

Office of  
**Mortgage Settlement**  
Oversight

# *Annual Report*

**A Report from the Monitor of the National Mortgage Settlement**

September 2013

# Table of Contents

<b>I. Message from the President</b>	1
<b>II. Overview of OMSO</b>	2
Development of OMSO	2
Board of Directors and Governance	2
Officers	4
Contractors	4
RFP Process for Primary and Secondary Professional Firms	4
Conflicts and Protocol	5
Employees	5
Work Completed	5
i. Consumer Relief	5
ii. Servicing Standards	5
iii. Complaints	5
iv. Consumer Financial Protection Bureau	5
v. Public Role	6
vi. Future Activities Overview	6
<b>III. Appendix A: Timeline of Future Settlement Reports</b>	7
<b>IV. Appendix B: Audited Financial Statements</b>	11

## Message from the President

I am pleased to present an annual report for activities undertaken by my organization, the Office of Mortgage Settlement Oversight, through June 30, 2013. While the National Mortgage Settlement did not require me to create an organization or release its financial information, I felt it important to do both in the interest of efficient and transparent operations. As such, this report includes:

- An overview of the organization, its Board of Directors, and its contractors and employees.
- An outline of work completed to date, priorities for the coming year and a timeline of the settlements.
- Audited financial statements for the periods February 6, 2012, through June 30, 2012, and July 1, 2012, through June 30, 2013.

This report is focused entirely on the business of monitoring the National Mortgage Settlement and does not include any data related to Servicer performance toward their consumer relief obligations or compliance with the servicing standards. These reports can be found on my website, [www.mortgageoversight.com](http://www.mortgageoversight.com). Instead, it is my hope that this report will continue my efforts to openly discuss and report to the public all aspects of my work as the Settlement's Monitor.

I would like to give special recognition to Governor James E. Holshouser, an original member of the Office of Mortgage Settlement Oversight Board of Directors, who died on June 17, 2013. He served the public with wisdom and honor until the end of his life.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Smith, Jr.', with a stylized, cursive flourish.

Joseph A. Smith, Jr.  
Monitor

## Development of OMSO

Joseph A. Smith, Jr. formed the Office of Mortgage Settlement Oversight (OMSO), a not-for-profit corporation, to help him carry out the duties he was given under the National Mortgage Settlement.<sup>1</sup> Pursuant to the Settlement, Joseph A. Smith, Jr. was appointed to the position of National Settlement Monitor (the Monitor), with the primary tasks of determining whether the Servicers are in compliance with the mortgage servicing standards and consumer relief requirements as set forth in the consent judgments. OMSO assists the Monitor with functions related to the business of being the Monitor, including acceptance and payment of money, contracting with consultants and professional firms, the hiring of employees and the maintenance of books and records. Incorporated on February 6, 2012, OMSO operates as a noncharitable tax-exempt organization.

## Board of Directors and Governance

OMSO enables the Monitor to carry out his duties transparently and independently with administrative oversight and support from a Board of Directors consisting of the Monitor and four independent directors. The independent directors do not have any role in overseeing the Settlement.

The Board consists of five members, including the Monitor who also serves as the Chairman of the Board. Gov. James E. Holshouser, Jr. was a member of the initial Board of Directors. Following the completion by Gov. Holshouser of a full one-year term, due to his illness the Board reduced the size of the Board by one member (from six to five). Directors are:

### ***John S. Allison***

John Allison, former commissioner of the Mississippi Department of Banking and Consumer Finance, served the state from 1972 until his retirement in 2011. Over the span of his career, he held various positions within the department, including deputy commissioner and acting commissioner. His three-term appointment as commissioner spanned the final 12 years of his tenure.

In addition to his work for Mississippi, Allison was an active member of the Conference of State Bank Supervisors, the association that oversees and regulates the nation's 6,000 state-chartered commercial and savings banks and 400 state-licensed foreign banking offices. He held numerous leadership roles, chairing the organization in 2005.

From 2002 to 2006, Allison was a member of the State Liaison Committee of the Federal Financial Institutions Examination Council (FFIEC), serving as chairman during his last two years with the organization. While part of the FFIEC, which sets standards for the federal examination of financial institutions and makes recommendations to improve their supervision, Allison participated in an emergency preparedness task force. That group developed a plan to help institutions prepare for a catastrophic event such as Hurricane Katrina.

In September 2007, Allison was appointed to the six-member board of managers of the CSBS States Regulatory Registry LLC, which was charged with developing and now overseeing the national licensing system for mortgage professionals.

