

Edgar Filing: New Residential Investment Corp. - Form 10-Q

New Residential Investment Corp.
Form 10-Q
November 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35777

New Residential Investment Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-3449660

(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY

(Address of principal executive offices)

10105

(Zip Code)

(212) 798-3150

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 141,382,603 shares outstanding as of October 31, 2014.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which statements involve substantial risks and uncertainties. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, our financing needs and the size and attractiveness of market opportunities. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue” or other words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations, cash flows or financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- reductions in cash flows received from our investments;
- the quality and size of the investment pipeline and our ability to take advantage of investment opportunities at attractive risk-adjusted prices;
- servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar, Springleaf and other third-parties;
- a lack of liquidity surrounding our investments, which could impede our ability to vary our portfolio in an appropriate manner;
- the impact that risks associated with subprime mortgage loans and consumer loans, as well as deficiencies in servicing and foreclosure practices, may have on the value of our Excess MSR, servicer advances, RMBS and consumer loan portfolios;
- the risks that default and recovery rates on our Excess MSR, servicer advances, real estate securities, residential mortgage loans and consumer loans deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets, including, but not limited to, our Excess MSR;
- the risk that projected recapture rates on the portfolios underlying our Excess MSR are not achieved;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets we invest in and the cost of financing;
- changes in economic conditions generally and the real estate and bond markets specifically;
- adverse changes in the financing markets we access affecting our ability to finance our investments on attractive terms, or at all;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or not entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities or loans are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- the availability and terms of capital for future investments;
- competition within the finance and real estate industries;

the legislative/regulatory environment, including, but not limited to, the impact of the Dodd-Frank Act, U.S. government programs intended to stabilize the economy, the federal conservatorship of Fannie Mae and Freddie Mac and legislation that permits modification of the terms of loans;

our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business; and
our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exclusion imposes limits on our operations.

We also direct readers to other risks and uncertainties referenced in this report, including those set forth under “Risk Factors.” We caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement, whether written or oral, that we may make from time to time, whether as a result of new information, future events or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about New Residential Investment Corp. (the “Company,” “New Residential” or “we,” “our” and “us”) the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements provide to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company’s other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>. See “Business – Corporate Governance and Internet Address; Where Readers Can Find Additional Information.”

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

NEW RESIDENTIAL INVESTMENT CORP.
FORM 10-Q

INDEX

	PAGE
<u>Part I. Financial Information</u>	<u>1</u>
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2014 and 2013</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the nine months ended September 30, 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2014 and 2013</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>48</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>87</u>
<u>Item 4. Controls and Procedures</u>	<u>89</u>
<u>Part II. Other Information</u>	<u>89</u>
<u>Item 1. Legal Proceedings</u>	<u>89</u>
<u>Item 1A. Risk Factors</u>	<u>89</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>121</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>121</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>121</u>
<u>Item 5. Other Information</u>	<u>121</u>
<u>Item 6. Exhibits</u>	<u>122</u>
<u>Signatures</u>	<u>128</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (dollars in thousands, except share data)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	\$409,236	\$324,151
Excess mortgage servicing rights, equity method investees, at fair value	342,538	352,766
Servicer advances, at fair value	3,214,113	2,665,551
Real estate securities, available-for-sale	2,079,712	1,973,189
Residential mortgage loans, held-for-investment	629,398	33,539
Residential mortgage loans, held-for-sale	492,399	—
Consumer loans, equity method investees	264,039	215,062
Cash and cash equivalents	187,601	271,994
Restricted cash	29,962	33,338
Real estate owned	52,740	—
Derivative assets	28,686	35,926
Other assets	42,977	53,142
	\$7,773,401	\$5,958,658
Liabilities and Equity		
Liabilities		
Repurchase agreements	\$2,738,349	\$1,620,711
Notes payable	2,847,251	2,488,618
Trades payable	213,050	246,931
Due to affiliates	35,141	19,169
Dividends payable	49,484	63,297
Deferred tax liability	22,485	—
Accrued expenses and other liabilities	11,780	6,857
	5,917,540	4,445,583
Commitments and Contingencies		
Equity		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 141,382,603 and 126,598,987 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	1,414	1,266
Additional paid-in capital	1,330,090	1,158,384
Retained earnings	237,284	102,986
Accumulated other comprehensive income, net of tax	6,628	3,214
Total New Residential stockholders' equity	1,575,416	1,265,850
Noncontrolling interests in equity of consolidated subsidiaries	280,445	247,225

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Total Equity	1,855,861	1,513,075
	\$7,773,401	\$5,958,658

See notes to condensed consolidated financial statements.

1

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(dollars in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income	\$97,587	\$21,885	\$261,733	\$61,075
Interest expense	33,307	3,443	108,816	6,993
Net Interest Income	64,280	18,442	152,917	54,082
Impairment				
Other-than-temporary impairment ("OTTI") on securities	—	—	943	3,756
Valuation provision on loans	1,134	—	1,591	—
	1,134	—	2,534	3,756
Net interest income after impairment	63,146	18,442	150,383	50,326
Other Income				
Change in fair value of investments in excess mortgage servicing rights	28,566	208	40,670	43,899
Change in fair value of investments in excess mortgage servicing rights, equity method investees	31,833	20,645	50,950	41,741
Change in fair value of investments in servicer advances	22,948	—	105,825	—
Earnings from investments in consumer loans, equity method investees	22,490	24,129	60,185	60,293
Gain on settlement of investments	938	11,213	57,834	11,271
Other income	15,289	—	19,539	—
	122,064	56,195	335,003	157,204
Operating Expenses				
General and administrative expenses	7,499	2,449	14,886	5,640
Management fee allocated by Newcastle	—	—	—	4,134
Management fee to affiliate	5,124	4,484	14,525	6,747
Incentive compensation to affiliate	10,910	4,470	33,111	5,348
Loan servicing expense	1,778	89	2,210	219
	25,311	11,492	64,732	22,088
Income (Loss) Before Income Taxes	159,899	63,145	420,654	185,442
Income tax expense	7,801	—	29,483	—
Net Income (Loss)	\$152,098	\$63,145	\$391,171	\$185,442
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	\$25,726	\$—	\$92,524	\$—
Net Income (Loss) Attributable to Common Stockholders	\$126,372	\$63,145	\$298,647	\$185,442

Net Income Per Share of Common Stock

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Basic	\$0.89	\$0.50	\$2.22	\$1.47
Diluted	\$0.88	\$0.49	\$2.16	\$1.45
Weighted Average Number of Shares of Common Stock				
Outstanding				
Basic	141,211,580	126,536,394	134,814,020	126,520,766
Diluted	144,166,601	129,944,643	137,972,639	128,274,974
Dividends Declared per Share of Common Stock	\$0.35	\$0.35	\$1.20	\$0.49

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
 (dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Comprehensive income (loss), net of tax				
Net income (loss)	\$ 152,098	\$ 63,145	\$ 391,171	\$ 185,442
Other comprehensive income (loss)				
Net unrealized gain (loss) on securities	1,308	7,687	67,915	7,677
Reclassification of net realized (gain) loss on securities into earnings	(3,668)	) (11,213	) (64,501	) (7,515
	(2,360	) (3,526	) 3,414	162
Total comprehensive income (loss)	\$ 149,738	\$ 59,619	\$ 394,585	\$ 185,604
Comprehensive income (loss) attributable to noncontrolling interests	\$ 25,726	\$ —	\$ 92,524	\$ —
Comprehensive income (loss) attributable to common stockholders	\$ 124,012	\$ 59,619	\$ 302,061	\$ 185,604

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014
(dollars in thousands, except share data)

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income	Total New Residential Stockholders' Equity	Noncontrolling Interests in Equity of Consolidated Subsidiaries	Total Equity
	Shares	Amount	Additional Paid-in Capital					
Equity - December 31, 2013	126,598,987	\$ 1,266	\$ 1,158,384	\$ 102,986	\$ 3,214	\$ 1,265,850	\$ 247,225	\$ 1,513,075
Dividends declared	—	—	—	(164,349)	—	(164,349)	—	(164,349)
Capital contributions	—	—	—	—	—	—	142,082	142,082
Capital distributions	—	—	—	—	—	—	(200,368)	(200,368)
Issuance of common stock	14,375,000	144	169,761	—	—	169,905	—	169,905
Option exercise	383,536	4	599	—	—	603	—	603
Dilution impact of distributions from consolidated subsidiaries	—	—	1,018	—	—	1,018	(1,018)	—
Director share grant	25,080	—	328	—	—	328	—	328
Comprehensive income (loss) (net of tax)								
Net income (loss)	—	—	—	298,647	—	298,647	92,524	391,171
Net unrealized gain (loss) on securities	—	—	—	—	67,915	67,915	—	67,915
Reclassification of net realized (gain) loss on securities into earnings	—	—	—	—	(64,501)	(64,501)	—	(64,501)
Total comprehensive income (loss)	—	—	—	—	—	302,061	92,524	394,585
Equity - September 30, 2014	141,382,603	\$ 1,414	\$ 1,330,090	\$ 237,284	\$ 6,628	\$ 1,575,416	\$ 280,445	\$ 1,855,861

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows From Operating Activities		
Net income (loss)	\$391,171	\$185,442
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Change in fair value of investments in excess mortgage servicing rights	(40,670)	) (43,899)
Change in fair value of investments in excess mortgage servicer rights, equity method investees	(50,950)	) (41,741)
Change in fair value of investments in servicer advances	(105,825)) —
Earnings from consumer loan equity method investees	(60,185)	) (60,293)
Change in fair value of investments in derivative assets	(2,355)) —
Accretion and other amortization	(213,945)	) (40,156)
(Gain) / loss on settlement of investments (net)	(57,834)	) (11,271)
(Gain) / loss on transfer of loans to REO	(11,861)) —
(Gain) / loss on mortgage servicing rights recapture agreement	(323)) —
Other-than-temporary impairment ("OTTI")	943	3,756
Valuation provision on loans	1,591	—
Non-cash directors' compensation	328	—
Deferred tax provision	22,485	—
Changes in:		
Restricted cash	3,376	—
Other assets	(8,961)	) (7,145)
Due to affiliates	15,972	1,973
Accrued expenses and other liabilities	4,665	1,752
Reduction of liability deemed as capital contribution by Newcastle	—	11,515
Other operating cash flows:		
Interest received from excess mortgage servicing rights	38,548	12,399
Interest received from servicer advance investments	91,829	—
Interest received from residential mortgage loans, held-for-investment	5,536	2,432
Distributions of earnings from excess mortgage servicing rights, equity method investees	34,680	23,659
Distributions of earnings from consumer loan equity method investees	10,599	60,293
Cash proceeds from investments, in excess of interest income	—	41,435
Net cash proceeds deemed as capital distributions to Newcastle	—	(35,571)
Net cash provided by (used in) operating activities	68,814	104,580
Cash Flows From Investing Activities		
Acquisition of investments in excess mortgage servicing rights	(75,206)	) (46,421)
Acquisition of investments in excess mortgage servicing rights, equity method investees	—	(226,837)
Purchase of servicer advance investments	(5,569,238)) —
Purchase of Agency RMBS	(1,229,580)	) (292,980)

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Purchase of Non-Agency RMBS	(1,148,631	) (202,484)
Purchase of residential mortgage loans, held-for-investment	(1,357,268) —	
Purchase of derivative assets	(70,027) —	
Purchase of real estate owned	(6,314) —	
Payment for settlement of derivatives	(22,643) —	
Return of investments in excess mortgage servicing rights	30,615	15,132	
Return of investments in excess mortgage servicing rights, equity method investees	26,498	4,018	
Principal repayments from servicing advance investments	5,188,295	—	
Principal repayments from Agency RMBS	213,993	219,187	
Principal repayments from Non-Agency RMBS	71,019	50,878	
Principal repayments from residential mortgage loans, held-for-investment	33,235	2,400	
Return of investments in consumer loan equity method investees	—	52,923	
Proceeds from sale of Agency RMBS	796,392	—	
Proceeds from sale of Non-Agency RMBS	1,273,191	123,130	
Proceeds from settlement of derivatives	14,107	—	
Proceeds from sale of residential mortgage loans	249,690	—	
Proceeds from sale of real estate owned	4,140	—	
Net cash provided by (used in) investing activities	(1,577,732	) (301,054)

Continued on next page.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows From Financing Activities		
Repayments of repurchase agreements	(2,839,051	) (1,283,567
Margin deposits under repurchase agreements and derivatives	(221,598	) (210,507
Repayments of notes payable	(5,019,000) —
Payment of deferred financing fees	(8,389	) (166
Common stock dividends paid	(178,162	) (17,712
Borrowings under repurchase agreements	3,957,212	1,425,413
Return of margin deposits under repurchase agreements and derivatives	243,658	210,158
Borrowings under notes payable	5,377,633	—
Issuance of common stock	173,201	—
Costs related to issuance of common stock	(2,693) —
Capital contributions	—	245,058
Noncontrolling interest in equity of consolidated subsidiaries - contributions	142,082	—
Noncontrolling interest in equity of consolidated subsidiaries - distributions	(200,368) —
Net cash provided by (used in) financing activities	1,424,525	368,677
Net Increase (Decrease) in Cash and Cash Equivalents	(84,393	) 172,203
Cash and Cash Equivalents, Beginning of Period	271,994	—
Cash and Cash Equivalents, End of Period	\$ 187,601	\$ 172,203
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 105,937	\$ 6,853
Cash paid during the period for income taxes	9,119	—
Supplemental Schedule of Non-Cash Investing and Financing Activities Prior to Date of Cash Contribution by Newcastle		
Cash proceeds from investments, in excess of interest income	\$ —	\$ 41,435
Acquisition of real estate securities	—	242,750
Acquisition of investments in excess mortgage servicing rights, equity method investees at fair value	—	125,099
Acquisition of residential mortgage loans, held-for-investment	—	35,138
Acquisition of investments in consumer loan equity method investees	—	245,421
Borrowings under repurchase agreements	—	1,179,068
Repayments of repurchase agreements	—	3,902
Capital contributions by Newcastle	—	648,408
Contributions in-kind by Newcastle	—	1,093,684
Capital distributions to Newcastle	—	1,228,054

Supplemental Schedule of Non-Cash Investing and Financing Activities Subsequent to Date of Cash Contribution by Newcastle

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Dividends declared but not paid	\$49,484	\$44,308
Non-cash distribution from Consumer Loan Companies	609	—

See notes to condensed consolidated financial statements.

6

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2014
(dollars in tables in thousands, except share data)

1. GENERAL

New Residential Investment Corp. (together with its subsidiaries, “New Residential”) is a Delaware corporation that was formed as a limited liability company in September 2011 for the purpose of making real estate related investments and commenced operations on December 8, 2011. On December 20, 2012, New Residential was converted to a corporation. Newcastle Investment Corp. (“Newcastle”) was the sole stockholder of New Residential until the spin-off (Note 13), which was completed on May 15, 2013. Newcastle is listed on the New York Stock Exchange (“NYSE”) under the symbol “NCT.”

Following the spin-off, New Residential is an independent publicly traded real estate investment trust (“REIT”) primarily focused on investing in residential mortgage related assets. New Residential is listed on the NYSE under the symbol “NRZ.”

New Residential has elected and intends to qualify to be taxed as a REIT for U.S. federal income tax purposes. As such, New Residential will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. See Note 17 regarding New Residential's taxable REIT subsidiaries.

New Residential has entered into a management agreement (the “Management Agreement”) with FIG LLC (the “Manager”), an affiliate of Fortress Investment Group LLC (“Fortress”), under which the Manager advises New Residential on various aspects of its business and manages its day-to-day operations, subject to the supervision of New Residential's board of directors. For its services, the Manager is entitled to management fees and incentive compensation, both defined in, and in accordance with the terms of, the Management Agreement. The Manager also manages Newcastle and investment funds that own a majority of Nationstar Mortgage LLC (“Nationstar”), a leading residential mortgage servicer, and Springleaf Holdings, Inc. (“Springleaf”), managing member of the Consumer Loan Companies (Note 9).

As of September 30, 2014, New Residential conducted its business through the following segments: (i) investments in Excess MSR's, (ii) investments in servicer advances, (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans and (vi) corporate.

Approximately 2.4 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of September 30, 2014. In addition, Fortress, through its affiliates, held options to purchase approximately 9.0 million shares of New Residential's common stock as of September 30, 2014.

The consolidated financial statements for periods prior to May 15, 2013 have been prepared on a spin-off basis from the consolidated financial statements and accounting records of Newcastle and reflect New Residential's historical results of operations, financial position and cash flows, in accordance with U.S. GAAP. As presented in the Consolidated Statements of Cash Flows, New Residential did not have any cash balance during periods prior to April 5, 2013, which is the first date Newcastle contributed cash to New Residential. All of its cash activity occurred in Newcastle's accounts during these periods. The consolidated financial statements for periods prior to May 15, 2013 do not necessarily reflect what New Residential's consolidated results of operations, financial position and cash flows would have been had New Residential operated as an independent company prior to the spin-off.

Certain expenses of Newcastle, comprised primarily of a portion of its management fee, have been allocated to New Residential to the extent they were directly associated with New Residential for periods prior to the spin-off on May 15, 2013. The portion of the management fee allocated to New Residential prior to the spin-off represents the product of the management fee rate payable by Newcastle (1.5%) and New Residential's gross equity, which management believes is a reasonable method for quantifying the expense of the services provided by the employees of the Manager to New Residential. The incremental cost of certain legal, accounting and other expenses related to New Residential's operations prior to May 15, 2013 are reflected in the accompanying consolidated financial statements. New Residential and Newcastle do not share any expenses following the spin-off.

The accompanying condensed consolidated financial statements and related notes of New Residential have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

of management, all adjustments considered necessary for a fair presentation of New Residential's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with New Residential's consolidated financial statements for the year ended December 31, 2013 and notes thereto included in New Residential's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in New Residential's consolidated financial statements for the year ended December 31, 2013.

Certain prior period amounts have been reclassified to conform to the current period's presentation. In addition, New Residential completed a one-for-two reverse stock split in October 2014 (Notes 13 and 18). The impact of this reverse stock split has been retroactively applied to all periods presented.

Recently Adopted Accounting Policies

Purchased Credit-Impaired ("PCI") Loans

New Residential evaluates the credit quality of its loans, as of the acquisition date, for evidence of credit quality deterioration. Loans with evidence of credit deterioration since their origination, and where it is probable that New Residential will not collect all contractually required principal and interest payments, are PCI loans. At acquisition, New Residential aggregates PCI loans into pools based on common risk characteristics and loans aggregated into pools are accounted for as if each pool were a single loan with a single composite interest rate and an aggregate expectation of cash flows.

The excess of the total cash flows (both principal and interest) expected to be collected over the carrying value of the PCI loans is referred to as the accretable yield. This amount is not reported on New Residential's Condensed Consolidated Balance Sheets but is accreted into interest income at a level rate of return over the remaining estimated life of the pool of loans.

On a quarterly basis, New Residential estimates the total cash flows expected to be collected over the remaining life of each pool. Probable decreases in expected cash flows trigger the recognition of impairment. Impairments are recognized through the valuation provision for loans and an increase in the allowance for loan losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan losses with any remaining increases recognized prospectively as a yield adjustment over the remaining estimated life of the pool of loans.

The excess of the total contractual cash flows over the cash flows expected to be collected is referred to as the nonaccretable difference. This amount is not reported on New Residential's Condensed Consolidated Balance Sheets and represents an estimate of the amount of principal and interest that will not be collected.

The liquidation of PCI loans, which may include sales of loans, receipt of payment in full by the borrower, or foreclosure, results in removal of the loans from the underlying PCI pool. When the amount of the liquidation proceeds, if any, is less than the unpaid principal balance of the loan, the difference is first applied against the PCI pool's nonaccretable difference. When the nonaccretable difference for a particular loan pool has been fully depleted, any excess of the unpaid principal balance of the loan over the liquidation proceeds is written off against the PCI pool's allowance for loan losses.

Loans Held-for-Sale

Loans acquired with the intent to sell are classified as held-for-sale. Loans held-for-sale are measured at the lower of cost or fair value, with valuation changes recorded in other income. Purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred discounts or premiums are an adjustment to the basis of the loan and are included in the quarterly determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale.

Real Estate Owned ("REO")

REO assets are those individual properties where New Residential receives the property in satisfaction of a debt (e.g., by taking legal title or physical possession). New Residential measures REO assets at the lower of cost or fair value, with valuation changes recorded in other income. See Note 12 for further details on the fair value measurement of REO.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Reclassification of Loans upon Foreclosure

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The standard clarifies the timing of when a creditor is considered to have taken physical possession of residential real estate collateral for a consumer mortgage loan, resulting in the reclassification of the loan receivable to REO. A creditor has taken physical possession of the property when either (1) the creditor obtains legal title through foreclosure, or (2) the borrower transfers all interests in the property to the creditor via a deed in lieu of foreclosure or a similar legal agreement. The standard also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. New Residential has included this disclosure through an early adoption of this guidance with prospective application. New Residential's adoption of this guidance did not have an impact on its consolidated financial statements as this guidance was consistent with its prior practice. See Note 8 for the new disclosure.

Classification of Government-Guaranteed Loans upon Foreclosure

In August 2014, the FASB issued ASU No. 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). The standard provides guidance on how to classify and measure certain government-guaranteed mortgage loans upon foreclosure. A mortgage loan is to be derecognized and a separate other receivable is to be recognized upon foreclosure in the amount of the loan balance (principal and interest) expected to be recovered from the guarantor if (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and 3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The ASU is effective in the first quarter of 2015 and early adoption is permitted.

New Residential has adopted ASU No. 2014-14 as of September 30, 2014, as it relates to the reverse mortgage portfolio. This portfolio is comprised primarily of U.S. Department of Housing and Urban Development (HUD)-guaranteed reverse mortgage loans.

Upon foreclosure of a reverse mortgage loan, New Residential receives the real estate property in satisfaction of the loan and intends to dispose of the property for the best possible economic value. To the extent the liquidation proceeds are less than the unpaid principal balance (UPB) of the loan, New Residential submits a claim to HUD for the lesser of the remaining UPB or the pre-determined HUD claim amount. New Residential's exposure to market risk while the foreclosed property is in its possession is limited to the extent the HUD claim amount is unlikely to cover any shortfall in property disposal proceeds.

After adoption of ASU No. 2014-14, upon foreclosure of a guaranteed reverse mortgage loan, New Residential records a separate other receivable for the expected liquidation proceeds, comprised of both the property disposal proceeds and the maximum HUD claim amount.

New Residential has used the modified retrospective transition method of adoption, that resulted in no cumulative-effect adjustment as of the beginning of the current fiscal year.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in

an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The ASU is effective for New Residential in the first quarter of 2017. Early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. New Residential is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The standard changes the accounting for repurchase-to-maturity transactions and linked repurchase financing transactions to

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

secured borrowing accounting. The ASU also expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. The ASU is effective for New Residential in the first quarter of 2015. Early adoption is not permitted. Disclosures are not required for comparative periods presented before the effective date. New Residential is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The standard provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern by requiring management to assess an entity's ability to continue as a going concern by incorporating and expanding on certain principles that are currently in U.S. auditing standards. The ASU is effective for New Residential for the annual period ending on December 31, 2016. Early adoption is permitted. New Residential is currently evaluating the new guidance to determine the impact that it may have on its consolidated financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, financial instruments and hedging. Some of the proposed changes are significant and could have a material impact on New Residential's reporting. New Residential has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

2. OTHER INCOME, ASSETS AND LIABILITIES

Other income is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gain (loss) on derivative instruments	\$4,799	\$—	\$2,355	\$—
Gain (loss) on transfer of loans to REO	5,167	—	11,861	—
Fee earned on deal termination	5,000	—	5,000	—
Other income	323	—	323	—
	\$15,289	\$—	\$19,539	\$—

Gain on settlement of investments is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gain on sale of real estate securities, net	\$3,668	\$11,213	\$65,444	\$11,271
Gain (loss) on sale of derivatives	(2,403)	) —	(6,186)) —
Gain (loss) on liquidated residential mortgage loans, held-for-investment	782	—	782	—
Gain (loss) on sale of REO	(159)	) —	(801)) —
Other gains (losses)	(950)	) —	(1,405)) —
	\$938	\$11,213	\$57,834	\$11,271

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Other assets and liabilities are comprised of the following:

	Other Assets			Accrued Expenses and Other Liabilities	
	September 30, 2014	December 31, 2013		September 30, 2014	December 31, 2013
Margin receivable, net	\$17,220	\$40,132	Interest payable	\$246	\$4,010
Interest and other receivables	8,530	7,548	Accounts payable	10,586	2,829
Deferred financing costs, net ^(A)	5,487	4,773	Derivative liability	345	18
Other assets	11,740	689	Current taxes payable	584	—
	\$42,977	\$53,142	Other liabilities	19	—
				\$11,780	\$6,857

(A) Deferred financing costs is net of accumulated amortization of \$8,443 and \$768 as of September 30, 2014 and December 31, 2013, respectively.

As reflected on the Condensed Consolidated Statements of Cash Flows, accretion and other amortization is comprised of the following:

	Nine Months Ended September 30,	
	2014	2013
Accretion of servicer advance interest income	\$153,790	\$—
Accretion of excess mortgage servicing rights income	37,703	30,541
Accretion of net discount on securities and loans ^(A)	30,127	9,644
Amortization of deferred financing costs	(7,675)	(29)
	\$213,945	\$40,156

(A) Includes accretion of the accretable yield on PCI loans.

3. SEGMENT REPORTING

New Residential conducts its business through the following segments: (i) investments in Excess MSR, (ii) investments in servicer advances, (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans, and (vi) corporate. The corporate segment consists primarily of (i) general and administrative expenses, (ii) the allocation of management fees by Newcastle until the spin-off on May 15, 2013, (iii) the management fees and incentive compensation owed to the Manager by New Residential following the spin-off, (iv) corporate cash and related interest income, and (v) the secured corporate loan and related interest expense.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Summary financial data on New Residential's segments is given below, together with a reconciliation to the same data for New Residential as a whole:

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
Three Months Ended September 30, 2014							
Interest income	\$12,914	\$50,967	\$11,179	\$22,526	\$—	\$1	\$97,587
Interest expense	3	25,157	1,932	5,065	1,149	1	33,307
Net interest income (expense)	12,911	25,810	9,247	17,461	(1,149)	—	64,280
Impairment	—	—	—	1,134	—	—	1,134
Other income	60,722	22,948	955	14,950	22,490	(1)	122,064
Operating expenses	103	4,796	169	3,163	632	16,448	25,311
Income (Loss) Before Income Taxes	73,530	43,962	10,033	28,114	20,709	(16,449)	159,899
Income tax expense	—	7,403	—	306	92	—	7,801
Net Income (Loss)	\$73,530	\$36,559	\$10,033	\$27,808	\$20,617	\$(16,449)	\$152,098
Noncontrolling interests in income (loss) of consolidated subsidiaries	\$—	\$25,726	\$—	\$—	\$—	\$—	\$25,726
Net income (loss) attributable to common stockholders	\$73,530	\$10,833	\$10,033	\$27,808	\$20,617	\$(16,449)	\$126,372
	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
Nine Months Ended September 30, 2014							
Interest income	\$37,703	\$153,790	\$41,939	\$28,300	\$—	\$1	\$261,733
Interest expense	1,294	86,885	9,513	6,454	4,170	500	108,816
Net interest income (expense)	36,409	66,905	32,426	21,846	(4,170)	(499)	152,917
Impairment	—	—	943	1,591	—	—	2,534
Other income	91,943	105,657	59,410	17,808	60,185	—	335,003
Operating expenses	488	5,815	800	4,140	745	52,744	64,732
Income (Loss) Before Income Taxes	127,864	166,747	90,093	33,923	55,270	(53,243)	420,654
Income tax expense	—	29,085	—	306	92	—	29,483
Net Income (Loss)	\$127,864	\$137,662	\$90,093	\$33,617	\$55,178	\$(53,243)	\$391,171
Noncontrolling interests in income (loss) of consolidated subsidiaries	\$—	\$92,524	\$—	\$—	\$—	\$—	\$92,524

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Net income (loss) attributable to common stockholders	\$ 127,864	\$ 45,138	\$ 90,093	\$ 33,617	\$ 55,178	\$(53,243)	\$ 298,647
---	------------	-----------	-----------	-----------	-----------	-------------	------------

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

	Servicing Related Assets		Residential Securities and Loans					
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total	
September 30, 2014								
Investments	\$751,774	\$3,214,113	\$2,079,712	\$1,121,797	\$264,039	\$—	\$7,431,435	
Cash and cash equivalents	—	88,770	13,273	2,889	9,766	72,903	187,601	
Restricted cash	—	29,962	—	—	—	—	29,962	
Derivative assets	—	—	1,115	27,571	—	—	28,686	
Other assets	1,122	7,768	22,879	62,695	609	644	95,717	
Total assets	\$752,896	\$3,340,613	\$2,116,979	\$1,214,952	\$274,414	\$73,547	\$7,773,401	
Debt	\$—	\$2,824,007	\$1,725,737	\$910,856	\$125,000	\$—	\$5,585,600	
Other liabilities	1,715	27,557	214,018	4,973	1,132	82,545	331,940	
Total liabilities	1,715	2,851,564	1,939,755	915,829	126,132	82,545	5,917,540	
Total equity	751,181	489,049	177,224	299,123	148,282	(8,998)	1,855,861	
Noncontrolling interests in equity of consolidated subsidiaries	—	280,445	—	—	—	—	280,445	
Total New Residential stockholders' equity	\$751,181	\$208,604	\$177,224	\$299,123	\$148,282	\$(8,998)	\$1,575,416	
Investments in equity method investees	\$342,538	\$—	\$—	\$—	\$264,039	\$—	\$606,577	

	Servicing Related Assets		Residential Securities and Loans					
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total	
Three Months Ended September 30, 2013								
Interest income	\$9,761	\$—	\$11,437	\$683	\$—	\$4	\$21,885	
Interest expense	—	—	3,443	—	—	—	3,443	
Net interest income (expense)	9,761	—	7,994	683	—	4	18,442	
Impairment	—	—	—	—	—	—	—	
Other income	20,853	—	11,213	—	24,129	—	56,195	
Operating expenses	82	—	10	94	1	11,305	11,492	
Income (Loss) Before Income Taxes	30,532	—	19,197	589	24,128	(11,301)	63,145	
Income tax expense	—	—	—	—	—	—	—	
Net Income (Loss)	\$30,532	\$—	\$19,197	\$589	\$24,128	\$(11,301)	\$63,145	
Noncontrolling interests in income (loss) of consolidated subsidiaries	\$—	\$—	\$—	\$—	\$—	\$—	\$—	
Net income (loss) attributable to common stockholders	\$30,532	\$—	\$19,197	\$589	\$24,128	\$(11,301)	\$63,145	

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
Nine Months Ended September 30, 2013							
Interest income	\$30,541	\$—	\$28,625	\$1,867	\$—	\$42	\$61,075
Interest expense	—	—	6,993	—	—	—	6,993
Net interest income (expense)	30,541	—	21,632	1,867	—	42	54,082
Impairment	—	—	3,756	—	—	—	3,756
Other income	85,640	—	11,271	—	60,293	—	157,204
Operating expenses	178	—	32	224	1,952	19,702	22,088
Income (Loss) Before Income Taxes	116,003	—	29,115	1,643	58,341	(19,660)	185,442
Income tax expense	—	—	—	—	—	—	—
Net Income (Loss)	\$116,003	\$—	\$29,115	\$1,643	\$58,341	\$(19,660)	\$185,442
Noncontrolling interests in income (loss) of consolidated subsidiaries	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Net income (loss) attributable to common stockholders	\$116,003	\$—	\$29,115	\$1,643	\$58,341	\$(19,660)	\$185,442

4. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS

Acquisitions

On January 17, 2014, New Residential completed an additional closing of Excess MSRs that it agreed to acquire as part of a previously committed transaction between Nationstar and First Tennessee Bank. New Residential invested approximately \$19.1 million on loans with an aggregate UPB of approximately \$8.1 billion.

