). The assets being sold in the Legacy Portfolio Stalking Horse Bid consist of mortgage loans held-for-sale and other retained financial assets.

The Platform Stalking Horse Bid, in addition to the business platforms and other assets, contemplated the assumption and assignment of certain of the Debtors' contracts. The Asset Purchase Agreement(s) provided the purchaser(s) the option to exclude any contract(s) from the list of assumed contracts no later than two days prior to the closing date(s). Bankruptcy Code Section 365 requires the Debtors to cure, or provide adequate assurance that it will promptly cure any amounts due under such contract(s) at the time of assumption. On July 26, 2012, the Debtors provided notice of the intent to assume and assign certain contracts and the cure amounts related thereto. The deadline for objecting to any cure amounts was September 28, 2012. The deadline for objecting to the assumption by the Debtors and assignment to the purchaser(s) was November 19, 2012.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

On October 24, 2012, the Debtors completed the auction for the Platform Assets. The highest and best bidder was determined to be Ocwen Loan Servicing, LLC (Ocwen), subject to the finalization of an asset purchase agreement (the Ocwen Asset Purchase Agreement) and confirmation of the bidders' financing ability. The terms of the Ocwen Asset Purchase Agreement included an assignment provision whereby Ocwen assigned the Ocwen Asset Purchase Agreement and any and all rights or obligations thereunder to Walter Investment Management Corporation (Walter), or its affiliates, solely with respect to purchased mortgage servicing rights and related assets in respect of Fannie Mae loans and certain assets related to the origination of Fannie Mae loans. Upon termination of the Platform Stalking Horse Bid, we were obligated to pay a break-up fee of \$24.0 million to Nationstar. The break-up fee was recorded to Reorganization Items on our Consolidated Statement of Comprehensive Income.

On October 25, 2012, the Debtors completed the auction for the Legacy Portfolio Assets. The highest and best bidder was determined to be Berkshire.

On November 20, 2012, the Bankruptcy Court entered an order approving Ocwen and Berkshire as the purchasers of the Debtors' Platform and Legacy Portfolio Assets. The Debtors closed the Walter transaction on January 31, 2013 and received \$492.0 million in net sales proceeds; the Berkshire transaction on February 5, 2013 and received \$1,410.0 million in net sales proceeds; and the Ocwen transaction on February 15, 2013 and received \$2,097.8 million in net sales proceeds.

Following a hearing on August 29, 2012, the Bankruptcy Court approved the de minimis asset sale motion, which set forth procedures for the sale of assets under \$15.0 million. Additional asset sales or other dispositions of assets will be made by the Debtors from time to time with the goal of maximizing return. Any sales in excess of \$15.0 million will require approval by the Bankruptcy Court.

Executory Contracts

Under Section 365 of the Bankruptcy Code, the Debtors may assume, assume and assign or reject certain executory contracts and unexpired leases, subject to approval of the Bankruptcy Court. In general, rejection of an executory contract or unexpired lease is treated as a pre-petition breach and, subject to certain exceptions, relieves the Debtors from performing their future obligations. To the extent the Debtors reject an executory contract or unexpired lease, the contract counterparty or lessor is entitled to a pre-petition general unsecured claim for damages caused by such a breach. Generally, the assumption and assignment of an executory contract or unexpired lease requires the Debtors to cure, or satisfy, all pre-petition obligations under such contracts or leases.

On July 26, 2012, the Debtors filed a notice of intent to assume and assign certain executory contracts, unexpired leases of personal property and unexpired leases of nonresidential real property and cure amounts related thereto. The Debtors expect certain of their contracts and unexpired leases (Assumed Contracts) to be assumed and assigned as part of the Section 363 Asset Sales. The deadline for counterparties objecting to the approval of any cure amounts so provided in the notice was September 28, 2012. The deadline for counterparties to object to the assumption by the Debtors and assignment of an Assumed Contract was November 19, 2012.

The Debtors received 39 objections from counterparties with respect to cure amounts and/or assumption and assignment of the Assumed Contracts. Anticipated cure amounts were accrued as of December 31, 2012. See Note 13 - Other Liabilities for additional information. Any cure amounts in excess of amounts previously recorded were recorded as executory contract cure costs on the Consolidated Statement of Comprehensive Income. In January and February 2013, the Debtors paid \$313.1 million in connection with assumed contracts including payments to Fannie Mae and Freddie Mac of \$265.0 million and \$39.4 million, respectively. See Note 23 - Commitments, Contingencies and Other Risks for additional information. Additional cure amounts could arise if additional contracts are assumed and assigned in the future.

The Debtors are authorized by the Bankruptcy Court to settle cure claims less than \$1.0 million without Bankruptcy Court approval. Cure claim settlement amounts in excess of \$1.0 million must be approved by the Bankruptcy Court.

Reorganization Plan and Related Settlements

On December 26, 2012, the Bankruptcy Court approved the Debtors' motion requesting the appointment of a mediator to assist the parties in resolving certain issues related to the formulation and confirmation of a Plan. There can be no assurance that the mediation process will continue or will ultimately lead to a successful agreement among the parties.

On February 28, 2013, the Bankruptcy Court approved the Debtors' motion to extend the exclusive periods to file a reorganization plan (Exclusive Plan Period) with the Bankruptcy Court and solicit acceptance of such plan (Solicitation Period) to May 29, 2013 and July 29, 2013, respectively.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

On February 28, 2013, the Bankruptcy Court approved the Debtors' motion to appoint a Chief Restructuring Officer to assist in the completion of the reorganization plan.

In connection with the motions approved by the Bankruptcy Court on February 28, 2013, the Debtors consented to the UCC seeking standing in the Bankruptcy Court to prosecute and/or settle the Debtors' alleged claims against Ally Inc. and agreed to settle claims against Ally Inc. only with UCC consent.

In connection with the filings in May 2012, Ally Inc. and its direct and indirect subsidiaries and affiliates had reached an agreement with the Debtors and certain creditor constituencies on a prearranged Chapter 11 plan. The Plan included the proposed Ally Group Settlement Agreement, which included, among other things, an obligation of Ally Inc. to make a \$750 million cash contribution to the Debtors' estate and a release of all existing or potential causes of action between Ally Inc. and the Debtors, as well as a release of all existing or potential ResCap related causes of action against Ally Inc. held by third parties. As a result of the termination of the Ally Group Settlement Agreement on February 28, 2013, Ally Inc. is no longer obligated to make the \$750 million cash contribution and neither party is bound by the Ally Settlement Agreement. Further, Ally Inc. is not entitled to receive any releases from either the Debtors or any third party claimants, as was contemplated under the Plan and Ally Group Settlement Agreement.

As of the Petition Date, two groups of institutional investors in residential mortgage-backed securities (RMBS Investors) issued by us and our affiliates and holding at least 25 percent of at least one class in each of 290 securitizations agreed to settle alleged representation and warranty claims against the Debtors' estates in exchange for a total \$8.7 billion allowed claim in the Debtors' bankruptcy cases, subject to the applicable securitization trustees' acceptance of the terms of the settlement (collectively, the RMBS Settlement). The RMBS Investors also signed separate plan support agreements (PSAs) with the Debtors and Ally Inc. in support of the Plan at the time they entered into the RMBS Settlement. To date, RMBS Investors holding at least 25 percent of at least one class in each of 334 securitizations have agreed to the RMBS Settlement. These 334 securitizations have an aggregate original principal balance of approximately \$189 billion (out of a total of 392 outstanding securitizations sponsored between 2004 and 2007, which have an aggregate original principal balance of \$221.0 billion). The RMBS Settlement is subject to Bankruptcy Court approval, and the Bankruptcy Court has scheduled a hearing to consider such approval in late May 2013. The PSAs are not part of this scheduled Bankruptcy Court hearing. A number of creditors have raised objections to the RMBS Settlement, the trustees representing the securitization trusts and Ally Inc. have filed statements in support of the Debtors' motion to approve the RMBS Settlement. Separately, the Debtors have failed to meet several Plan milestones in their bankruptcy cases, each of which has given the RMBS Investors the right to terminate the PSAs upon three business days' advance written notice to the Debtors and Ally Inc. The RMBS Investors have not given the Debtors and Ally Inc. such a notice to date, but have the right to do so at any time. If the RMBS Settlement is not approved or if the RMBS Investors decide not to support any proposed Plan, it could significantly impact the likelihood of a smooth plan confirmation process.

In connection with our Chapter 11 Cases, the Debtors will continue to negotiate settlement agreements where appropriate, all of which will be subject to the approval of the Bankruptcy Court. There can be no assurances that any Plan or proposed settlement will be approved by the Bankruptcy Court.

Pre-Petition Claims

On June 30, 2012, the Debtors filed statements and schedules with the Bankruptcy Court setting forth the assets and liabilities of each of the Debtors as of the Petition Date. All of these schedules are subject to amendment or modification.

Following a hearing on August 29, 2012, the Bankruptcy Court approved the motion to set the Bar Date, which required general claimants to submit claims no later than the close of business on November 9, 2012 (subsequently extended to November 16, 2012) and governmental entities to submit claims no later than the close of business on November 30, 2012. Subject to certain exceptions, the Bar Dates apply to all claims against the Debtors that arose prior to the Petition Date. Approximately 6,400 proofs of claim totaling \$97.3 billion have been filed against the Debtors. RMBS Trustees were given until March 1, 2013, to file claims and the Debtors continue to receive amended claims. Approximately 400 additional claims totaling approximately \$2.0 billion were filed. Claims by creditors will be investigated and resolved in connection with a claims resolution process, which could include the Debtors filing objections to claims that are deemed to be unsubstantiated, filed after the Bar Date, resolved through the Debtors' sales transactions, and/or duplicative of other claims filed in connection with the Debtors' Chapter 11 Cases. This process is expected to take a considerable amount of time to complete. As a result, the number and amount of allowed claims is not known nor can the ultimate recovery with respect to allowed claims be estimated at this time. As claims are resolved, the Debtors will make adjustments to their recorded liabilities as appropriate. Any such adjustments could be material to our consolidated financial position and results of operations.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

3. Combined Debtor-in-Possession Financial Information

Following are the Consolidating Balance Sheet as of December 31, 2012 and the Consolidating Statements of Comprehensive Income and Cash Flows for the period May 14, 2012 (the Petition Date) through December 31, 2012. These Consolidating Financial Statements are presented on the same basis as the accompanying Consolidated Financial Statements. Non-debtor entities include certain special purpose entities consolidated on our Consolidated Financial Statements in accordance with GAAP, our international subsidiaries and our captive reinsurance subsidiary. See Note 7 - Securitizations and Variable Interest Entities for additional information.

December 31, 2012 (\$ in thousands)	Consolidating Balance Sheet			
	Debtors	Non-Debtors	Eliminations and reclassifications	Consolidated
Assets				
Cash and cash equivalents	\$1,582,168	\$48,045	\$—	\$1,630,213
Mortgage loans held-for-sale	344,104	16	—	344,120
Finance receivables and loans, net				
Consumer	469,923	124,871	—	594,794
Commercial	—	134	—	134
Allowance for loan losses	—	(7,453)	—	(7,453)
Total finance receivables and loans, net	469,923	117,552	—	587,475
Accounts receivable, net	1,017,203	4,051	(1,154)	1,020,100
Other assets	326,276 (a)	141,972	(196,730)	271,518
Assets of held-for-sale operations (c)	6,858,670	—	—	6,858,670
Total assets	\$10,598,344	\$311,636	(\$197,884)	\$10,712,096
Liabilities				
Liabilities not subject to compromise				
Borrowings				
Debtor-in-possession credit facilities	\$1,449,354 (b)	\$—	\$—	\$1,449,354
Borrowings from Affiliates	1,133,074	2,931	(2,877)	1,133,128
Collateralized borrowings in securitization trusts	447,723	—	—	447,723
Other borrowings	177,698	104,534	—	282,232
Total borrowings	3,207,849	107,465	(2,877)	3,312,437
Other liabilities	681,123 (c)	75,244	(29,305)	727,062
Liabilities of held-for-sale operations (c)	2,780,426	—	—	2,780,426
Total liabilities not subject to compromise	6,669,398	182,709	(32,182)	6,819,925
Liabilities subject to compromise	4,251,990 (d)	—	(36,775)	4,215,215
Total liabilities	10,921,388	182,709	(68,957)	11,035,140
Equity				
Member's interest	11,755,962	3,876,858	(3,876,858)	11,755,962
Accumulated other comprehensive income (loss)	(12,038,036)	(3,746,526)	3,746,526	(12,038,036)
Accumulated other comprehensive income (loss)	(40,970)	(1,405)	1,405	(40,970)
Total equity	(323,044)	128,927	(128,927)	(323,044)
Total liabilities and equity	\$10,598,344	\$311,636	(\$197,884)	\$10,712,096

a) Includes \$18.7 million of receivables from non-debtors.

b) Includes \$189.4 million Ally Inc. Line of Credit debtor-in-possession credit facility.

c) Includes \$9.8 million of liabilities to non-debtors.

d) Includes \$36.8 million of liabilities to non-debtors.

e) See Note 4 - Discontinued Operations and Assets and Liabilities of Held-for-Sale for additional information.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Consolidating Statement of Comprehensive Income For the period May 14, 2012 through December 31, 2012

(\$ in thousands)	Debtors	Non-Debtors	Eliminations and reclassifications	Consolidated
Revenue				
Interest income	\$173,625	\$5,323	(\$245)	\$178,703
Interest expense	131,471	3,095	(245)	134,321
Net financing revenue	42,154	2,228	—	44,382
Other revenue				
Servicing fees	452,625	(178)	—	452,447
Servicing asset valuation and hedge activities, net	(323,932)	—	—	(323,932)
Total servicing income, net	128,693	(178)	—	128,515
Gain on mortgage loans, net	96,409	(1,190)	—	95,219
Gain on foreclosed real estate	4,503	—	—	4,503
Other revenue, net	143,277	8,805	(1,498)	150,584
Total other revenue	372,882	7,437	(1,498)	378,821
Total net revenue	415,036	9,665	(1,498)	423,203
Provision for loan losses	(474)	(709)	—	(1,183)
Noninterest expense				
Compensation and benefits	318,518	—	—	318,518
Professional fees	36,058	28	—	36,086
Data processing and telecommunications	88,904	717	—	89,621
Occupancy	10,698	3	—	10,701
Executory contract cure costs	231,452	—	—	231,452
Representation and warranty expense, net	30,988	—	—	30,988
Mortgage fines and penalties	(3,278)	—	—	(3,278)
Other noninterest expense, net	218,076	9,883	(1,744)	226,215
Total noninterest expense	931,416	10,631	(1,744)	940,303
Income (loss) from continuing operations before reorganization items and income taxes	(515,906)	(257)	246	(515,917)
Reorganization items	285,068	—	—	285,068
Income (loss) from continuing operations before income taxes	(800,974)	(257)	246	(800,985)
Income tax (benefit) expense	(11,087)	(138)	—	(11,225)
Net income (loss) from continuing operations	(789,887)	(119)	246	(789,760)
Loss from discontinued operations, net of tax	—	(127)	—	(127)
Net income (loss)	(789,887)	(246)	246	(789,887)
Other comprehensive income (loss), net of tax	24,576	(294)	294	24,576
Comprehensive income (loss)	(\$765,311)	(\$540)	\$540	(\$765,311)

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Consolidated Statement of Cash Flows				
For the period May 14, 2012 through December 31, 2012				
<i>(\$ in thousands)</i>	Debtors	Non-Debtors	Eliminations	Consolidated
Operating activities				
Net income (loss)	(\$789,887)	(\$246)	\$246	(\$789,887)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	7,291	805	—	8,096
Provision for loan losses	(474)	(816)	—	(1,290)
Gain on mortgage loans net	(96,409)	1,190	—	(95,219)
Reorganization items	81,579	—	—	81,579
Originations and purchases of mortgage loans held-for-sale	(2,294,938)	(30)	—	(2,294,968)
Proceeds from sales and repayments of mortgage loans held-for-sale	2,049,747	—	—	2,049,747
Net gain on other assets	(3,247)	(207)	—	(3,454)
Change in fair value of mortgage servicing rights	324,117	—	—	324,117
Net change in				
Accounts receivable	2,251,680	5,701	281	2,257,662
Other assets	(2,854,181)	(9,485)	54,529	(2,809,137)
Other liabilities	1,099,245	430,712	(58,018)	1,471,939
Net cash provided (used in) by operating activities	(225,477)	427,624	(2,962)	199,185
Investing activities				
Net decrease in consumer mortgage finance receivables and loans	236,979	24,287	—	261,266
Net decrease in commercial finance receivables and loans	386	3,694	—	4,080
Proceeds from sales of foreclosed and owned real estate	27,830	—	—	27,830
Net decrease in restricted cash	9,210	231,837	—	241,047
Other, net	41,994	49	—	42,043
Net cash provided by investing activities	316,399	259,867	—	576,266
Financing activities				
Net decrease in borrowings from Affiliates	(252,716)	48	2,668	(250,000)
Repayments of collateralized borrowings in securitization trusts	(194,236)	—	—	(194,236)
Proceeds from debtor-in-possession credit facilities	1,449,354	—	—	1,449,354
Proceeds from other borrowings	140,769	3,257	—	144,026
Repayments of other borrowings	(150,358)	(688,772)	—	(839,130)
Net cash provided by (used in) financing activities	992,813	(685,467)	2,668	310,014
Effect of changes in foreign exchange rates on cash and cash equivalents	4,109	590	294	4,993
Net increase in cash and cash equivalents	1,087,844	2,614	—	1,090,458
Cash and cash equivalents at May 13, 2012	494,324	45,431	—	539,755
Cash and cash equivalents at December 31, 2012	\$1,582,168	\$48,045	\$—	\$1,630,213

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

4. Discontinued Operations and Assets and Liabilities Held-for-Sale

On May 11, 2012, RFC and its wholly owned subsidiary GMAC RFC Auntec, S.A. sold all of the outstanding ordinary Class I and Class II shares of GMAC Financiera, S.A. de C.V. SOFOM, ENR (GMAC Financiera) to a third party for \$100 and a full irrevocable and unconditional release and termination of guarantees by ResCap and certain of its subsidiaries related to \$124.3 million medium-term notes issued by GMAC Financiera. We recognized a gain of \$19.7 million upon completion of the sale. The gain is recorded in net income (loss) from discontinued operations on our Consolidated Statement of Comprehensive Income.

On October 1, 2010, we completed the sale of our United Kingdom (U.K.) and continental Europe (CE) platforms (collectively IBG). These platforms included residential mortgage loan origination, acquisition, servicing, asset management, sale, and securitizations in the United Kingdom and continental Europe (the Netherlands and Germany).

The associated operations and cash flows have been eliminated from our operations, and we do not have any continuing involvement in GMAC Financiera or IBG. For all periods presented, the operating results were removed from continuing operations and are presented separately as discontinued operations, net of tax. The Notes to our Consolidated Financial Statements were adjusted to exclude discontinued operations.

Selected financial information for these discontinued operations are summarized below:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Total net revenue	\$17,350	(\$54,211)	\$56,859
Provision for loan losses	(107)	27,993	28,870
Noninterest expense	633	4,460	(5,286)
Income (loss) before income taxes including direct costs to transact a sale	16,824	(86,664)	33,275
Income tax (benefit) expense	136	(580)	(3,155)
Net income (loss) from discontinued operations	\$16,688	(\$86,084)	\$36,430

Section 363 Asset Sales

On November 20, 2012, the Bankruptcy Court entered an order approving Ocwen, Walter and Berkshire as the purchasers of the Debtors Platform and Legacy Portfolio Assets. The Debtors closed the Walter transaction on January 31, 2013, the Berkshire transaction on February 5, 2013, and the Ocwen transaction on February 15, 2013. The Platform Assets and the Legacy Portfolio Assets are collectively considered to be a disposal group. The associated assets and liabilities were reclassified to held-for-sale operations at December 31, 2012.

Section 363 asset sales did not meet the criteria for discontinued operations. We will retain a portfolio of assets that were historically originated through the platforms being sold.

We also reclassified a portion of our on-balance sheet securitizations to assets and liabilities of held-for-sale operations. Upon completion of the sales, we will no longer hold any variable or controlling interests in the securitization entities at which point the securitization trusts will be deconsolidated.

We did not recognize any impairment in connection with the classification of these held-for-sale operations as the fair value less transaction costs exceeds the carrying value. The fair value less cost to sell was determined based on the executed purchase agreements as amended.

In light of the significance of the disposal group to our overall financial condition and business operations, we have voluntarily included expanded disclosures with respect to the assets and liabilities of held-for-sale operations. To the extent applicable, disclosures related to assets and liabilities of held-for-sale operations are included in the Notes to the Consolidated Financial Statements and are separately presented from continuing operations in tables and/or the notes thereto.

In accordance with the terms of the Platform Asset sales, upon closing, 1% of the purchase price with respect to each transaction (Indemnity Escrow Amount) was deposited into escrow accounts as a source of payment for potential indemnification by the Debtors against any losses incurred by Ocwen or Walter arising from a breach of "Core Representations" (as identified in the Asset Purchase Agreement), which include, among other representations with respect to our financial statements: absence of certain changes or events; title to assets; purchased assets used in the business; the mortgage servicing portfolio; servicing agreements; material contracts; Ginnie Mac loans; and certain matters related to real property leases, litigation and intellectual property. The maximum

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

indemnification obligation of the Debtors cannot exceed the Indemnity Escrow Amount. The indemnification obligations terminate on the earlier of one year from the respective transaction closing date and the entry of a final order closing the Debtors' Chapter 11 Cases, except in the case of an outstanding claim against the escrow account, in which case the termination date for that account shall be the date upon which all such claims are resolved. On January 31, 2013, a \$4.9 million Indemnity Escrow Amount was deposited in connection with the Walter transaction. On February 15, 2013, a \$20.9 million Indemnity Escrow Amount was deposited in connection with the Ocwen transaction. On the termination date, any remaining Indemnity Escrow Amounts will be paid to the Debtors.

The assets and liabilities of our held-for-sale operations are summarized below:

<i>(\$ in thousands)</i>	December 31, 2012
Assets	
Mortgage loans held-for-sale (\$30,709 fair value elected)	\$ 3,886,793 (a)
Finance receivables and loans, net (\$60,977 fair value elected)	60,977
Mortgage servicing rights	809,006
Accounts receivable, net	2,028,372
Other assets	73,522
Total assets	\$6,858,670
Liabilities	
Collateralized borrowings in securitization trusts (\$53,039 fair value elected)	553,039
Other liabilities (\$28,649 fair value elected)	2,727,387 (a)
Total liabilities	\$2,780,426

(a) Includes mortgage loans subject to conditional repurchase options of \$2.5 billion sold to Ginnie Mae guaranteed securitizations and \$84.7 million sold to off-balance sheet private-label securitization trusts at December 31, 2012.

Recurring Fair Value

The following table presents the assets and liabilities of our held-for-sale operations measured at fair value on a recurring basis. Refer to Note 20 — Fair Value, for descriptions of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to these models, and significant assumptions used.

December 31, 2012	(\$ in thousands)	Recurring fair value measurements			
		Level 1	Level 2	Level 3	Total
Assets					
Mortgage loans held-for-sale (a)		\$—	\$1,504	\$29,205	\$30,709
Consumer mortgage finance receivables and loans, net (a)		—	—	60,977	60,977
Mortgage servicing rights		—	—	809,006	809,006
Other assets					
Trading securities					
Mortgage- and asset- backed residential		—	351	25,750	26,101
Total assets		\$—	\$1,855	\$924,938	\$926,793
Liabilities					
Collateralized borrowings					
On-balance sheet securitization debt (a)		\$—	\$—	(\$53,039)	(\$53,039)
Other liabilities					
Liability for option to repurchase assets (a)		—	—	(28,649)	(\$28,649)
Total liabilities		\$—	\$—	(\$81,688)	(\$81,688)

(a) Carried at fair value due to fair value option elections.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table presents quantitative information regarding the significant unobservable inputs used in valuing material Level 3 assets and liabilities from our held-for-sale operations measured at fair value on a recurring basis

December 31, 2012 (\$ in thousands)	Level 3 recurring measurements	Valuation technique	Unobservable input	Range
Assets				
Consumer mortgage finance receivables and loans net (b)	\$60,977	Discounted cash flow	Prepayment rate	3.2% - 18.4%
			Default rate	1.2% - 12.8%
			Loss severity	40.0% - 100.0%
Mortgage servicing rights	809,006	(a)	(a)	(a)
Liabilities				
Collateralized borrowings				
On-balance sheet securitization debt	(\$53,039)	(b)	(b)	(b)

(a) See Note 8 – Servicing Activities and Note 1 - Description of Business, Basis of Presentation and Changes in Significant Accounting Policies for information related to the significant unobservable inputs and valuation techniques used in the mortgage servicing rights fair value measurement

(b) A portfolio approach links the value of the consumer mortgage finance receivables and loans, net to the on-balance sheet securitization debt, therefore the valuation technique, unobservable inputs, and related range for the debt is the same as the loans. Increases in prepayments which would primarily be driven by any combination of lower projected mortgage rates and higher projected home values, would result in higher fair value measurement. These drivers of higher prepayments (increased ability to refinance due to lower rates and higher property values) have an opposite impact on the default rate creating an inverse relationship between prepayments and default frequency on the fair value measurements. Generally factors that contribute to higher default frequency also contribute to higher loss severity.

The following table presents the reconciliation for all Level 3 assets and liabilities of our held-for-sale operations measured at fair value on a recurring basis. The table does not fully reflect the impact of our risk management activities. We reclassified the assets and liabilities of our held-for-sale operations during the fourth quarter 2012. Thus the beginning balance for the below table represents September 30, 2012 ending balances.

	Level 3 recurring fair value measurements							
	September 30, 2012 Level 3 fair value	Net gains/(losses) included in earnings		Purchases	Sales	Issuances	Settlements	December 31, 2012 Level 3 fair value
(\$ in thousands)		realized gains (losses)	unrealized gains (losses)					
Assets								
Mortgage loans held-for-sale	\$31,395	(\$287)	(\$587)	\$6,589	\$—	\$—	(\$7,905)	\$29,205
Consumer mortgage finance receivables and loans net	64,278	12,121 (a)	(795) (a)	—	—	—	(14,627)	60,977
Mortgage servicing rights	849,544	—	(40,915) (b)	—	—	377	—	809,006
Other assets								
Trading securities								
Mortgage- and asset-backed residential securities	27,363	(80) (c)	1,824 (c)				(3,357)	25,750
Total assets	\$972,580	\$11,754	(\$40,473)	\$6,589	\$—	\$377	(\$25,889)	\$924,938
Liabilities								
Collateralized borrowings								
On-balance sheet securitization debt	(\$56,270) (a)	(\$1,102) (a)	(\$8,576) (a)	\$—	\$—	\$—	\$12,909	(\$53,039)
Other liabilities								
Liability for option to repurchase assets	(30,239)	287	587	(6,589)	—	—	7,305	(28,649)
Total liabilities	(\$86,509)	(\$815)	(\$7,989)	(\$6,589)	\$—	\$—	\$20,214	(\$81,688)

(a) Fair value adjustment reported in other revenue net and related interest on loans and debt are reported in interest income and interest expense respectively

(b) Fair value adjustment reported in servicing asset valuation and hedge activities net

(c) Fair value adjustment reported in other revenue net. Interest accretion on these assets is reported in interest income

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

Nonrecurring Fair Value

We may be required to measure certain assets or liabilities at fair value from time-to-time. These periodic fair value measures typically result from application of lower of cost or fair value or certain impairment measures. These items would constitute nonrecurring fair value measures. The table below presents those assets and liabilities of our held-for-sale operations which we measured at fair value on a nonrecurring basis.

December 31, 2012 (\$ in thousands)	Nonrecurring fair value measures			Total estimated fair value	Lower of cost or fair value or valuation allowance
	Level 1	Level 2	Level 3		
Mortgage loans held-for-sale	\$—	\$—	\$140,305	\$140,305	(\$39,032)
Foreclosed assets	\$—	\$—	\$—	\$—	\$—
Total	\$—	\$—	\$140,305	\$140,305	(\$39,032)

The following table presents quantitative information regarding the significant unobservable inputs used in valuing significant Level 3 assets from our held-for-sale operations measured at fair value on a nonrecurring basis.