A native of Olive Branch, Mississippi, Allison graduated from Olive Branch High School in 1965. He earned his bachelor's degree from the University of Mississippi, majoring in banking and finance. Following his undergraduate work, he served for two years in the U.S. Army, earning the Bronze Star Medal during a tour of duty in Vietnam.

Allison is also a graduate of the School of Banking of the South at Louisiana State University, and he has participated in a number of federal regulatory courses and seminars. He is married to the former Jan Garner of Kosciusko, Mississippi, and they have two grown children.

<sup>1</sup> On April 5, 2012, the "Settlement" went into effect when the United States District Court for the District of Columbia entered five separate consent judgments that settled claims of alleged improper mortgage servicing practices against five major mortgage servicing organizations ("Servicers"), including Bank of America, CitiMortgage, Inc., ResCap Parties (formerly GMAC), J.P. Morgan Chase Bank and Wells Fargo & Company. Those claims had been brought by a number of independent agencies.

### ***Bonnie Hancock***

Bonnie Hancock is executive director of the Enterprise Risk Management Initiative at the North Carolina State University Poole College of Management, where she also teaches. Before joining academia, Hancock worked for Fortune 250 company Progress Energy, where she led the merger of Carolina Power & Light Company and Florida Progress. She also served as president of Progress Fuels, an unregulated subsidiary with more than \$1 billion in assets, and held a number of executive positions during her tenure, including senior vice president, finance and information technology; vice president, strategic planning; vice president, accounting and controller; and tax manager. Hancock also held management positions at Potomac Electric Power Co. in Washington, D.C., and worked in public accounting.

Currently, Hancock teaches and consults on a range of topics from strategic planning and business valuation to financial management and enterprise risk management. She also serves as an outside director for AgFirst Farm Credit Bank, where she chairs the risk policy committee, and on the board of Powell Industries, a publicly traded company in Houston, Texas.

Hancock holds a bachelor's degree in business administration from the College of William and Mary and a master's degree in taxation from Georgetown University. She has also completed an executive management program at Duke University. She was a 1983 recipient of a Sells Award, a national recognition for performance on the CPA examination.

### ***Donald A. Pape***

Donald Pape is a banker and an attorney with the Norman, Oklahoma, office of Phillips Murrah P.C., an Oklahoma City-based business law firm. He also brings 36 years of experience to this position as chair of the board of Republic Bank & Trust in Norman, where assets have grown from \$18 million to \$410 million under his leadership.

In addition, Pape serves as the past chair of the Bankers Advisory Board of the U.S. Conference of State Bank Supervisors in Washington, D.C., and is a member of the Oklahoma Tobacco Settlement Endowment Trust Board of Investors.

Pape, whose law practice is focused on banking law and regulation, is admitted to practice in all Oklahoma state courts, the U.S. District Court for the Western District of Oklahoma and the U.S. Supreme Court.

### ***D. Keith Pigues***

Keith Pigues, who serves as dean of the School of Business at North Carolina Central University, is also a senior administrative officer, academic officer and tenured professor at the institution. He has more than 25 years of experience in marketing, strategic planning and sales leadership at firms of all sizes and in all industries, including residential construction and building products. He has held executive positions at CEMEX, RR Donnelley, ADP and Honeywell International.

Pigues previously served as an adjunct professor of leadership at the University of North Carolina at Chapel Hill Kenan-Flagler Business School and is co-author of "Winning with Customers: A Playbook for B2B," published by Wiley & Sons in 2010.

He serves on the board of directors at Prometheus Group, a privately held software company. He is also past chair of the board of directors for the Business Marketing Association and a current member of the Executive Leadership Council.

Pigues received an MBA from the University of North Carolina Kenan-Flagler Business School, where he participated in an international exchange program at Manchester University School of Business in the United Kingdom. He received a bachelor's degree in electrical engineering from Christian Brothers University. Pigues is also a member of Beta Gamma Sigma International Business Honor Society.

### **Joseph A. Smith, Jr.**

On March 12, 2012, the participants in the National Mortgage Settlement appointed attorney Joseph A. Smith, Jr. as the Monitor who will oversee the agreement. Smith's appointment is for a three-and-a-half year term.