On May 12, 2014 New Residential invested approximately \$33.9 million to acquire a one-third interest in the Excess MSRs on each of three portfolios of Agency residential mortgage loans with an aggregate UPB of \$12.8 billion. Fortress managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSRs. Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in the portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

On May 13, 2014, New Residential invested approximately \$2.2 million to acquire a one-third interest in the Excess MSRs on a portfolio of Agency residential mortgage loans with an aggregate UPB of \$0.7 billion. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSRs. Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in the portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New

Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

On July 8, 2014, New Residential invested approximately \$14.2 million to acquire a 32.5% interest in the Excess MSR on a portfolio of Agency residential mortgage loans with an aggregate UPB of \$5.9 billion. Fortress-managed funds and Nationstar agreed to acquire a 32.5% and 35.0% interest in the Excess MSR, respectively. New Residential also invested approximately \$5.7 million to acquire a one-third interest in the Excess MSR on a portfolio of Agency residential mortgage loans with an aggregate UPB of \$2.1 billion. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSR. Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in each of the portfolios. Under the terms of these investments, to the extent that any loans in the portfolios are refinanced by Nationstar, the resulting Excess MSR is shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

New Residential has entered into a "Recapture Agreement" in each of the Excess MSR investments to date, including those Excess MSR investments made through investments in joint ventures (Note 5). As described above, under the Recapture Agreements, New Residential is generally entitled to a pro rata interest in the Excess MSRs on any initial or subsequent refinancing by Nationstar of a loan in the original portfolio. These Recapture Agreements do not apply to New Residential's investments in servicer advances (Note 6).

New Residential elected to record its investments in Excess MSRs at fair value pursuant to the fair value option for financial instruments in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs.

The following is a summary of New Residential's direct investments in Excess MSRs:

	September 30, 2014				December 31, 2013	
	Unpaid Principal Balance ("UPB") of Underlying Mortgages	Interest in Excess MSR	Weighted Average Life Years ^(A)	Amortized Cost Basis ^(B)	Carrying Value ^(C)	Carrying Value
Agency						
Original and Recaptured Pools	\$46,264,414	32.5%-66.7%	5.5	\$134,087	\$176,482	\$120,271
Recapture Agreements	—	32.5%-66.7%	12.5	8,760	29,868	24,389
	46,264,414		5.9	142,847	206,350	144,660
Non-Agency ^(D)						
Original and Recaptured Pools	\$52,776,751	33.3%-80.0%	5.2	\$151,734	\$193,676	\$173,007
Recapture Agreements	—	33.3%-80.0%	12.7	11,265	9,210	6,484
	52,776,751		5.7	162,999	202,886	179,491
Total	\$99,041,165		5.8	\$305,846	\$409,236	\$324,151

(A) Weighted Average Life represents the weighted average expected timing of the receipt of expected cash flows for this investment.

(B) The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.

(C) Carrying Value represents the fair value of the pools or Recapture Agreements, as applicable.

(D) Excess MSR investments in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of September 30, 2014 (Note 6).

Changes in fair value recorded in other income is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Original and Recaptured Pools	\$24,124	\$(238	) \$34,012	\$36,240
Recapture Agreements	4,442	446	6,658	7,659

\$28,566

\$208

\$40,670

\$43,899

In the third quarter of 2014, a weighted average discount rate of 10.0% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the direct investments in Excess MSR:

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of			
	September 30, 2014	December 31, 2013		
California	31.2	%	31.5	%
Florida	7.8	%	9.8	%
New York	4.3	%	4.9	%
Maryland	4.1	%	3.5	%
Washington	4.0	%	3.9	%
Texas	3.6	%	4.0	%
Virginia	3.3	%	3.1	%
Arizona	3.2	%	3.5	%
New Jersey	3.2	%	3.3	%
Illinois	3.1	%	2.7	%
Other U.S.	32.2	%	29.8	%
	100.0	%	100.0	%

Geographic concentrations of investments expose New Residential to the risk of economic downturns within the relevant states. Any such downturn in a state where New Residential holds significant investments could affect the underlying borrower's ability to make mortgage payments and therefore could have a meaningful, negative impact on the Excess MSRs.

5. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS, EQUITY METHOD INVESTEEES

New Residential entered into investments in joint ventures ("Excess MSR joint ventures") jointly controlled by New Residential and Fortress-managed funds investing in Excess MSRs. New Residential elected to record these investments at fair value pursuant to the fair value option for financial instruments to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors.

The following tables summarize the financial results of the Excess MSR joint ventures, accounted for as equity method investees, held by New Residential:

	September 30, 2014	December 31, 2013	
Excess MSR assets	\$679,146	\$703,681	
Other assets	10,075	5,534	
Debt	—	—	
Other liabilities	(4,146	) (3,683)
Equity	\$685,075	\$705,532	
New Residential's investment	\$342,538	\$352,766	
New Residential's ownership	50.0	% 50.0	%

	Three Months Ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest income	\$18,341	\$16,745	\$54,126	\$30,501
Other income	45,354	25,109	47,843	56,483

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Expenses	(29	) (564	) (70	) (3,502)
Net income	\$63,666	\$41,290	\$101,899	\$83,482	

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

New Residential's investments in equity method investees changed during the nine months ended September 30, 2014 as follows:

Balance at December 31, 2013	\$352,766	
Contributions to equity method investees	—	
Distributions of earnings from equity method investees	(34,680))
Distributions of capital from equity method investees	(26,498))
Change in fair value of investments in equity method investees	50,950	
Balance at September 30, 2014	\$342,538	

The following is a summary of New Residential's Excess MSR investments made through equity method investees:
September 30, 2014

	Unpaid Principal Balance	Investee Interest in Excess MSR	New Residential Interest in Investees	Amortized Cost Basis ^(A)	Carrying Value ^(B)	Weighted Average Life (Years) ^(C)
Agency						
Original and Recaptured Pools	\$91,366,989	66.7	% 50.0	% \$309,094	\$378,367	5.1
Recapture Agreements	—	66.7	% 50.0	% 72,681	92,033	12.5
	91,366,989			381,775	470,400	6.5
Non-Agency ^(D)						
Original and Recaptured Pools	61,069,238	66.7%-77.0%	50.0	% 182,665	196,485	5.1
Recapture Agreements	—	66.7%-77.0%	50.0	% 12,898	12,261	12.4
	61,069,238			195,563	208,746	5.6
Total	\$152,436,227			\$577,338	\$679,146	6.2

Represents the amortized cost basis of the equity method investees in which New Residential holds a 50% interest.

(A) The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.

(B) Represents the carrying value of the Excess MSRs held in equity method investees, in which New Residential holds a 50% interest. Carrying value represents the fair value of the pools or Recapture Agreements, as applicable.

(C) The weighted average life represents the weighted average expected timing of the receipt of cash flows of each investment.

(D) Excess MSR investments in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of September 30, 2014 (Note 6).

In the third quarter of 2014, a weighted average discount rate of 10.0% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSR investments made through equity method investees:

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of			
	September 30, 2014		December 31, 2013	
California	23.5	%	23.5	%
Florida	9.0	%	9.2	%
New York	5.5	%	5.3	%
Texas	4.8	%	4.9	%
Georgia	4.1	%	4.0	%
New Jersey	3.8	%	3.7	%
Illinois	3.5	%	3.5	%
Maryland	3.2	%	3.1	%
Virginia	3.2	%	3.1	%
Washington	2.8	%	2.8	%
Other U.S.	36.6	%	36.9	%
	100.0	%	100.0	%

Geographic concentrations of investments expose New Residential to the risk of economic downturns within the relevant states. Any such downturn in a state where New Residential holds significant investments could affect the underlying borrower's ability to make mortgage payments and therefore could have a meaningful, negative impact on the Excess MSRs.

6. INVESTMENTS IN SERVICER ADVANCES

On December 17, 2013, New Residential and third-party co-investors, through a joint venture entity (Advance Purchaser LLC, the "Buyer") consolidated by New Residential, agreed to purchase \$3.2 billion of outstanding servicer advances on a portfolio of loans, which is a subset of the same portfolio of loans in which New Residential invests in a portion of the Excess MSR (Notes 4 and 5), including the basic fee component of the related MSRs. During the nine months ended September 30, 2014, the Buyer also agreed to purchase outstanding servicer advances on an additional portfolio of loans. As of September 30, 2014, New Residential and third-party co-investors had settled \$3.0 billion of servicer advances, net of recoveries, financed with \$2.8 billion of notes payables outstanding (Note 11). A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer and owned an approximately 45.0% interest in the Buyer as of September 30, 2014. As of September 30, 2014, noncontrolling third-party investors, owning the remaining interest in the Buyer have funded capital commitments to the Buyer of \$389.6 million and New Residential has funded capital commitments to the Buyer of \$312.7 million. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes a distribution to the co-investors, including New Residential. As of September 30, 2014, the third-party co-investors and New Residential have previously funded their commitments, however the Buyer may recall \$182.0 million and \$146.1 million of capital distributed to the third-party co-investors and New Residential, respectively. Neither the third-party co-investors nor New Residential is obligated to fund amounts in excess of their respective capital commitments, regardless of the capital requirements of the Buyer that holds its investment in servicer advances.

The Buyer has purchased servicer advances from Nationstar, is required to purchase all future servicer advances made with respect to these pools from Nationstar, and receives cash flows from advance recoveries and the basic fee

component of the related MSRs, net of compensation paid back to Nationstar in consideration of Nationstar's servicing activities. The compensation paid to Nationstar as of September 30, 2014 was approximately 9.2% of the basic fee component of the related MSRs plus a performance fee that represents a portion (up to 100%) of the cash flows in excess of those required for the Buyer to obtain a specified return on its equity.

New Residential elected to record its investments in servicer advances, including the right to the basic fee component of the related MSRs, at fair value pursuant to the fair value option for financial instruments to provide users of the financial statements with better information regarding the effects of market factors.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The following is a summary of the investments in servicer advances, including the right to the basic fee component of the related MSR, made by the Buyer, which New Residential consolidates:

	Amortized Cost Basis	Carrying Value ^(A)	Weighted Average Discount Rate	Weighted Average Life (Years) ^(B)
September 30, 2014				
Servicer advances	\$3,108,288	\$3,214,113	5.5	% 4.2
As of December 31, 2013				
Servicer advances	\$2,665,551	\$2,665,551	5.6	% 2.7

(A) Carrying value represents the fair value of the investments in servicer advances, including the basic fee component of the related MSR.

(B) Weighted Average Life represents the weighted average expected timing of the receipt of expected net cash flows for this investment.

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Changes in Fair Value Recorded in Other Income	\$ 22,948	\$ —	\$ 105,825	\$ —

The following is additional information regarding the servicer advances, and related financing, of the Buyer, which New Residential consolidates:

						Loan-to-Value		Cost of Funds ^(B)			
	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Carrying Value of Notes Payable		Gross	Net ^(A)	Gross	Net		
September 30, 2014											
Servicer advances ^(C)	\$97,398,297	\$3,041,905	3.1	% \$2,824,007	91.5 %	90.5 %	3.0 %	2.2 %			
December 31, 2013											
Servicer advances ^(C)	\$43,444,216	\$2,661,130	6.1	% \$2,390,778	89.8 %	88.6 %	4.0 %	2.3 %			

(A) Ratio of face amount of borrowings to par amount of servicer advance collateral, net of an interest reserve maintained by the Buyer.

(B) Annualized measure of the cost associated with borrowings. Gross Cost of Funds primarily includes interest expense and facility fees. Net Cost of Funds excludes facility fees.

(C) The following types of advances comprise the investments in servicer advances:

	September 30, 2014	December 31, 2013
Principal and interest advances	\$792,875	\$1,516,715

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Escrow advances (taxes and insurance advances)	1,556,968	934,525
Foreclosure advances	692,062	209,890
Total	\$3,041,905	\$2,661,130

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Interest income recognized by New Residential related to its investments in servicer advances was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income, gross of amounts attributable to servicer compensation	\$79,116	\$—	\$232,800	\$—
Amounts attributable to base servicer compensation	(18,914)	) —	(68,220)) —
Amounts attributable to incentive servicer compensation	(9,235)	) —	(10,790)) —
Interest income from investments in servicer advances	\$50,967	\$—	\$153,790	\$—

Others' interests in the equity of the Buyer is computed as follows:

	September 30, 2014		December 31, 2013	
Total Advance Purchaser LLC equity	\$509,898		\$362,807	
Others' ownership interest	55.0	%	68.1	%
Others' interest in equity of consolidated subsidiary	\$280,445		\$247,225	

Others' interests in the Buyer's net income is computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Advance Purchaser LLC income	\$46,833	\$—	\$166,227	\$—
Others' ownership interest as a percent of total ^(A)	54.9	% —	% 55.7	% —
Others' interest in net income (loss) of consolidated subsidiaries	\$25,726	\$—	\$92,524	\$—

(A) As a result, New Residential owned 45.1% and 44.3% of the Buyer, on average during the three months ended September 30, 2014 and nine months ended September 30, 2014, respectively.

7. INVESTMENTS IN REAL ESTATE SECURITIES

During the nine months ended September 30, 2014, New Residential acquired \$1.5 billion face amount of Non-Agency RMBS for approximately \$977.9 million and \$1.3 billion face amount of Agency RMBS for approximately \$1.4 billion. The \$1.3 billion in Agency RMBS includes \$0.3 billion of floating rate securities and \$1.0 billion of fixed rate specified pools comprised of new production mortgages that are expected to carry less prepayment risk and warrant a premium relative to TBA pools. New Residential sold Non-Agency RMBS with a face amount of approximately \$1.9 billion and an amortized cost basis of approximately \$1.2 billion for approximately \$1.3 billion, recording a gain on sale of approximately \$60.3 million. Furthermore, New Residential sold Agency RMBS with a face amount of \$746.9 million and an amortized cost basis of approximately \$791.7 million for approximately \$796.4 million, recording a gain on sale of approximately \$4.7 million.

On March 6, 2014, Merrill Lynch, Pierce, Fenner & Smith Incorporated and New Residential entered into an agreement pursuant to which New Residential agreed to purchase approximately \$625 million face amount of Non-Agency residential mortgage securities for approximately \$553 million. The purchased securities were issued by the American General Mortgage Loan Trust 2009-1 and represent 75% of the mezzanine and subordinate tranches (the "2009-1 Retained Certificates") of a securitization sponsored by Third Street Funding LLC, an affiliate of Springleaf. The securitization, including the 2009-1 Retained Certificates, is collateralized by residential mortgage loans with a face amount of approximately \$0.9 billion. On May 30, 2014, New Residential sold the 2009-1 Retained Certificates for approximately \$598.5 million and recorded a gain of approximately \$39.7 million. At the time of sale, the 2009-1 Retained Certificates had an amortized cost basis of approximately \$558.8 million. The purchase and sale of the 2009-1 Retained Certificates is included in the purchases and sales described above.

On May 27, 2014, New Residential exercised its cleanup call option related to sixteen Non-Agency RMBS deals and purchased and retained performing and non-performing residential mortgage loans. New Residential owned \$17.4 million face amount of securities in these deals and received par on these securities, which had an amortized cost basis of \$12.0 million prior to the repayment. See Note 8 for further details on this transaction.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

On August 25, 2014, New Residential exercised its cleanup call option related to nineteen Non-Agency RMBS deals and purchased and retained performing and non-performing residential mortgage loans. New Residential owned \$15.4 million face amount of securities in these deals and received par on these securities, which had an amortized cost basis of \$13.1 million prior to the repayment. See Note 8 for further details on this transaction. See Note 18 for recent activities related to the subsequent sale of the majority of these performing loans through a securitization.

The following is a summary of New Residential's real estate securities as of September 30, 2014, all of which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value ^(A)	Weighted Average		Coupon	Yield	Life (Years) ^(C)	Principal Subordinated	Debt
			Gains	Losses		Number of Securities	Rating ^(B)					
Agency RMBS ^{(E)(F)(G)}	\$1,697,608	\$1,785,873	\$4,504	\$(5,294)	\$1,785,083	104	AAA	3.19%	1.87%	6.1	N/A	\$1.0
Non-Agency RMBS ^(H)	432,762	287,211	9,876	(2,458)	294,629	84	CCC	1.72%	5.63%	7.7	12.2%	570
Total/Weighted Average	\$2,130,370	\$2,073,084	\$14,380	\$(7,752)	\$2,079,712	188	AA-	2.89%	2.63%	6.4		\$1.0

(A) Fair value, which is equal to carrying value for all securities. See Note 12 regarding the estimation of fair value.

Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. This excludes the ratings of the collateral underlying six bonds for which New Residential was unable to obtain rating information. For each security rated by multiple rating agencies, the lowest rating is used. New

(B) Residential used an implied AAA rating for the Agency RMBS. Ratings provided were determined by third party rating agencies, and represent the most recent credit ratings available as of the reporting date and may not be current.

(C) The weighted average life is based on the timing of expected principal reduction on the assets.

(D) Percentage of the outstanding face amount of securities that is subordinate to New Residential's investments.

(E) Includes securities issued or guaranteed by U.S. Government agencies such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac").

(F) Amortized cost basis and carrying value include principal receivable of \$6.4 million.

(G) The total outstanding face amount was \$1.0 billion for fixed rate securities and \$657.4 million for floating rate securities.

(H) The total outstanding face amount was \$18.3 million for fixed rate securities and \$414.5 million for floating rate securities.

Unrealized losses that are considered other than temporary are recognized currently in earnings. During the nine months ended September 30, 2014, New Residential recorded other-than-temporary impairment charges ("OTTI") of \$0.9 million with respect to real estate securities. Any remaining unrealized losses on New Residential's securities were primarily the result of changes in market factors, rather than issue-specific credit impairment. New Residential performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding period. New Residential has no intent to sell, and is not more likely than not to be required to sell, these securities.

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The following table summarizes New Residential's securities in an unrealized loss position as of September 30, 2014.

Securities in an Unrealized Loss Position	Outstanding Face Amount	Amortized Cost Basis			Gross Unrealized Losses	Carrying Value	Weighted Average			Life (Years)	
		Before Impairment	Other-Than-Temporary Impairment	After Impairment ^(A)			Number of Securities	Rating ^(B)	CouponYield		
Less than Twelve Months	\$992,251	\$977,758	\$(143)	\$977,615	\$(6,704)	\$970,911	54	AA	3.36%	3.15%	6.6
Twelve or More Months	91,156	97,387	(386)	97,001	(1,048)	95,953	17	AA+	3.45%	1.96%	4.9
Total/Weighted Average	\$1,083,407	\$1,075,145	\$(529)	\$1,074,616	\$(7,752)	\$1,066,864	71	AA	3.37%	3.05%	6.4

(A) This amount represents other-than-temporary impairment recorded on securities that are in an unrealized loss position as of September 30, 2014.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

(B) The weighted average rating of securities in an unrealized loss position for less than twelve months excludes the rating of six bonds for which New Residential was unable to obtain rating information.

New Residential performed an assessment of all of its debt securities that are in an unrealized loss position (an unrealized loss position exists when a security's amortized cost basis, excluding the effect of OTTI, exceeds its fair value) and determined the following:

	September 30, 2014		Unrealized Losses	
	Fair Value	Amortized Cost Basis After Impairment	Credit ^(A)	Non-Credit ^(B)
Securities New Residential intends to sell ^(C)	\$—	\$—	\$—	\$—
Securities New Residential is more likely than not to be required to sell ^(D)	—	—	—	N/A
Securities New Residential has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	71,755	71,821	(529	) (595)
Non credit impaired securities	995,637	1,002,795	—	(7,157)
Total debt securities in an unrealized loss position	\$1,067,392	\$1,074,616	\$(529	) \$(7,752)

This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, New Residential's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting (A) those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

(B) This amount represents unrealized losses on securities that are due to non-credit factors and recorded through other comprehensive income.

A portion of securities New Residential intends to sell have a fair value equal to their amortized cost basis after (C) impairment, and, therefore do not have unrealized losses reflected in other comprehensive income as of September 30, 2014.

New Residential may, at times, be more likely than not to be required to sell certain securities for liquidity (D) purposes. While the amount of the securities to be sold may be an estimate, and the securities to be sold have not yet been identified, New Residential must make its best estimate, which is subject to significant judgment regarding future events, and may differ materially from actual future sales.

The following table summarizes the activity related to credit losses on debt securities:

	Nine Months Ended September 30, 2014
Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	\$2,071
	464

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Increases to credit losses on securities for which an OTTI was previously recognized and a portion

of an OTTI was recognized in other comprehensive income

Additions for credit losses on securities for which an OTTI was not previously recognized 151

Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely

—

than not will be required to sell the security before recovery of its amortized cost basis

Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date (552)

Reduction for securities sold during the period (1,605)

Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized

\$529

in other comprehensive income

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the collateral securing New Residential's Non-Agency RMBS:

Geographic Location	September 30, 2014		December 31, 2013	
	Outstanding Face Amount	Percentage of Total Outstanding	Outstanding Face Amount	Percentage of Total Outstanding
Western U.S.	\$110,692	25.6	% \$317,111	36.3 %
Southeastern U.S.	97,618	22.5	% 198,298	22.7 %
Northeastern U.S.	76,957	17.8	% 164,481	18.9 %
Midwestern U.S.	65,262	15.1	% 98,682	11.3 %
Southwestern U.S.	42,117	9.7	% 51,425	5.9 %
Other ^(A)	40,116	9.3	% 42,869	4.9 %
	\$432,762	100.0	% \$872,866	100.0 %

(A) Represents collateral for which New Residential was unable to obtain geographic information.

New Residential evaluates the credit quality of its real estate securities, as of the acquisition date, for evidence of credit quality deterioration. As a result, New Residential identified a population of real estate securities for which it was determined that it was probable that New Residential would be unable to collect all contractually required payments. For securities acquired during the nine months ended September 30, 2014, the face amount of these real estate securities was \$384.5 million, with total expected cash flows of \$364.5 million and a fair value of \$277.7 million on the dates that New Residential purchased the respective securities.

The following is the outstanding face amount and carrying value for securities, for which, as of the acquisition date, it was probable that New Residential would be unable to collect all contractually required payments:

	Outstanding Face Amount	Carrying Value
September 30, 2014	\$179,446	\$140,475
December 31, 2013	729,895	483,680

The following is a summary of the changes in accretable yield for these securities:

	Nine Months Ended September 30, 2014
Balance at December 31, 2013	\$143,067
Additions	86,810
Accretion	(10,947)
Reclassifications to non-accretable difference	(8,654)
Disposals	(156,193)
Balance at September 30, 2014	\$54,083

See Note 18 for recent activities related to New Residential's investments in real estate securities.

8. INVESTMENTS IN RESIDENTIAL MORTGAGE LOANS

During the nine months ended September 30, 2014, New Residential acquired several portfolios of performing and non-performing residential mortgage loans as discussed below:

On April 4, 2014, New Residential purchased a portfolio of non-performing residential mortgage loans out of a securitization trust with a UPB of approximately \$17.8 million at a price of approximately \$15.5 million. New Residential recognized a loss for the difference between the price paid and fair value of the loans acquired of \$11.3 million.

On May 27, 2014, New Residential exercised its cleanup call option related to sixteen Non-Agency RMBS deals and purchased performing and non-performing residential mortgage loans with a UPB of approximately \$283.6 million at a

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

price of approximately \$288.5 million. New Residential securitized approximately \$233.8 million in UPB of performing loans, which was recorded as a sale for accounting purposes, and recognized a net gain on settlement of investments of approximately \$2.6 million. New Residential retained performing and non-performing loans with a UPB of approximately \$48.4 million at a price of \$40.1 million. Additionally, New Residential acquired \$1.3 million of real estate owned.

On May 28, 2014, New Residential purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$500.3 million at a price of approximately \$373.1 million.

On June 24, 2014, New Residential purchased a portfolio of performing and non-performing residential mortgage loans with a UPB of approximately \$82.3 million at a price of approximately \$58.9 million. Additionally, New Residential acquired approximately \$2.1 million of real estate owned.

On August 12, 2014, New Residential purchased a portfolio of performing and non-performing residential mortgage loans with a UPB of approximately \$111.8 million at a price of approximately \$86.7 million.

On August 25, 2014, New Residential exercised its cleanup call option related to nineteen Non-Agency RMBS deals and purchased performing and non-performing residential mortgage loans with a UPB of approximately \$530.1 million at a price of approximately \$536.3 million. Additionally, New Residential acquired \$3.0 million of real estate owned.

Loans are accounted for based on management's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. Purchased loans that New Residential has the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as held-for-investment. Alternatively, loans acquired with the intent to sell are classified as held-for-sale. New Residential accounts for loans based on the following categories:

Reverse Mortgage Loans

Performing Loans

Purchased Credit Impaired ("PCI") Loans

Loans Held-for-Sale ("HFS")

Real Estate Owned ("REO")

Linked Transactions (treated as derivatives, Note 10)

The following table presents certain information regarding New Residential's residential mortgage loans outstanding by loan type, excluding REO and linked transactions at September 30, 2014 and December 31, 2013, respectively.

September 30, 2014

Loan Type	Outstanding Face Amount	Carrying Value	Loan Count	Weighted Average Yield	Weighted Average Life (Years) ^(A)	Floating Rate Loans as a % of Face Amount	Loan to Value Ratio ("LTV") ^(B)	Weighted Avg. Delinquency	Weighted Average FICO ^(D)	December 31, 2013 Carrying Value
Reverse Mortgage Loans ^{(E)(F)}	\$49,759	\$28,226	228	10.3 %	3.8	20.6 %	107 %	79.6 %	N/A	\$33,539
Performing Loans ^{(G)(H)}	127,824	100,856	697	5.1 %	4.3	12.8 %	108 %	3.9 %	608	—
Purchased Credit Impaired ("PCI")	665,682	500,316	2,394	6.0 %	2.2	43.4 %	115 %	92.7 %	559	—

Loans^{(H)(I)}

Total Residential

Mortgage Loans, held-for- investment	\$843,265	\$629,398	3,319	6.1	%	2.6	37.4	%	113	%	78.5	%	567	\$33,539
--	-----------	-----------	-------	-----	---	-----	------	---	-----	---	------	---	-----	----------

Residential

Mortgage Loans, held-for-sale ^(H)	\$463,639	\$492,399	2,364	3.9	%	6.7	2.7	%	125	%	—	%	704	\$—
---	-----------	-----------	-------	-----	---	-----	-----	---	-----	---	---	---	-----	-----

(A) The weighted average life is based on the expected timing of the receipt of cash flows.

(B) LTV refers to the ratio comparing the loan's unpaid principal balance to the value of the collateral property.

(C) Represents the percentage of the total principal balance that are 60+ days delinquent, none of which are on non-accrual status.

(D) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.

Represents a 70% interest New Residential holds in reverse mortgage loans. The average loan balance outstanding (E) based on total UPB is \$0.3 million. 78% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. Each loan matures upon the occurrence of a termination event.

(F) FICO scores are not used in determining how much a borrower can access via a reverse mortgage loan.

(G) Includes loans that are current or less than 30 days past due at acquisition.

(H) Carrying value includes accrued interest receivable.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

(I) Includes loans that are 30 days or more past due at acquisition.

New Residential generally considers the delinquency status, loan-to-value ratios, and geographic area of residential mortgage loans as its credit quality indicators. Delinquency status is a primary credit quality indicator as loans that are more than 30 days past due provide an early warning of borrowers who may be experiencing financial difficulties. For residential mortgage loans, the current LTV ratio is an indicator of the potential loss severity in the event of default. Finally, the geographic distribution of the loan collateral also provides insight as to the credit quality of the portfolio, as factors such as the regional economy, home price changes and specific events will affect credit quality.

The table below summarizes the geographic distribution of the underlying residential mortgage loans as of September 30, 2014:

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of			
	September 30, 2014		December 31, 2013	
California	23.0	%	5.7	%
New York	16.7	%	22.0	%
New Jersey	8.3	%	6.9	%
Illinois	5.8	%	7.7	%
Florida	4.5	%	21.2	%
Maryland	4.0	%	2.8	%
Connecticut	3.3	%	3.9	%
Massachusetts	3.1	%	4.1	%
Washington	3.0	%	3.9	%
Pennsylvania	2.9	%	0.9	%
Other U.S.	25.4	%	20.9	%
	100.0	%	100.0	%

Reverse Mortgage Loans

On February 27, 2013, New Residential, through a subsidiary, entered into an agreement to co-invest in reverse mortgage loans with a UPB of approximately \$83.1 million as of December 31, 2012. New Residential invested approximately \$35.1 million to acquire a 70% interest in the reverse mortgage loans. Nationstar has co-invested on a pari passu basis with New Residential in 30% of the reverse mortgage loans and is the servicer of the loans performing all servicing and advancing functions and retaining the ancillary income, servicing obligations and liabilities as the servicer.

Performing Loans

Performing loans are carried at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, allowance for loan losses, charge-offs and write-downs for impaired loans. Interest income on performing loans is accrued and recognized as interest income at their effective yield, which includes contractual interest and the amortization of discount (or premium) and deferred fees or expenses.

A loan is determined to be past due when a monthly payment is due and unpaid for 30 days or more. Loans, other than PCI loans, are placed on nonaccrual status and considered non-performing when full payment of principal and interest

is in doubt, which generally occurs when principal or interest is 120 days or more past due unless the loan is both well secured and in the process of collection. A loan may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The following table provides past due information for New Residential's Performing Loans, which is an important indicator of credit quality and the establishment of the allowance for loan losses:

September 30, 2014

Days Past Due	Delinquency Status ^(A)	
Current	74.9	%
30-59	21.2	%
60-89	2.3	%
90-119 ^(B)	0.8	%
120+	0.8	%
	100.0	%

(A) Represents the percentage of the total principal balance that corresponds to loans that are in each delinquency status.

(B) Includes loans 90-119 days past due and still accruing because they are generally placed on nonaccrual status at 120 days or more past due.

Activities related to the carrying value of reverse mortgage loans and performing loans were as follows:

	For the Nine Months Ended September 30, 2014	
	Reverse Mortgage Loans	Performing Loans
Balance at December 31, 2013	\$33,539	\$—
Purchases/additional fundings	—	107,626
Proceeds from repayments	(2,143	) (9,205
Accretion of loan discount and other amortization	4,819	2,171
Transfer of loans to other assets	(7,165) —
Transfer of loans held for sale	—	—
Reversal of valuation provision on loans transferred to other assets	54	—
Allowance for loan losses	(878	) (713
Balance at September 30, 2014	\$28,226	\$99,879

Impairment on loans, other than PCI loans, is indicated when it is deemed probable that New Residential will be unable to collect all amounts due according to the contractual terms of the loan and results in New Residential establishing a valuation provision or an allowance for loan losses.

Activities related to the valuation provision on reverse mortgage loans and allowance for loan losses on performing loans were as follows:

	For the Nine Months Ended September 30, 2014	
	Reverse Mortgage Loans	Performing Loans
Balance at December 31, 2013	\$461	\$—
Charge-offs ^(A)	—	—
Reversal of valuation provision on loans transferred to other assets	(54) —
Allowance for loan losses ^(B)	878	713
Balance at September 30, 2014	\$1,285	\$713

(A)

Loans, other than PCI loans, are generally charged off or charged down to the net realizable value of the collateral (i.e., fair value less costs to sell), with an offset to the allowance for loan losses, when available information confirms that loans are uncollectible.

Based on an analysis of collective borrower performance, credit ratings of borrowers, loan-to-value ratios, (B)estimated value of the underlying collateral, key terms of the loans and historical and anticipated trends in defaults and loss severities at a pool level.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Purchased Credit Impaired Loans

New Residential determined at acquisition that the PCI loans acquired would be aggregated into pools based on common risk characteristics (FICO score, delinquency status, collateral type, loan-to-value ratio) and aggregated a total of six pools. Loans aggregated into pools are accounted for as if each pool were a single loan with a single composite interest rate and an aggregate expectation of cash flows.