December 31, 2012 (\$ in thousands)	Level 3 nonrecurring measurements	Valuation technique	Unobservable input	Range (weighted average)
Assets				
Mortgage loans held-for-sale	\$140,305	Discounted cash flow	Prepayment speeds	8.7% - 12.7%
			Default rate	5.4% - 16.1%
			Loss severity	50.5% - 98.5%
			Discount Rate	14.55%

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

5. Mortgage Loans Held-for-Sale

The composition of residential mortgage loans held-for-sale reported at carrying value, were as follows

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
1st Mortgage			
Domestic (a)	\$331,121	\$3,309,735 (b)	\$3,497,392 (b)
Foreign	5,877	—	12,011
Total 1st Mortgage	336,998	3,309,735	3,509,403
Home equity			
Domestic	7,106	577,058	740,222
Foreign	16	—	—
Total Home Equity	7,122	577,058	740,222
Total (c)	\$344,120	\$3,886,793	\$4,249,625

- (a) Includes mortgage loans for which we have elected the fair value option of \$13.2 million and \$30.7 million at December 31, 2012 and \$57.0 million at December 31, 2011. See Note 20 — Fair Value for additional information.
- (b) Includes mortgage loans subject to conditional repurchase options of \$2.5 billion and \$2.3 billion sold to Ginnie Mae guaranteed securitizations and \$84.7 million and \$105.8 million sold to off-balance sheet private-label securitization trusts at December 31, 2012 and December 31, 2011, respectively. The corresponding liability is recorded in liabilities of held-for-sale operations and other liabilities, respectively. See Note 7 — Securitizations and Variable Interest Entities for additional information.
- (c) The carrying values are net of discounts of \$24.0 million, \$268.6 million and \$313.1 million, fair value adjustments of \$0.3 million, \$(30.2) million and \$(28.0) million, lower of cost or fair value adjustments of \$12.5 million, \$39.0 million and \$60.2 million, and unpaid principal balance (UPB) write-downs of \$0.9 million, \$1.2 billion and \$1.5 billion at December 31, 2012 and December 31, 2011, respectively.

6. Finance Receivables and Loans, Net

The composition of finance receivables and loans, net reported at carrying value before allowance for loan losses, were as follows

December 31, (\$ in thousands)	2012		2011
	Continuing Operations	Held-for-sale operations	
Consumer			
1st Mortgage			
Domestic	\$125,707	\$10,646	\$130,024
Foreign	—	—	256,494
Home equity - Domestic	469,087	50,331	636,212
Total consumer (a) (b)	594,794	60,977	1,022,730
Commercial			
Commercial and industrial - foreign	—	—	23,860
Commercial real estate - foreign	134	—	14,157
Total commercial	134	—	38,017
Total finance receivables and loans	\$594,928	\$60,977	\$1,060,747

- (a) Consumer mortgages include \$469.9 million, \$61.0 million and \$835.2 million at fair value as a result of fair value option elections. See Note 20 — Fair Value for additional information.
- (b) The gross carrying value is net of fair value adjustments of \$1.0 billion, \$117.5 million and \$1.6 billion and UPB write-downs of \$0.0 million, \$0.0 million and \$8.0 million, respectively.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table presents the activity in the allowance for loan losses on finance receivables and loans, net

Year ended December 31, (\$ in thousands)	2012			2011		
	Consumer	Commercial	Total	Consumer	Commercial	Total
Allowance at January 1	\$13,638	\$14,978	\$28,616	\$17,681	\$25,129	\$42,810
Provision for loan losses						
From continuing operations	1,655	(2,948)	(1,293)	(5,143)	1,171	(3,972)
From discontinued operations	—	(107)	(107)	5,823	22,170	27,993
Charge-offs						
Domestic	(4,238)	—	(4,238)	(6,453)	—	(6,453)
Foreign	(660)	(61)	(721)	(3,410)	(42,018)	(45,428)
Total charge-offs	(4,898)	(61)	(4,959)	(9,863)	(42,018)	(51,881)
Recoveries						
Domestic	100	679	779	5,140	1,716	6,856
Foreign	55	2,853	2,908	—	6,810	6,810
Total recoveries	155	3,532	3,687	5,140	8,526	13,666
Net charge-offs	(4,743)	3,471	(1,272)	(4,723)	(33,492)	(38,215)
Sale of business unit	(3,097)	(15,394)	(18,491)	—	—	—
Allowance at December 31	\$7,453	\$—	\$7,453	\$13,638	\$14,978	\$28,616
Allowance for loan losses						
Individually evaluated for impairment	\$2,538	\$—	\$2,538	\$3,035	\$14,978	\$18,013
Collectively evaluated for impairment	4,915	—	4,915	10,603	—	10,603
Finance receivables and loans						
Individually evaluated for impairment	\$7,299	\$134	\$7,433	\$8,055	\$38,017	\$46,072
Collectively evaluated for impairment	117,572	—	117,572	179,483	—	179,483

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

The following table presents our past due finance receivables and loans including finance receivables and loans classified as assets of our held-for-sale operations at gross carrying value

December 31,	(\$ in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total
2012							
Consumer mortgage							
Continuing operations							
1st Mortgage		\$12,559	\$5,353	\$41,708	\$59,620	\$66,088	\$125,708
Home equity		8,447	4,240	7,146	19,833	449,253	469,086
Total consumer continuing operations		21,006	9,593	48,854	79,453	515,341	594,794
Held-for-sale operations							
1st Mortgage		1,065	192	2,354	3,611	7,035	10,646
Home equity		1,263	566	2,301	4,130	46,201	50,331
Total consumer held-for-sale operations		2,328	758	4,655	7,741	53,236	60,977
Commercial							
Commercial and industrial		—	—	—	—	—	—
Commercial real estate		—	—	134	134	—	134
Total commercial continuing operations		—	—	134	134	—	134
Total		\$23,334	\$10,351	\$53,643	\$87,328	\$568,577	\$655,905
2011							
Consumer mortgage							
1st Mortgage		\$29,730	\$14,664	\$158,255	\$202,649	\$183,869	\$386,518
Home equity		13,064	6,488	11,850	31,402	604,810	636,212
Total consumer		42,794	21,152	170,105	234,051	788,679	1,022,730
Commercial							
Commercial and industrial		—	—	322	322	23,538	23,860
Commercial real estate		—	1,736	12,212	13,948	209	14,157
Total commercial		—	1,736	12,534	14,270	23,747	38,017
Total		\$42,794	\$22,888	\$182,639	\$248,321	\$812,426	\$1,060,747

The following table presents the gross carrying value of our finance receivables and loans in nonaccrual status

December 31, (\$ in thousands)	2012	2011
Consumer mortgage		
Continuing operations		
1st Mortgage	\$55,968	\$199,702
Home equity	24,828	36,651
Total consumer continuing operations	80,796	236,353
Held-for-sale operations		
1st Mortgage	2,825	—
Home equity	4,670	—
Total consumer held-for-sale operations	7,495	—
Commercial		
Commercial and industrial	—	322
Commercial real estate	134	12,212
Total commercial continuing operations	134	12,534
Total	\$88,425	\$248,887

Management performs a quarterly analysis of its consumer and commercial finance receivable and loan portfolios using a range of credit quality indicators to assess the adequacy of the allowance based on historical and current trends. Based on our allowance methodology, our credit quality indicators for consumer mortgage loans are performing and nonperforming and for commercial mortgage finance receivables and loans are pass and criticized.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

The following table presents the credit quality indicators for our consumer mortgage loan portfolio including finance receivables classified as assets of our held-for-sale operations, at gross carrying value

December 31, (\$ in thousands)	2012			2011		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Consumer mortgage						
Continuing operations						
1st Mortgage	\$69,739	\$55,968	\$125,707	\$186,816	\$199,702	\$386,518
Home equity	444,259	24,828	469,087	599,561	36,651	636,212
Total consumer continuing operations	\$513,998	\$80,796	\$594,794	\$786,377	\$236,353	\$1,022,730
Held-for-sale operations						
1st Mortgage	\$7,821	\$2,825	\$10,646	\$—	\$—	\$—
Home equity	45,661	4,670	50,331	—	—	—
Total consumer held-for-sale operations	\$53,482	\$7,495	\$60,977	—	—	—

The following table presents the credit quality indicators for our commercial finance receivable and loan portfolio at gross carrying value. There were no commercial loans classified as held-for-sale operations at December 31, 2012.

December 31, (\$ in thousands)	2012			2011		
	Pass	Criticized (a)	Total	Pass	Criticized (a)	Total
Commercial						
Commercial and industrial	\$—	\$—	\$—	\$—	\$23,860	\$23,860
Commercial real estate	—	134	134	209	13,948	14,157
Total commercial	\$—	\$134	\$134	\$209	\$37,808	\$38,017

(a) Includes loans classified as special mention, substandard, or doubtful. These classifications generally represent loans in our portfolio that are of higher default risk.

As of December 31, 2012, the five largest state concentrations based on carrying value for our U.S.-only finance receivables and loans, net were as follows:

December 31, 2012	Continuing operations	Held-for-sale operations
California	9.5%	12.7%
Ohio	6.9	4.8
Michigan	6.3	8.3
Texas	4.8	3.0
Florida	4.5	4.5
Other	68.0	66.7
Total	100.0%	100.0%

7. Securitizations and Variable Interest Entities

Overview

We are involved in several types of securitization and financing transactions that utilize special-purpose entities (SPEs). A SPE is an entity that is designed to fulfill a specified limited need of the sponsor. Our principal use of SPEs is to obtain liquidity by securitizing certain of our financial assets.

The SPEs involved in securitization and other financing transactions are generally considered VIEs. VIEs are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

Securitizations

We provided a wide range of consumer mortgage loan products to a diverse customer base. We often securitized these loans through the use of securitization entities, which may or may not be consolidated on our Consolidated Balance Sheet. We securitized conforming residential mortgage loans through GSE securitizations and we historically securitized nonconforming mortgage loans through private-label securitizations.

In executing a securitization transaction, we sell pools of financial assets to a separate, transaction-specific securitization entity for cash, servicing rights, and in some transactions, other retained interests. In the case of private-label securitizations, we sold the financial assets to a wholly owned bankruptcy remote SPE, which then transferred the financial assets to the transaction specific entity. The securitization entity is funded through the issuance of beneficial interests in the securitized financial assets. The beneficial interests take the form of either notes or trust certificates that are sold to investors and/or retained by us. These beneficial interests are collateralized by the transferred loans and entitle the investors to specified cash flows generated from the securitized loans. In the aggregate, these beneficial interests have the same average life as the transferred financial assets.

Each securitization is governed by various legal documents that limit and specify the activities of the securitization entity. The securitization entity is generally allowed to acquire the loans, to issue beneficial interests to investors to fund the acquisition of the loans, and to enter into derivatives or other yield maintenance contracts (e.g., coverage by monoline bond insurers) to hedge or mitigate certain risks related to the financial assets or beneficial interests of the entity. A servicer, who was generally us, is appointed pursuant to the underlying legal documents to service the assets the securitization entity holds and the beneficial interests it issues. Servicing functions include, but are not limited to, making certain payments of property taxes and insurance premiums, default and property maintenance payments, as well as advancing principal and interest payments before collecting them from individual borrowers. Our servicing responsibilities, which constitute continued involvement in the transferred financial assets, consist of primary servicing (i.e., servicing the underlying transferred financial assets) and/or master servicing (i.e., servicing the beneficial interests that result from the securitization transactions). Certain securitization entities also require the servicer to advance scheduled principal and interest payments due on the beneficial interests issued by the entity regardless of whether cash payments are received on the underlying transferred financial assets. Accordingly, we are required to make these servicing advances when applicable. See Note 8 — Servicing Activities for additional information regarding our servicing rights.

The GSEs provide a guarantee of the payment of principal and interest on the beneficial interests issued in securitizations. In private-label securitizations, cash flows from the assets initially transferred into the securitization entity represent the sole source for payment of distributions on the beneficial interests issued by the securitization entity and for payments to the parties that perform services for the securitization entity, such as the servicer or the trustee. In certain private-label securitization transactions, a liquidity facility may exist to provide temporary liquidity to the entity. The liquidity provider generally is reimbursed prior to other parties in subsequent distribution periods. Monoline insurance may also exist to cover certain shortfalls to certain investors in the beneficial interests issued by the securitization entity. As noted above, in certain private-label securitizations, the servicer is required to advance scheduled principal and interest payments due on the beneficial interests regardless of whether cash payments are received on the underlying transferred financial assets. The servicer is allowed to reimburse itself for these servicing advances. Additionally, certain private-label securitization transactions may allow for the acquisition of additional loans subsequent to the initial loan transfer. Principal collections on other loans and/or the issuance of new beneficial interests, such as variable funding notes, generally fund these loans; we are often contractually required to invest in these new interests.

We may retain beneficial interests in our private-label securitizations, which may represent a form of significant continuing economic interest. These retained interests include, but are not limited to, senior or subordinate mortgage- or asset-backed securities, interest-only strips, principal-only strips, and residuals. Certain of these retained interests provide credit enhancement to the trust as they may absorb credit losses or other cash shortfalls. Additionally, the securitization agreements may require cash flows to be directed away from certain of our retained interests due to specific over-collateralization requirements, which may or may not be performance-driven.

We generally hold certain conditional repurchase options that allow us to repurchase assets from the securitization entity. The majority of the securitizations provide us, as servicer, with a call option that allows us to repurchase the remaining transferred financial assets or outstanding beneficial interests at our discretion once the asset pool reaches a predefined level, which represents the point where servicing becomes burdensome (a clean-up call option). The repurchase price is typically the par amount of the loans plus accrued interest. Additionally, we may hold other conditional repurchase options that allow us to repurchase a transferred financial asset if certain events outside our control are met. The typical conditional repurchase option is a delinquent loan repurchase option that gives us the option to purchase the loan if it exceeds a certain prespecified delinquency level. We have discretion regarding when or if we will exercise these options, but generally we would do so only when it is in our best interest.

Other than our customary representation and warranty obligations, these securitizations are nonrecourse to us, thereby transferring the risk of future credit losses to the extent the beneficial interests in the securitization entities are held by third parties.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Representation and warranty provisions generally require us to repurchase loans or indemnify the investor or other party for incurred losses to the extent it is determined that the loans were ineligible or were otherwise defective at the time of sale. See Note 23 — Commitments, Contingencies and Other Risks for detail on representation and warranty provisions. We did not provide any noncontractual financial support to any of these entities during the year ended December 31, 2012 and 2011.

Other Variable Interest Entities

Debtor-in-Possession Credit Facility Entities — On May 15, 2012, the Debtors obtained Bankruptcy Court interim approval of a fully committed \$1.45 billion superpriority senior secured debtor-in-possession credit facility. In connection with this facility, four SPEs were created: GMACM Borrower, LLC, a wholly owned subsidiary of GMAC Mortgage; GMACM REO, LLC, a wholly owned subsidiary of GMAC Borrower, LLC; RFC Borrower, LLC, a wholly owned subsidiary of RFC; and RFC REO, LLC, a wholly owned subsidiary of RFC Borrower, LLC (collectively the DIP Entities). We have concluded that these entities meet the criteria of a variable interest entity. The DIP Entities were established to provide financing for the Debtors in connection with their Chapter 11 Cases. The DIP Entities purchased certain assets as of May 16, 2012, including certain of the Debtors' servicer advance receivables and mortgage loans held-for-sale. Proceeds can be used for general corporate purposes subject to certain conditions. The servicer advance receivables consist of delinquent principal and interest advances we made as servicer to various investors, property taxes and insurance premiums advanced to taxing authorities and insurance companies on behalf of borrowers, and amounts advanced for mortgages in foreclosure. The DIP Entities funded the purchase of the receivables and loans through financing obtained from third-party lenders. The DIP Entities are consolidated on our Consolidated Balance Sheet at December 31, 2012. ResCap, GMAC Mortgage, RFC and certain other subsidiaries of ResCap are guarantors under the DIP. We have not provided noncontractual financial support to the DIP Entities during the year ended December 31, 2012.

Home Equity Funding Entity — To assist in the financing of certain of our home equity mortgage loans, we formed a SPE that issued variable funding notes to third-party investors that are collateralized by home equity loans and revolving lines of credit. This SPE is consolidated on our Consolidated Balance Sheets at December 31, 2012 and 2011. The beneficial interest holders of this VIE do not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support to the entity during the year ended December 31, 2012 and 2011.

Servicer Advance Funding Entity — To assist in the financing of our servicer advance receivables, we formed a SPE that issued term and variable funding notes to third-party investors that were collateralized by servicer advance receivables. These servicer advance receivables were transferred to the SPE and consisted of delinquent principal and interest advances we made as servicer to various investors, property taxes and insurance premiums advanced to taxing authorities and insurance companies on behalf of borrowers, and amounts advanced for mortgages in foreclosure. The SPE funded the purchase of the receivables through financing obtained from the third-party investors and subordinated loans or an equity contribution from us. This facility was paid in full on May 16, 2012 from the proceeds of the DIP. The SPE was consolidated on our Consolidated Balance Sheet at December 31, 2011. The third-party interest holder(s) of this SPE did not have legal recourse to our general credit. We did not provide noncontractual financial support to the entity during the year ended December 31, 2012 and 2011.

Other — We have involvement with other immaterial on-balance sheet VIEs. Most of these VIEs are used for additional liquidity whereby we sell certain financial assets to the VIE and issue beneficial interests to third parties for cash.

Involvement with Variable Interest Entities

The determination of whether financial assets transferred by us to VIEs (and related liabilities) are consolidated on our balance sheet (also referred to as on-balance sheet) or not consolidated on our balance sheet (also referred to as off-balance sheet) depends on the terms of the related transaction and our continuing involvement (if any) with the SPE. We are deemed the primary beneficiary and, therefore, consolidate VIEs for which we have both (a) the power through voting rights or similar rights to direct the activities that most significantly impact the VIE's economic performance, and (b) a variable interest (or variable interests) that (i) obligates us to absorb losses that could potentially be significant to the VIE and/or (ii) provides us the right to receive residual returns of the VIE that could potentially be significant to the VIE. We determine whether we hold a significant variable interest in a VIE based on a consideration of both qualitative and quantitative factors regarding the nature, size, and form of our involvement with the VIE. We assess whether we are the primary beneficiary of a VIE on an ongoing basis.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

Our involvement with consolidated and nonconsolidated VIEs in which we hold a variable interest were as follows

December 31, (\$ in thousands)	Consolidated involvement with VIEs	Assets of nonconsolidated VIEs, net (a)	Maximum exposure to loss in nonconsolidated VIEs (b)
2012			
On-balance sheet variable interest entities			
Private-label securitizations			
Continuing operations	\$521,651	\$—	\$—
Held-for-sale operations	60,581	—	—
Debtor-in-possession credit facility			
Continuing operations	27,921	—	—
Held-for-sale operations	1,218,712	—	—
Home equity funding	117,924	—	—
Other	2,480	—	—
Off-balance sheet variable interest entities			
Ginnie Mae securitizations - Held-for-sale operations	2,521,475 (c)	35,995,842	35,995,842
Private-label securitizations - Held-for-sale operations	84,794 (d)	2,548,205	2,548,205
Total	\$4,555,538	\$38,544,047	\$38,544,047
2011			
On-balance sheet variable interest entities			
Private-label securitizations	\$939,159	\$—	\$—
Servicer advance funding	955,823	—	—
Home equity funding	156,423	—	—
Other	2,541	—	—
Off-balance sheet variable interest entities			
Ginnie Mae securitizations	2,651,939 (c)	44,126,607	44,126,607
Private-label securitizations	140,709 (d)	4,408,206	4,408,206
Total	\$4,846,594	\$48,534,813	\$48,534,813

(a) Asset values represent the current UPB of outstanding consumer mortgage loans within the VIEs

(b) Maximum exposure to loss represents the current UPB of outstanding consumer mortgage loans based on our customary representation and warranty provisions. This measure is based on the unlikely event that all of the loans have underwriting defects or other defects that trigger a representation and warranty provision and the collateral supporting the loans is worthless. This required disclosure is not an indication of our expected loss.

(c) Includes \$0.0 million and \$377.8 million of mortgage servicing rights and \$2.5 billion and \$2.3 billion of mortgage loans held-for-sale that are subject to conditional repurchase options at December 31, 2012 and December 31, 2011, respectively. The corresponding liability related to conditional repurchase option loans is recorded in liabilities of held-for-sale operations and other liabilities, respectively.

(d) Includes \$0.1 million and \$26.5 million classified as other assets, \$0.0 million and \$8.4 million classified as mortgage servicing rights and \$84.7 million and \$105.8 million of mortgage loans held-for-sale that are subject to conditional repurchase options at December 31, 2012 and December 31, 2011, respectively. The corresponding liability related to conditional repurchase option loans is recorded in liabilities of held-for-sale operations and other liabilities, respectively.

On-balance Sheet Variable Interest Entities

We engaged in securitization and other financing transactions that did not qualify for off-balance sheet treatment. In these situations, we hold beneficial interests or other interests in the VIE, which represents a form of significant continuing economic interest. The interests held include, but are not limited to, senior or subordinate mortgage- or asset-backed securities, interest-only strips, principal-only strips, residuals, and servicing rights. Certain of these retained interests provide credit enhancement to the securitization entity as they may absorb credit losses or other cash shortfalls. Additionally, the securitization documents may require cash flows to be directed away from certain of our retained interests due to specific over-collateralization requirements, which may or may not be performance-driven. Because these securitization entities are consolidated, these retained interests and servicing rights are not recognized as separate assets on our Consolidated Balance Sheet.

We consolidate certain of these entities because we have a controlling financial interest in the VIE, primarily due to our servicing activities, and because we hold a significant variable interest in the VIE. We are the primary beneficiary of certain private-label

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

securitization entities for which we perform servicing activities and have retained a significant variable interest in the form of a beneficial interest. In cases where we did not meet sale accounting conditions under previous guidance, unless we have made modifications to the overall transaction, we do not meet sale accounting conditions under the current guidance. In cases where substantive modifications are made, we reassess the transaction under the amended guidance based on the new circumstances.

Consolidated VIEs represent separate entities with which we are involved. The third-party investors in the obligations of consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to us, except for customary representation and warranty provisions or situations where we are the counterparty to certain derivative transactions involving the VIE. Cash flows from the assets are restricted only to pay such liabilities. Thus, our economic exposure to loss from outstanding third-party financing related to consolidated VIEs is significantly less than the carrying value of the consolidated VIE assets. All assets are restricted for the benefit of the beneficial interest holders. See Note 20 — Fair Value for discussion of the assets and liabilities for which the fair value option has been elected.

Off-balance Sheet Variable Interest Entities

The nature, purpose, and activities of nonconsolidated securitization entities are similar to those of our consolidated securitization entities with the primary difference being the nature and extent of our continuing involvement. The cash flows from the assets of nonconsolidated securitization entities generally are the sole source of payment on the securitization entities' liabilities. The creditors of these securitization entities have no recourse to us with the exception of market customary representation and warranty provisions as described in Note 23 — Commitments, Contingencies and Other Risks.

Nonconsolidated VIEs include entities for which we either do not hold significant variable interests or do not provide servicing or asset management functions for the financial assets held by the securitization entity. Additionally, to qualify for off-balance sheet treatment, transfers of financial assets must meet sale accounting conditions in ASC 860. Our residential mortgage loan securitizations consist of GSE and private-label securitizations. We are not the primary beneficiary of any GSE securitization because we do not have the power to direct the significant activities of such entities. Additionally, we do not consolidate certain private-label securitizations because we do not have a variable interest that could potentially be significant or we do not have power to direct the activities that most significantly impact the performance of the VIE.

For nonconsolidated securitization entities, the transferred financial assets are removed from our balance sheet provided the conditions for sale accounting are met. The financial assets obtained from the securitization are primarily reported as cash, servicing rights, or retained interests (if applicable). As an accounting policy election, we elected fair value treatment for our MSR portfolio. Liabilities incurred as part of these securitization transactions, such as representation and warranty provisions, are recorded at fair value at the time of sale and are reported as other liabilities on our Consolidated Balance Sheet. Upon the sale of the loans, we recognize a gain or loss on sale for the difference between the assets recognized, the assets derecognized, and the liabilities recognized as part of the transaction.

The following summarizes the pretax gains and losses recognized on financial assets sold into nonconsolidated securitizations:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Consumer mortgage — GSEs	\$404,307	\$686,833	\$718,632

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table summarizes cash flows received from and paid to securitization entities that are accounted for as a sale and in which we have a continuing involvement with the transferred assets (e.g., servicing) through both continuing and held-for-sale operations that were outstanding during the years ended December 31, 2012, 2011 and 2010

Year ended December 31, (\$ in thousands)	Consumer mortgage	
	GSEs	Private-Label
2012		
Cash proceeds from transfers completed during the period	\$14,646,117	\$—
Cash flows received on retained interests in securitization entities	—	13,407
Servicing fees	419,848	161,003
Purchases of previously transferred financial assets		
Representation and warranty obligations	(43,474)	(6,775)
Other repurchases	(2,243,051)	(28,775)
Other cash flows	1,909	96,787
Total net cash flows	\$12,781,349	\$235,647
2011		
Cash proceeds from transfers completed during the period	\$59,814,651	\$—
Cash flows received on retained interests in securitization entities	—	17,132
Servicing fees	518,084	194,882
Purchases of previously transferred financial assets		
Representation and warranty obligations	(143,340)	(37,386)
Other repurchases	(2,537,257)	(145,798)
Other cash flows	(6,302)	186,637
Total net cash flows	\$57,645,836	\$215,467
2010		
Cash proceeds from transfers completed during the period	\$68,821,918	\$—
Cash flows received on retained interests in securitization entities	—	27,559
Servicing fees	476,901	188,553
Purchases of previously transferred financial assets		
Representation and warranty obligations	(388,873)	(13,343)
Other repurchases	(1,865,408)	(260,638)
Other cash flows	(25,200)	(20,165)
Total net cash flows	\$67,019,338	(\$78,034)

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table represents on-balance sheet mortgage loans held-for-sale and consumer finance receivable and loans, off-balance sheet securitizations, and whole loan sales where we have continuing involvement. The table presents information about delinquencies and net credit losses. See Note 8 — Servicing Activities for further detail on total serviced assets.

December 31, (\$ in thousands)	Total UPB		Amount 60 days or more past due		Net credit losses (recoveries) (a)	
	2012	2011	2012	2011	2012	2011
On-balance sheet loans						
Consumer mortgage held-for-sale						
Continuing operations	\$380,357	\$4,650,917 (b)	\$155,943	\$3,049,234	\$8,503	\$30,580
Held-for-sale operations	4,224,668 (b)	—	3,114,847 (b)	—	—	—
Consumer mortgage finance receivables and loans						
Continuing operations	1,644,582	2,623,763	163,203	422,017	99,410	131,297
Held-for-sale operations	178,433	—	15,272	—	—	—
Total on-balance sheet loans	6,428,040	7,274,680	3,449,265	3,471,251	107,913	161,877
Off-balance sheet securitization entities						
Consumer mortgage — GSEs - Held-for-sale operations	97,075,052	131,751,844	6,964,240	7,675,811	n/m	n/m
Consumer mortgage — nonagency - Held-for-sale operations	45,240,581	60,768,935	9,897,034	11,232,126	3,021,432	3,981,684
Total off-balance sheet securitization entities	142,315,633	192,520,779	16,861,274	18,907,937	3,021,432	3,981,684
Whole loan transactions - Held-for-sale operations (c)	14,479,962	17,516,446	1,938,016	2,209,088	473,249	695,066
Total	\$163,223,635	\$217,311,905	\$22,248,555	\$24,588,276	\$3,602,594	\$4,838,627

n/m = not meaningful

- (a) The amount is net of recoveries on loans that have resolved where we have previously disclosed a credit loss.
- (b) Includes mortgage loans subject to conditional repurchase options with UPB of \$2.5 billion and \$2.3 billion sold to Ginnie Mae guaranteed securitizations and UPB of \$113.7 million and \$131.8 million sold to certain off-balance sheet nonagency consumer mortgage securitization entities at December 31, 2012 and December 31, 2011, respectively. The corresponding liability is recorded in liabilities of held-for-sale operations and other liabilities, respectively.
- (c) Whole-loan transactions are not part of a securitization transaction but represent pools of consumer mortgage loans sold to investors. The amount is net of recoveries on loans that have resolved where we have previously disclosed a credit loss.

Changes in Accounting for Variable Interest Entities

On May 11, 2012, in connection with the sale of GMAC Financial, we deconsolidated certain on-balance sheet securitization entities that had previously been recognized upon adoption of ASU 2009-17. Upon completion of the sale, we no longer hold any variable or controlling interests in these securitization entities. Consolidated assets and consolidated liabilities of \$244.6 million and \$270.4 million, respectively, associated with this transaction were derecognized. There was no gain or loss recognized.

In connection with our Section 363 Asset Sales and the reclassification to held-for-sale operations, a portion of our on-balance sheet securitizations and conditional repurchase option loans associated with our Ginnie Mae guaranteed securitizations were reclassified to assets and liabilities held-for-sale. Upon completion of the sale of the Platform Assets to Ocwen and Walter and completion of the wind down of our newly originated Ginnie Mae securitizations we will no longer hold any variable or controlling interests in the securitization entities, at which point the securitization trusts will be deconsolidated. See Note 4 - Discontinued Operations and Assets and Liabilities Held-for-Sale for additional information.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

8 Servicing Activities

Mortgage Servicing Rights (MSRs)

The following table summarizes our activity related to MSRs. See Note 20 - Fair Value for additional information.

Year ended December 31, (\$ in thousands)	2012		2011
	Continuing Operations	Held-for-sale operations	
Estimated fair value at January 1,	\$1,233,107	\$—	\$1,991,586
Additions recognized on sale of mortgage loans	16,179	377	54,357
Dispositions	—	—	(401)
Changes in fair value			
Due to changes in valuation inputs or assumptions used in the valuation model	(194,554)	16,129	(552,970)
Other changes in fair value	(205,188)	(57,044)	(259,465)
Transfer to assets of held-for-sale operations	(849,544)	849,544	—
Estimated fair value at December 31,	\$—	\$809,006	\$1,233,107

Changes in fair value due to changes in valuation inputs or assumptions used in the valuation models include all changes due to a revaluation by a model or by a benchmarking exercise. Other changes in fair value primarily include the accretion of the present value of the discount related to forecasted cash flows and the economic run-off of the portfolio.