Smith served as North Carolina Commissioner of Banks beginning in 2002 and resigned from that position in February 2012. As Commissioner, he oversaw the licensing and regulation of banks and thrifts. He also helped implement the North Carolina Mortgage Lending Act, North Carolina Secure and Fair Mortgage Licensing Act and State Home Foreclosure Prevention Project. While Commissioner, Smith also served from 2009 to 2010 as chairman of the Conference of State Bank Supervisors. He was an organizer and member of the Board of Managers of State Regulatory Registry LLC, an organization dedicated to creating a nationwide mortgage licensing system.

Prior to his tenure in state government, Smith spent 27 years practicing corporate, securities and banking law in North Carolina, Connecticut and New York. He is the former general counsel and secretary of a North Carolina bank holding company and also is of counsel to North Carolina law firm Poyner Spruill LLP.

Smith earned a bachelor's degree from Davidson College in 1971 and his Juris Doctor from the University of Virginia in 1974.

Through June 30, 2013, the Board met 11 times.

The Board has established an Audit Committee, Investment Committee and Public Policy Committee composed of the following members:

#### **Audit Committee**

Bonnie Hancock, Chair  
John Allison

#### **Investment Committee**

Donald Pape, Chair  
Joseph Smith

#### **Public Policy Committee**

Keith Pignes, Chair  
Donald Pape

## **Officers**

The officers of OMSO are Joseph Smith, who serves as the President and Chairman of the Board; John Sabiston, who serves as the Treasurer and Secretary; and Christine Hood, who serves as the Assistant Secretary.

## **Contractors**

The consent judgments that make up the Settlement authorize the Monitor to retain a Primary Professional Firm (PPF) and various Secondary Professional Firms (SPFs) to support him in carrying out his duties. Additionally, the Settlement allows the Monitor to engage attorneys or other professionals to represent or assist him.

OMSO contracted with a staff of consultants, forensic accountants, attorneys and secondary professional firms to assist the Monitor with his role in monitoring the Settlement. OMSO retained the law firms of Poyner Spruill LLP and Smith Moore Leatherwood LLP; the forensic accounting firm of Parkside Associates LLC; the accounting firm Cherry Bekaert LLP; and the communications firm Capstrat. As required by the Settlement, each firm is independent of the Servicers. Separately, OMSO retained Brooks, Pierce, McLendon, Humphrey & Leonard, LLP as general counsel.

## **RFP Process for Primary and Secondary Professional Firms**

A formal request for proposal (RFP) was delivered to more than 40 national firms in April 2012, inviting them to respond and to identify their interest in either the PPF contract position and/or one of the SPF contract positions. The OMSO team then conducted an internal review and independent grading process to determine which firms best fit the required services. OMSO interviewed a short list of the firms that responded to the RFP, and, on June 4, 2012, the Monitor announced that he engaged BDO Consulting (BDO), a division of BDO USA, LLP, as his PPF. BDO satisfied the Monitor's objectives of competence, capacity and independence. BDO has joined the Monitor and his team for a period of three-and-a-half years as it oversees the implementation of the Settlement.

In addition, the Monitor retained five SPFs, each of which is independent of the Servicer to which it is assigned.

- Baker Tilly Virchow Krause, LLP – Assigned to the ResCap Parties (formerly GMAC)
- BKD, LLP – Assigned to Citi
- Crowe Horwath LLP – Assigned to Bank of America
- Grant Thornton LLP – Assigned to Chase
- McGladrey LLP – Assigned to Wells Fargo

## Conflicts and Protocol

The consent judgments provide that the Monitor and professionals in his employ shall not have any prior relationships with the five Servicers that would undermine public confidence in the objectivity of their work. Prior to contracting with any firm, there was a thorough background review of each candidate firm to verify that there were no substantial or meaningful conflicts of interest. Additionally, all master contracts with OMSO include a provision that the contractor has no agreements, has had no agreements and will not enter into any agreements which may conflict in any way with the services to be provided. The Monitor established a corporate policy that requires each contractor to sign a conflict of interest certification every six months stating that its conflict of interest status has not changed. The consent judgments also require that any firm that performs work overseeing a Servicer must agree not to work on behalf of that Servicer for a period of six months after the conclusion of the term of engagement. OMSO has ensured compliance with these agreements.

## Employees

To handle business functions of monitoring the Settlement, the Monitor hired four full-time staff members. These staff members are John Sabiston, Christine Hood, Martha Svoboda and Maggie Beasley.