The following is the contractually required payments receivable, cash flows expected to be collected, and fair value at acquisition date for loans acquired during the nine months ended September 30, 2014:

	Contractually Required Payments Receivable	Cash Flows Expected to be Collected	Fair Value
As of Acquisition Date	\$1,307,248	\$635,787	\$508,603

The following is the unpaid principal balance and carrying value for loans, for which, as of the acquisition date, it was probable that New Residential would be unable to collect all contractually required payments:

	Unpaid Principal Balance	Carrying Value
September 30, 2014	\$665,682	\$500,316
December 31, 2013	—	—

The following is a summary of the changes in accretable yield for these loans:

	For the Nine Months Ended September 30, 2014
Balance at December 31, 2013	\$—
Additions	127,184
Accretion	(16,772)
Reclassifications from non-accretable difference ^(A)	5,322
Disposals ^(B)	(4,122)
Balance at September 30, 2014 ^(C)	\$111,612

(A) Represents a probable and significant increase in cash flows previously expected to be uncollectible.

(B) Includes sales of loans or foreclosures, which result in removal of the loan from the PCI loan pool at its carrying amount.

(C) New Residential has not encountered probable decreases in expected cash flows and therefore, has no allowance for loan losses.

Loans Held-for-Sale

Loans held-for-sale are measured at the lower of cost or fair value, with valuation changes recorded in other income. Interest income on loans held-for-sale is accrued and recognized based on the contractual rate of interest. Loans held-for-sale are subject to the nonaccrual policy described within the Performing Loans section. As loans held-for-sale are recognized at the lower of cost or fair value, New Residential's allowance for loan losses and charge-off policies do not apply to these loans.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

	For the Nine Months Ended September 30, 2014
Balance at December 31, 2013	Loans Held-for-Sale \$—
Purchases	490,806
Proceeds from repayments	(556)
Valuation provision on loans	—
Balance at September 30, 2014	\$490,250

Real estate owned (REO)

New Residential recognizes REO assets at the completion of the foreclosure process or upon execution of a deed in lieu of foreclosure with the borrower. REO assets are managed for prompt sale and disposition at the best possible economic value.

During the nine months ended September 30, 2014, New Residential received properties in satisfaction of non-performing residential mortgage loans included in the PCI loan portfolio. In addition, New Residential acquired properties through its purchases of residential mortgage loan portfolios. As a result, New Residential has recognized REO assets totaling approximately \$19.8 million as of September 30, 2014. As of September 30, 2014, New Residential had PCI residential mortgage loans that were in the process of foreclosure with an unpaid principal balance of \$366.0 million. In addition, see below regarding REO acquired through linked transactions.

Linked Transactions

In the first quarter of 2014, New Residential invested in portfolios of non-performing loans and financed the transactions with the same counterparties from which it purchased them. New Residential accounts for the contemporaneous purchase of the investments and the associated financings as linked transactions. Accordingly, New Residential recorded a non-hedge derivative instrument on a net basis, with changes in market value recorded as Other Income in the Condensed Consolidated Statements of Income. For further information on the transactions, see below and Note 10.

On January 15, 2014, New Residential purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$65.6 million at a price of approximately \$33.7 million. To finance this purchase, on January 15, 2014, New Residential entered into a \$25.3 million repurchase agreement with Credit Suisse ("CS"). The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, matures on January 15, 2015. This purchase was accounted for as a linked transaction (Note 10).

On March 28, 2014, New Residential purchased a portfolio of non-performing mortgage loans with a UPB of approximately \$7.0 million at a price of approximately \$3.8 million. The investment was financed with a \$2.5 million master repurchase agreement with The Royal Bank of Scotland ("RBS"). The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, matures on November 24, 2014. This acquisition is accounted for as a "linked transaction" (Note 10).

During the nine months ended September 30, 2014, New Residential received properties in satisfaction of non-performing residential mortgage loans included in the portfolios acquired from CS and RBS accounted for as linked transactions. As a result, New Residential has recognized REO assets totaling approximately \$32.9 million, as

of September 30, 2014. As of September 30, 2014 and December 31, 2013, New Residential had residential mortgage loans accounted for as linked transactions that were in the process of foreclosure with an unpaid principal balance of \$126.5 million and \$0.0 million, respectively.

On October 28, 2014, New Residential sold a portion of its linked transactions for net proceeds of approximately \$23.7 million (Note 18).

9. INVESTMENTS IN CONSUMER LOANS, EQUITY METHOD INVESTEEES

On April 1, 2013, New Residential completed, through newly formed limited liability companies (together, the “Consumer Loan Companies”), a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31,

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

2012. The portfolio included over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. New Residential invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. The Consumer Loan Companies initially financed \$2.2 billion (\$1.1 billion outstanding as of September 30, 2014) of the approximately \$3.0 billion purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion (\$0.3 billion outstanding as of September 30, 2014) of asset-backed notes for 96% of par. These notes were subordinate to the \$2.2 billion of debt issued in April 2013. The Consumer Loan Companies were formed on March 19, 2013, for the purpose of making this investment, and commenced operations upon the completion of the investment. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio. See Note 18 for recent activities related to New Residential's debt obligations.

The following tables summarize the investment in the Consumer Loan Companies held by New Residential:

	September 30, 2014	December 31, 2013	
Consumer loan assets	\$2,192,487	\$2,572,577	
Other assets	163,824	192,830	
Debt ^(A)	(1,458,277)	(2,010,433))
Other liabilities	(17,904)	(32,712))
Equity	\$880,130	\$722,262	
New Residential's investment	\$264,039	\$215,062	
New Residential's ownership	30.0	% 30.0	%

Represents the Class A asset-backed notes with a face amount of \$1.1 billion, an interest rate of 3.75% and a maturity of April 2021 and the Class B asset-backed notes with a face amount of \$0.3 billion, an interest rate of 4.0% and a maturity of December 2024. Substantially all of the net cash flow generated by the Consumer Loan Companies was required to be used to pay down the Class A notes. In June 2014, the balance of the outstanding Class A notes was reduced to 50% of the outstanding UPB of the performing consumer loans and the managing member was reimbursed by the Consumer Loan Companies for accumulated expenses. Prospectively, 70% of the net cash flow generated is required to be used to pay down the Class A notes, and the equity holders of the Consumer Loan Companies and holders of the Class B notes will each be entitled to receive 15% of the net cash flow of the Consumer Loan Companies on a periodic basis. See Note 18 for recent activities related to the debt at the Consumer Loan Companies.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income	\$129,551	\$157,692	\$407,995	\$325,822
Interest expense	(17,685)	(22,420)	(57,986)	(47,010)
Provision for finance receivable losses	(20,494)	(30,568)	(82,313)	(31,122)
Other expenses, net	(17,925)	(24,272)	(57,656)	(46,713)
Change in fair value of debt	1,522	—	(14,810)	—
Net income	\$74,969	\$80,432	\$195,230	\$200,977

Edgar Filing: New Residential Investment Corp. - Form 10-Q

New Residential's equity in net income	\$22,490	\$24,129	\$60,185	\$60,293	
New Residential's ownership	30.0	% 30.0	% 30.0	% 30.0	%

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The following is a summary of New Residential's consumer loan investments made through equity method investees:

	Unpaid Principal Balance	Interest in Consumer Loan Companies	Carrying Value ^(B)	Weighted Average Coupon ^(C)	Weighted Average Yield	Weighted Average Expected Life (Years) ^(D)
September 30, 2014	\$2,827,355	(A) 30.0	% \$2,192,487	18.2	% 16.9	% 3.5
December 31, 2013	\$3,298,769	30.0	% \$2,572,577	18.3	% 15.9	% 3.2

(A) Represents the August 31, 2014 balance.

(B) Represents the carrying value of the consumer loans held by the Consumer Loan Companies.

(C) Substantially all of the cash flows received on the loans is required to be used to make payments on the notes described above.

(D) Weighted Average Life represents the weighted average expected timing of the receipt of expected cash flows for this investment.

New Residential's investments in consumer loans, equity method investees changed during the nine months ended September 30, 2014 as follows:

	For the Nine Months Ended September 30, 2014
Balance at December 31, 2013	\$215,062
Contributions to equity method investees	—
Distributions of earnings from equity method investees ^(A)	(11,208)
Distributions of capital from equity method investees	—
Earnings from investments in consumer loan equity method investees	60,185
Balance at September 30, 2014	\$264,039

During the nine months ended September 30, 2014, the Consumer Loan Companies distributed \$10.6 million in (A) cash to, and made \$0.6 million in tax withholding payments on behalf of, New Residential. The tax withholding payments were considered a non-cash distribution.

10. DERIVATIVES

As of September 30, 2014, New Residential's derivative instruments included both economic hedges that were not designated as hedges for accounting purposes as well as non-performing loans accounted for as linked transactions that were not entered into for risk management purposes or for hedging activity. New Residential uses economic hedges to hedge a portion of its interest rate risk exposure. Interest rate risk is sensitive to many factors including governmental monetary and tax policies, domestic and international economic and political considerations and other factors. New Residential's credit risk with respect to economic hedges and linked transactions is the risk of default on New Residential's investments that results from a borrower's or counterparty's inability or unwillingness to make contractually required payments.

New Residential entered into three interest rate swap agreements during March and April 2014, where New Residential receives floating rate payments in exchange for fixed rate payments, without exchanging the notional principal amounts. The agreements represented a total notional amount of \$500.0 million with an original maturity of

three years and were settled during the second quarter. During the third quarter of 2014, New Residential entered into eleven new swap agreements representing a total notional amount of \$1.6 billion as of September 30, 2014, with maturities of two to ten years.

As of September 30, 2014, New Residential held to-be-announced forward contract positions (“TBAs”) of \$1.3 billion in a short notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty. New Residential’s net short position in TBAs of \$1.3 billion notional was entered into as an economic hedge in order to mitigate New Residential’s interest rate risk on certain residential mortgage loans and specified mortgage backed securities.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

See Note 18 for recent activities related to New Residential's derivatives.

New Residential's derivatives are recorded at fair value on the Condensed Consolidated Balance Sheets as follows:

	Balance Sheet Location	September 30, 2014	December 31, 2013
Derivative assets			
Real Estate Securities ^(A)	Derivative assets	\$—	\$1,452
Non-Performing Loans ^(A)	Derivative assets	27,571	34,474
TBAs	Derivative assets	1,115	—
		\$28,686	\$35,926
Derivate liabilities			
Real Estate Securities	Accrued expenses and other liabilities	\$—	\$18
Interest Rate Swaps	Accrued expenses and other liabilities	345	—
		\$345	\$18

(A) Investments purchased from, and financed by, the selling counterparty that New Residential accounts for as linked transactions and are reflected as derivatives.

The following table summarizes notional amounts related to derivatives:

	September 30, 2014	December 31, 2013
Non-Performing Loans ^(A)	\$161,561	\$164,598
Real Estate Securities ^(B)	—	10,000
TBAs, short position ^(C)	1,301,000	—
Interest Rate Swaps, short position ^(D)	1,595,000	—

(A) Represents the UPB of the underlying loans of the non-performing loan pools within linked transactions.

(B) Represents the face amount of the real estate securities within linked transactions.

(C) Represents the notional amount of Agency RMBS, classified as derivatives.

(D) Receive LIBOR and pay a fixed rate.

The following table summarizes gains (losses) recorded in relation to derivatives:

	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2014
Other income (loss)		
Non-Performing Loans ^(A)	\$5,111	\$4,797
Real Estate Securities ^(A)	—	26
TBAs	33	263
Interest Rate Swaps	(345)	(2,731)
	4,799	2,355
Gain (loss) on settlement of investments		
Real Estate Securities ^(A)	—	43
TBAs	(2,403)	(6,405)
U.S.T. Short Positions	—	176

	(2,403	) (6,186)
Total gains (losses)	\$2,396	\$(3,831)

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

(A) Investments purchased from, and financed by, the selling counterparty that New Residential accounts for as linked transactions and are reflected as derivatives.

The following table presents both gross and net information about linked transactions:

	September 30, 2014	December 31, 2013
Non-Performing Loans		
Non-performing loan assets, at fair value ^(A)	\$96,836	\$95,014
Repurchase agreements ^(B)	(69,265	) (60,540
	27,571	34,474
Real Estate Securities		
Real estate securities, at fair value ^(C)	—	9,952
Repurchase agreements ^(B)	—	(8,500
	—	1,452
Net assets recognized as linked transactions	\$27,571	\$35,926

(A) Non-performing loans that had a UPB of \$161.6 million as of September 30, 2014, which represented the notional amount of the linked transaction and accrued interest.

(B) Represents carrying amount that approximates fair value.

(C) Real estate securities that had a current face amount of \$10.0 million as of December 31, 2013, which represented the notional amount of the linked transaction.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

11. DEBT OBLIGATIONS

The following table presents certain information regarding New Residential's debt obligations:

September 30, 2014^(A)December
31, 2013

Debt Obligations/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Collateral		Outstanding Face	Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)	Carrying Value
				Weighted Average Life (Years)	Weighted Average Life (Years)					
Repurchase Agreements ^(B)										
Agency RMBS ^(C)	Various	\$1,510,765	\$1,510,765	Oct-14	0.1	\$1,500,141	\$1,571,199	\$1,570,328	6.3	\$1,332,954
Non-Agency RMBS ^(D)	Various	214,972	214,972	Oct-14	0.1	323,438	260,995	267,769	8.4	287,757
Residential Mortgage Loans ^(E)	Various	871,659	871,659	Nov-14 to Aug-16	1.8	1,257,145	1,089,677	1,093,571	4.1	—
Consumer Loans ^(F)	Jan-14	125,000	125,000	Jan-15	0.3	N/A	N/A	264,039	3.5	—
Real Estate Owned ^(G)	Various	15,953	15,953	Nov-14 to Aug-16	0.4	N/A	N/A	38,840	N/A	—
Total Repurchase Agreements		2,738,349	2,738,349		1.31 %	0.6				1,620,711
Notes Payable Secured										
Corporate Loan	—	—	—	—	%	—	—	—	—	75,000
Servicer Advances ^(H)	Various	2,824,007	2,824,007	Mar-15 to Mar-17	2.99 %	3,041,905	3,108,288	3,214,113	4.2	2,390,778
Residential Mortgage Loans ^(I)	Dec-13	23,244	23,244	Oct-14	0.1	49,759	29,511	28,226	3.8	22,840
Total Notes Payable		2,847,251	2,847,251		2.99 %	2.0				2,488,618
Total/ Weighted Average		\$5,585,600	\$5,585,600		2.17 %	1.3				\$4,109,329

(A) Excludes debt related to linked transactions (Note 10).

(B) These repurchase agreements had approximately \$1.0 million of associated accrued interest payable as of September 30, 2014.

The counterparties of these repurchase agreements are Mizuho (\$288.1 million), Morgan Stanley (\$78.0 million), (C) Barclays (\$644.7 million), Daiwa (\$146.5 million) and Jefferies (\$353.5 million) and were subject to customary margin call provisions.

The counterparties of these repurchase agreements are Barclays (\$8.2 million), Credit Suisse (\$49.6 million), (D) Royal Bank of Scotland (\$102.3 million), Royal Bank of Canada (\$11.7 million), Bank of America (\$1.9 million), Goldman Sachs (\$27.2 million) and UBS (\$14.0 million) and were subject to customary margin call provisions.

All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates.

The counterparties on these repurchase agreements are Bank of America N.A. (\$531.0 million), Nomura (\$317.6 (E) million), Citibank (\$16.1 million) and Royal Bank of Scotland (\$6.9 million). All of these repurchase agreements have LIBOR-based floating interest rates.

(F) The repurchase agreement is payable to Credit Suisse and bears interest equal to one-month LIBOR plus 2.0%.

The counterparties of these repurchase agreements are Royal Bank of Scotland (\$9.4 million), Credit Suisse (\$3.3 (G) million), Bank of America, N.A. (\$2.0 million) and Nomura (\$1.3 million). All of these repurchase agreements have LIBOR-based floating interest rates.

\$1.3 billion face amount of the notes have a fixed rate while the remaining notes bear interest equal to the sum of (H) (i) a floating rate index rate equal to one-month LIBOR or a cost of funds rate, as applicable, and (ii) a margin ranging from 1.3% to 2.4%.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2014
(dollars in tables in thousands, except share data)

(I) The note is payable to Nationstar and bears interest equal to one-month LIBOR plus 3.25%.

Certain of the debt obligations included above are obligations of New Residential's consolidated subsidiaries, which own the related collateral. In some cases, including the servicer advances, such collateral is not available to other creditors of New Residential.

New Residential has margin exposure on \$2.7 billion of repurchase agreements. To the extent that the value of the collateral underlying these repurchase agreements declines, New Residential may be required to post margin, which could significantly impact its liquidity.

As of September 30, 2014, New Residential held TBA positions of \$1.3 billion in a short notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty (Note 10). As part of executing these trades, New Residential has entered into agreements with its TBA counterparties that govern the transactions for the TBA purchases or sales made, including margin maintenance, payment and transfer, events of default, settlements, and various other provisions. New Residential has fulfilled all obligations and requirements entered into under these agreements.

Servicer Advances

In February 2014, the Buyer and special purpose subsidiaries of Buyer entered into an advance facility with Bank of America, N.A. (the "BANA Facility"). The notes issued pursuant to the BANA Facility had an advance rate of approximately 90%, an interest rate generally equal to the sum of one-month LIBOR plus a margin of approximately 2.5%, borrowing capacity of up to \$1.0 billion, and a maturity date in September 2014.

In March 2014, the Buyer prepaid all of the notes issued pursuant to one servicer advance facility and a portion of the notes issued pursuant to another servicer advance facility. The notes were prepaid with the proceeds of new notes issued pursuant to an advance receivables trust (the "NRART Master Trust") that issued (i) variable funding notes ("VFNs") with borrowing capacity of up to \$1.1 billion and (ii) \$1.0 billion of term notes ("Term Notes") to institutional investors. The VFNs generally bear interest at a rate equal to the sum of (i) LIBOR or a cost of funds rate plus (ii) a spread of 1.375% to 2.5% depending on the class of the notes. The expected repayment date of the VFNs is March 2015. The Term Notes generally bear interest at approximately 2.0% and have expected repayment dates in March 2015 and March 2017. The VFNs and the Term Notes are secured by servicer advances, and the financing is nonrecourse to the Buyer, except for customary recourse provisions.

On May 2, 2014, New Residential obtained financing from Morgan Stanley to settle its purchase of \$617.5 million of additional servicer advances. Borrowings under the facility bear an interest rate equal to 2.1% and have an expected repayment date in May 2016. This financing is nonrecourse to the Buyer, except for customary recourse provisions.

On July 18, 2014, the Buyer received \$26.7 million in proceeds from the refinancing of the note issued under the Bank of America facility. The Bank of America note was prepaid with proceeds of a new note issued to J.P. Morgan. The note issued to J.P. Morgan has a fixed interest rate equal to 2.45% with an expected repayment date of July 2016. As of September 30, 2014, the principal balance of this note was approximately \$457.3 million.

On July 25, 2014, the Buyer received \$12.1 million in proceeds from the refinancing of the Credit Suisse facility with notes issued to Morgan Stanley and J.P. Morgan.

Real Estate Securities

On March 6, 2014, Merrill Lynch, Pierce, Fenner & Smith Incorporated and New Residential entered into an agreement pursuant to which it agreed to purchase approximately \$625 million face amount of Non-Agency residential mortgage securities for approximately \$553 million. The purchased securities were issued by the American General Mortgage Loan Trust 2009-1 and represent 75% of the mezzanine and subordinate tranches (the 2009-1 Retained Certificates) of a securitization sponsored by Third Street Funding LLC, an affiliate of Springleaf. The securitization, including the 2009-1 Retained Certificates, is collateralized by residential mortgage loans with a face amount of approximately \$0.9 billion. On March 31, 2014, New Residential obtained approximately \$415 million in financing from Merrill Lynch, Pierce, Fenner & Smith Incorporated to settle its purchase of the 2009-1 Retained Certificates (Note 7). On May 30, 2014, New Residential sold the 2009-1 Retained Certificates for approximately \$598.5 million and recorded a gain of approximately \$39.7 million. At the time of sale, the 2009-1 Retained Certificates had an

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

amortized cost basis of approximately \$558.8 million. New Residential used a portion of the proceeds from the sale of the 2009-1 Retained Certificates to pay off the outstanding balance of this facility.

Real Estate Loans

On January 15, 2014, New Residential entered into a \$25.3 million repurchase agreement with Credit Suisse Securities (USA) LLC which matures on January 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 3.00%. The agreement contains customary covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision.

On May 15, 2014, New Residential obtained financing from Citibank to settle its purchase of \$48.4 million of residential loans. Borrowings under this facility bear an interest rate equal to the sum of (i) LIBOR and (ii) 2.75% with a maturity date of May 14, 2015. The facility contains customary covenants, event of default provisions, and is subject to required monthly principal payments.

On May 28, 2014 and May 30, 2014 New Residential obtained financing from Nomura Corporate Funding Americas, LLC to settle its purchase of \$478.7 million and \$21.6 million of residential mortgage loans, respectively. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75% and have an expected repayment date of May 28, 2016. The agreement contains customary covenants and event of default provisions.

On June 24, 2014, New Residential obtained financing from Nomura to settle its purchase of \$85.3 million of residential loans. Borrowings under this facility bear an interest rate equal to the sum of (i) LIBOR and (ii) 2.75% with a maturity date of June 24, 2015. This financing is nonrecourse to the buyer, except for customary recourse provisions.

On August 12, 2014, August 25, 2014 and September 8, 2014, New Residential entered into a repurchase agreement with Bank of America N.A. for \$66.8 million, \$467.3 million and \$6.7 million, respectively, which matures on August 12, 2016. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.25%. The agreement contains customary covenants and event of default provisions.

Other

On January 8, 2014, New Residential financed all of its ownership interest in each of the Consumer Loan Companies under a \$150.0 million (\$125.0 million outstanding as of September 30, 2014) master repurchase agreement with Credit Suisse Securities (USA) LLC maturing on June 30, 2014. On June 30, 2014, New Residential extended this agreement to mature on January 30, 2015. Borrowings on this extension bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a spread of 2.00% (reduced from a spread of 4.00%). This facility contains customary covenants, event of default provisions, and is subject to required monthly principal payments.

Edgar Filing: New Residential Investment Corp. - Form 10-Q

In June 2014, New Residential paid off the outstanding secured corporate loan with Credit Suisse First Boston Mortgage LLC for approximately \$69.1 million.

See Note 18 for recent activities related to New Residential's debt obligations.

Maturities

New Residential's debt obligations as of September 30, 2014 had contractual maturities as follows:

Year	Nonrecourse	Recourse ^(A)	Total
October 1 through December 31, 2014	\$652,913	\$1,112,384	\$1,765,297
2015	614,507	144,396	758,903
2016	2,019,011	532,989	2,552,000
2017	509,400	—	509,400
	\$3,795,831	\$1,789,769	\$5,585,600

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

(A) Excludes recourse debt related to linked transactions (Note 10).

Borrowing Capacity

The following table represents New Residential's borrowing capacity as of September 30, 2014 :

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans ^(A)	Real Estate Loans	\$1,503,992	\$933,511	\$570,481
Notes Payable				
Servicer Advances ^(B)	Servicer Advances	4,305,200	2,824,007	1,481,193
		\$5,809,192	\$3,757,518	\$2,051,674

(A) Includes \$300.0 million of borrowing capacity and \$49.2 million of balance outstanding related to one of New Residential's linked transactions (Note 10).

(B) New Residential's unused borrowing capacity is available if New Residential has additional eligible collateral to pledge and meets other borrowing conditions. New Residential pays a 0.5% fee on the unused borrowing capacity.

New Residential was in compliance with all of its debt covenants as of September 30, 2014.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and fair values of New Residential's financial assets recorded at fair value on a recurring basis, as well as other financial instruments for which fair value is disclosed, as of September 30, 2014 were as follows:

	Principal Balance or Notional Amount	Carrying Value	Fair Value			Total
			Level 1	Level 2	Level 3	
Assets:						
Investments in:						
Excess mortgage servicing rights, at fair value ^(A)	\$99,041,165	\$409,236	\$—	\$—	\$409,236	\$409,236
Excess mortgage servicing rights, equity method investees, at fair value ^(A)	152,436,227	342,538	—	—	342,538	342,538
Servicer advances	3,041,905	3,214,113	—	—	3,214,113	3,214,113
Real estate securities, available-for-sale	2,130,370	2,079,712	—	1,785,083	294,629	2,079,712
Residential mortgage loans, held for investment ^{(B)(C)}	843,265	626,941	—	—	638,901	638,901
Residential mortgage loans, held for	463,639	490,250	—	—	491,575	491,575

Edgar Filing: New Residential Investment Corp. - Form 10-Q

sale ^(C)						
Non-hedge derivatives ^(D)	1,462,561	28,686	—	1,115	27,571	28,686
Cash and cash equivalents	187,601	187,601	187,601	—	—	187,601
Restricted cash	29,962	29,962	29,962	—	—	29,962
		\$7,409,039	\$217,563	\$1,786,198	\$5,418,563	\$7,422,324
Liabilities:						
Repurchase agreements	\$2,738,349	\$2,738,349	\$—	\$1,725,737	\$1,012,612	\$2,738,349
Notes payable	2,847,251	2,847,251	—	1,081,673	1,768,743	2,850,416
Derivative liabilities	1,595,000	345	—	345	—	345
		\$5,585,945	\$—	\$2,807,755	\$2,781,355	\$5,589,110

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

The notional amount represents the total unpaid principal balance of the mortgage loans underlying the Excess (A)MSRs. New Residential does not receive an excess mortgage servicing amount on non-performing loans in Agency portfolios.

(B) The notional amount represents the total unpaid principal balance of the mortgage loans for residential mortgage loans, held for investment.

(C) Carrying value excludes accrued interest receivable.

(D) The notional amount for linked transactions consists of the aggregate UPB amount of the loans that comprise the asset portion of the linked transaction.

New Residential's financial assets measured at fair value on a recurring basis using Level 3 inputs changed during the nine months ended September 30, 2014 as follows:

	Level 3		Excess MSRs in Equity Method Investees ^{(A)(B)}		Servicer Advances	Non-Agency RMBS	Linked Transactions	Total
	Agency	Non-Agency	Agency	Non-Agency				
Balance at December 31, 2013	\$144,660	\$179,491	\$245,399	\$107,367	\$2,665,551	\$570,425	\$35,926	\$3,948,819
Transfers ^(C)								
Transfers from Level 3	—	—	—	—	—	—	—	—
Transfers to Level 3	—	—	—	—	—	—	—	—
Gains (losses) included in net income								
Included in other-than-temporary impairment (“OTTI”) on securities ^(D)	—	—	—	—	—	(479)	) —	(479)
Included in change in fair value of investments in excess mortgage servicing rights ^(D)	19,590	21,080	—	—	—	—	—	40,670
Included in change in fair value of investments in excess mortgage servicing rights, equity method investees ^(D)	—	—	15,062	8,825	—	—	—	23,887
Included in change in fair value of	—	—	—	—	105,825	—	—	105,825

investments in servicer advances Included in gain on settlement of investments	—	—	—	—	—	60,296	—	60,296
Included in other income ^(D)	323	—	—	—	—	—	4,840	5,163
Gains (losses) included in other comprehensive income, net of tax ^(E)	—	—	—	—	—	3,753	—	3,753
Interest income	15,808	21,895	18,847	8,216	153,790	16,972	—	235,528
Purchases, sales and repayments								
Purchases	56,074	19,132	—	—	5,569,238	977,877	9,758	6,632,079
Purchase adjustments	(59)	405	—	—	—	—	—	346
Proceeds from sales	—	—	—	—	—	(1,273,191)	(1,495)	(1,274,686)
Proceeds from repayments	(30,046)	(39,117)	(41,406)	(19,772)	(5,280,291)	(61,024)	(9,001)	(5,480,657)
Transfers to REO ^(F)	—	—	—	—	—	—	(12,457)	(12,457)
Balance at September 30, 2014	\$206,350	\$202,886	\$237,902	\$104,636	\$3,214,113	\$294,629	\$27,571	\$4,288,087

(A) Includes the Recapture Agreement for each respective pool.

(B) Amounts represent New Residential's portion of the Excess MSR held by the respective joint ventures in which New Residential has a 50% interest.

(C) Transfers are assumed to occur at the beginning of the respective period.

(D) The gains (losses) recorded in earnings during the period are attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates.

(E) These gains (losses) were included in net unrealized gain (loss) on securities in the Condensed Consolidated Statements of Comprehensive Income.

(F) Represents value of residential mortgage loans transferred to REO net of associated repurchase financing agreements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Investments in Excess MSR and Excess MSR Equity Method Investee Valuation

The following table summarizes certain information regarding the weighted average inputs used in valuing the Excess MSR owned directly and through equity method investees as of September 30, 2014:

Significant Inputs^(A)

Directly Held (Note 4)	Prepayment Speed ^(B)	Delinquency ^(C)	Recapture Rate ^(D)	Excess Mortgage Servicing Amount (bps) ^(E)
Agency				
Original and Recaptured Pools	11.9	% 8.2	% 30.8	% 22
Recapture Agreement	8.1	% 4.6	% 35.0	% 20
	11.6	% 7.9	% 31.1	% 22
Non-Agency ^(F)				
Original and Recaptured Pools	11.9	% N/A	9.9	% 15
Recapture Agreement	8.0	% N/A	35.0	% 21
	11.6	% N/A	11.6	% 15
Total/Weighted Average--Directly Held	11.6	% 7.9	% 20.7	% 18
Held through Equity Method Investees (Note 5)				
Agency				
Original and Recaptured Pools	14.3	% 7.2	% 32.8	% 19
Recapture Agreement	8.0	% 5.0	% 35.0	% 22
	13.1	% 6.8	% 33.2	% 19
Non-Agency ^(F)				
Original and Recaptured Pools	11.9	% N/A	9.9	% 12
Recapture Agreement	8.0	% N/A	35.0	% 19
	11.6	% N/A	11.5	% 12
Total/Weighted Average--Held through Investees	12.6	% 6.8	% 25.9	% 17
Total/Weighted Average--All Pools	12.2	% 7.1	% 24.1	% 17

(A) Weighted by amortized cost basis of the mortgage loan portfolio.

(B) Projected annualized weighted average lifetime voluntary and involuntary prepayment rate using a prepayment vector.

(C) Projected percentage of mortgage loans in the pool that will miss their mortgage payments.

(D) Percentage of voluntarily prepaid loans that are expected to be refinanced by Nationstar.

(E) Weighted average total mortgage servicing amount in excess of the basic fee.

(F) For certain pools, the Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO). For these pools, no delinquency assumption is used.

In the third quarter of 2014, a weighted average discount rate of 10.0% was used to value New Residential's investments in Excess MSR (directly and through equity method investees).

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Investments in Servicer Advances Valuation

The following table summarizes certain information regarding the inputs used in valuing the servicer advances:

	Significant Inputs Weighted Average Outstanding Servicer Advances to UPB of Underlying Residential Mortgage Loans	Prepayment Speed	Delinquency	Mortgage Servicing Amount ^(A)	Discount Rate	
September 30, 2014	2.1	% 11.7	% 16.6	% 19.6	bps 5.5	%
December 31, 2013	2.7	% 13.2	% 20.0	% 21.2	bps 5.6	%

(A) Mortgage servicing amount excludes the 2 basis points New Residential pays Nationstar as a monthly servicing fee.

Real Estate Securities Valuation

As of September 30, 2014, New Residential's securities valuation methodology and results are further detailed as follows:

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Fair Value Multiple Quotes ^(A)	Single Quote ^(B)	Total	Level
Agency RMBS	\$1,697,608	\$1,785,873	\$1,736,126	\$48,957	\$1,785,083	2
Non-Agency RMBS	432,762	287,211	281,375	13,254	294,629	3
Total	\$2,130,370	\$2,073,084	\$2,017,501	\$62,211	\$2,079,712	

(A) Management generally obtained pricing service quotations or broker quotations from two sources, one of which was generally the seller (the party that sold New Residential the security) for Non-Agency RMBS. Management selected one of the quotes received as being most representative of the fair value and did not use an average of the quotes. Even if New Residential receives two or more quotes on a particular security that come from non-selling brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes New Residential receives. Management believes using an average of the quotes in these cases would not represent the fair value of the asset. Based on New Residential's own fair value analysis, management selects one of the quotes which is believed to more accurately reflect fair value. New Residential never adjusts quotes received. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" — meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.