The key economic assumptions and the sensitivity of the fair value of MSRs to immediate 10% and 20% adverse changes in those assumptions were as follows:

December 31, (\$ in thousands)	2012		2011
	Held-for-sale operations		
Weighted average life (in years)	4.1		4.3
Weighted average prepayment speed	17.7%		18.0%
Impact on fair value of 10% adverse change	\$(93,525)		\$(71,223)
Impact on fair value of 20% adverse change	(175,276)		(135,292)
Weighted average discount rate	9.2%		9.5%
Impact on fair value of 10% adverse change	\$(12,451)		\$(25,396)
Impact on fair value of 20% adverse change	(23,673)		(48,913)

These sensitivities are hypothetical and should be considered with caution. Changes in fair value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities. Further, these sensitivities show only the change in the asset balances and do not show any expected change in the fair value of the instruments used to manage the interest rate and prepayment risks associated with these assets.

Risk Mitigation Activities

The primary economic risk related to our MSR is interest rate risk and the resulting impact on prepayment speeds. A significant decline in interest rates could lead to higher than expected prepayments that could reduce the value of the MSRs. Prior to our bankruptcy filing, we economically hedged the impact of this risk with both derivative and nonderivative financial instruments. These instruments included interest rate swaps, caps and floors, options to purchase these items, futures and forward contracts, constant monthly maturity (index trades), synthetic interest only and principal only securities and/or to-be-announced (TBAs) securities. The net fair value of derivative financial instruments used to mitigate this risk was \$(199.8) million at December 31, 2011. Under the terms of the Platform Asset sale, the ultimate purchase price to be paid for the MSRs being acquired is based on the underlying unpaid principal balance of loans serviced at the closing of the sale. As a result, while the MSR asset is economically

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

exposed to changes in market conditions, particularly interest rates, we are no longer hedging this risk as it will not impact the proceeds to be received upon completion of the sale. See Note 21 — Derivative Instruments and Hedging Activities for additional information.

The components of servicing valuation and hedge activities net, were as follows:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Change in estimated fair value of mortgage servicing rights	(\$440,657)	(\$812,435)	(\$725,351)
Change in fair value of derivative financial instruments	113,583	456,720	947,922
Servicing valuation and hedge activities net	(\$327,074)	(\$355,715)	\$222,571

Mortgage Servicing Fees

The components of servicing fees were as follows:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Contractual servicing fees (net of guarantee fees and including sub-servicing)	\$538,611	\$637,938	\$724,776
Late fees	53,456	55,822	69,822
Ancillary fees	153,226	145,412	176,847
Total	\$745,293	\$839,172	\$971,445

Mortgage Servicer Advances

In connection with our primary servicing activities (i.e., servicing of mortgage loans), we make certain payments for property taxes and insurance premiums (escrow), default and property maintenance payments (corporate), as well as advances of principal and interest payments before collecting them from individual borrowers.

When we act as a subservicer of mortgage loans, we perform the responsibilities of a primary servicer but do not own the corresponding primary servicing rights. We receive a fee from the primary servicer for such services. As the subservicer, we have the same responsibilities as a primary servicer in that we make certain payments of property taxes and insurance premiums, default and property maintenance, as well as advances of principal and interest payments before collecting them from individual borrowers.

In many cases where we act as master servicer we also act as primary servicer. In connection with our master servicing activities, we service the mortgage-backed and mortgage-related asset-backed securities and whole-loan packages sold to investors. As the master servicer, we collect mortgage loan payments from primary servicers and distribute those funds to investors in mortgage-backed and asset-backed securities and whole-loan packages. As the master servicer, we are required to advance scheduled payments to the securitization trust or whole-loan investors. To the extent the primary servicer does not advance the payments, we are responsible for advancing the payment to the trust or whole-loan investors. Reimbursements of master servicer advances, including contractual interest, are priority cash flows in the event of a default, thus making their collection reasonably assured. In most cases, we are required to advance these payments to the point of liquidation of the loan or reimbursement of the trust or whole-loan investors.

We sold most of our MSRs in the Section 363 Asset Sales to Walter and Ocwen in January and February 2013. Effective with the closing of the Section 363 Asset Sale to Ocwen in February 2013, we no longer service mortgage loans. On February 15, 2013, certain of the Debtors entered into a Servicing Agreement (the Estate Servicing Agreement) and a Subservicing Agreement (the Estate Subservicing Agreement) with Ocwen. Under the Estate Servicing Agreement, Ocwen services substantially all of our owned residential mortgage loans and related receivables on our behalf. Under the Estate Subservicing Agreement, Ocwen services substantially all of the residential mortgage loans and related receivables we had previously serviced for others as primary servicer or master servicer and for which we retained the related MSRs beyond February 15, 2013 pending expected sale to Ocwen or transfers to other servicers. Under the Estate Subservicing Agreement, Ocwen also subservices the residential loans we are obligated to service for Ally Bank under the Ally Servicing Agreement. The Estate Subservicing Agreement does not require Ocwen to make advances of principal or interest to investors or to make servicing advances. Accordingly, we continue to make advances of principal and interest to investors where required by the underlying servicing agreement subserviced by Ocwen under the Estate Subservicing Agreement. We reimburse Ocwen for servicing advances to the extent not recoverable under the underlying servicing agreement. We retain the right to collect these advances when ultimately recoverable to the servicer under the underlying servicing agreement.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

The following table sets forth information with respect to our servicer advance receivables net

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
Primary servicer advances			
Escrow advances	\$58,543	\$757,273	\$738,962
Principal and interest	5,852	552,979	687,969
Corporate advances	42,433	268,132	277,275
Total primary servicer advances	106,828	1,578,384	1,704,206
Subserviced advances	—	214,704	226,008
Master servicing advances	—	196,390	158,162
Reserve for uncollectible advances	—	(48,718)	(43,651)
Total servicer advances net	\$106,828	\$1,940,760	\$2,044,725

Serviced Mortgage Assets

In many cases prior to the Section 363 Asset Sales to Walter and Owen, we acted as both the primary and master servicer. However, in certain cases, we also serviced loans that had been purchased and subsequently sold through a securitization trust or whole-loan sale whereby the originator retained the primary servicing rights and we retained the master servicing rights. All amounts related to December 31, 2012 relate to held-for-sale operations unless otherwise indicated.

The following table sets forth information concerning the unpaid principal balance of total serviced mortgage assets

December 31, (\$ in millions)	2012		2011
	Continuing operations	Held-for-sale Operations	
On-balance sheet mortgage loans (a)			
Held-for-sale and investment	\$ 2,185	\$ 4,481	\$6,828
Off-balance sheet mortgage loans			
Loans held by third-party investors			
Consumer mortgage private-label	—	43,457	50,886
Consumer mortgage agency	—	96,985	131,635
Consumer mortgage whole-loan portfolios	—	12,718	15,104
Purchased servicing rights (b)	—	2,625	3,247
Total primary serviced mortgage loans	2,185	160,266	207,700
Subserviced mortgage loans (c)	—	158,623	169,531
Master servicing only mortgage loans	—	7,060	8,557
Total serviced mortgage loans	\$2,185	\$325,949	\$385,788

(a) Includes on-balance sheet securitization consumer finance receivables and loans. See Note 6 — Finance Receivables and Loans net for additional information.

(b) There is no recourse to us other than customary contractual provisions relating to the execution of the services we provide.

(c) Includes loans where we act as a subservicer under contractual agreements with the primary servicer. As subservicer there is no recourse to us other than customary contractual provisions relating to the execution of the services we provide, except for loans subserviced on behalf of Ally Bank. See Note 24 — Related Party Transactions for additional information.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table sets forth information concerning the delinquency experience in our domestic consumer mortgage loan primary servicing portfolio, including pending foreclosures. All amounts related to December 31, 2012 relate to held-for-sale operations.

December 31, (\$ in millions)	2012		2011	
	Number of loans	Unpaid principal balance	Number of loans	Unpaid principal balance
Total U.S. mortgage loans primary serviced	1,301,831	\$162,430	1,587,113	\$207,380
Period of delinquency				
30 to 59 days	55,674	\$7,501	67,239	\$9,289
60 to 89 days	24,529	3,570	25,138	3,695
90 days or more	32,276	5,153	27,570	4,467
Foreclosures pending	57,168	10,949	68,166	13,018
Bankruptcies	31,883	4,563	34,956	4,869
Total delinquent loans	201,530	\$31,736	223,069	\$35,338
Percent of U.S. mortgage loans primary serviced	15.5%	19.5%	14.1%	17.0%

We were also required to maintain consolidated tangible net worth, as defined, of \$250.0 million, under our agreement with a GSE. This agreement expired effective July 31, 2012.

At December 31, 2012, domestic insured private-label securitizations with an unpaid principal balance of \$4.9 billion contain provisions entitling the monoline or other provider of contractual credit support (surety providers) to declare a servicer default and terminate the servicer upon the failure of the loans to meet certain portfolio delinquency and/or cumulative loss thresholds. Securitizations with an unpaid principal balance of \$4.3 billion had breached a delinquency and/or cumulative loss threshold. While we continue to service these loans and receive service fee income with respect to these securitizations, the value of the related MSR is zero at December 31, 2012. Securitizations with an unpaid principal balance of \$474.0 million have not yet breached a delinquency or cumulative loss threshold. The value of the related MSR is \$3.0 million at December 31, 2012. These MSRs are classified as held-for-sale operations at December 31, 2012.

9. Accounts Receivable, Net

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
Servicer advances, net	\$106,885	\$1,940,760(a)	\$2,045,446 (a)
Loan insurance guarantee receivable, net (b)	827,985	—	745,396
Servicing fees receivable	3,805	78,295	87,208
Accrued interest receivable	23,658	8,062	37,962
Due from brokers for derivative trades	—	—	94,024
Other	57,767	1,255	41,712
Total accounts receivable, net	\$1,020,100	\$2,028,372	\$3,051,748

(a) The allowance for uncollectible servicer advances was \$48.7 million and \$43.7 million at December 31, 2012 and December 31, 2011, respectively.

(b) Represents mortgage loans in foreclosure which are insured by the FHA or guaranteed by the VA, net of a reserve for uncollectible amounts of \$55.4 million and \$21.8 million at December 31, 2012 and December 31, 2011, respectively.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

10. Other Assets

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
Property and equipment at cost	\$198	\$246,623	\$252,890
Accumulated depreciation and amortization	(198)	(208,398)	(207,645)
Net property and equipment	—	38,225	45,245
Restricted cash (a)	211,856	—	448,819
Income taxes receivable	21,848	—	5,111
Foreclosed assets	20,822	4,761	71,485
Collateral placed with derivative counterparties	10,000	—	1,095,287
Fair value of derivative contracts in receivable position	720	—	4,877,197
Trading securities	—	26,102	33,303
Interests retained in financial asset sales	—	—	23,102
Other	6,272	4,434	28,603
Total other assets	\$271,518	\$73,522	\$6,628,152

(a) At December 31, 2012 and 2011, \$93.8 million and \$93.8 million for a GSE collateral account, \$85.6 million and \$126.1 million related to a cash reserve account for our reinsurance business, \$2.0 million and \$3.9 million for appeals bond for legal proceedings, \$28.8 million and \$112.0 million related to collateral posted with Ally Bank, and \$0.0 million and \$76.1 million related to funds collected but not yet distributed to a third-party, respectively.

11. Borrowings

The filing of our Chapter 11 Cases constituted an event of default or otherwise triggered accelerated repayment obligations under all of our pre-petition debt obligations. These pre-petition debt obligations have been reclassified to short-term borrowings irrespective of the original term of the obligation. Under Chapter 11, however, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect pre-petition indebtedness or to exercise control over the property of the debtor's estate. Certain of our Debtors' pre-petition liabilities are subject to settlement under the plan of reorganization.

In accordance with ASC 852, effective on the Petition Date, we ceased accruing contractual interest and ceased amortizing deferred issuance costs and concessions related to pre-petition liabilities, including borrowings, that are subject to compromise. Had we recorded interest based on all of our pre-petition obligations, interest expense would have increased \$162.4 million for the twelve months ended December 31, 2012. Had we continued to amortize deferred concessions, our interest expense would have decreased \$66.7 million for the twelve months ended December 31, 2012.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

The weighted average interest rate on borrowings not subject to compromise at December 31, 2012 was 4.2%. The weighted average interest rate on borrowings at December 31, 2011 was 6.7%.

Summary of borrowings were as follow:

December 31, (\$ in thousands)	2012		2011
	Not Subject to Compromise	Subject to Compromise	
Debtor-in-Possession Credit Facilities			
DIP	\$1,260,000	\$—	\$—
Ally DIP	189,354	—	—
Borrowings from Affiliates			
Ally Inc	1,133,128	—	939,364
BMMZ Repo	—	—	250,000
Collateralized borrowings in securitization trusts (a)	447,723 (b)	—	830,318
Other borrowings	282,232	—	1,242,015
Junior secured term notes	—	2,328,292	2,366,600
Unsecured notes	—	973,380	967,945
Medium-term unsecured notes	—	—	128,844
Total borrowings	\$3,312,437	\$3,301,672	\$6,725,086
Short-term borrowings	\$1,987,355		\$756,595
Long-term borrowings	\$1,325,082		\$5,968,491

(a) Collateralized borrowings with an outstanding balance of \$1.8 billion and \$2.6 billion were recorded at fair value of \$447.7 million and \$829.9 million as of December 31, 2012 and December 31, 2011, respectively. See Note 20 — Fair Value for additional information.

(b) Excludes \$53.0 million of collateralized borrowings that were reclassified to liabilities of held-for-sale operations. See Note 4 — Discontinued Operations and Assets and Liabilities Held-For-Sale for additional information.

Prior to the Chapter 11 Cases, all of our credit facilities and certain other agreements contained covenants that required us to maintain consolidated tangible net worth of \$250.0 million as of each month end, consolidated liquidity of \$250.0 million daily, and unrestricted liquidity of \$250.0 million daily.

The DIP required us to maintain consolidated liquidity of (i) not less than \$250.0 million in the aggregate for four consecutive business days and (ii) not less than \$75.0 million in the aggregate at any time. It also required us to maintain a minimum of \$50.0 million in certain cash accounts that are maintained as collateral for the DIP. As of December 31, 2012, we were in compliance with these liquidity requirements.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table summarizes the outstanding, unused, and total capacity of our funding facilities at December 31, 2012

<i>(\$ in thousands)</i>	Outstanding	Unused capacity	Total capacity
Debtor-in-Possession Credit Facilities			
DIP	\$1,260,000	\$190,000	\$1,450,000
Ally DIP (a)	189,354	30,646	220,000
Total Debtor-in-possession credit facilities	1,449,354	220,646	(b) 1,670,000
Facilities with Affiliates			
Ally Inc Senior Secured Credit Facility	747,128	—	747,128
Ally Inc LOC	380,000	—	380,000
Ally Inc Data Centers	6,000	—	6,000
Total facilities with affiliates	1,133,128	—	1,133,128
Other funding facilities			
Mortgage servicing rights facility	152,000	—	152,000
Servicer advance funding facility	28,310	32,690	61,000
Home equity funding facility	101,922	—	101,922
Other funding facilities	—	11,000	11,000
Total other funding facilities	282,232	43,690	325,922
Total funding facilities	\$2,864,714	\$264,336	\$3,129,050

(a) Borrowings in excess of \$200.0 million shall be made at Ally Inc's sole discretion

(b) The DIP and Ally DIP were terminated during February, 2013

Debtor-In-Possession Credit Facilities

Pursuant to the terms of the DIP, the \$1.45 billion facility consists of three tranches: \$1.06 billion of A-1 term notes, \$200.0 million of A-2 term notes and a \$190.0 million revolver. The DIP was approved by the Bankruptcy Court on June 25, 2012. There is a second DIP facility in place with Ally Inc. to provide up to \$200.0 million in funding, the Ally DIP.

We have the option to have interest on the loans provided under the DIP accrue at the Alternate Base Rate (ABR) plus the applicable margin (2.75% for the A-1 term notes and revolver and 4.50% for the A-2 term notes) or the Adjusted Eurodollar Rate (AER) plus the applicable margin (3.75% for the A-1 term notes and revolver and 5.50% for the A-2 term notes). We also pay a .75% revolving commitment fee. The ABR is a per annum rate equal to the greater of (a) the prime rate, (b) the Federal Funds effective rate plus .50% and (c) the AER for a three month interest period plus 1.00%. The ABR shall at no time be less than 2.25% per annum. The AER shall at no time be less than 1.25% per annum. We also have the option to choose an AER interest period, which can be one-, two-, three- or six-months. No interest period can extend beyond the termination date of the DIP.

The DIP termination date was the earliest of 18 months from May 16, 2012, the DIP closing date, the substantial consummation of a reorganization plan for any Debtor that is confirmed pursuant to an order entered by the Bankruptcy Court or in the event of acceleration and termination of the commitment.

The DIP proceeds could be used, in each case in accordance with the approved DIP budget, to repay in full certain indebtedness outstanding as of the petition date, to pay the fees, costs and expenses incurred in connection with the DIP and for general corporate purposes. There were limitations on the use of DIP proceeds, including restrictions in connection with investigations, initiation or prosecution of any claims against parties to the DIP or holders of obligations of certain pre-petition refinanced facilities, to make any pre-petition payments, except as authorized by the Bankruptcy Court and in accordance with the approved DIP budget, or for any purpose that could materially or adversely modify or compromise the rights of any party to the DIP or which would result in the occurrence of an event of default. In addition to certain customary obligations, the DIP requires us to provide certain reports including periodic budget reports, periodic cash sources and uses of funds reports, periodic cash flow forecasts and borrowing base and collateral reports.

On May 16, 2012, we used DIP proceeds to repay in full our Pre-Petition Refinanced Facilities, (our servicer advance funding facility, GMAC Mortgage Servicer Advance Funding Company Ltd (GSAP), and our secured financing agreement, the BMMZ Repo). In connection with the DIP, the DIP Borrowers entered into Receivables Purchase Agreements with GSAP whereby GSAP sold assigned, transferred, set-over and otherwise conveyed to the DIP Borrowers all of its rights, title and interest in servicer advances owned by GSAP on the closing date. In consideration of the sale, the DIP Borrowers paid GSAP \$468.0 million with respect to servicer advances totaling \$832.8 million. The DIP Borrowers also entered into Mortgage Loan Purchase and Contribution Agreements with GMAC Mortgage and RFC whereby GMAC Mortgage and RFC sold, contributed assigned, transferred, set-over and otherwise conveyed to the DIP Borrowers of their rights, title and interest to and under certain mortgage loans including all

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

rights, claims or actions GMAC Mortgage or RFC may have under any related servicing agreement, subservicing agreement or custodial agreement and all related accounts. In consideration of the sale, the DIP Borrowers paid \$250.0 million to GMAC Mortgage and RFC with respect to mortgage loans with a carrying value of \$371.0 million, which used the proceeds to repay the BMMZ Repo.

Under the terms of Receivables Pooling and Purchase Agreements between GMAC Mortgage and RFC (the Originators) and the DIP Borrowers, the Originators automatically sell to the DIP Borrowers new servicer advances with respect to any servicing agreement that is a designated servicing agreement under the DIP until such time as the DIP is terminated.

We paid fees of \$56.5 million in connection with the initial DIP agreement. These fees were expensed as incurred and are reported in reorganization items on our Consolidated Statement of Comprehensive Income.

On October 19, 2012, the DIP was amended. Fees of \$2.0 million were paid in connection with the amendments. The amendments permit the Debtors to (i) complete the sale of certain of their mortgage loans held-for-sale prior to completing the sale of the Debtors mortgage origination and servicing businesses, and (ii) to sell up to \$200.0 million of FHA and VA mortgage loans held-for-sale that are collateral under the LOC. The proceeds from any completed sales would be required to be used to pay down the DIP.

On January 29, 2013, the DIP was amended. Fees of \$0.9 million were paid in connection with the amendment. The amendment permits the Debtors to transact a one-time sale of all or any portion of certain mortgage servicing rights without triggering early termination provisions.

On January 31, 2013, the \$190.0 million revolver portion of the DIP was terminated concurrent with completion of the Section 363 Asset Sale with Walter.

On February 5, 2013, \$403.7 million of DIP A-1 term notes were repaid concurrent with the completion of the Section 363 Asset Sale with Berkshire.

The remaining DIP A-1 and A-2 term notes were paid in full on February 15, 2013, concurrent with the completion of Section 363 Asset Sale with Ocwen and the DIP was terminated.

The Ally DIP provides up to \$220.0 million of post-petition debtor-in-possession financing to GMAC Mortgage provided that the aggregate amount of the Ally DIP and LOC pre- and post-petition draws (plus any unpaid interest, expenses, or other costs payable thereunder) may not exceed \$600.0 million, and provided further, any borrowings in excess of \$200.0 million shall be made at Ally Inc.'s sole discretion. The Debtors can use \$150.0 million of the proceeds from the Ally DIP solely for the post-petition purpose of repurchasing FHA and VA loans from GNMA securitizations in connection with delinquency triggers applicable to GMAC Mortgage under Chapter 18 of the Ginnie Mac Guide, to effect foreclosures, conveyances or other normal course loss mitigation activities and to allow for trial modifications under programs implemented by the Debtors. The Ally DIP is secured by any such repurchased loans and related claims as well as a lien on the Ally Inc. Line of Credit (LOC) collateral. The Debtors can use \$50.0 million of the proceeds from the Ally DIP, subject to the limitations noted above, for general corporate purposes. Draws on the Ally DIP bear interest at LIBOR plus 4.0%, with a LIBOR rate floor of 1.25%.

The Ally DIP automatically terminates on the earlier of the stated maturity of the DIP or, without further notice or order of the Bankruptcy Court, on the effective date of the substantial consummation of a reorganization plan for any Debtor or in the event of acceleration and termination of the commitment. The Ally DIP was paid in full and terminated on February 5, 2013, concurrent with the completion of the Section 363 Asset Sale with Berkshire.

Facilities with Affiliates

Ally Inc. Senior Secured Credit Facility

The total principal amount owed as of the Petition Date was \$747.1 million. GMAC Mortgage and RFC (the Borrowers) are jointly and severally liable for the amounts outstanding in connection with the Ally Inc. Senior Secured Credit Facility. ResCap, and certain of its subsidiaries, are guarantors. This facility is secured by certain domestic whole loans, accounts receivable, notes receivable, trading securities and equity investments of the Borrowers. As ordered by the Bankruptcy Court, we are accruing and paying interest on the outstanding balance of the Ally Inc. Senior Secured Credit Facility at the prevailing contractual rate. See Note 2 - Voluntary Reorganization Under Chapter 11 for additional information.

Ally Inc. Line of Credit

The total principal amount owed as of the Petition Date was \$380.0 million. As a result of the Chapter 11 Cases, Borrowers ability to draw on the LOC is limited to borrowings permitted under the Ally DIP which was paid in full and terminated on February 5, 2013. The Borrowers are jointly and severally liable for the amounts outstanding in connection with the Ally Inc. LOC. ResCap,

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

and certain of its subsidiaries are guarantors. The LOC is secured by certain domestic whole loans, accounts receivable, notes receivable, mortgage servicing rights and trading securities of the Borrowers. We are accruing and paying contractual interest on the LOC in accordance with an order of the Bankruptcy Court. See Note 2 - Voluntary Reorganization Under Chapter 11 for additional information.

BMMZ Holdings, LLC Secured Financing Agreement (BMMZ Repo)

The total principal amount owed as of the Petition Date was \$250.0 million. All of the outstanding principal and interest due on the BMMZ Repo was repaid on May 16, 2012, with funds from the DIP. See Note 2 - Voluntary Reorganization Under Chapter 11 for additional information.

Ally Inc. Data Centers

On May 9, 2012, we entered into a sale and purchase agreement with Ally Inc., whereby Ally Inc. purchased a 51% undivided ownership interest in the land, building and improvements of a property we own (Shady Oak Data Center). At the same time, we entered into an assignment of lease agreement with Ally Inc., whereby Ally Inc. was assigned a 51% interest in a lease agreement in which we are a party (Lewisville Data Center Lease). Ally Inc. paid \$6.0 million to us in connection with these agreements.

Both agreements contain repurchase obligations whereby we are required to repurchase the Shady Oak Data Center interest and the Lewisville Data Center Lease interest for \$6.0 million from Ally Inc. at any time from or after any sale of substantially all of our assets, but in no event later than December 31, 2014. On February 14, 2013, in connection with closing the sale of the Platform Assets to Ocwen, we paid Ally Inc. \$6.0 million for repurchase of the Shady Oak Data Center and the Lewisville Data Center Lease.

These agreements have been accounted for as secured borrowings as we continue to have a significant interest in the assets and continue, through the repurchase obligation, to maintain significant risks and rewards of ownership in the underlying assets.

Other Funding Facilities

Mortgage Servicing Rights Facility

The total principal amount owed as of the Petition Date was \$152.0 million. We are accruing and paying contractual interest on this facility in accordance with an order of the Bankruptcy Court. This facility was paid in full on January 31, 2013, concurrent with the completion of the Section 363 Asset Sale with Walter.

Servicer Advance Funding Facilities

There were two servicer advance funding facilities at December 31, 2012. The total principal amount owed on the first facility as of the Petition Date was \$662.3 million for this servicing advance facility. The total principal and interest due were repaid on May 16, 2012, with funds from the DIP and with cash funds that were held in accounts for the benefit of the facility as of the Petition Date. The issuer under this facility was a non-Debtor.

A second secured facility, the Servicer Advance Funding Facility, to fund mortgage servicer advances had capacity of \$61.0 million. The total principal amount owed as of the Petition Date was \$28.3 million for this servicing advance facility. We continued to accrue and pay contractual interest on this facility in accordance with the terms of the facility. This facility was paid in full on January 31, 2013, concurrent with the completion of the Section 363 Asset Sale with Walter.

Home Equity Funding Facility

The secured facility to fund home equity mortgage loans consists of \$101.9 million of variable funding notes due to mature on February 25, 2031. We continue to accrue and pay contractual interest in accordance with the terms of the facility. The issuer under this facility is a non-Debtor and the facility is expected to be repaid in accordance with its contractual terms.

Collateralized Borrowings in Securitization Trusts

We previously sold pools of consumer mortgage loans through private-label securitization transactions. The purpose of these securitizations was to provide permanent funding and exit for these assets. Certain of these securitizations were accounted for as secured borrowings, and therefore, the debt is reflected in collateralized borrowings or liabilities of held-for-sale operations on our Consolidated Balance Sheet. None of the securitization trusts are Debtors in our Chapter 11 Cases.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Borrowings Subject to Compromise

Junior Secured Notes

The outstanding balance of the Junior Secured Notes at December 31, 2012 was \$2.3 billion. The Junior Secured Notes are classified as liabilities subject to compromise on our Consolidated Balance Sheet. The unamortized balance of deferred concession recognized as a result of our 2008 exchange offer was \$207.8 million at December 31, 2012. Deferred concession amortization was computed using the effective yield method. For each of the three years ended December 31, 2012, 2011 and 2010, \$38.3 million, \$101.1 million and \$110.0 million, respectively, of deferred concession was amortized into earnings as a reduction of interest expense. Effective with the Petition Date, we discontinued amortization of the remaining deferred concession. We no longer accrue or pay contractual interest on the Junior Secured Notes effective as of the Petition Date.

GMAC Mortgage, its immediate parent, GMAC Residential Holding Company, LLC (Res Holdings), RFC, its immediate parent, GMAC-RFC Holding Company, LLC (RFC Holdings), and Homecomings Financial, LLC (Homecomings), a wholly owned subsidiary of RFC, are all guarantors with respect to the Junior Secured Notes. Each of the guarantors are Debtors. The Junior Secured Notes are secured by second priority liens on the same assets that secure the Ally Inc. Senior Secured Credit Facility.

Unsecured Notes

As of December 31, 2012, unsecured notes include \$672.5 million U.S. dollar-denominated senior notes, \$130.2 million euro-denominated notes and \$170.7 million U.K. sterling-denominated notes (collectively, the Unsecured Notes). The Unsecured Notes are classified as liabilities subject to compromise on our Consolidated Balance Sheet. We previously hedged a portion of the interest rate risk associated with our fixed-rate euro and U.K. sterling notes. On May 10, 2012, we terminated our outstanding interest rate swap agreements. Effective as of the Petition Date, we discontinued amortization of the remaining deferred issuance costs and we no longer accrue or pay contractual interest.

Medium-term Unsecured Notes

On May 11, 2012, we completed the sale of our wholly owned subsidiary, GMAC Financiera S.A. de C.V., SOFOM, ENR (GMAC Financiera). As a condition of the sale, we received an irrevocable and unconditional release and termination of guarantees of ResCap, GMAC Mortgage, Res Holdings, RFC, RFC Holdings, and Homecomings with respect to the \$124.3 million medium-term unsecured notes issued by GMAC Financiera.