## Work Completed

### ***Consumer Relief***

The Monitor has released self-reported data from the Servicers in the form of four progress reports. He has awarded partial certification to one Servicer, the ResCap Parties (formerly GMAC), through the United States District Court for the District of Columbia (Court). He also has delivered partial certification reports to the Court on the other four Servicers.

### ***Servicing Standards***

The Monitor has delivered one set of reports to the Court on the Servicers' compliance with the servicing standards. His work to test the Servicers' compliance continues, and his next set will be filed with the Court later this year.

### ***Complaints***

The Monitor further evaluates the Servicers through analysis of the Consumer Complaints received from the Servicers, attorneys general, governmental agencies and public groups and organizations.

### ***Consumer Financial Protection Bureau***

OMSO signed an agreement with the Consumer Financial Protection Bureau (CFPB) on February 8, 2013, to provide the Monitor with access to CFPB's Consumer Response Government Portal, an electronic delivery system operated by the CFPB that provides secure access to various complaints from individuals submitting complaints on their own behalf about the business practices of others. The purpose of the agreement is to facilitate the sharing of consumer complaint data collected by the CFPB. The CFPB data supplements the complaints OMSO receives through its other channels—specifically, consumer complaints captured via the OMSO website ([www.mortgageoversight.com](http://www.mortgageoversight.com)), letters sent to the Monitor's office and executive office complaints provided by the Servicers.

**Public Role**

Engagement with the public is extremely important to the Monitor. To inform the public and policymakers of his activities in a timely and transparent manner, the Monitor has conducted regular interviews with the media, appeared at speaking engagements across the country, posted regularly to the OMSO website, which includes a platform for professional complaints, and regularly visited with on-the-ground experts who work with clients having servicing issues.

Specifically, over the past year, the Monitor has met with distressed homeowners, attorneys general and their staffs, consumer professionals, and housing advocates in Arizona, California, Nevada, Illinois, Florida, Pennsylvania, Massachusetts, Minnesota and Indiana. These visits have provided the Monitor with useful information about the Servicers' activities and the impact that the Settlement has had on distressed borrowers. OMSO as an organization has helped to facilitate each of these activities.

**Future Activities Overview**

OMSO expects to continue to support the Monitor in performing his role under the Settlement throughout his term as Monitor. In addition, OMSO expects to release a second annual report that will highlight the activities undertaken by it during the current fiscal year (July 1, 2013, through June 30, 2014). A more detailed overview regarding expected future activities of OMSO can be found in Appendix A.



# *Appendix A:*

**Timeline of Future Settlement Reports**

# Timelines

The following infographic shows the historical dates beginning with the announcement of the National Mortgage Settlement and leading up to the release of the Monitor's first report. It also spells out deadlines over the next three years when banks must provide relief to distressed homeowners and adopt better mortgage-related practices, or servicing standards.

## Make Up of the Organization

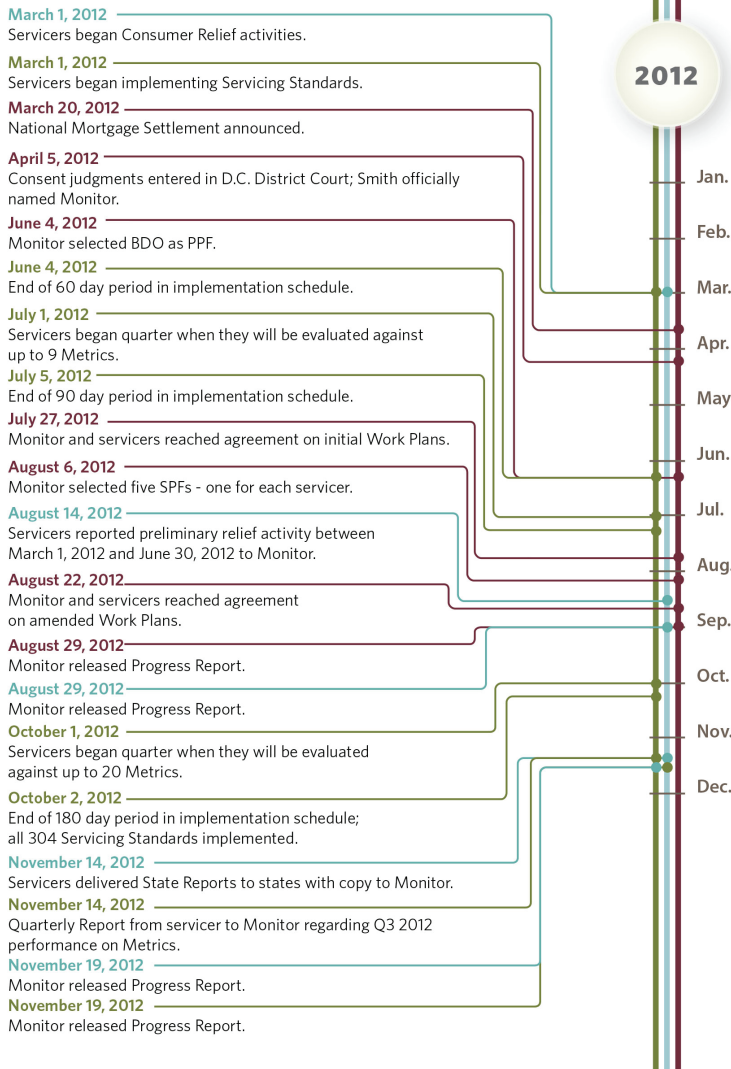
The National Mortgage Settlement kicked off several milestones from the appointment of the Monitor to the release of his first report.