(B) Management was unable to obtain quotations from more than one source on these securities. The one source was the seller (the party that sold New Residential the security).

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances such as when there is evidence of impairment. For residential mortgage loans held-for-sale and foreclosed real estate accounted for as REO, New Residential applies the lower of cost or fair value accounting and may be required, from time to time, to record a nonrecurring fair value adjustment.

The fair value of New Residential's residential mortgage loans held-for-sale are estimated based on a discounted cash flow model analysis using internal pricing models and are categorized within Level 3 of the fair value hierarchy. The fair value of REO is estimated using a broker's price opinion discounted based upon New Residential's experience with actual liquidation values and, therefore, is categorized within Level 3 of the fair value hierarchy. As of September 30, 2014, such assets did not show evidence of impairment and continued to be measured at cost.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Residential Mortgage Loans for Which Fair Value is Only Disclosed

The fair value of New Residential's residential mortgage loans held-for-investment are estimated based on a discounted cash flow model analysis using internal pricing models and are categorized within Level 3 of the fair value hierarchy.

For reverse mortgage loans, the significant inputs to these models include discount rates and the timing and amount of expected cash flows that management believes market participants would use in determining the fair values on similar pools of reverse mortgage loans.

The following table summarizes the inputs used in valuing reverse mortgage loans as of September 30, 2014:

Loan Type	Carrying Value ^(A)	Fair Value ^(A)	Valuation Provision/ (Reversal) In Current Year	Significant Inputs		Weighted Average Life (Years) ^(B)
				Discount Rate		
Reverse Mortgage Loans	\$28,226	\$28,226	824	10.3	%	3.8

(A) Represents a 70% interest New Residential holds in the reverse mortgage loans.

(B) The weighted average life is based on the expected timing of the receipt of cash flows.

For performing loans, the significant inputs to these models include discount rates and market-based assumptions for prepayment speed and default.

Loan Type	Carrying Value	Fair Value	Discount Rate	Prepayment Rate	CDR ^(A)	
Performing Loans	\$99,879	\$104,758	5.1	% 5.2	% 1.6	%

(A) Represents the annualized rate of the involuntary prepayments (defaults) as a percentage of the total principal balance.

For non-performing loans, the significant inputs to these models include discount rates, loss severities, and market-based assumptions regarding the timing and amount of expected cash flows primarily based upon the performance of the loan pool and liquidation attributes.

Loan Type	Carrying Value	Fair Value	Discount Rate	CDR ^(A)	Loss Severity	
Non-Performing Loans	\$498,836	\$505,917	6.0	% 3.0	% 31.1	%

(A) Represents the annualized rate of the involuntary prepayments (defaults) as a percentage of the total principal balance.

Derivative Valuation

New Residential financed certain investments with the same counterparty from which it purchased those investments, and accounts for the contemporaneous purchase of the investments and the associated financings as linked transactions (Note 10). The linked transactions are valued on a net basis considering their underlying components, the investment value and the related repurchase financing agreement value, generally determined consistently with the

relevant instruments as described in this note. Values of investments in non-performing loans are estimated based on a discounted cash flow analysis using internal pricing models that employ market-based assumptions regarding the timing and amount of expected cash flows primarily based upon the performance of the loan pool and liquidation attributes. The linked transactions, which are categorized as Level 3, are recorded as a non-hedge derivative instrument on a net basis.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

New Residential also enters into economic hedges including interest rate swaps and TBAs, which are categorized as Level 2 in the valuation hierarchy. Management generally values such derivatives using quotations, similarly to the method of valuation used for New Residential's other assets that are categorized as Level 2.

Liabilities for Which Fair Value is Only Disclosed

Repurchase agreements and notes payable are not measured at fair value; however, management believes that their carrying value approximates fair value. Repurchase agreements and notes payable are generally considered to be Level 2 and Level 3 in the valuation hierarchy, respectively, with significant valuation variables including the amount and timing of expected cash flows, interest rates and collateral funding spreads.

Short-term repurchase agreements and short-term notes payable have an estimated fair value equal to their carrying value due to their short duration and generally floating interest rates. Longer-term notes payable, representing the securitized portion of the servicer advance financing, are valued based on internal models utilizing both observable and unobservable inputs. As of September 30, 2014, these longer-term notes have an estimated fair value of \$1,079 million and a carrying value of \$1,082 million.

13. EQUITY AND EARNINGS PER SHARE

Equity and Dividends

On April 26, 2013, Newcastle announced that its board of directors had formally declared the distribution of shares of common stock of New Residential, a then wholly owned subsidiary of Newcastle. Following the spin-off, New Residential is an independent, publicly-traded REIT primarily focused on investing in residential mortgage related assets. The spin-off was completed on May 15, 2013 and New Residential began trading on the New York Stock Exchange under the symbol "NRZ." The spin-off transaction was effected as a taxable pro rata distribution by Newcastle of all the outstanding shares of common stock of New Residential to the stockholders of record of Newcastle as of May 6, 2013. The stockholders of Newcastle as of the record date received one share of New Residential common stock for each share of Newcastle common stock held.

On April 29, 2013, New Residential's certificate of incorporation was amended so that its authorized capital stock now consists of 2,000,000,000 shares of common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share. At the time of the completion of the spin-off, there were 126,512,823 outstanding shares of common stock which was based on the number of Newcastle's shares of common stock outstanding on May 6, 2013 and a distribution ratio of one share of New Residential common stock for each share of Newcastle common stock (adjusted for the reverse split described below).

In April 2014, New Residential issued 13,875,000 shares of its common stock in a public offering at a price to the public of \$12.20 per share for net proceeds of approximately \$163.8 million. One of New Residential's executive officers participated in this offering and purchased an additional 500,000 shares at the public offering price for net proceeds of approximately \$6.1 million. For the purpose of compensating the Manager for its successful efforts in raising capital for New Residential, in connection with this offering, New Residential granted options to the Manager to purchase 1,437,500 shares of New Residential's common stock at a price of \$12.20, which had a fair value of approximately \$1.4 million as of the grant date. The assumptions used in valuing the options were: a 2.87% risk-free rate, a 12.584% dividend yield, 25.66% volatility and a 10 year term.

An employee of the Manager exercised 107,500 options with a weighted average exercise price of \$5.61 on May 7, 2014. Upon exercise, 107,500 shares of common stock of New Residential were issued. Employees of the Manager

and one of New Residential's directors exercised an aggregate of 498,500 options with a weighted average exercise price of \$5.62 in August 2014. Upon exercise, 276,037 shares of common stock of New Residential were issued.

New Residential's Board of Directors authorized a one-for-two reverse stock split on August 5, 2014, subject to stockholder approval. In a special meeting on October 15, 2014, New Residential's stockholders approved the reverse split. On October 17, 2014, New Residential effected the one-for-two reverse stock split of its common stock. As a result of the reverse stock split, every two shares of New Residential's common stock were converted into one share of common stock, reducing the number of issued and outstanding shares of New Residential's common stock from approximately 282.8 million to approximately 141.4 million. The impact of this reverse stock split has been retroactively applied to all periods presented.

On December 17, 2013, New Residential declared a quarterly dividend of \$0.35 per common share and a special cash dividend of \$0.15 per common share, totaling \$63.3 million, for the quarter ended December 31, 2013. The combined dividend of \$0.50

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

was paid on January 31, 2014. On March 19, 2014, New Residential declared a quarterly dividend of \$0.35 per common share, or \$44.3 million, for the quarter ended March 31, 2014, which was paid in April 2014. On June 17, 2014, New Residential declared a quarterly dividend of \$0.35 per common share and a special cash dividend of \$0.15 per common share, totaling \$70.6 million, for the quarter ended June 30, 2014. The combined dividend of \$0.50 was paid on July 31, 2014. On September 18, 2014, New Residential's board of directors declared a quarterly dividend of \$0.35 per common share, or \$49.5 million, for the quarter ended September 30, 2014, which was paid on October 31, 2014 to stockholders of record as of September 29, 2014.

Approximately 2.4 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals at September 30, 2014.

In January and June 2014, New Residential issued an aggregate of 25,080 shares of its common stock to its independent directors as compensation.

Option Plan

New Residential's outstanding options at September 30, 2014 consisted of the following:

	Number of Options	Strike Price	Maturity Date
	81,248	\$33.90	11/22/2014
	164,999	31.94	01/12/2015
	1,000	33.36	08/01/2015
	85,000	31.74	11/01/2016
	121,000	33.80	01/23/2017
	228,000	29.92	04/11/2017
	547,583	6.58	03/29/2021
	849,916	4.98	09/27/2021
	933,583	6.82	04/03/2022
	1,132,499	7.34	05/21/2022
	1,249,583	7.34	07/31/2022
	2,874,998	10.24	01/11/2023
	1,149,998	11.48	02/15/2023
	4,000	13.58	06/02/2023
	1,437,500	12.20	04/30/2024
Total/Weighted Average	10,860,907	\$10.46	

As of September 30, 2014, New Residential's outstanding options were summarized as follows:

Held by the Manager	8,970,161
Issued to the Manager and subsequently transferred to certain of the Manager's employees	1,843,180
Issued to the independent directors	5,000
Issued to the Manager and held by its former employees	42,566
Total	10,860,907

Income and Earnings Per Share

Net income earned prior to the spin-off is included in additional paid-in capital instead of retained earnings since the accumulation of retained earnings began as of the date of spin-off.

New Residential is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect, if any, of common stock equivalents during each period. New Residential's common stock equivalents are its outstanding stock options. During the three and nine months ended September 30, 2014, based on the treasury stock method, New Residential had 2,955,021 and 3,158,619 dilutive common stock equivalents outstanding, respectively. During the three and nine months ended September 30, 2013, based

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

on the treasury stock method, New Residential had 3,408,249 and 1,754,208 dilutive common stock equivalents outstanding, respectively.

For the purposes of computing EPS for periods prior to the spin-off on May 15, 2013, New Residential treated the common shares issued in connection with the spin-off as if they had been outstanding for all periods presented, similar to a stock split. For the purposes of computing diluted EPS for periods prior to the spin-off on May 15, 2013, New Residential treated the 10.7 million options issued on the spin-off date as a result of the conversion of Newcastle options as if they were granted on May 15, 2013 since no New Residential awards were outstanding prior to that date.

Noncontrolling Interests

Noncontrolling interests is comprised of the interests held by third parties in consolidated entities that hold New Residential's investments in servicer advances (Note 6).

14. COMMITMENTS AND CONTINGENCIES

Litigation – New Residential may, from time to time, be a defendant in legal actions from transactions conducted in the ordinary course of business. As of September 30, 2014, New Residential is not subject to any material litigation, individually or in the aggregate, nor, to management's knowledge, is any material litigation currently threatened against New Residential.

Indemnifications – In the normal course of business, New Residential and its subsidiaries enter into contracts that contain a variety of representations and warranties and that provide general indemnifications. New Residential's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against New Residential that have not yet occurred. However, based on Newcastle's and its own experience, New Residential expects the risk of material loss to be remote.

Capital Commitments — As of September 30, 2014, New Residential had outstanding capital commitments related to investments in the following investment types (also refer to Note 18 for additional capital commitments entered into subsequent to September 30, 2014):

Excess MSRs — As of September 30, 2014, New Residential had outstanding capital commitments of \$8.0 million related to the acquisition of Excess MSR's on a portfolio of PLS residential mortgage loans. See Notes 4 and 5 for information on New Residential's investments in Excess MSR's. As part of the commitment to acquire these Excess MSR's, New Residential also agreed to purchase cleanup call options related to Non-Agency RMBS collateralized by, and servicer advances related to, the residential mortgage loans underlying the Excess MSR's. See Note 6 for information on New Residential's investments in servicer advances.

Servicer Advances — New Residential and third-party co-investors agreed to purchase, through the Buyer, future servicer advances related to Non-Agency mortgage loans. The actual amount of future advances purchased will be based on: (a) the credit and prepayment performance of the underlying loans, (b) the amount of advances recoverable prior to liquidation of the related collateral and (c) the percentage of the loans with respect to which no additional advance obligations are made. The actual amount of future advances is subject to significant uncertainty. See Note 6 for information on New Residential's investments in servicer advances.

Residential Mortgage Loans — As part of its investment in residential mortgage loans, New Residential may be required to outlay capital. These capital outflows primarily consist of advance escrow and tax payments, residential maintenance and property disposition fees. The actual amount of these outflows is subject to significant uncertainty. See Note 8 for information on New Residential's investments in residential mortgage loans.

Debt Covenants — New Residential's debt obligations contain various customary loan covenants (Notes 8 and 11).

Certain Tax-Related Covenants — If New Residential is treated as a successor to Newcastle under applicable U.S. federal income tax rules, and if Newcastle fails to qualify as a REIT, New Residential could be prohibited from electing to be a REIT. Accordingly, Newcastle has (i) represented that it has no knowledge of any fact or circumstance that would cause New Residential to fail to qualify as a REIT, (ii) covenanted to use commercially reasonable efforts to cooperate with New Residential as necessary to enable New Residential to qualify for taxation as a REIT and receive customary legal opinions concerning REIT status, including providing information and representations to New Residential and its tax counsel with respect to the composition of Newcastle's income and assets, the composition of its stockholders, and its operation as a REIT; and (iii) covenanted to use its reasonable best efforts to maintain its REIT status for each of Newcastle's taxable years ending on or before December 31, 2014 (unless Newcastle obtains

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Newcastle's failure to maintain its REIT status will not cause New Residential to fail to qualify as a REIT under the successor REIT rule referred to above). Additionally, New Residential covenanted to use its reasonable best efforts to qualify for taxation as a REIT for its taxable year ended December 31, 2013.

15. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Due to affiliates is comprised of the following amounts:

	September 30, 2014	December 31, 2013
Management fees	\$1,709	\$1,495
Incentive compensation	33,111	16,847
Expense reimbursements and other	321	827
	\$35,141	\$19,169

Affiliate expenses and fees were comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Management fees	\$5,124	\$4,484	\$14,525	\$6,747
Incentive compensation	10,910	4,470	33,111	5,348
Expense reimbursements ^(A)	125	267	375	267
Total	\$16,159	\$9,221	\$48,011	\$12,362

(A) Included in General and Administrative Expenses in the Condensed Consolidated Statements of Income.

New Residential's board of directors approved a change in the computation of incentive compensation to exclude unrealized gains (or losses) on investments and debt (and any deferred tax impact thereof) as of June 30, 2014. The impact of this change on the six months ended June 30, 2014 was to reduce incentive compensation by \$5.5 million.

See Notes 4, 5, 6, 7, 8, 11, 14 and 18 for a discussion of transactions with Nationstar. As of September 30, 2014, a total face amount of \$412.8 million of New Residential's Non-Agency RMBS portfolio and approximately \$41.5 million of New Residential's Agency portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$4.0 billion as of September 30, 2014. New Residential holds a limited right to cleanup call options with respect to certain securitization trusts master serviced by Nationstar with an aggregate UPB of underlying mortgage loans of approximately \$99.3 billion, whereby, when the outstanding balance falls below a pre-determined threshold, it can effectively purchase the underlying mortgage loans by repaying all of the outstanding securitization financing at par, in exchange for a fee paid to Nationstar. As of September 30, 2014, \$601.2 million UPB of New Residential's residential mortgage loans were being serviced by Nationstar. Subsequent to September 30, 2014, \$111.8 million UPB of New Residential's residential mortgage loans has transferred to be serviced by Nationstar. As of September 30, 2014, \$11.3 million UPB of REO was being serviced by Nationstar.

See Note 9 for a discussion of a transaction with Springleaf.

16. RECLASSIFICATION FROM ACCUMULATED OTHER COMPREHENSIVE INCOME INTO NET INCOME

The following table summarizes the amounts reclassified out of accumulated other comprehensive income into net income:

44

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Accumulated Other Comprehensive Income Components	Statement of Income Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Reclassification of net realized (gain) loss on securities into earnings	Gain on settlement of securities	\$(3,668)	\$(11,213)	\$(65,444)	\$(11,271)
Reclassification of net realized (gain) loss on securities into earnings	Other-than-temporary impairment on securities	—	—	943	3,756
Total reclassifications		\$(3,668)	\$(11,213)	\$(64,501)	\$(7,515)

17. INCOME TAXES

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Current:				
Federal	\$1,677	\$—	\$4,130	\$—
State and Local	1,285	—	2,868	—
Total Current Provision	2,962	—	6,998	—
Deferred:				
Federal	3,621	—	16,857	—
State and Local	1,218	—	5,628	—
Total Deferred Provision	4,839	—	22,485	—
Total Provision for Income Taxes	\$7,801	\$—	\$29,483	\$—

New Residential intends to qualify as a REIT for the tax years ending December 31, 2013 and 2014. A REIT is generally not subject to U.S. federal corporate income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. New Residential was a wholly owned subsidiary of Newcastle until May 15, 2013 and, as a qualified REIT subsidiary, was a disregarded entity until such date. As a result, no provision or liability for U.S. federal or state income taxes has been included in the accompanying consolidated financial statements for the period from January 1 through May 15, 2013.

New Residential operates a securitization vehicle and has made certain investments, particularly its investments in servicer advances (Note 6) and REO (Note 8), through TRSs that are subject to regular corporate income taxes. In addition, some investments are held through limited partnership interests which are subject to the New York City unincorporated business tax ("UBT"). Regular corporate income taxes on the TRSs and UBT has been provided for in the provision for income taxes. New Residential and its subsidiaries file income tax returns with the U.S. federal government and various state and local jurisdictions beginning with the tax year ending December 31, 2013. Generally, these income tax returns will be subject to tax examinations by tax authorities for a period of three years after the date of filing.

New Residential had recorded a deferred tax liability of \$22.5 million as of September 30, 2014. This deferred tax liability relates to the unrealized gains of \$105.8 million from New Residential's investment in servicer advances.

The increase in the provision for income taxes as of September 30, 2014 is primarily due to an increase in taxable profits subject to corporate income tax rates as well as taxable profits subject to UBT.

18. RECENT ACTIVITIES

These financial statements include a discussion of material events that have occurred subsequent to September 30, 2014 (referred to as “subsequent events”) through the issuance of these condensed consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

(dollars in tables in thousands, except share data)

Servicer Advances

Subsequent to September 30, 2014 and prior to November 5, 2014, the Buyer funded a total of \$262.5 million of servicer advances and recovered \$320.4 million of existing servicer advances. Notes payable outstanding decreased by \$34.4 million and restricted cash decreased approximately \$0.9 million in relation to these fundings. Additionally, the Buyer paid \$4.9 million to Nationstar as a contractual incentive fee.

Real Estate Securities

Subsequent to September 30, 2014, New Residential acquired Non-Agency RMBS with an aggregate face amount of approximately \$980.5 million for approximately \$297.7 million, financed with repurchase agreements. New Residential acquired no new Agency RMBS. New Residential sold Non-Agency RMBS with a face amount of \$7.7 million and an amortized cost basis of approximately \$6.8 million for approximately \$6.8 million and recorded no gain. New Residential sold no Agency RMBS.

Subsequent to September 30, 2014, New Residential financed an additional \$200.6 million of Agency RMBS within a repurchase facility as a result of purchases. New Residential also rolled \$1.5 billion within various repurchase facilities to mature between November 2014 and January 2015.

Subsequent to September 30, 2014, New Residential financed an additional \$95.4 million of Non-Agency RMBS within various repurchase facilities as a result of purchases. New Residential also rolled \$208.9 million within various repurchase facilities to mature between November 2014 and January 2015.

Residential Mortgage Loans

On October 3, 2014, New Residential completed a REMIC securitization of performing residential mortgage loans with a UPB of approximately \$463.6 million for a price of \$493.4 million and as a part of the offering, acquired a class of interest-only notes for a purchase price of approximately \$25.8 million. The securitization was recorded as a sale for accounting purposes and New Residential recognized a net gain on settlement of investments of approximately \$1.2 million. Proceeds from the sale were used to pay down \$423.2 million of the repurchase agreement with Bank of America N.A.

On October 9, 2014, New Residential committed to purchase a primarily reperforming residential mortgage loan portfolio with a UPB of approximately \$386.8 million at a price of approximately \$357.9 million. The sale is expected to settle on November 21, 2014.

On October 10, 2014, New Residential purchased two pools of non-performing residential mortgage loans with a UPB of approximately \$254.9 million at a price of approximately \$188.8 million. The acquisitions of the two pools are expected to settle on November 6, 2014 and December 17, 2014, respectively.

On October 20, 2014, New Residential extended the note payable to Nationstar related to reverse residential mortgage loans to mature on October 19, 2015. Borrowings on this extension bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a spread of 2.875% (reduced from a spread of 3.25%). This facility contains customary covenants, event of default provisions, and is subject to required monthly principal payments.

On October 28, 2014, New Residential sold a portion of its linked transactions for net proceeds of approximately \$23.7 million.

Consumer Loans

On October 3, 2014, the Consumer Loan Companies refinanced the Class A and Class B asset-backed notes with approximately \$1.5 billion outstanding with an asset-backed securitization for approximately \$2.6 billion. The excess proceeds were distributed to the co-investors. New Residential received approximately \$337.8 million which reduced New Residential's basis in the consumer loans investment to \$0.0 million and resulted in a gain of approximately \$73.8 million. New Residential used the proceeds to pay down the \$125.0 million repurchase agreement that was scheduled to mature in January 2015. Subsequent to this refinancing, New Residential has discontinued recording its share of the underlying earnings of the Consumer Loan Companies until such time as their cumulative earnings exceed their cumulative cash distributions.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2014
(dollars in tables in thousands, except share data)

Corporate Activities

On September 18, 2014, New Residential's board of directors declared a third quarter 2014 dividend of \$0.35 per common share or \$49.5 million, which was paid on October 31, 2014 to stockholders of record as of September 29, 2014.

See Note 13 for a discussion of the reverse stock split which was effected on October 17, 2014.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of New Residential. The following should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein, and with Part II, Item 1A, "Risk Factors."

GENERAL

New Residential is a publicly traded REIT (NYSE: NRZ) primarily focused on investing in Excess MSR, residential securities, Non-Agency RMBS call rights and other opportunistic investments. We became an independent public company following our spin-off from Newcastle on May 15, 2013. We are externally managed by an affiliate of Fortress. Our goal is to drive strong risk-adjusted returns primarily through our investments, and our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets. We generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation. We aim to generate attractive returns for our stockholders without the excessive use of financial leverage.

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments. Our asset allocation and target assets may change over time, depending on our Manager's investment decisions in light of prevailing market conditions. The assets in our portfolio are described in more detail below under "—Our Portfolio."

New Residential completed a one-for-two reverse stock split in October 2014. The impact of this reverse stock split has been retroactively applied to all periods presented herein.

MARKET CONSIDERATIONS

Various market factors, which are outside of our control, affect our results of operations and financial condition. One such factor is developments in the U.S. residential housing market. The residential mortgage industry is undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. Historically, the majority of the approximately \$10 trillion mortgage market has been serviced by large banks, which generally focus on conventional mortgages with low delinquency rates. This has allowed for low-cost routine payment processing and required minimal borrower interaction. Following the credit crisis, the need for "high-touch" specialty servicers, such as Nationstar, increased as loan performance declined, delinquencies rose and servicing complexities broadened. Specialty servicers have proven more willing and better equipped to perform the operationally intensive activities (e.g., collections, foreclosure avoidance and loan workouts) required to service credit-sensitive loans.

Since 2010, banks have sold or committed to sell MSRs totaling more than \$1 trillion. An MSR provides a mortgage servicer with the right to service a pool of mortgages in exchange for a portion of the interest payments made on the underlying mortgages. This amount typically ranges from 25 to 50 bps multiplied by the UPB of the mortgages. Approximately 77% of MSRs were owned by banks as of the second quarter of 2014, according to Inside Mortgage Finance. We expect this number to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment, among other reasons. As a result, we believe the volume of MSR sales is likely to be substantial for some period of time.

We estimate that MSRs on approximately \$150 billion of mortgages are currently for sale, which would require a capital investment of approximately \$1 to 1.5 billion based on current pricing dynamics. We believe that non-bank

servicers who are constrained by capital limitations, such as Nationstar, will continue to sell a portion of the Excess MSR or other servicing assets, such as advances. We also estimate that approximately \$1 – 2 trillion of MSR could be sold over the next several years. In addition, approximately \$1 trillion of new loans are expected to be created annually, according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into “flow arrangements,” whereby loan originators agree to sell Excess MSR on newly originated loans on a recurring basis (often monthly or quarterly). We believe that MSR are being sold at a discount to historical pricing levels, although increased competition for these assets has driven prices higher recently. There can be no assurance that we will make additional investments in Excess MSR or that any future investment in Excess MSR will generate returns similar to the returns on our original investments in Excess MSR.

Interest rates have been volatile. In periods of rising interest rates, the rates of prepayments and delinquencies with respect to mortgage loans generally decline. Generally, the value of our Excess MSR is expected to increase when interest rates rise or delinquencies decline, and the value is expected to decrease when interest rates decline or delinquencies increase, due to the effect of changes in interest rates on prepayment speeds and delinquencies. However, prepayment speeds and delinquencies could increase

even in the current interest rate environment, as a result of, among other things, a general economic recovery, government programs intended to foster refinancing activity or other reasons, which could reduce the value of our investments. Moreover, the value of our Excess MSR is subject to a variety of factors, as described under “Risk Factors.” In the third quarter of 2014, the fair value of our investments in Excess MSRs (directly and through equity method investees) increased by approximately \$51.2 million and the weighted average discount rate of the portfolio was reduced from 12.0% to 10.0%.

The timing, size and potential returns of future investments in Excess MSRs may be less attractive than our prior investments in this sector due to a number of factors, most of which are beyond our control. In addition to changes in interest rates, such factors include, but are not limited to, recent increased competition for Excess MSRs, which we believe is causing a related increase in the price for these assets. In addition, regulatory and GSE approval processes have been more extensive and taken longer than the process and timelines we experienced in prior periods, which has increased the amount of time and effort required to complete transactions.

Beginning in April 2012, we began to invest in RMBS as a complement to our Excess MSR portfolio. As of the second quarter of 2014, approximately \$7 trillion of the \$10 trillion of residential mortgages outstanding had been securitized, according to Inside Mortgage Finance. Approximately \$6 trillion were Agency RMBS according to Inside Mortgage Finance, which are securities issued or guaranteed by a U.S. Government agency, such as Ginnie Mae, or by a GSE, such as Fannie Mae or Freddie Mac. The balance has been securitized by either public trusts or PLS, and are referred to as Non-Agency RMBS.

Since the onset of the financial crisis in 2007, there has been significant volatility in the prices for Non-Agency RMBS, which resulted from a widespread contraction in capital available for this asset class, deteriorating housing fundamentals, and an increase in forced selling by institutional investors (often in response to rating agency downgrades). While the prices of these assets have been recovering from their lows, from time to time there may be opportunities to acquire Non-Agency RMBS at attractive risk-adjusted yields, with the potential for upside if the U.S. economy and housing market continue to strengthen. We believe the value of existing Non-Agency RMBS may also rise if the number of buyers returns to pre-2007 levels. Furthermore, we believe that in many Non-Agency RMBS vehicles there is a meaningful discrepancy between the value of the Non-Agency RMBS and the recovery value of the underlying collateral. We intend to pursue opportunities to structure transactions that would enable us to realize this difference. We actively monitor the market for Non-Agency RMBS and our portfolio to determine when to strategically purchase and sell Non-Agency RMBS from time to time. We currently expect that the size of our Non-Agency portfolio will fluctuate depending primarily on our Manager’s assessment of expected yields and alternative investment opportunities. The primary causes of mark-to-market changes in our RMBS portfolio are changes in interest rates and credit spreads.

We do not expect changes in interest rates to have a meaningful impact on the net interest spread of our Agency and Non-Agency portfolios. Our RMBS are primarily floating rate or hybrid (i.e., fixed to floating rate) securities, which we generally finance with floating rate debt. Therefore, while rising interest rates will generally result in a higher cost of financing, they will also result in a higher coupon payable on the securities. The net interest spread on our Agency RMBS portfolio as of September 30, 2014 was 1.56%, compared to 1.17% as of June 30, 2014. The net interest spread on our Non-Agency RMBS portfolio as of September 30, 2014 was 3.84%, compared to 5.28% as of June 30, 2014. We do not expect changes in interest rates will have a meaningful impact on our future RMBS investments.

We hold call rights on Non-Agency residential mortgage securitizations which become exercisable once the current collateral balance reduces below a certain threshold of the original balance. We believe a call right is profitable when aggregate loan value is greater than the sum of par on the loans minus any discount from acquired bonds, plus expenses related to such exercise. Profit with respect to our call rights is generated by selectively retaining loans that meet our return thresholds or re-securitizing or selling performing loans for a gain and, prior to exercise, purchasing

certain underlying bond classes at a discount to par. Upon exercise, we are able to realize any remaining accretion to par. As interest rates increase, we expect the value of our cleanup call rights to decrease.

In November 2013, we made our first investment in non-performing loans. We have continued to invest in the non-performing loan sector. The scope of our involvement will fluctuate depending on our Manager's assessment of relative value compared with alternative investment opportunities.

Credit performance also affects the value of our portfolio. Higher rates of delinquency and/or defaults can reduce the value of our Excess MSRs, Non-Agency RMBS, Agency RMBS and loan portfolios. For our Excess MSRs on Agency portfolios and our Agency RMBS, delinquency and default rates have an effect similar to prepayment rates. Our Excess MSRs on Non-Agency portfolios are not affected by delinquency rates because the servicer continues to advance principal and interest until a default occurs on the applicable loan; defaults have an effect similar to prepayments. For our Non-Agency RMBS and loans, higher default rates can lead to greater loss of principal.

Credit spreads continued to decrease, or “tighten,” through the third quarter of 2014 relative to the fourth quarter of 2013, which has had a favorable impact on the value of our securities and loan portfolio. Credit spreads measure the yield relative to a specified benchmark that the market demands on securities and loans based on such assets’ credit risk. For a discussion of the way in which interest rates, credit spreads and other market factors affect us, see “Quantitative and Qualitative Disclosures About Market Risk.”

The value of our consumer loan portfolio is influenced by, among other factors, the U.S. macroeconomic environment, and unemployment rates in particular. We believe that losses are highly correlated to unemployment; therefore, we expect that an improvement in unemployment rates would support the value of our investment, while deterioration in unemployment rates would result in a decline in its value.

OUR PORTFOLIO

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments, as described in more detail below. Our asset allocation and target assets may change over time, depending on our Manager’s investment decisions in light of prevailing market conditions. The assets in our portfolio are described in more detail below (dollars in thousands).

	Outstanding Face Amount	Amortized Cost Basis ^(A)	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average Life (years) ^(B)
Investments in:					
Excess MSR ^(C) s	\$251,477,392	\$594,515	8.6	% \$751,774	6.0
Servicer Advances ^(C)	3,041,905	3,108,288	45.1	% 3,214,113	4.2
Agency RMBS	1,697,608	1,785,873	25.9	% 1,785,083	6.1
Non-Agency RMBS	432,762	287,211	4.2	% 294,629	7.7
Residential Mortgage Loans	1,306,904	1,119,188	16.2	% 1,121,797	4.4
Consumer Loans ^(C)	2,827,355	N/A	N/A	264,039	3.5
Total/ Weighted Average	\$260,783,926	\$6,895,075	100.0	% \$7,431,435	5.0

Reconciliation to GAAP total assets:

Cash and restricted cash	217,563
Derivative assets	28,686
Other assets	95,717
GAAP total assets	\$7,773,401

(A) Net of impairment.

(B) Weighted average life is based on the timing of expected principal reduction on the asset.

The outstanding face amount of Excess MSR^(C)s, servicer advances, and consumer loans is based on 100% of the (C) face amount of the underlying residential mortgage loans, currently outstanding advances, and consumer loans respectively. The outstanding face amount of the consumer loans is as of August 31, 2014.