Collateral for Secured Debt

The following table summarizes the carrying value of assets, including assets of held-for-sale operations, that are restricted, pledged, or for which a security interest has been granted as collateral for the payment of certain debt obligations:

December 31, (\$ in thousands)	2012			2011
	Continuing Operations	Held-for-sale operations	Total restricted assets	
Cash and cash equivalents	\$1,261,333	\$—	\$1,261,333	\$82,389
Mortgage loans held-for-sale	115,572	1,280,475	1,396,047	1,688,037
Finance receivables and loans, net				
Consumer	587,341	60,977	648,318	1,005,982
Commercial	—	—	—	4,226
Total finance receivables and loans, net	587,341	60,977	648,318	1,010,208
Mortgage servicing rights	—	553,317	553,317	855,343
Accounts receivable, net	595,329	1,945,200	2,540,529	2,404,231
Other assets	65,423	73,980	139,403	81,960
Total assets restricted as primary collateral	\$2,624,998	\$3,913,949	\$6,538,947	\$6,122,168
Related secured debt			\$5,693,767	\$5,628,297

A portion of the assets included in the table above represent assets of subsidiaries whose equity has been pledged to secure the Ally Inc. Senior Secured Credit Facility. At December 31, 2012, there were \$3.0 million of equity interests of these subsidiaries pledged to the Ally Inc. Senior Secured Credit Facility. Included in the table above is \$1.8 billion and \$2.0 billion at December 31, 2012 and December 31, 2011, respectively, of collateral pledged that can be re-hypothecated or re-pledged by the secured party.

The table above includes only Primary Collateral as defined in the Ally Inc. Senior Secured Credit facility agreement and excludes certain other assets that are subject to a lien for the benefit of the Ally Inc. Senior Secured Credit facility and the Junior

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Secured Notes As of December 31, 2012, the excluded assets in continuing operations were \$563.2 million and held-for-sale operations were \$146.7 million for a total \$709.9 million.

The following table summarizes the carrying value of assets pledged and the amount of related debt outstanding by facility, including assets classified as held-for-sale operations.

December 31, (\$ in thousands)	2012		2011	
	Total assets restricted as collateral (a)	Related secured debt	Total assets restricted as collateral	Related secured debt
Debtor-in-Possession Credit Facilities				
DIP	\$1,553,703	\$1,260,000	\$—	\$—
Ally DIP (b)	148,891	189,354	—	—
Borrowings from Affiliates				
Ally Inc. Senior Secured Credit facility	1,778,217	747,128	1,340,954	755,769
Ally Inc. LOC (b)	1,634,216	380,000	1,582,033	183,595
Ally Inc. Data Centers	5,539	6,000	—	—
BMMZ Repo	—	—	401,118	250,000
Collateralized borrowings in securitization trusts	595,437	500,762	918,232	830,318
Other borrowings				
Junior Secured Notes (c)	—	2,328,292	—	2,366,600
Mortgage servicing rights facility	503,251	152,000	634,345	323,000
Servicer advance funding facility	172,049	28,310	1,086,011	780,385
Home equity funding facility	117,418	101,921	153,191	135,800
Other secured facility	—	—	6,284	2,830
Total	\$6,508,721	\$5,693,767	\$6,122,168	\$5,628,297

(a) Includes only Primary Collateral as defined in the Ally Inc. Senior Secured Credit facility agreement and excludes certain other assets that are subject to a lien for the benefit of the Ally Inc. Senior Secured Credit facility and the Junior Secured Notes. As of December 31, 2012, the excluded assets totaled \$709.9 million.

(b) The Ally DIP is also secured by the same collateral that secures the Ally Inc. LOC.

(c) The Junior Secured Notes are secured by the same collateral that secures the Ally Inc. Senior Secured Credit facility.

12. Liabilities Subject to Compromise

Certain claims against the Debtors in existence prior to the Chapter 11 Cases (pre-petition liabilities) may be subject to compromise and are classified as liabilities subject to compromise in our Consolidated Balance Sheet. Effective on the Petition Date, we no longer accrue or pay contractual interest on liabilities subject to compromise. The following table summarizes our liabilities subject to compromise.

December 31, (\$ in thousands)	2012
Borrowings Subject to Compromise	
Junior Secured Notes	\$2,328,292
Senior Unsecured Notes	672,480
Foreign Unsecured Notes	300,900
Total borrowings subject to compromise	3,301,672
Liability for representation and warranty obligations	630,141
Interest payable	149,420
Reserve for legal proceedings	67,573
Accounts payable	22,143
Other liabilities (a)	44,266
Total other liabilities subject to compromise	913,543
Total liabilities subject to compromise	\$4,215,215

(a) Liabilities subject to compromise includes \$31.3 million of federal income tax payable accrued at the ResCap separate company subsidiary level pursuant to a tax allocation agreement with Ally Inc. These subject to compromise tax payables are partially offset by federal tax receivables accrued at ResCap and other ResCap separate company subsidiaries as a result of current and cumulative tax net operating loss carry forwards.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

13. Other Liabilities

The Debtors received approval to pay or otherwise honor certain pre-petition obligations generally designed to stabilize our operations, including certain employee wages and benefit obligations, cash management, tax matters, loan originations and servicing and payment of pre-petition claims of certain vendors deemed critical to our ongoing business.

Other liabilities includes pre-petition liabilities subject to first day motions, all post-petition liabilities and liabilities related to our non-debtor consolidated subsidiaries.

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
Liability for option to repurchase assets (a)	\$—	\$2,610,974	\$2,386,734
Executory contract cures	231,451	—	—
Accounts payable	192,202	22,395	360,726 (b)
Employee compensation and benefits	78,330	62,594	87,542
Mortgage foreclosure settlement	76,599	—	204,000
Liability for representation and warranty obligations	60,120	—	824,776 (b)
Reserve for insurance losses	54,316	—	91,615
Interest payable	12,408	351	62,225 (b)
Reserve for legal proceedings	8,480	—	94,516 (b)
Liability for assets sold with recourse	2,489	—	32,156 (b)
Fair value of derivative instruments	197	—	5,113,531
Payable to Ally Bank	—	—	21,001
Collateral received from derivative counterparties	—	—	656,109
Other	10,468	31,073	61,095 (b)
Total other liabilities	\$727,062	\$2,727,387	\$9,996,026

(a) We recognize a liability for the conditional repurchase option on certain assets held by off-balance sheet securitization trusts. The corresponding asset is recorded in mortgage loans held-for-sale. See Note 5 — Mortgage Loans Held-for-Sale and Note 7 — Securitizations and Variable Interest Entities for additional information.

(b) Includes amounts that are classified as liabilities subject to compromise at December 31, 2012. See Note 12 — Liabilities Subject to Compromise for additional information.

14. Other Revenue, Net

Year ended December 31, (\$ in thousands)	2012	2011	2010
Change due to fair value option elections			
Consumer mortgage finance receivables and loans, net	\$173,971	\$207,804	\$1,381,950
Collateralized borrowings	(216,944)	(271,799)	(1,588,233)
Loan broker fee from Ally Bank	184,214	55,622	64,543
Insurance income	16,061	21,540	35,462
Other	26,917	16,625	56,963
Total other revenue, net	\$184,219	\$29,792	(\$49,315)

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

15. Other Noninterest Expense, Net

Year ended December 31, (\$ in thousands)	2012	2011	2010
Loan administration fees	\$114,537	\$70,246	\$71,496
Ally Inc. shared services fees net	94,012	67,672	93,263
Legal fees	80,725	68,976	29,089
Equipment and supplies	29,705	30,582	32,057
Insurance losses	13,322	31,388	36,113
Advertising	7,039	18,162	369
Restructuring expense (reversals)	(1,931)	3,048	17,527
Real estate owned (recovery) expense	(3,734)	2,569	30,420
Other	55,606	77,709	79,676
Total other noninterest expense, net	\$389,281	\$370,352	\$390,010

16. Reorganization Items

Year ended December 31, (\$ in thousands)	2012
Professional fees	\$209,211
Debtor in possession credit facility issuance costs	60,799
Personnel	14,138
Debtor in possession credit facility commitment fees	920
Total reorganization items	\$285,068

17. Other Comprehensive Income

The following table summarizes our activity related to the components of other comprehensive income

Year ended December 31, (\$ in thousands)	Unrealized gain (loss) on available for sale securities (a)	Foreign currency translation adjustment (b)	Defined benefit pension plans over (under) funded (c)	Accumulated other comprehensive income (loss)
Balance January 1, 2010	(\$265)	\$5,637	(\$49,440)	(\$44,068)
2010 net change	1,607	21,728	(22,977)	358
Balance December 31, 2010	1,342	27,365	(72,417)	(43,710)
2011 net change	(1,342)	53	(16,867)	(18,156)
Balance at December 31, 2011	—	27,418	(89,284)	(61,866)
2012 net change	—	(7,390)	28,286	20,896
Balance at December 31, 2012	\$—	\$20,028	(\$60,998)	(\$40,970)

- (a) Represents the after-tax difference between the fair value and amortized cost of available for sale securities
- (b) Includes after-tax gains and losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar. There was zero tax impact to the net change amounts for the years ended December 31, 2012, 2011, and 2010, respectively.
- (c) Includes after-tax impact of the over (under)-funded status of our defined benefit plans. See Note 19 — Employee Benefit Plans for additional information.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

18. Income Taxes

The following table summarizes income (loss) from continuing operations before income tax expense

Year ended December 31, (\$ in thousands)	2012	2011	2010
U S (loss)	(\$825,342)	(\$732,517)	(\$116,458)
Non-U S income (loss)	46,056	(10,411)	662,022
Income (loss) from continuing operations before income tax expense	(\$779,286)	(\$742,928)	\$545,564

The significant components of income tax expense from continuing operations were as follows

Year ended December 31, (\$ in thousands)	2012	2011	2010
Current income tax expense (benefit)			
U S Federal	\$11,960	\$14,362	\$11,929
Foreign	(81)	(2,560)	(2,564)
State and local	926	4,249	(2,446)
Total current expense	12,805	16,051	6,919
Deferred income tax benefit			
U S Federal	(16,086)	—	—
Foreign	—	—	—
State and local	(841)	—	—
Total deferred tax benefit	(16,927)	—	—
Total income tax (benefit) expense from continuing operations	(\$4,122)	\$16,051	\$6,919

A reconciliation of the statutory U S Federal income tax rate to the effective income tax rate for continuing operations is shown in the following table

Year ended December 31,	2012	2011	2010
Statutory U S Federal rate	35.0%	35.0%	35.0%
Change in tax rate resulting from			
State and local income taxes, net of federal income tax benefit	2.6	3.5	2.7
Foreign capital loss	—	—	(0.2)
Effect of valuation allowance change	(39.3)	(39.1)	(33.9)
Other	2.2	(1.6)	(2.3)
Effective tax rate	0.5%	(2.2)%	1.3%

We continue to be in a net deferred tax asset position, which is fully offset by a valuation allowance. The net deferred tax asset includes a significant tax net operating loss carryforward. Thus, the year to date tax benefit on the loss from continuing operations is offset by an increase in the deferred tax asset valuation allowance. The tax benefit from continuing operations of \$4.1 million for the year ended December 31, 2012 relates primarily to a \$17.0 million reduction of expense stemming from the application of intra period tax allocation requirements which provide that all sources of future taxable income (e.g., other comprehensive income) be considered in determining the amount of tax benefits that result from a loss from continuing operations. Income tax expense of \$17.0 million was recorded in other comprehensive income, offsetting the \$17.0 million benefit in income tax expense. This benefit was offset by certain taxes that are not eligible to be offset by U S net operating losses including those on foreign income.

At December 31, 2012 and 2011, a valuation allowance has been established against the deferred tax asset to the extent it exceeds the deferred tax liability. A valuation allowance has been established because we have determined that it is more likely than not that all such tax assets will not be realized. The change in the valuation allowance is primarily the result of pre-tax net operating losses.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

The significant components of deferred tax assets and liabilities were as follows

December 31, (\$ in thousands)	2012	2011
Deferred tax assets		
Tax loss carryforwards	\$1,135,603	\$854,485
Provision for loan losses	268,680	348,338
Debt transactions	176,727	251,886
MSRs	125,586	94,627
State and local taxes	112,251	134,670
Pension	15,405	31,282
Mark-to-market on finance receivables and loans	54,724	83,709
Accruals not currently deductible	83,055	49,651
Basis difference in subsidiaries	473	62,192
Other	65,888	4,978
Gross deferred tax assets	2,038,392	1,915,818
Valuation allowance	(1,824,597)	(1,651,489)
Net deferred tax assets	213,795	264,329
Deferred tax liabilities		
Unrealized gains on securities	161,874	223,235
Sales of finance receivables and loans	51,921	41,094
MSRs	—	—
Gross deferred tax liabilities	213,795	264,329
Net deferred tax assets	\$—	\$—

At December 31, 2012 and 2011, we had U.S. Federal and state net operating loss carryforwards and capital loss carryforwards of \$1.4 billion and \$1.6 billion, respectively. The federal net operating loss carryforwards expire in the years 2029–2032. The capital loss carryforwards expire in the years 2014–2017. The corresponding expiration periods for the state operating and capital loss carryforwards are 2014–2032 and 2014–2017, respectively.

At December 31, 2012, we had foreign net operating loss carryforwards and capital loss carryforwards of \$157.7 million and \$21.6 million, respectively. The foreign net operating loss carryforwards and capital loss carryforwards in the U.K. of \$67.2 million and \$21.6 million, respectively, have an indefinite carryforward period with the remaining net operating loss carryforward of \$112.2 million expiring in the years 2012–2032.

At December 31, 2012 and 2011, there were no indefinitely reinvested earnings in foreign subsidiaries.

Tax benefits related to positions considered uncertain are recognized only if based upon the technical merits of the issue, it is more likely than not that we will sustain the position and then at the largest amount that is greater than 50% likely to be realized upon ultimate settlement.

The following table reconciles the beginning and ending amount of unrecognized tax benefits:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Balance at January 1,	\$6,351	\$3,936	\$3,482
Additions for tax positions of prior years	—	3,304	1,889
Reductions for tax positions of prior years	(3,304)	—	—
Settlements	—	(889)	(16)
Expiration of statute of limitations	(837)	—	(1,419)
Balance at December 31,	\$2,210	\$6,351	\$3,936

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

As of December 31, 2012, 2011 and 2010 the balance of unrecognized tax benefits that, if recognized, would affect our effective tax rate, is \$2.2 million, \$6.4 million, and \$3.9 million, respectively.

We recognize accrued interest and penalties related to uncertain income tax positions in interest expense and other noninterest expense, respectively. For the years ended December 31, 2012, 2011, and 2010, \$0.1 million, \$0.7 million, and \$0.4 million, respectively, were accrued for interest and penalties with the cumulative accrued balances totaling \$1.7 million and \$2.4 million at December 31, 2012 and 2011, respectively.

Ally Inc. anticipates the examination of various U.S. income tax returns along with the examinations by various foreign, state and local jurisdictions will be completed within the next twelve months. As such, it is reasonably possible that certain tax positions may be settled and the unrecognized tax benefits would decrease by approximately \$0.9 million.

Ally Inc. files tax returns in the U.S. Federal, various states and foreign jurisdictions. For the most significant operations, at December 31, 2012, the following summarizes the oldest tax years that remain subject to examination:

Jurisdiction	Tax Year
U.S.	2007
Canada	2008
Mexico	2007
Netherlands	2007
United Kingdom	2009

19. Employee Benefit Plans

We participate in the GMAC Mortgage Group defined benefit retirement plan. Effective December 31, 2006, benefit accrual of the defined benefit retirement plan was frozen. No further benefits accrued for participants subsequent to that date and no new entrants have been permitted to enter the plan. Based on the December 31, 2012 actuarial assessment, there is no contribution expected during 2013.

We participate in Ally Inc.'s defined contribution savings plan for domestic employees meeting certain eligibility requirements. Employees may contribute a percentage of eligible compensation to the plan, not to exceed annual IRS limits. Based on certain employee eligibility and vesting requirements and eligible compensation as defined by the plan, we contribute toward employees' post-retirement benefits in three ways: We contribute a 2% retirement contribution every pay period, a dollar-for-dollar matching contribution up to 6% each year, and an additional discretionary contribution of up to 2% based upon Ally Inc.'s performance. Funds contributed to, and earned by, the defined contribution savings plans can be withdrawn by participants only under specific conditions.

The following table summarizes information related to employee benefit plan expense from continuing operations:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Defined benefit retirement plan	\$67,568	(\$4,163)	(\$6,218)
Defined contribution savings plan	15,905	17,058	13,117
(Revenue) Expense total	\$83,473	\$12,895	\$6,899

The following table summarizes information related to the defined benefit retirement plan:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Benefit obligation	(\$133,115)	(\$274,802)	(\$251,489)
Fair value of plan assets	86,470	254,611	238,974
Underfunded status	(\$46,645)	(\$20,191)	(\$12,515)

Defined Benefit Pension Plan Actions

On October 19, 2012, the plan settled the retiree portion of the accrued benefit obligation through the purchase of non-participating annuity contract from a third-party insurance company that requires the insurance company to pay and administer all future annuity payments to the current retiree population of the plan at a total cost of \$36.0 million. On December 14, 2012, the plan

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

settled \$35.0 million in accrued benefit obligation through a voluntary lump-sum distribution to approximately 4,000 terminated employee plan participants. In connection with these combined actions, a settlement loss of \$72.0 million was recognized.

A reconciliation of the before and after settlement impact is presented below.

Year ended December 31, 2012 (\$ in thousands)	Prior to settlement	Effect of settlement	After settlement
Assets and obligations			
Accumulated benefit obligation (a)	(170,067)	36,952	(133,115)
Fair value of plan assets	158,280	(71,809)	86,471
Underfunded status	(11,787)	(34,857)	(46,644)
Net income (loss) (b)		34,857	

(a) The vested benefits of the retiree population of the plan were settled by using \$36 million of plan assets to purchase a nonparticipating annuity contract. The projected benefit obligation was reduced by \$37 million and a net gain of \$1 million was included in accumulated other comprehensive income.

(b) A lump-sum payment of \$35 million was made to settle pension obligations to the terminated employee population of plan participants. The payment was treated as a net loss of \$35 million included in accumulated other comprehensive income.

A reconciliation of the beginning and ending balances of the benefit obligation and fair value of plan assets is as follows:

(\$ in thousands)	Benefit obligation	Plan assets	Funded status
Balance at January 1, 2010	\$216,767	\$220,106	\$3,339
Interest cost	\$12,973	—	(\$12,973)
Net actuarial gain due to assumption changes	26,209	—	(26,209)
Net actuarial gain due to plan experience	1,345	—	(1,345)
Benefit payments	(5,805)	(5,805)	—
Actual return on assets	—	24,673	24,673
Balance at December 31, 2010	\$251,489	\$238,974	(\$12,515)
Interest cost	\$14,317	\$—	(\$14,317)
Net actuarial gain due to assumption changes	22,914	—	(22,914)
Net actuarial gain due to plan experience	(691)	—	691
Benefit payments	(13,227)	(13,227)	—
Actual return on assets	—	28,864	28,864
Balance at December 31, 2011	\$274,802	\$254,611	(\$20,191)
Interest cost	\$14,129	\$—	(\$14,129)
Net actuarial gain due to assumption changes	36,582	—	(36,582)
Net actuarial gain due to plan experience	915	—	(915)
Benefit payments	(7,146)	(7,146)	—
Settlement	(186,167)	(187,859)	(1,692)
Actual return on assets	—	26,864	26,864
Balance at December 31, 2012	\$133,115	\$86,470	(\$46,645)

The expected long-term return on plan assets is an estimate we determine by summing the expected inflation and the expected real rate of return on stocks and bonds based on allocation percentages within the trust. As of December 31, 2012, the target allocation of assets was 16% debt securities, 33% equity securities, 7% real estate and 44% other. The weighted average assumptions used for determining the net periodic benefit cost were as follows:

Year ended December 31,	2012	2011	2010
Discount rate	5.0%	5.5%	6.0%
Expected long-term return on plan assets	6.8%	8.0%	8.5%

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table presents the scheduled benefits expected to be paid in each of the next five years and an aggregate to be paid thereafter

Year ended December 31, (\$ in thousands)	Expected payments of benefits
2013	\$514
2014	934
2015	1,088
2016	1,468
2017	1,961
Five year period thereafter	18,604

20. Fair Value

Fair Value Measurements

Following are descriptions of the valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models and significant assumptions utilized

- **Mortgage loans held-for-sale** – We originate and purchase residential mortgage loans that we intend to sell to the GSEs. We also own nonagency eligible residential mortgage loans that were originated or purchased in prior years. Consumer mortgage loans we intend to sell to the GSEs are carried at fair value as a result of a fair value election. Our nonagency eligible residential mortgage loans are accounted for at the lower of cost or fair value. We elected to fair value nongovernment eligible mortgage loans held-for-sale subject to conditional repurchase options recognized on or after January 1, 2011. Only those non-fair value elected loans that are currently being carried at fair value are included within our nonrecurring fair value measurement table.

Mortgage loans held-for-sale are typically pooled together and sold into certain exit markets depending upon underlying attributes of the loan, such as agency eligibility, product type, interest rate and credit quality. Two valuation methodologies are used to determine the fair value of mortgage loans held-for-sale. The methodology used depends on the exit market as described below:

Loans valued using observable market prices for identical or similar assets (a Level 2 fair value) - Includes all agency-eligible mortgage loans carried at fair value due to fair value option election, which are valued predominantly using published forward agency prices. Also includes any domestic loans and foreign loans where recently negotiated market prices for the loan pool exist with a counterparty (which approximates fair value) or quoted market prices for similar loans are available.

Loans valued using internal models (a Level 3 fair value) - Includes all conditional repurchase option loans carried at fair value due to the fair value option election and all nonagency eligible residential mortgage loans that are accounted for at the lower of cost or fair value. The fair value of these residential mortgage loans are determined using internally developed valuation models because observable market prices were not available. The loans are priced on a discounted cash flow basis utilizing cash flow projections from internally developed models that utilize prepayment, default, and discount rate assumptions. To the extent available, we utilize market observable inputs such as interest rates and market spreads. If market observable inputs are not available, we are required to utilize internal inputs such as prepayment speeds, credit losses, and discount rates. While numerous controls exist to calibrate, corroborate, and validate the internal inputs, they require the use of judgment by us and can have a significant impact on the determination of the loan's fair value.

- **Consumer Finance receivables and loans, net** — We elected the fair value option for consumer mortgage finance receivables and loans related to our on-balance sheet securitizations. A description of these securitizations is provided in the *On-balance sheet securitization debt* section later in this Note. The remaining balance of our consumer finance receivables and loans are reported on our Consolidated Balance Sheet at their principal amount outstanding, net of charge-offs, allowance for loan losses, and net premiums/discounts.

For the securitization trusts for which we elected fair value option, the loans are measured at fair value using a portfolio approach. The values for loans that with other assets and liabilities constitute a securitization trust may differ considerably from loans held-for-sale that can be sold in the whole-loan market. This difference arises primarily due to the liquidity

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

of the ABS/MBS market and is evident in the fact that spreads applied to lower rated ABS/MBS are considerably wider than spreads observed on senior bond classes and in the whole-loan market. The objective in linking the fair value of these loans to the fair value of the related securitization debt is to properly account for our retained economic interest in the securitizations.

- **Mortgage servicing rights** — We use internally developed discounted cash flow models to estimate the fair value of MSR's. These internal valuation models estimate net cash flows based on internal operating assumptions that we believe would be used by market participants combined with market-based assumptions for loan prepayment rates, interest rates, and discount rates that management believes approximate yields required by investors in this asset. Cash flows primarily include servicing fees, float income, and late fees, in each case less estimated operating costs to service the loans. The estimated cash flows are discounted using an option-adjusted spread derived discount rate.
- **Derivative instruments** — We enter into a variety of derivative financial instruments as part of our risk management strategies. Certain of these derivatives are exchange traded, such as Eurodollar futures. To determine the fair value of these instruments, we utilize the exchange prices for the particular derivative contract; therefore, we classified these contracts as Level 1. We did not have any derivative assets or derivative liabilities reported at fair value as Level 1 at December 31, 2012.

We also execute over-the-counter derivative contracts, such as interest rate swaps, swaptions, forwards, caps, floors and agency-to-be-announced (TBAs) securities. We utilize third-party-developed valuation models that are widely accepted in the market to value our over-the-counter derivative contracts. The specific terms of the contract and market observable inputs (such as interest rate forward curves and interpolated volatility assumptions) are used in the model.

We also hold certain derivative contracts that are structured specifically to meet a particular hedging objective. These derivative contracts often are utilized to hedge risks inherent within certain on-balance sheet securitizations. To hedge risks on particular bond classes or securitization collateral, the derivative's notional amount is often indexed to the hedged item. As a result, we typically are required to use internally developed prepayment assumptions as an input into the model to forecast future notional amounts on these structured derivative contracts. Accordingly, we classified these derivative contracts as Level 3.

At December 31, 2012, we were counterparty to the Amended MMLPSA with Ally Bank, an agreement whereby we purchase Ally Bank's Ginnie Mae mortgage loans held-for-sale. The purchase price of the loans, as defined in the agreement, is structured so that Ally Bank is effectively reimbursed for the net cash paid to originate the related loans. Ally Bank's pricing of a loan to a borrower or correspondent is calculated using internally developed valuation assumptions; it is this price and related cash paid by Ally Bank to originate the loan that supports the value of the Amended MMLPSA, and therefore the Amended MMLPSA is classified as Level 3. See Note 24 — Related Party Transactions for additional information.

We are required to consider all aspects of nonperformance risk, including our own credit standing, when measuring fair value of a liability. We reduce credit risk on the majority of our derivatives by entering into legally enforceable agreements that enable the posting and receiving of collateral associated with the fair value of our derivative positions on an ongoing basis. In the event that we do not enter into legally enforceable agreements that enable the posting and receiving of collateral, we will consider our credit risk and the credit risk of our counterparties in the valuation of derivative instruments through a credit valuation adjustment (CVA), if warranted.

- **On-balance sheet securitizations** — We elected the fair value option for certain consumer mortgage finance receivables and loans, and securitization debt for certain of our on-balance sheet securitizations. The objective in measuring these loans and related securitization debt at fair value is to approximate our economic exposure to the collateral securing the securitization debt. The remaining on-balance sheet securitization debt that was not fair value option-elected is reported on the balance sheet at cost, net of premiums or discounts and all issuance costs.

We value securitization debt that was fair value option-elected, as well as any trading securities or interests retained in financial asset sales, using market observable prices whenever possible. The securitization debt is principally in the form of asset-backed and mortgage-backed securities collateralized by the underlying consumer mortgage finance receivables and loans. Due to the attributes of the underlying collateral and current capital market conditions, observable prices for these instruments are typically not available in active markets. We base valuations on internally developed discounted cash flow models that use a market-based discount rate. In order to estimate cash flows, we utilize various significant assumptions, including market observable inputs such as forward interest rates, as well as internally developed inputs such as prepayment speeds, delinquency levels, and credit losses. As a result of the reliance on significant

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

assumptions and estimates for model inputs at December 31, 2012. 100.0% of fair value option-elected securitization debt is classified as Level 3.

Recurring Fair Value

The following table presents our assets and liabilities from continuing operations measured at fair value on a recurring basis including financial instruments for which we elected the fair value option. See Note 4 - Discontinued Operations and Assets and Liabilities Held-for-Sale for additional information. In certain cases, we have historically economically hedge the fair value change of our assets or liabilities with derivatives and other financial instruments. The table below displays the hedges separately from the hedged items and therefore, does not directly display the impact of our risk management activities.