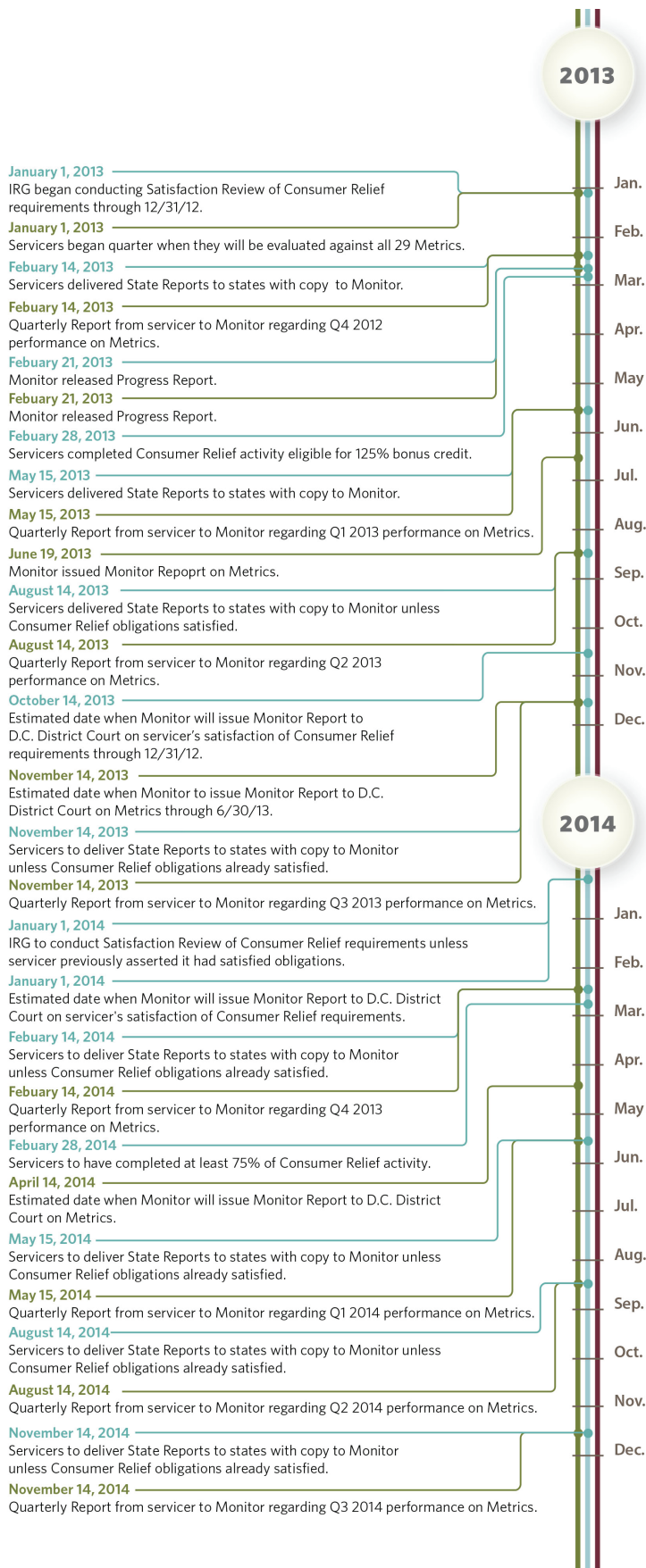
## Consumer Relief

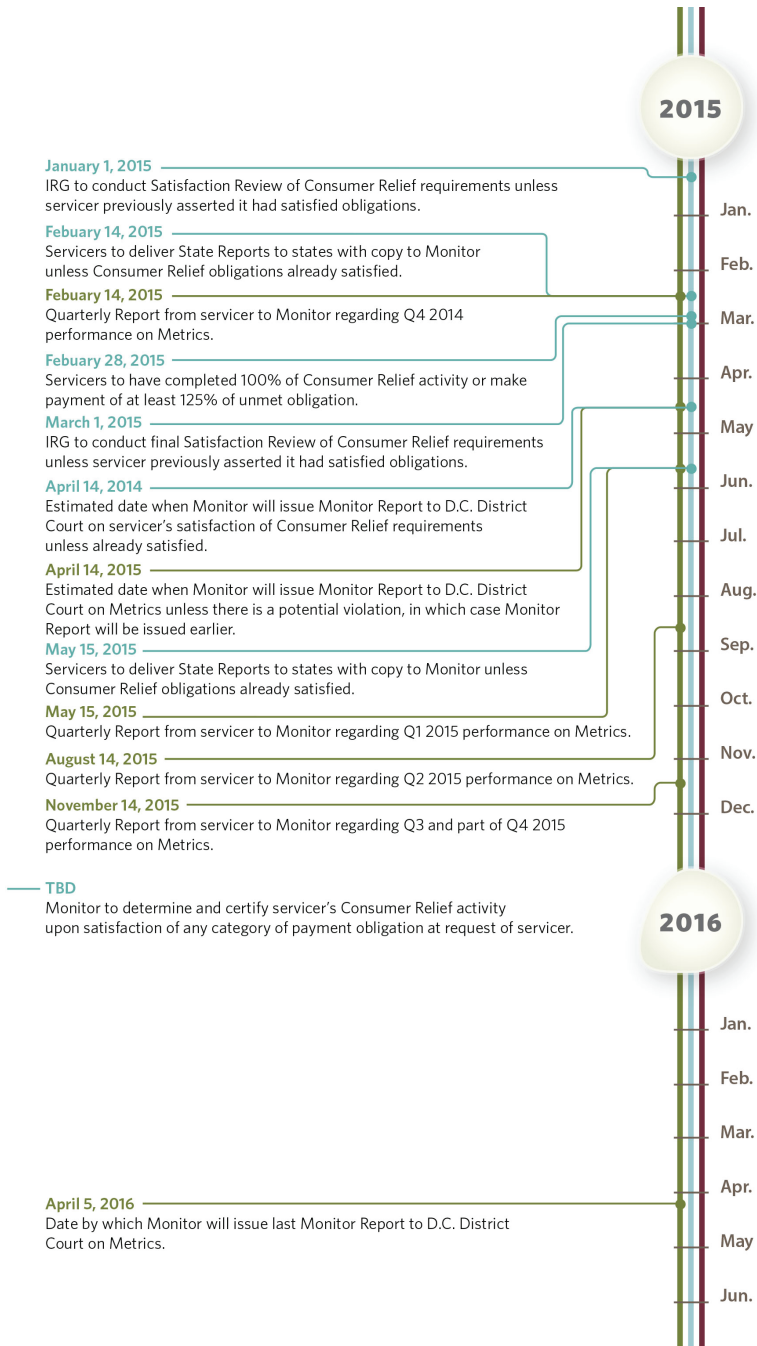
The banks must provide at least \$25 billion to provide struggling homeowners with relief. They must periodically report their activities, including meeting certain thresholds, by specific dates over the next three years. The Monitor must also provide reports to the D.C. District Court regarding bank compliance.

## Servicing Standards

The banks must comply with more than 300 servicing standards by October 2, 2012 and then provide quarterly reports to the Monitor regarding how well those standards are working over the next three years. The Monitor will also provide reports to the D.C. District Court regarding bank compliance.