Servicing Related Assets

Excess MSR^(C)s

As of September 30, 2014, we had approximately \$751.8 million estimated carrying value of Excess MSR^(C)s (held directly and through joint ventures). As of September 30, 2014, our completed investments represent an effective 32.5% to 80.0% interest in the Excess MSR^(C)s (held either directly or through joint ventures) on pools of mortgage

loans with an aggregate UPB of approximately \$251.5 billion. Nationstar is the servicer of the loans underlying all of our investments in Excess MSR to date, and it earns a basic fee in exchange for providing all servicing functions. In addition, Nationstar retains a 20% to 35% interest in the Excess MSR and all ancillary income associated with the portfolios. In our capacity as owner of the Excess MSR, we do not have any servicing duties, liabilities or obligations associated with the servicing of the portfolios underlying any of our Excess MSR. However, we, through co-investments made by our subsidiaries, may separately agree to do so and have separately purchased the servicer advances, including the right to receive the basic fee component of related MSR, on the Non-Agency portfolios underlying our Excess MSR investments. See “—Servicer Advances” below.

Each of our Excess MSR investments to date is subject to a recapture agreement with Nationstar. Under the recapture agreements, we are generally entitled to a pro rata interest in the Excess MSRs on any initial or subsequent refinancing by Nationstar of a loan in the original portfolio. In other words, we are generally entitled to a pro rata interest in the Excess MSRs on both (i) a loan resulting from a refinancing by Nationstar of a loan in the original portfolio, and (ii) a loan resulting from a refinancing by Nationstar of a previously recaptured loan.

The tables below summarize the terms of our investments in Excess MSRs completed as of September 30, 2014.

Summary of Direct Excess MSR Investments as of September 30, 2014

	Initial UPB (bn)	Current UPB (bn) ^(B)	MSR Component ^(A)		Interest in Excess MSR (%)	Excess MSR	
			Weighted Average MSR (bps)	Weighted Average Excess MSR (bps)		Purchase Price (mm)	Carrying Value (mm)
Agency							
Original and Recaptured Pools	\$58.0	\$46.2	29	bps 22	bps 32.5%-66.7%	\$196.0	\$176.5
Recapture Agreements	—	—	26	20	32.5%-66.7%	—	29.8
	58.0	46.2	29	22		196.0	206.3
Non-Agency ^(C)							
Original and Recaptured Pools	\$70.3	\$52.8	35	bps 15	bps 33.3%-80.0%	\$205.0	\$193.7
Recapture Agreements	—	—	27	21	33.3%-80.0%	—	9.2
	70.3	52.8	34	15		205.0	202.9
Total/Weighted Average	\$128.3	\$99.0	32	bps 18	bps	\$401.0	\$409.2

The MSR is a weighted average as of September 30, 2014, and the Excess MSR represents the difference between (A) the weighted average MSR and the basic fee (which fee remains constant). The average is weighted by the amortized cost basis of the mortgage loan portfolio.

(B) As of September 30, 2014.

Excess MSR investments in which we also invested in related servicer advances, including the basic fee (C) component of the related MSR as of September 30, 2014 (Note 6 to our Condensed Consolidated Financial Statements included herein).

Summary Excess MSR Investments Through Equity Method Investees as of September 30, 2014

	Initial UPB (bn)	Current UPB (bn) ^(B)	MSR Component ^(A)		NRZ Interest in Investee (%)	Investee Interest in Excess MSR (%)	NRZ Effective Ownership (%)	Investee Carrying Value (mm)
			Weighted Average MSR (bps)	Weighted Average Excess MSR (bps)				
Agency								
Original and Recaptured Pools	\$125.2	\$91.3	32	bps 19	bps 50.0	% 66.7	% 33.3	% \$378.4
Recapture Agreements	—	—	31	22	50.0	% 66.7	% 33.3	% 92.0
	125.2	91.3	32	19				470.4
Non-Agency ^(C)								
Original and Recaptured Pools	\$75.6	\$61.1	35	bps 12	bps 50.0	% 66.7%-77.0%	33.3-38.5%	\$196.5
Recapture Agreements	—	—	25	19	50.0	% 66.7%-77.0%	33.3-38.5%	12.2
	75.6	61.1	34	12				208.7
Total/Weighted Average	\$200.8	\$152.4	33	bps 17	bps			\$679.1

(A) The MSR is a weighted average as of September 30, 2014, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(B) As of September 30, 2014.

Excess MSR investments in which we also invested in related servicer advances, including the basic fee

(C) component of the related MSR as of September 30, 2014 (Note 6 to our condensed consolidated financial statements included herein).

The tables below summarize the terms of our investments in Excess MSRs that were not yet completed as of September 30, 2014:

Summary of Pending Excess MSR Investments (Committed but Not Closed)

	Commitment Date	Initial UPB (bn)	Current UPB (bn) ^(B)	MSR Component ^(A)		Direct Interest in Excess MSR (%)	NRZ Excess MSR Initial Investment (mm) ^(C)
				MSR (bps)	Excess MSR (bps)		
Non-Agency	Sep-14	\$3.2	\$3.2	39	bps 14	bps 50.0	% \$8.0

(A) The MSR is a weighted average as of the commitment date, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(B) As of commitment date.

(C) The actual amount invested will be based on the UPB at the time of close.

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments as of September 30, 2014 (dollars in thousands):

Collateral Characteristics

	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score	WA Coupon (A)	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage (B)	One Month CPR (C)	One Month CRR (D)	One Month CDR (E)	One Month Recapture Rate
Agency													
Original Pools	\$148,458	\$57,993,255	\$41,113,111	232,697	716	4.1%	250	65	17.3%	13.2%	10.8%	2.7%	28.3%
Recaptured Loans	28,024	—	5,151,303	29,083	664	4.5%	312	12	0.2%	4.6%	4.2%	0.4%	14.0%
Recapture Agreement	29,868	—	—	—	—	—%	—	—	—%	—%	—%	—%	—%
	\$206,350	\$57,993,255	\$46,264,414	261,780	710	4.1%	256	59	15.4%	12.2%	10.1%	2.4%	26.8%
Non-Agency ^(F)													
Original Pools	192,336	70,274,637	52,542,040	252,333	665	4.4%	275	105	48.9%	12.0%	7.0%	5.4%	9.6%
Recaptured Loans	1,340	—	234,711	1,125	744	4.2%	302	4	6.8%	0.1%	0.1%	—%	—%
Recapture Agreement	9,210	—	—	—	—	—%	—	—	—%	—%	—%	—%	—%
	\$202,886	\$70,274,637	\$52,776,751	253,458	666	4.4%	275	104	48.7%	12.0%	6.9%	5.4%	9.5%
Total/ Weighted Average	\$409,236	\$128,267,892	\$99,041,165	515,238	686	4.3%	266	83	33.1%	12.1%	8.4%	4.0%	17.6%

Collateral Characteristics

	Uncollected Payments ^(G)	Delinquency 30 Days ^(G)	Delinquency 60 Days ^(G)	Delinquency 90+ Days ^(G)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Agency							
Original Pools	7.0	% 3.0	% 1.0	% 0.7	% 3.3	% 1.1	% 2.2
Recaptured Loans	1.1	% 1.7	% 0.2	% 0.1	% 0.2	% —	% 0.3
Recapture Agreement	—	% —	% —	% —	% —	% —	% —
	6.3	% 2.9	% 0.9	% 0.7	% 3.0	% 0.9	% 2.0
Non-Agency ^(F)							
Original Pools	21.8	% 9.5	% 2.3	% 3.3	% 11.8	% 2.1	% 4.8
Recaptured Loans	0.3	% 0.4	% —	% —	% —	% —	% —
Recapture Agreement	—	% —	% —	% —	% —	% —	% —
	21.7	% 9.5	% 2.3	% 3.2	% 11.7	% 2.1	% 4.8
Total/Weighted Average	14.5	% 6.4	% 1.6	% 2.0	% 7.6	% 1.6	% 3.5

(A) The WA FICO score is based on the weighted average of information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis. Weighted averages exclude

collateral information for which collateral data was not available as of the report date.

- (B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.
 - (C) One Month CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.
 - (D) One Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.
 - (E) One Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.
- Excess MSR investments in which we also invested in related servicer advances, including the basic fee
- (F) component of the related MSR as of September 30, 2014 (Note 6 to our condensed consolidated financial statements included herein).
- Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans
- (G) for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days

Edgar Filing: New Residential Investment Corp. - Form 10-Q

represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30–59 days, 60–89 days or 90 or more days, respectively.

The following table summarizes the collateral characteristics as of September 30, 2014 of the loans underlying Excess MSR investments made through joint ventures accounted for as equity method investees (dollars in thousands). For each of these pools, we own a 50% interest in an entity that invested in a 67% to 77% interest in the Excess MSRs.

Collateral Characteristics														
	Current Carrying Amount	Original Principal Balance	Current Principal Balance	NRZ Effective Ownership Principal Balance	Number of Loans	WA FICO Score	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage	One Month CPR ^(C)	One Month CRR ^(D)	One Month CDR ^(E)	One Month Rec Rate
Agency Original Pools	\$329,683	\$125,191,420	\$82,857,879	33.3%	620,930	673	5.0%	289	78	10.5%	18.4%	14.8%	4.1%	24.5%
Recaptured Loans	48,684	—	8,509,110	33.3%	52,550	690	4.5%	313	17	0.6%	4.3%	3.3%	1.1%	6.1%
Recapture Agreement	92,033	—	—	33.3%	—	—	—%	—	—	—%	—%	—%	—%	—%
	\$470,400	\$125,191,420	\$91,366,989		673,480	674	5.0%	291	72	9.6%	17.1%	13.8%	3.8%	22.8%
Non-Agency ^(F) Original Pools	194,949	75,574,361	60,791,875	33.3%	328,763	661	4.7%	258	106	48.3%	13.3%	8.3%	5.4%	7.4%
Recaptured Loans	1,536	—	277,363	33.3%	18,257	747	4.3%	282	3	4.3%	0.1%	0.1%	—%	—%
Recapture Agreement	12,261	—	—	33.3%	—	—	—%	—	—	—%	—%	—%	—%	—%
	\$208,746	\$75,574,361	\$61,069,238		329,615	662	4.7%	258	105	48.1%	13.2%	8.3%	5.3%	7.4%
Total/Weighted Average	\$679,146	\$200,765,781	\$152,436,227		1,003,095	669	4.9%	278	85	25.0%	15.5%	11.6%	4.4%	16.6%

Collateral Characteristics										
	Uncollected Payments ^(G)	Delinquency 30 Days ^(G)	Delinquency 60 Days ^(G)	Delinquency 90+ Days ^(G)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy			
Agency Original Pools	10.3	% 6.0	% 1.5	% 1.2	% 6.3	% 2.1	% 2.9			%
Recaptured Loans	1.3	% 1.0	% 0.2	% 0.4	% 0.2	% —	% 0.3			%
Recapture Agreement	—	% —	% —	% —	% —	% —	% —			%
	9.4	% 5.5	% 1.4	% 1.1	% 5.7	% 1.9	% 2.7			%
Non-Agency ^(F) Original Pools	26.9	% 4.3	% 1.5	% 4.6	% 16.0	% 1.8	% 4.4			%
Recaptured Loans	—	% 0.2	% —	% —	% —	% —	% —			%
Recapture Agreement	—	% —	% —	% —	% —	% —	% —			%

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Agreement								
	26.8	% 4.3	% 1.5	% 4.5	% 15.9	% 1.7	% 4.4	%
Total/Weighted Average	16.4	% 5.0	% 1.4	% 2.5	% 9.8	% 1.8	% 3.4	%

- (A) The WA FICO score is based on the weighted average of information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis.
- (B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.
- (C) One Month CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.
- (D) One Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.
- (E) One Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.
- (F) Excess MSR investments in which we also invested in related servicer advances, including the basic fee component of the related MSR as of September 30, 2014 (Note 6 to our condensed consolidated financial statements included herein).

Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or 90 or more days, respectively.

Servicer Advances

In December 2013, we made our first investment in servicer advances, referred to as Transaction 1. We made the investment through the Buyer, a joint venture entity capitalized by us and certain third-party co-investors.

In Transaction 1, the Buyer acquired from Nationstar Mortgage LLC (“Nationstar”) approximately \$3.2 billion of outstanding servicer advances (including deferred servicing fees) and the basic fee component of the related MSR on Non-Agency mortgage loans with an aggregate UPB of approximately \$54.6 billion. In exchange, the Buyer (i) paid approximately \$3.2 billion (the “Initial Purchase Price”), and (ii) agreed to purchase future servicer advances related to the loans at par. The Initial Purchase Price is equal to the value of the discounted cash flows from the outstanding and future advances and from the basic fee. We previously acquired an interest in the Excess MSR related to these loans. See above “—Our Portfolio—Servicing Related Assets—Excess MSR.” The Buyer funded the Initial Purchase Price with approximately \$2.8 billion of debt and \$0.4 billion of equity, excluding working capital. As of September 30, 2014, the Buyer had settled approximately \$3.2 billion of servicer advances related to Transaction 1, which represents substantially all of Transaction 1.

See “—Call Right” below for a discussion of Transaction 2.

Nationstar remains the named servicer under the related servicing agreements and continues to perform all servicing duties for the underlying loans. The Buyer has the right, but not the obligation, to become the named servicer, subject to obtaining consents and ratings agency letters required for a formal change of the named servicer. In exchange for Nationstar’s performance of servicing duties, the Buyer pays Nationstar the Servicing Fee and, in the event that the aggregate cash flows from the advances and the basic fee generate the Targeted Return on the Buyer’s invested equity, the Performance Fee. Nationstar is majority owned by private equity funds managed by an affiliate of our manager. For more information about the fee structure, see below.

The following is a summary of the investments in servicer advances, including the right to the basic fee component of the related MSR, made by the Buyer, which we consolidate (dollars in thousands):

	September 30, 2014				Nine Months Ended September 30, 2014
	Amortized Cost Basis	Carrying Value ^(A)	Weighted Average Discount Rate	Weighted Average Life (Years) ^(B)	Change in Fair Value Recorded in Other Income
Servicer Advances	\$3,108,288	\$3,214,113	5.5	% 4.2	\$105,825

(A) Carrying value represents the fair value of the investment in servicer advances, including the basic fee component of the related MSR.

(B) Weighted Average Life represents the weighted average expected timing of the receipt of expected net cash flows for this investment.

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The following is additional information regarding the servicer advances, and related financing, of the Buyer, which we consolidate as of September 30, 2014 (dollars in thousands):

	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Carrying Value of Notes Payable	Loan-to-Value		Cost of Funds ^(B)	
					Gross	Net ^(A)	Gross	Net
September 30, 2014								
Servicer advances ^(C)	\$97,398,297	\$3,041,905	3.1	% \$2,824,007	91.5 %	90.5 %	3.0 %	2.2 %
December 31, 2013								
Servicer advances ^(C)	\$43,444,216	\$2,661,130	6.1	% \$2,390,778	89.8 %	88.6 %	4.0 %	2.3 %

(A) Ratio of face amount of borrowings to value of servicer advance collateral, net of an interest reserve maintained by the Buyer.

(B) Annualized measure of the cost associated with borrowings. Gross Cost of Funds primarily includes interest expense and facility fees. Net Cost of Funds excludes facility fees.

(C) The following types of advances comprise the investment in servicer advances:

	September 30, 2014	December 31, 2013
Principal and interest advances	\$792,875	\$1,516,715
Escrow advances (taxes and insurance advances)	1,556,968	934,525
Foreclosure advances	692,062	209,890
Total	\$3,041,905	\$2,661,130

	As of September 30, 2014	As of December 31, 2013
Advances Purchased	\$5,184,860	\$2,687,813
Activity Since Purchase	(2,142,955)	(26,683)
Ending Advance Balance	\$3,041,905	\$2,661,130
Net Debt ^(A)	\$2,794,045	\$2,357,440
Total Equity Invested ^(B)	\$702,359	\$363,324
Distributions Since Purchase	\$358,172	\$—
Net Equity Invested ^(B)	\$344,187	\$363,324
New Residential's Equity % in Buyer ^(C)	44.5 %	31.8 %
Co-investors' Equity % in Buyer ^(C)	55.5 %	68.2 %

(A) Outstanding debt net of restricted cash.

(B) Includes working capital.

(C) Based on cash basis equity.

Subsequent to September 30, 2014 and prior to November 5, 2014, the Buyer funded a total of \$262.5 million of servicer advances and recovered \$320.4 million of existing servicer advances. Notes payable outstanding decreased by

\$34.4 million and restricted cash decreased approximately \$0.9 million in relation to these fundings. Additionally, the Buyer paid \$4.9 million to Nationstar as a contractual incentive fee.

Call Right

In Transaction 1, the Buyer also acquired the right, but not the obligation (the “Call Right”), to purchase additional servicer advances, including the basic fee component of the related MSR, on terms substantially similar to the terms of Transaction 1. As in Transaction 1, (i) the purchase price for the servicer advances, including the basic fee, will be the outstanding balance of the advances at the time of purchase and (ii) the Buyer will be obligated to purchase future servicer advances on the related loans.

We previously acquired an interest in the Excess MSR related to these loans. See above “—Our Portfolio—Servicing Related Assets—Excess MSRs.”

The Buyer exercised the Call Right, in part, in Transaction 2. The outstanding balance of the servicer advances subject to the portion of the Call Right that was exercised was approximately \$1.1 billion in the first quarter of 2014. An additional \$921.3 million of the remaining portion of the outstanding balance of the servicer advances subject to the Call Right was exercised in the second quarter. As of June 30, 2014, the Buyer had settled \$2.0 billion of advances related to Transaction 2, which was financed with approximately \$1.8 billion of debt. The Call Right expired on June 30, 2014. At the time of expiration, approximately \$0.4 billion of advances remained related to Transaction 2.

The Buyer

We, through a wholly owned subsidiary, are the managing member of the Buyer. On July 30, 2014, we received a \$54.3 million distribution. As of September 30, 2014, we owned approximately 45.0% of the Buyer, which corresponds to a \$154.9 million equity investment (net of distributions).

In the event that any member does not fund its capital contribution, each other member has the right, but not the obligation, to make pro rata capital contributions in excess of its stated commitment, provided that any member's decision not to fund any such capital contribution will result in a reduction of its membership percentage.

Servicing Fee

Nationstar remains the named servicer under the applicable servicing agreements and will continue to perform all servicing duties for the related mortgage loans. The Buyer has the right, but not the obligation, to become the named servicer, subject to obtaining consents and ratings agency letters required for a formal change of the named servicer. In exchange for its services, the Buyer will pay Nationstar a monthly Servicing Fee representing a portion of the amounts from the purchased basic fee.

The Servicing Fee is equal to a fixed percentage (the “Servicing Fee Percentage”) of the amounts from the purchased basic fee. The Servicing Fee Percentage as of September 30, 2014 is equal to approximately 9.2%, which is equal to (i) 2 basis points divided by (ii) the basic fee, which is 21.6 basis points on a weighted average basis as of September 30, 2014.

Targeted Return

The Targeted Return and the Performance Fee are designed to achieve three objectives: (i) provide a reasonable risk-adjusted return to the Buyer based on the expected amount and timing of estimated cash flows from the purchased basic fee and advances, with both upside and downside based on the performance of the investment, (ii) provide Nationstar with a sufficient fee to compensate it for acting as servicer, and (iii) provide Nationstar with an incentive to effectively service the underlying loans. The Targeted Return implements these objectives by allocating payments in respect of the purchased basic fee between the Buyer and Nationstar.

The amount available to satisfy the Targeted Return is equal to: (i) the amounts from the purchased basic fee, minus (ii) the Servicing Fee (“Net Collections”). The Buyer will retain the amount of Net Collections necessary to achieve the Targeted Return. Amounts in excess of the Targeted Return will be used to pay the Performance Fee.

The Targeted Return, which is payable monthly, is generally equal to (i) 14% multiplied by (ii) the Buyer's total invested capital. Total invested capital is generally equal to the sum of the Buyer's (i) equity in advances as of the beginning of the prior month, plus (ii) working capital (equal to a percentage of the equity as of the beginning of the

prior month), plus (iii) equity and working capital contributed during the course of the prior month.

The Targeted Return is calculated after giving effect to (i) interest expense on the advance financing, (ii) other expenses and fees of the Buyer and its subsidiaries related to financing facilities, (iii) write-offs on account of any non-recoverable servicer advances, and (iv) any shortfall with respect to a prior month in the satisfaction of the Targeted Return.

Performance Fee

The Performance Fee is calculated as follows. Pursuant to a Master Servicing Rights Purchase Agreement and related Sale Supplements, Net Collections is divided into two subsets: the “Retained Amount” and the “Surplus Amount.” If the amount necessary to achieve the Targeted Return is equal to or less than the Retained Amount, then 50% of the excess Retained Amount (if any) and 100% of the Surplus Amount is paid to Nationstar as the Performance Fee. If the amount necessary to achieve the

Targeted Return is greater than the Retained Amount but less than Net Collections, then 100% of the excess Surplus Amount is paid to Nationstar as a Performance Fee. Performance Fee payments were made to Nationstar in the amount of \$10.8 million during the nine months ended September 30, 2014.

Residential Securities and Loans

Real Estate Securities

As of September 30, 2014, we had approximately \$2.1 billion face amount of real estate securities, including \$1.7 billion of Agency RMBS and \$432.8 million of Non-Agency RMBS. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$1.5 billion for Agency RMBS and approximately \$215.0 million for Non-Agency RMBS. As of September 30, 2014, a total face amount of \$412.8 million of our Non-Agency portfolio and approximately \$41.5 million of our Agency portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$4.0 billion as of September 30, 2014. We hold a limited right to cleanup call options with respect to certain securitization trusts master serviced by Nationstar with an aggregate UPB of underlying mortgage loans of approximately \$99.3 billion, whereby, when the outstanding balance falls below a pre-determined threshold, it can effectively purchase the underlying mortgage loans by repaying all of the outstanding securitization financing at par, in exchange for a fee paid to Nationstar.

On March 6, 2014, Merrill Lynch, Pierce, Fenner & Smith Incorporated and we entered into an agreement pursuant to which we agreed to purchase approximately \$625 million face amount of Non-Agency residential mortgage securities for approximately \$553 million. The purchased securities were issued by the American General Mortgage Loan Trust 2009-1 and represent 75% of the mezzanine and subordinate tranches (the "2009-1 Retained Certificates") of a securitization sponsored by Third Street Funding LLC, an affiliate of Springleaf. The securitization, including the 2009-1 Retained Certificates, is collateralized by residential mortgage loans with a face amount of approximately \$0.9 billion. On May 30, 2014, we sold the 2009-1 Retained Certificates for approximately \$598.5 million and recorded a gain of approximately \$39.7 million. At the time of sale, the 2009-1 Retained Certificates had an amortized cost basis of approximately \$558.8 million.

On May 27, 2014, we exercised our cleanup call option related to sixteen Non-Agency RMBS deals and purchased and retained performing and non-performing residential mortgage loans. Refer to Note 8 in our condensed consolidated financial statements for further details on this transaction.

On August 25, 2014, we exercised our cleanup call option related to nineteen Non-Agency RMBS deals and purchased and retained performing and non-performing residential mortgage loans. We owned \$15.4 million face amount of securities in these deals and received par on these securities, which had an amortized cost basis of \$13.1 million prior to the repayment. Refer to Note 8 in our condensed consolidated financial statements for further details on this transaction.

During the third quarter, we acquired specified fixed rate Agency RMBS with an aggregate face amount of approximately \$1.0 billion for approximately \$1.1 billion, financed with repurchase agreements. The specified fixed rate Agency RMBS are specified pools comprised of new production mortgages that are expected to carry less prepayment risk and warrant a premium relative to TBA pools.

Subsequent to September 30, 2014, we acquired Non-Agency RMBS with an aggregate face amount of approximately \$980.5 million for approximately \$297.7 million, financed with repurchase agreements. We acquired no new Agency RMBS. We sold Non-Agency RMBS with a face amount of \$7.7 million and an amortized cost basis of approximately \$6.8 million for approximately \$6.8 million and recorded no gain. We sold no Agency RMBS.

Agency RMBS

The following table summarizes our Agency RMBS portfolio as of September 30, 2014 (dollars in thousands):

Asset Type	Outstanding Face Amount	Amortized Cost Basis ^(A)	Gross Unrealized		Carrying Value ^{(A)(B)}	Outstanding Repurchase Agreements
			Gains	Losses		
Agency ARM RMBS	\$657,375	\$700,768	\$4,279	\$(3,386)	\$701,661	\$672,740
Agency Specified Pools	1,040,233	1,078,672	225	(1,908)	1,076,989	838,025
Agency RMBS	\$1,697,608	\$1,779,440	\$4,504	\$(5,294)	\$1,778,650	\$1,510,765

(A) Amortized cost basis and carrying value exclude \$6.4 million of principal receivables as of September 30, 2014.
(B) Fair value, which is equal to carrying value for all securities.

The following table summarizes the reset dates of our Agency ARM RMBS portfolio as of September 30, 2014 (dollars in thousands):

						Weighted Average											
						Periodic Cap											
Months to Next Reset ^(A)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis ^(B)	Percentage of Total Amortized Cost Basis		Carrying Value ^(B)	Coupon Margin		1st	Subsequent	Lifetime	Months to Reset ^(F)					
							Coupon	Adjustment	Coupon	Adjustment	Cap ^(E)						
1 - 12	88	\$ 657,375	\$ 700,768	100.0	%	\$ 701,661	2.9	%	1.8	%	5.0	%	2.0	%	9.6	%	6

Of these investments, 84.9% reset based on 12 month LIBOR index, 4.3% reset based on 6 month LIBOR Index, (A) 0.7% reset based on 1 month LIBOR, and 10.1% reset based on the 1 year Treasury Constant Maturity Rate. After the initial fixed period, 94.9% of these securities will reset annually and 5.1% will reset semi-annually.

(B) Amortized cost basis and carrying value exclude \$6.4 million of principal receivables as of September 30, 2014.

Represents the maximum change in the coupon at the end of the fixed rate period for 27 securities (43.8% of the (C) current face of this category). The remaining 61 securities (56.2% of the current face of this category) are not applicable, as they are past the first coupon adjustment.

(D) Represents the maximum change in the coupon at each reset date subsequent to the first coupon adjustment.

(E) Represents the maximum coupon on the underlying security over its life.

(F) Represents recurrent weighted average months to the next interest rate reset.

The following table summarizes the characteristics of our Agency RMBS portfolio and of the collateral underlying our Agency RMBS as of September 30, 2014 (dollars in thousands):

Agency RMBS Characteristics							Collateral Characteristics	
Vintage ^(A)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis ^(B)	Percentage of Total Amortized Cost Basis	Carrying Value ^(B)	Weighted Average Life (Years)	3 Month CPR ^(C)	
Pre-2006	24	\$ 110,976	\$ 117,368	6.6 %	\$ 118,931	5.5	10.3	%
2006	5	16,581	17,622	1.0 %	17,629	5.7	7.0	%
2007	16	72,697	77,375	4.3 %	77,765	5.6	6.7	%
2008	7	34,792	37,102	2.1 %	37,302	5.5	15.6	%
2009	8	63,615	68,294	3.8 %	67,861	5.0	20.4	%
2010	16	169,522	181,604	10.2 %	180,952	4.8	28.0	%
2011	5	49,822	52,436	2.9 %	53,191	5.1	8.7	%
2012 and later	23	1,179,603	1,227,639	69.1 %	1,225,019	6.6	6.3	%
Total/Weighted Average	104	\$ 1,697,608	\$ 1,779,440	100.0 %	\$ 1,778,650	6.1	9.5	%

(A) The year in which the securities were issued.

(B) Amortized cost basis and carrying value exclude \$6.4 million of principal receivables as of September 30, 2014.

(C) Three month average constant prepayment rate.

The following table summarizes the net interest spread of our Agency RMBS portfolio as of September 30, 2014:
 Net Interest Spread^(A)

Weighted Average Asset Yield	1.87	%
Weighted Average Funding Cost	0.31	%
Net Interest Spread	1.56	%

(A) The Agency RMBS portfolio consists of 38.7% floating rate securities and 61.3% fixed rate securities. See table above for details on rate resets of the floating rate securities.

Non-Agency RMBS

The following table summarizes our Non-Agency RMBS portfolio as of September 30, 2014 (dollars in thousands):

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value ^(A)	Outstanding Repurchase Agreements
			Gains	Losses		
Non-Agency RMBS	\$432,762	\$287,211	\$9,876	\$(2,458)	\$294,629	\$214,972

(A) Fair value, which is equal to carrying value for all securities.

The following tables summarize the characteristics of our Non-Agency RMBS portfolio and of the collateral underlying our Non-Agency RMBS as of September 30, 2014 (dollars in thousands):

Non-Agency RMBS Characteristics

Vintage ^(A)	Average Minimum Rating ^(B)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis		Carrying Value	Principal Subordination	Excess Spread ^(C)	Weighted Average Life ^(D) (Years)	Weighted Average Coupon
					Amortized Cost Basis	%					
Pre 2004	BB+	50	\$ 101,120	\$67,004	23.3	%	\$67,457	14.1	% 1.8	% 6.0	1.5 %
2004	B+	22	108,400	68,710	23.9	%	73,188	14.0	% 2.7	% 8.6	1.1 %
2005	C	7	105,053	80,034	27.9	%	81,760	7.5	% 1.6	% 10.5	2.8 %
2006 and later	B	5	118,189	71,463	24.9	%	72,224	13.2	% 2.6	% 5.7	1.6 %
Total/Weighted Average	CCC	84	\$432,762	\$287,211	100.0	%	\$294,629	12.2	% 2.2	% 7.7	1.7 %

Collateral Characteristics^(E)

Vintage ^(A)	Average Loan Age (years)	Collateral Factor ^(F)	3 month CPR ^(G)	Delinquency ^(H)	Cumulative Losses to Date	
					%	%
Pre 2004	12.9	0.04	2.3	% 15.6	% 4.4	%
2004	11.0	0.07	9.7	% 25.0	% 3.3	%
2005	11.4	0.14	8.9	% 17.5	% 10.7	%
2006 and later	8.5	0.52	16.0	% 14.4	% 16.7	%
Total/Weighted Average	10.9	0.20	9.5	% 18.1	% 9.0	%

(A) The year in which the securities were issued.

Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. This excludes the ratings of the collateral underlying six bonds for which we were unable to obtain rating information. We had no assets that were on negative watch for possible downgrade by at least one rating agency as of September 30, 2014.

(B) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.

(C) The current amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance for the quarter ended September 30, 2014.

(D)

(E)

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The weighted average loan size of the underlying collateral is \$135.3 thousand. This excludes the collateral underlying one bond, due to unavailable information.

(F) The ratio of original UPB of loans still outstanding.

(G) Three month average constant prepayment rate and default rates.

(H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered REO.

The following table sets forth the geographic diversification of the loans underlying our Non-Agency RMBS as of September 30, 2014 (dollars in thousands):

60

Geographic Location	Outstanding Face Amount	Percentage of Total Outstanding	
Western U.S.	\$110,692	25.6	%
Southeastern U.S.	97,618	22.5	%
Northeastern U.S.	76,957	17.8	%
Midwestern U.S.	65,262	15.1	%
Southwestern U.S.	42,117	9.7	%
Other ^(A)	40,116	9.3	%
	\$432,762	100.0	%

(A) Represents collateral for which we were unable to obtain geographical information.

The following table summarizes the net interest spread of our Non-Agency RMBS portfolio as of September 30, 2014:

Net Interest Spread ^(A)		
Weighted Average Asset Yield	5.63	%
Weighted Average Funding Cost	1.79	%
Net Interest Spread	3.84	%

(A) The Non-Agency RMBS portfolio consists of 95.8% floating rate securities and 4.2% fixed rate securities.

Residential Mortgage Loans

As of September 30, 2014, we had approximately \$1.3 billion outstanding face amount of residential mortgage loans. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$871.7 million and notes payable with an aggregate face amount of approximately \$23.2 million.

During the nine months ended September 30, 2014, we acquired several portfolios of performing and non-performing residential mortgage loans as discussed below:

On January 15, 2014, we purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$65.6 million at a price of approximately \$33.7 million. This purchase was accounted for as a linked transaction (See Note 10 to our condensed consolidated financial statements).