December 31, (\$ in thousands)	Recurring fair value measurements			
	Level 1	Level 2	Level 3	Total
2012				
Assets				
Mortgage loans held-for-sale (a)	\$—	\$13,156	\$—	\$13,156
Consumer mortgage finance receivables and loans, net (a)	—	—	469,923	469,923
Other assets				
Fair value of derivative contracts in receivable position				
Interest rate contracts	—	617	103	720
Total assets	\$—	\$13,773	\$470,026	\$483,799
Liabilities				
Collateralized borrowings				
On-balance sheet securitization debt (a)	\$—	\$—	(\$447,723)	(\$447,723)
Other liabilities				
Fair value of derivative contracts in liability position				
Interest rate contracts	—	(197)	—	(197)
Total liabilities	\$—	(\$197)	(\$447,723)	(\$447,920)
2011				
Assets				
Mortgage loans held-for-sale (a)	\$ —	\$ 27,253	\$ 29,723	\$ 56,976
Consumer mortgage finance receivables and loans, net (a)	—	—	835,192	835,192
Mortgage servicing rights	—	—	1,233,107	1,233,107
Other assets				
Fair value of derivative contracts in receivable position				
Interest rate contracts	61,025	4,780,995	35,038	4,877,058
Foreign currency contracts	—	139	—	139
Trading securities				
Mortgage- and asset-backed residential	—	434	32,869	33,303
Interests retained in financial asset sales	—	—	23,102	23,102
Total assets	\$ 61,025	\$ 4,808,821	\$ 2,189,031	\$ 7,058,877
Liabilities				
Collateralized borrowings				
On-balance sheet securitization debt (a)	\$ —	\$ —	\$ (829,940)	\$ (829,940)
Other liabilities				
Fair value of derivative contracts in liability position				
Interest rate contracts	(18,445)	(5,089,201)	(24)	(5,107,670)
Foreign currency contracts	—	(5,861)	—	(5,861)
Liability for option to repurchase assets (a)	—	—	(28,504)	(28,504)
Total liabilities	\$ (18,445)	\$ (5,095,062)	\$ (858,468)	\$ (5,971,975)

(a) Carried at fair value due to fair value option elections.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

The following table presents quantitative information regarding the significant unobservable inputs used in material Level 3 assets and liabilities from continuing operations measured at fair value on a recurring basis

December 31, 2012	(\$ in thousands)	Level 3 recurring measurements	Valuation technique	Unobservable input	Range
Assets					
Consumer mortgage finance receivables and loans, net (a)		\$469,923	Discounted cash flow	Prepayment rate	3.2% - 14.2%
				Default rate	1.2% - 13.1%
				Loss severity	41.0% - 100%
Liabilities					
Collateralized borrowings					
On-balance sheet securitization debt		(\$447,723)	(a)	(a)	(a)
(a) A portfolio approach links the value of the consumer mortgage finance receivables and loans net to the on-balance sheet securitization debt therefore the valuation technique, unobservable inputs, and related range for the debt is the same as the loans. Increases in prepayments which would primarily be driven by any combination of lower projected mortgage rates and higher projected home values would result in higher fair value measurement. These drivers of higher prepayments (increased ability to refinance due to lower rates and higher property values) have an opposite impact on the default rate creating an inverse relationship between prepayments and default frequency on the fair value measurements. Generally factors that contribute to higher default frequency also contribute to higher loss severity.					

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following tables present the reconciliation for all Level 3 assets and liabilities from continuing operations measured at fair value on a recurring basis. Transfers into or out of Level 3 are recognized as of the end of the reporting period in which the transfer occurred. In certain cases, we have historically economically hedged the fair value change of our assets or liabilities with derivatives and other financial instruments. The Level 3 items presented below may be hedged by derivatives and other financial instruments that are classified as Level 1 or Level 2. Thus, the following tables do not fully reflect the impact of our risk management activities.

	Level 3 recurring fair value measurements							
	January 1, 2012 level 3 fair value	Net gains/(losses) included in earnings						December 31, 2012 level 3 fair value
(\$ in thousands)		realized gains (losses)	unrealized gains (losses)	Purchases	Sales (g)	Issuances	Settlements	
Assets								
Mortgage loans held-for-sale	\$29,723	\$(1,021)	\$(924)	\$29,815 (a)	\$(29,678)	\$—	\$(27,915)	\$—
Consumer mortgage finance receivables and loans net	835,192	202,290 (b)	116,651 (b)	—	(305,571) (c)	—	(378,639)	469,923
Mortgage servicing rights	1,233,107	—	(399,742) (d)	—	(849,544)	16,179	—	—
Other assets								
Fair value of derivative contracts in receivable position net								
Interest rate contracts	35,014	(165,716) (d)	(889) (e)	—	—	—	131,694	103
Trading securities								
Mortgage- and asset-backed residential	32,869	(12,628) (f)	18,726 (f)	—	(25,750)	165	(13,382)	—
Interests retained in financial asset sales	23,102	(501) (f)	(5) (f)	—	—	—	(22,596)	—
Total assets	\$2,189,007	\$22,424	\$(266,183)	\$29,815	\$(1,210,543)	\$16,344	\$(310,838)	\$470,026
Liabilities								
Collateralized borrowings								
On balance sheet securitization debt	\$(829,940)	\$(136,017) (b)	\$(168,995) (b)	\$—	\$323,467 (c)	\$—	\$363,762	\$(5447,723)
Other liabilities								
Liability for option to repurchase assets	(28,504)	1,021	924	(29,815) (a)	28,649	—	27,725	—
Total liabilities	\$(858,444)	\$(134,996)	\$(168,071)	\$(29,815)	\$352,116	\$—	\$391,487	\$(5447,723)

(a) Includes fair value option elected conditional repurchase loans and the related liability. See Note 7 — Securitizations and Variable Interest Entities for additional information.

(b) Fair value adjustment reported in other revenue net and related interest on loans and debt are reported in interest income and interest expense, respectively.

(c) Includes removal of \$244.6 million from consumer mortgage finance receivables and loans and \$270.4 million from on balance sheet securitization debt as a result of deconsolidations in connection with the sale of our subsidiary GMAC Financiera. See Note 4 - Discontinued Operations and Assets and Liabilities Held for Sale for additional information.

(d) Fair value adjustment reported in servicing asset valuation and hedge activities net.

(e) See Note 21 — Derivative Instruments and Hedging Activities for the location of fair value adjustments in our Consolidated Statement of Comprehensive Income.

(f) Fair value adjustment reported in other revenue net. Interest accretion on these assets is reported in interest income.

(g) Reclassification of assets and liabilities of held-for-sale operations are presented as sales. See Note 4 - Discontinued Operations and Assets and Liabilities Held for Sale for additional information.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Level 3 recurring fair value measurements									
(<i>\$ in thousands</i>)	January 1 2011 Level 3 fair value	Net gains/(losses) included in earnings		Other comprehensive income (loss)	Purchases	Sales	Issuances	Settlements	December 31, 2011 Level 3 fair value
		realized gains (losses)	unrealized gains (losses)						
Assets									
Mortgage loans held-for-sale	\$4,084	\$271	(\$1,407)	\$—	\$46,520 (a)	(\$1,388)	\$—	(\$18,357)	\$29,723
Consumer mortgage finance receivables and loans net	1,014,703	217,293 (b)	135,203 (b)	—	—	—	—	(\$32,007)	815,192
Mortgage servicing rights	1,991,586	(173) (c)	(812,435) (c)	—	—	(401)	54,357	173	1,233,107
Other assets									
Fair value of derivative contracts in receivable (liability) position net									
Interest rate contracts	69,353	(377,100) (d)	255,705 (d)	—	—	—	—	87,056	35,014
Trading securities									
Mortgage- and asset-backed residential	44,128	(8,300) (e)	13,305 (e)	—	—	—	678	(16,942)	32,869
Available for sale securities									
Debt securities									
Mortgage backed residential	989	(150)	—	491	—	(1,007)	—	(323)	—
Interests retained in financial asset sales	20,588	(1,963) (f)	(3,270) (e)	—	—	—	—	7,747	23,102
Total assets	\$3,145,431	(\$170,122)	(\$412,899)	\$491	\$46,520	(\$2,796)	\$55,035	(\$472,653)	\$2,189,007
Liabilities									
Collateralized borrowings									
On-balance sheet securitization debt	(\$972,068)	\$ (187,395) (b)	\$ (184,701) (b)	\$—	\$—	\$—	\$—	\$514,224	(\$829,940)
Other liabilities									
Liability for option to repurchase assets	—	(99)	1,890	—	(46,662) (a)	—	—	16,367	(28,504)
Total liabilities	(\$972,068)	(\$187,494)	(\$182,811)	\$—	(\$46,662)	\$—	\$—	\$530,591	(\$858,444)

- (a) Includes newly recognized fair value option elected conditional repurchase loans and the related liability. See Note 7 — Securitizations and Variable Interest Entities for additional information.
- (b) Fair value adjustment reported in other revenue net and related interest on loans and debt are reported in interest income and interest expense respectively.
- (c) Fair value adjustment reported in servicing asset valuation and hedge activities net.
- (d) See Note 21 — Derivative Instruments and Hedging Activities for the location of fair value adjustments in our Consolidated Statement of Comprehensive Income.
- (e) Fair value adjustment reported in other revenue net. Interest accretion on these assets is reported in interest income.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Nonrecurring Fair Value

We may be required to measure certain assets or liabilities at fair value from time-to-time. These periodic fair value measures typically result from application of lower of cost or fair value or certain impairment measures. These items would constitute nonrecurring fair value measures. The table below presents those items from continuing operations we measured at fair value on a nonrecurring basis.

December 31, (\$ in thousands)	Nonrecurring fair value measures			Total estimated fair value	Lower of cost or fair value or valuation allowance	Total gains included in income from continuing operations	
	Level 1	Level 2	Level 3				
2012							
Mortgage loans held-for-sale (a)	\$—	\$—	\$590,715	\$590,715	(\$12,455)	n/m	(e)
Commercial finance receivables and loans, net (b)	—	134	—	134	—	n/m	(e)
Other assets							
Foreclosed assets (c)	—	—	9,583	9,583	(3,180)	n/m	(e)
Total	\$—	\$134	\$600,298	\$600,432	(\$15,635)	\$—	
2011							
Mortgage loans held-for-sale (a)	\$—	\$—	\$478,760	\$478,760	(\$60,233)	n/m	(e)
Commercial finance receivables and loans, net (b)	—	1,442	21,597	23,039	(14,978)	n/m	(e)
Other assets							
Foreclosed assets (c)	—	27,591	16,823	44,414	(12,581)	n/m	(e)
Real estate and other investments (d)	—	—	—	—	n/m	380	(f)
Total	\$—	\$29,033	\$517,180	\$546,213	(\$87,792)	\$380	

n/m = not meaningful

- (a) Represents loans or pools of loans held-for-sale that are required to be measured at lower of cost or fair value. Only loans or pools of loans with fair values below cost are included in the table above. The related valuation allowance represents the cumulative adjustment to fair value of those loans and pool of loans.
- (b) Represents the portion of the commercial portfolio that has been specifically impaired. The related valuation allowance represents the cumulative adjustment to fair value of those specific commercial finance receivables and loans and represents the most relevant indicator of the impact on earnings caused by the fair value measurement. The carrying values are inclusive of the respective loan loss allowance.
- (c) The allowance provided for foreclosed assets represents any cumulative valuation adjustments recognized to adjust the assets to fair value less costs to sell.
- (d) Certain assets within the model home portfolio have been impaired and are being carried at (a) estimated fair value if the model home is under lease or (b) estimated fair value less costs to sell if the model home is being marketed for sale.
- (e) We consider the applicable valuation to be the most relevant indicator of the impact on earnings caused by the fair value measurement. Accordingly, the table above excludes total gains and losses included in earnings for these items. The carrying values are inclusive of the respective valuation.
- (f) The total loss included in earnings is the most relevant indicator of the impact on earnings caused by the fair value measurement.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table presents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets from continuing operations measured at fair value on a nonrecurring basis

December 31, 2012 (\$ in thousands)	Level 3 nonrecurring measurements	Valuation technique	Unobservable input	Range (weighted average)
Assets				
Mortgage loans held-for-sale	\$590,715	Discounted cash flow	Prepayment speeds	1.8% - 12.6%
			Default rate	5.4% - 16.6%
			Loss severity	49.9% - 98.5%
			Discount Rate	14.55%

Fair Value Option for Financial Assets and Financial Liabilities

We have elected to value certain financial assets and liabilities at fair value consistent with our intent to mitigate a divergence between our accounting results and our retained economic exposure related to these assets and liabilities

Financial assets and liabilities elected to be measured at fair value are as follows

- **On-balance sheet securitizations** – We elected the fair value option for domestic on-balance sheet securitization trusts in which we estimated that the credit reserves pertaining to securitized assets could have exceeded or already had exceeded our economic exposure or were required to be consolidated upon the adoption of ASU 2009-17. The fair value option election was made at a securitization level and thus the election was made for both the consumer finance receivable and loans and the related securitization debt.

The fair value elected loan balances are recorded within consumer finance receivables and loans, net, unless they are repurchased from a securitization trust in which case they are recorded in mortgage loans held-for-sale or in assets of held-for-sale operations. Our policy is to separately record interest income on these fair value elected loans. The fair value adjustment recorded for consumer finance receivables and loans is classified as other revenue, net, and the fair value adjustment for mortgage loans held-for-sale is classified as gain on mortgage loans.

The fair value elected securitization debt balances are recorded within collateralized borrowings in securitization trusts or in liabilities of held-for-sale operations. Our policy is to separately record interest expense on the fair value elected securitization debt, which is classified as interest expense. The fair value adjustment recorded for this debt is classified as other revenue, net.

- **Government- and agency-eligible loans** – We elected the fair value option for government- and agency-eligible consumer mortgage loans held-for-sale. This election includes government- and agency-eligible loans we fund directly to borrowers and government- and agency-eligible loans we purchase from Ally Bank. The fair value option was elected to mitigate earnings volatility by better matching the accounting for the assets with the related hedges.

We carry fair value option-elected government- and agency-eligible loans within mortgage loans held-for-sale. Our policy is to separately record interest income on these fair value elected loans. Upfront fees and costs related to the fair value elected loans are not deferred or capitalized. The fair value adjustment recorded for these fair value option-elected loans is reported in gain on mortgage loans, net. The fair value option election is irrevocable once the loan is funded even if it is subsequently determined that a particular loan cannot be sold.

- **Conditional repurchase option loans and liabilities** – As of January 1, 2011, we elected the fair value option for both nongovernment eligible mortgage loans held-for-sale subject to conditional repurchase options and the related liability. The conditional repurchase option allows us to repurchase a transferred financial asset if certain events outside our control are met. The typical conditional repurchase option is a delinquent loan repurchase option that gives us the option to purchase the loan if it exceeds a prespecified delinquency level. We have complete discretion regarding when or if we will exercise these options, but generally, we would do so only when it is in our best interest. We are required to record the asset and the corresponding liability on our balance sheet when the option becomes exercisable. The fair value option election must be made at initial recording. As such, the conditional repurchase option loans and liabilities that were recorded prior to January 1, 2011, were not fair value elected.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The fair value elected conditional repurchase option loans are recorded within assets of held-for-sale operations. The fair value adjustment is classified as other revenue, net. We do not recognize interest income on conditional repurchase option loans until the option is exercised and the loan is repurchased.

The corresponding fair value elected liability is recorded in liabilities of held-for-sale operations. The fair value adjustment recorded for this liability is classified as other revenue, net.

The following table summarizes the fair value option elections for assets and liabilities from both continuing operations and held-for-sale operations and information regarding the amounts recognized in earnings for each fair value option-elected item.

Year ended December 31, (\$ in thousands)	Changes included in our Consolidated Statement of Comprehensive Income					(b)
	Interest income (expense) (a)	Gain on mortgage loans, net	Other revenue, net	Total included in net income	Change in fair value due to credit risk	
2012						
Assets						
Mortgage loans held-for-sale (c)	\$1,070	\$338,480	\$—	\$339,550	\$1,022	(d)
Consumer mortgage finance receivables and loans net	148,421	—	170,520	318,941	(38,637)	(e)
Liabilities						
Collateralized borrowings						
On-balance sheet securitizations	(87,069)	—	(217,942)	(305,011)	(10,448)	(f)
Liability for option to repurchase assets	—	—	1,945	1,945	(1,022)	
Total				\$355,425		
2011						
Assets						
Mortgage loans held-for-sale (c)	\$829	\$759,707	\$483	\$761,019	(\$305)	(d)
Consumer mortgage finance receivables and loans, net	171,233	—	207,804	379,037	(70,372)	(e)
Liabilities						
Collateralized borrowings						
On-balance sheet securitizations	(95,401)	—	273,590	178,189	(24,620)	(f)
Liability for option to repurchase assets	—	—	1,792	1,792	305	
Total				\$1,320,037		
2010						
Assets						
Mortgage loans held-for-sale (c)	\$1,025	\$905,940 (b)	\$2,778	\$909,743	\$134	(d)
Consumer mortgage finance receivables and loans net	519,351	—	1,379,170	1,898,521	23,248	(e)
Liabilities						
Collateralized borrowings						
On-balance sheet securitizations	(291,352)	—	(1,588,233)	(1,879,585)	8,156	(f)
Total				\$928,679		

- (a) Interest income on consumer mortgage finance receivables and loans and mortgage loans held-for-sale is measured by multiplying the unpaid principal balance on the loans by the coupon rate and the number of days of interest due. Interest expense on the on-balance sheet securitizations is measured by multiplying the bond principal by the coupon rate and days interest due to the investor.
- (b) Factors other than credit quality that impact the fair value include changes in market interest rates and the liquidity or marketability in the current marketplace. Lower levels of observable data points in illiquid markets generally result in wide bid/offer spreads.
- (c) Includes the gain/loss recognized on fair value option-elected government- and agency-eligible assets purchased from Ally Bank.
- (d) The credit impact for mortgage loans held-for-sale that are currently agency eligible is zero because the fair value option-elected GSE loans are salable and any unsalable assets are currently covered by a government guarantee. The credit impact for non-agency eligible loans and related liability was quantified by applying internal credit loss assumptions to cash flow models.
- (e) The credit impact for consumer mortgage finance receivables and loans was quantified by applying internal credit loss assumptions to cash flow models.
- (f) The credit impact for on-balance sheet securitization debt is assumed to be zero until our economic interests in a particular securitization is reduced to zero at which point the losses in the underlying collateral will be expected to be passed through to third party bondholders. Losses allocated to third party bondholders including changes in the amount of losses allocated will result in fair value changes due to credit. We also monitor credit ratings and may make credit adjustments to the extent any bond classes are downgraded by rating agencies.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The table below provides the fair value and the unpaid principal balance for our fair value option-elected loans and related collateralized borrowings

December 31, (\$ in thousands)	2012				2011	
	Continuing operations		Held-for-sale operations		Unpaid principal balance	Fair value (a)
	Unpaid principal balance	Fair value (a)	Unpaid principal balance	Fair value (a)		
Mortgage loans held-for-sale						
Total loans	\$12,925	\$13,156	\$60,841	\$30,708	\$84,099	\$56,975
Nonaccrual loans	1,016	817	57,315	27,967	53,502	27,297
Loans 90+ days past due (b)	827	625	57,124	27,834	53,312	27,179
Consumer mortgage finance receivables and loans, net						
Total loans	\$1,519,710	\$469,923	\$178,433	\$60,977	\$2,436,218	\$835,192
Nonaccrual loans	228,860	77,511 (c)	21,419	7,495 (c)	506,300	209,371 (c)
Loans 90+ days past due (b)	136,275	47,134 (c)	13,082	4,656 (c)	362,002	162,548 (c)
Collateralized borrowings						
On-balance sheet securitizations	(\$1,781,370)	(\$447,723)	(\$138,427)	(\$53,039)	(\$2,559,093)	(\$829,940)
Other liabilities						
Liability for option to repurchase assets	\$—	\$—	(\$59,291)	(\$28,649)	(\$56,568)	(\$28,504)

(a) Excludes accrued interest receivable

(b) Loans 90+ days past due are also presented within the nonaccrual loans and total loans except those that are government insured and still accruing

(c) The fair value of consumer mortgage finance receivables and loans is calculated on a pooled basis; therefore, we allocated the fair value of nonaccrual loans and 90+ days past due to individual loans based on the unpaid principal balances

Fair Value of Financial Instruments

The following table presents the carrying and estimated fair value of assets and liabilities from continuing operations and held-for-sale operations that are considered financial instruments. Accordingly, items that do not meet the definition of a financial instrument are excluded from the table. When possible, we use quoted market prices to determine fair value. Where quoted market prices are not available, the fair value is internally derived based on appropriate valuation methodologies with respect to the amount and timing of future cash flows and estimated discount rates. However, considerable judgment is required in interpreting market data to develop estimates of fair value, so the estimates using different market assumptions or estimation methodologies could be material to the estimated fair values. Fair value information presented herein was based on information available at December 31, 2012 and 2011.

December 31, (\$ in thousands)	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Mortgage loans held-for-sale				
Continuing operations	\$344,120	\$343,351	\$4,249,625	\$4,365,593
Held-for-sale operations	3,886,792	4,056,516	—	—
Finance receivables and loans, net				
Continuing operations	587,475	550,216	1,032,131	978,863
Held-for-sale operations	60,977	60,977	—	—
Liabilities				
Debtor-in-possession credit facilities	\$1,449,354	\$1,449,354	\$—	\$—
Borrowings from Affiliates	1,133,128	1,133,128	1,189,364	1,189,364
Other borrowings not subject to compromise	282,232	240,722	4,705,404	3,734,978
Other borrowings subject to compromise	3,301,672	2,582,838	(a)	(a)

(a) Not applicable for periods prior to May 14, 2012. Other borrowings at December 31, 2011 include borrowings that may be subject to compromise at December 31, 2012.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following describes the methodologies and assumptions used to determine fair value for the respective classes of financial instruments. In addition to the valuation methods discussed below, we also followed guidelines for determining whether a market was not active and a transaction was not distressed. As such, we assumed the price that would be received in an orderly transaction (including a market-based return) and not in a forced liquidation or distressed sale.

- **Mortgage loans held-for-sale** – Carrying value differs from fair value as certain loans may be required to be carried at cost under lower of cost or fair value measurements (i.e. fair value is greater than cost). See discussion of valuation methods and assumptions used for mortgage loans held-for-sale within the *Fair Value Measurement* section of this Note.
- **Consumer mortgage finance receivables and loans, net** – Consumer mortgage finance receivables and loans that are not fair value elected use valuation methods and assumptions similar to those used for mortgage loans held-for-sale. These valuations take into account the unique attributions of the respective mortgage loans, such as geography, delinquency status, product type, and other factors.
- **Debtor-in-possession credit facilities** – The DIP and Ally DIP facilities were recently negotiated and bear interest at floating rates plus a market based spread. Thus, carrying value approximates fair value.
- **Borrowings from Affiliates** – Fair value was determined based upon estimated redemption amounts, not adjusted for any settlements that might ultimately be agreed and approved, which approximates carrying value.
- **Other borrowings not subject to compromise** – Fair value was determined based upon estimated redemption amounts, not adjusted for any settlements that might ultimately be agreed and approved.
- **Other borrowings subject to compromise** – Primarily represents our secured and unsecured notes. Our secured and unsecured notes are valued based on market observable prices.

21. Derivative Instruments and Hedging Activities

In anticipation of our bankruptcy filing, on May 10, 2012 we terminated all of our hedge transactions with respect to our MSRs and foreign currency exposure. Post-petition, we continue to enter into hedge transactions to mitigate our economic exposure to changes in interest rates and other market risks associated with mortgage loans held-for-sale. In connection with the termination of certain of our agreements with Ally Bank, effective April 30, 2012, we terminated certain of our hedge transactions. We have historically entered into interest rate and foreign currency swaps, futures, forwards, options, swaptions, and TBAs in connection with our risk management activities. Our primary objective for executing these financial instruments was to mitigate our economic exposure to future events that are outside our control. These financial instruments were utilized principally to manage market risk and cash flow volatility associated with mortgage loans held-for-sale and MSRs, including our total return and forward flow agreements with Ally Bank. See Note 24 — Related Party Transactions for additional information. We do not, and did not, transact derivative instruments for reasons beyond risk management.

In addition to derivatives transacted as part of our risk management activities, we create derivative contracts as part of our ongoing operations. In particular, we execute forward mortgage loan purchase and sale commitments with Ally Bank and financial institutions, respectively.

Additionally, we enter into commitments with mortgage borrowers that require us to originate a mortgage at a stated amount and rate; these are derivative contracts if our intent is ultimately to hold the originated loan for sale. We refer to commitments to purchase mortgage loans from Ally Bank and commitments to originate mortgage loans held-for-sale, collectively, as interest rate lock commitments (IRLCs).

The following summarizes our significant asset and liability classes, the risk exposures for these classes, and our risk management activities utilized to mitigate certain of these risks. The discussion includes both derivative and nonderivative financial instruments utilized as part of these risk management activities.

Interest Rate Sensitive Assets/Liabilities

- **Mortgage loan commitments and loans held-for-sale** — We are exposed to interest rate risk from the time an IRLC is made, either directly or indirectly through the Amended MMLPSA with Ally Bank, until the time the mortgage loan is sold. See Note 23 - Commitments, Contingencies and Other Risks for additional information. Changes in interest rates impact the market price for the mortgage loan; as market interest rates decline, the value of existing IRLCs and mortgage

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

loans held-for-sale increase and vice versa. The primary objective of our risk management activities related to IRLCs and mortgage loans held-for-sale is to eliminate or reduce any interest rate risk associated with these assets.

We enter into forward sale contracts of mortgage-backed securities, primarily agency TBAs, as our primary strategy to mitigate this risk. These contracts are typically entered into at the time the interest rate lock commitment is made. The value of the forward sales contracts moves in the opposite direction of the value of our IRLCs and mortgage loans held-for-sale. We may also use other derivatives, such as options and futures, to economically hedge certain portions of the portfolio. Nonderivative instruments, such as short positions on U.S. Treasuries, may also be used to economically hedge the portfolio. We monitor and actively manage our risk on a daily basis; therefore trading volume can be significant.

We do not apply hedge accounting to our derivative portfolio held to economically hedge our IRLCs and mortgage loans held-for-sale. Included in the derivatives on IRLCs and mortgage loans held-for-sale is the Amended MMLPSA with Ally Bank with a fair value of \$0.6 million and an outstanding notional of \$46.6 million at December 31, 2012. See Note 24 — Related Party Transactions for additional information.

- **Mortgage servicing rights and other retained interests** — Our MSR and retained interests are generally subject to loss in value when mortgage rates decline. Declining mortgage rates generally result in an increase in refinancing activity, which increases prepayments and results in a decline in the value of MSRs and other retained interests. To mitigate the impact of this risk, we maintained a portfolio of financial instruments, primarily derivatives, which increased in value when interest rates declined. The primary objective was to minimize the overall risk of loss in the value of MSRs and other retained interests due to the change in fair value caused by interest rate changes and their interrelated impact to prepayments.

We used a variety of derivative instruments to manage the interest rate risk related to MSRs and other retained interests. These included, but were not limited to, interest rate futures, call or put options on U.S. Treasuries, swaptions, mortgage-backed securities (MBS) futures, U.S. Treasury futures, interest rate swaps, interest rate floors and caps. While we do not currently utilize nonderivative instruments (i.e., U.S. Treasuries) to hedge this portfolio, we have utilized them in the past and may utilize them again in the future. We are not currently hedging in connection with our MSRs and retained interests.

Prior to May 1, 2012, derivatives hedging MSRs and retained interests included a total return swap with Ally Bank. Under the terms of the total return swap, Ally Bank transferred the total economic return of a specified portfolio of MSRs owned by Ally Bank to us in exchange for a variable payment based on a fixed spread to LIBOR. This agreement was terminated on April 30, 2012. See Note 24 — Related Party Transactions for additional information.

Foreign Currency Risk

We have operations outside the United States. Our foreign subsidiaries maintain both assets and liabilities in local currencies that are deemed to be the functional currencies of these subsidiaries for accounting purposes. Foreign currency exchange rate gains and losses arise when assets or liabilities are denominated in currencies that differ from the entities functional currency and are revalued into the functional currency. In addition, our equity is impacted by the cumulative translation adjustments recognized in other comprehensive income resulting from the translation of foreign subsidiary results to U.S. dollars. Foreign currency risk is reviewed as part of our risk management process. The principal currencies creating foreign exchange risk are the U.K. Sterling and the Euro.

Until May 10, 2012, we economically hedged foreign currency risk related to assets and liabilities that were denominated in currencies in our U.S. dollar functional currency entities. The principal objective of the foreign currency hedges was to mitigate the earnings volatility specifically created by foreign currency exchange rate gains and losses. We held forward currency contracts to mitigate risk against currency fluctuation in the U.K. Sterling and the Euro. We did not elect to treat any foreign currency swaps as hedges for accounting purposes, principally because the changes in the fair values of the foreign currency swaps were substantially offset by the foreign currency revaluation gains and losses of the underlying assets and liabilities.

Credit Risk and Collateral Arrangements

Derivative financial instruments contain an element of credit risk if counterparties, including affiliates, are unable to meet the terms of their agreements. Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties that owe us under the contracts completely fail to perform under the terms of those contracts, assuming there are no recoveries of underlying collateral, as measured by the fair value of the derivative financial instruments. At December 31, 2012 and December 31, 2011, the fair value of derivative financial instruments in an asset or receivable position, were \$0.7 million and \$4.9 billion, including \$0.6 million and \$3.2 billion with affiliates, respectively.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

As a result of the Chapter 11 Cases, the number of counterparties willing to enter into derivative transactions with us is limited. As a result, our primary counterparty is Ally Investment Management, Inc. (Ally IM), a wholly owned subsidiary of Ally Inc. We have entered into legally enforceable agreements that permit the closeout and netting of transactions with the same counterparty upon occurrence of certain events. To further mitigate the risk of counterparty default, we execute collateral agreements with counterparties. The agreements require both parties to maintain cash deposits in the event the fair values of the derivative financial instruments meet established thresholds. We have received cash deposits from counterparties totaling \$0.0 million and \$656.1 million at December 31, 2012 and December 31, 2011, respectively, for derivative positions in an asset position to us. We have placed cash deposits totaling \$10.0 million and \$1.1 billion at December 31, 2012 and December 31, 2011, respectively, in accounts maintained by counterparties for derivative positions in a liability position to us. The cash deposits placed and received are included in accounts receivable, other assets and other liabilities.