# *Appendix B:*

**Audited Financial Statements**



# **OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

*As of and for the Year Ended June 30, 2013*

*And Report of Independent Auditor*

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**TABLE OF CONTENTS**

---

**REPORT OF INDEPENDENT AUDITOR** ..... 1-2

**FINANCIAL STATEMENTS**

Statement of Financial Position ..... 3  
Statement of Activities and Changes in Net Assets ..... 4  
Statement of Cash Flows..... 5  
Notes to Financial Statements..... 6-8

**SUPPLEMENTARY INFORMATION**

Schedule of Functional Expenses ..... 9

## **Report of Independent Auditor**

Board of Directors  
Office of Mortgage Settlement Oversight  
Raleigh, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Office of Mortgage Settlement Oversight (“OMSO”) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OMSO’s preparation and fair presentation of the 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 OMSO’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of OMSO as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Cherry Bekant LLP*

Raleigh, North Carolina  
September 16, 2013

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2013*

---

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 8,101,434
Prepaid expenses	1,065,796
Total Current Assets	<u>9,167,230</u>

Other Assets:

Prepaid expenses	<u>2,042,775</u>
------------------	------------------

**Total Assets** \$ 11,210,005

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable	\$ 6,904,301
Accrued liabilities	22,251
Deferred revenue	<u>3,355,706</u>

**Total Liabilities** 10,282,258

Net Assets:

Unrestricted	<u>927,747</u>
--------------	----------------

**Total Net Assets** 927,747

**Total Liabilities and Net Assets** \$ 11,210,005

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

*YEAR ENDED JUNE 30, 2013*

---

Unrestricted revenue and other support	
Service income	\$ 23,532,675
Interest income	4,602
	<hr/>
Total unrestricted revenue and other support	23,537,277
	<hr/>
Expenses	
Professional services	39,309,634
Management and general	2,340,533
	<hr/>
Total expenses	41,650,167
	<hr/>
Decrease in unrestricted net assets	(18,112,890)
Net unrestricted assets at beginning of year	19,040,637
	<hr/>
Net unrestricted assets at end of year	\$ 927,747
	<hr/> <hr/>

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**STATEMENT OF CASH FLOWS**

*YEAR ENDED JUNE 30, 2013*

---

**Cash flows – operating activities:**

Decrease in unrestricted net assets	\$ (18,112,890)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Decrease in:	
Accounts receivable	3,600,000
Prepaid expenses	1,065,796
Increase in:	
Accounts payable	6,094,704
Accrued liabilities	10,033
Deferred revenue	3,355,706
Net cash used in operating activities	<u>(3,986,651)</u>
Net decrease in cash and cash equivalents	(3,986,651)
Cash and cash equivalents - beginning of year	<u>12,088,085</u>
Cash and cash equivalents - end of year	<u>\$ 8,101,434</u>

# OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

---

### Note 1—Organization and summary of significant accounting policies

#### Organization

Office of Mortgage Settlement Oversight (“OMSO”) was incorporated as a non-profit corporation in North Carolina on February 6, 2012. OM SO was formed by the Monitor, Joseph Smith, to help him carry out the duties he was given in the National Mortgage Settlement, as described below.

On February 9, 2012 the attorneys general of 49 states and the District of Columbia, the federal government, and five banks and mortgage servicers reached agreement on a mortgage settlement that will create new servicing standards, provide loan modification relief to distressed homeowners and provide funding for state and federal governments. The Settlement was made formal and binding on April 5, 2012 when the U.S. District Court in Washington, D.C. entered the consent judgments containing the Settlement terms.

#### Summary of significant accounting policies

*Basis of Accounting* – OM SO’s financial statements are prepared on the accrual basis of accounting, whereby income is recognized when earned and expenses are recognized when incurred in accordance with accounting principles generally accepted in the United States of America.

*Basis of Presentation* – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) in its Accounting Standard Codification (ASC) No. 958, *Financial Statements of Not-for-Profit Organizations*. This Statement requires that not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows. Also, the Statement requires classification of an Organization’s net assets, revenues, and expenses based on the existence or absence of donor-imposed restrictions (permanently restricted, temporarily restricted, or unrestricted). All net assets of OM SO and changes therein are considered unrestricted net assets.

*Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Cash and Cash Equivalents* – For the purposes of the statement of cash flows, OM SO considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. OM SO places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts. As of June 30, 2013, OM SO had \$4,913,379 in excess of these insured amounts.

*Prepaid Expenses* – OM SO purchased a general liability insurance policy in the amount of \$4,352,000 with a policy period of April 1, 2012 through April 1, 2017. The policy has a limit of liability of \$50,000,000 in the aggregate for each policy period. Because it was determined that OM SO’s life will likely extend through April 30, 2016, this payment is accounted for as a prepaid, with the policy expense being amortized over the expected life of the entity.

*Property and Equipment* – OM SO leases predominantly all property and equipment due to the finite life of the organization.

# OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

---

### Note 1—Organization and summary of significant accounting policies (continued)

*Revenue Recognition* – Revenue is recognized in the statement of activities and changes in net assets generally when cash is received by OMSO. For the year ended June 30, 2013, OMSO received payments in advance from two servicers, which are included in deferred revenue in the accompanying Statement of Financial Position because the cash receipts relate to activities for the year ending June 30, 2014.

*Income Taxes* – OMSO has applied to be exempt from income tax under Section 501(c)(4) of the Internal Revenue Code, and accordingly, is not subject to federal income tax. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that OMSO continues to satisfy the requirements of a tax-exempt organization at June 30, 2013. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined OMSO had no uncertain income tax positions at June 30, 2013. OMSO's federal Exempt Organization Business Income Tax Returns (Form 990) for 2013 and 2012 are subject to examination by the Internal Revenue Service (IRS), generally for three years after they are filed.

### Note 2—Operating lease

OMSO leases its operating space under an operating lease expiring in 2016. The lease term is 53 months with monthly payments of \$9,622 for the first seven months. The monthly payment increases by approximately two percent each year through the term of the lease. The current monthly payment is \$9,790 plus an annual additional adjustment for operating expenses of the facility.

Rent expense amounted to \$116,642 for the year ended June 30, 2013.

Future minimum lease payments are as follows:

Year ending June 30,	
2014	\$ 118,716
2015	120,849
2016	123,049
Total	<u>\$ 362,614</u>

### Note 3—Related party transactions

OMSO has a sublease agreement with the law firm Poyner Spruill LLP. The Monitor, Joseph A. Smith, Jr., is 'Of Counsel' with Poyner Spruill LLP. OMSO's operating lease agreement details are listed above in Note 2. The leased space is used as the office space for OMSO's employee and management team. The office space is sublet from Poyner Spruill at the same rate as Poyner Spruill's lease agreement. OMSO also has a Legal and Consulting Services Agreement with Poyner Spruill for legal and administrative support.

The expenses associated with the lease agreement and the legal and consulting services agreement are included in the statement of activities and changes in net assets for the year ended June 30, 2013.

# OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT

## NOTES TO FINANCIAL STATEMENTS

*YEAR ENDED JUNE 30, 2013*

---

### **Note 4—Commitments and contingencies**

OMSO is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance, and if not so covered are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of activities of OMSO if disposed of unfavorably.

### **Note 5—Subsequent events**

OMSO has evaluated subsequent events through September 16, 2013, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2013*

	<u>Professional services</u>	<u>General and managerial</u>	<u>Total</u>
Functional Expenses			
Professional fees	\$ 39,231,958	\$ -	\$ 39,231,958
Payroll expense	-	711,568	711,568
Board of Director fees	-	140,000	140,000
Travel	-	77,676	77,676
Rent	-	116,642	116,642
Telephone	-	20,259	20,259
Other office	-	278,792	278,792
Utilities	-	3,601	3,601
Insurance	-	1,069,412	1,069,412
Miscellaneous expenses	-	259	259
Total Functional Expenses	<u>\$ 39,231,958</u>	<u>\$ 2,418,209</u>	<u>\$ 41,650,167</u>



**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2012*

---

**ASSETS**

Current Assets:

Cash and cash equivalents	\$	12,088,085
Accounts receivable		3,600,000
Prepaid expenses		1,065,796
<b>Total Current Assets</b>		<u>16,753,881</u>

Other Assets:

Prepaid expenses		<u>3,108,571</u>
------------------	--	------------------

**Total Assets** \$ 19,862,452

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable	\$	809,599
Accrued liabilities		<u>12,218</u>

**Total Liabilities** 821,817

Net Assets:

Unrestricted		<u>19,040,635</u>
--------------	--	-------------------

**Total Net Assets** 19,040,635

**Total Liabilities and Net Assets** \$ 19,862,452

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

*PERIOD ENDED JUNE 30, 2012*

---

Unrestricted revenue and other support	
Service income	\$ 21,750,000
	<u>21,750,000</u>
Total unrestricted revenue and other support	<u>21,750,000</u>
Expenses	
Professional services	2,000,320
Management and general	709,045
	<u>2,709,365</u>
Total expenses	<u>2,709,365</u>
Increase in unrestricted net assets	19,040,635
Net unrestricted assets at beginning of year	<u>-</u>
Net unrestricted assets at end of year	<u><u>\$ 19,040,635</u></u>