On March 28, 2014, we purchased a portfolio of non-performing mortgage loans with a UPB of approximately \$7.0 million at a price of approximately \$3.8 million. This acquisition is accounted for as a linked transaction (See Note 10 to our condensed consolidated financial statements).

On April 4, 2014, we purchased a portfolio of non-performing residential mortgage loans out of a securitization trust with a UPB of approximately \$17.8 million at a price of approximately \$15.5 million. We recognized a loss for the difference between the price paid and fair value of the loans acquired of \$11.3 million.

On May 27, 2014, we exercised our cleanup call option related to sixteen Non-Agency RMBS deals and purchased performing and non-performing residential mortgage loans with a UPB of approximately \$283.6 million at a price of approximately \$288.5 million. We securitized approximately \$233.8 million in UPB of performing loans, which was recorded as a sale for accounting purposes, and recognized a net gain on settlement of investments of approximately \$2.6 million. We retained performing and non-performing loans with a UPB of approximately \$48.4 million at a price of \$40.1 million. Additionally, we acquired \$1.3 million of real estate owned.

On May 28, 2014, we purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$500.3 million at a price of approximately \$373.1 million.

On June 24, 2014, we purchased a portfolio of performing and non-performing residential mortgage loans with a UPB of approximately \$82.3 million at a price of approximately \$58.9 million. Additionally, we acquired approximately \$2.1 million of real estate owned.

On August 12, 2014, we purchased a portfolio of performing and non-performing residential mortgage loans with a UPB of approximately \$111.8 million at a price of approximately \$86.7 million.

On August 25, 2014, we exercised its cleanup call option related to nineteen Non-Agency RMBS deals and purchased performing and non-performing residential mortgage loans with a UPB of approximately \$530.1 million at a price of approximately \$536.3 million. Additionally, we acquired \$3.0 million of real estate owned.

On October 3, 2014, we completed a REMIC securitization of performing residential mortgage loans with a UPB of approximately \$463.6 million for a price of \$493.4 million and as a part of the offering, acquired a class of interest-only notes for a purchase price of approximately \$25.8 million. The securitization was recorded as a sale for accounting purposes and we recognized a net gain on settlement of investments of approximately \$1.2 million. Proceeds from the sale were used to pay down \$423.2 million of the repurchase agreement with Bank of America N.A.

On October 9, 2014, we committed to purchase a primarily reperforming residential mortgage loan portfolio with a UPB of approximately \$386.8 million at a price of approximately \$357.9 million. The sale is expected to settle on November 21, 2014.

On October 10, 2014, we purchased two pools of non-performing residential mortgage loans with a UPB of approximately \$254.9 million at a price of approximately \$188.8 million. The acquisitions of the two pools are expected to settle on November 6, 2014 and December 17, 2014, respectively.

On October 20, 2014, we extended the note payable to Nationstar related to reverse residential mortgage loans to mature on October 19, 2015. Borrowings on this extension bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a spread of 2.875% (reduced from a spread of 3.25%). This facility contains customary covenants, event of default provisions, and is subject to required monthly principal payments.

On October 28, 2014, we sold a portion of our linked transactions for net proceeds of approximately \$23.7 million.

The following table presents the total residential mortgage loans outstanding by loan type, excluding linked transactions, at September 30, 2014 and December 31, 2013, respectively.

September 30, 2014

Loan Type	Outstanding Face Amount	Carrying Value	Loan Count	Weighted Average Yield	Weighted Average Life (Years) ^(A)	Floating Rate Loans as a % of Face Amount	Loan to Value Ratio ("LTV") ^(B)	Weighted Avg. Delinquency	Weighted Average FICO ^(D)	December 31, 2013 Carrying Value
Reverse Mortgage Loans ^{(E)(F)}	\$49,759	\$28,226	228	10.3 %	3.8	20.6 %	107 %	79.6 %	N/A	\$33,539
Performing Loans ^{(G)(H)}	127,824	100,856	697	5.1 %	4.3	12.8 %	108 %	3.9 %	608	—
Purchased Credit Impaired ("PCI") Loans ^{(H)(I)}	665,682	500,316	2,394	6.0 %	2.2	43.4 %	115 %	92.7 %	559	—
Total Residential Mortgage Loans, held-for-investment	\$843,265	\$629,398	3,319	6.1 %	2.6	37.4 %	113 %	78.5 %	567	\$33,539
	\$463,639	\$492,399	2,364	3.9 %	6.7	2.7 %	125 %	— %	704	\$—

Residential
Mortgage
Loans, held-
for-sale^(H)

- (A)
- (A) The weighted average life is based on the expected timing of the receipt of cash flows.
- (B) LTV refers to the ratio comparing the loan's unpaid principal balance to the value of the collateral property.
- (C) Represents the percentage of the total principal balance that are 60+ days delinquent, none of which are on non-accrual status.
- (D) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.
- Represents a 70% interest we hold in reverse mortgage loans. The average loan balance outstanding based on total
- (E) UPB is \$0.3 million. 78% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. Each loan matures upon the occurrence of a termination event.
- (F) FICO scores are not used in determining how much a borrower can access via a reverse mortgage loan.
- (G) Includes loans that are current or less than 30 days past due at acquisition.
- (H) Carrying value includes accrued interest receivable.
- (I) Includes loans that are 30 days or more past due at acquisition.

We consider the delinquency status, loan-to-value ratios, and geographic area of residential mortgage loans as our credit quality indicators.

Other

Consumer Loans

On April 1, 2013, we completed, through newly formed limited liability companies (together, the "Consumer Loan Companies"), a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio included over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance

Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf, which is majority-owned by Fortress funds managed by our Manager, acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors LLC acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio. The Consumer Loan Companies initially financed \$2.2 billion (\$1.1 billion outstanding as of September 30, 2014) of the approximately \$3.0 billion purchase price with asset-backed notes that have a maturity of April 2021, and pay a coupon of 3.75%. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion (\$0.3 billion outstanding as of September 30, 2014) of asset-backed notes for 96% of par. These notes were subordinate to the debt issued in April 2013, have a maturity of December 2024, and pay a coupon of 4%. The table below summarizes the collateral characteristics of the consumer loans as of September 30, 2014 (dollars in thousands):

Collateral Characteristics

Conditonal Characteristics														
UPB(A)	Personal Unsecured Loans %	Personal Homeowner Loans %	Number of Loans	Weighted Average Original FICO Score(B)	Weighted Average Coupon %	Adjustable Rate Loan %	Average Loan Age (months)	Average Expected Life (Years)	Average Delinquency 30 Days(C)	Average Delinquency 60 Days(C)	Average Delinquency 90+ Days(C)	Delinquency CRR(D)	Delinquency CDR(E)	
Consumer Loans	\$2,827,355	68.4 %	33.2 %	295,633	635	18.2 %	10.5 %	111	3.5	3.5 %	1.8 %	3.8 %	15.6 %	7.1 %

(A) As of August 31, 2014.

(B) Weighted average original FICO score represents the FICO score at the time the loan was originated.

Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total

(C) principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or 90 or more days, respectively.

(D) 3 Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the three months as a percentage of the total principal balance of the pool.

(E) 3 Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the three months as a percentage of the total principal balance of the pool.

On October 3, 2014, the Consumer Loan Companies refinanced the Class A and Class B asset-backed notes with approximately \$1.5 billion outstanding with an asset-backed securitization for approximately \$2.6 billion. The excess proceeds were distributed to the co-investors. We received approximately \$337.8 million which reduced our basis in the consumer loans investment to \$0.0 million and resulted in a gain of approximately \$73.8 million. We used the proceeds to pay down a \$125.0 million repurchase agreement that was scheduled to mature in January 2015.

Subsequent to this refinancing, we have discontinued recording our share of the underlying earnings of the Consumer Loan Companies until such time as their cumulative earnings exceed their cumulative cash distributions.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. Management believes that the estimates and assumptions utilized in the preparation of the condensed consolidated financial statements are prudent and reasonable. Actual results historically have been in line with management's estimates and judgments used in applying each of the accounting policies described below, as modified periodically to reflect current market conditions. The following is a

summary of our accounting policies that are most affected by judgments, estimates and assumptions.

Excess MSR's

Upon acquisition, we elected to record each investment in Excess MSR's at fair value. We elected to record our investments in Excess MSR's at fair value in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSR's.

GAAP establishes a framework for measuring fair value of financial instruments and a set of related disclosure requirements. A three-level valuation hierarchy has been established based on the transparency of inputs to the valuation of a financial instrument as of the measurement date. The three levels are defined as follows:

Level 1—Quoted prices in active markets for identical instruments.

Level 2—Valuations based principally on other observable market parameters, including:

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3—Valuations based significantly on unobservable inputs.

The level in the fair value hierarchy within which a fair value measurement or disclosure in its entirety is based on the lowest level of input that is significant to the fair value measurement or disclosure in its entirety.

Our Excess MSR are categorized as Level 3 under the GAAP hierarchy. The inputs used in the valuation of Excess MSR include prepayment speed, delinquency rate, recapture rate, excess mortgage servicing amount and discount rate. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. The methods used to estimate fair value may not result in an amount that is indicative of net realizable value or reflective of future fair values. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in fair value. Management validates significant inputs and outputs of our models by comparing them to available independent third party market parameters and models for reasonableness. We believe the assumptions we use are within the range that a market participant would use, and factor in the liquidity conditions in the markets. Any changes to the valuation methodology will be reviewed by management to ensure the changes are appropriate.

In order to evaluate the reasonableness of its fair value determinations, management engages an independent valuation firm to separately measure the fair value of its Excess MSR pools. The independent valuation firm determines an estimated fair value range based on its own models and issues a “fairness opinion” with this range. Management compares the range included in the opinion to the values generated by its internal models. For Excess MSR acquired prior to the current quarter, the fairness opinion relates to the valuation at the current quarter end date. For Excess MSR acquired during the current quarter, the fairness opinion relates to the valuation at the time of acquisition. To date, we have not made any significant valuation adjustments as a result of these fairness opinions.

For Excess MSR acquired during the current quarter, we revalue the Excess MSR at the quarter end date if a payment is received between the acquisition date and the end of the quarter. Otherwise, Excess MSR acquired during the current quarter are carried at their amortized cost basis if there has been no change in assumptions since acquisition.

Investments in Excess MSR are aggregated into pools as applicable; each pool of Excess MSR is accounted for in the aggregate. Interest income for Excess MSR is accreted using an effective yield or “interest” method, based upon the expected income from the Excess MSR through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period would be measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize interest income only on Excess MSR in existing eligible underlying mortgages.

Under the fair value election, the difference between the fair value of Excess MSR and their amortized cost basis is recorded as “Change in fair value of investments in excess mortgage servicing rights,” as applicable. Fair value is

generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the Excess MSRs, and therefore may differ from their effective yields.

The following table summarizes the estimated change in fair value of our interests in the Excess MSR's owned directly as of September 30, 2014 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at September 30, 2014	\$409,236							
Discount rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$443,097	\$425,449	\$394,296	\$380,488				
Change in estimated fair value:								
Amount	\$33,861	\$16,213	\$(14,940)	\$(28,748))			
%	8.3	% 4.0	% (3.7	)% (7.0)%			
Prepayment rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$443,706	\$425,882	\$393,668	\$379,083				
Change in estimated fair value:								
Amount	\$34,470	\$16,646	\$(15,568)	\$(30,153))			
%	8.4	% 4.1	% (3.8	)% (7.4)%			
Delinquency rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$413,994	\$411,613	\$406,858	\$404,481				
Change in estimated fair value:								
Amount	\$4,758	\$2,377	\$(2,378)	\$(4,755))			
%	1.2	% 0.6	% (0.6	)% (1.2)%			
Recapture rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$400,676	\$404,905	\$413,415	\$417,383				
Change in estimated fair value:								
Amount	\$(8,560)	\$(4,331)	\$4,179	\$8,147)			
%	(2.1	)% (1.1	)% 1.0	% 2.0	%			

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The following table summarizes the estimated change in fair value of our interests in the Excess MSR's owned through equity method investees as of September 30, 2014 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at September 30, 2014	\$342,538							
Discount rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$371,811	\$356,527	\$329,692	\$317,858				
Change in estimated fair value:								
Amount	\$29,273	\$13,989	\$(12,846)	\$(24,680))			
%	8.5	% 4.1	% (3.8)	)(7.2)%)%
Prepayment rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$370,809	\$356,192	\$329,761	\$317,784				
Change in estimated fair value:								
Amount	\$28,271	\$13,654	\$(12,777)	\$(24,754))			
%	8.3	% 4.0	% (3.7)	)(7.2)%)%
Delinquency rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$348,143	\$345,339	\$339,737	\$336,933				
Change in estimated fair value:								
Amount	\$5,605	\$2,801	\$(2,801)	\$(5,605))			
%	1.6	% 0.8	% (0.8)	)(1.6)%)%
Recapture rate shift in %	-20%	-10%	10%	20%				
Estimated fair value	\$331,110	\$336,755	\$348,464	\$354,538				
Change in estimated fair value:								
Amount	\$(11,428)	\$(5,783)	\$5,926	\$12,000)			
%	(3.3	)(1.7	)% 1.7	% 3.5)%)%

The sensitivity analysis is hypothetical and should be used with caution. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. Also, changes in the fair value based on a 10% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Servicer Advances

We account for investments in servicer advances, which include the basic fee component of the related MSR (the "servicer advance investments"), as financial instruments, since we are not a licensed mortgage servicer.

We have elected to account for the servicer advance investments at fair value. Accordingly, we estimate the fair value of the servicer advance investments at each reporting date and reflect changes in the fair value of the servicer advance investments as gains or losses.

We initially recorded the servicer advance investments at the purchase price paid, which we believe reflects the value a market participant would attribute to the investments at the time of our purchase. We recognize interest income from our servicer advance investments using the interest method, with adjustments to the yield applied based upon changes in actual or expected cash flows under the retrospective method. The servicer advances are not interest-bearing, but we accrete the effective rate of interest applied to the aggregate cash flows from the servicer advances and the basic fee component of the related MSR.

We categorize servicer advance investments under Level 3 of the GAAP hierarchy described above under “—Application of Critical Accounting Policies—Excess MSR,” since we use internal pricing models to estimate the future cash flows related to the servicer advance investments that incorporate significant unobservable inputs and include assumptions that are inherently subjective and imprecise. In order to evaluate the reasonableness of its fair value determinations, management engages an

independent valuation firm to separately measure the fair value of its servicer advances investment. The independent valuation firm determines an estimated fair value range based on its own models and issues a “fairness opinion” with this range.

Our estimations of future cash flows include the combined cash flows of all of the components that comprise the servicer advance investments: existing advances, the requirement to purchase future advances and the right to the basic fee component of the related MSR. The factors that most significantly impact the fair value include (i) the rate at which the servicer advance balance declines, which we estimate is approximately \$500.0 million per year on average over the weighted average life of the investment held as of September 30, 2014, (ii) the duration of outstanding servicer advances, which we estimate is approximately nine months on average for an advance balance at a given point in time (not taking into account new advances made with respect to the pool), and (iii) the UPB of the underlying loans with respect to which we have the obligation to make advances and own the basic fee component.

As described above, we recognize income from servicer advance investments in the form of (i) interest income, which we reflect as a component of net interest income and (ii) changes in the fair value of the servicer advances, which we reflect as a component of other income.

We remit to Nationstar a portion of the basic fee component of the MSR related to our servicer advance investments as compensation for acting as servicer, as described in more detail under “—Our Portfolio—Servicing Related Assets—Servicer Advances.” Our interest income is recorded net of the servicing fee owed to Nationstar.

Real Estate Securities (RMBS)

Our Non-Agency RMBS and Agency RMBS are classified as available-for-sale. As such, they are carried at fair value, with net unrealized gains or losses reported as a component of accumulated other comprehensive income, to the extent impairment losses are considered temporary, as described below.

We expect that any RMBS we acquire will be categorized under Level 2 or Level 3 of the GAAP hierarchy described above under “—Application of Critical Accounting Policies—Excess MSRs,” depending on the observability of the inputs. Fair value may be based upon broker quotations, counterparty quotations, pricing service quotations or internal pricing models. The significant inputs used in the valuation of our securities include the discount rate, prepayment speeds, default rates and loss severities, as well as other variables.

The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. The methods used to estimate fair value may not be indicative of net realizable value or reflective of future fair values. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in fair value. Management validates significant inputs and outputs of our models by comparing them to available independent third party market parameters and models for reasonableness. We believe the assumptions we use are within the range that a market participant would use, and factor in the liquidity conditions in the markets. Any changes to the valuation methodology will be reviewed by management to ensure the changes are appropriate.

We must also assess whether unrealized losses on securities, if any, reflect a decline in value that is other-than-temporary and, if so, record an other-than-temporary impairment through earnings. A decline in value is deemed to be other-than-temporary if (i) it is probable that we will be unable to collect all amounts due according to the contractual terms of a security that was not impaired at acquisition (there is an expected credit loss), or (ii) if we have the intent to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell a security in an unrealized loss position prior to its anticipated recovery (if any). For the purposes of performing this analysis, we will assume the anticipated recovery period is until the expected maturity of the applicable security.

Also, for securities that represent beneficial interests in securitized financial assets within the scope of ASC 325-40, whenever there is a probable adverse change in the timing or amounts of estimated cash flows of a security from the cash flows previously projected, an other-than-temporary impairment will be deemed to have occurred. Our Non-Agency RMBS acquired with evidence of deteriorated credit quality for which it was probable, at acquisition, that we would be unable to collect all contractually required payments receivable, fall within the scope of ASC 310-30, as opposed to ASC 325-40. All of our other Non-Agency RMBS, those not acquired with evidence of deteriorated credit quality, fall within the scope of ASC 325-40.

Income on these securities is recognized using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest receipts (which may be subject to prepayments and defaults). These assumptions are updated on at least a quarterly basis to reflect changes related to a particular security, actual historical data, and market changes. These uncertainties and contingencies are difficult to predict and are subject to future events, and economic and market conditions, which may alter the assumptions. For securities acquired at a discount for credit losses, we recognize the excess of all cash flows expected over our investment in the securities as Interest

Income on a “loss adjusted yield” basis. The loss-adjusted yield is determined based on an evaluation of the credit status of securities, as described in connection with the analysis of impairment above.

Reverse Mortgage Loans

We have adopted ASU No. 2014-14 as of September 30, 2014, as it relates to the reverse mortgage portfolio. This portfolio is comprised primarily of U.S. Department of Housing and Urban Development (HUD)-guaranteed reverse mortgage loans.

Upon foreclosure of a reverse mortgage loan, we receive the real estate property in satisfaction of the loan and intend to dispose of the property for the best possible economic value. To the extent the liquidation proceeds are less than the unpaid principal balance (UPB) of the loan, we submit a claim to HUD for the lesser of the remaining UPB or the pre-determined HUD claim amount. Our exposure to market risk while the foreclosed property is in its possession is limited to the extent the HUD claim amount is unlikely to cover any shortfall in property disposal proceeds.

After the adoption of ASU No. 2014-14, upon foreclosure of a guaranteed reverse mortgage loan, we record a separate other receivable for the expected liquidation proceeds, comprised of both the property disposal proceeds and the maximum HUD claim amount.

Performing Loans

We invest in loans, including but not limited to, residential mortgage loans. Loans for which we have the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-investment. Loans are presented in the Condensed Consolidated Balance Sheet at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, an allowance for loan losses, charge-offs and write-down for impaired loans.

Interest income on performing loans is accrued and recognized as interest income at the contractual rate of interest.

Impairment of Loans

To the extent that they are classified as held-for-investment, we must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or for loans acquired at a discount for credit losses, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. We continually evaluate our loans receivable for impairment.

Our residential mortgage loans are aggregated into pools for evaluation based on like characteristics, such as loan type and acquisition date. Pools of loans are evaluated based on criteria such as an analysis of borrower performance, credit ratings of borrowers, loan to value ratios, the estimated value of the underlying collateral, the key terms of the loans and historical and anticipated trends in defaults and loss severities for the type and seasoning of loans being evaluated. This information is used to estimate provisions for estimated unidentified incurred losses on pools of loans. Significant judgment is required in determining impairment and in estimating the resulting loss allowance. Furthermore, we must assess our intent and ability to hold our loan investments on a periodic basis. If we do not have the intent to hold a loan for the foreseeable future or until its expected payoff, the loan must be classified as “held for sale” and recorded at the lower of cost or estimated value.

Charge-offs

Loans, other than PCI loans, are generally charged off or charged down to the net realizable value of the underlying collateral (i.e., fair value less costs to sell), with an offset to the allowance for loan losses, when available information confirms that loans are uncollectible.

Nonaccrual Loans

A loan is determined to be past due when a monthly payment is due and unpaid for 30 days or more. Loans, other than PCI loans, are placed on nonaccrual status and considered non-performing when full payment of principal and interest is in doubt, which generally occurs when principal or interest is 120 days or more past due unless the loan is both well secured and in the process of collection. A loan may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

Purchased Credit Impaired (PCI) Loans

We evaluate the credit quality of our loans, as of the acquisition date, for evidence of credit quality deterioration. Loans with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are PCI loans. Recognition of income and accrual status on PCI loans is dependent on having a reasonable expectation about the timing and amount of cash flows to be collected. At acquisition, we aggregate PCI loans into pools based on common risk characteristics and loans aggregated into pools are accounted for as if each pool were a single loan with a single composite interest rate and an aggregate expectation of cash flows.

The excess of the total cash flows (both principal and interest) expected to be collected over the carrying value of the PCI loans is referred to as the accretable yield. This amount is not reported on our Condensed Consolidated Balance Sheets but is accreted into interest income at a level rate of return over the remaining estimated life of the pool of loans.

On a quarterly basis, we estimate the total cash flows expected to be collected over the remaining life of each pool. Probable decreases in expected cash flows trigger the recognition of impairment. Impairments are recognized through the valuation provision for loans and an increase in the allowance for loan losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan losses with any remaining increases recognized prospectively as a yield adjustment over the remaining estimated lives of the underlying loans.

The excess of the total contractual cash flows over the cash flows expected to be collected is referred to as the nonaccretable difference. This amount is not reported on our Condensed Consolidated Balance Sheets and represents an estimate of the amount of principal and interest that will not be collected.

The estimation of future cash flows for PCI loans is subject to significant judgment and uncertainty. Actual cash flows could be materially different than management's estimates.

The liquidation of PCI loans, which may include sales of loans, receipt of payment in full by the borrower, or foreclosure, results in removal of the loans from the underlying PCI pool. When the amount of the liquidation proceeds (e.g., cash, real estate), if any, is less than the unpaid principal balance of the loan, the difference is first applied against the PCI pool's nonaccretable difference. When the nonaccretable difference for a particular loan pool has been fully depleted, any excess of the unpaid principal balance of the loan over the liquidation proceeds is written off against the PCI pool's allowance for loan losses.

Loans Held-for-Sale

Loans held-for-sale are measured at the lower of cost or fair value, with valuation changes recorded in other income. Interest income on loans held-for-sale is accrued and recognized based on the contractual rate of interest. Purchase price discounts or premiums are deferred in a contra loan account until the related loans are sold. The deferred discounts or premiums are an adjustment to the basis of the loan and are included in the quarterly determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale.

Loans held-for-sale are subject to the nonaccrual policy described within the Nonaccrual section above. As loans held-for-sale are recognized at the lower of cost or fair value, our allowance for loan losses and charge-off policies do not apply to these loans.

REO assets are those individual properties where we receive the property in satisfaction of a debt (e.g., by taking legal title or physical possession). We recognize REO assets at the completion of the foreclosure process or upon execution of a deed in lieu of foreclosure with the borrower. We measure REO assets at the lower of cost or fair value, with valuation changes recorded in other income.

Valuation of Derivatives

We financed certain investments with the same counterparty from which we purchased those investments, and we accounted for the contemporaneous purchase of the investments and the associated financings as linked transactions. Accordingly, we recorded a non-hedge derivative instrument on a net basis. We also enter into various economic hedges. Changes in market value of non-hedge derivative instruments and economic hedges are recorded as “Other Income” in the Condensed Consolidated Statements of Income.

Investment Consolidation

The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered are the determination as to the degree of control over an entity by its various equity holders, the design of the entity, how closely related the entity is to each of its equity holders, the relation of the equity holders to each other and a determination of the primary

beneficiary in entities in which we have a variable interest. These analyses involve estimates, based on the assumptions of management, as well as judgments regarding significance and the design of entities.

Variable interest entities (“VIEs”) are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, and only by its primary beneficiary, which is defined as the party who has the power to direct the activities of a VIE that most significantly impact its economic performance and who has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Our investments in Non-Agency RMBS are variable interests. We monitor these investments and analyze the potential need to consolidate the related securitization entities pursuant to the VIE consolidation requirements.

These analyses require considerable judgment in determining whether an entity is a VIE and determining the primary beneficiary of a VIE since they involve subjective determinations of significance, with respect to both power and economics. The result could be the consolidation of an entity that otherwise would not have been consolidated or the de-consolidation of an entity that otherwise would have been consolidated.

We have not consolidated the securitization entities that issued our Non-Agency RMBS. This determination is based, in part, on our assessment that we do not have the power to direct the activities that most significantly impact the economic performance of these entities, such as if we owned a majority of the currently controlling class. In addition, we are not obligated to provide, and have not provided, any financial support to these entities.

We have not consolidated the entities in which we hold a 50% interest that made an investment in Excess MSR. We have determined that the decisions that most significantly impact the economic performance of these entities will be made collectively by us and the other investor in the entities. In addition, these entities have sufficient equity to permit the entities to finance their activities without additional subordinated financial support. Based on our analysis, these entities do not meet any of the VIE criteria.

We have invested in servicer advances, including the basic fee component of the related MSRs, through the Buyer, of which we are the managing member. The Buyer was formed through cash contributions by us and third-parties in exchange for membership interests. As of October 23, 2014, we owned an approximately 45% interest in the Buyer, and the third-party investors owned the remaining membership interests. Through our managing member interest, we direct substantially all of the day-to-day activities of the Buyer. The third-party investors do not possess substantive participating rights or the power to direct the day-to-day activities that most directly affect the operations of the Buyer. In addition, no single third-party investor, or group of third-party investors, possesses the substantive ability to remove us as the managing member of the Buyer. We have determined that the Buyer is a voting interest entity. As a result of our managing member interest, which represents a controlling financial interest, we consolidate the Buyer and its wholly owned subsidiaries and reflect membership interests in the Buyer held by third parties as noncontrolling interests.

Investments in Equity Method Investees

We account for our investment in the Consumer Loan Companies pursuant to the equity method of accounting because we can exercise significant influence over the Consumer Loan Companies, but the requirements for consolidation are not met. Our share of earnings and losses in these equity method investees is included in “Earnings from investments in consumer loans, equity method investees” on the Condensed Consolidated Statements of Income. Equity method investments are included in “Investments in consumer loans, equity method investees” on the Condensed Consolidated Balance Sheets.

The Consumer Loan Companies classify their investments in consumer loans as held-for-investment, as they have the intent and ability to hold for the foreseeable future, or until maturity or payoff. The Consumer Loan Companies record the consumer loans at cost net of any unamortized discount or loss allowance. The Consumer Loan Companies determined at acquisition that these loans would be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); the loans aggregated into pools are accounted for as if each pool were a single loan.

We account for our investments in equity method investees that are invested in Excess MSR's pursuant to the equity method of accounting because we can exercise significant influence over the investees, but the requirements for consolidation are not met. We have elected to measure our investments in equity method investees which are invested in Excess MSR's at fair value. The equity method investees have also elected to measure their investments in Excess MSR's at fair value.

Income Taxes

70

Our financial results are generally not expected to reflect provisions for current or deferred income taxes. We intend to operate in a manner that allows us to qualify for taxation as a REIT. As a result of our expected REIT qualification, we do not generally expect to pay U.S. federal or state and local corporate level taxes. Many of the REIT requirements, however, are highly technical and complex. If we were to fail to meet the REIT requirements, we would be subject to U.S. federal, state and local income and franchise taxes, and we would face a variety of adverse consequences. See “Risk Factors – Risks Related to Our Taxation as a REIT.” We have made certain investments, particularly our investments in servicer advances, through TRSs and are subject to regular corporate income taxes on these investments.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The standard clarifies the timing of when a creditor is considered to have taken physical possession of residential real estate collateral for a consumer mortgage loan, resulting in the reclassification of the loan receivable to real estate owned. A creditor has taken physical possession of the property when either (1) the creditor obtains legal title through foreclosure, or (2) the borrower transfers all interests in the property to the creditor via a deed in lieu of foreclosure or a similar legal agreement. The standard also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. The ASU is effective for New Residential in the first quarter of 2015. Early adoption is permitted. New Residential has adopted the new guidance and has determined there is no impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenues from Contracts with Customers (Topic 606). The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The ASU is effective for New Residential in the first quarter of 2017. Early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. New Residential is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The standard changes the accounting for repurchase-to-maturity transactions and linked repurchase financing transactions to secured borrowing accounting. The ASU also expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. The ASU is effective for New Residential in the first quarter of 2015. Early adoption is not permitted. Disclosures are not required for comparative periods presented before the effective date. New Residential is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The standard provides guidance on management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern by requiring management to assess an entity’s ability to continue as a going concern by incorporating and expanding on certain principles that are currently in U.S. auditing standards. The ASU is effective for New Residential for the annual period ending on December 31, 2016. Early adoption is permitted. New Residential is currently evaluating the new guidance to determine the impact that it may have on its consolidated

financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, financial instruments and hedging. Some of the proposed changes are significant and could have a material impact on our reporting. We have not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013 (dollars in thousands). Our results of operations are not necessarily indicative of our future performance, particularly because we were not an independent public company until May 15, 2013.

	Three Months Ended September 30,		Increase (Decrease) Amount	Nine Months Ended September 30,		Increase (Decrease) Amount
	2014	2013		2014	2013	
Interest income	\$97,587	\$21,885	\$ 75,702	\$261,733	\$61,075	\$ 200,658
Interest expense	33,307	3,443	29,864	108,816	6,993	101,823
Net Interest Income	64,280	18,442	45,838	152,917	54,082	98,835
Impairment						
Other-than-temporary impairment	—	—	—	943	3,756	(2,813)
("OTTI") on securities						
Valuation provision on loans	1,134	—	1,134	1,591	—	1,591
	1,134	—	1,134	2,534	3,756	(1,222)
Net interest income after impairment	63,146	18,442	44,704	150,383	50,326	100,057
Other Income						
Change in fair value of investments in excess mortgage servicing rights	28,566	208	28,358	40,670	43,899	(3,229)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	31,833	20,645	11,188	50,950	41,741	9,209
Change in fair value of investments in servicer advances	22,948	—	22,948	105,825	—	105,825
Earnings from investments in consumer loans, equity method investees	22,490	24,129	(1,639)	60,185	60,293	(108)
Gain on settlement of investments	938	11,213	(10,275)	57,834	11,271	46,563
Other income	15,289	—	15,289	19,539	—	19,539
	122,064	56,195	65,869	335,003	157,204	177,799
Operating Expenses						
General and administrative expenses	7,499	2,449	5,050	14,886	5,640	9,246
	—	—	—	—	4,134	(4,134)

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Management fee allocated by
Newcastle

Management fee to affiliate	5,124	4,484	640	14,525	6,747	7,778
Incentive compensation to affiliate	10,910	4,470	6,440	33,111	5,348	27,763
Loan servicing expense	1,778	89	1,689	2,210	219	1,991
	25,311	11,492	13,819	64,732	22,088	42,644
Income (Loss) Before Income Taxes	159,899	63,145	96,754	420,654	185,442	235,212
Income tax expense	7,801	—	7,801	29,483	—	29,483
Net Income (Loss)	\$152,098	\$63,145	\$88,953	\$391,171	\$185,442	\$205,729
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	\$25,726	\$—	\$25,726	\$92,524	\$—	\$92,524
Net Income (Loss) Attributable to Common Stockholders	\$126,372	\$63,145	\$63,227	\$298,647	\$185,442	\$113,205

Interest Income

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Interest income increased by \$75.7 million, primarily attributable to incremental interest income of (i) \$51.0 million from servicer advances that we acquired subsequent to September 30, 2013; (ii) \$21.8 million from real estate loans, in which we made additional

investments subsequent to September 30, 2013; and (iii) \$3.2 million from our acquisitions of Excess MSR investments during and after the three months ended September 30, 2013, offset by (iv) a decrease of \$0.3 million from real estate securities during the three months ended September 30, 2014.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Interest income increased by \$200.7 million, primarily attributable to incremental interest income of (i) \$153.8 million from servicer advances that we acquired subsequent to September 30, 2013; (ii) \$26.4 million from real estate loans, in which we made additional investments during the nine months ended September 30, 2014; (iii) \$13.3 million from our investments in real estate securities that we acquired during and after the nine months ended September 30, 2013; and (iv) \$7.2 million from our acquisitions of Excess MSR investments during and after the nine months ended September 30, 2013.