We are not exposed to credit risk related contingent features in any of our derivative contracts that could be triggered and potentially could expose us to future loss.

Consolidated Balance Sheet Presentation

The following table summarizes the location and fair value amounts of derivative instruments reported on our Consolidated Balance Sheet. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualifying as hedging instruments and those that are not and further segregated by type of contract within those two categories.

December 31, (\$ in thousands)	2012			2011		
	Fair value of derivative contracts in			Fair value of derivative contracts in		
	Receivable position (a)	Payable position (b)	Notional amount	Receivable position (a)	Payable position (b)	Notional amount
Economic hedges						
Interest rate risk						
MSRs and retained interests	\$—	\$—	\$—	\$4,811,804	(\$5,011,576)	\$523,142,192
Mortgage loans held-for-sale	—	(197)	86,500	8,770	(96,077)	17,323,000
Debt	—	—	—	21,066	—	251,790
Total interest rate risk	—	(197)	86,500	4,841,640	(5,107,653)	540,716,982
Foreign exchange risk	—	—	—	520	(5,873)	3,157,000
Non-risk management derivatives						
Ally Bank MSR swap	—	—	—	17,681	—	1,384,835
Ally Bank forward flow	617	—	46,629	16,423	—	9,825,783
Mortgage loan commitments	103	—	4,793	933	(5)	77,633
Total derivatives	\$720	(\$197)	\$137,922	\$4,877,197	(\$5,113,531)	\$555,162,233

(a) Presented in other assets

(b) Presented in other liabilities

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Consolidated Statement of Comprehensive Income Presentation

The following table summarizes the location and amount of gains and losses from continuing operations reported in our Consolidated Statement of Comprehensive Income related to derivative instruments. Gains and losses are presented separately for derivative instruments designated and qualifying as hedging instruments in fair value hedges and non-designated hedging instruments. We currently do not have qualifying cash flow or foreign currency hedges.

Year Ended December 31, (\$ in thousands)	2012	2011	2010
Qualifying accounting hedges			
Gain (loss) recognized in earnings on derivatives			
Interest rate contracts			
Interest income	\$—	(\$3,411)	\$1,918
Gain recognized in earnings on hedged item			
Interest rate contracts			
Interest expense	—	3,654	3,489
Total qualifying accounting hedges	—	243	5,407
Economic hedges			
Risk management derivatives			
Gain (loss) recognized in earnings on derivatives			
Interest rate contracts			
Interest expense	(2,908)	(2,512)	(10,389)
Gain on mortgage loans, net	(130,902)	(721,939)	(336,417)
Servicing asset valuation and hedge activities, net	222,532	816,243	477,977
Other revenue, net	—	(11,956)	(3)
Total interest rate contracts	88,722	79,836	131,168
Foreign exchange contracts			
Other noninterest expense, net	(1,464)	(21,296)	37,813
Non-risk management derivatives			
Gain on mortgage loans, net	(56,767)	238,024	(65,474)
Servicing asset valuation and hedge activities, net	(108,949)	(359,523)	469,945
Total derivatives	(\$78,458)	(\$62,716)	\$578,859

Our derivative portfolios generally are reflected in the operating activities section of our Consolidated Statement of Cash Flows. Derivative fair value adjustments are captured in our Consolidated Statement of Comprehensive Income line items described in the table above and, accordingly, are generally reflected within the respective line items within the reconciliation of net income (loss) to net cash provided by operating activities section of our Consolidated Statement of Cash Flows. The remaining changes in derivative portfolio values are generally reflected within the net change in other assets or net change in other liabilities line items on our Consolidated Statement of Cash Flows.

22. Nonperforming Assets

Nonperforming assets include nonaccrual loans and foreclosed assets. The classification of a loan as nonperforming does not necessarily indicate that the principal amount of the loan is ultimately uncollectible in whole or in part. In certain cases, borrowers make payments to bring their loans contractually current and, in all cases, our mortgage loans are collateralized by residential real estate. As a result, our experience has been that any amount of ultimate loss for mortgage loans other than home equity loans is substantially less than the unpaid principal balance of a nonperforming loan.

Delinquent loans expose us to higher levels of credit losses and therefore are considered higher risk loans. The determination as to whether a loan falls into a particular delinquency category is made as of the close of business on the balance sheet date.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table sets forth information concerning the delinquency experience in our mortgage loans held-for-sale and consumer finance receivable and loans at carrying value

December 31, (\$ in thousands)	2012				2011	
	Continuing operations		Held-for-sale operations		Amount	% of total
	Amount	% of total	Amount	% of total		
Current	\$677,922	72.2%	\$977,212	24.8%	\$2,003,928	38.0%
Past due						
30 to 89 days	60,311	6.4%	76,942	1.9%	137,590	2.6%
90 days or more and still accruing interest (a)	90,237	9.6%	—	—%	73,661	1.4%
90 days or more conditional repurchase option loans	—	—%	2,635,168 (b)	66.8%	2,379,926 (b)	45.1%
Nonaccrual	110,444	11.8%	258,448	6.5%	677,250	12.9%
Total	938,914	100.0%	3,947,770	100.0%	5,272,355	100.0%
Allowance for loan losses	(7,453)		—		(13,638)	
Total, net	\$931,461		\$3,947,770		\$5,258,717	

(a) Loans that are 90 days or more delinquent and still accruing interest are government insured

(b) We do not record interest income on conditional repurchase option loans. If these options were exercised and we acquired the loans \$2.5 billion and \$2.3 billion would be classified as 90 days or more and still accruing due to government guarantees at December 31, 2012 and December 31, 2011, respectively. The private-label conditional repurchase option loans of \$84.7 million and \$105.8 million would be classified as nonaccrual at December 31, 2012 and December 31, 2011, respectively.

The following table presents the net carrying value of nonperforming assets

December 31, (\$ in thousands)	2012		2011
	Continuing operations	Held-for-sale operations	
Nonaccrual consumer			
1st Mortgage	\$82,836	\$226,502	\$462,275
Home equity	24,861	31,946	71,787
Foreign	2,747	—	143,188
Total nonaccrual consumer	110,444	258,448 (a)	677,250 (a)
Nonaccrual commercial			
Domestic	—	—	—
Foreign	—	—	12,534
Total nonaccrual commercial	—	—	12,534
Foreclosed assets	20,822	—	71,485
Total nonperforming assets	\$131,266	\$258,448	\$761,269

(a) Excludes loans subject to conditional repurchase options of \$2.5 billion and \$2.3 billion sold to Ginnie Mae guaranteed securitizations and \$84.7 million and \$105.8 million sold to off-balance sheet private-label securitization trusts at December 31, 2012 and December 31, 2011, respectively. The corresponding liability is recorded in liabilities of operations and other liabilities, respectively. See Note 7 — Securitizations and Variable Interest Entities for additional information.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

23. Commitments, Contingencies and Other Risks

Financing Commitments

The contract amount of financing commitments were as follows

December 31, (\$ in thousands)	Contract amount	
	2012	2011
Commitments to		
Originate/purchase mortgage loans or securities	\$51,422	\$9,903,415
Sell mortgage loans or securities (a)	—	12,632,000
Home equity lines of credit	—	1,648,388
Provide capital to investees	—	9,000

(a) Includes \$6.3 billion as of December 31, 2011 of commitments to sell securities to Ally IM under outstanding TBA transactions. See Note 21 - Derivative Instruments and Hedging Activities for additional information.

Commitments to originate/purchase mortgage loans or securities

Historically, prior to mortgage funding, we committed to originate loans under IRLCs with borrowers whereby we committed to fund loans at a set interest rate, provided the borrower elected to close the loan. We also committed to purchase loans from Ally Bank. Since our Chapter 11 filing, we have not committed to originate loans directly to borrowers, except in Ohio and Nevada. We have, however, committed to purchase, and have purchased, from Ally Bank mortgage loans insured by the FHA or guaranteed by the VA pursuant to the Amended MMLPSA. Our commitment to purchase mortgage loans pursuant to that agreement terminated upon the closing of our servicing platform sale on February 15, 2013, except with respect to the remaining pipeline of mortgage loans that Ally Bank had committed to a borrower, prior to February 15, 2013 to originate, but which had not yet been originated as of such date. The estimated fair value for these commitments is the current estimated fair value of the underlying mortgage loan less the par value of committed loan amount, adjusted for anticipated net origination costs and fees and any loans that are not expected to be funded based on our historical experience. The determination of the underlying mortgage loan fair value is estimated using published market information associated with commitments to sell similar instruments. All of these commitments were accounted for as derivatives during the years ended December 31, 2012 and 2011.

Commitments to sell mortgage loans or securities

We enter into forward delivery commitments to sell mortgages and MBS to third party investors. The forward sale commitments obligate us to sell a certain amount of loans or securities within a certain range of interest rates in a specified time period. Due to the nature of the commitment, we are exposed to interest rate and market rate risk during the commitment period. All of these commitments were accounted for as derivatives at December 31, 2012 and 2011.

Home equity lines of credit

Prior to the Petition Date, we had commitments to fund the remaining undrawn balances on home equity lines of credit ("HELOCs"). Effective as of the Petition Date, pursuant to an order of the Bankruptcy Court, the Debtors ceased funding any HELOC draws.

Other Commitments and Contingencies

As described in Note 1 - Description of Business, Basis of Presentation and Changes in Significant Accounting Policies and Note 2 - Voluntary Reorganization Under Chapter 11, on May 14, 2012, the Debtors filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Under Chapter 11, the filing of a bankruptcy petition automatically stays most actions against the Debtors, including, except otherwise noted, the matters described below, and most other actions to collect pre-petition liabilities are expected to be resolved under the Plan, if not otherwise satisfied pursuant to orders of the Bankruptcy Court. Our material pre-petition contingencies and other risks are described below.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

Mortgage Foreclosure Matters

Settlements with Federal Government and State Attorneys General

On February 9, 2012, Ally Inc., ResCap and certain of our subsidiaries reached an agreement in principle with respect to investigations into procedures followed by mortgage servicing companies and banks in connection with mortgage origination and servicing activities and foreclosure home sales and evictions. On March 12, 2012, the DOJ Settlement was filed as a consent judgment in the U.S. District Court for the District of Columbia. In addition, we separately reached an independent settlement with Oklahoma, which did not participate in the broader settlement described below, and agreements with two other states for other releases.

The DOJ Settlement generally resolves potential claims by the state and federal authorities party to the DOJ Settlement arising out of origination and servicing activities and foreclosure matters, subject to certain exceptions. The DOJ Settlement does not prevent state and federal authorities from pursuing criminal enforcement actions, securities-related claims (including actions related to securitization activities and Mortgage Electronic Registration Systems, or MERS), loan origination claims, claims brought by the Federal Deposit Insurance Corporation (FDIC) and certain other matters. The DOJ Settlement also does not prevent claims that may be brought by individual borrowers.

The DOJ Settlement requires that we provide at least \$200 million toward borrower relief, provides incentives for borrower relief that is provided within the first twelve months, and requires that all obligations must be met by March 12, 2015, three years from the date the consent judgment was filed. In addition, we were required to implement new servicing standards relating to matters such as foreclosure and bankruptcy information and documentation, oversight, loss mitigation, limitations on fees, and related procedural matters. Compliance with these obligations is overseen by an independent monitor, who has authority to impose additional penalties and fines if we fail to meet established timelines or fail to implement required servicing standards. Under the terms of the Asset Purchase Agreement and related documents that we entered into with the purchasers of our Platform Assets, the purchasers agreed to comply with the terms of the DOJ Settlement and cooperate with us in connection with continuing compliance and the monitor's oversight work.

In connection with the DOJ Settlement, we paid \$109.6 million to a trustee, for distribution to federal and state governments in March 2012. In addition, we also paid \$2.3 million in connection with separate state agreements. Our obligation to provide borrower relief can be satisfied by loan modifications, including principal reductions, rate modifications, and refinancing for borrowers that meet certain requirements, and participation in certain other programs. Generally, if certain basic criteria are met, borrowers that are either delinquent or at imminent risk of default and owe more on their mortgages than their homes are worth could be eligible for principal reductions, and borrowers that are current on their mortgages but who owe more on their mortgage than their homes are worth could be eligible for refinancing opportunities.

Also as part of the DOJ Settlement, we agreed to solicit borrowers in both our own and Ally Bank's loan portfolios that were eligible for rate and principal modifications as of March 1, 2012. We are committed to provide loan modifications to all borrowers who accept a modification offer within three months of the solicitation. We also agreed to provide loan modifications to borrowers who accept a modification offer within six months of the solicitation, unless and until total borrower relief provided exceeds \$250.0 million. We estimated an eligible population of approximately 14,000 borrowers. At December 31, 2012, we had solicited or reviewed applications of approximately 11,400 borrowers and completed approximately 4,860 refinancings or modifications. We have also executed approximately 4,100 other non-modification borrower relief transactions, including waivers of foreclosure and short sale deficiencies. These non-modification borrower relief transactions include deficiency waivers where we have a valid deficiency under state laws. At December 31, 2012, we had achieved borrower relief credits, subject to caps and limitations of the DOJ Settlement and including incentives for activities completed within the first twelve months, of approximately \$336.8 million. This includes modifications that have not yet met the 90 day borrower performance requirement.

On February 14, 2013, the Office of Mortgage Servicer Oversight (Monitor) filed an Interim Consumer Relief Report and Certification with the U.S. District Court for the District of Columbia in respect of the DOJ Settlement, certifying that ResCap has provided more than \$250 million in consumer relief. Based on that certification, we have exceeded the minimum amount of consumer relief required by the DOJ Settlement and are not required to provide more consumer relief except in respect of any relief that may be provided in the remaining outstanding borrower solicitations referenced above. We believe we will complete the solicitation process during the third quarter of 2013.

We have reimbursed Ally Bank \$87.9 million in connection with eligible borrower relief actions completed with respect to their loan portfolio. See Note 24 - Related Party Transactions for additional information. The liability for remaining borrower relief obligations including future reimbursement to Ally Bank, is \$42.2 million at December 31, 2012 and is recorded in other liabilities.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The Indemnification Agreement with and among the Debtors, Ally Inc., Ally Bank and the UCC provides that we will reimburse Ally Bank to the extent borrower relief transactions are executed in respect of the Ally Bank loan portfolios. Simultaneously with any reimbursement payments by the Debtors to Ally Bank in connection with borrower relief activities, Ally Inc. agreed to fund an escrow account in an equal amount to any post petition reimbursement payment by any Debtors. The Debtors have made payments of \$39.3 million to Ally Bank that are subject to the escrow provisions of the Indemnification Agreement through December 31, 2012. At December 31, 2012, we have recorded a liability of \$39.3 million for estimated future reimbursements to Ally Bank in connection with the Indemnification Agreement.

Federal Reserve Board Civil Money Penalty

On February 9, 2012, Ally Inc. and ResCap agreed with the Board of Governors of the Federal Reserve (FRB) on a civil money penalty of \$207.0 million related to the same activities that were the subject of the DOJ Settlement. This amount will be reduced dollar-for-dollar in connection with certain aspects of our satisfaction of the required monetary payment and borrower relief obligations included within the DOJ Settlement, as well as our participation in other similar programs that may be approved by the FRB. We believe we have satisfied the amount of the civil money penalty by virtue of the borrower relief obligations completed to date under the DOJ Settlement.

Other Mortgage Foreclosure Matters

Consent Order

As a result of an examination conducted by the FRB and FDIC on April 13, 2011, we entered into a Consent Order (the Consent Order) with the FRB and the FDIC. The Consent Order required that we make improvements to various aspects of our residential mortgage loan-servicing business, including compliance programs, internal audit, communications with borrowers, vendor management, management information systems, employee training, and oversight by our Board of Directors.

The Consent Order required GMAC Mortgage to retain independent consultants to conduct a risk assessment related to mortgage servicing activities and separately to conduct a review of certain past residential mortgage foreclosure actions. The risk assessment was completed in 2011. The review of past residential mortgage foreclosures is still underway. We have recorded a liability for potential remediation payments to borrowers of \$33.5 million at December 31, 2012. The liability is recorded in other liabilities. We currently estimate our remediation obligations could range from \$31.9 million to \$59.3 million. This range reflects management's estimates using a variety of assumptions, including the severity and number of individual penalties. To the extent these assumptions change, the range of potential obligations could change. We estimate additional future out-of-pocket costs in connection with the foreclosure review of up to \$320.6 million.

On October 11, 2012, the Bankruptcy Court issued orders approving our motions to continue to pay certain professionals in connection with the our obligations under the Consent Order and to continue to take such actions that are necessary to comply with and adhere to the terms of the Consent Order and the DOJ Settlement. On four occasions, the Bankruptcy Court entered further interim orders extending the Debtors' authority to pay these professionals.

On February 27, 2013, we filed with the Bankruptcy Court a motion disclosing updated estimates reflecting that the overall costs of conducting the foreclosure review and paying any associated remediation. Our current estimate as of the date of the financial statements is these costs could potentially reach \$431.0 to \$458.4 million. In this motion, we requested that the Bankruptcy Court enter an order classifying GMAC Mortgage's foreclosure review obligation as a general unsecured claim for purposes of any plan filed in our Chapter 11 Cases and concluding that the automatic stay of section 362(a) of the United States Bankruptcy Code prevents any attempt by the government to enforce the foreclosure review obligation outside of the Chapter 11 Cases. A final hearing on the motion is expected to be set for late April 2013 or early May 2013.

On January 7, 2013, the FRB, FDIC and OCC reached a settlement pursuant to which ten other mortgage servicers could satisfy foreclosure review requirements in their respective consent orders by making a lump sum payment into a settlement fund to be distributed among an even larger population of borrowers than are the subject of the foreclosure review process, and providing certain borrower assistance. The Debtors were offered the opportunity to enter into the settlement reached with those other servicers, but no settlement has yet been reached. The Debtors anticipate that discussions will continue with the FRB in respect of a potential settlement of their foreclosure review obligations.

There are potential risks related to these mortgage foreclosure matters that extend beyond potential liability on individual foreclosure actions. Specific risks could include, for example, claims and litigation related to foreclosure remediation and resubmission claims from investors that hold securities that become adversely impacted by continued delays in the foreclosure process, the reduction in foreclosure proceeds due to delay, or by challenges to completed foreclosure sales to the extent, if any, not covered by title insurance obtained in connection with such sales actions by courts, state attorneys general, or regulators to delay further the foreclosure process after submission of corrected affidavits, or to facilitate claims by borrowers alleging that they were

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

harm by our foreclosure practices (by, for example, foreclosing without offering an appropriate range of alternative home preservation options) additional regulatory fines, sanctions, and other additional costs, and reputational risks. To the extent any such claims exist, however, the associated proofs of claim would have needed to be received by the November 16, 2012 general claims bar date set by the Bankruptcy Court. Any claimants who did not file their proofs of claim in accordance with the bar date order are forever barred, estopped and enjoined from asserting such claim against the Debtors.

Loan Repurchases and Obligations Related to Loan Sales

As a result of our Chapter 11 Cases, we have classified the portion of the liability related to non-GSE representation and warranty obligations as subject to compromise. We have also engaged in settlement discussions with certain investors in our private-label securitizations and have reached a proposed settlement agreement. Any settlement agreement is subject to approval by the Bankruptcy Court. See *Private-label Securitizations (PLS)* below for additional information.

Overview

We have sold loans that take the form of securitizations guaranteed by the GSEs, securitizations sold to private investors, and to whole-loan investors. In connection with a portion of our private-label securitizations, the monolines insured all or some of the related bonds and guaranteed timely repayment of bond principal and interest when the issuer defaults. In connection with securitizations and loan sales, the trustee for the benefit of the related security holders and, if applicable, the related monoline insurers are provided various representations and warranties related to the loans sold. The specific representations and warranties vary among different transactions and investors but typically relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, the ability to deliver required documentation and compliance with applicable laws. In general, the representations and warranties described above may be enforced at any time unless a sunset provision is in place. Upon discovery of a breach of a representation or warranty, the breach is corrected in a manner conforming to the provisions of the sale agreement. This may require us to repurchase the loan, indemnify the investor for incurred losses, or otherwise make the investor whole. We have entered into settlement agreements with both Fannie Mae and Freddie Mac. See *Government-sponsored Enterprises* below. In connection with the termination of our MSR Total Return Swap with Ally Bank on April 30, 2012, we de-recognized \$125.7 million of our liability for representation and warranty obligations. This represented the portion of our representation and warranty obligations for loans purchased from Ally Bank servicing retained and subsequently sold into the secondary market, generally through securitizations guaranteed by the GSEs. The reversal was recorded in representation and warranty expense, net and servicing asset valuation and hedging, net on our Consolidated Statement of Comprehensive Income. We recorded a capital contribution of \$125.7 million in connection with the de-recognition through the forgiveness of the MSR Total Return Swap liability.

Originations

The total exposure to mortgage representation and warranty claims is most significant for loans originated and sold between 2004 through 2008, specifically the 2006 and 2007 vintages that were originated and sold prior to enhanced underwriting standards and risk-mitigation actions implemented in 2008 and forward. Since 2009, we have focused primarily on purchasing prime conforming and government-insured mortgages. In addition, we ceased offering interest-only jumbo mortgages in 2010. Representation and warranty risk mitigation strategies include, but are not limited to, pursuing settlements with investors where economically beneficial in order to resolve a pipeline of demands in lieu of loan-by-loan assessments that could result in repurchasing loans, aggressively contesting claims we do not consider valid (rescinding claims) and seeking recourse against correspondent lenders from whom we purchased loans wherever appropriate.

Demand/Claim Process

After receiving a claim under representation and warranty obligations, we review the claim to determine the appropriate response (e.g., appeal and provide or request additional information) and take appropriate action (rescind, repurchase the loan, or remit indemnification payment). Historically, repurchase demands were generally related to loans that became delinquent within the first few years following origination. As a result of market developments since 2007, investor repurchase demand behavior has changed significantly. GSEs and investors are more likely to submit claims for loans at any point in the loans' life cycle. Representation and warranty claims are generally reviewed on a loan-by-loan basis to validate if there has been a breach requiring a potential repurchase or indemnification payment. We actively contest claims to the extent they are not considered valid. We are not required to repurchase a loan or provide an indemnification payment where claims are not valid.

The risk of repurchase or indemnification, and the associated credit exposure, is managed through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards. We believe that, in general, the longer a loan performs prior to default, the less likely it is that an alleged breach of representation and warranty will be found to have a material and adverse impact on the loan's performance. When loans are repurchased, we bear the related credit loss on the loans. Repurchased loans are classified as held-for-sale and initially recorded at fair value.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

The following table includes amounts paid to investors and monolines with respect to representation and warranty obligations

Year ended December 31, (\$ in thousands)	2012	2011
Loan repurchases (UPB)		
GSEs	\$43,474	\$143,340
Private-label securitizations insured (monolines)	6,675	829
Private-label securitizations uninsured	—	36,557
Whole-loan investors	2,470	9,285
Total	\$52,619	\$190,011
Indemnifications (make wholes) by investor		
GSEs	\$38,095	\$59,269
Private-label securitizations insured (monolines)	—	12,474
Private-label securitizations uninsured	—	167,354
Whole-loan investors	9,969	25,439
Total	\$48,064	\$264,536

The following table presents the total number and original unpaid principal balance of loans related to unresolved representation and warranty demands (indemnification claims and/or repurchase demands). The table includes demands that we have requested be rescinded but which have not yet been agreed to by the investor

December 31, (\$ in thousands)	2012		2011	
	Number of loans	Original UPB of loans	Number of loans	Original UPB of loans
Unresolved repurchase demands previously received				
GSEs	76	\$11	357	\$71 (a)
Insured private-label securitizations				
MBIA Insurance Corporation	7,314	490	7,314	490
Financial Guaranty Insurance Company	4,825	382	4,608	369
Other	983	78	730	58
Uninsured private-label securitizations	647	209	38	7
Whole Loan Investors	875	102	475	74
Total unpaid principal balance	14,720	\$1,272	13,522	\$1,069

(a) Excludes \$59.0 million of original UPB on loans where counterparties have requested additional documentation as part of individual loan file reviews

We are currently in litigation with MBIA Insurance Corporation (MBIA) and Financial Guaranty Insurance Company (FGIC) with respect to certain representation and warranty matters related to certain of our private-label securitizations. The Debtors' Chapter 11 Cases automatically stay this litigation. This litigation is expected to be resolved under the Plan or by orders of the Bankruptcy Court. Historically we have requested that most of the demands be rescinded, consistent with the claim/demand process described above. As the litigation process proceeds, additional loan reviews are expected and will likely result in additional repurchase demands.

Liability for Representation and Warranty Obligations

The liability for representation and warranty obligations reflects management's best estimate of probable lifetime loss. We consider historical and recent demand trends in establishing the reserve. The methodology used to estimate the reserve considers a variety of assumptions including borrower performance (both actual and estimated future defaults), repurchase demand behavior, historical loan defect experience, historical mortgage insurance rescission experience, and historical and estimated future loss experience, which includes projections of future home price changes as well as other qualitative factors including investor behavior. In cases where we do not have or have limited current or historical demand experience with an investor, it is difficult to predict and estimate the level and timing of any potential future demands. In such cases, we may not be able to reasonably estimate losses, and a liability is not recognized. Management monitors the adequacy of the overall reserve and makes adjustments to the level of reserve, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with counterparties. As a result of the Chapter 11 Bankruptcy proceedings, the filing of additional representation and warranty litigation against the Debtors has been stayed, and the filing of claims for representation and warranty liability must now comply with the Bankruptcy Court's approved claims filing process.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

At the time a loan is sold, an estimate of the fair value of the liability is recorded and classified in other liabilities and recorded as a component of gain on mortgage loans net. We recognize changes in the liability when additional relevant information becomes available. Changes in the estimate are recorded as representation and warranty expense, net. At December 31, 2012, the liability relates primarily to non-GSE exposure. In connection with the termination of certain of our agreements with Ally Bank effective April 30, 2012, we transferred the amount of liability we had recognized in connection with loan sales to the GSEs where Ally Bank was the servicer. See *Government-sponsored Entities* below for additional information.

The following table summarizes the changes in our liability for representation and warranty obligations:

Year Ended December 31, (\$ in thousands)	2012	2011	2010
Balance at January 1,	\$824,776	\$830,021	\$1,262,918
Provision for representation and warranty obligations			
Loan sales	5,517	18,924	70,455
Change in estimate	52,937	324,070	670,452
Total additions	58,454	342,994	740,907
Realized losses (a)	(76,696)	(359,658)	(1,185,549)
Recoveries	9,414	—	—
Transfer to Ally Bank	(125,686)	11,419	11,745
Balance at December 31	\$ 690,262 (b)	\$824,776	\$830,021

(a) Includes principal losses and accrued interest on repurchased loans, indemnification payments, and settlements with investors.

(b) In connection with our Chapter 11 Cases, we have classified \$630.1 million of our liability for representation and warranty obligations at December 31, 2012 as subject to compromise. We continue to satisfy our obligations to the GSEs as approved by the Bankruptcy Court. In addition, obligations recognized in connection with post-petition loan sales are classified as liabilities not subject to compromise. At December 31, 2012, \$60.1 million was recorded in other liabilities and are not subject to compromise.

Government-sponsored Entities

Each GSE has specific guidelines and criteria for sellers and servicers of loans underlying their securities. In addition, the risk of credit loss on the loans sold was generally transferred to investors upon sale of the securities into the secondary market. Conventional conforming loans were sold to either Freddie Mac or Fannie Mae, and government-insured loans were securitized with Ginnie Mae. Our representation and warranty obligation liability with respect to the GSEs considers the existing unresolved claims and the best estimate of future claims that could be received. We consider our experiences with the GSEs in evaluating our liability.

In connection with the termination of our MSR Total Return Swap with Ally Bank on April 30, 2012, we de-recognized \$125.7 million of our liability for representation and warranty obligations. This represented the portion of our representation and warranty obligations for loans purchased from Ally Bank servicing retained and subsequently sold into the secondary market generally through securitizations guaranteed by the GSEs.

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect to our GSE exposure. The table includes demands that we have requested be rescinded but as to which rescission has not been agreed to by the investor.

Year ended December 31, (\$ in millions)	2012	2011	2010
Balance at January 1,	\$71	\$170	\$296
New claims	228	441	842
Resolved claims (a)	(112)	(349)	(756)
Rescinded claims/other	(102)	(191)	(212)
Transfer to Ally Bank	(74)	—	—
Balance at December 31	\$11	\$71	\$170

(a) Includes settlements, repurchased loans and claims under which indemnification payments are made.

