

Walter Investments (WAC)

Walter Investments was spun off from Walter Energy. They purchased assets through acquisition roll ups and is now operating as a REIT, focused on 1) servicing loans (\$86BB unpaid principal balance; \$200 MM rev; \$75MM Ebitda; 0.2% fee), 2) providing hazard insurance for residential (\$86MM net premium; \$43MM rev; \$13MM Ebitda), and 3) lending (NI Spread 10.2% vs. 6.76% MBS; delinquent loans 5.73%; \$73MM NIM; \$21MM EBITDA). The co. borrows money through MBS and lends out for residential mortgages.

The co. has been swooping up companies lately, and they have been large deals (~\$10BB). We wondered who would buy up the lending operation from Ally Financial, former GM lending arm, and \$1BB for Green Tree in 2011. Why would banks lend money to this co? They have been on a tear recently, buying up loan portfolios.

The late James Walter, owned a house manufacturing co. which was later bought out by KKR in the 1980s for +\$3BB. He would provide financing to the buyers, and the legacy, financing business is now known as Walter Investments.

The co. has been issuing \$250MM in stocks, \$250MM in bonds. The FY 2012 EBITDA is \$230MM. So, the co. can finance their transactions. Plus, the acquisitions should be profit generating acquisitions, unlike corporate buyouts, which generate large premiums and resulting goodwill. Loan portfolios on the other hand act like bonds, so they don't fetch as frothy premiums.