Interest Expense

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Interest expense increased by \$29.9 million primarily attributable to incremental interest expense of (i) \$25.2 million from notes payable for servicer advances that we acquired subsequent to September 30, 2013; (ii) \$5.1 million from repurchase agreements on real estate loans, in which we made additional investments subsequent to September 30, 2013; and (iii) \$1.1 million from interest on financing of our consumer loans portfolio which we entered into subsequent to September 30, 2013, offset by (iv) a decrease of \$1.5 million from repurchase agreements on real estate securities during the three months ended September 30, 2014.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Interest expense increased by \$101.8 million primarily attributable to incremental interest expense of (i) \$86.9 million from notes payable for servicer advances that we acquired subsequent to September 30, 2013; (ii) \$6.5 million from repurchase agreements on real estate loans, in which we made additional investments subsequent to September 30, 2013; (iii) \$4.2 million from interest on financing of our consumer loans portfolio which we entered into subsequent to September 30, 2013, (iv) \$2.5 million from repurchase agreements on real estate securities during the three months ended September 30, 2014, and (v) \$1.8 million from interest on corporate financing collateralized by an excess mortgage servicing rights pool, which we entered into subsequent to September 30, 2013, and have since paid-off. Other than Temporary Impairment ("OTTI") on Securities

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

We did not impair any of our securities on an other-than-temporary basis during the three months ended September 30, 2014 or during the three months ended September 30, 2013.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

The other-than-temporary impairment on securities decreased by \$2.8 million due to the recognition of impairment of \$3.8 million on our real estate securities in connection with the spin-off on May 15, 2013, partially offset by \$0.9 million of impairment recognized on our real estate securities during the nine months ended September 30, 2014.

Valuation Provision on Loans

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

The valuation provision on loans increased by \$1.1 million due to the recognition of allowance for loan losses on our residential mortgage loans driven by the expected timing of future cash flows and growth of our residential mortgage loans portfolio since September 30, 2013.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

The valuation provision on loans increased by \$1.6 million due to the recognition of increased allowance for loan losses on our residential mortgage loans driven by the expected timing of future cash flows and growth of our residential mortgage loans portfolio since September 30, 2013.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

The change in fair value of investments in excess mortgage servicing rights increased by \$28.4 million primarily due to increased market prices during the three months ended September 30, 2014 relative to the three months ended September 30, 2013, as well as the acquisition of additional investments subsequent to September 30, 2013.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

The change in fair value of investments in excess mortgage servicing rights decreased by \$3.2 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This decrease primarily relates to higher mark-to-market fair value adjustments of \$43.9 million during the nine months ended September 30, 2013 compared to adjustments of \$28.0 million during the nine months ended September 30, 2014 experienced by the portion of our excess mortgage servicing portfolio held during both periods, partially offset by higher mark-to-market fair value adjustments of \$12.7 million related to the portion of the portfolio acquired subsequent to September 30, 2013.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights, Equity Method Investees

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

The change in fair value of investments in excess mortgage servicing rights, equity method investees increased by \$11.2 million primarily due to increased market prices during the three months ended September 30, 2014 relative to the three months ended September 30, 2013.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

The change in fair value of investments in excess mortgage servicing rights, equity method investees increased by \$9.2 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This increase primarily relates to improved performance during the nine months ended September 30, 2014 and offset by higher mark-to-market fair value adjustments of \$28.2 million during the nine months ended September 30, 2013 compared to adjustments of \$23.9 million during the nine months ended September 30, 2014.

Change in Fair Value of Investments in Servicer Advances

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

The change in fair value of investments in servicer advances increased by \$22.9 million due to the acquisition of servicer advances in December 2013 and subsequent increase in value.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

The change in fair value of investments in servicer advances increased by \$105.8 million due to the acquisition of servicer advances in December 2013 and subsequent increase in value.

Earnings from Investments in Consumer Loans, Equity Method Investees

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Earnings from investments in consumer loans, equity method investees decreased by \$1.6 million primarily due to a decrease in net interest income of \$7.0 million offset by decreases in the provision for financing receivables and other expenses by \$3.0 million and \$1.9 million, respectively.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Earnings from investments in consumer loans, equity method investees decreased by \$0.1 million primarily due to an increase to net interest income of \$21.4 million offset by increases in the provision for finance receivable losses, other expenses and the fair value of debt by \$15.4 million, \$3.3 million and \$4.4 million, respectively.

Gain on Settlement of Investments

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Gain on settlement of investments decreased by \$10.3 million, primarily related to (i) a decrease of \$7.5 million of net gains recognized from the sale of real estate securities sold during the three months ended September 30, 2014 compared to those sold during the three months ended September 30, 2013, (ii) net losses of \$2.4 million recognized from the settlement of TBAs during the three months ended September 30, 2014 and (iii) other net losses of \$0.3 million during the three months ended September 30, 2014.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Gain on settlement of investments increased by \$46.6 million, primarily related to (i) an increase of \$54.2 million of net gains recognized from the sale of real estate securities sold during the nine months ended September 30, 2014 compared to those sold during the nine months ended September 30, 2013 and (ii) a gain of \$2.6 million related to the securitization of real estate loans in May 2014, partially offset by (i) net losses of \$6.4 million recognized from the settlement of TBAs during the nine months ended September 30, 2014 and (ii) realized loss of \$3.6 million related to certain real estate loans in April 2014.

Other Income

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Other income increased by \$15.3 million, primarily attributable to a net gain on transfer to REO of \$5.2 million, an unrealized gain of \$4.8 million on non-hedge derivative instruments, and a \$5.0 million fee earned on a deal termination during the three months ended September 30, 2014.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Other income increased by \$19.5 million primarily attributable to a net gain on transfer to REO of \$11.9 million, an unrealized gain of \$2.1 million on non-hedge derivative instruments, and a \$5.0 million fee earned on a deal termination during the nine months ended September 30, 2014.

General and Administrative Expenses

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

General and administrative expenses increased by \$5.1 million, partially attributable to increased expenses of \$1.8 million from deal expenses for Excess MSRs and real estate loan pools purchased during the three months ended September 30, 2014. The remaining \$3.3 million increase primarily results from professional fees and other expenses incurred to maintain and monitor our increasing asset base and general expenses.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

General and administrative expenses increased by \$9.2 million, partially attributable to increased expenses of \$3.8 million from deal expenses for Excess MSRs and real estate loan pools purchased during the nine months ended September 30, 2014. The remaining \$5.4 million increase primarily results from expenses incurred to maintain and monitor our increasing asset base and general expenses to operate as an independent company since such costs were not solely borne by us prior to May 15, 2013.

Management Fee Allocated by Newcastle

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

There were no management fees allocated by Newcastle during the three months ended September 30, 2014 or 2013 due to the management agreement becoming effective on May 15, 2013 and no management fees being allocated subsequent to that date.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Management fee allocated by Newcastle decreased by \$4.1 million due to the management agreement becoming effective on May 15, 2013 and no management fees being allocated subsequent to that date.

Management Fee to Affiliate

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Management fee to affiliate increased by \$0.6 million as a result of increases to our gross equity subsequent to September 30, 2013.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Management fee to affiliate increased by \$7.8 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent increases in our gross equity.

Incentive Compensation to Affiliate

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Incentive compensation to affiliate increased by \$6.4 million primarily due to an increase in core earnings and other income net of non-hedge derivative instruments offset by a decrease in gains on settlement of investments.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Incentive compensation to affiliate increased by \$27.8 million primarily due to an increase in core earnings and increased gains on settlement of investments.

Loan Servicing Expense

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Loan servicing expense increased \$1.7 million due to the acquisition of residential mortgage loans subsequent to September 30, 2013.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Loan servicing expense increased \$2.0 million due to the acquisition of residential mortgage loans subsequent to September 30, 2013.

Income Tax Expense

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Income tax expense increased by \$7.8 million due to the acquisition of servicer advances held in a taxable REIT subsidiary in December 2013 and subsequent taxable income recognized.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Income tax expense increased by \$29.5 million due to the acquisition of servicer advances held in a taxable REIT subsidiary in December 2013 and subsequent taxable income recognized.

Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries

Three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Noncontrolling interest in income (loss) of consolidated subsidiaries increased by \$25.7 million due to the acquisition of investments in servicer advances held by a less than wholly owned subsidiary at the end of the fourth quarter of the year ended December 31, 2013 and subsequent income recognized.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Noncontrolling interest in income (loss) of consolidated subsidiaries increased by \$92.5 million due to the acquisition of investments in servicer advances held by a less than wholly owned subsidiary at the end of the fourth quarter of the year ended December 31, 2013 and subsequent income recognized.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs. Additionally, to maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT taxable income. We note that a portion of this requirement may be able to be met in future years through stock dividends, rather than cash, subject to limitations based on the value of our stock.

Our primary sources of funds for liquidity generally consist of cash provided by operating activities (primarily income from our investments in Excess MSRs, servicer advances, RMBS and residential mortgage loans), sales of and repayments from our investments, potential debt financing sources, including securitizations, and the issuance of equity securities, when feasible and appropriate. Our primary uses of funds are the payment of interest, management fees, incentive compensation, outstanding commitments and other operating expenses, and the repayment of borrowings, as well as dividends.

Our primary sources of financing currently are notes payable and repurchase agreements, although we may also pursue other sources of financing such as securitizations and other secured and unsecured forms of borrowing. As of September 30, 2014, we had outstanding repurchase agreements with an aggregate face amount of approximately \$125.0 million to finance our ownership interest in each of the consumer loan companies, approximately \$871.7 million to finance \$1,257.1 million UPB of residential mortgage loans, approximately \$16.0 million to finance our investments in real estate owned, approximately \$215.0 million to finance \$323.4 million face amount of Non-Agency RMBS and approximately \$1.5 billion to finance \$1.5 billion face amount of Agency RMBS. The financing of our entire RMBS portfolio, which generally has 30 to 90 day terms, is subject to margin calls. Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher specified price. The sale price represents financing proceeds and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or "haircut," which can range broadly, for example from 4%-5% for Agency RMBS, 15%-40% for Non-Agency RMBS, and 24%-58% for residential mortgage loans. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post additional collateral (or "margin") in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

Our ability to obtain borrowings and to raise future equity capital is dependent on our ability to access borrowings and the capital markets on attractive terms. Our Manager's senior management team has extensive long-term relationships with investment banks, brokerage firms and commercial banks, which we believe will enhance our ability to source and finance asset acquisitions on attractive terms and access borrowings and the capital markets at attractive levels.

As of September 30, 2014, we have sufficient liquid assets, which include unrestricted cash and Agency RMBS, to satisfy all of our short-term recourse liabilities. With respect to the next twelve months, we expect that our cash on

hand combined with our cash flow provided by operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, potential margin calls and operating expenses. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and other financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

These short-term and long-term expectations are forward-looking and subject to a number of uncertainties and assumptions, including those described under “—Market Considerations” as well as “Risk Factors.” If our assumptions about our liquidity prove to be incorrect, we could be subject to a shortfall in liquidity in the future, and this shortfall may occur rapidly and with little or no notice, which could limit our ability to address the shortfall on a timely basis and could have a material adverse effect on our business.

Our cash flow provided by operations differs from our net income due to these primary factors: (i) accretion of discount or premium on our residential securities and loans, (ii) the difference between (a) accretion and unrealized gains and losses recorded with

respect to our Excess MSR (direct and indirect) and servicer advance investments and (b) cash received therefrom, and (iii) other-than-temporary impairment, if any. In addition, cash received by our consumer loan joint ventures is currently required to be used to repay the related debt and is therefore not available to fund other cash needs.

In addition to the information referenced above, the following factors could affect our liquidity, access to capital resources and our capital obligations. As such, if their outcomes do not fall within our expectations, changes in these factors could negatively affect our liquidity.

Access to Financing from Counterparties – Decisions by investors, counterparties and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and our investors', counterparties' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities. Recent conditions and events have limited the array of capital resources available. Our business strategy is dependent upon our ability to finance certain of our investments at rates that provide a positive net spread.

Impact of Expected Repayment or Forecasted Sale on Cash Flows – The timing of and proceeds from the repayment or sale of certain investments may be different than expected or may not occur as expected. Proceeds from sales of assets are unpredictable and may vary materially from their estimated fair value and their carrying value. Further, the availability of investments that provide similar returns to those repaid or sold investments is unpredictable and returns on new investments may vary materially from those on existing investments.

Debt Obligations

The following table presents certain information regarding our debt obligations:

September 30, 2014^(A)

Debt Obligations/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Collateral		Weighted Average Funding Cost	Weighted Average Life (Years)	Outstanding Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)	Carrying Value
Repurchase Agreements ^(B)												
Agency RMBS ^(C)	Various	\$1,510,765	\$1,510,765	Oct-14	0.31 %	0.1	\$1,500,141	\$1,571,199	\$1,570,328	6.3	\$1,570,328	
Non-Agency RMBS ^(D)	Various	214,972	214,972	Oct-14	1.79 %	0.1	323,438	260,995	267,769	8.4	287,769	
Residential Mortgage Loans ^(E)	Various	871,659	871,659	Nov-14 to Aug-16	2.60 %	1.8	1,257,145	1,089,677	1,093,571	4.1	—	
Consumer Loans ^(F)	Jan-14	125,000	125,000	Jan-15	3.45 %	0.3	N/A	N/A	264,039	3.5	—	
Real Estate Owned ^(G)	Various	15,953	15,953	Nov-14 to Aug-16	2.89 %	0.4	N/A	N/A	38,840	N/A	—	
Total Repurchase Agreements		2,738,349	2,738,349		1.31 %	0.6						1,620,000
Notes Payable												
Secured Corporate Loan	—	—	—	—	— %	—	—	—	—	—	—	75,000

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Servicer Advances ^(H)	Various	2,824,007	2,824,007	Mar-15 to Mar-17	2.99%	2.0	3,041,905	3,108,288	3,214,113	4.2	2,3
Residential Mortgage Loans ^(I)	Dec-13	23,244	23,244	Oct-14	3.41%	0.1	49,759	29,511	28,226	3.8	22,
Total Notes Payable		2,847,251	2,847,251		2.99%	2.0					2,4
Total/Weighted Average		\$5,585,600	\$5,585,600		2.17%	1.3					\$4,

(A) Excludes debt related to linked transactions (Note 10).

(B) These repurchase agreements had approximately \$1.0 million of associated accrued interest payable as of September 30, 2014.

The counterparties of these repurchase agreements are Mizuho (\$288.1 million), Morgan Stanley (\$78.0 million), (C) Barclays (\$644.7 million), Daiwa (\$146.5 million) and Jefferies (\$353.5 million) and were subject to customary margin call provisions.

The counterparties of these repurchase agreements are Barclays (\$8.2 million), Credit Suisse (\$49.6 million), (D) Royal Bank of Scotland (\$102.3 million), Royal Bank of Canada (\$11.7 million), Bank of America (\$1.9 million), Goldman Sachs

(\$27.2 million) and UBS (\$14.0 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates.

The counterparties on these repurchase agreements are Bank of America N.A. (\$531.0 million), Nomura (\$317.6 (E)million), Citibank (\$16.1 million) and Royal Bank of Scotland (\$6.9 million). All of these repurchase agreements have LIBOR-based floating interest rates.

(F) The repurchase agreement is payable to Credit Suisse and bears interest equal to one-month LIBOR plus 2.0%.

The counterparties of these repurchase agreements are Royal Bank of Scotland (\$9.4 million), Credit Suisse (\$3.3 (G)million), Bank of America, N.A. (\$2.0 million) and Nomura (\$1.3 million). All of these repurchase agreements have LIBOR-based floating interest rates.

\$1.3 billion face amount of the notes have a fixed rate while the remaining notes bear interest equal to the sum of (H)(i) a floating rate index rate equal to one-month LIBOR or a cost of funds rate, as applicable, and (ii) a margin ranging from 1.3% to 2.4%.

(I) The note is payable to Nationstar and bears interest equal to one-month LIBOR plus 3.25%.

Certain of the debt obligations included above are obligations of our consolidated subsidiaries, which own the related collateral. In some cases, including servicer advances, such collateral is not available to other creditors of ours.

The repurchase agreements with full recourse to us include the financing of \$866.1 million face amount of Agency RMBS, \$206.7 million face amount of the Non-Agency RMBS, \$125.0 million face amount of the Consumer Loans, \$554.0 million face amount of the Residential Mortgage Loans, and \$14.7 million face amount of Real Estate Owned, while \$8.2 million face amount of the Non-Agency RMBS, \$644.7 million face amount of the Agency RMBS, \$317.6 million face amount of the Residential Mortgage Loans repurchase agreements and \$1.3 million face amount of Real Estate Owned are non-recourse debt. The weighted average differences between the fair value of the assets and the face amount of available financing for the Agency RMBS repurchase agreements and Non-Agency RMBS repurchase agreements were 3.5% and 19.5%, respectively, and for residential mortgage loans was 20.9% during the nine months ended September 30, 2014. The notes payable with full recourse to us include the financing of \$23.2 million face amount of Residential Mortgage Loans while \$2,824.0 million face amount of Servicer Advances notes payable are non-recourse debt.

The following table provides additional information regarding our short-term borrowings (dollars in thousands).

	Nine Months Ended September 30, 2014 ^(A)			
	Outstanding Balance at September 30, 2014	Average Daily Amount Outstanding ^(B)	Maximum Amount Outstanding	Weighted Average Daily Interest Rate
Repurchase Agreements				
Agency RMBS	\$1,510,765	\$1,222,797	\$1,613,239	0.34 %
Non-Agency RMBS	214,972	423,546	885,639	1.93 %
Residential Mortgage Loans	66,986	43,255	68,764	2.90 %
Consumer Loans	125,000	135,632	150,000	3.45 %
Real Estate Owned	13,960	381	1,315	2.90 %
Notes Payable				
Servicer Advances	569,273	1,977,436	3,386,396	2.10 %
Residential Mortgage Loans	23,244	23,338	23,915	3.41 %
Total/Weighted Average	\$2,524,200	\$3,826,385	\$6,129,268	1.14 %

(A) Note this excludes debt related to linked transactions. See Note 10 to the Condensed Consolidated Financial Statements included in this report for additional information on linked transactions.

(B) Represents the average for the period the debt was outstanding.

Servicer Advances

In February 2014, the Buyer and special purpose subsidiaries of Buyer entered into an advance facility with Bank of America, N.A. (the “BANA Facility”). The notes issued pursuant to the BANA Facility had an advance rate of approximately 90%, an interest rate generally equal to the sum of one-month LIBOR plus a margin of approximately 2.5%, borrowing capacity of up to \$1.0 billion, and a maturity date in September 2014.

In March 2014, all of the notes issued pursuant to one servicer advance facility and a portion of the notes issued pursuant to another servicer advance facility were repaid with the proceeds of new notes issued pursuant to an advance receivables trust (the “NRART Master Trust”) established by the Buyer with a number of financial institutions. The NRART Master Trust issued variable funding notes (“VFNs”) with borrowing capacity of up to \$1.1 billion. The VFNs generally bear interest at a rate equal to the sum of (i) LIBOR or a cost of funds rate plus (ii) a spread of 1.375% to 2.5% depending on the class of the notes. The expected repayment date of the VFNs is March 2015. The NRART Master Trust also issued approximately \$1.0 billion of term notes (the “Term Notes”) to institutional investors. The Term Notes generally bear interest at approximately 2.0% and have expected repayment dates in March 2015 and March 2017. The VFNs and the Term Notes are secured by servicer advances, and the financing is nonrecourse to the Buyer, except for customary recourse provisions.

On May 2, 2014, the Buyer received \$86.4 million from us to fund the purchase of \$617.5 million of additional servicer advances, which were financed with a new note issued to Morgan Stanley bearing interest at a rate equal to 2.1% and an expected repayment date in May 2016.

On July 18, 2014, the Buyer received \$26.7 million in proceeds from the refinancing of the note issued under the Bank of America facility. The Bank of America note was prepaid with proceeds of a new note issued to J.P. Morgan. The note issued to J.P. Morgan has a fixed interest rate equal to 2.45% with an expected repayment date of July 2016. As of September 30, 2014, the principal balance of this note was approximately \$457.3 million.

On July 25, 2014, the Buyer received \$12.1 million in proceeds from the refinancing of the Credit Suisse syndicated debt with notes issued to Morgan Stanley and J.P. Morgan.

Real Estate Securities

On March 31, 2014, we obtained approximately \$415 million in financing from Merrill Lynch, Pierce, Fenner & Smith Incorporated (a wholly-owned subsidiary of Bank of America) to settle our purchase of approximately \$625 million face amount of Non-Agency RMBS for approximately \$553 million, which represents 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by an affiliate of Springleaf. The securitization is collateralized by residential mortgage loans with a face amount of approximately \$0.9 billion. Merrill Lynch, Pierce, Fenner & Smith Incorporated purchased the remaining 25% of the mezzanine and subordinate tranches on the securitization on the same terms as our purchase. On May 30, 2014, we sold our investment in the Non-Agency RMBS (refer to Note 7 in our Condensed Consolidated Financial Statements) and used a portion of the proceeds to pay off the outstanding balance of the facility.

Subsequent to September 30, 2014, we financed an additional \$200.6 million of Agency RMBS within a repurchase facility as a result of purchases. We also rolled \$1.5 billion within various repurchase facilities to mature between November 2014 and January 2015.

Subsequent to September 30, 2014, we financed an additional \$95.4 million of Non-Agency RMBS within various repurchase facilities as a result of purchases. We also rolled \$208.9 million within various repurchase facilities to mature between November 2014 and January 2015.

Real Estate Loans

On January 15, 2014, we entered into a \$25.3 million repurchase agreement with Credit Suisse Securities (USA) LLC which matures on January 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 3.00%. The agreement contains customary covenants

and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision.

On May 15, 2014, we entered into a \$300 million repurchase agreement with Citibank, N.A. which matures on May 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75%. The agreement contains customary covenants and event of default provisions.

On May 28, 2014 and May 30, 2014, we entered into a repurchase agreement with Nomura Corporate Funding Americas, LLC for \$267.4 million and \$12.4 million respectively, which matures on May 28, 2016. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75%. The agreement contains customary covenants and event of default provisions.

On June 24, 2014, we entered into a \$46.0 million repurchase agreement with Nomura Corporate Funding Americas, LLC, which matures on June 24, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75%. The agreement contains customary covenants and event of default provisions.

On August 12, 2014, August 25, 2014 and September 8, 2014, we entered into a repurchase agreement with Bank of America N.A. for \$66.8 million and \$467.3 million and \$6.7 million, respectively which matures on August 12, 2016. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.25%. The agreement contains customary covenants and event of default provisions.

Other

On January 8, 2014, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million (\$125.0 million outstanding as of September 30, 2014) master repurchase agreement with Credit Suisse Securities (USA) LLC maturing on June 30, 2014. On June 30, 2014, we extended this agreement to mature on January 30, 2015. Borrowings on this extension bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a spread of 2.00% (reduced from a spread of 4.00%). This facility contains customary covenants, event of default provisions, and is subject to required monthly principal payments. In October 2014, this facility was repaid in full.

In June 2014, we paid-off the outstanding secured corporate loan with Credit Suisse First Boston Mortgage LLC for approximately \$69.1 million.

Maturities

Our debt obligations as of September 30, 2014, as summarized in Note 11 to our Condensed Consolidated Financial Statements, had contractual maturities as follows (in thousands):

Year	Nonrecourse	Recourse ^(A)	Total
October 1 through December 31, 2014	\$652,913	\$1,112,384	\$1,765,297
2015	614,507	144,396	758,903
2016	2,019,011	532,989	2,552,000
2017	509,400	—	509,400
	\$3,795,831	\$1,789,769	\$5,585,600

^(A) Excludes recourse debt related to linked transactions. Refer to Note 10 to our Condensed Consolidated Financial Statements included herein.

Borrowing Capacity

The following table represents our borrowing capacity as of September 30, 2014:

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans ^(A)	Real Estate Loans	\$1,503,992	\$933,511	\$570,481
Notes Payable				
Servicer Advances ^(B)	Servicer Advances	4,305,200	2,824,007	1,481,193
		\$5,809,192	\$3,757,518	\$2,051,674

- (A) Includes \$300.0 million of borrowing capacity and \$49.2 million of balance outstanding related to one of our linked transactions (Note 10).
- (B) Our unused borrowing capacity is available to us if we have additional eligible collateral to pledge and meet other borrowing conditions.

Covenants

We were in compliance with all of our debt covenants as of September 30, 2014.

Stockholders' Equity

Common Stock

Approximately 2.4 million shares of our common stock were held by Fortress, through its affiliates, and its principals as of September 30, 2014.

As of September 30, 2014, our outstanding options corresponding to Newcastle options issued prior to 2011 had a weighted average strike price of \$31.81 and our outstanding options corresponding to Newcastle options issued in 2011, 2012 and 2013 (as well as options issued by us in 2013 and 2014) had a weighted average strike price of \$9.03. Our outstanding options as of September 30, 2014 were summarized as follows:

	September 30, 2014		
	Issued Prior to 2011	Issued in 2011 - 2014	Total
Held by the Manager	537,564	8,432,597	8,970,161
Issued to the Manager and subsequently transferred to certain of the Manager's employees	142,683	1,700,497	1,843,180
Issued to the independent directors	1,000	4,000	5,000
Issued to the Manager and held by its former employees	—	42,566	42,566
Total	681,247	10,179,660	10,860,907

In April 2014, we issued 13,875,000 shares of our common stock in a public offering at a price to the public of \$12.20 per share for net proceeds of approximately \$163.8 million. One of our executive officers participated in this offering and purchased an additional 500,000 shares at the public offering price for net proceeds of approximately \$6.1 million. For the purpose of compensating the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager to purchase 1,437,500 shares of our common stock at a price of \$12.20, which had a fair value of approximately \$1.4 million as of the grant date. The assumptions used in valuing the options were: a 2.87% risk-free rate, a 12.584% dividend yield, 25.66% volatility and a 10 year term.

On May 7, 2014, an employee of the Manager exercised 107,500 options with a weighted average exercise price of \$5.61. Upon exercise, 107,500 shares of our common stock were issued. Employees of the Manager and one of our directors exercised an aggregate of 498,500 options with a weighted average exercise price of \$5.62 in August 2014. Upon exercise, 276,037 shares of our common stock were issued.

Our Board of Directors authorized a one-for-two reverse stock split on August 5, 2014, subject to stockholder approval. In a special meeting on October 15, 2014, our stockholders approved the reverse split. On October 17, 2014, we effected the one-for-two reverse stock split of our common stock. As a result of the reverse stock split, every two shares of our common stock were converted into one share of common stock, reducing the number of issued and outstanding shares of our common stock from approximately 282.8 million to approximately 141.4 million. The impact of this reverse stock split has been retroactively applied to all periods presented.

Accumulated Other Comprehensive Income (Loss)

During the nine months ended September 30, 2014, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

Total Accumulated Other
Comprehensive Income

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Accumulated other comprehensive income, December 31, 2013	\$3,214	
Net unrealized gain (loss) on securities	67,915	
Reclassification of net realized (gain) loss on securities into earnings	(64,501)
Accumulated other comprehensive income, September 30, 2014	\$6,628	

Our GAAP equity changes as our real estate securities portfolio is marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the nine months ended September 30,

2014, we recorded unrealized gains on our real estate securities primarily caused by a net tightening of credit spreads. We recorded OTTI charges of \$0.9 million with respect to real estate securities and realized gains of \$65.4 million on sales of real estate securities.

See “— Market Considerations” above for a further discussion of recent trends and events affecting our unrealized gains and losses as well as our liquidity.

Common Dividends

We are organized and intend to conduct our operations to qualify as a REIT for U.S. federal income tax purposes. We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. We intend to make regular quarterly distributions of all or substantially all of our taxable income to holders of our common stock out of assets legally available for this purpose, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our taxable income, we could be required to sell assets or raise capital to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

We make distributions based on a number of factors, including an estimate of taxable earnings per common share. Dividends distributed and taxable and GAAP earnings will typically differ due to items such as fair value adjustments, differences in premium amortization and discount accretion, and non-deductible general and administrative expenses. Our quarterly dividend per share may be substantially different than our quarterly taxable earnings and GAAP earnings per share.

Common Dividends Declared for the Period Ended	Paid	Amount Per Share
March 31, 2014	April 2014	\$0.35
June 30, 2014	July 2014	\$0.50
September 30, 2014	October 2014	\$0.35

Cash Flow

Operating Activities

We did not have any cash balance during periods prior to April 5, 2013, which is the first date Newcastle contributed cash to us. All of its cash activity occurred in Newcastle’s accounts during these periods.

Net cash flow provided by operating activities decreased approximately \$35.8 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Operating cash flows for the nine months ended September 30, 2014 primarily consisted of net interest income received of \$67.6 million, distributions of earnings from equity method investees of \$45.3 million, a fee of \$5.0 million earned on a terminated deal, and decreased restricted cash of \$3.4 million, partially offset by incentive compensation and management fees paid to the Manager of \$31.2 million, income taxes paid of \$9.1 million, and other outflows of approximately \$12.2 million that primarily consists of general and administrative costs.

Investing Activities

Cash flows used in investing activities were \$1.6 billion for the nine months ended September 30, 2014. Investing activities during the nine months ended September 30, 2014 consisted primarily of the acquisition of excess mortgage servicing rights, servicer advances and real estate securities and loans, net of principal repayments from servicer advances, Agency RMBS and Non-Agency RMBS as well as proceeds from the sale of real estate securities and loans.

Financing Activities

Cash flows provided by financing activities were approximately \$1.4 billion during the nine months ended September 30, 2014. Financing activities during the nine months ended September 30, 2014 consisted primarily of borrowings net of repayments under debt obligations, capital contributions net of distributions from noncontrolling interests in the equity of a consolidated subsidiary, and net proceeds from the issuance of common stock.

INTEREST RATE, CREDIT AND SPREAD RISK

We are subject to interest rate, credit and spread risk with respect to our investments. These risks are further described in “Quantitative and Qualitative Disclosures About Market Risk.”

OFF-BALANCE SHEET ARRANGEMENTS

On April 1, 2013, we completed, through the Consumer Loan Companies, a co-investment in a portfolio of consumer loans. The Consumer Loan Companies initially financed \$2.2 billion (\$1.1 billion outstanding as of September 30, 2014) of the approximately \$3.0 billion purchase price with asset-backed notes. These notes have an interest rate of 3.75% and a maturity date of April 2021. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion (\$0.3 billion outstanding as of September 30, 2014) of asset-backed notes for 96% of par. These notes were subordinate to the \$2.2 billion of debt issued in April 2013, have an interest rate of 4.0% and a maturity date of December 2024. We have 30% membership interests in each of the Consumer Loan Companies and do not consolidate them. On October 3, 2014, the Consumer Loan Companies refinanced the Class A and Class B asset-backed notes with approximately \$1.5 billion outstanding with an asset-backed securitization for approximately \$2.6 billion. The excess proceeds were distributed to the co-investors. We received approximately \$337.8 million which reduced our basis in the consumer loans investment to \$0.0 million and resulted in a gain of approximately \$73.8 million. We used the proceeds to pay down the \$125.0 million repurchase agreement that was scheduled to mature in January 2015.

We also had approximately \$69.3 million of repurchase agreements as of September 30, 2014 in transactions accounted for as “linked transactions.” See Note 10 to our consolidated financial statements included in this report.