In March 2010, we entered into an agreement with Freddie Mac under which we made a one-time payment to Freddie Mac for the release of repurchase obligations relating to most of the mortgage loans sold to Freddie Mac prior to January 1, 2009. This agreement does not release any of our obligations with respect to exposure for private-label MBS in which Freddie Mac had previously invested, loans where our affiliate, Ally Bank, is the owner of the servicing, as well as defects in certain other specified categories of loans. Further, we continue to be responsible for other contractual obligations we have with Freddie Mac, including all indemnification obligations that may arise in connection with the servicing of the mortgages. These other specified categories

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

include (i) loans subject to certain state predatory lending and similar laws (ii) groups of 25 or more mortgage loans purchased, originated or serviced by one of our subsidiaries, the purchase, origination, or sale of which all involve a common actor who committed fraud (iii) 'non-loan-level' representations and warranties which refer to representations and warranties that do not relate to specific mortgage loans (examples of such non-loan-level representations and warranties include the requirement that our subsidiaries meet certain standards to be eligible to sell or service loans for Freddie Mac or our subsidiaries sold or serviced loans for market participants that were not acceptable to Freddie Mac) and (iv) mortgage loans that are ineligible for purchase by Freddie Mac under its charter and other applicable documents. If, however, a mortgage loan was ineligible under Freddie Mac's charter solely because mortgage insurance was rescinded (rather than for example, because the mortgage loan is secured by a commercial property), and Freddie Mac required us or our subsidiary to repurchase that loan because of the ineligibility, Freddie Mac would pay any net loss we suffered on any later liquidation of that mortgage loan.

In December 2010, we entered into an agreement with Fannie Mae under which we made a one-time payment to Fannie Mae for the release of repurchase obligations related to most of the mortgage loans we sold to Fannie Mae prior to June 30, 2010. The agreement also covers potential exposure for private-label MBS in which Fannie Mae had previously invested. This agreement does not release any of our obligations with respect to loans where our affiliate Ally Bank, is the owner of the servicing as well as for defects in certain other specified categories of loans. Further, we continue to be responsible for other contractual obligations we have with Fannie Mae, including all indemnification obligations that may arise in connection with the servicing of the mortgages, and we continue to be obligated to indemnify Fannie Mae for litigation or third party claims (including by borrowers) for matters that may amount to breaches of selling representations and warranties. These other specified categories include, among others, (i) those that violate anti-predatory laws or statutes or related regulations or that otherwise violate other applicable laws and regulations, (ii) those that have non-curable defects in title to the secured property, or that have curable title defects, to the extent our subsidiaries do not cure such defects at our subsidiary's expense (iii) any mortgage loan in which title or ownership of the mortgage loan was defective (iv) groups of 13 or more mortgage loans, the purchase, origination, sale or servicing of which all involve a common actor who committed fraud, and (v) mortgage loans not in compliance with Fannie Mae Charter Act requirements (e.g., mortgage loans on commercial properties or mortgage loans without required mortgage insurance coverage). If a mortgage loan falls out of compliance with Fannie Mae Charter Act requirements because mortgage insurance coverage has been rescinded and not reinstated or replaced, upon the borrower's default our subsidiaries would have to pay to Fannie Mae the amount of insurance proceeds that would have been paid by the mortgage insurer with respect to such mortgage loan. If the amount of the loss exceeded the amount of insurance proceeds, Fannie Mae would be responsible for such excess.

We have received subpoenas from the Federal Housing Finance Agency (FHFA), which is the conservator of Fannie Mae and Freddie Mac. The subpoenas relating to Fannie Mae investments have been withdrawn with prejudice. The FHFA indicated that documents provided in response to the remaining subpoenas will enable the FHFA to determine whether they believe issuers of private-label MBS are potentially liable to Freddie Mac for losses they might have incurred. Although Freddie Mac has not brought any representation and warranty claims against us with respect to private-label securities subsequent to the settlement, it may do so in the future. The FHFA commenced securities and related common law fraud litigation against us and certain of our subsidiaries with respect to certain of Freddie Mac's private-label securities investments, but dismissed that litigation shortly after the filing of our Chapter 11 Cases.

On January 31, 2013, the Bankruptcy Court entered a stipulation and order fully resolving Fannie Mae's earlier filed proofs of claim and objections to the Debtors' sale of their servicing platform. Generally, this stipulation provided that upon the closing of the sale of the Debtors' servicing platform, the Debtors pay Fannie Mae \$293.3 million, \$28.3 million of which represents the estimated amount outstanding as of the closing date with respect to Servicer Advance Funding Facility dated August 1, 2010 (as subsequently amended) and \$265.0 million of which represents the agreed upon aggregate amount necessary to cure all defaults under various Fannie Mae agreements and to allow for assumption and assignment of such Fannie Mae agreements to Walter as part of the sale of the Debtors' servicing platform.

On February 13, 2013, the Bankruptcy Court entered a stipulation and order by and between the Debtors and Freddie Mac generally resolving Freddie Mac's earlier filed proofs of claim and objections to the Debtors' sale of their servicing platform. This stipulation provided, among other things, that upon the closing of the sale of the Debtors' servicing platform, the Debtors pay to Freddie Mac \$39.4 million and that subsequent to closing, the Debtors will honor repurchases in process at the date of closing in the ordinary course.

Private-label Securitizations (PLS)

In general, representations and warranties provided as part of our private-label securitization activities are less rigorous than those provided to the GSEs and generally impose higher burdens on investors seeking repurchase. In order to successfully assert a claim, it is our position that a claimant must prove a breach of the representations and warranties that materially and adversely affects the interest of the investor in the allegedly defective loan. Securitization documents typically provide the investors with a right to request that the trustee investigate and initiate a repurchase claim. However, a class of investors generally is required to coordinate with other investors in that class comprising no less than 25% and in some cases 50% of the percentage interest constituting such

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

class of securities issued by the trust to pursue claims for breach of representations and warranties. In addition, our private-label securitizations generally require that the servicer or trustee give notice to the other parties whenever it becomes aware of facts or circumstances that reveal a breach of representation that materially and adversely affects the interest of the certificate holders.

Regarding our securitization activities, we have exposure to potential losses primarily through two avenues. First, investors, through trustees to the extent required by the applicable agreements (or monoline insurers in certain transactions), may request pursuant to applicable agreements that we repurchase loans or make the investor whole for losses incurred if it is determined that we violated representations and warranties made at the time of the sale, provided that such violations materially and adversely impacted the interest of the investor. Contractual representations and warranties differ based on the specific deal structure and investor. It is our position that litigation of claims relating to loan level representations and warranties must proceed on a loan by loan basis. This issue is being disputed throughout the industry in various pending litigation matters. Similarly in dispute throughout the industry is the degree to which claimants will have to prove that the alleged breaches of representations and warranties actually caused the losses they claim to have suffered. Ultimate resolution by courts of these and other legal issues will impact litigation and treatment of non-litigated claims pursuant to similar contractual provisions. Second, investors in securitizations may attempt to rescind of their investments or collect damages through litigation by claiming that the applicable offering documents were materially deficient. If an investor properly made and proved its allegations, the investor might attempt to claim that damages could include loss of market value on the investment even if there were little or no credit loss in the underlying loans.

We are actively engaged in settlement negotiations with representatives of institutional investors and trustees in residential mortgage-backed securities issued by us. At December 31, 2012, institutional investors holding more than 25% of at least one class in each of 334 securitizations have agreed to support the Plan as part of an \$8.7 billion proposed settlement agreement. The proposed settlement agreement requires the approval of the Bankruptcy Court. These 334 securitizations (out of a total of 392 outstanding securitizations with an original unpaid principal balance of \$221.0 billion) have an aggregate original unpaid principal balance of more than \$188.5 billion. There can be no assurance that a Plan or the proposed settlement agreement will be approved. In accordance with ASC 852, the liability is recorded consistent with our accounting policies until such time as the claim is allowed or the amount for which the claim may ultimately be settled is determined. A hearing in connection with the proposed settlement is scheduled for late May 2013.

Insured Private-label Securitizations (Monoline)

Historically, we have securitized loans where the monolines insured all or some of the related bonds and guaranteed the timely repayment of bond principal and interest when the issuer defaults. Typically, any alleged breach requires the insurer to have both the ability to assert a claim as well as evidence that a defect has had a material and adverse effect on the interest of the security holders or the insurer. Generally, most claims in connection with private-label securitizations come from Monoline insurers and continue to represent the majority of outstanding repurchase demands. For the period 2004 through 2007, we sold \$42.7 billion of loans into these monoline insured securitizations.

We are currently in litigation with two Monolines, MBIA and FGIC, in connection with our representation and warranty obligations, and additional litigation with other Monolines is likely. The Debtors' Chapter 11 Cases automatically stay this litigation. This litigation is expected to be resolved under the Plan or by orders of the Bankruptcy Court.

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect to our Monoline exposure. The table includes demands that we have requested be rescinded but as to which rescission has not been agreed to by the investor.

Year Ended December 31, (\$ in millions)	2012	2011	2010
Balance at January 1,	\$917	\$661	\$553
New claims (a)	38	265	151
Resolved claims (b)	(4)	(20)	(36)
Rescinded claims/other	(1)	11	(7)
Balance at December 31	\$950	\$917	\$661

(a) Substantially all relate to claims associated with the 2004 through 2007 vintages.

(b) Includes settlements, repurchased loans and claims under which indemnification payments are made.

Uninsured Private-label Securitizations

Prior to 2012, we securitized loans where all or some of the resulting securities were uninsured. We were required to make customary representations and warranties about the loans to the investors and/or securitization trust. Typically, any alleged breach of representations and warranties requires the holder of the security to assert a claim as well as evidence that a defect has had a material and adverse effect on the interest of the security holder. During the period 2004 through 2007, we sold \$182.1 billion of loans into these uninsured private-label securitizations. Claims associated with uninsured PLS were historically self-identified and

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

constituted an immaterial portion of new claims. This unpaid principal balance of these securitizations is not representative of expected future losses.

The following table summarizes the changes in our original unpaid principal balance related to unresolved repurchase demands with respect to our uninsured PLS exposure. The table includes demands that we have requested be rescinded but as to which rescission has not been agreed to by the investor.

Year Ended December 31, (\$ in millions)	2012	2011	2010
Balance at January 1,	\$8	\$3	\$—
New claims	210	8	3
Resolved claims (a)	(7)	(3)	—
Rescinded claims/other	(2)	—	—
Balance at December 31	\$209	\$8	\$3

(a) Includes losses, settlements, impairments on repurchased loans, and indemnification payments.

Whole-loan Sales

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect to our whole-loan sales. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

Year Ended December 31, (\$ in millions)	2012	2011	2010
Balance at January 1,	\$73	\$85	\$70
New claims (a)	40	76	123
Resolved claims (b)	(6)	(31)	(44)
Rescinded claims/other	(5)	(57)	(64)
Balance at December 31	\$102	\$73	\$85

(a) Includes \$40.1 million, \$74.3 million and \$120.0 million in new claims associated with the 2004 through 2007 vintages in 2012 and 2011, respectively.

(b) Includes settlements, repurchased loans and claim under which indemnification payments are made.

Private Mortgage Insurance

Mortgage insurance is required for certain consumer mortgage loans sold to the GSEs and certain securitization trusts and may have been in place for consumer mortgage loans sold to whole-loan investors. Mortgage insurance is typically required for first-lien consumer mortgage loans having a loan-to-value ratio at origination of greater than 80 percent. Mortgage insurers are, in certain circumstances, permitted to rescind existing mortgage insurance that covers consumer loans if they demonstrate certain loan underwriting requirements have not been met. Upon receipt of a rescission notice, we assess the notice and if appropriate, we refute the notice, or if the notice cannot be refuted, we attempt to remedy the defect. In the event the mortgage insurance cannot be reinstated, we may be obligated to repurchase the loan or provide an indemnification payment in the event of a loss, subject to contractual limitations. While we make every effort to reinstate the mortgage insurance, we have had limited success and as a result, most of these requests result in rescission of the mortgage insurance. At December 31, 2012, we have approximately \$202.5 million in original unpaid principal balance of outstanding mortgage insurance rescission notices where we have not received a repurchase demand. However, this unpaid principal amount is not representative of expected future losses.

Legal Proceedings

We are subject to potential liability under various governmental proceedings, claims, and legal actions that are pending or otherwise asserted against us. We are named as defendants in a number of legal actions, and we are occasionally involved in governmental proceedings arising in connection with our respective businesses. Some of the pending actions purport to be class actions, and certain legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. We establish reserves for legal claims when payments associated with the claims become probable and the payments can be reasonably estimated. Given the inherent difficulty of predicting the outcome of litigation and regulatory matters, it is generally very difficult to predict what the eventual outcome will be, and when the matter will be resolved. The actual costs of resolving legal claims may be higher or lower than any amounts reserved for the claims. For the non-PLS/Monoline litigation, we recorded a liability for probable legal claims of \$67.7 million and \$94.5 million at December 31, 2012 and December 31, 2011, respectively, a portion of which is classified as subject to compromise at December 31, 2012. The Debtors' Chapter 11 Cases automatically stays most litigation unless otherwise ordered by the Bankruptcy Court. Each of the following matters is subject to the automatic stay as to any Debtors remaining in the case and is expected to be resolved under the Plan or by orders of the Bankruptcy Court.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Private-label Securities Litigation

We and certain of our subsidiaries have been named as defendants in several cases relating to our various roles in MBS offerings. The plaintiffs generally allege that the defendants made misstatements and omissions in registration statements, prospectuses, prospectus supplements, and other documents related to the MBS offerings. The alleged misstatements and omissions typically concern underwriting standards for residential mortgage loans. Plaintiffs generally claim that such misstatements and omissions constitute violations of state and/or federal securities law and common law including negligent misrepresentation and fraud. Plaintiffs seek monetary damages and rescission. Set forth below are descriptions of the most significant of these legal proceedings.

Allstate Litigation

On February 14, 2011, the Allstate Insurance Company and various of its subsidiaries and affiliates (collectively, Allstate) filed a complaint in Hennepin County District Court, Minnesota, against GMAC Mortgage, RFC, Residential Funding Securities LLC (RFS), Residential Accredited Loans, Inc. (RALI), Residential Asset Mortgage Products, Inc. (RAMP), Residential Funding Mortgage Securities I, Inc. (RFMSI), Residential Funding Mortgage Securities II, Inc. (RFMSII), and Residential Asset Securities Corporation (RASC) (collectively, the defendants). The complaint alleges that the defendants misrepresented in the offering materials the riskiness and credit quality of, and omitted material information related to, residential MBS Allstate purchased. The complaint asserts claims for fraud, negligent misrepresentation, and alleged violation of the Minnesota Consumer Fraud Act, and seeks money damages and costs including attorneys' fees. On November 28, 2011, the court issued an order denying the defendants' motion to dismiss the fraud and Consumer Fraud Act claims, but granted the motion to dismiss the negligent misrepresentation claim.

Charles Schwab Litigation

On August 2, 2010, The Charles Schwab Corporation (Schwab) filed a complaint in San Francisco County Superior Court against RALI and RAMP (collectively, the defendants). The complaint alleges that the defendants made false representations and omissions of material facts in the offering documents of various securitization trusts backed by residential mortgage loans and seeks rescission and money damages for negligent misrepresentation and violations of state and federal securities laws. On April 27, 2012, RALI and RAMP answered the Second Amended Complaint.

FHFA Litigation

On September 2, 2011, FHFA, as conservator for Freddie Mac, filed a complaint against Ally Inc., GMAC Mortgage Group, ResCap, GMAC-RFC, RAMP, RASC, RALI and certain unaffiliated underwriters (collectively, the defendants), in New York County Supreme Court. The complaint alleges that Freddie Mac purchased over \$6.0 billion of residential MBS issued in connection with twenty-one securitizations sponsored and/or underwritten by the defendants. It further alleges that the registration statements, prospectuses, and other offering materials associated with these transactions contained false and misleading statements and omissions of material facts. The complaint asserts claims for negligent misrepresentation, fraud, and violations of state and federal securities laws and seeks rescission and recovery of the consideration Freddie Mac paid for the securities, as well as other compensatory and punitive damages. Ally Inc. and ResCap removed the case to the United States Court for the Southern District of New York. The case is stayed as to the Debtors but is proceeding as to the remaining defendants. On December 19, 2012, the court issued an order granting dismissal of claims based on alleged owner-occupancy and LTV-ratio misrepresentations. Virginia Securities Act claims for certificates purchased before September 6, 2006, and certain other limited claims brought against underwriter defendants under state and federal securities laws relating to certificates purchased from other parties. The court denied the motions to dismiss in all other respects.

Federal Home Loan Bank (FHLB) Litigation

On July 14, 2011, FHLB of Indianapolis filed an Amended Complaint in Marion County Superior Court for rescission and damages asserting claims for common law negligence and violations of state and federal securities laws, and names RFMSI and GMAC Mortgage Group among other defendants (collectively, the defendants). The complaint alleges that the offering documents for the securities underwritten and issued by the defendants contained material misrepresentations of fact evidenced by high default and foreclosure rates, and seeks unspecified damages and an order voiding the transactions at issue. On July 3, 2012, the Court granted plaintiff's request to dismiss Debtor RFMSI.

On April 20, 2011, FHLB of Boston filed a complaint in Suffolk County Superior Court, naming numerous defendants including GMAC Mortgage Group, RALI, and RFC (collectively, the defendants). The complaint alleges that the defendants collectively packaged, marketed, offered and sold private label MBS, and FHLB of Boston purchased such securities in reliance upon misstatements and omissions of material facts in the offering documents. The complaint seeks rescission and damages for negligent misrepresentation and violations of the Massachusetts Uniform Securities Act among other claims.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

On October 15, 2011, FHLB of Chicago filed a Corrected Amended Complaint for Rescission and Damages in Cook County Circuit Court, which names, among other defendants, GMAC Mortgage Group RFC RAMP RASC and RFMSI (collectively the defendants). The complaint alleges that the offering documents for the securities underwritten and issued by defendants contained material misrepresentations of fact and asserts claims for violations of state securities law and negligent misrepresentation. The complaint seeks rescission of the transactions at issue and damages in an amount to be determined at trial. The case is stayed as to the Debtors, but is proceeding as to the remaining defendants. On September 19, 2012 the Court denied defendants' motions to dismiss in their entirety.

Huntington Bancshares Litigation

On October 11, 2011, Huntington Bancshares, Inc. commenced a lawsuit against GMAC Mortgage, RALI ResCap, GMAC-RFC RFC, and several individuals (collectively, the defendants). The complaint alleges that the defendants made misrepresentations and omissions of material facts related to the originator's loan underwriting guidelines in the offering materials for five residential mortgage-backed securities. The complaint asserts claims for fraud, aiding and abetting fraud, negligent misrepresentation, and violation of the Minnesota Securities Act and seeks rescission, money damages, and costs. Although the case is stayed as to the Debtor entities, it has continued as to certain former officers and directors. On December 11, 2012 the Court granted all defendants' motions to dismiss in their entirety. A notice of appeal has been filed.

Massachusetts Mutual Life Insurance Company Litigation

On February 9, 2011, the Massachusetts Mutual Life Insurance Company (MassMutual) filed a complaint in the United States District Court for the District of Massachusetts against numerous defendants including RFC, RALI, RAMP, and RASC (collectively the defendants). The complaint alleges that the defendants' public filings and offering documents associated with MBS MassMutual purchased contained false statements and omissions of material facts. MassMutual asserts claims for violations of the Massachusetts Uniform Securities Act and seeks both compensatory and statutory damages. On February 14, 2012 the Court dismissed the Debtor entities.

National Credit Union Administration Board (NCUAB) Litigation

On August 9, 2011, NCUAB filed a complaint as liquidating agent of U.S. Central Federal Credit Union (U.S. Central) and Western Corporate Federal Credit Union (WesCorp) against Goldman Sachs & Co. as underwriter and seller, and Fremont Mortgage Securities Corp., GS Mortgage Securities Corp., Long Beach Securities Corp., and RALI, as issuers with respect to certain residential MBS purchased by U.S. Central and WesCorp. Previously, on June 20, 2011 the NCUAB filed a complaint as liquidating agent of U.S. Central against numerous defendants including RFMSI. The complaints assert claims under the California securities laws and Sections 11 and 12 of the Securities Act of 1933 alleging the offering documents associated with the underlying transactions contained untrue statements and omissions of material facts, and seek money damages and costs.

New Jersey Carpenters Litigation

On January 3, 2011, New Jersey Carpenters Health Fund, New Jersey Carpenters Vacation Fund, and Boilermaker Blacksmith National Pension Trust, on behalf of themselves and a putative class (collectively, New Jersey Carpenters) along with several intervenor plaintiff pension funds, filed a Consolidated Second Amended Securities Class Action Complaint against numerous defendants including ResCap RFC RALI, Residential Funding Securities Corporation d/b/a GMAC RFC Securities and several individual defendants (collectively, the defendants). The complaint alleges that the plaintiffs and the class purchased MBS between June 28, 2006, and May 30, 2007, and asserts that the offering documents associated with these transactions contained misrepresentations and omitted material information in violation of Sections 11, 12, and 15 of the Securities Act of 1933. The complaint seeks compensatory damages, rescission or a rescissory measure of damages, and attorneys' fees and costs, among other relief. The case is stayed as to the Debtors but is proceeding as to the remaining defendants. The court initially denied New Jersey Carpenters' request for class certification of claims with respect to four offerings, but granted class certification upon a motion for reconsideration. Although New Jersey Carpenters intends to seek class certification with respect to the intervenor claims as well, a motion for certification of the intervenor claims has not yet been filed. New Jersey Carpenters has also asked the court to reconsider its prior decision dismissing claims relating to an additional fifty-five offerings for lack of standing.

Stichting Pensioenfonds Litigation

On October 11, 2011, Stichting filed a complaint in Minnesota state court against Ally Inc. Ally Securities LLC (Ally Securities) and a number of ResCap entities and individual directors and officers. The amended complaint alleges common law fraud, negligent misrepresentation, and violation of state securities laws. The action was removed to federal court in 2012 after the ResCap affiliates filed for bankruptcy. All remaining defendants have moved to dismiss the amended complaint and briefing on that motion is in progress.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Western & Southern Litigation

Western & Southern filed a complaint on June 30, 2011 in Hamilton County, Ohio against Ally Securities and a number of ResCap entities and individual defendants. The amended complaint filed in September 2011 alleges violation of state securities laws, common law fraud, negligent misrepresentation and civil conspiracy and seeks rescission and money damages including compensatory and punitive damages, interest, and attorney's fees and costs. A motion to dismiss was granted on June 6, 2012, as to the individual defendants.

Private-label Monoline Bond Insurer Litigation

MBIA Litigation

MBIA brought two cases in New York County Supreme Court: MBIA Insurance Corporation v. RFC (filed December 4, 2008) and MBIA Insurance Corporation v. GMAC Mortgage (filed April 1, 2010) (RFC and GMAC Mortgage collectively the defendants). The complaints allege that defendants breached their contractual representations and warranties relating to the characteristics of mortgage loans contained in certain insured MBS offerings. The complaints further allege that the defendants failed to follow specific remedy procedures set forth in the contracts and improperly serviced the mortgage loans. Along with claims for breach of contract, MBIA also alleges claims for fraud, negligent misrepresentation and unjust enrichment. MBIA seeks, among other remedies, repurchase of certain loans, payments on current and future claims under the relevant policies, indemnification for attorneys' fees and costs, and punitive damages. Generally, the court granted motions to dismiss MBIA's claims for breach of good faith and fair dealing, negligent misrepresentation and unjust enrichment, but denied dismissal of MBIA's fraud and breach of contract claims.

FGIC Litigation

On November 29, 2011, FGIC filed three complaints against ResCap in New York County Supreme Court. In two of these cases, both entitled Financial Guaranty Insurance Company v. RFC et al., FGIC alleges that defendants breached their contractual representations and warranties relating to the characteristics of the mortgage loans contained in certain insured MBS offerings. FGIC further alleges that the defendants breached their contractual obligations to permit access to loan files and certain books and records.

In the third case, entitled Financial Guaranty Insurance Company v. GMAC Mortgage LLC, et al., FGIC makes similar contract allegations against GMAC Mortgage and ResCap, as well as a claim against GMAC Mortgage for fraudulent inducement. In addition, FGIC alleges aiding and abetting fraudulent inducement against Ally Bank, which originated a large portion of the loans in the disputed pool, and breach of the custodial agreement for failing to notify FGIC of the claimed breaches of representations and warranties. In each of these cases, FGIC seeks, among other relief, reimbursement of all sums it paid under the various policies and an award of legal, rescissory, equitable, and punitive damages.

On December 15, 2011, FGIC filed a fourth complaint in New York County Supreme Court related to insurance policies issued in connection with a RFC-sponsored transaction. This complaint, entitled Financial Guaranty Insurance Company v. Ally Inc., et al., names RFC and ResCap, and seeks various forms of declaratory and monetary relief. The complaint alleges that the defendants are alter egos of one another, fraudulently induced FGIC's agreement to provide insurance by misrepresenting the nature of RFC's business practices and the credit quality and characteristics of the underlying loans, and have now materially breached their agreement with FGIC by refusing its requests for information and documents.

On December 27, 2011, FGIC filed three additional complaints in New York County Supreme Court against ResCap and RFC. These complaints seek relief nearly identical to that of FGIC's previously filed cases and contain substantially similar allegations. In particular, FGIC alleges that the defendants, acting as alter egos of each other, fraudulently induced FGIC to enter into seven separate insurance and indemnity agreements and breached their contractual obligations under same.

Additional complaints were filed by FGIC on January 31, 2012, March 5, 2012, March 6, 2012, March 12, 2012 and March 13, 2012, respectively. These complaints seek relief nearly identical to that of FGIC's previously filed cases and contain substantially similar allegations. In particular, FGIC alleges that the defendants, acting as alter egos of each other, fraudulently induced FGIC to enter into seven separate insurance and indemnity agreements and breached their contractual obligations under same. In addition, FGIC amended its first-filed complaint to name Ally Inc. as a defendant.

All of the FGIC cases are now venued in the U.S. District Court for the Southern District of New York.

Assured Guaranty Litigation

Assured Guaranty filed a complaint on May 11, 2012 in Federal District Court, the Southern District of New York, against Ally Inc., Ally Bank and a number of ResCap entities alleging claims for breach of contract, reimbursement and indemnification.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

under New York law and seeks monetary damages in connection with 2004 and 2006 mortgage securitizations. ResCap filed bankruptcy for itself and its named affiliates before that complaint could be served on them.

Non-PLS/Monoline Litigation

Kessler Litigation (In Re Community Bank of Northern Virginia and Guaranty National Bank of Tallahassee)

Several putative class actions filed in 2001-2003, all alleging that originators Community Bank of Northern Virginia and Guaranty National Bank of Tallahassee charged certain interest rates and fees in violation of the applicable Secondary Mortgage Loan Act, were consolidated for settlement purposes in the U.S. District Court for the Western District of Pennsylvania. On September 22, 2010, the Third Circuit Court of Appeals vacated an order approving the settlement and remanded the case to the trial court for further proceedings. On October 10, 2011, plaintiffs filed a joint consolidated amended class action complaint against, among others, RFC alleging violations of the Real Estate Settlement Procedures Act, the Truth in Lending Act, as amended by the Home Ownership and Equity Protection Act, and the Racketeer Influenced and Corrupt Organizations Act. The Debtors have engaged in settlement discussions with the plaintiffs since the filing of the Bankruptcy Cases, but no settlement has been reached.

Mitchell Litigation

In this Missouri class action, plaintiffs alleged that Mortgage Capital Resources, Inc. (MCR) violated the Missouri Second Mortgage Loan Act by charging Missouri borrowers fees and interest not permitted by the Act. RFC and Homecomings, among others, were named as defendants in their role as assignees of certain of the MCR loans. Following a trial concluded in January 2008, the jury returned verdicts against all defendants, including an award against RFC and Homecomings for \$4.3 million in compensatory damages (plus pre- and post-judgment interest and attorneys' fees) and against RFC for \$92.0 million in punitive damages. In a November 2010 decision, the Missouri Court of Appeals affirmed the compensatory damages but ordered a new trial on punitive damages. Upon remand, RFC paid \$12.8 million in compensatory damages (including interest and attorneys' fees). At the end of February 2012, RFC entered into an agreement in principle to settle all of plaintiffs' remaining claims, including the appeal in respect of plaintiffs' already-awarded attorneys' fees, for a total of \$17.3 million.

Moore-Cap Re Litigation

In this putative class action, plaintiffs allege violations of Section 8(b) of RESPA by Debtor GMAC Mortgage, non-Debtor affiliate Cap Re of Vermont, and Ally Bank in the referral of PMI business to PMI companies that engaged in related reinsurance transactions with Cap Re. Plaintiffs contend that Cap Re does not incur any actual risk as a result of the reinsurance contracts or that the compensation provided is not commensurate with the risk transferred. The case is currently stayed as to Debtor GMAC Mortgage and presently in suspense as to the other defendants in the U.S. District Court for the Eastern District of Pennsylvania.

Regulatory

Our origination, purchase, sale, securitization and servicing business activities expose us to risks of noncompliance with extensive federal, state, local and foreign laws, rules and regulations. Our business activities are also governed by, among other contracts, primary and master servicing agreements that contain covenants and restrictions regarding the performance of our servicing activities. Our failure to comply with these laws, rules, regulations and contracts can lead to, among other things, loss of licenses and approvals, an inability to sell or securitize loans, demands for indemnification or loan repurchases from purchasers of loans, demands for indemnification or other compensation from investors in our securitizations, fines, penalties, litigation, including class action lawsuits, and governmental investigations and enforcement actions, including, in the case of some violations of law, possible criminal liability.

We continue to respond to subpoenas and document requests from various government agencies seeking information covering a wide range of mortgage-related matters and the securitization of residential mortgages. These inquiries include broad requests for documentation and other information in connection with the investigation of potential fraud and other potential legal violations related to mortgage backed securities as well as the origination and/or underwriting of mortgage loans. It is possible that these inquiries could result in actions against us.

Operating Leases

The Debtors lease office space under 70 separate agreements. As allowed under Section 365 and other sections of the Bankruptcy Code, the Debtors may assume, assume and assign or reject unexpired leases that were entered into prior to the Petition Date. The Bankruptcy Code requires that Debtors make a decision on non-residential real property leases within 120 days of the Petition Date. The Debtors received a 90-day extension from the Bankruptcy Court, which extended the deadline to December 10, 2012. The Debtors received extensions beyond the December 10 deadline from the landlords of six of its highest-dollar leases. Except for

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

those leases entered into after the Petition Date, the office space leases where an extension from the landlord was not obtained were deemed rejected as of December 10, 2012. The lease payments related to those pre-petition leases where an extension was not obtained prior to December 10, 2012 deadline is \$0.1 million in 2013.

Effective as of December 10, 2012, each of the unexpired leases of nonresidential real property under which a Debtor was the lessee was deemed rejected pursuant to section 365(d)(4)(B)(ii) of the Bankruptcy Code with certain exceptions. These exceptions include properties in Dallas, Texas, and Burbank, California, for which the Debtors have extended the deadline to assume or reject the leases to May 31, 2013. In addition, the Debtors extended the deadline to assume or reject the lease for their headquarters in Fort Washington, Pennsylvania to April 30, 2013, and in connection with the extension received Bankruptcy Court approval of (i) the rejection of the lease, effective as of April 30, 2013, and (ii) the abandonment of certain property on the premises. In connection with the abandonment, the landlord has agreed to waive any rejection damages claim. In addition, the Debtors have assumed leases for real property in Costa Mesa, California (which lease was assumed on December 20, 2012), Bloomington, Minnesota (which lease was assumed on March 20, 2013), and Fort Washington, Pennsylvania (which lease was assumed on February 7, 2013). One nonresidential real property lease located in Lewisville, Texas was assumed and assigned to Ocwen on February 15, 2013 in connection with the sale of the Debtors' servicing platform.

The table below contains \$8.1 million of future lease payments associated with the Lewisville, Texas lease. This was the only office space lease that was assumed and assigned pursuant to the asset purchase agreements that the Debtor consummated with Ocwen, Walter and Berkshire Hathaway. It is expected that the Debtors will reject or let expire in accordance with their own terms the operating leases not assumed and assigned. Consequently, we anticipate that our liabilities pertaining to leases will change significantly in the future.

As of December 31, 2012, the total future minimum rental payments were as follows:

Year Ended December 31, (\$ in thousands)	Leases as part of ongoing operation
2013	\$19,723
2014	17,861
2015	14,779
2016	12,375
2017	12,406
2018 and thereafter	21,183
	<u>\$98,327</u>

The above table includes all rental payments we are obligated to pay under non-cancelable operating leases for office space. These payments exclude amounts we expect to collect through subleases or contract terminations as a result of our restructuring efforts.

We recorded rental expense recorded for the years ended December 31, 2012, 2011 and 2010 of \$11.7 million, \$11.3 million and \$13.1 million, respectively. These amounts exclude any leases included in the restructuring activities and discontinued operations.

Other Commitments

We are subject to potential liability under various other exposures including tax, nonrecourse loans, self-insurance, and other miscellaneous contingencies. We establish reserves for these contingencies when the item becomes probable and the costs can be reasonably estimated. The actual costs of resolving these items may be substantially higher or lower than the amounts reserved for any one item. Ultimately, all claims are subject to resolution through the Bankruptcy Court process.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

24. Related Party Transactions

Balance Sheet

A summary of the balance sheet effect of our transactions with Ally Inc. Ally Bank and other affiliates were as follows:

December 31,	(\$ in thousands)	2012	2011
Assets			
Mortgage loans held-for-sale — purchased from Ally Bank		\$35,008	\$13,518
Other Assets			
Restricted cash deposits — Ally Bank		28,795	112,458
Derivative collateral placed — Ally IM		10,000	1,008,262
Fair value of derivative instruments			
MSR swap — Ally Bank		—	17,681
MMLPSA and forward flow agreement — Ally Bank		617	16,423
Receivable (Payable), net — Ally Bank		34,600	(21,001)
Receivable from other affiliates		1,920	2,046
Receivable (Payable) — Ally Inc. (a)		7	(31,019)
Liabilities			
Borrowings — Ally Inc. Senior Secured Credit Facility (b)		\$749,034	\$757,767
Borrowings — Ally LOC (b)		380,970	185,064
Borrowings — BMMZ Repo (b)		—	250,351
Borrowings — Ally DIP (b)		190,208	—
Borrowings — Ally Inc. Data Center (b)		6,000	—
Other Liabilities			
Liability for loans sold with recourse — Ally Bank (c)		—	6,773
Fair value of derivative instruments — Ally IM (d)		197	1,049,420
Other activity			
Loans (UPB) sub-serviced — Ally Bank		\$130,323,671	\$143,172,634
Servicing escrow/deposits for off-balance sheet loans — Ally Bank		1,942,051	2,003,745
Mortgage loans held-for-sale — contributions from Ally Inc. (e)		550,185 (f)	645,357
Home Equity loans (UPB) subject to indemnifications — Ally Bank (c)		—	58,512
Income tax payments — Ally Inc. (g)		394	37,498

(a) Includes costs for personnel, information technology, communications, corporate marketing, procurement and services related to facilities incurred by Ally Inc. and allocated to us. On May 13, 2012, we entered into a shared services agreement with Ally Inc. in connection with services provided by us to Ally Inc. and services provided by Ally Inc. to us.

(b) Includes principal balance of debt outstanding plus accrued interest. See Note 11 — Borrowings for additional information.

(c) Relates to an indemnification agreement with respect to a portfolio of second lien home equity loans. This agreement expired in April 2012.

(d) Includes the fair value of forwards, TBAs and swaptions executed in connection with our hedging activities. See Note 21 — Derivative Instruments and Hedging Activities for additional information.

(e) Amount represents the carrying value of the loans contributed by Ally Inc. to us in 2009. The UPB of these loans is \$1.3 billion and \$1.6 billion at December 31, 2012 and December 31, 2011, respectively.

(f) Includes \$545.8 million of mortgage loans held-for-sale classified as held-for-sale operations.

(g) See Note 18 — Income taxes for additional information.

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

Statement of Comprehensive Income

A summary of the income statement effect of our transactions with Ally Inc., Ally Bank and other affiliates were as follows

Year ended December 31, (\$ in thousands)	2012	2011	2010
Net financing revenue			
Interest income on cash deposits — Ally Bank	\$488	\$1,104	\$1,267
Interest expense — Ally Inc. Senior Secured Credit Facility	22,765	23,739	35,864
Interest expense — Ally LOC	10,807	16,406	7,358
Interest expense — BMMZ Repo	4,729	351	—
Interest expense — Ally DIP	5,110	—	—
Interest expense — Ally Bank	420	4,022	—
Amortization of deferred issuance costs — Ally Inc.	—	—	3,044
Other revenue			
Gain (loss) on mortgage loans, net — derivative instruments with Ally IM	(136,389)	(68,288)	10,281
Gain (loss) on mortgage loans, net — Ally Bank	(56,767)	189,902	(70,058)
Gain on mortgage loans, net — Ally Securities, LLC (c)	—	174,968	79,101
Servicing fees — Ally Bank	78,722	34,895	24,060
Servicing assets valuation and hedge activities, net — derivative instruments with Ally IM	160,600	172,819	97,260
Servicing assets valuation and hedge activities, net — derivative instruments with Ally Bank	(108,948)	(359,523)	469,945
Loan brokerage fees — Ally Bank (a)	184,214	55,622	64,543
Provision expense — Ally Bank (b)	(5,984)	2,868	7,657
Noninterest expense			
Mortgage fines and penalties - Ally Bank	87,767	—	—
(Gain) loss on foreign currency — derivative instruments with Ally Inc.	(3,264)	21,021	(948)
Shared services agreement fees, net — Ally Inc.	94,012	69,714	93,263
Custodial fees — Ally Bank	7,298	7,732	7,519
Allocated expenses — Ally Bank	92	452	691
Other activity			
Loans purchased (UPB) under the MMLPSA — Ally Bank (d)	\$12,881,041	\$56,680,164	\$66,310,743
Loans sold (UPB) under the Client Agreement — Ally Bank	246,619	27,041	94,811

- (a) Under the terms of a broker agreement with Ally Bank, we provide loan processing services to support Ally's loan origination and purchase activities as well as loan closing services
- (b) Relates to provision expenses associated with the indemnification agreement with respect to a portfolio of second lien home equity loans. This agreement expired in April 2012.
- (c) Relates to mortgage and asset-backed securities brokered to Ally Securities, LLC for underwriting, distribution and capital markets liquidity services.
- (d) Includes repurchased loans of \$4.0 million, \$11.7 million, and \$19.8 million for the year ended December 31, 2012, 2011, and 2010, respectively.

Notes to Consolidated Financial Statements

Residential Capital, LLC
(Debtors-in-Possession)

Statement of Changes in Equity

A summary of the equity effect of our transactions with Ally Inc. Ally Bank and other affiliates were as follows:

Year ended December 31, (\$ in thousands)	2012	2011	2010
Equity			
Capital contributions	\$322,186	\$109,405	\$—

During the year ended December 31, 2012, capital contributions from Ally Inc. were recognized for \$125.7 million for the transfer of the liability for representation and warranty obligations to Ally Bank and for \$196.5 million through the forgiveness of Ally Inc. LOC borrowings. During the year ended December 31, 2011, a capital contribution from Ally Inc. was recognized for \$109.4 million through the forgiveness of Ally Inc. LOC borrowings.

Ally Inc.

We have a shared services agreement whereby we provide services to Ally Inc. and Ally Inc. provides services to us. The shared services agreement was approved by the Bankruptcy Court as part of the Debtors' first day motions. These services are described in various statements of work (SOWs) and relate to core functional areas including but not limited to finance, audit, treasury, risk, compliance, legal, information technology, and marketing. We compensate Ally Inc. for services provided to us based upon an agreed upon monthly charge. We charge Ally Inc. for services we provide to them based upon an agreed upon monthly charge. The individual services provided under the SOWs can be terminated by the recipient in whole or in part with 90 days written notice, subject to the supplier of the service providing termination assistance services for an additional period of time if requested by the recipient. Termination assistance services may also be requested by the recipient under those circumstances. Prior to executing the shared services agreement, we reimbursed Ally Inc. for costs they incurred on our behalf, including for personnel, information technology, communications, corporate marketing, procurement and services related to facilities. The shared services agreement originally would have expired May 14, 2013, unless terminated earlier or extended. The agreement was amended on February 14, 2013, to automatically renew for six month periods unless notice is provided by either party at least three months prior to the end of the then current term. No such notice has been provided to date.

Ally Bank

Under the terms of our Broker Agreement with Ally Bank, we act in a broker capacity and provide loan processing services to Ally Bank to support its origination and purchase of loans, as well as loan closing services. The Broker Agreement has no mandatory expiration date and can be terminated by either party with 30 days notice. Under the terms of the Broker Agreement, loans meeting the underwriting standards of Ally Bank are originated (funded) by Ally Bank, while loans not meeting those standards may be originated by us and sold directly into the secondary market. We also provide certain representations and warranties and indemnifications to Ally Bank with respect to brokered loans. The Broker Agreement was amended April 30, 2012 and became effective May 1, 2012.

Under the terms of the MMLPSA with Ally Bank, we purchased first- and second-lien mortgage loans held-for-sale from Ally Bank. We sold and delivered such mortgage loans into the secondary market primarily through Fannie Mae and Freddie Mac securitizations and Ginnie Mae insured securitizations. Under the MMLPSA, we purchased loans from Ally Bank and recognized gains or losses on the sale of mortgage loans as they were sold by us into the secondary market. Loans purchased by us pursuant to the MMLPSA included mortgage loans originated by third parties and purchased by Ally Bank (correspondent lending), loans originated directly by Ally Bank, and mortgage loans originated by us and sold to Ally Bank pursuant to a loan sale agreement (the Client Agreement). Effective May 1, 2012, the MMLPSA and Client Agreement were amended and restated (Amended MMLPSA). Under the terms of the Amended MMLPSA, effective May 1, 2012, we are obligated to purchase all FHA insured and VA guaranteed loans eligible for inclusion in Ginnie Mae securitizations originated or purchased by Ally Bank. We no longer purchase Fannie Mae and Freddie Mac eligible loans that Ally Bank originates or purchases. Loans are purchased under the Amended MMLPSA on a nonrecourse, service released basis. To the extent any loan purchased by us under the Amended MMLPSA is determined to be ineligible for purposes of Ginnie Mae certification, Ally Bank will cure the defect, if curable, or repurchase the loan at the current unpaid principal balance plus accrued interest. Our commitment to purchase mortgage loans pursuant to that agreement terminated upon the closing of our servicing platform sale on February 15, 2013, except with respect to the remaining pipeline of mortgage loans that Ally Bank had committed to a borrower, prior to February 15, 2013, to originate, but which had not yet been originated as of such date.

We were counterparty to a forward flow agreement for mortgage loans held-for-sale and interest rate lock commitments held by Ally Bank that ultimately were sold to us under the MMLPSA. The forward flow agreement transferred the exposure to changes

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

in fair value of Ally Bank's mortgage loans held-for-sale and interest rate lock commitments to us. We hedged our exposure to the forward flow agreement consistent with the hedging of our own mortgage loans held-for-sale and interest rate lock commitments. The forward flow agreement was terminated effective April 30, 2012.

We were counterparty to a MSR Total Return Swap (the MSR Swap) which transferred the total economic return of MSRs owned by Ally Bank to us in exchange for a variable payment based upon a fixed spread to LIBOR. The fixed spread to LIBOR was periodically evaluated against available market data. We hedged our exposure to the MSR Swap consistent with the hedging of our own MSRs. The MSR Swap was terminated effective April 30, 2012. We were party to an ISDA 2002 Master Agreement with Ally Bank governing the forward flow agreement and MSR Swap. We also entered into an Agreement to Set Off Obligations (the Netting Agreement) which provided Ally Bank the right, but not the obligation, to set off any obligation that we had to Ally Bank against any obligation of Ally Bank to us. The ISDA 2002 Master Agreement and the Netting Agreement were terminated effective April 30, 2012.

Under the GSE servicing guides, the seller and servicer of mortgage loans equally share in customary representation and warranty obligations. We assumed all of the representation and warranty obligations for loans we purchased from Ally Bank under the MMLPSA that we subsequently sold through a GSE securitization or otherwise sold into the secondary market. To the extent these loans were originated by third parties and purchased by Ally Bank and subsequently sold to us under the MMLPSA, we pursue recovery of losses from the third parties under breach of customary representation and warranties. Pursuant to the Client Agreement, we also provide certain representations and warranties and indemnifications to Ally Bank with respect to those loan transactions. For loans that are not eligible to be sold to the GSEs that reach certain delinquency thresholds or which are otherwise in breach of sale representations and warranties contained in the Client Agreement, we repurchase loans from Ally Bank at their carrying cost. In connection with the termination of the MSR Swap, Ally Bank assumed the representation and warranty liability we had recorded in connection with loans sold by us where Ally Bank retained the MSR. On May 1, 2012, we reduced our representation and warranty liability by \$125.7 million and recorded the offset to representation and warranty reserve expense in our Consolidated Statement of Comprehensive Income. We simultaneously recognized this liability in the valuation of the MSR Total Return Swap and recorded the offset to servicing asset valuation and hedge activities, net in our Consolidated Statement of Comprehensive Income. The MSR Total Return Swap valuation liability was forgiven, resulting in a capital contribution of \$125.7 million.

GMAC Mortgage is designated as subservicer for loans held by Ally Bank and loans sold to us under the MMLPSA where Ally Bank retained the servicing rights (Ally Servicing Agreement). On May 11, 2012, we and Ally Bank amended and restated the Ally Servicing Agreement effective May 25, 2012. Under the Ally Servicing Agreement, GMAC Mortgage performs all customary mortgage loan servicing activities, including but not limited to, collection of borrower remittances, loss mitigation and foreclosure processing activities. The term of the Ally Servicing Agreement automatically renews for a one year term on an annual basis, unless notice of termination is provided by either party with 120 days prior notice. We receive subservicing fees which are generally based on the average daily balance of subserviced loans which differ by loan type and delinquency status. Following a hearing on September 11, 2012, the Bankruptcy Court approved the Servicing Agreement.

In connection with our DOJ Settlement obligations, Ally Bank agreed in the Ally Servicing Agreement to participate in borrower relief programs and activities with respect to their loan portfolios up to a \$75.0 million indemnification threshold (Indemnification Obligations). To the extent activities under the borrower relief programs are consistent with activities currently permitted under the Ally Servicing Agreement, Ally Bank will not seek to be reimbursed or indemnified for any losses it incurs in connection with these borrower relief activities. See Note 23 - Commitments, Contingencies and Other Risks for additional information related to the DOJ Settlement.

Following a hearing on September 11, 2012, the Bankruptcy Court issued a stipulation and order reserving certain rights with respect to our motion for authorization to continue to perform under the Ally Servicing Agreement in the ordinary course of business. That stipulation and order authorized and directed us to continue to perform and make all payments due to Ally Bank under the Ally Servicing Agreement, including Indemnification Obligations and any past due payments related thereto. The stipulation and order required Ally Bank to withdraw any existing notice of default and confirm that the existing default has been cured, and granted to Ally Bank limited relief from the automatic stay in order to (i) provide the 120 day notice to terminate the Ally Servicing Agreement with respect to certain home equity lines of credit and approximately 8,500 consumer mortgage loans, and (ii) provide notice of termination of the Ally Servicing Agreement in its entirety on the earliest of ten days after the entry of a court approved platform sale order or December 10, 2012. Effective with the closing of the Section 363 Asset Sale to Ocwen in February 2013, Ocwen commenced performing the primary servicing activities under the Ally Servicing Agreement on our behalf as the subservicer under the Estate Servicing Agreement. See Note 8 - Servicing Activities.

The stipulation and order also requires Ally Inc. to establish an escrow account and deposit funds therein simultaneously with and in amounts equal to, all post-petition indemnification payments made by us to Ally Bank with respect to Indemnification Obligations. The escrow account is subject to the exclusive jurisdiction of the Bankruptcy Court and will remain in place and continue to be funded until the earlier of (a) an agreement among ResCap, the unsecured creditors committee and Ally Inc. as to the

Notes to Consolidated Financial Statements

Residential Capital LLC
(Debtors-in-Possession)

proper allocation and disbursement of the funds in the account and (b) the effective date of a Chapter 11 plan that includes a provision directing the distribution of the funds in the account. At December 31, 2012, we had made \$87.7 million in Indemnification Obligation payments to Ally Bank.

In the first quarter of 2008, Ally Bank purchased a portfolio of second-lien home equity loans from us. We provided an indemnification to Ally Bank whereby we reimburse Ally Bank at such time as any of the loans covered by this agreement are charged off, typically when the loan becomes 180 days delinquent. The indemnification expired in April 2012.

25. Regulatory Matters

Certain subsidiaries associated with our mortgage and real estate operations are required to maintain regulatory net worth requirements. Failure to meet minimum capital requirements can initiate certain mandatory actions by federal, state, and foreign agencies that can have a material effect on our results of operations and financial condition. As of December 31, 2012, GMAC Mortgage failed to meet certain of its financial covenants. There were no actions taken with respect to these deficiencies. We believe that any such action(s) as a result of non-compliance with these requirements would be subject to the automatic stay under our Chapter 11 Cases. See Note 11 - Borrowings for additional information.

26. Subsequent Events

Events subsequent to December 31, 2012, were evaluated through April 19, 2013, the date on which these Consolidated Financial Statements were issued.

Supplemental Schedule Consolidating Financial Statement Information

These Consolidating Financial Statements are being provided in connection with reporting required in connection with our regulatory and licensing requirements. These Consolidating Financial Statements are presented on the same basis as the accompanying Consolidated Financial Statements.

December 31, 2012 (\$ in thousands)	Consolidating Balance Sheet				
	GMAC Mortgage Consolidated	RFC Consolidated	Other	Eliminations and reclassifica- tions	ResCap Consolidated
Assets					
Cash and cash equivalents	\$248,821	\$197,630	\$1,183,762	\$—	\$1,630,213
Mortgage loans held-for-sale	335,465	8,655	—	—	344,120
Finance receivables and loans, net					
Consumer	124,871	469,923	—	—	594,794
Commercial	—	134	—	—	134
Allowance for loan losses	(7,453)	—	—	—	(7,453)
Total finance receivables and loans, net	117,418	470,057	—	—	587,475
Accounts receivable, net	998,983	21,089	38,440	(38,412)	1,020,100
Receivable from Affiliates	125,642 (a)	1,845,876 (b)	115,369 (c)	(2,086,887)	—
Other assets	835,733	741,620	7,172,887	(8,478,722)	271,518
Assets of held-for-sale operations	5,429,870	1,320,416	(2,800)	111,184	6,858,670
Total assets	\$8,091,932	\$4,605,343	\$8,507,658	(\$10,492,837)	\$10,712,096
Liabilities					
Liabilities not subject to compromise					
Borrowings					
Debtor-in-possession credit facilities	\$945,354	\$504,000	\$—	\$—	\$1,449,354
Borrowings from Affiliates	856,465	279,641	3,172,356	(3,175,334)	1,133,128
Collateralized borrowings in securitization trusts	—	447,723	—	—	447,723
Other borrowings	284,844	—	(2,612)	—	282,232
Total borrowings	2,086,663	1,231,364	3,169,744	(3,175,334)	3,312,437
Other liabilities	652,317	209,326	1,309,051	(1,443,632)	727,062
Liabilities of held-for-sale operations	2,646,429	139,776	—	(5,779)	2,780,426
Total liabilities not subject to compromise	5,385,409	1,580,466	4,478,795	(4,624,745)	6,819,925
Liabilities subject to compromise	509,447	450,207	5,409,568	(2,154,007)	4,215,215
Total liabilities	5,894,856	2,030,673	9,888,363	(6,778,752)	11,035,140
Equity					
Member's interest	5,694,152	14,959,295	15,481,168	(24,378,653)	11,755,962
Accumulated (deficit) earnings	(3,456,095)	(12,390,056)	(16,779,920)	20,588,035	(12,038,036)
Accumulated other comprehensive income (loss)	(40,981)	5,431	(81,953)	76,533	(40,970)
Total equity	2,197,076	2,574,670	(1,380,705)	(3,714,085)	(323,044)
Total liabilities and equity	\$8,091,932	\$4,605,343	\$8,507,658	(\$10,492,837)	\$10,712,096

(a) Receivable from immediate parent, GMAC Residential Holdings LLC

(b) Receivable from ultimate parent, Residential Capital LLC

(c) Receivable is with Residential Funding Company LLC

Residential Capital LLC
(Debtors-in-Possession)

Year ended December 31, (\$ in thousands)	Consolidating Statement of Comprehensive Income				
	GMAC Mortgage Consolidated	RFC Consolidated	Other	Eliminations and reclassificati ons	ResCap Consolidated
Revenue					
Interest income	\$68,310	\$226,134	\$124,851	(\$123,959)	\$295,336
Interest expense	104,470	111,841	181,942	(123,847)	274,406
Net financing revenue	(36,160)	114,293	(57,091)	(112)	20,930
Other revenue					
Servicing fees	652,418	93,297		(422)	745,293
Servicing asset valuation and hedge activities net	(299,752)	(27,322)		—	(327,074)
Total servicing income, net	352,666	65,975	—	(422)	418,219
Gain on mortgage loans, net	216,620	32,477	—	423	249,520
Gain on foreclosed real estate	647	8,301	—	1	8,949
Other revenue, net	224,806	12,606	(1,317,361)	1,264,168	184,219
Total other revenue	794,739	119,359	(1,317,361)	1,264,170	860,907
Total net revenue	758,579	233,652	(1,374,452)	1,264,058	881,837
Provision for loan losses	1,465	(2,758)	—	—	(1,293)
Noninterest expense					
Compensation and benefits x	435,522	37,487	1	1	473,011
Professional fees x	152,959	(4,312)	32,798	—	181,445
Data processing and telecommunications x	67,475	198	93	—	67,766
Occupancy x	19,895	499	26	—	20,420
Executory contract cure costs x	231,413	39	—	—	231,452
Mortgage fines and penalties x	86,722	—	—	—	86,722
Representation and warranty expense, net x	(102,023)	1,405	—	27,869	(72,749)
Other noninterest expense, net	482,329	15,120	12,432	(120,600)	389,281
Total noninterest expense	1,374,292	50,436	45,350	(92,730)	1,377,348
Income (loss) from continuing operations before reorganization items and income taxes	(617,178)	185,974	(1,419,802)	1,356,788	(494,218)
Reorganization items	47,933	25,915	211,219	1	285,068
Income (loss) from continuing operations before income taxes	(665,111)	160,059	(1,631,021)	1,356,787	(779,286)
Income tax (benefit) expense	(2,105)	91,014	(93,031)	—	(4,122)
Net income (loss) from continuing operations	(663,006)	69,045	(1,537,990)	1,356,787	(775,164)
Income from discontinued operations, net of tax	—	16,688	—	—	16,688
Net income (loss)	(663,006)	85,733	(1,537,990)	1,356,787	(758,476)
Other comprehensive income (loss) net of tax	17,903	3,106	38,797	(38,910)	20,896
Comprehensive income (loss)	(\$645,103)	\$88,839	(\$1,499,193)	\$1,317,877	(\$737,580)

Residential Capital LLC
(Debtors-in-Possession)

Year ended December 31, (\$ in thousands)	Consolidating Statement of Cash Flows				
	GMAC Mortgage Consolidated	RFC Consolidated	Other	Eliminations and reclassification	ResCap Consolidated
Operating activities					
Net income (loss)	(\$663,006)	\$85,733	(\$1,537,990)	\$1,356,787	(\$758,476)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	18,250	3,366	3,065	390	25,071
Accretion of deferred concession on secured notes	—	—	(38,308)	—	(38,308)
Provision for loan losses	1,465	(2,865)	—	—	(1,400)
Gain on mortgage loans net	(216,620)	(32,477)	—	(423)	(249,520)
Reorganization items	12,402	2,226	66,951	—	81,579
Net gain on other assets	(3,622)	(6,052)	—	—	(9,674)
(Gain) loss on extinguishment of debt	—	(52,824)	—	52,824	—
Originations and purchases of mortgage loans held-for-sale	(15,844,965)	(13,511)	—	—	(15,858,476)
Proceeds from sales and repayments of mortgage loans held-for-sale	15,112,152	111,927	—	—	15,224,079
Change in fair value of mortgage servicing rights	413,335	27,322	—	—	440,657
Net change in					
Accounts receivable	1,102,232	(30,579)	(36,978)	37,753	1,072,428
Receivable from affiliate	125,642	947	(68,723)	(57,866)	—
Other assets	2,654,372	(924,560)	757,775	550,119	3,037,706
Other liabilities	(3,108,503)	302,405	1,674,694	(1,800,732)	(2,932,136)
Net cash provided by (used in) by operating activities	(396,866)	(528,942)	820,486	138,852	33,530
Investing activities					
Net decrease in commercial finance receivables and loans	—	2,073	—	—	2,073
Net decrease in consumer mortgage finance receivables and loans	92,177	288,833	—	—	381,010
Proceeds from sales of foreclosed and owned real estate	14,050	43,035	—	—	57,085
Sale of business units net	—	(80,896)	—	—	(80,896)
Net decrease in restricted cash	231,951	3,142	1,869	—	236,962
Other net	23,170	39,307	(8,482)	8,487	62,482
Net cash provided by investing activities	361,348	295,494	(6,613)	8,487	658,716
Financing activities					
Net decrease in borrowings from Affiliates	231,549	(235,814)	153,416	(8,887)	140,264
Net (decrease) increase in borrowings from Parent	(17,614)	—	110,220	(92,606)	—
Repayments of collateralized borrowings in securitization trusts	(28,975)	(276,952)	—	—	(305,927)
Proceeds from debtor-in-possession credit facilities	945,354	504,000	—	—	1,449,354
Proceeds from other borrowings	1,144,557	24	(5,738)	—	1,138,843
Repayments of other borrowings	(2,107,835)	52,259	—	(53,212)	(2,108,788)
Net cash provided by (used in) financing activities	167,036	43,517	257,898	(154,705)	313,746
Effect of changes in foreign exchange rates on cash and cash equivalents	—	(4,323)	2,479	7,366	5,522
Net increase in cash and cash equivalents	131,518	(194,254)	1,074,250	—	1,011,514
Cash and cash equivalents at January 1	117,303	391,884	109,512	—	618,699
Cash and cash equivalents at December 31,	\$248,821	\$197,630	\$1,183,762	\$—	\$1,630,213