We did not have any other off-balance sheet arrangements as of September 30, 2014. We did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes, other than the joint venture entities. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment and do not intend to provide additional funding to any such entities.

CONTRACTUAL OBLIGATIONS

Our contractual obligations as of September 30, 2014 included all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2013, excluding debt that was repaid as described in “—Liquidity and Capital Resources—Debt Obligations.”

In addition, we executed the following material contractual obligations during the nine months ended September 30, 2014:

- Servicer Advance Securitization – As described in Note 11 to our condensed consolidated financial statements, we financed and refinanced portions of our servicer advance investments through various servicer advance facilities.
- Consumer Loan Repurchase Agreement – As described in Note 11 to our condensed consolidated financial statements, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million (\$125.0 million outstanding as of September 30, 2014) master repurchase agreement with Credit Suisse Securities (USA) LLC. This agreement was repaid in full in October 2014.
- Corporate Loan – In June 2014, we paid off the outstanding secured corporate loan with Credit Suisse First Boston Mortgage LLC for approximately \$69.1 million.
-

Repurchase agreements – as described in Note 11 to our condensed consolidated financial statements, we repaid certain repurchase agreements and borrowed additional amounts under other agreements, including borrowings to purchase real estate loans and securities.

Interest Rate Swaps – As described in Note 10 to our condensed consolidated financial statements, we entered into interest rate swap agreements that require us to pay fixed interest on notional amounts in exchange for floating rate interest receipts.

See Notes 14 and 18 to our condensed consolidated financial statements included in this report for information regarding commitments and contracts entered into subsequent to September 30, 2014.

INFLATION

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our taxable income, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation. See “—Quantitative and Qualitative Disclosure About Market Risk—Interest Rate Risk” below.

CORE EARNINGS

We have four primary variables that impact our operating performance: (i) the current yield earned on our investments, (ii) the interest expense incurred under the debt incurred to finance our investments, (iii) our operating expenses and (iv) our realized and unrealized gain or losses, including any impairment and deferred tax, on our investments. “Core earnings” is a non-GAAP measure of our operating performance excluding the fourth variable above and adjusting the earnings from the consumer loan investment to a level yield basis. It is used by management to gauge our current performance without taking into account: (i) realized and unrealized gains and losses, which although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future economic performance; (ii) incentive compensation paid to our Manager; and (iii) non-capitalized deal inception costs.

While incentive compensation paid to our Manager may be a material operating expense, we exclude it from core earnings because (i) from time to time, a component of the computation of this expense will relate to items (such as gains or losses) that are excluded from core earnings, and (ii) it is impractical to determine the portion of the expense related to core earnings and non-core earnings, and the type of earnings (loss) that created an excess (deficit) above or below, as applicable, the incentive compensation threshold. To illustrate why it is impractical to determine the portion of incentive compensation expense that should be allocated to core earnings, we note that, as an example, in a given period, we may have core earnings in excess of the incentive compensation threshold but incur losses (which are excluded from core earnings) that reduce total earnings below the incentive compensation threshold. In such case, we would either need to (a) allocate zero incentive compensation expense to core earnings, even though core earnings exceeded the incentive compensation threshold, or (b) assign a “pro forma” amount of incentive compensation expense to core earnings, even though no incentive compensation was actually incurred. We believe that neither of these allocation methodologies achieves a logical result. Accordingly, the exclusion of incentive compensation facilitates comparability between periods and avoids the distortion to our non-GAAP operating measure that would result from the inclusion of incentive compensation that relates to non-core earnings.

With regard to non-capitalized deal inception costs, management does not view these costs as part of our core operations. Non-capitalized deal inception costs are generally legal and valuation service costs, as well as other professional service fees, incurred when we acquire certain investments. These costs are recorded as “General and administrative expenses” in our Condensed Consolidated Statements of Income.

Management believes that the adjustments to compute “core earnings” specified above allow investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assist in comparing the core operating results between periods, and enable investors to evaluate our current performance using the same measure that management uses to operate the business.

The primary differences between core earnings and the measure we use to calculate incentive compensation relate to (i) realized gains and losses (including impairments) and (ii) non-capitalized deal inception costs. Both are excluded from core earnings and included in our incentive compensation measure. Unlike core earnings, our incentive

compensation measure is intended to reflect all realized results of operations.

Core earnings does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. For a further description of the difference between cash flow provided by operations and net income, see “—Liquidity and Capital Resources” above. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited. Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss) attributable to common stockholders	\$126,372	\$63,145	\$298,647	\$185,442
Impairment	1,134	—	2,534	3,756
Other Income adjustments:				
Other Income	(122,064	) (56,195	) (335,003	) (157,204
Other Income attributable to non-controlling interests	12,619	—	57,360	—
Deferred taxes attributable to Other Income, net of non-controlling interests	4,459	—	20,762	—
Total Other Income	(104,986	) (56,195	) (256,881	) (157,204
Adjustments				
Incentive compensation to affiliate	10,910	4,470	33,111	5,348
Non-capitalized deal inception costs	1,433	107	3,258	4,329
Core earnings of equity method investees:				
Excess mortgage servicing rights	9,158	8,091	27,029	13,500
Consumer loans	18,628	18,260	53,080	38,053
Core Earnings	\$62,649	\$37,878	\$160,778	\$93,224

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices, equity prices and other market based risks. The primary market risks that we are exposed to are interest rate risk, prepayment speed risk, credit spread risk and credit risk. These risks are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets, liabilities and derivative positions (other than TBAs) are for non-trading purposes only. For a further discussion of how market risk may affect our financial position or results of operations, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Application of Critical Accounting Policies.”

Interest Rate Risk

Changes in interest rates, including changes in expected interest rates or “yield curves,” affect our investments in two distinct ways, each of which is discussed below.

First, changes in interest rates affect our net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with our debt obligations and hedges.

We may use match funded structures, when appropriate and available. This means that we seek to match the maturities of our debt obligations with the maturities of our assets to reduce the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we seek to match fund interest rates on our assets with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps or other financial instruments (see below), or through a combination of these strategies, which we believe allows us to reduce the impact of changing interest rates on our earnings.

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates. See further disclosure regarding our Agency RMBS under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Portfolio – Real Estate Securities – Agency RMBS” for information about the reset terms and “Management’s Discussion and Analysis of Financial Conditions as Results of Operations – Liquidity and Capital Resources – Debt Obligations” for information about related debt.

As of September 30, 2014, a 100 basis point increase in short term interest rates would decrease our earnings by approximately \$9.1 million per annum, based on the current net floating rate exposure from our real estate securities and all of our financings and interest rate swaps. This excludes potential gains on other asset classes.

Second, changes in the level of interest rates also affect the yields required by the marketplace on interest bearing instruments. Increasing interest rates would decrease the value of the fixed rate assets we hold at the time because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market.

Changes in unrealized gains or losses resulting from changes in market interest rates do not directly affect our cash flows, or our ability to pay a dividend, to the extent the related assets are expected to be held, as their fair value is not

relevant to their underlying cash flows. As long as these fixed rate assets continue to perform as expected, our cash flows from these assets would not be affected by increasing interest rates. Changes in unrealized gains or losses would impact our ability to realize gains on existing investments if they were sold. Furthermore, with respect to changes in unrealized gains or losses on investments which are carried at fair value, changes in unrealized gains or losses would impact our net book value and, in certain cases, our net income.

As of September 30, 2014, a 100 basis point increase in short term interest rates would decrease the net book value of our real estate securities segment by approximately \$7.8 million, based on a static portfolio of real estate securities. This excludes potential gains on other asset classes.

Changes in the value of our assets could affect our ability to borrow and access capital. Also, if the value of our assets subject to short-term financing were to decline, it could cause us to fund margin and affect our ability to refinance such assets upon the maturity of the related financings, adversely impacting our rate of return on such securities.

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control.

Our Excess MSR, servicer advances (including the basic fee component of the related MSR, and the related financing) and loans, including consumer loans, are subject to interest rate risk. Generally, in a declining interest rate environment, prepayment speeds increase which in turn would cause the value of Excess MSR and basic fees to decrease and the value of loans to increase. Conversely, in an increasing interest rate environment, prepayment speeds decrease which in turn would cause the value of Excess MSR and basic fee to increase and the value of loans to decrease. To the extent we do not hedge against changes in interest rates, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, Excess MSR, basic fees and loans as interest rates change. However, rising interest rates could result from more robust market conditions, which could reduce the credit risk associated with our investments. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed below under “—Prepayment Speed Exposure.”

We are subject to margin calls on our repurchase agreements. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that are subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates but there can be no assurance that our cash reserves will be sufficient.

Prepayment Speed Exposure

Prepayment speeds significantly affect the value of Excess MSR, the basic fee component of MSR (which we own as part of our investment in servicer advances) and loans, including consumer loans. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The price we pay to acquire certain investments will be based on, among other things, our projection of the cash flows from the related pool of loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If the fair value of Excess MSR decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSR or our right to the basic fee component of MSR, and we could ultimately receive substantially less than what we paid for such assets. Conversely, a significant decrease in prepayment speeds with respect to our loans could delay our expected cash flows and reduce the yield on these investments.

We seek to reduce our exposure to prepayment through the structuring of our investments. For example, in our Excess MSR investments, we seek to enter into “Recapture Agreements” whereby we will receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We seek to enter into such Recapture Agreements in order to protect our returns in the event of a rise in voluntary prepayment rates.

Please refer to the table in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Application of Critical Accounting Policies — Excess MSR” for an analysis of the sensitivity of these investments to changes in certain market factors.

Credit Spread Risk

Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Our floating rate securities are valued based on a market credit spread over LIBOR. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher (or “wider”) spread over the benchmark rate to value them.

Widening credit spreads would result in higher yields being required by the marketplace on securities. This widening would reduce the value of the securities we hold at the time because higher required yields result in lower prices on existing securities in order to adjust their yield upward to meet the market. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed above under “—Interest Rate Risk.”

As of September 30, 2014, a 25 basis point movement in credit spreads would impact the net book value of our real estate securities segment by approximately \$10.6 million, based on a static portfolio of real estate securities, but would not directly affect our earnings or cash flow.

In an environment where spreads are tightening, if spreads tighten on the assets we purchase to a greater degree than they tighten on the liabilities we issue, our net spread will be reduced.

Credit Risk

We are subject to varying degrees of credit risk in connection with our assets. Credit risk refers to the ability of each individual borrower underlying our investments in Excess MSRs, servicer advances, securities and loans to make required interest and principal payments on the scheduled due dates. If delinquencies increase, then the amount of servicer advances we are required to make will also increase. We also invest in loans and Non-Agency RMBS which represent “first loss” pieces; in other words, they do not benefit from credit support although we believe they predominantly benefit from underlying collateral value in excess of their carrying amounts. Although we do not expect to encounter credit risk in our Agency RMBS, we do anticipate credit risk related to Non-Agency RMBS, residential mortgage loans and consumer loans.

We seek to reduce credit risk through prudent asset selection, actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where appropriate and achievable, repositioning our investments to upgrade their credit quality. Our pre-acquisition due diligence and processes for monitoring performance include the evaluation of, among other things, credit and risk ratings, principal subordination, prepayment rates, delinquency and default rates, and vintage of collateral.

Liquidity Risk

The assets that comprise our asset portfolio are generally not publicly traded. A portion of these assets may be subject to legal and other restrictions on resale or otherwise be less liquid than publicly-traded securities. The illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises, including in response to changes in economic and other conditions.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report. The Company’s disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are or may be involved in various disputes and litigation matters that arise in the ordinary course of business. We are not party to any material legal proceedings as of the date on which this report is filed.

ITEM 1A. RISK FACTORS

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully read and consider the following risk factors and all other information contained in this report. If any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, occur, our business, financial condition or results of operations could be materially and adversely affected. The risk factors summarized below are categorized as follows: (i) Risks Related to Our Business, (ii) Risks Related to Our Manager, (iii) Risks Related to the Financial Markets, (iv) Risks Related to Our Taxation as a REIT, and (v) Risks Related to Our Common Stock. However, these categories do overlap and should not be considered exclusive.

Risks Related to Our Business

We have a very limited operating history as an independent company and may not be able to successfully operate our business strategy or generate sufficient revenue to make or sustain distributions to our stockholders. The financial information included in this report may not be indicative of the results we would have achieved as a separate stand-alone company and are not a reliable indicator of our future performance or results.

We have very limited experience operating as an independent company and cannot assure you that we will be able to successfully operate our business or implement our operating policies and strategies. We were formed in September 2011 as a subsidiary of Newcastle and spun-off from Newcastle on May 15, 2013. We completed our first investment in Excess MSR in December 2011, and our Manager has limited experience with transactions involving GSEs. The timing, terms, price and form of consideration that we and servicers pay in future transactions may vary meaningfully from prior transactions.

There can be no assurance that we will be able to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders, or any distributions at all. Our results of operations and our ability to make or sustain distributions to our stockholders depend on several factors, including the availability of opportunities to acquire attractive assets, the level and volatility of interest rates, the availability of adequate short- and long-term financing, conditions in the real estate market, the financial markets and economic conditions.

We did not operate as a separate, stand-alone company for the entirety of the historical periods presented in the financial information included in this report, which has been derived from Newcastle's historical financial statements for the periods prior to the spin-off. Therefore, the financial information in this report for the periods prior to the spin-off does not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been a separate, stand-alone public company prior to our separation from Newcastle. This is primarily a result of the following factors:

The financial information in this report for the periods prior to the spin-off does not reflect all of the expenses we incur as a public company;

The working capital requirements and capital for general corporate purposes for our assets were satisfied prior to the spin-off as part of Newcastle's corporate-wide cash management policies. Following the spin-off, Newcastle does not provide us with funds to finance our working capital or other cash requirements, so we are required to satisfy our liquidity needs by obtaining financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements; and

Our cost structure, management, financing and business operations following the spin-off are significantly different as a result of operating as an independent public company. These changes result in increased costs, including, but not limited to, fees paid to our Manager, legal, accounting, compliance and other costs associated with being a public company with equity securities traded on the NYSE.

The value of our investments in Excess MSR and servicer advances is based on various assumptions that could prove to be incorrect and could have a negative impact on our financial results.

When we invest in Excess MSR and servicer advances, we base the price we pay and the rate of amortization of those assets on, among other things, our projection of the cash flows from the related pool of mortgage loans. We record Excess MSR and servicer advances on our balance sheet at fair value, and we measure their fair value on a recurring basis. Our projections of the cash flow from Excess MSR and servicer advances, and the determination of the fair value of Excess MSR and servicer advances, are based on assumptions about various factors, including, but not limited to:

• rates of prepayment and repayment of the underlying mortgage loans;

interest rates;
rates of delinquencies and defaults; and
recapture rates (in the case of Excess MSR only) and the amount and timing of servicer advances (in the case of servicer advances only).

Our assumptions could differ materially from actual results. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our consolidated financial position, results of operations and cash flows. The ultimate realization of the value of our Excess MSRs and servicer advances may be materially different than the fair values of such assets as reflected in our consolidated statement of financial position as of any particular date.

When mortgage loans underlying our Excess MSRs are prepaid as a result of a refinancing or otherwise, the related cash flows payable to us cease (unless the loans are recaptured upon a refinancing). Borrowers under residential mortgage loans are generally

permitted to prepay their loans at any time without penalty. Our expectation of prepayment speeds is a significant assumption underlying our cash flow projections. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. If the fair value of our Excess MSR decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets. Consequently, the price we pay to acquire Excess MSRs may prove to be too high.

The values of Excess MSRs and our servicer advances are highly sensitive to changes in interest rates. Historically, the value of MSRs, which underpin the value of our Excess MSRs and servicer advances, has increased when interest rates rise and decreased when interest rates decline due to the effect of changes in interest rates on prepayment speeds. However, prepayment speeds could increase in spite of the current interest rate environment, as a result of a general economic recovery or other factors, which would reduce the value of our interests in MSRs.

Moreover, delinquency rates have a significant impact on the value of Excess MSRs. When delinquent loans are resolved through foreclosure (or repurchased by the GSEs), the UPB of such loans cease to be a part of the aggregate UPB of the serviced loan pool when the related properties are foreclosed on and liquidated and the related cash flows payable to us, as the holder of the Excess MSR or basic fee, cease. An increase in delinquencies will generally result in lower revenue because typically we will only collect on our Excess MSRs from GSEs or mortgage owners for performing loans. An increase in delinquencies with respect to the loans underlying our servicer advances could also result in a higher advance balance and the need to obtain additional financing, which we may not be able to do on favorable terms or at all. In addition, delinquencies on the loans underlying our servicer advances give rise to accrued but unpaid servicing fees, or “deferred servicing fees,” which we have agreed to purchase in connection with our purchase of servicer advances, and deferred servicing fees generally cannot be financed on terms as favorable as the terms available to other types of servicer advances. If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSRs and servicer advances could be diminished. As a result, we could suffer a loss, which would have a negative impact on our financial results.

We are party to “recapture agreements” whereby we receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We believe that recapture agreements will mitigate the impact on our returns in the event of a rise in voluntary prepayment rates. There are no assurances, however, that servicers will enter into recapture agreements with us in connection with any future investment in Excess MSRs. If the servicer does not meet anticipated recapture targets, the servicing cash flow on a given pool could be significantly lower than projected, which could have a material adverse effect on the value of our Excess MSRs and consequently on our business, financial condition, results of operations and cash flows. Our recapture target for each of our current recapture agreements is stated in the table in Note 12 to our Condensed Consolidated Financial Statements included herein. In our investment in servicer advances, we are not entitled to the cash flows from recaptured loans.

Servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances.

We have agreed, together with certain third-party investors, to purchase from Nationstar all servicer advances related to certain loan pools, as a result of which we are entitled to amounts representing repayment for such advances. During any period in which a borrower is not making payments, a servicer (including Nationstar) is generally required under the applicable servicing agreement to advance its own funds to cover the principal and interest remittances due to investors in the loans, pay property taxes and insurance premiums to third parties, and to make payments for legal

expenses and other protective advances. The servicer also advances funds to maintain, repair and market real estate properties on behalf of investors in the loans.

Repayment for servicer advances and payment of deferred servicing fees are generally made from late payments and other collections and recoveries on the related mortgage loan (including liquidation, insurance and condemnation proceeds) or, if a “general collections backstop” is available, from collections on other mortgage loans to which the applicable servicing agreement relates. The rate and timing of payments on the servicer advances and the deferred servicing fees, are unpredictable for several reasons, including the following:

payments on the servicer advances and the deferred servicing fees depend on the source of repayment, and whether and when the related servicer receives such payment (certain servicer advances are reimbursable only out of late payments and other collections and recoveries on the related mortgage loan, while others are also reimbursable out of principal and interest collections with respect to all mortgage loans serviced under the related servicing agreement, and as a consequence, the timing of such reimbursement is highly uncertain);

the length of time necessary to obtain liquidation proceeds may be affected by conditions in the real estate market or the financial markets generally, the availability of financing for the acquisition of the real estate and other factors, including, but not limited to, government intervention;

the length of time necessary to effect a foreclosure may be affected by variations in the laws of the particular jurisdiction in which the related mortgaged property is located, including whether or not foreclosure requires judicial action;

the requirements for judicial actions for foreclosure (which can result in substantial delays in reimbursement of servicer advances and payment of deferred servicing fees), which vary from time to time as a result of changes in applicable state law; and

the ability of the related servicer to sell delinquent mortgage loans to third parties prior to liquidation, resulting in the early reimbursement of outstanding unreimbursed servicer advances in respect of such mortgage loans.

As home values change, the servicer may have to reconsider certain of the assumptions underlying its decisions to make advances. In certain situations, its contractual obligations may require the servicer to make certain advances for which it may not be reimbursed. In addition, when a mortgage loan defaults or becomes delinquent, the repayment of the advance may be delayed until the mortgage loan is repaid or refinanced, or a liquidation occurs. To the extent that Nationstar fails to recover the servicer advances in which we have invested, or takes longer than we expect to recover such advances, the value of our investment could be adversely affected and we could fail to achieve our expected return and suffer losses.

Servicing agreements related to residential mortgage securitization transactions generally require a residential mortgage servicer to make servicer advances in respect of serviced mortgage loans unless the servicer determines in good faith that the servicer advance would not be ultimately recoverable from the proceeds of the related mortgage loan, the mortgaged property or the related mortgagor. In many cases, if the servicer determines that a servicer advance previously made would not be recoverable from these sources, the servicer is entitled to withdraw funds from the related custodial account in respect of payments on the related pool of serviced mortgages to reimburse the related servicer advance. This is what is often referred to as a “general collections backstop.” The timing of when a servicer may utilize a general collections backstop can vary (some contracts require actual liquidation of the related loan first, while others do not), and contracts vary in terms of the types of servicer advances for which reimbursement from a general collections backstop is available. Accordingly, a servicer may not ultimately be reimbursed if both (i) the payments from related loan, property or mortgagor payments are insufficient for reimbursement, and (ii) a general collections backstop is not available or is insufficient. Also, if a servicer improperly makes a servicer advance, it would not be entitled to reimbursement. Historically, Nationstar has recovered more than 99% of the advances that it has made. While we do not expect this recovery rate to vary materially during the term of our investment, there can be no assurance regarding future recovery rates related to our portfolio.

We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

The value of our investments in Excess MSRs, servicer advances and Non-Agency RMBS is dependent on the satisfactory performance of servicing obligations by the mortgage servicer. The duties and obligations of mortgage servicers are defined through contractual agreements, generally referred to as Servicing Guides in the case of GSEs, or Pooling and Servicing Agreements in the case of private-label securities (collectively, the “Servicing Guidelines”). Our investment in the Excess MSRs is subject to all of the terms and conditions of the applicable Servicing Guidelines. Servicing Guidelines generally provide for the possibility for termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced. Under the GSE Servicing Guidelines, the servicer may be terminated by the applicable GSE for any reason, “with” or “without” cause, for all or any portion of the loans being serviced for such GSE. In the event a mortgage owner terminates the servicer, the related Excess MSRs and basic fees would under most circumstances lose all value on a going forward basis. If the servicer is terminated as

servicer for any Agency Pools, the related Excess MSR will be extinguished and our investment in such Excess MSR will likely lose all of its value. Any recovery in such circumstances will be highly conditioned and will require, among other things, a new servicer willing to pay for the right to service the applicable mortgage loans while assuming responsibility for the origination and prior servicing of the mortgage loans. In addition, any payment received from a successor servicer will be applied first to pay the GSE for all of its claims and costs, including claims and costs against the Servicer that do not relate to the mortgage loans for which we own the Excess MSR. A termination could also result in an event of default under our financings for servicer advances. It is expected that any termination by a mortgage owner of a servicer would take effect across all mortgages of such mortgage owner and would not be limited to a particular vintage or other subset of mortgages. Therefore, it is expected that all investments with a given servicer would lose all their value in the event a mortgage owner terminates such servicer. Nationstar is the servicer of all of the loans underlying all of our investments in Excess MSR and servicer advances, and it is the servicer or master servicer of the vast majority of the loans underlying our Non-Agency RMBS to date. See “—We have significant counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks.” As a result, we could be materially and adversely affected if the servicer is unable to adequately service the underlying mortgage loans due to:

- its failure to comply with applicable laws and regulation;
- a downgrade in its servicer rating;
- its failure to maintain sufficient liquidity or access to sources of liquidity;
- its failure to perform its loss mitigation obligations;
- its failure to perform adequately in its external audits;
- a failure in or poor performance of its operational systems or infrastructure;
- regulatory or legal scrutiny regarding any aspect of a servicer's operations, including, but not limited to, servicing practices and foreclosure processes lengthening foreclosure timelines;
- a GSE's or a whole-loan owner's transfer of servicing to another party; or
- any other reason.

Nationstar is subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect its reputation and its liquidity, financial position and results of operations. For example, on March 5, 2014, Nationstar received a letter from Benjamin Lawsky, Superintendent of the New York Department of Financial Services, in connection with Nationstar's recent growth, certain operational issues, and certain alleged recent complaints from certain New York consumers. Other servicers have experienced heightened regulatory scrutiny, and Nationstar could be adversely affected by the market's perception that Nationstar could experience similar regulatory issues.

Loss mitigation techniques are intended to reduce the probability that borrowers will default on their loans and to minimize losses when defaults occur, and they may include the modification of mortgage loan rates, principal balances and maturities. If Nationstar (or any other applicable servicer or subservicer) fail to adequately perform their loss mitigation obligations, we could be required to purchase servicer advances in excess of those that we might otherwise have had to purchase, and the time period for collecting servicer advances may extend. Any increase in servicer advances or material increase in the time to resolution of a defaulted loan could result in increased capital requirements and financing costs for us and our co-investors and could adversely affect our liquidity and net income. In the event that Nationstar receives requests for advances in excess of amounts that we or the co-investors is willing or able to fund, Nationstar may not be able to fund these advance requests, which could result in a termination event under the applicable Servicing Guidelines, an event of default under our advance facilities and a breach of our purchase agreement with Nationstar. As a result, we could experience a partial or total loss of the value of our investment in servicer advances.

MSRs and servicer advances are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions. If the servicer actually or allegedly failed to comply with applicable laws, rules or regulations, it could be terminated as the servicer, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. In addition, servicer advances that are improperly made may not be eligible for financing under our facilities and may not be reimbursable by the related securitization trust or other owner of the mortgage loan, which could cause us to suffer losses.

Favorable ratings from third-party rating agencies such as Standard & Poor's, Moody's and Fitch are important to the conduct of a mortgage servicer's loan servicing business, and a downgrade in a mortgage servicer's ratings could have an adverse effect on the value of our Excess MSRs and servicer advances, and result in an event of default under our financing for advances. Downgrades in a mortgage servicer's servicer ratings could adversely affect their and our ability to finance servicer advances and maintain their status as an approved servicer by Fannie Mae and Freddie Mac. Downgrades in servicer ratings could also lead to the early termination of existing advance facilities and affect the terms and availability of match funded advance facilities that a mortgage servicer or we may seek in the future. A mortgage servicer's failure to maintain favorable or specified ratings may cause their termination as a servicer and may impair their ability to consummate future servicing transactions, which could result in an event of default under our financing for servicer advances and have an adverse effect on the value of our investments since we will rely heavily

on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans underlying our Excess MSR and servicer advances could result in:

- the validity and priority of our ownership in the Excess MSR or servicer advances being challenged in a bankruptcy proceeding;
- payments made by such servicer to us, or obligations incurred by it, being voided by a court under federal or state preference laws or federal or state fraudulent conveyance laws;
- a re-characterization of any sale of Excess MSR, servicer advances or other assets to us as a pledge of such assets in a bankruptcy proceeding;
- any agreement pursuant to which we acquired the Excess MSR or servicer advances being rejected in a bankruptcy proceeding; or

a default under our financing for servicer advances and a partial or total loss of the value of our investment in servicer advances.

For additional information about the ways in which we may be affected by mortgage servicers, see “—The value of our Excess MSRs, servicer advances and RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.”

We have significant counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks.

We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations, cash flows and financial condition.

To date, all of our co-investments in Excess MSRs and servicer advances relate to loans serviced by Nationstar. If Nationstar is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy, our expected returns on these investments would be severely impacted. In addition, the vast majority of the loans underlying our Non-Agency RMBS are serviced by Nationstar. We closely monitor Nationstar’s mortgage servicing performance and overall operating performance, financial condition and liquidity, as well as its compliance with regulations and Servicing Guidelines. We have various information, access and inspection rights in our agreements with Nationstar that enable us to monitor Nationstar’s financial and operating performance and credit quality, which we periodically evaluate and discuss with Nationstar’s management. However, we have no direct ability to influence Nationstar’s performance, and our diligence cannot prevent, and may not even help us anticipate, the termination of a Nationstar servicing agreement.

Furthermore, Nationstar is subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect its reputation and its liquidity, financial position and results of operations. For example, on March 5, 2014, Nationstar received a letter from Benjamin Lawsky, Superintendent of the New York Department of Financial Services, in connection with Nationstar’s recent growth, certain operational issues, and certain alleged recent complaints from certain New York consumers.

Nationstar has no obligation to offer us any future co-investment opportunity on the same terms as prior transactions, or at all, and we may not be able to find suitable counterparties other than Nationstar from which to acquire Excess MSRs and servicer advances, which could impact our business strategy. See “—We will rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.”

Repayment of the outstanding amount of servicer advances (including payment with respect to deferred servicing fees) may be subject to delay, reduction or set-off in the event that Nationstar (or any other applicable servicer or subservicer) breaches any of its obligations under the related servicing agreements, including, without limitation, any failure of Nationstar (or any other applicable servicer or subservicer) to perform its servicing and advancing functions in accordance with the terms of such servicing agreements. If Nationstar (or any other applicable servicer) is terminated or resigns as servicer and the applicable successor servicer does not purchase all outstanding servicer advances at the time of transfer, collection of the servicer advances will be dependent on the performance of such successor servicer and, if applicable, reliance on such successor servicer’s compliance with the “first-in, first-out” or “FIFO” provisions of the Servicing Guidelines. In addition, such successor servicers may not agree to purchase the outstanding advances on the same terms as our current purchase arrangements and may require, as a condition of their purchase, modification to such FIFO provisions, which could further delay our repayment and have adversely affect the returns from our investment.

We are subject to substantial other operational risks associated to Nationstar or any other applicable servicer or subservicer in connection with the financing of servicer advances. In our current financing facilities for servicer advances, the failure of Nationstar to satisfy various covenants and tests can result in a target amortization event, a facility early amortization event and/or an event of default. We have no direct ability to control Nationstar's compliance with those covenants and tests. Failure of Nationstar to satisfy any such covenants or tests could result in a partial or total loss on our investment.

In addition, the consumer loans in which we have invested are serviced by Springleaf. If Springleaf is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy, our expected returns on these investments could be severely impacted. Moreover, we are party to repurchase agreements with a limited number of counterparties. If any of our counterparties elected not to roll our repurchase agreements, we may not be able to find a replacement counterparty, which would have a material adverse effect on our financial condition.

Our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we will monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations, cash flows and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

Counterparty risks have increased in complexity and magnitude as a result of the insolvency of a number of major financial institutions (such as Lehman Brothers) in recent years and the consequent decrease in the number of potential counterparties. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which could negatively impact us in several ways, including by decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

GSE initiatives and other actions may adversely affect returns from investments in Excess MSR.

On January 17, 2011, the Federal Housing Finance Agency ("FHFA") announced that it had instructed Fannie Mae and Freddie Mac to study possible alternatives to the current residential mortgage servicing and compensation system used for single-family mortgage loans. It is unclear what the GSEs, including Fannie Mae or Freddie Mac, may propose as alternatives to current servicing compensation practices, or when any such alternatives may become effective. Although we do not expect MSR that have already been created to be subject to any changes implemented by Fannie Mae or Freddie Mac, it is possible that, because of the significant role of Fannie Mae or Freddie Mac in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives. These proposals are still evolving. To the extent the GSEs implement reforms that materially affect the market for conforming loans, there may be secondary effects on the subprime and Alt-A markets. These reforms may have a material adverse effect on the economics or performance of any Excess MSR that we may acquire in the future.

Changes to the minimum servicing amount for GSE loans could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

Currently, when a loan is sold into the secondary market for Fannie Mae or Freddie Mac loans, the servicer is generally required to retain a minimum servicing amount ("MSA") of 25 bps of the UPB for fixed rate mortgages. As has been widely publicized, in September 2011, the FHFA announced that a Joint Initiative on Mortgage Servicing Compensation was seeking public comment on two alternative mortgage servicing compensation structures detailed in a discussion paper. Changes to the MSA structure could significantly impact our business in negative ways that we cannot predict or protect against. For example, the elimination of a MSA could radically change the mortgage servicing industry and could severely limit the supply of Excess MSR available for sale. In addition, a removal of, or reduction in, the MSA could significantly reduce the recapture rate on the affected loan portfolio, which would negatively affect the investment return on our Excess MSR. We cannot predict whether any changes to current MSA rules will occur or what impact any changes will have on our business, results of operations, liquidity or financial condition.

Our investments in Excess MSR_s and servicer advances may involve complex or novel structures.